Chapter 1

2008 – A Year of Wild Fluctuations in the Global Economy

Introduction

The mid-2007 crisis that started in the US subprime mortgage market quickly spread to financial markets in almost all industrialized economies. Following the collapse of the investment bank Lehman Brothers on September 15, 2008, the sub-prime crisis sent shock waves through equity and bond markets around the world, serving in large part to raise the cost of capital for domestic companies in both advanced and emerging markets, and placing an effective halt to investment outlays. Over the remainder of 2008, and into the first half of 2009, these events have transformed into the deepest global recession since World War II, carrying negative impacts on investment, production trade, and GDP across the globe, reinforced by the unprecedented simultaneity of the recession.

The global financial crisis followed the fuel and food crisis in 2008; and this combination of crises—the "triple F-crisis"—is clearly the most critical economic development of 2008 (at the global level, potentially, of the past 60 years) carrying important implications for future economic developments—and prospective regulatory change targeted toward world systems for finance, trade and investment. For MENA countries, as in virtually all regions of the world, the economic implications of these events and their effects on peoples' live are complex. Indeed, among world regions, MENA is the largest net-exporter of oil and the largest net importer of food. The events of 2008 will therefore carry substantial implications for the region in terms of economic outturns and prospects over the next years. Still, the region's economic performance was quite healthy on average for 2008, with GDP advancing 6.2% in the year, a pick-up from the 5.7% gains of 2007.

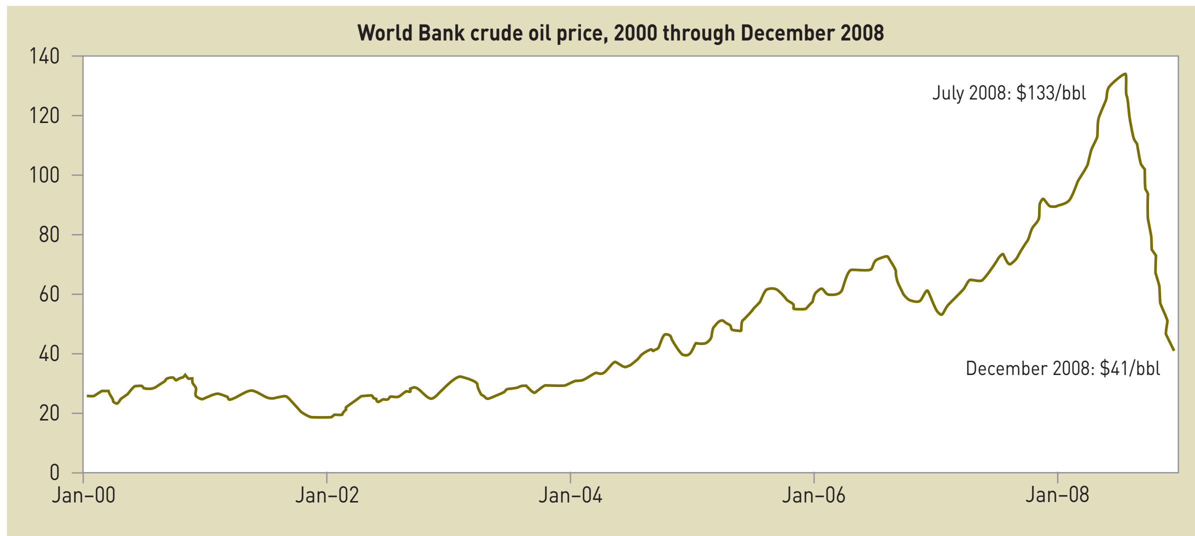
This MENA Economic Development and Prospects Report for 2009 (EDP-2009) reviews economic developments during 2008 and examines prospects for 2009 and 2010 for the MENA region within the context of the triple food-fuel-financial crisis. In the first chapter, Section I discusses the Triple-F crisis; Section II addresses the transmission of the crisis to the Middle East and North Africa region; Section III analyzes the impact of the crisis on the region; and Section IV covers policy responses to the crisis.

The Triple Crisis – Fuel-Food-Financial

The fuel-food crisis. Unlike earlier commodity price booms, the recent episode (2003 to 2008) involved all commodity groups. Commodity prices increased in a synchronized fashion starting in 2003 and continued to climb for some five years. Average commodity prices doubled in U.S. dollar terms (in part boosted by dollar depreciation), making this boom longer and stronger than any other in the 20th century. The initial acceleration in prices was at first visible in oil markets, and was quickly followed by developments in metals and minerals. After increasing some 6-fold from January 2002, prices peaked in July 2008 at $133/bbl[1] but thereafter plummeted by 70% to trough

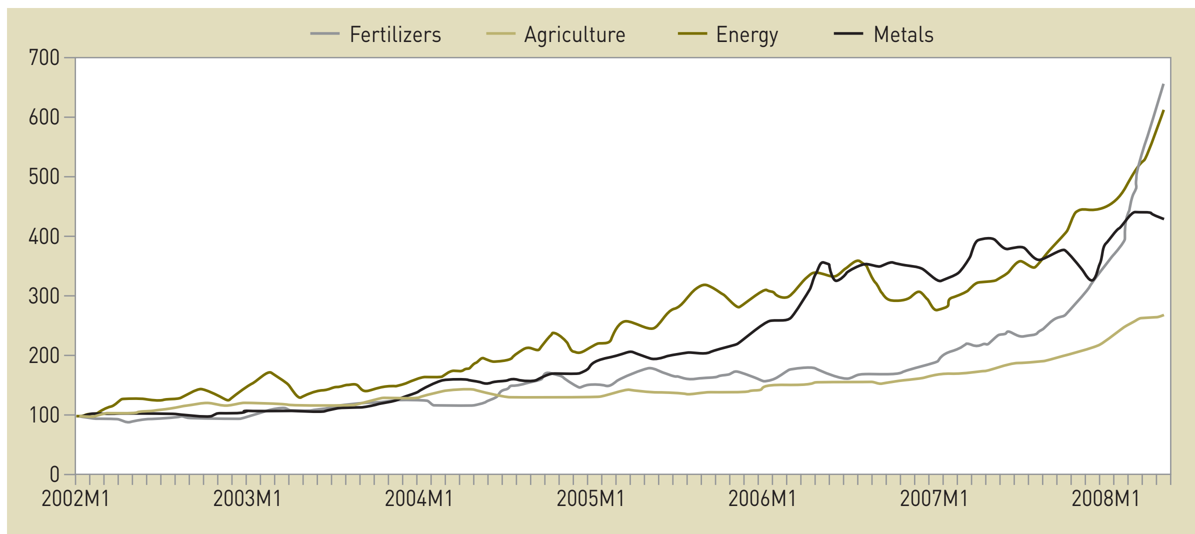
[1] Oil prices are presented on a World Bank definition, which is the simple average of Brent, Dubai and West Texas Intermediate.

Figure 1.1: Oil price surge unwound by plummeting global demand



Source: World Bank simple avg. of WTI, Brent and Dubai.

Figure 1.2: All commodites increased sharply at the same time



Source: World Bank, DEC Prospects Group.

at $41/bbl in December 2008. During early 2009, moderate increases within a range of $50 to $60/bbl have set in, supported by a number of factors on both the demand and the supply side (figure 1.1). The global financial and economic crisis also occurred on the heels of a world food and fuel crisis that saw internationally traded food prices reach historic highs in the middle of 2008. The real price of agricultural products remained fairly stable, especially in developing countries, but began to rise sharply in early 2007 (figure 1.2).

Following the oil shocks of the 1970s and 1980s, conservation efforts and substitution towards other sources of energy reduced demand for oil and depressed oil prices. With emerging market economies also seeing strong GDP growth, between 1995 and 2005, world oil

demand increased by nearly 14mb/d, with 8mb/d of that total being met by dormant capacity in the former Soviet Union and OPEC. As a result, underlying capacity was growing less than half as fast as demand throughout the 1990s, with shortfalls building with regard to any sustained increase in demand. Moreover, as energy prices moved higher, a distinct relationship began to emerge between energy and food/feedstocks, in part due to the increased importance of bio-fuels in U.S. and European consumption (box 1.1).

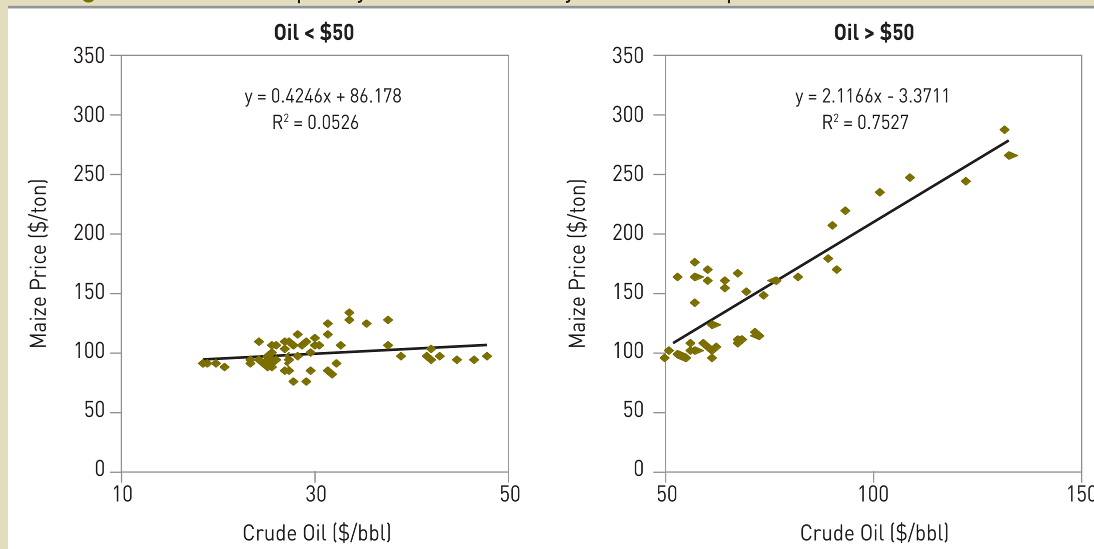
The cost of higher food and fuel for consumers in developing countries was equal to about $680 billion in 2008 ($400 billion related to oil and $280 to food). Internationally traded and dollar-denominated food prices increased by 54% between January 2005 and December 2007, and

Box 1.1: The food-oil conundrum

The timing of the rise in agricultural prices points strongly to the impact of energy markets. First, agriculture production, especially in the industrial countries, is energy intensive. The increase in oil prices raised the price of fuels to power machinery and irrigation systems, and fertilizers and other chemicals used on a widespread basis. In the United States, for example, fuel, fertilizer and chemicals accounted for 34% of maize production costs in 2007, and 27% of wheat production costs. Second, high oil prices sparked an increase in biofuel production in the United States and Europe that boosted demand for certain grains and oilseeds—contributing to rapid gains in their price over the course of 2007 and early 2008 (Mitchell, 2008). Overall, *two-thirds of the increase in world maize production since 2004 has gone to meet increased biofuel demand in the United States*, thereby reducing the quantity available for food and feed uses. Moreover, the increased demand for crops used for biofuels contributed to surges in other food prices by reducing the land allocated to other crops.

