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Survey of Economic and Social Developments in the Arab Region

2016-2017

Economic and Social Commission for Western Asia

Survey of Economic and Social Developments in the Arab Region

2016-2017



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Preface

The Survey of Economic and Social Developments in the Arab Region is an annual flagship publication of the Economic and Social Commission for Western Asia (ESCWA). This publication is mandated by General Assembly resolution 35/56, para. 173; ESCWA resolution 270 (XXIV) paras. 2, 3 and 4; and ESCWA resolution 303 (XXVII), paras. 1 and 2. This publication is linked to subprogramme 3 of ESCWA, on economic development and integration, which seeks to contribute to efforts by member States to reform economic institutions and develop and implement policies based on principles of good governance in order to enable economic planning and policymaking in support of inclusive and sustainable development.

The 2016-2017 edition focuses on analysis of the most recent socioeconomic developments under a set format, with a reporting period from January 2016 to March 2017. There are two main objectives: to analyse routinely monitored economic and social variables in the Arab region in a global context (chapters one and two) and to examine the impact on the region of ongoing fiscal reforms (chapter three). A computable general equilibrium model is used to analyse the implementation of a value added tax in Gulf Cooperation Council countries and of the major fiscal reforms in Tunisia and Egypt.

Acknowledgements

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Conflict-related Issues Division (ECRI)), Youssef Chaitani, Youness Abouyoub, Fernando Cantu-Bazaldua, Asya El Meehy and Joaquin Salido Marcos (ECRI); Mehrnaz El-Awady (Director of the ESCWA Centre for Women (ECW)), Nada Darwazeh, Stephanie Chaban and David Krivanek (ECW).

Policymakers and other stakeholders were consulted throughout the preparation of the survey, and an external expert group meeting to review and validate the draft report was held on 22 May 2017 in Beirut. The experts were: Yasuhisa Yamamoto, Hassan Youssef Aly, Doosoon Park, Nassib Ghobril, Ghassan Dibah, Abdallah Al Dardari, Waleed Al Awad, and Fahad Al Enazi. Moreover, the ESCWA Publications Committee held a meeting to approve the survey on 12 September 2017.

Executive Summary

The year 2016 was marked by a continuing economic slump. The growth rate of 2.3 per cent was the lowest registered since the global financial crisis. The slowdown was attributed largely to political uncertainty in the developed economies and rising geopolitical tensions in the developing economies. Signs of recovery appeared in the second half of the year, with improving business sentiment and consumer confidence in most developed economies. However, the emergence of protectionist trends heralds potential new risks for the future of the global economy.

Persistently low oil prices have been a prime concern, constraining growth in the Arab region and its fiscal performance, particularly in oil-producing countries. Agreements on the reduction of crude oil production by the Organization of the Petroleum Exporting Countries (OPEC) and their non-OPEC counterparts will result in the oil market rebalancing in the near future and have a significant impact on oil export revenues for the Arab region.

Against that backdrop, growth in the Arab region stalled, slipping from 2 per cent in 2015 to 1.8 per cent in 2016. Key contributing factors were low international commodity prices, the impact of conflict and tensions on tourism and the rising cost of financing domestic credit. Nevertheless, the orderly reaction of financial markets to interest rate hikes in the United States of America and a modest improvement in the economic performance of European countries (in and outside the European Union) buoyed non-oil exports from the Arab region.

Geopolitical tensions, partly driven by external factors, continued to weigh on the region.

The political counterpoint to the crises and conflict in Iraq, Libya, the State of Palestine, the Syrian Arab Republic and Yemen came with the attempt by some developed countries to restrict the entry of nationals from certain Arab countries.

In spite of the difficult political and socioeconomic panorama, the region looked set to make a recovery in 2017, as oil prices bounced back from record lows, global deflationary pressures dwindled and other commodity prices stabilized.

At the subregional levels, growth in the Gulf Cooperation Council (GCC) countries is estimated at 2 per cent in 2016, down from 3.5 per cent the previous year. That was largely due to the slump in oil prices and reflected in fiscal terms and investment. Economic activity in the Mashreq countries was subdued, mainly because of deteriorating foreign exchange conditions, while severe drought hindered economic expansion in the Maghreb. Arab least developed countries (LDCs) posted an average economic downturn of 0.8 per cent in 2016, largely the result of the loss of oil and gas revenues, destruction wrought on the agriculture sector and the severe and continued contraction in wartorn Yemen.

Average annual consumer price inflation for 2016 in the Arab region is estimated at 6.1 per cent, up from 5.1 per cent in 2015. Inflationary pressures remained weak in GCC countries, where food prices declined in the second half of 2016. A shortage of foreign reserves, the declining value of national currencies, rising fiscal deficits and the rapid increase in money stock resulted in hyperinflation in Egypt, Libya, the Sudan,

the Syrian Arab Republic and Yemen. The poor harvest in Algeria, Morocco and Tunisia resulted in mild inflation driven by rising food prices. For 2017, the average CPI is expected to be 6 per cent.

As for trade, GCC countries are expected to record net exports of \$161 billion in 2016 (11.7 per cent of the subregion's GDP). Compared with 2015, the trade balance has dropped by 22 per cent, continuing a downward trend observed over the past four years. The trade surplus has not been sufficient to offset deficits in services trade and secondary income. As a result, the combined current account deficit of the GCC countries has reached \$24 billion (1.8 per cent of GDP). All other subregions have remained net importers over the past few years, which has produced a severe balance-of-payments situation, especially in non-oil exporting countries.

From a macroeconomic policy point of view, a tighter monetary stance with rising financial costs has been observed in the region, in tandem with the rising US dollar interest rates. Central banks in GCC countries revised their respective policy rates in December 2016 and March 2017, in line with hikes by the United States Federal Reserve. They did so cautiously in order not to discourage domestic credit growth. Furthermore, the fiscal position of Arab countries continued to be fragile, with a widened fiscal deficit overall. In that context, most countries in the region have implemented, or are planning to implement, major fiscal reforms to enhance domestic revenues and stabilize debt.

Given the global and regional economic situation and prospects, social development challenges in the region remained acute in 2016, further amplified by the ongoing refugee and internally displaced persons crisis. Poverty has continued to rise since 2010, exacerbated by increasing income inequalities. Unemployment remains high.

Arab women still do not enjoy the same rights and standards as their Western counterparts or Arab men. Gender-based violence is a common feature of Arab societies. The job market is highly discriminatory against women, which is a major impediment to the development of human capital. Equally qualified women receive lower wages than men for the same work and men dominate leadership positions. Women's participation in politics in the Arab region is still below the world average, despite the quota policies put in place by a few countries. There remains little evidence of the influence of women's political participation on the adoption of gender-sensitive laws and policies to promote gender equality. That said, the success of electoral quotas in enhancing women's political representation should encourage more countries in the region to adopt them.

The main challenge facing the Arab region is its delicate fiscal situation. The survey therefore examines various ongoing fiscal reform programmes and their economic and social implications, with a focus on value added tax (VAT) reform in GCC countries, personal income tax (PIT) reform in Tunisia and tax reform options in Egypt. A computable general equilibrium modelling technique is employed for the purpose.

The main target of any fiscal reform is to mobilize domestic resources and reduce public deficit. However, policymakers should take into consideration the social implications and redistributive effects of reform. The type of fiscal instruments employed and how the generated revenues are used are not neutral in terms of growth and employment creation. For example, the implementation of VAT in GCC countries could produce negative effects if fiscal revenues are used merely to reduce fiscal deficit, or a positive impact if allocated to public expenditure. PIT reform in Tunisia has contributed to more equitable distribution, while enhancing revenues. The case of Egypt shows that, despite the overall

positive effect of the introduction of VAT, alternative reforms (a progressive PIT) could produce better results in terms of fairness and development, and indeed improve economic performance.

Ex-ante impact assessment of tax reform options using modelling techniques is vital. It allows policymakers to simulate and choose from an array of options. It also allows them to anticipate adjustment costs and act to mitigate their consequences for vulnerable socioeconomic groups.

The survey provides a rigorous assessment of the socioeconomic situation and prospects for the Arab region, and serves as a basis for

policy discussion, peer learning and advocacy to cope with global, regional and national development challenges. Our analysis of the impact of global economic prospects and oil market dynamics on the region can be a vital tool for regional and national policy planning.

The forecasts presented in the survey have different policy implications for oil-producing versus non-oil-producing countries, and should be used to tailor national development plans to the needs of each Arab country. Most importantly, the survey can provide the impetus for strong and coordinated fiscal policy reform, with a view to promoting inclusive and sustainable economic transformation.

Contents

P. 3	Preface
P. 5	Acknowledgements
P. 7	Executive Summary
P. 15	Abbreviations and Explanatory Notes
P. 17	1. The Global Context and its Implications for the Arab Region
P. 17	A. The global context
P. 20	B. Developments in natural resource commodities
P. 26	C. Financial and trade linkages to the Arab region
P. 28	D. Concluding remarks
P. 31	2. Socioeconomic Trends and Developments in the Arab Region
P. 31	A. Economic situation and prospects
P. 51	B. Policy challenges
P. 51	C. Socioeconomic developments and gender dynamics in the Arab region
P. 63	D. Concluding remarks
P. 69	3. Economic Implications of Fiscal Reform in the Arab Region
P. 69	A. Introduction
P. 69	B. The causes of fiscal contractions in the region
P. 76	C. Fiscal reforms
P. 84	D. Economic implications of fiscal reforms
P. 103	E. Concluding remarks
P. 105	Endnotes
P. 107	Bibliography
P. 111	Appendix
	List of Tables
P. 17	Table 1.1 Growth and inflation 2015-2018: world and regional averages
P. 22	Table 1.2 Crude oil price estimation and forecast
P. 22	Table 1.3 Oil production in the Arab region, 2013-2018
P. 23	Table 1.4 Gross oil export revenues in the Arab region, 2013-2018
P. 32	Table 2.1 Real GDP growth rate and consumer price inflation rate, 2014-2018
P. 53	Table 2.2 Multidimensional poverty analysis
P. 58	Table 2.3 Female-to-male ratio for enrolment by level of education, 2010 and 2014
P. 62	Table 2.4 Women in national parliaments, 2016 and 2017
P. 78	Table 3.1 Minimum and maximum marginal tax rates and income thresholds
P. 80	Table 3.2 Progress in subsidy reforms, 2013-2016
P. 81	Table 3.3 Tax systems in GCC countries
P. 85	Table 3.4 VAT revenue as a percentage of GDP (first scenario)
P. 86	Table 3.5 Variation of GDP

- P. 89 Table 3.6 Variation of GDP
- P. 91 Table 3.7 VAT revenue as a percentage of GDP (second scenario)
- P. 93 Table 3.8 Income tax structure in Tunisia
- P. 95 Table 3.9 Distribution of thresholds and rates
- P. 95 Table 3.10 Inequality measures of revenue
- P. 96 Table 3.11 Distribution of progressivity
- P. 96 Table 3.12 Distribution of inequality
- P. 97 Table 3.13 Share of tax
- P. 97 Table 3.14 Inequality measures: children

List of Figures

- P. 18 Figure 1.1 Interest rates: US dollar and euro, 2012-2017
- P. 19 Figure 1.2 Foreign exchange rates of major currencies, 2012-2017
- P. 21 Figure 1.3 Oil prices
- P. 25 Figure 1.4 Natural gas prices, and phosphate prices and exports
- P. 26 Figure 1.5 Global financial linkages in the Arab region
- P. 27 Figure 1.6 Global trade linkages in the Arab region
- P. 33 Figure 2.1 Geographical trade structure: GCC countries
- P. 34 Figure 2.2 Trade and current account balances: GCC countries
- P. 35 Figure 2.3 Monetary indicators: GCC countries
- P. 36 Figure 2.4 Fiscal positions: GCC countries
- P. 38 Figure 2.5 Geographical trade structure: Mashreq countries
- P. 39 Figure 2.6 Trade and current account balances: Mashreq countries
- P. 40 Figure 2.7 Monetary indicators: Mashreq countries
- P. 41 Figure 2.8 Fiscal positions: Mashreq countries
- P. 42 Figure 2.9 Geographical trade structure: Maghreb countries
- P. 43 Figure 2.10 Trade and current account balances: Maghreb countries
- P. 44 Figure 2.11 Monetary indicators: Maghreb countries
- P. 45 Figure 2.12 Fiscal positions: Maghreb countries
- P. 46 Figure 2.13 Geographical trade structure: Arab LDCs
- P. 47 Figure 2.14 Trade and current account balances: Arab LDCs
- P. 48 Figure 2.15 Monetary indicators: Arab LDCs
- P. 49 Figure 2.16 Fiscal positions: Arab LDCs
- P. 50 Figure 2.17 Policy interest rates, 2010-2017: selected Arab countries
- P. 56 Figure 2.18 Unemployment and labour force participation rates: selected Arab countries
- P. 59 Figure 2.19 Gender Inequality Index 2015: by region
- P. 59 Figure 2.20 Gender Inequality Index 2014 and 2015: by country
- P. 60 Figure 2.21 Global Gender Gap Index 2016: by region
- P. 60 Figure 2.22 Global Gender Gap Index 2014 and 2015: by country
- P. 61 Figure 2.23 Global Gender Gap Index 2015 subindices
- P. 69 Figure 3.1 Oil and gas versus tax in government revenue for oil-exporting countries
- P. 69 Figure 3.2 Oil and gas versus tax in government revenue for non-oil-exporting countries
- P. 70 Figure 3.3 Short-term implications of 10 per cent decline in oil price
- P. 70 Figure 3.4 Medium-term implications of 10 per cent decline in oil price
- P. 71 Figure 3.5 Economic and fiscal situation in Saudi Arabia
- P. 72 Figure 3.6 Economic and fiscal situation in Bahrain
- P. 72 Figure 3.7 Economic and fiscal situation in Qatar
- P. 73 Figure 3.8 Economic and fiscal situation in Oman
- P. 73 Figure 3.9 Economic and fiscal situation in Kuwait

- P. 74 Figure 3.10 Economic and fiscal situation in the United Arab Emirates
- P. 75 Figure 3.11 Cumulative GDP gains (losses) by country
- P. 75 Figure 3.12 Total GDP, countries in conflict since 2011
- P. 75 Figure 3.13 Total GDP, countries affected by conflict
- P. 76 Figure 3.14 Fiscal balance in non-oil-exporting countries
- P. 86 Figure 3.15 Difference in growth rate
- P. 86 Figure 3.16 Difference in inflation rate
- P. 87 Figure 3.17 Difference in unemployment rate
- P. 87 Figure 3.18 Cumulative variation of household consumption
- P. 87 Figure 3.19 Cumulative variation of total imports
- P. 87 Figure 3.20 Cumulative variation of total exports
- P. 88 Figure 3.21 Cumulative variation of production by sector
- P. 89 Figure 3.22 Difference in growth rate
- P. 89 Figure 3.23 Difference in inflation rate
- P. 89 Figure 3.24 Difference in unemployment rate
- P. 90 Figure 3.25 Cumulative variation of household consumption
- P. 90 Figure 3.26 Cumulative variation of total imports
- P. 90 Figure 3.27 Cumulative variation of total exports
- P. 92 Figure 3.28 Growth performance in Tunisia before and after 2011
- P. 92 Figure 3.29 Public deficit and external debt in Tunisia
- P. 93 Figure 3.30 Structure of tax revenue in Tunisia
- P. 93 Figure 3.31 Structure of direct taxation in Tunisia
- P. 94 Figure 3.32 The Gini coefficient
- P. 98 Figure 3.33 Growth performance in Egypt between 2005 and 2017
- P. 98 Figure 3.34 Fiscal performance of Egypt before and after 2011
- P. 98 Figure 3.35 Current account balance and exchange rate
- P. 98 Figure 3.36 Inflation rate
- P. 99 Figure 3.37 Unemployment rate
- P. 99 Figure 3.38 Poverty rate
- P. 100 Figure 3.39 Fiscal impacts of the reform
- P. 100 Figure 3.40 Macroeconomic effects
- P. 100 Figure 3.41 Impact on unemployment
- P. 100 Figure 3.42 Impact on trade
- P. 101 Figure 3.43 Variation in CPI
- P. 101 Figure 3.44 Variation in household consumption
- P. 101 Figure 3.45 Cumulative variation in household consumption by decile, 2017-2020
- P. 101 Figure 3.46 Cumulative variation in tax paid by household by decile, 2017-2020
- P. 102 Figure 3.47 Variation in tax paid by household as a function of revenue
- P. 102 Figure 3.48 Cumulative variation of tax paid by household by decile, 2017-2020
- P. 102 Figure 3.49 Cumulative variation of household consumption by decile, 2017-2020
- P. 103 Figure 3.50 Growth performance
- P. 103 Figure 3.51 Unemployment performance

List of Boxes

- P. 24 Box 1.1 The importance of good public financial management and governance
- P. 28 Box 1.2 The Addis Ababa Action Agenda as part of the solution
- P. 64 Box 2.1 Developments in gender-based violence legislation
- P. 66 Box 2.2 Development aspirations: challenges and opportunities
- P. 94 Box 3.1 The Lagrange model

Abbreviations and Explanatory Notes

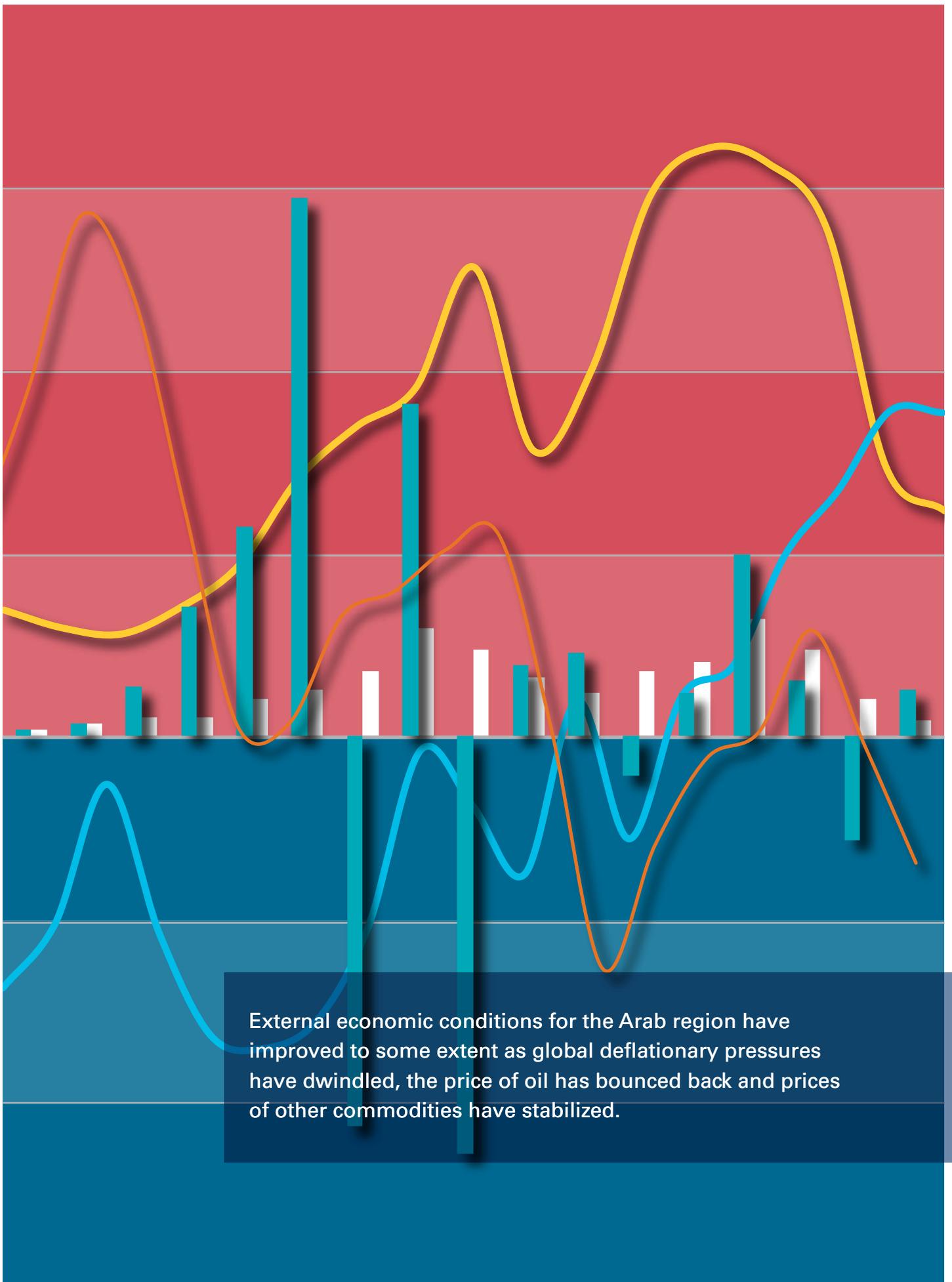
BIS	Bank for International Settlement
Btu	British thermal unit (mmBtu is a million British thermal units)
CFTC	Commodity Futures Trading Commission (United States)
CGE	computable general equilibrium
CIT	corporate income tax
CPI	consumer price inflation
DESA	Department of Economic and Social Affairs (of the United Nations)
ECB	European Central Bank
EIA	Energy Information Administration (United States Department of Energy)
ESCWA	Economic and Social Commission for Western Asia
GCC	Gulf Cooperation Council
GDP	gross domestic product
GGI	Gender Gap Index
GII	Gender Inequality Index
GST	government sales tax
IFA	International Fertilizer Association
ILO	International Labour Organization
IMF	International Monetary Fund
IPoA	Istanbul Programme of Action
IPU	Inter-Parliamentary Union
JODI	Joint Organisations Data Initiative
LDC	least developed country
LIBOR	London Interbank Offered Rate
LNG	liquefied natural gas
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
OPEC	Organization of Petroleum Exporting Countries
PIT	personal income tax
SDGs	Sustainable Development Goals
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization

UNHCR	United Nations High Commissioner for Refugees
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
VAT	value added tax
WEF	World Economic Forum

References to dollars (\$) are to United States (US) dollars, unless otherwise stated. For other currencies, the following abbreviations are used:

RMB	Chinese renminbi (yuan)
LE	Egyptian pound
€	euro
¥	Japanese yen
JD	Jordanian dinar
KD	Kuwaiti dinar
SRI	Saudi Arabian rial
TD	Tunisian dinar
YRI	Yemeni rial

The following subregional groupings are used in this report, taking into account a combination of per capita income levels, geographical proximity and similarities in economic and social characteristics and conditions: Gulf Cooperation Council (GCC) countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates; Mashreq countries: Egypt, Iraq, Jordan, Lebanon, the State of Palestine, the Syrian Arab Republic; Maghreb countries: Algeria, Libya, Morocco, Tunisia; Arab least developed countries (LDCs): the Comoros, Djibouti, Mauritania, Somalia, the Sudan, Yemen.



1. The Global Context and its Implications for the Arab Region

A. The global context

In 2016, the global economy continued to slow down, mainly due to political uncertainty in some developed economies, where the rate of growth fell to 1.6 per cent from 2.2 per cent in 2015. Developing economies were characterized by rising geopolitical tensions and subdued economic activity, with a slight contraction from 3.8 per cent to 3.6 per cent over the same period. Average global growth slowed to 2.3 per cent, the lowest level since the global financial crisis (table 1.1).

Inflation edged up to 0.7 per cent in 2016 from 0.2 per cent in the previous year as deflationary pressures eased off. It is forecast to rise further to 1.6 per cent in 2017. Among the world's major economies, the United

States of America recorded the highest inflation, with a projected rate of 2.3 per cent for 2017, double the rate of 2016. Japan is still suffering from deflation, although an upturn is expected to take place in the coming years (table 1.1).

Concerns about a prolonged global economic slump had stemmed from generally weak investment activity in the developed economies, particularly up to the end of the first half of 2016. Despite historically low funding costs, investment activities had been very weak in Europe and Japan, where central banks pushed their policy interest rates down to the lowest feasible levels. However, signs of an economic recovery appeared in the second half of 2016, with improved business sentiment and consumer confidence in most developed

Table 1.1 Growth and inflation 2015-2018: world and regional averages (percentage)

	Real GDP growth rate				Consumer price inflation rate			
	2015	2016 ^a	2017 ^a	2018 ^a	2015	2016 ^b	2017 ^b	2018 ^b
Arab region	2.0	1.8	2.5	3.2	5.1	4.9	4.4	
World	2.6	2.3	2.7	2.9				
Developed economies	2.2	1.6	1.8	1.8	0.2	0.7	1.6	2.0
United States of America	2.6	1.6	2.1	2.1	0.1	1.2	2.3	2.4
European Union	2.2	1.9	1.7	1.7	0.0	0.3	1.4	1.9
Japan	1.2	1.0	1.1	0.9	0.8	-0.1	0.6	1.4
Economies in transition	-2.3	0.4	1.8	2.0	15.8	8.1	7.0	5.3
Developing economies	3.8	3.6	4.2	4.7	4.3	5.2	4.7	4.5
Africa	3.0	1.6	2.9	3.6	7.0	10.0	10.1	9.6
East and South Asia	5.8	5.9	5.8	5.9	2.7	2.8	3.1	3.4
Latin America and the Caribbean	-0.6	-1.3	1.1	2.5	7.1	9.2	6.1	4.8

Sources: Figures for the Arab region are calculations of Economic and Social Commission for Western Asia (ESCWA) staff, based on national statistical sources (see appendix). Other figures are from the United Nations Department of Economic and Social Affairs (DESA), *World Economic Situation and Prospects 2017: Update as of mid-2017* (May 2017) and *World Economic Situation and Prospects 2017* (January 2017). The country grouping is based on *World Economic Situation and Prospects 2017*, pp. 153-154 (tables A, B and C).

^a DESA estimations/projection in part of Project LINK as of May 2017 (with the exception of Arab region, which is an ESCWA staff estimation).

^b DESA estimations/projection in part of Project LINK as of December 2016 (with the exception of Arab region, which is an ESCWA staff estimation).

economies. This was largely driven by a modest recovery in the United States, although the recent emergence of protectionist trends could bring new risks for the global economy.

The developing economies remained the driver of global economic growth. With a growth rate of 5.8 per cent, economic expansion in East and South Asia continued apace and is expected to do so in the coming years. Other developing economies managed to cope with difficult conditions, largely caused by volatility in international commodity prices and uncertainty in the financial markets, but remained vulnerable due to their structural fragility.

All of the above points to a cautious forecast of better performance in 2017. The global economy is forecast to expand by 0.4 percentage points to 2.7 per cent in 2017. The developed economies are expected to grow by 0.2

percentage points, mainly driven by expansion of the United States economy. The developing economies will see comparatively stronger expansion of 0.6 percentage points, which will be the main driver of a global upturn (table 1.1).

The rapid reduction of unemployment confirmed the modest economic growth in the United States. The United States Federal Reserve continued to tighten its monetary stance by lifting its policy interest rates by 0.25 percentage points in December 2016, and in March and June 2017, as the possibility of wage-driven inflation reared its head. Two further interest rate increases are expected in 2017.

Responding to the policy rate rise, market interest rates benchmarked by 2-year Treasury bond yields have constantly increased over the past six years, and particularly rapidly since mid-2016. A similarly sharp jump has been observed during the same period for

Figure 1.1 Interest rates: US dollar and euro, 2012-2017



Source: Board of Governors of the Federal Reserve System. Available from <http://www.federalreserve.gov/releases/h15/data.htm>.

Sources: ICE Benchmark Administration Limited (IBA), 3-month LIBOR, based on US Dollar[®] [USD3MTD156N], available from FRED, Federal Reserve Bank of St. Louis (<https://fred.stlouisfed.org/series/USD3MTD156N>); and Federal Reserve Bank of St. Louis, TED Spread [TEDRATE], retrieved from FRED, Federal Reserve Bank of St. Louis (<https://fred.stlouisfed.org/series/TEDRATE>).

Source: Deutsche Bundesbank. Available from https://www.bundesbank.de/Redaktion/EN/Downloads/Statistics/Money_Capital_Markets/Interest_Rates_Yields/stat_geldmarkts.pdf?__blob=publicationFile and https://www.bundesbank.de/Redaktion/EN/Downloads/Statistics/Money_Capital_Markets/Interest_Rates_Yields/stat_zinsstruktur_bwp.pdf?__blob=publicationFile.

10-year Treasury bond yields by approximately 1 percentage point to the 2014 level (figure 1.1A). Furthermore, the 3-month LIBOR (London Interbank Offered Rate, a benchmark for bank-to-bank transactions) has responded consistently since 2015 (rising by 0.39 percentage points in 2016 and 0.54 percentage points to March 2017), while the TED spread¹ has increased only marginally in recent times (figure 1.1B). Despite the political uncertainty, economic expansion in the United States is forecast to accelerate in 2017.

Growth in the European economies was subdued, with a rate of 1.9 per cent in 2016, down from 2.2 per cent in 2015, and is expected to remain at that level over the next few years, partly due to the slower pace of investment and domestic demand compared with previous years. Political uncertainty relating to trade agreements with the United States and the decision by the United Kingdom to leave the European Union (EU) has contributed to those results.

With inflation picking up, the European Central Bank (ECB) decided in March 2016 to refrain

from further monetary easing of the euro. It set its main refinancing operation rate to zero and its deposit facility rate to -0.4 per cent, and has kept them unchanged since. While the 2-year German Government bond yield dropped from -0.52 per cent in March 2016 to -0.74 per cent in March 2017, the 10-year bond yield rose slightly from 0.13 per cent to 0.33 per cent over the same period. That mixed position reflected elevated political and banking sector uncertainties (figure 1.1C).

Major currencies, including the euro and the Japanese yen, remained weak against the dollar in 2016 and early 2017 (figure 1.2). Diverging monetary policy between Japan and the United States has increased uncertainty in the global foreign exchange market, reflected in the sharp rise in the value of the yen from ¥120 to the dollar to ¥100 in the first three quarters of 2016 and its subsequent retreat since November of that year to ¥118 (figure 1.2B). In late 2016, the Japanese economy began to emerge from a demand slump that had persisted since 2014. Financial markets reacted calmly to the tightening of the monetary policy of the United

Figure 1.2 Foreign exchange rates of major currencies, 2012-2017



Sources: Exchange rates are from Board of Governors of the Federal Reserve System, available from <http://www.federalreserve.gov/releases/h10/hist/>. Net long positions are ESCWA staff calculations based on data from U.S. Commodity Futures Trading Commission (CFTC), Commitments of Traders, Traders in Financial Futures; Futures Only Reports, available from <http://www.cftc.gov/MarketReports/CommitmentsofTraders/HistoricalCompressed/index.htm>.

States, underlining the strength of the present expansion in the developed economies.

The Chinese economy remained the principal driver of the world economy in 2016, with a growth of 6.7 per cent. That was stronger than expected, reflecting a continued policy of government-backed stimulus for economic expansion. The Chinese renminbi depreciated from RMB 6.51 to the dollar in March 2016 to RMB 6.88 in March 2017. Further depreciation is expected in the near future (figure 1.2C). Among the largest emerging economies, India has continued to post the fastest GDP growth, benefitting from strong private consumption, with a rate of 7 per cent in 2016, which will be maintained according to the 2017 projection.²

While China and India powered ahead, other developing economies, particularly in Latin America, the Caribbean and Eastern Europe, bottomed out in 2016. Brazil, suffering from considerable political uncertainty and high unemployment, registered a growth rate of -3.6 per cent. The Russian Federation posted -0.2 per cent growth, mainly due to a sharp drop in domestic demand following the severe terms of trade shock in 2015. Nevertheless, the gradual recovery in the price of oil and other commodities started to boost consumer confidence and business sentiment in those regions. African economies were adversely affected by extreme weather conditions in 2016. Drought struck parts of East Africa for the second year in a row.

The impact of interest rate hikes in the United States on developing economies was milder than expected, as channels for external financing were open to them. The cost of finance crept up in most but growth in private investment was stable. Several developing economies, however, remain fragile due to a combination of the monetization of fiscal deficits and structural trade deficits.

Unemployment fell in developed countries, with an average rate of unemployment of 7.1

per cent in 2015, 6.6 per cent in 2016 and a projected 6.4 per cent in 2017. The trend can be attributed largely to a recovery of economic activity in Germany, Japan, the United Kingdom and the United States.³ On the other hand, double-digit unemployment rates were registered in many African economies. South America and Western Asia are still suffering from high unemployment, largely due to the relatively uncompetitive structure of their economies.

Despite the improved employment situation in the developed economies, wage growth has remained weak, as many of the jobs created were in vulnerable forms of employment.⁴ The worsening employment picture in the developing economies was exacerbated by increasingly restrictive immigration policies in the developed and other host economies. Meanwhile, wages in China have reportedly tripled over the past decade, which is likely to have a considerable impact on global migrant labour dynamics in the near future.

B. Developments in natural resource commodities

1. Oil

According to the Organization of the Petroleum Exporting Countries (OPEC), the total world demand for oil in 2016 was an average 95.1 million barrels per day (b/d), up by 1.4 million b/d from 2015.⁵ OPEC projects that the figure will increase to 96.3 million b/d in 2017. Rising demand and a slowdown in supply growth, mainly due to a significant decline in crude oil production in the United States in the first half of 2016, reduced the margin of oversupply to 0.8 million b/d (total supply was 95.9 million b/d) in 2016 from 1.8 million barrels in the previous year. On 30 November 2016, OPEC member States agreed to reduce production in the first half of 2017 by 1.25 million b/d. That was followed by an additional reduction

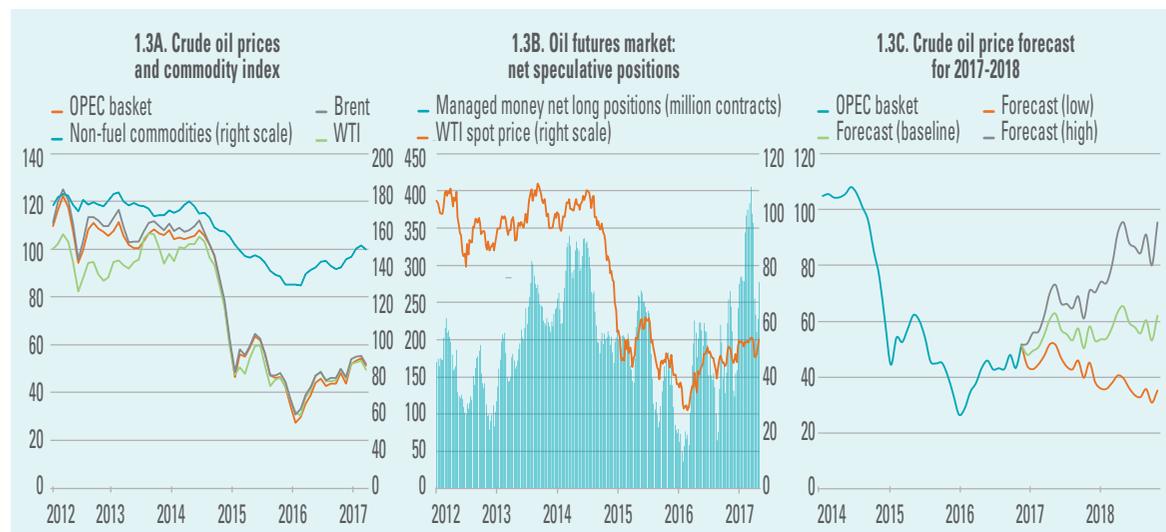
agreement on 10 December 2016 by non-OPEC oil-producing countries, excluding the United States, to reduce their crude oil production by a total of 0.55 million b/d.

Projections indicate that the oil market may rebalance by mid-2018. The structural oversupply of crude oil, one of the major causes of the recent oil price plunge, is finally starting to resolve itself. Firm growth in demand is expected from India, which in 2016 became the third largest global energy consumer, after the United States and China. Demand from China, which continues to enjoy economic growth and plans to boost its national strategic reserve to 500 million barrels of oil by 2020, is also likely to grow steadily. Recovering demand in Europe will further contribute to a growth in demand for crude oil. Stable refining margins and moderate growth in tanker rates tend to confirm growth projections. Growth in demand at the rates seen in 2016 and the planned cuts

in production in the first half of 2017 will be sufficient to accommodate a projected increase in the production of the United States between 0.4 and 0.7 million b/d and additional crude supply from storage. In the medium term, supply capacity will be constrained due to the lack of investment in capacity expansion since 2014. If demand growth remains stable, the market should tighten gradually over the next few years.

Oil prices were volatile throughout 2016 (figure 1.3A). More crude oil producers utilized futures markets to hedge against price volatilities, and speculators were active in the futures markets in order to benefit from this (figure 1.3B). Crude oil producers in the United States are expected to be active sellers of short contracts at around \$60 a barrel to secure their profits against downward pressure on the price from increasing crude production in their country. Buying pressure by purchasers for refining and storage purposes could limit falls in the price

Figure 1.3 Oil prices



Source: International Monetary Fund (IMF) Primary Commodity Prices database. Available from <http://www.imf.org/external/np/res/commod/index.aspx>.

Source: ESCWA staff calculations based on data from CFTC, Commitments of Traders, Disaggregated Futures Only Reports, available from <http://www.cftc.gov/MarketReports/CommitmentsofTraders/HistoricalCompressed/index.htm>, and the Energy Information Administration (EIA) (https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm).

Sources: ESCWA staff forecasts and OPEC data (available from www.opec.org/opec_web/en/data_graphs/40.htm).

Table 1.2 Crude oil price estimation and forecast (OPEC reference basket: US dollars per barrel)

Year	Minimum	Maximum	Annual average	Forecast annual average		
				Lower	Baseline	Higher
2014	52.00	110.48	96.29			
2015	30.74	64.96	49.49			
2016	25.21	53.46	40.76			
2017				45.6	54.8	63.9
2018				36.0	57.9	84.2

Sources: OPEC for 2014-2016. Figures for 2017 and 2018 are ESCWA staff forecasts as of March 2017.

Table 1.3 Oil production in the Arab region, 2013-2018 (thousands of barrels per day)

Country/subregion	2013	2014	2015	2016 ^a	2017 ^b	2018 ^b
Bahrain	48	49	51	49	49	50
Kuwait	2 922	2 869	2 621	2 971	2 750	2 900
Oman	947	949	986	1 007	1 010	1 010
Qatar	724	709	656	656	620	625
Saudi Arabia	9 634	9 714	10 189	10 433	10 075	10 100
United Arab Emirates	3 048	3 036	3 224	3 296	2 900	2 950
GCC countries	17 323	17 327	17 728	18 412	17 404	17 635
Egypt	669	672	682	656	665	675
Iraq	2 977	3 113	3 499	4 613	4 450	4 650
Syrian Arab Republic	31	10	10	10	10	10
Mashreq	3 677	3 794	4 191	5 279	5 125	5 335
Algeria	1 217	1 209	1 170	1 155	1 050	1 100
Libya	993	480	402	360	585	670
Morocco	1	1	1	1	1	1
Tunisia	61	54	49	47	45	45
Maghreb	2 271	1 744	1 621	1 563	1 680	1 816
Mauritania	7	6	5	5	5	5
Sudan	85	85	87	100	110	120
Yemen	159	111	40	0	0	0
Arab LDCs	251	202	132	105	115	125
Arab region total	23 522	23 067	23 672	25 359	24 325	24 910

Sources: ESCWA staff calculations based on the Joint Organisations Data Initiative database (available from <https://www.jodidata.org/> oil), with the exception of Mauritania, Morocco, the Syrian Arab Republic, the Sudan and Yemen. For those countries, the source is the Organization of Arab Petroleum Exporting Countries Databank (available from www.opec.org/Home/DataBank).

^a ESCWA staff estimates as of March 2017.

^b ESCWA staff projections as of March 2017.

of oil to \$50 a barrel. Considering those factors, and slow but growing demand for crude oil, the OPEC reference basket price is forecast at \$54.80 per barrel on average in 2017 and \$57.90 in 2018 (table 1.2). ESCWA forecasts that oil prices will remain volatile in 2017, driven by the activity in the oil futures markets between \$50 and \$55 per barrel (figure 1.3C), and return to their long-term trend line (\$60 to \$65 a barrel) gradually by 2020. This will allow Arab countries to break away from a lasting fiscal deficit situation, in which the consolidated deficit represents nearly 10 per cent of GDP.

Total crude oil production for 2016 in the Arab region is estimated at 25.3 million

b/d on average, up by 1.7 million b/d from 2015 (table 1.3). Among Arab oil-producing countries, the Gulf Cooperation Council (GCC) countries are estimated to have produced 18.4 million b/d in 2016, an increase of 0.7 million b/d over the previous year. Production in Iraq grew substantially, benefitting from the recovery of production facilities in the north and facility expansion in the south. In Libya, production plunged to an estimated 360,000 b/d in 2016, while in Yemen facilities remained closed. For 2017, total crude oil production in the Arab region is forecast to decline moderately to 24.3 million b/d on average, mainly due to the measures introduced by OPEC to reduce production.

Table 1.4 Gross oil export revenues in the Arab region, 2013-2018 (billions of US dollars)

Country/subregion	2013	2014	2015	2016 ^a	2017 ^b	2018 ^b
Bahrain	15.1	14.3	7.7	6.1	8.2	8.7
Kuwait	108.5	97.6	48.9	39.9	49.7	55.4
Oman	32.5	30.5	17.6	14.8	20.0	21.1
Qatar	32.4	28.8	13.2	10.9	13.9	14.8
Saudi Arabia	321.9	284.6	152.9	129.0	167.5	177.5
United Arab Emirates	116.5	99.0	55.0	46.3	54.8	59.0
GCC countries	627.0	554.8	295.4	246.9	314.0	336.3
Egypt	13.1	10.9	6.7	5.7	7.8	8.3
Iraq	89.6	83.8	43.2	47.0	60.9	67.3
Syrian Arab Republic	0.0	0.0	0.0	0.0	0.0	0.0
Mashreq	102.6	94.7	49.9	52.7	68.7	75.6
Algeria	40.1	35.4	19.1	15.5	18.9	21.0
Libya	33.8	11.3	5.9	4.5	9.7	11.8
Morocco	1.1	0.8	0.3	0.3	0.4	0.4
Tunisia	2.6	2.2	1.0	0.8	1.0	1.1
Maghreb	77.6	49.7	26.3	21.0	30.1	34.2
Mauritania	0.2	0.2	0.1	0.1	0.1	0.1
Sudan	1.7	1.4	0.6	0.4	0.5	0.6
Yemen	6.5	4.5	2.3	0.0	0.0	0.0
Arab LDCs	8.5	6.1	3.0	0.4	0.6	0.7
Arab region total	815.7	705.3	374.6	321.0	413.4	446.9

Sources: ESCWA staff estimates based on national statistical sources (see appendix).

