

MENA Regional Economic Update ¹

December 2009

1. The objective of this note is to discuss recent economic developments in the MENA region since the publication of MENA Economic Developments and Prospects (EDP) in June 2009. The EDP 2009 concludes that the global financial and economic crises, that began in mid-2007 in the US and led to the first global recession since 1945, have impacted MENA countries, though to a lesser degree than other regions. Countries that were most affected in the region were GCC countries whose financial sectors were more open to global financial centers and oil exporters through a sharp drop in oil prices, a contraction in the global economy, and a sudden drying up of capital inflows. Most countries in the region took action to address the impact of the crisis on their economies in the form of fiscal stimulus, monetary policy and expenditure cuts.

2. The present note draws on the most recent Country Economic Monitoring Notes (EMN), Unified Survey and draft Global Economic Prospects 2010 (GEP10). Compared to the EDP 2009, overall regional growth has been revised upwards by half a percentage point for 2010, largely reflecting the recent positive developments in the global environment, notably the rebound in international oil prices and improved global financial conditions. Within the region, oil exporting countries--notably GCC countries--are expected to see a swift recovery in 2010 with GDP growth projected to reach 4.4% up from 1% in 2009 while non oil exporters' growth will remain unchanged at 4.7% and only slowly improving afterwards. Nonetheless, the overall recovery has yet to offset fully the earlier sharp decline in the real sector of the economies in the region.

I. The Global Economy is Recovering

3. After a deep global recession, economic growth has begun recovering, as a wide range of policy interventions has supported demand and reduced uncertainty and systemic risk in financial markets. Global economic growth is estimated to have risen by about 3% in the second quarter of 2009, following a 6.5% contraction in the first quarter of 2009. The U.S. and Euro Zone as a whole returned to positive territory in the third quarter of 2009, while several economies began growing—France, Germany, Japan, India, China, and several Asian economies—as early as the second quarter of 2009. High-income and emerging stock markets have recovered about 50% of their lost values, interbank lending rates have almost returned to normal levels, and developing-country sovereign interest rate premia have declined sharply since the first quarter of 2009. With these developments, global output is expected to reach 2.5% and 3.1% in 2010 and 2011, respectively after an unprecedented 2.2% contraction in 2009. (Figure 1) Nonetheless, the pace of the recovery will be slow and subject to uncertainty as financial markets remain

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impaired, fiscal stimulus measures need to be withdrawn, and households in countries that suffered asset-price busts are forced to rebuild savings, while struggling with unemployment.

4. The real sector of the global economy is rebounding, with industrial production at the global level growing at a 3% annualized pace in the third quarter of 2009. Industrial production has responded strongly to changes in global growth, particularly to changes emanating from trade and investment over the past year. (Figure 1a) Even though, industrial production confirms the global growth revival, the shape of the recovery varies considerably across regions, with oil producing countries-- where output was the least affected by the global financial crisis-- with the median industrial output declining by about 5% from earlier peaks. (Figure 1b) Global trade, which contracted by 10.2% in 2009, is expected to rebound and reach 3.9%, with many developing countries growing at 5% annualized rate.

5. The global outlook however, remains clouded by uncertainties to the extent in which private-sector consumption and investment demand will respond to the temporary pick-up in activity prompted by fiscal and monetary stimulus and the inventory cycle. Developing countries will likely place greater emphasis on capital controls and reserve accumulation. Developing countries will face higher borrowing costs, less abundant domestic finance, reduced availability of external finance, and a more constrained environment for domestic financial intermediation than during the boom. This will likely translate into slower GDP growth in the medium to long term.

Figure 1. The Real Sector of the Global Economy is Recovering

Figure 1a. Industrial Production

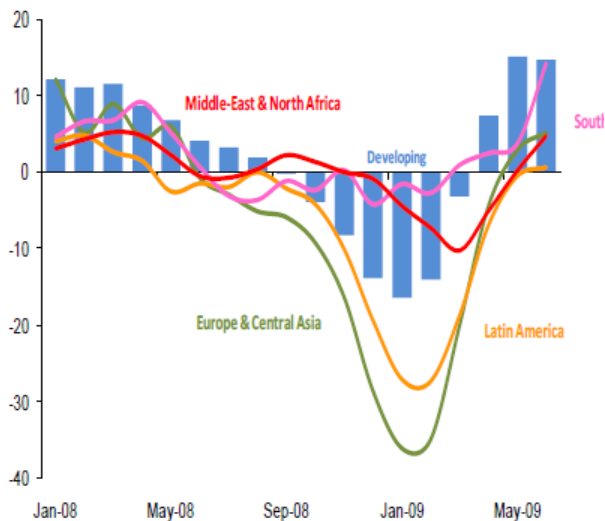
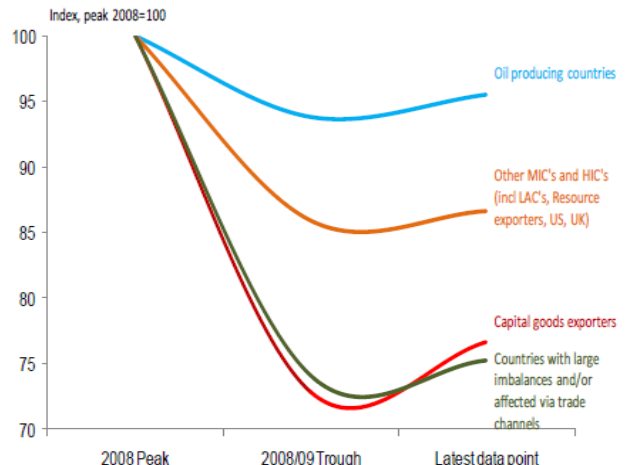


Figure 1b. Growth Recovery



Source: World Bank.