The relationship between agricultural and energy prices appears to depend on a threshold of energy costs ($/bbl) when the production of biofuels becomes economic and begins to increase quickly (box figure 1.1). At oil prices less-than $50/bbl, the relation between maize prices and that for oil appears to randomize. However, at crude oil prices above $50/bbl, maize prices display a strong, positive correlation with oil, suggesting both that biofuels policy (in countries such

Box figure 1.1: Future policy on biofuels may affect food prices



Source: World Bank simple avg. of WTI, Brent and Dubai.

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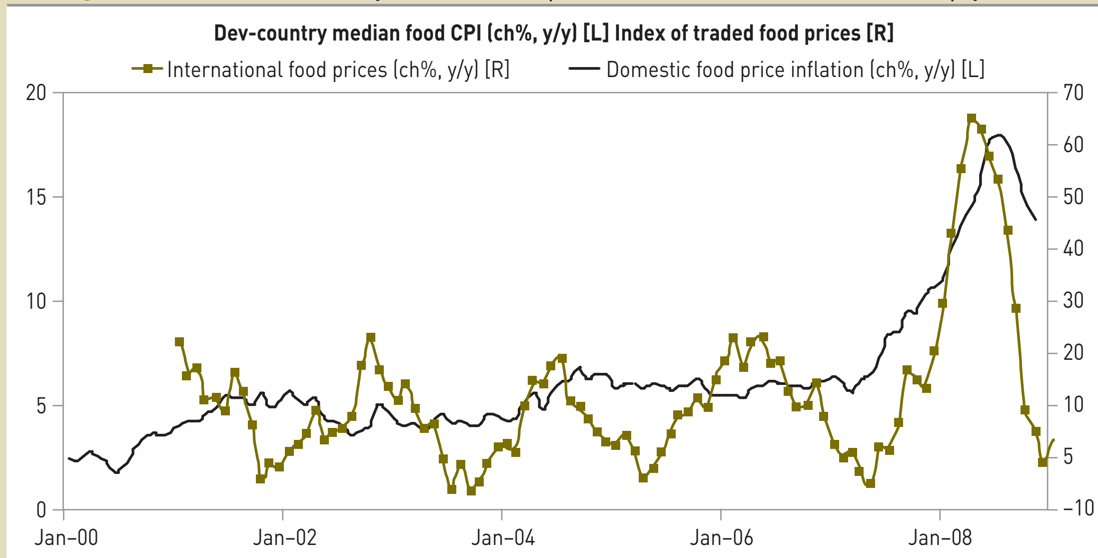
Box 1.1: The food-oil conundrum (*continued*)

as the United States and the European Union) may come to affect food prices adversely; and that the tight linkage between food and fuel poses an increasing risk for net food importing countries, given changes in global energy markets.

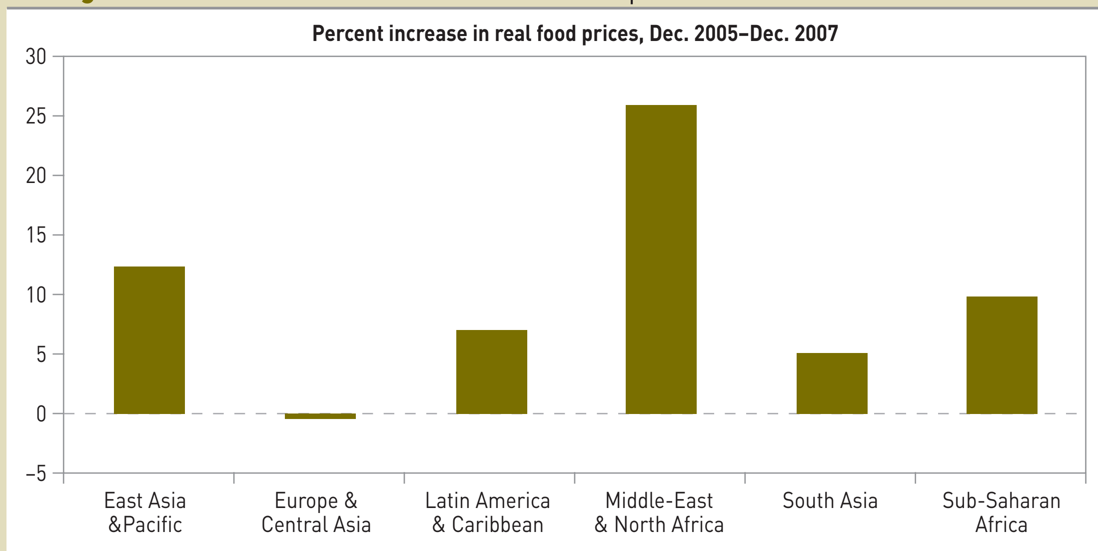
The extent of food price increases during the boom was probably exacerbated by the actions of governments, which impeded market forces that otherwise would have helped to attenuate the rise in prices and shorten the duration of the boom. Although the various subsidies and price controls that were in place or introduced likely muted the poverty impact of higher prices, they also reduced producers' incentives to increase output and consumers' incentives

Box figure 1.2: Internationally traded food prices boost local food CPI sharply



Source: World Bank.

Box figure 1.3: Overall effects tied to actual food price increases – MENA hardest hit



Source: World Bank, DEC Prospects Group.

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Box 1.1: The food-oil conundrum (*continued*)

to substitute less costly items in their food baskets, carrying world prices higher still. On a global basis, the climb of international food prices during the crisis period worked its way into domestic price levels, notably for agricultural commodities that were highly import intensive (box figure 1.2). And increases in fuel prices hit hard directly (as well as indirectly, as noted above). The direct effects of the escalation in internationally traded food prices were higher in MENA than in other world areas between 2006 and 2007, as the region is indeed the world's largest net food importer (box figure 1.3).

higher food prices took a toll on poverty. For the MENA region, the food price shock for rural poor populations amounted to a boost of 25.9% over the period, and with food taking up 64.5% of the consumption bundle for this group, purchasing power of households would have decreased by some 17% over 2 years in the absence of government support policies. Rough calculations suggest that, barring economic growth, a 30% increase in food prices in Egypt would have resulted in a 12 percentage point increase in poverty (in fact, poverty has dropped because there was sufficient economic growth). In Morocco a 14% increase in food prices would have yielded a 4 percentage point increase in poverty.

As the financial crisis emerged into the headlines, the suddenly and increasingly fragile international environment served to accelerate the already sharp falloff in commodity prices. By early 2009, oil prices were down nearly 60% from their July 2008 peaks, and non-oil commodity prices, including internationally traded food commodities, were off 35%. Lower food and fuel prices have cushioned the poverty impact of reduced activity to a degree, and helped to reduce the pressure on current accounts of oil importing developing countries. But at the same time, price changes have reduced the substantial surpluses among developing oil-exporters by as much as 17% of GDP in the MENA and Sub-Saharan African regions.

The financial crisis. The crisis that erupted in September 2008, following more than a year of financial turmoil, has evolved into a real-side crisis and a "human" one. Economic activity in high-income and developing countries alike fell abruptly in the final quarter of 2008, and that trend has continued into 2009. Unemployment is on the rise in industrial countries, and poverty is set to increase across low-and middle income countries, bringing with it a substantial deterioration in conditions for the world's most vulnerable. The crisis provoked a number of cascading developments. A broad liquidation of investments got underway, substantial loss in wealth was realized worldwide through equity market declines and falling home prices, bankers tended to tighten lending conditions, and uncertainty increased to unprecedented levels.

