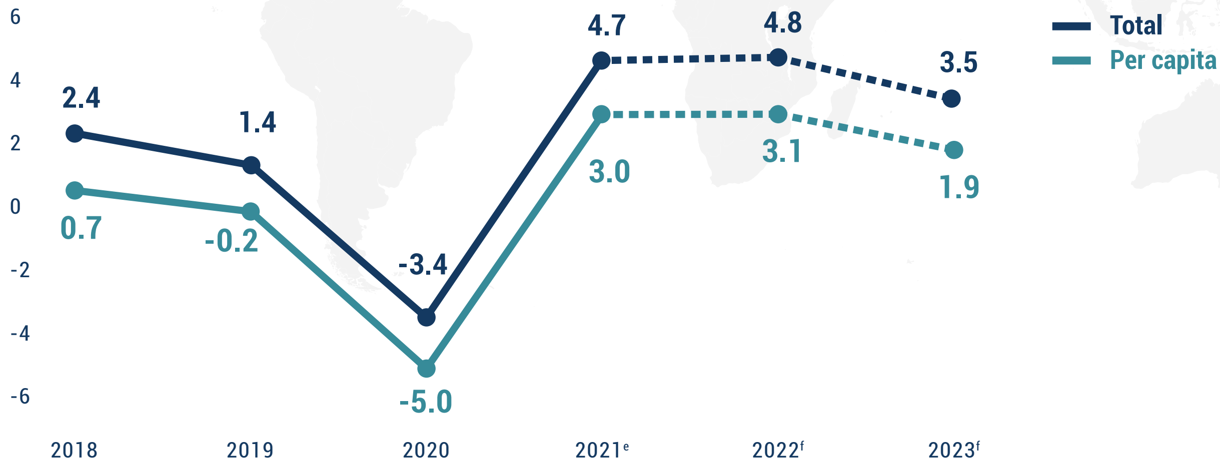
Western Asia

GDP growth

Percentage



COVID-19 cases & deaths

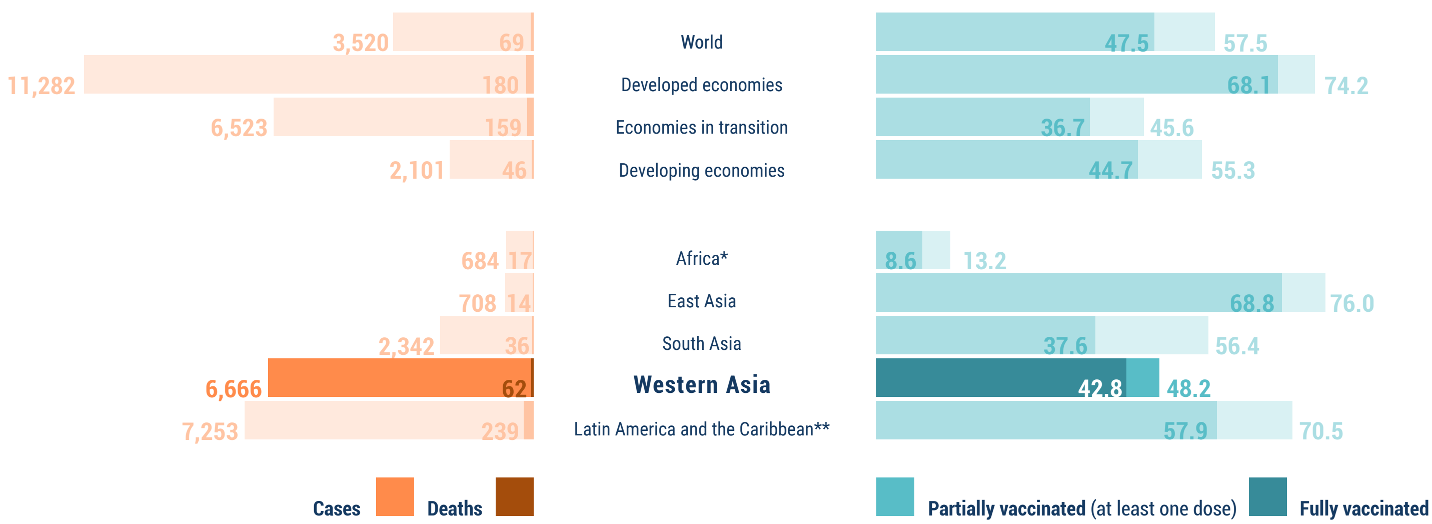
as of 20 December 2021

Per 100,000 people

Vaccination

as of 20 December 2021

Percentage of population



Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map represents countries and/or territories or parts thereof for which data is available and/or analysed in World Economic Situation and Prospects 2022. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries. Aggregate data for Africa, excluding Libya.