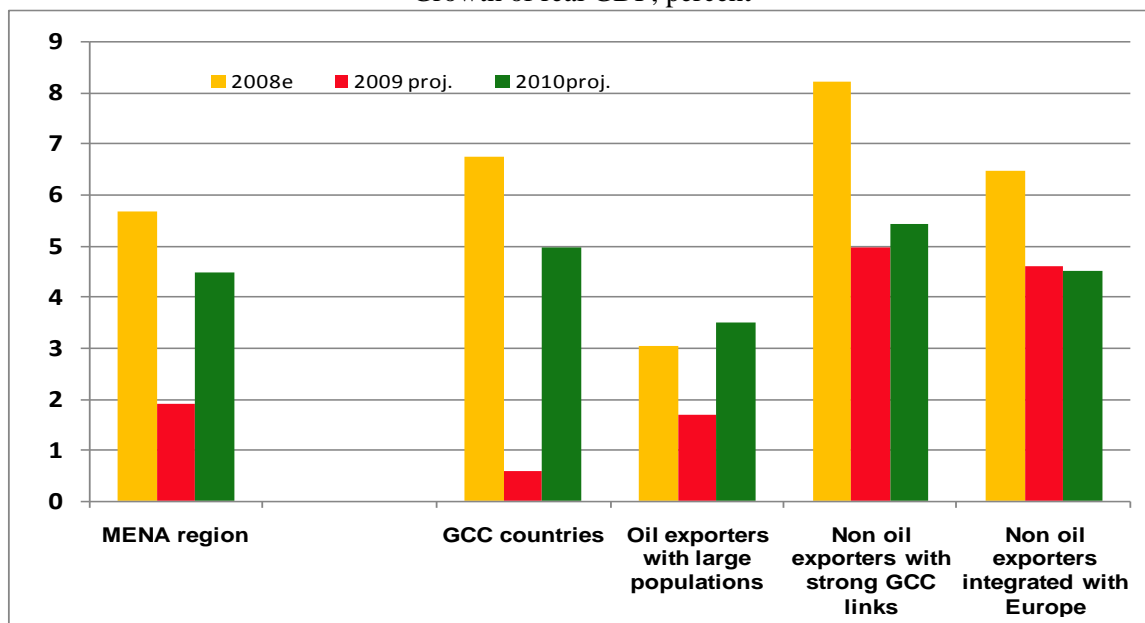
6. World oil demand, which grew on average by 1.7% per year during the 2000 to 2007 period, declined by nearly 3% in early 2009 due to the global financial crisis and a substitution towards other energy sources in response to the high oil price. Given the large inventory overhang, and only moderate increases in oil demand, oil prices are expected to hover around US\$75/bbl in the short term.

II. Recent Economic Developments in MENA

MEAN Region is Showing Early Signs of Recovery, But This Will Largely Depend on a Resumption of the Global Demand for Oil

7. Early signs of recovery are visible across the region as early as the third quarter of 2009. Economic recovery however will hinge, largely on a revival in the global demand for oil and gas, which may not gain momentum until mid-2010. GDP growth among MENA countries is anticipated to increase to 4.5% during 2010 from marked slowdown of 1.9% in 2009. Within the region, GCC countries followed by oil exporters are expected to grow higher than the other regional groups, growing at 5% and 3.5% rates in 2010, respectively. Both groups have been hard hit by the global slowdown. (Figure 2) Growth in non oil exporting economies is expected to be slow and remain unchanged at around 4.7%. Growth resumption in MENA is likely to be driven by an expansion of investments at home as well as foreign direct investment in, and export to, emerging and developing economies, where the potential for incremental growth is largest. Growth however will remain well below pre-crisis levels for the region as a whole.

Figure 2. Growth Rates are Expected to Rebound in MENA Region,
Growth of real GDP, percent

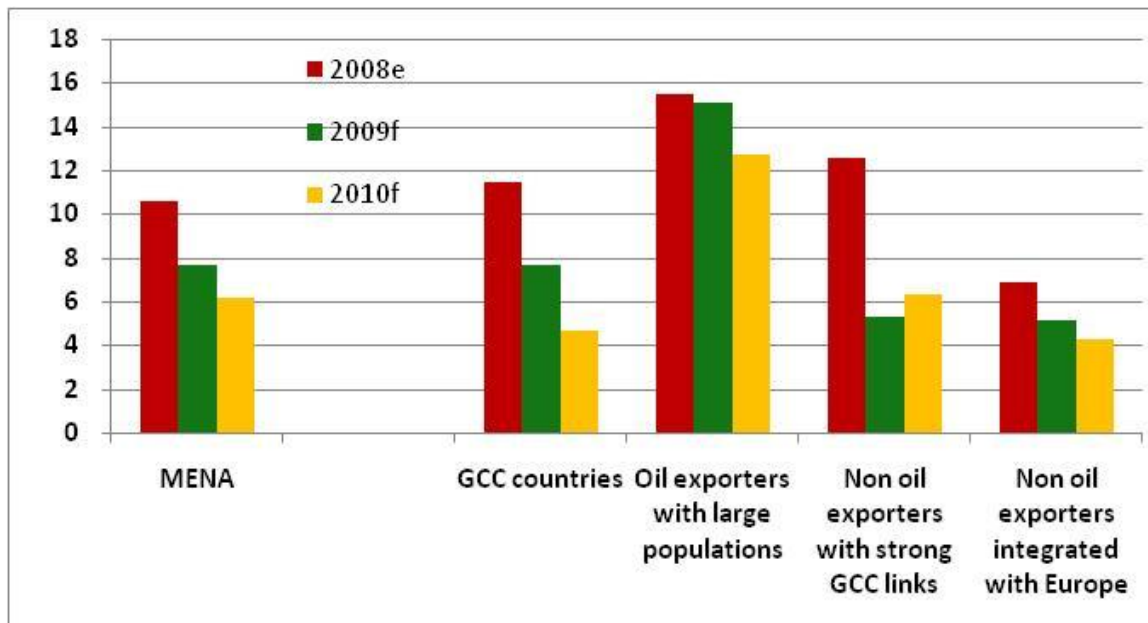


Source: World Bank data

8. Oil prices rose to about US\$70 per barrel in August 2009 after fluctuating between US\$30 and US\$40 per barrel in early 2009, and are projected to remain about US\$75 per barrel in 2010 and 2011--levels that are above the breakeven point for most GCC oil producers but below breakeven point for some of MENA's non-GCC oil producers (breakeven points are levels in which a country would achieve fiscal balance).²

9. The decline in commodity prices in the second half of 2008 has had a beneficial effect on the economies in the region --even though it raised some concerns earlier in the year in oil-exporting countries relying on high oil revenues to cushion the impact of the financial crisis. Throughout the region, the decline in food prices has had a welcome impact on inflation which has helped to ease some of the balance of payment pressures caused by food imports in a region where all countries are net importers of food. Despite expansionary macroeconomic policies and an increase in international commodity prices since the beginning of 2009, inflation rates have continued to fall since August 2008, and are expected to remain in the 5–10% range in most countries. (Figure 3)³

