Survey of Economic and Social Developments in the Arab Region

2021-2022

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Economic and Social Commission for Western Asia

Survey of Economic and Social Developments in the Arab Region

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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). The publication is mandated by paragraph 173 of General Assembly resolution 35/56; paragraphs 2 to 4 of ESCWA resolution 270 (XXIV); and paragraphs 1 and 2 of ESCWA resolution 303 (XXVII). It seeks to contribute to efforts by member States to reform economic institutions and develop and implement policies based on principles of good governance, so as to enable economic planning and policymaking in support of inclusive and sustainable development. The present 2021-2022 edition focuses on analysing the most recent socioeconomic developments under a set format, with a main reporting period of January 2021 to June 2022. The publication has the following two key objectives: to analyse routinely monitored economic and social variables in the Arab region in a global context (chapters 1 to 3), and to focus on corporate taxation in the wake of new measures introduced worldwide (chapter 4).

Acknowledgements

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Chapter 4 benefitted from an external peer review and written comments provided by Alex Cobham, Daniel Haberly, and Petr Janský. Policymakers and other stakeholders were also consulted throughout the preparation of the report, and an external expert group meeting to review and validate the draft report was held on 27 October 2022. The participating experts were Cengiz Cihan, Seung Jin Baek, Ali Awdeh, Daniel Haberly, and Alex Cobham.

Executive summary

The economic recovery projected in 2021 was slowed by a new wave of COVID-19 in early 2022, and was severely impacted by the outbreak of war in Ukraine. The ongoing conflict, resulting in commodity price spikes worldwide and tight monetary policy in developed countries, is expected to slow economic growth in 2022 and beyond. The global economy is projected to grow by 3.1 per cent in 2022 and 2023, and by 3.4 per cent in 2024. This slowdown is expected to be unevenly distributed across various parts of the world. Developed countries will grow at a slower pace given their financial linkages with the Russian Federation and their dependency on Russian fuel; their growth rate is likely to be around 2.8 per cent in 2022 and 2.1 per cent in 2023. Developing countries will be affected by higher food and fuel prices, and will grow by 4.1 per cent in 2022 and 4.5 per cent in 2023.

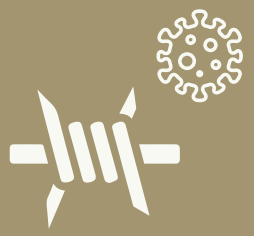
The war in Ukraine, and the resulting increase in commodity prices and sanctions on the Russian Federation, have deepened supply bottlenecks and caused a spike in consumer price inflation, which is expected to reach 7.9 per cent in 2022. In March 2022, the OPEC basket price reached $112/barrel, up from $84/barrel in January 2022. The price of oil is expected to remain stable overall throughout

2023 and 2024, with a slight decrease in 2023 owing to a slowdown in global demand. The price of natural gas in Europe rose almost sixfold between December 2020 and June 2022 as a result of the conflict. Moreover, the global fertilizer markets are expected to be severely disrupted, particularly diammonium phosphate prices that increased more than threefold, and phosphate rock prices that rose almost fourfold between December 2019 and June 2022. Similarly, food prices increased significantly because of disruptions to agricultural operations in Ukraine, contributing to a 40 per cent decrease in crop production.

As countries in the Arab region recover from the repercussions of the COVID-19 pandemic, the war in Ukraine has affected their economies significantly, some positively and others negatively. While some countries have benefited from spikes in energy prices, others have suffered from rising energy costs, food supply shortages, and a drop in both tourism and international aid inflows. Following an estimated 5.2 per cent growth in 2022, the Arab region is expected to grow by 4.5 per cent in 2023 and 3.4 per cent in 2024. However, this outlook faces many risks and uncertainties, including fears of a new wave of COVID-19, a protracted war in Ukraine, expanded sanctions against the Russian Federation, and the collapse of Arab economies suffering from dire socioeconomic conditions and ongoing conflicts. Higher energy prices and shortages of essential food items are expected to increase inflation in the Arab region to 13.7 per cent in 2022, a rate which is projected to drop to 7.8 in 2023 and 4.5 per cent in 2024. The fiscal position of Arab countries is expected to improve in 2022 as a direct result of the war in Ukraine caused by an increase in energy prices; however, this will be partially offset by an increase in metal and food prices.

Countries of the Gulf Cooperation Council (GCC) will benefit from a recovery in oil markets that began in 2021, and will profit from energy price hikes caused by the war in Ukraine. In April 2022, oil production in GCC countries was 20 per cent

As countries in the Arab region **recover from the repercussions of the COVID-19** pandemic



war in Ukraine affected their economies significantly
some positively and others negatively

higher than the previous year, exceeding their pre-pandemic levels. These countries will grow at their fastest pace since 2014, with around 6.3 per cent growth in 2022, 4.6 per cent in 2023, and 3.3 per cent in 2024. They will also benefit from higher energy prices, and are expected to record a fiscal surplus of 5.6 per cent of GDP in 2022. This will be supported by higher tax revenues, as several GCC countries introduced or revised tax rates in 2021.

The war in Ukraine is expected to exacerbate challenging socioeconomic conditions in many Arab middle-income countries (MICs). Their GDP is expected to grow by 4.3 per cent in 2022, and by 3.5 per cent in the period 2023-2024. Inflation is expected to reach 17.7 per cent in 2022, 10.9 per cent in 2023, and 8.3 per cent in 2024. Three Arab MICs, namely Egypt, Lebanon and Tunisia, are negotiating with the International Monetary Fund to develop a programme under the Extended Fund Facility. Most Arab MICs are suffering from

higher energy and commodity prices, including essential food items, and have witnessed a depreciation of their national currencies. The Egyptian pound depreciated by 14 per cent overnight on 21 March 2022, and then by another 15 per cent on 27 October 2022. The Tunisian dinar lost around 10 per cent of its value between July 2021 and July 2022. Lebanon continues to face dire economic and financial conditions, political deadlock, and soaring prices. Arab MICs are expected to suffer from a more constrained fiscal space, especially oil-importing MICs who have been affected by the surge in energy prices. The fiscal deficit in Arab MICs is expected to reach 8 per cent of their collective GDP. However, their debt-to-GDP ratio is expected to decline from 79.1 per cent in 2022 to 76.3 per cent in 2024, as a result of the large drop in the value of Lebanese debt following the massive depreciation of the local currency.

Conflict-affects countries (CACs) continue to face political instability and security concerns. Their collective GDP is expected to grow by 2.8 per cent in 2022, 6.8 per cent in 2023 and 3.6 per cent in 2024, compared with an estimated 6.4 per cent growth in 2021. The expected slowdown in 2022 is the result of higher food prices in CAC economies, caused by the war in Ukraine and political instability. Furthermore, low COVID-19 vaccination rates are compounding uncertainty, as the emergence of new COVID-19 variants and new infection waves may hit already fragile CAC economies harder. CACs are expected to witness an improvement in their fiscal position in 2022, recording a 4.7 per cent surplus as a percentage of GDP driven by a significant improvement in the fiscal position of Iraq.

Arab least developed countries (LDCs) are expected to grow by only 1 per cent in 2022, and by 3.3 and 4.6 per cent in 2023 and 2024, respectively. The socioeconomic situation in Arab LDCs has been exacerbated by an increase in the prices of energy and essential commodities. In addition, they risk a drop in official development assistance, as more aid is directed to support Ukraine and countries hosting Ukrainian refugees. Arab LDCs are expected to witness a significant reduction in their debt-to-GDP, largely driven by a significant reduction of the debt level in the Sudan.

Using national poverty lines, the Arab region witnessed an increase in poverty in 2022 compared with pre-pandemic levels. More than a third of the region's population (35.3 per cent) is below the national poverty threshold. Furthermore, poverty is projected to continue rising in the next two years, reaching 35.8 per cent in 2023 and 36 per cent in 2024. Poverty levels in Arab MICs have increased since the outbreak of the pandemic from 18.6 per cent in 2019 to 21.6 per cent in 2022, and poverty is projected to further increase to 22 per cent in 2023 and 22.6 per cent in 2024. In Arab LDCs and CACs, poverty rose dramatically from 40.1 per cent to 48.6 per cent in the first group, and from 42.8 per cent to 50.6 per cent in the second group, between 2019 and 2022. In the LDCs, poverty is expected to stagnate over the coming two years at 48.7 per cent in 2023 and 48.6 per cent in 2024. A pessimistic prognosis is made for CACs, where poverty is expected to hit 51.7 per cent in 2023, before dipping slightly to 51.4 per cent in 2024.

The gender dynamics indicators have not changed much for the Arab region since 2021. The 2022 Global Gender Gap Index shows that the region continues to have the highest share of the worst-performing countries in the Index among the world's regions. The average score for the Arab region slightly improved in 2022, leaving a gap of 37.05 per cent between the two genders. According to the World Economic Forum, the timeframe to close this gap in the Arab region is more than 115 years.

While no Arab country has achieved full parity between the genders in terms of health and survival, the Arab region has made significant progress in closing the education gender gap. There is also slight improvement in terms of economic participation and opportunity. However, the region is

Strengthening institutions and fiscal monitoring mechanisms are crucial for Arab LDCs and CACs

Strong regional cooperation is crucial to curb profit-shifting and corporate tax evasion and avoidance

still characterized by structural barriers that impede women's participation. Only 5 per cent of firms in the Arab region have top female managers.

Female labour-force participation in the Arab region continues to be the lowest worldwide, estimated at 19.9 per cent, which is significantly below the global average of 46.6 per cent. Similarly, the Arab female unemployment rate is the highest worldwide, estimated at 22.1 per cent compared with a global average of only 6 per cent. This is more pronounced among young people (aged 15-24): in 2022, the youth female unemployment rate in the region was estimated at 44.9 per cent, while male youth employment was 22.8 per cent. In contrast, global averages stand at 15.2 per cent and 14.5 per cent, respectively.

Arab countries continue to rely heavily on regressive indirect forms of taxation to compensate for low tax compliance in direct income taxes. Multinational corporations benefit from generous tax incentives in the form of lower corporate taxes. These incentives undercut the region's corporate tax revenue potentials by 60 per cent on average, without necessarily attracting substantial foreign direct investments (FDI). The Arab region continues to perform below its potential in terms of FDI inflows, which continue to be highly concentrated in the hydrocarbon sector and in five countries, namely Egypt, Morocco, Oman, Saudi Arabia and the United Arab Emirates that account for more than 90 per cent of inflows.

A third of multinational corporations (MNCs) operating in the Arab region in 2019 were taxed below the proposed global minimum effective tax rate of 15 per cent. The Arab region could have generated between $1.5 billion and $2.3 billion in additional revenues if this minimum effective tax rate was applied to each under-taxed subsidiary of MNCs operating in the region. Arab countries also need to focus on improving institutional capacity, building a skilled labour force, and diversifying their bilateral trade links to attract more investments rather than relying on extending tax incentives.

Strengthening institutions and fiscal monitoring mechanisms are crucial for Arab LDCs and CACs, so as to inhibit the use of investments as conduits for illicit financial flows threatening the stability of their financial systems. Strong regional cooperation is crucial to curb profit-shifting and corporate tax evasion and avoidance. Multilateral initiatives, such as the Global Anti-Base Erosion (GloBE) proposal, should be considered, while taking into account potential benefits in the form of increased government revenues and the resulting costs of tying Governments' hands with such commitments and sacrificing their right to enact digital services tax.

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Abbreviations and explanatory notes

AETR	average effective tax rate
BCM	billion cubic meters
BEPS	Base Erosion and Profit Shifting Project
BIS	Bank for International Settlements
CBCR	country-by-country reporting
CIS	Commonwealth of Independent States
CIT	corporate income tax
CPI	consumer price index
DAP	diammonium phosphate
DESA	United Nations Department of Economic and Social Affairs
DST	digital service tax
ECB	European Central Bank

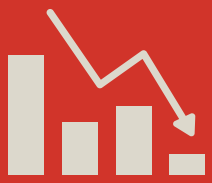
EIA	Energy Information Administration (United States Department of Energy)
ESCWA	Economic and Social Commission for Western Asia
FDI	foreign direct investment
GCC	Gulf Cooperation Council
GDP	gross domestic product
GloBE	Global Anti-Base Erosion
HICs	high-income countries
IEA	International Energy Agency
ILO	International Labour Organization
IMF	International Monetary Fund
ITC	International Trade Centre
LDC	least developed country
LIBOR	London Interbank Offered Rate
LNG	liquefied natural gas
MENA	Middle East and North Africa
MMBtu	Million Metric British Thermal Units
MNC	multinational organization
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
QDMTT	qualified domestic minimum top-up tax
SDGs	Sustainable Development Goals
VAT	value added tax
WTO	World Trade Organization

The following subregional groupings are used in the present 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 and the United Arab Emirates.
- Middle-income countries (MICs): Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia.
- Conflict-affected countries (CACs): Iraq, Libya, the State of Palestine, the Syrian Arab Republic and Yemen.
- Least developed countries (LDCs): the Comoros, Djibouti, Mauritania, Somalia and the Sudan.

1 Global context and its implications for the Arab region

Key messages



The fragile recovery of the global economy from the shock of the COVID-19 pandemic in 2022 was disrupted by the **outbreak of war in Ukraine**, which caused a **spike in commodity prices**.

The surge in commodity prices has significantly impacted the Arab region. **Governments** of food-importing countries **are struggling to provide staples for their citizens**, while **exporters** of hydrocarbons and fertilizers **are benefiting from increased resource rents**.

Tightened global monetary conditions have exacerbated the situation. Arab middle- and low-income countries are **facing difficulties in refinancing their debts**, and must be prepared for increases in financing costs. This will exert considerable pressure on the budgets of Arab countries.

The **uneven influence of global conditions** on Arab economies **requires interregional solidarity** to prevent greater disparities across the region and a surge in food and energy poverty.

A. Global context

The economic recovery projected in 2021 was slowed by a new wave of COVID-19 in early 2022 and was severely impacted by the outbreak of war in Ukraine, which significantly increased energy and food prices, and threatened economic recovery in Europe and the United States of America. Soaring inflation spread across developed countries, forcing both the Federal Reserve and the European Central Bank (ECB) to raise interest rates at the expense of slower GDP growth and even recession. In China, stringent zero COVID-19 policies and a real estate crisis (box 1.1) are affecting growth prospects. Weaker food security caused by the volatility and uncertainty of grain deliveries from the Russian Federation and Ukraine have negatively affected the economies of African countries.

World output growth is expected to slow from 5.8 per cent in 2021 to 3.1 per cent in 2022. The coming years will not speed up recovery: tightened monetary policy to curb inflation in developed economies, a prolonged war in Ukraine and accompanying instability, and increasing resource prices will limit growth to 3.1 per cent in 2023 and 3.4 per cent in 2024. Output growth is expected to slow in developed economies to 2.8 per cent in 2022, reaching 2.1 per cent in 2023. Gradual recovery should begin in 2024, with 2.7 per cent growth. All three main developed blocks, namely the Euro zone, Japan and the United States, are expected to reach about 2.7 per cent GDP growth in 2022. In 2023, the slump is expected to be deepest in the United States with 1.8 per cent growth, followed by Japan with 2.2 per cent, and the Euro zone with 2.4 per cent.

The Commonwealth of Independent States (CIS) will lose 8.8 per cent of their GDP in 2022 owing to the war in Ukraine and sanctions against the Russian Federation. The recovery in 2023 is highly dependent on the war and resulting sanctions: it is still unclear how hard sanctions will hit the Russian economy. In China, GDP growth will be highly dependent

World output growth is **expected to slow** from **5.8%** **in 2021** to **3.1%** **in 2022**

Output growth is **expected to slow** in **developed economies** to **2.8%** **in 2022** reaching **2.1%** **in 2023**

on potential developments in and solutions to the real estate crisis, and on the continuation of the zero COVID-19 strategy that has led to recurrent lockdowns in some cities. These issues will cause a slowdown in Chinese growth to an estimated 4.5 per cent in 2022, 5.2 per cent in 2023, and 5 per cent in 2024, which is above global growth levels but well below the expected long-term average of 7 per cent growth rate in China. The outlook for South Asia is positive, with an estimated 5.5 per cent growth in 2022, 5.4 per cent in 2023, and 3.6 per cent in 2024, fuelled by the rapid development of India. GDP in Africa is expected to increase roughly in line with the global average, at 3.5 per cent in 2022 and 2023, and at 3.2 per cent in 2024, with East Africa leading the continent with 4.5, 5.7 and 5.2 per cent growth in 2022, 2023 and 2024, respectively, and Southern Africa lagging behind at 2.4, 2.5 and 3.1 per cent in the same years. GDP growth is projected to remain sluggish in Latin America and the Caribbean, at 2.1, 2.8 and 3.5 per cent in 2022, 2023 and 2024, respectively, owing to political instability and increasing financing costs.

The world has entered a phase of heightened inflationary pressures, and the global consumer price index (CPI) is expected to rise to 7.9 per cent in 2022, although resolving bottlenecks in supply chains should gradually reduce global inflation to 4.4 per cent in 2023 and 3.4 per cent in 2024, especially in developed economies. In the United States, inflation in 2022 is expected to average 6.9 per cent. As Federal Reserve measures are projected to start working towards the end of 2022 and onwards, inflation will fall to an estimated 2.9 per cent in 2023 and 2.3 per cent in 2024. Similarly, in the Euro zone, inflation is projected to reach 5.6 in 2022, before halving to 2.8 per cent in 2023 and 2 per cent in 2024. The war in Ukraine and international sanctions against the Russian Federation are expected to raise inflation in CIS countries to 14.4 per cent in 2022, 9.7 per cent in 2023, and 5.6 per cent in 2024. Inflation in China will remain low at 2.2 per cent in 2022 and at 2.3 per cent in 2023 and 2024, because of a decrease in demand and economic slowdown. However, it will increase in South Asia to 9.5 per cent in 2022, 8.8 per cent in 2023, and 7.5 per cent in 2024. Monetary policy tightening and heightened borrowing costs exert pressure on currency depreciation in developing countries, which their central banks will not be able to withstand owing to relatively fragile institutional arrangements. This will lead to high inflation in Africa (12.2 per cent in 2022, 9.5 per cent in 2023, and 8.1 per cent in 2024) and in Latin America and the Caribbean (30.3 per cent in 2022, 17 per cent in 2023, and 11.8 per cent in 2024). Although debt crises and hyperinflation are difficult to predict, rising borrowing costs in developing economies paired with political instability and weak institutions greatly increase the probability of such events (figure 1.2B).

CPI is
expected to rise to
7.9% in 2022

Inflation is expected
to range between
4.4% in 2023 and
3.4% in 2024

Table 1.1 Output growth and inflation in main economies worldwide, 2021-2024

	Output (percentage change)				Inflation			
	2021	2022	2023	2024	2021	2022	2023	2024
World	5.8	3.1	3.1	3.4	12.2	7.9	4.4	3.4
Developed economies	5.2	2.8	2.1	2.7	3.2	5.8	2.7	2.1
United States	5.7	2.6	1.8	2.4	4.7	6.9	2.9	2.3
Japan	1.7	2.7	2.2	1.5	-0.2	1.8	1.1	0.9
European Union	5.3	2.7	2.4	3.7	2.7	6.0	3.0	2.2
Euro zone	5.4	2.7	2.3	3.4	2.6	5.6	2.8	2.0
United Kingdom	7.5	3.2	1	2.1	2.6	7.2	3.4	2.5
Other developed countries	4.4	3.6	2.6	2.6	2.7	4.0	2.4	2.1
Economies in transition	4.9	-8.2	2	4.4	7.2	14.1	9.4	5.5
South-Eastern Europe	7	3.2	3.5	3.7	3.1	6.7	3.9	3.3
CIS	4.8	-8.8	1.9	4.5	7.4	14.4	9.7	5.6
Russian Federation	4.7	-10.6	0	4.6	6.7	14.9	10.5	5.4
Developing economies	6.7	4.1	4.5	4.1	25.7	10.5	6.6	5.2
Africa	3.9	3.5	3.5	3.2	18.1	12.2	9.5	8.1
North Africa	4.6	3.9	3.8	3.6	29.5	14.6	9.7	8.4
East Africa	4.6	4.8	5.7	5.2	10.8	9.5	8.5	8.6
Central Africa	1.6	3.3	3.3	-0.6	2.0	3.0	2.7	2.4
West Africa	4	4	4	3.2	14.1	12.9	11.2	8.9
South Africa	3.7	2.4	2.5	3.1	13.9	10.8	8.7	7.4
East and South Asia	7	4.5	5	4.4	2.6	3.7	3.4	3.2
East Asia	7	4.4	5	4.6	1.4	2.5	2.4	2.3
China	8.1	4.5	5.2	5	1.0	2.2	2.3	2.3
South Asia	7.1	5.5	5.4	3.6	8.9	9.5	8.8	7.5
India	8.8	6.4	6	3.5	4.9	5.7	5.5	5.0
West Asia	6.2	4.7	3.9	3.5	11.4	17.5	5.5	3.9
Latin America and the Caribbean	6.6	2.1	2.8	3.5	117.7	30.3	17.0	11.8
South America	7.1	1.8	2.7	3.4	165.7	39.7	22.2	14.7
Brazil	4.6	0.5	2.2	3.4	8.1	9.6	5.5	5.1
Mexico and Central America	5.6	2.2	3.2	3.6	7.9	8.7	5.0	5.1
The Caribbean	4.5	11.2	3.9	5.1	7.4	8.2	5.6	4.4
Least developed countries	3	4.3	5.3	7.1	30.4	15.9	10.0	6.1
Additional items:								
World trade (percentage change)	10.4	4.2	4.9	3.8				

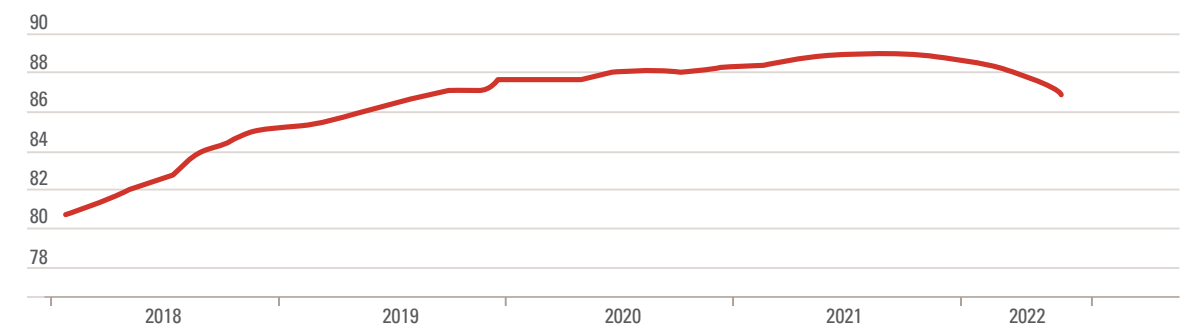
Source: United Nations, 2022.

Box 1.1 Real estate crisis in China and its potential implications for the global economy

The Chinese real estate sector took a nosedive after several purchasers of half-built properties in the country penned a complaint letter to the Evergrande Group, one of China's leading developers, threatening to stop paying all outstanding mortgage loans unless construction resumed before 20 October 2021. This desperate measure developed into a nationwide boycott of mortgage payments within only four weeks, spreading to nearly 100 cities and some 320 other projects.

For years, Chinese real estate developers operated along similar paths. They would sell their units in advance and use the money, supposedly reserved for construction, to fund various initiatives, such as acquiring new land parcels. As long as new buyers were available, this strategy could persist: developers would use the money from newer sales to complete older projects. Unfortunately, sales dropped by 22 per cent between June 2021 and June 2022, and even more for advance sales. The dwindling cash flow saw many developers unable to pursue construction on flats already bought by their customers, who ultimately turned to their banks threatening approximately $350 billion worth of mortgage loans, according to S&P Global. Although this amount represents only 1.3 per cent of total bank loans, the boycott heavily damaged the credibility of Chinese developers.

Figure B1.1 Pre-sales as percentage of new property sales in China (12 months moving average)



Source: The Economist, 2022.

This distrust is no longer confined to the protesters but has spread to all potential homebuyers, further weakening presales and turning the situation into a vicious circle: weak sales result in weak revenues, which cause more delays and make people increasingly reluctant to buy new homes. Burdened by debt and gripped by a surging solvency crisis, Chinese property developers are now facing significant financial strains, while property sales and property prices continue to plummet. S&P Global now anticipates sales to drop by nearly 30 per cent in 2022, nearly double its initial forecast. Since property and related industries make up 25 to 30 per cent of Chinese GDP, the country's economic growth engine is now at risk.

With their budgets relying heavily on land appropriations and property development taxes, local governments have spearheaded rescue attempts by absorbing developers or facilitating access to fresh loans to restart construction. However, these solutions are temporary and should be complemented by sturdy long-term amendments. The Chinese economy should rely less on land sale returns and find alternative revenues. A newly introduced tax on homeownership could be a viable option. As China is the second largest global economy, the potential recession spurred by the real estate crisis could have significant repercussions on growth in other countries.

Source: ESCWA elaboration.

Heightened inflation in 2021 and 2022, caused by several supply-side shocks (broken supply chains, transport bottlenecks, the war in Ukraine) and increased demand following COVID-19 lockdowns, pushed central banks to further tighten their monetary policy (figure 1.1). Even central banks that were hesitant to raise interest rates ultimately implemented a hawkish pivot. In July 2022, ECB hiked interest rate by 50 basis points for the first time in 11 years, and continued hikes in September and November 2022, raising rates by 75 basis points each time. The Federal Reserve increased policy rates by 25 basis points in March 2022, by 50 basis points in May 2022, and by a record-high 75 basis points in June, July, September and November 2022, adding that it may be necessary to induce recession to curb inflation. All these developments led to the rapid appreciation of the dollar against other currencies.

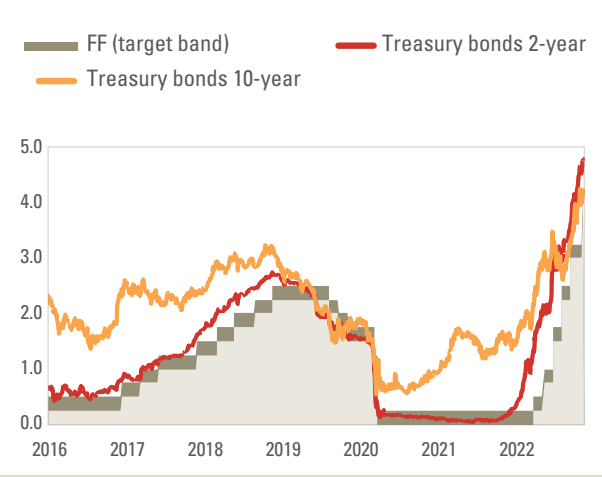
To curb inflation:

- **ECB hiked interest** rates by **50 basis points** in July and by **75 basis points** in September and November 2022
- The **Federal Reserve increased policy** rates by **75 basis points** in June, July, September and November 2022

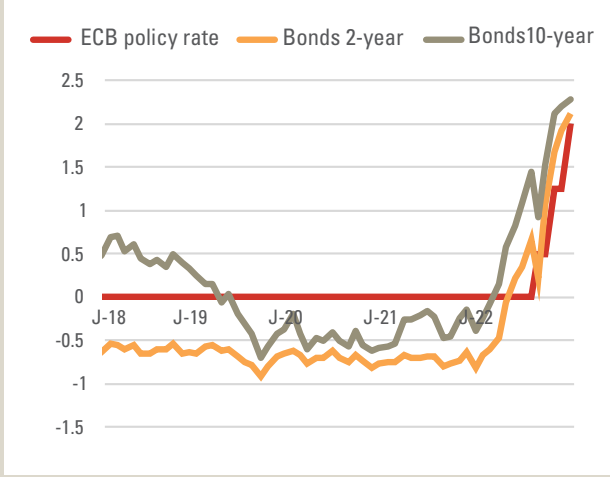
Causing appreciation of dollar against other currencies

Figure 1.1 Interest rates, dollar and euro

A. Dollar (percentage per annum)



B. Euro (percentage per annum)



Source: ESCWA calculations based on the Board of Governors of the Federal Reserve System's Open market operations; ICE Benchmark Administration's Three-Month London Interbank Offered Rate; Federal Reserve Bank of St. Louis; and the Deutsche Bundesbank database.

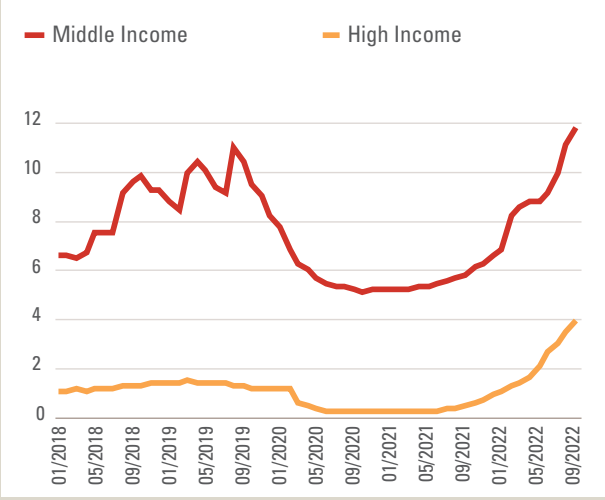
Such developments have impacted emerging economies. Decreased appetite for risk among international investors and a surge in the safe bond yields of Government of high-income countries have forced the authorities of emerging economies to increase interest on their domestic bonds and has created currency depreciation pressures. This has spurred huge inflation in several middle-income countries: in October 2022, inflation was 86 per cent in Turkey, 83 per cent in Argentina, and 74 per cent in Sri Lanka. Hikes in central bank policy rates in middle-income countries globally were much faster and more significant than in high-income economies (figure 1.2A). This translated into a greater share of countries in debt distress (figure 1.2B): in 2022, more than half of low-income countries (for which debt sustainability analysis was conducted) were either in debt distress or exhibiting a high risk of debt distress. These problems are unlikely to recede in 2023 and 2024, exerting pressures on the finances of Arab economies.

Several publications[1] suggest that the world may be on the brink of stagflation, which means low inflation coupled with sluggish economic growth.

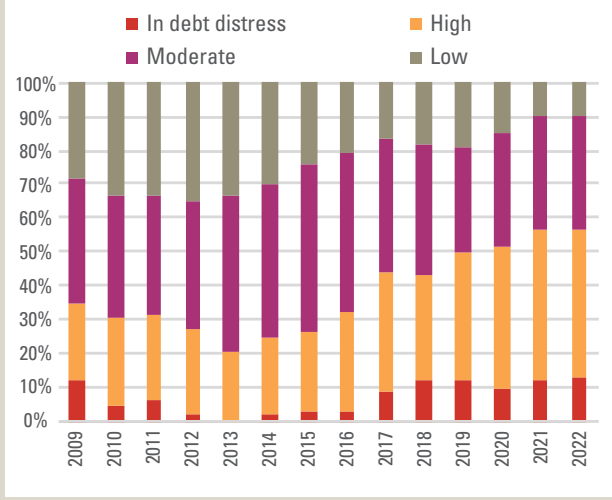
Tensions in developed economies, supply-side bottlenecks, and heightened global prices have not yet translated into increased unemployment in developed countries. However, the resurgence of the number of hours worked globally has stalled. As the International Monetary Fund (IMF) reports,[2] in the third quarter of 2022, the number of hours worked globally was still 1.5 per cent below the pre-pandemic level, equivalent to 40 million full-time jobs lost. This is mainly owing to containment measures introduced in China in response to new waves of COVID-19, and a drop in hours worked in conflict-affected areas of Ukraine and in the Russian Federation. Due to the inertia of the labour market, projections indicate a further decline in the number of hours worked in 2022 and 2023.

Figure 1.2 Average central bank discount rate by income group, and share of low-income countries by debt distress risk

A. Average central bank discount rate by income group



B. Share of low-income countries by their debt distress risk (share of low-income countries with debt sustainability analysis (LIC DSA))



Source: International Monetary Fund, International Financial Statistics; and LIC DSA database.

In addition, the recovery in labour markets across countries worldwide in 2021 and 2022 was very unequal. High-income economies have experienced a strong recovery, and their situation can be described as a "labour-force shortage" rather than a "jobs deficit". By the end of 2021, their employment-to-population ratio increased compared with pre-pandemic levels. However, labour supply in the intensive margin decreased owing to a shift in priorities during the pandemic. In contrast, a slower recovery and more challenging fiscal and monetary conditions in lower-middle-income and low-income economies has halted recovery in labour markets. Labour income did not return to pre-pandemic levels in these countries: the International Labour Organization (ILO) indicates that while labour income in 2021 was already 0.8 per cent above pre-pandemic levels in high-income economies, it was 1.6 per cent below that level in low-income countries, and 2.7 and 3.7 per cent below in lower-middle-income and upper-middle-income countries, respectively.[3] This shows that developed economies recovered relatively quickly owing to the prevalence of skill-intensive service jobs, which are not greatly impacted by supply-side bottlenecks. In 2022 and 2023, high inflation worldwide will further depress real wages.

In 2022, global trade continued to grow in value, albeit at a slower pace. In August 2022, the value of trade was 33 per cent above the 2019 pre-pandemic level, but the volume was just 8 per cent higher. The United Nations Conference on Trade and Development (UNCTAD) indicates that there are several factors that pose significant risks for global trade in 2022, 2023 and onwards.[4] In particular, the effects of the war in Ukraine and the blockade of Ukrainian exports may continue upwards pressure on global commodity prices, although these dropped in the second half of 2022 amid fears of a global recession and following the Black Sea Grain Initiative brokered by Turkey and the United Nations. Furthermore, tightened financing conditions on international markets have exacerbated debt sustainability problems, which will lead Governments to restrict their spending. On a positive note, relatively high prices of fossil fuels should accelerate the transition to a green economy, boosting trade in merchandise needed to produce green energy, meaning that some low-income and middle-income commodity exporters may benefit from higher rent revenues.