^a ESCWA staff estimates as of March 2017.

^b ESCWA staff projections as of March 2017.

Box 1.1 The importance of good public financial management and governance

For more than a decade, high dependency on oil revenues to fund national budgets has exposed Arab countries to external shocks stemming from price and demand volatility. The problem is especially acute in, but not confined to, GCC countries. More than 90 per cent of government revenue in Iraq and Tunisia, for instance, is generated by oil-related activities. Economic diversification is therefore a matter of urgency and at the heart of government policy in some of the region's countries.

According to statistics from the United Nations Conference on Trade and Development, the number of exported products barely increased in Arab countries between 1995 and 2015. In GCC countries, the number of products for export rose by 3 per cent (from 251 to 258 products). In Maghreb countries, the figure was 8 per cent (227 to 245). The Export Diversification Index shows a decreasing trend over the same period (0.76 to 0.57 for GCC countries and 0.73 to 0.62 for Maghreb countries). The overall conclusion is that Arab countries have, to all and intents and purposes, failed to diversify sufficiently.

Given the volatility in oil markets in recent years, most Arab countries have introduced, or are planning to introduce, major fiscal reforms or spending cuts in order to boost domestic revenue (see chapter 3). While such reforms may have a short-term impact, they cannot be regarded as a comprehensive solution to the fundamental problem. In order to surmount their difficulties and fully reap the rewards of their natural resource wealth, oil-producing countries should carry out fiscal consolidation in a more structured fashion.

In addition to broadening the tax base, there is a need to improve the economic and corporate governance of extractive industries. Public financial management should be improved in such a way as to limit waste and strengthen national control mechanisms. More should be done to enhance the revenue collection and public finance management, and the capacity of governments and tax authorities to promote domestic savings. Governments should also redouble efforts to tackle illicit financial flows and retain domestic resources.

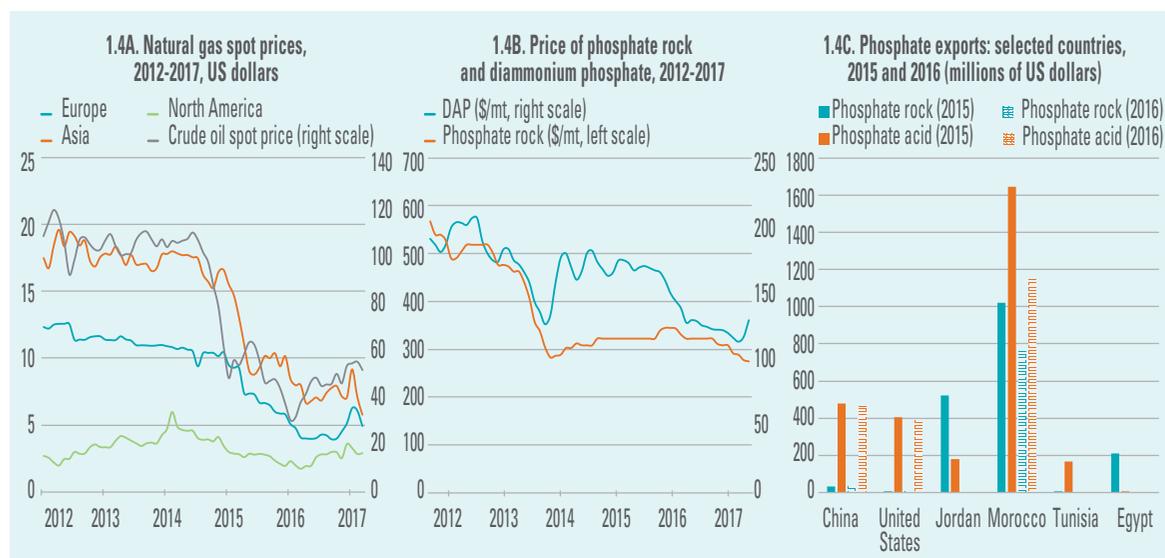
The region's total gross oil export revenues for 2015-2016 are estimated at \$321 billion for 2016, a 14 per cent drop from the previous year (table 1.4). Out of 16 countries, Iraq is the only one in which oil export earnings are estimated to have increased in that period. Elsewhere, oil export revenues fell, even though most of those countries increased their refining capacity. Since the projected price increase should outweigh the decline in production, total earnings are forecast to increase by 29 per cent to \$415 billion in 2017. Nevertheless, that total is still 52 per cent lower than the peak in 2012.

2. Natural gas

Although more natural gas reserves have been found in the Arab region and its worldwide consumption is projected to continue rising,⁶

only some countries have exploited its export potential to date: Algeria, Egypt, Iraq, Libya, Oman, Qatar, the United Arab Emirates and Yemen. Saudi Arabia uses natural gas for domestic consumption only. Iraq exported its first shipment in March 2016. Nevertheless, like Egypt and the United Arab Emirates, it remained a net importer of gas due to rising internal demand. In Egypt, an increase in production is likely to return it to net exporter status by 2019. Yemen plans to resume production of liquefied natural gas (LNG), which was suspended in April 2015 as a result of armed conflict. In Lebanon, two decrees were issued in December 2016 to license exploration in the eastern Mediterranean gas field.

As of March 2017, the benchmark price stood at \$5.81 per million British thermal units (mmbtu) for Europe, \$7.75 for Japan and

Figure 1.4 Natural gas prices, and phosphate prices and exports

Source: IMF Primary Commodity Prices database. Available from <http://www.imf.org/external/np/res/commod/index.aspx>.

Source: World Bank Commodity Market database. Available from <http://www.worldbank.org/en/research/commodity-markets>.

Sources: ITC Trade Map (available from <http://www.trademap.org/Index.aspx>); and ESCWA staff estimates for Morocco as of April 2017.

\$2.87 for the United States (figure 1.4A).⁷ Those benchmark prices have bottomed out with narrowing regional spreads, which are expected to narrow further due to ongoing investment in LNG trading and deliveries. Moves to establish a secondary gas trading market in Singapore and the construction there of an additional LNG terminal are expected to make it a regional hub for LNG trading. As more countries strive to meet carbon emission goals, demand for natural gas is projected to grow. Infrastructure improvements in 2017 will encourage further integration of regionally segmented natural gas markets.

3. Phosphate

Demand for fertilizer stagnated in the 2015-2016 crop year due to bad weather in several major production areas of grains, which led to a decline of 2.3 per cent in production. Good weather in the first quarter of 2017, however, has fuelled expectations of a rise in production of 4.7 per cent in 2016-2017, which in turn should lead to a rebound in demand for fertilizer.⁸ According to the International

Fertilizer Association (IFA), global fertilizer demand dropped by 0.1 per cent to 183.4 million tons in 2015-2016 over the previous season. Demand for phosphorus nutrient, however, grew by 1.4 per cent to 41.6 million tons. IFA forecasts an increase in demand in 2016-2017 of 2.1 per cent for fertilizer and 1.6 per cent for phosphorus nutrient, respectively. Following the lead of Morocco, Saudi Arabia boosted its production capacity of phosphate-based products, such as phosphoric acid and diammonium phosphate, in 2016.

The price of phosphate rock declined by 16 per cent to \$103 per metric ton in 2016 (figure 1.4B). With no surge in demand projected, the price is forecast to remain low at around \$100 per metric ton in 2017.⁹ The price of diammonium phosphate declined by 21 per cent to \$315 per metric ton in the year to December 2016, following the previous year's downward trend. It bounced back to \$360 by February 2017, and it is projected to reach around \$380 in the course of the year.

The decline in the value of phosphate product exports continued in 2016, mainly due to falling unit prices (figure 1.4C). China and the United States underperformed in terms of phosphate product exports. Exports from Morocco, which accounts for more than one third of global phosphate products and leads the market, ahead of China and the United States, were especially sluggish. Other global players in the region, including Egypt, Jordan and Tunisia, also performed poorly.

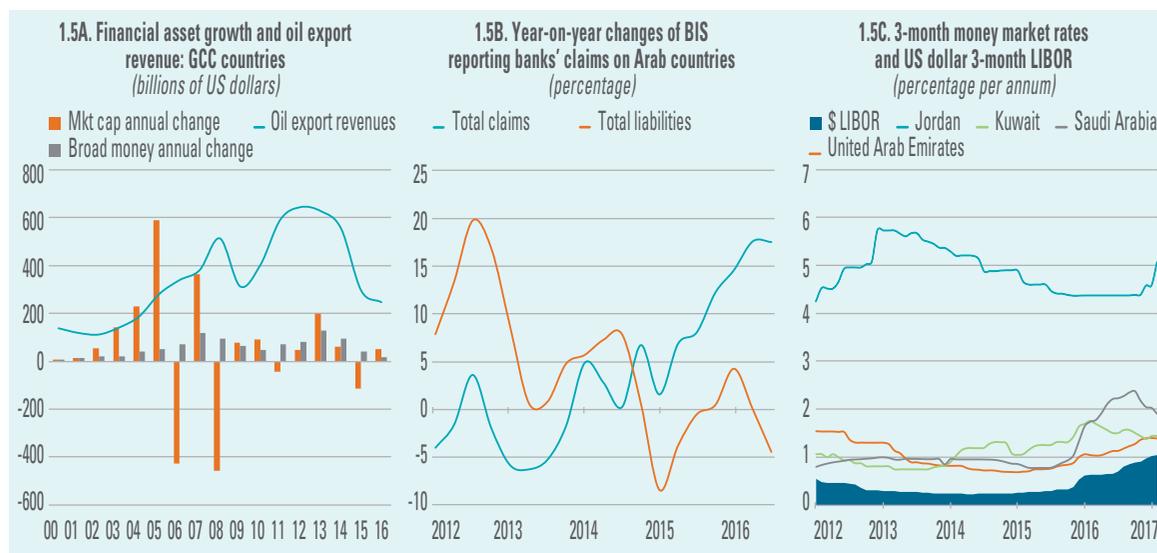
C. Financial and trade linkages to the Arab region

The Arab region is sensitive to fluctuations in international financial markets and global trade. Arab countries have traditionally played a key role in financial markets, especially in international capital flows. According to statistics from the Bank for International Settlements (BIS), the deposits of Arab

customers with main international banks shrank considerably in 2016, while borrowing grew. Nonetheless, the Arab region remained a net lender to main international banks (figure 1.5B). Algeria, Iraq, Kuwait, Libya, Saudi Arabia, the Syrian Arab Republic, Tunisia and Yemen have remained positive contributors to the Arab region's net lender position over the past few years, while Bahrain, Egypt, Mauritania, Morocco, Oman, Qatar, the Sudan and the United Arab Emirates went in the opposite position.

Despite the 14 per cent drop in oil export earnings estimated between 2015 and 2016 (table 1.4), the value of financial wealth in GCC countries increased slightly by \$51 billion, which can be measured by market capitalization of stock markets. Broad money stock growth remained largely subdued over the same period (figure 1.5A). Such market expansion would seem to indicate a degree of resilience in GCC financial markets,¹⁰ in spite of recent difficulties such as unfavourable oil prices and the

Figure 1.5 Global financial linkages in the Arab region



Sources: ESCWA staff compilation based on Arab Monetary Fund data for stock market capitalization (available from www.amf.org.ae/en/ambdbqrt); IMF International Financial Statistics for money stock; and national sources for oil export revenues.

Source: ESCWA staff compilation based on BIS, Locational banking statistics. Available from www.bis.org/statistics/bankstats.htm.

Sources: ESCWA staff compilation based on Federal Reserve Bank of St. Louis (US dollar LIBOR); Association of Banks in Jordan; Central Bank of the United Arab Emirates; Central Bank of Kuwait; and the Saudi Arabian Monetary Agency.

uncertainty caused by the decision of the United Kingdom to leave the EU.

GCC countries have experienced difficult financing conditions. Funding costs, measured by 3-month money market rates, rose constantly in 2016, partly because of the rise of the US dollar 3-month LIBOR (figure 1.5C). Financing costs in the United Arab Emirates increased in the 12 months to February 2017 by 0.35 percentage points. The cost of financing in Saudi Arabia rose over the first three quarters of 2016, but it has since levelled off. Kuwait bucked the trend, benefitting from a decrease in funding costs of 0.31 percentage points.

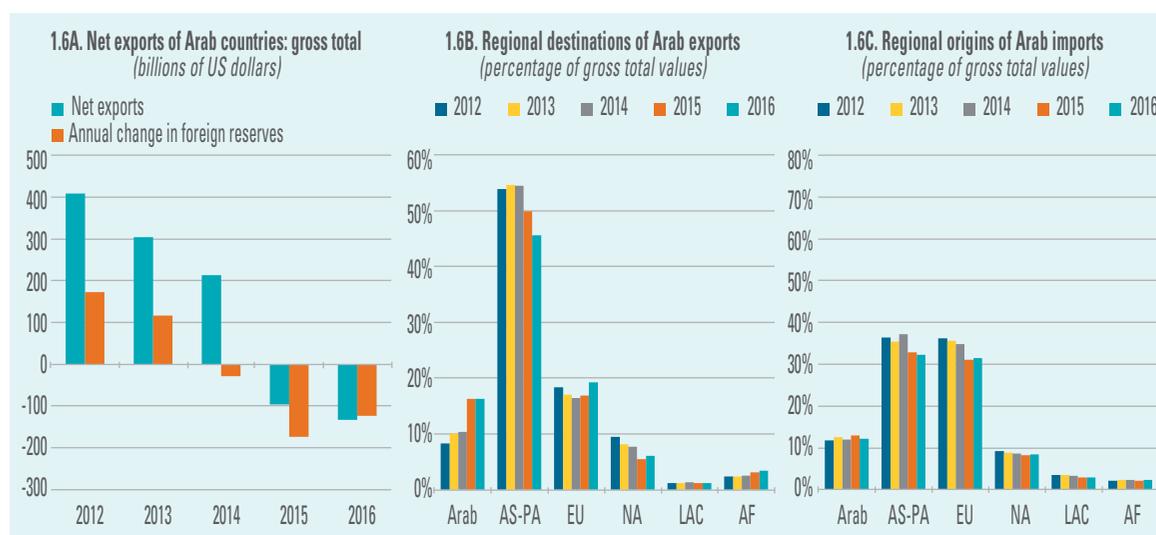
In 2015, the Arab region became a net importer, with imports exceeding exports by \$96.8 billion. That trend continued in 2016 (figure 1.6A). Total exports were estimated at \$689 billion and imports at \$822 billion. A sharp decline of total exports by \$115 billion over the period 2015-2016 was mainly due to the steady fall in oil prices. In addition, foreign reserves declined by \$124 billion during 2016, following an outflow of \$174 billion in 2015 and

\$29 billion in 2014 (figure 1.6A). In 2015, Saudi Arabia (\$80 billion) and Algeria (\$30 billion) accounted for almost 90 per cent of the drop.

The volume of exports shipped by the region to six groups of countries (Arab countries, Asia and the Pacific, Europe, North America, Latin America and the Caribbean, and Africa excluding Arab countries) remained largely unchanged in 2016, although their value declined sharply (figure 1.6B). Of particular note is that the proportion of total exports going to the Asia-Pacific region, the largest combined export market for the Arab countries, slipped from 49.8 per cent to 45.6 per cent.¹¹ The share of exports to Europe rose to 19.2 per cent from 16.9 per cent, partly due to the positive export performance (\$13.5 billion) of the United Arab Emirates.

The regional shares of imports from the groups showed no significant changes over the period 2015-2016, although the region's importing performance showed a drop for all the six groups of countries (figure 1.6C).

Figure 1.6 Global trade linkages in the Arab region



Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa excluding Arab countries.

Source: ESCWA staff calculations based on IMF, Directions of Trade Statistics and International Financial Statistics. Available from <http://www.imf.org/en/Data>.

Intraregional trade accounted, as in the previous year, for 16.2 per cent of total exports. Intraregional imports shrank by 0.7 per cent to a 12.2 per cent share of total imports. A range of factors contributed to the sluggishness of intraregional trade, including weak domestic demand, trade barriers, a lack of investment incentives, the failure to diversify and, probably, the downward shift in world trade growth in recent years.

D. Concluding remarks

External economic conditions for the Arab region have improved to some extent as global deflationary pressures have dwindled, the price of oil has bounced back and prices of other commodities have stabilized. The orderly reaction of financial markets to interest rate hikes in the United States and the modest improvement in the economic performance of Europe (within and outside the EU) buoyed non-oil exports from the Arab region.

Nevertheless, geopolitical tensions, partly driven by external factors, continued to weigh on the region. The political counterpoint to the crises and conflict in Iraq, Libya, the State of Palestine, the Syrian Arab Republic and Yemen came with the attempt by some developed countries to restrict the entry of nationals from certain Arab countries.

The year 2017 marks the second year since the launch of the Sustainable Development Goals (SDGs) and some Arab countries have started to take critical steps to implement them. However, success could, as was the case with the Millennium Development Goals (MDGs), hinge on the availability of financial resources.¹² Economic recovery at the global and regional levels is unlikely to be enough to fund the necessary policies. The Arab countries will need to identify appropriate sources of finance, map out strategic social policies and seek international support through cooperation and partnerships in order to implement the SDGs.

Box 1.2 The Addis Ababa Action Agenda as part of the solution

In September 2015, the international community adopted the 2030 Agenda for Sustainable Development and its 17 SDGs to succeed the MDGs. Consultations also took place on how to finance implementation of the 2030 Agenda and on climate change. They culminated in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (July 2015) and the Paris Agreement under the United Nations Framework Convention on Climate Change, adopted in December of the same year.

Despite initiatives at the global and regional levels pointing to an increasingly supportive environment for sustainable development, particularly for the developing economies, the available finance falls far short of requirements. For instance, the annual cost of bridging the infrastructure gap alone has been estimated at \$1.5 trillion. There is a need to scale up funding in an innovative and comprehensive way.

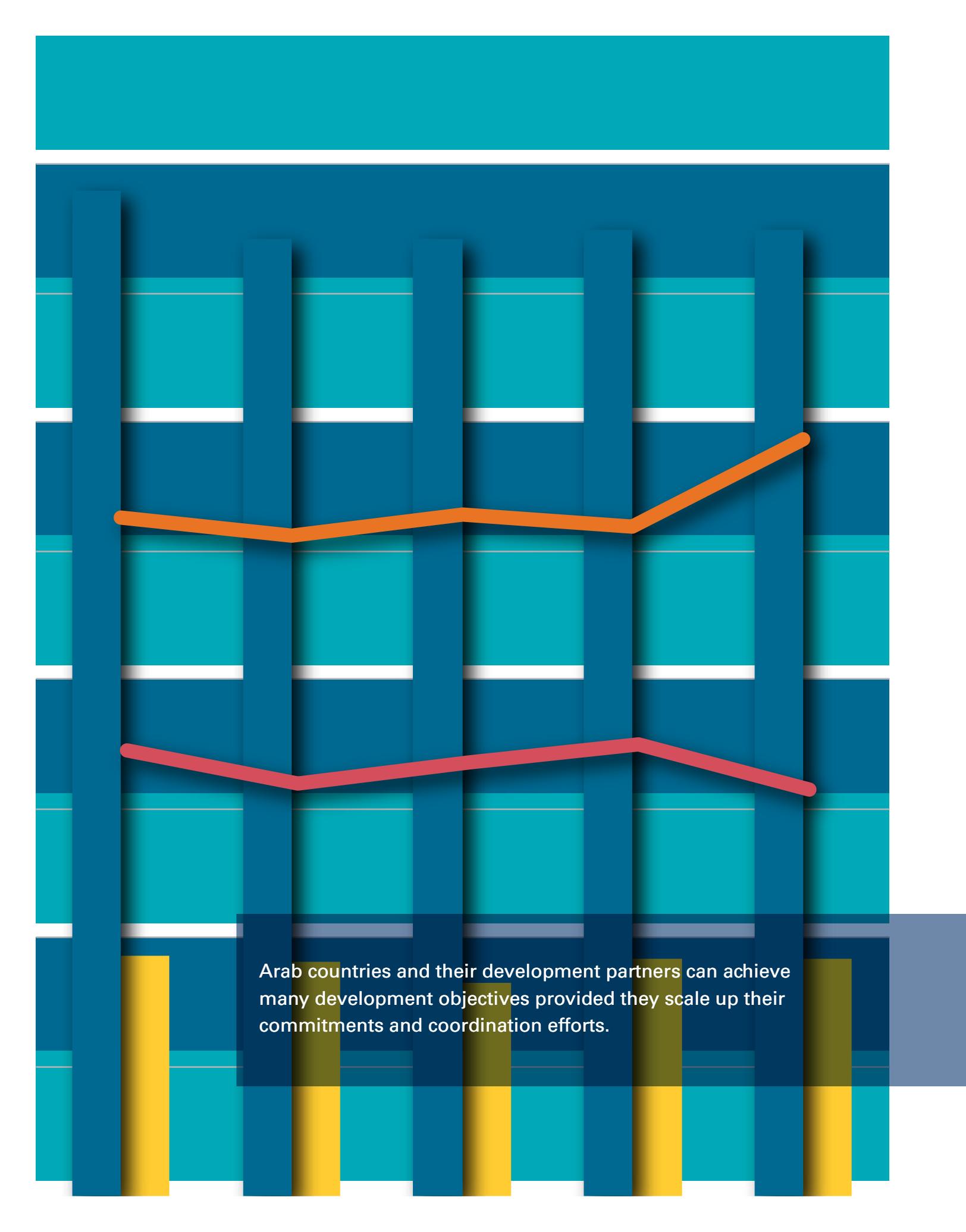
The non-binding Action Agenda sets forth policy actions for financing sustainable development and achieving the SDGs. It proposes a global funding framework that aligns all financing flows and policies with economic, social and environmental priorities, and ensures that financing is stable and sustainable. It includes new commitments on cross-cutting initiatives to build on synergies with the Agenda 2030:

1. *Social protection*: Member States agreed to mobilize additional domestic public resources and the international community committed itself to strengthening support for the provision

of fiscally sustainable and nationally appropriate social protection systems, including social protection floors.

2. *Infrastructure:* States agreed to launch a global infrastructure forum to facilitate existing infrastructure initiatives and identify and address infrastructure and capacity gaps.
3. *Official development assistance:* Given the decline of official development assistance going to the least developed countries (LDCs), despite the overall increase in pledges and disbursement, developed countries committed themselves to reversing that trend and to providing “LDC packages” to support the poorest countries. The EU promised that its member States would increase contributions to 0.2 per cent of national income by 2030. It was also concluded that debt financing, relief, restructuring and management should be fostered through coordinated policies.
4. *Technology Facilitation Mechanism:* The mechanism aims to bridge the widening technological divide in many economic sectors, which constitutes an extra hurdle for developing countries in achieving sustainable development.
5. *International tax cooperation:* The developing countries and development partners committed themselves to improving the fairness, transparency, efficiency and effectiveness of their tax systems, by broadening the tax base, improving tax administration and intensifying international cooperation to build capacity in developing countries. The Action Agenda also calls for intensified efforts to substantially reduce illicit financial flows by 2030, with a view to their eventual elimination. Member States agreed to combat tax evasion and corruption through tougher national regulations and increased international cooperation.
6. *Gender equality and women’s empowerment:* Given the persistence of problems such as violence against women, unequal pay and underrepresentation of women in government, development partners committed themselves to mainstream women’s empowerment considerations into development finance.
7. *Additional cross-cutting issues:* These include scaling up efforts to end hunger and malnutrition, promoting inclusive and sustainable industrialization, providing full and productive employment and decent work for all, having peaceful and inclusive societies, and protecting the environment.

Agreements and policy recommendations were formulated in the following areas: domestic public resources; domestic and international private business and finance; international development cooperation; international trade as an engine for development; debt sustainability; systemic issues; and science, technology, innovation and capacity-building, and data and follow-up.

An abstract graphic design featuring a teal and blue background. It includes several vertical bars of varying heights and widths, some in yellow and some in olive green. Two lines, one orange and one red, are plotted across the background, showing a slight dip in the middle and a rise towards the right. The overall composition is layered and geometric.

Arab countries and their development partners can achieve many development objectives provided they scale up their commitments and coordination efforts.

2. Socioeconomic Trends and Developments in the Arab Region

A. Economic situation and prospects

1. Overview

Economic activity in most Arab countries slowed in 2016, with low international commodity prices, tourism affected by regional tensions and conflict, and the rising cost of financing domestic credit. Moreover, a severe drought hit Maghreb countries in the same year. Real GDP growth in the Arab region is estimated at 1.8 per cent in 2016 (table 2.1), down from 2 per cent in 2015. The figure is subject to revision, as official national accounts are not available for Libya, the Syrian Arab Republic and Yemen for some years. The destruction resulting from conflict in those countries makes even an estimation of economic costs difficult. Recovery in the Arab region is expected in 2017, with average real GDP reaching 2.5 per cent on the back of firmer oil prices and expanding domestic demand.

Average annual consumer price inflation (CPI) for 2016 in the Arab region is estimated at 6.1 per cent, compared with 5.1 per cent in 2015 (table 2.1). Inflationary pressures remained weak in GCC countries, where food prices declined in the second half of 2016. Aggregate price levels in GCC countries were determined by country-specific factors, including the cost of domestic services, transport and utilities. Jordan, Lebanon and the State of Palestine experienced deflation, influenced by a weak euro and low commodity prices. In Jordan and Lebanon, the aggregate price level declined for the second year in a row. Inflationary pressures were contained in Iraq, despite the uncertainty of supply in parts of the country due to armed conflict. A shortage

of foreign reserves, the declining value of national currencies, rising fiscal deficits and the rapid increase in money stock resulted in hyperinflation in Egypt, Libya, the Sudan, the Syrian Arab Republic and Yemen. The poor harvest in Algeria, Morocco and Tunisia resulted in mild inflation driven by rising food prices. Inflationary pressures in the Comoros, Djibouti and Mauritania were contained, as international commodity prices remained low throughout 2016.

For 2017, it is estimated that the CPI for the region will average 6 per cent. International commodity prices have bottomed out and are projected to start rising moderately. However, that is expected to push inflation up substantially in Jordan and Lebanon. Prices are set to continue rising quickly in Egypt, Libya, the Sudan, the Syrian Arab Republic and Yemen, as those countries face severe foreign exchange constraints. Economic recovery in GCC countries is expected to come with mild inflationary pressure. The expected introduction of a unified value added tax (VAT) in 2018 is likely to fuel consumer inflation in 2017 and 2018 (see chapter 3). Inflation driven by rising food prices is forecast to continue at a slightly faster pace in Algeria, Mauritania and Tunisia in 2017.

In 2016, GCC countries, Djibouti, Iraq, Jordan and Lebanon continued to peg their currencies to the US dollar. Meanwhile, the currencies of Algeria, Mauritania, Morocco and Tunisia remained weak against the dollar in parallel with a weakening euro. The exchange rate of the Kuwaiti dinar, which is pegged to a basket of currencies, stabilized against the dollar. Egypt was forced to abandon its orderly depreciation of the Egyptian pound after the

Table 2.1 Real GDP growth rate and consumer price inflation rate, 2014-2018
(annual percentage change)

Country/subregion	Real GDP growth rate					Consumer price inflation rate				
	2014 ^a	2015 ^a	2016 ^b	2017 ^c	2018 ^c	2014	2015	2016 ^b	2017 ^c	2018 ^c
Bahrain	4.5	2.9	3.4	2.0	2.2	2.7	1.8	2.8	3.2	3.8
Kuwait	0.5	1.8	2.7	2.4	3.0	2.9	3.3	3.2	3.4	4.0
Oman	2.9	5.7	1.6	2.6	3.6	1.0	0.1	1.1	2.7	3.6
Qatar	4.0	3.6	2.7	3.0	3.2	3.0	1.8	2.7	2.2	3.2
Saudi Arabia	3.6	3.5	1.4	1.8	3.0	2.7	2.2	3.5	2.0	3.5
United Arab Emirates	3.1	3.8	2.4	2.9	3.2	2.3	4.1	1.6	2.5	3.8
GCC countries	3.3	3.5	2.0	2.3	3.1	2.6	2.6	2.7	2.3	3.6
Egypt ^d	3.1	3.4	2.3	2.7	3.2	10.1	10.4	13.7	17.9	15.0
Iraq	-0.6	-2.4	1.5	3.6	3.9	2.2	1.4	2.8	3.2	3.5
Jordan	3.1	2.4	2.1	2.4	2.7	2.9	-0.9	-0.8	4.1	2.2
Lebanon	2.1	1.3	1.4	1.9	2.2	1.7	-3.7	-0.8	3.8	2.3
State of Palestine	-0.2	3.4	3.8	3.6	3.8	1.7	1.4	-0.2	1.2	2.0
Syrian Arab Republic ^e	-9.9	-8.0	-5.8	-3.9	-2.8	24.3	38.2	46.1	21.3	13.9
Mashreq	1.4	1.1	1.7	2.6	3.0	7.4	7.3	10.1	11.9	9.9
Algeria	3.8	3.2	2.9	2.8	2.7	3.9	4.4	5.8	6.4	5.5
Libya	-47.7	-18.1	5.0	12.8	18.2	2.4	9.8	27.2	22.5	12.5
Morocco	2.4	4.5	1.1	3.8	3.5	0.4	1.6	1.6	1.8	2.0
Tunisia	2.3	1.1	1.0	2.5	3.2	4.9	4.9	3.7	4.2	4.7
Maghreb	-2.6	0.9	2.4	4.2	4.7	2.9	4.3	6.8	6.6	5.2
Comoros	3.9	3.6	2.2	3.5	3.8	1.4	2.2	1.8	3.5	3.6
Djibouti	6.0	6.5	6.7	6.8	6.8	3.0	2.7	3.1	3.6	4.0
Mauritania	6.6	1.9	3.4	4.9	4.5	3.5	0.5	1.4	3.2	4.5
Somalia ^f	3.6	3.6	3.4	2.5	3.5	1.3	1.4	1.5	2.7	1.9
Sudan	2.7	4.9	3.2	3.7	4.0	37.5	17.3	17.6	15.2	14.5
Yemen	1.5	-34.6	-11.1	-7.5	-5.0	8.0	39.4	35.0	22.5	18.0
Arab LDCs	2.6	-6.5	-0.8	0.5	1.5	25.5	22.0	21.0	16.1	14.4
Arab region total ^g	1.9	2.0	1.8	2.5	3.2	5.0	5.1	6.1	6.0	6.0

Source: ESCWA estimates based on national statistical sources (see appendix).

^a GDP figures for 2014 and 2015 are from national sources unless otherwise indicated.

^b March 2017 estimates.

^c March 2017 forecasts.

^d For the GDP growth rate of Egypt, the figures are for the country's fiscal year, which ends in June.

^e The GDP growth rate of the Syrian Arab Republic is based on estimates by the National Agenda for the Future of Syria project.

^f GDP growth rate and CPI rate for Somalia are from the IMF Staff Country Report (17/61) for the 2016 Article IV Consultation. Available from <http://www.imf.org/en/Publications/CR/Issues/2017/02/27/Somalia-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44706>.

^g Figures for country groups are weighted averages, where weights for each year are based on GDP in 2015.

sudden drop in the parallel market exchange rate in the third quarter of 2016. In November 2016, Egypt decided to float the pound in order to align the official exchange rate with that of the parallel market. As a result, the pound devalued from LE 8.58 to as low as LE 19.06 to one US dollar. The discrepancy between the official exchange rate and parallel market rate has widened in Libya and the Sudan. Yemen managed to stabilize the rial after a substantial devaluation in 2015. For 2017, countries with a US dollar peg are forecast to maintain their foreign exchange regime. Further devaluations are forecast in Egypt, Libya, Mauritania, the Sudan, the Syrian Arab Republic, Tunisia and Yemen.

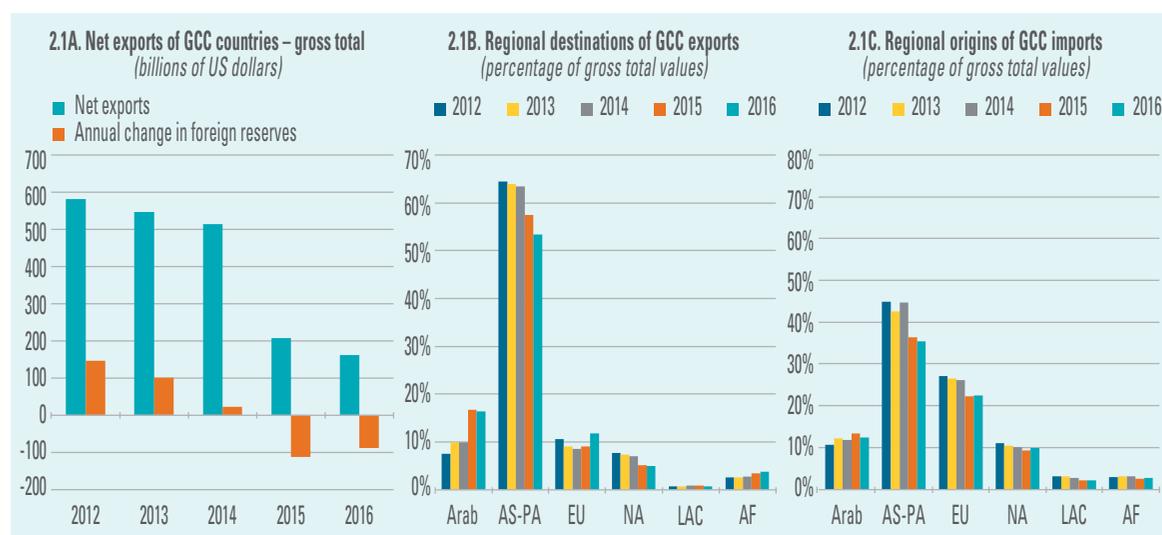
2. GCC countries

GDP growth between 2015 and 2016 for GCC countries was estimated at 2 per cent, down from 3.5 per cent the previous year. That could have come in the wake of the slump in oil prices through various fiscal, investment and financing channels, although its impact varied from a country to another. The economies of

Bahrain and Kuwait are estimated to have expanded by 3.4 per cent and 2.7 per cent in 2016 respectively, up from 2.9 per cent and 1.8 per cent in 2015. Oman, Qatar, Saudi Arabia and the United Arab Emirates registered contractions of 4.1 percentage points, 0.9 percentage points, 2.1 percentage points and 1.4 percentage points respectively (table 2.1).

The oil sector in GCC countries remained stable, with a slight rise in crude oil production of 3.9 per cent in 2016 over the previous year (from 17.7 million b/d to 18.4 million b/d). The non-oil sector witnessed a deceleration of 0.3 percentage points, which could contribute to weak economic performance in the region. Oil export revenues hit their lowest level in recent years, down to \$247 billion in 2016 from \$295 billion in 2015 (table 1.4). The drop ensued largely from the decision by Saudi Arabia to contribute by more than half to the reduction in oil exports from the subregion under OPEC reduction measures (see above). For that reason, most governments extended fiscal austerity measures into their respective fiscal years covering 2016.

Figure 2.1 Geographical trade structure: GCC countries



Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa excluding Arab countries.

Source: ESCWA staff calculations based on IMF, Directions of Trade Statistics and International Financial Statistics. Available from <http://www.imf.org/en/Data>.

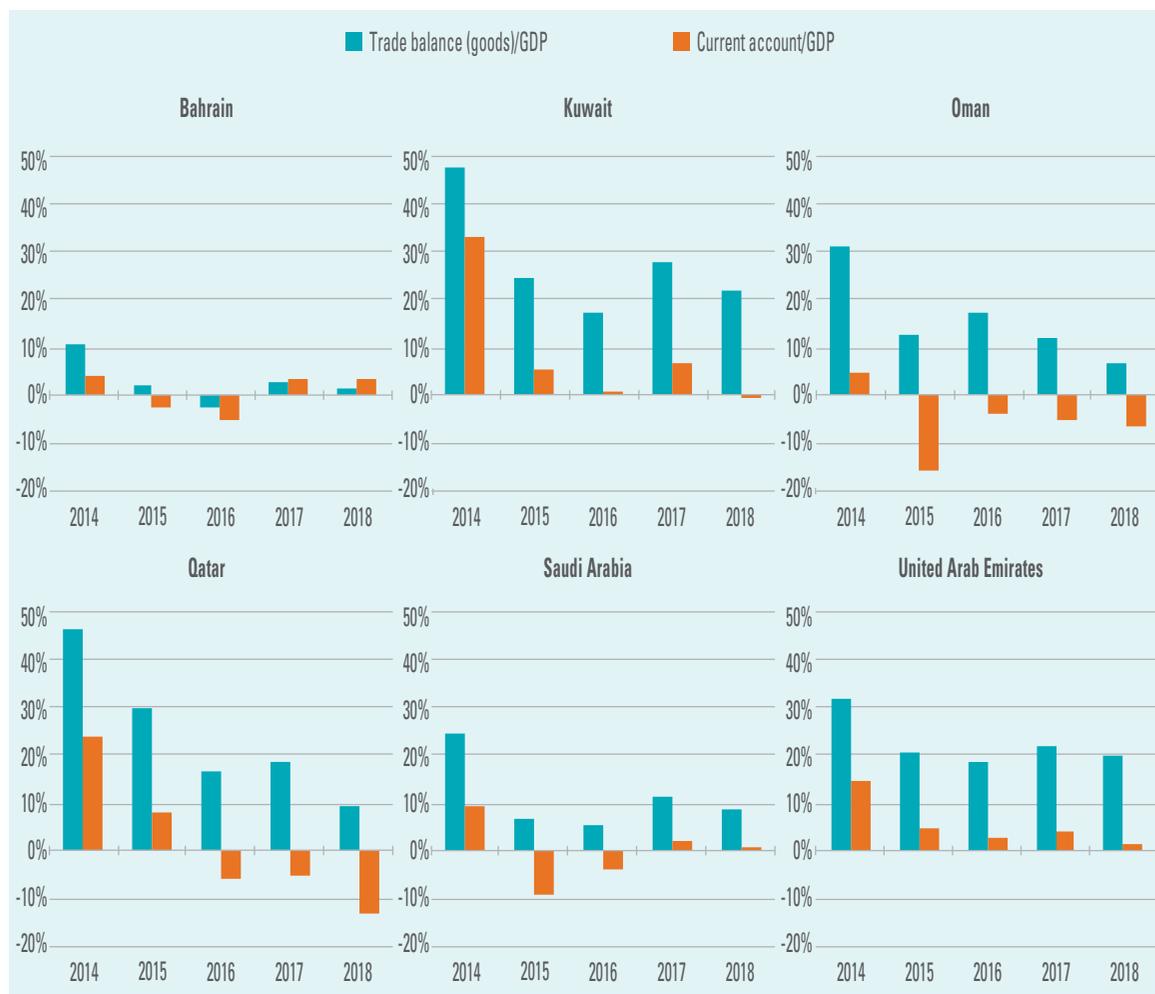
Compared with the previous year, the trade balance of the GCC countries decreased by 22 per cent in 2016, continuing a four-year downward trend (figure 2.1A). Net exports amounted to \$161 billion (11.7 per cent of the subregion's GDP). The share of exports from GCC countries to the Asia-Pacific region decreased sharply by 4.2 percentage points to 53.4 per cent in 2016. The share of imports from that region remained stable at 35.5 per cent (figures 2.1B and 2.1C). Exports and imports to and from other regions also declined, in the case of Latin America and the Caribbean both fell by 0.1 percentage points. In terms of intra-Arab trade, exports from the

subregion slipped by 0.3 percentage points and imports by 1 percentage point.

In contrast, the share of exports to Europe rose from 9.1 per cent to 11.9 per cent in 2016, while the share of imports crept up from 22.2 per cent to 22.5 per cent. Exports to and imports from Africa also rose, from 3.4 per cent to 3.8 per cent and 2.5 per cent to 2.8 per cent respectively. Trade with North America remains negligible.

All GCC countries registered a merchandise trade surplus in 2016, except Bahrain, which recorded a deficit of \$804 million (figure 2.2).¹

Figure 2.2 Trade and current account balances: GCC countries



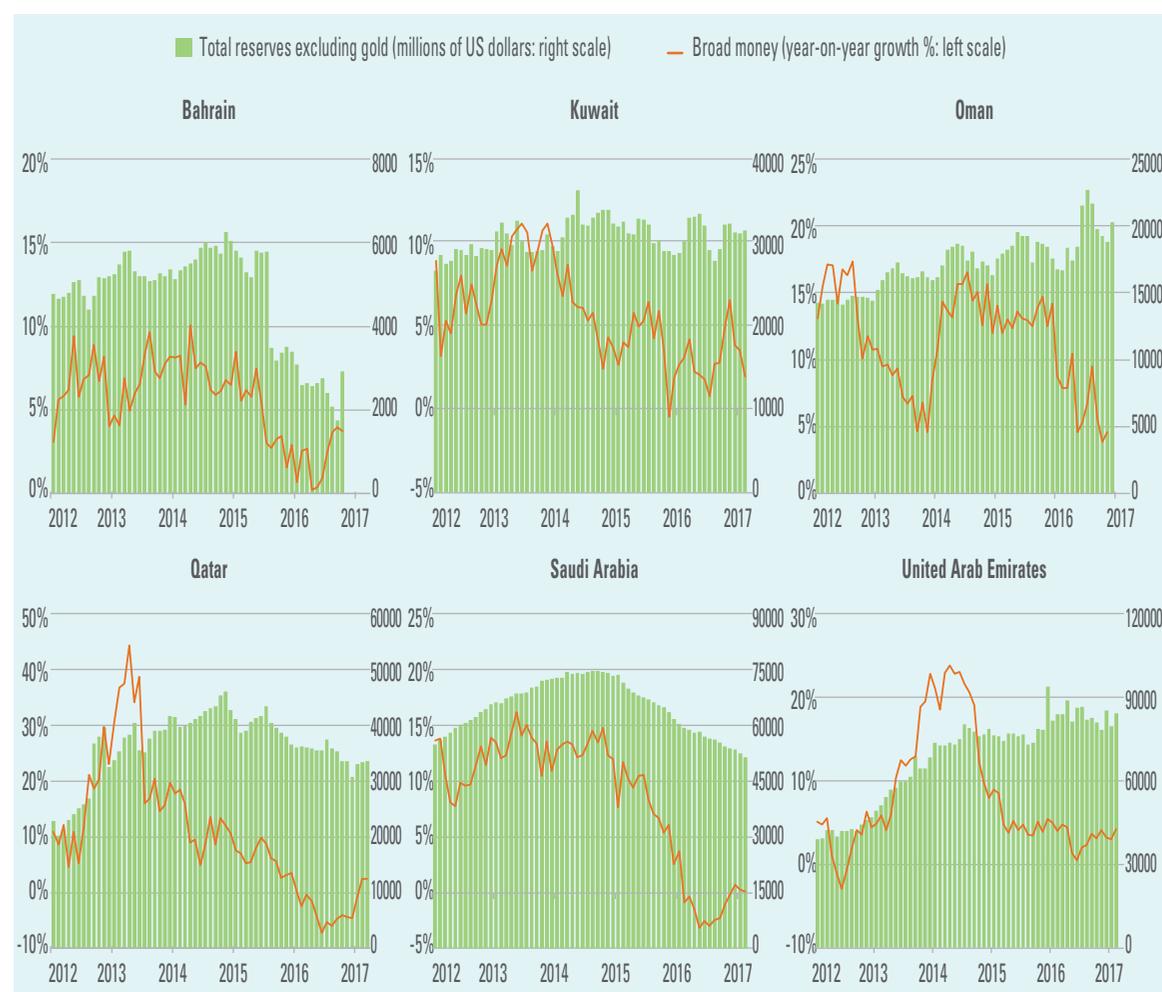
Sources: ESCWA staff calculations based on national statistical sources (see appendix). Figures for 2016, 2017 and 2018 are ESCWA staff estimates/projections.

