Executive Summary

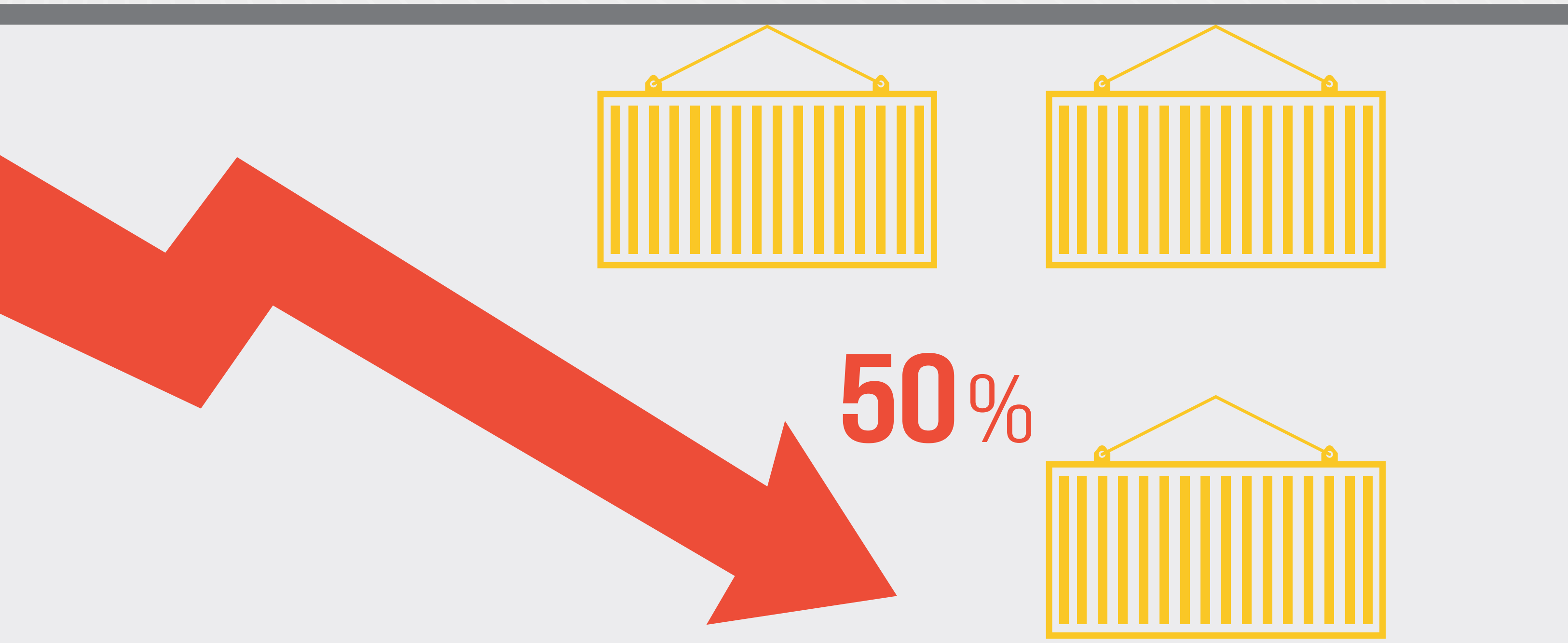
Providing an analysis of the global economic situation amid the COVID-19 pandemic is a difficult task. The outbreak has exerted tremendous pressure on the global economy, the scale of which is still unclear. Given that the pandemic will have significant repercussions in 2021 and beyond, it is crucial to understand how Arab countries are dealing with the economic impact of the virus.

The present report sets out two scenarios: a baseline scenario projecting that the economy will rebound in the first quarter of 2021; and a pessimistic scenario in which the crisis will persist throughout the first quarter of 2021. However, given the considerable advancements in research on COVID-19 vaccines, an economic rebound should be expected no later than the second quarter of 2021.

