Saudi Arabia

has an oil-based economy with strong government controls over major economic activities. It possesses about 16% of the world's proven petroleum reserves, ranks as the largest exporter of petroleum, and plays a leading role in OPEC. The petroleum sector accounts for roughly 80% of budget revenues, 45% of GDP, and 90% of export earnings. Saudi Arabia is encouraging the growth of the private sector in order to diversify its economy and to employ more Saudi nationals. Diversification efforts are focusing on power generation, telecommunications, natural gas exploration, and petrochemical sectors. Over 6 million foreign workers play an important role in the Saudi economy, particularly in the oil and service sectors, while Riyadh is struggling to reduce unemployment among its own nationals. Saudi officials are particularly focused on employing its large youth population, which generally lacks the education and technical skills the private sector needs. In 2014 the Kingdom ran its first budget deficit since 2009, and faces budget deficits for the foreseeable future because it requires an oil price greater than $100 per barrel to balance its budget. Although the Kingdom can finance high deficits for several years by drawing down its considerable foreign assets or borrowing, it probably will begin to reduce capital spending if oil prices stay low through the next year.

IRAQ

During 2014, worsening security and financial stability throughout Iraq—driven by an ongoing insurgency, decreasing oil prices, and political upheaval—decreased the prospects for improving the country's economic environment and securing much-needed foreign investment. Long-term fiscal health, a strengthened investment climate, and sustained improvements in the overall standard of living still depend on the central government passing major policy reforms. Iraq's largely state-run economy is dominated by the oil sector, which provides more than 90% of government revenue and 80% of foreign exchange earnings. Oil exports in 2014 remained relatively flat at 2.4 million barrels per day on average, despite new production coming online at the West Qurna 2 and Badrah oilfields, because repeated attacks on the Iraq-Turkey pipeline reduced export capacity. During the second half of 2014, government revenues decreased as global oil prices fell by more than 30%. Iraq's contracts with major oil companies have the potential to further expand oil exports and revenues, but Iraq will need to make significant upgrades to its oil processing, pipeline, and export infrastructure to enable these deals to reach their economic potential. The Iraqi Kurdistan Region's (IKR) autonomous Kurdistan Regional Government (KRG) passed its own oil law in 2007, and has directly signed about 50 contracts to develop IKR energy reserves. The federal government has disputed the legal authority of the KRG to conclude most of these contracts, some of which are also in areas with unresolved administrative boundaries in dispute between the federal and regional government. In December, the federal government and the KRG agreed to sell oil exports from Kurdish-controlled oil fields under the federal oil ministry, in exchange for the central government paying $1 billion to the Kurdish Peshmerga forces and resuming budget transfers to the KRG that amount to 17% of Iraq's national budget. Iraq is making slow progress enacting laws and developing the institutions needed to implement economic policy, and political reforms are still needed to assuage investors' concerns regarding the uncertain business climate.. The government of Iraq is eager to attract additional foreign direct investment, but it faces a number of obstacles, including a tenuous political system and concerns about security and societal stability. Rampant corruption, outdated infrastructure, insufficient essential services, skilled labor shortages, and antiquated commercial laws stifle investment and continue to constrain growth of private, nonoil sectors. Under the Iraqi Constitution, some competencies relevant to the overall investment climate are either shared by the federal government and the regions or are devolved entirely to local governments. Investment in the IKR operates within the framework of the Kurdistan Region Investment Law (Law 4 of 2006) and the Kurdistan Board of Investment, which is designed to provide incentives to help economic development in areas under the authority of the KRG. Inflation has remained under control since 2006. However, Iraqi leaders remain hard pressed to translate macroeconomic gains into an improved standard of living for the Iraqi populace. Unemployment remains a problem throughout the country despite a bloated public sector. Encouraging private enterprise through deregulation would make it easier for Iraqi citizens and foreign investors to start new businesses. Rooting out corruption and implementing reforms - such as restructuring banks and developing the private sector - would be important steps in this direction.

Iran's economy is marked by statist policies, inefficiencies, and reliance on oil and gas exports, but Iran also possesses significant agricultural, industrial, and service sectors. The Iranian government directly owns and operates hundreds of state-owned enterprises and indirectly controls many companies affiliated with the country's security forces. Distortions - including inflation, price controls, subsidies, and a banking system holding billions of dollars of non-performing loans - weigh down the economy, undermining the potential for private-sector-led growth. Private sector activity includes small-scale workshops, farming, some manufacturing, and services, in addition to medium-scale construction, cement production, mining, and metalworking. Significant informal market activity flourishes and corruption is widespread. Fiscal and monetary constraints, following the expansion of international sanctions in 2012 on Iran's Central Bank and oil exports, significantly reduced Iran's oil revenue, forced government spending cuts, and sparked a sharp currency depreciation. Iran’s economy contracted for the first time in two decades during both 2012 and 2013, and grew only slightly 2014. Iran continues to suffer from high unemployment and underemployment. Lack of job opportunities has prompted many educated Iranian youth to seek employment overseas, resulting in a significant "brain drain." In June 2013, the election of President Hasan RUHANI generated widespread public expectations of economic improvement and greater international engagement. In connection with ongoing international negotiations over Iran’s nuclear program the limited sanctions relief for Iran provided under the Joint Plan of Action of November 2013, helped to forestall the decline in the economy in 2014.

