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MEDITERRANEAN PARTNER COUNTRIES FACING THE CRISIS

Illustration Alain Soucasse

Coordinators

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The world crisis concerns all Mediterranean countries that are partners of the European Union (MPCs). However, the effects of the crisis in these countries will be felt at a later stage and in different ways. This shall be taken into account in the 2008/2009 Euromed region report drawn up by the Forum of Euro-Mediterranean Economic Institutes (FEMISE). The information presented in the following pages is based on the provisional data currently available.

Today's world crisis is different from previous crises in that it is directly systemic. Its effects are being exacerbated by expectations, and nobody today can say how the expectations of MPC consumers and investors will change. How the material and human system of interdependence between the EU and the MPCs will respond is also unforeseeable. How will tourist flows change? What about transfers of migrant income? What about exports in relation to the shock of external demand? And ultimately, how will these events, leading to a drop in forecast growth every two months, affect reserves, monetary and budgetary balances and employment?

An inescapable crisis

Anticipating a turnaround, many experts had already denounced the risks incurred by raw material bubbles, notably oil and food products. Wild financial speculations, especially those relating to the real estate market in the United States, had also been underlined. Aware that the complete disconnection between economic fundamentals and certain trends could not last and that market self-regulation would not be able to counter the effects of the crisis, several experts called for measures to ensure a soft landing.

Finally, during the last quarter of 2008, these risks became very real for the MPCs, without these countries having anything to do with their causes. There was a turnaround on all markets, not only on the raw materials or financial markets. The crisis indeed made its presence felt, affecting the real sphere in a way that is both unparalleled and surprising for western country authorities. Concern about this crisis stems from its novations, which are rendering any forecasts about its duration and scope very difficult, but also from its systemic nature and its international reach.

The aim of this report is to provide information about how the crisis is affecting MPCs. It will underline that their ability to stand up to its effects differs from country to country, depending mainly on the type of international opening they have chosen. On the whole, they appear to be fairly resilient, at least more so than what can be seen with industrialised and emerging countries.

Nevertheless, this does not change the fact they will probably be hit, and significantly so, at a later date. This appears to be clear from the information available at the time this report was drafted. The effects of the crisis will be different however. The crisis will mainly spread via revenue effects linked to the drop in external demand, to employment difficulties for migrant workers and their effects on fund transfers, to tourist flows and to the decrease in direct investment. However, taking into account the relatively limited opening of MPCs in terms of services, the non-convertibility of their capital accounts and the existence of semi-fixed exchange rates, it seems unlikely that foreign banks will operate massive disinvestments (as can be seen in Eastern European countries), or that there will be massive drains of capital.

This does not mean that banks will not see a substantial increase in non-performing loans, or that the imbalance of public accounts will not significantly rise and that reserve crises will not probably occur.

The biggest immediate risk is that expectations slide leading to a decline in the components of internal demand (consumption and investment). The medium term risk is that slow and extensive efforts to stabilise the macro economy and introduce reforms are called into question resulting in a less progressive growth regime. The way in which the material interdependence system has been set up, especially with Europe, and the ability of the social systems to exert a dampening effect, will also be decisive if these countries are to adapt to the crisis.

In order to address these issues, this report will first assess the crisis from a general perspective and then look at the current situation of the ten south Mediterranean economies concerned.

Part one – general overview: MPCs faced with the world crisis

The first chapter will strive to determine firstly how the international crisis is going to be affecting the MPCs by focusing on the unprecedented aspects of the processes behind its spread in developed as well as in emerging countries. It will look at the origins of the crisis and the channels via which it is reaching the Mediterranean Partner Countries. At the time its effects were being felt, the MPCs were hit hard by speculations about the price of raw materials and food products, and their budgets and macroeconomic balance were consequently shaken.

The second chapter will detail the system of interdependence linking the Mediterranean economies with the rest of the world, especially Europe. Indeed, over the last ten years their economies have gradually opened up and this is reflected in their trade of goods and services, direct investment and transfers. The FEMISE believes that, above all, this strategy to open up and its accompanying reforms must not be jeopardised by the crisis. However, it is also clear that those countries having opened up the most are also those with the biggest risk of exposure to the external shock. What are the weaknesses in this opening? What strategy should be adopted to benefit from recovery without causing any marked social effects? How can they stay on track in the medium term within the framework of the Union for the Mediterranean?

The third chapter is devoted to an overview of the current social policies set up in the MPCs. These will play a decisive role in a context where the population in MPCs is already struggling with unemployment and under-employment issues and increased price of raw materials and food products. It is thus necessary to question the level of protection that the MPC population benefits from. An analysis of this issue will lead to thinking about the social safety nets that need to be put in place depending on the duration of the crisis.

Chapter I: the international crisis and its repercussions in MPCs*

In this first chapter, the focus shall be on: (i) the nature of the international crisis and its unprecedented aspects ; (ii) the different crisis transmission channels in MPCs; (iii) the macroeconomic context in which MPCs have found themselves when hit by the crisis, how they have begun to respond to this and the amount of room for manoeuvre they have.

**Section written starting from a specific contribution of Gilles, Ph (Université du Sud, Toulon-Var); Mouley, S (Université de Tunis); Fehri, H (Université de Tunis)*

I. Tools for understanding an unprecedented crisis

A crisis directly linked to the form of financial globalisation adopted

Since the summer of 2007, the subprime/inter-banking market/banking and stock exchange/economic crisis spiral has had an effect on all economies. While the developed and emerging countries have been hit by the entire chain of events, the developing countries, which do not have any real financial and bankarised markets to speak of, have been more directly concerned by the real effects.

This does not mean that once the real effects have sufficiently spread the crisis will not take on a financial form. A financial crisis will be generated via the increase in banks' non-performing loans, the drop in reserves, the crowding out effect linked to the need to find financing in order to keep public accounts in the black and changes to expectations affecting internal demand.

Furthermore, given that MPCs need to use the international capital market, it is important to continue to adjust the macro economy to changes in international financial balance (via target inflation, interest rates and exchange rates). Finally, it is in the interest of MPCs to follow today's changes in terms of prudential regulation and financial disintermediation monitoring.

Global thinking with regard to all economies

The systemic nature of this crisis requires global thinking about institutional and regulatory means (notably prudential and monitoring-based) likely to contain the financial crises, prevent these from filtering through to the real sphere and allow defining a new international financial architecture capable of warding off the systemic risk.

The starting point shall be a diagnosis. The way this crisis is unfolding and the extent of its effects are symptomatic of the proteiform nature and operational complexity of financial globalisation. The latter refers to the constitution of an integrated and global capital market whose universal nature leads to operational temporal consistency and continuity, characterised by decompartmentalisation, deregulation and disintermediation movements. These movements are developing under the influence of risks relating to rising rates (of exchange and interest) and prices (of raw materials). It is these risks and the means of covering them that are behind the unparalleled financial and/or monetary crises and that have led to the uncoupling of international financing needs from the real fundamentals. These changes bear witness to the switch from a system initially governed by political and economic authorities, to a system operating according to private capital markets where speculation plays a determining role.

In this context, the diversification of means to cover national financing needs, notably the massive recourse to market financing, have led to the inter-temporal necessity for economic development in the medium term being replaced by the immediate financial necessity for bottom-up management of the balance of payments. This has resulted in the economies concerned becoming increasingly vulnerable to external shocks, especially in terms of liquidity. Furthermore, this aspect of financial globalisation has heightened market risks rendering countries, and notably emerging countries, more vulnerable to contingencies stemming from the economic climate and private behaviour and hence disarming national state regulation frameworks (political, economic, financial and monetary).

In short, the complete liberalisation of capital movements has disconnected international finance from economic activity. This is particularly reflected in the current crisis. Liberalisation has also promoted the private financial sphere (the mark-to-market) as the main means of financing the balance of payments (both in terms of liquidity and exchange rate adjustment) and contributed to the dismantling of state regulation systems.

Thus defined, financial globalisation has as a consequence monetary and financial instability, triggering financial crises whose effects are doubled by monetary crises (twin crises). This has led economic literature to specify a new taxonomy according to which the first, second and then third generation crises were first observed and then theoretically explained (Bastidon, 2002). The singular nature of the current crisis probably calls for the definition of a fourth generation.

A fourth generation crisis

In first generation models (Agénor, Bhandari, Flood, 1992), rooted in fundamentalist logic, the crisis constitutes the logical and expected sanctioning of inconsistent economic policy (inconsistency in the sense of Kydland and Prescott, 1977). This inconsistency can be seen through a gap between the exchange target announced by the monetary authorities and the focus of the economic policy implemented, via the results obtained in terms of unemployment and inflation compared with the government's announcements (Krugman, 1996) or, more generally speaking, via any deterioration of the fundamentals, notably sovereign debt crises (i.e. the crisis of the 1980s, following the default of the main South-American debtors in 1982).

In second generation models (Eichengreen, 1996), the crisis is the result of changes to the expectations of private agents in relation to the same fundamentals as those applied in first generation models. This type of crisis is self-generating (from the bottom to the top of the balance of payments) and stems from a liquidity problem: if the agents expect there to be insufficient liquidities the crisis occurs, when in fact the possible drying up is caused by their own behaviour.

In a context of contagion, this analytical framework is especially appropriate for studying the vulnerability specific to emerging countries when these are being analysed in terms of overall risk by most international operators. In other words, investors take the deterioration of fundamentals specific to one of them and apply this to all countries belonging to the same risk category.

Currently, the steep increase in spreads for all public and private issuers of securities, and the consequence of this, i.e. the reversal in capital flows, is the result of investors' heightened aversion to risk. The unequalled nature of the current crisis stems from the geographic origin of the initial shock: the sharpened aversion to risk is the result of the crisis affecting the financing systems of industrialised countries.

The search for an analytical framework to analyse the recent financial crises has led different authors to imagine a third generation crisis based on the behaviour of operators conditioned by speculative logic fired by expectations relating to price variations and mimetic polarisations against a backdrop of highly unbalanced fundamentals. This relationship between microeconomic behaviour and macroeconomic states is likely to foster a systemic risk via contagion mechanisms. In the case of developing countries, whose domestic financing systems and capital flows have not yet been fully liberalised, and from a practical point of view, the crisis stems from diagnoses performed by international investors with respect to the State's ability to assume its liabilities, together with the guarantee it exercises both legitimately and effectively over international debts contracted by national companies. If this ability is deemed insufficient, there is an immediate massive drain of capital.

The scenario of the current crisis, again originating from the banks, has two original dimensions (Pollin, 2009), which, if taken into account, may justify reference to a fourth generation crisis:

√ on the one hand, the origin of the crisis can be found in the dysfunctioning securitisation that led to a contagious contraction of liquidity on the monetary and financial markets;

√ on the other hand, the systemic contagion did not first arise from a major problem of solvability, but from a problem of liquidity, in the balance intermediation. In other words, it came from the deposit banks, which are supposed to offer payment means in exchange for bank credit, and from the financing and investment banks, which are supposed to supply market intermediation liquidity, i.e. feed security trading in order to reduce negotiating costs (get the market price to converge towards the fundamental value).

The central role of liquidity is reflected in the substantial growth of risk primes preceding firms startdowns. It illustrates the fact that the crisis is rather the result of restricted liquidity on credit markets than of deteriorated fundamentals, making equity regulation by and large inoperative.

To conclude, the genesis of the current crisis can be traced to the innovation-deregulation-liquidity triptych (Mistral, 2009) comprising:

√ on the one hand, a conventional financial crisis situation based on a business euphoria phase during which agents leverage the return on their assets in an easy lending context (i.e. they underestimate the reputation and credibility of projects and borrowers, Gilles, 1992),

√ on the other hand, the unmatched, and often unprecedented, technicality of the financial innovations through securitisation and derivatives. As Lubochinsky (2009) underlines, commercial banks' balance of securities, shares and assets represents four times world GDP, and the derivatives almost twelve times world GDP! It is this relocation of credit risk outside the regulated banking system, in a highly opaque context leading to the practical impossibility of tracing securitised (ABS) and then repackaged debt (CDO), with stakeholders less subjected to prudential regulations than banks, which has considerably increased instability on the financial markets hence opening the door to contagion mechanisms.

II. The crisis in MPCs: the financial impact is today marginal but the real impact poses more of a threat

The Mediterranean has experienced significant improvement in its economic situation since the start of the Barcelona Process. The main components are sustained growth, beginnings of structural differentiation in trade and more FDI. Moreover, MPCs have introduced many reforms, in particular with respect to social policies. This has paved the way for real progress in terms of education, health, life expectancy and quality of life. However, having spread across the world, the crisis represents an unprecedented challenge.

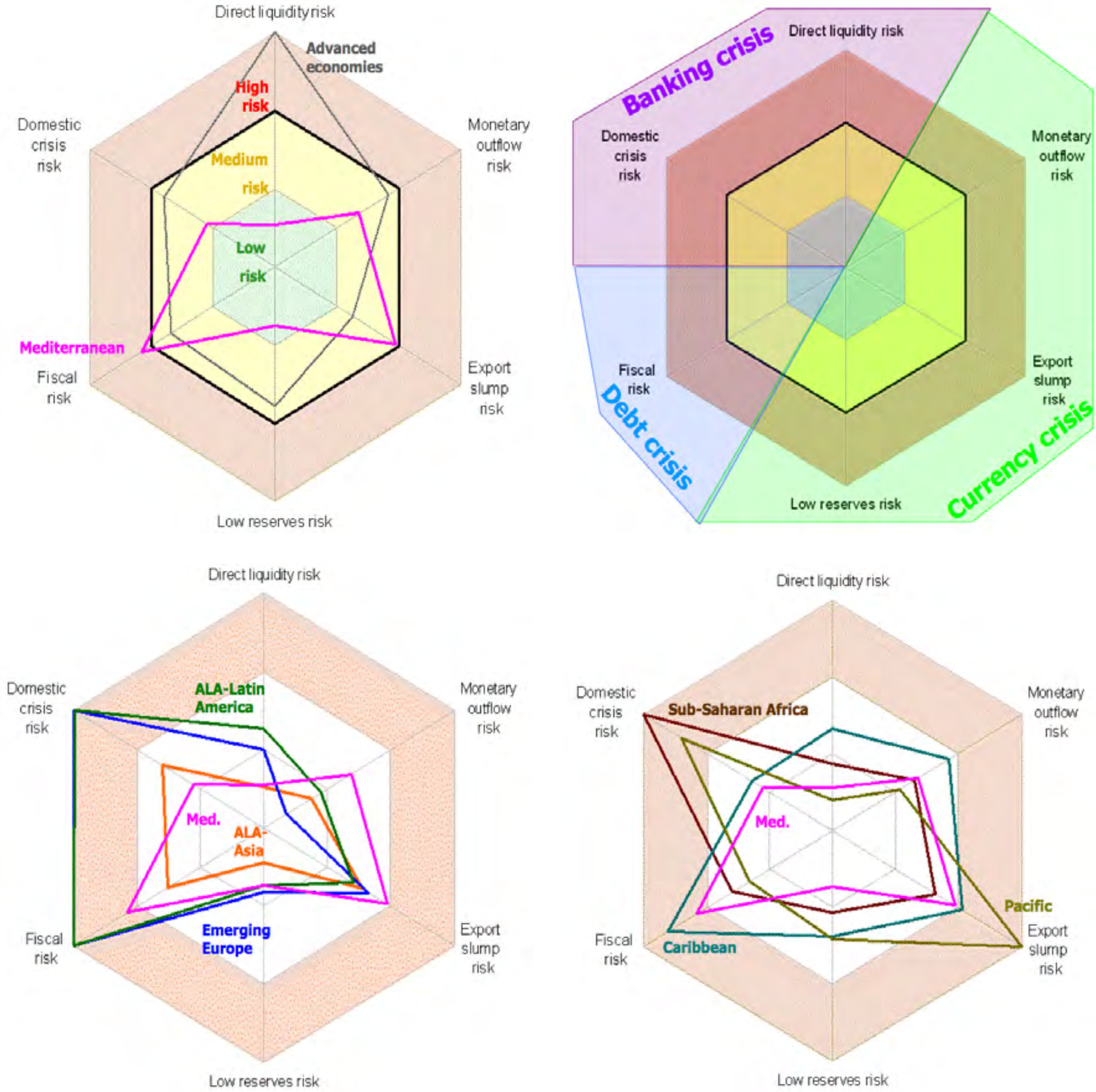
The crisis is following a reverse process to the one in the developed countries where it started. It can first of all be seen in the revenue effects that are significantly undermining GDP growth owing to the drop in exports linked to external demand, a decrease in migrant transfers, tourism and net input from foreign direct investment. These phenomena are directly linked to the gap between the internal demand of the main industrialised partners of the MPCs, who are today lifeless, and to the MPCs' own continuing internal demand. The crisis has therefore created a growing exportable surplus in industrialised partner countries.

This specific, non-financial aspect of the crisis in MPCs is fully reflected in an analysis currently being performed by the EIB economic services. Based on a "probit" statistical analysis, Markus Berndt and Daniel Ottolenghi have compared the risk profile linked to the MPC crisis with industrialised countries and other developing countries. The results underline that, overall, Mediterranean countries' direct exposure is low, notably owing to the fact that, so far, they have sufficient levels of currency reserves. Moreover, the slow rise in credit is moderating the risk of a domestic financial crisis. Thus, direct exposure and risks arising from domestic financial sector crises stemming from internal vulnerability are by and large limited. On the other hand, these profiles highlight the dependence of MPCs on external financial flows (migrant transfers, tourism revenues and foreign investment) and on commercial relations via export income (see "Vulnerability of the Mediterranean region to the Financial Crisis", Markus Berndt and Daniel Ottolenghi, European Investment Bank, Presentation given during the DEFI seminar, Université de la Méditerranée, 15 May 2009). Although the effects on the financial sphere are still limited, owing to the low capital account convertibility of MPCs and to the fact that they are relatively closed off to services, thus preventing the phenomenon of massive disinvestment (in particular by the banks) seen in Eastern countries, these revenue effects will eventually have consequences if they are not thwarted.

They will take on two main forms, which are just beginning to emerge.

Firstly, owing to pressure on balances of payment, the inevitable problem of reserves will arise, as is already apparent in some countries. This will crea-

Graphique 1 : Profiles of MPs facing the crisis



Source :"Vulnerability of the Mediterranean region to the Financial Crisis", Markus Berndt and Daniel Ottolenghi, European Investment Bank, Presentation at DEFI seminar, Université de la Méditerranée, May 15th 2009 te difficulties for central banks striving to refinance the economy and manage exchange rates.

Secondly, bank portfolios will be substantially reduced in sectors that are most open to the outside while the same will apply to public accounts. This therefore means that the several years of effort to consolidate the macroeconomic balances may well have been for nothing.

The ultimate impact of these effects on employment will depend on private agents' expectations. Their tendency to escalate the crisis can already be seen in the countries currently most affected, especially when it comes to private consumption and investment. Nevertheless, MPCs seem less concerned owing to the asymmetrical information between private agents and financial institutions. Such asymmetry will actually probably protect MPCs against movements of panic.

Lowered growth forecasts

The World Bank's growth forecasts in developing countries have been lowered: growth in 2009, initially estimated at 4.4 % of GDP (in November 2008), dropped to 2.1% (March 2009) then to 1.2% (June 2009, World Bank). Having said this, the regional forecasts would suggest that the Mediterranean will be less affected, with growth in the MENA region estimated at 3.1% of GDP in 2009 (World Bank) and roughly 2% for MPCs alone according to the EIU. A country-by-country analysis shows that in 2009 MPCs' growth will continue to rise overall with the exception of Turkey (see table 7 further on).

A low risk of financial crisis in the MPCs, illustrated with the case of Tunisia and Egypt

The level of capital account convertibility is limiting the repercussions of the crisis

The low level of capital account convertibility protects most Mediterranean countries from the direct effects of the crisis on banking and financial systems. It is true to say that in international organisations these restrictions have often been reproached for they have lowered the attractiveness of the region in terms of investment. This observation is based on the fact that a liberalised capital account makes it possible to diversify sources of financing for the balance of payments but also acts as a stimulus for direct foreign investment by speeding up developments on the financial markets (see Femise study FEM32-04). In Tunisia, for example, the authorities can be seen to impose restrictions on the free movement of capital thus limiting access to portfolio investments. This limited access means that the balance of payments is above all financed via public borrowing, which leads to substantial currency debt. The room for manoeuvre in terms of tax revenue remains narrow while the degree of exchange rate flexibility is also limited. Clearly, the input of foreign capital could provide a greater source of revenue for the balance of payments if liberalisation were to be improved.

However, completely opening up a capital account implies having a relatively good position from the point of view of an international investor as well as accepting a flexible exchange rate. It also requires for the monetary policy to be restricted by the parity of interest rates. This can provide substantial new means of financing via portfolio investments but, in return, room for manœuvre at the macroeconomic policy level is highly restricted and the country is exposed to all sorts of events that may modify expectations about the future exchange rate, inflation, interest rates, etc. This observation is backed up by the fact that, in spite of this restriction, the advent of the crisis has triggered outflows of capital linked to exchange payment dates and the freedom granted to foreign company subsidiaries. The following table highlights that capital outflows have risen sharply in Tunisia but that the final effect appears to have been felt very little owing to initial amounts that have been considerably low.

Indeed, the table opposite shows that, in the space of a year, the Tunisian capital account lost over 60% in value (68.9 million DT in the fourth quarter of 2008 compared with 181.8 million DT twelve months beforehand), whereas its share of the capital and financial balance only accounted for 3.2% in the first quarter of 2009.

Similarly, in Egypt, the capital account underwent a massive 150% drop in the first quarter of 2009 compared with the previous year, although its volume has always been negligible in relation to the financial account, which seems to have suffered considerably.

Whatever the specific national situation, it would seem that most MPCs' reticence to open up in this way has enabled them to limit financial losses arising from the crisis.

The impact on the financial markets reflects their limited international opening

At the end of the first quarter of 2009, most Mediterranean stock exchanges had plummeted (with the exception of Tunisia) reaching similar levels (in Morocco, Lebanon and Jordan) to those at the end of 2006, if not lower levels (in Turkey, Egypt and Israel).

Thus, generally speaking, the financial crisis has had an impact, albeit limited. This limited impact can be explained by the low level of foreign investment whose effect on stock market prices has been visible but small. In this case, the national stock exchanges often constitute a sort of refuge for national groups that have liquid assets but are unable to find any productive use for them (Tunisia thus reinforced its market capitalisation thanks to two remarkable introductions: Poulina Holding and the company Artes). Furthermore, with capital increases playing a relatively small role in domestic investment financing, the effect of the crisis is once again very small in relation to industrialised countries.

The most significant declines, such as in Egypt, are linked to the sector-based distribution of market capitalisation. This targets sectors that are most especially concerned by the current financial crisis. Finally, the last factor to explain the contagion effect is the size of the market, which obviously fosters contagion in the case of Turkey, Jordan and Israel, as underlined in several studies (see Thomas Lagoarde-Segot and Brian M. Lucey: "Shift contagion vulnerability in the MENA stock market" forthcoming in the "World Economy" 2009).

A banking system with low exposure to the immediate effects of the crisis

A banking system can be undermined by the weight of unproductive debt (i.e. non-performing loans). This has not been the case for most MPCs. This bad debt has rather tended to decrease even if unproductive loans are still high in Egypt and Tunisia compared with emerging country averages (5.9% in 2007).

Faced with the crisis, the banking system situation is not especially worrying; the introduction of strict

Table 1: Capital Account in Tunisia (in million DT)

	2007	2008*	Q3-07	Q3-08*	Q1-08	Q1-09*	Annual Variation (Q1)
Receipts	214.7	126	182.5	71	31.5	29.1	-7.60%
Expenditure	2.6	4.6	0.7	2.1	1.2	3.1	158.30%
Balance	212.1	121.4	181.8	68.9	30.3	26	-14.20%
Balance in % of the Capital & Financial account Balance	10.10%	2.90%	31.10%	3.60%	6.70%	3.20%	

*Source : Central Bank of Tunisia, * provisional figures*

Table 2: Capital account and financial account in Egypt (in million US$)

	October-December 2007	January-March 2008	October-December 2008	January-March 2009	Year-on-year change, % variation (Jan-March)
Capital & Financial Account	1 494.3	441.4	-159.6	-1 347.0	-405.4%
Capital Account	1.2	-0.2	-0.9	0.1	-150.0%

Source : Central Bank of Egypt

measures (limited foreign borrowing by banks and companies, ban on foreign capital market investment, restrictions on exchange operations and derivatives) has limited the exposure of resident banks to the international finance markets.

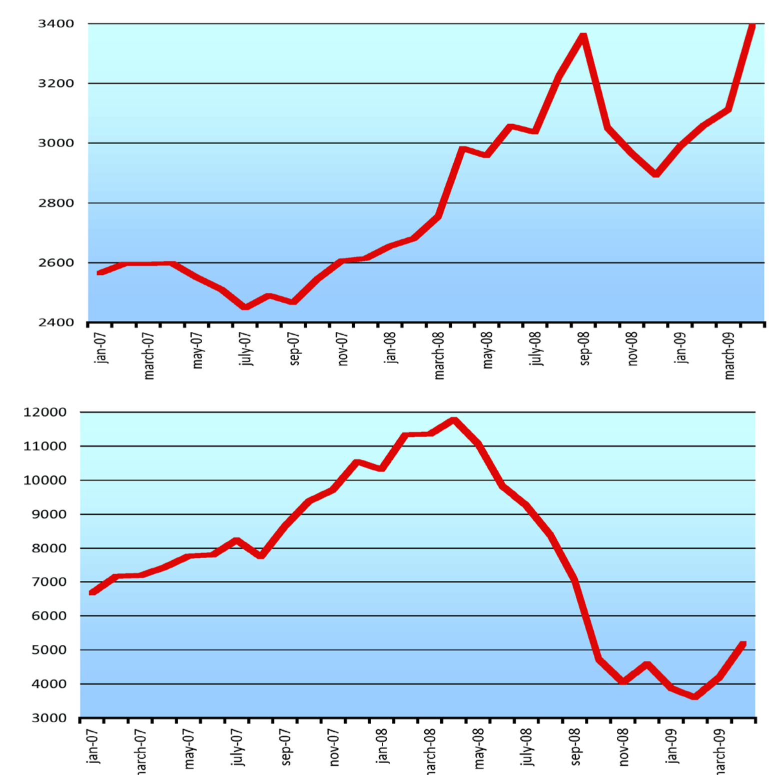
These measures have led to better unproductive loan provisioning with the exception of Syria (see table below). This virtuous development will certainly be partly upset when the real consequences of the crisis affect companies domiciled in MPC banks. This will generate new needs for liquid assets and the Central Bank will play a determining role, especially given that there are still weak points in the system. The MPC banks' inability to grant SMEs and very small businesses credit without a considerable amount of collateral is one of the biggest weaknesses. Such a commitment is always important for financing the Treasury and this inability is likely to cause a crowding out effect that will probably be worsened by budgetary difficulties.

III. A much more dangerous crisis in the real sphere

Short-term transmission channels and long-term concerns

Hence, the crisis in the MPCs will not be brought on by the financial system. As already underlined, the threat concerns the contagious spread to the real economy of MPCs. An extended crisis is likely to trigger a serious drop in export activities, tourism and transfers of migrants and FDI, all of which constitute the main channels for spreading the crisis in the region (IMF).

Graph 2: Evolution of stockmarket indices in Tunisia (up) and Egypt (down)



Although it is difficult to quantify the final effect, recent trends suggest the following:

√ A drop in exported goods together with a decrease in imports, although the latter will be of a smaller scale given that the reduction in MPC internal demand is clearly smaller than that of industrialised countries. This considerable gap will certainly have a growing impact on the current balance.

√ Tourism will be hit by two contradictory trends: a drop in flows linked to the drop in revenue, notably in Europe, with a substitution effect where priority is given to proximity hence producing the opposite effect. If the trends observed in some countries (like Morocco) are confirmed, this may result in both an increase in the movement of individuals and an overall drop in revenue linked to shorter stays and less spending.

√ Migrant worker transfers, which were on the rise in 2008, may drop back down to levels close to those recorded in 2006 owing to the effects of the crisis on the employment of these workers in Europe.

√ As for foreign direct investment, a downward trend can be observed everywhere in the world and will most likely concern the MPCs too.

√ Finally, the IMF points out that counter-cyclical policies have served in the past as an efficient means of escaping a recession and boosting economic recovery. Having said this, the impact of tax policies, which can be very useful in times of crisis, is low for countries with a high degree of public indebtedness.

The situation therefore needs to be analysed through the following questions:

Table 3. Indicators of banking sector soundness

	2006							
	Egypt	Israel	Jordan	Lebanon	Morocco	Syria	Tunisia	Turkey
Capital to assets (in%)	14.8	5.9	21.4	25	7.4	7	11.3	22.1
Non Performing Loans (NPLs) (in % of total loans)	25	8.4	4.3	6.8	10.9	4.7	19	3.8
Specific Provisions (in % of NPLs)	74.6	n.d	80	54.4	71.2	61	49.2	90.8
Return on Assets (ROA) (in %)	0.6	1	1.7	0.9	1.3	2	0.7	2.5
Return on Equity (ROE) (in %)	10.7	17.6	15	10.1	17.4	19.6	7.7	19.8

	2007							
	Egypt	Israel	Jordan	Lebanon	Morocco	Syria	Tunisia	Turkey
Capital to assets (in%)	14.9	6.1	18.8	24	6.9	6.5	11	19
Non Performing Loans (NPLs) (in % of total loans)	16.5	n.d	4.2	4.8	7.9	5.3	17.3	3.5
Specific Provisions (in % of NPLs)	89.9	n.d	70	56.6	75.2	23.7	53.8	88.4
Return on Assets (ROA) (in %)	nd	1.2	1.6	1	1.5	2.4	0.9	2.8
Return on Equity (ROE) (in %)	nd	20	12.2	12.1	20.6	23.9	9	21.6

	2008 (June)		
	Israel	Lebanon	Syria
Capital to assets (in%)	6.3	n.d	n.d
Non Performing Loans (NPLs) (in % of total loans)	n.d	3.7	n.d
Specific Provisions (in % of NPLs)	n.d	57.4	n.d
Return on Assets (ROA) (in %)	0.7	0.7	0.8
Return on Equity (ROE) (in %)	10.7	8.3	17.2

Source : IMF Country Reports (2008-2009)

Table 4a : The 4 crisis transmission channels in MPs. Current Variation

	Goods Exports	Goods Imports	Tourism (value)	Remittances	FDI
Algeria	(-42.07%)***	10.07%	-10.00%	n.a	-40.00%
Egypt	-7.60%	2.98%	-17.30%	14.56%	-48.20%
Israel	-31.80%	-19.02%	(-19.71%)*	1.51%	-39.53%
Jordan	-10.30%	-21.70%	7.40%	-9.90%	-71.40%
Lebanon	10.00%	-5.00%	(54%)*	-34.90%	-21.00%
Morocco	-35.10%	-20.00%	10.1%*	-13.80%	-30.70%
Palestine	n.a	n.a	n.a	n.a	n.a
Syria	n.a	n.a	0.08	n.a	33.00%
Tunisia	-18.77%	-16.40%	4.3%****	9.96%	-47.17%
Turkey	-30.17%	-42.80%	-5.45%	-41.48%	-52.20%

*Key : * Flow of Tourists in Israel Tourism Arrivals - 19.71% while person-nights in tourism hotels declined by 31.77% ; **with a 7.7% and 8.8% increase in Morocco and Jordan Tourism flows (volume) ; *** -42% pour hydrocarbures ; ****4.3% increase in dinars (2.3% in Euro) and an increase of tourism flows of 2.2%*

Sources : FEMISE calculation based on EIU, IMF Country Reports, Standards and Poor's, MPs Central Bank reports. Precisions on periods and sources in annex 1.1.

The second phenomenon is that this decline in trade is considerable in large importing developed regions, dropping by 30% in EU-27 and 34% in the United States in terms of market value between January 2008 and March 2009.

The third phenomenon is that, as might be expected, exports have suffered less than imports, hence reducing the trade deficit of these large areas.

What will be the drop in overall demand in the Mediterranean via these four channels? What will be the cost in terms of the region's ability to continue to improve its growth regime and change its specialisations in order to improve its position in the value chain? How can the social balance be upheld and which tools need to be used so that the impact on the real sphere does not upset these still fragile societies?

The challenge for the Mediterranean consists in limiting the impact of the crisis on the real economy using considerably limited means while continuing to pursue the permanent intangible objectives of convergence, employment, improvement in young people's situation and human development.

A crisis pulled down by trade

At world level, the drop in the goods trade is now close to a ratio of 4 to 1 in relation to the decrease in GDP. In the 1970s, a one point variation in GDP led to a 2 point variation in trade while globalisation has today resulted in a world trade/GDP ratio difference of almost 4. This means that if the world GDP drops by 1%, trade in goods will go down by 4%.

This is of considerable concern for the MPCs, especially given that they have always been net importers with respect to these large regions, especially the EU. In the past, it was possible to offset this trade deficit through revenue and capital transfers, and services, which enabled current balances to more or less even out. It was this macroeconomic balance regime that determined the level of exchange rates, the monetary policy and the level of interest rates and prices, and the budgetary balance.

The problems arising from the decrease in external demand will therefore influence the entire macroeconomic balance and perhaps the policy of reforms. Furthermore, considering that it is those countries having opened up the most that will suffer the greatest impact, it is clear that this question will have to be explicitly taken into account in the Euro-Mediterranean dialogue.

Yet, against this backdrop, the situation remains volatile and heterogeneous. Figure 3 opposite showing changes to exports and imports in Morocco is a good illustration of this volatility and the downturn in trade balance at the end of

Table 4b : The 4 crisis transmission channels in MPs. Estimated Variation for 2009

	Goods Exports	Goods Imports	Tourism (value)	Remittances	FDI
Algeria	-39.64%	1.70%	n.a	-17.24%	n.a
Egypt	-28.19%	2.30%	n.a	(-5% to-10%)	-46.97%
Israel	-14.13%	0.00%	n.a	-14.77%	0.00%
Jordan	-10.20%	2.70%	-8.00%	(-5% to-10%)	n.a
Lebanon	4.99%	3.26%	n.a	-12.00%	-15.71%
Morocco	-22.57%	1.56%	n.a	(-5% to-10%)	n.a
Palestine	n.a	n.a	n.a	n.a	n.a
Syria	-16.07%	6.39%	7.98%	5.01%	4.49%
Tunisia	-25.39%	0.00%	n.a	(-5% to-10%)	n.a
Turkey	-25.21%	0.10%	n.a	-7.69%	n.a

Sources : FEMISE calculation based on EIU, IMF Country Reports, Standards and Poor's, MPs Central Bank reports, ... Variations may refer to different periods. see annex 1.1.

the period, linked to a decrease in exports and increase in imports.

The heterogeneous nature of the countries is reflected in the size of the shock. It can be seen to be especially big in Egypt, Turkey, Tunisia and Morocco, and smaller in Jordan, Israel, Syria and Lebanon. This is due to three factors: first, the degree of opening, then the trade composition (commonplace manufactured products and components have been impacted the most) and, finally, the geographic direction of flows.

Drop in migrant fund transfers owing to job market conditions in Europe and the Gulf region

According to the statistics made available by the IMF (Balance of Payments Statistics) and the World Bank (2008), transfer movements to developing countries were to reach 328 billion US dollars in 2008, up by 15% compared with 2007.

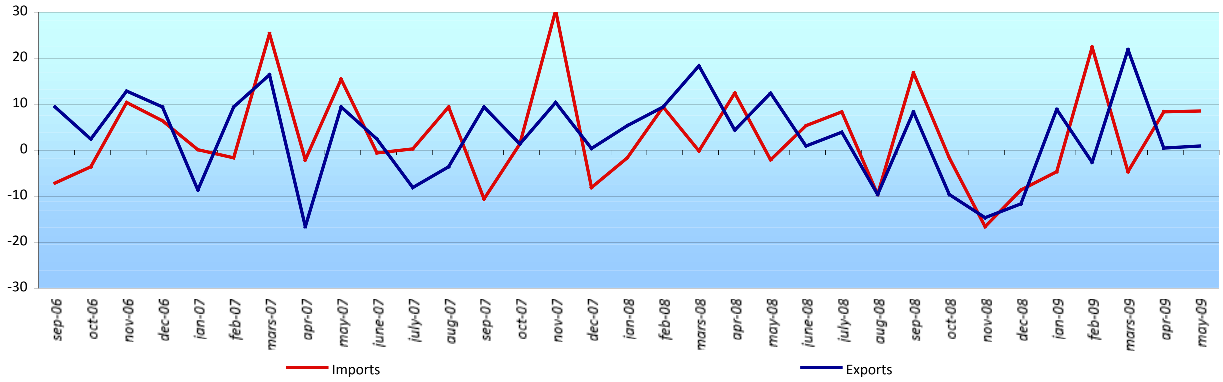
Given the current crisis, these transfers will drop in the 2009-2010 period. In a low-end scenario, taking into account the vulnerability of migrant workers during crisis periods, transfers to developing countries should go down by 10% in 2009. In the reference scenario, the decrease is set for 7.3%. The regions likely to be most affected by this drop are Latin America (owing to the decline in US real estate sector where the labour is mainly Hispanic), Sub-Saharan Africa, Europe and Central Asia, with the latter two being hit worst. The MENA region seems in a better position and the drop in the oil price in the GCC countries has apparently not had a marked effect so far according to the forecasts.

Just like everywhere else, the impact on transfers to MPCs will depend on the sector-based profile of workers abroad and possible job losses in migrant generating countries, as well as the exchange rate effect. This will thus affect the two main reasons for emigration: replacement migration first, given that the need to replace retired workers will be smaller, and migration due to wage differences (where the exchange rate effect has an important role: when national currency is depreciated compared to the € or the $, transfers can continue under the effect of the exchange rate alone).

In Egypt, transfers reached around 7.7 billion USD in 2007, up from 5.3 billion USD in 2006 with migrants accounting for 3.2% of the population. Transfers to Tunisia were much less, reaching 1.71 billion USD in 2007, compared with 1.51 billion in 2006 with migrants accounting for 6.2% of the population. However, it is important to underline that in terms of percentage of GDP both countries show the same performance, i.e. 5% of GDP (World Bank's Migration and Remittances Factbook, 2008).

With respect to how these transfers will change, according to an estimation given by the Egyptian economic development ministry dating back to 15 December 2008, the international financial

Figure 3 : Evolution of Moroccan trade



Source : Bank Al-Maghrib

crisis will result in a drop of 600 million USD. Yet, the figures for the first quarter of 2009 are positive and show an increase of 14.6% over 12 months (Reuters). In 2008, Tunisian worker transfers abroad were to go down by 5-10 %. Nevertheless, this relatively small consequence could be explained by the exchange rate effect and, in particular, by the continued depreciation of the dinar compared with the euro (83.2% of Tunisians abroad, i.e. 847,000 people, are in Europe); income from Arabic countries (Gulf countries, UMA Arab Maghreb Union) only accounts for 8.9% of the flows received.

As for Algeria, the forecast drop in transfers is one of the biggest for the MPCs and is due to the number of expatriates in France and to the job situation and revenue of this population.

Table 5 : Outlook for remittance flows 2009-2010 by the World Bank

	Remittances growth	*Growth rate of remittances by region (base case forecast)*			
	2008 e	*Base case scenario*		*Low-case scenario*	
		2009 f	*2010 f*	*2009 f*	*2010 f*
billion US $					
Developing countries	***328***	***304***	***313***	***295***	***294***
East Asia and Pacific	*78*	*74*	*76*	*71*	*71*
Europe and Central Asia	*57*	*49*	*50*	*47*	*48*
Latin America and Caribbean	*64*	*60*	*61*	*58*	*57*
Middle East and North Africa	***34***	***32***	***33***	***31***	***31***
South Asia	*74*	*71*	*74*	*69*	*69*
Sub-Saharan Africa	*20*	*18*	*19*	*18*	*18*
(%) change					
Developing countries	***14.8***	***-7.3***	***2.9***	***-10.1***	***-0.3***
East Asia and Pacific	*19.6*	*-5.7*	*3*	*-8.8*	*-0.5*
Europe and Central Asia	*12*	*-14.9*	*3*	*-17.2*	*0.5*
Latin America and Caribbean	*2.1*	*-6.9*	*1*	*-9.4*	*-2*
Middle East and North Africa	***8.6***	***-6.2***	***3.3***	***-9.8***	***-0.4***
South Asia	*32.8*	*-3.6*	*3.9*	*-6.4*	*0.5*
Sub-Saharan Africa	*6.5*	*-8.3*	*4.4*	*-11.6*	*1.1*

Source : Migration and Development Brief 10 (juillet 2009) ; e = estimation ; f = prévisions

In Lebanon, the transfers showed some worrying signs for the first two months of 2009, where they seemed to drop by one third (annual slide of 34.9%).

Concerning Turkey, the transfers are also a source of potential problems with negative growth of 41.5% recorded for the first 5 months of 2009 (source: Central Bank of Turkey).

Finally, in Morocco, the May 2009 transfers showed a -13.8% 12-month variation.

The Tourism sector: resilience in terms of volume but downward price trend with a price war between operators

The economic instability in 2008 had a constricting effect on tourist demand. The climate of uncertainty is likely to keep this demand at especially low worldwide levels.