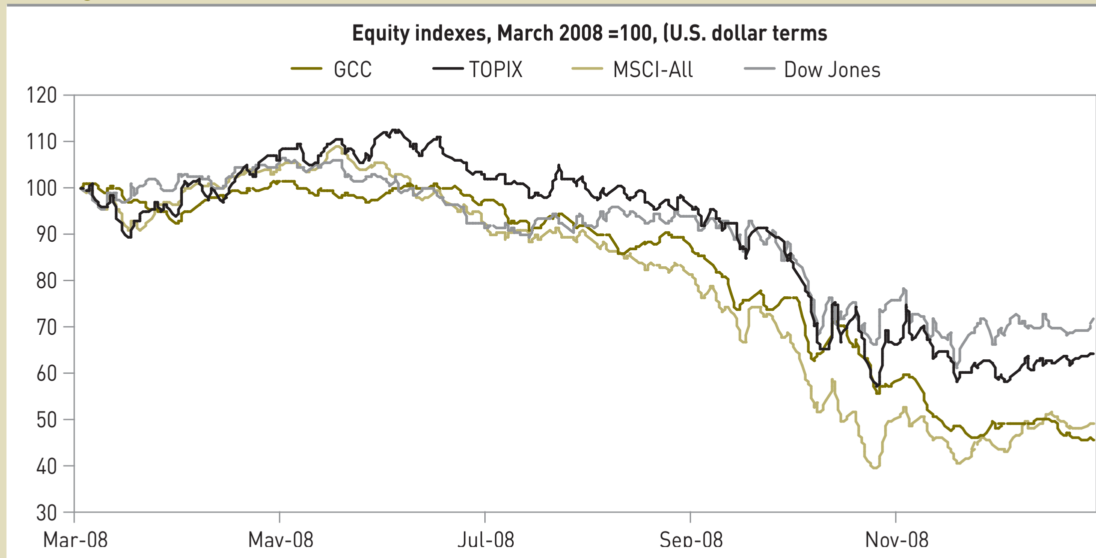
These factors prompted a global flight to quality, causing firms to cut back on investment expenditures, and households to delay purchases of big-ticket items. Funds were rapidly repatriated from emerging market assets to shore-up balance sheets of international investors and financial institutions in the high-income countries. This rapid increase in precautionary saving led to sharp declines in GDP during the fourth quarter of 2008, a development which intensified during the first quarter of 2009 (box 1.2).

The sharp falloff in commodity prices lessens one concern for MENA policymakers—inflationary pressures which had earlier escalated on the back of higher food and fuel costs. Nevertheless a potentially larger concern is now in play—much reduced oil revenues, contraction in oil GDP, and exceptionally sharp decline in demand from major trading partners for the diversified economies of the region. Still, GDP growth during 2008 was sustained at favorable levels—indeed close to record rates—in the MENA region by continued

Box 1.2: The global financial crisis

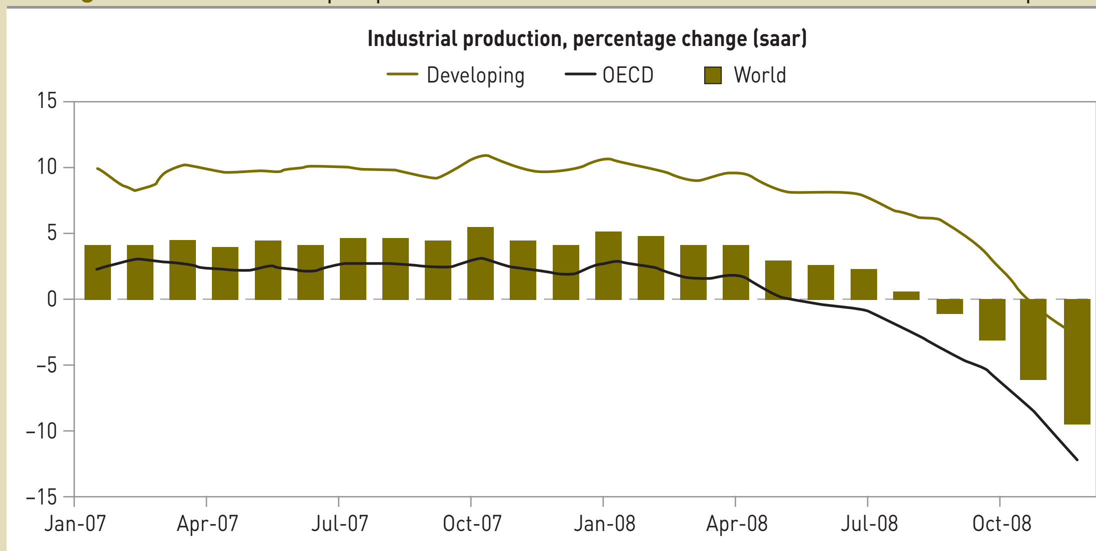
During the worst spate of financial turmoil over late 2008, global equity markets dropped 40 to 50% (in U.S. dollar terms). The MSCI-all developing index off was 38% from September through year-end; the GCC market index down 47%, contrasted with a 22% loss for the Dow Jones Industrials (box figure 2.1). Conditions in financial markets came to stabilize to varying degrees as policy actions by central banks and financial authorities to shore-up commercial banks and stem declines in lending flows came to support the a more favorable tenor for financial markets. Notably, equities stabilized toward end-2008, and stocks have shown more persistent gains in early 2009, as the freezing up of global liquidity appears to have eased. However, real-

Box figure 2.1: All bourses hit hard at the worst of financial crisis



Source: Morgan-Stanley.

Box figure 2.2: World output plummets ondecline in business investment and exports



Source: World Bank data through Thomson/Datastream.

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Box 1.2: The global financial crisis (*continued*)

side reverberations of these events have taken to the fore. World export volumes are anticipated to contract (by some 10%) for the first since the early 1980s, and production and GDP are slated for additional declines in 2009. Against this background, commodity prices should, with some exceptions, remain at low levels.

Private investment lies at the core of the global real-side downturn. Trade and production of manufactures (notably capital goods) have served as a critical transmission mechanism for a quick spread of the recession, first among the high-income OECD countries, then to the group of developing economies. Global economic activity (here measured by industrial production) dropped at a 10% annualized rate through December 2008 (saar)[2]; developing countries witnessed a crossing of the 'zero line' near the turn of the year but were restrained from deeper declines due to continuing gains in China. However, conditions affecting output among the industrial countries (export orders, unemployment, household spending and business investment), notably in Japan and the Euro Area continued to deteriorate during late 2008 and into 2009. Production was falling at a12% pace (saar) by year-end (box figure 2.2). Across countries, the sharpest declines in activity have been concentrated among those specialized in the production of durable and investment goods and in countries with serious macroeconomic vulnerabilities.

The extent of decline in global GDP is substantial. Of 25 low and middle income countries for which quarterly National Income Accounts data are available, 20 countries fell to negative growth during the final quarter of 2008 and this adverse momentum is continuing into the first months of 2009. Among the industrial countries, GDP declined by more than 6% in the United States during the fourth quarter of 2008, and by 5.7% in the first quarter of 2009 (saar). As Europe and Japan experienced unprecedented double-digit GDP declines in early 2009 (GDP off 9.7% in the Euro Area and 15.2% in Japan (saar)) this suggests a substantially deeper downturn in growth than had originally been anticipated by World Bank analysts and others.

strong public sector current—(subsidies and transfers) and especially investment spending during the first portion of the year. Notably, the financial fallout at the initial stages of crisis had little in the way of direct effects, outside of the GCC countries, and financial spillovers to the remainder of the region is likely to take some time. Europe, the diversified economies main export market, held up better than anticipated until the first quarter of 2009. Moreover, policy measures designed to deal with the food-fuel crisis for several countries, tended to shore up growth and consumption to rates that otherwise would have further exposed the countries to the initial effects of the new external shocks.

Transmission of the Crisis to MENA: A Four Country-Group Typology

Given the nature of the crises, vulnerability to shocks for individual economies within the region has depended on exposure to affected regions/groups of countries (e.g. key trade or remittances partners), or the degree of decline in revenues and effectiveness of oil resource management for oil dependent economies. Countries' vulnerability and ability to respond to the crises also depends on their initial fiscal and balance of payments positions, as well as external debt and social commitments. With these characteristics in mind, MENA countries can usefully be classified into four groups for the purpose of analyzing the direct and indirect effects of the triple crisis: (i) GCC countries, or oil exporters with high hydrocarbon revenue per capita, (ii) other oil exporters with relatively less hydrocarbon revenue per capita and relatively large populations, (iii) non-oil exporters integrated with the GCC economic area or dependent on

[2] Industrial production presented at annualized growth rates: saar—'seasonally adjusted annualized rate' is calculated as 3-month rolling average growth, converted to an annual basis; this provides a stronger view of momentum, and turning points in the data than might be produced by year-over-year growth comparison.

foreign development assistance, and (iv) non-oil exporters with diversified economies integrated with the Euro area (table 1.1).

Group characteristics and initial conditions

The Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. With GDP of some $800 billion in 2007, the high-income GCC economies comprise fully one-half of MENA regional GDP. As highly oil dependent economies (exports to GDP ratio of almost 60%), the GCC countries are exceptionally exposed to the boom and bust cycle in world petroleum demand and prices (the fuel crisis). OPEC's quota system for implementing changes to hydrocarbons output in