* Excluding Libya; **Excluding Bolivarian Republic of Venezuela. **e:** 2021 estimates. **f:** 2022-2023 forecasts.

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

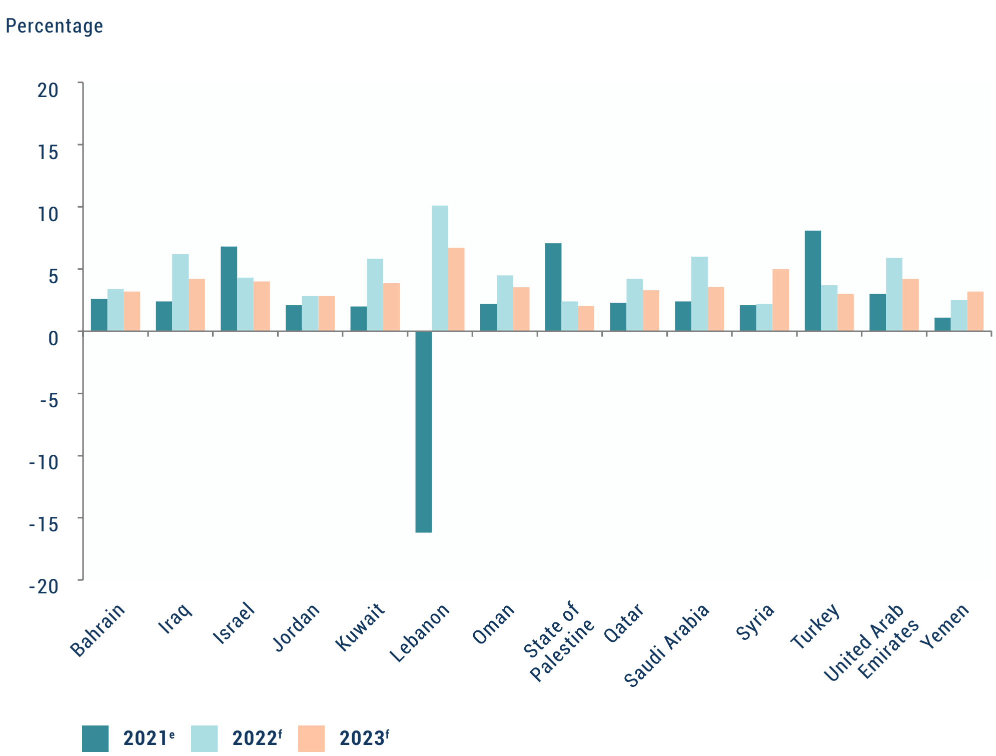
Western Asia: recovery to continue in 2022

- The slow recovery of crude oil production countered the rapid recovery of domestic demand.
- Economic sentiment improved in the second half of 2021 with progress on vaccination.
- A robust recovery is forecast to continue in 2022 with an expected increase in crude oil production.

The Western Asian economies grew an estimated 4.7 per cent in 2021. With the relaxation of pandemic control measures and the progress of vaccination, economic activities recovered rapidly particularly in the second half of the year. Strong domestic demand was seen after the substantial plunge in the previous year, leading recovery in Israel and Turkey. While the unemployment rate declined towards pre-pandemic trends in Israel, Saudi Arabia and Turkey, the speed of employment recovery has been slower in other countries. The employment situation is dire in Iraq, Lebanon, the State of Palestine, the Syrian Arab Republic and Yemen.

Figure III.19

Recovery forecast for Western Asia



Source: UN DESA, based on projections produced with the World Economic Forecasting Model.
Note: e = estimates, f = forecasts.

GDP growth is modest in Gulf Cooperation Council countries due to little expansion in crude oil production

Estimated GDP growth in 2021 was modest in major crude oil producers, namely the member countries of the Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Strongly recovering energy prices contributed to overall improved economic sentiment but production coordination under OPEC[24] meant that crude oil production in the GCC countries likely increased only slightly from 2020. In real terms, the oil sector's contribution to GDP growth is estimated as extremely modest relative to the contribution from the rapidly recovering non-oil sector. Iraq is following a similar recovery path although the recovery of its non-oil sector has been more modest.