Figure 3. Consumer Price Inflation, MENA Country Groupings, 2008-2010
In percent



Source: World Bank data

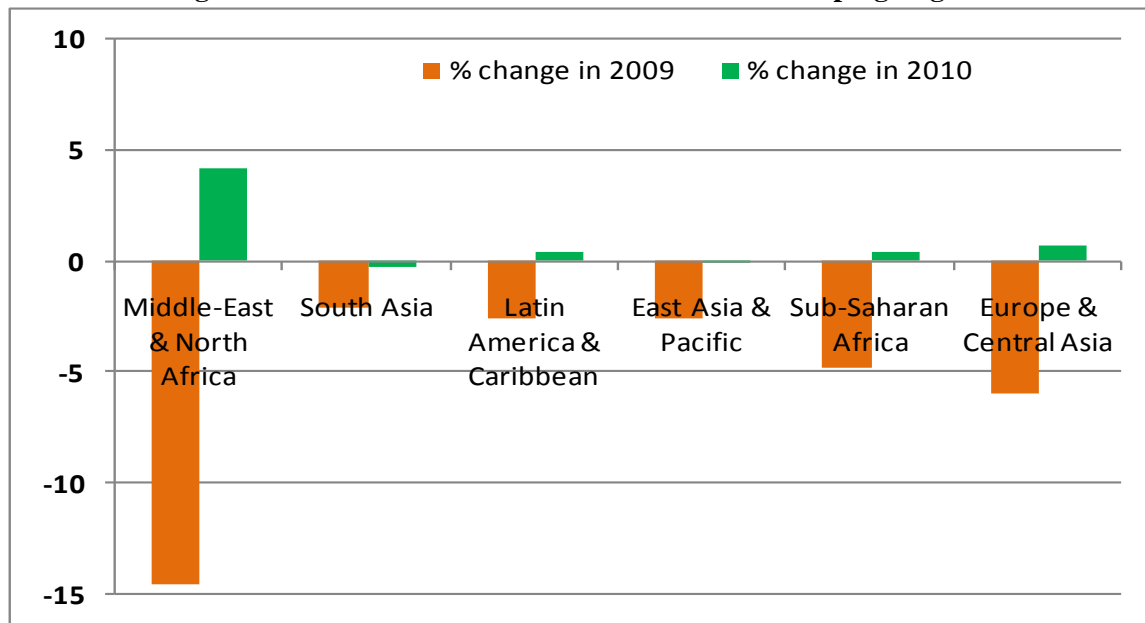
10. The fiscal surplus built in recent years is expected to vanish or decline significantly in 2009 and 2010, as MENA governments pay for subsidies and wage increases in response to the food and fuel crises, and as they likely continue on taking

² The IMF estimates that the breakeven price is close to \$57 per barrel for many MENA oil producers. Stark exceptions include Iraq and Iran with breakeven oil prices of \$111 and \$90 per barrel.

³ Inflation rates for oil exporters with large population group are higher than 10% because of existing double digit inflation rates in Iran.

additional fiscal stimuli in response to the financial crisis. The overall fiscal balance is expected to move to negative territory in 2009-- from a surplus of 13% of GDP to a deficit of about 1.2% of GDP in 2009 before improving to 2.9% of GDP in 2010. Nonetheless, among developing regions, governments in MENA will likely see an improvement in fiscal balance in 2010 as international oil prices has started to stabilize since June of this year and began to gradually restore regional confidence. (Figure 4)

Figure 4. Fiscal Balance in MENA and Other Developing Regions



Source: World Bank data

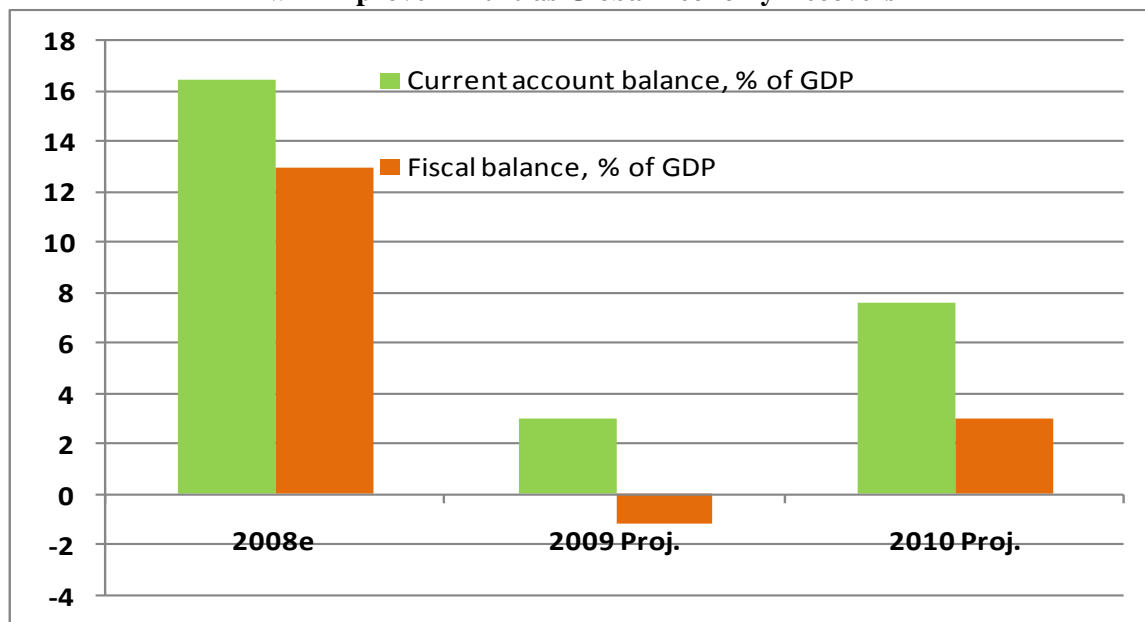
11. As international prices of oil turn to stabilize and with exports expanding in the region, the current account balance for the MENA as a whole is expected to show a surplus of about 3% and 7.5% of GDP in 2009 and 2010 albeit much lower than of the levels of pre-crisis.⁴ (Figure 5) International reserves are also on the rise, partially reversing previous losses in oil exporters. Imports are projected to increase to more than US\$930 billion in 2010, lifting the region's share of world imports from 4.9 % in 2008 to 5.8% in 2010.

12. Spreads on sovereign credit default swaps in the region have fallen continuously since their peak in the first quarter of 2009 and are returning to the pre-crisis levels, and will probably become again the lowest among emerging countries. Asset prices and borrowing spreads are recovering and approaching their pre-crisis levels leading MENA governments to consider a return to foreign debt markets. For example, Morocco has

⁴ Regional Current account balance figures differ from data reported in GEP10 for Algeria, Egypt, Iran, Jordan, Lebanon, Morocco, Syria Tunisia and Yemen due to different assumptions made for nominal GDP in GEP10 compared to Unified Survey figures used in this note. This however does not change the trust of the present analysis.

announced its intention to return to the market. This reflects the strong guarantees to the domestic banks and the large reserves backing these guarantees.