Table 1.1: Country group characteristics for analysis of the Triple-F crises

Country economic characteristics as of calendar year 2007	GDP in USD bn	GDP growth 2005–07	CAB % of GDP	Fiscal balance as % of GDP	Hydrocarbons-X % of GDP	Net hydro-x % of GDP	Key export % of GDP
GCC countries	**793.5**	**5.6**	**25.2**	**18.8**	**58.6**	**47.5**	
Bahrain	10.7	7.6	13.2	2.9	35.7	44.9	
Kuwait	109.7	7.4	45.6	39.2	58.4	—	
Oman	40.1	6.3	4.7	13.7	38.9	39.2	
Qatar	71.0	13.1	30.9	11.4	59.1	52.8	
Saudi Arabia	381.8	4.0	25.1	12.3	65.7	49.3	
United Arab Emirates	180.2	5.6	16.1	25.2	49.2	42.5	
Oil exporters with low per-capita revenues	**539.8**	**4.9**	**16.5**	**7.2**	**43.3**	**31.6**	
Algeria	134.4	3.3	18.1	11.4	52.2	39.7	
Iran	215.8	5.5	15.0	12.3	35.7	23.5	
Iraq	61.7	2.3	15.6	25.2	61.8	64.1	
Libya	69.7	6.1	33.9	26.2	57.1	—	
Syria	39.2	4.6	2.0	−3.5	9.1	12.0	
Yemen	19.1	3.9	−8.0	−4.0	25.6	25.6	
Diversified exporters with links to GCC	**41.6**	**4.0**	**−13.8**	**−10.4**	**0.1**	**2.5**	**..to GCC**
Djibouti	0.8	4.3	−8.2	−3.4	0.0	—	
Jordan	15.7	6.7	−17.0	−7.9	0.3	−16.8	11.8
Lebanon	25.1	2.6	−12.1	−12.2	—	−9.1	15.2
Diversified exporters integrated with EU	**241.7**	**5.6**	**−0.3**	**−4.7**	**1.1**	**−0.5**	**..to EU**
Egypt	131.9	6.1	0.3	−7.7	0.7	3.4	47.0
Morocco	74.9	4.5	−0.3	−0.2	0.3	−7.5	64.2
Tunisia	34.9	5.3	−2.6	−3.0	4.3	0.0	81.0
Memo items:							
MENA region	**1,616.6**	**5.3**	**17.6**	**10.8**	**43.4**	**32.3**	
Oil exporters	1,333.3	5.4	20.0	12.3	47.1	37.8	
Diversified exporters	283.3	4.5	−4.5	−3.6	1.2	−0.1	

Source: National Agencies, IEA, OPEC, IMF and World Bank staff estimates.

efforts to set a floor for global prices is exerting downward pressures on output in the oil sectors of the group.

Initial conditions for the GCC entering the period of the triple-crisis were favorable, with recent strong GDP growth (5.6% per year over 2005–2007), supported by large oil revenues (net-hydrocarbons of near 50% of GDP in 2007), and current—and fiscal balances well in surplus in 2007 and early 2008, reflecting the build-up in receipts over the past 5 years.

Oil exporters with relatively less hydrocarbon revenue per capita-and relatively large populations: Algeria, Iran, Iraq, Libya, Syria, and Yemen. All countries are characterized by large and/or growing populations with a demographic bulge among youth aged 16 through 24 placing continuing pressures on resources. The scale of social needs is highlighted for example in Algeria, where an estimated 1.2 million people are unemployed (an unemployment rate of 12%). Most unemployed are young: 75% are less than 30 years old and 90% are under 35 years. In Iraq, household surveys suggest that unemployment stands near 12% as well, again much higher among younger adults. About a third of all Iraqi wage earners are employed by the government and public sectors. GDP for the group is substantial, at $540 billion, dominated by Iran and Algeria.

The initial conditions for this group were positive. Reflecting the increasingly favorable circumstances for oil dominant economies during the years leading to 2007, this group displayed comfortable surplus margins on current accounts (16.5% of GDP) moving into the crisis period—though this masks diverse situations within the group with Libya's 34% current balance contrasting favorably with Yemen's deficit of 8% of GDP. The group's fiscal margins were substantially thinner than for the GCC group, reflecting expenditures on large scale social programs and infrastructure investments. As such, "fiscal space" to support economic stimulus programs would be more difficult to come by, notably for Iran, Syria and Yemen.

Non-oil exporters integrated with the GCC zone, dependent on transfers or official development assistance: Djibouti, Jordan, Lebanon, and West Bank and Gaza. This group of smaller non-hydrocarbon producing economies of the MENA region is characterized by tight links with the GCC through remittances, financial flows and services trade, as well as by a strong dependence on external financing, largely from official sources of assistance. Although affected directly by the run-up in food and oil prices during 2007 and 2008, effects of the financial crisis on this diversified group are likely to filter first through the GCC countries, in terms of growth impulses, expatriate employment opportunities and FDI flows.

In contrast with oil dominant economies, initial conditions for this group of economies were in a much deteriorated state moving into the peak of the food-fuel episode, and further into the global financial and economic recession. Current account balances in 2007 ranged from deficit of 17% of GDP in Jordan to 8.2% in Djibouti. All countries, save Djibouti, exhibited substantial fiscal shortfalls—again offering less fiscal space to provide countercyclical measures to the economic downturn.

Non-oil exporters with diversified economies integrated with the Euro-zone: Egypt, Morocco and Tunisia. Tight links have been forged with the European Union by these countries over the preceding 10 to 20 years in goods trade (EU-Mediterranean Agreements), *travaux a façon* (contract work with European manufacturers), services flows (tourism), remittances and, increasingly, elements of direct investment. EU shares of goods exports range from 47% for Egypt to a large 81% for Tunisia, increasing the exposure of these countries to economic developments on the Continent. Egypt, with a more diversified set of export destinations with larger shares for the United States, Central and Eastern Europe and East Asia (NIEs in particular) in its export markets as well as a more diversified product base (including hydrocarbons)may find some cushioning from the transmission effects of the crisis from this mix.

The profile of initial conditions for this group during 2007 appeared balanced, though Morocco

was suffering severe drought which required massive food imports. Current account positions were within range of balance, while with the exception of Egypt, fiscal space appeared to be comfortable to allow for prudent countercyclical measures.

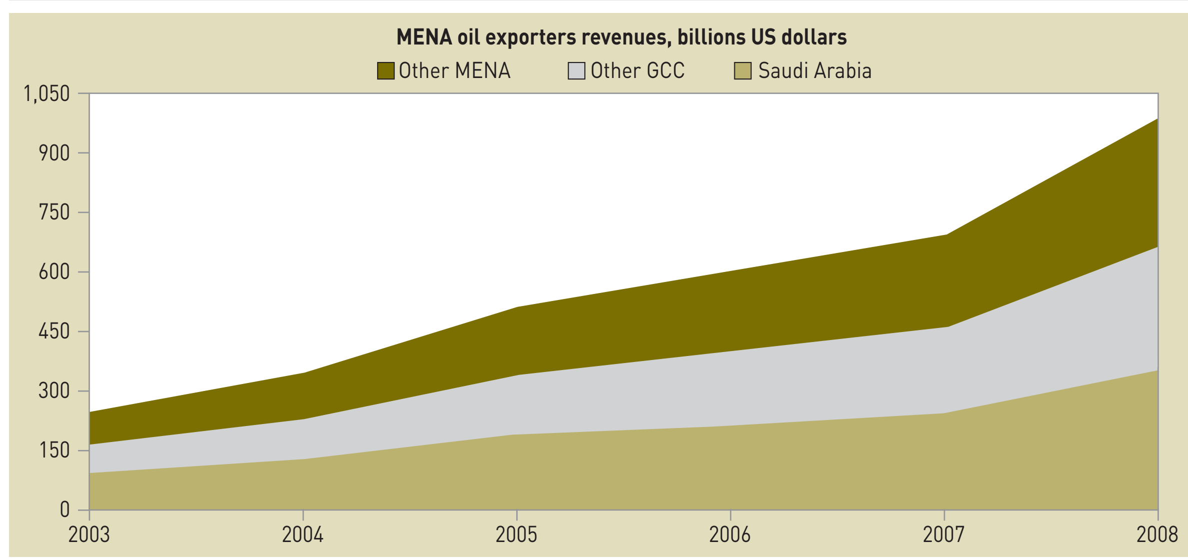
The Impact of the Crisis on the MENA Region: Growing with Oil, Slowing with Oil

MENA hydrocarbon revenues escalated sharply through mid-2008. Global oil prices moved substantially higher between 2002 and 2007, from $25-to $70/bbl, reflecting both the supply constraints and demand build that characterized the period. At the same time, crude oil production within the MENA region surged by a cumulative 18.6% from 2003 to 2006, and output of natural gas and natural gas liquids (NGLs) increased by some 13.2% per annum. These factors led hydrocarbon export receipts for regional oil exporters to jump from $250 billion in 2003 to an exceptional $700 billion by 2007, or from 37 to 53% of the group's GDP (figure 1.3 and table 1.2). Such revenues were sufficient to support 5.8% average GDP gains for MENA oil exporters between 2002 and 2007, as public current and capital spending accelerated quickly, notably in large infrastructure projects. GCC growth picked up to more than 7% during 2004–05, while the group of exporters with larger populations saw GDP gains increase to more than 4%, up from an average 2.8% over 2000 to 2002.

As the boom in all commodity prices came to affect the global economy in an adverse fashion over 2007 to mid-2008 and commodity demand began to falter, MENA oil receipts continued to move up to $995 billion for 2008 on average, though receipts began to decline sharply over the second half of the year. GDP growth for the region's oil exporters reached a recent record high during 2008 at 6.2%. However, important developments over the second half of the year have set the tone for a slacking in GDP for oil exporters, as well as the diversified economies of the region.

Commodity prices reversed course sharply at mid-year 2008. Non-energy commodity prices peaked in July 2008, up 50% over the preceding 12 months, and triple the level of 5 years earlier, while energy prices were up 85% over 12 months and 4.5 times the levels of 5 years earlier. Many of the factors which underpinned the jump in oil prices reversed, as the slowdown

Figure 1.3: Higher oil prices and MENA production yield windfall hydrocarbon revenues in 2008



Source: World Bank and International Energy Agency.
Note: "Other MENA" include all MENA countries except GCC countries.