The WTO group of experts has forecast a setback in the sector of between -4% and -6%, depending on the economic climate. Concerning this downward bracket, one sign of the forthcoming trends can be seen in the plummeting air transport statistics.

At world level, the number of passengers in the first quarter of 2009 dropped 10.6% below the figure for the previous year; apparently the 5.9% decrease in capacity has not been able to meet the drop in demand with the result that the boarding rate reached a meagre 69.9% (i.e. 3.2% below the rate recorded in February 2008).

Let us note that, for the moment, WTO experts (WTO, 2009) believe that tourism in the region should be less subject to the cris and oil-prices effects. The "open sky" agreements between Maghreb countries and Gulf countries suggest a renewed incentive to travel between the respective regions.

In the current period, this represents a significant development opportunity for MPCs: indeed, they could attract new tourists, i.e. people who used to go to competing regions now become less attractive under the effects of the crisis (because of the longer distance and higher cost of stays notably). It would seem that the Middle East transport companies have alone been able to offset the drop in demand by a 0.4% increase in air traffic between February 2008 and February 2009 (and even a 3.1%

Box 1 – Tourism in the Mediterranean

Tourism is a major source of revenues for the MPCs. Their tourism revenues represent 5% of world-wide tourism revenues and growth, an annual average of 8% since 1990, remains vigorous. Thanks to the development of low-cost companies, Morocco recorded the strongest progress between 2000 and 2007, multiplying its tourism revenues by 3.5. The competitive prices offered by Egypt continue to make it highly attractive. Jordan is also achieving good performance levels, although in decline over the first few months of 2008 (WTO, 2008)

However, the sustainability of these revenues relies on major investments, both private and public. The progress of Foreign Direct Investment (FDI) in these sectors (with tourism attracting massive investment from neighbouring Arab countries) is clear evidence of the determination to propose infrastructure that meets tourists' requirements.

Tourism receipts per capita (current US$)

	1990	2000	2003	2004	2005	2006	2007
Algeria	40	3	4	5			
Egypt	20	65	65	86	94	102	123
Israel	300	654	308	350	412	394	453
Jordan	162	151	206	251	266	372	404
Lebanon			1 627	1 365			
Morocco	52	72	109	132	153	196	235
Syria	25	66	75	112	113		
Tunisia	116	176	161	198	206	225	249
Turkey	57	113	187	223	252	231	250
PM	51	93	136	158	151	146	165

Sources – World Tourism Organisation (OMT), 2008 and World Bank – Calculs N. Roux

Table 6 : Passenger air transport - évolution from February 2008 to February 2009

	*RPK Growth**	*ASK Growth**	*PLF**	*FTK Growth**	*ATK Growth**
Asia/Pacific	*-12.8%*	*-7.8%*	*70.2*	*-24.7%*	*-11.6%*
Europe	*-10.1%*	*-7.6%*	*70.2*	*-23.1%*	*-8.5%*
Latin America	*-3.8%*	*-2.4%*	*72.1*	*-22.8%*	*-4.0%*
Middle East	***0.4%***	***7.3%***	***68.1***	***-4.8%***	***5.4%***
North AMerica	*-12.0%*	*-7.1%*	*69.8*	*-21.8%*	*-7.1%*
Industry total	*-10.1%*	*-5.9%*	*69.9*	*-22.1%*	*-7.9%*

Source : IATA

** RPK: Revenue Passenger Kilometres measures actual passenger traffic*
ASK: Available Seat Kilometres measures available passenger capacity

PLF: Passenger Load Factor is % of ASKs used. In comparison of 2009 to 2008, PLF indicates point differential between the periods compared,

FTK: Freight Tonne Kilometres measures actual freight traffic

ATK: Available Tonne Kilometres measures available total capacity (combined passenger and cargo)

growth between January 2008 and January 2009). Nevertheless, the boarding rate has remained low at 68.1% (i.e. 4.7% less compared with February 2008), in spite of an aggressive policy to increase transport capacity (+7.3% more capacity).

Within the present economic climate MPCs are not affected in the same way:

√ Egypt, Morocco and Turkey are experiencing a decline in tourism, but with signs of resistance in comparison to other regions. In Egypt, tourism revenues fell 17.3% for the January-March 2009 period compared to January-March 2008, a drop explained essentially by fewer tourist overnight stays. If the trend continues, it will naturally lead to a decrease in foreign exchange reserves which, added to the trade deficit, would result in a deterioration of the balance of payments (EIU). The most recent figures in Israel also point to a 20% decline in tourist flows in March 2009. In Turkey, the drop in January-May 2009 compared to January-May 2008 was 5.5%. However, the prospects there appear less severe, as shown by the example of the Web-based discount tour operator alpharooms.com which in February 2009 achieved a record 260% increase in bookings to Turkey. Egypt's bookings doubled as well at the start of the year (February 2009 compared to February 2008). Nonetheless, the overall situation is also threatened by price slashing to attract tourists. For example, German and Russian tourists were able to take a trip to Turkey, with a stay in a 5 stars hotel, all included, for ... 200 euros! (Source TravelDaily News). The number of tourists may grow, but not the revenues, which is already the case in Morocco: inflows of tourists rose by 6% for the January-October 2008 period (compared to 2007), but tourist revenues went down by 1.5% (Morocco Tourism Report 2009). This trend is becoming more evident, even in the latest figures from May 2009, with a 10.1% increase in the number of tourists, year-on-year, but a 3.1% decrease in overnight stays.

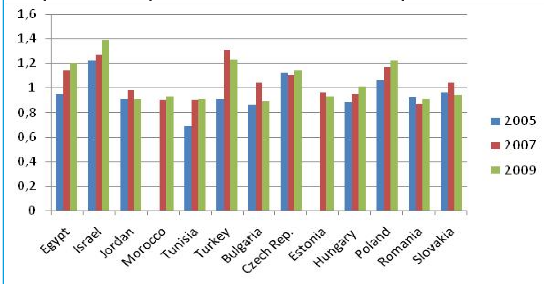
√ Other MPCs such as Tunisia and Lebanon are showing good resistance to the crisis. In Tunisia, there was a 4.3% increase in tourist services for the first four months of 2009 (compared to the same period in 2008 - Source BCT). In Lebanon, the flows of passengers arriving at the Beirut Airport increased by 54%, year-on-year, for the first quarter of 2009. In Jordan, the year 2008 ended with 27.5% growth in tourism revenues, paired with an 8.8% rise in tourist flows. The trend appears to be continuing, with travel revenues in April 2009 up 7.4% compared to April 2008.

FDI: a key factor

The Mediterranean region, marginalised in the '90s, regained attractiveness for investment throughout the 2000s. Foreign investment flows multiplied by a factor of 6 between 2002 and 2007, a rise largely attributable to renewed interest in the energy sector as well as to the available human resources and a major improvement in the business climate. As a result, the MPCs' share in investment flows, nonexistent at the start of the decade (0.8% in 2000 and 1.3% en 2002), practically tripled, reaching 3.6% in 2008 and now comparable to the region's percentage of the world population (3.9%).

However, with the onset of the crisis, this movement has been interrupted: the 2008 foreign investment figures for the 10 MPCs show a significant decline, extending the trend initiated in 2007. At the global level, inflows to developing countries are expected to decrease by 34% in 2009, down to 385 billion dollars, due to growing risk-aversion of investors. The expected trend in the MPCs should be quite similar to the global trend, although the decrease should be lower. In 2008, inflows to the MPCs declined by 17%, below the 22% drop recorded at the global level. In addition, the number of investment projects in the Mediterranean underwent only slight erosion, showing resistance which conveys a certain confidence on the part of investors.

Graph 5 : People Skills and Availability



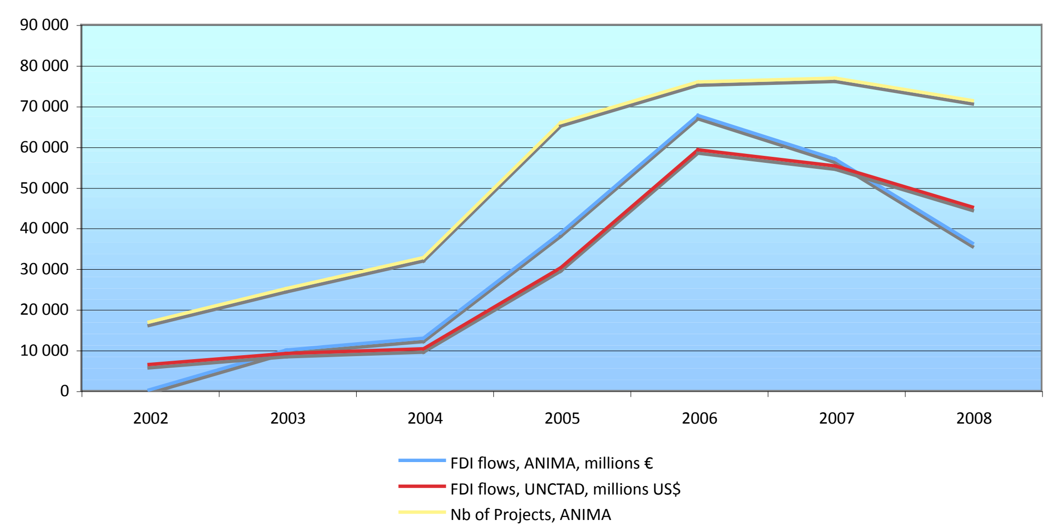
Source: AT Kearney, 2009

The relative resilience of the MPCs in terms of FDI can be explained by the following remarks:

First, the drive for greater competitiveness in European companies has led to the redeployment of their value chains and, as a result, the adoption of «nearshoring» strategies that give preference to the southern shores of the Mediterranean.

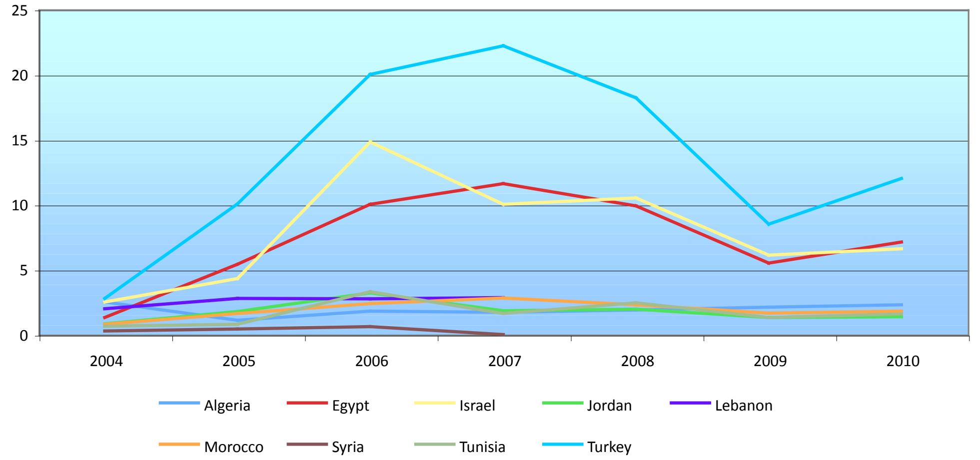
Second, the IMF is stressing the importance of sustained investment in the Mediterranean originating from the oil-exporting countries, which has thus far limited the disengagement of the developed

Graph 4 : Evolution of FDI in the 10 MPs in recent years



Sources : UNCTAD and Anima

Graph 6 : FDI forecasts in MPs for 2009, billions of $



Source : EIU forecasts

countries and the repercussions on the growth rate of the MPCs.

Third, the Mediterranean region is specialised in «trustworthy» sectors such as tourism, agriculture, energy and ore, less risky markets to which investors turn in times of crisis.

Fourth, the improvements made by the MPCs since the mid-1990s have also produced results and considerably enhanced their attractiveness, even in relation to the Eastern countries. This attractiveness is currently reinforced by their relative resistance to this first year of the crisis (see box on Renault plant in Tangiers). This renewed attractiveness is conveyed in a recent study by the AT Kearney firm (A.T. Kearney (2009), «The Shifting Geography of Offshoring», The 2009 A.T. Kearney Global Services Location Index). According to this analysis, the Mediterranean countries are making strong progress in terms of attractiveness despite the crisis: Egypt is ranked 6th world-wide (13th in 2007), closely followed by Jordan, ranked 9th (14th in 2007), and Tunisia (17th), Morocco (30th) and Turkey (44th). At the same time, the Eastern countries, on the whole, have dropped in the ranking, with a particularly noticeable decline for the Czech Republic (4th in 2007 and 32nd in 2009), Poland (18th in 2007 and 38th in 2009) and Slovakia (12th in 2007 and 40th in 2009). The

Box 2: Automotive investment in Morocco

Although the automotive sector is hard-hit by the crisis, Renault has confirmed that it is going ahead with the plans for the Renault plant in Tangiers, with a two-year postponement. This project, initiated in 2007, represents an investment of up to 1 billion euros: 600 million for the plant itself and from 200 to 400 million for the vehicles that will be produced there. The plant will create nearly 6000 direct jobs, plus another 30,000 jobs through the foreign and local equipment manufacturers setting up operations or already established there. The plant will begin to produce the first models at the start of 2012, with a capacity of 170,000 vehicles per year. Construction work will begin in September 2009. The project is located a few kilometres from the Tangiers Med port, to which it will be connected by motorway and railway. This clarification by the car manufacturer, provided by its CEO Carlos Ghosn, puts an end to numerous speculations about the postponement of commissioning, or even the cancellation of the project.

Among the reasons for choosing Morocco, the manufacturer had clearly stated in 2007 that preference was being given «to low-cost countries outside the euro zone. Looking ahead five years, it is more likely that Morocco will be cheaper than Rumania or even Turkey.»

Source: Le Monde, Les Afriques

most important finding in the analysis is that the Mediterranean countries' progress is based not only on relatively less negative signs compared to other regions, but also on intrinsic qualities and improvements. In addition to financial appeal, the analysis underscores the key role of the qualification and availability of labour and a clear improvement in the business climate.

The current country data on FDI trends is limited and highly seasonal. Although some trends may be discerned, the final amplitude for the full year 2009 remains unknown. A double-digit decline should however be expected for 2009. Egypt recorded a substantial 48.2% drop in FDI in January 2009 compared to the previous year. Similarly, flows in Tunisia for the first quarter of 2009 fell by 47.2%. In Morocco, the decline recorded in May 2009 is not as sharp: 30.7%. In Turkey, foreign investment declined significantly by 52.2% over the January-May 2009 period compared to 2008. In Israel, the data for the last quarter of 2009 also indicate a drop of 39.5%. In Algeria, Lebanon and Jordan, the 2009 trend will be downward as well, with partial data indicating declines of 40%, 21% and 71.4% respectively.

The medium-term prospects could be less negative if the MPCs took advantage of the stagnation of capital inflow to other regions to increase their own market share by diverting flows thanks to their renewed attractiveness. This, however, will not be an automatic movement. Instead, it will be necessary to further boost current strengths, i.e. make further progress in the qualification of human capital, ensure an even more efficient business climate and foster greater openness to trade.

IV. A macroeconomic balance under tight pressure

The four vectors for transmission of the crisis mentioned above cannot help but have an effect on the overall consistency of growth and macroeconomic balance. The shock of the crisis has hit after two years of food and raw materials price increases which have weighed heavily on State budgets, caused by inflationary pressures and social problems. The question now is whether this new shock can be absorbed without challenging a favourable evolution of the fundamentals of the past few years.

It is worthwhile reviewing a few references in this respect:

First, in the last three years, for the first time since the '80s, the MPCs were in the process of converging with their European neighbours. This convergence encompassed revenues per capita, progress in human development and the evolution of institutions. The gaps are admittedly still substantial, but the movement appeared to be under way with a new political outlook that allowed acceleration to be foreseen (UPM).

Second, the convergence started with «an upward trend», whereas the crisis may redirect it «downward» since growth during crises is always higher in the MPCs than in the European countries. In general, with the notable exception of Algeria, this «upward» convergence stemmed from a growth pattern progressively focusing on the overall productivity of factors, rather than on accumulation. This made it easier to increase wages (in the best cases, the minimum wage could be indexed on productivity rather than on prices, as it is the case, in particular, for Tunisia) and to maintain a competitive real exchange rate level. Nonetheless, difficulties remain in relation to employment (especially for qualified workers) even in the countries that had made the most progress in this regard. In the years to come, progress must be made in the job content of growth points, entailing a better organisation of training and a substantial improvement of the conditions for the creation and development of SMEs, all of which call for the continuation of reforms and a more efficient banking sector. Yet, it is clear that the above-mentioned difficulties regarding exports, tourism, the transfer of migrants' revenues and foreign investment inflows will have an impact on the operation of companies and the credit portfolios of banks.

Third, all MPCs had implemented consistent macroeconomic management, based on more rigorous monetary and budgetary policies, inflation control (with at least implicit inflation targets) and major efforts to reduce debt. It took twenty years to get to that point and the social cost of adjustment plans set up in the '80s was high. Added to this were major opening and liberalisation efforts which resulted in a growing contribution of external demand to final demand and in the replacement of public investment by private investment. The danger lies in the fact that in order to respond to the crisis, MPCs will be obliged to carry out painful arbitration between maintaining these balances and employment. There are some indications that protectionist tendencies are reappearing here and there and that recourse to public debt is growing. Without any specific support, in particular from the European Union, we are liable to observe the return of underlying inflation, difficulties with reserves and the postponement of reforms. The paradox is that due to lesser integration in the world capital market, Mediterranean partner countries are less affected by the crisis in the short-term, but are also less capable of rebounding afterwards. The question is, to a certain extent, the following: how can the long path of macroeconomic balancing be pursued in a crisis situation with growing volatility?

The first observations show that the upcoming months of 2009 will weigh heavily on the MPCs' macroeconomic balances. The inflationary pressures that persisted up to the end of 2008 have already reduced private consumption and deteriorated budgetary balances in the countries that subsidize commodities. One of the positive effects of the crisis is that commodity prices appear to be holding at a reasonable level.

In this brief macroeconomic overview, we will attempt to provide some clarification of the following four questions: (i) what will be the pace of growth and the level of macroeconomic balance in 2009? (ii) how are the MPCs attempting to protect themselves from the crisis? (iii) what issues are raised by the chosen policies?

1. Sagging growth and pressures on macroeconomic balance

Growth

On the whole, the growth of the MPCs will remain positive in 2009. However, the growth rate will decline everywhere, down to 2% on average in 2009 as opposed to 4.8% in 2008. These forecasts must nevertheless be taken with precaution since at the time of the drafting of this report (July 2009), the forecasts had been substantially lowered at least once in all the countries since the beginning of the year 2009.

The countries most affected are Morocco, Lebanon, Tunisia, Turkey and Israel. Egypt, Jordan, Syria and Algeria are resisting better, with the benefit of the rise in oil prices.

An in-depth analysis of the GDP breakdown reveals the origin of the deceleration linked to the global crisis and the inflationary situation resulting from the raw materials price increase at the beginning of 2008. The MPCs are experiencing the effects of recession in Europe and the United States: (i) a strong reduction in production which will deeply affect the productive structure and (ii) major lay-offs which will increase an already high unemployment rate.

The current international context is scarcely positive regarding growth prospects driven by the export markets. Yet, investment remains the driver to support growth in the upcoming year. In the Mediterranean countries, it accounted for nearly 30% of GDP in 2008 and should hold at a similar level in 2009. The only exceptions, Egypt and Turkey, will experience a decline in the share of investment in GDP, especially Turkey.

The Mediterranean benefits from medium-term investment projects which will be one of the pillars upholding growth. Morocco, for example, one of the leading countries as regards to the share of investment in GDP, has set up specific business zones which attract investment in sectors in need of development and offer qualified job opportunities.

The rise in raw materials prices at the beginning of 2008 now seems far away, it has nevertheless contributed to reducing consumers' purchasing power, thereby restraining domestic consumption in numerous MPCs (Jordan, in particular). Algeria, however, has benefited from a rise in public consumption supported by oil revenues (the government uses the latter to increase public services and civil servants' wages). It will be difficult though for this trend to be maintained in 2009.

Table 7 : Evolution of major macroeconomic aggregates in MPs.

	Growth rate (year average)				*GDP PPP per capita $*			*Unemployment (%)*			*Budget Balance (% of GDP)*			
	1995-2000	*2000-2007*	*2008**	*2009**	*2000*	*2005*	*2008**	*2000-2007*	*2008**	*2009**	*1995-2000*	*2000-2007*	*2008**	*2009**
Algeria	*3.2*	*5.5*	*3.0*	*2.8*	*4 463*	*7 126*	*8 067*	*19.9*	*12.5*	*12.0*	*1.6*	*8.2*	*9.0*	*-4.3*
Egypt	*5.4*	*4.3*	*7.2*	*3.4*	*3 360*	*4 321*	*5 429*	*9.9*	*8.4*	*9.0*	*-1.9*	*-7.3*	*-6.8*	*-7.0*
Israel	*4.5*	*2.7*	*4.0*	*-1.0*	*20 615*	*23 207*	*27 498*	*9.3*	*6.1*	*8.1*	*-1.8*	*-2.6*	*-2.1*	*-5.7*
Jordan	*3.1*	*5.0*	*5.6*	*2.6*	*3 803*	*4 222*	*4 957*	*14.0*	*12.7*	*13.5*	*-9.6*	*-10.2*	*-9.9*	*-11.2*
Lebanon	*2.3*	*3.0*	*6.3*	*2.4*	*8 170*	*9 570*	*10 603*	*n.a*	*n.a*	*n.a*	*-17.9*	*-13.2*	*-9.8*	*-10.9*
Morocco	*3.6*	*4.6*	*5.4*	*0.6*	*3 606*	*3 547*	*4 345*	*14.4*	*9.5*	*9.8*	*-3.5*	*-3.8*	*-2.1*	*-3.8*
Syria	*3.6*	*3.0*	*4.8*	*2.0*	*3 420*	*3 965*	*4 532*	*10.8*	*8.6*	*9.2*	*-0.2*	*-2.1*	*-2.7*	*-8.3*
Tunisia	*5.6*	*4.8*	*4.4*	*0.6*	*6 005*	*6 558*	*8 082*	*14.6*	*14.1*	*15.7*	*-4.5*	*-3.0*	*-3.5*	*-5.8*
Turkey	*3.9*	*4.4*	*1.1*	*-4.5*	*6 168*	*10 728*	*12 730*	*9.5*	*10.7*	*14.9*	*-7.6*	*-7.4*	*-1.8*	*-5.6*
MPs	***3.6***	***4.4***	***4.8***	***2.0***	***4 463***	***6 558***	***8 067***	***12.4***	***10.1***	***10.9***	***-3.5***	***-3.8***	***-2.7***	***-5.8***

*Source : EIU, June 2009 except unemployment rate 2000. * Preliminary results and EIU forecasts.*

	Monetary growth (% year average)				*Inflation rate (%)*				*Investment rate (%)*			
	1995-2000	*2000-2007*	*2008**	*2009**	*1995-2000*	*2000-2007*	*2008**	*2009**	*1995-2000*	*2000-2007*	*2008**	*2009**
Algeria	*15.7*	*19.7*	*15.7*	*7.3*	*10.4*	*2.4*	*4.5*	*4.3*	*24.4*	*22.9*	*28.2*	*30.0*
Egypt	*9.9*	*15.5*	*10.5*	*7.0*	*6.2*	*5.7*	*18.3*	*9.1*	*18.6*	*19.4*	*31.1*	*33.1*
Israel	*16.5*	*6.9*	*9.8*	*8.7*	*7.0*	*1.5*	*4.6*	*2.7*	*22.8*	*19.4*	*24.5*	*23.6*
Jordan	*7.1*	*12.8*	*21.1*	*-1.2*	*2.7*	*3.4*	*14.9*	*1.7*	*25.1*	*25.4*	*38.1*	*37.7*
Lebanon	*16.6*	*9.0*	*12.5*	*9.0*	*5.3*	*2.8*	*5.5*	*2.8*	*27.9*	*20.6*	*22.7*	*23.1*
Morocco	*9.4*	*11.3*	*10.8*	*2.9*	*2.6*	*1.8*	*3.9*	*2.6*	*21.7*	*24.8*	*35.2*	*36.4*
Syria	*12.2*	*14.7*	*13.5*	*7.8*	*1.6*	*3.8*	*15.4*	*7.1*	*21.4*	*24.3*	*30.6*	*30.2*
Tunisia	*13.6*	*9.7*	*14.8*	*12.8*	*3.7*	*3.0*	*5.0*	*3.1*	*24.7*	*24.9*	*27.5*	*27.9*
Turkey	*87.1*	*30.2*	*24.9*	*8.1*	*76.5*	*26.8*	*10.1*	*5.9*	*24.0*	*25.2*	*33.9*	*29.2*
MPs	***13.6***	***12.8***	***13.5***	***7.8***	***5.3***	***3.0***	***5.5***	***3.1***	***24.0***	***24.3***	***30.6***	***30.0***

*Source : EIU, June 2009 except unemployment rate 2000. * Preliminary results and EIU forecasts.*

	Current account balance (% of GDP)				*Debt service (% of exports)*				*Import cover (months)*		
	1995-2000	*2000-2007*	*2008**	*2009**	*1995-2000*	*2000-2007*	*2008***	*2009***	*1995-2000*	*2000-2007*	*2008*
Algeria	*3.4*	*16.4*	*22.5*	*5.2*	*30.9*	*15.9*	*2.2*	*1.7*	*7.0*	*22.4*	*n.a*
Egypt	*-0.9*	*2.3*	*-0.8*	*-0.8*	*10.8*	*7.9*	*4.4*	*6.8*	*10.2*	*6.9*	*5.3*
Israel	*-3.0*	*1.9*	*0.8*	*1.7*	*17.2*	*13.0*	*14.0*	*12.4*	*5.5*	*5.8*	*4.2*
Jordan	*-0.1*	*-3.3*	*-12.1*	*-6.6*	*13.8*	*9.1*	*14.7*	*4.6*	*5.6*	*6.4*	*6.1*
Lebanon	*-19.2*	*-13.0*	*-10.9*	*-7.8*	*14.2*	*22.3*	*18.8*	*18.8*	*14.8*	*18.2*	*n.a*
Morocco	*-1.2*	*1.6*	*-0.0*	*-0.0*	*26.4*	*15.0*	*6.8*	*7.1*	*4.8*	*7.9*	*6.8*
Syria	*2.0*	*3.6*	*-1.4*	*-0.0*	*5.4*	*3.0*	*3.7*	*3.7*	*5.1*	*6.7*	*n.a*
Tunisia	*-3.3*	*-2.8*	*-0.0*	*-1.7*	*16.7*	*14.3*	*10.6*	*12.8*	*2.6*	*3.0*	*3.2*
Turkey	*-1.5*	*-3.4*	*-5.7*	*-0.7*	*27.4*	*37.3*	*34.2*	*40.2*	*4.6*	*4.8*	*4.1*
MPs	***-1.2***	***1.6***	***-0.8***	***-0.7***	***16.7***	***14.3***	***10.6***	***7.1***	***5.5***	***6.7***	***4.8***

*Source : EIU, June 2009 except unemployment rate 2000. * Preliminary results and EIU forecasts, **2007 figures for Lebanon and Syria*

Table 8a : Evolution of employment market figures in MPs

% growth of ...	*2005*	*2006*	*2007*	*2008*	*2009**
Workforce	*2.3*	*2.5*	*2.5*	*2.2*	*1.8*
Employment	*2.2*	*2.6*	*2.7*	*1.6*	*2.1*
Unemployment	*-0.0*	*-0.8*	*-0.4*	*0.2*	*0.8*

Source : EIU, EIU forecasts

Domestic consumption has been the main source of growth in recent years and will remain so in the short-term. Within the region, in most of the MPCs, the private share of domestic consumption has increased, with the exception of Algeria, Jordan and Turkey. The pace of growth will be maintained in the countries in which consumption increases sufficiently to offset a portion of the decline in exports. In 2008, Algeria experienced strong growth in public consumption (6.8% versus 5.8% for private consumption) whereas in Egypt, private consumption rose by 5.7%. Syria and Morocco have similar rates (6.1% and 5.2% respectively). The short-term prospects are positive: the growing role of private consumption in the stimulation of economic activity should continue, with inflation expected to drop after having reached a record high of 8% on average in the region in 2008.

Consequently, the average GDP per capita nevertheless increased by nearly 24% between 2005 and 2008 and an increase in income per capita is conceivable in 2009, although more modest, in the 6% range.

Employment: an enduring challenge with rising unemployment

The FEMISE calculated in 2007 that in view of the current state of the employment market in the MPCs, for a constant employment rate, it will be necessary for the MPCs to create at least 22 million jobs between now and 2020 for the sole purpose of not downgrading the current situation (See FEMISE Research Report FEM3d-02 and the FEMISE 2007 Annual Report).

The region has not managed so far to maintain a lasting job-creation strategy that would enable a clear improvement in the labour market. Even though, in recent years, an impact on the unemployment rate in general may have been noted, job creation has more or less simply kept pace with the need to cover newcomers to the market. As shown by the table below, the indicators for the evolution of workforce and job creation are very similar. However, in 2008, a major gap was recorded between the creation of new jobs and persons entering the job market, creating fears of a deeply negative trend in the upcoming months.

It clearly appears that the unemployment drop has slowed down since 2006 (-0.8% in 2006, -0.4% in 2007), giving way to a rise in 2008 (0.25%). The rise is expected to be stronger in 2009 (0.8%).

In 2008, the number of jobs increased much less than the workforce (1.6% versus 2.2%), indicating a persistent incapability on the part of the MPCs to orientate their educated population toward the labour market (See FEMISE Research Report FEM3d-02).

First, unemployment will have an impact on all of the MPCs, even those whose growth rates appear to be less affected by the crisis. For example, although the growth rate in Algeria remains high, it is not sufficient, quantitatively or qualitatively, to modify the dynamics of job creation in the private sector and, after several years of strong decline,

Tableau 8b: Evolution of unemployment rates in MPs (%)

	2000-2007	*2008**	*2009**
Algeria	*19.9*	*12.5*	*12.0*
Egypt	*9.9*	*8.4*	*9.0*
Israel	*9.3*	*6.1*	*8.1*
Jordan	*14.0*	*12.7*	*13.5*
Lebanon	*n.a*	*n.a*	*n.a*
Morocco	*14.4*	*9.5*	*9.8*
Syria	*10.8*	*8.6*	*9.2*
Tunisia	*14.6*	*14.1*	*15.7*
Turkey	*9.5*	*10.7*	*14.9*
MPs	***12.4***	***10.1***	***10.9***

Source : EIU

the Algerian unemployment rate is expected to shrink by a mere half a percent in the year 2009.

Second, the lack of an effective strategy to promote scientific and technical studies has contributed to the large share of young social science graduates, whose career opportunities in the private sectors are limited. As a result, a high unemployment rate is often observed among young graduates in the MPCs, whereas the private sector often lacks technical competencies and specialists. This structural problem reinforces the negative prospects in a phase of global recession.

Third, the prevalence of the public sector, particularly in terms of the attractiveness and quality of employment, is an obstacle to the development of the private sector, the dynamics of which are nevertheless vital for resistance to the global recession. This differential generally stems from two sources: (i) public sector jobs generally offer better social protection and better, more stable wages, which logically leads young people completing their education to lean toward a career in the public service and thereby deprives the private sector of a large portion of the most developed human capital; (ii) for those who have chosen scientific and technical careers, the career opportunities prove to be less interesting with these graduates becoming «overqualified».

Fourth, unemployment is rising sharply in the developed countries, with negative consequences on emigrants from the MPC countries, in particular those working in Europe. Emigration, in fact, plays a role in mechanically reducing the non-employment rate in the MPCs. The risk is that the workforce may increase even more rapidly in the MPCs as a result of a reduction in migration, triggering the acceleration of the rise in unemployment, with the related social consequences.

The employment prospects for 2009 are therefore somewhat negative for most of the MPCs. Only Jordan and Syria can hope for a reduction in the official unemployment rate. On the other hand, the situation will be very tense in Algeria, Israel, Morocco and Tunisia.

Resurgence of inflation, the main consequence of increases in food and petroleum product prices in early 2008

As far as inflation is concerned, the MPCs have experienced a decade of major progress, with most of them controlling domestic price trends (with the exception of Turkey, although it too made substantial progress at the end of the period). Nevertheless, the rise in international raw materials price rates in the first half of 2008 had considerable repercussions on domestic prices, leading to substantial price increases in all of the Mediterranean economies, increases that reached double digits in Egypt, Jordan and Turkey. In addition, in some countries, strong domestic demand and the still high growth rate maintained a shortage of production capacity and, as a result, a second source of pressure on price increases (Algeria, Egypt and Tunisia, in particular). However, the inflation rate will go down in 2009 under the combined effect of the recession in the developed countries, which has a negative effect on the prices of imported products and, naturally, the fall in the prices of petroleum products.

Effects on purchasing power and the sustainability of price subsidy policies

In the developing countries, the share of food products in household budgets is greater than

Table 9 : Comparing inflation rates in MPs with those of developed and developing economies (in %)

	2006	2007	2008	2009
Advanced Economies **	2.8	1.9	3.6	-0.1
Emerging and developing economies**	5.0	5.2	9.1	4.4
MPs (Average)*	5.9	5.1	8.5	5.2
MPs (Median)*	5.6	3.9	5.5	4.3

*Source : World Economic Outlook Update Projections Octobre 2008, * EIU ; ** year-on-year change; may to may*

Box 3 – Origin of the petroleum and food price shock

According to the United Nations and the FAO, the price of agricultural raw materials rose by nearly 40% world-wide in 2007. This increase is largely due to an upsurge in world demand resulting from the economic growth of large emerging countries such as India and China, combined with a substantial demand for bio-energy products and insufficient supply, the rural world being unable to meet the growing demand. In addition, the rise in petroleum product prices also triggered an increase in grain, fertilizer and pesticide prices. Finally, there has been considerable speculation over raw materials on international markets. The escalation of energy, agricultural raw materials and food prices has been remarkable in terms of both intensity and duration.

in the developed countries. This is also the case in the MPCs, which have therefore been particularly affected by the sharp increase in food prices in 2007 and early 2008. The food price increase has implications for the sustainability of social policies due to the commodity subsidy programmes generally applied in the MPCs. The weight of these programmes in national budgets has been continually increasing. Several MPCs have had to revise their budgetary laws or increase their deficits in order to find a balance between macroeconomic and social constraints. In Morocco, for example, the broad price support system has made it possible to socially absorb the escalation of world prices, but the government has had to revise its budgetary law to account for the 151% increase in subsidies compared to the initial budgetary plan. In Tunisia, the government finally increased domestic petrol prices to maintain a controllable proportion of subsidies. In Egypt, total expenditure on subsidies reached 92 billion Egyptian Pounds, i.e. 42% more than initially planned. In March 2008, Jordan, for its part, replaced its energy price subsidy instrument by a new mechanism, whereas Syria had to adjust the administered domestic prices of petroleum products by +20%.

V. The beginnings of answers in a context of uncertainties

In this crisis situation, MPCs already initiated a number of measures to boost growth. The answers are of budgetary and financial nature. However, these two forms of leverage are implemented in conditions that have already been downgraded by the pressures undergone in 2006 and 2007.

Budgetary balance is becoming delicate in countries that use food and energy price subsidy systems

All of the MPCs are familiar with persistent negative budgetary balances. Only Algeria has a (strong) budgetary surplus, since it benefits from the sharp rise in oil prices (9% of GDP in 2008). The extent of the MPCs' deficits generally varies according to the existence of price subsidies and the related mechanisms. The Maghreb (Morocco and Tunisia) is managing to limit the deficit; however it grew in 2008 and will continue to do so in 2009. In Morocco, the cost of subsidies called for a budgetary review but, in the end, the deficit increased by a percentage point between 2007 and 2008 (-1.1% in 2007; –2.1% in 2008) and it is expected to rise nearly 2 percent higher in 2009 (-3.8%). In Tunisia, the initial objective of a 3% public deficit could not be achieved in 2008 (-3.5%), nor will it be achieved in 2009 (-5.8%). These deficits nonetheless remain relatively low and controllable.

In the Machrek countries, budgetary deficits have remained more stable but are at much more disturbing levels: the public wage increases required to maintain purchasing power and internal demand have prevented a reduction movement. In Jordan, the deficit reached 9.2% of GDP in 2008, relatively stable with respect to the average for the decade. The positive effect of the virtually total elimination of oil subsidies was offset in Jordan by the civil servants' wage increase and the introduction of subsidies for maize and bread. In Egypt, the weight of subsidies and public wage increases have raised the deficit by 25% compared to the government's forecast. With the help of an increase in revenues, the 2008 deficit was 6.8% of GDP, down slightly from 7.5% in 2006, but it is expected to rise again in 2009 (-7.0%). As for Syria, which was managing to keep deficits below 3% of GDP, the situation is deteriorating at a faster pace. Even if the deficit in 2008 (-2.7%) was less than the 3.4% level in 2007, it is still half-a percent higher than the average for the decade and is expected to practically triple in 2009 (-8.3%). In Syria too, public wages have been significantly increased, as compensation for the elimination of energy subsidies.

Leaving Algeria aside, 2009 prospects point to relatively contained deterioration of deficits. The general movement observed is a lightening of price support mechanisms, offset socially by increases in public wages, often used as the index for wages in general. The delicate exercise being carried out by the MPCs is the minimisation of the social impact. The social impact of this evolution is the main fear, in view of the role played by national budgets in the funding of social safety nets (see Chapter III). More so than the economic problem, the extent of the deterioration of public accounts is a real threat to the social stability of the MPCs. This issue must be grasped by the international community. Aware of the risks, the MPCs have adopted a set of budgetary measures to sustain demand.

Budgetary measures already taken to maintain growth in the MPCs

In Algeria leading budgetary measures include:

√ An extension of the investment programme for the 2009-2013 period with a planned package of 150 billion US dollars. This programme is to be financed by the budget, the Stabilisation Fund and the Revenue Regulation Fund (FRR) in view of the drop in oil prices.

√ Capital expenditure which has increased and is expected to reach 19% of GDP in 2009. The IMF has underlined the need for imminent structural reforms to ensure that public investments stimulate production in the private sector.

√ Wage and subsidy expenditure must be controlled. The IMF predicts that if the price of oil reaches US$78 in 2013, the Algerian fiscal policies will be tenable. However, if the price remains at US$40, they will no longer be tenable due to insufficient resources in the Revenue Regulation Fund.

In Egypt, the following are observed:

√ An expansionist budget, increased funding for civil servants' wages (+18% compared to last year) and greater spending on health and education (increases of 16% and 18% respectively).

√ A decrease in import duty which reduces State revenues; in addition, the State is suspending property tax to avoid social unrest.

√ An additional package of 15 billion EGP to boost public investment and economic activity. The target sectors are infrastructure (1 billion EGP for roads, 600 million for railways and 200 million for ports) and healthcare (900 million EGP).

√ Support for exports (2.2 billion EGP of subsidies) and the elimination of taxes on intermediate goods imported with the aim of increasing the competitive capacity of companies.

Table 10 : Budget Balance evolution in MPs (% of GDP)

	1995-2000	2000-2007	2008*	2009*
Algeria	1.6	8.2	11.8	-4.3
Egypt	-1.9	-7.3	-6.8	-7.0
Israel	-1.8	-2.6	-0.7	-5.7
Jordan	-9.6	-10.2	-9.2	-11.2
Lebanon	-17.9	-13.2	-9.8	-10.9
Morocco	-3.5	-3.8	-2.1	-3.8
Syria	-0.2	-2.1	-2.7	-8.3
Tunisia	-4.5	-3.0	-3.5	-5.8
Turkey	-7.6	-7.4	-1.5	-5.6
MPs	**-3.5**	**-3.8**	**-2.7**	**-5.8**

*Source: EIU ; * forecasts*

- √ Intensification of promotion efforts to attract FDI from the Gulf States. The government is counting on an improvement of the investment climate. Egypt is among the top ten reform countries according to «Doing Business in 2009».

In Israel, the new government has initiated a 100-day fiscal plan which includes:

- √ lowering of personal taxes and private enterprise taxes,
- √ a public sector loan, likely drawing on the remaining US loan guarantees,
- √ refinancing of non-banking private debt through a proposed State guarantee of 80% of bonds issued (EIU)

In Morocco, a US$ 10.3 billion investment plan in the energy sector has been presented and is due to include public-private partnership (Source EIU). The plan should make it possible to:

- √ increase the country's energy capacity,
- √ develop renewable energies,
- √ step up oil research,
- √ develop the civil nuclear industry,
- √ develop the infrastructure needed for energy integration with the EU.

In Tunisia, the State has obtained a US$ 250 million loan from the World Bank to increase company productivity and competitiveness. Moreover, the State is encouraging companies to join the EU-funded industrial modernisation programme which enables them to obtain public subsidies. In the first quarter of 2009, 90 companies signed up for the programme (a 70% increase compared to the previous year). The 2009 Budget provides a series of «economic stimulus» measures, i.e. a 12.5% increase in public spending and a 4% reduction in the price of diesel fuel.