Figure 5. MENA Current Account and Fiscal Balances will Improve in 2010 as Global Economy Recovers



Source: World Bank data

13. Even though governments in the region felt the brunt of the global financial crisis and economic downturn; facing limited access to finance, slow demand for many products in domestic and international markets, slow trade globally and rising public debt as fiscal stimulus packages continued, the pace of business regulatory reform, aimed at making it easier to do business, has picked up in the region. The United Arab Emirates, Egypt and Jordan were the most active reformers in the region in 2008-2009, abolishing the minimum capital requirement. Egypt was also among the world's 10 most active reformers for the fourth time over this period. Other active reformers in the region were Yemen and Algeria. Saudi Arabia's global ranking moved higher from 15 to 13 over the past year on the ease of doing business- the highest regional ranking. (Table 1)

Economic Recovery is taking Hold in MENA Oil Exporting Countries

14. In MENA oil exporting countries--which have been directly hit by the global financial crisis through a sharp decline in oil prices and a sudden drying up of capital inflows--the impact of the crisis has been greatly mitigated by countercyclical government spending influenced by GCC countries. Drawing on substantial reserves built up prior to the crisis, governments in GCC countries responded with strong countercyclical policies, which have helped contain the impact on the non-oil sectors of their economies.

Table 1. Reforming Business Regulations and Country Rankings in MENA

Number of reforms by economy		Economy	Global rank	Arab world rank
Jordan	■ ■ ■ ■ ■ ■ ■ ■	Saudi Arabia	13	1
Algeria	■ ■ ■ ■ ■ ■ ■ ■	Bahrain	20	2
Egypt, Arab Rep.	■ ■ ■ ■ ■ ■ ■ ■	United Arab Emirates	33	3
United Arab Emirates	■ ■ ■ ■ ■ ■ ■ ■	Qatar	39	4
Yemen, Rep.	■ ■ ■ ■ ■ ■ ■ ■	Kuwait	61	5
Kuwait	■ ■ ■ ■ ■ ■ ■ ■	Oman	65	6
Lebanon	■ ■ ■ ■ ■ ■ ■ ■	Tunisia	69	7
Oman	■ ■ ■ ■ ■ ■ ■ ■	Yemen, Rep.	99	8
Saudi Arabia	■ ■ ■ ■ ■ ■ ■ ■	Jordan	100	9
Sudan	■ ■ ■ ■ ■ ■ ■ ■	Egypt, Arab Rep.	106	10
Tunisia	■ ■ ■ ■ ■ ■ ■ ■	Lebanon	108	11
West Bank and Gaza	■ ■ ■ ■ ■ ■ ■ ■	Morocco	128	12
Bahrain	■ ■ ■ ■ ■ ■ ■ ■	Algeria	136	13
Djibouti	■ ■ ■ ■ ■ ■ ■ ■	West Bank and Gaza	139	14
Morocco	■ ■ ■ ■ ■ ■ ■ ■	Syrian Arab Republic	143	15
Syrian Arab Republic	■ ■ ■ ■ ■ ■ ■ ■	Iraq	153	16

■ Reforms making it more difficult to do business
■ Reforms making it easier to do business

Source: Doing Business 2010, Arab World

15. Against this background, this group is expecting to see a sharp recovery in 2010. The overall recovery however, depends on the evolutions in the global demand for oil and oil prices. Nonetheless, with recent improvements in the oil prices and anticipated reemergence of global demand, oil revenues are expected to increase; which will allow these countries to rebuild their international reserve positions by more than US\$100 billion in 2010. This in turn, will help continued government spending on infrastructure and social development which will provide basis for stronger growth in the medium term. Overall GDP growth is expected to rebound, rising from 1% in 2009 to 4.4% in 2010. Fiscal deficit of 2009 is expected to turn into a surplus of 4.9% of GDP and current account surplus to almost double its 2009 level and reach at 10.1% of GDP in 2010.

Among the oil exporters, GCC countries are expected to rebound swiftly

16. GCC countries have been showing early signs of recovery since the third quarter of 2009. The hard hit property markets are starting to stabilize, oil prices have been stabilized, and financial markets have begun to turn around. Within these improvements, GDP growth is projected to increase sharply from marked slowdown of 0.6% in 2009 to 5% in 2010. With rising oil revenues and the anticipated reemergence of global demand, it is expected that the fiscal surplus will more than double its 2009 level reaching 10.9% of GDP while the current account surplus for this group as a whole is expected to reach 14% of GDP in 2010 more than twice of that in 2009 albeit much lower than their pre crisis levels.

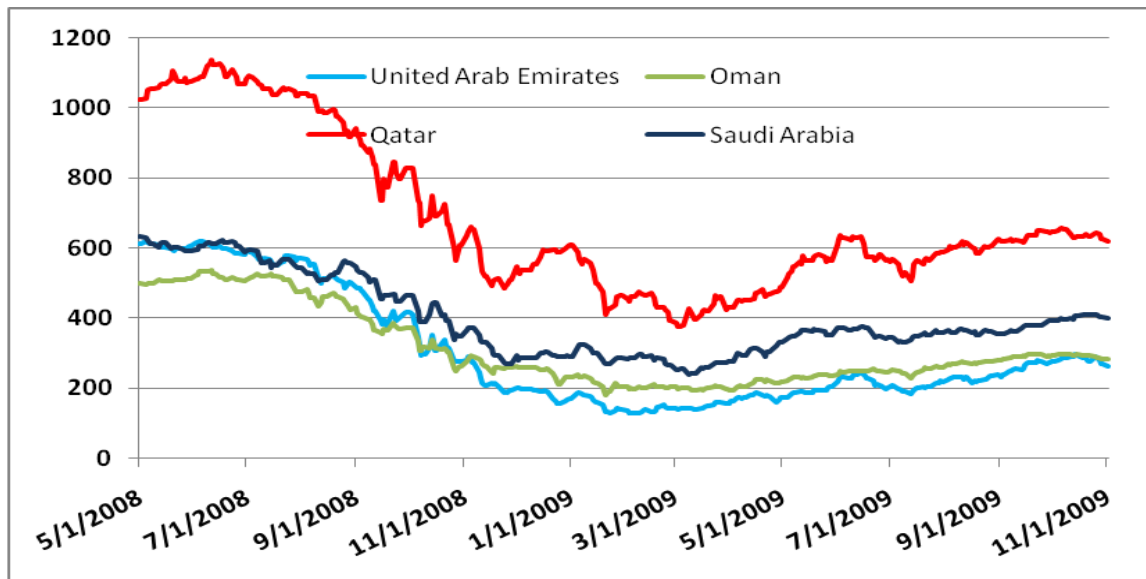
17. Within the countries in this group, Saudi Arabia, Kuwait and UAE, are expected to reverse their negative growth rates of 2009 and move to higher positive growth rates in

2010-- although the Dubai debt crisis will cloud UAE's growth in short term. Qatar's strong growth will stand out, projected to increase from 11.5% to 18.5% in real terms, propelled by the coming on stream of major LNG plants in 2009 and 2010 respectively. Bahrain is expected to maintain GDP growth rates close to 2009 levels reaching at 3.7% in 2010 and Oman's growth is projected to increase by more than one percentage point from its 2009 levels.