Table 1.2: Exports of oil and gas in billions U.S. dollars, 1996–2010

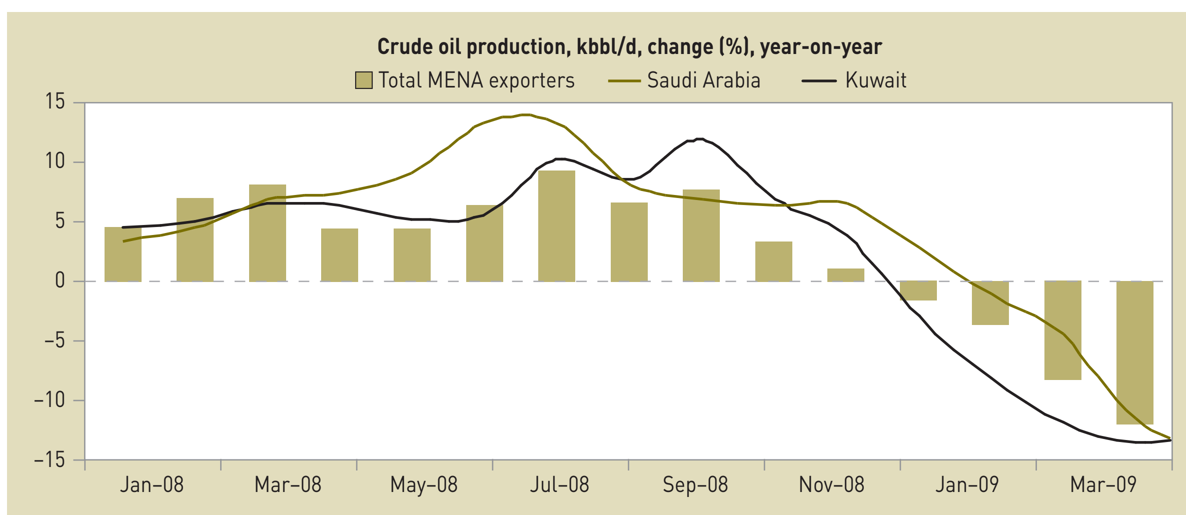
Country	1996–1999	2000–2006	2007	Estimate 2008	Forecast 2009	2010
MENA region (incl. Iraq)	**129.9**	**339.9**	**701.4**	**994.1**	**428.1**	**428.2**
MENA (excl. Iraq)	**124.3**	**322.5**	**663.2**	**935.0**	**401.5**	**400.9**
	average	average				
GCC countries	**82.6**	**224.1**	**465.1**	**668.8**	**282.0**	**280.0**
Bahrain	1.1	2.3	3.8	4.9	2.2	2.2
Kuwait	11.8	28.8	64.1	93.9	38.0	37.0
Oman	5.5	10.2	15.6	21.9	10.6	10.8
Qatar	3.8	16.8	42.0	64.1	25.9	27.3
SaudiArabia	46.3	125.1	251.0	356.2	150.8	147.0
United Arab Emirates	14.1	41.0	88.7	127.8	54.6	55.7
Oil exporters with large populations	**44.4**	**113.1**	**233.5**	**322.5**	**143.0**	**144.9**
Algeria	11.4	32.4	70.2	96.6	42.0	42.0
Iran, Islamic Republic of	15.3	37.8	77.0	103.2	47.0	48.7
Iraq	5.5	17.4	38.1	59.1	26.6	27.3
Libya	7.9	18.3	39.8	54.7	24.3	23.9
Syrian Arab Republic	2.3	3.2	3.6	4.0	1.6	1.5
Yemen	1.9	4.0	4.9	4.9	1.6	1.5
Diversified exporters with strong GCC links	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Djibouti	0.0	0.0	0.0	0.0	0.0	0.0
Jordan	0.0	0.0	0.0	0.0	0.0	0.0
Lebanon	0.0	0.0	0.0	0.0	0.0	0.0
Diversified exporters integrated-with Europe	**2.9**	**2.6**	**2.7**	**2.7**	**3.1**	**3.3**
Egypt	2.3	1.6	0.9	1.5	2.0	2.2
Morocco	0.1	0.3	0.2	0.2	0.2	0.2
Tunisia	0.5	0.8	1.5	1.0	0.9	0.9
Note:						
Oil-exporting countries (excl. Iraq)	123.7	321.4	661.5	933.7	400.5	399.8
Oil-importing countries (excl. WBG)	0.6	1.1	1.8	1.2	1.1	1.1

Source: National agencies, WITS database, IEA, OPEC and World Bank staff projections.

in economic activity and fallout from the financial crisis induced massive price declines across all commodity sectors. By December 2008, crude oil prices dropped to $41/bbl—down nearly 70% from July peaks—while non-energy prices fell nearly 40%. World oil demand—which had grown on average by 1.4% or nearly 1.4mb/d between 2000 and 2007—fell slightly in 2008 (0.3%), the first annual decline since 1983. However, demand plunged in the fourth quarter, falling 2.2% or 1.9mb/d y/y.

Sharply lower prices induced deep production curtailment (figure 1.4). OPEC's quota

Figure 1.4: Crude oil production cuts widespread in MENA during late 2008



Source: IEA, World Bank

system for implementing changes to hydrocarbons output in efforts to set a floor for global prices will, in today's crisis environment, exert downward pressures on output in the oil sectors of the group. OPEC announced production cuts of more than 4mb/d since September 2008 in an attempt to stem the slide in prices and ballooning of inventories, but it takes time for the cuts to be implemented and impact markets. Saudi Arabia moved aggressively to reduce output, and has stated it will cut production further if needed. Under these circumstances, energy (and non-oil) commodity prices had come to stabilize broadly by early 2009.

Effects of the massive shift in commodity prices on MENA

GCC countries: GDP growth in the GCC countries stepped up to 6.3% in 2008, supported by record-high oil prices and increased oil production, particularly in Saudi Arabia, where output crossed 9.2mb/d by August. As a result, hydrocarbon revenues reached unprecedented levels for 2008 (near $670 billion), creating substantial fiscal surpluses, and underpinning strong public investment. Oil export revenues in Kuwait, Qatar, and Saudi Arabia increased by over 40% in 2008, contributing to large current account surpluses in all six economies, despite sharp increases in imports. The current account surplus position for the GCC was close to 34% of GDP in 2008.

However the fall in global oil price and choice to restrain production to provide a support level for prices will come at a high cost—especially in 2009. Strong revenue gains are likely to give way to much diminished current balance surplus positions, in several cases forcing the fiscal balance into red ink. Substantial revenue losses and increasing fiscal difficulties moving forward are likely to put a damper on investment outlays, save for projects already long in implementation. Flows of remittances, tourism and FDI to the diversified economies of the region are set to fall sharply during 2009.

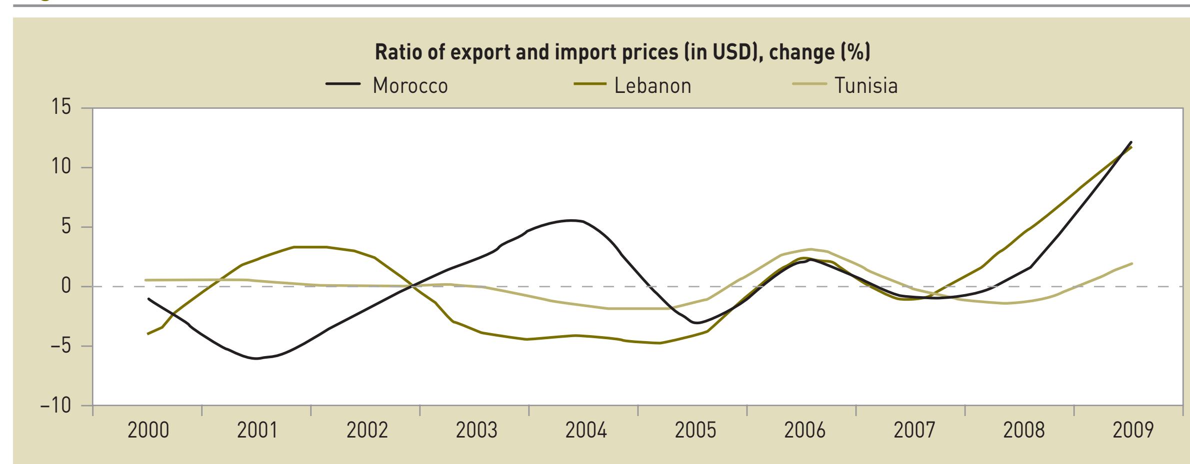
Other oil exporters: (with relatively less hydrocarbon revenue per capita and relatively large populations) have faced particularly difficult exposures to the run-up in global food prices and the later downturn in world oil prices. The former elicited policies in several countries to safeguard the poor from substantial hikes in basic food prices; and in some cases to respond to the accompanying upturn in inflation by tightening monetary policy. The sharp decline in oil prices has served to reduce budgetary revenues

severely in the face of continued demand for social—and infrastructure spending. Moreover, contraction of oil and gas output will place strong downward pressures on overall GDP growth into 2009, an element unlikely to change until prices find a point of stability at (likely) higher levels.

Diversified exporters: experienced terms of trade relief during the second half of 2008, (and here pictured) 2009, as both food and fuel prices declined sharply. The larger benefits are accruing to Morocco and Lebanon, highly dependent on both food and fuel imports (figure 1.5). At the same time, those economies most dependent on flows of remittances and aid from the GCC (Djibouti, Jordan and Lebanon) are expected to suffer a downturn in these flows as of the second half of 2008; while the recent strong trend in FDI emanating from the GCC, targeted toward industrial, commercial and residential projects in surrounding countries appears to be easing.

Current account balances shifting dramatically. As highlighted in table 1.3 (below),

Figure 1.5: Terms of trade relief for MENA diversified economies



Source: World Bank, DEC Prospects Group.