Law N°2008-79 of 30 December 2008 introduced a series of economic support measures to enable companies to continue their activities, in this case:

- √ State coverage of 50% of the employer's contribution to the legal social security scheme for wages paid to workers concerned by working hours reduction measures which had been undertaken due to the slowdown of activity in 100% export-oriented companies.
- √ Full coverage of the employer's contribution to the legal social security scheme for wages paid to workers laid off in 100% export companies.
- √ State coverage of 50% of insurance premiums payable on export insurance contracts.

Other measures to boost the economy, support exporting companies in particular and reinforce promotion operations have also been initiated. A stimulus plan with an overall budget of 43 million Dinars has been introduced, providing for the allocation of 8 million Dinars to the export promotion fund, a line of credit of 25 million Dinars for the prefunding of export sales and 10 million Dinars for the Export Market Access Fund. These actions have been completed by a series of measures favouring public expenditure and investment, representing 53.4% of the total State budgetary expenditure payment credits according to the finance law for the year 2009.

Lastly, **in Turkey**, discussions are under way with the IMF regarding the granting of a loan to stimulate growth, raise the confidence of financial markets and enable the introduction of a new fiscal policy system.

Fighting inflation through the targeting and foreign exchange policy

In order to be able to manage more expansionist budgetary policies, the MPCs will be required to better control inflation and foreign exchange. This is an appropriate time to revise certain strategies.

Observation of inflation tends to indicate that the countries with implicit inflation targets have experienced more moderate inflation rates. This has notably been the case for Morocco and Tunisia. Tunisia has adopted a policy of gradual transition toward inflation targeting, in particular with the improvement of its credit indicators which now meet international standards. At the same time, the Central Bank of Tunisia introduced measures to allow fixed-rate financing for housing (March 2008) and made it mandatory for banks to inform their clients of the risks of higher charges if the interest rate were to change. The Tunisian case would tend to show that the transparency of the financial and banking system linked to the improvement of technical capabilities has indeed contributed to control of the Tunisian inflation rate. This type of policy appears to have been chosen by Egypt as well in order to combat the resurgence of inflation.

On the other hand, Turkey has moved from an implicit target to a formal target. Although inflation was always below the target with implicit targeting, the opposite has occurred since the explicit system was adopted in 2006. This can be explained by the fact that the conventional links between monetary aggregates and inflation have been weakened by the introduction of new financial assets, financial development and a more open capital account. In addition, the lack of exchange rate flexibility in Turkey (as in most of the MPCs) adds to inflationary pressures, forcing the fine-tuning of the real exchange rate via domestic inflation. Exchange rate flexibility is in fact necessary to stimulate exports (and avoid pressure on interest rates), which would tend to make the implicit target system preferable in the case of the MPCs rather than the explicit target system. On the whole, it is noted that the real effective exchange rate in the Mediterranean region rose by 3% between mid-2007 and mid-2008.

Financial measures to avoid contagion

At the same time as budgetary measures and deliberation over inflation strategies, MPCs have also implemented a series of important financial measures.

In Egypt, the main paths of action have been:

- √ The creation of a deposit insurance fund to strengthen confidence in the national banking system.
- √ The use of the excess liquid assets of banks to finance credits, particularly in the area of trade.
- √ The setting of a 10% ceiling on national bank deposits in foreign banks.

In **Israel,** the key interest rate was lowered to 0.5% in April. However, the Central Bank has little room for manœuvre as long as the commercial banks have still not reduced their lending rates.

In Morocco, the Banque Al-Maghrib lowered its key rate for the first time in six years to offset the decline in exports, transfers and tourism. The BAM has announced that it would set up other tools to control liquidity, in particular the lowering of reserve conditions from 15% to 12%.

In Tunisia, the authorities responded as from July 2008. A monitoring unit was created in the Central Bank of Tunisia and monetary stimulation measures have been implemented since December 2008. In reaction to the financial crisis, and to widen the scope of possible intervention and assistance by the banking system in the financing of the economy and growth investments, the Central Bank of Tunisia decided at the Board meeting held on 30 December 2008 to lower the required percentage of reserves in order to provide the banking system with additional liquid assets of about 250 MDT. In particular, due to the observed insufficiency for compliance by the banks with the liquid assets ratio, the percentage of outstanding demand deposits was reduced by 2.5%, from 10% down to 7.5%. On the other hand, the percentage of outstanding deposit certificates, fixed term accounts, savings deposit receipts and other financial products was reduced by 1 percent, from 2% down to 1%. The percentage of outstanding amounts of other savings accounts was reduced by 1 percent as well, from 2% to 1%. Similarly, a line of credit of 100 million euros was set up for non-resident companies. At the same time, and in accordance with Law N°2008-79 of 30 December 2008, which introduces economic support measures to enable companies to continue their activities, the State has taken over the differential between the interest rate of restructuring loans and the average rate on the monetary market, within the limit of two percent, for the restructuring of loans granted by lending institutions to exporting companies that are behind in the repayment of their export-related debts due to the loss of their external markets. Since the restructuring period is three years, the lending institutions deduct from the corporate income tax base the ordinary interest and late-payment interest that had been included in their revenues and are lost in the framework of restructuring operations. The circular N°2008-25 issued by the Central Bank of Tunisia to the lending institutions authorised the consolidation of outstanding loan payments related to export credits granted to companies experiencing economic difficulties due to the loss of export market share. The consolidated assets are accepted in exchange for the refinancing of the banks by the Central Bank of Tunisia. The Central Bank of Tunisia has also aligned its baseline key rate, presently in the range of 5.25%, with the average rate on the monetary market which, for the first twenty days of the month of January 2009, was 4.75%, i.e. a decrease of 0.50 percent, before a further decrease to 4.5%.

Finally, **in Turkey,** a reduction of the «overnight» lending rate to 8.75% was introduced in response to the decline in industrial activity (23.7% compared to February 2008) and to unemployment which rose to 15.5% in April (EIU).

Questions posed by the strategies being followed

The global crisis has certainly not spared the MPCs. The quarterly growth rate in Egypt dropped to 4.1% in December 2008 (as opposed to 7.7% in December 2007) and job creation plummeted by 30%. The World Bank has explained that «the countries' capacities for response will depend on the initial position at the fiscal level and external account level, public debt and institutional capability to implement good macroeconomic and structural policies.» Three groups may be distinguished among the MPCs:

√ The petroleum product exporting countries, with large populations vis-à-vis their oil wealth, i.e. Algeria and Syria. In these two countries, budget surpluses and current account balances are expected to deteriorate in 2009 with the drop in crude oil prices. It will naturally therefore be more difficult for them to continue subsidy and poverty alleviation policies, in other words to cope simultaneously both the crisis and social needs. Of the two, however, Algeria remains in the best position.

√ MPCs that have deep-rooted ties with the Gulf States, chiefly via transfers from emigrants, FDI and tourism, i.e. mainly Jordan and Lebanon. The expected contraction of each channel, even from Gulf States, will lead to deterioration of macroeconomic balances in 2009, putting additional pressure on an already strained situation with respect to employment and social climate.

√ MPCs with more diversified economies and major economic links with the EU (through trade and tourism), i.e. mainly Egypt, Morocco and Tunisia. Growth through export sales will be weaker than in the previous period, which will have a negative effect on employment in export-centred SMEs. In addition, tourism is uncertain. The World Bank suggests that these economies take advantage of «their good performance in terms of macroeconomic policies and structural reforms in order to mobilise domestic and external funding for the implementation of counter-cyclical policies.»

Borrowing power possible but limited

External debt decreased in all of the MPCs between 2004 and 2008 and considerably so in specific cases of Algeria, Egypt, Jordan and Syria. The debt service ratio also decreased over the same period in all of the MPCs with the exception of Israel and Lebanon. Public debt will therefore have been considerably reduced virtually throughout the region (except in Israel), even if the reduction is less evident in Lebanon and Tunisia. The MPCs appear to have used a part of their growth to clear debts. This means that the region has regained some room for manoeuvre with respect to its borrowing power, if only to get back to the levels that were prevalent in 2004. Although the forecasts for 2009 indicate an increase in public debt throughout the region (except in Lebanon and Tunisia), the level will still remain well below that of the previous years, which may be perceived as a positive sign.

Table 12 : Debt thresholds recommended by the IMF within the Debt Sustainability Framework -DSF

	Debt service in percent of Exports
Weak Policy	*15*
Medium Policy	*20*
Strong Policy	*25*

Source : IMF

The question that should be posed is whether the MPCs presently have a certain capacity to temporarily increase their debt, so as to overcome reces-

Table 11 : Debt sustainability indicators in MPs

		2004	2005	2006	2007	2008	2009	2010
Algeria	*Total External Debt (% of GDP)*	*26.0*	*16.3*	*4.8*	*2.9*	*1.5*	*1.2*	*1.1*
	Debt-service ratio, paid (%)	*15.3*	*11.9*	*21.4*	*3.7*	*2.2*	*1.6*	*0.9*
	Government Debt (% of GDP)	*16.3*	*13.7*	*21.7*	*11.9*	*8.3*	*9.9*	*7.6*
Egypt	*Total External Debt (% of GDP)*	*36.4*	*29.9*	*24.7*	*20.6*	*17.6*	*14.2*	*13.0*
	Debt-service ratio, paid (%)	*6.7*	*6.3*	*5.0*	*4.9*	*4.4*	*6.4*	*5.1*
	Government Debt (% of GDP)	*127.9*	*130.8*	*114.2*	*101.0*	*85.9*	*84.4*	*88.9*
Israel	*Total External Debt (% of GDP)*	*62.6*	*58.2*	*60.2*	*54.4*	*42.8*	*47.1*	*46.9*
	Debt-service ratio, paid (%)	*10.3*	*12.2*	*11.7*	*12.5*	*13.9*	*12.5*	*11.3*
	Government Debt (% of GDP)	*98.2*	*94.2*	*85.6*	*79.5*	*78.0*	*86.0*	*90.1*
Jordan	*Total External Debt (% of GDP)*	*70.7*	*61.0*	*53.9*	*50.8*	*34.0*	*31.8*	*30.1*
	Debt-service ratio, paid (%)	*8.1*	*6.4*	*5.9*	*5.7*	*14.7*	*4.6*	*4.0*
	Government Debt (% of GDP)	*86.0*	*81.8*	*68.7*	*69.4*	*62.2*	*68.4*	*71.3*
Lebanon	*Total External Debt (% of GDP)*	*132.5*	*134.4*	*135.8*	*128.5*	*121.9*	*106.0*	*102.7*
	Debt-service ratio, paid (%)	*19.6*	*12.8*	*14.2*	*17.5*	*19.7*	*18.2*	*14.3*
	Government Debt (% of GDP)	*167.1*	*178.4*	*177.8*	*170.9*	*164.3*	*148.8*	*144.5*
Morocco	*Total External Debt (% of GDP)*	*30.6*	*28.0*	*27.0*	*25.7*	*22.3*	*22.2*	*20.4*
	Debt-service ratio, paid (%)	*14.0*	*11.3*	*7.6*	*7.1*	*6.9*	*7.0*	*6.2*
	Government Debt (% of GDP)	*70.0*	*70.7*	*67.5*	*61.9*	*53.1*	*51.8*	*49.8*
Syria	*Total External Debt (% of GDP)*	*73.0*	*23.5*	*20.0*	*17.2*	*14.2*	*14.3*	*13.4*
	Debt-service ratio, paid (%)	*9.0*	*7.3*	*5.7*	*4.7*	*3.2*	*2.8*	*2.5*
	Government Debt (% of GDP)	*70.0*	*32.9*	*34.1*	*28.9*	*26.1*	*31.4*	*31.2*
Tunisia	*Total External Debt (% of GDP)*	*76.8*	*67.7*	*59.9*	*53.8*	*45.6*	*46.6*	*45.7*
	Debt-service ratio, paid (%)	*14.3*	*12.6*	*14.1*	*13.7*	*10.7*	*13.0*	*11.3*
	Government Debt (% of GDP)	*59.4*	*59.0*	*54.1*	*50.9*	*48.5*	*54.7*	*57.5*
Turkey	*Total External Debt (% of GDP)*	*41.1*	*35.0*	*39.1*	*38.2*	*37.9*	*41.4*	*38.1*
	Debt-service ratio, paid (%)	*34.7*	*37.7*	*32.6*	*32.3*	*34.2*	*40.8*	*36.1*
	Government Debt (% of GDP)	*56.6*	*51.1*	*45.5*	*39.6*	*40.0*	*47.9*	*51.3*

*Source: EIU (April 2009), * forecasts for 2009 and 2010*

Note : the debt-service ratio is equal to debt service payments to export receipts .

sion. The EU set 60% of GDP as the criterion for its member countries. It is noted that it is already difficult for EU countries to comply with this limit, particularly at the present time with recession. Furthermore, this type of criterion concerns countries with a much higher level of development than that of the MPCs and 60% appears inappropriate in the case of the MPCs. The IMF and the World Bank, for their part, have proposed a Debt Sustainability Framework (DSF) for organising the financing of low-revenue economies, without triggering the risk of a debt crisis (see table 12).

Using this framework for the MPCs, whose policies may undoubtedly be evaluated as «average/good», it may be estimated based on the debt service ratio that virtually all of them have room for manœuvre in terms of debt: the debt service ratio for all of the MPCs with the exception of Turkey is situated well below the 20-25% level.

Foreign exchange reserves down, but still at acceptable levels

We will conclude this broad macroeconomic overview with the question of reserves. This is no doubt the main danger that will be incurred by the MPCs in the two or three years to come, due to the specific way in which they are affected by the crisis. Even if it is presently clear that the MPCs are not in a financial crisis, the evolution of their foreign currency reserves will be of crucial importance. The risk is that the real crisis will dangerously drain these reserves and, in a second stage, drive the MPCs into a payment crisis.

The table below indicates that reserves were increasingly drawn upon throughout 2008. Even if the current levels are not intrinsically worrisome, it will be essential for this issue to be taken into account at the regional level. The FEMISE recommends that the matter be carefully examined in the Euromediterranean organisations, particularly in the UPM framework.

Table 13: Foreign Exchange Reserves (in % of GDP)

	2006	2007	2008	2009*
Algeria	66.7%	82.4%	92.1%	97.2%
Egypt	23.7%	24.2%	21.1%	18.0%
Israel	20.3%	17.4%	21.4%	29.0%
Jordan	47.0%	48.0%	43.5%	45.1%
Lebanon	84.5%	83.5%	101.8%	74.2%
Morocco	31.7%	32.9%	26.5%	26.3%
Syria	16.6%	16.1%	13.3%	9.5%
Tunisia	22.0%	22.3%	21.0%	22.0%
Turkey	11.9%	11.8%	10.1%	11.6%

** Algeria (in end of Q1), Egypt (in end of July), Israel (in end of May), Jordan (in end of April), Lebanon (in end of May, Morocco (in end of March), Syria (based on EIU forecast on reserves), Tunisia (based on EIU forecast on reserves), Turkey (in end of Q1)*
*** In 2009: Total reserves for Syria and Tunisia, Net reserves for Egypt, Reserves minus gold for the rest of MPs, Goods imports for Lebanon*
Source: Calculations from IMF (International Financial Statistics), EIU, Central Bank of Egypt, Central Bank of Turkey

Chapter II. An essential requirement: consolidation of the regional interdependence system

Since the beginning of the 1990s, the driving force of the economic and social evolution of the Mediterranean partner countries has been international opening. This has unquestionably produced positive effects, made the greater Euromediterranean region credible, developed partnerships of all sorts and also pushed the MPCs towards modernity.

Nonetheless, at the same time, the crisis is revealing certain forms of vulnerability that must be taken into account by all of the partners at the regional level. Tensions will naturally arise between those who would like to revive more national, or even protectionist policies, those who will appeal for the development of bilateral agreements without considering the diversion of trade that may result from such agreements, those who will defend the need to reinforce the movement of goods and services, capital and persons in the greater Euromed region and, finally, those who will defend a global vision through accelerated involvement in the WTO.

These tendencies are all present today and, in the end, each country makes choices that fit the capacities it believes it can have to turn to its benefit the universal rationales of goods, technology and finance and protect itself from the effects of the crisis. It is clear that due to their history, no Mediterranean country explicitly envisions taking a passive functional place in the global hierarchy imposed by these rationales (and conveyed by more powerful groups or the very large economic operators). On the contrary, and contrary to the ideas defended at the time of independence, there is no longer any country that believes it can define a self-centred industrialisation and development strategy on its own.

**Section written using a specific contribution of Nathalie Roux, researcher at DEFI, Université de la Méditerranée, France*

The FEMISE's position on this point is based on three orientations: (i) first, the MPCs must continue the opening processes initiated in the 90s based on lucid acknowledgment of the progress to be made, (ii) second, the large industrialised groups, particularly Europe, who embarked them on this path, must be aware of their responsibilities to develop a consistent system of interdependence, at least at the regional level, their intervention in this period of crisis being a good opportunity for substantiation, (iii) third, in a context in which everything is negotiable, the MPCs should develop their South-South integration, so as to both benefit from new dynamics and carry more weight in the negotiation process.

I. Opening that has accelerated but with vulnerabilities

The nature of the international opening of the MPCs is based on three complementary and increasingly interdependent vectors: trade of goods, trade of services and international direct investment flows. The balance of the MPCs' external relations should ensure a form of complementarity among the productive dimension, the services that accompany it and the financial flows via FDI which boost the productive structures and give them the means to adapt to technological changes.

However, several weaknesses remain with respect to the nature of the interdependence system that is being set up with Europe, the low level of development of sub-regional trade, the quality of inadequately differentiated trade and an insufficiently developed environment of productive services and infrastructure.

1. Greater opening to world trade of goods ending in a recurrent deficit

In 50 years' time, the MPCs have lost more than a percentage point in their relative positions in world trade (figure 7), the lowest point being in the 1970s. In 1950, the MPCs accounted for 3.2%

of world trade and in 2007, they levelled out at 2.3%. However, clear progress is observed in their integration in world trade as from the 2000s. In addition, the increase in their relative participation in the creation of global wealth (rising from 1.7% of global GDP in 1990 to a 2.3% rate in 2007) signifies a real progress in the quality of their integration.

Table 14 confirms the acceleration of the integration of the MPCs in the global economy in the 2000-2007 period: following a period of relatively low growth in export sales, below the world average, between 1990 and 1999, the MPCs recorded an average annual growth rate of more than 12%, a result which, although lower than those recorded by the countries in transition (16.32%), exceeds the world average.

The countries at the origin of this performance are Turkey, Egypt and Jordan, whereas Morocco, Tunisia and Israel remained further behind. The growth in exports has been higher than that of GDP, especially since the 2000s. Figure 8 shows this phenomenon, distinguishing the MPCs' positions between the two periods (noted as country1 for the 1990-1999 period and country2 for 2000-2007).

The following are observed:

√ a massive shift of the MPCs toward the upper right box, which signifies greater opening to international markets and simultaneous improvement of their results in terms of growth,

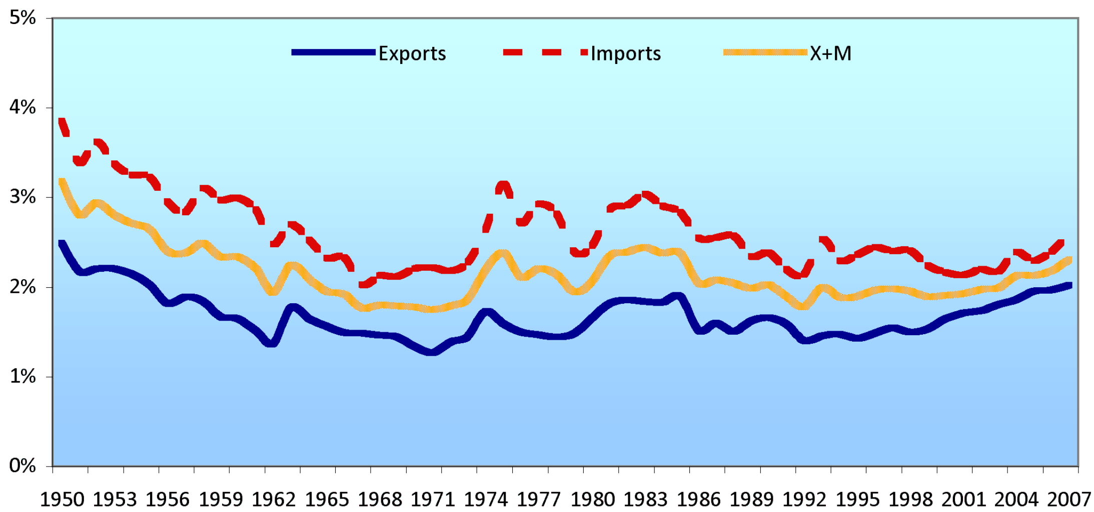
√ among countries most open to trade, Turkey, Jordan and Syria rely on their export

Table 14 : Exports in MPs: annual average growth rates in 2 periods (in constant dollars)

	1990-1999	2000-2007
Algeria	-2.5%	12.5%
Egypt	-4.6%	16.4%
Israel	6.6%	5.4%
Jordan	4.0%	20.5%
Lebanon	8.0%	15.1%
Morocco	2.8%	7.3%
Syria	4.8%	11.1%
Tunisia	3.6%	11.9%
Turkey	6.1%	18.4%
MP9	**3.4%**	**12.5%**
World	3.6%	8.7%
Developing economies	5.7%	11.2%
Transition economies	-2.3%	16.3%
Developed economies	3.0%	6.9%

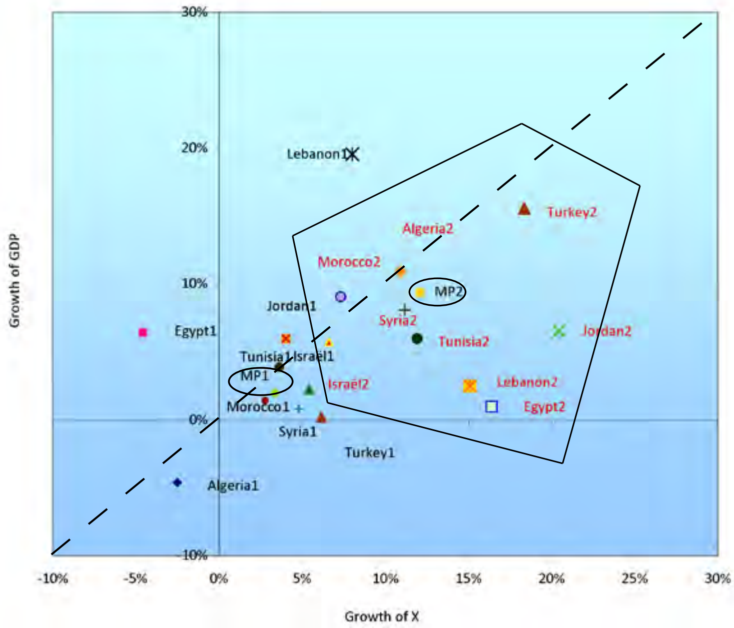
Sources : Comtrade 2008 and Cnuced 2008 – Calculations N. Roux

Graph 7 : Share (in %) of MPs in world trade between 1950 and 2007



Source : Cnuced – Calculations N. Roux

Graph 8 : Annual average growth of GDPs and exports (in constant dollars) between 2 periods 1990-1999 et 2000-2007



Key : countries accompanied by 1 represent the MPs position in the 1990-1999 period ; countries accompanied by 2 represent the MPs position in the 2000-2007 period
Sources : Comtrade 2008 ; World Bank, WDI 2007 and World Bank2008 – Calculations N. Roux

performance to ensure sustained growth of their GDPs.

√ in Egypt, growth results appeared at the end of the period after several years of low growth,

√ Morocco and Tunisia both recorded significant growth, but have not yet managed to capitalize on their potential to the same degree as Turkey has.

During the same periods, the foreign trade ratio (X+M/GDP) increased naturally, with an overall rise from 35% of GDP in 1990 to 51% in 2007 (see Annex 2.2).

2. Commercial positions in the trade of goods on an underlying downward trend

Regardless of the current crisis, the commercial opening observed since the 2000s has been accompanied by a strong decline in the balance of trade of goods, due for a large part to the poor results of Turkey. In 2007, a record deficit of -82 billion dollars was recorded for total trade, –117 billion dollars for trade excluding oil and –80 billion dollars for the trade of manufactured goods (see Annex 2.3). It is clear, however, that the MPCs' situation is not only linked to the effects of increases in petroleum product and food prices. It is, for the most part, the result of insufficient performance in manufactured goods.

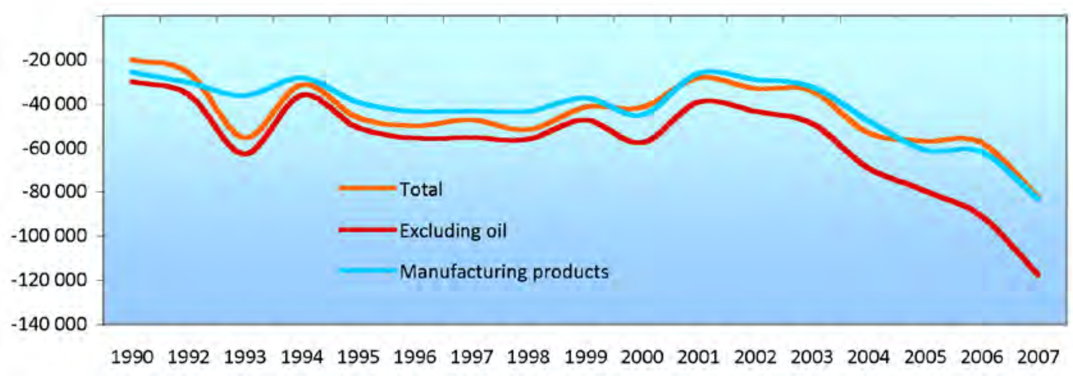
In a general context of greater trade opening, the widening of the MPCs' trade deficit is explained by faster growth of imports than exports (table 15). This phenomenon is the consequence of both (i) an increase in the volume of imports, and (ii) a rise

Table 15 : Exports and Imports annual rates of growth in MPs (in constant dollars)

		1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Total	Imports	11%	-11%	7%	14%	29%	14%	10%	20%
	Exports	17%	-2%	5%	17%	23%	16%	14%	15%
non-oil	Imports	11%	-13%	8%	14%	28%	10%	13%	20%
	Exports	5%	3%	8%	16%	23%	9%	15%	17%
Manuf products.	Imports	12%	-16%	7%	14%	30%	10%	-11%	18%
	Exports	8%	2%	6%	16%	25%	3%	-16%	13%

Source : Comtrade – Calculations N. Roux

Graph 9 : Evolution of goods trade balances in MPs (current dollars)



Source : Comtrade – Calculations N. Roux

in import prices (price of industrial inputs, price of raw materials and price of food commodities) compared to export prices.

3. Deterioration accelerated by the crisis and affecting new specialisations

As underlined previously, the crisis is accelerating the underlying trade imbalance that has accompanied the MPCs since the choice of uneven opening and the setting up of the Barcelona process. At the time of progressive installation of the free trade zone, MPCs already had free access to the European market for industrial products (and very limited access for agricultural products). They followed a process that resulted in removal of their own tariff barriers on industrial products without any comparable change being made by their partners regarding agricultural products. Even though indisputable dynamic effects appeared and resulted in perceptible institutional changes and a more complete form of opening involving services and FDI, the accounting equilibrium of the balance of trade was bound to deteriorate. This was made all the more true by the fact that their industrialised partners introduced an arsenal of standards to guarantee the safety of their consumers.

As shown by the recent evolution in sector-specific exports of Turkey and Tunisia, which are representative of a general process, exports of semi-finished goods, manufactured in part by the subsidiaries of large corporations set up in these countries, and traditional specialisations in the downstream part of industry are affected the most by the decline in external demand.

4. Substantial international commitment in services

Services account for a quarter of the MPCs' trade (34% of imports and 18% of exports). Several phenomena mark the integration of MPCs in the global trade of services. However, the overall progress of the zone is based on contrasting situations.

√ The MPCs' trade of commercial services has followed the same trends as the trade of goods, with accelerated opening. During the 2000-2007 period, the MPCs recorded growth rates more double those prevalent in the 1990-1999 period (Table 16). This trend may be observed for all of the MPCs with less growth however for Lebanon, Morocco and Algeria.

The foreign trade ratios progressed from 11% of GDP in 1990 to 14% in 2007 with a peak in the years 2004-2005.

√ Travel, essentially linked to tourism, accounts for nearly half of exports; while other services (with company-related services) represent 42% of imports and transport 37%.

√ The relative overall positions of each MPC (Figure 10a) are marked by differences that largely convey the level of tertiarisation of their economies and the place of tourism. Turkey is the biggest exporter of services among the MPCs (with 26% of the zone's exports) and Israel accounts for half of imports. Turkey has a stronger presence in travel (39%), Egypt (19% of the zone's service exports) accounts for 30% of transport exports and Israel (20% of the zone's service exports) is more specialised in exports of company services with 40% of the zone's exports, essentially in communication and IT services.

Table 16 : Commercial services trade in MPs: Annual average growth rate in 2 periods

	1990-1999	2000-2007
Exports	6%	13%
Imports	6%	15%
Exports+Imports	6%	14%

Sources : Cnuced 2008, WTO 2008 – Calculations N.Roux

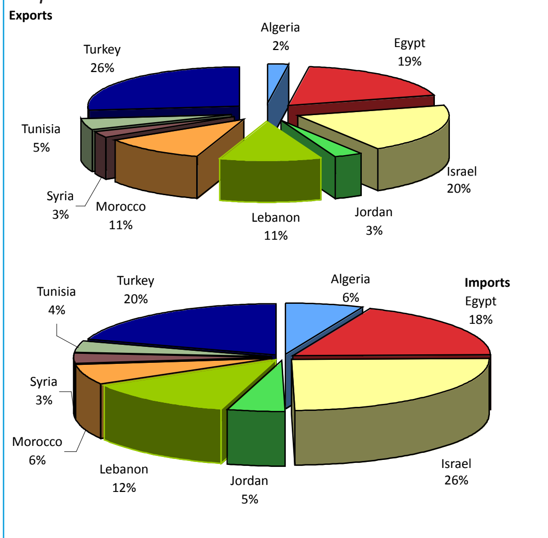
This engagement in services is therefore a factor that contributes to both the growth of the economy and the balance of the current account. In the present period, its contribution is made fragile by two characteristics: (i) the place of tourism which is directly affected by the European depression, (ii) insufficient development of productive services and still overly high transaction and exchange costs (in transport and finance in particular) for these services.

5. Lessons and stakes of a globalisation process begun 20 years ago

Reinforce integration among the trade of goods, services and capital

The acceleration of global trade is known to be based on complex complementarities among

Graph 10a : MPs trade in services in 2007



Sources : Cnuced, WTO 2008 – Calculations N.Roux

three forms of opening which concern the goods market, the services market and the capital market. Therefore, in the literature, the difficulties linked to opening up to the trade of goods are associated with the restrictions imposed on the trade of services (Konan and Maskus, 2005).

√ The liberalisation of productive services (or «factor» services) is necessary to improve the industrial performance of host economies (WTO, 2000). Services activities are intermediate inputs the quality and cost of which have a determining effect on competitiveness. These activities, which affect different areas of private or public business, build relationships among economic activities and between geographically dispersed areas. The improvement of services activities, particularly those linked to trade, has also led to an increase in FDI inflows.

√ The obstacles to the liberalisation of services activities lie in the differences between forms of domestic regulation and between institutions' strategies (differences in legal systems, in professional qualification training, in accounting rules, etc.). These impediments are based on societal differences and are not necessarily voluntary barriers. Apart from these natural obstacles, the States are initiating opening strategies calling for the lifting of restrictions that discriminate against

Box 4 –The MPCs are engaged in a dual process to liberalise their services activities.

- First, the GATS is proposing a general framework for the negotiations intended to liberalise services activities. The framework is envisaged essentially from the cross-border viewpoint. The GATS distinguishes four supply modes with different levels of implication. Opening according to modes 1 (cross-border supply) and 2 (consumption abroad) are based on a trade relationship, whereas modes 3 and 4 entail a deeper form of involvement.
There is no obligation for the countries to liberalise: the countries present a list of commitments for the sectors they agree to liberalise, as well as a list of demands to the other countries in which they indicate the sectors they would like to see liberalised. Countries may also consider that certain sectors should remain protected national domains and not include them in their list of commitments

- Second, the new European Neighbourhood Policy set up by the EU goes beyond the liberalisation of trade and involves its neighbours in deeper reforms. This new concept of partnership originated in the observation of the potential gains of opening up to services (see FEMISE 2007 report).

Services activities are naturally at the heart of the issue since their socio-economic rooting is more critical than for goods. Whether from the viewpoint of the domestic economy or from that of opening, services activities rely on complex interactions between (i) a dispersed role within domestic economies, controlled by regulation mechanisms, legalised or implicit norms and institutional policymakers and (ii) a context of economic opening which presupposes the penetration of these fundamental mechanisms by external players.

foreign service providers, in particular by the right of establishment and national treatment. The objective of the GATS negotiations to reduce these discriminatory measures regarding the right to establish and carry on business in the national territory does not directly concern institutional reforms. The European Neighbourhood Policy goes further by proposing partnership contracts that call for reforms (on the basis of European acquired rights) and are aimed at organising compatibilities between the European system and the systems of its neighbours (see box 4 opposite).

√ However, it is clear that extending free trade to services activities entails a deeper societal commitment from the partner companies than do agreements regarding goods. The participation of foreign firms in the MPCs' economies follows the same rationale: it will have impacts on the economy as a whole. It is generally recognised that transnational companies potentially have positive impacts on the host country: on infrastructure, access to capital markets, transfers of knowledge and expertise at both the production technology and management levels. They also introduce competition into the local economies which can improve productivity levels. However, whether or not these positive effects actually occur depends on a certain number of factors specifically linked to the host economies and the type of sector in which the investment flows are concentrated (WIR, 2008). Participation in international production networks, which structure a growing portion of world trade, pushes the countries toward sector specialisations the capital-intensiveness and technological complexity of which determine the level of knowledge transfer and the level of participation of local producers integrated in the network in the creation of overall added value. Evidently, participation in an international production network in the automotive sector will not have the same impacts as participation in a value chain in the textile-clothing sector.

√ The improvement of the quality of governance of the MPCs in the 2000s is a vital indicator. Improved regulations, less corruption, better observation of the rules of law and more efficient performance on the part of the governments in place are all signs that improve the perception of the business climate in the MPCs. These factors come into play more decisively for foreign stakeholders who become involved in the local economic systems: foreign investors who seek to sustain their activities abroad and to evolve in a business regulation system they can master. Similarly, trade in the services sector most often relies on cross-border travel by service providers. An initial assessment of the general improvement in the business climate in the MPCs is proposed by the governance indicators of D. Kaufman et al. (2008). The position of most of the MPCs is improving in all of the key areas that reduce uncertainty for external partners (graph 5). After Israel (30th), Tunisia (73th) is in the leading position on the aggregated indicators classification scale established by the World Bank in its «Doing business 2009» report [1] followed by Lebanon, Jordan, Egypt and Morocco. Algeria and Syria remain at the bottom of the list. The black spot is still the lack of political stability and the risks of terrorism for which all of the MPCs, except for Tunisia, are rated below average.

√ Improvement of the quality of basic infrastructure is also decisive in the MPCs' adaptation to the mechanisms that presently structure international economic relations. The MPCs have initiated numerous programmes for the creation and modernisation of their infrastructure, including reinforcement of communication systems (railways, port facilities, airports, telecommunications networks, etc.) and improvement of basic infrastructure (electrification, water distribution, etc.). The aim of these programmes is not only to improve the living conditions of the local populations but also to facilitate trade and attract foreign investors. Beyond costs and delivery times, in a world in which the division of labour is founded on «just in time» value chains, predictability, the reduction of uncertainty and reliability are of major importance. The level to which the MPCs may lay claim as they become a part of vertically-integrated international production processes depends not only on the creation of high-performing logistics infrastructure, but also on the development of high-quality and competitive private services activities. Competitiveness in the modern world relies more and more on the capability to coordinate the different vectors that interact in the production process (production, related services, transport, etc.). «Connecting to compete», a recent work by the World Bank (Arvis JF et al. 2007) highlights competitiveness factors by building a logistics performance indicator (LPI) which provides a vision of supply chain performance based on a group of sub-criteria such as customs procedures, logistics costs, the capability to track supply flows, reliability of delivery and local logistics competencies.

In the classification of 150 countries, Turkey is ranked 34th, just after Israel, with weaknesses however in terms of logistics costs and reliable delivery (graph 6). Like Turkey, Tunisia and Morocco have been developing manufacturing activities integrated in value chains with European partners for a long time, in textile-clothing, automotive components and electronics, and the policy-makers have become aware of the importance of reforms in terms of logistics. Tunisia's relatively good rating (60th position), obtained in particular through the simplification of customs clearance procedures, reveals true competitiveness in terms of domestic logistics costs (Tunisia is ranked 30th on this criterion), with however relative weaknesses in logistics competencies. The major reforms initiated by Morocco to lighten customs clearance procedures and develop its port activities are still too recent to have produced significant results. Jordan's position reflects its high foreign trade ratio (121% of the GDP in 2007, see Annex 2.2). Syria and Algeria are at the bottom of the list in 135th and 140th position out of 150, revealing these countries' true weakness in terms of logistics performance.

Treating several vulnerability factors

Trade deficits, on the whole, prevail.

The positive balance of trade in services does not offset an overall deficit due to the trade in goods; despite the progress made, the Mediterranean countries find themselves in a relatively vulnerable position.

The trading relations of services are relatively balanced. The transport deficit is offset by a large trading surplus in travel. However, the 34 billion dollar balance of trade of services in 2007 does not offset the overall deficit of 86 billion dollars recorded by the MPCs in 2007 (figure 11).

Equilibrium of the balance of payments reliant on volatile elements.

The balance of payments equilibrium is fragile since it relies on elements that are relatively sensitive to the economic situation. This can be clearly seen today with the effects of the crisis causing a considerable reduction in reserves. In the long term, there is nothing comparable to general competitiveness backed by strong productivity and specialisations with little sensitivity to the interplay of price and revenue effects. When the structures of MPCs balances of payments are examined, it is observed that main trends recorded since the start of the decade are still ongoing:

- √ the trade deficit continues to widen and is being filled in part by surpluses in the trade of services, resulting from tourism revenues, as underlined, and Workers Remittances,
- √ the capital account still has a marginal impact on the MPCs' external relations, in particular, portfolio investments,
- √ FDI has developed in the decade and has now reached a consequential level in MPCs where it acts as a factor in both growth and the balancing of external accounts.

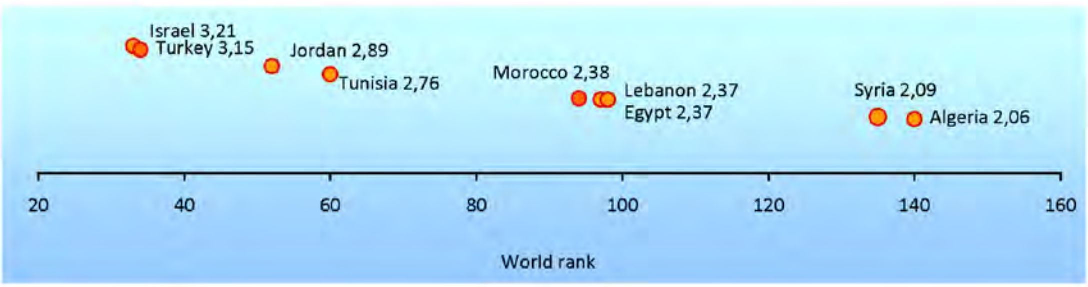
A strategy to be maintained despite the crisis

In all (with the notable exception of Algeria), it can be clearly seen how the MPCs' integration in the global economy can be characterised in general: based on an opening strategy, which has resulted in both major engagement in international trade and a substantial trade imbalance, the MPCs have developed three forms of bouclage. First of all, by services and tourism revenues in particular; secondly, by the transfer of revenues from emigrant workers; and thirdly by foreign direct investment.

The orientations for the future appear to be clear. First, competitiveness in the trade in goods must be improved, which entails upgrading all productive systems and extending opening operations to agricultural products. Second, the opening to services must be further developed, both to reduce transaction and exchange costs and increase the general competitiveness of the economies, and to develop a productive services sector that is less sensitive to the economic situation than tourism is (with quality in this sector requiring improvement as well). Third, a strong relative attractiveness for foreign investment must be maintained with endeavours to ensure that this type of investment produces more induced effects than presently.