However, that surplus has not been sufficient to offset deficits in services trade and secondary income. As a result, current account deficits have reached \$24 billion (1.8 per cent of GDP). Only Kuwait and the United Arab Emirates posted current account surpluses, of \$945 million (0.8 per cent of GDP) and \$11 billion (3.2 per cent of GDP) respectively.

The current account deficits have been partly financed by capital flows, including repatriation of foreign assets, foreign borrowing and foreign direct investment. Foreign reserves (excluding gold) have been

largely sold in this subregion. Between 2015 and 2016, they dwindled in Bahrain by \$460 million, in Qatar by \$5.7 billion, in Saudi Arabia by \$80 billion and in the United Arab Emirates by \$8.5 billion. Kuwait and Oman increased their reserves by \$3 billion (figure 2.3). Overall, foreign exchange reserves in GCC countries totalled \$705 billion in December 2016, a drop of \$89 billion over the previous year. Most of that drop was accounted for by Saudi Arabia. Foreign reserves in Bahrain shrank more quickly than in other GCC countries in 2016, mainly because it is more vulnerable to slumping oil prices and regional political

Figure 2.3 Monetary indicators: GCC countries



Sources: ESCWA staff calculations based on IMF International Financial Statistics (available from <http://www.imf.org/en/Data>). Figures for Bahrain's broad money for April to October 2016 are ESCWA staff estimates.

instability than its richer neighbours. Some countries have resorted to external debt to cover their deficits. Total external debt in the subregion is estimated at \$683 billion (50.8 per cent of GDP) for 2016. It has reached alarming levels in Bahrain (136 per cent of GDP) and in Qatar (107 per cent).

In line with foreign reserve dynamics, year-on-year growth of broad money stock appeared to be approaching zero or even a negative rate towards the end of 2016. Broad money growth has declined by 26 percentage points in GCC countries (figure 2.3), a situation exacerbated

by the decline in non-government deposits to banks and, as a result of higher interest rates in the United States, slower private credit. After recording negative broad money growth in 2016, indicating unusually weak domestic credit growth, Qatar and Saudi Arabia appear to have returned to positive rates since early 2017, albeit marginally. Bahrain, Kuwait and the United Arab Emirates kept broad money growth in positive territory, within a range of 5 per cent to zero. The Omani economy struggled against a radical decline in broad money growth from 15 per cent in 2015 to 5 per cent in 2016, a possible sign of seriously weak domestic demand.

Figure 2.4 Fiscal positions: GCC countries



Sources: ESCWA staff calculations based on national statistical sources (see appendix). Figures for 2016, 2017 and 2018 are ESCWA staff estimates/projections.

The income of GCC governments shrank by 1.7 per cent of GDP in 2016, mainly due to the decrease in oil export revenue. Most of those governments reacted with austerity measures and a reduction in capital spending. Subsequent fiscal reforms have included the raising of domestic fuel prices by up to 60 per cent and a mechanism to peg them to global prices, pledges to bring electricity prices into line with market rates, the reduction of electricity subsidies, and the planned introduction of a GCC-wide VAT at a rate of 5 per cent in 2018.

However, their efforts to cut expenditure were not enough to offset the shortfall in fiscal revenue in 2016 and all GCC countries registered a fiscal deficit: 12.6 per cent of GDP in Bahrain; 7 per cent in Kuwait; 17.9 per cent in Oman; 9 per cent in Qatar, 12.4 per cent in Saudi Arabia and 4.6 per cent in the United Arab Emirates (figure 2.4). The combination of higher oil prices and continuing fiscal reform should improve the subregion's fiscal situation in 2017. The forecast fiscal deficit for the six countries is 11.3 per cent, 2 per cent, 12.7 per cent, 4.1 per cent, 11.7 per cent and 3.4 per cent of GDP respectively. The overall deficit for the GCC subregion is forecast at 7.9 per cent.

The economic situation in GCC countries is forecast to recover moderately in 2017. The recovery in oil prices is expected to improve business sentiment and consumer confidence. Due to the OPEC-led coordinated reduction of crude oil production, the oil sector in GCC countries is not projected to contribute to growth in real terms in the coming months. Fiscal consolidation will continue, including subsidy reforms and the privatization of State enterprises. Financing costs in GCC countries are likely to rise further, influenced by expected policy interest rate hikes by the United States Federal Reserve, but it is unclear what impact they will have on credit growth, as the latter depends mostly on the

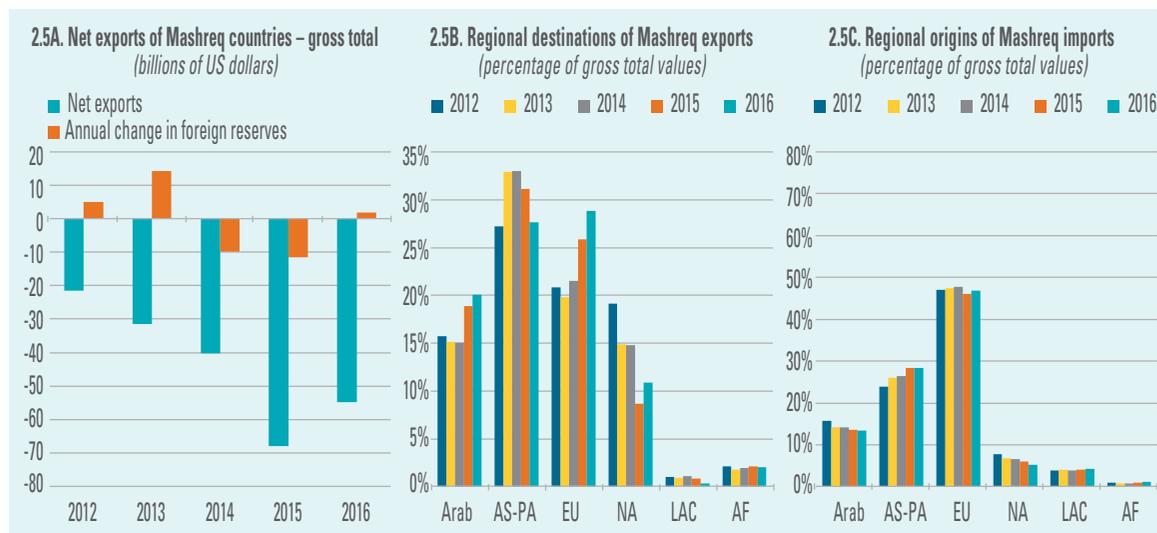
value of financial and real estate assets. Rapid growth in China and India is expected to continue to be a positive factor for the growth prospects of GCC countries.

The average real GDP growth rate is projected at 2.3 per cent for 2017, up from 2 per cent in 2016. Kuwait, Oman, Qatar and the United Arab Emirates will grow faster than the subregional average. Growth in Saudi Arabia will be subdued as structural adjustments in the supply side continue and financing costs rise. Forecast growth for 2017 is 2 per cent for Bahrain, 2.4 per cent for Kuwait, 2.6 per cent for Oman, 3 per cent for Qatar, 1.8 per cent for Saudi Arabia and 2.9 per cent for the United Arab Emirates.

3. Mashreq countries

The economies in the Mashreq are, on average, estimated to have grown by 1.6 per cent in 2016, after registering 1.1 per cent growth in 2015. Growth was subdued because of the deteriorating foreign exchange conditions. As foreign reserves dwindled, it became increasingly difficult for Mashreq economies to accommodate the expansion of domestic demand.

The situation was particularly precarious in Egypt, where worsening foreign exchange conditions required the intake of a substantial inflow of foreign financial resources. Egypt devaluated its national currency by 53 per cent in November 2016 in order to stabilize the foreign exchange. The Iraqi economy regained some stability as the security situation improved, but the economy of the Syrian Arab Republic is estimated to have contracted further due to the ongoing armed conflict. Relatively high growth is estimated for the State of Palestine. The conflicts in those three countries have had a dampening effect on the economies of neighbouring Jordan and Lebanon, where tourism shrank and growth in domestic demand weakened.

Figure 2.5 Geographical trade structure: Mashreq countries

Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa excluding Arab countries.

Source: ESCWA staff calculations based on IMF, Directions of Trade Statistics and International Financial Statistics. Available from <http://www.imf.org/en/Data>.

The Mashreq countries have for some years been importers, which has further hampered economic recovery. The net value of exports declined from \$-22 billion to \$-68 billion between 2012 and 2015, but slightly rose to \$-55 billion in 2016 (figure 2.5A). That decline was largely attributable to a sharp drop in imports by Egypt and Iraq from Europe and the Asia-Pacific region.

In 2016, Europe supplanted the Asia-Pacific region as the largest export market for the Mashreq (figure 2.5B). The share of exports to the Asia-Pacific region fell by 3.5 percentage points to 27.6 per cent in 2016 while the share to Europe increased firmly by 3 percentage points to 28.8 per cent. That change was largely due to a decline in the value of oil exports to the Asia-Pacific region. The value of Iraqi oil exports to the region alone fell by \$3.2 billion.

The geographical pattern of imports to the subregion from the six groups has changed little over the past years, with the greatest share of imports in 2016 coming from Europe

(46.8 per cent), followed by the Asia-Pacific region (28.3 per cent) (figure 2.5C).

The balance of payments situation in the subregion remains poor (figure 2.6). With drops in the services trade account and secondary income account, its current account deficit widened by \$13 billion, equivalent to 2.8 per cent of aggregate GDP. That drastic decline in services trade can be attributed largely to the devastating effect on tourism of security problems and spillover from conflicts in neighbouring countries.

In Mashreq countries, the widening current account deficit has further undermined debt sustainability and put a brake on economic recovery. In Egypt, Iraq, Jordan, Lebanon and the State of Palestine, current account deficits widened by \$3.9 billion, \$6.8 billion, \$142 million, \$1.6 billion and \$353 million respectively in 2015-2016. However, it is forecast that Iraq, Jordan and Lebanon will show some balance of payments improvement in 2017. Iraq alone in the Mashreq registered a trade surplus and manageable current account balance (2 per cent of GDP) in 2016.

Figure 2.6 Trade and current account balances: Mashreq countries

Sources: ESCWA staff calculations based on national statistical sources (see appendix). Figures for 2016, 2017 and 2018 are ESCWA staff estimates/projections.

Note: Due to the lack of official statistics, figures for the Syrian Arab Republic are not presented.

The deteriorating trade balance and current account balance, combined with faltering cross-border remittances and a flood of capital flowing into Mashreq countries, have put further strain on the subregion's foreign reserves, leading to an increase in external debt stock to \$188 billion (34 per cent of GDP) in 2016 from \$169 billion (28 per cent of GDP) in 2015. It is estimated that the combined foreign reserves of the subregion rose by 13.4 percentage points in 2016 over the previous year. However, individual countries showed mixed results. Between 2015 and

2016, foreign reserves in Iraq, Jordan and the State of Palestine declined by \$8.9 billion, \$1.1 billion and \$268 million, respectively. Reserves in Egypt and Lebanon, on the other hand, increased by \$7.5 billion and \$4.5 billion, respectively (figure 2.7).

Domestic demand showed positive signs in 2016, with an increasing growth rate of broad money in all Mashreq countries. Egypt recorded a year-on-year growth rate of 20.9 per cent as of December 2016, largely the result of the revaluation of foreign currency

Figure 2.7 Monetary indicators: Mashreq countries

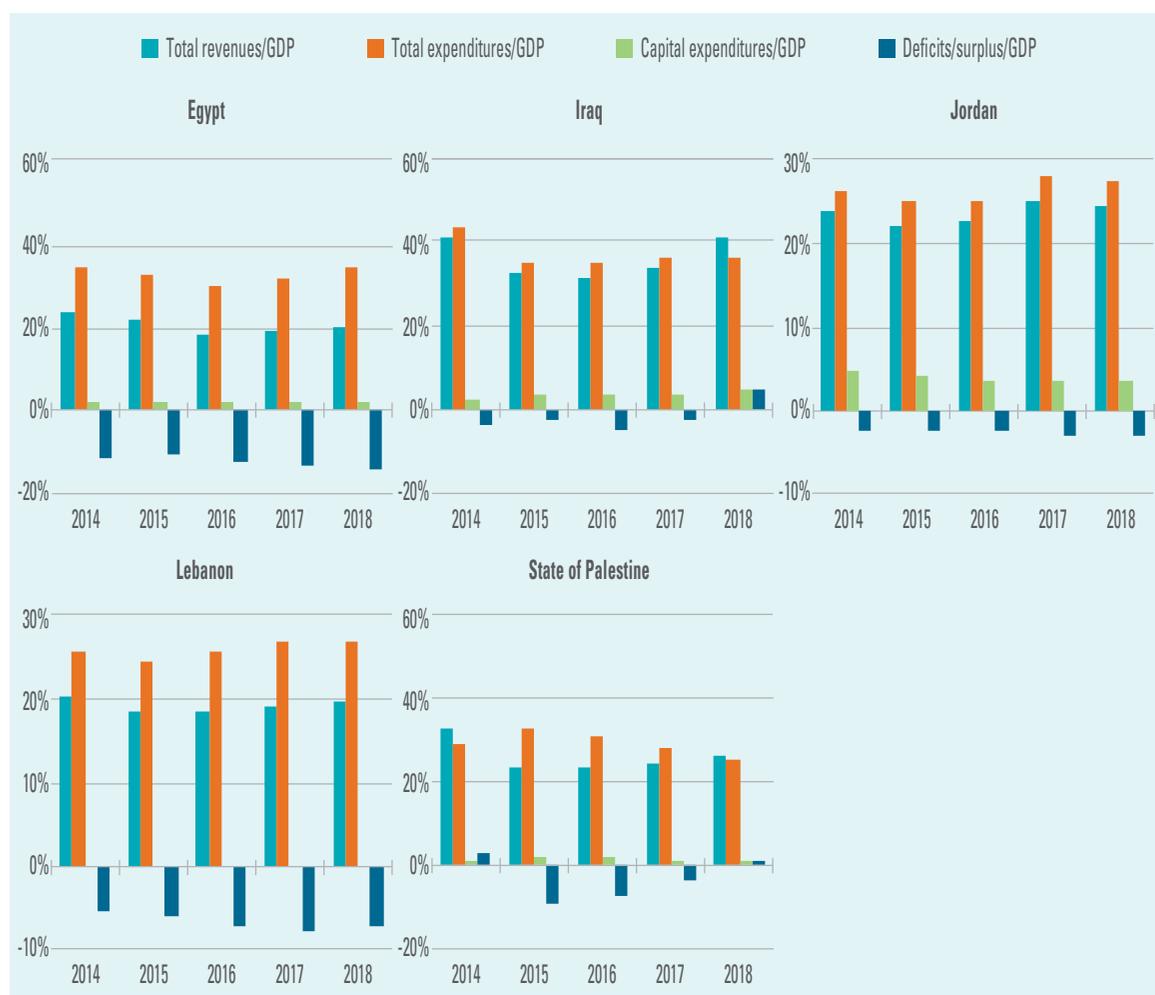
Sources: ESCWA staff calculations based on IMF International Financial Statistics (available from <http://www.imf.org/en/Data>). Figures for Iraq's broad money from July to December 2016 are ESCWA staff estimates.

deposits in the wake of the devaluation of the Egyptian pound in the previous month. Jordan was the exception in terms of broad money growth. Poor results in industry and tourism, exacerbated by the country's constrained fiscal position and instability in neighbouring countries, dampened the domestic economy.

The fiscal deficit in the Mashreq subregion widened to 8.5 per cent of GDP (\$45 billion) in 2016 from 7.3 per cent (\$43 billion) in 2015. Insufficient help from the international community to address the issues of Syrian refugees and reconstruction in the Gaza Strip

have exacerbated the problem. In order to stabilize their fiscal deficit, most Mashreq countries have cut fuel and electricity subsidies. Multilateral funds play a crucial role in the Mashreq. Egypt has received \$30 billion in aid from the International Monetary Fund (IMF) since 2013. In 2016, Jordan and the IMF agreed on a new, three-year \$723 million extended fund facility.

Overall, it is estimated that government spending in the subregion shrank by 0.6 per cent of GDP (\$21 billion) over the period 2015-2016, mainly due to a drop of

Figure 2.8 Fiscal positions: Mashreq countries

Sources: ESCWA staff calculations based on national statistical sources (see appendix). Figures for 2016, 2017 and 2018 are ESCWA staff estimates/projections.

Notes: Total revenues for Jordan and the State of Palestine include foreign grants. Due to the lack of official statistics, figures for the Syrian Arab Republic are not presented.

1.8 per cent each in Egypt and the State of Palestine (figure 2.8). Revenue collection declined by 2 per cent of GDP (\$24 billion) in the Mashreq, with falls of 3.4 per cent in Egypt, 1.5 per cent in Iraq and 0.5 per cent in the State of Palestine. No country in the Mashreq ran a budget surplus in 2016. It is expected that Iraq will rein in its deficit by 2.1 per cent of GDP in 2017, and the State of Palestine by 3.9 per cent. In Egypt, Jordan and Lebanon the deficit is expected to widen marginally by 1.1 per cent, 0.5 per cent and 0.3 per cent respectively.

The Mashreq economies as a whole are projected to grow by 2.5 per cent on average in 2017. The contraction in the Syrian Arab Republic should narrow further in 2017 as economic activity in Damascus and Aleppo recovers. However, continued sanctions and deteriorating agriculture will prevent growth. The economy in Iraq should recover further as the security situation improves. Having managed to attract foreign capital and boosted foreign reserves in the first quarter in 2017, Egypt is expected to maintain a steady course of economic expansion. Growth in Jordan and Lebanon is

forecast to remain weak as geopolitical factors continue to weigh heavy on both countries. The State of Palestine is expected to grow, but not sufficiently fast to rebuild the Gaza Strip or return per capita income to pre-2006 levels. The forecast growth rate for 2017 in Egypt, Iraq, Jordan, Lebanon and the State of Palestine is 2.7 per cent, 3.6 per cent, 2.4 per cent, 1.9 per cent and 3.6 per cent, respectively. The economy of the Syrian Arab Republic will contract by 5 per cent.

4. Maghreb countries

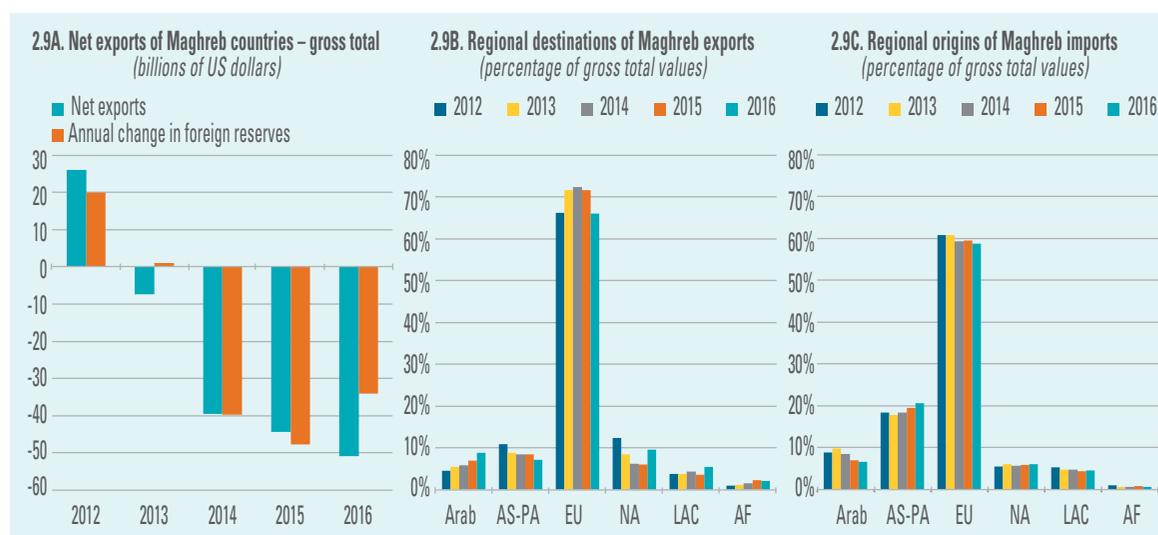
It is estimated that growth of the Maghreb economies in 2016 accelerated to 2.4 per cent from 0.9 per cent in 2015. The average continues to be heavily skewed by estimates for Libya, where economic activity has been hampered by armed conflict and political instability. Given that the base of the Libyan economy had shrunk rapidly by 2016, moderate expansion in the non-oil sector was sufficient to bring the economy back on to a growth path, in spite of stagnation in the oil sector. That year, severe drought pushed

the agricultural sector into negative growth in Algeria, Morocco and Tunisia. Other sectors, however, continued to grow. In Tunisia, broad money growth accelerated in 2016 after a slump the previous year, driven by a recovery in non-agricultural sectors, including tourism, together with some credit growth recovery.

The subregion has maintained its position as a net importer since 2013, with a steady reduction of the net value of exports from \$-8.3 billion in 2013 to \$-41 billion in 2015 and \$-46 billion in 2016 (figure 2.9A). Between 2015 and 2016, the trade deficit in Algeria increased from 11 per cent to 15 per cent of GDP, in Libya from 23 per cent to 36 per cent, in Morocco from 15.7 per cent to 17.3 per cent, and in Tunisia from 11.7 per cent to 12.1 per cent.

Trade links with Europe remained strong in terms of the share of total exports (66 per cent) from and imports (58 per cent) to the subregion. The Asia-Pacific region fell from second largest export market for the Maghreb in 2015 (8.5 per cent share of

Figure 2.9 Geographical trade structure: Maghreb countries



Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa excluding Arab countries.

Source: ESCWA staff calculations based on IMF, Directions of Trade Statistics and International Financial Statistics. Available from <http://www.imf.org/en/Data>.

overall exports) to fourth place (7.2 per cent) in 2016, behind North America (9.5 per cent) and intra-Arab trade (8.9 per cent). Especially noteworthy was the \$1.8 billion increase in the value of exports from Maghreb countries to North America, a 6 percentage point rise over the previous year (figures 2.9B and 2.9C). In terms of imports, the Asia-Pacific region remained the second most important source of imports to the Maghreb, with an estimated 20.7 per cent share in 2016, up from 19.5 per cent in 2015. North America accounted for 6 per cent of imports to the subregion, up slightly from 5.9 per cent in 2015.

The share of exports from the Maghreb to, and imports from, Latin America and the Caribbean were 5.5 per cent and 4.6 per cent respectively. With Africa, the figures were 2.2 per cent and 0.6 per cent. The share of intra-Arab trade in the subregion's exports grew from 6.9 per cent in 2015 to an estimated 8.9 per cent in 2016, while imports slipped to 6.6 per cent in 2016 from 6.9 per cent the previous year.

The current account deficit increased by \$960 million in Algeria and by \$87 million in Tunisia, while it decreased by \$3.2 billion in Libya, \$289 million in Morocco and \$2.5 billion for the

Figure 2.10 Trade and current account balances: Maghreb countries



Sources: ESCWA staff calculations based on national statistical sources (see appendix). Figures for 2016, 2017 and 2018 are ESCWA staff estimates/projections.

Maghreb as a whole. The level of external debt stock went up by \$2.6 billion to 25.2 per cent of the subregion's combined GDP in 2016 (figure 2.10).

With a weak performance in current account balance and growing external debt burden, all Maghreb countries but Morocco experienced a fall in foreign reserves in 2016 (figure 2.11). In the year to December 2016, foreign reserves shrank to \$30 billion in Algeria, \$7.7 billion in Libya, and \$-1.4 billion in Tunisia. Reserves in Morocco increased to \$2.2 billion. In all, it is estimated that Maghreb countries lost \$2.8 billion in foreign reserves in 2016.

Broad money growth accelerated in Libya, Morocco and Tunisia, mainly driven by economic expansion in non-agricultural sectors. In Libya, broad money grew at a brisk 20 per cent between 2015 and 2016; however, that may have been mostly attributable to inflation, estimated at 27.2 per cent in 2016.

In 2016, government revenues in Algeria, Morocco and Tunisia rose by an estimated 2.4 per cent, 1.4 per cent and 1 per cent of GDP respectively. In Libya, they sank by 25 per cent (figure 2.12). Government expenditure as a percentage of GDP grew in Morocco and Tunisia

Figure 2.11 Monetary indicators: Maghreb countries

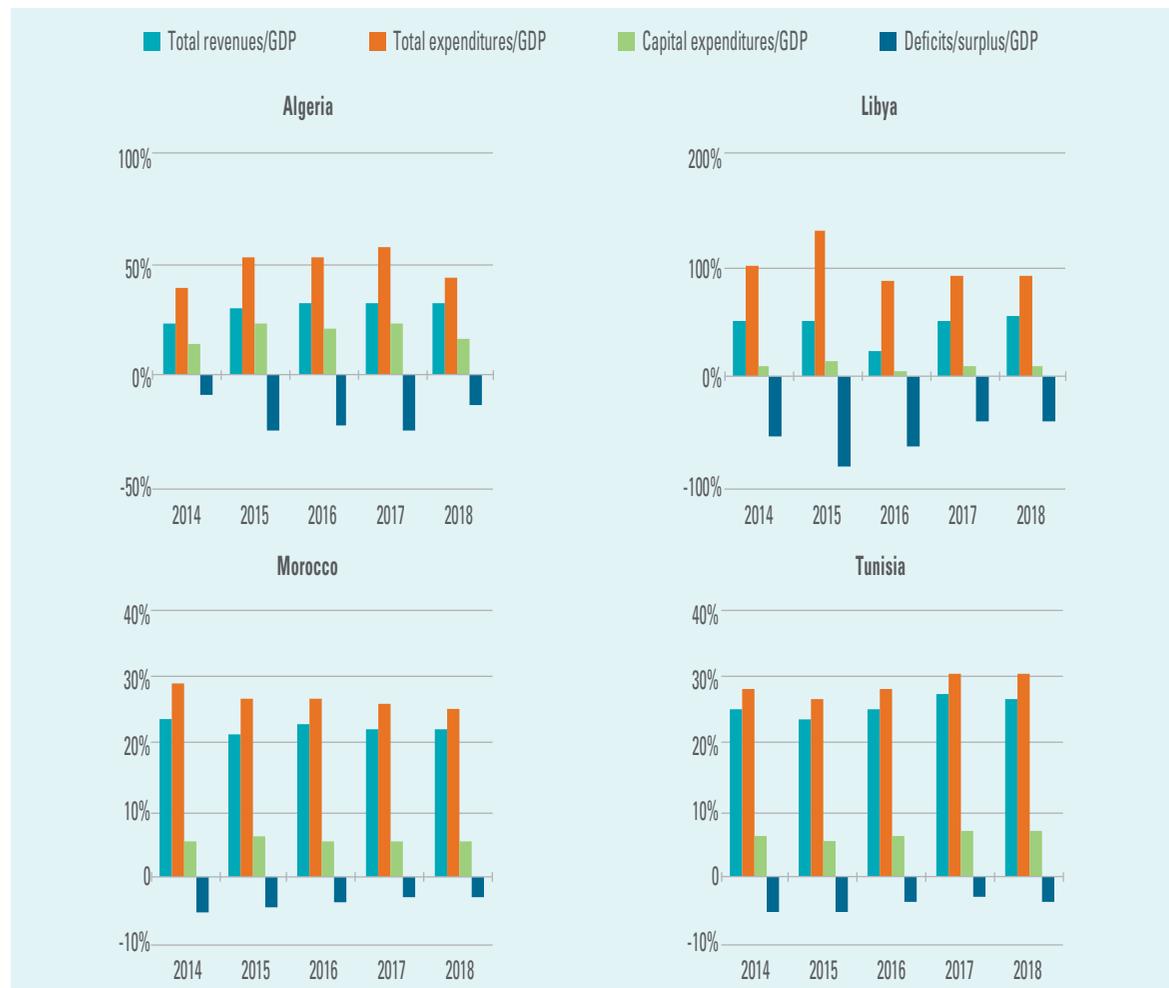


Sources: ESCWA staff calculations based on IMF International Financial Statistics (available from <http://www.imf.org/en/Data>).

and shrank in Algeria and Libya, due especially to massive cuts in capital expenditure. The 2016 budget deficit is estimated at 21.9 per cent of GDP (\$29 billion) in Algeria, 60 per cent (\$13 billion) in Libya, 3.4 per cent (\$3.4 billion) in Morocco and 3.3 per cent (\$1.3 billion) in Tunisia. A reduction in the deficit in all four cases is forecast for 2017. Fiscal revenue in 2016 for the Maghreb as a whole is estimated at 27.6 per cent of GDP (down from 28 per cent in 2015) and expenditure at 45.9 per cent of GDP (down from 53.3 per cent), amounting to a fiscal deficit of 16 per cent of GDP in 2016 (from 18.7 per cent in 2015).

In 2017, the economy of the subregion is projected to grow by 4.2 per cent. Reconstruction and the increasingly vigorous resumption of crude oil exports have put Libya on the path to recovery. Good rains mean that agriculture in the remaining countries should also recover. The non-agricultural sectors are also expected to improve markedly with the expected recovery in commodity prices, including for crude oil, natural gas and phosphate. Steady domestic demand growth is expected to support economic expansion in Algeria and Morocco. However, the severe balance of payments

Figure 2.12 Fiscal positions: Maghreb countries



Sources: ESCWA staff calculations based on national statistical sources (see appendix). Figures for 2016, 2017 and 2018 are ESCWA staff estimates/projections.

situation in Tunisia will persist, leaving little room for growth in domestic demand. Forecast growth in 2017 is 2.8 per cent for Algeria, 12.8 per cent for Libya, 3.8 per cent for Morocco and 2.5 per cent for Tunisia.

5. Arab least developed countries

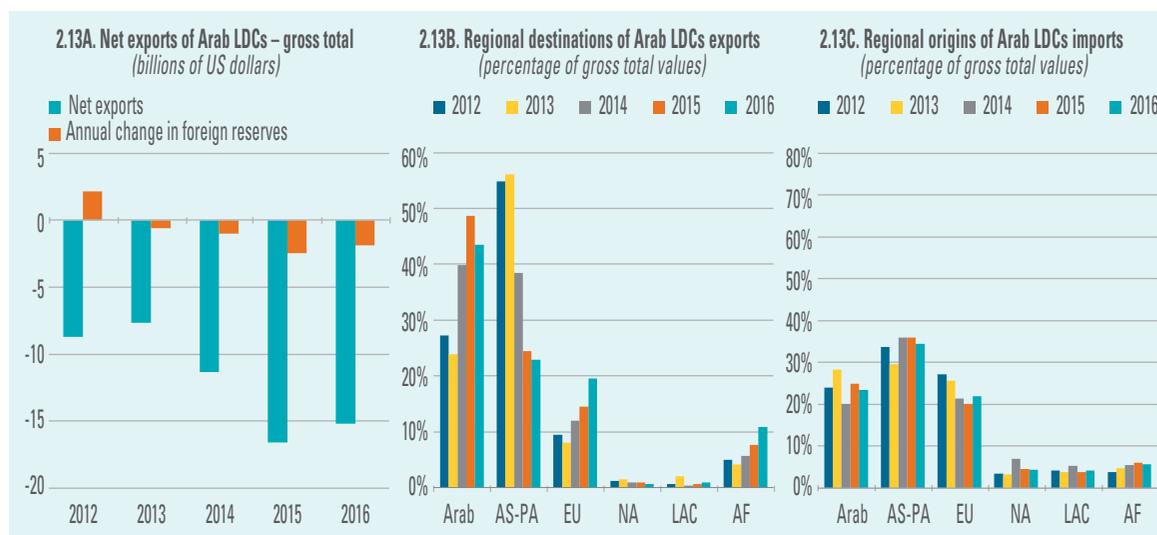
Arab LDCs experienced an average economic contraction of 0.8 per cent in 2016, largely due to the continued contraction in Yemen, beset by conflict, lost revenue from oil and natural gas exports, and the destruction wrought on agriculture. The balance of payments position in the Sudan has deteriorated, after significant improvement the previous year, despite the country's efforts to diversify its exports. Growth in Mauritania has edged up due to growth in the agricultural, fishery and other non-mineral sectors, which was further supported by constantly growing domestic demand. The Comoros maintained stable growth in 2016, where continuing urbanization benefitted from modest domestic demand growth and foreign aid inflows. The relatively high level of growth continued in Djibouti,

largely attributable to the full-capacity level of port activities. Somalia has witnessed steady growth, but the rate of expansion is low for a country in reconstruction.

As elsewhere in the Arab region, falling oil prices have left their mark on trade. Overall, imports exceeded exports by \$5.6 billion in the Arab LDCs (figure 2.13A). They all registered a merchandise trade deficit in 2016. The largest trade deficit in terms of GDP was estimated in Djibouti (38 per cent), followed by the Comoros (26 per cent), Mauritania (10 per cent) and the Sudan (4 per cent) (figure 2.14).

Since 2014, the Arab region has been the biggest market for exports from the Arab LDCs. It accounted for an estimated 43 per cent of exports in 2016 (figure 2.13B). However, in terms of volume, exports to Arab markets decreased by 38 per cent between 2015 and 2016, largely due to a drop in exports to GCC countries. Exports by Yemen, the Sudan and Somalia to GCC countries collapsed by 84 per cent, 53 per cent and 21 per cent respectively. The Asia-Pacific region accounted for 23 per cent of

Figure 2.13 Geographical trade structure: Arab LDCs



Abbreviations: Arab, Arab countries; AS-PA, Asia and the Pacific; EU, Europe; NA, North America; LAC, Latin America and the Caribbean; AF, Africa excluding Arab countries.

Source: ESCWA staff calculations based on IMF, Directions of Trade Statistics and International Financial Statistics. Available from <http://www.imf.org/en/Data>.

exports from the subregion in 2016, significantly lower than in previous years. Europe and Africa gained in importance, and their shares rose to 19.5 per cent from 14.6 per cent and to 10.8 per cent from 7.6 per cent, respectively.

The geographical structure of imports remained stable over the same period (figure 2.13C). In 2016, the Asia-Pacific region remained the largest source of imports, with 34 per cent, followed by the Arab region (23 per cent), Europe (22 per cent), Africa (5.6 per cent), North America (4.3 per cent) and Latin America and the Caribbean (4.2 per cent).

The weak performances in merchandise trade was offset by the services trade and income transfer account surplus, especially in the Comoros and Djibouti. The same was true, albeit to a lesser extent, in the Sudan. The only exception was Mauritania, for which a deficit of \$265 million in services trade and income transfer account is estimated for 2016. Nevertheless, all the Arab LDCs experienced a current account deficit in 2016: 10 per cent of GDP in the Comoros, 17 per cent in Djibouti, 16 per cent in Mauritania, 4 per cent in the Sudan, and 5 per cent in the Arab LDCs overall (figure 2.14).

Figure 2.14 Trade and current account balances: Arab LDCs



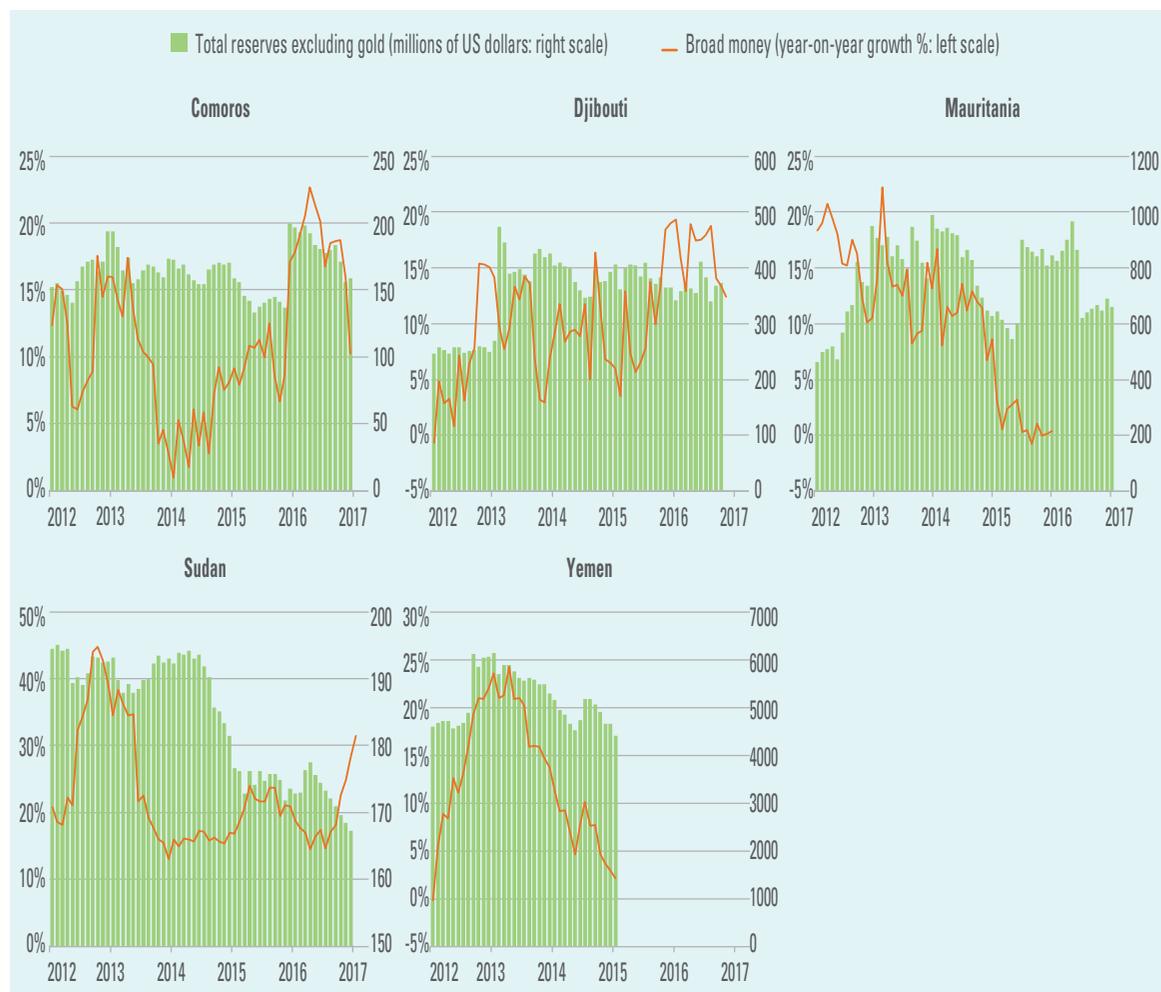
Sources: ESCWA staff calculations based on national statistical sources (see appendix). Figures for 2016, 2017 and 2018 are ESCWA staff estimates/projection.

The Arab LDCs have long run current account deficits and use foreign reserves to finance it. The subregion's foreign reserves accumulation fell to \$1.3 billion in 2016 from \$1.5 billion in 2015. Reserves in the Comoros, Mauritania and the Sudan were depleted in 2016 by \$41 million, \$184 million and \$6 million respectively. However, Djibouti boosted its foreign reserves by \$8 million over the same period (figure 2.15). In 2016, a two-digit growth rate in broad money stock was estimated, reaching 18 per cent in the Comoros, 16 per cent in Djibouti and 19 per cent in the Sudan. Given a stable inflation rate in 2016 for

the Comoros (1.8 per cent) and Djibouti (3.1 per cent), strong domestic demand expansion was rationalized. However, in the case of the Sudan, high growth in broad money coincided with a two-digit inflation rate (17.6 per cent), leaving domestic demand flat.