18. International reserves are expected to rise for this group, partially reversing previous losses—recent gains in Kuwait, Oman, and Qatar have been particularly large at 35%, 14%, and 63%, respectively. With deposit growth and capital inflows regaining strength, funding conditions in the banking systems are also improving. Private sector credit, however, has remained sluggish in some countries, reflecting increased risk aversion, difficulties in raising sufficient capital, and increased supervisory scrutiny. It could also reflect concerns about the recent credit problems faced by large family businesses in the GCC, and an expected deterioration in asset quality.

19. Financial markets have begun to turn around, with the Qatari stock market gaining as much as 72% from their trough. Price-earnings ratios are increasing, reflecting a sign of renewed optimism over the region's economic outlook. (Figure 6) For instance, price-earnings ratios in Abu Dhabi, and Saudi Arabia have more than doubled since the beginning of the year and are approaching, their early-2008 levels. Most GCC stock markets but Kuwait have rebounded since September. Even though the global market fell after Dubai World debt restructuring announcement in late November, GCC markets rose afterwards with Abu Dhabi's recent announcement of bailing out Dubai's debt issues.

Figure 6. GCC Stock Markets are Rebounding,
Selected Market Indices, US\$



Source: World Bank data

20. With a debt settlement for the Saad group, Saudi equities outperformed other GCC markets, rising 11.9% in September and the UAE markets climbed 12.6% led by a revival of property and financials.⁵ Foreign investors are accounted for US\$530 million of net investments in the GCC as of June 2009, with strongest levels between March and May 2009 albeit still lower than the US\$5 billion outflow in the second half of 2008. Improvement in the global economy and a rise in oil prices are expected to further stimulate investment.

21. As another sign of recovery in this sub region, Qatar sold US\$7 billion bond in November 2009—the largest emerging markets issue so far this year. Qatar will use the bond proceeds for general funding purposes of the state-owned firms, infrastructure projects, and invests in the international oil and gas industry.⁶

22. Demand for Islamic securities (Sukuk)⁷ is also on the rise. In October 2009, The Abu Dhabi Tourism Development Investment Company (TDIC) raised US\$1 billion from a 5-year sale. The sale was the largest for an international Arab Sukuk in 2009 and attracted the biggest order book (nearly US\$7 billion) of any Sukuk worldwide. Dubai also raised US\$1.9 billion in the sale of Islamic bonds in October 2009 in an attempt to boost investor's confidence in the debt laden emirate. However there still exist difficulties resulting from the hangover of the debt excesses in the sub region. Dubai World holding company requested in November 29th for a 6 month standstill on all scheduled payments, including most prominently the 3 year \$3.5 billion Sukuk of property developer Nakheel which was due for redemption in mid-December.

23. The Abu Dhabi government's decision to provide \$10 billion to help Dubai restructure debt came as welcome news on December 14th. The support covers the upcoming Nakheel maturity; it tackles most of Dubai's longstanding concerns, including support to the banking system, outstanding trade and contractor dues. As a result the United Arab Emirates shares surged, the price of Nakheel bonds increased and the cost to protect Dubai's debt from default fell after Abu Dhabi's bail out announcement. (Box 1)

Other Oil exporting countries are expected to see modest economic recovery associated with positive movements in oil prices

24. Economic recovery in these countries depends heavily on the evolution of oil prices. Given the dependence on oil revenues, the challenge is one of managing hydrocarbon revenues with a long-term perspective, aimed at reducing countries vulnerability to oil price volatility. The impact of changes in hydrocarbon revenues on the rest of the economy will be determined in great part by the efficiency with which these revenues are intermediated by the Government. Against this background, GDP growth is

⁵ Rasmala, September 2009

⁶ The bond is the largest offering from a non-OECD emerging-market government surpassing an issue from China's Ministry of Railways, which raised \$6.1 billion in November 2007.

⁷ Sukuk is the Arabic name for a financial certificate which is the equivalent of Islamic bond.

projected to reach at 3.5% in 2010 up from 1.7% in 2009 but still lower than the growth rates of pre crisis. Fiscal deficit will continue in 2010 but at a slower pace than 2009 and will reach at 4.1% of GDP. Current account balance will improve throughout 2010 reaching at 4.3% of GDP but still remains much lower than pre crisis levels.

Box. 1. The Dubai World Debt Crisis

Dubai's rapid development that relied significantly on debt financing and attracting capital inflows made the economy highly vulnerable to the global credit tightening. With the impact of the global financial crisis unfolding, Dubai's state-owned enterprises felt the brunt of the global credit crunch while property revenues fell, and credit costs rose. In early 2009, the Emirate's government had taken various measures as part of a debt management strategy, notably the creation of a special \$20 billion bond facility (of which \$15 billion has now been allocated) and the establishment of the Dubai Financial Support Fund to manage the bond proceeds and determine criteria for continued funding of state-owned enterprises. In late November, however, the Dubai Department of Finance announced that it was seeking an extension of at least 6 months on all near-term maturing debt of the Dubai World holding company, including the \$3.5 billion sukuk of Nakheel which was due for redemption on December 14. In addition, a restructuring team from Deloitte was appointed to oversee Dubai World. There are still no official numbers for total Dubai debt or its maturity structure, but what was known about this debt indicated that the repayment schedule was challenging.

With the aid of the government of Abu Dhabi, a package of measures was announced on December 14 that has the potential of mitigating against the negative impact of the debt restructuring crisis. These measures include a \$10 billion loan from Abu Dhabi Government to Dubai Government, the clarification of the legal framework for the Dubai World debt restructuring, and the continued support to all commercial banks in the UAE from the Central Bank. The key players within Dubai World in terms of foreign direct investment in MENA (e.g. Dubai Ports World and Jebel Ali Free Zone) had already been removed from the restructuring request. The debt restructuring framework provided important clarity about the procedures that will be followed, including the clear statement that the government of Dubai would be bound by any decision reached by the special arbitration panel.