Recovery has stagnated in other countries in the region

Despite resilience in 2020, Jordan has seen a slow recovery due to the stagnation of service exports, namely tourism. The economic situation in Lebanon further deteriorated against a deepening financial crisis (see box III.4). Ongoing armed conflict has hampered economic recovery in the Syrian Arab Republic and Yemen.

Box III.4

The anatomy of the Lebanese financial crisis

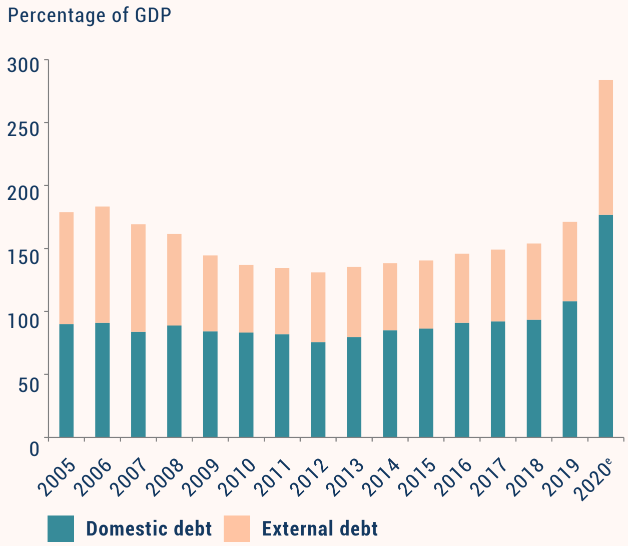
Lebanon faces an unprecedented economic and financial crisis, with GDP growth contracting by 7.2 per cent in 2019 and 37.1 per cent in 2020. While COVID-19, the subsequent loss of tourism revenues and the devastating Beirut port explosion were major drivers of the downturn, an unravelling financial crisis is also a significant factor. In March 2020, Prime Minister Hassan Diab announced that Lebanon would not be able to pay a Eurobond of $1.2 billion. As of November 2021, a new Government, formed after a year-long political vacuum, is about to restart difficult negotiations with the IMF on debt restructuring and default.

For almost two decades, Lebanon received huge foreign currency inflows. These primarily comprised remittances from the very large Lebanese diaspora, which may total 15.4 million people, greatly outstripping an internal population of 6 million (Pukas, 2018). Lebanon also benefited from its reputation as a safe haven for savings from war-torn Syria. Inflows were directed to domestic banks, which bought Eurobonds issued by the Government. In 2019, as the supply of foreign currency significantly decreased, the Government faced difficulties in financing the debt and maintaining the official exchange rate. It announced measures to improve liquidity, including taxes on gasoline, tobacco and VoIP applications. These plans triggered massive social protests dubbed the 17 October Revolution. The unrest combined with a worsening economic situation to propel a bank run with depositors rushing to withdraw foreign currency deposits from Lebanese banks. Facing shortages of cash, banks froze foreign currency deposits on 17 October 2019 and began limiting withdrawals to $1,000 per month. Withdrawals were halted completely a few months later without any official capital control measure.

24 See OPEC (2021) for details.

Figure III.4.a

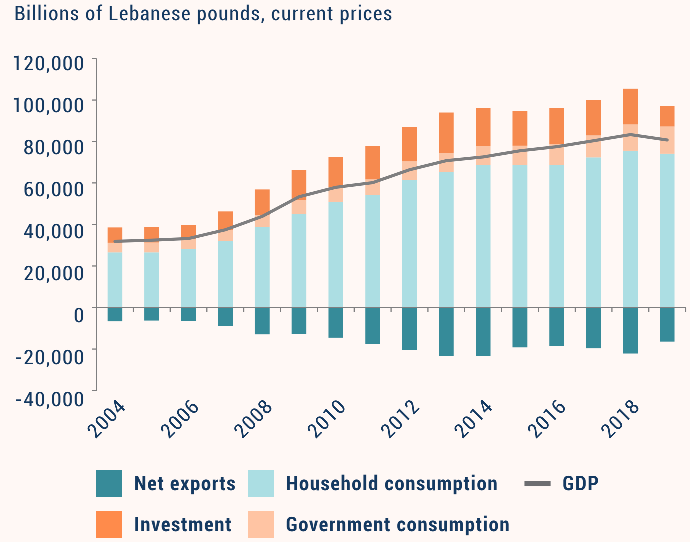
The structure of Lebanese public debt



Source: Lebanon, Ministry of Finance and Central Administration of Statistics.
Note: e = estimation.