The subregion's overall fiscal deficit in 2016 was estimated at 0.9 per cent of GDP, a slight improvement over the previous year's 1.3 per cent. Revenue collection totalled \$11.9 billion (11.4 per cent of GDP), while expenditure came to \$12.9 billion (12.3 per cent of GDP). All Arab LDCs appeared to experience

Figure 2.15 Monetary indicators: Arab LDCs



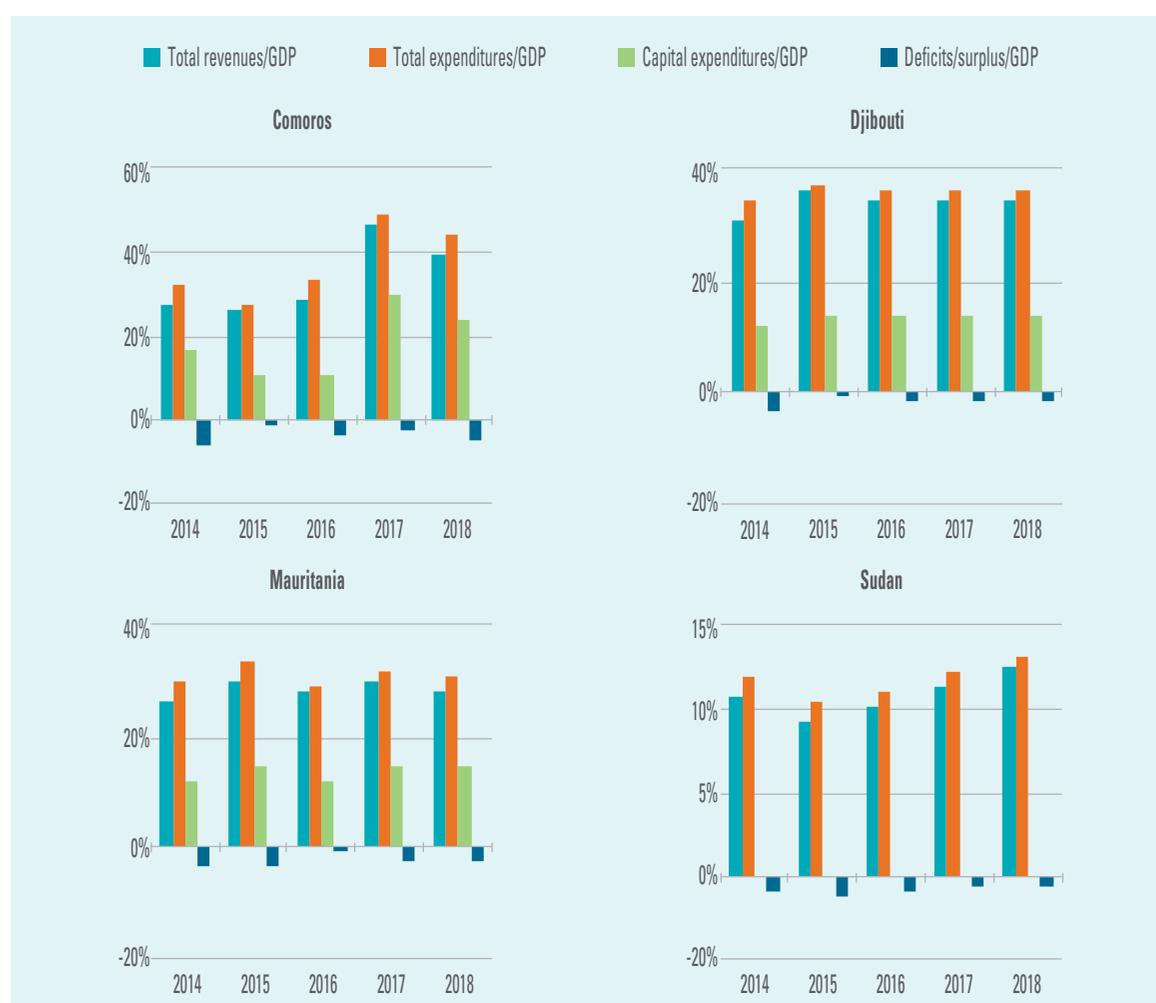
Sources: ESCWA staff calculations based on IMF International Financial Statistics (available from <http://www.imf.org/en/Data>). Figures for foreign reserves in Mauritania for 2016 and in the Sudan for the period from June to December 2016 are ESCWA staff estimates.

fiscal deficit, with 3.7 per cent of GDP in the Comoros, 1.7 per cent in Djibouti, 0.8 per cent in Mauritania and 0.9 per cent in the Sudan (figure 2.16).

For 2017, the economies of the Arab LDCs are projected to grow by 0.5 per cent on average. Economic contraction in Yemen will continue, given the damage to agriculture by the ongoing armed conflict. Moreover, the country is not expected to resume oil or natural gas exports. Unstable foreign exchange conditions are expected to limit

the potential for domestic demand growth in the Sudan, despite the expectation of robust economic expansion due to developments in the oil and mining sectors. Increased iron ore exports should accelerate growth in Mauritania in 2017, as the price of iron ore is expected to rise. In 2017, the forecast GDP growth rate is 3.5 per cent for the Comoros, 6.8 per cent for Djibouti, 4.9 per cent for Mauritania, 2.5 per cent for Somalia and 3.7 per cent for the Sudan. Meanwhile, the Yemeni economy is projected to contract by 7.5 per cent.

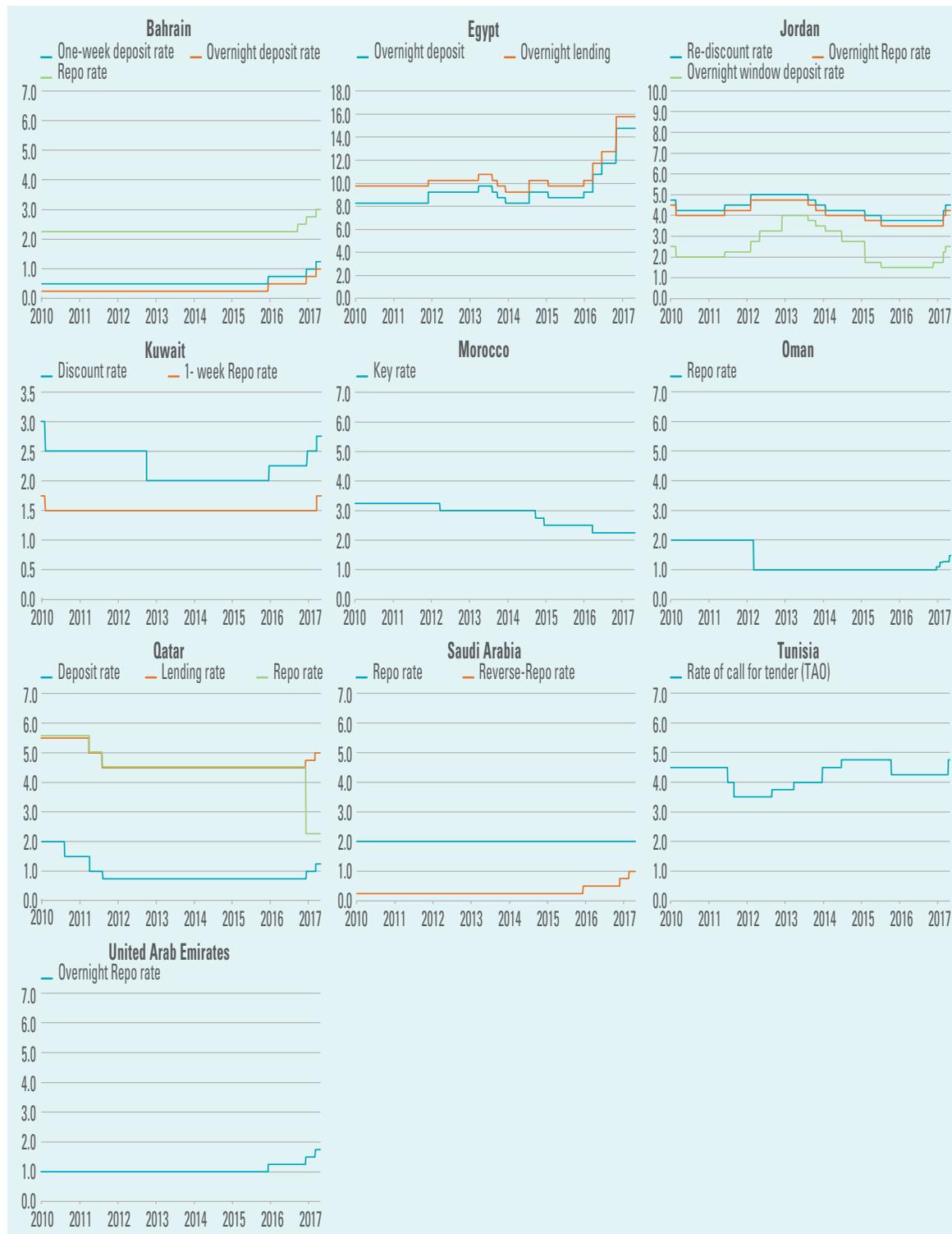
Figure 2.16 Fiscal positions: Arab LDCs



Sources: ESCWA staff calculations based on national statistical sources (see appendix). Figures for 2016, 2017 and 2018 are ESCWA staff estimates/projections.

Note: Figures include foreign grants.

Figure 2.17 Policy interest rates, 2010-2017: selected Arab countries



Sources: Bahrain, Central Bank of Bahrain; Egypt, Central Bank of Egypt; Jordan, Central Bank of Jordan; Kuwait, Central Bank of Kuwait; Morocco, Bank Al Maghreb; Oman, Central Bank of Oman; Qatar, Qatar Central Bank; Saudi Arabia, Saudi Arabian Monetary Agency; Tunisia, Central Bank of Tunisia; United Arab Emirates, Central Bank of United Arab Emirates.

B. Policy challenges

Arab countries need to mobilize financial resources internally and externally if they are to fulfil the aspirations highlighted in the SDGs. However, significant challenges remain in monetary policy and due to uncertainties surrounding the foreign exchange rate against the external policy rate. Financial resources have shrunk due to low commodity export revenues and a slump in industrial exports. Foreign direct investment in the region has waned and been directed largely towards the energy and real estate sectors, while geopolitical tensions have led Governments in the region to spend more on security.

A tighter monetary stance with rising financial costs has been observed in the Arab region, in tandem with rising US dollar interest rates. Central banks in GCC countries revised their policy interest rates in December 2016 and March 2017, in line with hikes by the United States Federal Reserve. They did so cautiously in order not to discourage domestic credit growth. The Saudi Arabian Monetary Authority kept its policy lending rate unchanged at 2 per cent, having raised its policy deposit rate in line with the Federal Reserve rate rises (figure 2.17). The Central Bank of Egypt lifted its policy interest rates by 1 percentage point in June 2016, an additional 3 percentage points in November 2016 and a further 2 percentage points in May 2017 to stabilize the currency and contain accelerating inflation. Jordan's Central Bank raised its policy interest rates by 0.5 percentage points in February 2017 and a further 0.25 percentage points in March to try to stabilize rapidly rising prices. In the Arab region, only Morocco could afford an expansionary monetary stance recently, its Central Bank lowering the policy interest rate in March 2016. Monetary policy in Arab countries is expected to continue to tighten in 2018 in line with expected further rate rises in the United States.

Prompt action by GCC Governments mitigated the deterioration of their countries' fiscal positions. They also diversified revenue sources by tapping international capital markets to issue sovereign bonds, abolishing subsidies in stages and planning new taxation schemes, which include a unified VAT. In June 2016, GCC finance ministers agreed to introduce a VAT rate of 5 per cent, with special treatment for essential goods. The unified rate was designed to minimize the impact on GCC intraregional trade, which has flourished since the GCC Customs Union came into operation in January 2015. Although Governments in other subregions continue their fiscal consolidation efforts, debt is growing as revenue bases weaken.

C. Socioeconomic developments and gender dynamics in the Arab region

1. Introduction

Mass displacement of populations continued in the Arab region in 2016, adding to the already displaced 5.3 million Palestinian refugees.² Ongoing armed conflicts, the humanitarian crisis and violence in Iraq, Libya, the Syrian Arab Republic and Yemen have led to a massive movement of refugees. Such displacement requires more aid from the international community on humanitarian grounds. According to 2017 data from the Office of the United Nations High Commissioner for Refugees (UNHCR), Iraq, Somalia, the Sudan and the Syrian Arab Republic remained major source countries of refugees in the region. The number of refugees at the end of June 2016 was estimated at 5.1 million from the Syrian Arab Republic, 1.1 million from Somalia, 638,000 from the Sudan and 279,000 from Iraq. Figures published in 2017 by the Internal Displacement Monitoring Centre showed that the number of internally displaced persons remained high in Iraq

(3.3 million), Somalia (12 million), the Sudan (3.2 million), the Syrian Arab Republic (6.6 million) and Yemen (2.5 million). Among Arab countries, Djibouti, Jordan, Lebanon and Mauritania remained major host countries for refugees. The situation is particularly dire in Yemen where 17 million people became food insecure by March 2017.³

Given patriarchal and power relations in the region, women experience conflict and its consequences differently. Female refugees often embark on dangerous journeys that put them at higher risk of sexual and gender-based violence, exploitation and extortion. Single women travelling alone or with children, pregnant and lactating women, adolescent girls, unaccompanied children and early-married children are particularly at risk. Violence against women is escalating and becoming common in refugee camps in Iraq, Lebanon, Jordan and Turkey. An initial assessment of the protection risks and responses for women in the European refugee and migrant crisis, conducted by the UNHCR, the United Nations Population Fund, and the Women's Refugee Commission, found that women and girl refugees face more risks than boys and men, and the protection response by government agencies, humanitarian actors and civil society organizations is inadequate. Humanitarian groups have noted a large and increasing number of women, including those in advanced stages of pregnancy, and children refugees and migrants, are taking journeys unaccompanied. This is mainly due to a growing perception among refugees that women and children travelling alone have priority for services and registration, and higher chances of obtaining asylum.

The refugee crisis and the challenges facing internally displaced persons, and their gender implications, represent a major humanitarian problem. In the longer term, they hamper human capital formation and social cohesion for the Arab region's development.

2. Poverty

Poverty has been one of the key challenges for many Arab States. According to the new methodology developed in the *Arab Poverty Report 2017*,⁴ multidimensional poverty among households and children is far more prevalent than commonly thought. Tens of millions of households and children are vulnerable to falling into poverty, and the intensity and severity of deprivation among the poor is alarmingly high, particularly in Arab LDCs.

Across the 286 million people living in the 10 countries examined in the report,⁵ 116.1 million (40.5 per cent) belong to poor households, of which 38.2 million (13.4 per cent) live in acute poverty.⁶ One of the main areas of deprivation in the region is education, both schooling for children and lifelong learning activities for those past school age. Less than half the region's population (48 per cent) live in rural areas, yet those account for 83.4 per cent of the acutely poor population and 67 per cent of the poor population. This underlines the need for spatially targeted action.

The 10 selected countries were placed in three clusters based on their poverty rates. As shown in table 2.2, group 1 includes countries with low levels of acute poverty and poverty: Algeria, Egypt, Jordan and Tunisia. Group 2 includes Morocco and Iraq, which have low levels of acute poverty but medium levels of poverty. Group 3 comprises the remaining LDCs: the Comoros, Mauritania, the Sudan and Yemen, which have medium to high levels of acute poverty and poverty.

The study warns that 52.5 million of the 118.9 million child population of surveyed countries suffer from poverty, while 29.3 million, or 1 in 4, experience acute poverty. Child poverty is particularly acute in Arab LDCs. Disparities based on spatial and socioeconomic characteristics are also high; in line with results for household poverty, children living in rural areas are poorer. Education of the

Table 2.2 Multidimensional poverty analysis

Poverty Index (Poverty cut-off k=33%)				
Headcount ratio (%)	Value	Standard error	Confidence interval (95%)	
Algeria	24.004	0.00007	23.990	24.017
Egypt	27.208	0.00005	27.199	27.217
Jordan	11.680	0.00012	11.657	11.703
Tunisia	17.783	0.00012	17.760	17.805
Group 1	24.870	0.00004	24.863	24.877
Iraq	45.542	0.00008	45.526	45.559
Morocco	36.583	0.00008	36.567	36.599
Group 2	41.200	0.00006	41.138	41.162
Comoros	73.881	0.00050	73.783	73.979
Mauritania	89.065	0.00016	89.035	89.096
Sudan	73.490	0.00007	73.477	73.504
Yemen	69.101	0.00009	69.084	69.119
Group 3	72.700	0.00005	72.729	72.750
Regional	40.55	0.00003	40.543	40.555

Source: ESCWA and others, *Arab Poverty Report 2017* (forthcoming).

Note: Headcount ratio is calculated by poverty prevalence/percentage and year of survey measure: 2012 (Algeria), 2012 (Comoros), 2014 (Egypt), 2011 (Iraq), 2012 (Jordan), 2011 (Mauritania), 2011 (Morocco), 2014 (State of Palestine), 2014 (Sudan), 2011 (Tunisia) and 2013 (Yemen).

household head plays an important role, with children 1.6 times more likely to be poor when the head has no education. Disparities based on wealth quintiles are even greater: children in households with no wealth are 3.7 times more likely to experience poverty than those in more affluent households. Housing conditions and nutrition are the main channels of child poverty.

Although extreme poverty is relatively low in the region, poverty as a whole is widespread and not confined to low-income Arab countries. The estimated number of people in poverty in the 10 countries surveyed amounts to 116.1 million, or 40.5 per cent of the total population. It is nearly double the poverty rate obtained by using the national money metric measure of poverty lines. Nevertheless, the definition of poverty employed in the *Arab Poverty Report 2017* is based on serious deprivations, such as having no electricity or access to drinking water

within the dwelling, and having more than three people sharing a room.

Conflict is a contributing factor to poverty in the region, affecting the 10 countries directly but in a varying manner. Renewed conflicts have pushed a larger percentage of the population below the poverty line. For example, the two-year conflict in Yemen has resulted in a humanitarian crisis and driven millions of people to the brink of starvation. More than 10,000 civilians have died and 7 million people face severe food shortages. The country has been declared by the World Food Programme to be at risk of famine.⁷ Multidimensional poverty in Yemen is far worse than the numbers in the *Arab Poverty Report 2017* suggest, particularly in the health indicator.

Many other Arab countries face geopolitical turmoil. Four of the 10 countries have

been directly and significantly affected by occupation and/or conflict, namely Iraq, Libya, the State of Palestine and the Sudan. The impact of continued conflict on human development is far more severe than the damage to physical assets and deceleration in the growth rate of GDP; despite having less than 5 per cent of the world's population, the region hosts more than 53 per cent of all refugees and 37 per cent of displaced populations in the world.

The extent of the region's household and child poverty has several policy implications. In the light of the finding that education contributes most to household poverty, the gaps in education must be addressed. This requires better spending on education, not necessarily more. Arab countries must ensure that every child enrolls and stays in school for the full course of compulsory education. Given the strong negative correlation between wealth and multidimensional poverty (for the child and household measure), a comprehensive package of social protection and employment generation is needed. Arab countries must consider designing and implementing pro-poor, child-sensitive social protection policies. Without these, significantly reducing multidimensional poverty in the region will be impossible.

Childhood poverty is closely aligned to the education status of the household head in the Arab region. Children in households headed by parents who suffered deprivation in their childhood are more likely to also suffer acute deprivations. Unless this association is halted, deprivation will pass through the generations. Policy should target investments in children to ensure that they all have access to quality health and education services, adequate nutrition and social protection benefits, irrespective of social status. Given the stark disparities between rural and urban areas in the region, geographically targeted interventions should focus on agriculture and rural development.

3. Labour market

Unemployment in the region remains high. In 2016, it stood at 10.5 per cent (third quarter) in Algeria;⁸ 12.4 per cent (fourth quarter) in Egypt;⁹ 15.8 per cent (fourth quarter) in Jordan;¹⁰ 9.6 per cent (third quarter) in Morocco;¹¹ 25.7 per cent (fourth quarter) in the State of Palestine;¹² 12.1 per cent among Saudi nationals (third quarter) in Saudi Arabia;¹³ and 15.5 per cent (fourth quarter) in Tunisia.¹⁴ The situation deteriorated significantly over 2016 in Jordan and the State of Palestine, particularly in the Gaza Strip, with unemployment rates rising by 2.2 percentage points. Anecdotal evidence suggests that the situation in Lebanon also worsened as opportunities in GCC countries, traditionally a market for skilled Lebanese, have become more scarce. Competition from Syrian refugees for unskilled work had already exacerbated matters inside Lebanon.

The World Bank estimated the female labour force participation rate in the Arab region in 2016 at 23 per cent, compared with 75 per cent for men.¹⁵ The Arab region ranks last for female participation, well below the world average of 50 per cent. Female unemployment in the region is more than twice male levels, 20.1 per cent for females compared with 9 per cent for males. At the country level, the gender gap showed no sign of improvement. The rate of female unemployment in the State of Palestine continued to rise at an alarming speed, reaching 43.9 per cent in the fourth quarter of 2016,¹⁶ compared with 26.8 per cent in 2010. In 2016, the rate of female unemployment stood at 20 per cent in Algeria; 25.3 per cent in Egypt; 24.8 per cent in Jordan; 11 per cent in Morocco; 34.5 per cent among Saudi females in Saudi Arabia; and 23.1 per cent in Tunisia.¹⁷

High unemployment rates might be due in part to many Arab women working in the informal and unpaid sectors and not being accounted for in official numbers. Some

of the oil-rich Gulf countries have created opportunities for women in the public sector, resulting in a higher level of economic participation. Work in the private sector, however, is seen as less desirable than in the public sector, owing to generally poorer pay, benefits and working conditions, governing laws and business environment, all of which discourage women from applying and employers from hiring. There are no quotas in the Arab region for hiring women, and only Morocco and Djibouti have laws against gender discrimination.¹⁸

The Arab labour market is likely to be characterized by gender-based segregation of sectors. Men still have a monopoly over some sectors and professions, while women are left with those deemed 'acceptable' for their status. In GCC countries, 'acceptable' sectors include education and teaching services, agriculture and administrative and clerical services; likewise social and welfare services, such as nursing, for the rest of the Arab region. This segregation leads to a serious skills mismatch. GCC countries are oil-exporting countries and their labour market demands specific skills and fields of education not promoted sufficiently among women. Few women in GCC countries graduate in sciences, technologies, engineering and mathematics, even though skills in these fields are in most demand. Governments should intervene by directing women in higher education towards those fields.

The labour market in GCC countries is divided into public and private sectors. The two are independent of each other and rely on different labour supplies. The public sector is mainly restricted to nationals and provides better benefits and remuneration, while the private sector welcomes nationals and non-nationals, but most of the time, does not offer attractive packages to the national population. Lack of incentives allied to a saturated public sector results in high unemployment rates among young people, particularly young women.¹⁹

In the United Arab Emirates, for instance, female civil servants constitute about 65 per cent of the workforce.²⁰ A study revealed that career choices for Emirati women are normally based on societal norms; on which occupations are deemed decent. The public sector was viewed as a respectable work environment and more family-friendly, with short working hours that end early in the day, substantial time off and flexible leave time. There was more uncertainty about the private sector and its diverse environments that require longer working hours and greater work commitments.

Figure 2.18 shows, with the exception of Algeria and Qatar, an increase in unemployment for both males and females in the region. The gender gap in unemployment and participation rates has been widening for the past five years, with a few exceptions. In the space of five years, Qatar has reduced male unemployment from 1.7 per cent to 0.1 per cent and female unemployment from 8.6 per cent to 0.8 per cent.²¹ Labour participation rates average 68 per cent for men and 37 per cent for women. The gap in participation rates for Qatari males and females is the smallest in the region. These improvements are a result of Qatarization policies to employ Qatari nationals. Among several other measures, the Strategic Qatarization Plan established a quota of 50 per cent nationals in the oil and gas sector, and at least 20 per cent nationals in private and semi-private organizations.²²

Morocco also has a small gap between male and female unemployment in the region; female unemployment averages 11.2 per cent, male unemployment 9.6 per cent. Morocco achieved this result thanks to its National Strategy for Employment, which targets the most vulnerable categories of jobseekers in order to even the ground.²³ The gap in the labour participation rate remains high, however, at 45.6 per cent.

Figure 2.18 Unemployment and labour force participation rates: selected Arab countries



Sources: ESCWA staff calculations based on data from national statistical offices (see appendix).

In Algeria, male unemployment is decreasing while female unemployment is increasing. Labour force participation is steady, with a considerable gap between men and women. The female participation rate averages 16.4 per cent, the male participation rate 66.8 per cent.

In Jordan, unemployment for men and women is rising, maintaining the gap between male and female unemployment at about 12 per cent. The labour participation rate remains low for women at 13.4 per cent.

The State of Palestine has one of the highest unemployment rates in the region, averaging 22.2 per cent for men and 44.7 per cent for women. The occupation continues to burden the Palestinian economy, exacerbating unemployment, particularly for women.

In Tunisia, the Libyan conflict has had a major impact on unemployment and participation rates. With the return of tens of thousands of Tunisians who had been residing in Libya, there was a demand shock in the labour market.²⁴ In the three years to 2016, male unemployment has stabilized at about 12.5 per cent; female unemployment, however, continues to increase, having reached 23.1 per cent in 2016.

The gender gap in employment and job quality leads to a gap in access to social protection in the labour market. Lower wages and time away from work on maternity leave and unpaid leave to care for children mean lower pension contributions for women's retirement. Globally, the number of women above retirement age receiving a pension is on average 10.6 percentage points lower than that for men. In the Arab region, 3.3 per cent of older women receive a pension compared with 31 per cent for men.²⁵ Expanded social protection schemes and better employment conditions would encourage greater female participation in the labour market.

4. Education

There are 61 million out-of-school children around the world, 32.1 million (52.7 per cent) of whom are girls.²⁶ In the Arab region, there are 2.8 million out-of-school children, 1.8 million (64 per cent) of whom are girls.²⁷ This rate is higher than the world average and shows the disparity between girls and boys in education in the Arab region. Between 2010 and 2014 the ratio barely changed, which can be partially attributed to persistent conflicts. For primary education, the female-to-male ratio for enrolment moved from 0.89 to 0.9 (table 2.3). The ratio has been stagnating at 0.89 for secondary education and 0.99 for tertiary education.

In many Arab countries, however, women's enrolment for secondary and tertiary education exceeded men's, with the female-to-male ratio well above 1. Jordan's female-to-male ratio for secondary education is averaging 1.01. For Lebanon, this ratio decreased from 1.08 to 1.06 between 2010 and 2014. In tertiary education, a ratio above 1.0 was observed in Algeria (1.48), Bahrain (1.49), Lebanon (1.26), the State of Palestine (1.49), Qatar (1.80), the Sudan (1.04), Tunisia (1.60) and the United Arab Emirates (1.20). These tertiary figures compare favourably with global and regional averages: the world (1.04), Arab countries (0.99), Central Asia (1.04), Central and Eastern Europe (1.10), East Asia and the Pacific (1.03), Latin America and the Caribbean (1.26), North America and Western Europe (1.22), South and West Asia (0.85) and sub-Saharan Africa (0.69) (table 2.3). These figures must be considered within specific contexts and outcomes, and further efforts are needed to understand the gender gap and why boys are dropping out from secondary and tertiary education.

This somewhat remarkable progress in tertiary education for women has not, however, been matched in the workplace.

Table 2.3 Female-to-male ratio for enrolment by level of education, 2010 and 2014

Country	Female-to-male ratio					
	Primary education		Secondary education		Tertiary education	
	2010	2014	2010	2014	2010	2014
Arab countries						
Algeria	0.90	0.91	1.00	-	1.40	1.48
Bahrain	0.95	0.97	0.98	0.96	-	1.49
Egypt	0.92	0.94	0.93	0.94	0.88	0.86
Jordan	0.95	0.97	1.00	1.01	1.09	-
Kuwait	0.95	0.96	0.97	0.99	-	-
Lebanon	0.94	0.94	1.08	1.06	1.16	1.26
Morocco	0.90	0.91	0.84	-	0.90	0.94
State of Palestine	0.94	0.95	1.04	1.05	1.29	1.49
Qatar	0.95	0.96	0.96	0.92	1.70	1.80
Saudi Arabia	0.96	0.94	-	0.75	1.10	0.94
Sudan	0.87	-	0.85	-	1.16	1.04
Syrian Arab Republic	0.92	-	0.95	-	0.83	0.97
Tunisia	0.92	0.93	1.02	-	1.51	1.60
United Arab Emirates	0.95	0.96	-	-	1.35	1.20
Yemen	0.78	-	0.60	-	0.42	-
World						
World	0.91	0.93	0.91	0.92	1.02	1.04
Arab countries	0.89	0.90	0.89	0.89	0.99	0.99
Central and Eastern Europe	0.95	0.95	0.93	0.93	1.20	1.10
Central Asia	0.93	0.93	0.94	0.94	1.05	1.04
East Asia and the Pacific	0.90	0.89	0.92	0.92	0.97	1.03
Latin America and the Caribbean	0.93	0.94	1.04	1.02	1.26	1.26
North America and Western Europe	0.95	0.95	0.95	0.96	1.25	1.22
South and West Asia	0.91	0.97	0.85	0.90	0.71	0.85
Sub-Saharan Africa	0.91	0.91	0.81	0.84	0.67	0.69

Source: ESCWA staff calculations based on the United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics Data Centre.

Women in the Arab region still struggle to access decent jobs and social protection. This may be due to the failure of decision makers to properly link curricula with market needs and to the refugee crisis, which has caused many refugee girls to leave education for safety reasons. Also, many boys are dropping out of school to find work and contribute to the household income.

5. Indicators for gender equality

The Gender Inequality Index (GII), developed by the United Nations Development Programme (UNDP), is a powerful indicator to measure gender-based inequalities in countries. This index captures the loss of achievement owing to gender inequality, using three dimensions: reproductive health (maternal mortality ratio and adolescent birth rate); empowerment (secondary education and parliamentary seats); and labour market participation. According to the GII, progress in the Arab region has been modest in recent years. The GII value – higher values mean a more unequal society – in 2015 was 0.535, compared with 0.537 in 2014 and 0.564 in 2013. The Arab region ranked fifth of six regions, after sub-Saharan Africa, which had a value

Figure 2.19 Gender Inequality Index 2015: by region

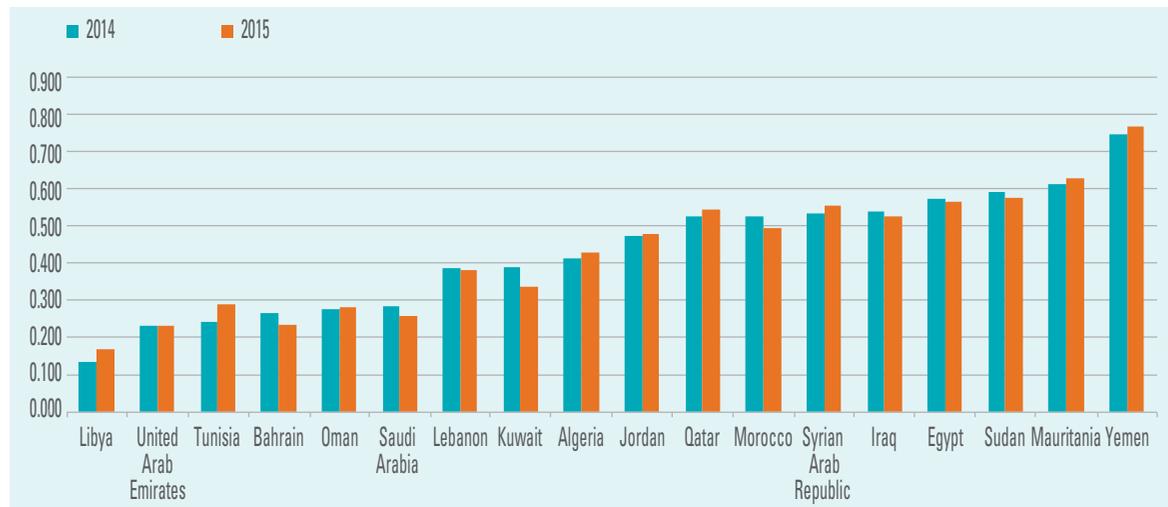


Source: ESCWA staff calculations based on data from UNDP, 2016.

of 0.570 (figure 2.19). Europe and Central Asia rated best with a GII value of 0.297, followed by 0.315 in East Asia and the Pacific.

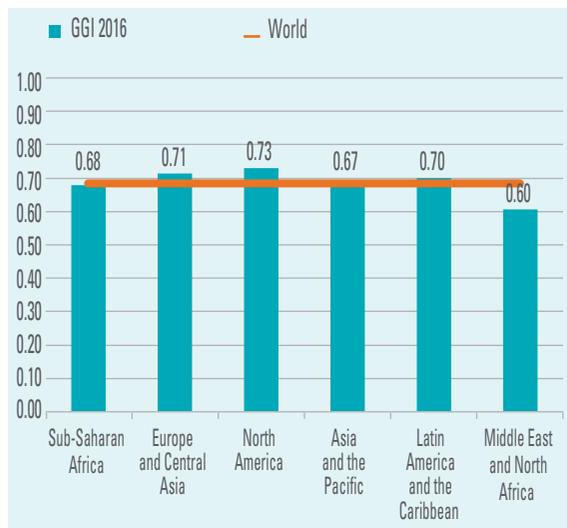
At the country level, almost half of Arab countries²⁸ analysed in the Human Development Report 2016 showed a better equality performance compared with the

Figure 2.20 Gender Inequality Index 2014 and 2015: by country



Source: ESCWA staff calculations based on UNDP, 2016.

Figure 2.21 Global Gender Gap Index 2016: by region



Source: ESCWA staff calculations based on World Economic Forum (WEF), 2016.

Note: Regional average scores are weighted by population using data from the World Bank's World Development Indicators online database.

previous year, namely Bahrain, Egypt, Iraq, Kuwait, Lebanon, Morocco, Saudi Arabia, the Sudan and the United Arab Emirates. Reflecting such improvement in 2015, Bahrain, Libya and the United Arab Emirates maintained the most positive rankings, with

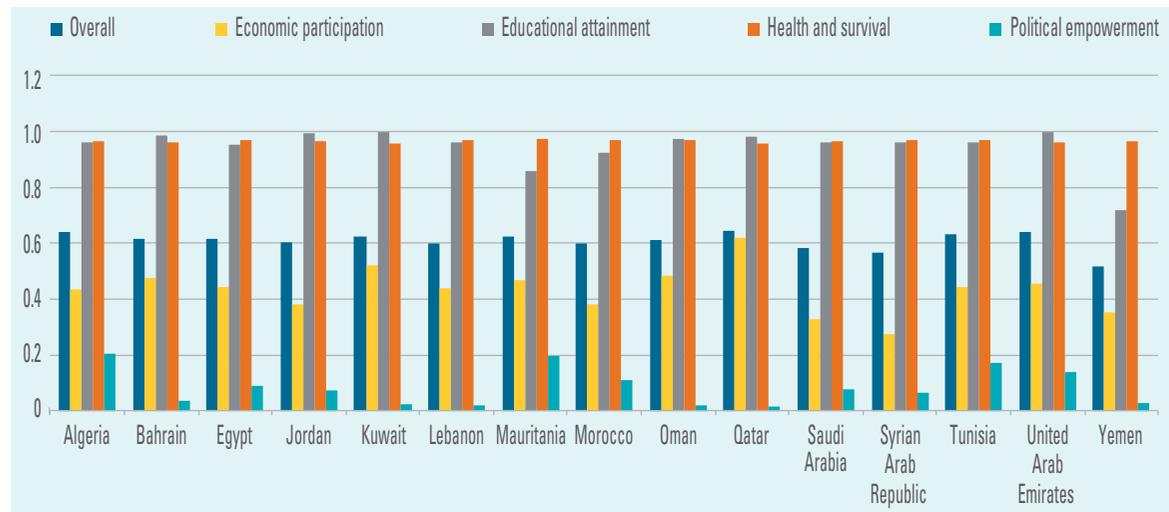
GII values of 0.167, 0.232 and 0.233. Djibouti and Yemen ranked lowest (168 for Yemen²⁹), not just among Arab countries but also out of the 155 countries surveyed globally. Gender equality in Yemen deteriorated from 2014 when the country had a GII value of 0.744. These values, however, are better read when the context of each country is analysed, taking into account their national income and the extent to which they have committed (through national strategies to advance women) to bridge gender gaps. For instance, Bahrain's 2013-2022 national strategy emphasizes enhancing economic opportunity for women. Other countries, with a high number of migrant workers, might have a different scoring.

Another global measure, developed by the World Economic Forum (WEF), provides a snapshot of a country's performance on gender. Economic participation and opportunities, educational attainment, health and survival, and political empowerment are integrated for an overall measure, namely the Global Gender Gap Index (GGI). According to the Global Gender Gap Report 2016 (figure 2.21), the Arab region continues to face an arduous challenge to achieve gender equality,

Figure 2.22 Global Gender Gap Index 2014 and 2015: by country



Source: ESCWA staff calculations based on WEF, 2016.

Figure 2.23 Global Gender Gap Index 2015 subindices

Source: ESCWA staff calculations based on WEF, 2016.

having ranked last among all regions. North America held top position on the overall GGI score in 2016, followed by Europe and Central Asia, Latin America and the Caribbean, sub-Saharan Africa and Asia and the Pacific.

At the country level, most Arab countries have closed 60 per cent or more of their gender gap (figure 2.22). Saudi Arabia, the Syrian Arab Republic and Yemen registered the poorest performance in 2015; Yemen has been the lowest-ranked since 2006. The top three performers among Arab countries were Qatar, Algeria and the United Arab Emirates with GGI scores of 0.643, 0.642 and 0.639. Qatar was top among Arab countries where women actively participated in economic activities, with a GGI value of 0.619 (figure 2.23). On education, the United Arab Emirates tops Arab countries while Algeria ranked the highest on the political subindex.

The Arab region still has a long way to go to reach gender equality, although some countries have managed to improve considerably in a short span of time. These countries have made significant investments in recent decades to boost women's education but need to fully integrate women into the

labour market to reap the economic benefits of these investments.

More in-depth analysis is needed to understand the origins of these rankings, taking into consideration their related subindices and calculations, and their limitations, particularly the other factors, such as conflict, that impact on gender equality in the Arab region.

Over the past 20 years, women's political participation worldwide has nearly doubled in elected and appointed parliaments. Despite the underperformance in gender indices, the Arab region has been following this trend, with 18.9 per cent of parliamentary seats held by women in 2017 compared with 18.4 per cent in 2016. This progress indicates a gradual societal shift recognizing the need to boost women's political engagement and parliamentary representation, and also reflects the adoption of quotas in several Arab countries. Despite the growing number of women in parliament, the Arab region remains below the 2016 world average of 23.4 per cent. The region's average of 18.2 per cent compares with the Nordic countries on 41.7 per cent, the Americas on 28.2 per cent, Europe (excluding Nordic

Table 2.4 Women in national parliaments, 2016 and 2017

Women in national parliaments								
Country	As at 1 February 2016				As at 1 July 2017			
	Lower or single house				Lower or single house			
	Elections	Seats ^a	Number of women	Percentage of women	Elections	Seats ^a	Number of women	Percentage of women
Algeria ^b	5/2012	462	146	31.60	5/2017	462	119	25.76
Bahrain	11/2014	40	3	7.50	11/2014	40	3	7.50
Comoros	1/2015	33	1	3.03	1/2015	33	2	6.06
Djibouti ^b	2/2013	55	7	12.73	2/2013	65	7	10.77
Egypt ^c	10/2015	596	89	14.93	10/2015	596	89	14.93
Iraq ^b	4/2014	328	87	26.52	4/2014	328	83	25.30
Jordan ^b	1/2013	150	18	12.00	9/2016	130	20	15.38
Kuwait	7/2013	65	1	1.54	11/2016	65	2	3.08
Lebanon	6/2009	128	4	3.13	6/2009	128	4	3.13
Libya	6/2014	188	30	15.96	6/2014	188	30	15.96
Mauritania	11/2013	147	37	25.17	11/2013	147	37	25.17
Morocco ^b	11/2011	395	67	16.96	10/2016	395	81	20.51
Oman	10/2015	85	1	1.18	10/2015	85	1	1.18
State of Palestine ^c	-	-	-	-	-	-	-	-
Qatar	7/2013	35	0	0.00	7/2013	35	0	0.00
Saudi Arabia	1/2013	151	30	19.87	12/2016	151	30	19.87
Sudan ^b	4/2015	426	130	30.52	4/2015	426	130	30.52
Syrian Arab Republic	5/2012	250	31	12.40	4/2016	250	33	13.20
Tunisia ^b	10/2014	217	68	31.34	10/2014	217	68	31.34
United Arab Emirates	9/2011	40	9	22.50	9/2011	40	8	20.00
Yemen	4/2003	300	0	0.00	4/2003	275	0	0.00

Source: Inter-Parliamentary Union, 2016.

^a Figures correspond to the number of seats filled in parliament on dates given at top of table.

^b Quota system in place to reserve number of seats for women in parliament.

^c Data are unavailable or not separately reported.

countries) on 25.2 per cent, sub-Saharan Africa on 23.8 per cent and Asia on 19.7 per cent.³⁰ Seven Arab countries (Comoros, Djibouti, Iraq, Jordan, Kuwait, Morocco and Syrian Arab Republic) increased the number of women in their parliaments – one of the essential SDG targets (5.5) – while there was no change in other countries where no recent elections have taken place (table 2.4). Overall, only 5 out of 21 sampled countries registered above the world average, namely Algeria, Iraq, Mauritania, the Sudan and Tunisia.

In September 2016, the Jordanian people elected 20 women out of 130 parliamentarians, or 15.38 per cent of the total, compared with 12 per cent in the previous elections. This result is attributed to civil society pushing for a more progressive political representation, with 5 women elected to non-reserved seats and 15 to reserved seats. This suggests a growing acceptance of women's presence in the political sphere, also reflected in the highest number of female candidates to date, 252 compared with 215 in 2013. During the 2016 elections in Morocco, women took 14 more seats, raising the percentage of women in parliament from 17 per cent to 21 per cent. The result is attributed in part to a quota system that encourages women's participation. In the April 2016 elections in the Syrian Arab Republic, women won 33 of 250 seats, two more than at the previous elections. More importantly, the parliament was headed by a woman for the first time in its history after Hadiya Khalaf Abbas was elected Speaker of the People's Council in June 2016.³¹ The Omani municipal election of December 2016 resulted in seven women being elected to the Council, up from four. After parliament passed the gender parity bill in June 2016, the 2017 Tunisia municipal elections are expected to result in substantially more women being elected to local councils. Not all elections advanced women's position in politics. Saudi Arabia's elections led to a stagnation in the number of women on the Shura Council, with 30 seats out of 151, while Iraq lost four women

representatives in its parliament. The Kuwait parliamentary election in November 2016 failed to improve women's representation, although the only female member did successfully defend her seat. Algeria's May 2017 elections led to an 18 per cent drop in the number of women in parliament, from 146 to 119.

Some countries in the Arab region have had seats reserved for women (quota) or the Head of State has intervened to bring in more women – this is the case in Saudi Arabia – but most still do not have quotas for women in parliament, the exceptions being Djibouti, Iraq, Morocco and Tunisia. A few countries, however, have reserved parliamentary seats for women. The Sudan has reserved 30 per cent of its parliamentary seats for women, Saudi Arabia 20 per cent, and Djibouti, Egypt, Jordan and Libya have set aside 10 per cent.³² Algeria introduced a law requiring political parties to include female candidates on their lists, with varying quotas (higher quotas set for higher constituencies).³³ Egypt has ruled that women should comprise 25 per cent of representatives on local councils.³⁴

D. Concluding remarks

The Arab region continued to experience difficulties in social and economic development in 2017. The region's geopolitical turmoil has affected the economic relations of Arab countries with other countries and regions, and exacerbated unemployment issues and refugees' and internal displaced persons' problems. The balance-of-payments situation remains tight for the region, especially for non-oil exporting countries. Conflict and political instability continue to plague the economies of Iraq, Libya, the Syrian Arab Republic and Yemen, while the aftermath of conflict is dampening the prospects for economic recovery in Jordan and Lebanon. Arab countries should enhance fiscal consolidation efforts to shore up the financial

Box 2.1 Developments in gender-based violence legislation

A review of published evidence by the World Health Organization found that global prevalence of physical or sexual partner violence among ever-married women is estimated at 30 per cent, with the highest prevalence in the Africa, East Mediterranean and South East Asia regions at 37 per cent, compared with 25 per cent in the European and Western Pacific regions. These figures highlight the challenge in achieving SDG 5 on gender equality. However, efforts to address violence against women have taken hold across the Arab region. Algeria, Bahrain, Iraq, Lebanon, Morocco, Jordan, Tunisia and Saudi Arabia have all introduced some form of domestic violence legislation or regulation, notably Bahrain's Law No. 17 of 2015 (protection against domestic violence), Saudi Arabia's Protection from Abuse Act of 2013 and Algeria's Law No. 15-19 amending the Penal Code to criminalize some forms of domestic violence. These laws vary in the degree to which they comply with international standards.