In 2022,
global trade continued to grow in value
albeit at a slower pace

The **overall increase** in international trade **masks significant regional disparities**

The overall increase in international trade masks significant regional disparities (figure 1.3A). China recovered quickly after the pandemic, reaching pre-pandemic export levels in the second half of 2020, and climbing 20 per cent above them in the first half of 2021 to satisfy post-pandemic demand. However, after that initial rebound, Chinese exports remain stable but volatile owing to the zero COVID-19 policy and recurrent containment

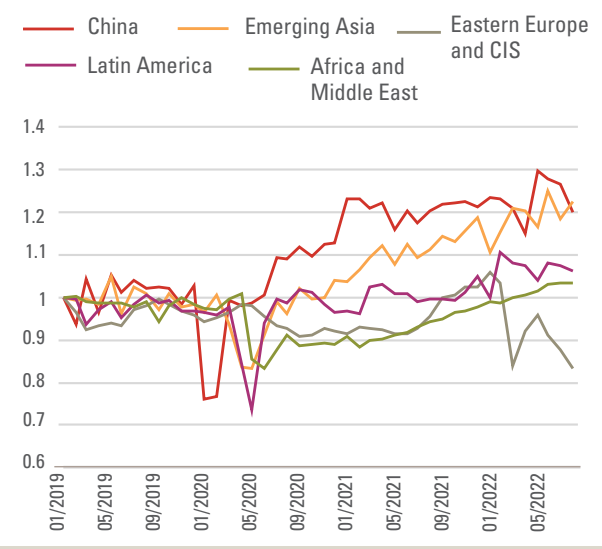
measures. In contrast, export levels of emerging Asian economies continue to rise following the pandemic shock, reaching a 20 per cent increase relative to pre-pandemic levels in April 2022 and overtaking China in August 2022. The recovery of merchandise exports from Africa and the Middle East has been slow, reaching pre-pandemic levels only in the second quarter of 2022. In Latin America, the merchandise export recovery was faster, but it levelled off after reaching pre-pandemic levels. These developments and industrial production indices reveal that the slump was shallowest in China, which managed to rebuild its manufacturing sector quicker than other countries; however, once the recovery is over, a further ramp-up of industrial production becomes increasingly difficult. Industrial production indices in Africa, the Middle East and Latin America have barely returned to pre-pandemic levels after nose-diving in 2020.

In the first half of 2022, **international tourism** saw a **massive 172% increase** compared with the same period of 2021

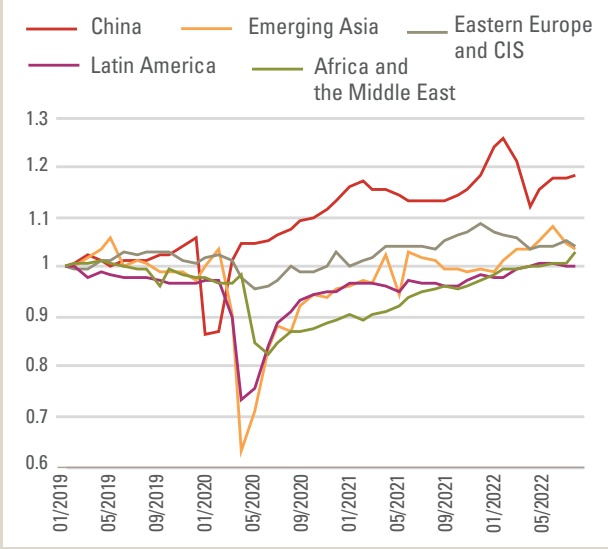
However, this growth was **not evenly distributed** worldwide

Figure 1.3 Merchandise trade

A. Volume of merchandise exports, [index, January 2019 = 1]



B. Volume of production weighted industrial production, [index, January 2019 = 1]



Source: ESCWA staff calculations based on the World Trade Monitor of the Netherlands Bureau for Economic Policy Analysis (CBP).

Tourism is an important source of foreign currency for many Arab economies. After its complete halt in 2020, a rebound in arrivals was observed in 2021 and 2022 following the easing of COVID-19 restrictions. In the first half of 2022, international tourism saw a massive 172 per cent increase compared with the same period of 2021. However, this growth was not evenly distributed worldwide. The number of tourists almost tripled in Europe (190 per cent increase) owing to strong intraregional demand, and it more than doubled in the Americas (103 per cent increase). However, the most impressive surge was observed in the Middle East, where the number of tourists almost quadrupled (287 per cent increase). Asia and the Pacific recorded a 165 per cent growth. Although these numbers seem impressive, the demand is still well below 2019 levels by 43 per cent globally, 26 per cent in Europe, 24 per cent in the Middle East, and 40 per cent in Africa. As at the end of October 2022, international air traffic in Europe, Africa, the Americas and the Middle East was close to 80 per cent of pre-pandemic levels. The World Trade Organization (WTO) expects that pre-pandemic levels of tourist arrivals will be reached in 2023.

Although tourism prospects remain optimistic, there are still several risks facing recovery. Firstly, the war in Ukraine and resulting sanctions have limited the travel plans of Russians, but these developments should not affect Arab countries that have not joined Western sanctions against the Russian Federation. Russian tourists' inability to access European countries could contribute to an increase in visits to Arab countries that will welcome them. Secondly, elevated fuel costs, unfavourable financing conditions, increased prices of raw materials, and overall fears about global economic prospects may curb demand for tourism.

B. Natural resource commodities

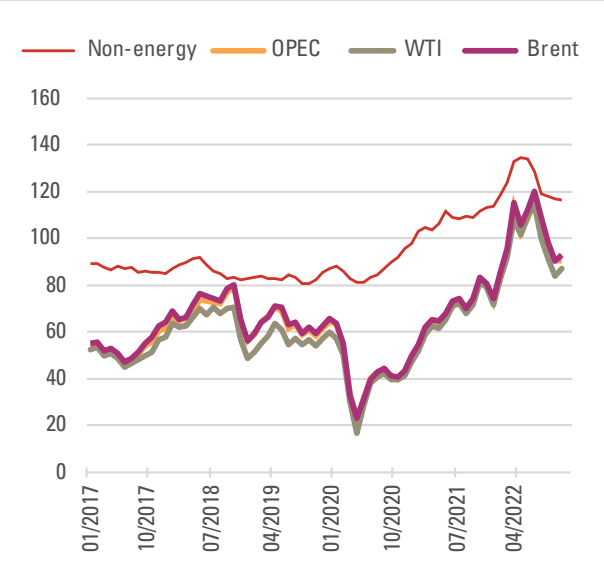
1. Oil

The global oil market was extremely volatile in 2022. The war in Ukraine and its repercussions caused an exceptional rally of oil prices from $84 per barrel on average in January 2022 to $112 in March 2022. In the following months, the situation stabilized and prices receded amid fears of a global recession, monetary policy tightening, and the real estate crisis in China followed by a slowdown in its GDP growth (figure 1.4A). In contrast, global demand for oil levelled off at about 98-99 million barrels per day in 2022.[5] In December 2022, it is expected to increase beyond the December 2019 level of 102 million barrels per day. However, given the strong policy actions in Europe to reduce oil consumption and the sanctions on Russian oil, it is possible that global peak oil has already occurred and that oil consumption will not recover beyond 2019 levels, although the *World Energy Outlook 2022* projects that the world will reach peak oil in the mid-2030s.

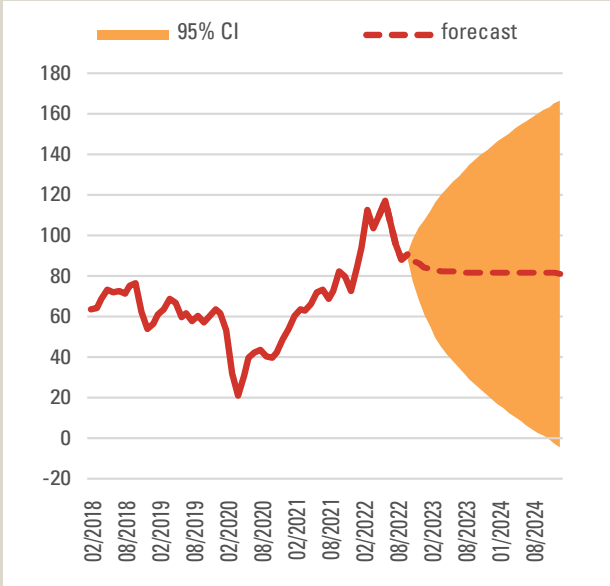
The **global oil market** was **extremely volatile** in 2022

Figure 1.4 Oil prices

A. Crude oil prices and commodity index



B. Oil price projections



Source: ESCWA calculations based on the World Bank's commodity price database and the EIA database.

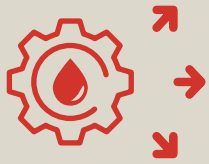
Note: The oil price forecast is based on a vector error-correction (VEC) model, including OPEC production, other suppliers' production, total oil consumption, the world's industrial production index, oil prices, and CPI inflation and interest rates in the United States.

Oil prices are expected to remain stable throughout 2023 and 2024, following a slight decrease in 2023 owing to a slowdown in global demand. A supply decrease from the Russian Federation and a surge in demand for non-Russian oil from Western countries that implemented sanctions will balance the fall in demand caused by tighter monetary conditions and a slowdown in global economic development. Consequently, the average price of oil is expected to decrease from $98 per barrel on average in 2022 to $82 per barrel in 2023, and $81 per barrel in 2024 (figure 1.4B). As OPEC is expected to keep supply relatively stable, and since rising inflation worldwide and a surge in interest rates will exert upward pressure on the cost of shale oil extraction, the oil price is not expected to fall further despite a global economic slowdown. In addition, a tourism recovery following the pandemic and a return to office work and commuting will exert upward pressure on global oil consumption.

In 2022, the Energy Information Administration (EIA) expects an increase in non-OPEC oil production led by the United States, followed by Brazil, Canada and Norway.[6] In contrast, sanctions on Russian oil, including prohibitions on shipping and insuring Russian oil cargoes, will decrease oil production in the Russian Federation, although it is expected that sellers

Oil prices are expected to **remain stable** throughout 2023 and 2024

and carriers will find alternative markets and transport methods, especially given the huge discount of Urals oil against Brent or West Texas Intermediate (WTI). In the United States, most of the additional supply (1.4 million barrels/day in 2022 and 1.2 million barrels/day in 2023) will come from increased production in the Permian Basin, where favourable geology and new technologies have greatly increased drilling profitability. In the Gulf of Mexico, nine new projects became operational in 2022, in addition to seven that were added in 2021. In Brazil, six new FPSO vessels are expected to resume and increase production from the Sepia, Mero and Buzios fields, and will deliver around 0.2 million barrels/day in 2022 and 2023. In Canada, an increase in production of 0.2 million barrels/day will result from the oil sands expansion projects following the completion of Enbridge Line 3, which became operational in October 2021. In addition, the construction of the Trans Mountain pipeline and other pipelines will increase the profitability of investments in shale oil, which should boost production. In Norway, capacity will be boosted by the Johan Sverdrup expansion project, due in the fourth quarter of 2022. Guyana resumed production in December 2019, reaching an estimated 0.2 million barrels/day in 2022 and 0.3 million barrels/day in 2023.[7]



OPEC countries are expected to **increase production** in line with **increasing demand**, although only marginally by

0.2 million barrels/day in 2023

Moreover, OPEC countries are expected to increase production in line with increasing demand, although only marginally by 0.2 million barrels/day in 2023. However, even this small increase is subject to uncertainty. In particular, it is unlikely that sanctions on Iran and Venezuela will be lifted, and civil and political unrest in Libya will continue hampering export and production facilities in southern parts of the country.

2. Natural gas and phosphate

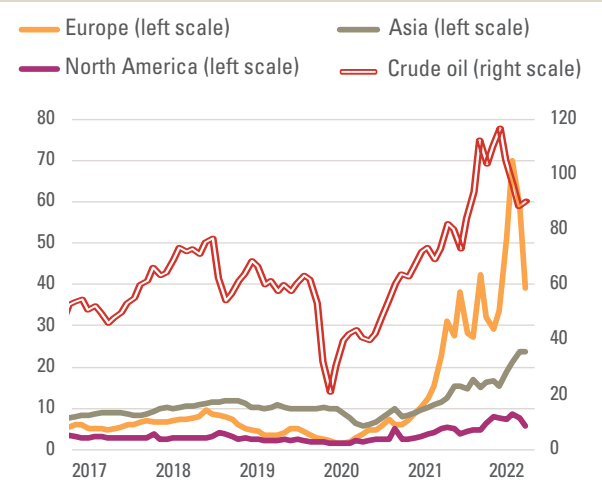
The war in Ukraine has disrupted gas markets in Europe much more than oil markets, since gas is much harder to transport. The prices of natural gas in Europe rose almost sixfold between December 2020 and June 2022 from $5.9 per MMBtu to $34.6 per MMBtu, although the majority of the increase was observed in 2021 before the outbreak of war in Ukraine. Over the period 2021-2022, the supply of Russian gas to Europe was significantly limited by Gazprom, causing prices to skyrocket. This translated into surges elsewhere, but to a limited extent owing to the imperfect substitutability between gas pumped through pipelines and LNG. Gas prices in the United States increased threefold to $7.7 per MMBtu. In Japan, where gas is delivered in liquified form through tankers, prices increased by 123 per cent to $17 per MMBtu (figure 1.4A). However, supply adjusted over the course of 2022, and gas prices in Europe in October 2022 were lower than before the start of the war in Ukraine. This drop shows that despite short-term inelasticity of demand, technology and supply adjust over the medium term, and prices return to their long-run equilibrium.

Since gas in Europe is transported mostly through pipelines and used for numerous applications (electricity generation, heating, cooking), demand is relatively inelastic. However, in 2021 and 2022, gas flow through the pipeline systems was disrupted by the Russian Federation, accelerating the transformation towards renewable energy sources, and causing the recommissioning of some nuclear and coal-fired power plants. The European Commission plans to achieve independence from Russian gas well before 2030. These developments provide significant opportunities for Arab gas producers in the short run since gas-fired power plants and heating systems cannot be replaced overnight, but countries should be aware that a worldwide green transition will reduce demand for liquefied natural gas (LNG) in the medium to long run. According to *World Energy Outlook 2022* projections, global demand for gas will start to decrease before 2030. The fall in spot gas prices in Europe in the second half of 2022 indicates that this process can be significantly accelerated if necessary, reacting to price incentives.

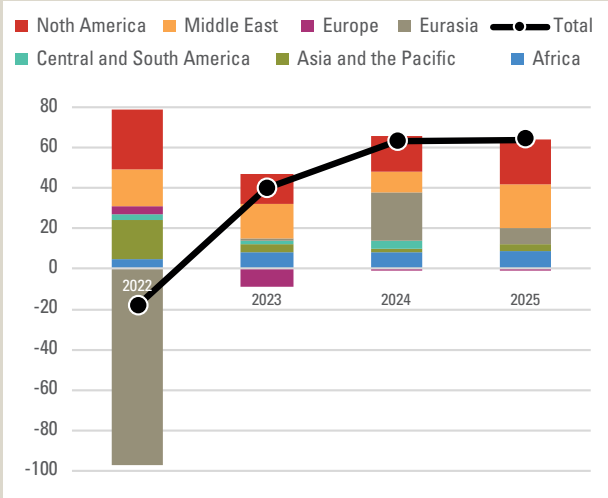
Nevertheless, the International Energy Agency (IEA) projects that global gas demand will continue increasing in 2023 and 2024, although at a much slower rate than before the pandemic:[8] on average, 0.8 per cent per year between 2022 and 2025. Almost half of this minor gain will be concentrated in Asia and the Pacific region, and about a third in the Middle East. In Europe, demand for gas will fall in line with the developments described above. Sectoral decomposition of the expected surge in gas demand reveals that the industrial sector will lead the increased demand, so the surge is uncertain and dependent on the state of the global economy.

Figure 1.5 Natural gas prices

A. Natural gas spot prices (dollars)



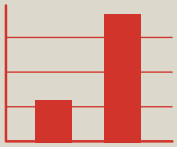
B. Changes in global gas production by region, 2022-2025 (BCM)



Source: ESCWA calculations based on the World Bank's commodity prices database and the Trade Map of the International Trade Centre (ITC).

Algeria, Egypt, Libya, Qatar and the United Arab Emirates are members of the Gas Exporting Countries Forum (GECF), which not only collectively controls nearly 70 per cent of the world's natural gas reserves, but also accounts for over 40 per cent of global production. IEA expects that in 2022, global gas supply will fall by 18 BCM owing to a significant decrease in the amount of gas pumped from the Russian Federation. However, supply is expected to grow again by 40 BCM in 2023 and by 63 BCM in 2024 (figure 1.5B). These increases will be led by North America, primarily the United States, where a surge in LNG exports will be supplied by Appalachian basin deliveries and by new shale gas projects. Similarly, in Canada, export growth will by driven by the LNG Canada project due to be completed in 2025. Moreover, Middle Eastern countries are heavily increasing their gas export capacity with the development of South Pars in Iran, Hawiyah in Saudi Arabia, Karish in Israel, and Barzan in Qatar. Increases in gas supply in Asia and the Pacific have been driven by a surge in domestic production in China. The supply of Russian gas is expected to gradually recover from 2024, following an increase in gas production from the Chayandinskoye field in Siberia, which will be supplied to China via the Power of Siberia pipeline. However, this project has been significantly hampered by Western sanctions that have blocked access to capital and technology for Russian gas developers.

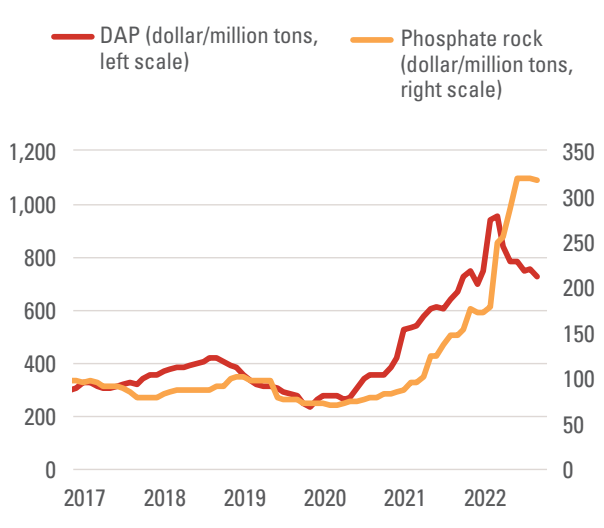
The war in Ukraine has also disrupted global fertilizer markets. In 2021, the Russian Federation supplied around 6 per cent of phosphates globally, but it also produces other raw materials for fertilizers (diammonium phosphate (DAP) and urea) that co-move with the prices of phosphate rock. DAP prices increased more than threefold and those of phosphate rock almost fourfold between December 2019 and June 2022 (figure 1.6A). Nevertheless, of three main types of fertilizers (nitrogen, phosphate and potash), the phosphate market has been the least disrupted. Phosphate production capacity is expected to increase in the period 2022-2025. Morocco plans to use this commodity boom: its supply of phosphates is expected to increase by 1.2 million tons in 2022 and by another 8.2 million tons in 2026, in addition to the 2021 production of about 12 million tons. As a holder of 70 per cent of the world's phosphate rock reserves, Morocco is well positioned to benefit from a global fertilizer boom, but it needs sulphur and ammonia imports that are used as components in the production of fertilizers (figure 1.6B). OCP, the national fertilizer company of Morocco, plans to use the country's abundant wind and solar energy to produce ammonia from green hydrogen instead of importing it. This should reduce reliance on international suppliers. Moreover, OCP is engaging in numerous partnerships across Africa to boost the continent's supply of fertilizers, including with Ethiopia, Ghana and Nigeria. Ma'aden in Saudi Arabia plans to build an ammonia plant as part of the phosphate complex in Ras-al-Khair. Jordan has partnered with India and Indonesia to expand its potash and phosphate production capacity and to deliver fertilizers to those markets. In March 2022, Algerian and Chinese firms signed a $7 billion deal to develop an integrated phosphate project to build mines and plants to exploit the deposits of Bled El Hadba and Djebel Onk in Algeria, in addition to the previous $6 billion deal to develop phosphate production facilities in Tebessa.



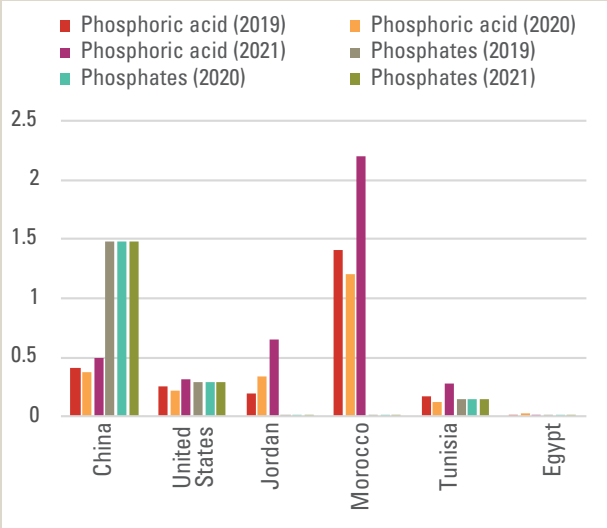
DAP prices increased **more than threefold** and those of **phosphate rock** almost **fourfold** between December 2019 and June 2022

Figure 1.6 Phosphate exports and prices

A. Price of phosphate rock and DAP



B. Phosphate exports: selected countries (billions of dollars)



Source: ESCWA calculations based on the ITC Trade Map and the World Bank commodity prices database.

On the demand side, there is strong demand pressure from China to rebuild hog herds following the African swine fever outbreak, which require significant amount of fertilizer-intensive feed. Moreover, Brazil and the United States have increased the acreage of soybeans, which also require significant amounts of fertilizers. These developments have affected fertilizer prices: DAP prices have more than tripled and phosphate rock prices have almost quadrupled since December 2019. In the first half of 2022 alone, phosphate rock prices rose by 60 per cent. Nevertheless, while phosphate rock prices remained high but stable in the second half of 2022, DAP prices receded from $954 per metric ton in April to $725 per metric ton in October 2022. However, the World Bank (2022a) estimates that this trend will reverse following the introduction of a quota system to limit exports from China, which is responsible for a third of global phosphates exports.

3. Food commodities

The prices of food rose universally in 2021 and 2022. Moreover, the costs of oils and of meals and grains skyrocketed, the former by 87 per cent and the latter by 72 per cent between the outbreak of the pandemic in February 2020 and May 2022 (figure 1.7A). Even though prices have now returned to levels observed before the outbreak of the war in Ukraine, they remain high by historical standards. This means that one edible product cannot be substituted by another, because they are all relatively expensive. The war in Ukraine and supply fears have exacerbated those pressures.

According to the Food and Agriculture Organization (FAO), global supply of wheat will fall by 0.8 per cent in 2022 for the first time after three years of increases.[9] Droughts are expected to decrease winter harvests in North America in winter 2022,

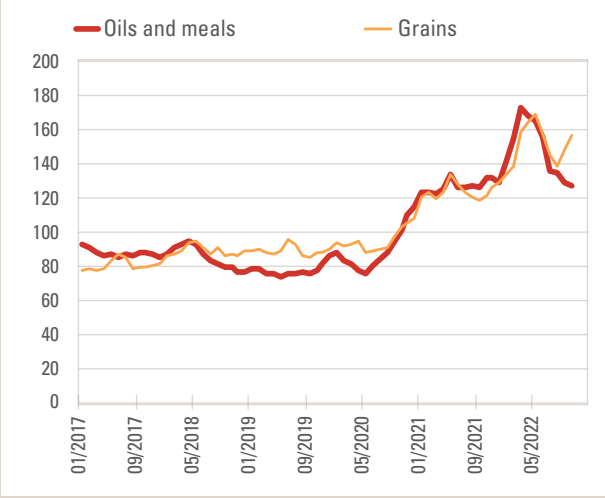
although the spring harvest should compensate by increasing the total harvest by 5 per cent in 2022 compared with previous years. The war in Ukraine has disrupted agricultural operations in the country, contributing to a decrease in crops by almost 40 per cent, a drop that will not be compensated by a 10 per cent increase in Russian production. Heavy government intervention in India, and high procurement prices, have led to an increase in the acreage of wheat production, but production is still expected to decrease by 4 per cent owing to severe heatwaves in March and April 2022. To alleviate pressure on domestic prices, in May 2022, India introduced a ban on wheat exports. In the Arab region, Morocco will lose two thirds of the 2021 harvest owing to severe drought. Algeria is also likely to decrease wheat production, though not by such a significant margin. Other African countries and those in Latin America are expected to keep production at the 2021 level. All these issues will lead to a decrease in the amount of wheat traded globally by 1.7 per cent during the 2022/2023 winter season compared with 2021/2022 records, driven by a 50 per cent decrease in exports from Ukraine and the export ban in India.

The **prices of food rose** universally in 2021 and 2022

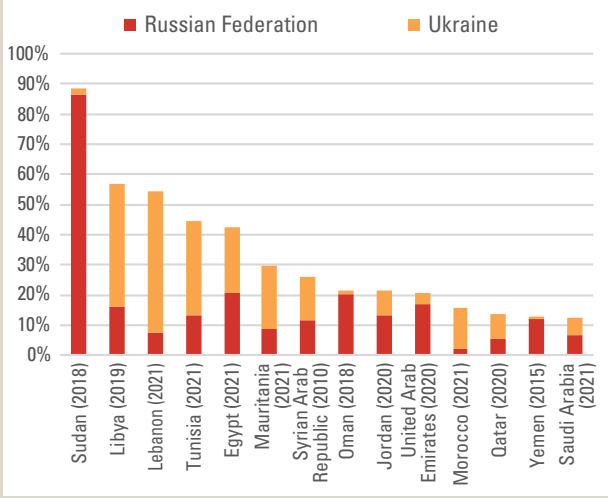
The **costs of oils and of meals and grains skyrocketed**, **the former by 87%** and **the latter by 72%** between February 2020 and May 2022

Figure 1.7 Food imports and prices

A. Oils and meals and grains price indices, 2017-2022 (CPI (2010=100))



B. Share of Russian and Ukrainian imports of cereals to Arab countries



Source: World Bank's commodity prices database, and ESCWA calculations based on the ITC Trade Map.

Note: Figure 1.7B shows only countries where the share is greater than 10 per cent, according to the newest available data.

Similarly, the production of oilseed is expected to contract globally, with an increase in acreage compensating for the fall in yield. While the global production of oils is expected to increase, it will be fuelled by a surge in production of palm and sunflower oil, with rapeseed and soy oils declining. Favourable weather conditions boosted sunflower production in the Black Sea basin. In contrast to wheat, Ukrainian production of sunflowers has not been greatly affected by the war, and any negative impact will be offset by a substantial growth in yields.

The Arab region will be significantly affected by disruptions on global food markets. Owing to geographical proximity, the Russian Federation and Ukraine provide a considerable amount of cereal to Arab food-importing countries. Lebanon, Libya and the Sudan are responsible for more than half of these imports. In Egypt and Tunisia, the share of Russian and Ukrainian cereal imports is between 40 and 50 per cent, but these imports will be difficult to replace (figure 1.7B). Consequently, tightened global markets of wheat and oilseeds will exert profound pressure on Arab countries owing to the geographical structure of Arab food imports.

C. Trade, financial interlinkages and financing conditions

Monetary policy tightening, and an increase in the bond yields of developed economies considered as a safe asset, have dragged capital out of the stock markets. After 2021, which witnessed a bull rally and several all-time-high S&P500, DAX and CAC40 records, 2022 saw a prolonged selloff and a bear market. American indexes lost 21 per cent, German indexes lost 29 per cent, and French indexes lost 17 per cent in the first half of 2022 amid uncertainty of recovery in Europe and energy supply bottlenecks. In the second half of 2022, the situation in developed economies seemed to stabilize: supply bottlenecks were largely resolved and demand levelled up, but risks remained. The determination of the Federal Reserve and ECB in fighting inflation worldwide did not help financial markets to recover. However, as inflationary pressures eased, bond yields started to decrease, indicating a possible end to the tightening cycle. In October 2022, inflation in the United States receded, fuelling hopes that a Federal Reserve pivot may be near, and markets could recover. However, interest rates kept rising (figure 1.8B).

The surge in the global prices of hydrocarbons, and the embargo on Russian oil introduced by European countries following the outbreak of the war in Ukraine, has produced favourable conditions for stock markets in GCC countries. In the first half of 2022, of these stock exchanges,

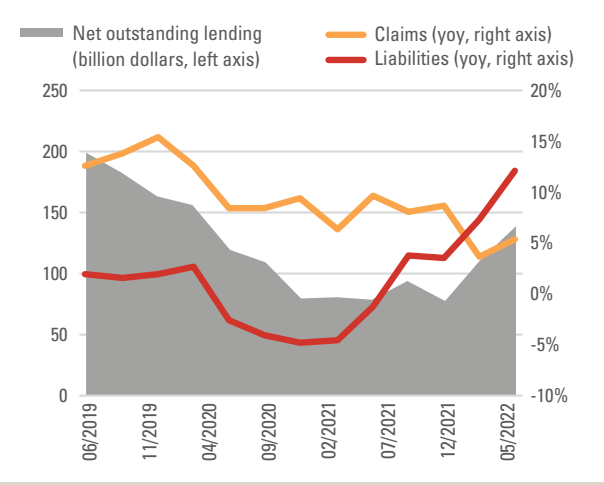
The **surge in the global prices of hydrocarbons**, and the embargo on Russian oil has produced **favourable conditions for stock markets** in GCC countries

only Oman recorded a symbolic decline of 0.5 per cent, while other markets exhibit growth: Abu Dhabi and Qatar were star performers with an 11 per cent rise each. On the other markets, increases were less considerable: Saudi Tadawul and Dubai DFMGI surged by 1 per cent, Kuwait by 2 per cent, and Bahrain by 3 per cent. These indices are highly correlated with oil prices: between February and April 2022, they experienced a true bonanza following a rally in the price of oil and great uncertainty surrounding the security of oil deliveries. However, as oil prices receded in May and June 2022, so did the stock exchange indices of GCC countries. Projections for 2023 and 2024 remain uncertain. Global uncertainty and potential recession may exert downward pressure on GCC stock exchanges, but potential increases in oil prices could provide some opportunity.

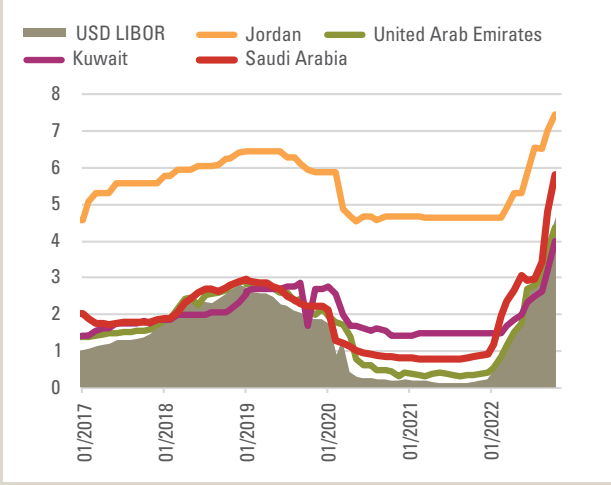
The financial crisis in Lebanon continued in 2022, with little hope for improvement amid political deadlocks. Parliamentary elections in May 2022 brought some new faces to parliament, but the sectarian divide continues to delay the formation of a government that could reach a deal with IMF to kick start the restructuration of the banking sector. In addition, a powerful banking lobby opposes a bail-in solution to protect depositors, preferring a bail-out solution where the State leverages bank assets to pay back depositors. However, this is unlikely as the country's foreign reserves are being spent on subsidies and used to decelerate the free-fall of the Lebanese pound that has lost more than 95 per cent of its value since the crisis began in October 2019. In November 2022, only $10 billion of reserves remain, down from over $30 billion in 2019: reserves are being depleted at the pace of $500 million per month. The hole in the Lebanese financial system is estimated at $70 billion, equal to three times the country's GDP.

Figure 1.8 Global financial linkages in the Arab region

A. Bank of International Settlements (BIS) reporting banks' outstanding claims and liabilities



B. Three-month money market rates and USD LIBOR (percentage per annum)



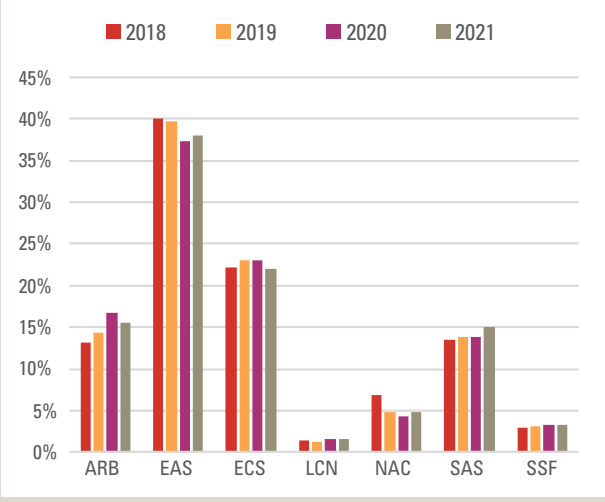
Source: ESCWA calculations based on national statistical sources; the Arab Monetary Fund's markets performance, stock market capitalization, and financial markets database; and the BIS locational banking statistics database.

The rapid rally of oil prices in 2022 reversed negative trends in net outstanding international positions of Arab countries, with a 7 per cent increase in liabilities in the first quarter of 2022 and a 12 per cent increase in the second (figure 1.8A). Therefore, the downward trend in net outstanding lending has been reversed, and their net outstanding position increased from $81 billion in the fourth quarter of 2021 to $141 billion in the second quarter of 2022. Saudi Arabia remained the biggest lender with a $110 billion outstanding net position, followed by Kuwait and Lebanon, although the net outstanding position of Lebanon is constantly decreasing. Qatar remains the most significant borrower with a net position of $87 billion, followed by the United Arab Emirates, Bahrain and Egypt. In general, high prices of hydrocarbons and fertilizers support commodity exporters, and the record 12 per cent growth in liabilities in the second quarter of 2022 (Arab clients' deposits with main international banks) could be difficult to beat in following quarters amid stabilization and a possible decrease in oil prices.

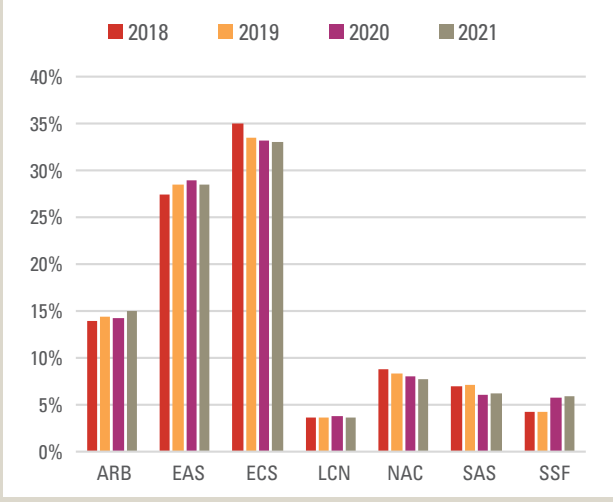
The financing costs of Arab countries over 2021 and 2022 increased in line with tightened monetary policy across developed countries (figure 1.8B). In Jordan, interest rates were already higher than in the United States by 4.5 per cent, and the interest-rate differential between three-months JODIBOR and three-months USD LIBOR fell significantly by almost two percentage points in 2022. The three-months interest rates in Kuwait, Saudi Arabia and the United Arab Emirates move almost exactly in line with the United States dollar three-months LIBOR, which is expected given the pegged exchange rate regime in these countries. Although financing cost developments in GCC countries are almost the same as in the United States, as assets in these countries are considered safe, increases in United States interest rates prompted similar hikes in the financing costs of GCC countries. For Arab middle-income countries (MICs) and least developed countries (LDCs), the spread between their interest rates and those of the United States depends on the appetite for risk in international financial markets, so in line with a deteriorating global economic situation and a build-up of internal risks in these countries, pressure on interest rates will grow significantly.