Figure III.4.b

The composition of Lebanese GDP



Source: Lebanon, Central Administration of Statistics.

The freeze on foreign currency deposits led to the immediate birth of a black market for cash dollars. Initially, the Central Bank provided importers with currency to finance the huge Lebanese current account deficit. This meant the black market rate hovered around LBP2,000-2,500 per dollar, with the official peg maintained at LBP1,507 per dollar. With dwindling foreign reserves, however, the portfolio of products financed at the official rate began shrinking. By the beginning of 2021, only medicines, essential food products, medical equipment and fuel imports were financed at the official rate in ever smaller amounts, leading to huge shortages in Lebanese pharmacies and petrol stations. As of September 2021, the Central Bank announced that it will no longer finance these imports, which caused massive price increases. At the same time, the black market exchange rate had risen to almost LBP21,000 per dollar, meaning the Lebanese pound had lost 93 per cent of its value even as the official peg was maintained.[a] These developments spurred inflation to enormous levels of 85 per cent in 2020 and an estimated 128 per cent in 2021.

This situation has several consequences for negotiations on debt restructuring. First, pound-denominated debt has become less of a concern because a default has effectively taken place through inflation, even though the debt is still officially being repaid. Second, a significant share of Lebanese market-issued Eurobonds, which constitute 94 per cent of total foreign debt, is held by local banks and the Central Bank ($11 billion and $5 billion out of $31.3 billion in outstanding debt, respectively). This means that a significant haircut in dollar-denominated deposits is inevitable. A question hangs over whether such a solution will be accepted by depositors, even though these deposits have been effectively frozen for more than two years despite some measures to allow small withdrawals in pounds at unfavourable rates (Banque du Liban, 2021).

Another element is that two decades of massive foreign inflows financed huge current account deficits (figure III.4.2), leading to the overvaluation of the pound and dampening export competitiveness. Amid minimal investment in public infrastructure and productive sectors and the lack of a 24-hour electricity supply, restoring the current account balance will be painful, requiring a major wage adjustment. This problem is especially acute given that the main Lebanese export sectors – tourism and knowledge-intensive services – were severely damaged by the pandemic, on top of the brain drain triggered by the economic situation.

Due to the toxic combination of the financial crisis, the COVID-19 pandemic and the Beirut blast, Lebanon's poverty rate has shot up from 42 per cent in 2019 to 82 per cent in 2021. Among the poor, 40 per cent suffer extreme multidimensional poverty (ESCWA, 2021b). Safeguarding them against further deterioration in dignity and well-being is of primary importance and needs to be taken seriously in further negotiations with international donors.

a As of November 2021, the official exchange rate stood at LBP1,507 per dollar. Three other officially designated exchange rates were in place serving different purposes, including LBP3,900 per dollar and LBP12,000 per dollar for bank withdrawals under different conditions. The Central Bank's Sayrafa platform supplied dollars for importers at a rate that reached LBP19,000 per dollar.

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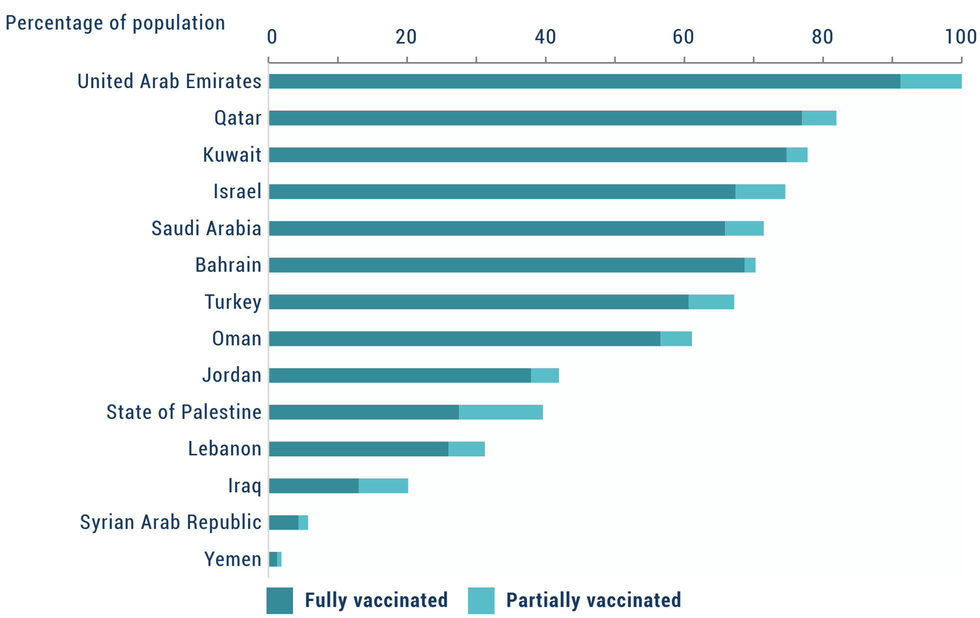
In Western Asia, COVID-19 outbreaks were generally contained by the end of 2021, after multiple surges in cases. Israel and Turkey went through Delta variant outbreaks in the second half of 2021. Further outbreaks in all countries remain a possibility.