In Jordan, after years of campaigning by women's rights activists, lawyers and journalists, parliament on 1 August 2017 abolished article 308 of the Penal Code, which allowed a man to escape prosecution and punishment for rape if he married his victim for at least three years. During the parliamentary session, Prime Minister Hani al-Mulki said that the Government was committed to its position in cancelling article 308 and strengthening the protection of the Jordanian family. This move came after the country registered more than 160 cases of rape in 2016, and experienced a noticeable increase in domestic violence cases, according to the prosecution records of the Grand Criminal Court.

Lebanon's domestic violence Law No. 293 was passed in 2014 after a long struggle with the Government over its contents. A compromise was reached but work to improve the law is under way. While the law provides for restraining orders, a victim fund, a specialized police unit and amendments to the Penal Code, it does not explicitly criminalize marital rape. Additionally, the law gives primacy to Lebanon's personal status law regime, which may complicate the implementation of this law. Despite these complications, judges have employed the law to the advantage of survivors. On 16 August 2017, Lebanon removed article 522 of the Penal Code, which allowed for a rapist to be exempt from punishment if he married his victim. Women's rights organizations and activists, in addition to the Minister of Women's Affairs, have hailed the repeal but expressed concern with remaining articles 505 and 518 that allow rape exemptions for minors.

In January 2014, the Moroccan parliament revoked article 475 of the Penal Code that allowed a rapist to escape prosecution if he married his underage victim. Subsequently, Bill 103.13 to combat violence against women was adopted on 20 July 2016. It introduces new crimes and protective measures for survivors of violence (including a referral system), increases penalties in cases of domestic violence, prevents an abuser from contacting the victim and requires the abuser to seek psychotherapy. While this effort has been hailed as a first step, civil society advocates are seeking further amendments.

In 2014, Tunisia removed all reservations to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), setting it on course for further gender-sensitive legislative reform. That same year, Tunisia's new Constitution obligated the State to take measures to eliminate violence against women under article 46. However, gaps in existing legislation persisted. On 26 July 2017, the Tunisian parliament passed a bill criminalizing violence against women, including domestic violence. The new law adopts a broad definition of violence against women and has components to prevent such violence, protect domestic violence survivors and prosecute

abusers. There are provisions for civil protection orders, police family violence units and referrals to shelters. It also criminalizes sexual harassment in public spaces and fines employers who discriminate against women in pay. Since September 2017, Tunisian citizens have the freedom to choose their spouse, regardless of religion. Civil society is calling for further advances in the law in two key areas to promote equality between men and women. Lawmakers are being urged to amend inheritance law and eliminate so-called virginity tests.

resources needed to implement the SDGs and other global and regional development agendas (box 2.2). The projected real GDP growth in the region of 2.5 per cent in 2017 was insufficient to generate the resources needed to finance development policies. For this reason, greater regional cooperation is needed to optimize financial, human and natural resources.

Regional social development challenges have been amplified by the ongoing refugee and internally displaced persons crisis. The Arab region has experienced rising poverty since 2010, which has contributed to worsening income inequalities. Unemployment remains high and the job market highly discriminatory against women, which continues to be one of the major impediments to human capital development. In particular, there has been little improvement in girls' education.

Arab women still do not enjoy the same rights and standards as their western counterparts or Arab men. Gender-based violence is a common feature of Arab societies. Available data have shown that the Eastern Mediterranean region ranked third of seven in the proportion of women reporting intimate partner violence and/or non-partner sexual violence (36.4 per cent).³⁵ This number will fall only if governments develop legislation to protect women from violence and discrimination, and embrace change in sociocultural thinking. Arab women are still unable to fully exercise their political and constitutional rights. Women across the region are calling for reforms to personal status and labour laws. They are

more active in the labour market yet social protection floors and labour laws promoting their participation in the workforce are not matching this progress. Women still receive lower wages than men for the same work and despite having the same tertiary degree. Labour laws should be amended to stipulate equal pay for equal work. The workplace remains male-dominated, particularly in leadership positions.

In countries where there is policy to reduce unemployment among men and women, efforts usually yield positive results. Governments and employers need to encourage women to take on leadership functions and to bring gender diversity to male-dominated areas of the workplace. Women should also be able to exercise their right to maternity leave. Pregnancy, childbirth and nursing should not be an obstacle in women's careers or a reason for their employment being terminated. Women do not enjoy the same benefits as their male counterparts with regards to social protection floors. The region needs to promote gender equality in statutory pensionable age and access to social security for women in old age. Women's participation in politics in Arab countries is still below the world average despite quotas being implemented in a few countries. There is little evidence on the impact of women's political participation and their influence on the adoption of laws and policies that promote gender equality.³⁶ Electoral quotas are a first step towards enhancing women's political representation and normalizing their presence in the political sphere.

Box 2.2 Development aspirations: challenges and opportunities

The Arab region faces a great challenge to meet all its development objectives through multiple agendas, such as the 2030 Agenda for Sustainable Development, Agenda 2063 (applicable to some Arab countries) and the Istanbul Programme of Action (IPoA). The number of goals, targets and indicators involved in each plan reflects just how complex a task it is: the SDGs comprise 17 Goals, 169 targets and 230 indicators; Agenda 2063 has 7 aspirations, 20 goals and 34 priority areas, 171 national targets, 85 continental targets and 246 indicators; the IPoA has 7 priority areas and hundreds of associated targets and indicators. Full compliance will be no easy task for Arab and least-developed countries (LDCs).

Arab countries face unique challenges as they seek to implement these many objectives. Conflict and instability have a profound debilitating impact on development, including economic growth, health, gender equality, education and other socioeconomic indicators, particularly in Arab LDCs. Conflict has resulted in severe loss of life and the displacement of thousands of families, disrupted livelihoods and affected the lives of women and children in particular. At a minimum, conflict has reduced the quality and dignity of life, and severely undermined sustainable development. The impacts of conflicts in the Arab region are evident at various levels, crossing borders and generating spillover effects that threaten the security and socioeconomic development of neighbouring countries and beyond.

Notwithstanding the challenges identified above, Arab countries and their development partners can achieve many development objectives provided they scale up their commitments and coordination efforts.

Successful implementation of these multiple agendas requires broad awareness of their synergies and relevance to national development. The SDGs should be understood as a response to the global dimensions of the development challenges faced by Arab countries, and Agenda 2063 and the IPoA as a response to the region's specific challenges and aspirations.

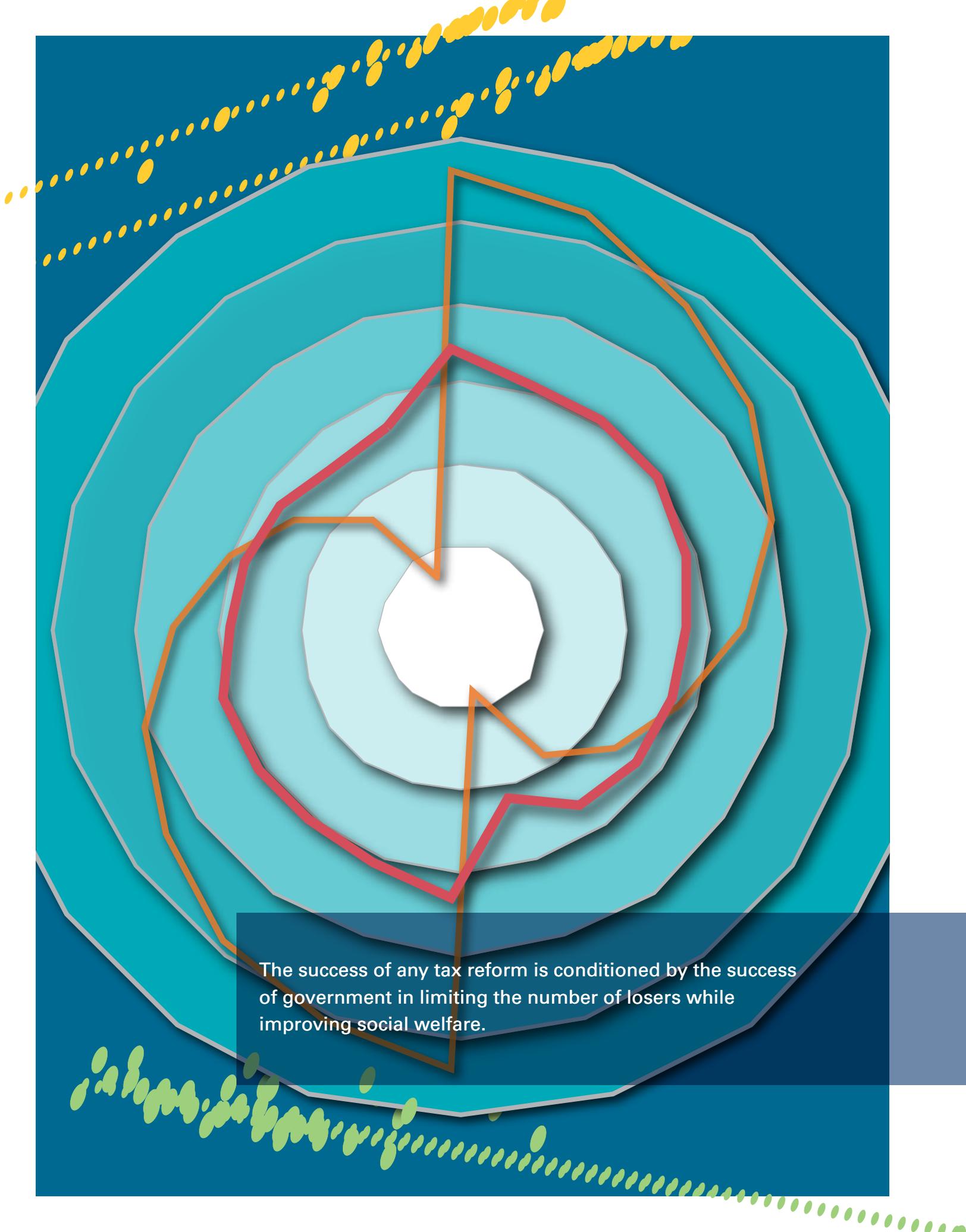
Inevitably, the sheer volume of goals, targets and indicators embodied in each of the agendas means there is significant convergence. For instance, gender is mainstreamed throughout the SDGs, and gender equality specifically addressed by SDG 5. Agenda 2063 also emphasizes women's equality and empowerment, as does the IPoA under human/social development. An integrated set of goals, targets and indicators – along with a harmonized review and reporting platform to develop a core set of Arab regional indicators – is required to track progress on these agendas. Such arrangements, however, need to take into account the development levels of individual countries. While convergence between agendas is significant, integrating their components coherently into national planning systems will be a major yet vital operational challenge.

The implementation of these development objectives requires better policymaking and analysis of the inter- and intra-sectoral impacts of initiatives. For the SDGs alone, countries will need to take an integrated approach that balances the economic, social and environmental dimensions. Evidence-based analysis of the structural effects of key policies is needed.

In the past, there has been a tendency to consider the immediate benefits above all else; for instance, when the economic benefits of increased oil production were not adequately weighed against the environmental and social costs. Therefore, greater efforts are needed to identify the most appropriate institutional architecture that countries can use to implement multiple agendas. Invariably, the role of planning agencies will be paramount in ensuring that the economic, social and environmental dimensions of policies are balanced in all aspects of programme and project execution.

In this new phase in Arab countries' development, multi-stakeholder partnerships remain one of the most critical means to mobilize internal and external resources. The active participation of all partners is required if Arab countries are to meet the challenges of implementing multiple development agendas, particularly in the following areas:

1. Knowing about the multiple development agendas in order to address the three dimensions of sustainable development with strengthened, evidenced-based policymaking;
2. Integrating the multiple development agendas to harmonize frameworks and establish common implementation mechanisms and follow-up architecture;
3. Domesticating the multiple development agendas in national planning frameworks with strengthened institutional capacities for effective coordination.



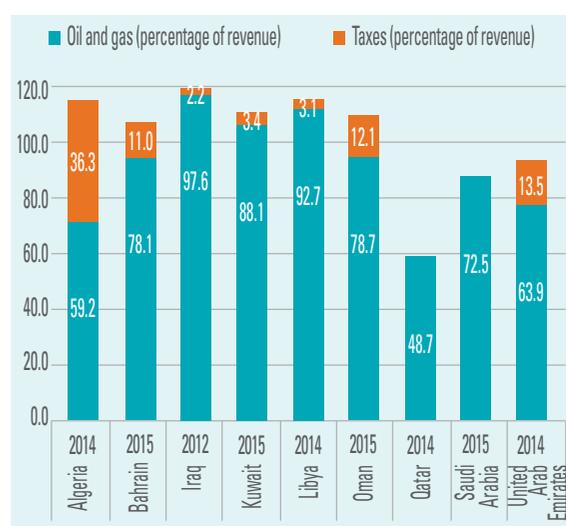
The success of any tax reform is conditioned by the success of government in limiting the number of losers while improving social welfare.

3. Economic Implications of Fiscal Reform in the Arab Region

A. Introduction

Since 2015, most Arab countries have faced a delicate fiscal situation. The consolidated fiscal deficit represented 10.7 per cent of GDP in 2015 and 9.9 per cent in 2016, while the regional debt level increased by 14 basis points between 2010 and 2016. This unfavourable situation is the result of major events in the region: the political changes that started in 2011 and transformed into armed conflict in some countries; and the drop in oil prices in 2014 that affected growth and fiscal performance in most oil-producing countries. Most countries in the region have implemented or are planning major fiscal reforms to increase domestic fiscal revenues and stabilize debt evolution.

Figure 3.1 Oil and gas versus tax in government revenue for oil-exporting countries



Source: ESCWA staff calculations.

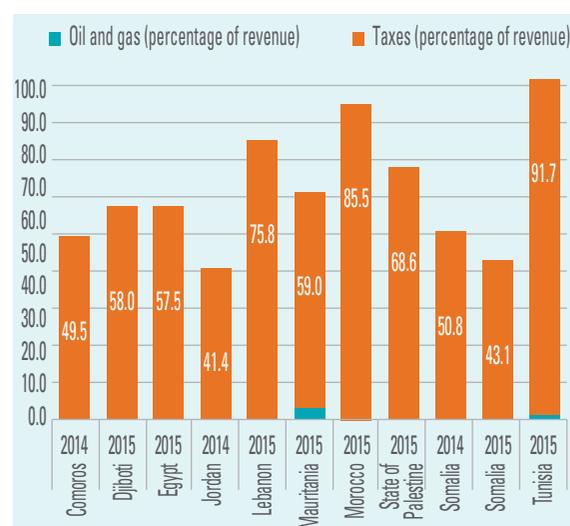
B. The causes of fiscal contractions in the region

Arab countries can be divided into two groups for government revenue. The first group relies mainly on hydrocarbons (oil and gas) to fund budgets (figure 3.1). The second, less rich in hydrocarbon resources, relies more on taxation and other sources to finance fiscal budgets (figure 3.2). For example, in the first group, oil represents 60 per cent of total revenue in Algeria and 88 per cent in Kuwait. In the second group, taxes represent 91.7 per cent of total revenue in Tunisia and 57.5 per cent in Egypt.

1. Fiscal situation in oil-exporting countries

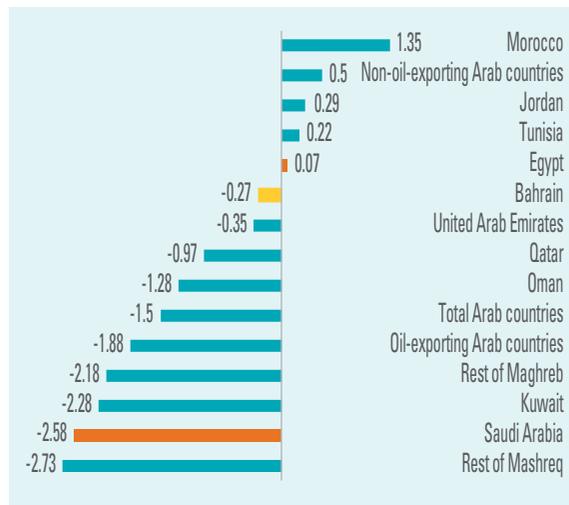
This first group of countries has been deeply affected by the drop in oil prices in 2014.

Figure 3.2 Oil and gas versus tax in government revenue for non-oil-exporting countries



Source: ESCWA staff calculations.

Figure 3.3 Short-term implications of 10 per cent decline in oil price



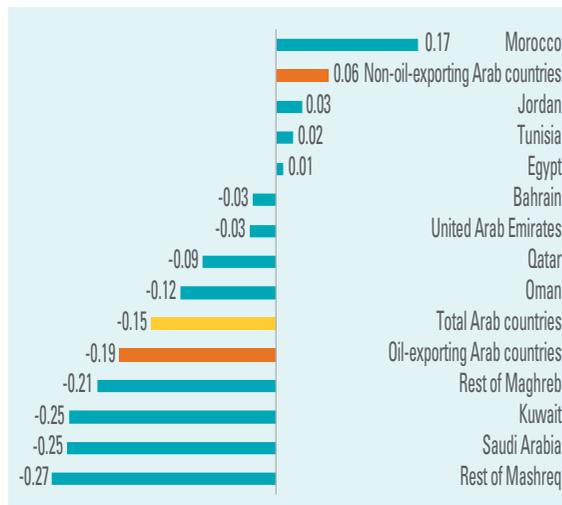
Source: ESCWA, 2015.

ESCWA (2015) had predicted that, in the short run, a 10 per cent decrease in oil prices could lead to a reduction of 1.5 percentage points in growth for the region (figure 3.3), with growth in oil-exporting countries reduced by 1.88 percentage points. In the medium and long term, a permanent 10 per cent decrease could reduce growth by 0.15 percentage points annually (figure 3.4).

These forecasts have been confirmed by observations in GCC countries since 2014. The magnitude has varied but in all GCC countries economic activity has decelerated.

In Saudi Arabia, the largest economy in the GCC, growth declined from 3.5 per cent in 2015 to 1.4 per cent in 2016 (figure 3.5). The country experienced a dramatic decline in oil revenues,¹ from 72 per cent of total revenue in 2015 to 63 per cent in 2016. But the Government was not able to reduce its current expenditure. Fiscal adjustment was partially made on public investments, reduced by 11.6 per cent in 2015 and 26.3 per cent in 2016. This situation generated a fiscal deficit that reached 15.3 per cent of GDP in 2015 and 12.4 per cent of GDP in 2016. Consequently,

Figure 3.4 Medium-term implications of 10 per cent decline in oil price

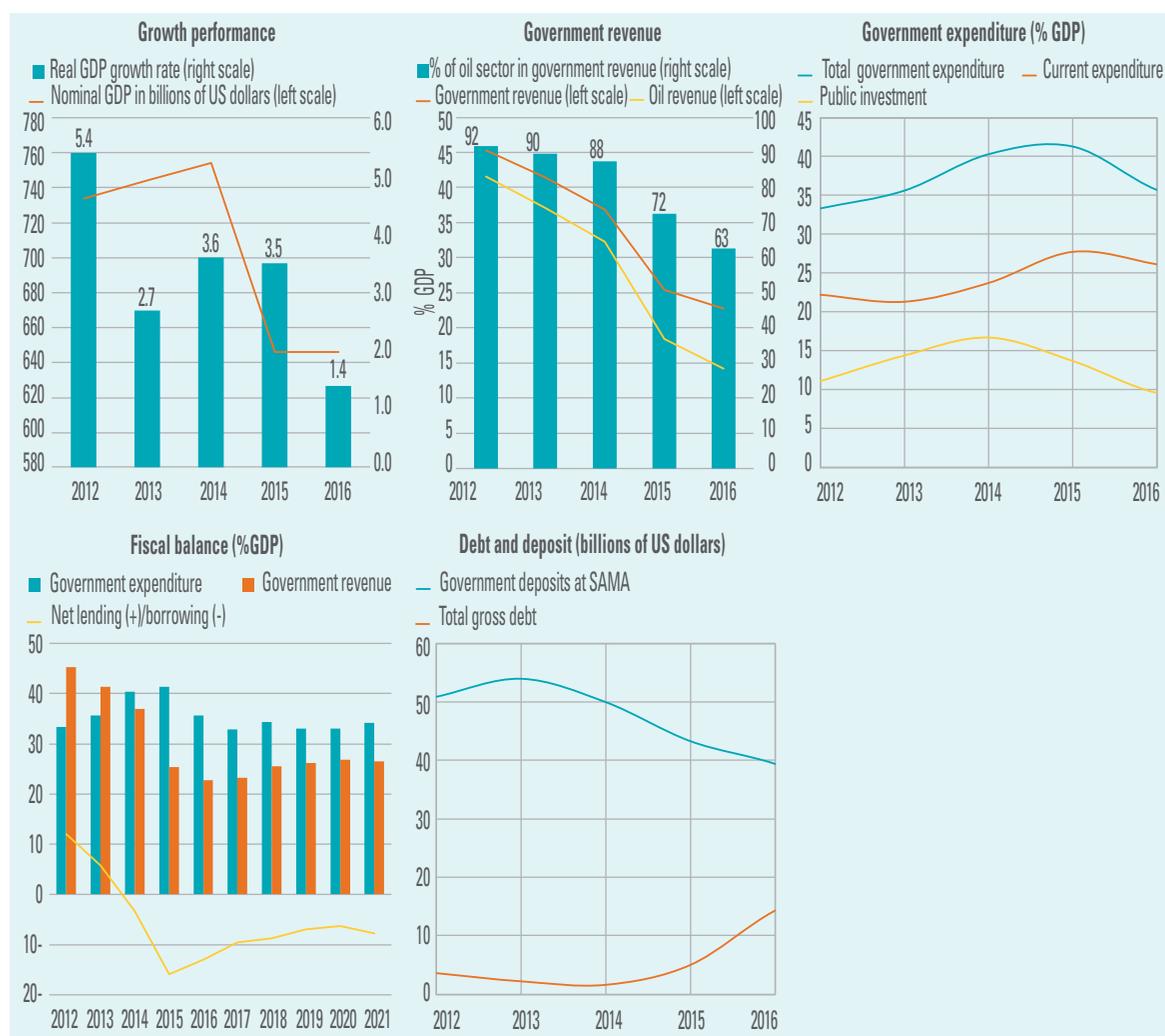


Source: ESCWA, 2015.

the Saudi Government increased its debt level and tapped its foreign reserves. Government deposits at the Saudi Arabia Monetary Agency decreased from 50 per cent of GDP in 2014 to 39.4 per cent of GDP in 2016, and the Government's gross debt as a percentage of GDP increased from 1.6 per cent in 2014 to 14.2 per cent in 2016.

In 2015, Bahrain's growth declined to increase again in 2016 (figure 3.6). Its oil revenue represented on average 84.7 per cent of total revenue in 2014. This oil dependency reduced revenues by 42 per cent in 2015 and 33 per cent in 2016, pushing the Government to reduce its total budget by 29 per cent in 2015 and 6 per cent in 2016. In the same period, expenditure increased by 2 per cent of GDP in 2015 and 8 per cent in 2016. As a consequence, the fiscal deficit that was at 3.4 per cent of GDP in 2014 rose to 12.5 per cent of GDP in 2015 and 16.9 per cent of GDP in 2016.

Qatar's growth dropped to 3.6 per cent in 2015, down from 4 per cent in 2014, and reached 2.7 per cent in 2016 (figure 3.7). The drop in oil and gas prices reduced revenue by 9.1 per cent of GDP in 2015 and 7.5 per cent of GDP in 2016.

Figure 3.5 Economic and fiscal situation in Saudi Arabia

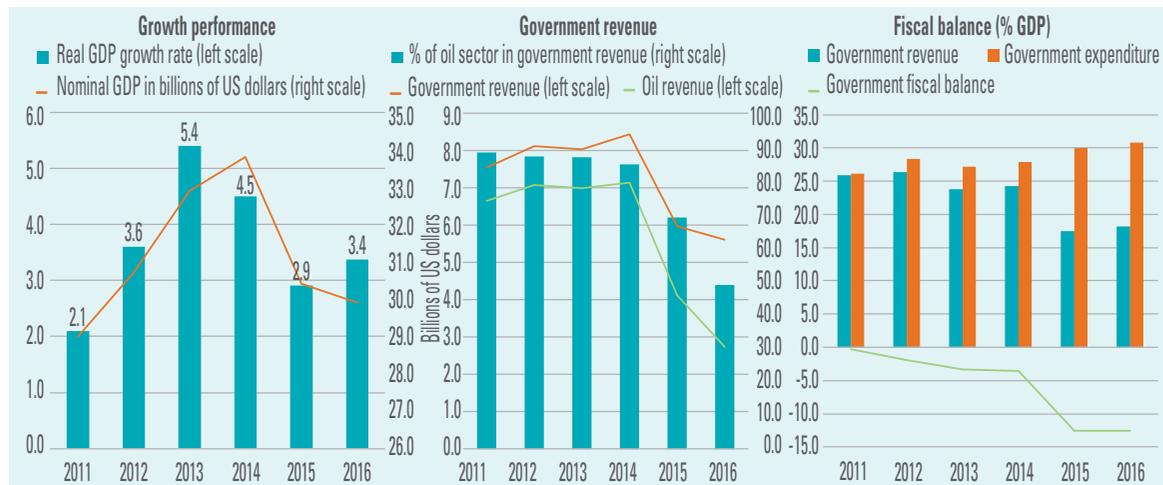
Sources: Saudi Arabia 2016 Article IV Consultation and ESCWA staff estimations based on national statistical sources (see appendix).

In parallel, total expenditure was reduced in 2016 because of the contraction in public current expenditure. However, the Government of Qatar was unable to reduce its capital expenditures, which increased by 2.6 per cent of GDP in 2015 and by 1.5 per cent of GDP in 2016. This situation adversely affected the fiscal performance in Qatar, which registered a negative balance of 9 per cent of GDP in 2016.

The economy of Oman was less affected by the drop in oil prices in 2015 when its growth rate reached 5.7 per cent. However, the 2016 economic performance was less impressive

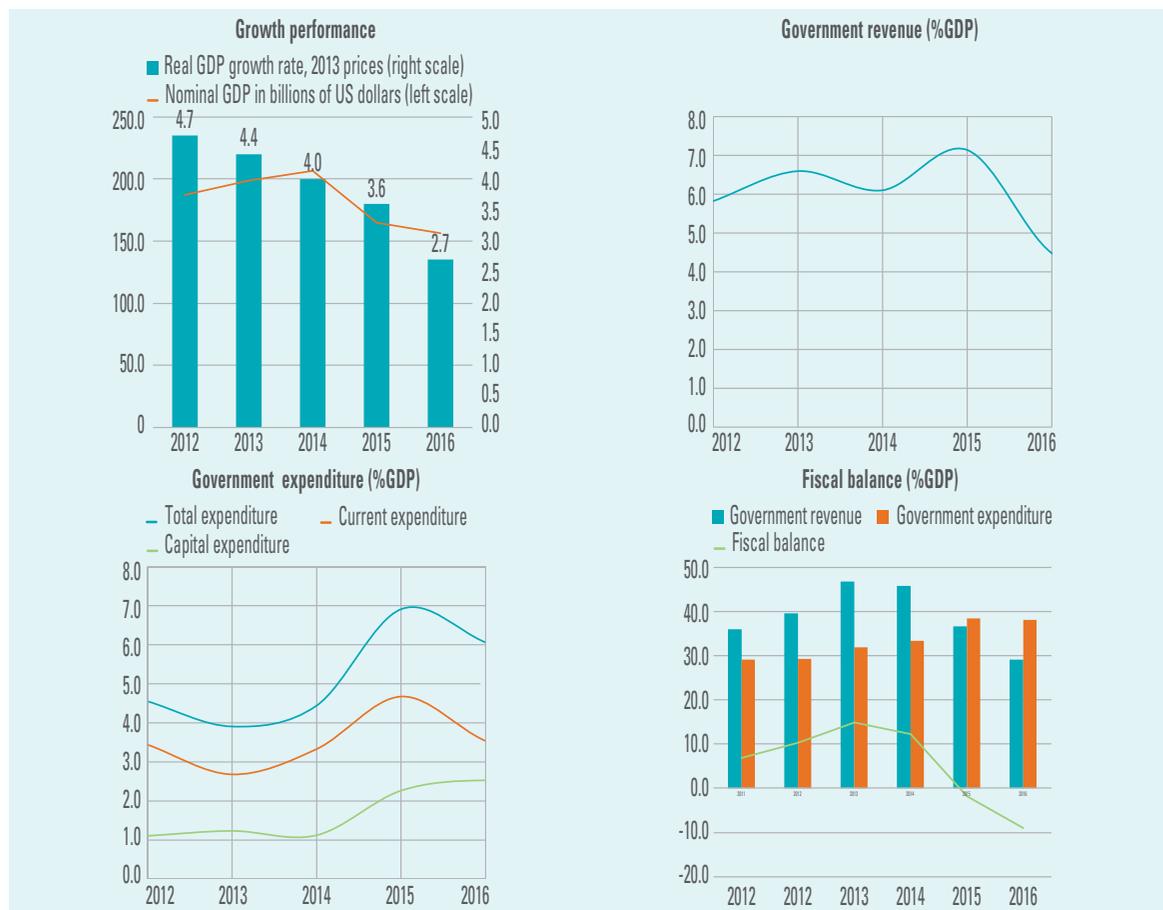
as the drop in commodities prices continued. Growth in Oman decreased by 4.1 per cent compared with 2015 (figure 3.8), significantly affecting government revenues. Since oil revenues represent almost 88 per cent of total revenue (based on 2014 estimates), the drop in oil prices in 2015 generated a 46 per cent drop in government revenues. The Government increased its total expenditure by 2.9 per cent of GDP in the same year, creating strong pressure on fiscal balance. This spending hike in 2015 was followed by a drop in fiscal spending of 6.1 per cent of GDP in 2016. The country registered deficits of

Figure 3.6 Economic and fiscal situation in Bahrain

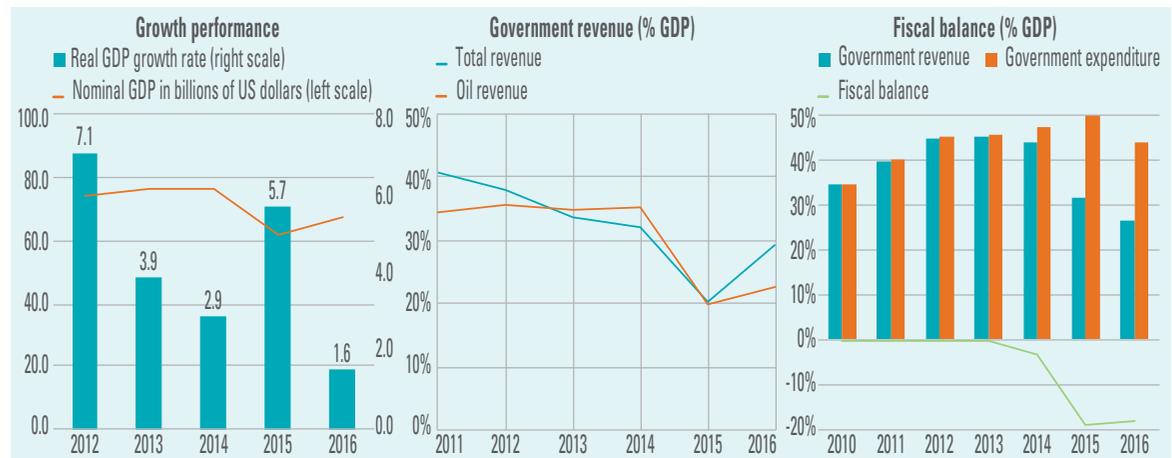


Sources: IMF Staff Concluding Statement of the 2016 Article IV Mission and ESCWA staff estimations based on national statistical sources (see appendix).

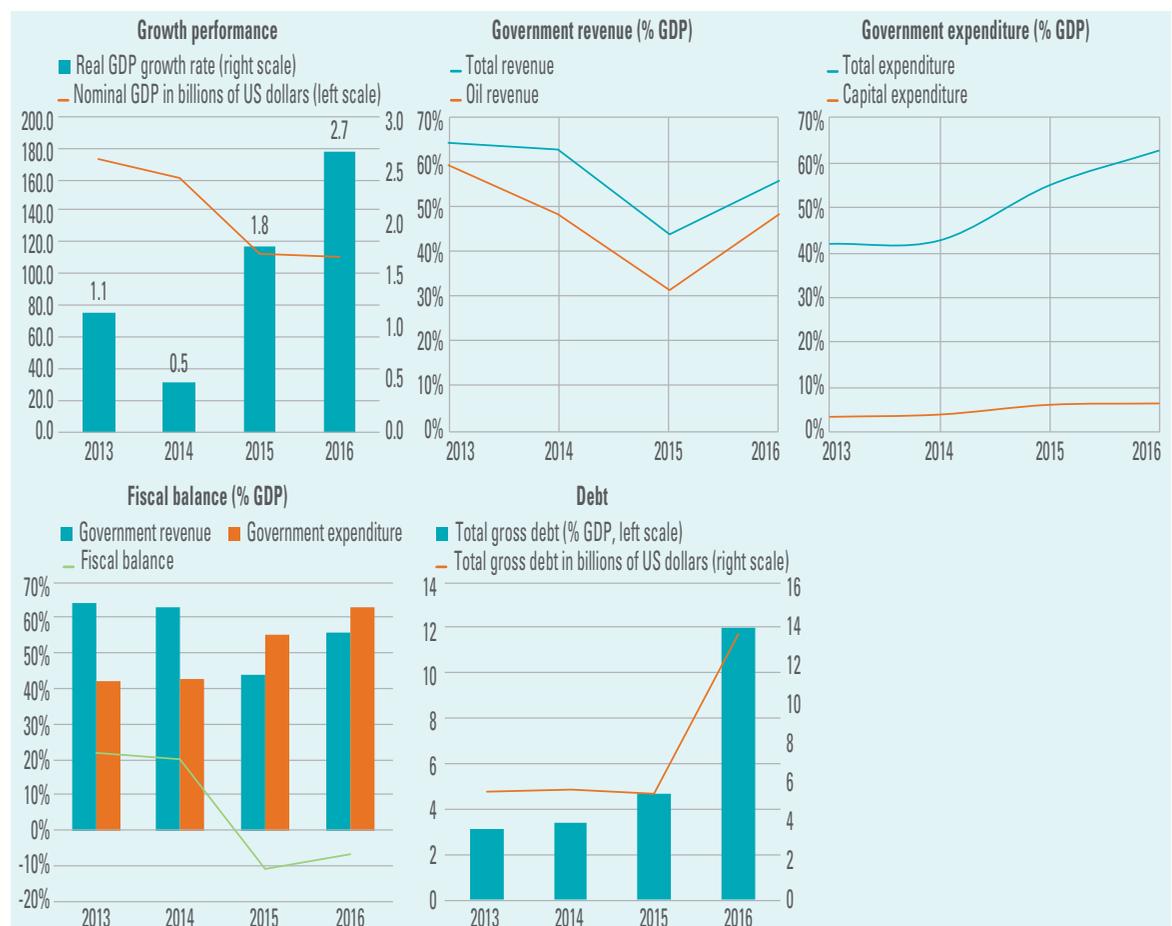
Figure 3.7 Economic and fiscal situation in Qatar



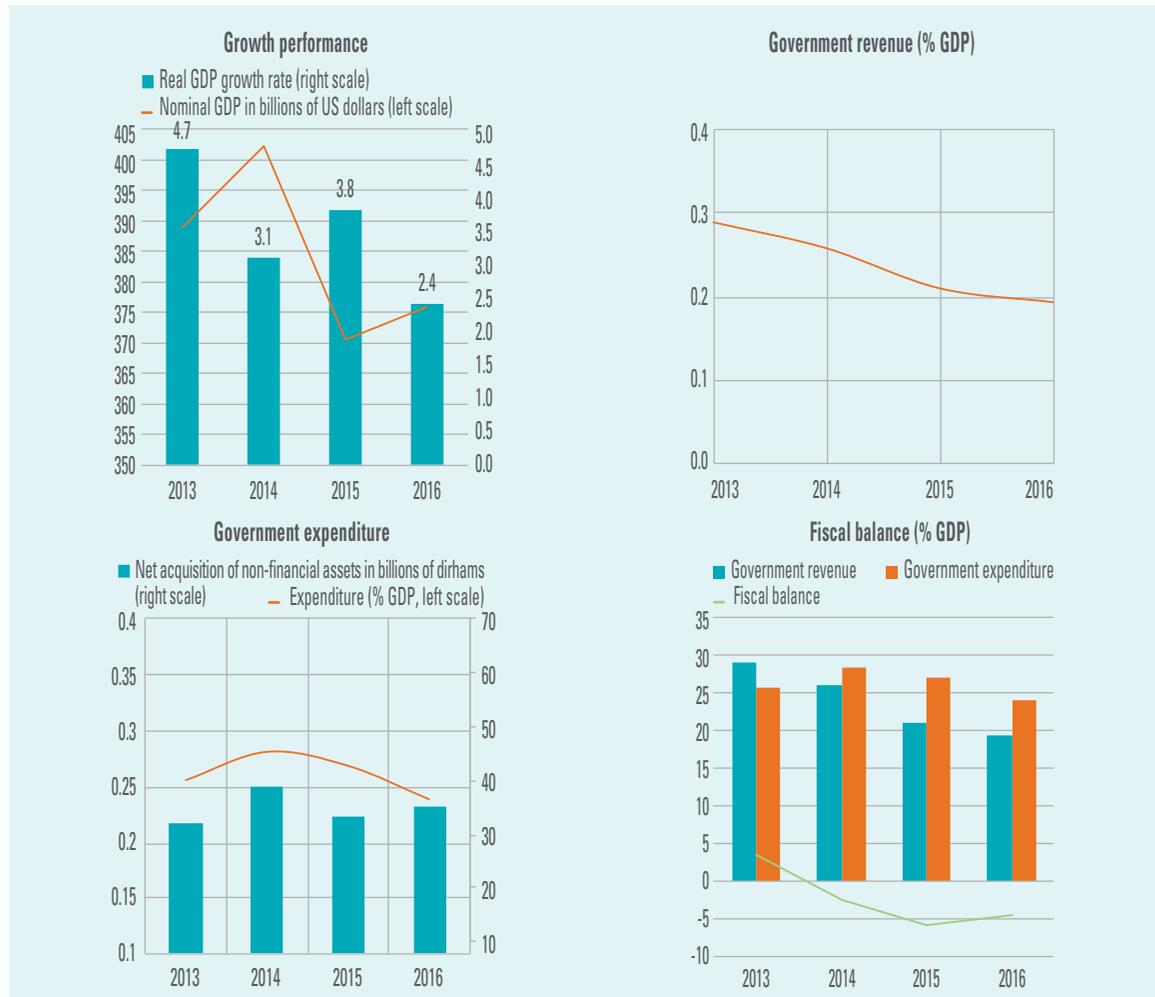
Sources: Qatar IMF Country Report No. 15/86, 2015 Article IV Consultation-Staff Report; press release March 2015; and ESCWA staff estimations based on national statistical sources (see appendix).

Figure 3.8 Economic and fiscal situation in Oman

Sources: Press release, IMF Staff Completes 2016 Article IV Mission to Oman (9 May 2016), and ESCWA staff estimations based on national statistical sources (see appendix).

Figure 3.9 Economic and fiscal situation in Kuwait

Sources: Kuwait 2016 Article IV Consultation-press release; Staff Report, IMF Country Report No. 17/15, January 2017; and ESCWA staff estimations based on national statistical sources (see appendix).

Figure 3.10 Economic and fiscal situation in the United Arab Emirates

Sources: United Arab Emirates 2016 Article IV Consultation-press release; staff report; statement by the Executive Director for the United Arab Emirates, IMF Country Report No. 17/15, July 2016; and ESCWA staff estimations based on national statistical sources (see appendix).

18.7 per cent of GDP in 2015 and 17.9 per cent in 2016.

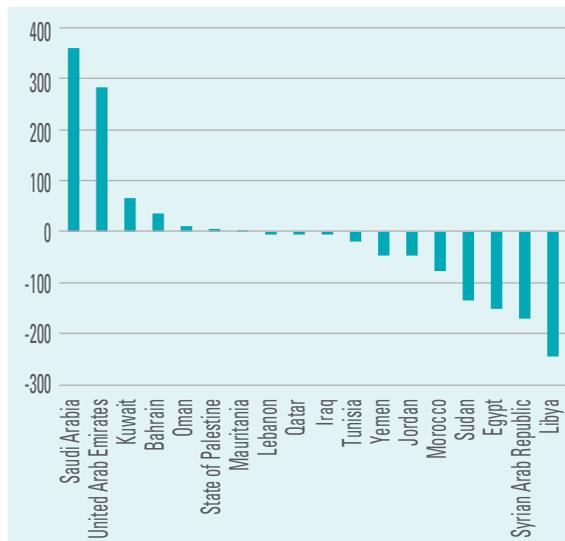
Despite positive real growth, nominal GDP in Kuwait decreased by 30 per cent in 2015 and by 2.4 per cent in 2016 (figure 3.9). Oil is the main source of government revenue (representing 77 per cent of total revenue in 2014). The drop in oil prices reduced government oil receipts by 52 per cent in 2015, although they rose slightly, by 1.4 per cent, in 2016. The impact on government revenue was also significant. Total government revenue decreased by 18.7 per cent in 2015, though

it increased by 11.7 per cent in 2016. As a response to this shock, the Government of Kuwait increased its total expenditure by 12.2 per cent of GDP in 2015 and by 7.7 per cent of GDP in 2016. This additional spending resulted in a fiscal deficit of 11 per cent of GDP in 2015 and 7 per cent of GDP in 2016. However, when taking into consideration transfers to the Future Generation Fund, the Government registered a deficit equivalent to 17.5 per cent of GDP in 2015 and 17.3 per cent in 2016. Part of this deficit translated into an increase in government debt from 3.4 per cent of GDP in 2014 to 12 per cent of GDP in 2016.