Figure 1.9 Global trade linkages in the Arab region

A. Regional destinations of Arab exports (percentage of gross total values)



B. Regional sources of Arab imports (percentage of gross total values)



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

Note: ARB, Arab countries; EAS, East Asia and the Pacific; ECS, Europe and Central Asia; LCN, Latin America and the Caribbean; NAC, North America; SAS, South Asia; SSF: Sub-Saharan Africa.

Asia and the Pacific remained the **biggest recipient of Arab export**

The regional destinations of Arab exports started to return to their previous structure after the 2020 slump caused by the pandemic (figure 1.9A). Even though Asia and the Pacific remained the biggest recipient of Arab export, this region was responsible for almost half of more than a $200 billion decrease in exports from Arab countries during the pandemic, followed by Europe and Central Asia responsible for a quarter of this loss. In 2021, Arab exports returned to normal values, mostly owing to rising oil prices. Between 2020 and 2022, exports from Arab countries rose by $326 billion, from $609 billion to $935 billion. The three regions that drove these additional exports were East Asia and the Pacific ($128 billion), Europe and Central Asia ($65 billion), and South Asia ($55 billion). Other regions were much less important, though trade within the Arab region is gradually gaining significance as a result of stronger regional integration. In 2020, owing to a fall in oil receipts during the pandemic, 17 per cent of Arab exports were directed to other Arab countries, and their share surpassed that of South Asia. However, in 2021, once oil prices returned to the normal levels, the share of within-region Arab exports fell back to 15 per cent.

The geographical structure of the import and trade balance of Arab countries with other regions broadly reflects the type of products that are imported to the region (figure 1.9B). Europe and Central Asia is still the leading supplier, as these countries can provide luxury goods and machinery that is rarely produced within the Arab region. However, its share is slowly but gradually decreasing from 39 per cent in 2014 to 33 per cent in 2021. It is compensated by imports from Asia and the Pacific and other Arab countries. The import share of South Asia is lower than its export share, leading to a huge $90 billion surplus in the trade balance of Arab countries with this region in 2021. Moreover, East Asia and the Pacific, with a $127 billion negative trade balance, was a net importer from Arab countries. Other regions recorded surpluses in trade with Arab counterparts: Europe and Central Asia at $60 billion, and Latin America, North America and sub-Saharan Africa all at between $14 billion and $17 billion.

The trade balances of Arab countries in 2023 and 2024 will be driven by two opposite forces. On the one hand, commodity producers will benefit from a surge in global prices of commodities. Countries such as Jordan, Morocco and Tunisia will welcome increases in the prices of fertilizers and the tightening of the global market. Qatar will profit from the huge increase of demand for LNG caused by European struggles to substitute for scarce Russian gas, and other GCC countries will benefit from a surge in oil prices sanctions against Russian hydrocarbons. On the other hand, food importers will have to find a way to feed their citizens, facing supply challenges. Although the ratification of an agreement between the Russian Federation, Turkey, Ukraine and the United Nations in July 2022 to export grain from Ukrainian silos brought some hope that the food crisis could be avoided, the bombing of Odessa Port shortly thereafter and struggles to renew the agreement in October 2022 indicated that the execution of this arrangement may be challenging.

The **trade balances of Arab countries** in 2023 and 2024 will be driven by **two opposite forces**

D. Concluding remarks

Hope for a global recovery that began in early 2022 vanished shortly after the outbreak of war in Ukraine, which resulted in soaring commodity prices and tighter monetary conditions. Global uncertainty remains high, and deriving meaningful projections for 2023, 2024 and onwards is increasingly difficult. The main challenge for developed economies is to maintain inflation within reasonable limits. Since the Federal Reserve and ECB seem to be determined to do so, they will likely succeed, though presumably at a cost of recession in both regions. This determination will, however, exacerbate the problems of middle-income economies, which will face increased financing costs and surging energy and food prices. Navigating these challenges is difficult, and the bankruptcies and financial crises among the developing countries could proliferate.

The impact of these developments on Arab countries will be diverse. On the one hand, GCC countries should benefit from higher hydrocarbon prices, though this impact will be mitigated in 2023 and 2024. Qatar will benefit from increases in the price of gas and booming demand for LNG, in addition to the FIFA World Cup 2022. On the other hand, heavily indebted Arab MICs will struggle to limit budgetary expenses against pressures from surges in imported foodstuff prices and rising interest costs. Arab low-income and conflict-affected countries borrow less and most of their debt is official (either bilateral or multilateral), so the pressure on interest rates will be lower, but already high food deprivation is likely to increase as their citizens may not be able to afford basic staples. Such disparities will exacerbate social divisions within countries, but intraregional sharing of prosperity resulting from increases in certain commodity prices could help reduce these tensions.

Global uncertainty remains high, and deriving meaningful projections for 2023, 2024 and onwards is **increasingly difficult**

2 Regional socioeconomic trends

Key messages

As Arab countries recovered from the repercussions of the COVID-19 pandemic, the **war in Ukraine** has **affected their economies significantly**, some positively and others negatively. While some countries have benefited from spikes in energy prices, others have suffered from **rising energy costs, food supply shortages,** and a **drop in both tourism and international aid inflows**.

Following an estimated **5.2 per cent growth in 2022**, the Arab region is **expected to grow by 4.5 per cent in 2023 and 3.4 per cent in 2024**. However, this outlook faces many risks and uncertainties, including fears of a new wave of COVID-19, a protracted war in Ukraine, expanded sanctions against the Russian Federation, and the collapse of some Arab economies **suffering from dire socioeconomic conditions**.

Overall, the **outlook for the Arab region looks positive**. However, there are **significant disparities** between countries. GCC countries and other Arab-oil exporting countries will benefit from **higher energy prices**, while oil-importing countries will **struggle to finance higher import bills** while dealing with constrained fiscal space and socioeconomic challenges.

A. Overview of the Arab subregions

As Arab countries recovered from the repercussions of the COVID 19-pandemic, the war in Ukraine has affected their economies significantly, some positively and others negatively. The countries that have benefited are mainly oil and gas producing countries, as the price of Brent crude oil increased by around 40 per cent following the outbreak of the war in Ukraine. This increase in oil and gas prices had a major negative impact on non-oil producing countries as energy prices rose, driving up other prices. Commodity and food prices increased rapidly owing to rising energy costs and supply shortages caused by the conflict, threatening food security in large parts of the Arab region, with main food staples such as wheat being heavily impacted. In addition to energy and food prices, tourism declined and international aid inflows to the region witnessed a significant drop as donors, mainly European countries, began to divert their aid to support Ukrainian refugees. The magnitude of these negative impacts has varied between countries depending on the composition of their economy, their trade and financial linkages with the Russian Federation and Ukraine, and the fiscal space available to absorb the supply and price shocks. Although Russian and Ukrainian officials signed a United Nations-backed deal in July 2022 to resume grain exports from Ukraine through Black Sea ports, which contributed to alleviating some of the pressure on food security in many Arab countries, uncertainties remain as to whether the deal will be viable.

Many Arab countries are suffering from a new spike in COVID-19 cases with the emergence of new fast-spreading variants, causing concerns and apprehension about possible lockdowns. A possible slowdown in global demand is also a cause for concern, especially as China has imposed several lockdowns following breakouts of COVID-19 cases. The threat of new waves of COVID-19 is further compounded in the Arab region by a low vaccination rate, whereby 12 Arab countries are still below the global average vaccination rate of 62 per cent (as at the beginning of August 2022). Some countries have very low vaccination rates, including 1.4 per cent in Yemen and 9 per cent in the Syrian Arab Republic.[10]

The macroeconomic outlook for the Arab region is based on the assumption that the war in Ukraine is a long-term conflict, with an average oil price of $108 per barrel. In view of this conflict and with the emergence of new waves of COVID-19, the GDP of the Arab region is expected to grow by 5.2 per cent in 2022, and by 4.5 and 3.4 per cent in 2023 and 2024, respectively.

The war in Ukraine is expected to affect consumer price inflation in the Arab region. Higher energy prices and shortages of essential food items are expected to increase inflation in the Arab region to 13.7 per cent in 2022, a rate which is projected to drop to 7.8 in 2023 and 4.5 per cent in 2024.

The war in Ukraine has **affected their economies significantly**, some positively and others negatively. The countries that have benefited are mainly **oil and gas producing countries**

Table 2.1 GDP and inflation in the Arab subregions, 2022-2024

A. Real GDP growth rate (percentage per year)			
	2022	**2023**	**2024**
Total Arab countries	5.2	4.5	3.4
GCC countries	6.3	4.6	3.3
Middle-income countries	4.3	3.6	3.5
Conflict-affected countries	2.8	6.8	3.6
Least developed countries	0.9	3.3	4.6
B. Consumer inflation rate (percentage per year)			
	2022	**2023**	**2024**
Total Arab countries	13.7	7.8	4.5
GCC countries	3.4	2.6	1.9
Middle-income countries	17.7	10.9	8.3
Conflict-affected countries	16.0	8.0	5.5
Least developed countries	163.4	74.1	13.3

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

With looser COVID-19 restrictions worldwide in 2021, global demand increased significantly, and exports and imports exceeded their 2019 levels in the Arab region. The war in Ukraine is expected to increase trade further as a spike in energy and food prices will raise export and import bills for all countries. In 2022, exports from the Arab region are expected to grow by 7.5 per cent driven by an increase in energy exports, while imports to the region will increase by 5.6 per cent driven by higher energy and food imports.

Exports and imports **exceeded their 2019 levels** in the Arab region

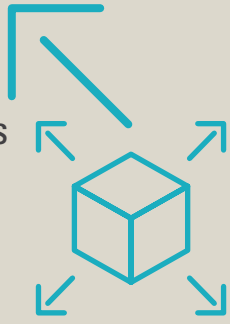
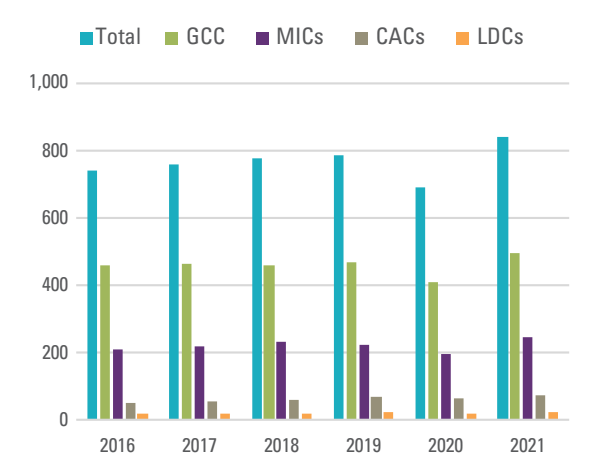
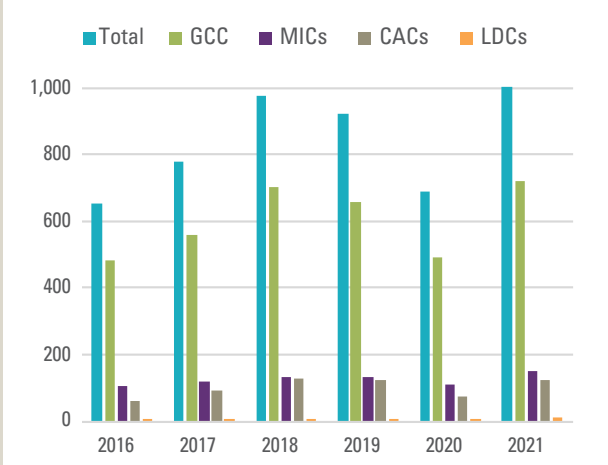


Figure 2.1 Exports and imports in Arab subregions

A. Exports from Arab subregions (billions of dollars)



B. Imports to Arab subregions (billions of dollars)



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

The **fiscal position** of the Arab region is **expected to improve overall in 2022** as a direct result of the war in Ukraine

The fiscal position of the Arab region is expected to improve overall in 2022 as a direct result of the war in Ukraine. The resulting significant increase in energy prices is expected to improve the fiscal position of oil-exporting Arab countries, but it will be partially offset by an increase in metal and food prices. The fiscal position of the Arab region is expected to record a surplus of 0.9 per cent of GDP in 2022. Energy prices are expected to stabilize in 2023 and 2024, and the Arab region will record a fiscal deficit of 0.1 and 0.9 per cent of GDP, respectively.

The debt-to-GDP ratio in the Arab region is expected to decline from 49.7 per cent in 2022 to 41.7 per cent in 2024. Arab MICs and LDCs will witness the largest decrease during this period.

The **debt-to-GDP ratio** in the Arab region is **expected to decline**

from **49.7%** in 2022 to **41.7%** in 2024

Table 2.2 Real export and import growth rates in Arab subregions, 2022-2024

	Exports			Imports		
	2022	2023	2024	2022	2023	2024
Total Arab countries	7.5	7.9	5.1	5.6	4.8	4.0
GCC countries	8.0	7.7	5.0	5.1	5.0	3.9
Middle-income countries	8.4	5.4	4.6	7.0	4.4	4.1
Conflict-affected countries	0.7	15.6	6.4	4.1	3.8	3.6
Least developed countries	7.7	9.2	7.1	9.6	7.5	5.7

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

Table 2.3 Fiscal deficit and debt as a percentage of GDP in the Arab subregions, 2022-2024

	Fiscal balance			Government debt		
	2022	2023	2024	2022	2023	2024
Total Arab countries	0.9	-0.1	-0.9	49.7	45.0	41.7
GCC countries	5.6	3.9	2.4	29.9	25.8	21.9
Middle-income countries	-8.0	-7.9	-7.5	79.1	77.2	76.3
Conflict-affected countries	4.7	3.9	2.8	59.4	49.8	43.7
Least developed countries	-2.3	-4.2	-4.0	78.1	47.3	36.4

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

B. Gulf Cooperation Council countries

GCC countries will benefit from the recovery in oil markets that started in 2021, and will profit from energy price hikes caused by the war in Ukraine. In April 2022, oil production in GCC countries was 20 per cent higher than the previous year, exceeding their pre-pandemic levels.[11] These countries will grow at their fastest pace since 2014, at around 6.3 per cent in 2022, and 4.6 and 3.3 per cent in 2023 and 2024, respectively. Inflation will remain moderate as a result of higher tax rates and increases in global food prices. In 2022, inflation is expected to reach 3.4 per cent in this subregion.

Qatar will enjoy the highest growth rates in the subregion, at an estimated 7.6 per cent in 2022

GCC countries
will benefit from the
recovery in oil markets
that started in 2021

and 6.4 per cent in 2023. Qatar will benefit from an increase in the price and demand for natural gas, particularly given its status as the largest natural gas producer worldwide. Qatar is also negotiating several long-term agreements with European Union countries to increase its gas exports, the latest in June 2022 with Italy establishing a new joint venture to explore the North Field East project. In 2020, the European Union imported 5 per cent of its natural gas from Qatar,[12] which will also benefit from a spike in tourism as Doha will host the World Cup 2022. These developments are likely to have an impact on inflation, which is expected to record 3.6 per cent in 2022 and around 3 per cent in 2023 and 2024.

Oman will also benefit from higher oil and gas prices, and GDP is expected to grow by 4.6 per cent in 2022. This growth is also driven by an expansion in non-oil sectors and is expected to endure beyond 2022, generating around 3.5 per cent growth in the period 2023-2024. During the period 2021-2022, Oman significantly increased its LNG production to record highs following the implementation of renewal projects in its gas production facilities.

In Bahrain, the economy is expected to grow at a rate of 4.1 per cent in 2022, as a result of an increase in hydrocarbon production and growth in non-oil sectors following the easing of pandemic restrictions. In 2022, Bahrain completed 80 per cent of its $6 billion Bapco Modernisation Programme, which expands significantly the capacity of the Sitra oil refinery, to be completed in 2023. Furthermore, Bahrain is expected to start its shale oil production at the end of 2022 in Khaleej Al Bahrain, one of the largest oil discoveries for the country. GDP is expected to continue its upward trend in 2023 and 2024, though at a slower pace as oil prices are projected to adjust to global developments, with an expected growth rate of 3.5 and 2.9 per cent, respectively. The increase in global food prices coupled with an increase in value added tax in Bahrain from 5 to 10 per cent are expected to affect inflation, which will reach 3.5 per cent in 2022, and 4.3 and 3.1 per cent in 2023 and 2024, respectively.

In Kuwait, GDP is expected to grow by 5.9 per cent in 2022 driven by higher energy prices, the operationalization of Al Zour refinery and a recovery in non-oil sectors following the easing of COVID-19 restrictions, then by 3.3 and 2.4 per cent in 2023 and 2024, respectively. The increase in commodity prices resulting from the conflict in Ukraine is expected to increase inflation by 4 per cent in 2022 before settling down at around 2.5 and 1.9 per cent in 2023 and 2024 respectively.

In the United Arab Emirates, GDP is expected to grow by 6.3 per cent in 2022 driven by higher energy prices and increased oil production, in addition to higher demand and increased tourism linked with Dubai hosting Expo 2020 from October 2021

Qatar will enjoy the
highest growth rates
in the subregion, at an estimated
7.6% in 2022
and **6.4% in 2023**

to March 2022. The economy is expected to grow by 5 and 4.2 per cent in 2023 and 2024, respectively. In 2022, the inflow of tourists for the Expo along with an increase in global food and energy prices are expected to lead to an inflation of 4.8 per cent before adjusting to 2.2 per cent in 2024.

The war in Ukraine and the resulting spike in global energy prices will have a positive impact on growth in Saudi Arabia. This has also been supported by a resumption of religious tourism as of 2022, with the easing of COVID-19 restrictions and increased investments through the Public Investment Fund. In 2022, GDP is expected to grow by 6.4 per cent, followed by 4.3 per cent in 2023 and 3.1 per cent in 2024. Inflation rates are projected to range between 2.5 per cent in 2022 and 1.3 per cent in 2024.

Table 2.4 GDP and inflation in GCC countries, 2022-2024

A. Real GDP growth rate (percentage per year)

	2022	2023	2024
Bahrain	4.1	3.5	2.9
Kuwait	5.9	3.3	2.4
Oman	4.6	3.6	3.5
Qatar	7.6	6.4	2.3
Saudi Arabia	6.4	4.3	3.1
United Arab Emirates	6.3	5.0	4.2
GCC countries	**6.3**	**4.6**	**3.3**

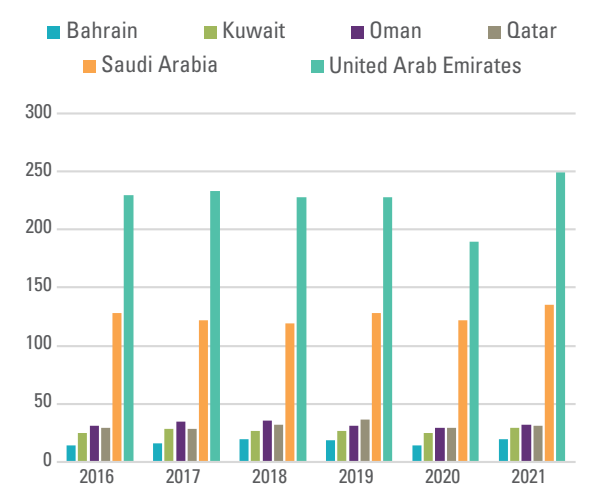
B. Consumer inflation rate (percentage per year)

	2022	2023	2024
Bahrain	3.5	4.3	3.1
Kuwait	4.0	2.5	1.9
Oman	3.6	3.1	3.0
Qatar	3.6	3.1	2.7
Saudi Arabia	2.5	1.8	1.3
United Arab Emirates	4.8	3.7	2.2
GCC countries	**3.4**	**2.6**	**1.9**

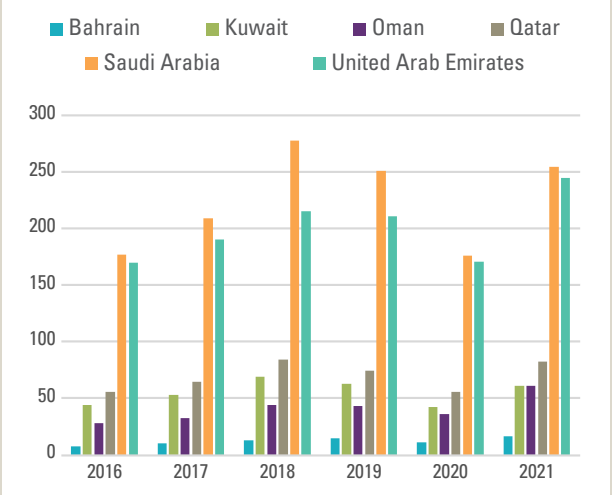
Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

Figure 2.2 Exports and imports in GCC countries

A. Exports from GCC countries (billions of dollars)



B. Imports to GCC countries (billions of dollars)



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

Looser COVID-19 restrictions in 2021 led to the resumption of international travel and the revival of consumption. This caused an increase in demand for energy, which translated into higher exports from GCC countries. In 2021, exports increased by 21 per cent, exceeding their pre-pandemic levels. This trend is expected to continue in 2022, resulting from higher demand and energy prices owing to the war in Ukraine and sanctions on the Russian Federation. Exports from GCC countries are expected to increase by around 8 per cent in the period 2022-2023, and by 5 per cent in 2024. The war in Ukraine has also affected the prices of food and metal, and is expected to lead to a 5 per cent increase in imports to GCC countries in the period 2022-2023 and around 4 per cent in 2024.

Oman and Saudi Arabia will witness the largest increase in exports in 2022, at around 13 and 11.3 per cent, respectively, caused by a significant increase in gas and oil production, respectively. Oman and Qatar are expected to see the largest increase in imports, at around 11.2 and 9 per cent, respectively. Qatar is expected to undergo a surge in domestic demand prior to and during the FIFA World Cup in Doha at the end of 2022.

GCC countries will benefit from higher energy prices, and are expected to record a fiscal surplus of 5.6 per cent of GDP in 2022. This will be supported by higher tax revenues, since several GCC countries introduced or revised their tax rates in 2021, particularly value added tax. This fiscal surplus will allow the subregion to decrease its debt-to-GDP ratio from 36.4 per cent in 2021 to around 30 per cent in 2022.

Oman will benefit from higher energy prices and an expansion of its gas capacity to increase its fiscal space. LNG revenues increased by 31 per cent in 2021, and are expected to increase further in 2022 as a result of significantly higher production and gas prices. This will result in a fiscal surplus of 4.7 per cent of GDP in 2022, 2.7 per cent in 2023 and 1.6 per cent in 2024. It will also allow the country to decrease its debt-to-GDP ratio from 78 per cent in 2021 to 55 per cent in 2024.

Table 2.5 Real export and import growth rates in the GCC countries, 2022-2024

	Exports			Imports		
	2022	2023	2024	2022	2023	2024
Total Arab countries	**7.5**	**7.9**	**5.1**	**5.6**	**4.8**	**4.0**
Bahrain	4.6	6.0	5.5	4.6	6.1	5.2
Kuwait	6.4	4.9	4.0	3.7	7.1	2.8
Oman	13.0	7.0	6.5	11.2	6.3	5.1
Qatar	9.0	15.0	2.1	9.0	4.9	3.4
Saudi Arabia	11.3	8.0	6.0	5.5	4.5	4.1
United Arab Emirates	6.0	6.3	5.1	3.8	4.8	4.0
GCC countries	**8.0**	**7.7**	**5.0**	**5.1**	**5.0**	**3.9**

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

Table 2.6 Fiscal deficit and debt as a percentage of GDP in GCC countries, 2022-2024

	Fiscal balance			Government debt		
	2022	2023	2024	2022	2023	2024
Bahrain	-4.9	-6.5	-6.8	131.3	129.6	128.3
Kuwait	-0.3	0.2	1.1	11.4	10.4	8.7
Oman	4.7	2.7	1.6	67.6	60.6	55.0
Qatar	12.7	14.1	5.9	47.5	28.9	21.6
Saudi Arabia	4.7	2.9	2.2	22.1	22.0	18.6
United Arab Emirates	6.5	3.0	2.5	25.4	20.3	16.4
GCC countries	**5.6**	**3.9**	**2.4**	**29.9**	**25.8**	**21.9**

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

In Bahrain, the fiscal deficit is expected to decrease slightly from 11.7 per cent in 2021 to 4.9 per cent in 2022, as a result of increases in energy prices and a doubling of the VAT rate as of January 2022. This deficit is expected to continue in 2023 and 2024, with an estimated deficit of 7 per cent of GDP. However, the Government is maintaining its expansionary policy, including spending to finance oil plants in Sitra and Khaleej Al Bahrain. Debt levels are expected to remain elevated at around 130 per cent of GDP between 2022 and 2024, highlighting the need for debt restructuring.

Qatar is expected to record a significant fiscal surplus of around 12.7 per cent of GDP in 2022 and 14.1 per cent in 2023, benefiting from an increase in prices and demand for gas. Saudi Arabia and the United Arab Emirates are also expected to maintain their fiscal surpluses as a percentage of GDP, and to record 4.7 and 6.5 per cent respectively in 2022, benefiting from higher energy prices and increased global demand for oil as a result of the war in Ukraine. Kuwait will also benefit from the increase in oil prices and will improve its fiscal position, moving from a deficit in 2021 to a balance in 2022.

C. Middle-income countries

Arab MICs were expected to continue their economic recovery, which started in 2021, notably owing to the removal of pandemic restrictions and the resumption of normal economic activity, including the revival of the tourism sector. However, their recovery has been slowed by the war in Ukraine and its repercussions. The current outlook for MICs is very uncertain. The war in Ukraine has exacerbated already challenging socioeconomic conditions in many MICs. While Egypt, Lebanon and Tunisia are negotiating with IMF to develop a programme under the Extended Fund Facility, most other Arab MICs are suffering from higher energy and commodity prices, including essential food items. Their GDP is expected to grow by 4.3 per cent in 2022, and by around 3.5 per cent in the period 2023-2024. Inflation is expected to reach 17.7 per cent in 2022, and 10.9 and 8.3 per cent in 2023 and 2024, respectively.

All Arab MICs will witness moderate growth rates in 2022, except Algeria and Egypt. Algeria will benefit from soaring oil prices and will register a 5.4 per cent growth rate in 2022, 3.2 per cent in 2023, and 2.6 per cent in 2024. In April 2022, Algeria signed an agreement with Italy to increase gas exports to partially replace gas imports from the Russian Federation. Delivery is expected to begin at the end of 2022, and to continue in 2023 and 2024.[13]

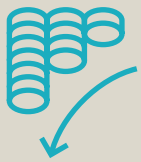
Egypt has been significantly affected by the war in Ukraine, and is negotiating a comprehensive program with IMF to support the economy under the Extended Fund Facility – a staff-level agreement was reached in October 2022.

Egypt, Lebanon and **Tunisia** are negotiating with IMF to develop a **programme under the Extended Fund Facility**

GDP is expected to grow by 5.4 per cent in 2022, affected by various forces, and by around 4.3 per cent in the period 2023-2024. Higher energy and food prices and an expected drop in tourism will have a significant negative effect on the Egyptian economy: around a third of tourists coming to Egypt originate from the Russian Federation or Ukraine.[14] However, demand for Egyptian gas is expected to increase notably following an agreement between the European Union and Egypt to increase gas imports from Egypt in an effort to decrease European reliance on Russian energy, which will have a significant positive impact on Egyptian growth. Nevertheless, the increase in energy revenues will be offset by higher commodity imports, as Egypt relies significantly on imports from the Russian Federation and Ukraine, particularly food imports. Egypt is one of the largest importers of wheat globally, 80 per cent of which originates from the two countries in conflict. These developments have had a significant negative impact on consumer price inflation, which is expected to record 18.5 per cent in 2022, and 15.6 and 11.2 per cent in 2023 and 2024, respectively. In response, the Central Bank of Egypt has allowed the currency to depreciate in an effort to contain soaring prices and to boost exports. The Egyptian pound depreciated by 16 per cent overnight in mid-March 2022.

Similarly, the growth rate in Jordan, Lebanon, Morocco and Tunisia will be negatively affected by the conflict, mainly as a result of sharp increases in the prices of energy, metal and essential commodities, such as wheat, cereals and oils. These countries also face increasing food security concerns as a result of economic sanctions against the Russian Federation, and disruptions to supply chains caused by military activities.

In Morocco, the economy is expected to grow by 0.9 per cent owing to several factors, including the war in Ukraine and resulting food shortages and increased energy prices, in addition to drought. In 2022, drought is expected to cause a 17.3 per cent drop in agricultural output.[15] Furthermore, GDP is expected to grow at a moderate pace in 2023 and 2024, at an estimated 2.3 and 3.1 per cent, respectively. Inflation is expected to record 6.8 per cent in 2022, 4.3 per cent in 2023, and 3.8 per cent in 2024.



The **growth rate** in Jordan, Lebanon, Morocco and Tunisia will be **negatively affected by the conflict**

mainly as a **result of sharp increases in the prices** of energy, metal and essential commodities

Tunisia is going through uncertain economic and political circumstances aggravated by the war in Ukraine and the resulting spike in energy and food prices. GDP is expected to grow by 2.3 per cent in 2022 with the resumption of tourist activities, and by around 1.3 per cent in the period 2023-2024. High unemployment, a twin deficit, elevated debt, weak reforms, and the depreciation of the local currency are affecting the outlook. While Tunisia has initiated some reforms as part of its efforts to conclude an agreement with IMF under the Extended Fund Facility, the Tunisian dinar lost around 10 per cent of its value between July 2021 and July 2022 – a staff-level agreement was reached in October 2022.

Jordan is also expected to experience modest growth, at 2.6 per cent in 2022, 2 per cent in 2023 and 2.3 per cent in 2024, driven by growth in the tourism sector. Inflation rates are expected to range between 3.9 per cent in 2022 and 3 per cent in 2024, following a spike in energy and food prices caused by the war in Ukraine.

Lebanon continues to suffer from what the World Bank has called a "deliberate depression",[16] causing dire economic and financial conditions aggravated by political deadlock, failure to initiate economic reforms, and the repercussions of the war in Ukraine. Failure to form a government following the May 2022 parliamentary elections is delaying the conclusion of an agreement with IMF, while citizens are suffering from a total collapse in provisions of basic key services like water and electricity, the degeneration of the health and education systems, a massive brain drain, political void and soaring prices. The war in Ukraine is weighing heavily on economic conditions in the country, as both of the countries in conflict are the main wheat and grain exporters to Lebanon. In addition, Lebanon is suffering from rising energy prices at a time when the country is facing a depletion of its foreign exchange reserves, and an unprecedented depreciation of its local currency (the Lebanese pound has lost 95 per cent of its value over the past three years). Following a severe GDP contraction of around 17 per cent in 2021, the economy is expected to grow by 2.2 per cent in 2022 fuelled by a growth in the tourist sector, with a large inflow of Lebanese expatriates after two years of travel restrictions imposed by the pandemic. More than 1 million tourists are expected to visit the country in 2022 and to spend around $3 billion. In 2023 and 2024, the economy is expected to grow by 6.7 and 5.2 per cent, respectively, conditional on the election of a new president (the term of the last president ended in October 2022), the formation of a new government, the adoption of a series of economic and financial reforms, and the conclusion of a deal with IMF. In April 2022, Lebanon reached a staff-level agreement with the IMF to benefit from a four-year extended fund facility.[17] However, this agreement is still in the early stages: it needs final approval of the IMF Executive Board, and will not enter into force before the implementation of a set of economic and financial reforms that are yet to be initiated. Given the political void in the country, this agreement might be difficult to reach in 2022. Lebanon is expected to register a hefty inflation rate of around 86.9 per cent in 2022.

Lebanon

- **continues to suffer** from what the World Bank has called a **"deliberate depression"**
- is expected to register a **hefty inflation rate** of around **86.9%** **in 2022**

Table 2.7 GDP and inflation in Arab MICs, 2022-2024

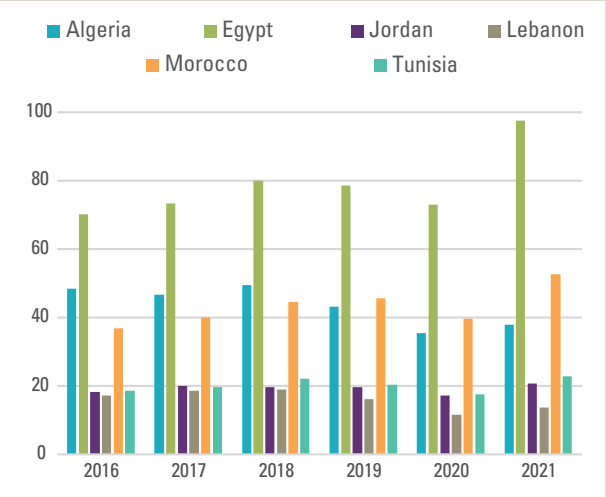
A. Real GDP growth rate (percentage per year)			
	2022	**2023**	**2024**
Algeria	5.4	3.2	2.6
Egypt	5.4	4.3	4.2
Jordan	2.6	2.0	2.3
Lebanon	2.2	6.7	5.2
Morocco	0.9	2.3	3.1
Tunisia	2.3	1.3	1.4
Arab MICs	**4.3**	**3.6**	**3.5**
B. Consumer inflation rate (percentage per year)			
	2022	**2023**	**2024**
Algeria	7.2	7.1	5.9
Egypt	18.5	15.6	11.2
Jordan	3.9	3.1	3.1
Lebanon	86.9	13.7	10.9
Morocco	6.8	4.3	3.8
Tunisia	9.1	8.7	7.5
Arab MICs	**17.7**	**10.9**	**8.3**

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

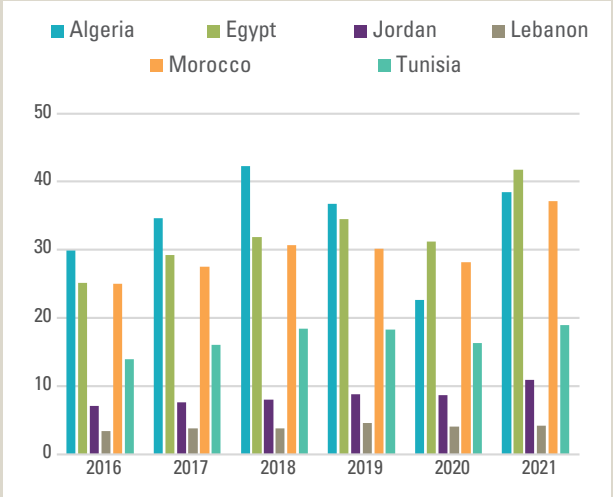
Arab MICs are expected to witness a significant increase in both their exports and imports in 2021 and 2022. In 2021, their exports increased by 26 per cent, driven by a resurgence of phosphate exports from Egypt and Jordan and of oil from Algeria. In Jordan alone, exports of phosphates and potash increased by 28 per cent between 2019 and 2021.[18] Exports are expected to increase at a moderate pace in the period 2022-2024, except in Egypt where exports of gas will grow significantly. In Lebanon, exports are expected to decrease by 8.5 per cent in 2022. In 2022, the Governments of Egypt and Lebanon imposed a temporary export ban on staple foods to contain the food crisis that emerged following the outbreak of war in Ukraine. Exports from MICs in 2022 are expected to grow by 8.4 per cent, while imports are predicted to increase by 7 per cent as a result of higher import bills caused by the war in Ukraine.