Figure III.20

Vaccination progress in Western Asia (as of 20 December 2021)



Source: UN DESA, based on data from Our World in Data (accessed on 20 December 2021).

Vaccination programmes progressed quickly in the GCC countries, Israel and Turkey, with more than half of the population having received two shots by October 2021 (figure III.20). In Israel, Turkey and the United Arab Emirates, additional booster shots were administered in the second half of the year. Other countries struggled to raise the vaccination rate amid supply constraints and vaccine hesitancy. Despite these difficulties, vaccination has steadily progressed in Iraq, Jordan, Lebanon and the State of Palestine. The vaccination rate is likely extremely low for Syria and Yemen.

Pandemic control measures eased in the second half of 2021

In the first half of 2021, COVID-19 outbreaks compelled governments to introduce lockdowns, curfews, social distancing and mask requirements. Stringent lockdowns of various duration were implemented in most countries. These measures were eased in the second half of the year, replaced by vaccination promotion, including booster shots, and with softer social distancing measures. Border entry restrictions have also gradually lifted, replaced by COVID-19 test and vaccination requirements, although Israel temporarily closed its borders due to the emergence of the Omicron variant.

Fiscal balances improved with recovering energy export prices and tax revenues

In 2021, recovering energy export prices and tax revenues improved fiscal balances after a sharp deterioration in the previous fiscal year. Fiscal expenditure growth in 2021 was estimated as moderate, however, focusing on public health and other essential areas. Governments were obliged to step up fiscal consolidation in the face of rapidly growing public debt (ESCWA, 2021a). Fiscal expenditure in real terms significantly declined in Lebanon and Syria amid high inflation rates.

Efforts to diversify fiscal revenue sources in the GCC countries continued. Oman introduced a value added tax with a 5 per cent rate in April 2021, with Kuwait and Qatar expected to follow in the near future. Bahrain, Saudi Arabia and the United Arab Emirates had already introduced a 5 per cent value added tax in 2016, in accordance with the GCC Common Value Added Tax Agreement. Saudi Arabia raised the rate to 15 per cent in 2020, and Bahrain is scheduled to raise it to 10 per cent in 2022.

Monetary policy has remained expansionary for most countries

Monetary policy has remained expansionary in the GCC countries, Iraq, Israel, Jordan and Turkey. For Lebanon and Syria, the monetary stance has resulted in extremely tight financial conditions through a substantial devaluation of the national currency.

Despite global supply-chain disruptions, inflation pressures generally remain weak

Inflationary pressures have remained weak except in Lebanon, Syria, Turkey and Yemen. The main factor contributing to high inflation in these countries has been a tight balance-of-payments condition that resulted in a substantial devaluation of the national currency. Inflation in Lebanon reached an estimated 128 per cent in 2021 due to an exchange rate pass through. Inflationary pressure from global supply-chain disruptions remained weak in Western Asia in 2021 although supply-chain disruptions remain a risk into 2022.

A robust recovery is forecast to continue in 2022 amid downside risks

The region's economy is projected to grow by 4.8 per cent in 2022. The expected expiration of the OPEC+ crude production coordination in 2022 will allow oil-exporting countries to increase crude oil production towards pre-pandemic levels. The resumption of international tourism will support further recovery. Significant downside risks remain from geopolitical tensions and high unemployment, however. Prolonged conflict in the State of Palestine, Syria and Yemen largely explains uneven recovery in the region, especially where the economic situation was dire even before the pandemic. High unemployment rates remain among the region's most important socioeconomic concerns and need to be resolved.