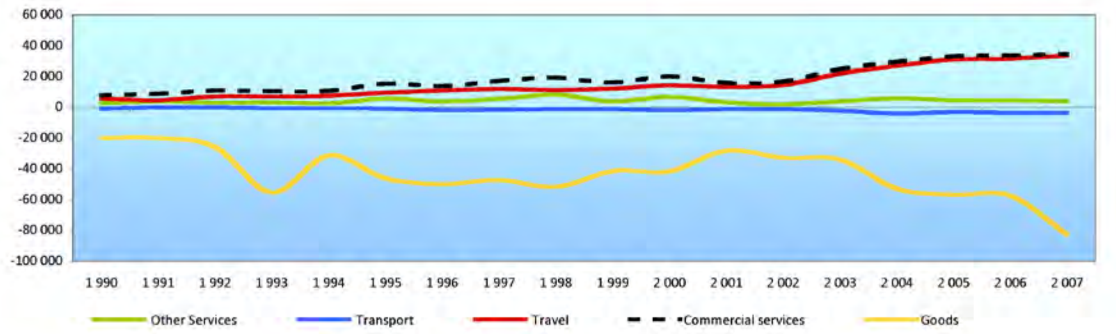
Beyond these general considerations, it is important to consider the effect of gravity of Europe, the MPCs' prime market, in relation to the rest of the

Graph 10b : Ranking and score of MPs with regards to the quality of their logistics infrastructure



LPI score are given next to each country
Source : Data from a report of Arvis JF et alii 2007

Graph 11 : Evolution of MPs balances in goods trade and commercial services



Sources : Cnuced 2008 , OMC 2008 and Comtrade 2008 – Calculations N.Roux

Table 17 : Balance of Payments in MPs, 2007

2007, Mios $	*Egypt*	*Israel*	*Jordan*	*Lebanon*	*Morocco*	*Syria (*)*	*Tunisia*	*Turkey*
Net current balance	*412*	*4 523*	*-2 776*	*-2 046*	*-122*	*920*	*-904*	*-37 697*
of which G&S Balance	*-9 299*	*-2 730*	*-6 390*	*-5 309*	*-7 421*	*1 290*	*-769*	*-32 790*
of which net receipts	*1 388*	*-25*	*835*	*377*	*-405*	*-935*	*-1 754*	*-7 143*
of which net transfers	*8 322*	*7 278*	*2 779*	*2 886*	*7 703*	*565*	*1 619*	*2 236*
of which remittances	*7 476*	*-*	*2 571*	*2 775*	*6 682*	*610*	*1 446*	*1 209*
Net Capital Account	*2*	*782*	*13*	*590*	*-3*	*18*	*152*	*0*
Net Financial Account	*-664*	*-2 364*	*1 510*	*8 437*	*20*	*-350*	*789*	*36 515*
of which net FDI	*10 913*	*2 618*	*1 787*	*3 077*	*2 194*	*600*	*1 515*	*20 089*
of which Portf. investment	*-2 728*	*-1 868*	*840*	*703*	*-80*		*30*	*717*
Net reserves	*-5 475*	*1 686*	*-814*	*588*	*-2 034*	*702*	*-689*	*-8 065*
Errors and omissions	*251*	*-2 942*	*1 254*	*-6 981*	*105*	*-588*	*-36*	*1 182*

(*) 2006 data for Syria
Source : IMF- BOP 2009 database

world, and the quality of specialisations developed since the beginning of the opening strategy. It is this quality, in the end, that will be of most value in withstanding the demand and price shocks linked to the crisis and that will ensure sustainable long-term growth. The risk at stake at the time of this report is that the effects of the crisis might lead to a withdrawal/setback that would wipe out the benefits of a long path forward.

II. Regional allegiance: what dynamics and what protection?

The paradox of global economy is that it is made up of large regions which bring together countries which are close one to another through their culture, their language and a whole range of human features inherited from history. The way in which these large regions are organised economically and socially is decisive for the nations which they comprise to maintain their place in the global hierarchy. This is especially true since all the large regions, which comprise developed and developing countries, have to control large migratory pressures (as a result of the demographic imbalance which encourages replacement migration and income disparity which encourages poverty migration). The coherence of these regions, they way in which they are able to balance the human aspirations for mobility with a consistent and progressive system of material interdependence will obviously be decisive in years to come to provide their growth, their social equilibrium and stability. With a great deal of simplification, there would seem to be three main approaches.

The first is the approach applied in the American area (NAFTA) which is based on the introduction of the freedom of trade in goods, services and capital, with no commitment to any process of convergence whatsoever and no direct involvement in institutional reforms. Therefore with no significant gratuitous public transfers intended to assist it. When a crisis occurs (as in the case of the Mexican Peso crisis of the 1990s), the salvage action was to a large extent controlled after the event by international organisations and private creditors.

The second approach is that favoured in Asia which is based upon the fragmentation of productive processes initiated by the large corporations and an important commitment of the countries to education and capacity building and the wholehearted acceptance of an opening of the economies to foreign capital. These economies function in dual mode which provides a sanctuary for the activity of the subsidiaries of foreign firms from domestic regulations and asks few questions concerning the convergence of values, culture and the institutions. It is the world which is more directly targeted, whether in terms of production organisation or marketing.

The third is the EU approach. It is characterised by the fact that Europe applies to the countries which surround it a method which resembles the one it has chosen for itself. We should remember that after the lively debates in the 1960s, Europe, under the main impetus of the Franco-German pair, chose to integrate according to two complementary mechanisms, on the one hand, the creation of a large market bolstered by a policy of competition, a large market which is protected by a common external tariff, and on the other hand, the introduction of heavy structural action to facilitate the adaptations and favour convergence (the CAP, ERDF, the ESF and other structural policies).

Past history has shown that the European model had a slightly weaker dynamic than American and Asian models for the allocation of capital, due to convergence actions, has at times been less than optimal. On the other hand, the convergence achieved by the countries concerned by the first enlargement, which is underway with the new members from Eastern Europe, reveals a historically unique pacific and democratic process of integration.

The Barcelona declaration, yesterday, the Union for the Mediterranean today, both taketheir place clearly and explicitly within this intellectual context. But today neither one nor the other has the means of this ambition as a result of an obvious weakness in convergence actions compared with the effort made in favour of the new members. Consequently, member countries find themselves in a situation of having subscribed to a model, whose effects could be measured in other situations without availability of the means to obtain them. Europe achieves remarkable and specific commercial performances compensated as has been seen with private earnings of great volatility and low public transfers (€ 10 bn in 5 years).

In what follows, an attempt will be made to specify what this approach has produced from the point of view of regional integration and the orientation of trade flows and their quality. This chapter will conclude with an indication that the crisis may be a good occasion to breathe new life into cooperation of a higher level.

1. A multiplication of regional level trade agreements and a growing de facto commitment towards the rest of the world

The acceleration of the opening up of the MPCs to international trade has taken place in a context of regionalisation deriving from the multiplicity of regional agreements, in the context of Euromed (Figure 12), which have produced a ("spaghetti" type) entangled situation. This entangled mass of agreements which has developed can be clearly seen in the graph below.

Other than the Euromed agreements, all the MPCs, except Turkey, have signed partnerships with their neighbours in the context of the "Greater Arab Free Trade Area" (GAFTA)[2], a pact signed in Amman in 1997 and in force since 1st January 2005. Morocco, Tunisia and Algeria are linked by the UMA (Maghreb Arab Union). The USA has bilateral agreements with Morocco, Jordan and Lebanon. Turkey has privileged agreements with Morocco, Tunisia, Egypt and Syria. The Agadir Agreement binds Morocco, Tunisia, Jordan and Egypt.

However, there is no homogeneous behaviour among the countries of the MEDA region in terms of regional agreements. Overall, it is clear that the Maghreb countries, more inclined to trade with the EU, remain distant from intra-regional dynamics, while the Machreck countries, more oriented towards trade with the rest of the world and in close relationships with their Arab neighbours, participate more actively in intra-regional MPC trade.

Behind this entangled state of affairs, whose effects are difficult to assess, more fundamental questions arise which concern the diversion of traffic that these agreements occasion due to the fact that all the countries concerned are not subjected to WTO rules and these agreements include long lists of reserved products (especially agricultural products). Large conflicts of interest also arise between the oil-producing countries (Gulf States, Algeria) which want to maintain energy prices at a low level for their consumers and their manufacturers and those countries deprived of these resources who consider that these prices give an abnormal competitive advantage to the businesses of these countries. The agreement takes the form of an implicit exchange which may be summed up as follows "accept our industrial dumping which results from under-invoicing of energy to our businesses and we will invest in your country". This question which is explicitly dealt with in WTO agreements (which impose the invoicing of energy to local businessmen at the international market price) blocks membership to the WTO for several countries of the area on the basis of strictly opposing reasons.

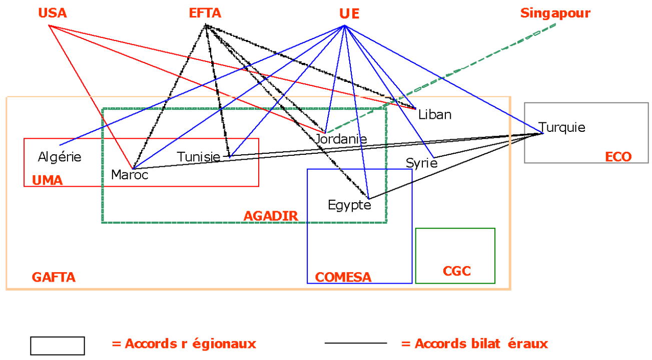
In this context, it is perfectly clear that these agreements will lead to a real opening of trade and will produce the desired dynamic effects if they are accompanied by membership of the WTO. This question today concerns more particularly Algeria and Lebanon.

A diminishing commitment from MPCs for the trade in goods with the EU

Overall, the MPCs are tending to disengage themselves commercially from the EU and the period is marked by the increasingly sustained presence of non-European partners with whom they are bound, or not, by partnership agreements. The Greater Arab Free Trade Area plays an less and less negligible role whether from the point of view of trade or financial flows which they target at their Mediterranean neighbours.

Since the mid 1990s, the EU share of the trade with the MPCs has dropped continuously. Whereas in the years 1995-1996, the EU represented half of the external trade in goods of the MPCs, in 2007, it was hardly one third. It is above all imports which register a drop in the commitment of the MPCs

Graph 12 : Main association agreements of MPs



Source : World Bank, 2009

towards the EU, with the MPCs falling back upon alternative sources of supply from extra-European partners, (2/3 of MPC imports come from the rest of the world). This trend concerns all the Mediterranean countries, as the following figure indicates: on the Y axis the EU share of trade in 1995 and on X this same share in 2007, it underlines the regrouping of the MPCs in the upper left part of the graph, a sign of a general weakening of the commitment of the MPCs to their European partner between the two periods.

The differentials in the mean annual growth rates in exports between the 2 periods, 90-99 and 2000-2007 confirm the phenomenon of diversification of the external markets of the MPCs with average growth rates of 17% for exports towards the rest of the world and 7% towards the EU (Table 18).

Table 18 : Exports in MPs: annual average growth rates (in constant 1990 dollars))

	1990-99	2000-2007
World	3%	12%
Rest of the World	2%	17%
EU	4%	7%

Source : Comtrade – Calculations N. Roux

Finally, the contributions of each partner to the growth of exports evolve in the direction of a weaker participation of the Europeans in the total growth of exports from the MPCs (from 62% to 22%) to the advantage of non-European partners

Table 19 : Contribution (*) of MPs trading partners to Export Growth

Exports	Towards	1990-1999	2000-2007
Total	R.O.W	26%	74%
	EU15	62%	22%
Non-Oil	R.O.W	34%	77%
	EU15	59%	19%
Manufacturing Products	R.O.W	33%	52%
	EU15	61%	39%

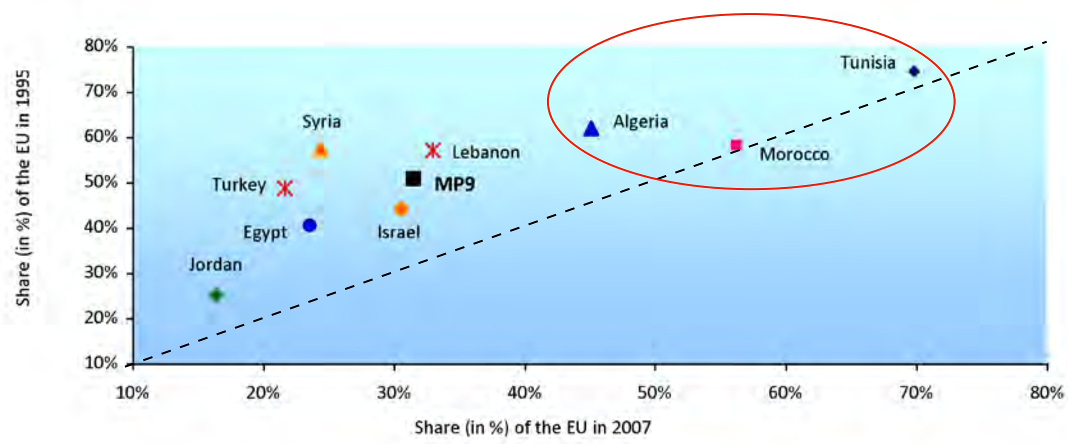
(*) Variation of Exports in constant dollars during the period to a trading partner/ variation of Total Exports n constant dollars

Source : Comtrade – Calculations N. Roux

who make a 70% contribution to the growth in the exports of the MPCs over the period 2000-2007, against 26% during the previous period (Table 19). It should, however, be noted that the participation of Europeans is greater for manufactured products (39%) despite registering a net drop.

This diversification of partners is, in the current context, a favourable trend which may be interpreted as a sign of better global integration. To a certain extent, the partnership has helped the countries concerned to project themselves into the world. Moreover, this evolution makes the MPCs less vulnerable to the circumstances of a single region. It may enable them to better manage the circumstantial cycle by taking advantage of the difference in the cycles between the partner regions. A more detailed examination within the MPCs shows that:

Graph 13 : EU share in trade (X+M) of MPs in 1995 and in 2007



Source : Comtrade – Calculations N. Roux

Table 20 : % share of MPs trading partners in 2007			
		1995	*2007*
Exports	*EU*	*50%*	*34%*
	ROW	*44%*	*61%*
Imports	*EU*	*51%*	*30%*
	ROW	*45%*	*67%*
X+M	*EU*	*51%*	*32%*
	ROW	*45%*	*64%*

Source : Comtrade – Calculations N. Roux

√ Maghreb countries are still highly committed to their EU partners. Tunisia and Morocco remain the closest to the EU (70% and 57% of trade) However, while EU countries remain essential export markets for the 2 countries (80% and 70% of exports), the sources of supply have diversified to the advantage of the rest of the world.

√ The MPCs from the Eastern Mediterranean have distanced themselves clearly from their European partner. Jordan is the country which is the least committed to the EU, only representing 16.5% of trade. Syria, Egypt and Lebanon register the same withdrawal phenomenon. After a decade where its trade was shared half with the EU and half with the rest of the world, Turkey has turned deliberately towards non-EU partners and the EU only represents a quarter of Turkish trade.

Trade deficits which are growing with the EU as with partners from the rest of the world

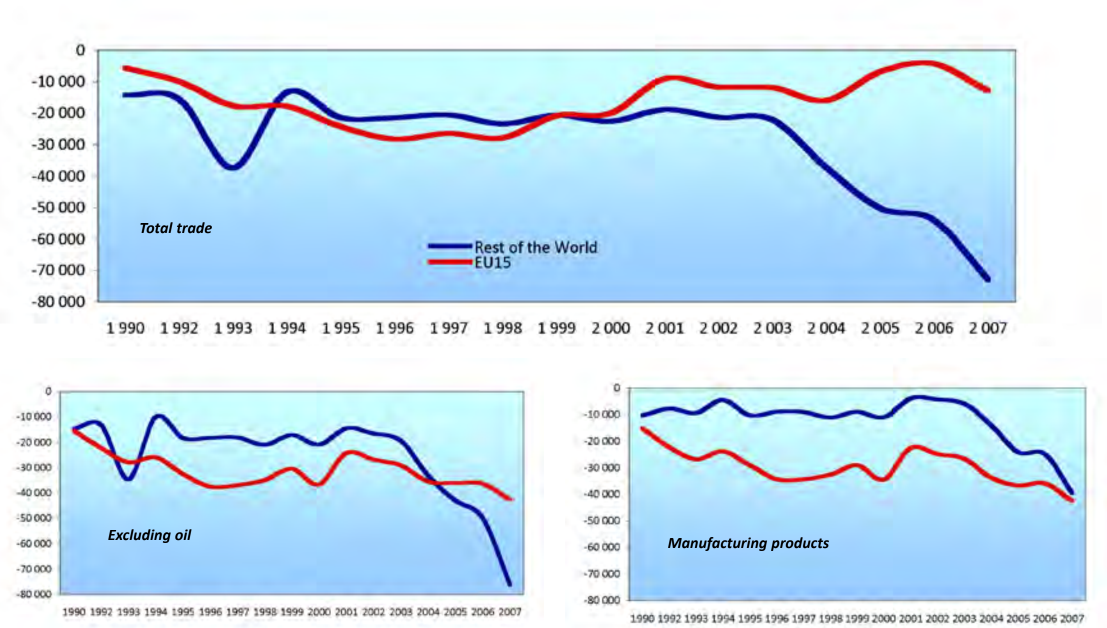
Since 2001, the MCP trade deficit with the rest of the world has grown dramatically to reach record levels -$70 billion for all trade, -$ 75.5 billion for trade excluding oil and -$38.5 billion for trade in manufactured products. The deficit in trade relations with the EU15 is smaller, although it has grown markedly for non-oil trade and trade in manufactured products since 2001 (-$41 billion).

Among the MCPs, only Algeria and Syria are the ones that register trade surpluses thanks to their exports of fossil fuels. Turkey alone represents one third of the deficit of the MCPs with the EU15 and thanks to exports of petroleum products, Algeria registers 86% of the trade surpluses (Figure 15).

More sustained integration in services trade, which will feel the impact of the crisis because of its structure

As has been said, the liberalisation of trade in services has not been as well established as that of the trade of goods and has been subject to voluntary negotiations. Morocco, Tunisia, Jordan and

Graph 14 : Commercial balances of MPs with the EU15 and with the Rest of the World (in millions of dollars)



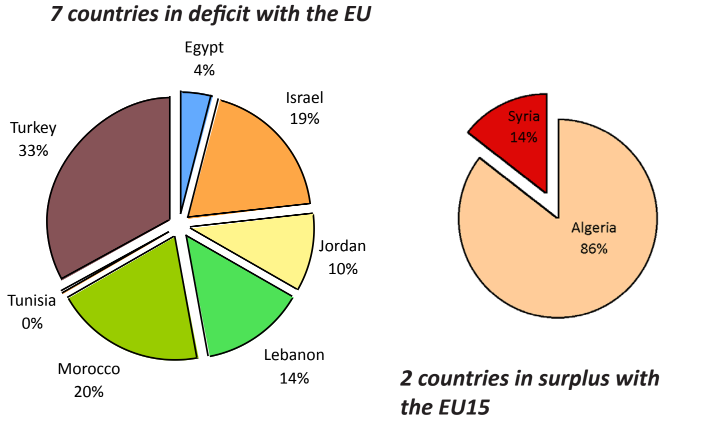
Source : Comtrade – Calculations N. Roux

Israel have already ratified action plans in agreement with the new neighbourhood policy.

Over the period 2000-2005, growth in the trade of services from the EU with its Mediterranean partners has been heavier than trade in goods as is shown in Table 21.

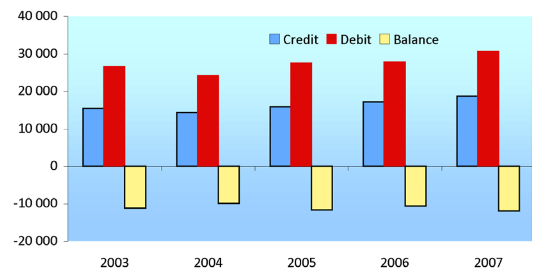
The overall growth of 64% over 5 years is above all the result of an acceleration in imports of services (+77%), which in 2005 represented one quarter of the imports of goods and services from the EU. Half of these imports are made up of travelling linked to the tourist trade. Thus, in 2005, the MPCs represented 7.6% of imports (and 3.9% of exports) of services from the EU, with a 15.7% share for the travel account (Eurostat 2008). The MPCs obtain positive balances which have practically doubled in 5 years. The trade deficit of the EU25 with the MPCs has gone from –6 billion euro in 2001 to –11.8 billion euro in 2007 (Figure 16), a surplus more than 90% explained by the travel account. The income linked to tourism represents an average of half the income from services of the MPCs vis-à-vis the EU. They are sustained by promotion policies and large efforts in terms of infrastructure. However, as has already been pointed out, they will be threatened in the two years to come by the European economic situation which is suffering a massive cold snap.

Graph 15 : The origin of commercial balances with the EU15 in 2007 (% of each country's contribution to the balance)



Source : Comtrade – Calculations N. Roux

Graph 16 : Services trade of the UE with MPs (millions of euros)



Source : Eurostat, calculations N. Roux

The EU is in a position of surplus (+23 million euros in 2007) in the trade of services excluding travel. This surplus is based essentially on the performance of exports of services to businesses which on average represent 30% of the exports of services to the area (Annex 9). This trade is connected directly to economic activity and is experiencing strong growth throughout the world. There is an accelerration in exports of computer and communication services (7% of European exports in 2007), building services and financial services.

Half of the EU deficit can be put down to trade with Turkey which alone represents 1/3 of all trade. The MPCs obtain surpluses thanks to the export activities of European companies installed on their territory: business services (Turkey and Israel), telecommunication services with the call centres in Morocco and Tunisia. Such delocated

Table 21 : Trade in Goods and Services of the EU with MPs (in billion euros)

	Exports			Imports		
	2000	*2005*	*growth*	*2000*	*2005*	*growth*
Goods	*82.8*	*101.8*	*23%*	*64.6*	*88.8*	*37%*
Services	*10.9*	*15.8*	*45%*	*15.6*	*27.6*	*77%*
Share of services in trade	*12%*	*13%*	*-*	*19%*	*24%*	*-*

Source : Eurostat 2008

services are naturally highly sensitive to the crisis and a large drop in the activity (and in consequence in this surplus) is to be feared in the months to come.

2. The weakness of intra MPC trade is a sign of large development potential

While overall little trade is carried out between the countries of the area, the most active part of the Eastern Mediterranean countries (Syria, Lebanon and Jordan and to a lesser extent Egypt) should not be overlooked. If the integration of MPCs in the neighbourhood of their Arab partners is envisaged, with for example GAFTA partnership agreements, the integration dynamics are more vigorous.

Trade between Mediterranean countries is overall limited to 5% of their external trade. Morocco, Tunisia and Algeria, heavily polarised in their trade relations with the EU, are out of line, whereas the Machrek countries are more firmly integrated in the area. Femise has, on a number of occasions, underlined the fact that this persistent low level of intra-regional trade represents a large loss of economic development potential. Insofar as the fundamentals which sparked off the current crisis meant that the region was globally less affected, a development in intra-regional relations may have provided a fillip to growth and enabled the MCPs to better face up to the economic situation which prevails in Europe and, more generally, in the developed countries.

Within each MPC, it can be seen that the Eastern Mediterranean countries are more dynamic both within the intra MPC area and within the GAFTA zone. Syria carries on nearly 30% of this trade with the countries of GAFTA, 14.6% of which within the MEDA area and 24% with the EU. Jordan is the country which is economically most closely linked to GAFTA (with 40.5% of the trade) and more essentially to the countries of the area outside MP. Similarly, Lebanon trades equally between the EU and GAFTA. Egypt trades more with the other countries of GAFTA than with its Mediterranean partners. Among the non-Mediterranean GAFTA countries, trade relations are more essentially directed towards Saudi Arabia (17% of Jordanian trade, 4% of Moroccan trade, 7% of Syrian trade and 6% of Egyptian trade). Finally, it should be stressed that this was being reinforced during the period (Table 23).

Turkey plays a role which deserves attention. The partnership agreements signed between Turkey and Tunisia, Morocco, Egypt and Syria have not as yet provided a considerable increase in trade relations. However, it has been noticed that Turkey, by turning away from trade with Europe, (especially trade with Germany which registered a drop of nearly 5 points between 2000 and 2007, dropping from 15% to 10.5% of Turkish trade), has strengthened its trade relations with

Table 22 : Share (in %) of intra-MP trade

	exports					X+M				
	1990	1995	2000	2006	2007	1990	1995	2000	2006	2007
Algeria	3%	6%	7%	5%	5%	3%	6%	6%	5%	5%
Egypt	2%	13%	17%	9%	10%	2%	5%	6%	8%	7%
Israel	1%	1%	2%	2%	3%	0%	1%	1%	3%	3%
Jordan	7%	10%	18%	12%	14%	6%	9%	10%	12%	13%
Lebanon	9%	17%	16%	25%	23%	5%	6%	8%	12%	15%
Morocco	3%	4%	2%	3%	3%	2%	4%	3%	5%	6%
Syria	7%	14%	16%	17%	22%	10%	13%	12%	15%	16%
Tunisia	5%	6%	3%	5%	5%	5%	6%	4%	5%	6%
Turkey	6%	7%	7%	6%	2%	4%	5%	6%	4%	2%
MP9	**4%**	**6%**	**6%**	**6%**	**5%**	**3%**	**4%**	**5%**	**5%**	**4%**

Source : Comtrade – Calculations N. Roux

Table 23 : Trade between partners in 2007 (in % of total trade)

	GAFTA	MP9	GAFTA without MPs	AGADIR*	UMA*
Algeria	5.4%	5.1%	0.3%	-	1.2%
Morocco	10.7%	5.8%	5.0%	1.2%	2.2%
Tunisia	10.5%	5.6%	4.9%	1.4%	6.7%
Turkey	6.7%	1.7%	5.0%		
Egypt	18.8%	6.6%	12.2%	1.5%	
Jordan	40.5%	16.9%	27.9%	3%	
Lebanon**	24.0%	12.0%	12.0%	-	
Syria*	30.7%	14.6%	16.1%	-	
Israel	3.1%	3.1%	0.1%		
MPs9	**8.4%**	**4.1%**	**4.4%**		

** data 2006*
*** data 2005*
Sources : World Bank 2009, Comtrade, calculations N Roux

Russia and now exports increasing mounts to the MENA zone, which in 2007, represented more than 16% of Turkish exports. It is clear that this country should play the role of catalyst in the future, if only through the diagonalisation of the rules of origin which enable MCPs to import good quality Turkish raw materials at competitive prices so as to transform and export them to European markets.

3. A sizeable evolution in sectoral specialisations

A greater opening onto the international scene is both a source of opportunities and dangers. Opportunities when it enables the MCPs to be confronted at their real level of competitiveness (through their capacity to differentiate products) and integrate into verticalised production processes with privileged partners. Dangers when it locks the countries into specialisations which prevent them from advancing, or, in the current context, has a tendency to expose their economic structure more as a result of a specialisation in sectors which will suffer most from the crisis.

The gamble on successful integration is the hope of an improvement in the driving forces of competitiveness, as well as that of an overall and sectoral upgrading. Trade is a means of acquiring competence, of exploiting the resources which enable a diversification of the productive machinery and its reorientation towards sectors more likely create added value. The experience of the South East Asian countries is a good example of this dynamic. Are the MPCs engaged in this type of process?

The aim of this point is to provide a legible grid of the commercial trade of Mediterranean partners so as to give an appreciation of which type of process the MPCS are engaged in. The approach necessarily crosses both the sectoral and regional dimensions. Several indicators may be used to identify the main determinants of the evolution of external trade by answering several questions:

√ What sectors have been responsible for the dynamics of this growth in trade?

√ What are the strong points and weak points of MPC competitiveness?

√ On what specialisations has this integration been based?

The first indicators concern the trade position on external markets. From the evolution of exports, compared with the demand from partner countries or areas, the Mediterranean partners may be placed in their international situation thanks to an analysis of the indicators of sectoral market shares within the partner areas while assessing the contribution of these sectors to the growth of exports.

The second are linked to the sectoral specialisations adopted by the MPCs according to their partner. The indicator of contribution to the balance (revealed comparative advantage) should show: (i) the sectors which are in positions of positive comparative advantage and (ii) to what extent these MPC specialisations deal with dynamic sectors.

The sectors which have provided growth in trade

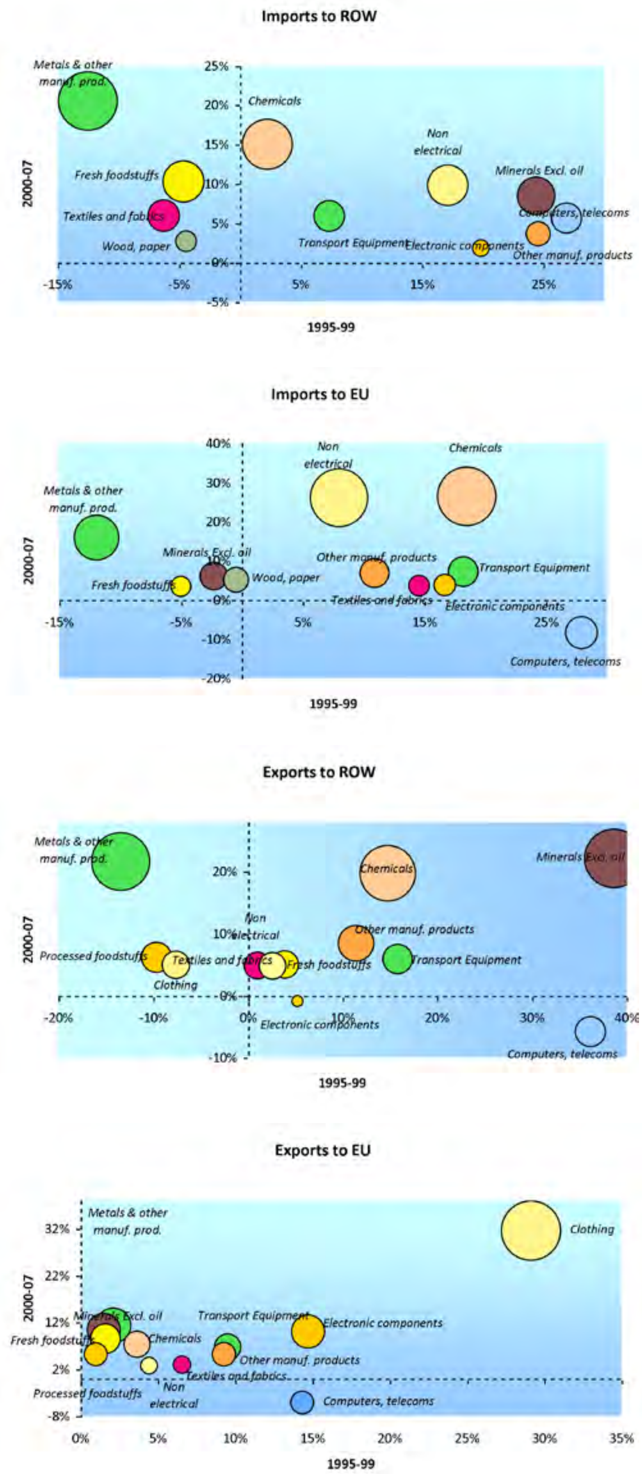
Based upon a recomposition of trade data into a 15 sector classification [3], the most dynamic sectors for exports and imports have been identified by building an indicator of sectoral contributions to overall exports and imports [4]. Between the periods 1995-1999 and 2000-2007, the sectoral driving forces of MPC trade were transformed but continued to accentuate the phenomena of regionalisation.

Overall, 3 sectors can explain more than half of the net variation in MPC imports between 2000 and 2007: the metal and other manufactured products sector, chemicals and non-electric machinery, which shows a re-centering of MPC imports to the detriment of sectors such as computers and telecommunications, electronic components or even transport equipment which over the period 1995-1999 contributed to more than 58% of the growth in imports.

An examination of Figure 17, which compares the evolution of sectoral contributions between the 2 periods (1995-1999 and 2000-2007), also shows a clear form of regionalisation in sectoral terms: half of the progression of imports coming from the EU covers 2 sectors: chemical products and non-electric machinery. The progression of imports from the rest of the world (RoW) covers essentially metallurgical and other manufactured products, chemicals, fresh food products and transport equipment.

On the exports side, Figure 17 throws light upon the structural changes in exports

Graph 17 : Sectoral contributions to imports and exports in MPs between periods 1995-1999 and 2000-2007)



The surface of the cercle is proportional to the contribution of the sector between 2000 and 2007

X-axis= sectoral contribution in the 1995-1999 period
Y-axis = sectoral contribution in the 2000-2007 period

Source : Comtrade – Calculations N. Roux

between the two periods, showing the positive impact of chemical products and the clothing sector.

Particularly noticeable is a considerable loss in the participation of computer exports in the overall growth of exports whatever the partner, with the second period registering a negative contribution for the sector linked to a drop in exports in absolute terms. Similarly, the products from the agro-food industries and metallurgy as well as basic manufactured products, have become buoyant products during the second period observed (essentially with partners from the rest of the world), while their contribution remained negative between 1995 and 1999. Chemical products also appear to have strengthened their overall participation.

With regards to the dynamic exports sectors of the Mediterranean partners, the regionalisation differentials are even more pronounced than for imports. Graph 18 shows that 3 sectors have been the main driving forces of the dynamism in exports to the RoW (minerals excluding oil, metallurgy and basic manufactured products, as well as chemical products) by providing 65% of the progression of exports towards the area. However, during the period 2000-2007, the growth of exports to the EU15 has essentially been based on the clothing industry (32%) while this sector only represents 5% of the progression of exports to RoW. It is clear that the MPCs have re-centered their activity in this sector on the markets of the European countries

This first approach to the driving force of the dynamics of the opening up of MPCs to trade has led to an interrogation on the impact of the specialisations involved in terms of competitiveness and comparative advantage. The question arises as to whether the most dynamic sectors for the integration of the MPCs are also the most competitive and if they are the sources of comparative advantages.

4. Understanding the position of MPCs on external markets

Evolution of the strong points of MPC exports per sector and per partner

The aim of the comparative advantage indicator [5] is to compare the share of exports of a sector in a given country with the share of this sector in overall exports. This indicator enables us to analyse the place of MPCs on the export markets of their two partner areas (EU15 and RoW). For increased legibility, it has been devised excluding petroleum products and products from category 9 of the SITC, a category which concerns non-industrial products. Several observations may be made:

Export markets to the rest of the world were more dynamic over the period 2000-2007

Globally the growth of MPC exports to the world excluding the EU (RoW) for comparative advantage products is more rapid than the growth of total imports of products from these sectors by the RoW countries. This means that the MPCs have won market share in these export sectors. It is especially true for the export of fabrics, which with an average annual growth of 15% over the period, outclass the growth of imports in this sector by 5%. It is also true for metallurgical products (+ 26% average annual growth of exports compared with + 17% for imports from RoW).

On the other hand, the dynamism of exports to the EU from sectors with positive comparative advantages is less important and the growth of these exports remains generally less than the growth of European exports; only exports of electronic components are growing more quickly than European exports in this sector.

But, while globally, the MPCs are improving their position on the export markets of the rest of the world, there was a general erosion of these positions at the end of the period.

The 2 sectors which have contributed most to the growth of MPC exports (minerals, excluding oil to the RoW and clothing to EU15) are also those which profit from the largest advantages in market positions

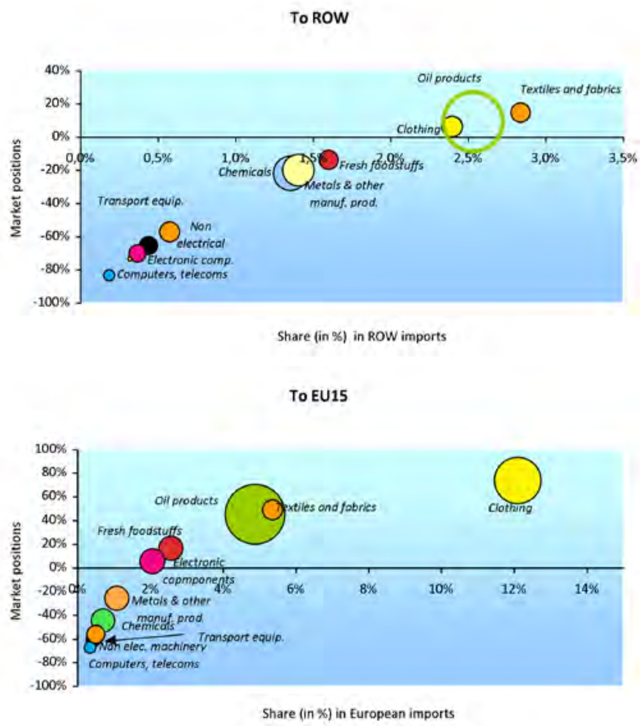
However, it is to be observed that the Mediterranean countries do not systematically profit from positive comparative advantage on the most dynamic sectors. Thus, the 2 accounts, other manufactured products and transport equipment [6], which made significant contributions to exports to the RoW between 2000 and 2003 are in a position of comparative disadvantage on the rest of the world markets. This means that the MPCs have not succeeded in winning market share compared with their competitors. Similarly, the exporters of metal products and other basic manufactured products as well as chemical products to the EU15, despite their strong contribution to exports and average annual growth rates of 13% and 7%, do not manage to profit from comparative advantages and even lose market share.

3 export accounts monopolise three quarters of the comparative advantages of the MPCs (Minerals excluding oil, Fabrics and Textiles and Clothing). The regionalisation of trade phenomena once again confirms the comparative advantages of the MPCs:

√ compared to the respective classifications of the first 3 accounts with comparative advantage (32% of the comparative advantages on the EU market are dependent of the clothing sector, 34% of the comparative advantages on the RoW markets depend on the minerals (excluding oil) sector).

√ The efforts of the MPC producers in certain sectors are differentiated according to the export markets. They obtain positive market positions on the RoW markets for sectors such as agro-foods, metallurgical products and other basic products and chemicals, which they do not obtain on the European markets.

Graph 18 : MPs exports position



The surface of the cercle is proportional to the contribution of the sector between 2000 and 2007
X-axis : share in % of MPs exports in european or ROW imports.
Y-axis : Comparative advantage indicator on exports.
Source : Comtrade – Calculations N. Roux

√ The electronic components sector is an example of the regional polarisation of trade. Overall, the MPCs obtain comparative advantages with the EU (10% average annual growth rate between 2000 and 2007) and are in a comparative disadvantageous situation with RoW. The situation is highly contrasted depending on the countries. Egypt and Jordan are disengaging from European markets (negative average annual growth rates between 2000 and 2007 of -9% and -6%) to gain market share on the rest of the world markets. On the other hand, the growth of exports from Morocco and Tunisia to the EU is still strong with a European partner which represents more than 90% of their exports. However, there has been a remarkable breakthrough in both Moroccan and Tunisian exports to the rest of the world (+ 41% and + 24% respectively between 2000 and 2007) which may be the sign of an accumulated competitive advance mainly thanks to trade with European producers that these countries are attempting to take advantage of outside the Euromediterranean framework.

5. Specialisation and contribution to the trade balance

The indicator of contribution to the balance drawn up by the Cepii (see Methodological Annex) enables the strong points and the structural weaknesses of specialisations of an open economy to be identified. Unlike the comparative advantage indicator in terms of market share used previously, it refers solely to trade (X and M) of the country branch and its trade balance.

After having identified the strong points of the sectoral and regional specialisations of the MPCs, we shall compare the results obtained with those of the external trade positions.

Differentiated sectoral specialisations according to the partner

Figure 19 below shows that MPCs regional sectoral specialisations are based upon a concentration of revealed comparative advantage (RCA): only two sectors (minerals and clothing), present buoyant specialisations with the two partner zones

The sectors with positive RCA with the EU15 and negative with the RoW in the upper left display and the lower left are the sectors for which the the MPCs obtain positive RCAs with the RoW and negative with the EU. How can we explain that on the basis of the same industrial structure, the specialisations of the MPCs are differentiated to such an extent? Several hypotheses may be envisaged. It would seem that the nature of the sector and its societal component is a decisive element of this specialisation dichotomy. Sectors such as textile-clothing draw their dynamic from an adaptation to market evolutions and the speed of stock turns. Proximity is henceforth a powerful advantage of industrial location which determines the specialisation. Three countries, Morocco, Tunisia and Turkey

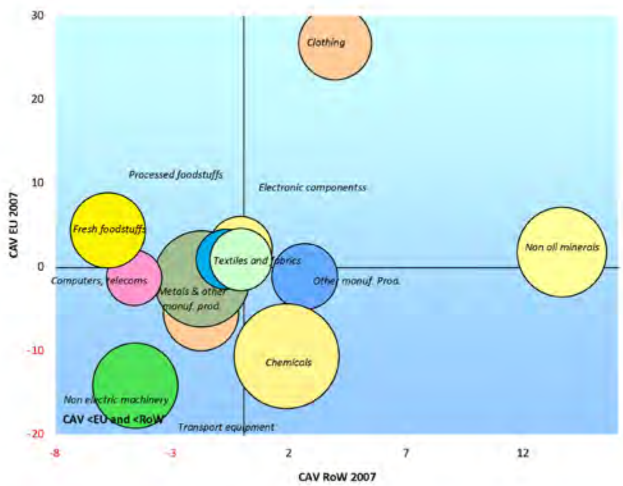
Box 5 – Turkey's sectoral and regional specialisations

The map of Turkey's comparative advantages indicative of a more advanced level of economic development than most MPCs.