Table 1.3: Current account balance as % of GDP, 1996–2008

Country	1996–1999	2000–2005	2006	2007	Estimate 2008
MENA region (incl. Iraq)	**—**	**16.1**	**21.1**	**17.5**	**22.7**
MENA (excl. Iraq)	**0.8**	**8.5**	**21.3**	**17.6**	**22.6**
	average	average			
GCC countries	**0.7**	**12.1**	**29.1**	**25.2**	**32.2**
Bahrain	−2.2	4.5	22.0	13.2	32.3
Kuwait	18.5	24.9	49.7	45.6	48.2
Oman	−6.2	9.2	14.3	4.7	16.3
Qatar	−16.5	17.1	28.3	30.9	37.1
Saudi Arabia	−2.4	10.6	27.9	25.1	35.5
United Arab Emirates	5.7	9.6	22.6	16.1	17.5

(*continued on next page*)

Table 1.3: Current account balance as % of GDP, 1996–2008 (*continued*)

Oil exporters with large populations	**3.9**	**9.9**	**20.0**	**16.5**	**22.7**
Algeria	3.1	12.1	24.8	18.1	24.2
Iran, Islamic Republic of	2.8	8.8	16.3	15.0	20.6
Iraq	—	10.5	15.3	15.6	26.7
Libya	12.3	17.5	45.8	33.9	39.2
Syrian Arab Republic	1.3	4.8	2.5	2.0	1.1
Yemen	−0.7	5.9	1.2	−8.0	−6.5
Diversified exporters with strong GCC links	**−14.7**	**−13.5**	**−11.8**	**−13.8**	**−22.0**
Djibouti	1.0	1.6	−8.8	−8.2	−6.7
Jordan	0.6	3.9	−11.3	−17.0	−27.5
Lebanon	−22.4	−22.9	−12.2	−12.1	−19.3
Diversified exporters integrated with Europe	**−1.4**	**1.0**	**1.6**	**−0.3**	**−6.1**
Egypt	−1.5	1.8	2.4	0.3	−6.7
Morocco	−0.4	2.3	2.0	−0.3	−5.4
Tunisia	−2.8	−3.4	−2.0	−2.6	−5.4
Note:					
Oil-exporting countries (excl. Iraq)	1.7	10.2	23.8	20.0	25.7
Oil-importing countries (excl. WBG)	−5.2	−3.8	−2.8	−4.5	−9.9
Memorandum items: Comparator regions					
MENA (excl. Iraq)	**0.8**	**8.5**	**21.3**	**17.6**	**22.6**
All Developing countries	**−0.8**	**1.9**	**4.1**	**3.5**	**2.7**
East Asia and the Pacific	0.9	3.7	8.7	10.4	8.9
Europe and Central Asia	−0.1	1.9	0.9	−1.0	−0.5
Latin America and the Caribbean	−2.6	0.1	1.6	0.5	−0.7
South Asia	−1.7	−0.2	−1.5	−1.6	−3.8
Sub-Saharan Africa	−1.8	0.5	1.6	−1.7	−0.6

Source: World Bank, IMF, National Agencies.

the effects of still-high oil prices in 2008, beginnings of improvement in the terms of trade for the diversified economies, as well as the initial negative impulses stemming from the slowdown in export markets (notably the United States and the European Union) began to hold sway over regional current account balances. Oil exporters as a group witnessed a pickup in the current account surplus' share of GDP to 25.7% during 2008, led by the GCC, where surpluses continued to burgeon, increasing to an unprecedented 32.2% of the group's GDP. For the group of oil exporters with large populations, there was a less dramatic but still substantial step-up in surplus to near 23% of GDP. Diversified economies with close ties to Europe have witnessed a steep escalation of deficits during the year, shifting from near balance in 2007 to deficit of 6.1% of GDP, a partial reflection of the effects of the food-fuel crisis of the 2006–08 period.

Repercussions from the global financial crisis in MENA

The impact on MENA's financial systems has been limited so far. Though "direct effects" of the financial meltdown in the mature markets appear to have been minimal for the GCC (little holdings of so-called "toxic assets" in local banking systems), equity and real estate markets were hit hard as the crisis intensified in the fall of 2008. As centers for employment of overseas nationals from many MENA countries, especially those of the Mashreq, adverse effects on remittances for home countries are now being felt. And a recent sharp step-up in GCC foreign direct investment (FDI) across a wide range of countries in the region may be at risk, given deterioration in fiscal and balance of payments positions for the group.

GCC stock markets declined in the last quarter of 2008 in similar magnitude as in the major developed economies. The decline in GCC stock indices was in part a result of repatriation of short term capital that had moved to the region on expectations that, to avoid the inflationary effects of a weakening dollar during 2008, GCC countries would be under pressure to discontinue their currency peg to the dollar. However, short-term capital left GCC markets (i) as the dollar regained some ground in the latter part of 2008, and food prices declined sharply, removing a portion of inflation pressure; (ii) as policy statements from the GCC bolstered confidence in the likelihood of a currency union in the medium term; and (iii) as investors losing money on their portfolios in developing countries decided to reduce their short term exposures in the GCC in order to rebalance their portfolios. The withdrawal of speculative financial inflows was less of a factor in Kuwait—usually an exporter of capital on both public and private accounts.

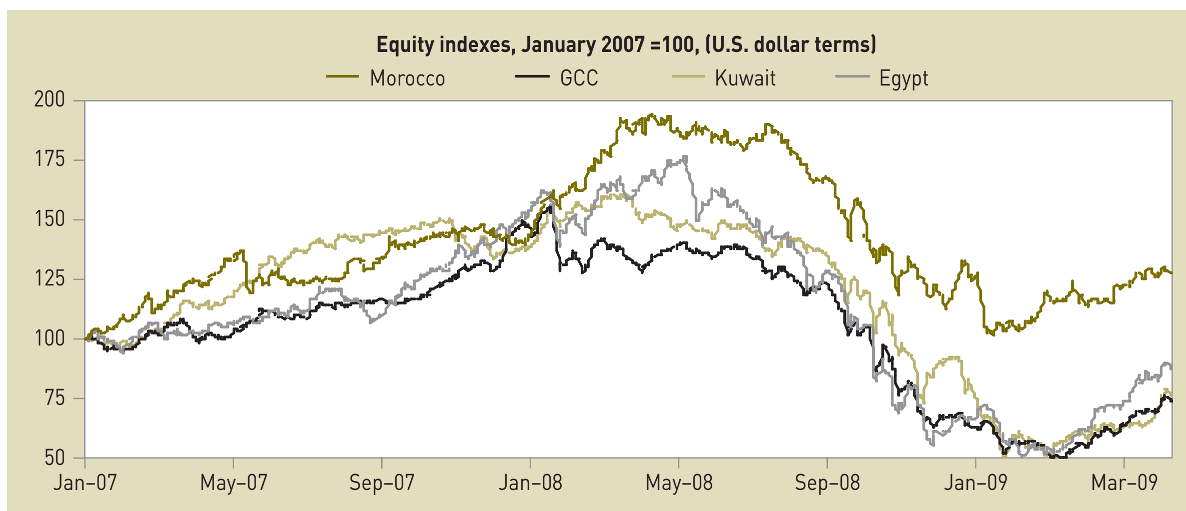
The outflow of short-term capital placed substantial pressure on GCC's financial systems. Stock market activities declined as a good part of the short-term capital had been invested in equities. Bank lending became more constrained as some foreign banks gradually withdrew or froze new lending. For example, in Saudi Arabia, the benchmark Tadawul All Share index reached a 2008 peak in January at nearly 11,700, while the index was in the 4,350 range in March 2009, a decline of 63%. The decline was especially sharp between late August and late November 2008, but the market has traded in a narrow range since then, in contrast to the continued declines on global stock markets.

Outside of the GCC, stock markets in other MENA countries declined as well, though generally not as sharply as for the former group. The main factors behind the decline in other bourses were fears of contagion from the GCC markets, and to a degree a drying-up of short-term capital flows from the GCC. Egypt is among the non-GCC markets that saw the sharpest decline. The Egyptian index peaked at 12,000 in April 2008 before declining sharply to 4,300 in December and further to 3,563 in February 2009 (a 66.3% decline). The year's performance had taken a first pounding in May 2008, after the removal of privileges of energy-intensive companies in free zones. Impacted by the aftershocks of the U.S. market collapse which followed the demise of Lehman Brothers, the Egyptian index fell by almost 30% in October (month on month), as panic selling from Arab and foreign investors took place.

In Jordan, the Amman Stock Exchange (ASE) index affected by the financial turmoil, declined by 9% in July and August before plunging 35% between August and December 2008. Tunisia and Lebanon appeared to have avoided sharp declines in stock indices. Tunisia's stock market followed the global downturn since October 2008 and, as of December 2008 it had lost almost the entire gain realized between January and September 2008. However, the Tunis Stock Index rose by 1.8% for the whole of 2008 (figure 1.6).

External financing has tightened. Sovereign, spreads increased markedly in 2008 for MENA countries, just as for other emerging market economies. However, the increase was not binding, as MENA countries were able to avoid going to the market in 2008, apart from Lebanon that was able to rollover maturing debt. Traditionally, MENA countries that issue sovereign bonds are

Figure 1.6: MENA equity markets show general decline with mixed country results



Source: Morgan-Stanley.

by and large the non-oil exporters (although Qatar and the UAE recently issued sovereign bonds in April 2009). Tunisia's sovereign spreads (EMBI Global spreads) increased dramatically to more than 600 basis points as of December 1, 2008, reflecting higher country risk resulting from the volatile global financial environment. Still, Tunisia's sovereign spread remains below the MENA regional average (close to 900 basis points). On the commercial side, spreads are known to have risen sharply as well, though Tunisia-specific data are not available. In Egypt, a Eurobond issuance scheduled for the first quarter of 2008 was postponed to July 2008 and then postponed again until "international markets stabilize".

Economic outturns for 2008

GDP growth held up in 2008 for several groups within the MENA region, and the region as a whole saw a slight increase in GDP growth to 6.1% in 2008 compared to 5.6% the previous year. MENA's resilience to the crisis in 2008 is in stark contrast with other developing regions where growth fell from 2007 levels (table 1.4 and figure 1.71). MENA's growth in 2008 was helped by high oil price for the year on average despite the sharp decline observed in second half of the year, and by strong growth in the construction sector. But signs of increasing weakness were apparent moving through the final quarter of the year and into the first months of 2009.