The December package is expected to have the effect of easing global concerns about Dubai's solvency. It has also relieved the immediate legal pressure while providing a clearer framework for the longer-term objective of a reduction in debt burden. Although the circumstances are challenging, this can be the beginning of a move towards more formal mechanisms for debt restructuring and dispute resolution, which in the long-term will be an advantage.

Source: Fall UAE brief, MNSD

25. Within the countries in the group, economic growth is projected to increase modestly in Algeria, Iran, Libya and Syria in 2010 after seeing a sharp decline in 2009 from their previous levels. Syria is expected to continue gradual reforms of its economy. The policy challenge will still be to offset the impact of the long-term decline in oil production by establishing a more business friendly environment and pursuing an

overhauling of its fiscal accounts. In Yemen, growth is expected to increase to 7.3% in 2010 as a result of the anticipated commissioning of the LNG plant in the fourth quarter of 2009, but growth in the non-oil sector, the main source of employment, will dip from 4.5% to 3.9%. (Table A1)

Non Oil Exporters Will Expect a Gradual Economic Recovery

26. Countries in this group are likely to experience a slow recovery-- as they have been moderately hit by the global recession-- with growth projected to remain flat around 4.7% in 2010. A low degree of integration with global capital markets, limited exposure of the banking system to structured products, and a small manufacturing base have helped these countries avoid a substantial fallout from the global crisis. For much the same reason that these countries have experienced a comparatively muted slowdown, they can only look forward to a flat rebound. Even though fiscal and monetary stimulus, as well as spillovers from increased public spending in neighboring oil exporters could help sustain demand, limited external financing, sluggish receipts from tourism and remittances, and high oil prices are likely to be a drag on their growth in the short run. Fiscal deficit as well as current account deficit for this group as a whole is projected to remain flat at around 6.9% and 5.1% of GDP in 2010. (Table A1)

Non oil exporters with strong linkages to GCC countries

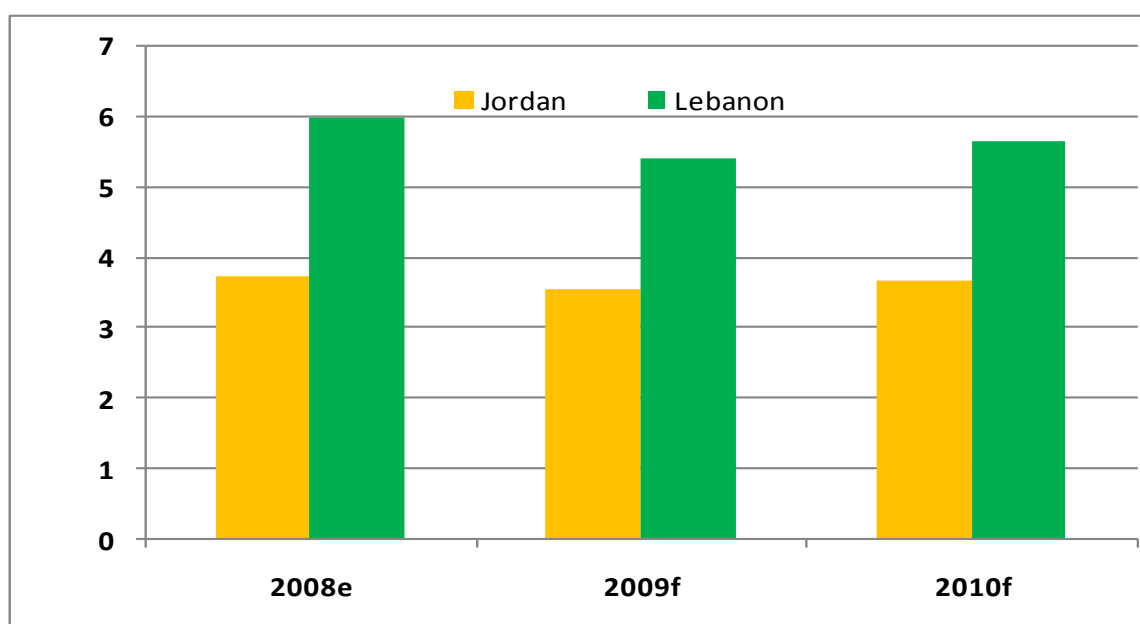
27. A gradual economic recovery is expected in these countries over the medium term. Real GDP growth is projected to edge up slightly to 5.9% in 2010 from 5.6% in 2009 but remaining well below the pre-crisis average growth performance of 8% in 2007. Among the drivers of this gradual recovery are the spillover effects of expected rebound in oil prices, with the projected gradual increase in oil prices in oil exporters that positively affecting these economies through exports, income transfers, remittances, FDIs, and portfolio investments. (Figure 7) These positive impacts will largely compensate for the negative impact of the rise in oil prices on their external balance. Fiscal deficit as a whole is projected to decline slightly and reach a 9.1% of GDP in 2010 and current account deficit to remain flat at 12.7% of GDP in 2010.

28. Within the countries in this group, growth rates are expected to increase in Jordan, only modestly in 2010 reaching 3.9% from a 3.2% in 2009. Fiscal deficit in Jordan is projected to decline to 8.1% of GDP in 2010 reflecting the Government plan of containing key expenditures and increasing the emphasis on effectiveness of expenditure management, Current account deficit is expected to slightly decline to 9.7% of GDP in 2010 from 10.1% in 2009. Lebanon continues to perform well despite internal political tensions. Lebanon's growth rate is expected to remain unchanged at 7% in 2010. The main drivers of growth are expected to be in services sectors, including tourism with a 26.5% increase in tourism arrivals as of August 2009 (y-o-y) and construction, with a 20% increase in cement deliveries over the same period. Fiscal deficit is expected to decline from 11.2% to 10% of GDP in 2009 and 2010 respectively. Current account

deficit will deteriorate to 15.1% of GDP from its already high level of 14.6% in 2009.

29. In Djibouti recent investments in tourism, alternative energy, and the Free Zone will continue to support growth as will a projected increase in earnings from port services. Growth is expected to be around 5.4% in 2010 slightly higher than the level in 2009. Exports should continue rising in 2009-2010, following the expansion of port activities, cattle processing facilities and salt extraction which will help reduce the trade deficit in 2009, further supported by reduced international food and oil prices and a fall in FDI-related imports.⁸ Current account balance is expected to lower in 2010 and reach 3.4% of GDP while fiscal deficit will continue at 3.4% of GDP in 2010.