- *It is the only MPC to be developing its specialisation in the whole of the textile-clothing sector with its two partner areas, although its RCAs with the EU are strengthening to the detriment of the RCAs with the Rest of the World.*
- *Its specialisation in transport equipment with the RoW is being reinforced (the RCA indicator went from -9.3 to +4.9% between 1995 and 2007) which helps it attract sizeable foreign investments.*
- *In the same way as the development of the computer and telecommunication sectors with European partners*

draw their specialisation in the clothing sector with the EU15 with 1/3 of their revealed comparative advantages with the EU15 but comparative disadvantages in fabrics and textile articles (Turkey and Egypt are the only countries to obtain positive contributions to the balance in this sector). The processes of the international fragmentation of production in which these countries are integrated with their European partners explains the greater development of this specialisation during the period. The same observation could be made for the electronic components sector structured to a

Graph 19 : Revealed comparative advantages in MPs in 2007



X-axis : CAV indicator with ROW
Y-axis : CAV indicator with EU
Source : Comtrade – Calculations N. Roux

Table 24 : Sectors with a positive comparative advantage (contribution to the balance) in MPs in 1995 and 2007, by partner regions

	Trade with ROW			Trade with EU15		
		1995	2007		1995	2007
Med Est*	Clothes	5.0	11.4	Metal & Other manuf products	5.7	14.5
	Chemicals	7.0	7.8	Textiles and fabric	15.2	5.5
	Non-oil Minerals	6.9	2.4	Fresh food	3.9	5.0
	Processed food	0.2	1.4	Clothes	4.7	2.2
	Other manuf.	-0.2	0.5	Other manuf.	-2.4	1.4
	Metal & Other manuf products	-3.1	0.2	Leather and related products	0.3	0.8
Med ouest**	Chemicals	16.5	14.2	Clothes	31.9	29.6
	Non-oil Minerals	5.1	8.3	Electronic components	0.2	7.9
	Processed food	-5.0	1.8	Leather and related products	3.4	3.2
	Clothes	10.8	1.0	Fresh food	4.6	2.7
	Wood, paper	-2.1	0.5	Non-oil Minerals	3.0	2.1
	Electronic components	-1.0	0.3	Processed food	-0.8	1.2

Med East = Egypt, Lebanon, Syria et Jordan

*Med West** = Algeria, Morocco and Tunisia*

Source : Comtrade – Calculations N. Roux

large extent by determinants of relationships of the production networks with European producers (Tunisia and Morocco obtain significant RCAs in this sector) and that of automobile equipment for Turkey. Elsewhere, those sectors which could be qualified as generic, which do not require regional differentiation, such as minerals, excluding oil or chemicals, fall into the domain of traditional specialisations (phosphates, fresh food products...).

Sectoral and regional polarisations which are strenghtened

The same analysis made by grouping the MPCs into 4 categories: the 3 Maghreb countries, the 4 countries from the Eastern Mediterranean, (Egypt, Lebanon, Syria and Jordan), Turkey and Israel confirm fundamental differences in terms of their contribution to the balance.

As Table 24 shows, the trade determinants are reversed between the 2 blocs of MPCs. The Eastern Mediterranean countries are developing their performances in terms of clothing manufacturing with the countries of the RoW (especially the United States for Jordan and Egypt who have set up the QIZ (qualifying industrialising zones) with the USA) and Egypt exports its textile products to the EU countries. They are developing their natural resources in the direction of the EU into generic products. The Maghreb countries are increasingly playing the game of commercial relationships in geographic and cultural proximity with the EU, especially by participating in Euro Mediterranean value chains on sectors such as clothing manufacturing and electronic components. This form of specialisation accentuated between 1995 and 2007; there is a noticeable global reorientation of the regional maps of comparative advantages which accentuates Euromed relationships in certain sectors (garments) and privileges external partners for other sectors (minerals excluding oil).

6. The enhancement of positions on external markets in terms of specialisations

The competitive advantages observed do not contribute sufficiently to the trade balance

Logic would have it that the sectors in a positive competitive position on external markets represent specialisations with comparative advantages in terms of contribution to the balance. If this is the case for the main specialisations of the MPCs, garments and mineral products excluding oil, chemicals with the RoW or electronic components with the EU, this does not check out for certain sectors. It is above all in its trade with its partners from the RoW where we find sectors for which the MPCs do not manage to profit from the advantages of an external competitive position in terms of real specialisation advantage. Fabrics and textiles, fresh or transformed food products are indicative of this situation. Several reasons may explain this state of affairs.

√ The advantageous positions obtained on the export markets do not compensate trade deficits due to the large volume of imports. This is obviously the case of fresh food products, an account which registered the largest trade deficit of the MPCs with the RoW (10 billion dollars in 2007) and to a lesser extent transformed food products.

√ The prices of imports are growing more quickly than the prices of the MPC exports. This example is indicative of a degradation in the terms of trade (metallurgical products and other basic manufactured products). It may, however, mark the start of a process of upgrading, where the quality (and the price) of inputs is growing to allow the production of better differentiated products which will be found among the exports a little later.

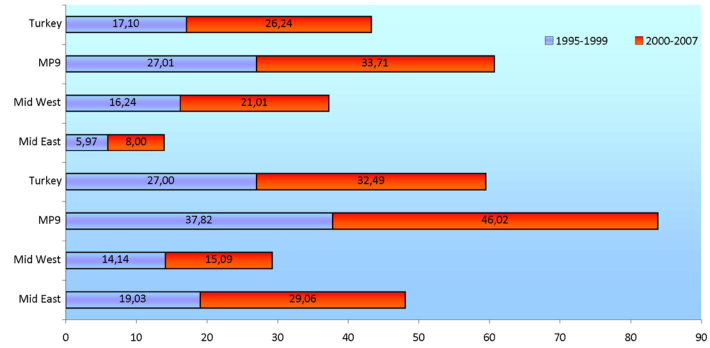
√ The export sectors are dependent on the input of intermediate products. For example, the comparative advantages in terms of contribution to the balance of the clothing sector should be set beside the comparative disadvantages observed in fabrics for most of the MPCs, except Turkey which is the only country to be developing the whole of the sector and the trade deficits that that involves (see Annex 2.6).. The competitive positions on these sectors do not produce a comparative advantage in the traditional sense but a positioning in the international added value creation chain.

Table 25 : Exports concentration indicator in MPs

	1995-1999	*2000-2007*	*1995*	*2000*	*2007*
World	*0.11*	*0.16*	*0.11*	*0.13*	*0.2*
ROW	*0.14*	*0.18*	*0.14*	*0.18*	*0.23*
EU15	*0.13*	*0.18*	*0.13*	*0.16*	*0.19*

Source : Comtrade – Calculations N. Roux

Graph 20 : Share of intrabranch trade of MPs with the EU15 and the ROW in two sub-periods



Source : Comtrade – Calculations N. Roux

The current specialisations do not sufficiently support the improvement of the productive capacities of MPCs and represent scant protection against the crisis

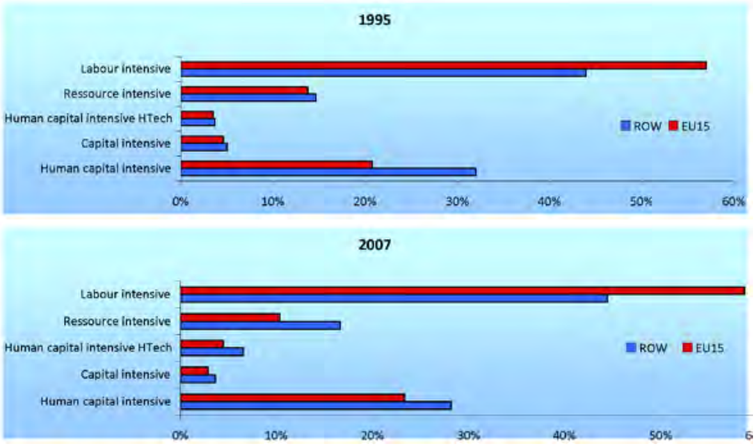
The evolution of the industrial structures linked to the specialisations in international trade should lead, on the one hand, to a convergence with the levels of development of the trade partners and a diversification in the structure of exports and, on the other hand, improve the technological level of the products proposed on international markets. The consequence of an evolution of this type is to weaken the exports elasticity with income effects and price effects, which could be an important element of protection against the current crisis.

It would thus seem clear, given the indicators that are available, that MPCs have not yet found in their commitment to the EU sufficient means that allow to revitalise their industrial structure and provide a greater capacity in creating added value.

The strong polarisations of MPC exports around products of their specialisation has meant that the level of concentration of exports increased between 1995 and 2007 (see Table 25 and Annex

2.7). It should, however, be noted that this phenomenon is not peculiar to the MPCs but marks all the economies in transition which reorient their export structure on a narrower range of products. For the economies in transition, this rate went from 0.17 in 1995 to 0.31 in 2006, while for the developed economies it is to be found in a range around 0.06 (UNCTAD, 2009). The MPCs however have succeeded in their diversification relatively better than the other countries in transition. It remains that this concentration, in a period of crisis affecting certain sectors more heavily than others strengthens the risk of a stronger negative impact.

Graph 21 : Exports of manufacturing products of MPs by technological levels in 1995 and in 2007 (in%)



Source : Comtrade – Calculations N. Roux

At the same time, the proportion of trade of the intra-branch type is not progressing at a sufficiently sustained pace. The intra-branch trade indicator devised by Grubel and Lloyd [7] provides an appreciation of the effects of the integration of the MPCs into the European markets and those of the rest of the world on the convergence with the industrial fabric of the partner countries. It leads to a finer specialisation on the quality differentials of the products traded, exceeding the context of the analysis of inter-branch specialisations. An insufficient proportion of intra-branch trade leads rather to sub-contracting type relationships, with the loss of control of the production process decisions, sub-contracting relationships whichappear to be the first to be threatened by the negative economic situation. It also involves a strict limitation of the range of scale economies which constitute an important element in defining the growth of productivity.

Let us note that Figure 20 and Annex 2.8 both encourage several observations:

Intra-branch trade is progressing much more rapidly for the Eastern Mediterranean MPCs. Between the two reference periods, the evolution in the share of intra-branch type trade was relatively slow, going from 37% to 45% of trade. Attention should be paid, however, to the performances of Israel (with 45% trade of this type over the period 2000-2007) which pulls the sample upwards. The Eastern Mediterranean countries have progressed more rapidly than those of the Maghreb, gaining more than 10 percentage points between the 2 periods (from 17.5% to 27.5%) while the Maghreb MPCs only progress by 4 points (from 18.7% to 22.1%)

Overall, the development of MPC intra-branch trade is greater with the rest of the world than with the EU15, giving cause to believe that the international commitment outside Europe will enable the MPCs to distance themselves from a type of inter-branch trade typical of North-South relationships.

The results from Turkey are a surprise compared with the level of the country's development. However, while the share of intra-branch trade is lower than the average of MPCs, it is essentially due to the presence of Israel, since it is always greater than that of the 2 reference areas. Also, we observe that trade is much more developed with the rest of the world than with the EU15.

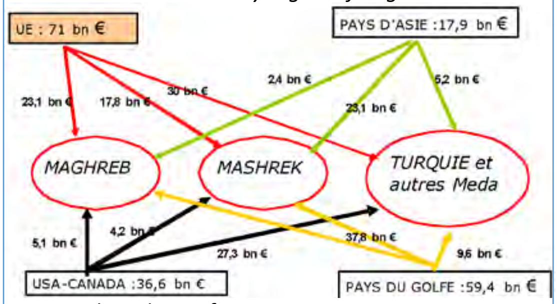
The technological level of the products exported does not appear to have progressed towards high human capital and technology intensive products (Figure 21).

The specialisations of the Mediterranean partners have frozen the technological level of their exports and have also accentuated the use of non-qualified labour, which in the short term enables the recruitment of workers without qualifications and soaks up unemployment. But in a longer term development perspective, it is understandably an obstacle to recruitment and to the self-realisation of graduate employees who are obliged to go elsewhere in order to seek jobs which better correspond to their level of training. Here, again, the problem presented in the face of the economic situation expected for 2009 and 2010 is that the MPCs would seem to be positioned in the upstream segments of production, which would be the first to suffer readjustments in such unfavourable economic situations.

III. Regional orientation of FDI

The flow of foreign investment into the Mediterranean partners in recent years has reached high levels. Its current typology suggests, however, that it could drop considerably as a result of the global economic crisis: the flow of FDI originates mainly from Europe and the Gulf States, which means that the volume investments in the Mediterranean is directly linked, on the one hand, to the variations in oil prices and on the other hand to the expectations of European investors, which may contribute to a temporary or even definitive halt to the large regional investment projects.

Graph 22: Cumulated FDI flows directed to MPs between 2003 and 2007 by region of origin



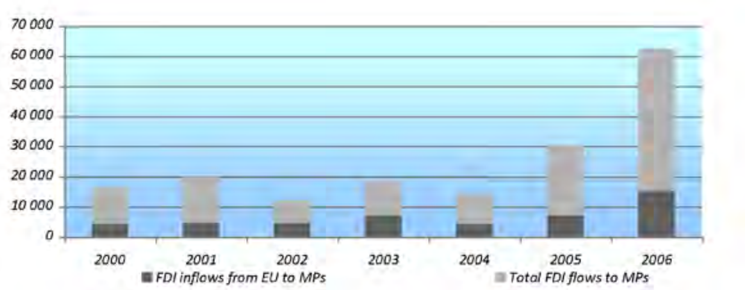
Source : data drawn from Anima 2008

1. *The acceleration of FDI in the second half of the 2000s*

From 2004-2005 onwards, the evolution of the flow of FDI to the MPCs was considerably greater than the average of the developing economies and followed the global trend (see Figure 4 and 5 Chapter 1). Thus, in 2007 the MPCs represent 2.5% of direct world investment stocks (this share was 1.8% in 2000); the flow of FDI has been multiplied by 5 in 7 years, passing from 11 billion dollars in 2000 to 55 billion dollars in 2007.

The strengthening of the foreign investment attractiveness between 2004 and 2007 is notably linked to the reforms undertaken by most of the MPCs as well as to privatisation initiatives. But beyond the improvement that is observed in the overall business climate, foreign investors find in Mediterranean countries the prospect of new potential markets, a source of supply of industrial inputs (raw materials or transformed products) and the possibility of extending their sources of competitiveness thanks to the proximity of Europe. (Anima 2008).

Graph 23: FDI flows directed to MPs (milions of $)



Source: Eurostat, United Nations World Investment Report 2008

2. A dependence on European and Gulf State flows

In 2007, the Gulf State investors along with the EU represented one of the two pillars of FDI aimed at the MPCs, representing respectively 34% and 40% of the announced amounts of investments (Anima 2008). In the same logic as the commercial trade, the origin/destination pairings of these financial flows are based upon marked geographical logics: the EU with the Maghreb and Turkey and the Gulf States with Jordan, Syria, Lebanon and Egypt and lastly the United States with Israel. Cultural and historical links may in part explain these privileged relationships, for example between the family capitalism of the Gulf States and Jordan (Anima 2008).

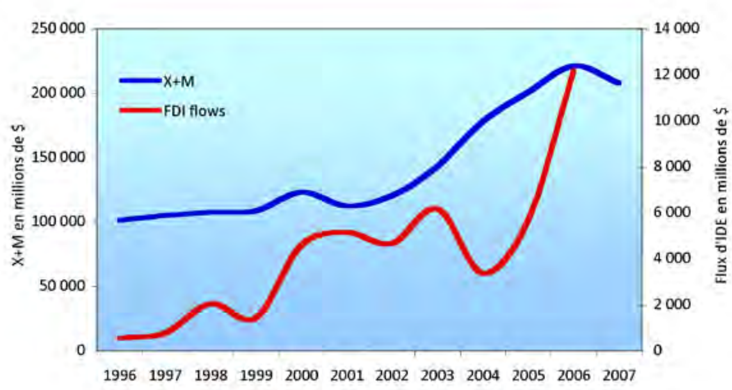
The flow of European FDI in progression but hard pressed to sustain the economic development of the South

Since the year 2000, European foreign investment inputs into Mediterranean economies have made considerable progress. While MPCs are not a privileged destination for European companies, their relative share of European FDI to the emerging countries as a whole is progressing and has gone from an average 3% in 2002-2005 to 6% in 2006, to the detriment of direct investments directed towards East Asia, which went from 19% in 2004 to 10% in 2006 (Eurostat, 2008). Nevertheless, the levels of FDI vary from one year (see Figure) and from one country to another. Thus, the year 2007 registered a record 24 billion euro. But these performances are based for 1/3 on a single large project (the takeover of the Orascom cement plants in Egypt by Lafarge, Cf. Anima, 2008).

In 2006, the EU was the main supplier of direct investment to the MPCs, although its relative share of 21%, in 2006, was well below its relative share in the trade in goods (41% in 2006). From the European point of view, There would seem to be the same asymmetry as in trade relationships. The MPCs represent 9% of extra-EU and 6% of extra-European FDI, results which have little in common with the flows which structure the Americano-Mexican relationships or those which characterise the economic relationships between Asian countries. Despite their progression at the end of the period, there must be doubts about the capacity of these financial means to provide the MPCs with a real economic boost. Especially since the distribution of FDI from the EU to the MPCs remains extremely unequal. Three countries share 98% of incoming flows: Turkey received 69% of the flows in 2006, Egypt (21%) captures the largest share destined for the Machrek (22%) and Morocco (8%), the majority of the FDI intended for the Maghreb (10%).

These relationships are structurally characteristic in a way that supports the likelihood of a marked circumstantial turnaround in the months to come:

Graph 24 : FDI flows and goods trade in MPs with the EU (in million dollars)



Source : Eurostat, Comtrade – Calculations N. Roux

√ There are distinct bilateral relationships between investors and host countries: the FDI from French companies is the largest (14% of FDI inputs), they are split between the countries of the Maghreb. Italy and the United Kingdom invest essentially in the Machrek, Germany in Turkey (Eurostat, Statistics in focus, 2008).

√ The data from the MIPO database show that this European foreign investment is oriented essentially towards a few manufacturing sectors: (automobile, chemicals, agro-foods, textiles), services (banking-insurance, transport and tourism), building and public works, energy and telecommunications.

The flow of non-European FDI

Data on the flow of FDI between the countries of the MENA region are poorly estimated. However, the information provided by the Anima MIPO base enables us to observe that the strong presence of investors from the Gulf States is mainly supported by 3 countries which represent more than 90% of the cumulated flows between 2003 and 2007: the United Arab Emirates (UAE) with 30.672 million euro, Saudi Arabia, 11.266 million euro and Kuwait, 11.009 million euro.

The orientation of these flows is clearly in favour of the Machrek countries (60%) and Turkey (16%). Egypt attracts more particularly investments from the UAE which, in 2006, invested 6 billion euro in transport infrastructures, tourism, real estate and telecommunications and Kuwait, €1.4 billion in transport and tourism. The Saudis invest more massively in Turkey.

Nevertheless, Tunisia has received 5 million dollars from Bukhater, an UAE investor, for a real estate project entitled “Tunis City of Sport”, a potential source for the creation of 40,000 jobs. (World Bank, 2009)

One important phenomenon in favour of the integration of the South-South zone is the progression of the flow of FDI between the Mediterranean countries with €10 billion of cumulated FDI between 2002 and 2007 (from €2 billion in 2005 to €4 billion in 2007). Egypt invests in Algeria and in Turkey, Jordan in Egypt, Lebanon in Jordan and in Egypt. (Anima 2008). Thus a Lebanese company has a project to invest $5 billion in Jordan over 10 years (World Bank, 2009).

3. The economic consequences of this flow of direct investment

The sustainable creation of jobs, the lever effect that they induce on local economies, via the industrial spin-offs or the construction of infrastructures and the transfer of knowledge they convey, are the building blocks of positive integration via direct investment. Consequently, the choice of target sectors from foreign investors is not neutral for the local economies.

Table 26 : Share of FDI flows in the gross fixed capital formation of MPCs between 1990 and 2007 (in %)

	Flows in % of GFCF				***Stocks in % of GFCF***			
	1990	***2000***	***2006***	***2007***	***1990***	***2000***	***2006***	***2007***
World	*4.3*	*20.3*	*12.9*	*14.8*	*9.1*	*18.1*	*25.5*	*27.9*
Developing economies	*4.0*	*16.0*	*12.5*	*12.6*	*13.6*	*25.2*	*26.7*	*29.8*
Algeria	*0.0*	*3.9*	*6.3*	*5.1*	*2.5*	*6.4*	*8.8*	*9.0*
Egypt	*8.2*	*7.3*	*49.8*	*42.7*	*28.0*	*20.0*	*36.1*	*39.6*
Morocco	*2.2*	*4.4*	*13.0*	*12.2*	*10.4*	*23.9*	*45.8*	*44.3*
Tunisia	*3.0*	*15.4*	*45.5*	*19.6*	*61.8*	*59.4*	*70.6*	*74.9*
Jordan	*3.6*	*45.6*	*85.1*	*42.7*	*36.5*	*37.1*	*90.2*	*91.9*
Lebanon	*0.8*	*27.6*	*66.8*	*64.1*	*1.9*	*29.9*	*82.8*	*85.7*
Syria	*3.9*	*8.0*	*7.5*	*10.3*	*53.2*	*36.9*	*28.9*	*25.6*
Turkey	*2.0*	*1.8*	*16.9*	*15.6*	*5.6*	*7.2*	*16.6*	*22.2*
Israel	*1.2*	*22.8*	*60.6*	*33.4*	*7.9*	*18.9*	*35.6*	*37.0*

Source WIR 2008

Real estate, building and public works and transport, the energy sector, banking and insurance, the cement sector and telecommunications attract nearly 80% of the investment flow. These projects do not all have the same dynamic effects, for the transfers of capital are not necessarily accompanied by transfers of technology.

The characteristics of the "rentier" economies of the Gulf States are that they orient their investments towards real estate or tourism projects, or towards the creation of large shopping centres (53% of the projects according to Anima 2008), their objective not being to create activities complementary to their own productive structures but rather to invest the trade surpluses from their oil revenues. This leads rise to a number of fears. What is the capacity of these investments to create longer term jobs? How may of these projects have potential for growth and consolidate the social (shutting in or crowding out effects of local producers particularly as concerns the construction of real estate complexes intended for a foreign clientele) and environmental equilibrium (pollution, concrete sprawl along the coastline)?

The FDI originating from the EU focuses more generally on the acquisition of existing actitivities with more positive consequences on employment. In this perspective, the flow of direct investment intended to develop sub-contracting relationships are the most creative in employment and technology transfer terms (13% of the jobs created over the period 2003-2007 according to Anima 2008). As we have pointed out, the development of these activities is intimately linked to a strengthening of infrastructures and logistics platforms. The location of Renault-Nissan on the Tanger-Med complex in Morocco is an illustration of the necessary complementarity between the creation of infrastructures adapted to the imperatives of the competitiveness of the modern economy in the sectors which participate in the world value chains and financial flows (Cf. box 3 of Chapter 1). However, certain sub-contracting relationships could be reviewed under the impact of the crisis in Europe.

4. A post-crisis which requires more attractiveness from the MPCs

All the MPCs are to experience a drop in FDI in 2009, the less attractive may even be subjected to net losses of foreign capital. Even if the Gulf States maintain their current spending and their investment plans thanks to a comfortable stock of monetary reserves, despite an expected 50% drop in their oil revenues in 2009, a sizeable effect on Mediterranean growth is to be expected [8].

As Femise has already underlined, MPCs have suffered from the narrow nature of their national markets, from more favourable expectations of the long term perspectives offered by the neighbouring countries from Eastern Europe, from a still insufficient restructuring of local industry and, finally, the lack of integration between each other [9]. Athough they have now reached a level of FDI comparable to that of the East European countries, they are still far from their full potential.

The temptation is therefore great to return to a more isolationist strategy, aiming to avoid the loss of capital. It is, however, certain that any measure which aims at a certain protectionism would only increase deficits from which the MPCs suffer and would rapidly lead to a massive drop in investment inputs, even massive flights of capital with the inevitable effects on the employment situation.

What happened in terms of FDI in the East Asian countries may serve as an example here for the MPCs. FDI inputs dropped heavily in the four main ASEAN countries (Indonesia, Malaysia, Philippines and Thailand) at the moment of the "Asian" crisis and it required almost half a decade before thay recovered the previous levels. At the same time, the inputs into the so-called "newly-industrialised" countries were maintained before progressing again. One of the main reasons which enabled them to overcome the initial drop was the capacity of each of these countries to fall back upon the subsidiaries or foreign firms which enabled trade to be maintained at the pre-crisis level.

5. Conclusions

The opening up of the MPCs to foreign trade increased dramatically during the decade 2000.

The growth of this liberalisation did not only concern the trade in goods. The trade in services and the flow of foreign investment accelerated and participated in the greatest inclusion ever of the MPCs in the global economy. It is, however, this opening up which was to propoagate the crisis in the Mediterranean, but the size of the crisis in each partner country will depend on the nature of its opening: the geography of its privileged links, the sectors of specialisation.

The geography of the opening up of the MPCs has been modified: (i) relationshps with the EU are becoming strained, at least relatively. In a context of increased liberalisation, the erosion of the importance of the EU in Mediterraneran trade may be explained at least in part by the development by the MPCs of other commercial relationships. Undoubtedly, this is an undeniable asset both for their long term development, more circumstantially, as their capacity to resist the economic crisis given the momentum it is likely to reach in the two years to come. (ii) on the other hand, intra-regional relationships remain at a level of around 5%, lacklustre et stable since the start of the Euromed partnership. They have without doubt missed an opportunity for the development and the diversification of their "portfolio" of partners. In the current economic situation, it is also regrettable (a large size structural modification is difficult to imagine in just a few months), for the countries of the region have initially been less affected by a crisis which concerns above all those developed countries which rely heavily on international finance in their economies. That could have been a growth engine to help attenuate the unfavourable economic situation of the developed countries and Europe whose drop in demand will be reflected in trade with the MPCs.

The sectoral specialisation of trade has also progressed structurally. The relationships are marked by sector-destination pairings, by an insuffient upgrading of the value chains which explains the poor progression of intra-branch trade and the technological content. The MPCs still remain too dependent on relationships featuring sub-contracting, in special sectors with limited numbers of partners. Not only does this hardly facilitate their economic development (Cf. the risk of impoverishing specialisation (Roux et al), but today makes the MPCs highly sensitive to the economic situation of sectors such as the automobile, tourism or textiles (sensitive to the private consumption in developed countries) or partners (Europe and United States). From this point of view, it is to be feared that the sectoral restructuring of certain sectors in the developed countries and the large drop in demand in Europe and the United States may have a larger impact in the MPCs than in other developing countries which have become more (or otherwise) diversified.

These elements augur for a large shock. While the MPCs have progressed well since 1995 in terms of their resilience to shocks, the feared size of the current crisis could leave social repercussions which threaten the very stability of the MPCs, if the systems of social protection introduced prove to be insufficient. An update on the state of these systems will be made in the following chapter.

Without doubt, questions need to be asked about the European commitment. Is it possible to continue to promote a partnership which is showing a desire for convergence without an attempt to balance, by means of considerably larger public transfers, the sizeable trade surplus that the European countries have? There exist some very obvious insufficiencies in terms of infrastructures, research, capacity building, which limit upgrading and impede the progress of the specialisations. The delays suffered by the South-South integration also represent a considerable obstacle. In this respect, the Europeans could usefully recall the advice of Pr. Houthakker to General Marshall in the 50s: "f you want the European nations who have fought in the war to cooperate with each other, give them the chips to play poker". The result was the free transfer of the American trade surplus at the time to European countries for regional projects and the start of the approach which led to the creation of the European Union. Lastly, at a time when the Europeans have introduced important recovery plans and the Mediterranean countries in the South see their foreign currency reserves diminish at great speed, which runs the risk of deregulating precautionary macroeconomic management, should Europe not think of defining a monetary support mechanism? It is clear that these various elements and the reformatting of European intervention could usefully consolidate the Union for the Mediterranean project.

Chapter III. Social cover in the Mediterranean

The report has concentrated up until now on the international crisis and its effects on the Mediterranean economies, by studying the transmission mechanisms. It appears that up until now, the region overall has shown stronger resistance to the shocks than might have been expected, in particular compared to other emerging regions. All the MPCs have furthemore taken a set of measures to support activity and preserve the macro-economic stabilisation that they succeeded in obtaining during the past decade. However, the world recession will also have a social dimension, mainly through adegradation in employment. As is stressed by Martin Ravallion, Director of the Development Research Group of the World Bank, "if there is one thing that we should not overlook during this crisis, it is the occasion to create pro-poor stabilisers in the developing countries, identical to the social security nets that the rich counries have already introduced." What is suggested here is to succeed in rationalising the systems of protection, "with a combination of well-conceived conditional transfers and measures of monetary assistance for workers, [making it] possible to protect a large number of poor people in a crisis, without harming their prospects of escaping from poverty in the long term" (M. Ravallion, op. cit.).

This then is the question which is dealt with in this chapter, which will concentrate on social protection in the Mediterranean. The approach chosen has been, on the one hand, to assess the current level of protection offered to the whole of the population and the results that these mechanisms have achieved, and on the other hand, to evaluate the limits of the current systems in the context of the crisis and the channels to enable them to be improved. The first section will propose a detailed overview of the social protection framework, with particular emphasis on the 2 main pillars used in the MPCs, the Social Security systems and price subsidies. This section will also identify the regional potential and the structural shortcomings specific to each country. In a second section, the chapter will examine the reforms and the results obtained in the MPCs in terms of healthcare and the limitation of poverty, in the context of the measures which have existed for a number of decades. The third section will propose some ideas for recommendations which may provide an increase in the level of protection for the population and ensure the continuity of well-being in the South of the Mediterranean despite the side-effects of the crisis.

I. The social services offer in the MPCs

Social protection is confronted everywhere throughout the world with a growing dilemma: the contributions will not be able to continue to progress quantitatively at the same pace as in previous decades, and this regardless of any ideological debate. In the North and in Europe in particular, as a result of insufficient demography making the relationship between the working and the non-working populations unable to support the former pay-as-you-go systems. In the South, and in the MPCs particularly, because of a reverse demographic structure, with the addition of insufficient activity, which does not enable the states to be sufficiently generous. It will therefore continue to be necessary to seek "better"social cover without spending more. The consensus for a reform is there, but the channels for the reform remain sensitive subjects and require developing. While an integrated system of social protection may legitimately be considered as a universal model, in a logic offering an equal access to everyone, generalised, uniformised, and obligatory without distinction of gender, ethnic origins or income, the methods for its introduction are debated more or less everywhere: should the system be based on fixed contributions/services or on services proportional to contributions, themselves proportional to income...?

Nowadays the generally accepted point of view is that the effectiveness of social policies in emerging countries is based essentially on the capacity of achieving the following objective: target successfully those who are poor today as well as those at the limit of poverty and who are likely to fall into the trap following an external macro-economic shock such as the current crisis. As far as the MPCs are concerned, this section provides a rundown of existing social protection, its guiding principles and its limitations in the regional context.

1. Inventory of social protection systems in the Mediterranean

Social protection includes all collective welfare systems introduced to assist individuals to face up financially to major social risks (unemployment, sickness, old age, family). It is the main pillar of the social model. Its objectives are therefore societal and seek to reduce the inequalities between the different layers of the population and provide households with a minimum level of income to enable them to be fully integrated in society. Furthermore, social protection has target objectives for individuals in precise situations (sickness, advanced age, large families), by helping them with a monetary contribution.

In the MPCs, the principle is a two pillared system of public protection, which we shall detail in this section: (i) the direct social security system, generally covering retirement, sickness, maternity and sometimes occupational accidents, unemployment and family allowances; (ii) an indirect system of support by the use of domestic prices subsidised by public funds for certain basic food products and for energy, in particular fuel for transport.

The social security systems

Most Mediterranean countries offer their population highly developed social protection systems, at least as far as the services planned are concerned. The heritage of a redistributive social contract, the social protection systems generally function according to the pay-as-you-go principle: the contributions of employees are not linked actuarially to the services offered (the benefits depend upon the years of contribution and the rates, and not on the level of saving that the individuals have accumulated during their professional life). In fact, among the three main approaches possible covering access to social protection systems, they are either linked to the services offered to employment, to the situation of the household or to that of the individual compared to the "means" of the different groups ("Means-Tested"), or they introduce a "universal" system for all citizens or residents; the MPCs in almost all of cases have chosen the system linking services to employment, as is indicated in Table 27 which summarises the different existing systems. It is the fact of possessing a salary-earning or formal job (often materialised by an employment contract) which enables them to be covered by the social protection systems. However, Israel proposes certain services to Israeli residents (with some exclusions) for retirement-incapacity-widowhood, medical care and family allowances. In Turkey, medical care is open to all Turkish citizens.

There is a divide in the extent of the services offered, with the existence of two large models:

- √ systems with a very wide range of services, following a logic of the Welfare State, where all the risks which an individual can run throughout his life are taken into account and are the subject of cover. This is essentially the case in the countries of the Maghreb, in Egypt and in Turkey.
- √ more limited systems, focused on retirement and health, where public cover needs to be completed by individual insurance schemes rather similar to the "anglo-saxon" systems which are to be found mainly in the Machrek and in Israel.

An examination of Table 27 which presents the systems shows that: (i) unemployment coverage is far from generalised: almost half the MPCs offer

Table 27 : Social protection systems in MPs 2008/2009

	General systems										Retirement						Contribution						
	Retirement, disability, survivor pension	Sickness and Maternity	Work Injury	Unemployment	Family Allowances	Coverage	Calculation of contributions and pensions based on :	Unemployment decreasing scale	Coverage period	Cost Sharing Health			Legal Pensionable Age		Early Pensionable Age		Retirement, disability, survivor pension			All social protection contributions			
											% 65+	Dependency Ratio (1)	men	women	men	women	Employee	Employer	Total	Employee	Employer	Total	Notes
Algeria**	yes	yes	yes	yes	yes	Employees, exclusions and special schemes	Average wage on given period	yes	max. 36 months	no	4.7	46.3	60	55	50	45	7 (f)	10 (f)	17 (f)	9	25 (g)	34	
Egypt**	yes	yes	yes	yes	n/a	Employees, exclusions and special schemes	Average wage on given period	no	112-196 days	yes	4.6	58.1	60	60	(a)	(a)	13	17	30	14	26	40	(c);(e)
Israel*	yes	yes	yes	yes	yes	Employees, exclusions and special schemes	Flat rate + Means tested	yes	50 to 175d depending on categories	yes	10.2	60.5	66.7	61.7	(a)	(a)	0.34	1.8	2.14	3.49	3.83	7.32	(c)
Jordan*	yes	n/a	yes	n/a	n/a	Employees, exclusions and special schemes	Average wage on given period	n/a	n/a	no	3.5	60.5	60	55	45	45	5.5	9	14.5	5.5	11	16.5	
Lebanon*	yes	Soins Médicaux seulement	yes	n/a	yes	Employees, exclusions and special schemes	Average wage on given period	n/a	n/a	yes	7.4	51.3	64	64	(b)	(b)	0	8.5	8.5	2	21.5 (f)	23.5	(c);(d)
Morocco**	yes	yes	yes	n/a	yes	Employees, exclusions and special schemes	Average wage on given period	n/a	n/a	non-formal	5.4	50.2	60	60	55	55	3.96	7.93	11.89	6.29	18 f	24.29	
Syria*	yes	n/a	yes	n/a	n/a	Employees, exclusions and special schemes	Average wage on given period	n/a	n/a	partial, depending on act	3.3	60.8	60	55	(b)	(b)	7	14	21	7	17	24	
Tunisia**	yes	yes	yes	yes	yes	Employees, exclusions and special schemes	Average wage on given period	no	180 d	no systematic mechanisms	6.7	42	60	60	50	50	4.74	7.76	12.5	8.8	15.45	24.25 0	
Turkey*	yes	yes	yes	yes	n/a	Employees, exclusions and special schemes	Average wage on given period	no	180-300 d	yes	5.9	47.3	60	58	(a)	(a)	9	11	20	15	15.5	30.5	(d);(e)

(1) : Population aged 14 or younger plus population aged 65 or older, divided by population aged 15–64.
(a) : no early pensionable age, has one only for specific groups, or information is not available.
(b) : Regardless of age but subject to other requirements.
(c) : contributions are leveled-off for certain services
(d) : the Employer pays the entire or largest share of the "Work Injury" contribution
(e) : more than 2 year-old data
(f) : contributions only financing Retirement Pension
(g) : an all-in sum is also payed for Unemployment

*Sources : Social Security Programs Throughout the World (SSPTW), International Social Security Association (ISSA) *SSPTW: Asia and the Pacific, 2008 ** SSPTW: Africa, 2009* no public system of coverage (Jordan, Lebanon, Morocco — a law has been under discussion for several months however — and Syria) and (ii) 4 countries do not offer family allowance systems (Egypt, Jordan, Syria and Turkey).

The amount of the services offered is calculated in almost all the MPCs according to the average salary received over a certain period. Israel stands out by using for certain services such as retirement pensions a fixed system associated with a possible complement depending on the overall income received by the pensioner compared with a minimum reference income fixed by the government.

The legal age for the start of retirement is in the majority of cases fixed at 60 for men (64 in Lebanon and 67 in Israel). This is generally earlier than in Europe, but it is also associated with a lower life expectancy. Half the MPCs allow women to start earlier. Finally, the majority of the MPCs offer a system of anticipated retirement (except in Egypt, Israel and Turkey) with two types of scheme: another at a legal age lower than the normal system (Algeria, Jordan, Morocco and Tunisia) or based not on age but on other conditions (Lebanon, Syria).

The financing of the services dispensed depends mainly on contributions deducted from the salaries of employees and contributions paid by the employer in relation to the salary paid. The State at times subsidises in certain cases, but its contribution is the most often linked to the coverage of likely deficits. The range of the rate of deductions is very vast, and varies over the whole range of services from 2% to 15% of salary from the employee side, on average 7% and 3.8% to 26% from the side of the employer, an average of 17%. In total, the nominal social deductions reach an average of 25% of gross salary, but within a wide range of 7.3% in Israel to 40% in Egypt. There is a fairly clear geographical cut-off between North Africa (Maghreb plus Egypt) with lower rates (9.5% for the employees and 21.1% for the employers that is an average of more than 30%) and the Eastern zone (Machrek and Israel) where the rates are much less (4.5% for employees and 13.3% for the employers side, that is 18% in total on average). The relationship between the rates in fact indicates that the Eastern zone tends to place the fiscal charge more on employers (relationship of 3 between the two rates against around 2 for North Africa).

The healthcare aspect of the social security systems

As concerns the coverage of healthcare expenses, it is above all in the form of financing that the MPCs differentiate themselves from the European model, which of course has an impact on the means invested and in consequence, accessibility and quality of the care dispensed by the public systems.

√ In the countries of the region, the health expenses as a % of the GDP are generally lower than the the EU27 investment and even less than the EU15 (6.2% on average excluding Israel and Turkey against 6.1% and 8.9%). Although the average is almost at the level of the EU27 countries (and also the new European countries with high mortality as identified by the WHO[10]), sizeable disparities remain. In the Maghreb, the share of healthcare expenses in the GDP is on average 5%, 2 points fewer than in the Machrek. This is almost $100 PPP per capita less ($316 against $411). This level of per capita expense is also less than half as high than among the new members of the EU ($905) and incomparable with the per capita expenses in the EU15 ($3,056). From the point of view of per capita expenses, the particularly high relative levels of Jordan and Lebanon, almost double that of the Maghreb ($611 and $608 respectively), are very obvious.

√ This regional difference may be explained above all by private expenses. Indeed, the per capita public expenses in the Maghreb represent $153 per head, that is approximatively half total expenses. In the Machrek, per capita public expenses are of course higher (at an average of $180), but only represent 40% of the total. Private expenses are therefore larger, in particular the direct payments of the household "Out of Pocket" (OOP) type, on average close to half the total expenses at 47.3% against 38.5% in the Maghreb.

√ The public effort dedicated to health in the MPCs, measured by the share of total public health expenses (8.1%) is well below that of the European countries (15.6% for the EU15), and even those of the new members (11.5%).

√ In fact, the regional health system is financed in its majority by private expenses, with the average share of public expenses being 48.5% (54.2% in the Maghreb and 44.3% in the Machrek). Here we are well away from the European model where public expenses represent around three quarters of health expenses.

√ More important still, the essential part of this private financing depends on households and direct payments. The co-payment social security systems, where a percentage is paid by the State or direct participation are however little developed and are present in only 4 countries including Israel and Turkey. It is therefore through these direct OOP payments that the households contribute to the financing of health in the MPCs, in a worrying proportion of 43.5% (up to 58.8% in Egypt). This method is judged to be the least equitable, since households are possibly forced to arbitrate their healthcare in relation to their resources or indebt themselves to face up to random events. These direct payments are also to be found in Europe, but they only represent 25.5% of expenses for the new members and 15.5% in the EU15 (and less than 7% in France).