The United Arab Emirates stands apart from its GCC counterparts as the most diversified economy among resource-rich countries. The drop in oil prices did not reduce economic activity in the country, which had 3.8 per cent growth in 2015 and 2.4 per cent in 2016 (figure 3.10). In nominal terms, GDP shrank by 8 per cent in 2015 and marginally increased

by 1.4 per cent in 2016. Government revenue dropped by 4.9 per cent of GDP in 2015 and by 1.7 per cent of GDP in 2016. A decrease in total expenditure, of 1.3 per cent of GDP in 2015 and 3 per cent of GDP in 2016, allowed the Government to maintain a fiscal deficit at a relatively acceptable level of 5.9 per cent of GDP in 2015 and 4.6 per cent of GDP in 2016.

Figure 3.11 Cumulative GDP gains (losses) by country (billions of US dollars)



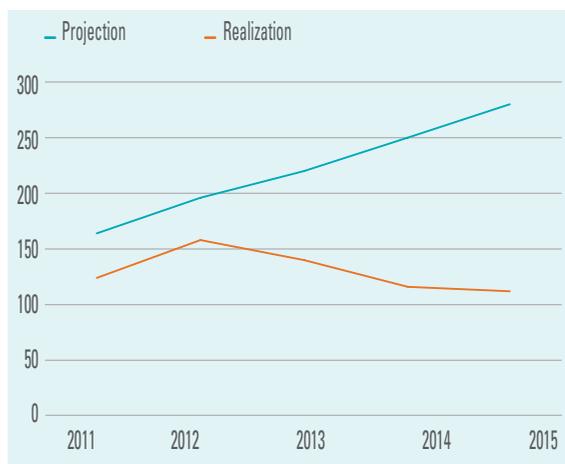
Source: ESCWA, 2016b.

2. Fiscal situation in non-oil exporting countries

In oil-importing countries, the benefits of low oil prices were offset by the political unrest in the region starting in 2011. ESCWA (2016b) estimated that the cumulative effects of change and conflict led to a net loss of \$613.8 billion in economic activity (figure 3.11). The biggest portion of this loss was blamed mainly on the destruction of physical and human capital in countries such as Libya, the Syrian Arab Republic and Yemen, and the spillover effects to neighbouring countries.

The drop in economic activity resulted in lower fiscal revenue. In addition, governments have implemented countercyclical policies and social measures

Figure 3.12 Total GDP, countries in conflict since 2011 (billions of US dollars)

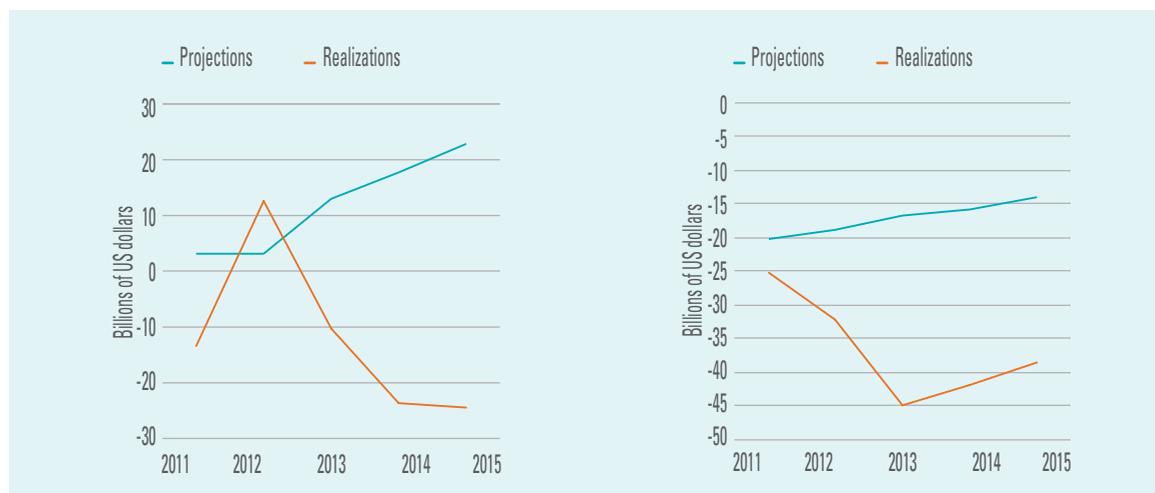


Source: ESCWA, 2016b.

Figure 3.13 Total GDP, countries affected by conflict (billions of US dollars)



Source: ESCWA, 2016b.

Figure 3.14 Fiscal balance in non-oil-exporting countries

Source: ESCWA, 2016b.

to ease social tensions, resulting in significantly increased public expenditure and deficits. Countries affected by conflict experienced a worsening fiscal balance due to the need to mitigate against spillover effects of crises (figure 3.14). Overall, the combined deficit of countries in conflict and countries experiencing spillover effects was 12.5 per cent of GDP between 2011 and 2016. These two groups of countries had a fiscal balance shortfall of \$243.1 billion over this period, \$217.9 billion more than projections.

C. Fiscal reforms

Most Arab countries have made a series of fiscal reforms to counter public deficit increases and maintain debt sustainability. When defining the goals of the reforms required in the region in 2017, the IMF made the distinction between oil- and non-oil-exporting countries, saying that oil-exporting countries should diversify revenue sources away from oil and gas. Introducing value added tax (VAT) and other consumption taxes would be a first step in the right direction, and governments should also consider introducing taxation on household

income and property. In oil-importing countries, the priority was to generate higher revenue by broadening the tax base. Tax systems should be simplified and made more efficient and equitable. Fiscal reforms in the Arab region share some common ground but vary in their amplitude and timelines.

1. Indirect tax reforms

Indirect taxes are the broader-based taxes applied on consumption. VAT and government sales tax (GST) are gaining popularity with governments and policymakers. VAT has become a major source of government funding globally. It has been adopted by 150 countries and contributes to about 20 per cent of worldwide tax revenues.²

(a) VAT in the Arab region

Many Arab countries have adopted VAT as one of their main indirect taxing instruments, along with general sales taxes, excise taxes and other specific transaction taxes. VAT rates vary but on average, standard rates have increased in all countries over the past two decades, reaching international levels on some products. Since 2013, many countries in the region have begun to reform their VAT systems.

In GCC countries, creating a VAT is a recurrent idea that has re-emerged with some force recently. As recommended by the IMF, each member State is expected to issue its own national VAT legislation based on agreed common principles. The GCC official journal of 15 January announced that the Arabic Gulf States had agreed on a common 5 per cent rate. All are expected to have implemented it by 2018, or 2019 at the latest.

The Egyptian Government has decided to implement a VAT system to reduce distortions created by the GST regime. The new system will have a unified tax rate for all goods and services, and a tax credit system for direct and indirect inputs. The idea is to allow more cash liquidity to producers and a small number of commodities subject to excises in line with international norms.³ The Government had planned to implement the new VAT in January 2015 but has since postponed the launch.

In Morocco, fiscal reform started in 2014 to simplify and modernize VAT, and reduce its distortive effects.⁴ The Finance Act 2015⁵ established a reduced rate of 10 per cent (from 14 per cent) for credit operations related to social housing, solar water heaters and artistic activities.

In 2017, the Algerian Government increased the standard VAT rate from 17 to 19 per cent and the reduced rate (for basic foods and other primary goods) from 7 to 9 per cent.⁶

In 2013, the Tunisian Government initiated major fiscal reforms that included changes to direct and indirect taxes, local taxation and the flat-rate taxing system. It also sought to modernize its tax administration to fight tax evasion and enhance transparency and tax payer support. In 2016, Tunisia reformed its VAT rates. A general rate of 18 per cent was applied on all transactions not explicitly subject to the reduced rate of 6 per cent imposed on medical treatment, hotels and restaurants.⁷ A 12 per cent rate was imposed on electricity and petroleum products.

In Mauritania, base VAT was increased from 14 to 16 per cent in 2015, and an 18 per cent rate was imposed on petroleum products and telephony. In September 2016, some activities were exempted, including health expenses and sales of services to the public administration.⁸

The Sudan is engaged in wide-ranging fiscal reform to increase its public financial resources and rationalize their management. Introducing VAT was an important part of this package. The unified VAT rate is 17 per cent, and 30 per cent for telecommunications.⁹

(b) Other indirect taxes

Excise taxes are levied on specific goods and services, generally in addition to VAT. Consistent and comprehensive data on excise revenues are scarce. In Arab countries, the main excises are applied to tobacco, alcoholic and non-alcoholic drinks, petroleum products, cars and mobile telephony. Buoyed by other revenue sources, and perhaps due to other concerns, some countries reduced their excise tax rates or did not index them to inflation. For example, in 2006 Mauritania abolished all major excises (on tobacco, non-alcoholic beverages and cars) in anticipation of oil revenue by 2010. However, revenues from oil were significantly lower than expected and Mauritania has recently reintroduced some of these excises, albeit at low rates. In Tunisia, excise is applied to low-alcohol drinks, such as beer and wine, and not indexed to inflation. Excise on high-alcohol drinks, such as whisky, is so high, more than 650 per cent, that little legal trade takes place.¹⁰

2. Direct tax reforms

Direct taxes are the second component of the tax system, paid directly to government by tax payers. They take different forms, such as income tax, personal income tax (PIT), corporation tax and corporate income tax (CIT), and wealth tax.

(a) Taxation on individuals

With the exception of some countries in the GCC, all Arab countries deploy PITs, with progressive rates on wage and business income. In oil-importing countries, PITs generate government revenue that is on average about 2 per cent of GDP (and 11 per cent of all tax revenue). In oil-exporting countries, PITs generate revenue that is less than 0.5 per cent of GDP and equivalent to 9 per cent of total tax revenues.¹¹

Arab countries have complex income-tax structures with varying thresholds and marginal rates. These complexities can range from two thresholds in Libya to eight in the Syrian Arab Republic. Table 3.1 illustrates the minimum and maximum rates, and the number of thresholds. GCC countries have no direct or indirect domestic taxation.

Some countries are reforming their PIT systems. Jordan's income tax law, which came into force on 1 January 2015, included changes to withholding tax, up from 5 to 10 per cent.¹² Morocco included non-wage income in the personal income tax base and Tunisia reintroduced dividend taxation in 2014.¹³

(b) Taxation of business profits and investment incentives

CIT plays an important role in the Arab region's tax systems, except in GCC countries where it applies mostly to foreign companies. CIT contributes between 1 to 1.5 per cent of GDP to government revenue in resource-rich countries (excluding the GCC), and from 2.3 to 4.3 per cent in non-resource-rich countries. This is comparable with CIT contributions in developing economies.¹⁴ Most Arab countries

Table 3.1 Minimum and maximum marginal tax rates and income thresholds

	Lowest threshold of incomes	Marginal rate at lowest	Highest threshold of incomes	Marginal rate at highest	Number of income groups
Algeria	above \$1,145.26	20 per cent	Over \$13,743.08	35 per cent	4
Egypt	above \$555.56	10 per cent	Over \$4,444.444	20 per cent	4
Iraq	under \$2,377.179	3 per cent	Over \$ 9,508.716	15 per cent	4
Jordan	under \$6,993.007	7 per cent	Over \$13,986.014	20 per cent	3
Lebanon	under \$4,000	2 per cent	Over \$80,000.00	20 per cent	6
Libya	under \$8,823.529	5 per cent	Over \$8,823.529	10 per cent	2
Morocco	above \$3,243.35	10 per cent	Over \$19,459.459	38 per cent	6
State of Palestine	under \$10,582.01	5 per cent	Over \$21,164.021	15 per cent	3
Syrian Arab Republic	above \$285.71	5 per cent	Over \$1,428.571	22 per cent	9
Tunisia	above \$743.07	15 per cent	Over \$ 24,752.97	35 per cent	6
Yemen	above \$480	10 per cent	Over \$960	15 per cent	3

Sources: Data from the websites of ministries of finance.

have initiated significant reforms resulting in CIT revenues increasing significantly since 1990: Algeria taxed trading activities at 25 per cent rather than the standard 19 per cent until January 2015, when a single 23 per cent rate came into effect; Jordan and Tunisia tax banking and telecoms at 35 per cent, instead of the previous 14 per cent and 25 per cent respectively; and Morocco now taxes banking at 37 per cent instead of 30 per cent. These sectors tend to be regulated with barriers to entry that can be the source of important economic rent; telecoms in particular have grown significantly in the past decade in these countries.¹⁵

Since 2013, Tunisia has made strong progress in reforming its CIT. The standard CIT rate is 25 per cent (30 per cent for profits realized before 2014). A reduced rate of 10 per cent applies primarily to companies engaged in agriculture and fishing, and to profits coming from exports realized as of 1 January 2014 by companies for whom the 10-year tax holiday has expired. A CIT rate of 35 per cent is applicable essentially to companies in the hydrocarbons, financial (banking, leasing and insurance) and telecommunications sectors.¹⁶

Egypt, Mauritania and Morocco also have varied CIT rates according to activities and sectors. The new Jordan tax law paves the way for a modern, efficient tax system. For example, corporate tax payers with total gross income of more than 1 million Jordanian dinar (JD) in the preceding tax year are required to pay interim corporate tax at 40 per cent of the CIT liability (previously the threshold was JD 500,000). The tax is calculated based on reported financial information for the interim period or 40 per cent (previously 37.5 per cent) of the income tax amount declared to authorities in the preceding tax year.

3. Subsidy reforms

Arab countries spend on average much more on subsidies than in other regions

around the world. In 2011, total energy subsidies represented 8.4 per cent of GDP in oil-exporting countries and 6.5 per cent in oil-importing countries, with food subsidies representing 0.7 per cent of the region's GDP.¹⁷

Recent and ongoing fiscal difficulties have generated a new momentum for reform in the region, with many countries taking steps to lower energy subsidies. The most recent data show that energy subsidies in oil-exporting countries dropped from \$190 billion in 2014 to an estimated \$86 billion in 2016.¹⁸

In oil-importing countries, subsidy reform has focused on fuel products and electricity tariffs; food has received less attention, reflecting the relatively small fiscal cost of these subsidies and the high social sensitivity of food products. These countries have taken different steps to reduce the pressure of energy subsidies. For example, in January 2013, Jordan resumed monthly fuel price adjustments. Tunisia, on the other hand, increased fuel prices on an ad hoc basis in 2012-2013 and re-introduced an automatic price formula for gasoline in January 2014 to allow for future convergence to international prices. In May 2012, Mauritania adopted a new automatic diesel price formula. Morocco started to partially index some petroleum products in September 2013, eliminated subsidies on gasoline and industrial fuel in January 2014, and introduced bimonthly reviews of these prices.¹⁹

Reforming subsidies in the GCC should be a key lever for reducing government spending. The Middle East, North Africa, Afghanistan and Pakistan account for 47 per cent of global pre-tax subsidies, according to IMF estimates. The subsidies in the GCC region were calculated to drop from 6.5 per cent of GDP in 2013 to 3.4 per cent in 2015.

GCC countries are starting to reform the energy sector: in August 2015, the United Arab Emirates reformed fuel pricing policy (table 3.2), the most significant such reform in decades, adjusting monthly gasoline and diesel prices

Table 3.2 Progress in subsidy reforms, 2013-2016

Country	Progress in subsidy reforms 2013-2016
Bahrain	Increases in fuel prices of 60 per cent. Price increases for diesel, kerosene, liquefied propane gas and electricity and water tariffs are being phased in gradually by 2019.
Egypt	Prices for 95 octane gasoline increased by 112 per cent for high-end vehicles, for fuel oil for non-energy-intensive industries by 33 per cent, and for energy-intensive industries by 50 per cent in 2013. January 2013: electricity prices to households increased by 16 per cent on average, while natural gas and fuel oil prices for electricity generation rose by one third.
Jordan	January 2013: monthly fuel price adjustment mechanism resumed. August 2013 and January 2014: electricity tariffs increased by 7.5 to 15 per cent for selected consumers.
Kuwait	Authorities announced an increase in gasoline prices of about 70 per cent, on average, effective from September 2016. Parliament passed law to reform water and electricity subsidies; new tariffs effective from May 2017.
Mauritania	May 2012: new automatic diesel price formula introduced, bringing domestic fuel prices up to international levels. January 2013: electricity tariffs increased for the service sector.
Morocco	January 2014: gasoline and industrial fuel subsidies eliminated and their prices reviewed twice a month. February 2014: the per-unit subsidy on diesel was reduced, with additional quarterly reductions announced for the remainder of 2014.
Oman	Removal of fuel subsidies led to a 33 per cent and 22 per cent price increase for premium and regular fuel. Water tariffs were increased in March 2016 for government, commercial and industrial users. There is also a proposal to increase electricity tariffs for these users.
Qatar	Fuel prices rose by 30 per cent at the start of 2016. Authorities have established a committee that recommends whether prices should be adjusted, based on global markets and regional developments.
Saudi Arabia	Announced a five-year plan to raise fuel prices, with increases of at least 67 per cent. Rise in fuel prices of 50 per cent, along with cuts to subsidies on water and electricity. While subsidies amounted to \$107 billion in 2014, they are forecasted to fall to \$61 billion in 2016.
Sudan	June 2012: gasoline, diesel and liquefied petroleum gas prices increased by 47 per cent, 23 per cent and 15 per cent respectively. September 2013: diesel prices increased by 74.7 per cent, gasoline by 68 per cent and liquefied petroleum gas by 66.7 per cent.
Tunisia	January 2014: energy subsidies to cement companies reduced by half by increasing electricity tariff by 47 per cent and natural gas price by 35 per cent, with a view to fully eliminate these subsidies by June 2014. Electricity tariff and natural gas prices increased for medium- and low-voltage consumers with a 10 per cent rate hike in January 2014 and another 10 per cent in May 2014. An automatic gasoline price formula adopted.

United Arab Emirates	Subsidies on fuel were removed in 2015; price of petrol and diesel came in line with average global prices. Abu Dhabi is developing a comprehensive electricity and water consumption strategy, which led to an increase in tariffs in January 2015 (by 170 per cent for water and by 40 per cent for electricity). Water and electricity tariffs were increased again by 14 to 17 per cent in January 2016. The authorities are planning to gradually phase out the remaining electricity, water and gas subsidies, while protecting lower-tier consumers.
Yemen	2013: diesel price unified across users, including the electricity sector.

Sources: IMF, 2016b; and IMF, 2014.

against international benchmarks. Earlier, in January 2015, the United Arab Emirates increased electricity and water tariffs. In Oman, the industrial price for natural gas has doubled. In Qatar, water and electricity prices were raised and tied to consumption in October 2016. In Bahrain, gas prices for industrial users and fuel prices in marine stations were raised in 2015.

4. Other fiscal reforms in the region

In addition to general taxes, most Arab countries have initiated fiscal reform to local

taxes. Local taxation is important for economic development, not only as an instrument to increase the resources of local authorities but as a tool to establish fiscal equality and economic efficiencies. Property taxes are an efficient and equitable means to raise revenue but largely untapped in many countries. Property taxes generally yield relatively modest revenue, particularly in developing and emerging economies, but there are also large disparities across countries that signal popular opposition and technical constraints in their administration – and potential for enhanced utilization.

Table 3.3 Tax systems in GCC countries

Country	Companies and businesses	Withholding tax	VAT and goods and services tax	Labour tax/fees	Social security tax	Others
Bahrain	46 per cent tax rate on hydrocarbon companies. No tax on other corporates.	No withholding tax.	Hotel, short-term lease apartment rents and certain restaurants are subject to 5 per cent tourism levy on the gross income. 12 per cent sales tax on gasoline.	\$26.50 monthly fee per foreign worker used to provide on-the-job training and job search assistance for nationals.	9 per cent employer's contribution. 6 per cent employee's contribution. 3 per cent insurance against employment injuries. 1 per cent unemployment insurance.	10 per cent on the monthly rental of residential and business property. 5 per cent government levy on gross turnover of hotel services and entertainment. 1.5 to 3 per cent stamp duty on transfer property and land.

Country	Companies and businesses	Withholding tax	VAT and goods and services tax	Labour tax/ fees	Social security tax	Others
Kuwait	15 per cent flat tax rate on non-GCC companies. 15 per cent tax rate on capital gains. 15 per cent tax rate on branch. 1 per cent tax rate on Kuwaiti shareholding companies to support the Kuwait Foundation for the Advancement of Science.	No withholding tax. Tax retention of 5 per cent from each payment due to foreign companies until they present a tax clearance from the Department of Inspections.	No tax.	2.5 per cent tax imposed on the annual net profits of Kuwaiti companies listed on stock market as national labour support tax.	11.5 per cent employer's contribution. 8 per cent employee's contribution.	None.
Oman	12 per cent tax rate on capital gains. 55 per cent tax rate for companies engaged in petroleum exploration.	10 per cent withholding tax.	Consumption taxes include the following: 3 per cent tax rate on annual rental of leased premises and cinema tickets. 2 per cent tax rate on electricity bills in excess of OMR 50. 5 per cent tax rate on hotels and restaurant bills.	7 per cent levy on the wages of foreign workers used to finance the training of nationals.	10.5 per cent employer's contribution. 7 per cent employee's contribution. 1 per cent insurance against risks of occupational injuries and diseases.	5 per cent tax rate on hotel income. 3 per cent tax rate on property rents. 10 per cent tax rate on leisure and cinema income. 10 per cent tax rate on home owners using the drainage system. 3 per cent stamp duty on transfer of land and property.

Country	Companies and businesses	Withholding tax	VAT and goods and services tax	Labour tax/ fees	Social security tax	Others
Qatar	10 per cent tax rate. 35 per cent tax rate for companies engaged in petroleum exploration. 10 per cent tax rate on individuals carrying on business as professionals or sole traders on net business income.	5 per cent of gross amount of royalties and technical fees. 7 per cent of gross amount of interest, commission, director's fees, attendance fees, and other fees.	No tax.	No tax or fee.	10 per cent employer's contribution. 5 per cent employee's contribution.	None.
Saudi Arabia	30 to 85 per cent tax rate on companies engaged in natural gas investment activities based on internal rate of return. 85 per cent tax rate on entities engaged in oil and other hydrocarbon production. 20 per cent tax rate on other companies. 20 per cent tax rate on capital gains.	5 per cent on dividends. 5 per cent on interest. 15 per cent on royalties.	No tax.	\$53.30 monthly fees per foreign workers (if firm employs majority of foreign workers) used to finance training for nationals. 2 per cent tax of salary on nationals in the private sector only to provide unemployment compensation.	9 per cent employer's contribution. 9 per cent employee's contribution. 2 per cent occupational hazards insurance.	None.

Country	Companies and businesses	Withholding tax	VAT and goods and services tax	Labour tax/ fees	Social security tax	Others
United Arab Emirates	No taxes levied by Federal Government and no tax on capital gains. Except for oil companies, individual Emirates impose income tax of up to 55 per cent on taxable income of bodies corporate (not enforced to date). 55 to 85 per cent tax rates on oil companies. 20 per cent tax rate on foreign banks' taxable income in Abu Dhabi, Dubai and Sharjah.	No withholding tax.	No tax.	Biannual work permit fees ranging from \$80 to \$1,350, based on certain criteria.	5 per cent employer's contribution. 5 per cent employee's contribution.	Up to 10 per cent tax rate on hotel services and entertainment. 5 per cent municipal tax on the annual rental of residential property. Property registration fee of 2 per cent for Abu Dhabi and 4 per cent for Dubai.

Sources: IMF data based on official national statistical resources (see appendix); PKF Worldwide Tax Guides (available from <http://www.pkf.com/publications/tax-guides/>); and EY Worldwide Corporate Tax Guides (available from <http://www.ey.com/gl/en/services/tax/worldwide-corporate-tax-guide---country-list>).

In 2016, Tunisia maintained a tax on immovable property calculated at 2 per cent of the reference price per square metre for each category of building and the area covered at rates ranging from 8 per cent to 14 per cent. Other local taxes have been introduced, notably for Arab oil-importing countries, to increase local revenues, such as those for municipal services, on undeveloped lands,

on construction in Morocco, and on hotel activities for Tunisia and Morocco.

D. Economic implications of fiscal reforms

To analyse the macroeconomic and social impact of VAT reforms in selected Arab

countries, namely Egypt, GCC countries and Tunisia, the following techniques were used: a regional computable general equilibrium (CGE) model to assess the introduction of VAT in GCC countries; a micro-simulation approach to analyse reform of personal tax income in Tunisia, with a focus on the impact of fiscal reform on inequality and revenue; and a single-country CGE approach to assess the impact of VAT reform in Egypt.

1. Introducing VAT in GCC countries

Economic theory says creating or changing a tax instrument distorts market equilibrium. A new equilibrium will be reached with a reallocation of resources and distribution among economic actors. Policymakers and professionals have an interest in evaluating these effects on economic outcomes to assess the actual and future impact of reform options. The CGE model is one of the best instruments to capture the differences between the two equilibrium paths. Since the beginning of the 1980s, CGE models have been widely used to analyse taxation reforms and assess their impact on fiscal activity, economic growth, trade and sectors.

The economic literature is clear: implementing VAT has no systematic effect on the economy. It has an impact on prices and, by consequence, household consumption, but its effect on growth, trade and sectoral production depends on how governments use the generated revenues. These tax receipts could be used to reduce the public deficit or to increase public expenditure, or for a combination of both. By changing the type of closure rules, these CGE models allow an assessment of the impact on VAT revenue.

Following this methodology, a MIRAGE (Modelling International Relationships in Applied General Equilibrium) global CGE model was used to assess the impact of a 5 per cent VAT in the six GCC countries starting in 2018 by comparing variations between a business-as-usual scenario (as predicted by the IMF) and the simulation results. The shock was simulated with two closure rules: in the first one, public expenditure was considered unchanged and public deficit exogenous, so the VAT revenue could be used to reduce public deficit; and in the second scenario, the fiscal deficit was considered exogenous and government expenditure endogenous, so VAT revenue could be used directly to increase public expenditure.

Table 3.4 VAT revenue as a percentage of GDP (first scenario)

	2018	2019	2020	2021
Total GCC	1.96	1.97	1.98	1.98
Bahrain	2.38	2.38	2.37	2.37
Kuwait	1.58	1.62	1.65	1.69
Oman	1.74	1.75	1.75	1.75
Qatar	0.86	0.86	0.87	0.87
Saudi Arabia	1.71	1.71	1.71	1.70
United Arab Emirates	3.12	3.12	3.12	3.13

Source: ESCWA staff calculations using the Mirage CGE model.

The simulations showed that implementing VAT could generate a fiscal revenue representing 1.96 per cent of total GDP of GCC countries. This ratio varies between 0.86 and 3.12 per cent of GDP. The United Arab Emirates, the country where the share of consumption in GDP is the highest in the region, could collect the equivalent of 3 per cent of its GDP per year.

On the other hand, the revenue collected in Qatar would not exceed 0.9 per cent of GDP per year (table 3.4).

If we suppose that the additional fiscal revenue generated by VAT will be used in total to reduce fiscal balance, the impact of VAT on growth is sensibly negative. The difference between

Table 3.5 Variation of GDP (with VAT used to reduce fiscal balance, percentage)

	2018	2019	2020	2021
Total GCC	-1.29	-1.30	-1.30	-1.31
Bahrain	-1.63	-1.63	-1.63	-1.63
Kuwait	-0.87	-0.90	-0.93	-0.95
Oman	-1.04	-1.04	-1.05	-1.05
Qatar	-1.06	-1.06	-1.06	-1.06
Saudi Arabia	-0.99	-1.00	-1.00	-1.00
United Arab Emirates	-2.15	-2.16	-2.17	-2.18

Source: ESCWA staff calculations using the Mirage CGE model.

Figure 3.15 Difference in growth rate (percentage)



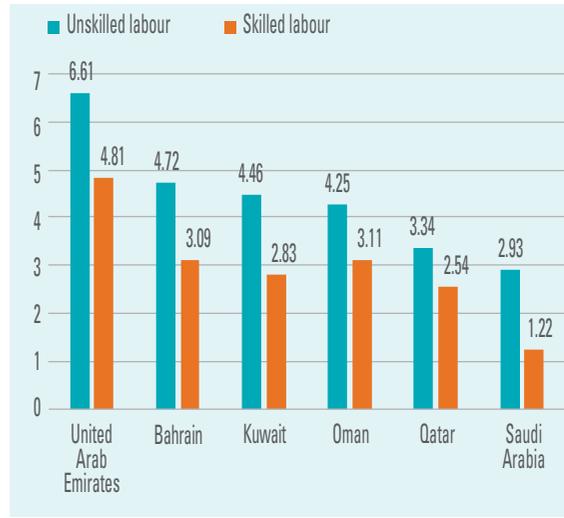
Source: ESCWA staff calculations using the Mirage CGE model.

Figure 3.16 Difference in inflation rate (percentage)



Source: ESCWA staff calculations using the Mirage CGE model.

Figure 3.17 Difference in unemployment rate (percentage)



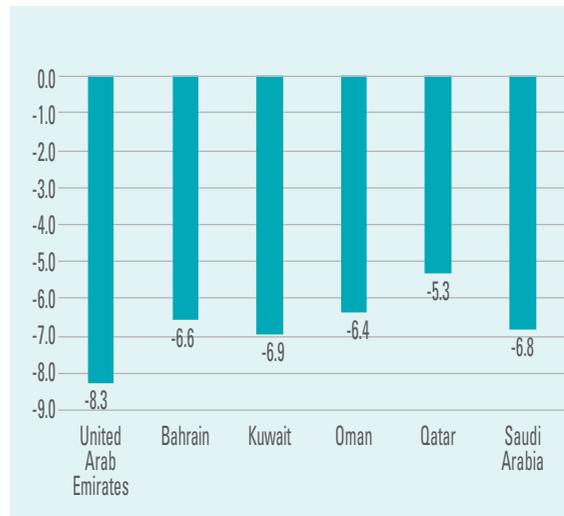
Source: ESCWA staff calculations using the Mirage CGE model.

Figure 3.18 Cumulative variation of household consumption (percentage)



Source: ESCWA staff calculations using the Mirage CGE model.

Figure 3.19 Cumulative variation of total imports (percentage)



Source: ESCWA staff calculations using the Mirage CGE model.

Figure 3.20 Cumulative variation of total exports (percentage)



Source: ESCWA staff calculations using the Mirage CGE model.

the GDP level with and without VAT could be about 1.3 per cent. The loss for the United Arab Emirates could reach 2.15 per cent of GDP, and for Saudi Arabia 1 per cent of GDP (table 3.5).

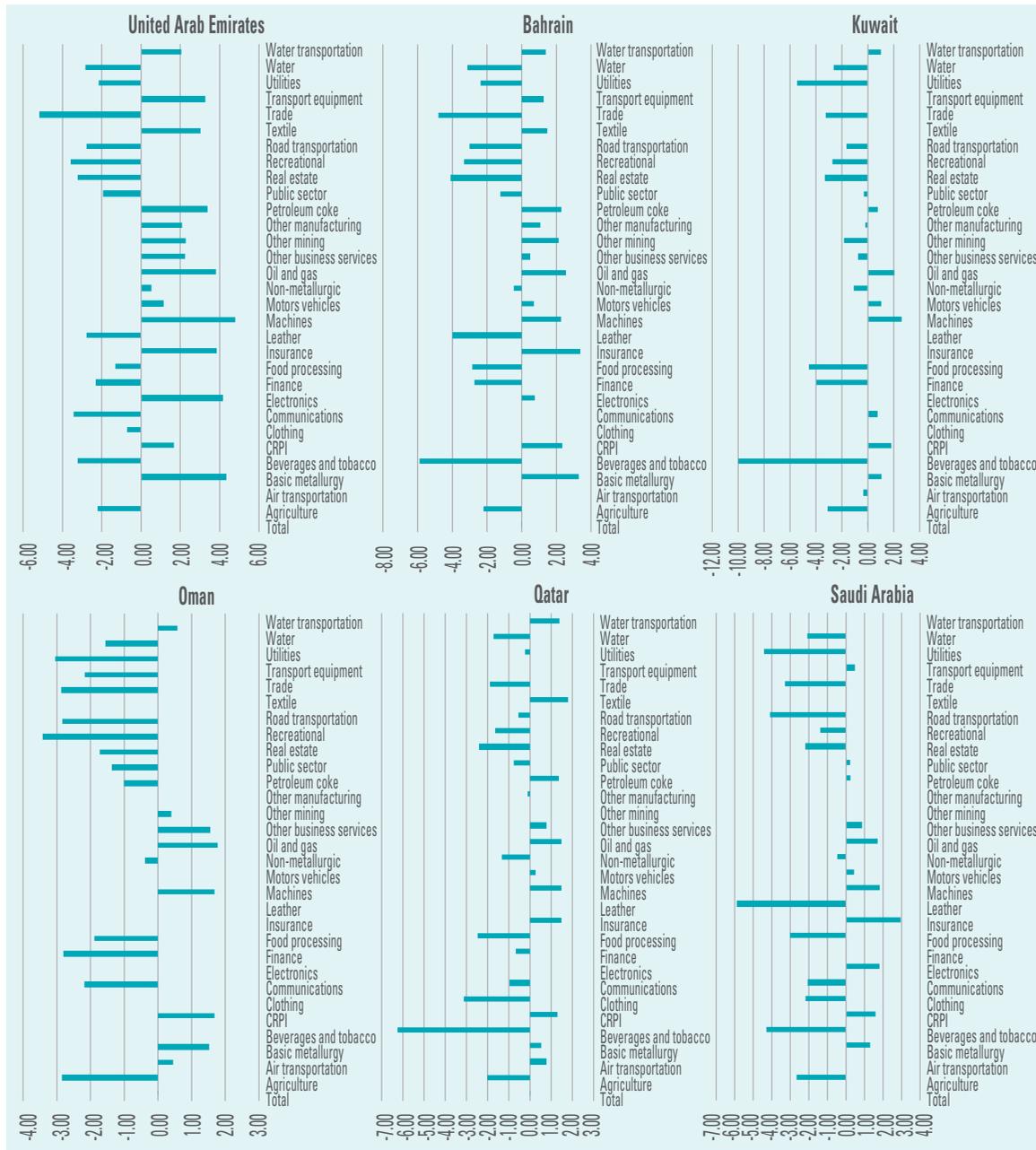
Simulations show that the largest effects of the shock are absorbed in 2018 (the

implementation date). Figure 3.15 shows that regional growth will fall 1.32 points in that year. The result can be compared with the independent estimation of the Office for Budget Responsibility in the United Kingdom, which established that a 2.5 basis point increase in VAT would reduce gross

domestic product by 0.3 per cent, or £4.6 billion, in 2011/2012.²⁰ After the first year the difference is almost nil. The same conclusion applies to the inflationary impacts of this reform (figure 3.16). The biggest effect will occur in the first year. Thereafter, the economy

will adapt, and we can see a deflationary effect in Bahrain during the second year. The impact on unemployment is significant and unemployment rates for skilled and unskilled labour in the region could increase by between 1 and 6 per cent (figure 3.17).

Figure 3.21 Cumulative variation of production by sector (percentage)

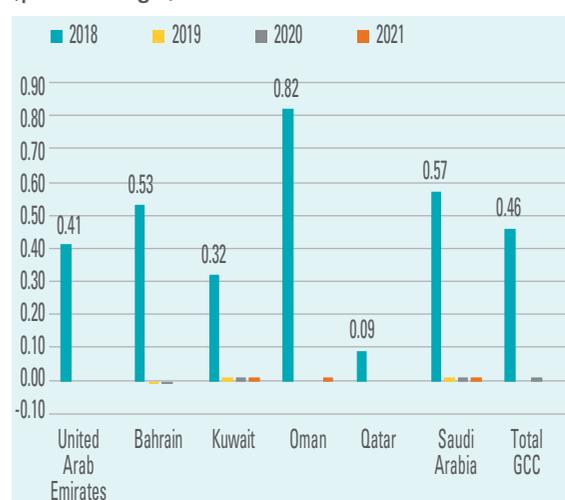


Abbreviation: CRPI: chemicals, rubber and plastic industry.
Source: ESCWA staff calculations using the Mirage CGE model.

Table 3.6 Variation of GDP (with VAT used to increase government expenditure, percentage)

	2018	2019	2020	2021
Total GCC	0.45	0.45	0.46	0.46
Bahrain	0.53	0.53	0.52	0.51
Kuwait	0.31	0.32	0.33	0.34
Oman	0.81	0.81	0.82	0.82
Qatar	0.08	0.08	0.08	0.08
Saudi Arabia	0.56	0.57	0.58	0.58
United Arab Emirates	0.39	0.39	0.39	0.39

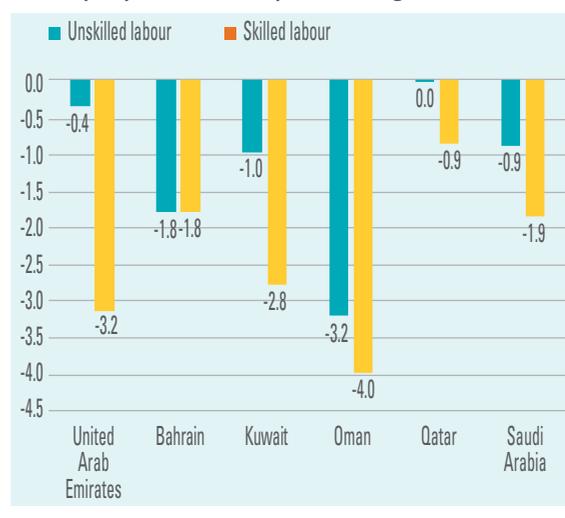
Source: ESCWA staff calculations using the Mirage CGE model.

Figure 3.22 Difference in growth rate (percentage)

Source: ESCWA staff calculations using the Mirage CGE model.

Figure 3.23 Difference in inflation rate (percentage)

Source: ESCWA staff calculations using the Mirage CGE model.

Figure 3.24 Difference in unemployment rate (percentage)

Source: ESCWA staff calculations using the Mirage CGE model.

The decrease in economic activity and increase in unemployment and inflation affect the evolution of household consumption. Over the four years covered by the simulation (2018-2021), household consumption could be reduced by 7 per cent across the region (figure 3.18). This reduction, where public spending is supposed to be unchanged, reduces total imports by an average 7 per cent. In the context of a fixed balance of payments, this implies a real exchange rate depreciation and, by consequence, an increase in total exports (figure 3.19 and 3.20).

At the sectoral level, figure 3.21 shows the simulation's introduction of VAT led to a reallocation of resources among sectors in

all countries. Implementing the same rates in all six GCC countries at the same date led to a production increase in similar sectors, such as oil and gas, machinery and basic industrial metallurgy. However, activities in other sectors, such as real estate, road transport and finance services, shrunk.

Figure 3.25 Cumulative variation of household consumption (percentage)



Source: ESCWA staff calculations using the Mirage CGE model.

Figure 3.26 Cumulative variation of total imports (percentage)

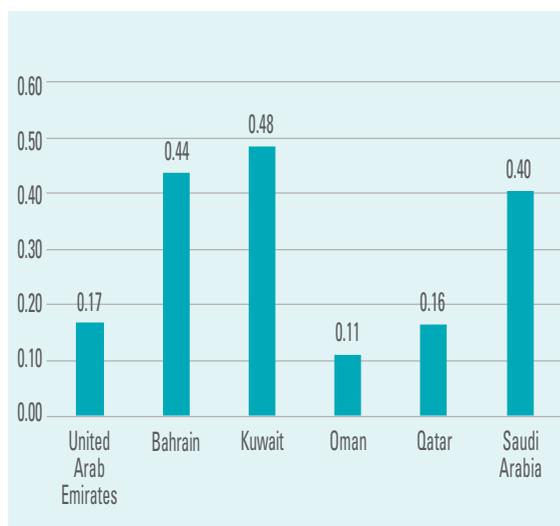


Source: ESCWA staff calculations using the Mirage CGE model.

The results could completely change if additional revenues were used to increase government expenditure. The net impact of the introduction of VAT will, in this case, be positive, with growth gains ranging from 0.08 percentage points in Qatar to 0.51 percentage points in Bahrain (table 3.6).

This gain is mainly driven by the Keynesian multiplier that increases local demand, especially in the first year of the simulation when growth gains could reach 0.46 basis points for the whole region (figure 3.22). The increase in demand could generate more inflationary pressure than in the precedent simulation (figure 3.23). The increase in inflation might range from 4 to 5 per cent in the first year but will be negative or zero thereafter. Additional growth will enhance labour market conditions. Unemployment rates could be reduced by 0.4 to 4 points, which would increase household revenue and consumption (figure 3.24). Figure 3.25 shows that household consumption could increase by 0.53 per cent in the whole region. Part of this additional demand will be for foreign products. Imports could increase from 0.1 to 0.8 per cent

Figure 3.27 Cumulative variation of total exports (percentage)



Source: ESCWA staff calculations using the Mirage CGE model.

Table 3.7 VAT revenue as a percentage of GDP (second scenario)

	2018	2019	2020	2021
Total GCC	2.13	2.14	2.14	2.15
Bahrain	2.62	2.62	2.61	2.61
Kuwait	1.70	1.74	1.77	1.81
Oman	1.93	1.94	1.94	1.94
Qatar	0.91	0.92	0.92	0.92
Saudi Arabia	1.84	1.84	1.83	1.83
United Arab Emirates	3.41	3.41	3.41	3.42

Source: ESCWA staff calculations using the Mirage CGE model.

while exports could increase from 0.17 to 0.48 per cent (figures 3.26 and 3.27).

Creating additional economic activities and increasing imports generates higher fiscal revenue compared with the first scenario. In the GCC, government revenue could represent more than 2.1 per cent of GDP, which is 0.3 per cent higher than the first scenario (table 3.7).

The model shows that the introduction of VAT could generate considerable revenues in GCC countries. How these revenues are used is crucial to the potential economic impact. If the revenue generated by VAT is used in total to reduce fiscal balance, growth and job creation will decrease; if the revenue is allocated to public expenditure, the impact on unemployment and job creation will be positive.