Figure 2.3 Exports and imports in Arab MICs

A. Exports from MICs (billions of dollars)



B. Imports to MICs (billions of dollars)



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

Arab MICs are expected to suffer from a more constrained fiscal space, especially oil-importing MICs affected by the surge in energy prices. Their fiscal deficit is expected to reach 8 per cent of collective GDP. Countries that trade with the Russian Federation or Ukraine will be forced to source new markets and pay higher prices, which will put pressure on their fiscal position. This is particularly concerning for wheat imports, particularly in Egypt, Lebanon, Morocco and Tunisia as these countries are maintaining their bread subsidies and are now paying higher prices. The debt-to-GDP ratio is expected to decline in Arab MICs as a result of a large drop in the value of Lebanese debt following the massive depreciation of the local currency.

In Egypt, in response to a significant depreciation of the local currency and rising inflation, the Government implemented several measures to mitigate the impact on citizens, including an increase in public sector wages and pensions and an expansion of cash transfer programmes. These measures, in addition to a global increase in commodity prices, will significantly increase government spending and will offset the increase in export revenues from higher energy prices and demand. The country is expected to record a fiscal deficit of 7.3 per cent of GDP in 2022 and 8.3 per cent in the period 2023-2024.

Arab MICs are expected to suffer from a more **constrained fiscal space**, especially oil-importing MICs

Their **fiscal deficit** is expected to reach **8%** **of collective GDP**

Table 2.8 Real export and import growth rates in Arab MICs, 2022-2024

	Exports			Imports		
	2022	2023	2024	2022	2023	2024
Total Arab countries	**7.5**	**7.9**	**5.1**	**5.6**	**4.8**	**4.0**
Algeria	4.4	4.2	3.1	3.0	4.0	4.0
Egypt	18.2	7.8	5.7	11.5	5.5	4.7
Jordan	6.5	3.8	5.3	3.0	1.9	1.7
Lebanon	-8.5	-0.6	2.8	2.0	3.6	8.1
Morocco	2.9	5.1	4.9	6.0	5.0	4.0
Tunisia	2.5	1.8	1.8	4.5	2.3	2.7
Arab MICs	**8.4**	**5.4**	**4.6**	**7.0**	**4.4**	**4.1**

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

In Morocco, as a result of the economic slowdown projected for 2022 and 2024, the Government is expected to postpone any reform plans aimed at rationalizing energy and food subsidies. As a result, the fiscal deficit is expected to persist, ranging between 4.5 per cent of GDP in 2022 and 5.1 per cent in the period 2023-2024. Debt levels are also expected to increase to cover soaring energy and commodity prices. The debt-to-GDP ratio is expected to remain at around 77 per cent during the period 2022-2024.

Debt levels remain elevated in Tunisia, with rising concerns about debt sustainability. The debt-to-GDP ratio is expected to be 87.1 per cent in 2022, and 83.7 per cent in 2024. The fiscal deficit as a percentage of GDP will be around 5.6 per cent in the period 2022-2024.

In July 2022, the World Bank approved a $130 million loan to enhance Tunisian food security by financing the import of grains and seeds for agriculture.[19] Discussions on the IMF Extended Fund Facility are still ongoing, and are subject to the implementation of a set of economic reforms.

The global increase in energy and food prices has put pressure on the already constrained fiscal space in Jordan. The fiscal deficit is expected to reach 7 per cent of GDP in 2022. In June of the same year, the Government successfully issued $650 million in Eurobonds[20] to finance imports. Debt levels are expected to increase to 92.9 per cent of GDP in 2022 and to increase further to 95.9 per cent in 2024, signalling the urgent need for debt restructuring.

Table 2.9 Fiscal deficit and debt as a percentage of GDP in Arab MICs, 2022-2024

	Fiscal balance			Government debt		
	2022	2023	2024	2022	2023	2024
Algeria	-12.9	-10.2	-8.5	66.4	71.5	75.2
Egypt	-7.3	-8.3	-8.3	82.1	78.0	75.1
Jordan	-7.0	-6.7	-5.9	92.2	94.7	95.9
Lebanon	-6.7	-5.2	-4.8	89.9	64.6	61.0
Morocco	-4.5	-5.1	-5.1	76.5	76.6	77.0
Tunisia	-5.6	-5.8	-5.6	87.1	85.6	83.7
Arab MICs	**-8.0**	**-7.9**	**-7.5**	**79.1**	**77.2**	**76.3**

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

Lebanon will continue to suffer from a fiscal deficit in 2022 caused by the severe economic contraction and resulting drop in government revenues, in addition to a decline in expenditures to the bare minimum. The fiscal deficit is expected to reach 6.7 per cent of GDP in 2022 and to improve slightly in the period 2023-2024, conditional on a comprehensive fiscal consolidation and the conclusion of an agreement with IMF. The debt-to-GDP ratio decreased as a result of a massive depreciation of the local currency. The country has not repaid any debt since its default in 2020, but is again resorting to borrowing to finance basic needs. In 2021, the World Bank extended a $246 million loan to Lebanon to finance the payment of cash transfers to 150,000 extremely poor Lebanese families under the AMAN-programme.[21] However, the loan was approved by the Government in 2022 and the disbursement of the cash transfer started in the second half of the year. Furthermore, in 2022, the World Bank approved a $150 million loan for Lebanon to finance the import of wheat and to maintain bread subsidies.

Algeria is expected to have a wider fiscal deficit as a percentage of GDP reaching 12.9 per cent in 2022, and an increase in its debt-to-GDP ratio to 75.2 per cent in 2024.

D. Conflict-affected countries

Conflict-affected countries (CACs) continue to face political instability and security concerns. Their collective GDP is expected to grow at a rate of 2.8 per cent in 2022, 6.8 per cent in 2023, and 3.6 per cent in 2024, compared with an estimated 6.4 per cent growth in 2021. This expected slowdown is the result of higher food prices resulting from political instability and the war in Ukraine, which

is holding back CAC economies. Furthermore, low vaccination rates are compounding uncertainty, as the emergence of new COVID-19 variants and new waves of infection may hit their already fragile economies harder.

Libya is the only Arab country expected to witness a 17.7 per cent contraction in its GDP in 2022. Tensions continue to overshadow the political scene in the country. The postponement of national election since December 2021 has increased political tensions and the national divide. This tension was accompanied by security concerns, and escalated into disruption of oil production as some main ports halted their operations. However, if oil production and export resume in 2023 as per 2021 levels, GDP is expected to grow by 33.3 per cent in 2023 and by 5.7 per cent in 2024.

Yemen continues to suffer from an internal political divide, fragmented institutions, unstable security conditions and humanitarian emergencies, with persistent fears of famine. All these factors are delaying recovery and reconstruction, and worsening dire socioeconomic conditions, which are further aggravated by the repercussions of the war in Ukraine, the resulting surge in commodity prices, and a drop in international aid, while oil production continues to be below capacity. GDP is expected to grow by 2.3 per cent in 2022, followed by 1.9 per cent in 2023 and 4.3 per cent in 2024.

The State of Palestine and the Syrian Arab Republic have been affected negatively by both higher energy and food prices. Palestinian GDP is expected to grow only by 4.7 per cent in 2022, and by 3.4 and 2.4 per cent in 2023 and 2024, respectively. Political and security conditions in the Palestinian territory are highly uncertain as a result of continued and recurrent Israeli aggressions and the Gaza blockade. Moreover, the State of Palestine has low vaccination rates, and is witnessing a significant drop in international aid following the war in Ukraine and the diversion of a significant part of European aid to support Ukrainian refugees, in addition to spikes in international energy and food prices. Inflation is expected to reach 6.5 per cent in 2022 and 5.4 per cent in 2023.

In the Syrian Arab Republic, GDP is expected to grow by only 0.1 per cent in 2022, 0.2 per cent in 2023, and 0.7 per cent in 2024. Political instability and recurrent hostilities continue to prevail in the country alongside ongoing sanctions, including the latest Caesar Syria Civilian Protection Act, and the effects of the war in Ukraine on global prices. The prolonged Syrian conflict and resulting depreciation of the local currency has negatively affected foreign exchange reserves, and contributed to a spike in inflation rates. In 2021 alone, the Syrian pound lost around 11 per cent of its value.[22]

Iraq will benefit from a spike in oil prices. GDP growth is expected to reach 6.2 per cent in 2022, 5 per cent in 2023, and 3.6 per cent in 2024. Inflation is expected to reach 5.6 per cent in 2022, and 3.2 per cent in the period 2023-2024.

Libya is the only Arab country expected to witness a **17.7% contraction** in its GDP in 2022

If oil production and export resume in 2023 as per 2021 levels, **GDP** is **expected to grow** by **33.3% in 2023** and by **5.7% in 2024**

Libya, the Syrian Arab Republic and Yemen will register double-digit inflation in 2022 as a result of unstable political and security concerns, aggravated by the international increase in food prices following the outbreak of war in Ukraine. In Libya, the inflation rate is expected to reach 26.2 per cent in 2022, 15.8 per cent in 2023, and 10.3 per cent in 2024. In Yemen, it is expected to reach 51.2 per cent in 2022, 28.1 per cent in 2023, and 13.2 per cent in 2024. In the Syrian Arab Republic, it is expected to reach 51 per cent in 2022 and 14.5 per cent in 2023.

Trade in CACs improved significantly in 2021. Exports increased by 18 per cent, driven mainly by oil exports from Iraq and Libya. In parallel, imports increased significantly driven by a resumption of demand and hopes for peace and stability. Halted oil production in Libya is expected to lead to a slowdown in exports from the region in 2022 to around 0.7 per cent. With the expectations that oil production will resume in Libya, exports from CACs are expected to increase by 15.6 per cent in 2023 and 6.4 per cent in 2024. Imports are expected to grow by 4.1 per cent in 2022 and by around 3.8 per cent in 2023.

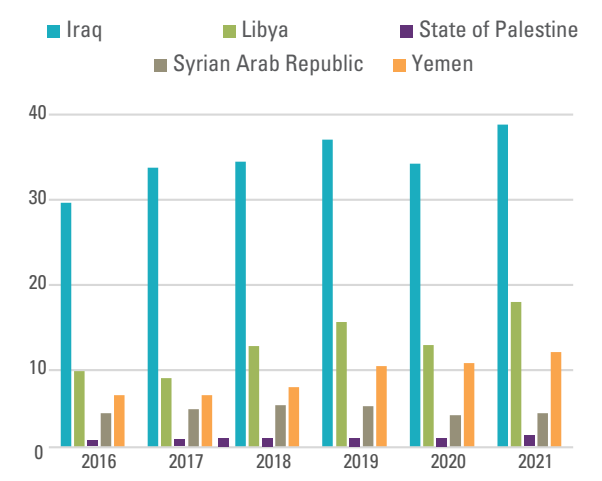
Table 2.10 GDP and inflation in Arab CACs, 2022-2024

A. Real GDP growth rate (percentage per year)			
	2022	**2023**	**2024**
Iraq	6.2	5.0	3.6
Libya	-17.7	33.3	5.7
State of Palestine	4.7	3.4	2.4
Syrian Arab Republic	0.1	0.2	0.7
Yemen	2.3	1.9	4.3
Arab CACs	**2.8**	**6.8**	**3.6**
B. Consumer inflation rate (percentage per year)			
	2022	**2023**	**2024**
Iraq	5.6	3.2	3.2
Libya	26.2	15.8	10.3
State of Palestine	6.5	5.4	4.8
Syrian Arab Republic	51.0	14.5	9.5
Yemen	51.2	28.1	13.2
Arab CACs	**16.0**	**8.0**	**5.5**

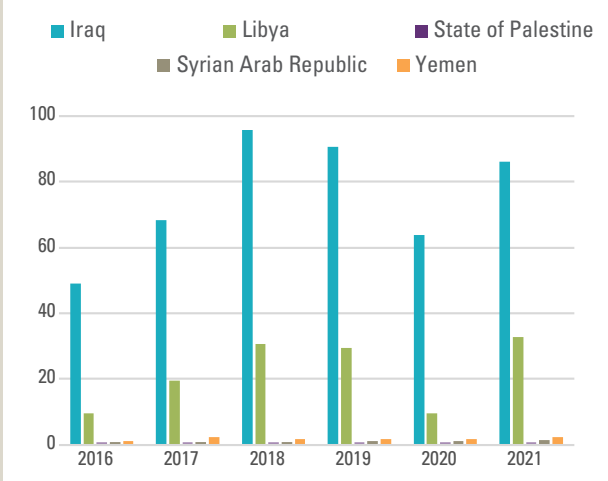
Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

Figure 2.4 Exports and imports in Arab CACs

A. Exports from CACs (billions of dollars)



B. Imports to CACs (billions of dollars)



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

CACs are expected to witness an improvement in their fiscal position in 2022 and to record a 4.7 per cent surplus as a percentage of GDP, driven by a significant improvement in the fiscal position of Iraq. The latter will witness an 8.5 per cent fiscal surplus, driven by a recovery in oil markets and an increase in oil prices. This surplus is expected to persist in the next couple of years. The fiscal position of Libya is expected to go from a 10.2 per cent surplus in 2021 to a 6 per cent deficit in 2022, as a result of the halt in oil production and political instability, then to move to a surplus in the period 2023-2024 with expectations of resuming oil production.

The debt-to-GDP ratio in CACs is expected to decrease from around 74 per cent in 2021 to around 60 per cent in 2022 and to 46 per cent in 2024, driven by a decrease in the debt ratio in Iraq from 80 per cent in 2021 to around 44 per cent in 2024.

This outlook remains uncertain as many CACs are facing unforeseen risks emanating from the war in Ukraine. Iraq fears that its oil production may stop if Russian oil companies operating in Iraq are affected by international sanctions. In Libya and Yemen, there are uncertainties regarding the resumption of oil production at full capacity. In the Syrian Arab Republic, the Government increased public sector wages twice in 2021 as a result of a spike in inflation, putting additional pressure on government resources. The persistence of price increases, currency depreciation and food and fuel subsidies could deepen the deficit and increase debt levels in CACs.

CACs are expected to witness an **improvement** in their **fiscal position in 2022**

and to record a **4.7% surplus** as a percentage of GDP

Table 2.11 Real export and import growth rates in Arab CACs, 2022-2024

	Exports			Imports		
	2022	2023	2024	2022	2023	2024
Total Arab countries	**7.5**	**7.9**	**5.1**	**5.6**	**4.8**	**4.0**
Iraq	10.9	9.5	7.8	10.9	9.5	7.8
Libya	-50.0	105.0	2.3	12.1	11.0	1.0
State of Palestine	3.0	3.0	2.7	3.0	3.0	2.7
Syrian Arab Republic	0.5	1.0	3.3	0.5	1.0	3.3
Yemen	59.3	4.5	4.2	5.1	2.0	2.0
Arab CACs	**0.7**	**15.6**	**6.4**	**4.1**	**3.8**	**3.6**

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

Table 2.12 Fiscal deficit and debt as a percentage of GDP in Arab CACs, 2022-2024

	Fiscal balance			Government debt		
	2022	2023	2024	2022	2023	2024
Iraq	8.5	6.2	4.7	63.2	51.7	44.3
Libya	-6.0	3.1	2.4	n.a.	n.a.	n.a.
State of Palestine	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Syrian Arab Republic	-10.5	-10.9	-10.4	20.5	27.2	35.0
Yemen	-4.4	-4.4	-3.7	58.7	50.5	45.6
Arab CACs	**4.7**	**3.9**	**2.8**	**59.4**	**49.8**	**43.7**

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

E. Least developed countries

Arab LDCs are expected to grow by only 1 per cent in 2022, and by 3.3 and 4.6 per cent in 2023 and 2024, respectively. Their socioeconomic situation has been exacerbated by an increase in energy and essential commodity prices. In addition to the challenging socioeconomic situation in these countries, they risk a drop in official development assistance as more aid is directed to support Ukraine and countries hosting Ukrainian refugees. Remittances to CACs are expected to increase, notably from GCC countries that are experiencing significant growth.

In the Sudan, GDP will grow by 0.3 per cent only in 2022 with the persistence of political instability following the 2021 coup, and by 3.2 per cent in 2023 and 4.8 per cent in 2024. Ongoing political instability and dire economic conditions in the country will result in an inflation rate of around 189 per cent in 2022.

In Djibouti, GDP is expected to grow by 2.9 per cent in 2022 and by around 4 per cent in the period 2023-2024, driven by infrastructure projects. Inflation rates are projected to range between 6.6 and 4.7 per cent during the same period. Djibouti is also suffering from spillover effects of the crisis in neighbouring Ethiopia.

In the Comoros, GDP is expected to grow at a slower pace compared with 2021, when growth was around 5.2 per cent following the Government's expansionary policy. In 2022 and 2023, GDP is expected to grow at around 2.9 and 3.3 per cent, respectively, as a significant drop in aid and remittances is expected, particularly from France, as a repercussion of the war in Ukraine. This conflict will also affect inflation levels: in 2022, inflation is expected to increase to 12.5 per cent.

Mauritania is expected to continue its growth with the expansion of mining industries. In 2022, GDP is expected to grow by 4.5 per cent, and by around 4 per cent in the period 2023-2024. The war in Ukraine has had a dual effect on Mauritania: it will have a positive effect on mining industries, particularly iron ore and gold, and a negative impact on energy and food prices. The increase in prices will affect inflation rates, which are expected to increase to 8.5 per cent in 2022, 7.8 per cent in 2023, and 7.3 per cent in 2024.

Table 2.13 GDP and inflation in Arab LDCs, 2022-2024

A. Real GDP growth rate (percentage per year)			
	2022	**2023**	**2024**
Comoros	2.9	3.3	4.3
Djibouti	2.9	4.3	3.7
Mauritania	4.5	4.1	4.0
Somalia	1.7	2.1	2.8
Sudan	0.3	3.2	4.8
Arab LDCs	**0.9**	**3.3**	**4.6**
B. Consumer inflation rate (percentage per year)			
	2022	**2023**	**2024**
Comoros	12.5	5.6	2.9
Djibouti	6.6	5.3	4.7
Mauritania	8.5	7.8	7.3
Somalia	10.5	8.9	7.5
Sudan	189.0	85.2	14.5
Arab LDCs	**163.4**	**74.1**	**13.3**

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

Somalia continues to suffer from severe drought, which is affecting agriculture and health sectors, increasing internal displacement, and negatively affecting the livelihoods of various communities. In addition to climate disasters, the country also faced political instability with the postponement of the presidential election between December 2021 and May 2022. In 2022, GDP is expected to grow by 1.7 per cent only, and by 2.1 per cent in 2023 and 2.8 per cent in 2024, coupled with expectations that international aid will increase in coming years. Inflation is expected to reach 10.5 per cent in 2022 as a result of increases in international energy and food prices owing to the war in Ukraine.

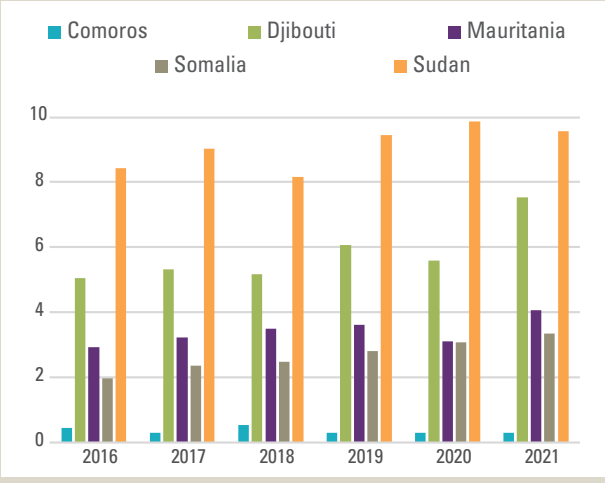
Growth in trade in Djibouti is expected to drive overall trade in Arab LDCs in the period 2021-2024. In 2021, exports increased by 13 per cent in the Arab LDCs, while imports increased by 29 per cent. This trend is expected to continue: exports are expected to grow by around 8 per cent during the period 2022-2024, and imports by 7.6 per cent on average over the same period. In Djibouti, exports are expected to grow by 13.6 per cent and imports by 8.6 per cent in 2022.

Arab LDCs are expected to witness a deterioration in their fiscal position in 2022. The fiscal deficit is expected to range between 2.3 per cent of GDP in 2022 and 4 per cent in 2024. There has been a significant reduction in the debt-to-GDP level from 167.7 per cent in 2021 to around 78 per cent in 2022, driven mainly by a significant reduction of the debt level in the Sudan.

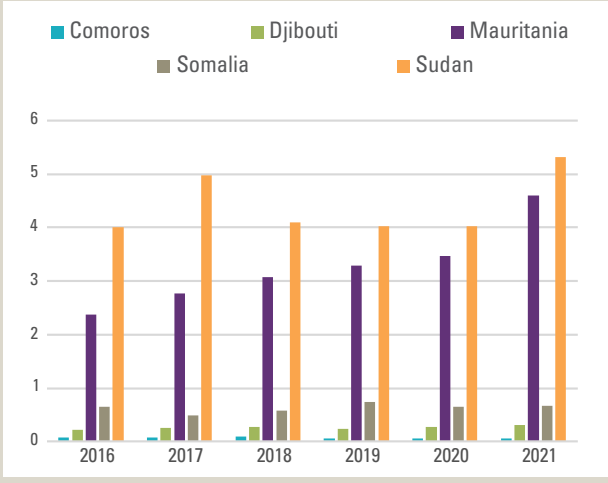
Arab LDCs are expected to witness a **deterioration in their fiscal position** in 2022

Figure 2.5 Exports and imports in Arab LDCs

A. Exports from LDCs (billions of dollars)



B. Imports to LDCs (billions of dollars)



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

Table 2.14 Real export and import growth rates in Arab LDCs, 2022-2024

	Exports			Imports		
	2022	2023	2024	2022	2023	2024
Total Arab countries	**7.5**	**7.9**	**5.1**	**5.6**	**4.8**	**4.0**
Comoros	8.0	6.5	5.3	7.0	3.0	1.1
Djibouti	13.6	18.0	10.0	8.6	11.0	7.0
Mauritania	7.5	7.0	6.0	7.5	7.0	6.0
Somalia	4.4	4.3	7.1	4.4	4.3	7.1
Sudan	2.5	1.4	4.2	2.5	1.4	4.2
Arab LDCs	**7.7**	**9.2**	**7.1**	**9.6**	**7.5**	**5.7**

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

In the Sudan, the largest country in this subregion, the fiscal deficit is expected to reach 2.1 per cent of GDP in 2022, while the debt-to-GDP ratio is expected to decline from 187.7 per cent in 2021 to 83.2 per cent in 2022 and to 34.7 per cent in 2024. However, this significant drop is subject to the resumption of debt relief to the Sudan from major creditors, including the Paris Club. In June 2022, the Paris Club announced the suspension of a debt relief plan for the Sudan owing to political instability.

In Djibouti, the fiscal deficit is expected to range between 3 and 4 per cent during the period 2022-2024, while the debt-to-GDP ratio is expected to range between 50 and 54 per cent. Djibouti is facing significant socioeconomic challenges emanating from the COVID-19 pandemic and the increase in

Djibouti is facing **significant socioeconomic challenges** emanating from the **COVID-19 pandemic**

In the Comoros, the **fiscal deficit** is expected to **increase** to **7.6%** **of GDP in 2022**

global prices as a result of the war in Ukraine. In 2022, The World Bank approved $19.5 million in financing for the country, including a $14.5 million loan directed towards the health system.[23]

In the Comoros, the fiscal deficit is expected to increase to 7.6 per cent of GDP in 2022. The emergence of new variants of COVID-19, fear of additional travel restrictions, and the repercussions of the war in Ukraine will negatively affect government revenues, and delay the recovery of the tourism sector. The debt-to-GDP ratio is expected to increase from 33.6 per cent in 2022 to 38.3 per cent in 2024.

In Mauritania, higher energy prices resulting from the war in Ukraine will increase spending on subsidies, which will have a negative impact on its fiscal position. The fiscal position will move from a surplus in 2021 to a 2.7 per cent deficit in 2022. Growth in the mining industries is expected to contribute to lowering debt-to-GDP levels between 2022 and 2024 from 50 to 46 per cent, respectively.

Table 2.15 Fiscal deficit and debt as a percentage of GDP in Arab LDCs, 2022-2024

	Fiscal balance			Government debt		
	2022	2023	2024	2022	2023	2024
Comoros	-7.6	-6.5	-4.3	33.6	36.9	38.3
Djibouti	-3.8	-3.0	-2.7	53.8	51.1	50.1
Mauritania	-2.7	-2.6	-2.2	50.1	47.9	45.7
Somalia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sudan	-2.1	-4.4	-4.3	83.2	47.2	34.7
Arab LDCs	**-2.3**	**-4.2**	**-4.0**	**78.1**	**47.3**	**36.4**

Source: ESCWA projections based on the World Economic Forecasting Model for 2022.

F. Concluding remarks

Although the 2022-2024 outlook for the Arab region looks positive overall, growth is not equally distributed. The war in Ukraine is driving up global prices of energy, food and raw materials. While GCC countries and other Arab-oil exporting countries will benefit from higher energy prices, most Arab MICs will struggle to finance higher import bills at a time where their economies are suffering from deep structural challenges and weak institutions. Arab CACs and LDCs will continue to face fragile socioeconomic conditions: their recovery is dependent on political reconciliation in some countries, an end of hostilities in others, and resumption of international aid and support in most.

Oil-exporting Arab countries have the opportunity to accumulate reserves and to invest in projects that generate inclusive growth and sustainable development, and which will diversify their economies away from the energy sector. Oil-importing countries, including CACs, need to rationalize their spending and engage in structural reforms that will strengthen their economies.

3 Social developments and gender dynamics

Key messages

Humble progress toward closing the gender gap has been made in some Arab countries. However, the region still has a **gender gap of 37.05 per cent**.

Women's political and economic participation remains weak, with only **18.15 per cent of parliamentary seats** held by women in Arab countries.

The Arab region has the **highest unemployment rate among all regions worldwide**, estimated at 12 per cent in 2022. Over a third of the region's population is **under the national poverty threshold**.

The Arab region has a **labour force participation rate of 46.1 per cent**, the **lowest worldwide in 2022**, and only one in five Arab women typically enters the labour force.

A. Poverty

Poverty is on the rise in the Arab region. The latest projections of regional growth reveal a precarious environment defined by disruptions to the energy and commodity markets following the outbreak of war in Ukraine, and by a rising cost of living in the post-pandemic world. Based on national poverty lines, the Arab region witnessed an increase in poverty in 2022 compared with pre-pandemic years. More than a third of the region's population (35.3 per cent) is under the national poverty threshold. Moreover, poverty is expected to keep rising in the coming two years, reaching 35.8 per cent in 2023 and 36.0 per cent in 2024. This is in contrast to projections made prior to the start of the war in Ukraine, which estimated that under 34.5 per cent of the population would be in poverty today – a rate that would have remained unchanged for the following two years.

Poverty trends differ markedly between countries and country-groupings according to their level of development and political circumstances. Morocco and Algeria are leading the group of countries in table 3.1, with the lowest poverty levels at 4.7 per cent and 6.7 per cent, respectively. Algeria, with a projection of steady poverty reduction through 2024, is on a path to overtake Morocco by 2024, with an expected poverty rate of 5.5 per cent compared with 6 per cent for Morocco. At the opposite end of the scale, Somalia entered the pandemic with 63.9 per cent of its population in poverty, and currently has a 72.7 per cent poverty rate. Lebanon entered the pandemic and its national financial crisis with 45.6 per cent of its population in poverty in 2019, and is estimated to have a poverty rate of 68.6 per cent in the period 2022-2024. Every Arab country therefore faces a set of unique conditions and challenges that affect its poverty levels and trends.

Arab MICs had seen their poverty levels increase before the pandemic, from 18.6 per cent in 2019 to 21.6 per cent in 2022. Poverty is projected to further increase to 22.0 per cent in 2023, and to 22.6 per cent in 2024. In Arab LDCs, poverty has jumped dramatically from 40.1 per cent to 48.6 per cent, and in Arab CACs, it has increased from 42.8 per cent to 50.6 per cent. In LDCs, poverty is expected to stagnate over the coming two years, reaching 48.7-48.6 per cent in 2023 and 2024. In CACs, poverty is expected to continue soaring to 51.7 per cent in 2023, before dipping slightly to 51.4 per cent in 2024.

In recent years, Arab countries have implemented various initiatives to lift the population out of poverty and reduce vulnerability. These efforts doubtlessly prevented humanitarian catastrophes in MICs and LDCs during the pandemic and following other natural and human-made disasters. Such efforts must now be intensified in the post-pandemic period to reach uncovered populations, so that the region can restart its poverty-reduction process.

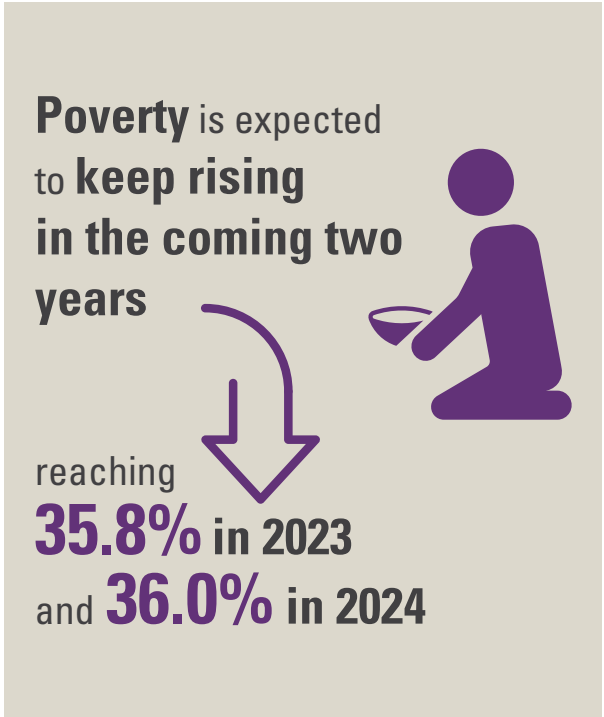


Table 3.1 Poverty levels in the Arab region

	2019	2022	2023	2024
Arab countries	**29.6**	**35.3**	**35.8**	**36.0**
MICs	**18.6**	**21.6**	**22.0**	**22.6**
Algeria	4.4	6.7	6.1	5.5
Egypt	29.7	32.2	33.2	34.4
Jordan	21.0	24.0	22.9	22.2
Lebanon	45.6	68.6	68.6	68.6
Morocco	2.1	4.7	5.2	6.0
Tunisia	14.1	17.4	17.2	17.1
CACs	**42.8**	**50.6**	**51.7**	**51.4**
Iraq	13.9	20.8	20.3	19.8
State of Palestine	30.1	41.2	44.2	46.3
Syrian Arab Republic	42.2	56.6	60.3	61.0
Yemen	82.7	88.9	90.0	88.8
LDCs	**40.1**	**48.6**	**48.7**	**48.6**
Comoros	41.5	43.6	44.6	44.6
Djibouti	17.1	17.5	14.8	18.0
Mauritania	26.4	32.3	31.8	32.0
Somalia	63.9	72.7	72.0	71.9
Sudan	43.8	54.0	54.6	54.2

Source: ESCWA projections (for more information on the forecasting methodology, see ESCWA, 2022b).

Note: Rates for Lebanon, the Syrian Arab Republic and Yemen are based on the latest available pre-2019 national poverty lines. For Jordan, the national poverty rate estimation is based on an inhouse poverty line methodology developed by ESCWA (ESCWA, 2022a).

Box 3.1 War in Ukraine and food security

The war in Ukraine has significantly impacted the most vulnerable countries in the Arab region, and exacerbated many socioeconomic insecurities worldwide. The leading global dimensions at risk are food security, fuel prices and finance, which are creating a spillover effect in various socioeconomic aspects worldwide, especially poverty and health.

Regarding food security, the Russian Federation and Ukraine countries produce nearly 30 per cent of the world's traded wheat and 12 per cent of its calories. The conflict has disrupted the export of wheat, corn and barley from these countries, and a large portion of the world's supply of fertilizers is produced in Belarus and the Russian Federation. As a result, the prices of foods and fertilizers have skyrocketed, affecting every farm internationally. A prolonged conflict will increase the risk of moving backward in terms of poverty and fighting malnutrition. The ability of international agencies has been negatively impacted, especially in providing food aid to countries suffering from famine or other conflicts. For instance, the World Food Programme (WFP) has had to reduce rations due to rising costs, which increases the risk of moving away from achieving Sustainable Development Goal (SDG) 2 on eliminating hunger, and excluding many groups from food aid programmes. Globally, up to 13 million more people could face starvation in 2022 and 2023 owing to the conflict, as estimated by WFP.