The systems of subsidising prices in the Mediterranean, another well-used method of protection

Price subsidies in the Mediterranean have been used widely in the context of public social policy to reduce poverty and moderate the shocks on

Table 28 : Iindicators of expenditure on health 2006-2008

	Total Expenditure on Health as % of GDP		Public expenditure, % of total expenditure on health		Public expenditure on health, % of total expenditure on health		Total expenditure on health per capita, PPP $		Per Capita Government exp on health, PPP$		Out-of-pocket spending by private households, % of total expenditure*		Public expenditure on health, % of total public sector expenditure	
Algeria	3.6	2006	80.8	2003	22.7	2006	188	2006	146	2006	21.5	2006*	9.5	2005
Egypt	6.1	2007	38.0	2007	59.3	2006	316	2006	126	2006	58.8	2007	7.3	2005
Israel	8.0	2007	57.7	2005	34.8	2006	1 928	2006	1 477	2006	23.3	2005	11.2	2005
Jordan	9.9	2006	45.3	2007	58.0	2006	611	2006	257	2006	41.6	2007	9.5	2005
Lebanon	8.7	2007	43.5	2007	53.2	2006	608	2006	285	2006	39.3	2006*	11.9	2005
Morocco	5.3	2007	36.6	2007	64.1	2006	273	2006	98	2006	48.2	2007	5.5	2005
Syria	4.2	2007	50.5	2007	52.4	2006	109	2006	52	2006	49.5	2007	6.8	2005
Tunisia	5.5	2007	45.1	2004	56.3	2006	488	2006	214	2006	45.8	2007	6.5	2005
Turkey	5.6	2006	71.4	2005	28.5	2006	645	2006	461	2006	19.9	2005	13.9	2005
France	11.0	2007	79.3	2005	20.3	2006	3 464	2006	2 833	2006	6.7	2005	16.6	2005
UK	8.3	2005	81.9	2005	12.6	2006	2 885	2006	2 434	2006	11.9	2005	16.2	2005
EU-15	9.5	2007	75.8	2005	23.2	2005	3 056	2006	2 214	2005	15.5	2005	15.6	2005
EU-New Members	6.1	2006	74.7	2005	29.1	2005	977	2006	663	2005	25.4	2005	11.5	2005

**Out-of-pocket spending by private households (OOPs) is the direct outlay of households, including gratuities and payments in kind, made to health practitioners and suppliers of pharmaceuticals, therapeutic appliances and other goods and services, whose primary intent is to contribute to the restoration or to the enhancement of the health status of individuals or population groups. It includes household payments to public services, no-profit institutions and nogovernmental organizations. It includes no-reimbursable cost sharing, deductibles, co-payments and fee-for–service, but excludes payments made by companies that deliver medical and paramedical benefits, whether required by law or not, to their employees. It excludes payments for overseas treatment.*

incomes. Since their creation, their objectives have often been manifold:

√ to stabilise the fluctuation in prices of basic food products,
√ to preserve the purchasng power of households,
√ to provide food security for the population,
√ to maintain socio-political stability,
√ to encourage national production.

Food subsidies therefore represent an important element of support for the purchasing power of the modest and poor households and their living standards, but they absorb a considerable part of the social security net budgets (between 60 and 80% of all the programmes of assistance at the end of the 1990s [11]). In the region, public expenses on food subsidies could even reach 5% of GDP in certain countries (a level equivalent to the public expenses or education) at the beginning of the 2000s.

Table 30 : Subsidy costs 2007-2008 in % of GDP

	Food Subsidies	Energy Subsidies	Public Expenditure on Health
Algeria	0.1	n/d	2.9
Egypt	1.8	6.7	2.3
Jordan	1.8	1.4	4.5
Lebanon	0.0	0.1	3.8
Morocco	1.2	3.8	1.9
Syria*	2.3	10.3	2.1
Tunisia**	1.5	1.0	2.5
MPs	1.2	3.9	2.9
MPs excl. Alg. and Leb.	1.7	4.6	2.7

** Including "implicit" energy subsidies, Cf. IMF Country Report 2007*
*** up to 7.3% of GDP comprising "indirect subsidies", Cf. IMF Country Report 2008*

Source : based on IMF Staff Country Reports, IFAD Work. Paper

The food subsidy systems vary from country to country, between universal subsidies and targeted systems. In Morocco, the programmes of subsidies were introduced without being targeted specifically at the poor. In Tunisia, on the other hand, the objective is to protect the purchasing power of the poor, to redistribute income to the poor and improve the nutritional status of the poor and the population in general. In Egypt, while the initial principles aimed at providing goods to fill basic needs to the whole of the population, the objectives were reoriented, during the 1980s, towards a reduction in poverty and the targeting of subsidiaries. As for Algeria and Jordan, they gradually started to abandon the systems of subsidy during the first half of the 1990s, to the benefit of the transfer mechanism (Cf. Table 29).

Table 29 : Summary of food subsidy systems in early 2000

	Commodities	Universal	Mechanism
Algeria (since 1993)	Elimination of food subsidies and introduction of compensatory schemes for welfare loss.	Targeting the poor and elderly	Gradual liberalization of prices
Egypt	Bread, wheat flour	yes	Subsidies
	Sugar, edible oil	no	Ration Cards
Jordan (since 1995)	Food subsidies replaced by direct transfers	no	Liberalization of prices and conditionnal transfers
Morocco	Sugar, edible oil	yes	Fixed prices
	Flour	yes	Subsidies
Tunisia	Cereals, edible oil, sugar, milk	no	Fixed prices

Source : Consumer Food Subsidy Programs in the MENA region, World Bank Report 19561-MNA.

As a result, the cost of the systems of food subsidies has generally decreased to stabilise at 1.25% of GDP in 2007/2008. It has become marginal in Algeria and Lebanon (less or equal to 0.1%) and has reached an average of 1.7% in the other 5 countries.

In most MPCs, a system of subsidies for energy prices has also been introduced. The domestic price of most hydrocarbons, and particularly fuels used in transport, are taken in charge and always well below market price. The difference is covered by price compensation or stabilisation funds, public organisations whose financing is provided from the public budget. Given the evolution of the price of oil in 2008, the budgets exploded and these subsidies, if we take account of implicit support, have well exceeded those concerning food products to reach, 4.6% of GDP in 2007/2008, exceeding the cost of public health expenses.

2. Operating principles: structural limits and questions linked to the context of the crisis

The social protection systems of the Mediterranean countries have been marked by a Bismarckian influence with a certain number of specificities which are: high fragmentation, poor management of resources, high replacement rates and wide variation in the degree of coverage.

Rather ineffective targeting, fragmentation, poor effective coverage

√ The systems are marked by important fragmentation, in particular in the retirement branch where a number of funds exist, with different systems between employees of the public and the private sector, and between wage-earners and the self-employed. As the summary table shows, it is more than exceptional for the self-employed to be able to depend on the general system.

√ The social security systems only concern wage earners (or formal unemployed), in a region where the rate of formal activity is particularly low and even 50% lower than in 2005 (Cf. Femise FEM3d02). In other words, they only cover a minority of the population, leaving employees from the informal and rural sectors without protection. While, in the majority of MPCs, there exist systems to widen the cover also to the non wage-earners, but it is true to say that a large part of the population is not concerned by the general systems.

√ The retirement systems appear generous, with sizeable retirement expenses compared with similar demographic structures. The replacement rates are high: 80% in Egypt and for the Tunisian CRNPS. It should also be said that the retirement systems are more generous for civil servants and military personnel. But, no system has a mechanism indexing pensions to inflation. The coverage of retirement systems varies considerably between countries and is generally limited to the formal sector of the economy. On average, there are around 13 people aged between 15 and 65 years of age for each person over 65. Let us remember, however, that the average activity rate in the region being less than 50%, the retirement systems today can count on 6 contributors per pensioner. Furthermore, as in the case of healthcare, the effective cover is low (50 % in Egypt and between 18 and 34 % of the active population of the region), because not only of the importance of the informal sector, but also large-scale tax evasion motivated by high rates of contribution and the expected low level of pensions.

√ They are also characterised by inefficient tax management. The reserves accumulated by these systems could have been used to contend with the growing dependency ratios, but instead these reserves have been used for other things than their initial destination, notably, by covering the deficits of central government, by financing scarcely profitable projects, or being invested in the public sector with low yields. For most retirement systems, the majority of contributions from the income of workers from the private sector still exceed the expenses of the pensions. But as far as the employees of the public sector and military personnnel are concerned the systems are generally already in deficit.

√ Few countries have introduced unemployment insurance systems. Furthermore, when they exist, they are poorly developed.

A healthcare system which runs the risk of leaving behind poor households and marked by poor cover, fragmentation and public-private duality

The regional health and sickness insurance systems generally offer poor cover, in particular for workers from the informal sector (see Table 31). It should be noted that:

√ The countries of the Maghreb (Morocco, Tunisia, Turkey) have already introduced different reforms of their health and sickness cover systems aiming at universal access to health care. These reforms involve the introduction of an obligatory sickness insurance system and the (re)deployment of medical capacities so as to cover a majority of populations.

√ From their side, the health systems in Jordan, Lebanon and Syria have several common points: (i) a high level of health expenditure with a predominance for private expenditure, (ii) poor cover of health systems with an unequal spread of care and (iii) important structural reforms underway.

√ The health systems in Egypt and in Turkey are characterised by: (i) high fragmentation, a diversity of players and health systems and poor cover, (ii) numerous reforms and attempted reforms which have only partially borne fruit.

Trends which are becoming unwieldy: demography, employment

Beyond the current or recent economic uncertainties, that is the rise in price of raw materials and the current international crisis, the systems of social protection introduced by the MPCs have to contend with several structural challenges:

√ A demography which, while the opposite of that in Europe, involves high rates of dependency, that is to say a high dependent population compared with the number of potential active persons. On average there is one "dependent" person for 2 potentially active people. Currently this large dependency rate,is not due to an aged population as is the case in Europe, the "more than 65 year olds" will still only represent less than 6% of the population in 2010, but on the contrary to the young population. In 2010, the less than 15 year olds will represent on average 28.7% of the population. It is thus clear that potentially this constraint will disappear in time, since the MPCs are in a state of demographic transition (Cf. Table 32), on the condition naturally to be able to provide a job to the young population in the next decade, which will ensure the good operation, for a time at least, of the systems in situ. But, it is obvious that with the generalised demographic transition observed in the MPCs, the number of aged people will progress strongly in future, which will pose new problems.

Table 31 : Population Health Coverage

	Estimated population with no health coverage mid 90s		*Estimated population with no health coverage mid 2000s*	
Egypt	*63.0*	*1995*	*49.0*	*2004*
Jordan	*33.0*	*2000*	*32.4*	*2004*
Lebanon	*..*	*..*	*42.2*	*2007*

Source : WHO, country profile

√ An under-developed formal employment market, where the number of official active people represents less than half of the population of working age, which increases the dependency rate and the weight of contributions. It then becomes interesting, or at least likely to be subjected to arbitration, for employees to remain in the informal system, so as to escape from fiscal pressure, which will reduce potential public financing for general social protection. Add to that a high level of official unemployment, particularly among young people.

√ Poverty in the Mediterranean remains a phenomenon, even if less prevalent than in other emerging regions. Profound poverty is less, but in almost all the MPCs, an important fringe of the population is on the limit of the monetary poverty line. Each shock or structural measure is therefore likely to plunge the fringe of the population into the poverty zone, which often explains that the reforms come up against social opposition and are introduced at a measured pace.

Tableau 32 : Demographic Indicators

	Fertility rate (births per woman)			Annual population growth (%)		
	1985	1995	2006	1985	1995	2006
Algeria	5.8	3.4	2.4	3.1	1.9	1.5
Egypt	5.0	3.7	2.9	2.4	1.8	1.8
Israel	3.1	2.9	2.7	1.8	2.7	1.8
Jordan	6.2	4.6	3.2	3.6	3.3	2.3
Lebanon	3.5	2.8	2.2	0.6	2.9	1.1
Morocco	4.8	3.3	2.4	2.2	1.7	1.2
Syria	6.6	4.4	3.2	3.6	2.6	2.7
Tunisia	4.3	2.7	2.0	3.0	1.6	1.0
Palestine	...	5.8	4.6	...	3.9	4.0
Turkey	3.8	2.8	2.2	2.4	1.8	1.3

Source : WDI 2009 online

√ This poverty is not equally spread. On the one hand, the fruit of the periods of growth do not always benefit the poorest, which tends to increase internal inequalities and in consequence social risks. In a number of MPCs there are the added territorial inequalities which again crystallise social risks.

These main structural limits should be present in the mind once regional systems of protection are envisaged, not only as conditions of the feasibility of this or that measure, but also as objectives to be reached.

The stranglehold of food and energy subsidies: high costs, fragility in the face of shocks but socially useful

The main characteristics of the Mediterranean systems of subsidised prices may be summarised in this way:

√ The costly system, due to its form, benefits essentially the better off households. This is not all, it is difficult to maintain it in a context of restraint and it is affected by defective targeting. These programmes have not in fact been designed in the context of a consistent strategy of social protection: they represent autonomous measures which suffer from a lack of harmonisation in their execution, which in the end leads to an important gap between the resources allocated and the amount of the aid effectively received by the poor.

√ With the volatility of international prices, which remains stronger in the energy and hydrocarbons sector than in food products, the essential of the budget load now comes from energy subsidies.

√ A perverse effect appears in the energy domain: the distortion of the prices has not encouraged the development of a system for the more rational use of energy: cheap energy would seem to impede the introduction of a plan of "sustainable development". However, even beyond the fundamental aspects for the preservation of the environment, it should be noticed that this engenders a direct economic cost for the economy which is not negligible and, in a region where public financial means are limited, the poor allocation of resources. Femise has thus been able to estimate that an improvement in the energetic intensity used of some 10% in the next 10 years could represent an economy of more than $ 17 billion per annum for the whole of the region (Cf. F. Blanc, "Climate change and energy in the Mediterranean", Plan Bleu study – BEI, July 2008)

But the food question is not resumed solely by the question of public cost, The years 2006 and 2007, just as the first half of 2008, have been marked by a combination, not observed since 1973, in the increase of food products and petroleum products. These phenomena have accentuated the fragility of the industrial fabric, which has not yet reached sufficient maturity to allow it to adapt to the shocks of a variation in the price of inputs. But it has also fragilised the internal budgetary balances, with the repercussions of an ever widening poverty divide for the most fragile populations who have been transformed into a social affliction.

The share of imports of food products in total imports of the MPCs provides an indicator of their level of vulnerability compared to their exposure to the variations of international prices (Figure 25). Overall, it is estimated that in the region, imports cover 50% of food needs. The MPCs depend strongly on imports of food (from 95% for Jordan, 86% for Lebanon, 67% for Tunisia and 43% for Morocco to 8% for Turkey) and the reserves in numbers of months are extremely limited, except for Algeria. The situation of Jordan, with a 95% dependency rate on cereal imports (Table 33) and a 17% share of food products in its total imports, is fragile, in the same way as Tunisia and Lebanon.
This phenomenon is the source of serious social imbalances in the economies of the MPCs which see the value of their imports per inhabitant (Figure 26) increase and weigh on internal prices (+35% on average for the MPCs with disparities depending on the country). However, the prospects are more favourable for the MPCs than for the less advanced countries insofar as they have the possibility of increasing farmed surfaces (Morocco and Egypt), the case of Tunisia is judged more preoccupying as a result of uncertain rainfall.

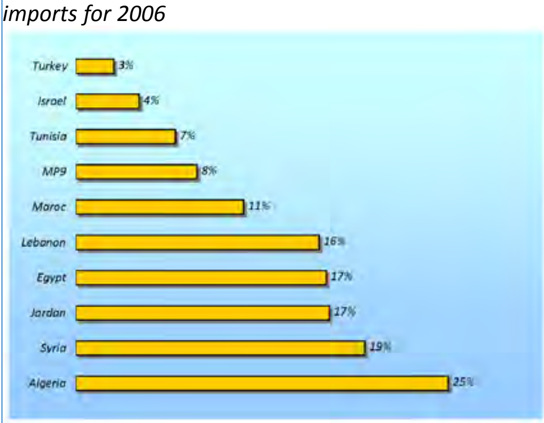
II. The results obtained by the current systems of protection

Looking at the evolution of certain important indicators over a long period, it would appear clearly that the MPCs have succeeded in improving the situation on the level of living standards, inequality and poverty. It is also undeniable that it is a partial improvement, which has not enabled the integration of all the layers of the population. While the gap is reducing between the two rims of the Mediterranean, it still remains too high for such close "neighbours". Thus, the indicators of human development in the Mediterranean suggest a social improvement and great progress on the healthcare level, but still insufficient as compared with the performances of other developing economies. Furthermore, an in-depth analysis of the poverty phenomenon gives contrasted results.

1. Considerable progress of the healthcare state, but still a marked gap with Europe

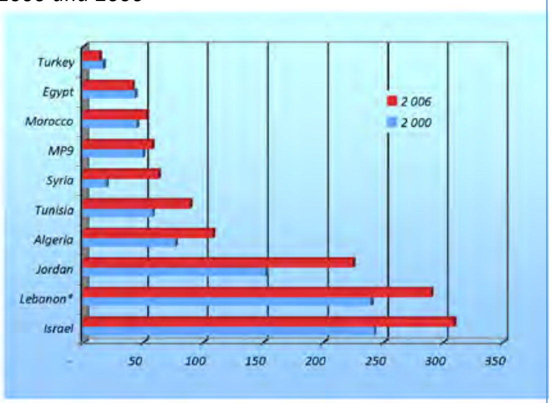
In his work, Amartya Sen (1998) underlines how "the quality of life depends on different physical and social conditions, such as the epidemiologi-

Graph25 : Share in % of foodstuffs imports in MPs total imports for 2006



Source : FAO-Agrostat 2008 and Comtrade – calculations N. Roux

Graph 26 : Value per capita of foodstuffs imports between 2000 and 2006



Source : Agrostat - FAO– Calculations N. Roux

Table 33 : MPs dependence on cereals in 2006

	% Calories	Dépendence*	Reserves in months
Algeria	57	72	54.5
Egypt	64	35	9.2
Jordan	51	95	5.2
Lebanon	33	86	14.4
Morocco	62	43	9.3
Syria	45	15	13.7
Tunisia	51	67	5.2
Turkey	50	8	5

** share of cereal imports in total domestic production + imports*

Source – World Bank, 2008

cal environment in which a person lives" [12]. As regards the theories of income growth, each person is endowed with certain assets. These include tangible possessions such as economic wealth but also intangibles such as health, knowledge and social capital which are more difficult to quantify and interpret. Usually, health refers to all the corporal and mental features of a person throughout his life. As concerns knowledge, it covers above all education. Finally, social capital refers to the gains made when someone is a member of a social or professional group [13]. The region seems to have made considerable progress in improving the state of health of its population. As A. Driouchi points out (FEM32-01, 2009), "over the past two decades, the rates of growth have gone beyond what can be explained by the initial levels of income and health in 1980 and the growth rates of incomes since".

To begin with, the MPCs have made good progress in terms of the growth of life expectancy. As Table 34 indicates, the inhabitants of the southern shores have seen their life expectancy increase by 8 years in 20 years. Egypt, Tunisia and Morocco register the greatest progress in the matter. The difference with the EU15 is reducing: crossing the Straits of Gibraltar involved 11 years of life fewer 25 years ago. Today it costs "no more" than 8 years. Catching up took relatively longer for the new members: the gap in years of life has gone from 6 to 2 years in 25 years.

The gap between the life expectancy for men and women would not seem to be so marked as in Europe, 4 years on average in the South against 6 years in the North, both cases in favour of women. But, this gap poses questions about the problems of maternity.

Examining upstream, by focusing on the health of the newborn, parting from the principle that the rates of infantile mortality provide a glimpse of the general quality of health services being offered, the weaknesses of the Mediterranean systems are more obvious. As Table 35 indicates, the rate of infantile mortality is still much too high (33‰ in Morocco, around 25‰ in the rest of the region). Here, the difference with the conditions which prevail in Europe is much more marked: the average of the Europe of 15 is 4‰, 6 times less fewer, and 8‰ for the new members. In fact it resembles that of the countries of the European continent with high mortality (23‰). It is the same as for the mortality of children less than 5 years old, which amounts to an average in the region of 28‰ against 5‰ in the EU15. In this case, however, the gap is equally similar to those high mortality countries of the European continent where the rate reaches 16 deaths per 1,000 live births. It therefore has to be recognised that the health conditions of women and children are in relative deficit and the question of access to care for these people who are more often dependent than active in the MPCs, means the general cover of the health systems immediately comes to mind.

By going back to the WHO statistics, this difference can be illustrated by observing to what era of the EU the current situation of the MPCs corresponds (Table 36). The life expectancy today is equivalent to that of the EU15 countries in 1973, or of the new members on the eve of the current decade.

As far as the ratios of infantile mortality are concerned, the current situation of the MPCs is not as good as that which prevailed in the EU15 in 1970 or in the new member countries in 1980.

Table 34a : Evolution of life expectancy at birth in MPs 1985-2007 (years)			
	1985	1995	2007
Algeria	64	69	72
Egypt	58	66	71
Israel	75	77	80
Jordan	65	69	72
Lebanon	68	70	72
Morocco	61	67	71
Syria	66	71	74
Tunisia	65	71	74
Palestine	...	70	73
Turkey	63	68	71
MPs excluding Isr and Turk	64	69	72
EU15 (2006)	75	78	80
NEW EU MEMBERS	70	71	74

Source : WDI 2009 online and OMS online database

Table 35 : To which year does the current situation in MPs correspond when compared to Europe?			
	Life expectancy (2007)	Infant mortality (per1 000 live births)	Under five mortality rate 2006
PM7 in 2006**	72.4	25.0	28.9
EU15	1973 : 72.3	1970 : 21.8	1970 : 25.59
EU New Memb	1999 : 72.4	1980 : 21.9	1980 : 25.46

* per 1 000 live births
** excluding Israel and Turkey
Source : Femise calculations based on WHO data

Neverthless, since 1990, we observe that the infantile mortality ratios have all improved considerably: the rate of infantile mortality thas dropped by an average 45% since 1990. But this progression is lower than that which prevailed in Europe (-57%).

The situation is better as concerns mortality at five years which has almost been divided by 2 in fifteen years or so. It is better than the EU15 (-40%) which start from a much lower rate, but still lower than the progress made by the new member countries of the EU (-55%).

2. Varied effectiveness of social policies in the reduction of poverty

The phenomenon of poverty in the Mediterranean is characterised in its main orientations:

√ By using the poverty line of $1, the rates of poverty in the Mediterranean are among the lowest in the world. However, once the povery line is considered to be $2 per day, the proportion of poor increases significantly. This indicates a high vulnerability and a large part of the population ready to “slip” into poverty. That is to say that any unfavourable modification of the economic situation or the introduction of structural reforms to rationalise systems should take account of a probable rise in poverty.

√ Poverty remains concentrated in the rural areas whereas the urban areas are relatively less concerned by the phenomenon. But with the

Table 34b : Health indicators in MPs and Europe, 2006				
	Life expectancy at birth - male (year)	Life expectancy at birth - female (year)	Infant mortality (per1 000 live births)	Under five mortality rate (per 1000 live births)
Algeria	70	72	33	38
Egypt	66	70	29	35
Jordan	69	74	21	25
Lebanon	68	72	27	31
Morocco	70	74	34	37
Syria	70	75	12	13
Tunisia	70	75	19	23
Palestine (2004)	71	74	21	24
MPs average excl. Isr and Tur	69	73	24	28
Israel	79	82	4	5
Turkey	71	75	24	26
EU15	77	83	4	5
NEW EU MEMBERS	70	78	8	9
EU HM (2005)	65	74	23	16

* per 1 000 live births
Source : WHO Online

Table 36 : Evolution of infant morbidity indicators : ratio of 2006 to 1990

	*Infant mortality (per1 000 live births)**	*Under five mortality rate**
Algeria	*0.61*	*0.55*
Egypt	*0.43*	*0.38*
Jordan	*0.64*	*0.63*
Lebanon	*0.82*	*0.82*
Morocco	*0.49*	*0.42*
Syria	*0.40*	*0.34*
Tunisia	*0.46*	*0.44*
Israel	*0.40*	*0.42*
Turkey	*0.36*	*0.32*
EU15	*0.43*	*0.62*
EU New Members	*0.46*	*0.45*

** per 1 000 live births*
Source : Femise calculations based on WHO data

increase in internal migration from rural areas towards urban areas, these latter may see the creation of "pockets" of poverty.

√ People working in the public sector in the MPCs have less chance of being poor. However, poverty affects not only people no longer working and the unemployed but also a part of the working labour force.

√ Poverty is closely correlated with the size of households. The households the most numerous are generally the poorest. There again, within the very households, the dependent ratio per working person is generally high, which should be taken into account when the monetary value of the services offered by the systems of social protection are examined.

√ There exists an important link between poverty and education. Illiteracy causes poverty which itself perpetuates the lack of education, thus starting a vicious circle.

By using the national poverty lines given by the World Bank, completed by other data, we have obtained an approximation of the population living below the poverty threshold in each MPC. It is then used to calculate an index which shows how growth and poverty have evolved and in what directions.

As Table 37 below indicates, the diminution of poverty in the Mediterranean is associated with an increase in the GDP in almost all countries. The growth-poverty ratio indicates that an increase in the GDP is generally accompanied by a reduction of the percentage of people under the poverty threshold. More precisely, an increase of 1% in GDP corresponds to a "lessening" of poverty of around 2.5 percentage points in Algeria, around 2 points in Jordan and more than 1 point in Tunisia and in Egypt. This "elasticity" is less, below one point, in Morocco and Syria. The decline of GDP as a result of the international crisis will certainly result in an increase in generalised poverty in the MPCs.

This correlation between growth and reduction in poverty does not appear to be borne out, however, in the recent period in Israel and to a lesser extent, in Turkey. In these 2 countries, the increase in GDP per capita was accompanied by a parallel increase in poverty. The limitation of data on poverty may be in part responsible for these results. But, it should be stressed that Israel represents a special case where poverty and high levels of income comparable to European countries co-exist. Israel presents the particularity of an essentially ethnic poverty. Hence, the Arab populations (in particular the Bedouins) and ultra-orthodox Jews represent nearly 60% of the poor and the data indicate that the increase in the incidence of poverty derives essentially from the increase in poverty among these populations.

3. Evolution of inequalities

This type of context inevitably leads to the question of the distribution of the benefits of growth and in consequence the evolution of inequalities.

Analysing the phenomenon of poverty on the sole basis of the lines of monetary poverty does not provide an understanding of the situation, or its possible evolutions. For example, the fact of having an income slightly above this line is not fundamentally different from having an income slightly below it, in particular in a context of crisis. Poverty overall diminished in almost all Mediterranean countries between the beginning of the 1990s and the start of the following decade, while the GDP per capita registered a constant increase. So as to better understand the situation of the Mediterranean economies, it remains to be estimated which part of this increase in income has effectively been received by the poor in the Mediterranean by taking inequalities into account. The following table calculates the pro-poor growth rate in the MPCs where the data are available, by using the methodology found in Ravallion (2004)[15].

In the countries where poverty and inequalities follow a parallel reduction, the poor (the first deciles in national income distribution) benefit from an increase in income which is at least equal to that of the per capita GDP. Jordan is a perfect example, as the rate of growth of its per capita GDP reached 2.5 % during the period of observation. At the same time, the pro-poor growth rate increased to nearly 4.5 %. We can even see in Table 38, that the decile of the poorest households has benefited from a growth rate of 9.1%, three times the average rate, while the increase in household income of the better off was slightly negative. It is clear in this case that economic growth firstly benefited the worst off and the inequalities within the country were reduced. At the same time, we will see that Jordan is reputed to be one of the rare countries to target the poor with success by using a newly implemented social protection safety net, which proved its effectiveness at this period on this level.

Table 37 : Poverty-growth relation in MPs over the years 1990 and 2000

	Poverty Variation (% annual)	*GDP per capita variation (% annual)*	*Growth-Poverty ratio*
Algeria	*-8.18%*	*3.20%*	*-2.56*
Egypt	*-5.86%*	*5.00%*	*-1.17*
Israel	*1.33%*	*3.38%*	*0.39*
Jordan	*-5.51%*	*2.69%*	*-2.05*
Lebanon			
Morocco	*-4.40%*	*5.14%*	*-0.86*
Syria	*-0.65%*	*0.83%*	*-0.78*
Tunisia	*-10.00%*	*6.02%*	*-1.66*
Turkey	*1.92%*	*15.43%*	*0.12*

Periods covered : Algeria (1995-02), Egypt (1996-00), Israel (1997-05), Jordan (1997-2002), Morocco (1999-2004), Syria (1997-2004), Tunisia (1995-2000), Turkey (2002-2006)
Sources : FEMISE calculations using WDI online data, Central Bureau of Statistics, Turkstat

Box 6 – Calculation of Pro-Poor Growth Rate

The Pro Poor growth rate is obtained from the average of the real growth rates of all the deciles. It represents the ratio of the real variation of poverty divided by the variation which may have been observed if the growth had been spread equitably. Thus, it shows whether the changes in the spread have been favourable or not to the poor, which is the case when the Pro-Poor growth rate, that of the first decile, exceeds the overall growth rate

√ With the exception of Israel, of the other 6 countries for which this calculation has been able to be made, 4 have a pro-poor growth rate greater than the average rate for the period: Algeria, Tunisia and Turkey together with Jordan. It is not always the poorest decile which has benefited the most, as in Tunisia and especially Turkey where the growth rate of the first decile is lower than the average rates. We may think more positively that to a certain extent, these countries are experiencing the emergence of a middle class. In the absence of spectacular results in poverty terms, this remains a positive feature in the reduction of inequalities, as well as a factor of a better resilience of the country to economic shocks.

√ Morocco would also seem to be in this scenario. The data indicate that the growth has benefited the poor less, with rates of growth in the first two deciles lower than the average rate.

Nonetheless it is also the case of the best-off decile and it may be suspected that the same thing occurs in Egypt as well. It is nevertheless a fact that in these countries with large populations, the absolute number of poor therefore remains large, and for the poor among them, the gap separating them from the average situation has considerably grown.

√ There remains the case of Israel where the inequalities have visibly increased. It is the better-off deciles which appear to have taken the greatest advantage of economic growth and the social protection systems have not provided a better redistribution.

Table 38 : Estimation of pro-poor growth in MPs during the 90s

in % per year	per capita GDP growth	Pro-Poor growth	Growth in selected deciles			
			Decile 1	Decile 2	Decile 9	Decile 10
Algeria	7.0%	7.8%	8.8%	7.5%	8.3%	4.1%
Egypt	5.8%	5.5%	4.6%	5.3%	..	..
Israel	2.7%	2.2%	0.1%	1.4%	2.8%	3.5%
Jordan	2.5%	4.4%	9.1%	6.2%	1.6%	-0.5%
Morocco	3.7%	3.6%	1.8%	3.3%	5.1%	3.1%
Tunisia	3.8%	4.7%	4.0%	5.7%	4.0%	1.7%
Turkey	4.0%	4.3%	3.4%	4.0%	4.7%	2.7%

Source: FEMISE calculations ; data from the World Income Inequality database ; Algeria (1988-95), Egypt (1995-04), Israel (1997-01), Jordan (1992-1997), Morocco (1985-95), Tunisia (1985-1990), Turkey (1987-1994)

However, this is the main objective the Mediterranean economies should aim at, particularly in the context of the current crisis which will lead to a drop in growth rates: reforming the existing systems of protection to enable them to widen their effective coverage, in particular for the most deprived or vulnerable populations, populations which should be "better targeted" so as to improve overall social well-being, while remaining sustainable from the point of view of the budgetary means which the Mediterranean partners currently have at their disposal. The following section deals with the main channels that need to be explored.

III. Leads for recommendations for social policies in a context of crisis

In the Mediterranean countries, the improvement in the social security systems should be an objective to help minimise the impact of the crisis on the population. Naturally, it is to be feared that the loss of dynamism in the economy, which will result in a drop in the growth of GDP, will lead to a drop in public investment in the traditional social sectors such as education, health and social services. The sombre scenario is that the economic crisis be transformed into a social crisis if poverty, inequalities and the number of persons not covered by the services grow too sharply. It is therefore obvious that these social risks should be treated through an effective social system which defines coherent objectives and which is equipped with the instruments necessary to be able to achieve them.

The table below summarises the methods for managing social risks on several levels, from the individual to public authorities. It indicates that the reforms of the social protection system and the health sector should be a priority for all countries. The latter should increase expenditure intended for the poor and the non-covered populations, ensure a minimal impact on purchasing power and coordinate their monetary and budgetary policies so as to guarantee price stability in a highly constrained budgetary context. Various measures may be used to achieve these objectives, juggling with taxes and fiscality, with the evolution of certain salary indicators (such as that of civil servants), with the elimination or the upkeep of certain subsidies, with the introduction of direct aids to the poor which guarantee their access to basic services such as education and health [16]. Rationalising the costs and guaranteeing better access to quality care are problems to be solved in priority.

Coordination is fundamental

In a recent Femise research report, A. Driouchi (2009) highlighted that living conditions for the poor in the Mediterranean may be improved with supplementary coordination and integration of political initiatives. Recent socio-economic reforms would seem to be centered on economic and political instruments and the social aspect has been overlooked. The following table gives some examples of the population needs and the risks linked to each need and also provides an understanding of the dynamics necessary for the coordination of the complementary policies and their integration. For example, extended healthcare policies which focus on the poorest segments would provide a substantial improvement in the struggle against poverty as well as progress in healthcare.

Similarly, governments have an interest in prioritizing public expenses and reinforcing sectors such as Health and Employment Protection, which guarantee aid to people who need it while providing them with the tools necessary to escape from absolute or relative poverty. This may be introduced jointly with strategies of employment promotion which support social autonomisation while fighting against constant demographic evolution.

Table 39 : Mechanisms to Manage Social Risks

Objectives/Instruments	*Informal/personal*	*Formal/ financial market-based*	*Formal/publicly-mandated/-provided*
Risk Reduction	*Less risky production, Migration*		*Labor standards, Labor market policies, Preventive healthcare Education*
Risk Mitigation	*Multiple jobs Investment in human, physical and real assets, Share tenancy Family arrangements*	*Investment in financial assets , Private insurance*	*Public insurance: unemployment, old-age, disability, health*
Risk Coping	*Selling of physical and real assets, Borrowing from neighbors, Intra-community transfers/charity, Sending children to work*	*Selling of financial assets, Borrowing from banks*	*Public cash and in-kind transfers, Subsidies, Public works*

Source: Michal Rutkowski (2007), A Perspective on The Role of Social Protection in the Middle East and North Africa, Protecting the Poor and Vulnerable in Iraq, Jordan, Lebanon, Syria and West Bank and Gaza: Iran Social Protection Seminar June 4-7

1. Reform of the health sector

The Mediterranean countries will have to maintain the trend of increasing health expenditure. Firstly there is too large a disparity with Europe, despite the progress made, in a close geographical context which exacerbates these differences. Secondly, special supplementary efforts should be made concerning the healthcare conditions of women and children. Thirdly, the high level of financing at the charge of households is a real handicap in terms of effective coverage and the financial protection of each family and public financing should progressively take the place of household financing.

Finally, the health systems will have to answer the growing demands in healthcare, while the countries are undergoing a phase of demographic and epidemiological transition (Algeria, Egypt, Tunisia). These trends will certainly contribute to an increase in the cost of care due to the growing burden of certain chronic illnesses.

Reform of health insurance: towards a synergy between private and public

The health insurance systems are the very first to be concerned. The growing needs in terms of healthcare will involve more financial resources as well as the rationalisation of existing resources. In the majority of countries, the trend is towards the application of principles of good governance which provides an increase in the financial and medical effectiveness of the health systems. This generally involves the separation of the functions of financing and supply of health services. The State collects the obligatory contributions and distributes the funds to the private sector. In this domain, the introduction of adapted deductions is indispensible to ensure the success of health insurance in the MPCs. The contribution rates should be sufficiently high to assure the financing of the health system without it handicapping the Mediterranean economies. The objective of such a separation of the functions is, through the intermediary of a diversification of medical services and a wider involvement of the private sector, an increase in the effectiveness, the quality of the services and overall health cover. The existence of greater synergy between public and private should also provide a response to the growing needs of the population. The main pitfall of such an orientation, which should be avoided, is that the progression of the share of the private sector leads to a reduction in the public financing of healthcare which would generally increase the inequalities between individuals for care. Having part of the care provided by the private sector should in the MPCs enable today's limits to be exceeded, in particular the access to quality care, and not prolong or increase them. The private sector should provide a supplementary part of the financing which the MPCs need to avoid the crowding out of a fringe of the population. It should help limit similar cases to that observed in Morocco concerning maternal health care: as a result of direct payments, (OOP), the NGO "Save the Children Fund" was able to estimate that "for 50% of the poorest women, an increase of 10% in healthcare costs would reduce their access to a qualified health professional by 6.2%, and would reduce their access to a healthcare establishment by 8 %" [17].

Table 40 : Examples on links between population needs and social policy coordination

	Risks	*Agents*	*Policy Coordination and Integration*
Food	*- Nutritional, linked to diet requirements - Risks associated with health*	*Governement, Public Agencies, Private businesses, NGOs, Unions*	*- Production, - Quality Control, - Health, -Education, -Security -Economic Policy*
Health	*- Worsening health troubles - Long-run poverty - Deterioration of the current wealth level and commencement of poverty for those at the brink of poverty*	*Governement, Public Agencies, Private businesses, NGOs, Unions*	*-Health, -Housing -Infrastructure, -Family -Social, -Employment, -Education, -Sports -Security -Economic Policy*
Employment	*- At firm level, - At employees level - Related to the economic environment*	*Governement, Public Agencies, Private businesses, NGOs, Unions*	*-Industry and commerce, -Employment, -Economic Policy -Education, -Health, -Insurance -Security*

Source: Driouchi (2009), Femise RR FEM32-01

2. The strengthening of Social Protection

The viability of retirement systems questioned

The Mediterranean economies have also been led to review the degree of "generosity" of their retirement programmes. Generally, for both Maghreb and Machrek countries, the inherited system of redistribution which is marked by their determination to have vast systems of social protection appears to pose more than ever numerous problems of financial sustainability.

The retirement system needs an in-depth reform which would offer:

√ sufficient income for the retirement of everyone,
√ a long term financial viability of the system,
√ effectiveness and objectivity in the spread of income

As has been said, the current problem depends on 2 features:

√ firstly, the difference in the provision of services between the public sector and the private sector. In fact, the current financial charge and the deficits come mainly from the pensions of the workers in the public sector, while even the effective cover of those of the private sector is insufficient.
√ secondly, the demographic transition associated with the low rate of activity. The population is currently young, but that indicates that the trend of the potentially active/pensioners ratio will follow a downward trend.

As everywhere, no known solution exists. But it is clear that certain constraints may be eased.
The first approach is naturally the growth in the amount of contributions in such a way as to assure the pay-as-you-go financing which is chosen in the majority of cases. Given the social constraints, it will be difficult to increase contributions, but the MPCs, have available a reservoir of non-exploited potential contributors because of the low rate of formal activity. Here again, the creation of decent formal jobs is an absolute priority. These jobs are to be created above all in the private sector, since the charge of the pensions of the workers from the public sector is already too heavy. This brings us back to the aspect of the coordination of the measures raised above. Efforts should also be made to make the social services offered more attractive in the private sector, that is to say, to move towards a homogenisation between the conditions of the public and the private sectors [18].

The question also arises of the age for the start of retirement. Pushing back the start of retirement, by increasing the number of years and the amount of the contributions is a measure frequently put forward to carry out an effective reform. This orientation is the first choice in terms of reform in Europe. It would seem logical that given that life expectancy has increased, the same should happen to the age of the start of retirement, which in a number of Mediterranean countries remains rather low. A longer life expectancy means supplementary financial needs. Furthermore, the link between longevity and retirement could enable the government to issue “longevity bonds” and therefore guarantee the security of retirement pensions for the next generation of contributors [19]. At the same time, as the analysis of the systems by country indicates, there remains a very considerable gap between the systems which prevail in the public sector and the private sector. This movement to push off the age of the start of retirement should therefore both symbolically and effectively start by involving the public sector.

The last approach which is often raised, the systems by capitalisation. In the context of MPCs, it could represent a welcome supplementary measure, but essentially for those who do not run real risks of poverty. The existing systems would need to be mature before such a choice could be effectively proposed.

The question of budgetary sustainability: the targeting and introduction of safety nets

To answer the question of budgetary sustainability, the MPCs should take an example from the experiences of other countries in the way in which they target their social protection. Faced with financial and budgetary constraints and the rise in poverty, the social policies of the Mediterranean countries have a tendency of going from the concept of universalism to that of targeting [20], from a “welfare state” to a “workfare state”. In fact, the budgetary and fiscal constraints make it indispensible to ensure that the existing resources are spent in an optimal way in the direction of the poor[21]. However, the question of targeting is complex.

Firstly, if in the proposals of social reforms, the accent is often placed on the "effective" targeting of the poor, as Ravallion remarks "what is so "perfect" in "perfect targeting" is far from being clear... In its purest form, perfect targeting based on actual incomes creates a poverty trap, in that recipients face a 100 %, marginal tax rate, which is clearly a disincentive against taking any effort escape poverty by one's own initiative [16]."

Secondly, "it is possible that "targeting errors" quite simply reflect the fact that the measurement of income based on surveys is not a sufficiently statistical tool to identify who really is "poor"" (Ravallion). It is clear that an improvement in statistical tools is necessary, but the fact of developing an alternative methodology for measuring well-being which is not based solely on the monetary aspects and embraces other less tangible dimensions representative of the "immaterial wealth" of the individual is also important.

Box 7 – Who should be targeted in the Mediterranean?

