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World Economic Situation and Prospects 2011

Press Release

Growth in Western Asia solid, though still below potential

Private consumption combined with higher oil prices boosts performance

Beirut, 18 January 2011 – The economies in Western Asia will grow by 4.5 per cent on average in 2011 and 2012, continuing a solid performance from 2010, according to the latest UN forecast presented in its annual report, *World Economic Situation and Prospects 2011*(WESP), launched today. While solid, the pace of growth is still below the average rate in the years before the global economic crisis.

Western Asia: Rates of growth of real GDP, 2007-2012[a]

Annual percentage change

	2007	2008	2009	2010[b]	2011[c]	2012[c]
Western Asia	**5.1**	**4.4**	**-1.0**	**5.5**	**4.7**	**4.4**
Bahrain	8.4	6.3	3.1	4.0	3.8	4.2
Iraq	1.5	9.5	4.2	5.0	5.5	6.4
Israel	5.4	4.2	0.8	4.0	3.5	3.0
Jordan	8.5	7.6	2.3	3.1	3.5	3.7
Kuwait	4.5	5.5	-4.6	4.4	3.6	4.2
Lebanon	7.5	8.5	6.7	6.9	5.6	5.4
Oman	6.8	12.8	3.6	4.3	3.9	3.7
Qatar	26.8	25.4	8.6	13.4	14.0	6.1
Saudi Arabia	2.0	4.2	0.6	3.4	3.8	3.9
Syrian Arab Republic	4.3	5.2	4.0	5.6	6.0	5.3
Turkey	4.7	0.7	-4.7	7.4	4.6	5.0
United Arab Emirates	6.1	5.1	-1.9	2.7	3.2	3.3
Yemen	3.3	3.6	2.8	3.5	3.4	3.2
Western Asia (excluding Israel and Turkey)	5.3	6.9	0.9	4.6	4.9	4.2
Gulf Cooperation Council States	5.4	6.9	0.5	4.6	4.9	4.1
More diversified economies	4.8	6.8	4.2	5.1	5.0	5.0

Source: United Nations, *World Economic Situation and Prospects 2011.*

a Regional averages are calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.

b Partly estimated.

c Forecasts, based in part on Project LINK.

Higher oil prices in countries such as Saudi Arabia and the United Arab Emirates, as well as strong private consumption in non-fuel exporting countries, were the main drivers of growth in the region.

Bouncing back from a 4.7 per cent contraction in 2009, Turkey managed to raise its gross domestic product (GDP) by 7.4 per cent in 2010, supported by strong private consumption and investment growth. Similarly, Israel's economy is expected to record a growth of 3.0 per cent, while Lebanon is projected to post 5.0 per cent growth for each of the next two years, also driven by private consumption.

Non-oil sectors are becoming increasingly important drivers of economic growth even in the fuel-exporting countries. In Saudi Arabia, both government consumption and public investment were able to contribute to an overall balanced performance. The picture is similar in the United Arab Emirates, with government spending underpinning robust growth in 2011. As a payback to the country's economic diversification strategy, the services sector, particularly tourism, and the manufacturing sector have also become important drivers of economic growth.

The situation is different in Yemen. While its gas production capacity has expanded, Yemen's overall economic performance is clouded by a water shortage which is hampering agricultural production, as well as by political conditions, *WESP* warns.

Inflation remains low and employment is improving, though still a concern

The employment situation generally remains challenging in the region, though there are some signs of improvement. Unemployment rates have stabilized, thanks to the revival of international trade, says the UN report. Turkey's unemployment rate is expected to fall to below 13 per cent in 2011, down from more than 14 per cent in 2009. In Israel the rate is expected to fall to 7 per cent in 2011, from 7.6 per cent in 2009.

Inflation has slowed down considerably from its peak in mid-2008. Iraq, Jordan and Qatar went through deflation in 2009. In the case of Qatar, deflation persisted in 2010. The region should expect positive but limited inflation rates in 2011 because of increasing food prices and a rise in public sector wages, especially in the countries of the Gulf Cooperation Council (GCC).

In line with the inflation outlook, the report says, monetary policies will vary as well from country to country. While Turkey is expected to increase its policy interest rates in reaction to rising price pressures, Israel's monetary authorities are expected to be cautious in light of the slight inflation drop to 2.4 per cent in 2011. Countries such as Jordan, Kuwait and Qatar are expected to maintain their policy rates low through 2011.

Budgetary prudence and external surpluses

Governments in the region have remained generally prudent in managing their budgets.
GCC countries increased government spending in 2010, but their fiscal policies are expected to become somewhat less expansionary in 2011. Fuel exporters will continue to post solid budget surpluses in 2011, however, albeit somewhat smaller than those of 2010. Non-fuel exporters, in contrast, will be facing increasing budget constraints. Both Jordan and Lebanon, for example, will continue to run budget deficits of about 10 per cent of GDP in 2010 and 2011. Rising public debt and higher interest payments will limit the fiscal space in these countries in the near outlook.

External balances in the fuel-exporting countries will continue to show solid surpluses in 2011. In Saudi Arabia, for example, the current-account surplus is forecast to reach 10 per cent of GDP in 2011. By contrast, non-fuel exporters are expected to see their trade deficits increase further, because of rising import demand along with the economic recovery.

Sharper volatility and a possible drop in oil prices, the UN report says, remain major downside risks for fuel exporters. Economic performance of non-fuel exporters will be directly affected by weaker growth in the major developed economies (*see global press release*). Consequently, any renewed economic slowdown in these export markets holds the potential to significantly alter the growth trajectory in the region.

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http://www.un.org/esa/policy/wess/wesp.html

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