As for the Arab region, food prices keep increasing due to global supply chain disruptions. In Tunisia, food price inflation reached 11.9 per cent, driving overall inflation to 8.6 per cent – the highest rate since 1991. Food consumer price indices in Morocco were 12 per cent higher in July 2022 than in July 2021, and were 22.45 per cent higher in Egypt between those two years. In the Sudan, cereal prices were around 80 per cent higher in February 2022 than in February 2021. In Lebanon, the situation is worrisome since food reserves were estimated at just 1.5 months in March 2022. Some of its food storage capacities have been lost following the Beirut Port explosion. In addition, according to WFP, 12 million people and 55 per cent of the population in the Syrian Arab Republic are facing acute food insecurity. Owing to the pandemic and the war in Ukraine, in March 2022, 17.4 million people in Yemen were experiencing high levels of food insecurity, and 2.2 million people were malnourished.

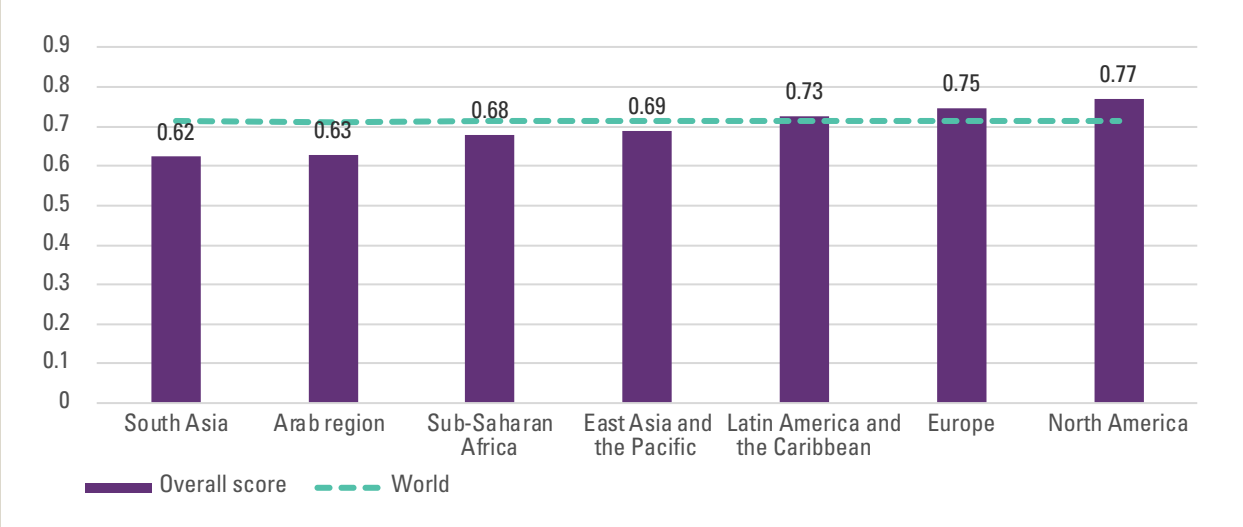
Source: World Bank, 2022d.

B. Gender equality

Gender dynamic indicators have not changed much for the Arab region since last year. Based on the Global Gender Gap Index 2022, average population-weighted scores indicate that the region has the second largest gender gap worldwide (figure 3.1). The average score for the Arab region slightly improved in 2022, leaving a gap of 37.05 per cent between the two genders. According to the World Economic Forum, without additional measures, it could take more than 115 years to close the gender gap in the Arab region.

It could take more than **115 years** to close the **gender gap** in the Arab region

Figure 3.1 Global Gender Gap Index scores by region, 2022



Source: ESCWA calculations based on the World Economic Forum's Global Gender Gap Index 2022.

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

The Arab region continues to have the highest share of the worst-performing countries on the 2022 Gender Gap Index. The United Arab Emirates (rank 68, score 0.716) and Lebanon (rank 119, score 0.644) are the top-performing countries in the region. Saudi Arabia, Morocco and Kuwait were the region's most improved countries in 2022, while the bottom countries were Qatar, Oman and Algeria.[24]

C. Health gender gap

No Arab country has achieved full parity between the genders in terms of health and survival. Almost all Arab countries included in the Gender Gap Index 2022 attained a score higher than 0.945 on the health and survival subindex, where the Arab region's weighted average is slightly higher than the global average (figure 3.2). Fourteen Arab countries have achieved the SDG indicator of reducing maternal deaths to less than 70 per 100,000, and female life expectancy at birth has increased significantly over the last two decades to reach an average of 74 years. The region's improvements in health indicators does not cover the systematic aspect of Arab health-care systems. Health services in the region are still fragmented and supply driven as they remain primarily focused on curative services,

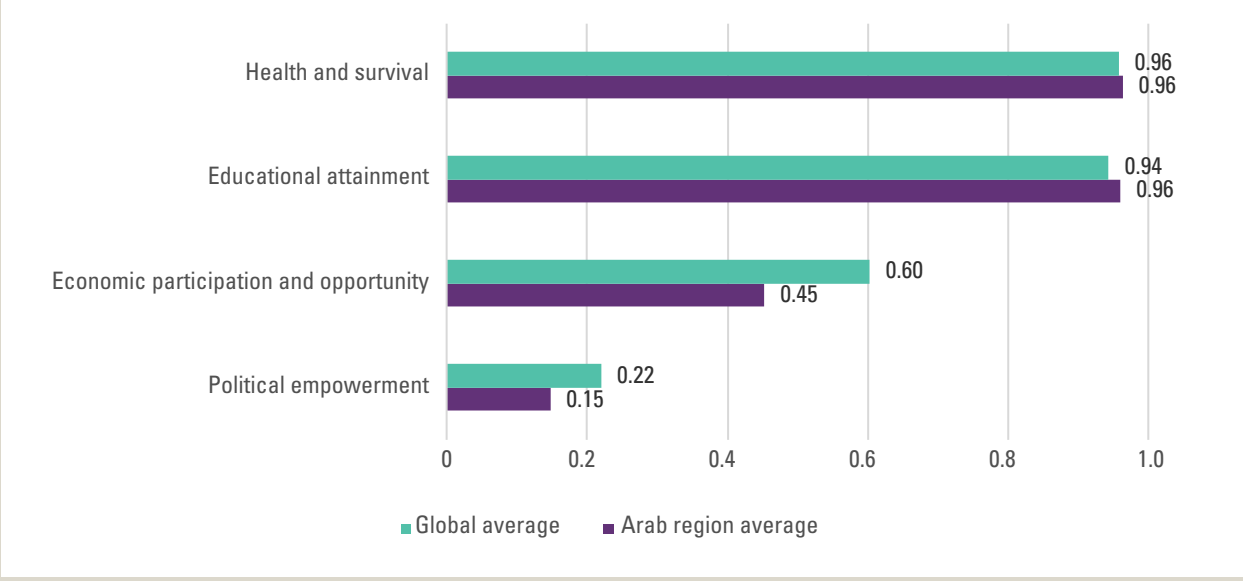
No Arab country has achieved **full parity** between the genders in terms of **health and survival**

not preventative and primary care. A lack of integration between maternal and neonatal health remains a significant challenge, in addition to major barriers in sexual and reproductive health and rights. Mental health services have many structural and cultural limitations; however, the region has the lowest female suicide mortality rate (2.5 per 100,000) among all regions.

D. Women's education

In terms of educational attainment, the Arab region has an outstanding performance and made improvements to close the education gender gap, which is 0.96 compared with a global average of 0.94 (figure 3.2). Bahrain, Jordan, Kuwait, Lebanon, Qatar and the United Arab Emirates are very close to ending the education attainment gender gap. However, the subindex for 2022 excludes several CACs and LDCs where gender parity in school enrolment (primary and secondary) is considered high. Regardless of the educational gains in many Arab countries, multidimensional inequality between wealth groups persists, especially in access to quality and secondary level education. Recent data on literacy rates indicate a higher literacy rate of 81 per cent among young Arab females (aged 15-24) compared with 66 per cent among adult females (aged 15+). In the past two years, the pandemic has added many burdens on vulnerable families, affecting the ability of many girls and women to continue their educational attainment in many Arab low-income countries.

Figure 3.2 Arab region and global performance by subindex, 2022



Source: ESCWA calculations based on the World Economic Forum's Global Gender Gap Index 2022.

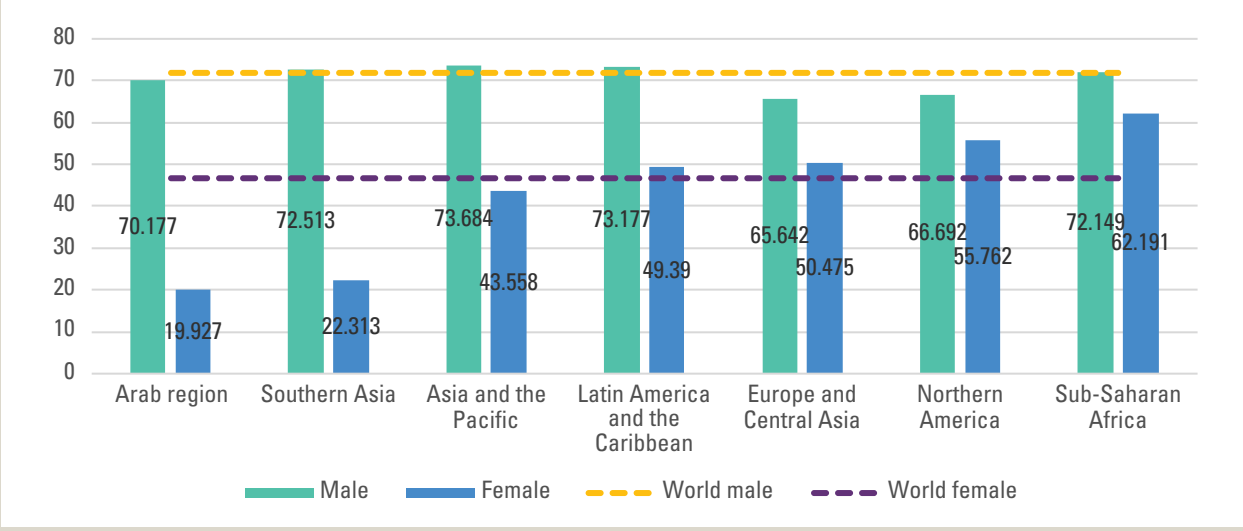
E. Labour force disparities

There is a slight improvement in terms of economic participation and opportunity in the Arab region. However, the region is still characterized by structural barriers that limit women's participation. Only 5 per cent of firms have top female managers.[25] Various cultural and institutional barriers impede female participation in the economy: women in the region still face constraints regarding finance, starting a business, and wage gaps. Egypt, Jordan, Iraq and Yemen have the lowest estimated labour force participation among all the Arab countries, with a wage gap ranging between 5 to 30 per cent.[26]

The female labour force participation rate in the Arab region remains the lowest worldwide, estimated at 19.9 per cent compared with the world's average of 46.6 per cent (figure 3.3). In contrast, male labour force participation is estimated at 70.2 per cent, which is slightly below the world's average. In the Arab region, the female employment to population ratio is 15.5 per cent compared with the male ratio of 64.3 per cent, according to 2020 estimations.[27] This gap in the ratios indicates significant disparities between the genders in the labour market. Arab female youth labour force participation (aged 15-24) is 10.7 per cent, which is less than a third of the world's estimated average of 32.1 per cent.[28]

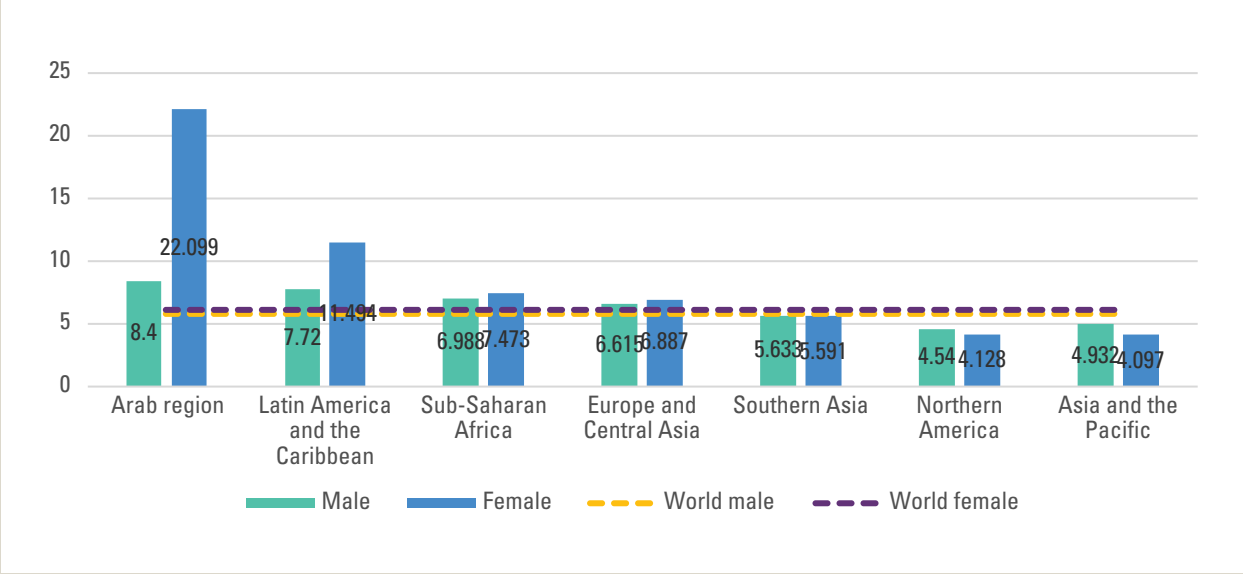
The **female labour force participation rate** in the Arab region remains **the lowest worldwide**

Figure 3.3 Female and male labour force participation rates (regional averages), 2022



Source: ILO modelled estimates.

Figure 3.4 Female and male unemployment rates (regional averages), 2022



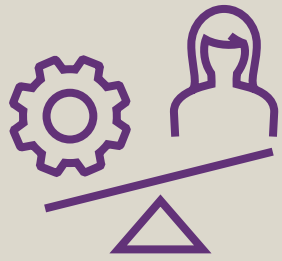
Source: ILO modelled estimates.

In addition to low labour force participation, the Arab female unemployment rate is the highest worldwide, estimated at 22.1 per cent, whereas the world's average is only 6 per cent (figure 3.4). The region also has the highest male unemployment rate among all the world's regions, estimated at 8.4 per cent compared with the world's average of 5.7 per cent. Youth unemployment rates for females in the region indicate the hardship young women face in finding economic opportunities and being active in the labour force. In 2022, the youth female unemployment rate (aged 15-24) was estimated at 44.9 per cent, while the male youth unemployment rate was 22.8 per cent, and the world's average was at 15.2 per cent and 14.5 per cent, respectively.[29]

These rates and ratios for Arab women in the labour market illustrate the limited opportunities for women in the region. This is a persistent socioeconomic challenge in

Arab female unemployment rate is the **highest worldwide**

estimated at
22.1%

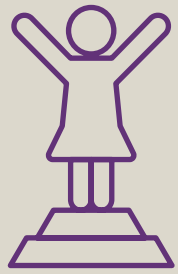


whereas
the world's average
is **only 6%**

the region, and the root causes are typically gender-blind economic policies, limited job creation, social and cultural constraints, and mismatches between female education and labour market demands. According to the ESCWA Skills Monitor, only 32 per cent of online job openings in the region target women, while almost 55 per cent target men, and just 12 per cent are gender neutral. Most female-targeted job openings are at the entry-level, and only 10 per cent exclusively target women at the senior level.

Most **female-targeted job openings** are at the **entry-level**

only 10% exclusively **target women** at the **senior level**



F. Women's political participation

The Arab region has recorded a significant setback in terms of female political representation in 2022. After a slight improvement in the first quarter of 2021, the percentage of women's representation in national parliaments has decreased by 1.42 per cent. As at July 2022, women held only 18.15 per cent of parliamentary seats in all countries of the Arab region. This share is the lowest among all the regions of the world. Female representation in national parliaments has fluctuated inconsistently over the past decade. The total number of seats held by females in Arab parliaments has declined from 769 seats in 2021 to 691 seats in 2022 (table 3.2). Overall, political empowerment is considered the weakest worldwide as sociocultural barriers persist, with the region closing only around 15 per cent of the political representation gender gap.

As at July 2022, **women held only 18.15%** of **parliamentary seats**

The Arab region has recorded a **significant setback** in terms of **female political representation** in 2022

Table 3.2 Women in national parliaments

Country	As at January 2021				As at July 2022			
	Lower or single house				Lower or single house			
	Election date	Total seats	Women's seats	Women's share (%)	Election date	Total seats	Women's seats	Women's share (%)
Algeria	May 2017	462	120	25.97	June 2021	407	34	8.35
Bahrain	November 2018	40	6	15.00	November 2018	40	6	15.00
Comoros	January 2020	24	4	16.67	January 2020	24	4	16.67
Djibouti[a]	February 2018	65	17	26.15	February 2018	65	17	26.15
Egypt	October 2020	591	162	27.41	October 2020	592	164	27.70
Iraq[a]	May 2018	329	84	25.53	October 2021	329	97	29.48
Jordan[a]	November 2020	130	15	11.54	November 2020	130	16	12.31
Kuwait	December 2020	65	1	1.54	September 2022	50	2	3.7
Lebanon	May 2018	128	6	4.69	May 2022	128	8	6.25
Libya	June 2014	200	33	16.47	June 2014	200	33	16.47
Mauritania	September 2018	157	32	20.26	September 2018	157	32	20.26
Morocco[a]	October 2016	395	81	20.51	September 2021	395	95	24.05
Oman	October 2019	86	2	2.33	October 2019	86	2	2.33
State of Palestine	-	-	-	-	-	-	-	-
Qatar	June 2016	41	4	9.76	October 2021	45	2	4.44
Somalia	October 2016	275	67	24.36	November 2021	274	54	19.71
Saudi Arabia	October 2020	151	30	19.87	October 2020	151	30	19.87
Sudan[a]	-	-	-	-	-	-	-	-
Syrian Arab Republic	July 2020	250	28	11.20	July 2020	250	28	11.20
Tunisia[a]	October 2019	217	57	26.27	October 2019	217	57	26.27
United Arab Emirates	October 2019	40	20	50.00	October 2019	40	20	50.00
Yemen	April 2003	301	1	0.30	April 2003	250	0	0.00

Source: Inter-Parliamentary Union Database, 2022.

[a] The country has a quota reserving a number of seats for women in parliament.

Of the six countries that had elections in 2022, only Iraq has achieved over 20 per cent female representation. Egypt, Iraq, Jordan and Lebanon have recorded a slight improvement, while the latest election in Morocco in September 2021 increased women's seats in parliament by 14, achieving a representation of 24 per cent.

In contrast, five countries in the region have recorded a significant decline in female representation. In Algeria, only 33 women were elected as members of the National People's Assembly in the 2021 election, recording a 17.6 per cent drop in women's representation from 2017 when there were 87 female members. This drop was mainly caused by the replacement of the one-third quota systems with a law that mandated parity among party candidates. However, in the 2021 Algerian elections, political parties that did not meet the gender-parity requirement for their candidate list were only required to inform the election authorities under article 317 of the new election law about their inability to meet the gender parity standards, and could then participate normally in the elections. Somalia has recorded a drop of 4.66 per cent, as women lost 13 seats. The number of women in the Shura Council of Qatar has decreased from 4 to 2. Women's representation in Libya also dropped by two members, and Yemen lost the only seat that a woman held, thereby becoming one of the four countries in the world with no female members of parliament.

Box 3.2 Arab women entrepreneurs

Entrepreneurship plays an essential role in advancing the economic empowerment of women. It is an important strategy that can help reduce gender inequality and poverty, and promote sustainable growth by creating jobs and reaping the potential gains of human capital and productivity.

According to data from the World Bank Enterprise Survey, in the MENA region, 20.2 per cent of firms have some female participation in ownership. While the global average is 33.4 per cent, the MENA percentage is substantially low compared with other regions; only when compared to South Asian economies does the MENA region score higher with a 3.1 percentage points difference. Moreover, when restricting data to majority female-owned firms, the MENA region has the lowest percentage score across all regions, with only 4.3 per cent of firms having majority female ownership, compared with 14.6 per cent globally.

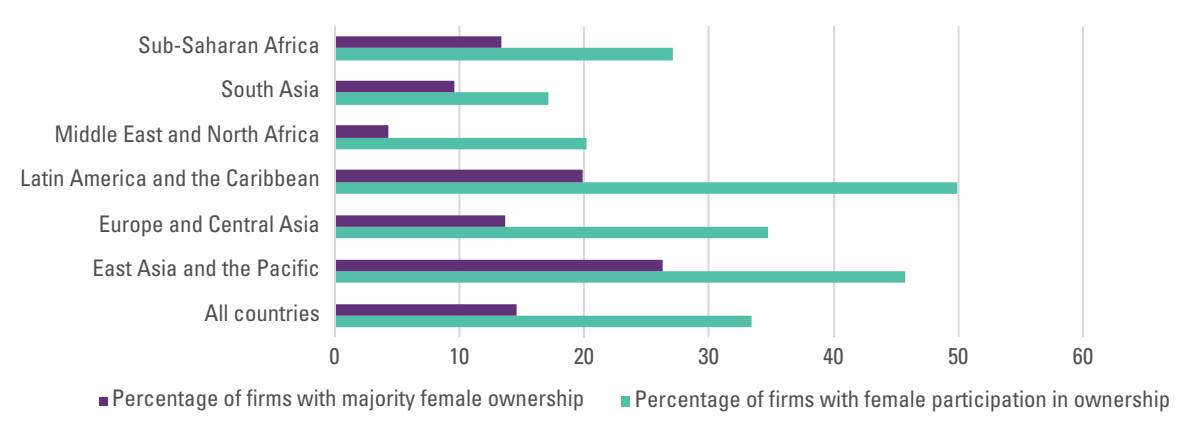
Despite the low overall rates of female entrepreneurship in the Arab region, there seems to be a significant gap between entrepreneurial intentions and actual business activity. In the 2020/2021 Global Entrepreneurship Monitor, the seven economies that participated from the Arab region revealed the same pattern: high rates of female entrepreneurial intentions are observed across all countries, compared with low rates of nascent activity, and early-stage and established businesses. The figures suggest that there may be a sizable number of promising female entrepreneurs who lack the necessary resources or skills to carry out their business plans.

While there are various reasons behind this gap, especially given the cultural and economic diversity across subregions, some common structural and cultural factors influence and restrict women's entrepreneurial activity. In addition to barriers related to a country's broader business environment, which affects both women and men, women's low engagement in entrepreneurship can be explained by the low rates of women's labour force participation and gaps in education across the region, which limit their understanding and experience to set up their own business. In addition, if they do start a business, women tend to encounter various challenges related to mobility and time constraints, limited access to information, and low access to finance, not to mention the numerous cultural and legal hurdles that limit their scope of activity.

Source: ESCWA, 2021; GEM, 2021.

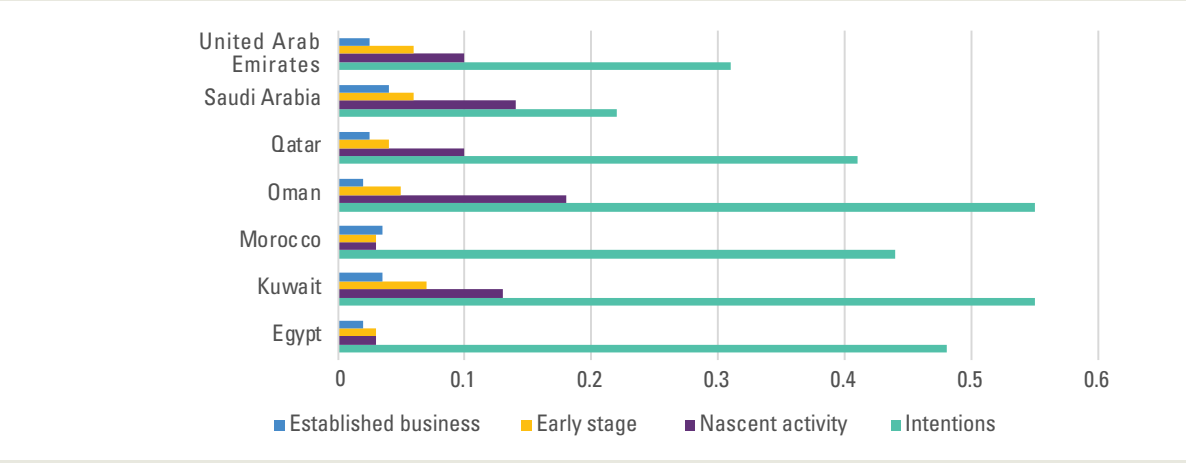
Box 3.2 Arab women entrepreneurs

Figure B3.2A Female participation in ownership



Source: World Bank enterprise survey.

Figure B3.2B Female entrepreneurial activity



Source: GEM, 2021.

G. Labour market dynamics

In contrast with the uneven recovery projections for the global labour market in the second half of 2021, the International Labour Organization has downgraded its forecast for labour market recovery in 2022. The new global projections indicate a deficit of working hours, equivalent to 52 million jobs lost. The world may also enter the fourth COVID-19 calendar year with new variants appearing, putting global and regional employment in significant uncertainty and fragility.

The Arab region's labour market is diverse and differs between countries. The pandemic has impacted Arab countries differently, as labour-related policies and responses varied based on labour market characteristics.

In general, non-high-income Arab countries are characterized by significant informality, working poverty, and limited social protection. Conflict and instability in CACs are worsening labour market conditions. Technology seems to be substituting Arab labour and complementing capital, which raises a dire need for intervention and reforms from Governments in skills development and redistributive policies to mitigate widening inequalities.

1. Migrant labour

The Arab region hosts vast numbers of migrant workers: recent statistics indicate that there are more than 30 million migrant workers in the region, and a third of them are women. These workers are mainly concentrated in GCC countries: in Bahrain, Qatar, and the United Arab Emirates, migrants comprise the majority of the resident population. Migrant workers constitute more than 50 per cent of the workforce in Bahrain, Kuwait, Qatar and the United Arab Emirates, and a third in Oman and Saudi Arabia.

Most migrant workers in Arab countries work in industries that offer minimal employee protection, which puts them in a state of vulnerability, especially with a regulatory framework that limits chances of transferring employment or leaving. The *kafala* (sponsorship) system ties each migrant worker with a sponsor (person or firm), and gives the sponsor absolute control of the mobility of the migrant workers. Some Arab countries have been setting restrictions on migrants since 2020. Some GCC countries introduced nationalization policies that aim to increase Gulf nationals' participation in the workforce, such as the Saudization (*Nitaqat*) laws in Saudi Arabia, and Kuwaitization in Kuwait, setting a quota for migrants. These policies aim to protect national identity and meet the aspirations of native young people and the female population by giving them prominence in the job market. The quota set by Kuwait recently forced 800,000 migrants to leave the country. However, Qatar enacted a new labour law in 2020 that abolished the sponsorship system and provided more legal rights, recognition, and protection for migrant employees.

The Arab region hosts **vast numbers** of **migrant workers**

there are more than **30 million migrant workers** in the region

1/3 are women

2. Labour force participation

Arab labour force participation **rate** is considered the **lowest worldwide**

Even with a slight improvement of 0.4 per cent, the Arab labour force participation rate is considered the lowest worldwide, estimated at 46.1 per cent in 2022 compared with the world's average of 59.3 per cent. The region has maintained such a low rate over decades as a result of the limited economic participation of women. Even with higher education levels, especially among women, the labour force participation rate remains low and is growing slowly. The slight improvement in 2022 is mainly due to the increase in youth labour force participation.

3. Unemployment in the Arab region

The region's high unemployment rate will persist in 2022, and is estimated to be one of the highest worldwide at 12 per cent. However, this rate is expected to decrease slightly to 11.7 per cent in 2023 (table 3.3) owing to economic recovery in the post-pandemic era. However, employment challenges persist in the region, and job creation and working hours remain low. Unemployment will remain high in Arab LDCs, with unemployment rates above 17.5 per cent in 2022 and 2023. Arab CACs still face high unemployment and job creation hardship, with the unemployment rate exceeding 15 per cent in the next three years. Arab MICs had an estimated 11.4 per cent unemployment rate in 2022, which will decrease slightly to 11.2 per cent in 2023. The GCC subregion is the only Arab subregion expected to maintain a low unemployment rate of 5.9 per cent in 2022 and 5.5 per cent in 2023, as most GCC countries have the lowest unemployment rates worldwide.

The region's **high unemployment rate will persist** in 2022

and is estimated to be one of **the highest worldwide at 12%**

Table 3.3 ESCWA unemployment rate projections, 2022-2024

	2022	2023	2024
Total Arab countries	**12.0**	**11.7**	**11.4**
GCC countries	**5.9**	**5.5**	**5.2**
Bahrain	1.6	1.2	1.1
Kuwait	1.5	1.5	1.5
Oman	1.5	1.5	1.5
Qatar	0.1	0.1	0.1
Saudi Arabia	10.1	9.5	8.8
United Arab Emirates	1.5	1.5	1.5
Arab MICs	**11.4**	**11.2**	**10.8**
Algeria	15.0	14.5	14.0
Egypt	7.0	7.1	6.8
Jordan	23.2	22.1	21.5
Lebanon	29.2	27.0	25.0
Morocco	11.0	11.1	10.9
Tunisia	16.2	15.4	15.0
CACs	**16.2**	**15.9**	**15.5**
Iraq	18.5	17.6	16.5
Libya	17.4	16.8	16.1
State of Palestine	27.0	27.2	27.5
Syrian Arab Republic	12.5	12.5	12.5
Yemen	13.2	14.0	14.0
Arab LDCs	**18.0**	**17.5**	**17.7**
Comoros	6.5	6.6	6.8
Djibouti	25.7	25.5	25.4
Mauritania	10.8	10.2	10.5
Somalia	18.8	18.3	18.0
Sudan	18.6	18.1	18.4

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

In Morocco, the economic rebound in 2021 paved the way for a modest economic recovery for most output and losses in jobs and working hours after the pandemic. However, Moroccan GDP remains below pre-pandemic levels, and growth in recent years was insufficient to meet the demand for jobs from the vast working-age population. Many obstacles still face employment in Morocco as the labour market is still characterized by low female labour participation, high inactivity rates, and a significant informal sector. Despite the New Development Model that calls for transformative reforms, the labour market in 2022 is still affected by the heavy layoffs of the pandemic. Therefore, the unemployment rate in Morocco is projected to remain high at 11 per cent in 2022 and at 11.1 per cent in 2023, but will start to fall in 2024.

Saudi Arabia has recorded a stronger than projected economic recovery in the post-pandemic period, despite the impact on the oil market of the war in Ukraine. High vaccination rates of 70.27 per cent as at September 2022 has aided the country in successfully controlling the negative impact of the pandemic and new variants that caused disruptions in the global labour market in 2022. The impact of Vision 2030 on diversifying the economy beyond dependency on oil is visible in the labour market. The unemployment rate in Saudi Arabia has fallen by 1 per cent since 2021 to reach 10.1 per cent in 2022, and is projected to reach 9.5 per cent in 2023.

Saudi Arabia has recorded a **stronger than projected economic recovery** in the post-pandemic period

Lebanon has suffered through **3 years** of an **extraordinary economic and financial crisis**

Lebanon has suffered through three years of an extraordinary economic and financial crisis, which has drastically impacted its employment situation. The unemployment rate was estimated at 43.2 per cent in 2021. New projections indicate a decline in unemployment to 29.2 per cent in 2022, and to 27 per cent in 2023 in the shadow of the continuing crisis, political instability and unrest. This decline in unemployment is not the result of a post-pandemic economic rebound, but rather the result of a shrinking working-age population as the Lebanese labour force is witnessing significant brain drain. The financial and economic crisis makes job creation in Lebanon harder, with many businesses facing great difficulties in maintaining operations owing to instability in the currency exchange rate and a collapse in essential services like electricity.

Unemployment in Iraq was estimated at 18.5 per cent in 2022 as a result of significant uncertainty owing to geopolitical tension and political instability, which threaten

opportunities for investment and job creation. Iraq has witnessed a gradual economic recovery from the pandemic, but faces many structural obstacles. The unemployment caused by the pandemic affected various social groups disproportionally, and remains high among the displaced and returnees, informal workers, and women. Recent projections foresee a gradual decrease in unemployment in 2023 to 17.6 per cent, and in 2024 to 16.5 per cent.

The socioeconomic situation in the State of Palestine was already weak before the pandemic, with heavy restrictions placed by Israel on movement, access to services, and trade. In the past decade, economic growth has not been sufficient to meet the growth in population. The unemployment rate is extremely high, with significant disparities between Gaza and the West Bank: the unemployment rate in Gaza is more than triple the rate in the West Bank. Unemployment is projected to remain high in 2022 at 27 per cent, mainly impacted by a rise in labour force participation. This increasing trend will persist, with the Palestinian unemployment rate reaching 27.2 per cent in 2023 and 27.5 per cent in 2024.

In Yemen, the seven-year conflict is keeping the country in an unprecedented social and humanitarian crisis. The economic situation is worsening because of massive destruction of vital public infrastructure, which hinders access to public services and prevents private sector growth. The agricultural sector dominates the economy, with many obstacles related to environmental and climate issues that can cause shocks to employment in terms of working hours and layoffs. Official statistics are no longer produced, so there is little reliable information on the economy as the conflict and its consequences continue. The unemployment rate in 2022 reached 13.2 per cent, and is expected to hit 14 per cent in the following two years.

4 Arab policy choices and financing opportunities in a new world tax order

Key messages

Arab countries rely on regressive forms of indirect taxation to compensate for low tax compliance and tax leakages associated with tax abuse, tax base erosion and profit shifting. Nonetheless, **many Arab economies continue to award generous fiscal and tax incentives** to attract foreign direct investment (FDI) and multinational corporation (MNC) activity.

However, **taxes paid by MNCs are not proportional to the profits they make in the Arab region, and the incentives granted often remain unrelated to corporate investments.** Moreover, Arab countries fall prey to FDI round tripping and phantom investments, and some jurisdictions in the region are used as conduits to facilitate tax-based illicit flows that further undermine the stability of financial systems.

Under these conditions, **the expected benefits of the GloBE tax reforms pale in contrast with the diverse financing needs** and tax collection capacities of Arab countries, especially as the proposed reforms remain slanted in favour of MNCs ultimate parent jurisdictions. **Several aspects of the GloBe proposal are under negotiations** where some elements may impinge on tax sovereignty and on the right of countries to regulate automated digital services, while the proposed binding dispute settlement mechanisms may negate relevant mandated regional bodies.