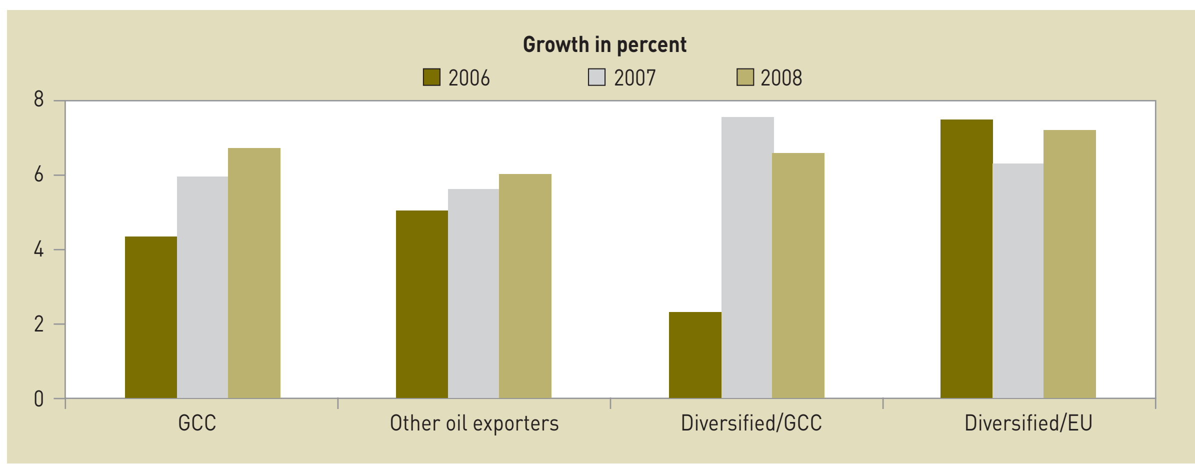
GDP growth in the resource rich GCC countries stepped up from 5.6% in 2007 to a recent high 6.3% in 2008, supported by record oil prices, increased crude oil production, public and private spending and rapid development in the construction sector. In nominal terms, GDP grew at an unprecedented rate of 32%, as the average price of crude oil for the year reached a record \$97/bbl. Oil receipts provided considerable impetus to public spending, leading to an increase in investment in large scale infrastructure projects, particularly in Dubai and Doha, funded primarily by GCC central governments. Private consumption was also strong through 2008, fueled by public spending, high levels of employment and wage increases that ranged from 5% in Saudi Arabia to 30% in Qatar and UAE. However, since the third quarter of 2008, the global situation has altered considerably. A rapid downswing in revenues for the oil exporters and a sharp reversal in current account positions are in the offing moving into 2009. Investment projects worth almost \$2 trillion had been planned in the 6 economies through to 2012, the large majority of which have been postponed or cancelled due

Table 1.4: Real GDP growth, 1996–2008

Country	1996–1999	2000–2005	2006	2007	Estimate 2008
MENA region (incl. Iraq)	**—**	**4.7**	**4.7**	**5.6**	**6.1**
MENA (excl. Iraq)	**3.5**	**5.0**	**4.7**	**5.6**	**6.1**
	average	average			
GCC countries	3.0	5.5	4.0	5.6	6.3
Bahrain	4.0	6.0	6.7	8.1	6.1
Kuwait	1.2	7.6	6.4	4.4	5.2
Oman	2.9	4.8	6.8	6.2	6.2
Qatar	12.0	8.0	15.0	15.3	16.4
Saudi Arabia	2.0	4.0	3.0	3.5	4.6
United Arab Emirates	5.2	7.5	1.2	7.7	7.4
Oil exporters with large populations	**4.4**	**4.0**	**4.6**	**5.2**	**5.6**
Algeria	3.4	4.4	1.8	3.0	3.0
Iran, Islamic Republic of	3.8	5.5	5.7	6.2	6.9
Iraq	—	–70.2	6.2	1.5	9.8
Libya	1.3	4.2	5.9	6.8	6.3
Syrian Arab Republic	2.2	4.0	5.1	4.2	5.2
Yemen	5.8	4.3	3.2	3.0	4.0
Diversified exporters with strong GCC links	**2.8**	**4.3**	**1.9**	**7.1**	**6.1**
Djibouti	–0.7	2.5	4.9	4.8	5.8
Jordan	2.9	5.8	6.3	6.6	5.5
Lebanon	2.8	3.6	–0.6	7.5	6.5
Diversified exporters integrated with Europe	**5.0**	**4.2**	**6.9**	**5.9**	**6.5**
Egypt	5.1	4.0	6.8	7.1	7.2
Morocco	4.4	4.5	7.8	2.7	5.6
Tunisia	5.9	4.5	5.5	6.3	4.5
Note:					
Oil-exporting countries (excl. Iraq)	3.4	5.0	4.6	5.7	6.2
Oil-importing countries (excl. WBG)	4.2	4.4	5.4	4.9	5.5
Memorandum items: Comparator regions					
MENA (excl. Iraq)	**3.5**	**5.0**	**4.7**	**5.6**	**6.1**
All Developing countries	**4.2**	**5.4**	**7.7**	**8.2**	**5.9**
East Asia and the Pacific	6.2	8.2	10.1	11.4	8.0
Europe and Central Asia	2.0	5.6	7.4	6.9	4.3
Latin America and the Caribbean	3.6	2.7	5.5	5.8	4.3
South Asia	5.7	6.1	9.0	8.4	5.6
Sub-Saharan Africa	3.4	4.3	5.7	6.5	5.3

Source: National agencies and World Bank staff estimates.

Figure 1.7: GDP growth across MENA country groups varied, 2006–08



Source: World Bank data.

to the sharp narrowing of fiscal surpluses, and the tightening of credit markets globally. Fiscal spending is likely to remain high into 2009, as governments implement policies to fight off significant repercussions from the global recession on employment and private consumption.

For the oil exporters with low per-capita revenues and large populations, growth moved higher to 5.6% in the year from 5.2% during 2007 on the back of strong government spending in Iran, a step-up in output in Iraq to an estimated 9.8% and continued 3% advances in Algerian growth. GDP among the diversified economies of the region registered mixed results in 2008. The group tightly tied to developments in the GCC economies saw growth fade by a percentage point from 2007 to 6.1% in the year, as slower goods and services exports, FDI inflows and construction work in Jordan and Lebanon exacted a toll on growth. For the diversified economies with close links to Europe, GDP stepped-up from 5.8% to 6.7%, in part tied to Morocco's recovery from severe drought in the year preceding, but also powered by continued vibrant 7.2% growth in Egypt.

These more buoyant conditions are unlikely to persist however, and the onset of the financial crisis began to exact a toll on regional growth into year-end 2008 and 2009. Over the coming months, those elements which supported growth over the last five years are anticipated to unwind: oil prices to remain within a moderate range, the European export market moving toward near collapse, and slowing of services receipts and remittances will exact a toll on growth for both oil exporters and the more diversified economies of the region.

For the diversified economies, signs are that export volumes and values have declined sharply, down by as much as 35% in nominal terms since September 2008. Here the key element is the collapse of import demand in the Euro Area (as well as the United States) wherein the former, French import volume declined 19% during the first quarter of 2009, on the heels of a 12% contraction in the previous quarter (saar). Exports from Morocco dropped 45% from September 2008 through February 2009; those from Tunisia by 31%, and from Jordan by 18.4%. However, industrial production has held up better than in most other developing regions, with output over the same period down by some 5% in most countries in the region (notably the oil exporting countries) compared with 12% or more for the world as a whole. For example, Egyptian production stood 30% above year—earlier levels in November 2008; that in Jordan by 26% as of January 2009. As more recent data becomes available for these countries dominated

by exports to Europe, they will undoubtedly show substantial deterioration.

Decline in services, income and investment flows are beginning to affect the diversified economies. Countries such as Egypt, Morocco, Tunisia, Jordan and Lebanon derive both balance of payments support and needed supplemental domestic income through exports of services, notably tourism and business services, remittance receipts from workers abroad and importantly of late, much enhanced FDI flows, helping to underpin and catalyze domestic private and public capital expenditures. Such flows amount to substantial proportions of GDP for these countries. In Egypt for example, total flows represented 18.7% of GDP in 2007, of which remittances 5.7%, tourism 5.5%, and FDI 7.6%. Under current conditions in the global and regional environment, such income and investment flows are slated to decline in absolute terms in coming months and in proportion to GDP over the medium term, serving to widen current account deficits for recipient countries, while dampening domestic demand, as household spending and investment outlays lose important pillars of support.