Figure 7. Remittance Flows to Remain Resilient to the Global Slowdown
In US\$ bln



Source: World Bank data

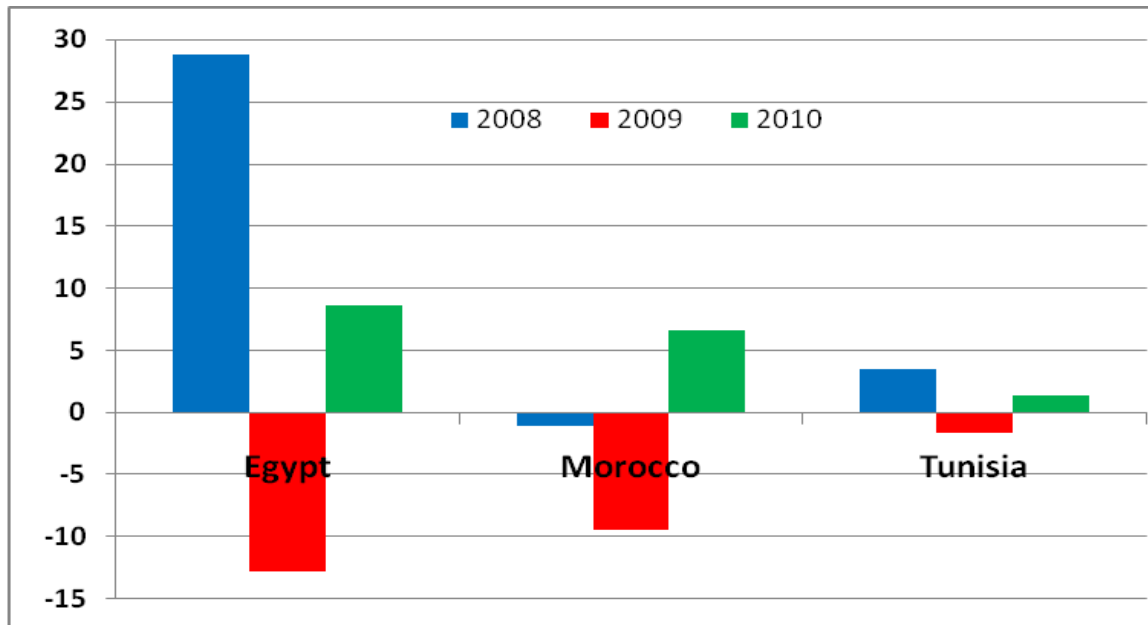
Non oil exporters with linkages to EU

30. These countries are slowly starting to pull out of the economic downturn. While high frequency economic data are not available, some indicators suggest that activity has begun to turn upward. Growth is projected to remain at around 4.5% levels in 2009 and 2010. The budget deficit is expected to edge up to 6.4% of GDP in 2010. Current account deficit however will remain flat at around 3.5-3.7% of GDP for 2009 and 2010 as capital inflows, tourism receipts and workers' remittances continue to slowdown moderately. Exports however have recently been increased in these countries, although values remain at lower levels than a year ago. (Figure 8) In Egypt, for example, Suez Canal revenues

⁸ All the FDI in Djibouti is from Dubai World but as of yet no disruptive effect is expected.

continued to rise in October 2009, reaching US\$ 399 million, compared to US\$ 383 million in September, suggesting gradual increase in the volume of international trade. (Depending on improvements in economic activities in the EU). Other indicators, such as industrial production, however, show that the recovery is still tentative. In comparison, the recovery in financial markets has been more robust. Stock markets in Egypt almost doubled since their lows in early 2009. Remarkably, Tunisia's index was hardly affected by the crisis and is near its record high.

Figure 8. Exports are Expected to Rebound after a Sharp Decline in 2009
Growth Rates in Exports of Goods and Services, in percent



Source: World Bank data

31. Within the countries in the group, GDP growth in Egypt is expected to pick up in 2010 reaching at 5.2% up from the 4.7% in 2009 owing to the recent improvements in global activity, continued buoyant domestic demand, boosted by the carefully targeted fiscal stimulus program. The effects of fiscal stimulus package and the economic slowdown (lower public revenues) will continue to have effects on the government's fiscal deficit and a larger deficit of 8.4% of GDP in 2010 is expected. The current account deficit is expected to remain flat in 2010.

32. In Tunisia, the pace of growth is expected to slightly increase in 2010 and reach at 3.8%. Fiscal deficit is projected to narrow down as the government is slightly reducing subsidies due to the decline in world commodity prices. Despite the generalized decline in exports, the current account deficit is estimated to decline to 2.6 % in 2009 after having widened to 4.2 % in 2008, thanks mostly to a good resilience to the difficult international environment of FDI, tourism receipts and workers' remittances. In Morocco, growth is expected to somehow decline to 3% in 2010 as agricultural

performance returns to normal after an exceptionally good year in 2009. Fiscal deficit is projected to increase to 4.5% of GDP in 2010 from 3% in 2009. The current account deficit will improve slightly and reach 5.7% of GDP in 2010 as the economies of European trading partners begin to pull out of the current recession.

III. MENA Policy Response to the Global Economic Crisis and Structural Reform to Mitigate Future Shocks

Most governments in the region took immediate actions to address the impact of the global slowdown on their economies

33. GCC countries intervened early to support their banking systems and stock markets by providing liquidity support lower interest rates on central bank facilities, lower reserve requirements; expansion of safety nets, capital injections, and asset purchases of bank security investments. Some governments lent directly to SMEs and larger corporate (through the national investment funds) to avoid a credit crunch, and also invested in a new domestic equity fund to sustain equity prices. Saudi Arabia, for example, announced a substantial investment spending plan and provided capital to Saudi Credit Bank to secure credits to low income households. Kuwait also introduced the financial sector stabilization package focused on debt relief for Kuwaiti's investment companies, although they have only been used very tentatively. (Table 2a)

Table 2a. Policy Responses to the Crisis: MENA GCC and Oil Exporters

Country	Financial Sector			Macroeconomic		
	Deposit Guarantees	Liquidity Support	Capital Injections	Equity Purchases	Monetary Easing	Fiscal Stimulus
GCC						
Bahrain		✓			✓	
Kuwait	✓	✓	✓	✓	✓	
Oman		✓		✓	✓	
Qatar		✓	✓	✓		
Saudi Arabia	✓	✓			✓	✓
United Arab Emirates	✓	✓	✓		✓	✓
Other						
Algeria					✓	✓
Iran		✓				
Libya	✓			✓	✓	✓
Yemen					✓	

Source: IMF

34. Government responses in oil exporting countries (other than GCC) have been generally pro-cyclical, with a reduction of fiscal spending. Governments in these countries struggle to meet long-term social commitments such as subsidies and income transfer programs. Countries with sufficient reserves have been drawing down their

reserves (e.g. Algeria), and countries with limited reserves have been implementing fiscal contraction measures (e.g. Iran). In Syria, the government took some measures by targeting poor and small business to mitigate the effects of the global economic crisis. In Iran, the government has developed an action plan to reform its investment climate and made substantial progress along several dimensions. In Iraq, an action plan has been adopted to modernize the sector and efforts are on the way to strengthen the financial sector infrastructure.