The newly introduced article 12b of the **United Nations Model Tax Convention** and the recent General Assembly resolution on the **"Promotion of inclusive and effective international tax cooperation at the United Nations"** offer **alternative pathways to develop international tax cooperation** and **reform the global tax architecture** under a United Nations-led intergovernmental process.

Over the past four decades, international tax competition has triggered a race to the bottom that brought visible declines to global corporate income taxes (CIT). Under these conditions, the Arab region was compelled to reduce CIT rates by almost half to match falling global corporate taxes, before witnessing an uptick after 2010 (figure 4.1). Ever since, Arab economies have been contending with the following inconsistent trilemma:

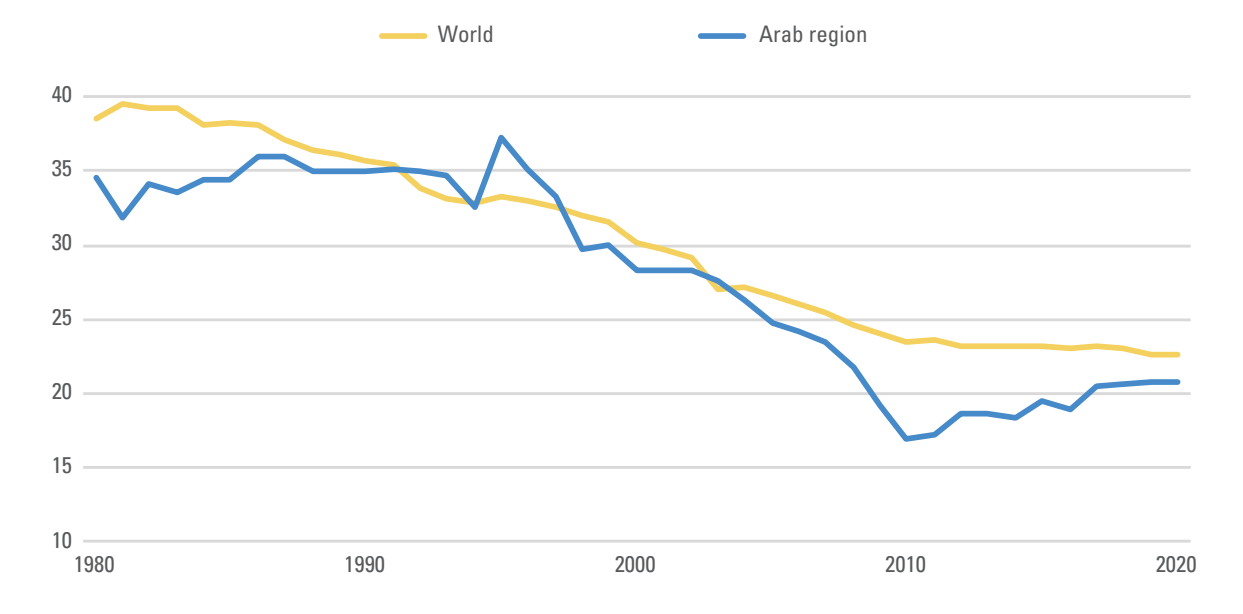
1. Firstly, tax administrations were driven to rely on fast revenue-generating indirect forms of regressive taxation to make up for low tax compliance and downward pressure on corporate taxes.[30]

2. Secondly, policymakers were motivated to award generous fiscal and tax incentives to attract MNCs and FDI to make up for inherent structural deficiencies, although these incentives remained largely unaccounted for in terms of forgone public revenues.

3. Thirdly, public coffers suffered an estimated $8.6 billion in annual revenue losses owing to corporate tax abuse (tax evasion and avoidance).

MNCs have resorted to tax planning strategies, exploiting mismatches in tax treaties (treaty shopping) to escape tax liability by shifting their profits away from the jurisdictions where the real activities creating those profits take place. Some MNCs established letterbox companies to avoid or evade taxation and split their operations over smaller entities to shift to lower tax brackets. They also reduced their tax footprint by locating their assets in low tax jurisdictions, and irregularly applied transfer pricing rules by inflating, for example, the prices of their imports from affiliates, while exporting their final products at a fraction of their true value, noting that 80 per cent of global trade takes place within MNCs.[31] Tax arbitrage (the practice of exploiting asymmetries in the tax treatment of rents, capital income and debt) also allowed MNCs to dodge taxation when repatriating profits and dividends, and servicing debt under increased conditions of international capital mobility.

Figure 4.1 Declines in statutory corporate taxation, 1980-2020 (Percentage)



Source: ESCWA calculations based on Tax Foundation, 2021.

In the era of mass digitization, tax abuses have been amplified as new business models allowed MNCs to generate income without maintaining a physical presence in markets where real economic activity is created. The inability to effectively tax automated digital services has undercut the taxing rights of many countries and has narrowed their tax base, thus exacerbating inequalities as the tax burden shifts from mobile capital to immobile factors (labour/wages), and from MNCs to small domestic firms that are already contending with asymmetric competition conditions.

To address the tax challenges arising from the digitization of the global economy, the Group of 20 (G20) Summit, held in Rome on 30 and 31 October 2021, endorsed a two-pillar solution under the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) of the Organisation for Economic Co-operation and Development (OECD), to be developed into a multilateral instrument open for signature with effect in 2024. Pillar one foresees the reallocation of taxing rights on selected in-scope MNCs, while pillar two seeks to reduce incentives for profits shifting and reduce tax competition by enforcing a global anti-base erosion (GloBE) minimum effective tax rate of 15 per cent on the undertaxed profits of MNCs with annual consolidated turnover above €750 million. Several aspects concerning the application of the two pillars will evolve over the course of 2023 as technical work and the outcomes of political agreements are developed. Meanwhile, the United Nations General Assembly adopted a resolution on the "Promotion of inclusive and effective international tax cooperation at the United Nations", advocating for an international tax cooperation framework or instrument agreed upon through a United Nations intergovernmental process.[32]

The present chapter offers an initial assessment of the impact of enacting a minimum effective corporate tax rate of 15 per cent in some Arab countries.[33] The chapter begins by revisiting a set of stylized facts that have dominated the nexus between corporate taxation, FDI and MNC operations in the region; and empirically revisits the links between FDI and MNC corporate taxation. Several policy choices are weighted with respect to the application of salient pillar-two elements on public revenues, MNC location decisions, FDI patterns, tax leakages and incentives. The chapter concludes with a set of policy options and recommendations for Arab countries.

A. Revisiting stylized facts on corporate taxation, MNCs and FDIs

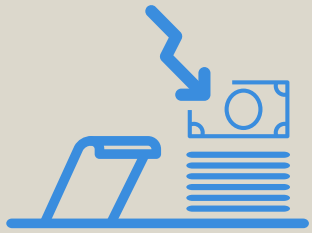
1. Arab corporate tax systems

The Arab region exhibits two main dichotomies. The first is that Arab MICs rely on taxation as a primary source of public revenues.[34] In contrast, Arab high-income countries (HICs) rely on oil and gas rents derived from windfalls, royalties, production sharing agreements, tariffs, and licensing fees. However, all Arab countries rely on some form of corporate taxation, irrespective of income level.

The second dichotomy is symptomatic of the region's structural challenges, including tax

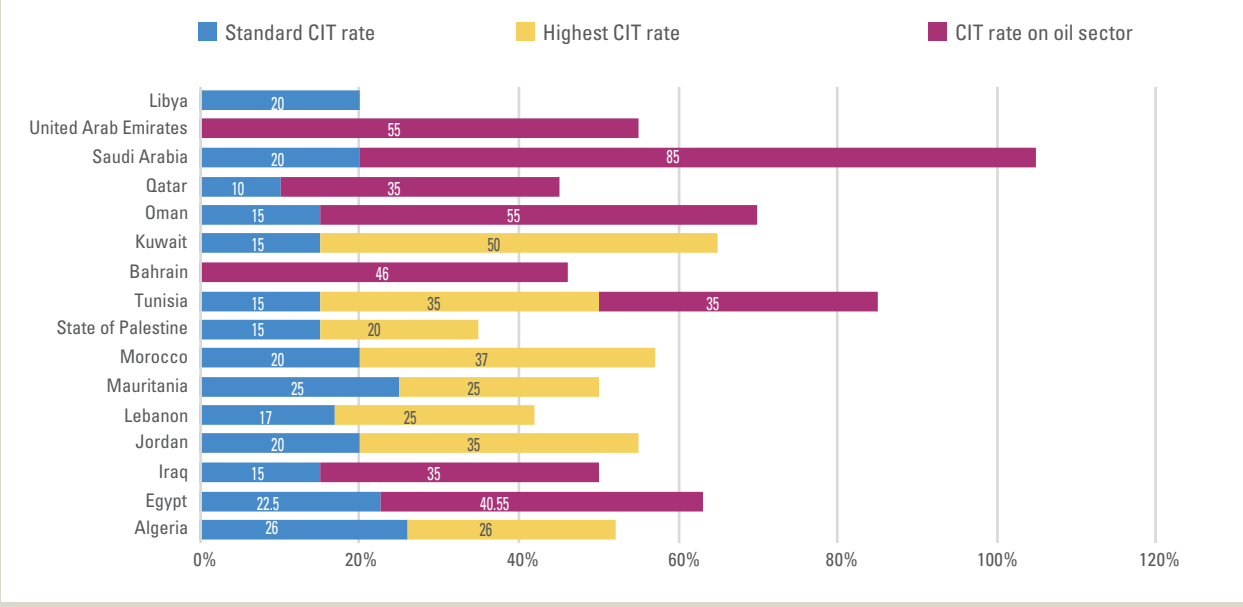
non-compliance, high informality, and the political factors that assigned high roles to corporate income taxes (CIT) over other forms of direct taxation. Yet, despite evident fiscal space strains, CIT rates in the Arab region declined by almost half from 35 to 21 per cent over the period 1980-2020, exhibiting wide dispersions of 25 and 50 percentage points between standard and top rates in Arab MICs and HICs, respectively (figure 4.2).

High statutory CIT rates in the Arab region do not necessarily translate into high average effective tax rates (AETR) or yield high corporate tax revenues (figure 4.3). This is driven by an anomaly of tax leakages symptomatic of tax base erosion, profit shifting, tax arbitrage, low tax enforcement, and FDI reversals of untaxed passive income.



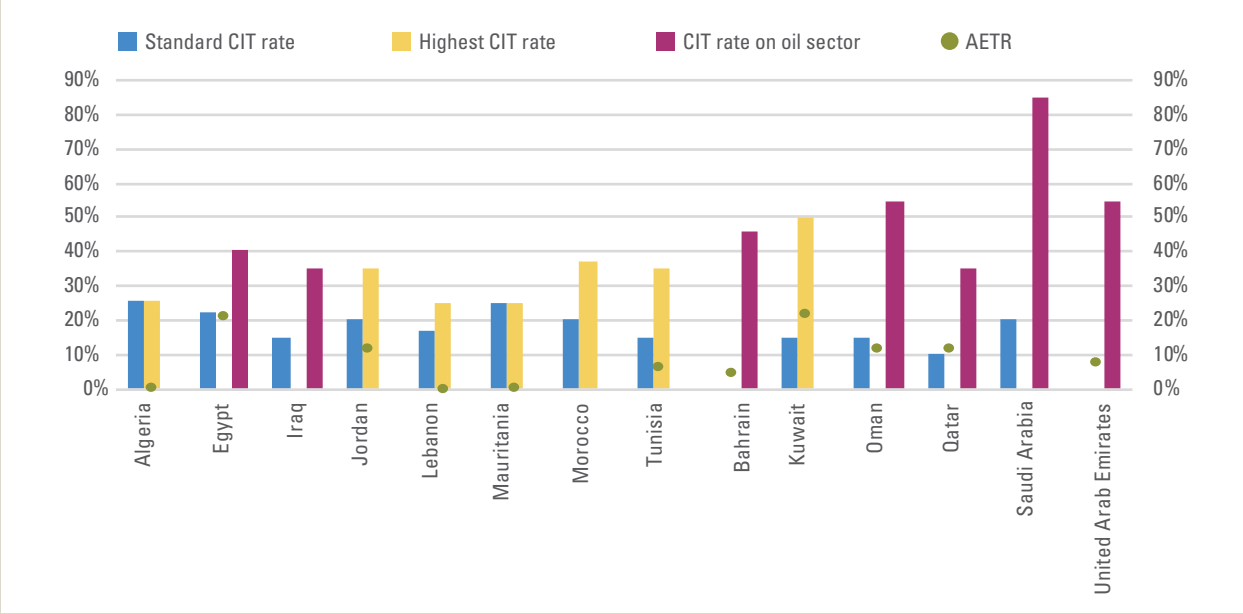
CIT rates in the Arab region **declined by almost 1/2** from **35% to 2%** over the period **1980-2020**

Figure 4.2 Headline corporate income tax across the Arab region, 2021



Source: ESCWA calculations based on PricewaterhouseCoopers (PwC) World Tax Summaries.

Figure 4.3 Statutory versus average CIT effective taxes in the Arab region, 2021



Source: ESCWA calculations based on PwC World Tax Summaries, and AETR calculations based on Orbis.

It is also explained by generous tax exemptions and other fiscal and tax incentives awarded to MNCs (figure 4.4). These practices drove countries to compete over assigning taxing rights and the location of MNCs. The decision by Saudi Arabia to cease contracting foreign corporations that do not maintain their regional headquarters in the country after 2023 was not taken in isolation of these dynamics.

Arab countries provide tax incentives based on location and type of activity. The United Arab Emirates, for example, offers up to 50-years tax breaks through over 40 free trade zones.[35] Tax holidays in Jordan run up to 30 years.[36] In Tunisia, exporting firms benefit from a tax wedge and deductions on reinvested profits,[37] which cost public coffers 2 per cent of its GDP.[38] In Morocco, tax exemptions accounted for $3.5 billion in forgone public revenues in 2016.[39] By 2020, the situation improved as Moroccan tax expenditures amounted to $2.2 billion, whereas in Tunisia the costs stood firm at 2 per cent of GDP. Nonetheless, tax incentives are often unrelated to investment performance, posing costs in terms of forgone corporate revenues.

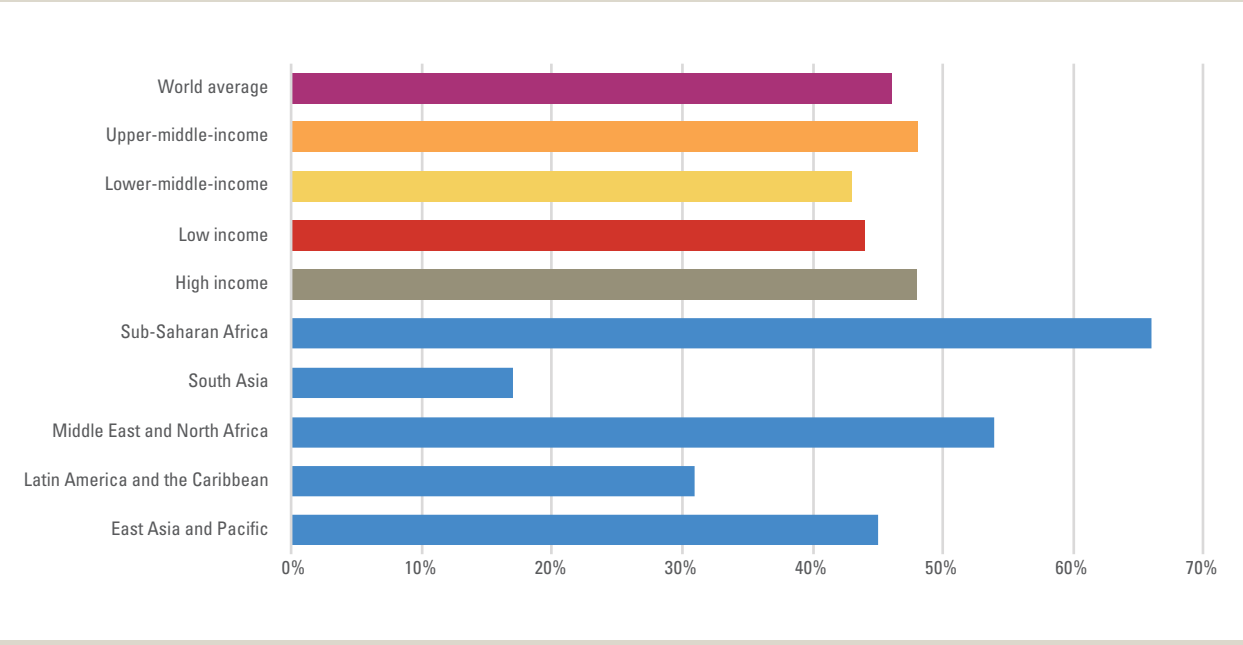
The **United Arab Emirates** offers up to **50-years tax breaks** through over **40 free trade zones**

In addition to the forgone revenues associated with excessive tax expenditures, MNC tax planning and global tax competition affect tax design. IMF finds that each one-point reduction in global corporate tax rates shrinks a country's tax base by 3.7 per cent. This translates to $50 billion in corporate revenue losses for the Arab region during the past decade. The losses can be higher when indirect ones are also factored, including for example when MNC ultimate parent jurisdictions offset the effect of incentives by taxing MNC groups' worldwide income and reduce foreign income credits.

By 2020, the Arab region became host to 5,114 foreign majority-owned MNCs (accounting for 93 per cent of the activities of foreign affiliates worldwide and 83 per cent of foreign operations in the region),[40] concentrated in four Arab countries, namely Egypt, Morocco, Saudi Arabia and the United Arab Emirates (figure 4.5). These countries account for two thirds of MNC capital investments predominantly sourced from Canada, France, Japan and the United States. However, capital investments dropped by almost half following the outbreak of the COVID-19 pandemic, from $60 billion to $34 billion in 2020.[41]

MNCs remain key drivers of FDI. A consistent pattern emerges where MNCs are concentrated in the four countries receiving the highest FDI inflows. MNCs constitute 20 per cent of the total number of enterprises in the region, compared with 5 per cent in most economies. This is likely due to a mix of high informality and to the establishment of letterbox companies in some Arab jurisdictions. MNCs contribute on average 23 per cent of total CIT revenues in developing countries.[42] In the Arab region, this share can be as high as 28 per cent in the United Arab Emirates, and as low as 13 per cent in Egypt (excluding a 56 per cent share of State-owned enterprises in corporate tax revenues).[43]

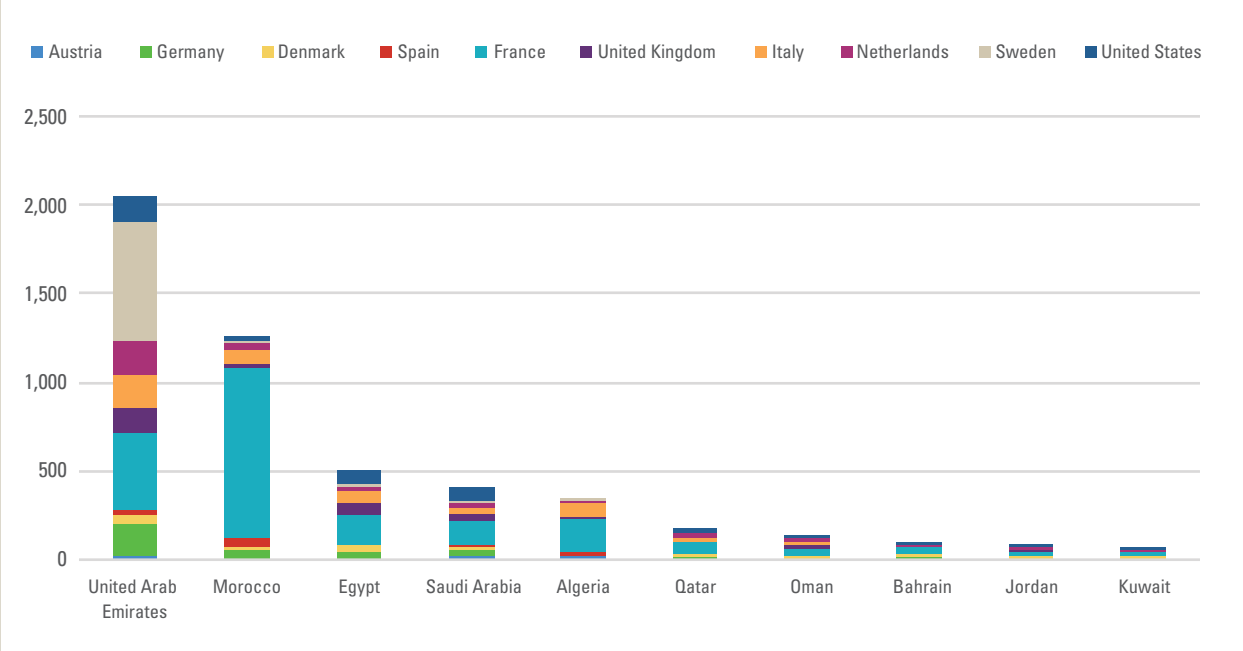
Figure 4.4 Share of countries that made incentives more generous in at least one sector, 2009-2015



Source: ESCWA calculations based on World Bank, 2018; 2021a.

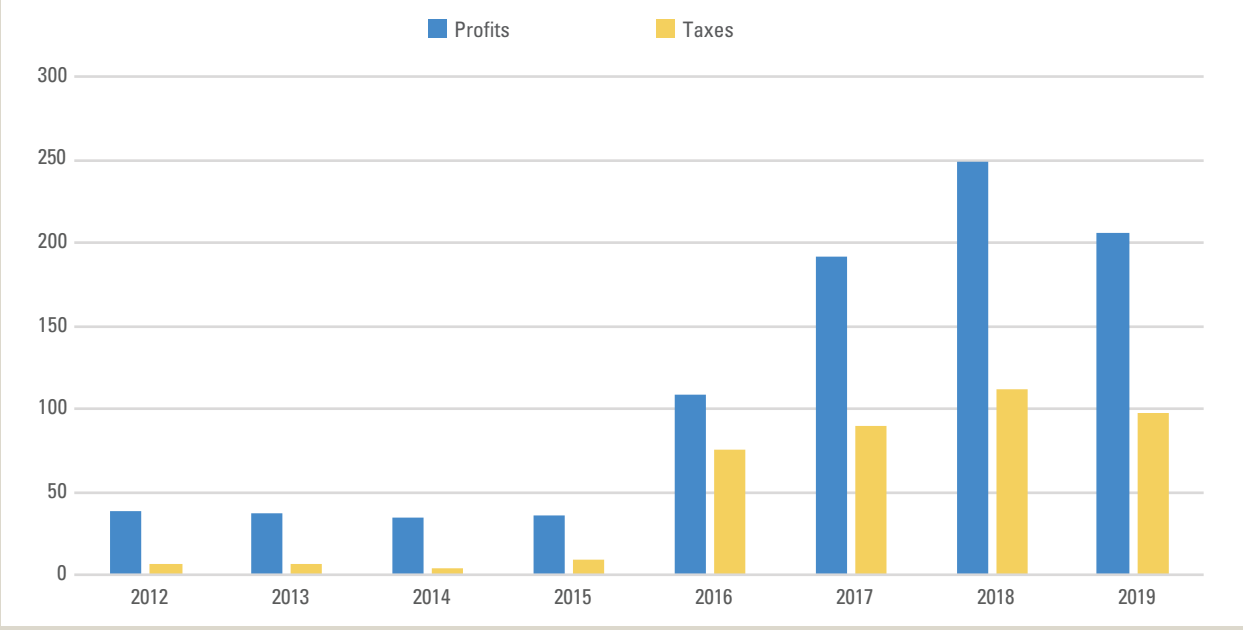
Note: The Middle East and North Africa classification is defined as per the World Bank's classification.

Figure 4.5 MNCs in the Arab region, by country of location and OECD ultimate parent jurisdiction



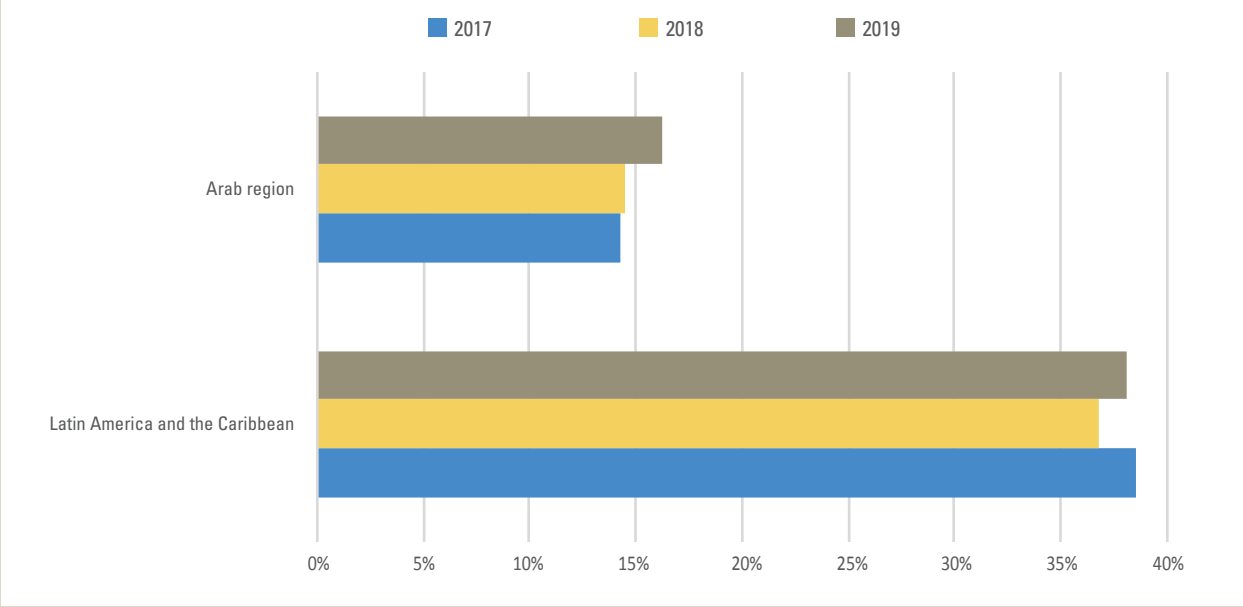
Source: ESCWA calculations based on data from OECD, 2016.

Figure 4.6 OECD ultimate parent company profits versus taxes paid in the Arab region, 2012-2019 (Billions of dollars)



Source: ESCWA calculations based on Orbis.

Figure 4.7 Taxes as a share of foreign MNC profits in the Arab region and Latin America and the Caribbean, 2017-2019



Source: ESCWA calculations based on Orbis.

Between 2017 and 2019, MNCs generated nearly $640 billion (or 5 per cent) of their global profits from the Arab region, exceeding the region's share in global GDP (figure 4.6). In contrast, MNCs with foreign ownership operating in the region paid 15 per cent of their profits in taxes over the same period as opposed to, for example, 38 per cent in Latin America and the Caribbean (figure 4.7). This is even more striking since, assuming imperfect tax compliance, declared profits may be lower than what is accrued in reality. While this may be interpreted as a sign of the region's attractiveness for MNCs, it also implies that the region is well below its potential in terms of taxing them (which highlights the need to rationalize tax incentives) and bringing them to compliance (which requires efforts to reduce tax abuse), although disparities exist between countries and sectors in terms of both taxation and compliance.

Between 2017 and 2019,

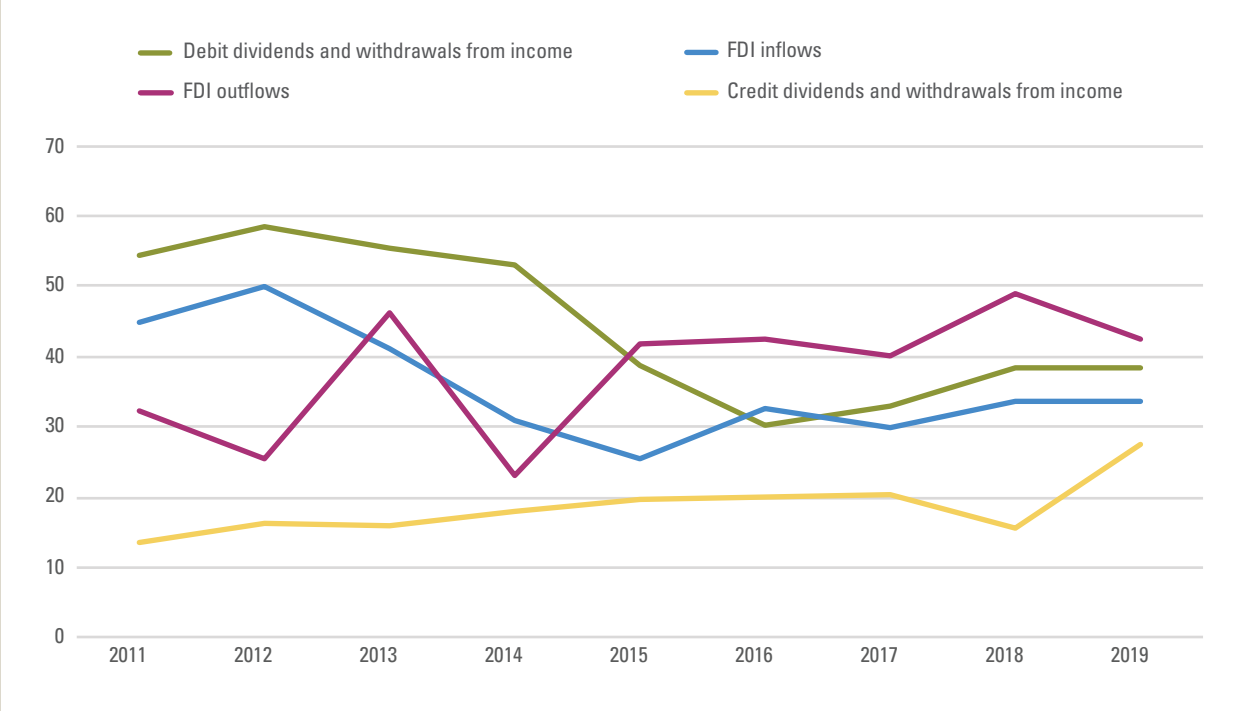
MNCs generated nearly

$640 billion of their

global profits

from the Arab region

Figure 4.8 Financial flows in the Arab region, 2011-2019 (Percentage)



Source: ESCWA calculations based on data from the IMF balance of payments and international investment position statistics; and World Bank Open Data.

MNCs with foreign ownership accounted for half of the $345 billion repatriated profits from the Arab region between 2012-2019, compared with $277 billion of FDI inflows over the same period (figure 4.8). In other words, on average, 69 cents on every dollar of FDI were repatriated as passive income (likely untaxed) out of the Arab region.[44] This figure stands in contrast to the 46 cents that OECD countries gain on every dollar in FDI.

Country-by-country reporting (CBCR) on MNC activities in more than 100 jurisdictions, disclosed for the first time in 2020, reveals that high-income and middle-income countries account for 28 and 19 per cent of MNCs profits, respectively. Investment hubs (jurisdictions with a total inward foreign direct position above 150 per cent of GDP) report a high share of MNC profits of 25 per cent on average, although their share of MNC employees is only 4 per cent with tangible assets of 11 per cent. This pattern is a sign of the misalignment between the location where MNC profits are reported and

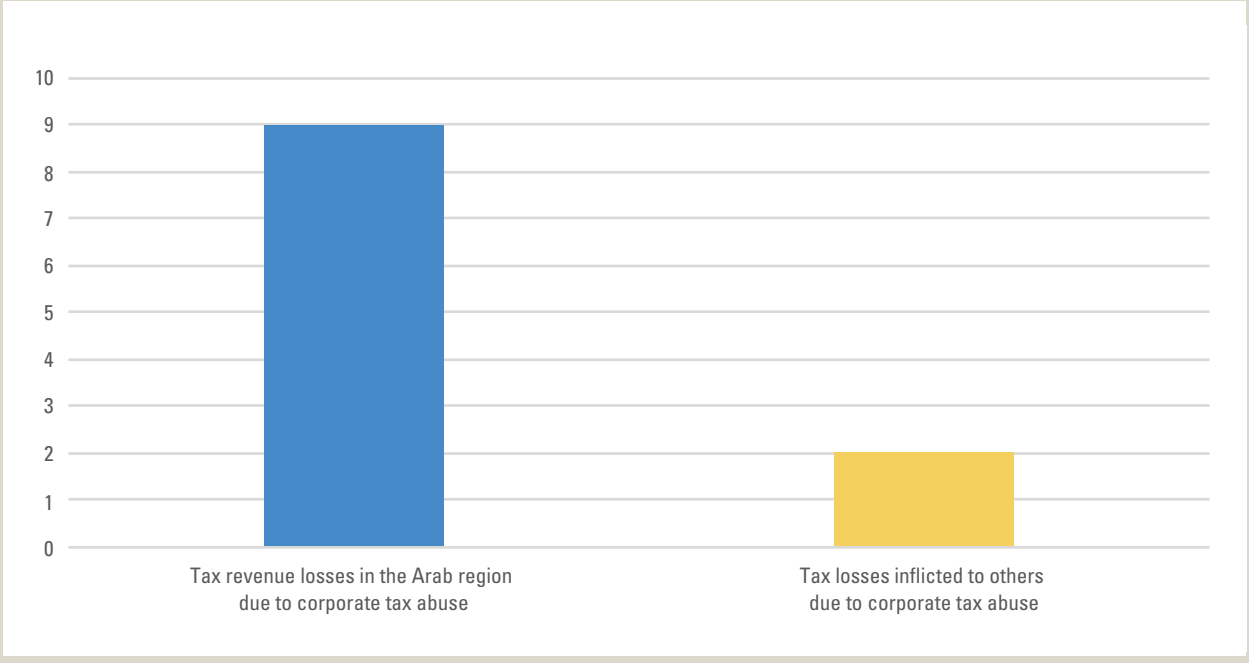
High-income and middle-income countries account for **28% and 19% of MNCs profits**, respectively

Arab countries suffered an estimated **$8.6 billion** in **annual tax revenue losses** owing to **corporate tax abuse**

the location where certain economic activities occur (aggressive tax planning).[45]

While Arab countries suffered an estimated $8.6 billion in annual tax revenue losses owing to corporate tax abuse,[46] the fiscal damage inflicted on other jurisdictions by facilitating corporate tax abuse from the region (mainly from Algeria, Iraq and Libya) is estimated by the Tax Justice Network at $2 billion. Overall, based on CBCR, the Arab region seems to be enduring more than four times the losses that it inflicts on other jurisdictions (figure 4.9). CACs easily fall prey to FDI round-tripping and corporate tax abuse, and are more likely to host phantom investment (Iraq and Libya inflict other jurisdictions 10 times more damage than they suffer). The concentration of holding companies and special purpose vehicles that do not create real value is another risk factor linked to tax planning.