The COVID-19 shock began in the midst of a global economic slowdown. The pandemic resulted in extensive lockdowns that exerted significant pressure on the global economy, which is expected to have contracted by at least 3.2 per cent in 2020. The 2021 recovery is conditioned on the effectiveness of the stimulus packages enacted by Governments in response to the COVID-19 crisis and the speed of business recovery. Advancements in research on COVID-19 vaccines allow for moderate optimism. Consequently, the global gross domestic product (GDP) growth in 2021 is expected to rebound to 4.2 per cent, even in the pessimistic scenario. However, if the packages enacted in 2020 prevent devastating losses for companies, global GDP growth could reach 5.4 per cent in 2021 in the baseline scenario.

Inflation in 2021 is conditioned on the influence of unprecedented monetary stimulus measures enacted by Governments worldwide in 2020 to tackle the pandemic-related recession. If they succeed in stimulating demand, inflation should rise. However, oil demand from China, the world's largest crude oil importer, decreased significantly in 2020 owing to massive lockdowns and huge cuts in transport activities. In December 2020, the price of Brent crude oil increased to $48/barrel, which is still lower than its average for the period 2018-2019. However, following successful vaccination campaigns, global transport demand in 2021 should rise, further elevating oil prices and fuelling inflation globally.

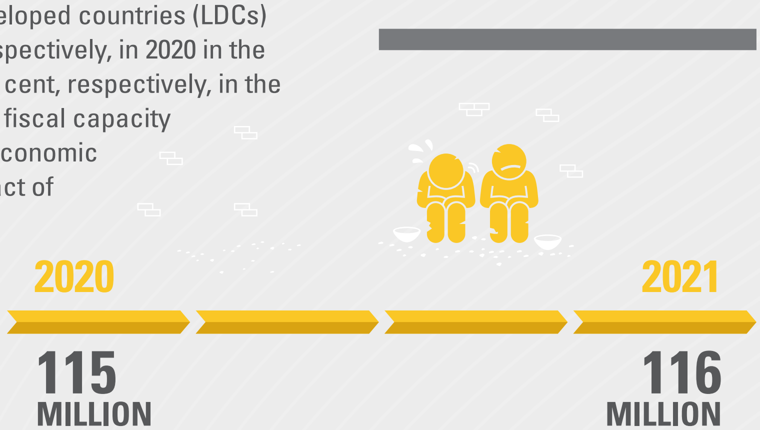
The global economic slowdown and the pandemic have significantly affected Arab countries. The region's GDP is estimated to have contracted by 3 per cent in 2020 (the baseline scenario) and exports from the region decreased by almost 50 per cent, affected by the decline in oil prices, the closure of European markets, and a reduction in tourism and remittances. Moreover, the global lockdown affected the inflow of investments and official development assistance to Arab oil-importing countries. Such developments led to tremendous pressure on businesses in the region in the absence of government assistance. Consequently, regional GDP growth is expected to reach 2.8 per cent in 2021 in the pessimistic scenario or 3.5 per cent in the baseline scenario.



The impact of the COVID-19 and oil price crises on Arab oil-exporting countries will continue into 2021, with revenues in 2020 estimated at 44 per cent of 2019 income, leading to a temporary dent in State budgets. Gulf Cooperation Council (GCC) countries were the most affected, losing around 54 per cent of their income. Their GDP is estimated to have contracted by 3.1 per cent in the baseline scenario, and by 7.1 per cent in the pessimistic scenario. However, in 2021, a rebound is expected in both oil prices and oil production, leading to GDP growth of 2.1 per cent in the pessimistic scenario, and of 2.3 per cent in the baseline scenario.