Israel has a technologically advanced market economy. Cut diamonds, high-technology equipment, and pharmaceuticals are among the leading exports. Its major imports include crude oil, grains, raw materials, and military equipment. Israel usually posts sizable trade deficits, which are covered by tourism and other service exports, as well as significant foreign investment inflows. Between 2004 and 2013, growth averaged nearly 5% per year, led by exports. The global financial crisis of 2008-09 spurred a brief recession in Israel, but the country entered the crisis with solid fundamentals, following years of prudent fiscal policy and a resilient banking sector. Israel's economy also has weathered the Arab Spring because strong trade ties outside the Middle East have insulated the economy from spillover effects. Slowing demand domestically and internationally and reduced investment due to uncertainties caused by the Gaza conflict in summer 2014 have reduced GDP growth to about 2% during 2014. Natural gas fields discovered off Israel's coast since 2009 have brightened Israel's energy security outlook. The Tamar and Leviathan fields were some of the world's largest offshore natural gas finds this past decade. The massive Leviathan field is expected to come online no sooner than 2017, but production from Tamar provided a one percentage point boost to Israel's GDP in 2013 and a 0.5% boost in 2014. In mid-2011, public protests arose around income inequality and rising housing and commodity prices. Israel's income inequality and poverty rates are among the highest of OECD countries and there is a broad perception among the public that a small number of "tycoons" have a cartel-like grip over the major parts of the economy. The government formed committees and has started splitting up the oligopolies to address some of the grievances but has maintained that it will not engage in deficit spending to satisfy populist demands. Over the long term, Israel faces structural issues, including low labor participation rates for its fastest growing social segments - the ultra-orthodox and Arab-Israeli communities. Also, Israel's progressive, globally competitive, knowledge-based technology sector employs only 9% of the workforce, with the rest employed in manufacturing and services - sectors which face downward wage pressures from global competition.

Turkey's largely free-market economy is increasingly driven by its industry and service sectors, although its traditional agriculture sector still accounts for about 25% of employment. An aggressive privatization program has reduced state involvement in basic industry, banking, transport, and communication, and an emerging cadre of middle-class entrepreneurs is adding dynamism to the economy and expanding production beyond the traditional textiles and clothing sectors. The automotive, construction, and electronics industries are rising in importance and have surpassed textiles within Turkey's export mix. Oil began to flow through the Baku-Tbilisi-Ceyhan pipeline in May 2006, marking a major milestone that will bring up to 1 million barrels per day from the Caspian region to market. Several gas pipeline projects also are moving forward to help transport Caspian gas to Europe through Turkey, which over the long term will help address Turkey's dependence on imported oil and gas, which currently meets 97% of its energy needs. After Turkey experienced a severe financial crisis in 2001, Ankara adopted financial and fiscal reforms as part of an IMF program. The reforms strengthened the country's economic fundamentals and ushered in an era of strong growth averaging more than 6% annually until 2008. Global economic conditions and tighter fiscal policy caused GDP to contract in 2009, but Turkey's well-regulated financial markets and banking system helped the country weather the global financial crisis, and GDP rebounded strongly to around 9% in 2010-11, as exports returned to normal levels following the recession. Two rating agencies upgraded Turkey's debt to investment grade in 2012 and 2013, and Turkey's public sector debt to GDP ratio fell to 33% in 2014. The stock value of FDI reached nearly $195 billion at year-end 2014. Despite these positive trends, GDP growth dropped to 4.4% in 2013 and 2.9% in 2014. Growth slowed considerably in the last quarter of 2014, largely due to lackluster consumer demand both domestically and in Europe, Turkey’s most important export market. High interest rates have also contributed to the slowdown in growth, as Turkey sharply increased interest rates in January 2014 in order to strengthen the country’s currency and reduce inflation. Turkey then cut rates in February 2015 in a bid to spur economic growth. It is clear from these developments that the Turkish economy retains significant weaknesses. Specifically, Turkey's relatively high current account deficit, domestic political uncertainty, and turmoil within Turkey's neighborhood leave the economy vulnerable to destabilizing shifts in investor confidence. Turkey also remains dependent on often volatile, short-term investment to finance its large current account deficit.