2. Personal income tax reform and its impact on inequality for Tunisia

(a) Context

Six years after the major political changes of 2011, Tunisia is still facing major economic and social challenges. After recording a negative

growth (-1.9 per cent) in 2011, the Tunisian economy grew in 2012 by 4.1 per cent. It declined by 2.3 per cent the following year and stabilized in 2014 (2.4 per cent growth). After a weak performance in 2015 (1.1 per cent) and 2016 (1 per cent), growth is projected to accelerate to 2.3 per cent in 2017 due to the recovery in the strategic sectors of agriculture, phosphate and manufacturing (figure 3.28). The budget deficit rose from 3.3 per cent of GDP in 2011 to 5.5 per cent in 2012 and 6.8 per cent in 2013. The fiscal deficit stabilized at 5 per cent for 2014 and 2015, but started a progressive improvement in 2016 and is expected to remain high at 5.9 per cent of GDP in 2017.

General government gross debt represented 43 per cent of GDP in 2011, but increased in 2012 and 2013 to 47.6 per cent and 46.8 per cent. Gross debt reached 51.6 per cent in 2014 and continued to rise, reaching 57.2 per cent in 2015 and 60.64 per cent in 2016. It is expected to reach 67 per cent in 2017, the highest rate for the past two past decades (figure 3.29). Unemployment rose significantly, from 13 per cent in 2010 to about 19 per cent in 2011. It stabilized at 15 per cent from 2013 to 2015, then started to fall slightly, to 14 per cent in 2016, with a further

Figure 3.28 Growth performance in Tunisia before and after 2011

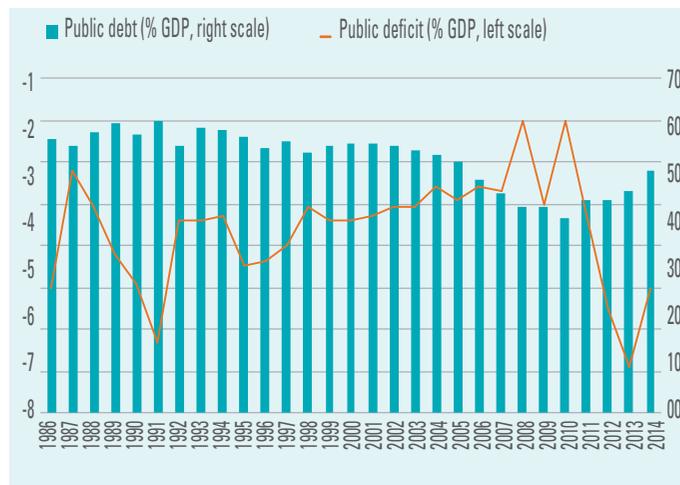


Source: Tunisia, Ministry of Finance, Loi de finances 2017. Available from http://www.finances.gov.tn/index.php?option=com_jdownloads&view=viewcategory&catid=9&Itemid=306&lang=fr.

decrease expected for 2017. Since May 2013, Tunisia has started to reform taxation as part of broader structural changes that include the civil service, public and private pensions, the banking sector, competition, public and private partnerships, the investment code, governance and the fight against corruption, and more generally, the business climate. Fiscal consolidation remains critical to maintain macroeconomic stability and policy credibility. The authorities' strategy combines short-term measures to contain the recent fiscal deterioration with more permanent steps that would reduce public debt as a ratio to GDP to a sustainable level. Modernization of tax administration, which started with the National Conference on Taxation in 2014, is being stepped up. The Large Tax Payers Unit is expected to be operational in January 2018 and there are advanced plans to enhance monitoring and verification.

The Tunisian tax system comprises two main categories: direct taxes and indirect taxes. Direct taxes include PIT and corporate tax, while indirect taxes include VAT and consumption duties. Indirect tax is the main

Figure 3.29 Public deficit and external debt in Tunisia



Source: Tunisia, Ministry of Finance, Loi de finances 2017. Available from http://www.finances.gov.tn/index.php?option=com_jdownloads&view=viewcategory&catid=9&Itemid=306&lang=fr.

source of tax revenue, representing two thirds of total tax revenue and comprising consumption tax and VAT in equal measure. Indirect taxes provided 60.4 per cent of total tax revenue in 2010, declined to 56.7 per cent in 2011 but returned in 2012 to 2010 levels. From 2013 to 2016, indirect taxes stabilized at an average of 57 per cent and are expected to rise slightly in 2017, reaching 57.6 per cent (figure 3.30). VAT is still the major component of indirect tax despite the progress of other components, particularly sales tax. From 2010 to 2017, VAT represented almost 50 per cent of total indirect taxes.

Direct taxes place a heavy burden on labour if we include social contributions to PIT. The evolution of direct taxes in Tunisia can be divided into two periods. In the first, from 2010 to 2014, PIT represented on average 50 per cent of total direct taxes. Since 2015, PIT has increased to 65 per cent of total direct taxes. This progress could be seen as an encouraging result of the last fiscal reform by the Tunisian Government. The share of PIT is expected to be maintained at high levels: from 77.7 per cent for 2016 to 67.9 per cent in 2017 (figure 3.31).

Figure 3.30 Structure of tax revenue in Tunisia



Abbreviations: LF, finance law; LFC, complementary finance law; Prov, provisional execution.

Source: Tunisia, Ministry of Finance, Loi de finances 2017. Available from http://www.finances.gov.tn/index.php?option=com_downloads&view=viewcategory&catid=9&Itemid=306&lang=fr.

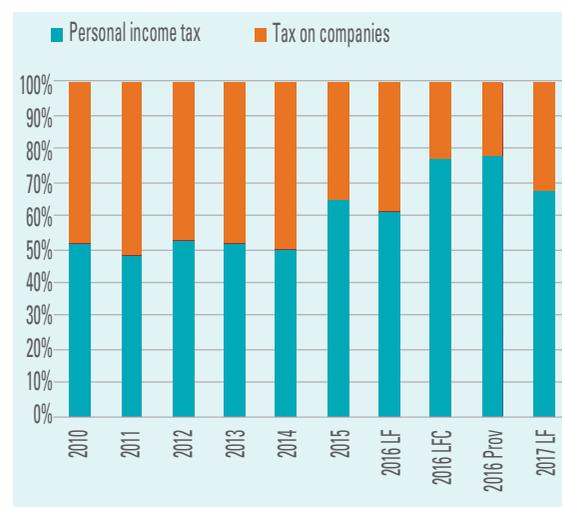
PIT is levied on different sources of income, including labour, pension, interest and dividends. Before 2013, the tax rates started at 15 per cent between 1,500 and 5,000 Tunisian dinars (TD) and rose to 35 per cent for annual net income above TD 50,000 (\$34,800) as indicated in the following table. PIT is collected mainly via source-withholding tax on wages greater than TD 1,000 (\$696) paid by State and public authorities, and TD 5,000 paid by corporations and individuals under the real regime. Several deductions are permitted, including for employees earning the minimum wage, the salaries of foreign consular officials, interest from deposits in foreign currency,

Table 3.8 Income tax structure in Tunisia

Less than TD 1,500	Between TD 1,501 and TD 5,000	Between TD 5,001 and TD 10,000	Between TD 10,001 and TD 20,000	Beyond TD 20,000 and TD 50,000	Beyond TD 50,000
0%	15%	20%	25%	30%	35%

Source: Tunisia, Ministry of Finance, Loi de finances 2017. Available from http://www.finances.gov.tn/index.php?option=com_downloads&view=viewcategory&catid=9&Itemid=306&lang=fr.

Figure 3.31 Structure of direct taxation in Tunisia



Abbreviations: LF, finance law; LFC, complementary finance law; Prov, provisional execution.

Source: Tunisia, Ministry of Finance, Loi de finances 2017. Available from http://www.finances.gov.tn/index.php?option=com_downloads&view=viewcategory&catid=9&Itemid=306&lang=fr.

interest earned on home or special saving accounts, life insurance premiums, and deductions for marital status and dependants. This system allowed the collection of TD 3.6 billion (\$1.6 billion) and at the same time reduced the Gini from 0.4526 to 0.4223.

(b) Rationale of the PIT reform in Tunisia

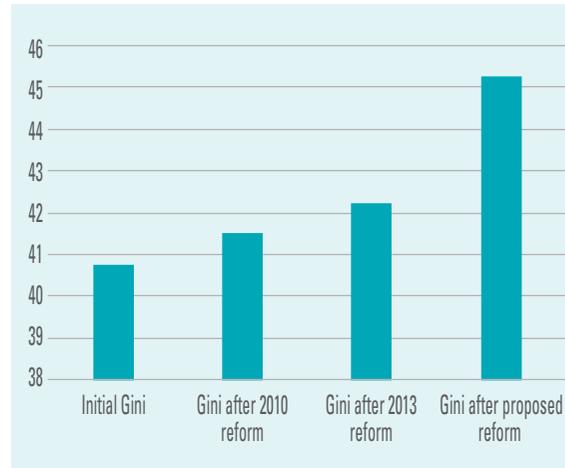
In 2013, the Government of Tunisia decided to exonerate all households with revenue of less than TD 5,000 while maintaining the current system. This fiscal reform enhanced the redistributive impacts of the system, the Gini coefficient reaching 41.49 for the relatively small

cost of TD 130 million (\$65 million). However, this reform created an anomaly: a household earning TD 5,100 before tax would have a net revenue of TD 4,800, while a household with before-tax earnings of TD 4,900 would still have a net revenue of TD 4,900.

To solve this problem, the Government considered extending the TND 5,000 exemption to all revenues. However, the cost of this change was calculated at TD 760 million, an unacceptable amount to a Ministry of Finance facing strong budget constraints. A new system was needed to improve the redistributive effect while minimizing the fiscal cost as described in the Lagrange model (box 3.1). The optimal simulation minimizes the additional tax burden for households. The Government needed to find a combination of $\{\tau_1, \tau_2, \tau_3, \tau_4, \tau_5\}$ and $\{S1, S2, S3, S4, S5\}$ that minimized the social planner objective defined as $\sum_{i=1}^N (Tax(i) - Tax0(i))^2$.

The optimization programme shows the system needs to be transformed into a four-threshold system with TD 1,500-5,000; TD 5,001-25,426; TD 25,426-50,000; and TND

Figure 3.32 The Gini coefficient



Source: ESCWA staff calculations.

Box 3.1 The Lagrange model

Consider an economy with N households. Each category of household $i \in \{1, \dots, N\}$ is defined by its taxable revenue $Rev(i)$ and its size $POP(i)$. In a progressive taxation system, the amount of revenue tax $Tax(i)$ paid by a household in category i is given by:

If $Rev(i) \leq S1$ then $Tax(i) = 0$
 If $Rev(i) \in]S1, S2]$ then $Tax(i) = \tau_1 Rev(i)$
 If $Rev(i) \in]S2, S3]$ then $Tax(i) = \tau_1 S1 + \tau_2 (Rev(i) - S2)$
 If $Rev(i) \in]S3, S4]$ then $Tax(i) = \tau_1 S1 + \tau_2 S2 + \tau_3 (Rev(i) - S3)$
 If $Rev(i) \in]S4, S5]$ then $Tax(i) = \tau_1 S1 + \tau_2 S2 + \tau_3 S3 + \tau_4 (Rev(i) - S4)$
 If $Rev(i) > S5$ then $Tax(i) = \tau_1 S1 + \tau_2 S2 + \tau_3 S3 + \tau_4 S4 + \tau_5 (Rev(i) - S5)$

This system could be generalized as follows:

$$Tax(i) = \tau_1 \text{Max}(0, Rev(i) - S1) + (\tau_2 - \tau_1) \text{Max}(0, Rev(i) - S2) + (\tau_3 - \tau_2) \text{Max}(0, Rev(i) - S3) + (\tau_4 - \tau_3) \text{Max}(0, Rev(i) - S4) + (\tau_5 - \tau_4) \text{Max}(0, Rev(i) - S5)$$

The total revenue tax is then described as:

$$Tax_{Tot} = \sum_{i=1}^N POP(i) Tax(i).$$

The marginal taxation rate faced by an individual of category i is:

$$TM(i) = \frac{Tax(i)}{Rev(i)}$$

Table 3.9 Distribution of thresholds and rates

Initial thresholds (TD)	Initial marginal rate %	Initial effective rate %	New thresholds (TD)	New marginal rate %	New effective rate %
1,500-5,000	15	0	1,500-5,000	0	0
5,001-10,000	20	13.44	5,000-12,713	27.67	8.55
10,001-20,000	25	17.82	12,713-25,426	27.67	17.49
20,001-50,000	30	23.04	25,426-50,000	30	23.14
>50,001	35	29.77	>50,001	35	29.77

Source: ESCWA staff calculations.

>50,001, with marginal rates of 0 per cent, 27.67 per cent, 30 per cent and 35 per cent (table 3.9). This reform implies an additional TD 246 million financial loss, but with an improvement of the Gini coefficient to 0.4077 (compared with 0.4149 after the 2013 reform) (figure 3.32).

This simulation was adopted by the Government and implemented in 2017. It was considered the best trade-off between minimizing disparities and fiscal loss.

(c) Redistributive impacts of the fiscal reforms

Inequality in tax payments is the mirror of revenue equality which can be defined over the entire taxes payers and does not only focus on

the revenue. The measurement of inequality sorts the population from lowest to highest revenue and shows the percentage of taxes (or income) attributed to each quintile or decile of tax payers. The lowest quintile typically accounts for 6 to 10 per cent of all taxes, the top quintile for 60 to 70 per cent. Table 3.10 shows that inequality of revenue has diminished after the reforms, with the Gini coefficient decreasing from 0.475 to 0.471, the Kakwani Index from 0.194 to 0.191 and the Theil Index from 0.466 to 0.459.

The simulation shows the reform is also progressive. The post-tax Gini has been reduced from 0.4749 to 0.4709 and the Kakwani progressivity index has increased from 0.0898 to 0.1031 (table 3.11).

Table 3.10 Inequality measures of revenue

Inequality measures	2010	2013	Reform
Relative mean deviation	0.335	0.335	0.332
Coefficient of variation	1.385	1.385	1.375
Standard deviation of logs	0.927	0.923	0.911
Gini coefficient	0.475	0.475	0.471
Mehran measure	0.601	0.600	0.595
Piesch measure	0.412	0.412	0.409
Kakwani measure	0.194	0.194	0.191
Theil index (GE(a), a = 1)	0.466	0.466	0.459
Mean Log Deviation (GE(a), a = 0)	0.423	0.421	0.412
Entropy index (GE(a), a = -1)	1.733	1.726	1.712
Half (Coeff.Var. squared) (GE(a), a = 2)	0.959	0.958	0.945
Atkinson inequality measures (eps = 1)	0.345	0.344	0.338
Generalized entrophy (alpha = 1.00)	0.466	0.466	0.459
S-Gini inequality measures (d = 2)	0.475	0.475	0.471

Source: ESCWA staff calculations.

Table 3.11 Distribution of progressivity

Measures	2010	2013	Reform
Pre-tax Gini	0.5087	0.5087	0.5087
Post-tax Gini	0.4749	0.4749	0.4709
Average tax rate	0.2735	0.2735	0.2683
Reynolds-Smolensky net redistribution effect	0.0338	0.0338	0.0378
Kakwani progressivity index	0.0898	0.0898	0.1031
Vertical equity	0.0338	0.0338	0.0378
Re-ranking	0.0000	0.0000	0.0000
Suits progressivity index	0.1058	0.1058	0.1185
Musgrave-Thin redistributive effect	1.0688	1.0688	1.0769
Atkinson-Plotnick horizontal inequity	0.0000	0.0000	0.0000

Source: ESCWA staff calculations.

Table 3.12 Distribution of inequality

Share of revenue (percentage)		
	2013	Reform
0-20 (poorest 20% of tax payers)	3.961783	4.153144
20-40	9.515522	9.543459
40-60	14.28929	14.31974
60-80	19.58185	19.57526
80-100 (richest 20% of tax payers)	52.65155	52.40839

Source: ESCWA staff calculations.

Before the reform, the top 20 per cent of tax payers were receiving 52.65 per cent of total net wages, whereas the poorest 20 per cent were receiving 3.96 per cent. Since the reform, the share of revenue of the top 20 per cent of tax payers has been reduced to 52.40 per cent of total wages, while the share of total revenue for the poorest 20 per cent of tax payers has increased to 4.15 per cent (table 3.12).

The reform increased the tax contribution of the top 10 per cent of tax payers from 48.56 per cent to 49.30 per cent and reduced the tax contribution of the poorest 10 per cent of tax payers from 0.45 per cent to 0.17 per cent (table 3.13).

Table 3.14 shows the fiscal reform has helped reduce the disparity for large families. The contribution of the poorest 10 per cent of tax

payers comprising a family with two children, for example, decreased from 0.64 per cent to 0.36 per cent while the contribution of the top 10 per cent of tax payers comprising a family with two children increased from 43.82 per cent to 44.39 per cent.

3. Tax reform options in Egypt

After six years of political change and social instability, Egypt is experiencing acute economic difficulties that are manifested by a double deficit syndrome: a balance of payments problem of large budget deficits leading to rising public debt; and low growth with high unemployment.

Growth has declined severely since 2011. Average growth that reached 5.9 per cent

Table 3.13 Share of tax (percentage)

Share of tax		
	Tax 2013	Tax reform
0-10 (poorest 10% of tax payers)	0.450082	0.176407
10-20	1.156906	0.917258
20-30	2.199744	2.089246
30-40	4.09545	4.06343
40-50	5.067423	4.983665
50-60	6.289698	6.226888
60-70	7.621691	7.584131
70-80	9.774858	9.778115
80-90	14.78197	14.88014
90-100 (richest 10% of tax payers)	48.56218	49.30072

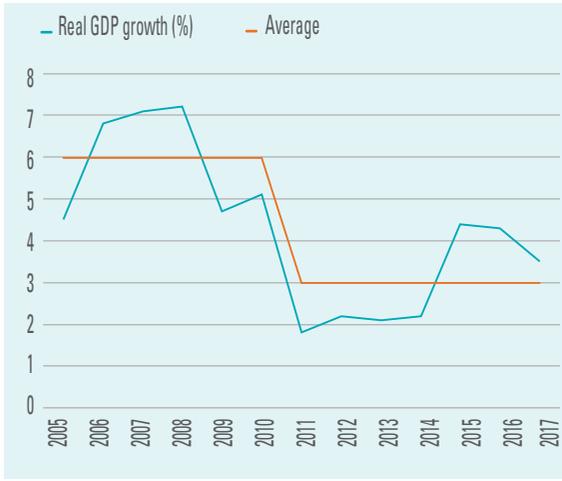
Source: ESCWA staff calculations.

Table 3.14 Inequality measures: children

	Tax 2013 Gini (per cent)	Reform Gini (per cent)
Number of children		0
0-10 (poorest 10% of tax payers)	0.317325	0.082598
10-50	10.29955	9.529115
50-90	36.86421	36.84934
90-100 (richest 10% of tax payers)	52.51892	53.53895
Number of children		1
0-10 (poorest 10% of tax payers)	0.575093	0.284113
10-50	14.20692	13.84435
50-90	40.19762	40.22265
90-100 (richest 10% of tax payers)	45.02036	45.64889
Number of children		2
0-10 (poorest 10% of tax payers)	0.642013	0.362944
10-50	14.62363	14.30365
50-90	40.90809	40.94024
90-100 (richest 10% of tax payers)	43.82627	44.39317
Number of children		3
0-10 (poorest 10% of tax payers)	0.595072	0.297126
10-50	13.8009	13.46097
50-90	39.58176	39.59551
90-100 (richest 10% of tax payers)	46.02227	46.6464
Number of children		4
0-10 (poorest 10% of tax payers)	0.623465	0.43671
10-50	14.53992	14.27781
50-90	35.30367	35.23499
90-100 (richest 10% of tax payers)	49.53294	50.05048

Source: ESCWA staff calculations.

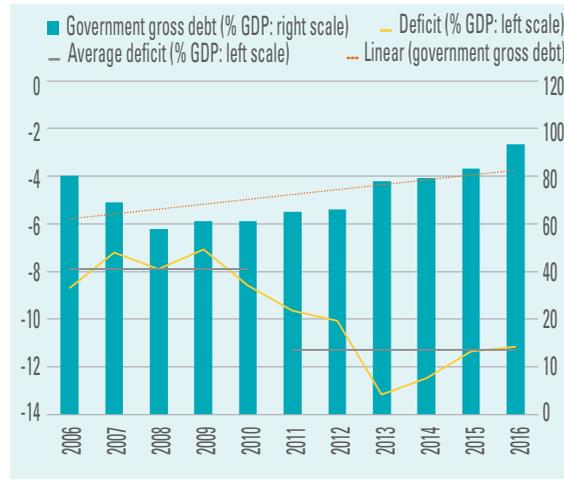
Figure 3.33 Growth performance in Egypt between 2005 and 2017



Source: World Bank, 2016d.

between 2005 and 2010 has shrunk by 3 points, to 2.9 per cent for the period from 2011 to 2017 (figure 3.33). Even before 2011, fiscal deficit was chronic in Egypt. Over the period 2005-2010, it oscillated around 7.5 per cent of GDP, reflecting low tax revenues and high spending on subsidies and civil servant salaries. However, the situation has worsened since 2011. As a percentage of GDP, the deficit reached 10

Figure 3.34 Fiscal performance of Egypt before and after 2011

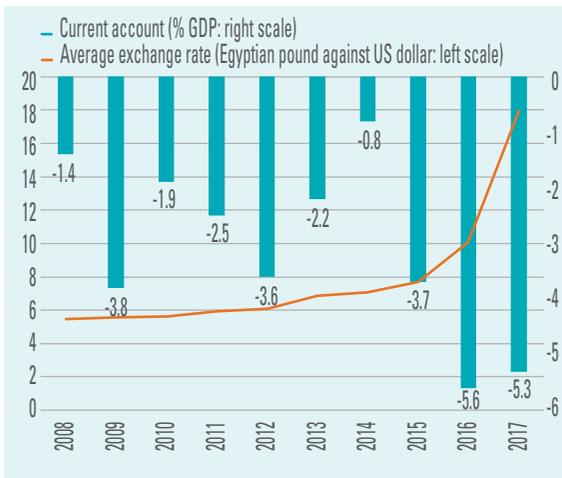


Source: World Bank, 2016d.

per cent in 2011, 16.7 per cent in 2014 and is expected to reach 10.2 per cent in 2017. As a result, the Government's gross debt increased from 77.7 per cent of GDP for the period from 2005 to 2010 to 97.1 per cent of GDP in 2016, with a further increase expected in 2017.

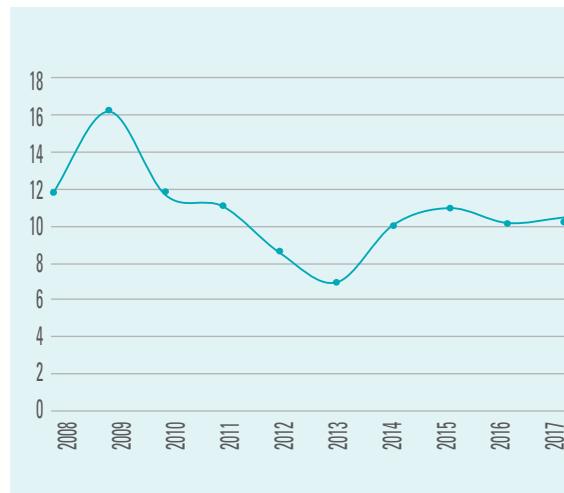
The current account balance has also deteriorated. The average deficit that was

Figure 3.35 Current account balance and exchange rate



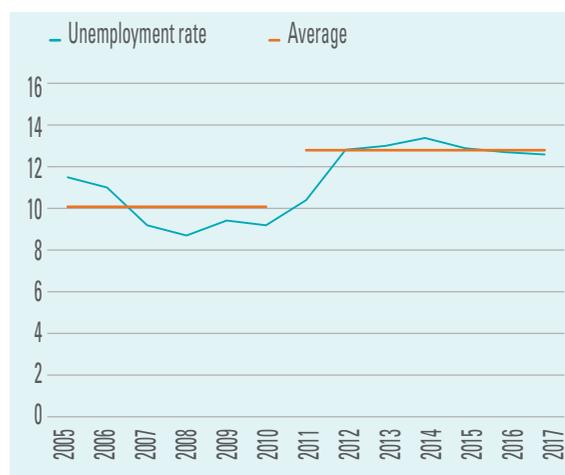
Source: Egypt, Central Agency for Public Mobilization and Statistics, 2017.

Figure 3.36 Inflation rate (percentage)



Source: Egypt, Central Agency for Public Mobilization and Statistics, 2017.

Figure 3.37 Unemployment rate (percentage) **Figure 3.38** Poverty rate (percentage)

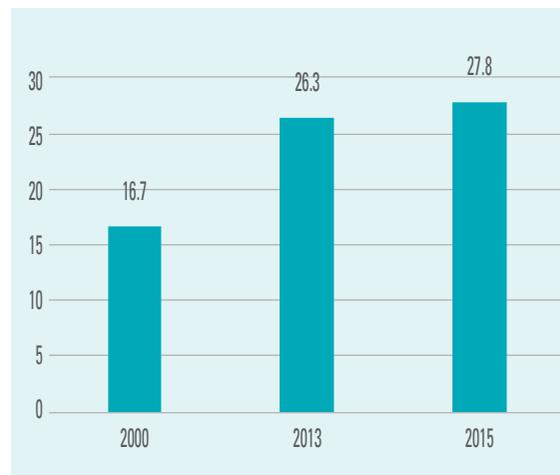


Source: Egypt, Central Agency for Public Mobilization and Statistics, 2017.

about 0.9 per cent from 2005 to 2010 reached 3.4 per cent of GDP over the period 2011-2016. In 2016, it reached an alarming 5.6 per cent of GDP. The Central Bank of Egypt shifted its exchange regime in November 2016, adopting a free-float rate from a peg to the US dollar, which has resulted in a depreciation in the Egyptian pound from LE 8.85/\$1 to about LE 16.5/\$1 (figure 3.35). This depreciation added up to energy subsidy reform and other food price shocks to increase inflation (figure 3.36).

The social repercussions included increased unemployment and the highest inequality and poverty rates since 2000. Unemployment rose from an average 10 per cent before 2011 to 12.4 per cent in the final quarter of 2016 (figure 3.37). The poverty rate increased from 16.7 per cent in 1999-2000 to 26.3 per cent in 2012-2013 and 27.8 per cent in 2014-2015 (figure 3.38).

In 2016, with the support of the extended fund facility of the IMF,²¹ the Government of Egypt put in place a four-pillar reform programme that aims to restore fiscal sustainability by increasing tax revenues by 2.5 per cent of GDP, mainly by implementing the VAT approved by parliament.²²

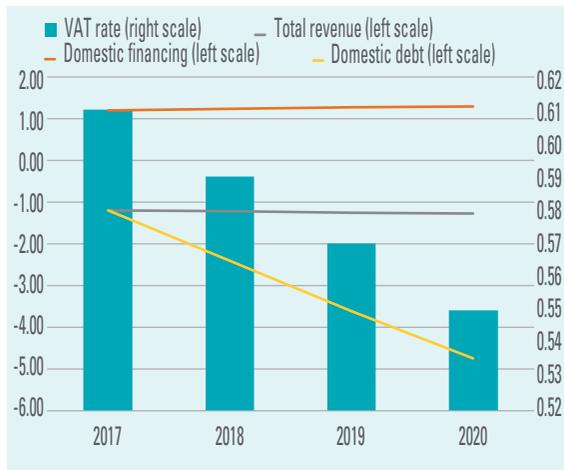


Source: Egypt, Central Agency for Public Mobilization and Statistics, 2017.

The use of a single-country CGE²³ model eases the choice of using indirect taxation to consolidate the fiscal position. Simulation shows that to reduce the public deficit by 1 percentage point of GDP, 0.6 points of VAT is required. In this case, total tax revenue could increase by an average of 1.24 percentage points of GDP (figure 3.39). Simulations show that were the additional tax revenue to be used to reduce domestic borrowing, such borrowing could decrease by 1.24 per cent of GDP and domestic debt could fall by 4 per cent of GDP.

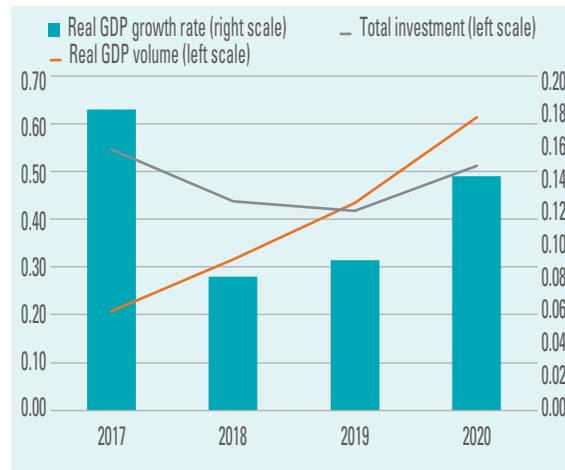
Reduced domestic borrowing will reduce the crowding-out effects and could increase investment by an average 0.48 per cent of GDP, boosting growth by an additional 0.12 points compared with the reference scenario, the one suggested by the IMF in its 2017 revision (figure 3.40). This additional growth performance will have positive effects on job creation. Unemployment rates for the three categories of labour will be reduced by 0.07 basis points for skilled labour, 0.57 basis points for unskilled labour and 0.28 basis points for semi-skilled labour (figure 3.41). The reform will have a positive impact also on trade. Total exports could increase by an average of 0.1 per cent of GDP and imports by 0.09 per cent of GDP (figure 3.42).

Figure 3.39 Fiscal impacts of the reform (relative variation vis-à-vis business-as-usual scenario)



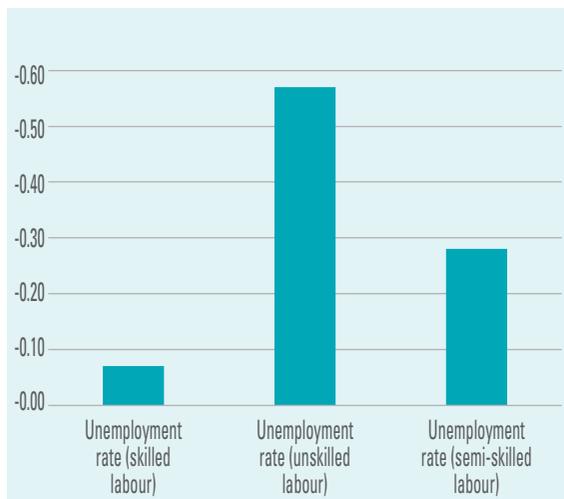
Source: ESCWA staff calculations using the Egypt CGE model.

Figure 3.40 Macroeconomic effects (relative variation vis-à-vis business-as-usual scenario)



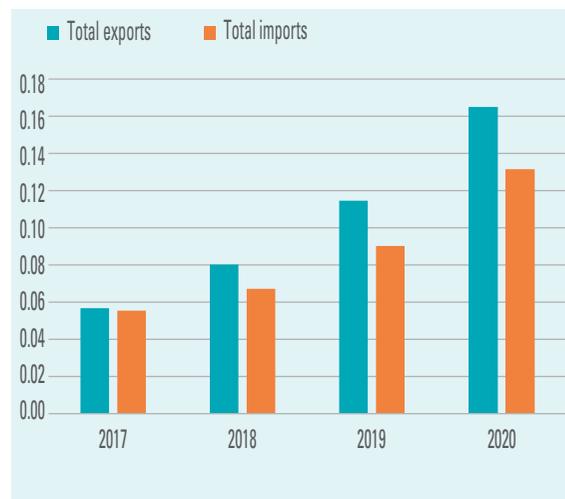
Source: ESCWA staff calculations using the Egypt CGE model.

Figure 3.41 Impact on unemployment (absolute variation vis-à-vis business-as-usual scenario)



Source: ESCWA staff calculations using the Egypt CGE model.

Figure 3.42 Impact on trade (relative variation vis-à-vis business-as-usual scenario)

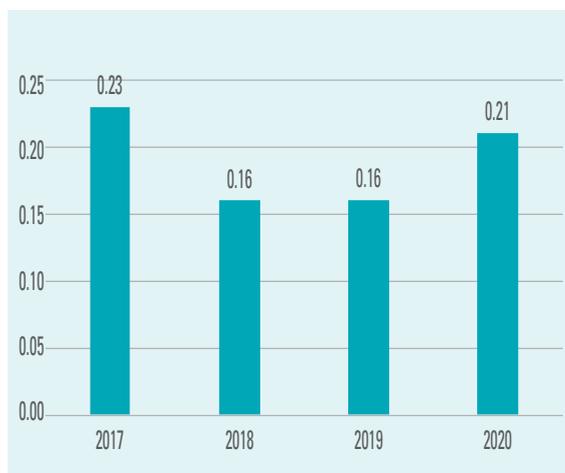


Source: ESCWA staff calculations using the Egypt CGE model.

As expected, implementing VAT will increase domestic prices and inflation (figure 3.43). The Consumer Price Index could rise by an average 0.19 points. Consequently, household consumption will be affected (figure 3.44). During the first year of its implementation, household consumption

could decrease by the equivalent of between 0.10 and 0.26 per cent of GDP. After this adjustment period, economic growth and increased employment opportunities will enable households to slightly increase their level of consumption by an equivalent of 0.02 and 0.08 per cent of GDP. The overall

Figure 3.43 Variation in CPI

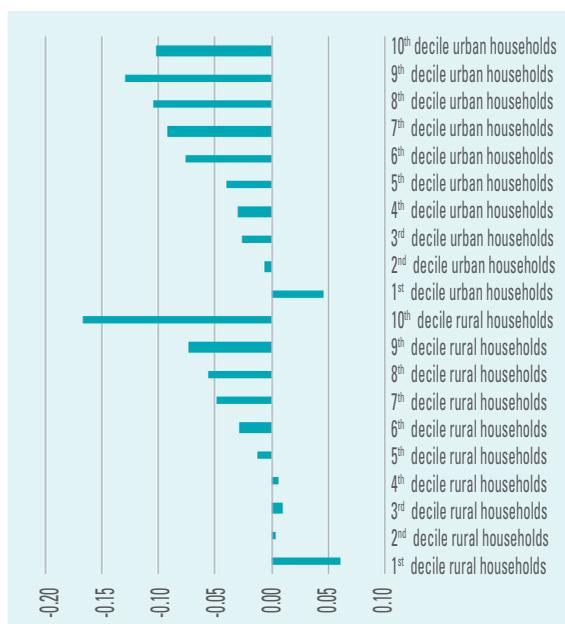


Source: ESCWA staff calculations using the Egypt CGE model.

impact for the period from 2017 to 2020 will be negative and could reach the equivalent of 0.06 per cent of GDP.

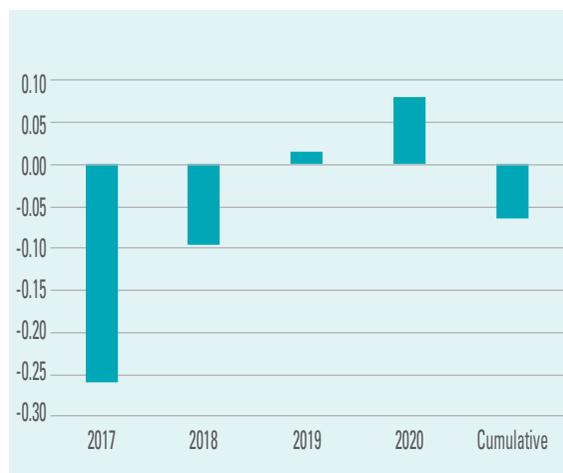
The distributive impact of the reform is relatively limited. Figure 3.45 shows that

Figure 3.45 Cumulative variation in household consumption by decile, 2017-2020



Source: ESCWA staff calculations using the Egypt CGE model.

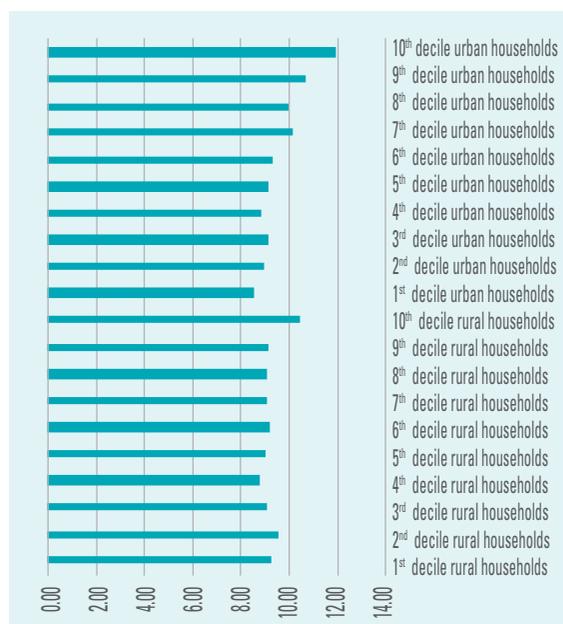
Figure 3.44 Variation in household consumption



Source: ESCWA staff calculations using the Egypt CGE model.

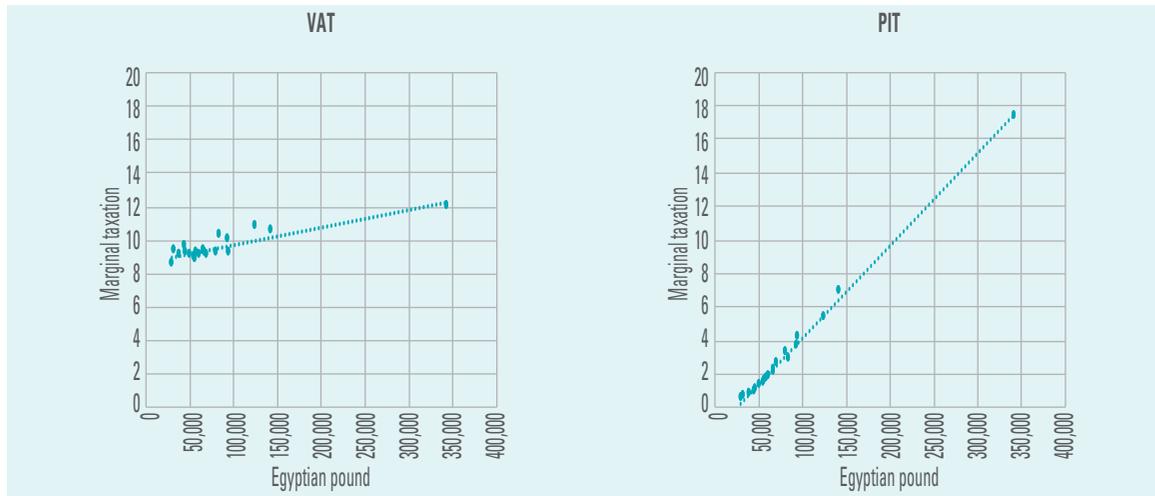
except for the first decile, all urban households will reduce their consumption. For rural households, the four poorest quintiles will increase their consumption. For these categories, the sensible decrease in unskilled labour that results from GDP growth offsets

Figure 3.46 Cumulative variation in tax paid by household by decile, 2017-2020



Source: ESCWA staff calculations using the Egypt CGE model.

Figure 3.47 Variation in tax paid by household as a function of revenue

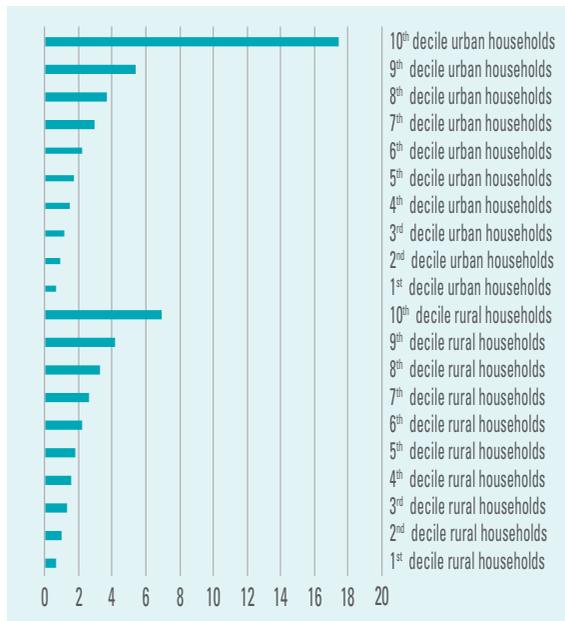


Source: ESCWA staff calculations using the Egypt CGE model.

the price effect generated by implementing VAT. For the remaining six deciles, the level of consumption decreases. All household tax will increase by between 8 and 10 per cent, which shows the non-redistributive nature of indirect taxation (figure 3.46).

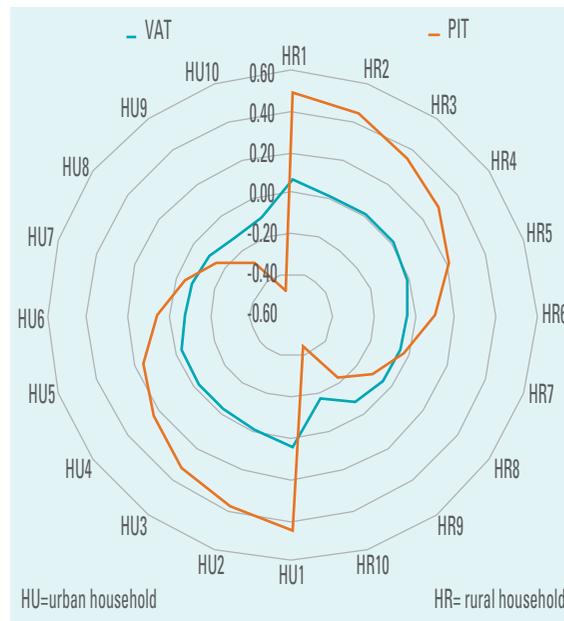
Despite the overall positive effect of this reform, the model shows that alternative reforms could have better impacts for fairness and development. For example, were a progressive PIT to be used to reduce the budget deficit by 1 per cent of GDP, the

Figure 3.48 Cumulative variation of tax paid by household by decile, 2017-2020



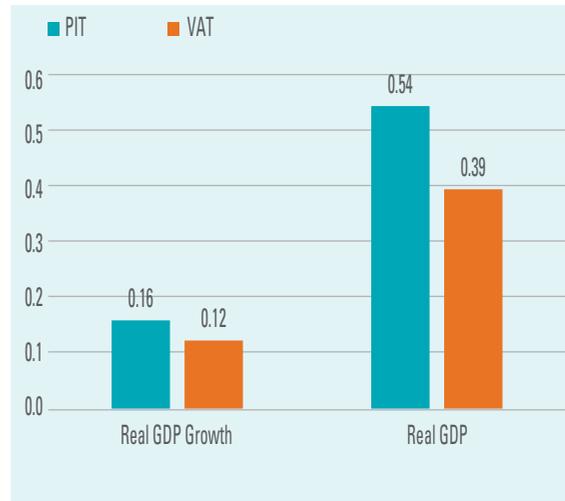
Source: ESCWA staff calculations using the Egypt CGE model.