35. Even though non oil exporters have been less impacted than the other groups in the region, they took several actions to mitigate the impact of the global slowdown on their economies. In Egypt, the government implemented a crisis response plan featuring fiscal, monetary and direct support measures. The Central bank has also been easing monetary policy. In Morocco, the Government implemented measures to help affected firms cope with the decline of external demand (65% guarantee of working capital loans, covering 80% of cost of promotion, facility rescheduling of long debt, ease regulations, etc.). Measures to help low income households were included in 2009 budget with cut in the marginal tax, increased minimum wage salaries off civil servants at the lower end by 10%. Stimulus plan was also provided through monetary easing. Tunisia

Table 2b. Policy Responses to the Crisis, MENA Non Oil Exporters

Country	Monetary Easing	Deposit Guarantees	Liquidity/ Prudential	Fiscal Stimulus	Stock Market Intervention
Egypt	✓	Rebanded		✓	
Jordan	✓	✓	✓		
Lebanon			✓		
Morocco	✓	Already exists	✓	✓	
Pakistan	✓		✓		✓
Syria			✓	✓	
Tunisia	✓		✓	✓	✓

Source: IMF

Tunisia has also announced measures to support domestic SMEs and employment. In Jordan, the government announced plans to adjust expenditures to provide stimulus to economic activity in a budget-neutral fashion. In addition, the central bank of Jordan took early measures to maintain guarantee of all bank deposits, monetary easing through reduction in interest rate and reserve requirements (Table 2b)

Structural Reform to Mitigate Future shocks

36. Notwithstanding the above mentioned efforts deployed by countries in the MENA region to mitigate the negative impact of the global financial and economic crisis, the global financial crisis can be seized as an opportunity to continue implementation of structural reforms, restructure poorly targeted safety net programs, and subsidies in order to free up resources for the poor as well as those who are affected by the crisis. Attention should be paid to addressing constraints and bottlenecks to long term growth. Investment in removing such bottlenecks can help create jobs and boost consumption in the short term while enhancing potential growth in the post crisis era. Also, public infrastructure projects that generate revenues can help ease risk of debt accumulation.

37. The crisis has revealed some vulnerability in the region's financial sector and the regional regulatory systems do not address systemic risk effectively. Very few Central Banks have been able to develop an effective macro-prudential supervision function, as indicated by the very few number of financial stability departments able to produce reliable financial stability reports. MENA countries have not introduced counter-cyclical elements in their capital or provisioning rules and have not yet introduced higher capital charges for systemically important institutions. These are challenges that will need to be faced in the future and governments need to make an effort to deal more effectively with systemic risk.

38. Finally, with fluctuating fiscal revenues in almost all MENA countries – in oil exporters due to volatility in oil prices and in oil importers due to the slowdown- limited room for more debt, and with tightening external financing conditions, the region needs to invest in the quality of fiscal and debt management policies and institutions as well as focus on structural reforms that will help boost private sector activity and employment and enhance competitiveness in order to mitigate the impacts of future shocks. The role of the private sector in infrastructure should be actively encouraged. This is particularly important given the limited fiscal space faced by many MENA countries.

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Table A1. Selected Macroeconomic Indicators: MENA classification of Countries, 2008-2010											
	Real GDP Growth			Fiscal balance			Current account balance				
	2008 Est.	2009 Proj.	2010 Proj.	2008 Est.	2009 Proj.	2010 Proj.	2008 Est.	2009 Proj.	2010 Proj.		
MENA region	5.7	1.9	4.5	13.0	-1.2	2.9	16.5	3.0	7.5		
Oil Exporters	5.3	1.0	4.4	16.3	-0.2	4.9	20.2	4.7	10.1		
GCC countries	6.8	0.6	5.0	25.8	5.5	10.9	26.3	6.2	14.0		
Bahrain	6.1	3.0	3.7	8.0	-4.7	-0.7	10.6	3.7	6.2		
Kuwait	6.3	-1.6	3.2	26.9	24.4	24.4	44.7	29.4	35.3		
Oman	12.3	3.6	4.8	13.9	2.2	6.9	9.1	-2.2	2.6		
Qatar	16.4	11.5	18.5	12.5	7.6	11.0	28.0	10.1	24.6		
Saudi Arabia	4.4	-0.9	4.0	33.0	1.2	6.7	28.6	4.1	11.4		
United Arab Emirates	7.4	-0.2	2.4	21.7	4.0	12.7	15.7	-1.6	5.2		
Oil exporters with large populations	3.0	1.7	3.5	2.9	-7.8	-4.1	11.5	2.7	4.3		
Algeria	3.0	2.1	3.9	13.0	-11.1	-6.0	19.6	1.1	2.7		
Iran, Islamic Republic of	2.5	1.0	2.2	0.7	-5.2	-6.0	6.7	3.0	3.6		
Iraq	9.5	1.9	5.8		
Libya	3.3	1.7	5.2	1.6	-25.4	-0.2	40.7	16.7	24.0		
Syrian Arab Republic	5.2	3.0	4.0	-3.5	-5.5	-2.3	-4.1	-3.1	-4.3		
Yemen	3.6	4.2	7.3	-4.8	-9.0	-2.0	-4.1	-5.1	-2.3		
Non Oil Exporters	6.7	4.7	4.7	-4.8	-6.0	-6.9	-3.5	-5.3	-5.1		
Non oil exporters with strong GCC links	8.2	5.6	5.9	-10.0	-10.3	-9.1	-11.9	-12.6	-12.7		
Djibouti	5.8	5.1	5.4	-3.4	-3.4	-3.4	-39.2	-5.0	-3.4		
Jordan	7.9	3.2	3.9	-9.4	-9.3	-8.1	-11.3	-10.1	-9.7		
Lebanon	8.5	7.0	7.0	-10.7	-11.2	-10.0	-11.5	-14.6	-15.1		
Non oil exporters integrated with Europe	6.5	4.6	4.5	-3.9	-5.1	-6.4	-2.0	-3.7	-3.5		
Egypt	7.2	4.7	5.2	-6.9	-6.9	-8.4	0.5	-2.3	-2.3		
Morocco	5.6	5.0	3.0	0.4	-3.0	-4.5	-5.4	-6.0	-5.7		
Tunisia	4.5	3.3	3.8	-1.2	-3.8	-3.6	-4.2	-3.5	-2.6		

Source: World Bank data