In a study carried out by the World Bank, five groups of population have been iodentified and necessitate immediate attention in the economies:

- √ *The poor, for poverty is following an increasing trend and population growth is increasing the demand for basic services,*
- √ *Children, who are an integral part of the workforce and suffer from poverty rates which are among the highest,*
- √ *Landowners of small farms, for poverty remains a rural phenomenon and landed property in the region suffers from inefficient distribution, the absence of ownership laws and badly adapted pricing instruments,*
- √ *Jobseekers who have just arrived on the job market and poorly qualified workers whose number will grow and who will face growing risks of unemployment,*
- √ *Elderly people, for their dependency ratios are expected to increase the pressure on the retirement systems while the social expenditure is likely to increase.*

Thirdly, targeting makes the existence of means of measuring and identifying the poor indispensible. This involves large administrative costs and capacities which do not always exist in MPCs, in particular when the informal economy remains a source of income for numerous individuals. The introduction of "bad" targeting mechanisms may lead to an under-coverage of the poor and a flight in favour of the non-poor. For example, the food subsidies are without a doubt favourable to the poor, nevertheless, they are often badly targeted and therefore particularly costly.

Moreover, the experience of countries with high and intermediate incomes shows that universal access is important to encourage middle classes to finance social programmes through their taxes. The continuing high level of poverty in the partner countries testifies to the ineffectiveness of these social protection mechanisms, with an unequal distribution between the social groups. A contrario, in countries such as Lebanon and Israel, where the social protection systems are limited, there is a need to improve the cover of existing systems so as to better satisfy the needs of the population. As Ravallion notes (2008), "a comprehensive safety net will almost certainly require a combination of transfers (in cash or food) and relief work. The latter helps the working poor while a complementary set of transfers in cash or food can be targeted to specific groups who either cannot work (due to physical incapacity, including poor nutritional status) or should not be taken out of other activities (notably school) to join relief work" [22].

3. Promote employment and participation in the formal job market and fight unemployment

The creation of formal employment and the fight against unemployment must both remain absolute priorities. Positive variations have been observved since the middle of the 1990s (between 1996-

2006) with a drop of unemployment in Algeria of approximately 60%, around half in Morocco and a low 1.2 % in Tunisia. However, during this same period, the proportion of the unemployed appears to have increased by around 4 % in Turkey, 2 % in Israel and a little less in the rest of the Mediterranean region. The effects of the international crisis on employment will only be felt in the MPCs in the course of 2009 and following the example of the prospects in the OECD countries, this impact will be longer lasting than on the other aggregates.

Furthermore, we have previously pointed out the link between unemployment and poverty and how the former should be targeted by a mixture of urban and rural development policies. It should not be forgotten that structurally, the rural Mediterranean is more susceptible to the risks of massive drops in employment linked to random climatic events (e.g. drought in the case of Morocco) and in a continually heavy international context, regional conflicts. As a consequence, the support of social policies should considerably improve its aid for rural populations.

Even beyond questions of demography which have a marked effect on job markets, any reflection on the social systems should integrate the constraint of the informal sector as well as the low level of activity. Not only does this make the financing of a system, based on the contributions of formal workers complex, but it also explains to a large extent the poor effective coverage, which has already been underlined on several occasions. However, from the moment we want to discuss integrated social policies, the Mediterranean partners cannot dissociate the aspects of protection systems from active employment policies, with notably the objective of generalising the loss of job allowances. We once again repeat that the demographic transition opens a real window of opportunity for financing this progress and preparing for a sort of "granpappy-boom" which is expected to arrive automatically in a few decades.

4. The reduction or elimination of price subsidies and the adoption of alternative regimes

The systems of subsidies, as has been seen, have a financial weight which is more and more difficult to support, which necessitate the introduction of reforms to reduce the extent and the weight of these systems. But the context and the social usefulness cannot be absent from the reflection. These systems enable a number of Mediterraneans with modest incomes to be maintained above the poverty line but the economic counterpart is that these subsidies provoke a number of macro-economic imbalances (contraband in diesel fuel, distorsions, search for unearned income).

However, as has been said, but the effectiveness of their capacity to fight poverty is often questioned because of large losses in the direction of the non-poor. The subsidies do not reach their objective in the fight against poverty for a large part is absorbed by households with comfortable incomes who consume more and who in consequence take advantage of more subsidies contained in the price of products purchased. As the World Bank points out (1999), in Tunisia, the food subsidies benefitted the rich more than the poor before the attempts at reform. The wealthiest quintile absorbed 20% of the subsidies whereas the poorest quintile only benefitted from 17% of the subsidies. In Morocco, the poorest 20% benefitted from 15% of the subsidies while the wealthiest 20% absorbed 25% of the subsidies in question. It is the same for Algeria where the system of subsidies has failed in its mission of targeting the poorest.

There remains the fundamental question: is it acceptable to deprive the poor of necessary subsidies under the pretext that they also benefit the most well-off? The fact that the wealthy profit more comprehensively does not mean that the system is not used to fight poverty. It somehow enables the poor to gain access to relatively uncostly food products. Further, the question is envisaged differently in a regular economic context or in a period of recession, where, in the absence of financial means from the public players, it becomes indispensible to rationalise expenditure to avoid the whole of the system failing. The international crisis and its spin-offs on the global economy make it necessary to overhaul the systems of subsidies and create a less costly, better targeted, more effective system.

In the line of the recommendations of the international institutions, the majority of countries orient their actions towards the better targeting of subsidies according to the principle that the subsidies tend to benefit in priority the groups of the population with average or high incomes and that due to the limited number of targeting mechanisms aimed at the poorest [24]. In Morocco, the year 2008 was marked by an overall reflection (through the intermediary of an interministerial commission) on the reform of the Compensation Fund (Caisse de compensation) so as to provide a better targeting of the most needy. Syria would also like to introduce more finely targeted subsidies while maintaining the system of food price subsidies. In Egypt, food aids are extremely difficult to dismantle for they have been in place for several decades. For example, the poor may buy a loaf of bread for less than one centime: the elimination of the subsidy on bread would once again lead to social tension like that of the Spring of 2008 if it is not followed by effective compensatory schemes.

The other economic concern linked to the subsidies is that they generate distorsions on the markets. The prices are not representative of the economic situation and even more thorny, the sectors of the subsidised products are among the least competitive of the economy, hardly subjected to the rules of competition. In Morocco, in the sugar sector, one firm alone represents more than 90% of the main production. In the dairy sector, the main producer monopolises more than 60% of the market. These companies are therefore those which determine the formation of costs, the simple elimination of subsidies will have for probable effect the substitution of the consumer for the tax payer to continue to pay the predefined margins.

It is therefore not simply a question of eliminating the subsidies and liberalising prices. Firstly, targeting needs to be redefined, not only those targeted, but also the products. In fact, it must not

Table 41 : Subsidy costs before and after reform in the 1990s

	Fiscal cost before reform		*Reform*	*Fiscal cost after reform*		*Results*
	(% du GDP)	*(% of public expenditure)*		*(% du GDP)*	*(% of public expenditure)*	
Algeria	*4.7*	*16.9*	*Subsidies phase-out. cash transfer programs*	*0.9*	*2.9*	*Loss of purchasing power for the poor, rural poor more advantaged, cash transfers compensate but may not be broad enough.*
Egypt	*2.1*	*5*	*Subsidies to only basic food staples.*	*1.5*	*5.5*	*Nearly 40% of subsidy spending still goes to high income groups.*
Jordan	*3.4 (1990)*	*7.6*	*Less generous system. basic goods coupons. cash transfers*	*1.4*	*3.8*	*The rich benefit from bread subsidies more than the poor. Rice, sugar and milk subsidies benefit the poor.*
Morocco	*1.3*	*5*	*No reform* *At present 3 commodities are subsidized in unlimited quantities*	*1.7*	*5.5*	*Higher income groups gain, a large share of the subsidy never reaches the consumer, rural populations benefit more in all commodities.*
Tunisia	*2.8 (1989)*	*7.2*	*Self-targeting measures to redirect benefits. Subsidies to products consumed by the rich were eliminated.*	*1.7*	*4.5*	*Program costs were reduced but the distributional incidence was moderate. Targeting of the poor improved for all goods but sugar.*

Source : Consumer Food Subsidy Programs in the MENA region, World Bank Report 19561-MNA.

be forgotten that the evolution of international prices and the reforms already carried out have led to the fact that the budgetary weight of the food subsidies has generally become less than that of energy subsidies. The distorsions caused by the latter are even more disturbing, as they contradict the efforts made elsewhere in the context of sustainable development. Reducing the extent of subsidised products explicitly or implicitly is a necessary first step. As for the question of targeting, international experience would seem to indicate that the transfers in cash or food coupons have a better effectiveness-cost ratio.

5. The need to find an alternative methodology for measuring well-being

In the analysis carried out until now, and notably the questions of targeting, the question of identification of populations to be better covered recurs and therefore begs the question of the information tools and monitoring.

To illustrate this, we shall take the case of the situation of children in MPCs, the health statistics of the youngest of which displayed a relatively bigger discrepancy. In fact, the children confronted with dangerous social conditions still represent an even larger part in the MPCs. One of the major causes of this situation is that investment rermains low in the social services, including in healthcare, education, water and sanitation among others. (Censis, Femise Research Report FEM31-22R)

As Mariani underlines (2008) “being able to establish the health status of children goes beyond statistics of mortality and should include the deterioration of health, the nutritional state and diseases, as well as preventive aspects which protect children’s health”. This research proposes a tool used to measure how the Mediterranean countries are moving towards taking care of and assuring the well-being of children. The focus of the instrument is concentrated mainly on the characteristics linked to the privations and the social exclusion of children; it is not only centred on economic variables such as income and purchasing power. Thus, it can be used to create indicators which concern the quality of life in its entirety.

The multi-dimensional indicators are buit by merging the indicators and using the factorial analysis

Box 8 – The Moroccan Caisse de compensation (Compensation fund)

This organisation was created in 1941 to stabilise the price of consumer products. From the end of the 1990s, the Fund only subsidised sugar, edible oils, butane gas and oil products. In 1995, a new system came into force, the prices were then indexed to the quotations of oil products in Rotterdam with a view to the gradual liberalisation of the economy and the energy sector. With this reform, it is the consumer who bears (partially) the fluctuations in the international market for any rise or drop which exceeds a certain threshold (2.5%). Indexation was introduced, but the system was suspended in August 1999 with the explosion in the price of the barrel of oil. Once again, the Caisse de Compensation covered the difference between the internal prices which were blocked on revisable projections and the international prices. The current mechanism is schematically the following: over a certain period, the average price of a barrel of oil is projected. If the international price exceeds this estimated amount, the public price is not indexed (since 2001), the Caisse has to compensate the difference to the professionals who operate “within the framework of regulated prices”. The continual rise in therate of petroleum products (as well as the price of raw sugar) since the beginning of the decade have destabilised the system, placing an increasing burden on public finances: in 2005, the pivot price was fixed at $47.8 and in fact that led the Moroccan state to pay over 19.2 dollars to the compensation fund for each barrel imported (this equals a drawing off of 600 million dirhams per month, around $66 million). The 2006 budget thus forecast a contribution of 7 billion DH (780 million dollars) for the compensation of petroleum products (out of a total of 9 billion), to which was added 12 billions of arrears (1,300 million dollars). To illustrate the burden on public finances, we should recall that in 2005, according to IMF data, the budget of the Caisse represented 6% of public consumption, 5% of State income and 1.5% of GDP. Of the same order, the arrears represented 11%, 8.6% and 2.6% respectivement

The Moroccan authorities do not want to totally blame the system, while putting a ceiling on the budget : “the Caisse de compensation will still continue to support the prices of normal diesel fuel and butane gas to the level of 5.5 billion dirhams per annum so as to bolster the purchasing power of the citizens”.*

**declaration of the Minister responsible for Economic and General Affairs, M. Rachid Talbi El Alami of 13/01/07* to integrate all the information on health, education, social status, demography and the economic situation in a single index (Med-CWI index). Furthermore, it makes it possible to identify the level of well-being in a given country, while at the same time, it identifies the differences relative to a group of countries. The results of the study indicate that in the EuroMediterranean region, France and Italy have been the countries which have succeeded best in ensuring the well-being of children. At the other end of the scale, Morocco, Egypt and Algeria are to be found at the bottom of the classification using this methodology. According to the author "if the position of a country on the Med-CWI scale is better than its GNI per inhabitant rank, this means that it has progressed more by orienting the economic wealth acquired towards an overall improvement in the well-being of its children". It is the case of Palestine, Jordan and Syria (see the Femise research report FEM31-22R).

Table 42 : What more can be done regarding reforms ?

	Status of Reforms (early 2000s)	*Reform Options*
Algérie	*√ Food subsidies eliminated gradually* *√ Safety nets introduced to compensate for the increase in prices*	*√ Improve targeting and efficiency of the existing safety nets*
Égypte	*√ Réduction of subsidy costs (price increases, reduction of subsidized food items)* *√ Targeting of certain goods (Bread, Flour)* *√ Ration quota (sugar, oil)* *√ System remains untargeted and general (open to all with no quantitative restrictions)*	*√ Reduce food subsidies costs through two options: a) eliminate subsidies on certain goods (ex. sugar, oil), b) adopt an administrative system to screen the poor from the non-poor*
Jordan	*√ Food subsidies gradually replaced with food coupons, then by direct transfers* *To this day subsidies are virtually eliminated.*	*√ Improve targeting* *√ Monitor the impact of the ellimination of cash transfers on poverty.*
Morocco	*√ Quotas replaced by custom tariffs* *√ Crop production and intermediary prices have been liberalized* *√ Consumer prices fixed by Government (sugar, oil, flour)* *√ Flour is self-targeted via low-grade quality to favor the poor* *√ Cost of food subsidies has remained stable*	*√ Removal of subsidy and reduction of custom protection for all three products* *√ Introduce a compensatory targeted scheme for the consumers and producers affected by removal off custom protection.* *√ Use a budget share to finance instruments focused on the basic needs of low income groups.*
Tunisia	*√ Food subsidies are self-targeted in the form of quality differentiation* *√ Cost of food subsidies has been reduced* *√ Food subsidies are still general, untargeted and open to all.*	*√ Strengthen the inferior goods approach,tailor selection of subsidies based on consumption pattern of the poor.* *√ Liberalize prices on unsubsidized goods* *√ Increase retail prices on goods consumed by higher-income groups* *√ Improve targeting and monitor progress of reforms* *√ Reduce custom protection for all subsidized products* *√ Introduce compensatory schemes to protect the poor local producers.*

Source : Consumer Food Subsidy Programs in the MENA region, World Bank Report 19561-MNA.

The interest in developîng and generalising such methods goes beyond pure research and provides a follow-up and and a sort of evaluation of the existing measures, relative to the political objectives fixed, which should logicaly enable the governments to perfect their tools and better orient their measures if the objectives that they have fixed are not finally achieved satisfactorily. The methodology used in the construction of the Med-CWI index provides at least a partial response to these problems, including that of targeting. The use of this methodology could and should be extended to other layers of the population equally in need. The increase of wealth does not always provide the best social conditions for everybody and such indicators could act as a wider methodological reference which reference encourages the application of strategies complementary to those which pursue objectives of economic growth. Social questions would thus be better managed and the policies could provide an effective socio-economic autonomisation. This type of “observatory” even has a regional vocation and should be part of the EuroMediterranean tools to be recommended in the framework of Union for the Mediterranean.

6. The need for pluriannual budgetary programming for optimal visibility of strategic choices

The need for structural reforms for social policies implies a wider budgetary horizon corresponding to the pace of the evolutions in the social domains. Here, a pluriannual budget is necessary in order that the transformations may be sustainable and the allocation of public finances more effective. Furthermore, this will enable the authorities to be granted greater visibilty over the means they have available and would offer conditions propitious to the control of public finances. The transformation of the French budgetary system may be a reference for the MPCs as is shown by the current budget reform in Morocco which is based upon a similar pluriannual approach. The medium term expenses framework (CDMT) undertaken in Morocco establishes a link between the strategic objectives and the budget for the year, it provides a 3 year projection by ministry of the needs and resources in investment, technical and human capital. Hence, in 2008, the Moroccan budget deficit was one of the lowest in the region at 2.1% and the scheme adopted should be used as an example to the rest of the countries in the region who envisage a complete overhaul of their systems of retirement, health care and food subsidies.

Moreover, as underlined by M. Karim (2008) it would be more profitable (and less costly) to group the programmes in the form of a mission by remodelling the budget coding. For this reason, MPCs should be more oriented towards the choice of type-sensitive indicators which identify various strata of the population more or less exposed to risks for the social sectors and differentiate between budgetary and treasury operations providing a higher level of transparency to the system.

IV. In conclusion

It appeared in previous sections that the region overall registers stronger resistance to the shock compared to the rest of the world. All the countries have taken a series of measures, which while they increase certain deficits, aim at stimulating the economy so as to conserve the acquisition of a certain macro-economic stabilisation and above all, seek to preserve the population of a good part of the negative impact.

As a general rule, the social protection systems offered in the MPCs would appear to be developed, which has undoubtedly enabled the living conditions in the MPCs to catch up on European standards. But this convergence is only partial and still too slow socially. It is clear that a large part of this insufficient pace towards convergence can be put down to these social protection systems, especially because of:

√ a system based on pay-as-you-go and whose cover is conditioned by formal employment, in economies where the formal workforce are too few in number, which leads to a largely insufficient effective cover,

√ ineffective financial management, with a large part of the financing provided by the households themselves, which because of living standards contributes once again to limiting access to services

√ considerable fragmentation,

√ heavy public/private duality, with better cover for public employees and better services offered by private operators at a cost too high for a large fringe of the population,

√ a conception which does not favour targeting of the poorest.

In fact, an improvement of these systems is necessary to guarantee that social stability in the region is maintained and the main channels to be explored may be resumed by the introduction of a better-coordinated, better-integrated and more efficient approach. The principle is that reforms of the social protection systems improve firstly the systems of healthcare and protection against the loss of employment. The systems based upon heavy price subsidies which target everything ineffectively and have too high an economic cost should be progressively phased out in such a way as to allocate the resources freed to other social programmes. The synergies between public service and private service providers should be improved in such a way as to improve the quality and above all the access to services and reduce drastically the difference in treatment between services offered to workers in the public and private sectors, with a better extension of the safety nets to the informal sector.

Notes:

1: 181 countries are classified according to a set of indicators which reflect the level of constraint which an entrepreneur has to contend with to exercise his activity. An aggregated indicator is used to understand the overall relative situation of each country according to its classification in the sample

2: Whose members are, other than the MPCs, Saudi Arabia, the Palestinian Authority, Bahrein, the United Arab Emirates, Iraq, Kuwait, Libya, Oman, Qatar, Sudan, the Yemen

3: Nomenclature of the International Trade Centre – Geneva. We have not used the 'petroleum products' sectors and the categories of excluded products which category 9 of the SITC refers to particularly and which concerns trade of a special nature.

4: The sectoral contributions are calculated by dividing the net variations of the sectoral exports by the net variations of total exports

5: This indicator (ACi) is used to show the features of the inter-branch specialisations. It is equal to the ratio of the exports of the good i to the reference zone j divided by the imports of the good i per reference zone weighted by the total imports of good i of the la zone. To normalise the indicator, we build the indicator l'indicateur AC*i=ACi+1/ACi-1 which varies from -1 to + 1. A positive indicator establishes that the country has a market advantage in the reference zone for good i.

6: The mean annual growth rates of these 2 sectors are respectively 10% and 11%

7: Grubel & Lloyd index (GL) =[(Xik +Mik)-| Xik - Mik|)/ Xik +Mik]*100 with Xik = export of good i by country k and Mik = import of good i by country k

8: IMF (2009), "IMF Sees Spending by Middle Eastern Oil Exporters Softening Global Financial Crisis Impact", Press Release No. 09/28, February 9, available at http://www.imf.org/external/np/sec/pr/2009/pr0928.htm

9: Samir Radwan and Jean-Louis Reiffers (2005), The Euro-mediterranean Partnership, 10

Years After Barcelona: Achievements And Perspectives, FEMISE, February

10: 26 countries of the region "Europe » from the WHO with the highest motality rates: Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Estonia, Georgia, Hungary, Kazakhstan, Kirghizistan, Latvia, Lithuania, Montenegro, Poland, Republic of Moldova, Romania, Russia, Serbia, Slovakia, Tajikistan, Macedonia, Turkey, Turkménistan, Ukraine. Cf. 2004 WHO Report on World Health http://www.who.int/whr/2004/en/ for methods and criteria.

11: 1999 data, Consumer Food Subsidy Programs in the MENA region, World Bank Report 19561-MNA

12: Sen, Amartya, (1998). "Mortality as an Indicator of Economic Success and Failure". Economic Journal, Royal Economic Society, vol. 108(446), pages 1-25

13: Ahmed Driouchi (2008), "Interdependencies of Health, Education & Poverty with Policy Implications for Southern Mediterranean Countries, FEMISE Internal Consultation 2007-2008, FEM 32-01

14: El Naggar (2007), "Overview : Health Sector Brief", World Bank, available at http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/EXTMNAREGTOPHEALTH/contentMDK:20510402~menuPK:583116~pagePK:34004173~piPK:34003707~theSitePK:583110,00.html

15: Martin Ravallion (2004), Pro-Poor Growth: A Primer, Development Research Group, World Bank 1818 H Street NW, Washington DC

16: Ravallion M. (2008), "Bailing out the World's Poorest", Policy Research Working Paper 4763, World Bank

17: Freeing up HealthCare : A guide to removing user fees, 2008, Save the Children UK, International Save the Children Alliance

18: World Bank (2005), Sector Brief: Social Protection in MENA, available at: http://siteresources.worldbank.org/INTMNAREGTOPSOCPRO/Resources/SOCIAL-PROTECTION-ENG-2005AM.pdf

19: OECD, (2007), "Modernising Social Policy for the New Life Course" available at http://213.253.134.43/oecd/pdfs/browseit/8107171E.PDF

20: In matters of social policy, there are two opposing points of view: universalism where the whole of the population benefits from the social services provided and targeting where the social benefits are subjected to conditions.

21: This philosophy is supported by the comments of international institutions, for whom targeting is demonstrated to be the method for fighting poverty in the most effective way and at the lowest cost: according to the UNDP report on Syria : "Had there existed a perfect targeting of poverty alleviating transfers, it would have required only about SL 597 millions per year to fill the gap between the actual spending of poor households and the poverty line – thus lifting everyone out of poverty." Egypt: "This means that if there were a perfect targeting of poverty alleviating transfers, it would have required only about £E 350 million per year (0.1% of GDP in 1999/2000)", in the report of the Moroccan Ministry for economic forecasts and the planning, "the to attenuate poverty would have been more reasonable if the poor population had been perfectly identified in space and differentiated according to the degree of its defficiency of its living conditions".

22: Ravallion, Martin (2008), "Bailing out the world's poorest", Policy Research Working Paper WPS 4763, World Bank

23: Najib Akesbi, 2002, Food subsidies: is it the worst or the least good system in the fight against poverty?, Fondation Abderrahim Bouabid, 2ns Session of Debats on Poverty in the Arab world, March

24: "The effects of these subsidies as instruments of social protection are diluted because they are not targeted to the more needy and poorer segments of the rural society" (p. 61 World bank Social protection).

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Algeria: A post-oil growth strategy to be set up in a crisis context for the private sector

For the first time the Algerian economy recorded a growth rate lower than the Mediterranean average (3% compared to 4.8% in 2008) due to fluctuations in oil prices and the international economic crisis. For a longtime the country has followed a growth strategy of extensive accumulation, without sufficient investment in the development of the private sector. Therefore, Algeria undergoes the effects of the lack of diversification in its productive structure which could have ensured a higher productivity and would have attenuated the repercussions of the crisis on the real economy. Indeed, hydrocarbon exports represent approximately all Algerian exports. However, the Algerian authorities are well aware that the wealth of the hydrocarbon economy will not be able to support growth beyond a thirty year horizon. The clear reduction in oil prices contributed to a 42% exports decrease in the first quarter 2009 and gradually underscores the need for setting up a growth strategy based on productivity and the knowledge economy.

The challenge the country faces is thus threefold: Algeria must evolve in the medium term towards a model of growth that relies more on productivity and less on extensive accumulation, it must bring a prompt and efficient response to the crisis, and finally it must combat a rising unemployment rate since 2006 (12.5% of the active population in 2008), that affects the youth in particular, which weakens the social structure.

The adopted solution relies on foreign exchange obtained by marketing activities of the hydrocarbons sector which simultaneously allow the financing of great projects, a major agricultural reform, a relatively good social coverage, public consumption and regular imports.

The focal point is on structural policies aiming at supporting employment, development of infrastructures, housing construction, the link between employment formation and the job market, the evolution of agricultural policy. On the other hand several recent events reveal that Algerian SMEs suffer from the crisis repercussions and that domestic authorities are not ready to use the external shock (adhesion to the WTO, advanced association agreements with the EU) to reinforce their effectiveness and instigate growth. Furthermore, initial steps of protectionist behaviour have emerged which make the country conspicuous among other countries of the euromed. It is clear however that the importtant foreign-exchange reserves and the quasi-absence of international debt enable Algeria to support internal demand while letting the deficit on manufactured goods get wider. It would however be unfortunate if this period is prolonged in an exaggerated waythrough which Algeria might lose the gains of past efforts to develop a web of competitive private companies, to attract foreign investors, to transform the financial system and to gradually prepare the post-oil economy.

Concerning the country's macroeconomic position the following points are worth mentioning :

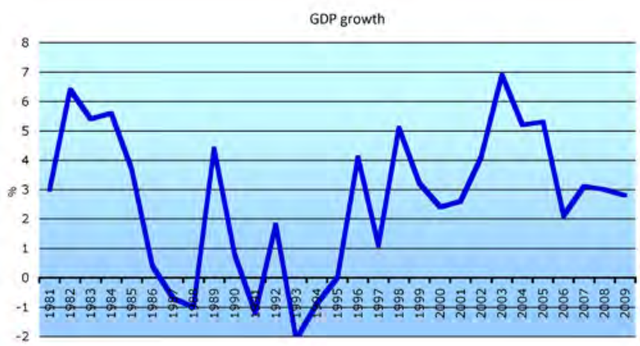
- √ Exports aside, investment remains a main engine of growth and underdevelopment of non-oil sectors constitutes an opportunity for foreign investors. However, the business environment is still non-optimal and reforms have given limited results translating into poor governance indicators, especially with regards corruption.
- √ The trade balance kept recording a 39 billion dollar surplus in 2008. However, this surplus should decrease by more than half by the end of 2009 (by approximately 64%) due to the fall in export earnings and the imports invoice increase.
- √ Services can play a major role in determining the fate of domestic export-growth strategies ; the country has to gain by opening service sectors that act as intermediaries within the production process.
- √ The ministry of tourism signed a series of agreements with local investors on 80 tourist pro-

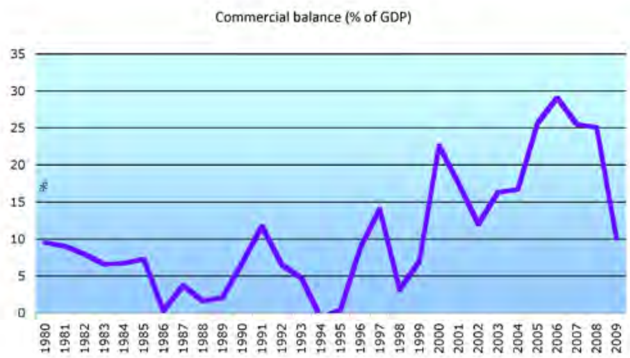
jects, which should materialize during 2009 and represent a total of 20 million euros, in order to guarantee, at least partly, the sectors' resilience to the shock (10% drop in tourist inflows between January 2009 and January 2008).

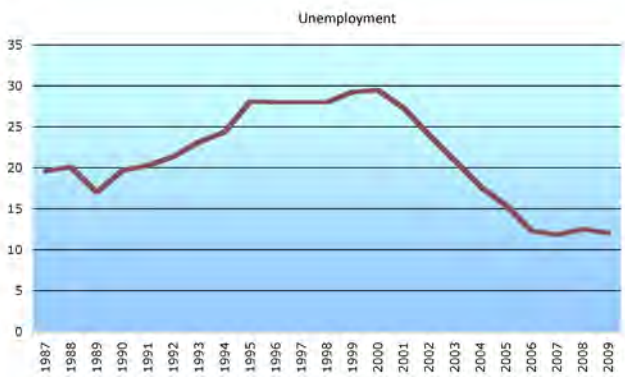
√ Budget policy needs reorienting to protect internal demand from the fall in oil prices. If the latter remain higher than the 40$ mark then incidence on public accounts will be minimal. In the opposite case, the budget deficit will increase and the government will be obliged to use its Regulation funds to cover the deficit.

√ The Bank of Algeria (BdA) follows a policy of managed floating exchange rate while pursuing the goal of total convertibility of the Algerian dinar. Actions aiming at fighting against prices speculation helped to maintain inflation at relatively low levels (4.5% in 2008). However, monetary policy could be more transparent as to the intermediate financing of the government budget.

√ Social indicators have improved, poverty scaled back from 14.1% in 1995 to 6.8% in 2004, life expectancy increased and illiteracy has been reduced. However, social policies will have to







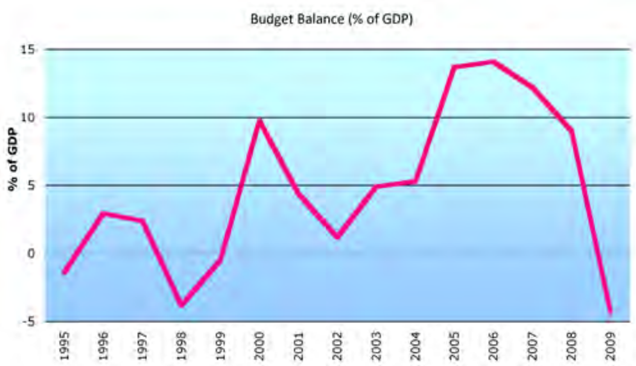
target access to basic services in a more effective manner, in order to limit the prevalence of poverty

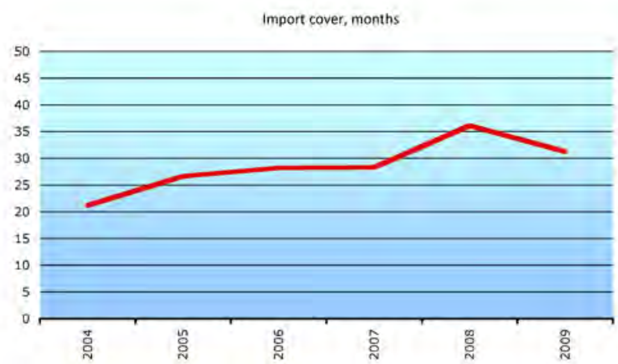
1. 1. The shock: Volatile economic growth due to the evolution of oil-prices, diversification efforts remain scarce.

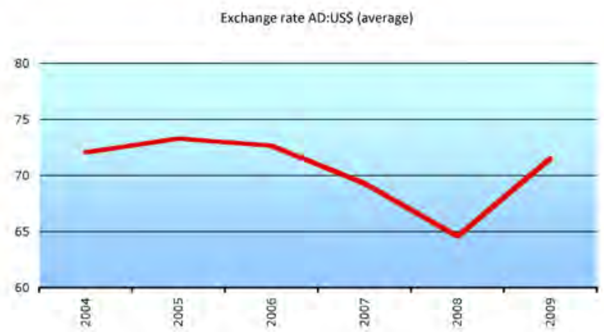
Growth in Algeria is greatly interrelated with the development of the industry and service sectors. The industrial sector alone accounts for approximately 61.9% of value added in 2008 followed by 30% for services and 8.1% for agriculture. In 2008, real GDP growth stood at 3% marking a small slow down from previous year's record. It is expected that this slow down will continue in 2009 due to the crisis reaching 2.8%.

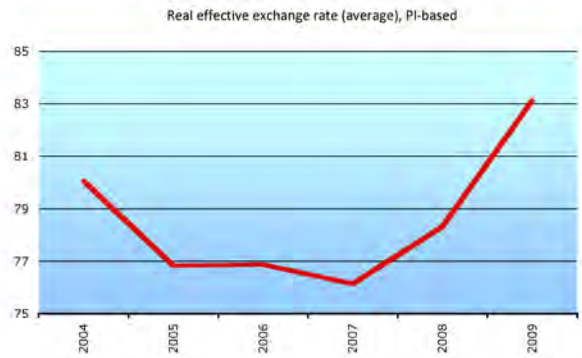
√ For several decades, the country has been following a model of growth based on the development of the oil sector which makes it strongly vulnerable to oil-prices volatility. Thus, the agricultural sector should be the only one facing a positive rate of growth in 2009, in a context of stagnating oil-prices and a crisis challenge for the real economy. The growth path should thus imperatively evolve towards less dependence on the hydrocarbons sector. The government initiated an ambitious program of diversification backed by 22 billion dollars, relating to the fields of construction (infrastructures and housing), services and public employment. Growth in 2008 was also stimulated by the development of non-oil sectors (growth rate of 6%), in particular in construction and services related to infrastructural projects[1]. Nevertheless, performances remain modest compared to the rest of MPs.

√ Furthermore, if Algeria seeks to maintain its oil-producing status in the long-run and use it as a mechanism of economic stimulus it should be accumulating a larger share of oil-revenues in order to increase investment in non-oil sectors with a high potential of growth. Presently, government assistance to the private sector has hardly had any effects on growth. Private expenditure increased by 0.5% between 2007 and 2008 while the growth of the public sector slightly decreased. The private sector must however develop more in order to combat a rising unemployment rate since 2006 (12.5% of the active population in 2008).

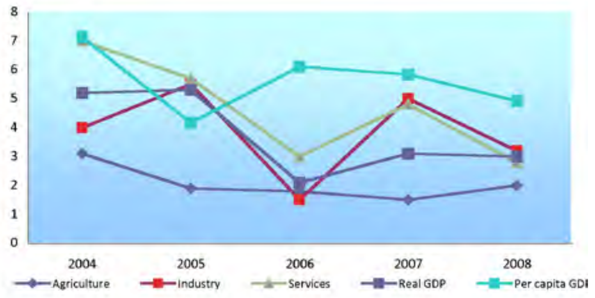






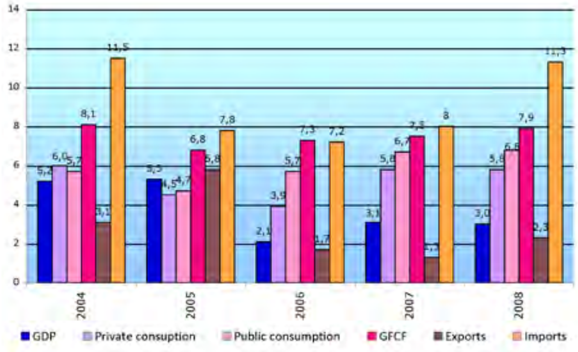


Growth by sector and evolution of GDP (%)



Source : EIU

GDP decomposition and economic growth



Source : EIU

1.2. Balance of payments in surplus, Algeria is a net creditor with respect to the ROW.

The main engines of demand-based growth in 2008 are exports and investment.

Exports, traditionally of hydrocarbons and fuel related products represent the quasi-totality of perceived revenue from overseas. The share of oil in merchandise exports attained 95.7%, meanwhile, the ratio of oil-reserves to total production represents a feeble 6.8%. Nevertheless, despite low reserves, the share of government spending in total GDP has been solid recording a 6.8% rate of growth[2]. The boom in oil-prices in 2008 was the principal source of export sustainability which led to a 2.3% increase in export revenues.
Nevertheless, the year marks a crucial turning point for Algeria. Oil-prices have shrunk by more than two-thirds since the second semester of 2008 and could follow the same trend in 2009, albeit at a lesser magnitude. This would translate in export revenues plummeting, while they constitute Algeria's main source of growth. Moreover, exports recorded an annual fall of 42% in the first quarter of 2009 : oil-exports dropped by 42%, while non-oil exports recorded a 44% reduction [3].

At the same time, the value of imports strongly grew, which weighs on the deficit. Imports increased by 10% compared to the first quarter of 2008. The increase relates to almost all products: imports intended for equipment, which represent nearly 45% of total of imports, met a 22.25% rise, goods intended for the production process increased by 13.11%, non-food consumer goods by 13.90%. Only food imports recorded a 16.37% fall (CNIS).

The trade balance remained in surplus through 2008 at 39 billion dollars. However, this surplus should decrease by almost two thirds by the end of 2009 (- 64%). The balance in the 1st quarter of 2009 already recorded an 87% fall compared to the same period in 2008.

Moreover, services trade liberalization will be a determinant for the fate of export-led growth strategies in Algeria. While non-oil receipts remain marginal, their growth constitutes a potential turning point for Algeria. Whilst other developing countries are moving forward on comparative advantage towards human capital and technology-intensive goods, MPs such as Algeria should reverse their trend of becoming increasingly specialized in energy exports and in low skilled production. Whether or not Algeria's exports flourish depends on how efficiently goods are transported from the production site to destination, hence, it depends on the presence of efficient service-links. For the time being, gains from trade are diminished due to issues of market regulation and structure, but tend to develop more quickly than in the previous decade: the annual average rate of growth of business service exports in 2000-2007 is thrice the rate which prevailed during the 1990-1999 period, that is to say 18% versus 6% (COMTRADE, N.Roux).

With regards to tourism ncome, a fall in inflows of approximately 10% was recorded in January 2009 (compared to 2008) in the regions of Tamanrasset and Djanet (in the far-south of the country) considered as well-known regions of Saharan tourism in Algeria [4].

Algeria officially targets 2.5 million tourists in 2011 by further developing Saharan tourism. The fall in recent inflows is seen as insignificant, tourism development in the Sahara targeting wealthier consumers that can maintain their expenditure in spite of an unfavourable economic environment. Moreover, a series of agreements were recently signed between the ministry of tourism and local investors. These agreements, which amount to a total of 20 million euros, relate to 80 tourist projects which should materialize during 2009, including the construction of hotels and of a Marina in the region of Tipaza. The government announced that in the months to come other agreements would be signed as well with foreign investors that should make possible, at least partly, to reinforce tourism resilience to the economic shock [5].

Workers' Remittances represent a feeble share of GDP compared to other Mediterranean economies, in 2007, remittances represented 2.2% of GDP in Algeria. To that extent the country is one of the least vulnerable with regards to this specific transmission channel. Nevertheless, as unemployment rises in the EU, remittances from Algerian migrants should be affected to some degree and early estimates point towards a 17% decrease of current transfers (including remittances) towards Algeria (EIU).

As a result of these sharp degradations in the country's external sector, the record surpluses achieved yearly by Algeria's current account balance has been hit hard, after a record of $34 million in 2008, the surplus is expected to be of about $7 million only, marking a dramatic fall of about 80% in 2009.

1.3. Impact on FDI

Investment remains one of the main engines of growth, nevertheless, the economy underwent the crisis consequences on FDI which recorded approximately a 3 billion dollar decrease in 2008, 40% less than in 2007 (Agence nationale pour le développement de l'investissement, ANDI). The abandonment or deactivation of many projects financed by Gulf countries is the main cause [6]. Such projects have created approximately 250.000 jobs in Algeria during the last 5 years.

The interest shown by foreign investors largely rests on the private sector development program initiated in early 2000. In this respect, the East-West motorway, considered as one the greatest public works projects in the world, has been a major source of overseas investments in construction. This sector could perhaps moderate the trend of decrease in the next few years following the international crisis. The construction program of 13 new cities based on innovation should make it possible to develop new carrier sectors for the economy and at the same time build a structured and coherent urban system. Nevertheless, foreign investors estimate that the country still imposes important taxation on exceptional profits of private hydrocarbon companies, in both current and future agreements, which constitutes an implicit barrier to overseas investments.

2. Adapting to the crisis

2.1. Budgetary position and national debt

Not only has Algeria managed to be the sole country in the MPs to keep a surplus of its current account balance despite the slowdown, but it has been a showcase of achieving a surplus of its budget balance in 2008 (+9 % of GDP) by benefiting from a high oil-price. For years, the government has been using revenues from oil to strengthen its deficient infrastructure; its oil-price assumptions when drafting the budget where always below record high prices of the latter years. Nevertheless, perspectives for 2009 predict a complete reverse of trend; indeed the budget balance is expected to encounter a deficit of about 4.3% of GDP.

The 2009 Algerian budget has been planned on the basis of a barrel of oil at 37$ (versus 19$ in 2008). It is doubtful that savings from oil revenues will be enough in 2009, despite usual underestimation of oil-prices, to maintain public spending at current levels and with the absence of growth from the non-oil economy. There is a risk of exchange rate appreciation which will contribute to a vicious circle of adjustment costs and negative externalities in the non-oil sector. If oil-prices remain low the budget deficit will be aggravated and the government will be obliged to use its regulation fund to cover the deficit. Algeria appears to have limited resources on budget financing hydrocarbons apart.

If we take away, oil related revenues, the primary education deficit reaches nearly 32% of GDP (37% according to the IMF), due to an expansionist budgetary policy with the application of the PIP (Public Investment Program 2005-2009) and because of the rise of the wages invoice. The challenge will be to keep pursuing a budgetary policy likely to support economic stability and the quality of government expenditure, by taking into account the following constraints:

- √ The budget should shield domestic demand from the decline in oil-prices. Meanwhile, monetary policy should be coordinated and do the same in light of decreasing prices in foodstuffs.
- √ Moreover, the budget should include the pension system deficit as well as transparency towards indirect financing through public banks.
- √ Furthermore, the central bank of Algeria should continue the current policy of pursuing stability of the real effective exchange rate.