Figure 4.9 Tax revenue losses from corporate tax abuse (Billions of dollars)



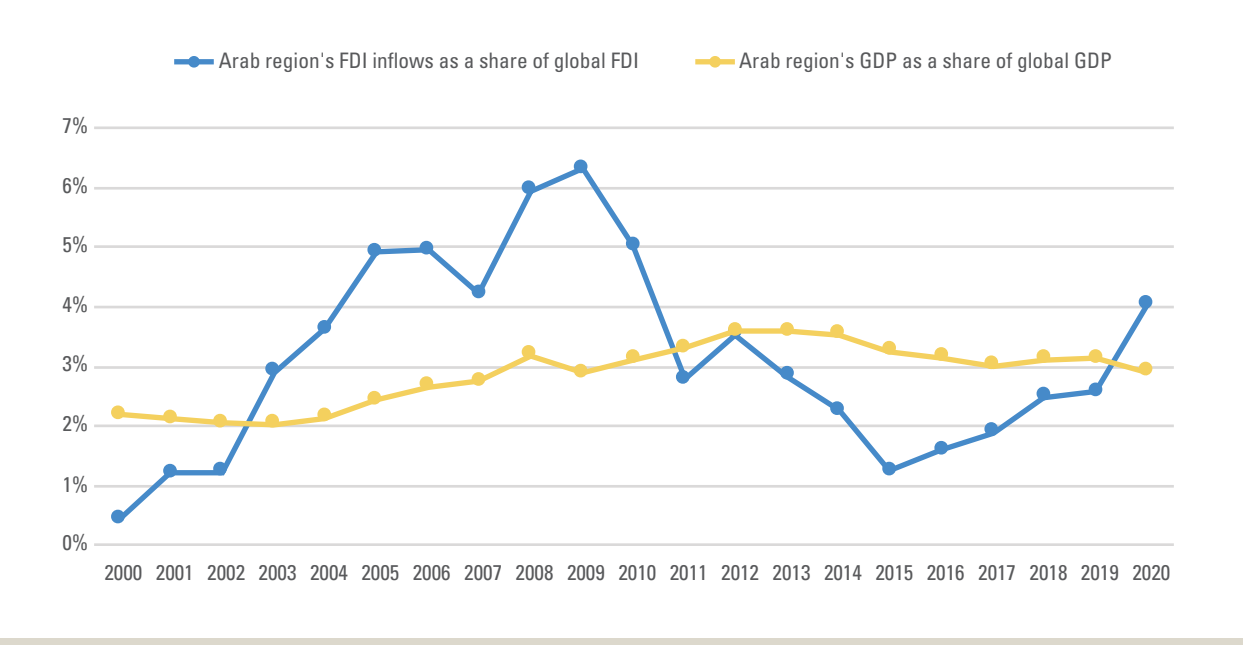
Source: ESCWA calculations based on Tax Justice Network, 2021.

2. Foreign direct investment

FDI inflows to the Arab region dropped by more than half to $40.5 billion in 2020, after seeing record highs of $89 billion in 2008.[47] Traditionally, FDI inflows to the region hovered at around 2 per cent of global flows (2011-2019). Despite COVID-19 shocks, the region attracted a higher share of FDI (4 per cent in 2020) relative to its weight in the global economy (figure 4.10). While this points to considerations related to changing FDI patterns following the outbreak of the pandemic, it is also a sign of the region's relative FDI attractiveness. This, however, should be qualified by taking into account FDI sectoral distribution, the strong pro-cyclicality in relation to oil and gas price cycles, and location-specific attributes. Overall, the region still performs below its FDI potential (figure 4.11).

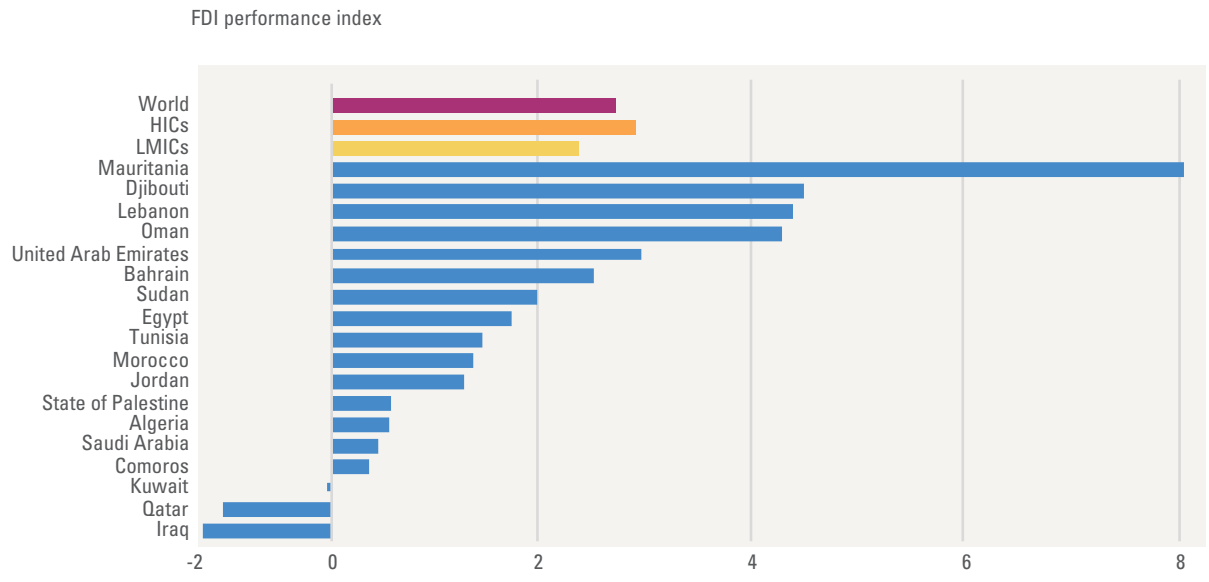
In terms of geographical concentration, five Arab countries, namely Egypt, Morocco, Oman, Saudi Arabia and the United Arab Emirates, accounted for more than 90 per cent of (intra- and extra-regional) FDI inflows to the region in 2020. In terms of functional allocation, FDI remains concentrated in high capital-intensive but low job-generating sectors, notably in extractive industries (chemicals, coal, oil and gas), which account for 45 per cent of FDI to the region (figure 4.12).

Figure 4.10 Arab FDI inflows as a share of global output and FDI, 2000-2020



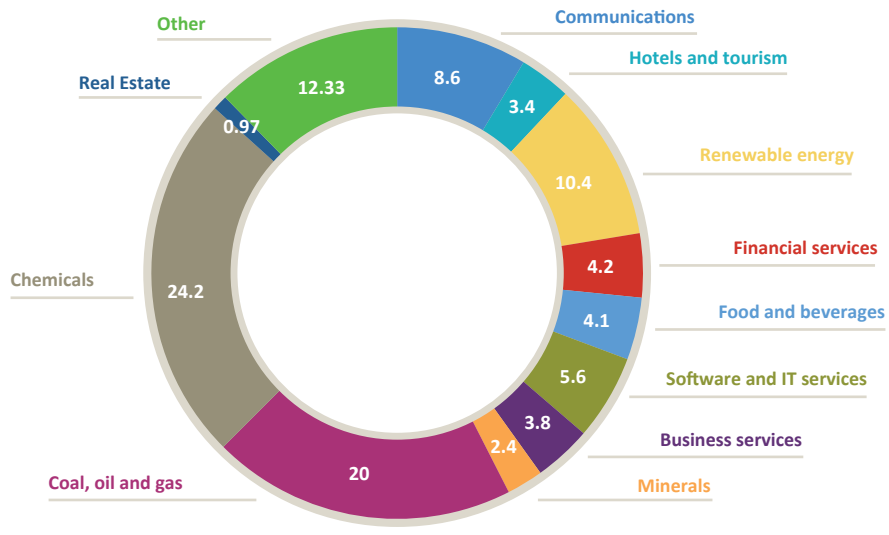
Source: ESCWA calculations based on data from UNCTAD Stat and the World Bank Open Data.

Figure 4.11 Arab FDI performance index, 2018-2020



Source: ESCWA calculations based on data from the World Bank, IMF databases for GDP, and UNCTAD database for FDI Inflows.

Figure 4.12 Capital investments in the Arab region by sector, 2020



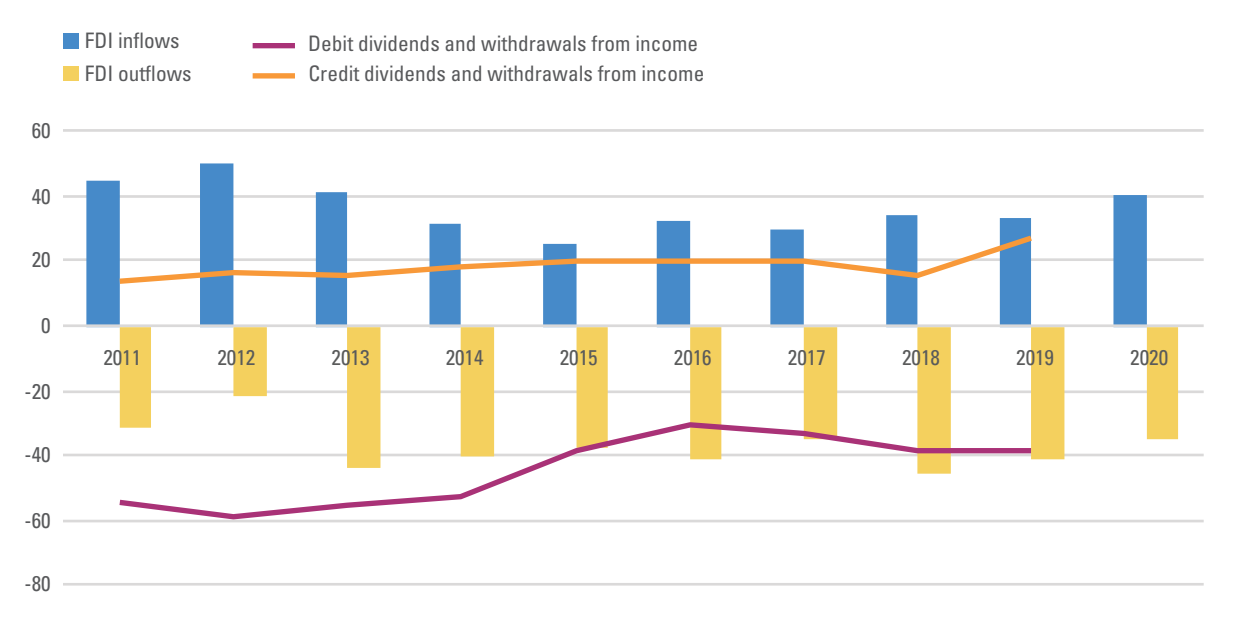
Source: ESCWA calculations based on the Arab Investment and Export Credit Guarantee Corporation (Dhaman) database.

Note: Disaggregation by income group for the Arab region is not possible, as complete and updated data is not available for 2020.

Patterns of FDI inflows should be read in conjunction with outflows as, in both directions, they can mask tax abuse and profit shifting, and conceal phantom investments and FDI round-tripping. For example, although the United Arab Emirates is considered the top recipient of FDI in the region, MNCs are said to have rerouted $218 billion worth of FDI through the country.[48] On average, the region returns $1.5 in FDI outflows for every dollar it gains in inflows, effectively turning the Arab region into a net exporter of capital between 2011 and 2019 (figure 4.13). It is also revealing that repatriated profits amounted to $44 billion on average in the same period. In other words, for every dollar in FDI inflows to the region, $1.24 were repatriated on existing stocks to source countries,[49] or transited through to low-tax jurisdictions, with relatively modest shares of profits being reinvested in the region.

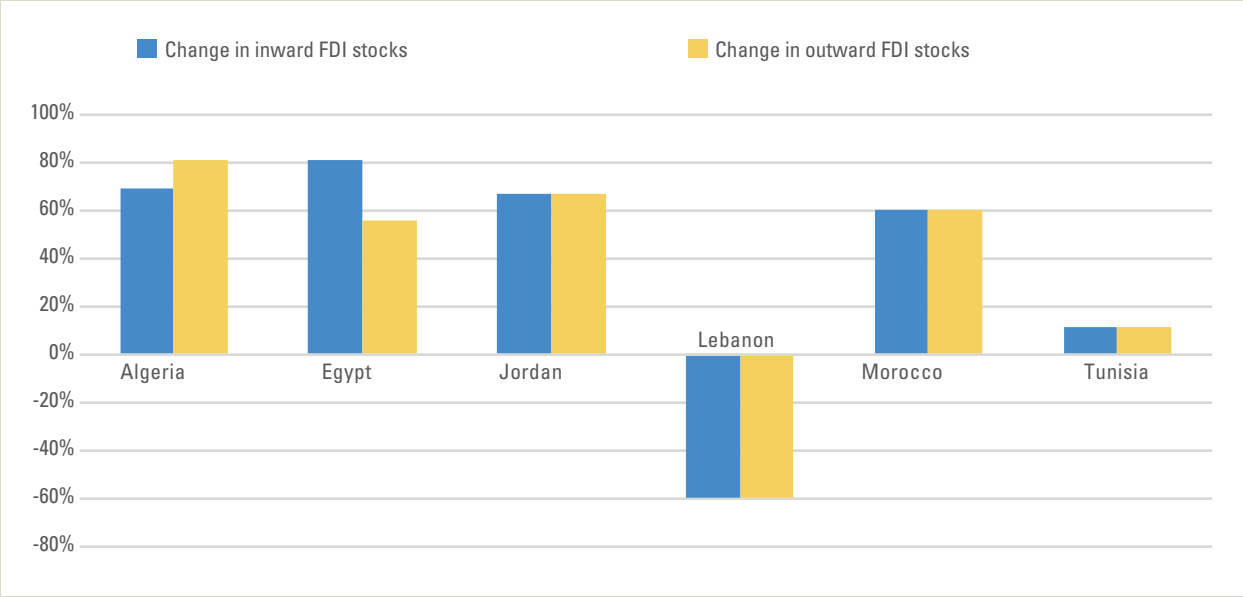
The region **returns**
$1.5 in FDI outflows
for every dollar it gains
in inflows

Figure 4.13 FDI patterns in the Arab region, 2011-2020 (Billions of dollars)



Source: ESCWA calculations based on data from the IMF balance of payments and international investment position statistics; and World Bank Open Data.

Figure 4.14 Inbound and outbound FDI stocks in selected Arab MICs, 2010-2020 (Percentage)



Source: ESCWA calculations based on data from UNCTAD Stat for FDI stocks; and CIT rates from Tax Foundation, 2021.

In Arab MICs, both inbound and outbound FDI stocks move in the same direction at relatively close margins, suggesting that tax planning is taking place where MNC repatriated earnings, share buy-backs and repayments of debt (outflows) tend to match (re)investments in their subsidiaries (inflows). This implies that MNCs in the region are operating at roughly the minimum scale that makes them profitable (figure 4.14).

Moreover, where tax deductions on debt repayments are allowed, a debt bias arises discouraging equity financing and reinvestment of profits. This effect is supported by empirical evidence, as each percentage point increase in CIT rates is associated with a rise in the debt of non-financial corporations by 0.27 percentage points. Some countries in the region (Bahrain, Iraq, Kuwait, Lebanon,[50] Libya and the United Arab Emirates) have not introduced rules against thin capitalization relative to assets or equity (to limit the tax deductibility of interest above certain debt levels), which provide corporates with yet another means to reduce their tax liability through excessive borrowing.

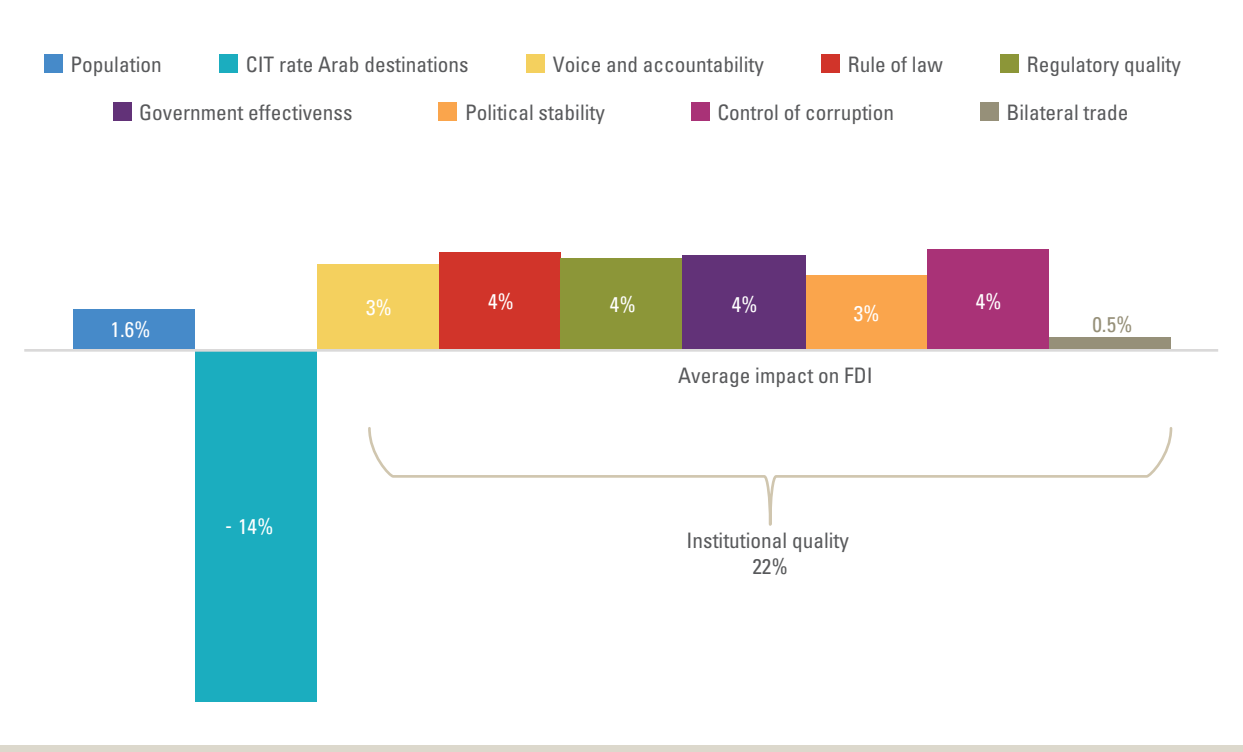
After 2014, corporates heavily relied on debt leveraging, mirroring the rise in domestic credit to the private sector, which increased by 50 per cent following 2014. In an attempt to rebalance this bias in the calculation of effective tax rates, the proposed global corporate tax reforms do not foresee a top-up tax liability if earnings are distributed within four years and taxed at or above a global minimum effective level.

Since 2017 (amid persistently low interest rates), share buybacks among companies listed in the Standard and Poor's 500 index reached a record level, with a total of $199 billion until the second quarter of 2021. Buy-backs have contributed to a faster rise in corporate leverage, pushing up

stock prices and increasing financial fragility as these buy-backs negatively affect capital accumulation.

Nonetheless, investment decisions are driven by a host of structural determinants other than taxation. FDI remains susceptible to political instability[51] and follows movements along the Democracy Index. The empirical analysis undertaken for the Arab region[52] suggests that, controlling for oil production, FDI inflows are influenced by institutional quality levels, bilateral trade links, human capital, and cultural similarities. A cumulative marginal improvement in institutional quality components (such as voice and accountability, rule of law, regulatory quality, government effectiveness, political stability and control of corruption) generally leads to an increase in FDI by 22 per cent, while a marginal increase of one percentage point in CIT statutory rates leads to a contraction in FDI by 14 per cent (figure 4.15). The relative importance of these factors varies depending on host country attributes and type of investment. Explicitly controlling for GCC countries, CIT statutory rates' effect appears non-relevant, while oil production and human capital importance is amplified. The absence of a significant reaction of FDI to varying statutory tax rates is attributable to the extreme variability in rates applied to different tax brackets and sectors in GCC countries, and mostly to the large distance between statutory and effective rates.

Figure 4.15 Selected determinants of FDI to the Arab region (Baseline, 2010-2019)



Source: ESCWA calculations based on the IMF Coordinated Direct Investment Survey (CDIS).

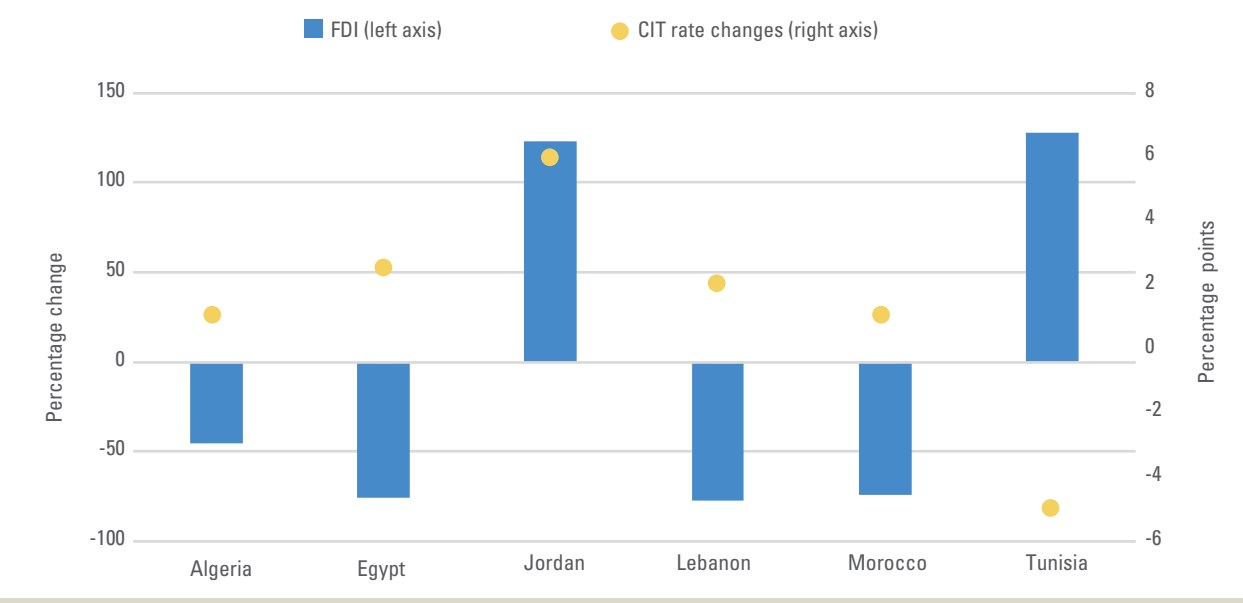
B. Revisiting the links between corporate taxation and FDI in the Arab region

1. Impact of statutory CIT changes on FDI flows

The empirical findings for the Arab region support the intuitive inverse reaction of FDI flows to changes in statutory CIT rates.[53] Extensive margins of FDI decrease by 14 per cent on average following a one percentage point increase in statutory CIT rates. The magnitude of the FDI-CIT reaction is higher than the OECD average (5 per cent),[54] suggesting that although investments to the Arab region are likely to be tax-driven, non-tax determinants would potentially have an even more relevant influence on FDI inflows to the region.

FDI stocks response to tax reform is seldom uniform across countries and time, especially since it is influenced by the dynamic interaction between tax preferences, tax planning, tax abuses and host country attributes (market size, labour market). Jordan, for example, exhibits a different pattern with respect to other Arab MICs owing to investments and tax incentives maintained within and outside special economic zones, which create a diversion risk for home countries and opportunities for tax abuse and arbitrage, making FDI stocks insensitive to CIT rates (figure 4.16). This can also be explained by letter-box firms making use of preferential and overlapping tax regimes administered by the country's two separate tax authorities.

Figure 4.16 FDI intensive margins reaction to changes in CIT rates in selected Arab MICs, 2010-2019



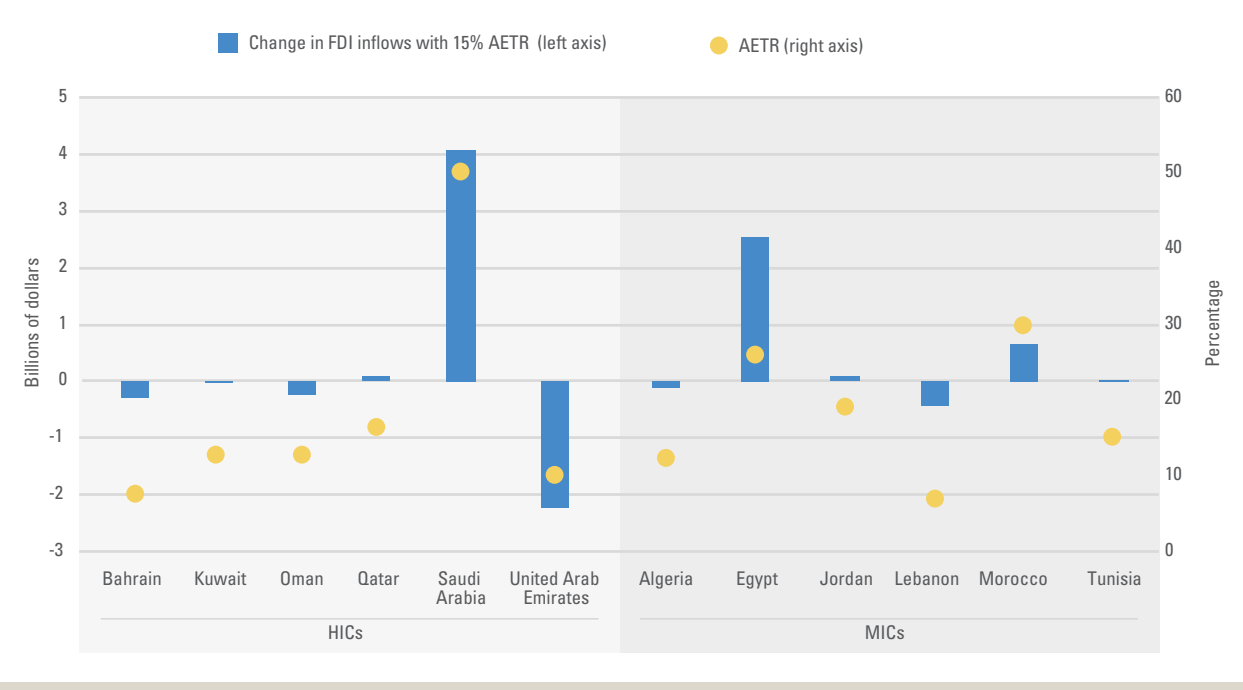
Source: ESCWA calculations based on data from CDIS; and Tax Foundation, 2021.

CIT changes are more likely to affect FDI inflows on the extensive margin.[55] Greenfield investments exhibit higher responses to CIT changes relative to brownfield, where the tax liability may be captured in the acquisition price.[56] However, CIT changes that bring about lower effective tax rates may not necessarily be the only functional factor to diversify capital stocks in the long run.

2. Impact of average effective tax rates

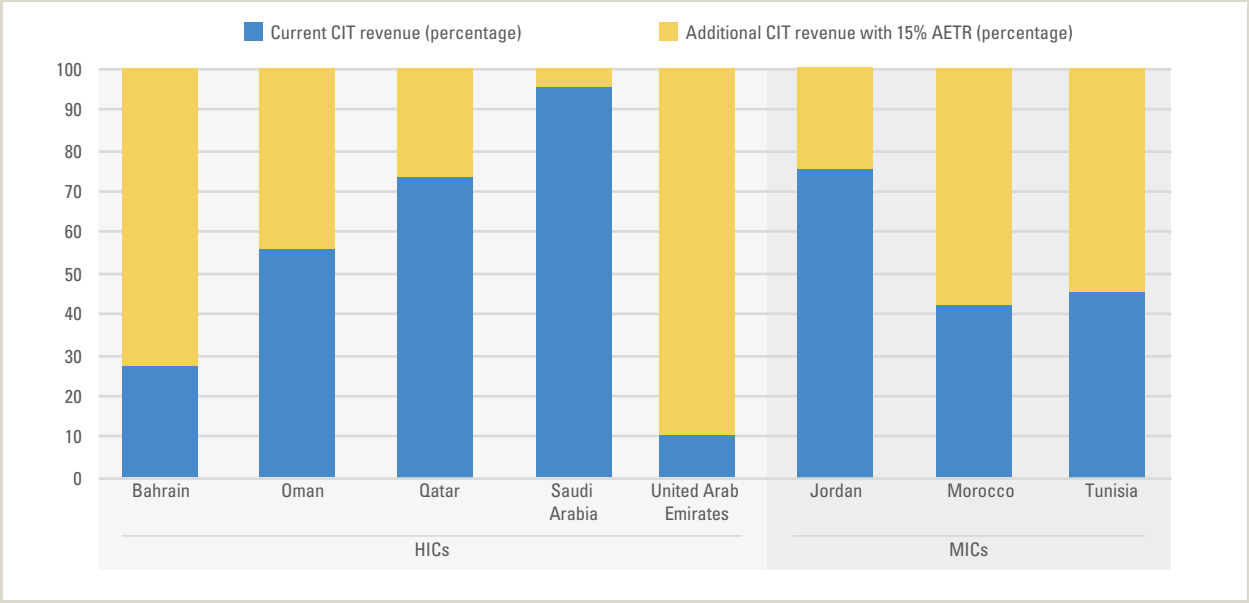
On aggregate, the Arab region's AETRs reached 8 per cent in 2020 compared with an average of 22.5 per cent in OECD countries.[57] Empirical evidence suggests that a one percentage point increase in AETR in Arab countries would reduce after-tax returns on investment and lead to a drop in inward FDI flows by 2.6 per cent (figure 4.17).[58] These findings align with the OECD impact assessment, where profitable MNCs are found to reduce their domestic investment rate by around 0.15 percentage points following a one percentage point increase in the average effective tax rate. The size of this effect can be three times higher for entities in MNC groups with profitability rates above 15 per cent.[59]

Figure 4.17 Changes in FDI inflows to selected Arab countries corresponding to a 15 per cent AETR



Source: ESCWA calculations based on data from Orbis.

Figure 4.18 Tax revenue potentials from bringing AETR in 2020 to the GloBe effective tax rate



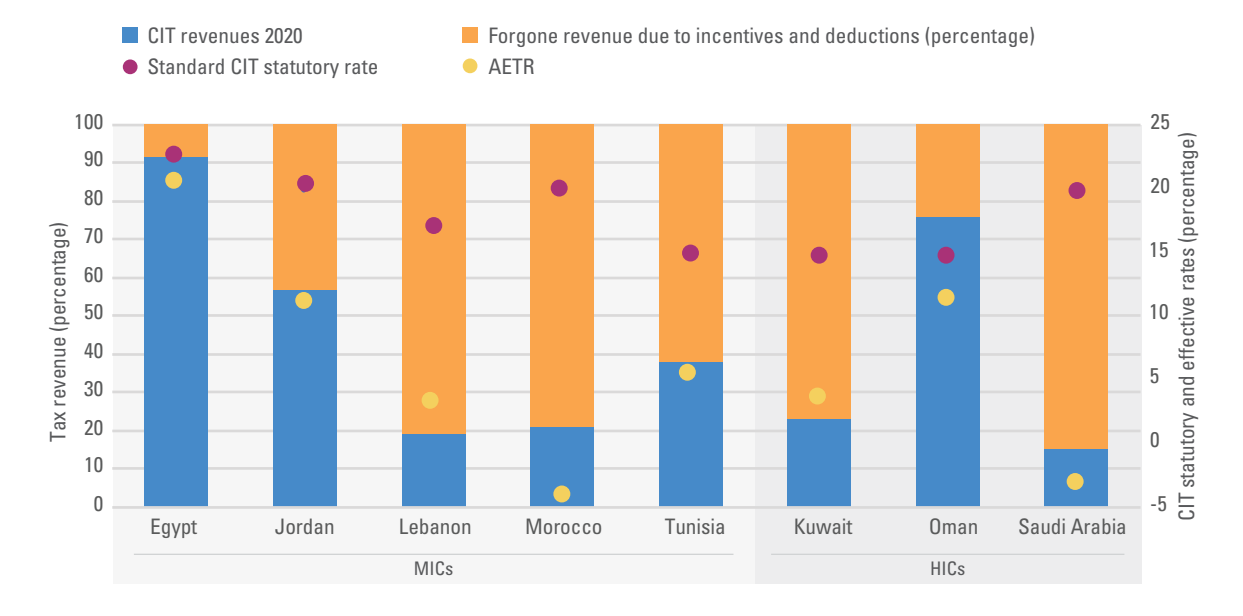
Source: ESCWA calculations based on data from Orbis.

On average, Arab countries with AETRs lower than 15 per cent have accrued half of their potential CIT revenues from MNCs. The United Arab Emirates is forgoing almost 90 per cent of its potential CIT revenues to secure its position as an FDI/MNC sweetheart, the highest among Arab HICs, while Morocco and Tunisia can accrue an additional 50 per cent of CIT revenues by raising their AETR on MNCs subject to optimal tax collection and enforcement (figure 4.18).

Overall, countries that exhibit low AETRs in relation to their headline CIT rates suggest that firms benefit from safe harbours or other fiscal and tax incentives and allowances, including deductibles, exemptions, exclusions, accelerated capital depreciation, favourable audit settlements and other credits, to the point that a significant share of their income is untaxed. These can also act as conduits and signal that tax planning, transfer pricing and arbitrage are eroding the tax base. Assuming that no such practices or tax abuses take place during the reporting year, the distance between what companies currently pay as taxes (AETR) and what they would have paid in terms of headline CIT tax liabilities provides a cursory quantification of the costs/revenues forgone to tax incentives,[60] which amount on average to nearly 60 per cent of the Arab region's corporate tax revenues in 2019/2020 (figure 4.19).[61]

In contrast, AETRs higher than headline CIT rates indicate that "government take" from overlapping taxes (windfall profits, royalties, or production-sharing agreements) as a proportion of economic income is higher than what standard corporate brackets indicate, pointing to the structure of the economy and concentration of firms under top tier CIT brackets. Alternately, it can also point to the inclusion of unprofitable firms, reducing the denominator in the AETR calculation.

Figure 4.19 CIT incentives and deductions in selected Arab countries, 2019-2020



Source: ESCWA calculations based on data from Orbis; and Tax Foundation, 2021.