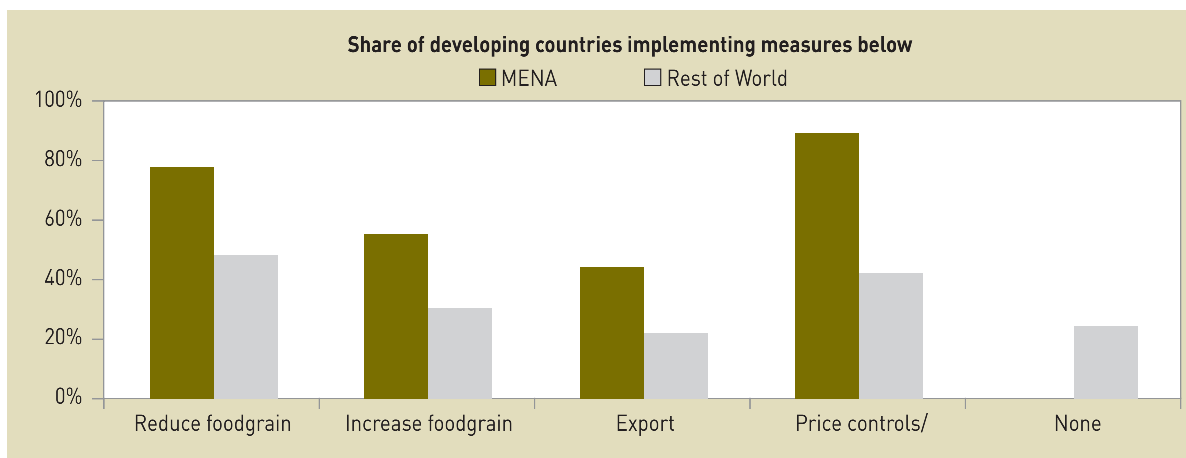
Inflationary pressures ease. A brighter spot within the generally darker tone of recent developments is a broad easing of inflation rates across almost all countries in MENA. This is tied in large measure to the unwinding of the earlier escalation in food and fuel prices, slowly coming to bear on "headline" inflation rates. Inflation moved into double digits in several countries linked to the food and fuel price increases, and authorities undertook measures to offset the most adverse effects on the poor, including increased subsidies, measures to boost incomes through higher civil service wages, and finally a move-up in interest rates in a number of countries to counter the inflationary impulse. For example, Tunisian CPI inflation softened to 3.1% in February 2009 (year-on-year) from 4.9% during 2008; Jordan to 1.5% from 14.9%; and Saudi Arabian inflation has dropped to 6% from the 10% pace recorded in 2008. The current easing of inflation pressures is serving to boost the purchasing power of the broader MENA population, setting the stage for an eventual turnaround in household spending, when economic conditions become less cloudy.

Policy Response to the Crisis

Helped by their large financial reserves, and taking advantage of declining inflation, GCC governments have intervened in financial markets to varying degrees and using various instruments to limit the local financial impact of the global crisis. At the same time, many countries that earlier suffered from the food-fuel crisis have taken policy steps to mitigate adverse effects on the poor, including subsidies, targeted income programs and other support measures. Eventually, in several cases, interest rates were increased to stem inflationary pressures which were increasing to worrisome levels. For these countries, including Morocco, Tunisia, Jordan and Lebanon, among others, initial conditions moving into the financial and real phases of the crisis were less than ideal.

In general terms, countries of the region responded to the triple F crisis using instruments and focusing on sectors where they perceived vulnerability to shocks stemming from the external environment, and which reflected the set of resources available to policymakers. The range of policy actions has indeed been broad. As documented in the 2008 MENA Economic Developments and Prospects report, some MENA countries focused on the food/fuel problem during 2007 and 2008, through subsidies and adjustment to benefits, also exploring overseas investment in agriculture, as grains prices reached all-time highs. The number and breadth of policy changes in MENA eclipsed those of other developing regions by a wide margin (figure 1.8). Though some of the adverse impacts on poverty in the region may have been diminished to a degree through these actions, food price changes globally may have been accentuated by these measures, collectively across countries and regions. Some countries, notably the GCC and others, focused on financial system stability using monetary policy, injecting liquidity or providing deposit guarantees to respond to the financial crisis (box 1.3). Some designed more comprehensive fiscal stimulus packages (e.g. Egypt), and others provided targeted support to vulnerable sectors,

Figure 1.8: Policy responses to food crisis were widepread in MENA region



Source: World Bank, DEC Prospects Group.

Box 1.3: Policy response to the financial impact of the crisis in GCC countries.

The collapse of Lehman Brothers placed increasing stress on GCC interbank markets. Central banks responded with stepped-up liquidity provision (as did central banks worldwide), usually allowing for a wider range of collateral than had been accepted previously.

UAE. A new $14 billion facility in UAE guarantees all deposits and local interbank loans of UAE banks. The Government of Dubai has begun to broker the merger of Amlak and Tamweel (large non-bank mortgage lenders), and the Central Bank of UAE has undertaken loans to mortgage lender Tamweel. The Federal Ministry of Finance announced a $19 billion 2-year direct deposit in local banks, while the UAE Central Bank commenced detailed review of local banks' balance sheets. Abu Dhabi releases "Vision 2030", affirming a long-term agenda of diversification and transition to a knowledge-based economy. The Government of Dubai makes first ever detailed budget presentation, which envisages a rising budget deficit (to about $1 billion) to help support local spending plans. Recurring media reports indicate significant retrenchment efforts among non-bank financial intermediaries and property developers. Government of Abu Dhabi provides $4.4 billion in Tier 1 perpetual bonds to 5 Abu Dhabi commercial banks. The Government of Dubai creates a new $20 billion 5 year bond issue, with the first $10 billion being sold entirely to the Central Bank of UAE. Prior to the sale, Borse Dubai indicates that it successfully refinanced $3.4 billion in debt. Dubai World continues to implement port & logistics sector investments in sub-Saharan Africa. UAE banks begin converting long-term government deposits into Tier 2 capital. Abu Dhabi registers to sell as much as $10 billion in bonds, with pricing to be disclosed later. Significant ratings downgrades for Dubai companies continue. Media reports indicate that the emirate's government is developing a strategy to disburse the $10 billion loan from the central bank.

Bahrain. Fexible dollar-dinar swap facility initiated in Bahrain. Central Bank of Bahrain begins accepting *Ijara* (leasing) sukuk as collateral without discount. Bahrain announces that it will issue a mixture of local currency and dollars, conventional and Islamic bonds for deficit financing. The central bank reduces reserve requirements.

Saudi Arabia: SAMA announces $40 billion liquidity facility while the government provides verbal deposit guarantee; Saudi government also makes long-term deposit of $2.7 billion in Saudi Credit and Savings Bank (SCSB, specialized credit provider for both low income households and SME mandates). SAMA cuts one of its

(*continued on next page*)

Box 1.3: Policy response to the financial impact of the crisis in GCC countries. (*continued*)

key interest rates from 0.75% to 0.50%. The statement signaled that the central bank was seeking to promote lending by discouraging the holding of excess reserves with it. Published data show a decline in SAMA net foreign assets, indicating that foreign liquid assets are being drawn upon to support domestic policy stimulus.

Qatar. The Qatar Investment Authority announces a program to take a 20% stake in all local banks. Qatar government-linked entities provide capital to Credit Suisse. The government of Qatar announces that it will offer to purchase the financial investment portfolios of commercial banks, a move apparently designed to fore-stall concerns about the accounting implications of the large losses on these portfolios. The government of Qatar announced a major expansion in the scope of its support for the banking sector, adding to previous measures which purchased capital in banks and allowed them to offload their investment portfolios, the government will now spend up to $4 billion (via the Central Bank) buying the real estate portfolios of banks at book value.

Kuwait. The Central Bank of Kuwait guarantees all deposits in Gulf Bank following revelations of trading loss. The deposit guarantee is later extended by legislation to all domestic banks. Government of Kuwait sends financial sector rescue package to National Assembly; the key element of the package provides guarantees to local commercial banks that provide refinancing for domestic companies, including investment companies. The Central Bank of Kuwait cut its benchmark discount rate to 3.0% from 3.5%, the 5th reduction since October 2008. The Kuwaiti financial firm Investment Dar defaulted on an Islamic bond by missing a periodic $100 million payment. The central bank of Kuwait cut its benchmark lending rate by 25 basis points to 3.50%.

Oman. Oman implements joint public-private stock market support fund.

GCC countries agree on a bailout for Gulf International Bank (GIB), a specialized investment/merchant bank which was founded by the 6 countries in 1975. GIB had branched into trading of residential mortgage backed securities and suffered significant losses on this portfolio

industries or centers of employment growth (e.g. Morocco, Tunisia).

Monetary measures and banking system support. With inflation easing, MENA countries were able to use a wide range of monetary measures in an attempt to stimulate the flow of credit and provide confidence to markets. The Central Bank of Egypt (CBE) recently began easing monetary policy. The CBE cut policy rates by 150 bps in February and March 2009 for the first time since May 2006, following a series of increases in these rates by 275 basis points between February and September 2008, initiated in part to stem food/fuel-import based inflationary pressures. The CBE notes that this decision reflects lower risks to domestic inflation, declining international commodity prices and weak prospects for global growth in 2009. Jordan's limited integration with global financial markets has buffered it from recent global financial turmoil, preventing major losses among banks or capital flight. The Central Bank of Jordan has taken pre-emptive steps to maintain confidence and support the domestic money market, including full guarantee of all bank deposits. In Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the UAE, steps have been taken to ease monetary conditions to the degree feasible. Lower reserve requirements, moderate reductions in benchmark interest rates and liquidity injections are planned or implemented as of this writing. In a related matter, the relative 'isolation' of Islamic finance from international markets may have served as an overall cushion for many economies in the region, especially for the GCC. And recent interest in the field may be prompting an eventual expansion of Islamic

banking practices to a wider global arena. However, Islamic finance does not guarantee the absence of risks; recently in Kuwait, a bank specializing in Islamic finance faced financial difficulties

MENA—largely implemented at the time of the food crisis can be grouped into two categories. First, as a response to the crisis, several measures were viewed as means of ensuring food availability on local markets at affordable prices. (As noted, MENA countries are net food importers and rely on imports to meet about 50% of their food needs). To ease the burden of the food price crisis, MENA governments maintained food subsidies, imposed price controls and restricted exports. During 2008 rice suppliers in Egypt were constrained to export only up to the amount they could import. This "export ban" has been extended until further notice. Yemen started providing wheat at a subsidized price, while expanding and reforming a targeted cash transfer program. A second group of policy actions were targeted to ease the impact of high prices on households, with some governments cutting import duties on certain commodities deemed critical for households' food consumption. For example, Morocco reduced wheat tariffs and started subsidizing wheat importers.