The pandemic has significantly affected Arab middle-income countries (MICs), with their economy contracting by an estimated 3.4 per cent in 2020 in the baseline scenario and by 4.5 per cent in the pessimistic scenario. These countries were affected by a drop in tourism and a decline in demand for their exports owing to the recession in European countries, one of their main trading partners. Recovery will depend on the success of the stimulus packages of their trading partners, and on whether successful vaccination campaigns will restore confidence and consumption. Lebanon in particular is witnessing exceptional socioeconomic challenges that surfaced in 2019 and were aggravated in 2020 as the economy grappled with twin deficits, high public debt, a default on the repayment of Eurobonds, a large depreciation of the local currency, and a slowdown in economic activity owing to the lockdown. In 2020, the Lebanese economy contracted by an estimated 10.2 per cent, and no functioning government had been established as at December 2020. Arab middle-income countries are expected to achieve 4.1 per cent GDP growth in 2021 in the pessimistic scenario, and 5 per cent in the baseline predicated on a rebound in European demand and successful political and economic reforms.

The economies of conflict-affected and least developed countries (LDCs) contracted by an estimated 4.3 and 3 per cent, respectively, in 2020 in the baseline scenario, and by 7.9 per cent and 5.5 per cent, respectively, in the pessimistic scenario. These countries had limited fiscal capacity to deal with lockdowns and to mitigate the socioeconomic consequences of the COVID-19 crisis, so the impact of the pandemic-related recession is more severe. Furthermore, ongoing conflicts are likely to negatively affect business confidence and the inflow of foreign direct investments. In 2021, GDP growth in Arab conflict-affected countries is expected to reach 3.1 per cent in the pessimistic scenario, and 3.9 per cent in the baseline



scenario. Arab LDCs rely significantly on external support to address their socioeconomic challenges, particularly balance of payment constraints and debt sustainability, so their recovery is conditioned on the successful recovery of developed economies. Since the economic damages caused by the pandemic will be more persistent in LDCs, their growth figures for 2021 are expected to be mediocre at 0.4 per cent in the pessimistic scenario, and 0.5 per cent in the baseline scenario.

In addition to a challenging economic situation, the Arab region must address social challenges, including growing poverty, increased unemployment and persisting gender inequalities, aggravated by the outbreak of COVID-19 and strict lockdown measures. The income poverty rate increased by an estimated 3 percentage points to reach 32.4 per cent in 2020, equivalent to around 115 million people, over 80 per cent of whom live in four countries, namely Egypt, the Sudan, the Syrian Arab Republic and Yemen. Moreover, the unemployment rate in the region increased by an estimated 1.2 per cent in 2020. The persistence of these problems depends on the resurgence of aid flows and remittances in 2021, and on the ability of Governments to provide social safety nets to alleviate poverty.

Socioeconomic challenges will also affect migrant workers, refugees and internally displaced persons (IDPs) in the region, particularly women. Travel restrictions and poor working conditions made migrant workers more vulnerable to various risks, including COVID-19 infections. Furthermore, the difficult living conditions of refugees and IDPs have been exacerbated by constrained economic conditions in host communities, which could deteriorate further as deep recessions hit donor countries.

With regard to gender equality, the Arab region still has a 40.05 per cent gender gap to close, the highest globally compared with other regions. Women are more likely to leave their jobs to fulfil household responsibilities during lockdown, including caring for children following school closures, which will increase gender inequality if preventive measures are not immediately and successfully enacted.

Debt levels are expected to increase in 2020 and beyond as a result of the adverse impact of COVID-19 in LDCs and MICs. LDCs are likely to benefit from the G20 Debt Service Suspension Initiative, and debt relief from the Catastrophe Containment and Relief Trust of the International Monetary Fund to mitigate the impact of COVID-19, with potential savings of $294 million. ESCWA analysis on debt evolution and its relationship to fiscal policy behaviour indicates that primary deficits have persisted in Arab LDCs and MICs. Fiscal sustainability gap analysis shows that the required primary balance for several countries is more than the actual primary balance. Consequently, there is a need for primary balance adjustment, dependent on setting a debt-to-GDP target. Moreover, linking government spending to development outcomes is a major challenge facing Arab countries' debt management authorities over the next couple of years.