In some instances, a country's AETR can even turn negative, signifying that MNCs are benefiting from favourable and hefty tax credits[62] or preferential tax regimes, and are carrying back losses or excess tax deductions to their home countries greater than their tax liability in host economies (Morocco and Saudi Arabia in 2020). Taxing MNC profits at one rate while allowing them deductions for their losses can provide opportunities to defer losses from year to year, and evade tax liability altogether.[63]

C. Implications of the G20/OECD proposed reforms and impact of a 15 per cent effective tax rate

Global tax reforms hold far-reaching ramifications that will define the future of how taxing rights are reallocated; how tax incentives and tax arbitrage are reconciled; and how tax competition, tax abuse and associated leakages are reduced, or eliminated, all of which will define how Arab economies finance development.

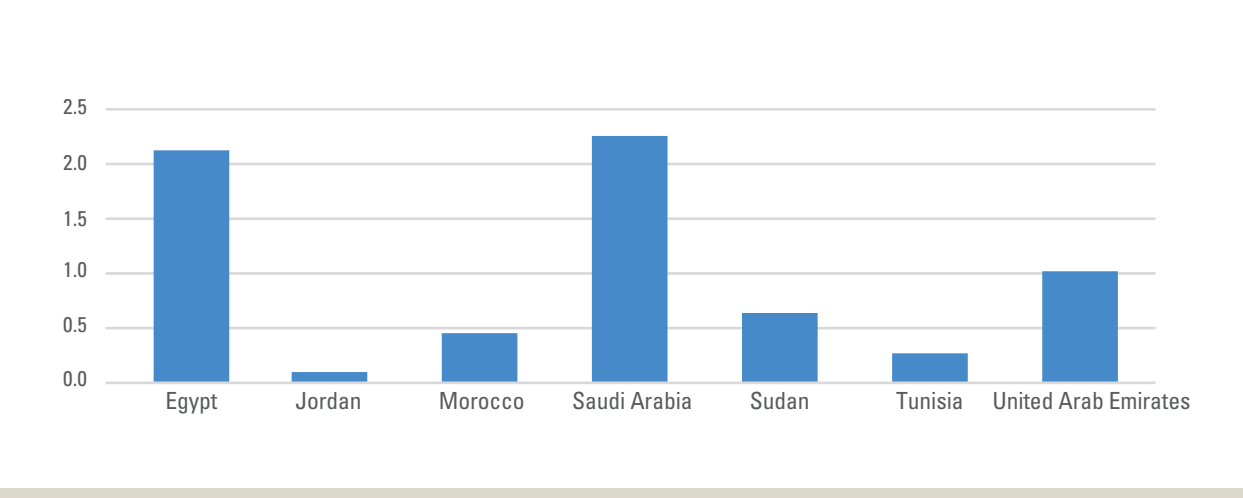
A preliminary assessment of the proposed minimum effective tax rate is undertaken hereafter, albeit in isolation of the impact of the plausible reallocation of taxing rights under pillar one. Under the common approach rule of the Inclusive Framework, member jurisdictions are not required to adopt GloBE rules, but must accept their application by others, including any agreed safe harbours.

1. Implications of enacting a minimum effective tax rate

OECD estimates that pillar two (GloBE tax) would raise an additional $150 billion in global annual tax revenues. IMF puts this figure at $168 billion ($62 billion in tax revenue owing to the elimination of profit shifting, and an additional $106 billion owing to the reallocation of purged profits (from low to high-tax countries)) or 4.5 per cent of global CIT revenues.[64] The European Union Tax Observatory puts this figure at $213.9 billion, with more than half accruing to the European Union and the United States, while China and India would only gain $4 billion. Oxfam estimates that 52 developing countries stand to gain a meagre $2.16 billion.

Whether the GloBe tax benefits Arab members of the Inclusive Framework ultimately rests on a host of factors, including whether MNCs operating in the Arab region are taxed below the global minimum effective tax rate, and the number of undertaxed in-scope subsidiaries with revenues exceeding €10 million and turnover exceeding €1 million, belonging to MNC groups with combined financial revenues of €750 million; the level of statutory corporate taxes, the withholding taxes imposed on cross-border payments (STTR) of dividends and interests, and any profit-based levy such as a profit-based mineral royalty or tax on economic rent paid by MNCs; the scale of tax incentives and deductions granted to MNCs that render reduced ETRs on MNCs operating in the region; the effect of reducing profit shifting by allowing market countries to recover part of their lost tax revenues owing to corporate tax leakages, which ran as high as $8.6 billion for the region in 2018 (figure 4.20); and whether other countries not parties to the OECD Inclusive Framework will apply the GloBe tax (shifting tax competition to competition over factors of production).

Figure 4.20 Corporate tax abuse in selected Arab countries based on CBCR, 2017 (Billions of dollars)

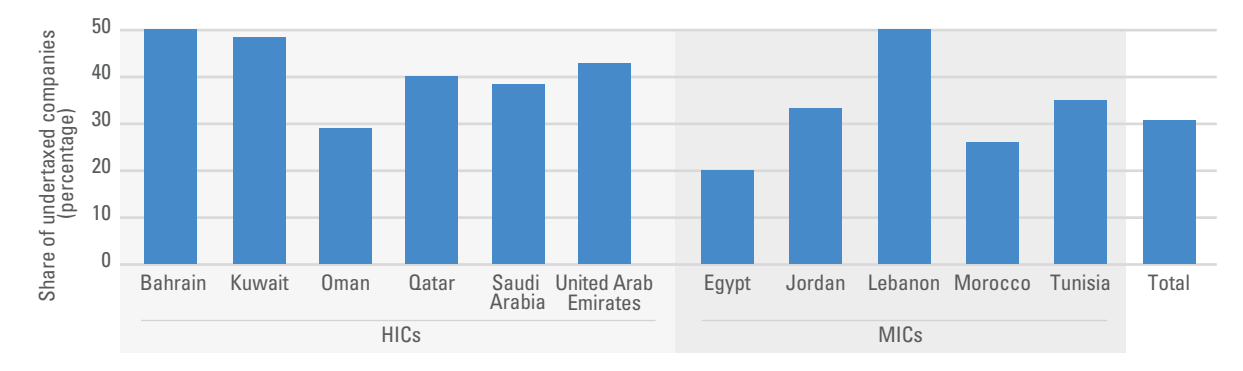


Source: ESCWA calculations based on the OECD statistics database.

In 2019, more than a third of profitable MNCs in the Arab region were taxed below an effective tax rate of 15 per cent. Bahrain and Lebanon accounted for the highest share of undertaxed MNCs, reaching up to 50 per cent of MNCs operating in their jurisdictions (figure 4.21). Almost all undertaxed MNCs (99 per cent) operate in non-extractive industries. Among these, nearly 29 per cent operate in services. Cumulatively, the manufacturing and services sectors account for half of the undertaxed corporations in the region (figure 4.22).

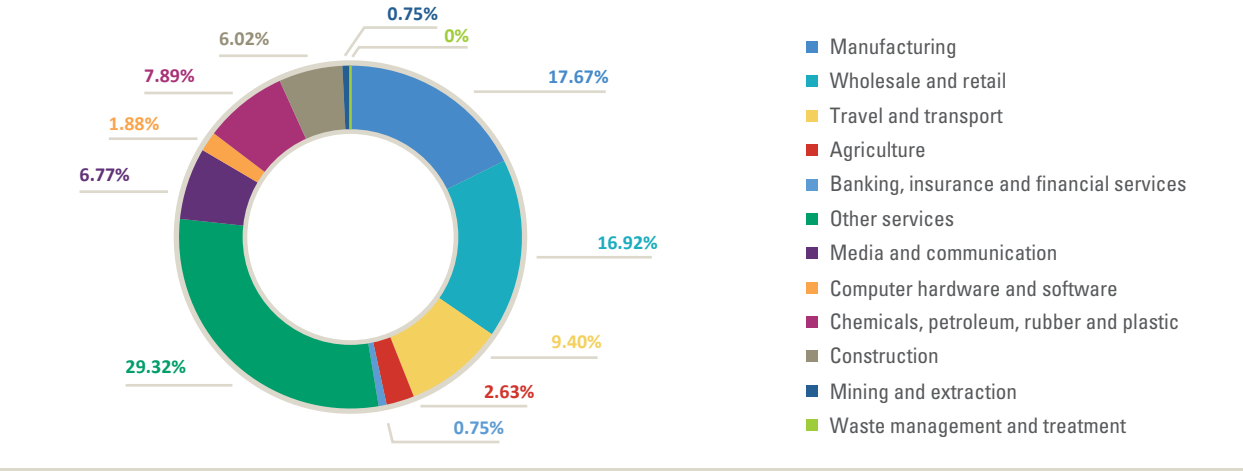
In 2019, more than **1/3 of profitable MNCs** in the Arab region were **taxed below an effective tax rate of 15%**

Figure 4.21 Share of MNCs taxed at less than the GloBE minimum effective rate of 15 per cent, 2019 (Percentage)



Source: ESCWA calculations based on data from Orbis.

Figure 4.22 Undertaxed MNCs by sector in the Arab region, 2019



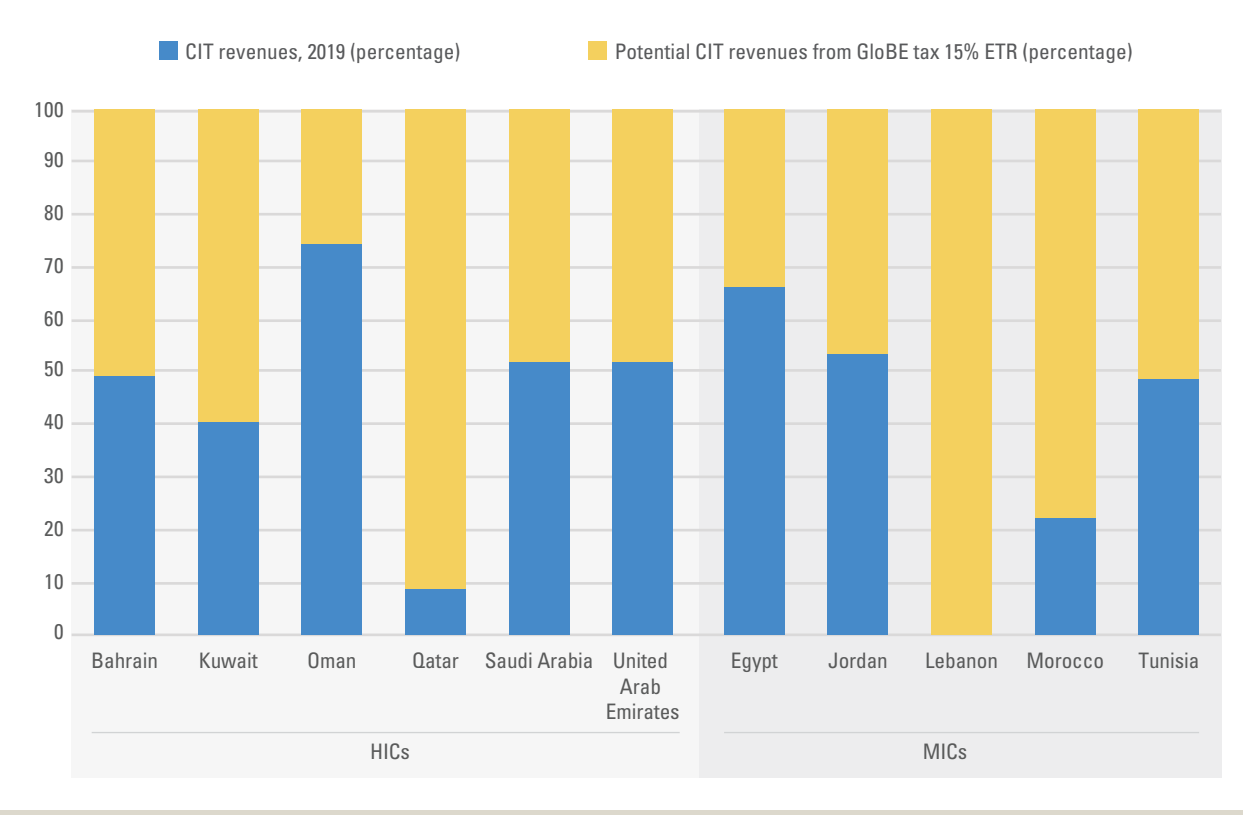
Source: ESCWA calculations based on data from Orbis.

2. Scenario 1.a: Tax revenues accruing from enacting a 15 per cent ETR to undertaxed MNCs

This scenario depicts the effect of introducing a qualified domestic minimum top-up tax (QDMTT) in each Arab country.[65] The Arab region could have generated between $1.5 billion and $2.3 billion in additional revenues if a minimum effective tax rate of 15 per cent was applied to each under-taxed subsidiary of MNCs operating in the region.[66] Arab HICs could have generated on average 46 per cent more CIT revenues in 2019, while Arab MICs could have raised their CIT revenues by 38 per cent on average (figure 4.23).

Arab countries could consider enacting QDMTT as part or in-lieu of the GloBe proposal to raise their effective taxation over MNC profits to 15 per cent. QDMTT would operate to counter the application of the income inclusion rule under the GloBe proposal as source countries hosting MNC subsidiaries would receive a-priori taxing rights over their profits (up to the proposed ETR) rather than see them relocated to MNC ultimate parent jurisdictions.

Figure 4.23 Tax revenue potentials from bringing undertaxed MNCs in 2019 to the GloBE effective tax rate



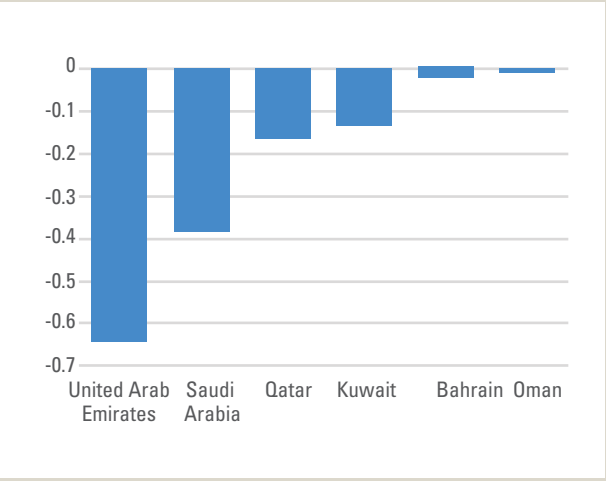
Source: ESCWA calculations based on data from Orbis.

3. Scenario 1.b: Countries opting out may see MNCs undertaxed profits relocated to other jurisdictions

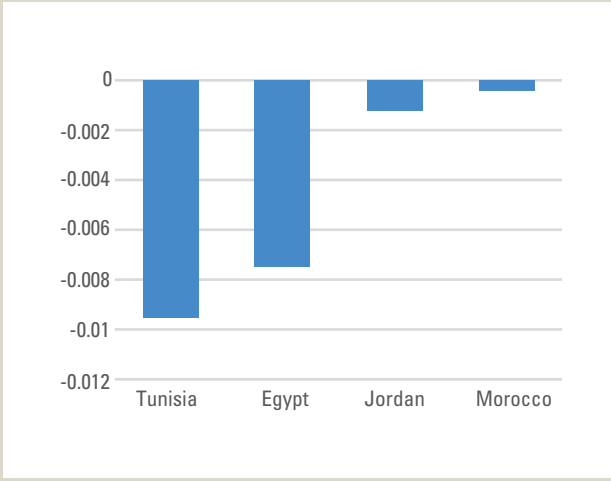
Arab countries that opt not to raise their ETRs to the 15 per cent global minimum (leaving MNCs operating in their jurisdiction undertaxed) may see 1.5 per cent of MNC total operating revenues subject to a top-up tax to be collected by MNC ultimate parent jurisdictions. However, this situation is likely to nullify or erode the tax incentives and deductibles provided by source countries to MNCs, as the taxing rights over the undertaxed residual profits shift to their ultimate parent jurisdictions (figure 4.24).[67]

Figure 4.24 Potential corporate tax revenue losses leaving MNCs residual profits undertaxed

Panel A. Arab HICs, 2020
(CIT revenue loss; billions of dollars)



Panel B. Arab MICs, 2020
(CIT revenue loss; billions of dollars)



Source: ESCWA calculations based on data from Orbis.

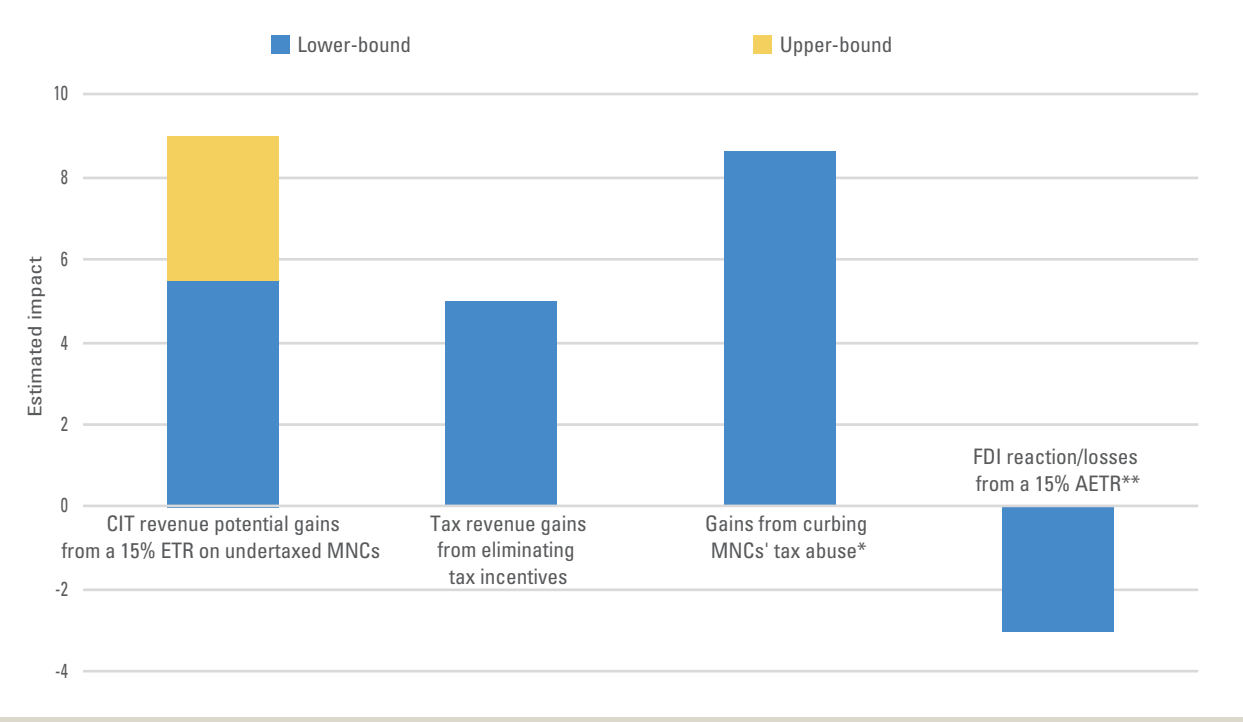
4. Scenario 2.a: Tax revenue gains from raising AETRs to an equivalent of 15 per cent

Arab countries that decide to raise their AETR to the 15 per cent level would gain between $5.5 billion and $9 billion in additional tax revenues.[68] This can be pursued by either raising statutory CIT rates, rationalizing tax exemptions, or curbing profit shifting by MNCs operating in their jurisdictions. Again, such a policy choice can be implemented independently from the GloBE proposal.

5. Scenario 2.b: Tax revenue gains from raising AETR levels can offset potential losses along FDI intensive margins

Had Arab countries raised their average effective corporate tax rates to match the 15 per cent minimum in 2020, the additional corporate income tax revenues (between $5.5 billion and $9 billion) that could have accrued would have offset changes in FDI (between $3.3 billion and $3.5 billion), discounting other factors and transmission effects of such an increase (figure 4.25).[69] The analysis of the two-pillar solutions, however, should extend beyond a binary assessment of the trade-offs between tax revenues and investment losses. It should entail a determination of whether investments have been aligned with environmental, social and corporate governance imperatives to bridge SDG financing, and whether domestic public resources have been efficiently channelled to support social spending to build physical and human capital.

Figure 4.25 Gains and losses in corporate tax revenues and FDI, and from the elimination of tax incentives and corporate tax abuse (Billions of dollars)



Source: ESCWA estimates based on Orbis; IMF balance of payments and international investment position statistics; CDIS; and UNCTAD Stat FDI data.

* ESCWA elaboration based on Tax Justice Network, 2021.

** Impact of 15 per cent AETR on FDI assuming that countries would not lower their AETR if currently higher than the proposed 15 per cent.

D. Conclusions and policy recommendations

A reformed international tax system is needed to respond to the realities of growing cross-border trade and investment and an increasingly digitized economy, while also reducing harmful tax competition and addressing shortcomings in fair and effective taxation of businesses.

Arab tax administrations heavily rely on regressive fast revenue generating indirect forms of taxation to make up for low tax compliance and downward pressure on direct taxation, including corporate income taxes. Efforts are needed to make Arab tax systems fairer and more progressive, and administrative procedures simpler and more transparent for better tax compliance and enforcement.[70]

High statutory CIT rates in the Arab region do not necessarily translate into high effective tax rates or yield high corporate tax revenues. Generous tax incentives undercut the region's corporate tax revenue potentials by 60 per cent on average, without necessarily rendering commensurate increases in the tax net of Arab countries. MNC profits in the Arab region are, in proportion, much higher than the taxes they pay.

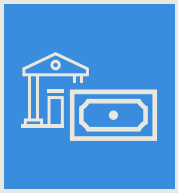
By reducing the incentives for tax competition under pillar two, Arab economies may witness asymmetric increments to their tax base. However, countries applying interest deduction limitations or withholding taxes on interest payments may be required to review their application once the corresponding rules are uniformly adapted under pillar two. Tax revenue gains would remain contingent upon the STTR compromises to be reached. However, since pillar two provides for a formulaic substance carve-out that will exclude an amount of income of the carrying value of tangible assets and payroll, the carve-out may lower these gains.[71] In this context, any policy reversals on foreign tax credits by MNC ultimate parent jurisdictions would evidently have an impact on how FDI outflows and MNC passive income are reported, and therefore taxed in source and destination jurisdictions.

Overall, the current GloBE proposal does not seem to have the full capacity to deliver its objectives in Arab countries, as it pales in contrast with the region's diverse financing needs and discounts the capacity to administer their increased complexity. Potential tax revenue gains for the Arab region would remain, at best, modest in absolute terms, especially as the two-pillar blueprints remain slanted in favour of MNC ultimate parent jurisdictions. For this purpose, Arab economies may consider advocating for the expansion of the set of MNCs to which the Inclusive Framework would apply (lower the thresholds for in-scope MNCs; argue against the distinction between MNC routine and residual profits; and advocate for a more equitable distribution of taxing rights and revenues among countries, especially developing ones where real economic activity takes place).

- A **reformed international tax system** is needed to respond to the realities of **growing cross-border trade** and investment and an increasingly **digitized economy**

- Arab economies may consider advocating for the **expansion of the set of MNCs** to which the Inclusive Framework would apply

The following measures are recommended at the national and regional levels:



a. Restructuring tax brackets and rationalizing tax expenditures, including tax incentives, to minimize revenue losses and improve equity and efficiency of Arab tax systems. Although GloBE pillar two will have a profound impact on domestic tax incentives, which may be indirectly nullified or reduced when they lead to an ETR below-threshold for in-scope MNCs, the carve-outs entailed therein would still allow tax incentives to propagate. Rationalization of tax expenditures should be considered as a policy choice, independently from the GloBE proposal;

b. Strengthening tax administration and improving the transparency of tax systems for a more efficient revenue collection and monitoring, including through the establishment of public registries of beneficial ownership and improving data quality and reporting standards for profits and the taxation of MNCs. This includes implementing the CBCR standards of the Inclusive Framework on BEPS, and the automatic exchange of information in tax matters;

c. Arab countries that have already committed to modifying their tax regimes, and are working towards greater transparency to strengthen international cooperation and foster equity and effectiveness of the regional and international tax architecture, should consistently follow through with such commitments in the short term. For example, Jordan should follow up on the commitment to rationalize its preferential tax regimes. Tunisia should also follow up on its commitment to implement the minimum standard on CBCR by responding to the recommendations of the Inclusive Framework on BEPS, in due time for this to be reflected in the peer review report on action 13 of the Inclusive Framework published in autumn 2023. Arab countries should focus on other factors, such as improving institutional quality. This is crucial to attract long-term responsible FDI, incentivize the reinvestment of capital, and foster positive spillovers on Arab economies and society;

d. Developing strong regional guidance to coordinate tax incentives and strengthen regional cooperation on tax matters, and to harmonize Arab efforts to curb profit-shifting and corporate tax evasion and avoidance, especially as the Arab region forges ahead with deeper forms of regional integration. The League of Arab States has yet to match the level of regional integration to combat tax abusive practices with those advanced in other areas.[72] There is currently no dedicated body that is uniquely poised to address cooperation in fiscal and tax abuses;

e. Stronger anti-tax abuse rules may still be needed at the multilateral and national levels to cope with the mutation of tax planning strategies, as the GloBe proposal in its current blueprint may not end tax competition and MNC profit shifting in their entirety. The application of QDMTT may be compromised by tax havens or low-tax jurisdictions and investment hubs, which could find ways to keep under-taxing MNCs through the substance-based carveouts in the GloBE proposal.[73]

Several concerns have been sighted with respect to the fairness of the GloBE proposal in terms of quantitative impacts on tax revenues, and qualitative alignment with strategic and asymmetric enforcement capacities. Multiple aspects of the proposals may also impinge on tax sovereignty and on the right of countries to regulate automated digital services, especially in relation to the proposed moratorium on digital service tax and the binding dispute settlement mechanisms that may negate relevant mandated regional bodies. The newly introduced article 12b of the United Nations Model Tax Convention provides alternate pathways for the application of digital service tax under bilateral tax treaties, and does not enunciate an a-priori de minimis threshold to determine the scope of MNCs or the residual profits that would be subject to such rules. The recent General Assembly resolution on the "Promotion of inclusive and effective international tax cooperation at the United Nations" advocates for the evaluation of additional options, including the possibility of developing an international tax cooperation framework or instrument developed and agreed upon through a United Nations intergovernmental process. A truly reformed multilateral tax system should therefore consider a host of considerations, including lower thresholds to establish in-scope MNCs and open registries for beneficial ownership and country-by-country reporting of MNCs profits; lower country nexus for market jurisdictions; lower profitability ratios to determine MNCs routine-profits; and a higher reallocation percentage of residual profits that should not negate established regional tax dispute mechanisms or compromise developing nations' "right to regulate" the delivery of automated digital services.

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Endnotes

1 United Nations, 2022; World Bank, 2022e.

2 IMF, 2022b.

3 ILO, 2022.

4 UNCTAD, 2022.

5 IEA, 2022.

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14 World Bank, 2022h.

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16 World Bank, 2022g.

17 IMF, 2022a.

18 World Bank, 2022f.

19 World Bank, 2022i.

20 World Bank, 2022f.

21 World Bank, 2021b.

22 WFP, 2022.

23 World Bank, 2022c.

24 This is mainly the result of removing Iraq, the Syrian Arab Republic and Yemen from the Global Gender Gap Index 2022.

25 ILO, 2016.

26 ILO, 2020.

27 ILO database, ILO modelled estimates.

28 Ibid.

29 Ibid.

30 This trend sits within a broader point about tax consensus, with downward pressures on other taxes too, notably on trade taxes.

31 WTO, 2018. Note that OECD (2018) estimates that one third of world production is done by multinational enterprises and they account for half of world trade.

32 A/C.2/77/L.11/Rev.1.

33 Bahrain, Egypt, Jordan, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, United Arab Emirates. Djibouti and Mauritania are excluded due to data limitations.

34 Arab MICs include Egypt, Jordan, Lebanon, Morocco, and Tunisia. Algeria joined the ranks of MICs in 2020.

35 PriceWaterhouseCoopers, n.d.a.

36 OECD, 2019.

37 OECD, 2017.

38 Mansour and others, 2015.

39 OECD, 2017.

40 OECD, 2018.

41 FDI frequently goes beyond capital investment. It may also include the provision of management, technology and equipment.

42 UNCTAD, 2015.

43 IMF, Middle East and Central Asia Department, 2018.

44 The calculations account for debit and credit of dividends and withdrawals from income i.e., inflows and outflows of dividends and withdrawals from income from and to the Arab region.

45 United Nations, 2021.

46 Tax Justice Network, 2021.

47 FDI inflows are represented as net inflows denoting the value of inward direct investment made by non-resident investors in one economy into another reporting economy. FDI flows are presented on net bases (capital transactions' credits less debits between direct investors and their foreign affiliates). Net decreases in assets or net increases in liabilities are recorded as credits, while net increases in assets or net decreases in liabilities are recorded as debits.

48 Bou Mansour, 2021.

49 Disaggregating these numbers at the income group level, the trend is confirmed with variations across groups. For every dollar in FDI inflows, $1.19 on existing stocks were repatriated from GCC countries to source countries. This number goes down to $0.92 for MICs and to $0.31 for LDCs, with the highest outflows in CACs at $3.4.

50 In Lebanon, specific rules apply for oil and gas companies.

51 ESCWA, 2019.

52 Results are rendered through an empirical gravity model estimated by ESCWA, excluding Saudi Arabia and the United Arab Emirates from the sample for their role as investment hubs in the region, and Jordan owing to the distortions arising from the presence of special economic zones and different rates for certain sectors. Jordan has committed to modifying or eliminating its preferential tax regimes by 31 December 2022, as part of the Forum on Harmful Tax Practices.

53 Baier, 2019.

54 OECD, 2008.

55 See Davies, Siedschlag and Studnicka, 2021.

56 Hebous and others, 2011.

57 ESCWA calculations based on OECD statistics on forward looking ETRs available in 2020.

58 Current year effect calculated for all MNCs.

59 OECD, 2020.

60 Bustos-Contell, Climent-Serrano and Labatut-Serer, 2020.

61 United Nations, 2018.

62 For example, if the effective tax rate in a source country exceeds the minimum rate and the taxes have been paid in preceding years, the excess tax can generate an income inclusion rule tax credit that can reduce current or future income inclusion rule tax (or potentially other taxes) otherwise payable by MNC groups. Otherwise, excess tax creates a local tax carry forward, to be taken into account in future effective tax rate calculations for the same country.

63 Gardner and Wamhoff, 2021.

64 Beer and others, 2020.

65 A QDMTT is a domestic tax structured to achieve the same effect as an income inclusion rule, fully creditable against the latter. A QDMTT enables the host country, rather than the ultimate parent country, to apply a top-up tax. This implies that the revenues are a top end estimate based on the assumption that there is not an increase in outward profit shifting designed to obtain a lower ETR in other jurisdictions (international tax arbitrage).

66 Calculated over companies reporting profits in Orbis and assuming that reported taxes are fully paid in the countries where reported.

67 Another question is whether there are good policy reasons to tax multinationals at lower rates. However, this issue is beyond the scope of the present report.

68 Non-causal assessments refer to AETR of non-extractive industries only. Extractive industries are excluded from the calculation as this is usually the sector with the highest CIT statutory rates, and different rules are usually applied to MNCs operating in this sector. Moreover, 99 per cent of the companies available on Orbis operate in sectors different from mining and extraction. The upper-bound estimate of the impact of changing country-level AETR on CIT revenues is a non-causal assessment calculated as the difference between the status quo of taxes paid by companies under the current rules and what could be accrued with a 15 per cent AETR in proportion. The lower bound estimate is assessed using a panel ordinary least squares (OLS) regression with robust standard errors, augmented with year fixed effects to control for the economic cycle and simultaneous shocks in Arab countries. CIT revenues from the Government Revenue Database are regressed on AETR, GDP to control for economic dimension, CPI to proxy for inflation, oil production to account for the specificities of oil-producing countries, inward FDI to control for inward investments and attractiveness, and unemployment rate.

69 Estimates based on illustrative assumptions of the design and parameters of pillars one and two of the Inclusive Framework on BEPS, under the hypothesis of unchanged determinants of FDI to the region and based on the assumption that the rest of the world would not change its tax competition behaviour. This analysis does not factor in any multiplier effects or any economy-wide effects associated with an increase in corporate tax revenues or a decrease in FDI.

70 For a detailed analysis of Arab tax systems, see the ESCWA, 2022c.

71 Jurisdictions where an MNC has revenues of less than €10 million and profits of less than €1 million will also be subject to a de minimis exclusion.

72 The first agreement to explicitly deal with tax leakages in the region was the Agreement for the Avoidance of Double Taxation and Prevention of Tax Evasion between the States of the Arab Economic Union Council. (Council of Arab Economic Unity, Cairo, 1973.) The 1973 agreement was replaced by a new agreement in 1997, the Agreement on Avoidance of Double Taxation and Tax Avoidance on Income and Capital, which included corporate taxes. In 1998, another agreement was signed regarding the collection of taxes and fees and curbing tax evasion. The Arab Common Market Agreement (1997) also included clauses on harmonizing tax policies. The Unified Agreement for the Investment of Arab Capital in the Arab States (1980), in article 7, guarantees the freedom to transfer capital, without the transfer process incurring any taxes or duties. Articles 16 and 17 of the agreement, which deal with investor privileges, contain no mention of tax, but this may be implicit in the freedom granted to the contracting parties to offer privileges in excess of the minimum stipulated within the agreement. The Arab common market agreement equally incorporates arrangements for the avoidance of double taxation and prevention of tax evasion within member States by assigning specific taxes to source and residence countries and establishing source rules.

73 The scope and thresholds under pillar one may apply to only a small number of corporates in the region.

The 2021–2022 edition of the Survey of Economic and Social Developments in the Arab Region considers the economic implications of the war in Ukraine on the global economy and on the economies of the Arab region, highlighting how the recovery from the COVID-19 pandemic has been affected by the conflict. The impact of this conflict differs between developed and developing countries, and between Arab oil-exporting countries and oil-importing ones. While the magnitude of the impact depends on the composition of each economy and its trade linkages with the Russian Federation and Ukraine, the conflict has affected commodity prices and caused a significant increase in inflation rates globally.

The present edition also focuses on social developments in the Arab region. While there have been no significant changes in gender dynamics, poverty levels have increased significantly: around a third of the region's population fell under the national poverty threshold in 2022. Moreover, the Survey focuses on the challenges and opportunities for raising tax revenues in the region. Arab countries continue to rely heavily on regressive indirect taxes, and multinational corporations benefit from generous tax incentives. A third of these corporations operating in the Arab region were taxed below the proposed global minimum effective tax rate of 15 per cent in 2019. Strengthening institutions and enhancing regional cooperation are among the main recommendations to improve tax revenues in the Arab region.

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