Figure 3.49 Cumulative variation of household consumption by decile, 2017-2020



Source: ESCWA staff calculations using the Egypt CGE model.

Figure 3.50 Growth performance (percentage)



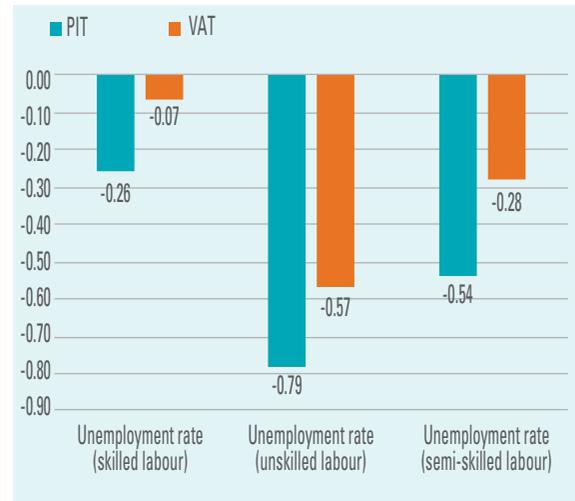
Source: ESCWA staff calculations using the Egypt CGE model.

redistributive effects would change drastically (figure 3.47). Figure 3.48 shows that the fiscal contribution of richer categories is much higher than for the poorest ones. In other terms, the seven poorest urban households and the eight poorest rural ones would enjoy higher levels of consumption than they would under an increase in the VAT rate (figure 3.49).

The model shows that the use of progressive PIT could generate a better economic performance (figure 3.50). The economy could gain an average of 0.16 additional points of growth where the gain reaches 0.12 with the VAT increase. With regards to employment, a regressive PIT could further reduce skilled unemployment by 0.26 basis points, unskilled unemployment by 0.79 basis points and semi-skilled unemployment by 0.54 basis points (figure 3.51).

This exercise shows that enhancing the economic and redistributive impacts of fiscal reforms in Egypt is possible. A progressive tax could have a better growth impact than the use of indirect tax to reduce domestic debt. The model does not take into consideration how easy it is to collect each type of tax. VAT is known to be one of the easiest taxes to collect,

Figure 3.51 Unemployment performance (percentage)



Source: ESCWA staff calculations using the Egypt CGE model.

which is why many policymakers prefer it, especially in the case of urgent fiscal difficulties.

E. Concluding remarks

The political changes that started in 2011 and the drop in oil prices in 2014 affected growth and fiscal performance in most Arab countries. Fiscal deficit and indebtedness became a major challenge in the region. In 2016, fiscal deficit reached an alarming 9.9 per cent of GDP, while the share of debt in GDP increased by 14 per cent between 2010 and 2016.

Given this situation, most Arab countries have implemented or are planning to implement major fiscal reforms. However, fiscal policies are not neutral in their economic and social implications. Their collection and use form a significant part of the socioeconomic impact that guides the relationship between government and citizens. A new tax system will affect the allocation of resources and endowment between institutions. A new equilibrium will be reached, but it is not obvious that this

will be a Pareto one in the sense that it will enhance the situation of all economic actors and social groups. In many cases, there will be winners and losers. The success of any tax reform is conditioned by the success of government in limiting the number of losers while improving social welfare. Therefore, different options should be assessed to help policymakers choose the best option. Modelling tools could help in this regard. As an illustration, three representative case studies have been made to demonstrate the importance of exploring different tax instruments and how additional funding generated by the reform might be used.

The first one demonstrated that the implementation of a 5 per cent rate of VAT could generate a fiscal revenue of 2 per cent of GDP for GCC countries. The use of these revenues will have a crucial effect on the economic situation. If the revenue generated by VAT is used in total to reduce fiscal balance, this tax will reduce growth and job creation. If, however, the revenue is allocated to public expenditure, its impact on unemployment and job creation will be positive. The second case study showed that fiscal reform could help reduce inequality

of revenues in Tunisia. This simulation ensured the best trade-off between minimizing revenue disparities and fiscal loss. The fiscal reform has helped to reduce inequality in general when we compare before and after inequality measures. In addition, fiscal reform could increase the progressivity of income, which could help to improve social equity. The third case study demonstrated the positive impact of fiscal reforms on growth in Egypt. The increase in total tax revenues could be used to reduce domestic borrowing and decrease domestic debt, which will have a positive impact on growth. Unfortunately, it seems that the distributive impact of the reform is relatively limited. A better trade-off exists, for example, when a progressive PIT is used to reduce a budget deficit by 1 per cent of GDP, drastically changing the redistributive effects.

The results of these simulations show that there are still policy spaces outside the Breton Woods constraints. ESCWA could help member States to undertake their own simulations for fiscal reform and other impact assessment, notably on growth and employment, but also to enhance equity and reduce disparities for vulnerable populations.

Endnotes

Chapter 1

1. TED spread can be measured by the difference between the 3-month T-bill rate and the 3-month LIBOR.
2. United Nations, Department of Economic and Social Affairs, 2017a.
3. Ibid.
4. International Labour Organization, 2017.
5. Organization of Petroleum Exporting Countries, 2017.
6. United States Energy Information Administration, 2016.
7. World Bank, 2017.
8. United States Department of Agriculture, 2017.
9. World Bank, 2017.
10. Data are ESCWA staff estimates for Bahrain and Oman as of April 2017.
11. Exports to the Asia-Pacific region from Oman, Qatar, Saudi Arabia and the United Arab Emirates declined by \$19.8 billion, \$16.4 billion, \$18.9 billion and \$17 billion respectively in 2015-2016.
12. In addition to finance, implementation of the SDGs requires technology transfer and social policies designed to promote equitable, inclusive and rights-based development.

Chapter 2

1. Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates recorded surpluses of \$20 billion, \$12 billion, \$25 billion, \$35 billion and \$68 billion, respectively.
2. Data from the United Nations Relief and Works Agency for Palestine Refugees in the Near East.
3. Food Security Cluster, 2017.
4. The *Arab Poverty Report 2017* (forthcoming) is a joint initiative by the League of Arab States' Council of Arab Ministers for Social Affairs, ESCWA, the United Nations Children's Fund (UNICEF), Oxford University and other partners from the United Nations specialized agencies.
5. Algeria, Comoros, Egypt, Iraq, Jordan, Morocco, Mauritania, Sudan, Tunisia and Yemen.
6. To better capture extreme forms of poverty, the global multidimensional poverty indices (developed by UNDP and UNICEF) have been revised following consultations involving stakeholders, including experts from the

- region and beyond, and representatives from Arab ministries. As a result, the acute poverty measure has been developed to capture severe forms of poverty.
7. The United Nations adheres to a strict definition of famine (a scale from 1 = normal to 5 = famine). Famine is declared when at least 20 per cent of households face a complete lack of food, levels of acute malnutrition exceed 30 per cent and more than 2 people per 10,000 die each day.
8. Algeria, Office of National Statistics, 2016.
9. Egypt, Central Agency for Public Mobilization and Statistics, 2017.
10. Jordan, Department of Statistics, 2016.
11. Morocco, High Commission for Planning, 2017.
12. State of Palestine, Palestinian Central Bureau of Statistics, 2016.
13. Saudi Arabia, General Authority for Statistics, 2016.
14. Tunisia, National Institute of Statistics, 2016.
15. World Bank, 2016d.
16. State of Palestine, Central Bureau of Statistics, 2017.
17. World Bank, 2016d.
18. World Bank, 2016b.
19. World Economic Forum, 2014.
20. Hewlett and Rashid, 2011.
21. Qatar, Ministry of Development Planning and Statistics, 2016.
22. Constant, Sayre and Abdelkader, 2015.
23. International Labour Organization, 2015.
24. ESCWA, 2017.
25. International Labour Organization, 2016.
26. United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics and the Global Education Monitoring Report, 2016.
27. Ibid.
28. The report covers 20 countries in the Arab region: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, State of Palestine, Qatar, Saudi Arabia, Somalia, the Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates and Yemen.
29. No GII ranking was provided for Djibouti in the *Human Development Report 2016*, but it was categorized in the low human development category.
30. Inter-Parliamentary Union, 2016.
31. Hadiya Khalaf Abbas was removed from her

- post in July 2017 for "lack of performance".
32. World Bank, 2016c.
33. Algeria, Ministry of Finance, 2017.
34. World Bank, 2016c.
35. World Health Organization, 2013.
36. ESCWA, 2016a.

Chapter 3

1. Oil revenue represented 92 per cent of total government revenue in Saudi Arabia in recent years.
2. Galwash, 2015.
3. Egypt, State Information Service, 2015.
4. Elharrane, 2016.
5. Morocco, Ministry of Justice, 2015.
6. Algeria, Ministry of Finance, 2017.
7. Tunisia, Ministry of Finance, 2017.
8. World Bank, 2016a.
9. 2014 data from the Taxation Chamber of Sudan.
10. Mansour, 2015.
11. Ibid.
12. Jordan, Income and Sales Tax Department, 2014.
13. Jewell and others, 2015.
14. Mansour, 2015.
15. Ibid.
16. Tunisia, Ministry of Finance, 2017.
17. IMF, 2014.
18. IMF, 2017b.
19. IMF, 2014.
20. United Kingdom, Office for Budget Responsibility, 2010.
21. On 11 November 2016, the Executive Board of the IMF approved a three-year extended arrangement for Egypt for an amount equivalent to \$12 billion to support the authorities' economic reform programme.
22. Pillar 1: a significant policy adjustment including liberalization of the foreign exchange system to eliminate forex exchange shortages and encourage investment and exports; monetary policy aimed at containing inflation; strong fiscal consolidation to ensure public debt sustainability. Pillar 2: strengthening social safety nets by increasing spending on food subsidies and cash transfers. Pillar 3: far-reaching structural reforms to promote higher and inclusive growth and increase employment opportunities for youth and women. Pillar 4: fresh external financing to close the financing gaps.

23. For the purpose of this exercise, a 32-sector, 20-household CGE model was used. The social accounting matrix (SAM) was extracted from the International Food Policy Research Institute 2010/2011 SAM (<http://www.ifpri.org/publication/disaggregated-social-accounting-matrix-201011-policy-analysis-egypt>). The model is a revised version of the ESCWA model (<https://www.unescwa.org/publications/prototype-model-sustainable-development-goals-simulation>).

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Appendix: Sources of National Statistical Data

1. Algeria

GDP growth rate (table 1.1, table 2.1)

Office of National Statistics
 Quarterly National Accounts
 Fourth Quarter 2016
<http://www.ons.dz/IMG/pdf/Cptna4t16-2.pdf>

Consumer price inflation rate (table 1.1, table 2.1)

Office of National Statistics
 Consumer Price Index
<http://www.ons.dz/-Prix-a-la-consommation-.html>

Annual evolution of the Consumer Price Index 2007-2016

http://www.ons.dz/IMG/pdf/IPC_2007_2016.pdf

Gross oil export revenues (table 1.4)

Bank of Algeria
 Quarterly Statistical Bulletin, No. 37 (March 2017)
 Fourth Quarter 2016
http://www.bank-of-algeria.dz/pdf/Bulletin_37e.pdf

Trade and current account balances (figure 2.10)

Bank of Algeria
 Quarterly Statistical Bulletin, No. 37 (March 2017)
 Fourth Quarter 2016
http://www.bank-of-algeria.dz/pdf/Bulletin_37e.pdf

Fiscal positions (figure 2.12)

Ministry of Finance
 Le Note de Présentation du Projet de la Loi de Finances pour 2016
 [The Presentation Note on the Draft Financial Law for 2016]
<http://www.dgpp-mf.gov.dz/images/stories/PDF/RPLF/RPLF2016.pdf>

Government Secretariat

Jeudi 12 Rabie El Aouel 1438 correspondant au 11 janvier 2017
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 [Official Gazette of the Republic of Algeria, Bearing the Finance Law for 2017, No. 02]
<http://www.joradp.dz/FTP/jo-francais/2017/F2017002.pdf>

Unemployment and labour participation rates (figure 2.23)

Office of National Statistics

Activity, Employment, and Unemployment, 763 (September 2016)

<http://www.ons.dz/IMG/pdf/DSEmploi0916.pdf>

2. Bahrain**GDP growth rate (table 1.1, table 2.1)**

Central Bank of Bahrain

Economic Indicators (September 2015)

<http://www.cbb.gov.bh/assets/E%20I/EI%20Sep2015.pdf>

Consumer price inflation rate (table 1.1, table 2.1)

Bahrain Open Data Portal

<http://www.data.gov.bh/en/ResourceCenter>

Gross oil export revenues (table 1.4)

Central Bank of Bahrain

Statistical Bulletin (March 2017)

<http://www.cbb.gov.bh/assets/Reports%20and%20Papers/Mar%202017.pdf>

Trade and current account balances (figure 2.2)

Central Bank of Bahrain

Statistical Bulletin (March 2017)

<http://www.cbb.gov.bh/assets/Reports%20and%20Papers/Mar%202017.pdf>

Fiscal positions (figure 2.4, figure 3.6)

Central Bank of Bahrain

Economic Indicators (September 2015)

<http://www.cbb.gov.bh/assets/E%20I/EI%20Sep2015.pdf>

Ministry of Finance, Final Account

<http://www.mof.gov.bh/Categorylist.asp?cType=faccount>

Ministry of Finance, State Budget

<http://www.mof.gov.bh/Categorylist.asp?cType=budget>

3. Comoros**GDP growth rate (table 1.1, table 2.1)**

Central Bank of Comoros

Annual Report 2015

http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2015.pdf

Evolution de la situation économique, financière et monétaire des Comores au cours de l'année 2016

http://www.banque-comores.km/DOCUMENTS/Note_Conjoncture_Ann%C3%A9e_2016_BCC.pdf

Trade and current account balances (figure 2.14)

Central Bank of Comoros

Annual Report 2015

http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2015.pdf

Evolution de la situation économique, financière et monétaire des Comores au cours de l'année 2016 [Developments in the economic, financial and monetary situation of the Comoros during the year 2016]

http://www.banque-comores.km/DOCUMENTS/Note_Conjoncture_Ann%C3%A9e_2016_BCC.pdf

Fiscal positions (figure 2.16)

Central Bank of Comoros

Annual Report 2015

http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2015.pdf

Evolution de la situation économique, financière et monétaire des Comores au cours de l'année 2016 [Developments in the economic, financial and monetary situation of the Comoros during the year 2016]

http://www.banque-comores.km/DOCUMENTS/Note_Conjoncture_Ann%C3%A9e_2016_BCC.pdf

4. Djibouti**GDP growth (table 1.1, table 2.1)**

Central Bank of Djibouti

Annual Report 2015

https://s3.amazonaws.com/banque-centrale.dj/uploads/document/attachment/145/Rapport_annuel_2015_BCD_.pdf?AWSAccessKeyId=AKIAJIZPY62P3HTP7XVQ&Signature=0SiuimlfMumJWk%2B%2BgUyoZ8hWX5l%3D&Expires=1500450600

Consumer price inflation rate (table 1.1, table 2.1)

Central Bank of Djibouti

Annual Report 2015

https://s3.amazonaws.com/banque-centrale.dj/uploads/document/attachment/145/Rapport_annuel_2015_BCD_.pdf?AWSAccessKeyId=AKIAJIZPY62P3HTP7XVQ&Signature=0SiuimlfMumJWk%2B%2BgUyoZ8hWX5l%3D&Expires=1500450600

Trade and current account balances (figure 2.14)

Central Bank of Djibouti

Annual Report 2015

https://s3.amazonaws.com/banque-centrale.dj/uploads/document/attachment/145/Rapport_annuel_2015_BCD_.pdf?AWSAccessKeyId=AKIAJIZPY62P3HTP7XVQ&Signature=0SiuimlfMumJWk%2B%2BgUyoZ8hWX5l%3D&Expires=1500450600

Payment Statistics 2014-2015

https://s3.amazonaws.com/banque-centrale.dj/uploads/document/attachment/174/Balance_de_Paiements_2014_2015_.pdf?AWSAccessKeyId=AKIAJIZPY62P3HTP7XVQ&Signature=E997HqoomKQdsXsVY7r7TIAIzAg%3D&Expires=1500465017

Fiscal positions (figure 2.16)

Central Bank of Djibouti

Annual Report 2015

https://s3.amazonaws.com/banque-centrale.dj/uploads/document/attachment/145/Rapport_annuel_2015_BCD_.pdf?AWSAccessKeyId=AKIAJIZPY62P3HTP7XVQ&Signature=0SiuimlfMumJWk%2B%2BgUyoZ8hWX5l%3D&Expires=1500450600

5. Egypt

GDP growth (table 1.1, table 2.1)

Central Bank of Egypt

Monthly Statistical Bulletin 242, May 2017

<http://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/MonthlyStatisticacIBulletin.aspx>

Consumer price inflation rate (table 1.1, table 2.1)

Central Bank of Egypt

Monthly Statistical Bulletin 242, May 2017

<http://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/MonthlyStatisticacIBulletin.aspx>

Gross oil export revenues (table 1.4)

Central Bank of Egypt

Monthly Statistical Bulletin 242, May 2017

<http://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/MonthlyStatisticacIBulletin.aspx>

Trade and current account balances (figure 2.6)

Central Bank of Egypt

Monthly Statistical Bulletin 242, May 2017

<http://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/MonthlyStatisticacIBulletin.aspx>

Fiscal positions (figure 2.8)

Central Bank of Egypt

Monthly Statistical Bulletin 242, May 2017

<http://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/MonthlyStatisticacIBulletin.aspx>

Unemployment and labour participation rates (figure 2.23)

Central Agency for Public Mobilization and Statistics

Economic Activity Rate

http://www.capmas.gov.eg/Pages/IndicatorsPage.aspx?page_id=6149&ind_id=1116

Annual Workforce Bulletin

http://www.capmas.gov.eg/Pages/Publications.aspx?page_id=5104&YearID=19686

6. Iraq

GDP growth (table 1.1, table 2.1)

Central Statistical Organization

National Income

<http://cosit.gov.iq/index.php/ar/national-accounts>

Consumer price inflation rate (table 1.1, table 2.1)

Central Bank of Iraq

Key Financial Indicators, June 2017

<https://cbi.iq/news/tag/%D8%A7%D9%84%D9%85%D8%A4%D8%B4%D8%B1%D8%A7%D8%AA%20%D8%A7%D9%84%D9%85%D8%A7%D9%84%D9%8A%D8%A9%20%D8%A7%D9%84%D8%A7%D8%B3%D8%A7%D8%B3%D9%8A%D8%A9>

Gross oil export revenues (table 1.4)

Central Bank of Iraq
 Annual Statistical Bulletin, 2015, 2014, 2013
http://www.cbi.iq/documents/Annual_2015.pdf
http://www.cbi.iq/documents/Annual_2014.pdf
http://www.cbi.iq/documents/Annual_2013.pdf

Trade and current account balances (figure 2.6)

Central Bank of Iraq
 Annual Statistical Bulletin, 2015, 2014, 2013
http://www.cbi.iq/documents/Annual_2015.pdf
http://www.cbi.iq/documents/Annual_2014.pdf
http://www.cbi.iq/documents/Annual_2013.pdf

Fiscal positions (figure 2.8)

Central Bank of Iraq
 Annual Statistical Bulletin, 2015, 2014, 2013
http://www.cbi.iq/documents/Annual_2015.pdf
http://www.cbi.iq/documents/Annual_2014.pdf
http://www.cbi.iq/documents/Annual_2013.pdf

7. Jordan**GDP growth (table 1.1, table 2.1)**

Department of Statistics
 National Accounts, Estimated Quarterly National Accounts, 2015, 2016
<http://web.dos.gov.jo/sectors/national-account/?lang=en>
http://dos.gov.jo/dos_home_e/main/economic/nat_account/sel2/nat6.htm

Consumer price inflation rate (table 1.1, table 2.1)

Department of Statistics
 Monthly Consumer Price Index
http://www.dos.gov.jo/dos_home_e/main/economic/price_num/index.htm

Trade and current account balances (figure 2.6)

Central Bank of Jordan
 Monthly Statistical Bulletin – External Sector
<http://www.cbj.gov.jo>

Fiscal positions (figure 2.8)

Ministry of Finance, Jordan
 General Government Finance Bulletin 2017
<http://www.mof.gov.jo/en-us/datacenter/financialbulletins/generalgovernmentfinancebulletins/generalgovernmentbulletins2017.aspx>

Unemployment and labour participation rates (figure 2.23)

Department of Statistics, Labour Force Survey
http://www.dos.gov.jo/dos_home_e/main/linked-html/Emp&Un.htm
Department of Statistics, Statistical Yearbook 2015
http://dos.gov.jo/dos_home_e/main/yearbook_2015.pdf

8. Kuwait**GDP growth (table 1.1, table 2.1)**

Central Statistical Bureau
Revised and Provisional Estimates – National Accounts
http://www.csb.gov.kw/Socan_Statistic_EN.aspx?ID=23

Consumer price inflation rate (table 1.1, table 2.1)

Central Statistical Bureau
Consumer Price Index Numbers
http://www.csb.gov.kw/Socan_Statistic_EN.aspx?ID=34

Gross oil export revenues (table 1.4)

Central Bank of Kuwait
Quarterly Statistical Bulletin (October-December 2016)
<http://www.cbk.gov.kw/en/statistics-and-publication/statistical-releases/quarterly.jsp>

Trade and current account balances (figure 2.2)

Central Bank of Kuwait
Quarterly Statistical Bulletin (October-December 2016)
<http://www.cbk.gov.kw/en/statistics-and-publication/statistical-releases/quarterly.jsp>

Fiscal positions (figure 2.4, figure 3.9)

Central Bank of Kuwait
Quarterly Statistical Bulletin (October-December 2016)
<http://www.cbk.gov.kw/en/statistics-and-publication/statistical-releases/quarterly.jsp>

9. Lebanon**GDP growth (table 1.1, table 2.1)**

Central Administration of Statistics
<http://www.cas.gov.lb/index.php/national-accounts-en>

Consumer price inflation rate (table 1.1, table 2.1)

Central Administration of Statistics
<http://www.cas.gov.lb/index.php/economic-statistics-en?layout=edit&id=185#cpireresults>

Trade and current account balances (figure 2.6)

Banque du Liban

External Sector and Balance of Payments

Statistics and Research – Main series, External Sector and Balance of Payments

<http://www.bdl.gov.lb/webroot/statistics/>

Fiscal positions (figure 2.8)

Ministry of Finance

Fiscal Performance Reports

<http://www.finance.gov.lb/EN-US/FINANCE/ECONOMICDATASTATISTICS/Pages/FiscalPerformance.aspx>

10. Libya**GDP growth (table 1.1, table 2.1)**

Central Bank of Libya

Economic Bulletin

First Quarter 2017

<https://cbl.gov.ly/en/wp-content/uploads/sites/2/2016/03/Economic-BulletinQ12017.pdf>

Consumer price inflation rate (table 1.1, table 2.1)

Bureau of Statistics and Census Libya

Consumer Price Indices 2016

<http://bsc.ly/>

Central Bank of Libya

Economic Bulletin

First Quarter 2017

<https://cbl.gov.ly/en/wp-content/uploads/sites/2/2016/03/Q22015.pdf>

Gross oil export revenues (table 1.4)

Central Bank of Libya

Economic Bulletin

First Quarter 2017

<https://cbl.gov.ly/en/wp-content/uploads/sites/2/2016/03/Q22015.pdf>

Trade and current account balances (figure 2.10)

Central Bank of Libya

Economic Bulletin

First Quarter 2017

<https://cbl.gov.ly/en/wp-content/uploads/sites/2/2016/03/Q22015.pdf>

Fiscal positions (figure 2.12)

Central Bank of Libya

Economic Bulletin

First Quarter 2017

<https://cbl.gov.ly/en/wp-content/uploads/sites/2/2016/03/Q22015.pdf>

11. Mauritania

GDP growth (table 1.1, table 2.1)

Central Bank of Mauritania

Quarterly Statistical Bulletin

First Quarter 2017

http://www.bcm.mr/IMG/pdf/bulletin_trimestriel_des_statistiques_premier_trimestre_2017.pdf

Consumer price inflation rate (table 1.1, table 2.1)

Central Bank of Mauritania

Quarterly Statistical Bulletin

First Quarter 2017

http://www.bcm.mr/IMG/pdf/bulletin_trimestriel_des_statistiques_premier_trimestre_2017.pdf

National Office of Statistics

Consumer Price Index

<http://www.ons.mr/index.php/19-indicateurs/21-indice-national-des-prix-a-consommation-inpc>

Gross oil export revenues (table 1.4)

Central Bank of Mauritania

Quarterly Statistical Bulletin

First Quarter 2017

http://www.bcm.mr/IMG/pdf/bulletin_trimestriel_des_statistiques_premier_trimestre_2017.pdf

Trade and current account balances (figure 2.14)

Central Bank of Mauritania

Quarterly Statistical Bulletin

First Quarter 2017

http://www.bcm.mr/IMG/pdf/bulletin_trimestriel_des_statistiques_premier_trimestre_2017.pdf

Fiscal positions (figure 2.16)

Central Bank of Mauritania

Quarterly Statistical Bulletin

First Quarter 2017

http://www.bcm.mr/IMG/pdf/bulletin_trimestriel_des_statistiques_premier_trimestre_2017.pdf

12. Morocco

GDP growth (table 1.1, table 2.1)

High Commission for Planning

National Accounts

http://www.hcp.ma/Comptes-nationaux_r126.html

National Economic Conditions

First Quarter 2017

http://www.hcp.ma/La-situation-economique-nationale-au-premier-trimestre-2017_a1958.html

Consumer price inflation rate (table 1.1, table 2.1)

High Commission for Planning

Consumer Price Index

http://www.hcp.ma/downloads/IPC-Indice-des-prix-a-la-consommation_t12173.html

Bank Al-Maghrib

Quarterly Bulletin (March 2017)

<http://www.bkam.ma/Publications-statistiques-et-recherche/Documents-d-information-et-de-statistiques/Bulletins-trimestriels>

Gross oil export revenues (table 1.4)

Bank Al-Baghrib

Quarterly Bulletin (March 17)

First Quarter 2016

<http://www.bkam.ma/>

Trade and current account balances (figure 2.10)

Bank Al-Baghrib

Quarterly Bulletin

Second Quarter 2016

<http://www.bkam.ma/>

Fiscal positions (figure 2.12)

Bank Al-Baghrib

Quarterly Bulletin

Second Quarter 2016

<http://www.bkam.ma/>

Ministry of Finance

Economic and Financial Report 2017

https://www.finances.gov.ma/Docs/DB/2017/ref_fr.pdf

Unemployment and labour participation rates (figure 2.23)

High Commission for Planning

Activity, Employment and Unemployment

Third Quarter 2015, Second Quarter 2015, First Quarter 2015

http://www.hcp.ma/downloads/Activite-emploi-et-chomage-trimestriel_t13038.html

The situation of the labour market in 2016

http://www.hcp.ma/LA-SITUATION-DU-MARCHE-DU-TRAVAIL-AU-QUATRIEME-TRIMESTRE-DE-L-ANNEE-2016_a1917.html

13. Oman

GDP growth (table 1.1, table 2.1)

National Centre for Statistics and Information

Monthly Statistical Bulletin

<https://www.ncsi.gov.om/Elibrary/Pages/LibraryContentView.aspx>

Statistical Yearbook 2016 (Issue 44)

https://www.ncsi.gov.om/Elibrary/LibraryContentDoc/bar_Statistical%20Year%20Book%202016%20_6f43e0e6-592a-43a1-b1b6-82c32c046aa9.pdf

Consumer price inflation rate (table 1.1, table 2.1)

National Centre for Statistics and Information

Monthly Statistical Bulletin

<https://www.ncsi.gov.om/Elibrary/Pages/LibraryContentView.aspx>

Statistical Yearbook 2016 (Issue 44)

https://www.ncsi.gov.om/Elibrary/LibraryContentDoc/bar_Statistical%20Year%20Book%202016%20_6f43e0e6-592a-43a1-b1b6-82c32c046aa9.pdf

Gross oil export revenues (table 1.4)

Central Bank of Oman

Quarterly Statistical Bulletin (March 2017)

<http://www.cbo-oman.org/>

Trade and current account balances (figure 2.2)

Central Bank of Oman

Quarterly Statistical Bulletin (March 2017)

<http://www.cbo-oman.org/>

Fiscal positions (figure 2.4, figure 3.8)

Central Bank of Oman

Quarterly Statistical Bulletin (March 2017)

<http://www.cbo-oman.org/>

National Centre for Statistics and Information

Monthly Statistical Bulletin

<https://www.ncsi.gov.om/Elibrary/Pages/LibraryContentView.aspx>

Statistical Yearbook 2016 (Issue 44)

https://www.ncsi.gov.om/Elibrary/LibraryContentDoc/bar_Statistical%20Year%20Book%202016%20_6f43e0e6-592a-43a1-b1b6-82c32c046aa9.pdf

14. Qatar

GDP growth (table 1.1, table 2.1)

Ministry of Development Planning and Statistics

National Accounts Bulletin 2016

http://www.mdps.gov.qa/en/statistics/Statistical%20Releases/Economic/NationalAccounts/NationalAccounts/2016/National_Accounts_MDPS_Bu_AE_2016.pdf.pdf

Consumer price inflation rate (table 1.1, table 2.1)

Central Bank of Qatar

Consumer Price Index

Quarterly Statistical Bulletin (December 2016)

Fourth Quarter 2016

<http://www.qcb.gov.qa/English/Publications/Statistics/Pages/Statisticalbulletins.aspx>

Gross oil export revenues (table 1.4)

Ministry of Development Planning and Statistics

Quarterly Bulletin on Foreign Merchandise Trade Statistics

First Quarter 2017

http://www.mdps.gov.qa/en/statistics/Statistical%20Releases/Economic/ForeignTrade/2017/FT_Q1_2017_En.pdf

Fourth Quarter 2016

http://www.mdps.gov.qa/en/statistics/Statistical%20Releases/Economic/ForeignTrade/2016/Q4/Foreign_Trade_Q4_2016_En.pdf

Trade and current account balances (figure 2.2)

Central Bank of Qatar Quarterly Statistical Bulletin (December 2016)

Fourth Quarter 2016

<http://www.qcb.gov.qa/English/Publications/Statistics/Pages/Statisticalbulletins.aspx>

Balance of Payments

Fourth Quarter 2016

<http://www.qcb.gov.qa/sitelists/balanceofpayments/balanceofpayments/Attachments/45/Fourth%20Quarter%20Balance%20of%20Payments,%202016.pdf>

Fiscal positions (figure 2.4, figure 3.7)

Central Bank of Qatar Quarterly Statistical Bulletin (December 2016)

Fourth Quarter 2016

<http://www.qcb.gov.qa/English/Publications/Statistics/Pages/Statisticalbulletins.aspx>

Unemployment and labour participation rates (figure 2.23)

Ministry of Development Planning and Statistics

Bulletin of Labour Force Statistics 2016

http://www.mdps.gov.qa/en/statistics/Statistical%20Releases/Social/LaborForce/2016/Labour_force_2016_AE.pdf

15. Saudi Arabia

GDP growth (table 1.1, table 2.1)

Central Department of Statistics and Information

Statistical Yearbook of 2016 (Issue 52)

Financial and Monetary Affairs and National Accounts

<https://www.stats.gov.sa/en/52>

Consumer price inflation rate (table 1.1, table 2.1)

Saudi Arabian Monetary Agency

Yearly Statistics

<http://www.sama.gov.sa/en-US/EconomicReports/Pages/YearlyStatistics.aspx>

Monthly Statistical Bulletin

<http://www.sama.gov.sa/en-US/EconomicReports/Pages/MonthlyStatistics.aspx>

Gross oil export revenues (table 1.4)

Saudi Arabian Monetary Agency

Yearly Statistics

<http://www.sama.gov.sa/en-US/EconomicReports/Pages/YearlyStatistics.aspx>

Trade and current account balances (figure 2.2)

Saudi Arabian Monetary Agency

Yearly Statistics

<http://www.sama.gov.sa/en-US/EconomicReports/Pages/YearlyStatistics.aspx>

Fiscal positions (figure 2.4, figure 3.5)

Saudi Arabian Monetary Agency

Yearly Statistics

<http://www.sama.gov.sa/en-US/EconomicReports/Pages/YearlyStatistics.aspx>

Ministry of Finance

Budget 2017

https://www.mof.gov.sa/en/budget2017/Documents/The_National_Budget.pdf

Unemployment and labour force participation rates (figure 2.23)

General Authority for Statistics

Economic Activity Rates 2014-2016

<https://www.stats.gov.sa/en/817>

Unemployment Rates 2014-2016

<https://www.stats.gov.sa/en/820>

16. State of Palestine**GDP growth (table 1.1, table 2.1)**

State of Palestine Monetary Authority

Statistics Time Series Data – National Accounts

<http://www.pma.ps/Default.aspx?tabid=202&language=en-US>

Palestinian Central Bureau of Statistics

National Accounts

http://www.pcbs.gov.ps/site/lang__en/741/default.aspx

Consumer price inflation rate (table 1.1, table 2.1)

Palestinian Central Bureau of Statistics

Consumer Price Index

http://www.pcbs.gov.ps/site/lang__en/695/default.aspx

Monthly Consumer Price Index Numbers by Major Groups of expenditure and Region for January – December 2016

http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/e-cpi-ave-2016-baseyear-2010.htm

State of Palestine Monetary Authority

Statistics Time Series Data – Price Indices: Consumer Price Index

<http://www.pma.ps/Default.aspx?tabid=202&language=en-US>

Trade and current account balances (figure 2.6)

State of Palestine Monetary Authority

Statistics Time Series Data – External Sector: State of Palestine Balance of Payments

<http://www.pma.ps/Default.aspx?tabid=202&language=en-US>

Fiscal positions (figure 2.8)

State of Palestine Monetary Authority

Statistics Time Series Data – Public Finance: Revenues, expenditures and financing sources of PNA fiscal operations (cash basis)

<http://www.pma.ps/Default.aspx?tabid=202&language=en-US>

Unemployment and labour participation rates (figure 2.23)

Palestinian Central Bureau of Statistics

Labour Force Participation Rate of Persons Aged 15 Years and Above in State of Palestine by Sex and Governorate, 2000-2015

http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/labour%20force-2015-01e.htm

Unemployment Rate Among labour Force Participants of Persons Aged 15 Years and Above in State of Palestine by Sex and Governorate, 2000-2015

http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/unemployment-2015-01e.htm

17. Sudan**GDP growth (table 1.1, table 2.1)**

Central Bank of Sudan

Annual Report 2014

http://www.cbos.gov.sd/sites/default/files/annual_2014english.pdf

Economic and Financial Statistics Review

<http://www.cbos.gov.sd/en/node/477>

January – March 2017

http://www.cbos.gov.sd/sites/default/files/q01_2017.pdf

January – December 2016

http://www.cbos.gov.sd/sites/default/files/q04_16.pdf

October – December 2015

http://www.cbos.gov.sd/sites/default/files/q4_2015.pdf

Consumer price inflation rate (table 1.1, table 2.1)

Central Bank of Sudan

Annual Report 2014

http://www.cbos.gov.sd/sites/default/files/annual_2014english.pdf

Economic and Financial Statistics Review

<http://www.cbos.gov.sd/en/node/477>

January – March 2017

http://www.cbos.gov.sd/sites/default/files/q01_2017.pdf

January – December 2016

http://www.cbos.gov.sd/sites/default/files/q04_16.pdf

October – December 2015

http://www.cbos.gov.sd/sites/default/files/q4_2015.pdf

Gross oil export revenues (table 1.4)

Central Bank of Sudan

Economic and Financial Statistics Review

<http://www.cbos.gov.sd/en/node/477>

January – March 2017

http://www.cbos.gov.sd/sites/default/files/q01_2017.pdf

January – December 2016

http://www.cbos.gov.sd/sites/default/files/q04_16.pdf

October – December 2015

http://www.cbos.gov.sd/sites/default/files/q4_2015.pdf

Trade and current account balances (figure 2.14)

Central Bank of Sudan

Economic and Financial Statistics Review

<http://www.cbos.gov.sd/en/node/477>

January – March 2017

http://www.cbos.gov.sd/sites/default/files/q01_2017.pdf

January – December 2016

http://www.cbos.gov.sd/sites/default/files/q04_16.pdf

October – December 2015

http://www.cbos.gov.sd/sites/default/files/q4_2015.pdf

Fiscal positions (figure 2.16)

Central Bank of Sudan

Annual Report 2014

http://www.cbos.gov.sd/sites/default/files/annual_2014english.pdf

Economic and Financial Statistics Review

<http://www.cbos.gov.sd/en/node/477>

January – March 2017

http://www.cbos.gov.sd/sites/default/files/q01_2017.pdf

January – December 2016

http://www.cbos.gov.sd/sites/default/files/q04_16.pdf

October – December 2015

http://www.cbos.gov.sd/sites/default/files/q4_2015.pdf

18. Syrian Arab Republic

Consumer price inflation (table 1.1, table 2.1)

Central Bureau of Statistics

<http://www.cbssyr.sy/index-EN.htm>

19. Tunisia

GDP growth (table 1.1, table 2.1)

National Institute of Statistics

National Accounts: Quarterly National Accounts; Economic growth (YoY at prices of the previous year)

<http://www.ins.tn/en/themes/compte-de-la-nation>

Consumer price inflation (table 1.1, table 2.1)

National Institute of Statistics

Price: Household Price Index; Household Consumer price index per mensuel level – CPI (2010 = 100)

<http://www.ins.tn/en/themes/prix>

Gross oil export revenues (table 1.4)

National Institute of Statistics

Evolution of Export Values, Main Exports by Sectoral Groupings of Activity, Main Products Exported, Energy and Lubricants

<http://www.ins.tn/fr/themes/commerce-ext%C3%A9rieur>

Trade and current account balances (figure 2.10)

Central Bank of Tunisia

Balance of Payments – Evolution of Main Flows and Sales of External Payments 2016

http://www.bct.gov.tn/bct/siteprod/tab_trimestriel

http://www.bct.gov.tn/bct/siteprod/tab_trimestriel.jsp?params=PL120010,PL120020,PL120030&cal=t&page=P120&tab=040&pos=3

Fiscal positions (figure 2.12)

Central Bank of Tunisia

Public Finance – National Accounts 2015

https://www.bct.gov.tn/bct/siteprod/tableau_n.jsp?params=PL150010,PL150020,PL150030,PL150040

Ministry of Finance and Economy

Synthesis of the results of the Public Finance, Budget of the State

http://www.finances.gov.tn/index.php?option=com_content&view=article&id=134&Itemid=304&lang=fr

Unemployment and labour force participation rates (figure 2.23)

National Institute of Statistics

National survey on population and employment

<http://www.ins.tn/fr/page-de-base/micro-donn%C3%A9es>

Unemployment rate by sex, Evolution of active population by sex 2016

<http://beta.ins.tn/en/themes/emploi#sub-374>

20. United Arab Emirates

GDP growth (table 1.1, table 2.1)

Federal Competitiveness and Statistical Authority

National Accounts Estimates 2001-2015

http://fcsa.gov.ae/en-us/Lists/D_Reports/DispForm.aspx?ID=3

Consumer price inflation rate (table 1.1, table 2.1)

Federal Competitiveness and Statistical Authority

Consumer Price Indices

Annual Bulletin, 2016

http://fcsa.gov.ae/en-us/Lists/D_Publications/Attachments/143/CPI%20English2.pdf

Gross oil export revenues (table 1.4)

Central Bank of United Arab Emirates

Annual Report 2016

https://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2016_En_new.pdf

Annual Report 2015

http://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2015_En_2.pdf

Annual Report 2014

http://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport2014_en_new.pdf

Trace and current account balances (figure 2.2)

Central Bank of United Arab Emirates

Annual Report 2016

https://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2016_En_new.pdf

Annual Report 2015

http://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2015_En_2.pdf

Annual Report 2014

http://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport2014_en_new.pdf

Fiscal positions (figure 2.4, figure 3.10)

Central Bank of United Arab Emirates

Annual Report 2016

https://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2016_En_new.pdf

Annual Report 2015

http://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport-2015_En_2.pdf

Annual Report 2014

http://www.centralbank.ae/en/pdf/reports/CBUAEAnnualReport2014_en_new.pdf

Federal Competitiveness and Statistical Authority

National Accounts Estimates 2001-2015

http://fcsa.gov.ae/en-us/Lists/D_Reports/DispForm.aspx?ID=3

21. Yemen**GDP growth (table 1.1, table 2.1)**

Central Statistical Organization

Statistical Yearbook 2013

Consumer price inflation (table 1.1, table 2.1)

Central Bank of Yemen

Money and Banking Development, January 2015

http://www.centralbank.gov.ye/App_Upload/Jan2015.pdf

Gross oil export revenues (table 1.4)

Money and Banking Development, January 2015

http://www.centralbank.gov.ye/App_Upload/Jan2015.pdf

Trade and current account balances (figure 2.14)

Central Bank of Yemen

Money and Banking Development, January 2015

http://www.centralbank.gov.ye/App_Upload/Jan2015.pdf

Fiscal positions (figure 2.16)

Central Statistical Organization

Statistical Yearbook 2013

The 2016-2017 edition of the *Survey of Economic and Social Developments in the Arab Region* provides a rigorous assessment of the socioeconomic situation and prospects for Arab countries, and serves as a basis for policy discussion, peer learning and advocacy to cope with global, regional and national development challenges. The Survey first analyses routinely monitored economic and social variables in the Arab region in a global context. It then examines the impact on the region of ongoing fiscal reforms.

The analysis of the impact of global economic prospects and oil market dynamics on the region can be a vital tool for regional and national policy planning. The forecasts presented in the Survey have different policy implications for oil-producing versus non-oil-producing countries, and should be used to tailor national development plans to the needs of each Arab country. Most importantly, the Survey can provide the impetus for strong and coordinated fiscal policy reform, with a view to promoting inclusive and sustainable economic transformation.