2.2. Monetary policy and inflation

Presently, the Bank of Algeria (BdA) follows a policy of floating managed exchange rate while pursuing the goal of total convertibility of the Algerian dinar.

In spite of the objective of fighting against inflation by limiting monetary creation, the rise in domestic prices persisted in 2008 through the joint effect of increasing wages, higher raw materials and cereals prices and an inflow of liquidities in the financial system. The inflation rate in 2008 was 4.5% with only 1% increase from previous year's record. Actions to fight price speculation helped maintain overall inflation at these moderately low levels.

Essential financial reforms comprise improvement in banking and financial environment performance (prudential regulation according to the European standards and Basle principles), the development of the stockmarket which remains largely undersized and management of a high level of savings. Nevertheless, the banking sector remains heavily dominated by public banks which slow down integration with world financial markets but have allowed in recent months to reduce the domestic repercussions of the financial crisis.

2.3.Fighting against unemployment

Algeria has been able to considerably reduce its unemployment rate in few years, however it remains a major national issue : the official rate of unemployment attained 12.5% in 2008 (EIU) while the country is plagued by youth unemployment over the 25% mark.

The evolution in the latest decade appears to have been influenced by a number of programs. Algeria's Economic Recovery Program (ERP) that was launched in 2001 did have important results in its 3 year duration since youth unemployment was practically cut by half by the end of 2004. The similar 2005–09 initiative appears to have contributed until the end of 2006, however, 2007 trends already indicated an insufficient rate of job-creaton for the youth. To that extent, Algeria needs to further implement ERP type initiatives now that the crisis has erupted, but it needs to do so with a more long-term strategy in mind. Indeed, public employment programs often create temporary jobs and the retention rate at the end of the qualification-period is weak. Furthermore, employment initiatives have been budget demanding and cost considerably more than originally planned (25 % to over 100% more, IMF).

2.4. Diversification in production, exports and partners

Algeria's level of exposure to outside shocks is too high due to a strategy presently based on a sole ressource : oil. Hencee, uncertainty as to the future of oil prices is the primary concern of the country at the moment. Oil-based exports should be perceived as an opportunity for the country to deeply diversify its production and open new external markets of non-oil goods and to ameliorate basic social conditions.

The association agreement with the EU, concluding bilateral trade agreements, adhesion to the «Zone arabe de libre-échange» (Zale) and dismantling of the last customs tariffs are considerable steps and should allow reducing domestic economic fragilities: this liberalization movement should allow for a transformation in the economic structure and living conditions. In that respect, one will note the importance of logistics. Indeed, the current logistic capacities seem to be an obstacle to development. The logistic performance indicator (LPI) of Algeria places the country in the 140th place on 150 countries, underscoring a deficiency in cost reduction, administrative barriers and a low performance quality (the World Bank, Arvis JF et al. 2007).

3. Could the existing Social Protection Policies help cushion the effect of the crisis on the population?

Though far from perfect, past Algerian social policies have led to some distributional shifts in favor of the poor. Poverty and inequalities followed a similar trend of reduction and the poorest deciles were able to benefit from a growth in their income share superior to the per capita GDP growth rate, while the richest decile was left aside growth-wise.

Nevertheless, despite such growth, the poorest decile barely received 3% of total income in the observed periods. Thus, future policies and supplementary reforms focusing on insuring social cohesion should allow for better targeting.

3.1. Social Security systems

Thanks to a voluntarist social approach, social indicators have improved. Algeria is 100th with a human development indicator of 0.748, and life expectancy went from 69 years in 1995 to 72 years in 2007 (WDI online). The current Algerian social security system covers the near total of the population against social risks, it is based on a single regime and can be separated in five branches.

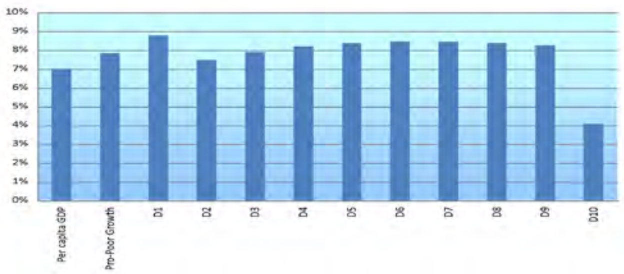
Regarding the pensions branch, the system has been unified since January 1, 1984 (law of July 1983) and is presented in the form of an insurance and contributive system, characterized by solidarity between the active population and those in retirement. This contributory pension scheme is obligatory for all employees, single and general and managed by the Caisse Nationale des Retraites (CNR, or CASNOS for non-employees). In March 1999 the last modifications were introduced allowing to define a single pension scheme for all workers.

The object and principles of the law of July 1983 are:

- √ Unicity of the scheme for all employed persons
- √ Standardization of the rules relating to the appreciation of rights and benefits
- √ Standardization of financing.

Also, the system covers all employees whatever their branch of industry and is characterized by:

- √ A very high level of service provision (80 to 100% of wages), *Pro-poor growth*



Source : FEMISE calculations, based on growth and inequality data from World Income Inequality Database for 1988 and 1995.

- √ Unification of legal age of retirement (60 years for men and 55 years for women),
- √ A minimum pension level (75% of the SNMG)
- √ A relatively short career lenght (32 years)
- √ Calculation of pensions is based on the average wage of the last five years or of the five best years of career
- √ Pensions are revalorized annually.

It shall be noted that an unemployment-insurance law came into effect in July 1994 with the creation of the «Caisse Nationale d' Assurance Chômage» of the ministry for employment and national solidarity. Unemployment benefits are paid to those having lost their employment in an involuntary way: the unemployed receive two months of compensation per year of contribution.

The generosity of the retirement scheme is explained by the surge of oil revenues which made it possible for the government to maintain a budget in surplus (11.8% in 2008). Nevertheless, the downward oil-price trend and the recent crisis require that the government undertakes additional reforms ensuring a better equity between public and private coverage, including development of the private pensions to reduce the weight on the public budget.

However, upcoming social policies must make possible to improve the access to basic services in order to limit poverty prevalence. The Algerian government must also face recurring water shortage, housing shortage, and persistent unemployment. Youth unemployment in particular remains chronically high and hits new university graduates and first time applicants.

3.2. Health Insurance coverage

The Algerian health system is organized around a form of complementarity between the public and private sectors.

- √ The «Ministère de la Santé, de la Population et de la Réforme Hospitalière» (MSPRH) manages hospital and health care in the public sector and controls exercising conditions of the private sector.
- √ Since the opening to the private sector in 1988, there is an apparent multiplication of private clinics, cabinets and private radology centers throughout the country.
- √ Founded in 1959, health insurance was reformed, as was the entire system, in 1983. It rests upon a professional base insurance scheme, financed by the contributions of employees and employers. In addition, it offers a broad cove-

Table 1. Algeria's Pension System

Qualifying Conditions	*CNR*	*CASNOS*
Age	*60 for men* *55 for women*	*65 for men* *60 for womens*
Minimum contribution period	*15 years*	
Contribution rate	*10.25% (employer)+7% (employee)*	*15%*
Pension calculation	*Average wage of the last five years prior to retirement.*	*Best 10 yrs w/ maximum of 8 Minimum Wage Guaranteed (MWG)*
Annuity rate	*2.5% per year*	
Pension benefits	*Minimum: 75% of the MWG* *Maximum: 80% of the declared wage (and 15 times the MGW for the CNR)*	
Pension revalorization	*Indexed on wages until 1999, fixed*	

Sources: Mehdi Ben Braham (2008), "Pension systems generosity in North Africa", Networks Financial Institute (NFI), WP-06 June 2008 rage since it covers 28 million people, that is to say 87% of the population.

Since the end of the 90s Algeria has met an important improvement of its medical conditions thanks to:

- √ the extension of health insurance coverage,
- √ free care for communicable diseases and quasi-exemption of payment for hospitalization in public facilities,
- √ initiation of the standard price for the refunding of medicine,
- √ promotion of generic medicine and
- √ adoption of the «third-party payer» for chronically ill and the elderly.

The government also privileged the installation of a pharmaceutical national policy and the improvement of the geographical accessibility of health departments (a greater reception capacity of public services, a rise in healthcare supply and an increase in medical personnel).

3.3. Programs of Price Subsidies

In Algeria, the food subsidies program, originally financed directly by the public budget, is considered belonging to the national social protection system. In 1982 it was transformed into a compensation fund, operated by the «Direction Générale des Prix et de la Concurrence», implicating a number of agencies with the objective of achieving a more effective distribution of subsidies.

Subsidies created untenable fiscal costs for the government budget and where also relatively inefficient. Indeed, poorer households where poorly targeted, according to the World Bank the value of subsidies they received was three times less than the value perceived by the rich (in 1991 and in 1995). Therefore, since 1992 Algeria has shifted towards targeted transfers progressively abandoning its food subsidy policy. The government pursued a slow but steady price liberalization policy that ensured basic food stuffs would remain affordable to poorer households. Meanwhile, transfers to the poor under safety net programs allowed to compensate for subsidy dismantling.

However, recent events (fall in cereal harvest due to shortage of rainfall, increase in the price of basic foodstuffs) have troubled the reform strategy. Therefore, in an additional effort to keep prices stable the Algerian government has resorted to giving away $2.5 billion for food subsidies in 2008. In addition, the value-added tax (VAT) on poultry products was removed in order to further reduce the corresponding price.

Notes :

1 : World Bank (2008), Global Economic Prospects 2009: Middle East and North Africa

2 : World Bank (2008), Global Economic Prospects 2009: Middle East and North Africa

3 : Centre national de l'informatique et des statistiques des Douanes et El Watan : http://www.elwatan.com/Les-revenus-du-pays-baissent-de

4 : source emarrakech.info

5 : http://maghrebinfo.actu-monde.com/archives/article475.html

6 : El Watan : http://www.elwatan.com/Forte-baisse-des-investissements

Egypt: Comprehending an open macroeconomic management in a more volatile context

Among the Mediterranean countries, Egypt is perhaps the one that moved the most profoundly towards opening of its economy, progressively introducing institutional reforms (in particular with regards to privatization). It resulted into considerable growth in the last few years, where direct investment inflows and exports of goods and services (tourism) played a vital role.

At the time the crisis occurs and renders the management of such opening more delicate, it is not useless to point out the stages Egypt followed since the beginning of the Nineties.

The economic stabilization plan set up by Egypt in 1990, following the economic crisis of the1980s, resulted in recovery and by an acceleration of the GDP rate of growth during the 1990s : the average annual growth rate between 1992 and 1999 was of 4.5%. However, this performance slowed down abruptly as from 1999 due to the Asian crisis (1997-1998), the attacks of Louksor (November 1997) and the second Intifada (2000). It was only in 2003, and until 2008, that the rate of growth found its significant upward trend.

One of the major questions that the authorities had to treat is that of the foreign exchange rate. At the time the program of economic reform and structural adjustment was introduced (ERSAP "Economic Reform and Structural Adjustment Program") in 1991, the choice was to retain a fixed exchange rate system, to control price-rises and to balance public accounts. This program was initially a success, in particular with regards to inflation growth. However, since the price differential with foreign competitors remained positive, it appeared in the 2000s that the Egyptian Pound was overevaluated (the real foreign exchange rate was appreciated regularly) which involved an important balance of payments deficit and a reduction in reserves of about 25%. This situation was worsened by the external shocks at the end of the 1990s as previously mentionned, and which translated into weak overseas investment inflows, a credit crisis and the need to stimulate economic activity by public expenditures (at that time, the budget deficit was close to 5/7% of GDP). This situation kept degrading until the end of 2002, as shown by all indicators: increased overvaluation of the foreign exchange rate, considerable budget deficit, a current account vulnerable to tourism and migrants transfers, a critical level of foreign-exchange reserves and a weakened financial system express the fragile economic condition at the time.

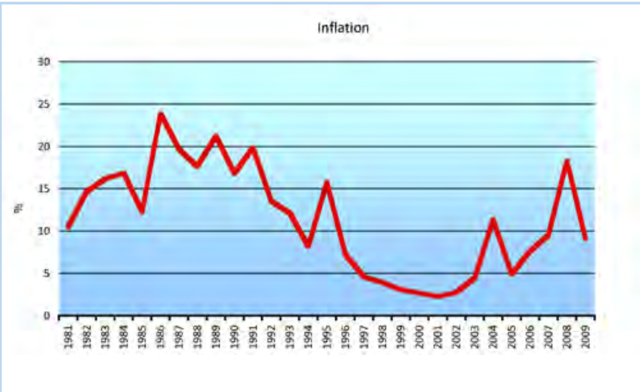
It was at this point that the Central Bank of Egypt chose to gradually move to a flexible foreign exchange rate (January 2003). This evolution led to a considerable fall in the value of the Pound compared to the US dollar by 50% and led, after a slow recovery, to a growth rate of 2.7% in 2004, a growth which rapidly increased at the end of the period due to an increase in exports, tourism, migrants transfers and international investment. Growth increased on average by 7% between 2005 and 2008 stimulated by the increase in oil prices, the tourism sector and agriculture, and considerable FDI flows[1]. The crisis is naturally expected to slow down growth: IMF forecasts for 2009 and 2010 respectively establish the growth rate at 3.5% and 2.9%, a deceleration mainly due to revenue effects.

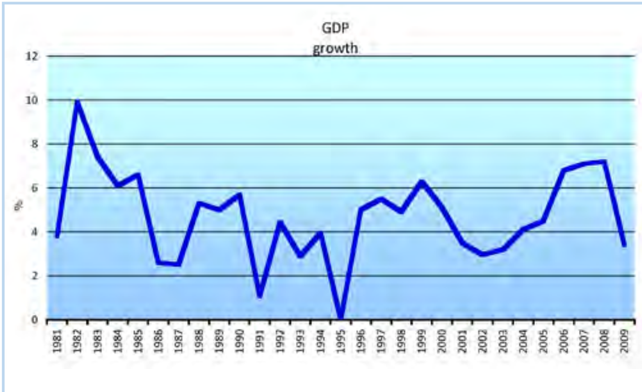
As in other developing and emerging countries, Egypt has suffered for two decades from a high structural unemployment rate. It was in 1995 that the official unemployment rate reached its highest with a record rate of 11.3% of the active population. Since then, unemployment has ranged between 8% and 10% until 2007. The remarkable population growth rate led to a workforce supply considerably higher than the insufficient demand, the latter has not ceased dropping since the initiation of privatization policies which have translated into the disappearance of many state enterprises. Between 1988 and 1998, the working-age population increased by 523 000 new workers, whereas the number of jobs created during the same period amounted to only 435 000. Between 2001 and 2010, forecasts rely on the arrival of 638 000 people on the labour market, whereas the creation of new jobs will be close to 446 310. Therefore, the employment creation rate remains insufficient and one can only expect an unemployment increase during this period of crisis.

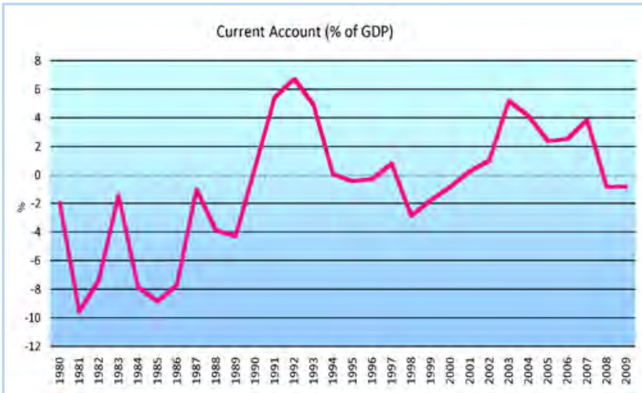
For Egypt, the challenge posed by the crisis will be to maintain its macro-economic balances and also a sufficiently high level of foreign exchange rate in order to simultaneously preserve its attractiveness and competitiveness, while avoiding an extra burden for its population of paying an excessively high import price for absolutely essential goods.

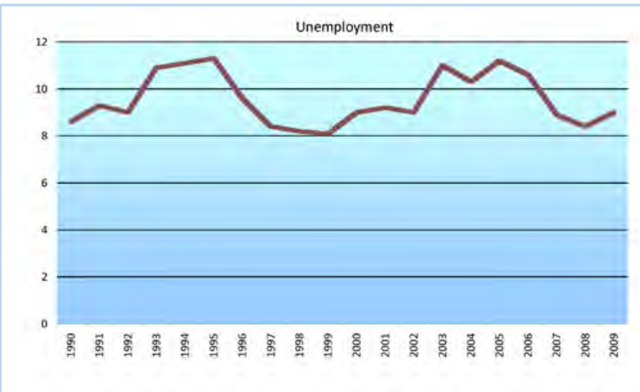
Early indications on the current situation of Egypt in the crisis context reveal the following:

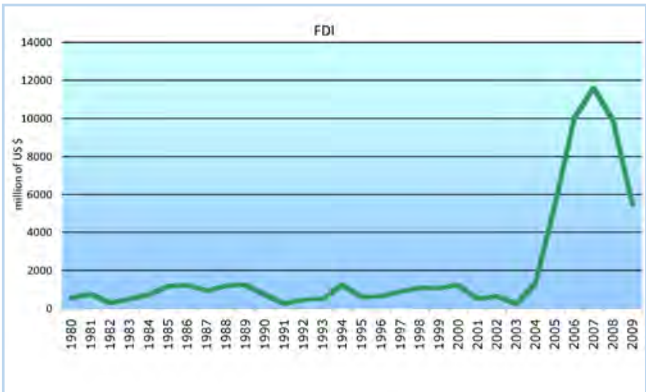
√ The country seems, up to now, to have come to terms with the first impact of the economic crisis in an effective way. Growth still remains important for an economy that has become dependent on outside sources (7.2%











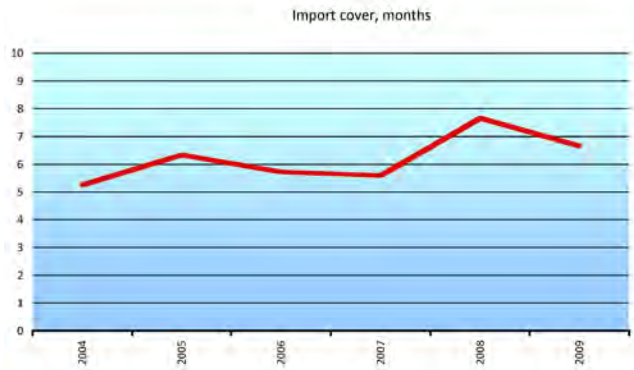
in 2008, 3.4% expected in 2009), which is the result of reforms undertaken since 2004 and the international opening of the economy, in activities where it has a comparative advantage obtained by the abundance and the low cost of labour. This is why prospects for 2009 remain favorable compared to those in other countries of the region. However, this growth differential with developed partners will eventually produce tensions on the trade and current balance.

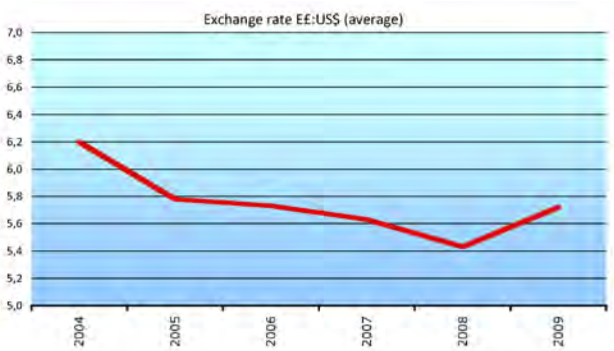
√ Starting 2002 the balance of payments has been in surplus. This positive performance is linked to remarkable results obtained in the tourism sector, with the price rise in oil and increasing receipts from the Suez canal, with an average annual rate of 1.4% of GDP between 2000 and 2008 versus 1% prior to the year 2000. However, it remains to be seen if the unavoidable expected degradation of the current account will still allow for maintaining reserves at a sufficiently high level in order to avoid stabilization actions of domestic demand.

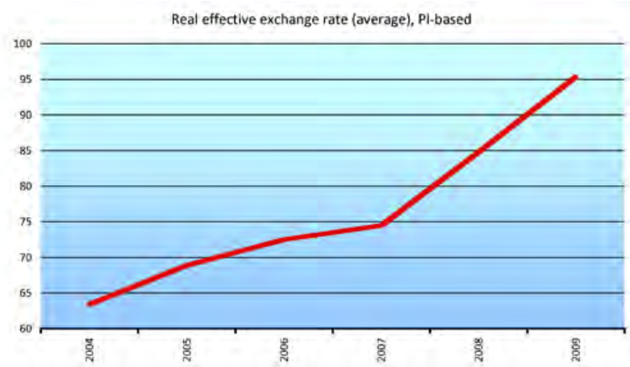
√ For several years, Egypt has supported export led growth and the two components of domestic demand, which are private consumption and investment, especially through attracting international investors. This strategy could be labeled precautionary management, however, it did not prevent a rise in prices close to 10% and a budget deficit accounting for 7% of GDP. The former nourishes the latter insofar as, with a flexible foreign exchange rate, the depreciation of the foreign exchange rate increases the price of imported foodstuffs, supported by the government due for social reasons.

√ The recent period showcases that the country has considerably reinforced its rank as an outsourcing destination. This is explained in large part by the governments' will to strengthen the countrys' technological infrastructure through investment in ICT, increased expenditure on education and an aggressive policy of infrastructure project proposals to firms that seek to establish their service supply centers on the national territory.

√ Reforms have also served as a shield by limiting the budgetary vulnerabilities, leaving room for additional maneuvering at the macroeconomic level. However, in spite of the healthy performan-







ce which was obtained during the last few years, a generalized liberalization of the capital-account is likely to result in enhanced transmission of the crisis effects on the real economy if expectations are negative.

√ Taking into consideration the choice of opening retained by the Egyptian government, the challenge relies in the capacity of eonomy to diversify its productive structure and reorientate employment. The Egyptian economy still faces a structural problem of competitiveness, employment is concentrated in public non-tradable sectors and with low productivity. Thus, there is no visible bond between productivity gains and employment creation. Unemployment remains a major issue, with an official rate estimated at 8.4% in 2008, which should worsen in 2009 (the country must attain a real GDP growth rate of at least 7% per annum to suppress unemployment) under the crisis effect. Maintenance of under-employment and preponderance of informal employment should add to the burden. Several facts tend to make this situation continue, they are: a lack of effectiveness in the orientation of youth towards employment, limited opportunities in the private sector, a considerable rural population that contributes to the low mobility of workers in spite of productive employment in cities.

√ For the time being the crisis on the real economy did not translate into considerable effects on the poor and populations that are at the edge of poverty, mainly due to the government initiative of alloting subsidies (which are worth 93.8 billion Pounds) to the most economically challenged, which corresponds to an increase of 11.4% compared to 2007/2008.

√ Social protection systems do not lack financing, but they seem to be inefficient in targetting the poorest (an example being the subsidy system on basic foodstuffs). From a social protection point of view, it appears necessary to reform existing modes of public pensions, to extend public expenditure on social security, to support public awareness campaigns on social risks and to offer means of Social Security to the poor.

1. The shock: Economic Growth will sustain, but decreasing international demand will cause imbalances in the Balance of Payments

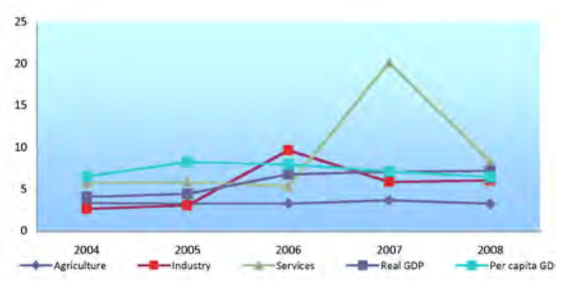
Such as the case of most of the MPs, the major effects of the crisis in Egypt, will not originate from its financial sector but rather from a decrease in international revenues due to the decrease in international demand. Four transmission channels will endure the crisis: Exports, remittances, tourism and FDI for most, if not all, the MPs, to which will be added, in the case of Egypt revenues of the Suez Canal.

1.1. Economic growth makes progress in 2008 stimulated by an expanding service sector

In Egypt, real GDP and per capita GDP growth have been following a similar trend. However, in recent years the latter seems to grow at a slightly slower pace. In a context of major socio-economic reforms (long-term reform program 1997-2017 with a series of five-year plans) and in spite of the international crisis, growth in 2008 reached a record level of 7.2% of GDP. The latter is mainly fueled by investment, exports, tourism receipts and by the recovery of the construction sector. It is expected however that growth will slow down in 2009 but will pick up again in 2010.

In 2008, the service sector continues to play the major role in the country's GDP growth, accounting for 48.1% of GDP, followed closely by the industrial sector at 38.7% and a falling share of agriculture of 13.2%.

Growth by sector and evolution of GDP (%)



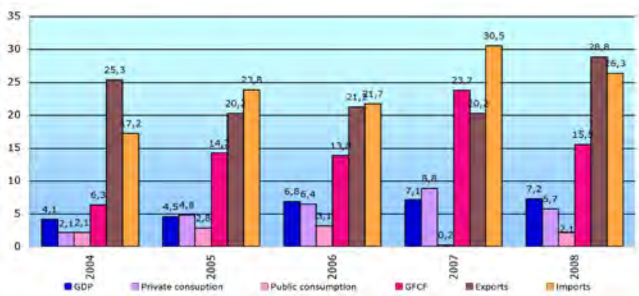
Source : EIU

With reforms undertaken since 2004 and the international opening of the economy, Egypt specializes in activities where it has a comparative advantage (obtained by the abundance and low cost of labour), going through an in-depth change of its productive structure in sectors such as cement, steel, manure, petrochemistry, textile, agroalimentary, ITC. Nevertheless, the Egyptian economy faces a structural problem of competitiveness with formal employment concentrated in public and noncommercial sectors as well as in sectors with low productivity. Part of the solution allowing for improvement of productivity and transformation of benefits into formal employment still lies in the development of the private sector which should become more attractive in terms of wages and social protection to attract a highly qualified labour.

1.2 Impact on the Balance of Payments

Despite the global slow down of international demand, merchandise trade continued to increase in the second half of 2008. However, the deficit widened as exports increased by only 3.8% (including a rise of 7.5% in non-oil exports and a fall of 0.7% of oil-exports), while imports increased by 15.8% (following the 19.4% increase in non-oil imports and a drop of 1.1% in oil imports). It is expected that the deficit narrows in 2009, due to falling prices reducing the import bills, but with the condition that exports remain to a considerable level. Recent trends do not allow for concrete forecasts, in the July 2008/March 2009 period exports have decreased by 7.6% compared to the same period the prior year while imports have increased by 3%.

GDP decomposition and economic growth



Source : EIU

At the same time, trade in services, which is considered one of the country's major trading sectors, continues to achieve surpluses in 2008, not without marking a slow down. The surplus is expected to decrease in 2009.

Tourism revenues, one of the largest sources of foreign currency, have endured a considerable negative impact. It should be noted that tourism is a significant contributor to GDP (3.5% in 2007), and absorbs more than 12% of the labour force. After marking an increase of about 2.8% in the 3rd quarter of 2008 (compared to previous year's same quarter), it showcased an annual decline of about 10% in the last quarter followed by a 17.3% annual fall in the first quarter of 2009, essentially due to the fall in the number of tourist nights. The government announced a decline of more than $2bn in the first quarter of 2009. Despite these figures, it is expected that the tourism sector will overcome the impact of the crisis, rather quickly. Some indications already show that Europeans (especially from the UK) have increased their bookings towards Egypt. Therefore, the global tendency indicates a slowdown but not a brutal decrease in tourism growth: a revised figure of 6% increase in foreign visitors down from 16.6% over the past 4 years.

Moreover, Suez Canal revenues, which represent another main source of revenues in the country's balance of payment, have reported a drop of 2.9% during the last quarter of 2008 (compared to same quarter last year), after marking an increase of 8.1% in the third quarter of 2008 (compared to the same quarter of previous year). Further decreases are expected to take place due to a decrease of 7% in the number of ships passing through the canal.

Workers' remittances, which is the country's third main source of foreign currency, has marked an increase of about 3.3% in the last quarter of 2008. They mainly originate from Gulf countries such as Saudi Arabia, Kuwait and the UAE. Remittances from those three countries have increased almost fourfold between 2003-2004 and 2007-2008 to about 4 billion US$. However, the beginning of 2009 marks a slowdown, remittances showcase a 3% decrease compared to last year (Central Bank of Egypt). We should note that egyptians working in Gulf States are mainly in the construction sector, a particularly frail sector in periods of crisis. Thus, it is feared that the unfavourable economic environment translates into major job-losses for these workers with an effect that is twofold : a decrease in remittance flows and the return of workers to their home country, which will put additional pressures on the labour market.

The overall picture of the current account of Egypt shows that the impact of the crisis has translated into a deficit of about 0.8% of GDP, after a decade of almost straight surplus. The picture will not brighten in 2009 where further deficits are expected. In 2010 however, deficits are expected to remain smaller according to EIU forecasts.

1.3. Impact on FDI

FDI in Egypt is an engine of economic growth in itself, benefiting from strong demand in the manufacturing sectors and construction. After a slow start in the 1990s, that might in part be due to an overly present public sector and lack of dynamism in the private sector which limited FDI to low volumes and an average annual growth rate of 2%, reforms were succesful and offered a favorable economic environment (acceleration of the privatization projects, important infrastructure projects), resulting in increased confidence and economically favorable anticipations from investors. Other significant efforts include the elimination of barriers and improvement of customs procedures which have translated since 2003 into a constant increase of FDI inflows, hence, an average annual growth rate of 34% during the 2000-2007 period. According to the Central Bank of Egypt, the FDI reached 13.2 billion $ during the 2007/2008 fiscal year.

However, the economic crisis delays important decisions, induces capital outflows, and Egypt will propably have to undergo such events. Expected flows (9.8 billion dollars in 2008, 5 billion in 2009) indicate a fall that could reach - 47% [2]. Thus, during the last quarter of 2008, overseas investment already marked a fall by approximately 48.2% due to a massive exit of portfolio investment (7.4 billion dollars, versus 1.7 billion dollars during the previous fiscal year).

2. Adapting to the crisis

First and foremost it is essential to understand that the effects of the current crisis on Egypt paradoxically originates from developed countries. Thus, one should not totally put in question the current government economic policy which is greatly centered on openness. Far from having to reevaluate a choice that allowed to create the necessary dynamics during the last decade, the same course of action should be maintained, while continuing progressive resorption of the existing sructural problems, especially in terms of productivity and employment.

It is also crucial to encourage domestic demand to compensate the drawback of the international one in a way that ensures that the social context does not suffer despite the current situation (more than 20% of the population are living already under the poverty line). The effect of the crisis on the population (specially on the poor) can be reduced by ensuring a strong social security system, a wide health insurance coverage and price subsidies.

2.1. Budgetary position and national debt

Egypt has already recorded important budget deficits. For instance, in 2003-2004 the deficit widened, due to an important rise in wages (+18% compared to the prior year) and in subsidies aiming at compensating for the depreciation of the foreign exchange rate, leading to the price rise of imported products. Thus, over this period the national debt reached 121% of GDP. In 2004-2005, the government also followed an expansionist budgetary policy where expenditure increased more rapidly than receipts. The growing subsidies weight and the recent rise in public servants wages naturally weighed on public expenditure. In spite of an important rise in receipts, the deficit reached 6.8% of GDP in 2008 (versus 7.5% in 2006). Prospects for 2009 are towards further widening of the budget deficit due to the following:

- √ The recent government initiative of a 2.7 bn $ stimulus package aimed primarily at sustaining investment in infrastructure projects and remodeling the health sector.
- √ The halting of price increase on electricity and gas for all factories operating in Egyptian territory for an undefined period of time. par ailleurs, l'Etat suspend la taxe sur la propriété pour éviter un malaise social.
- √ Tariff reduction on industrial products to strengthen Egyptian manufacturing
- √ A reduction in customs taxes further reducing public revenue.

In 2009, the government's challenge will be to rationalize public spending by efficiently channeling it to boost direct investment in order to absorb unemployment from one hand and to generate domestic demand from another. Moreover, certain priority fields on social matters, most importantly health and education, must be the subject of important budgetary attention, the ressources of which can be derived from a reduction in subsidies for example.

Table 1. Egyptian Public Finance Account, million E.L.

	2007/08	2008/09 (budget)	2009/10 (draft)
Revenue, of which	*221*	*277*	*224*
taxes	*137*	*167*	*145*
Expenditure, of which	*282*	*344*	*323*
wages and salaries	*63*	*79*	*86*
subsidies	*84*	*96*	*73*
Deficit	*61*	*70*	*99*
Deficit in % of GDP	*7.5*	*6.9*	*8.5*

Note: Fiscal years run from July 1st-June 30th
Source: EIU, Ministry des Finances; Al-Ahram

2.2. Monetary policy and inflation

An interest rate reduction was not considered an option by the ECB, which can be explained by the following:

- √ A deep banking sector reform was undertaken in 2004 to reduce government prevalence, imperfections in interest rates as well as to allow the transition to inflation targeting. The evolution of the foreign-exchange market was accomplished through the introduction of the interbank market (FX) in December 2004 and the elimination of the old regulation on the exchange market. The Egyptian Pound was strengthened thereafter thanks to the rise in oil prices and the recovery of the tourism sector. Today the ECB enjoys operational independence to achieve its objective of price stability.

- √ For more than two years real interest rates have been negative. They registered a further drop following an record inflation rate in 2008 at 18.3% (versus 9.5% the previous year) due to the rise in world prices of oil, corn, construction materials, an increasing internal demand and a rise in salary costs. Now, the current price-fall in foodstuffs and oil and the domestic growth rate decrease shall be indicative of a trend reversal. Inflation in 2009 should return to its rate of 2007. Therefore, the ECB may find it beneficial to wait for an inflation decrease and pursue its goal of price stability before lowering its interest rate [3].

Let us note that the measures undertaken to date by the Central Bank of Egypt have ensured a better coverage against non-performing loans, in particular through purifying public debts to the banking sector. Thus, the banking system remained safe from potential contagion and the country avoided an explicit monetary crisis.

2.3. Fighting against unemployment

The fight against unemployment must remain a priority of the Egyptian government. The economy must absorb 600 000 new entrants on the labour market each year . Thus, in spite of the acceleration of growth since 2003, unemployment remains high with a rate of 8.4% in 2008 and an estimated rate of 9% in 2009. According to the World Bank, Egypt must record a real GDP growth rate of at least 7% per annum to suppress unemployment. The estimated growth fall in 2009, under-employment in the informal sector and the additional pressure caused by the possible return of Egyptian immigrants constitute additional challenges:

√ Egypt benefits from a strong proportion of young people less than 15 years old, but the latter require a great effort in education. The imminent arrival of this population at working age will undeniably generate tensions on the job market, if the rate of formal employment creation does not rapidly increase.

√ Egypt has been deficient in orientating its educated population towards employment opportunities. When finishing university, the Egyptian youth finds limited opportunities in the private sector despite recent reforms; specialist jobs remain scarce which results in one of the highest unemployment rates in the region. We should also stress that the ideal conditions offered by public employment are not likely to incite the more qualified to move to the private sector, which does nothing but reduce the apparent productivity by depriving the latter of the most dynamic elements.

√ The rural population contributes to the low mobility of Egyptian workers in spite of the fact that productive employment opportunities are concentrated in cities. For example, agriculture represents more than 30% of employment in Egypt while at the same time the sector contributes only by approximately 10% to GDP with a rather feeble sectoral growth rate.

2.4. Service sector development

Given the depression in the US and the EU, as well as the decreasing oil prices, Egypt needs to diversify its production in order to gradually limit the impact of external shocks on growth and employment. From this point of view the service sector represents a good opportunity.

The sector can constitute a strong foundation of the Egyptian economy, a pillar with regards to investment and an increasing source of export-income. The service balance often made it possible to cover the current account deficit, since the sector succesfully diversified during the last couple of decades. This explains why Egypt is responsible for 19% of service exports in the region. As indicated in the table below, the most visible modification in the service trade structure relates to the marked fall of the transport sector in total service exports (63% in 1981 to 35% in 2007).

Moreover, the share of the tourism sector made a strong progression, from 17% to 47% of total exports in 2007. Furthermore, communications and construction increased their share in world commerce, as was the case with business services thanks to an increased level of specialization of local nationals.

In order to maximize benefits from its various advantages, Egypt should:

√ Further develop intermediate service activities (such as research, auxiliary services to transport, repairs) which allow for the incorporation of service factors in the production of industrial goods.

√ Intensify the liberalization of trade sufficiently export services in an indirect way. A number of barriers to goods trade, which use components services in production, still persists. Progress remains to be achieved to increase the opening of the Egyptian economy in the field of standards and norms, goods conformity, and financial sector reform.

2.5. Diversifying goods exports and trading partners

Since the beginning of the decade, the economy has taken some steps to further diversify its export structure as well as trading partners. Exports to the EU are in constant rise since the association agreement came into effect in 2004 (28% of total exports in 2007, COMTRADE). Starting from February 2007 Egypt reduced its customs duties on imports on all manufactured goods and raw materials. In addition, a free trade agreement with the EFTA and Turkey was concluded. Also, trade with its Mediterranean partners remained above regional average (10% compared to 5% in 2007), though below the level at the beginning of the decade (17% in 2000, COMTRADE). Therefore, while trade liberalization brought constant growth in exports it also led to a sharp increase in the share of imports. Nevertheless, the latter have been mainly composed of investment goods which are an integral part in building foundations of Egypt's economic structure.

The problem in the current conjuncture is that the EU is Egypt's principal business partner and the fallout of the economic crisis will reduce European demand for imports, hence, Egyptian exports will take a hit and strategies of export diversification will have to be evaluated. This is especially true for the service sector in which exports to the EU represented 46% of Egypt's total service exports (Eurostat 2008).

3. Could the existing Social Protection Policies help cushion the effect of the crisis on the population?

Thanks to an annual growth rate of 5% on average, poverty has strongly decreased. However, 30 million people still live with less than 1.5 € per day.

Egypt must combat poverty that is concentrated in the South and affects large families, with a low level of education, often working in the informal sector. In addition, poverty has a strong intergenérationnal dimension (the poor of a generation are often

Table 2. Composition of exports and imports in services by sub-sector in %

	Egypt						World			
	Exports			Imports			Exports		Imports	
	1981	1997	2007	1981	1997	2007	1981	2007	1981	2007
Services	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Transport	63	27	35	41	28	42	30	22	35	28
Passangers	8	4	5	3	1	3	5	4	5	5
Freight	0	2	3	32	25	36	15	11	19	16
Other Transport	55	22	27	6	2	3	10	6	11	6
Travel	17	40	47	7	20	17	26	25	22	24
Other Services	21	34	19	52	52	41	45	51	43	45
Communications	0	2	4	0	0.5	3	1	2	1	2
Construction	0	1	5	0	0	2	2	2	1	2
Insurance	0	0.5	0	4	2.5	9	2	5	3	5
Financial	0	0.5	0	0	0.5	1	1	5	1	2
Information	0	0	0	0	0	0	0	4	0	2
Royalties and licence fees	0	0.5	1	0	5.5	2	3	5	2	6
Other business services	17	26	6	39	29	16	27	24	23	21
Personal and cultural	0	0	0	0	0	0	0	1	0	1
Public	4	3	1	9	14	9	9	3	12	4

Source: IMF Balance of Payments Statistics the children of the poor of the former generation). The marked demographic growth slows down improvement in the population's living standards. We should mention that better access to education is essential to break the poverty transmission cycle from one generation to another.

It also seems that, in spite of the economic progress, a large share of the population remained unassisted. The evolution of income distribution shows that the poorest quintile is the one to profit the least from recorded growth. Social policies appear to have been only partially effective in targeting populations at the edge of poverty, the rate of pro-poor growth has been below the actual rate of per capita GDP growth (see graph). This resulted into a tense social climate marked by increasing dissatisfaction, to which several recent incidents testify.

3.1. Social security systems in Egypt

The largest Arab country offers to its citizens a social protection system that appears to be well elaborated, where each employee is held to ensure himself. The Egyptian system is directed by the State, controlled and managed by the *Insurance Fund for Government Employees* in co-operation with the *National Authority of Social Insurance*. Both are affiliated with the *MISA (Ministry of Insurance and Social Affairs)* via two funds: the *GSF (Government Sector Fund)* which covers public and government employees and the *PPBSF (Public and Private Business Sector Fund)* which deals with all other categories of the population.

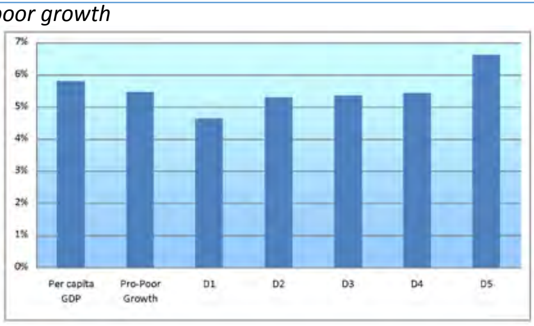
There are five different systems:

- √ A scheme (NHIO) which covers permanent government employees, the public sector and the private sector (50% of the active population). The system is financed by contributions made by employees and employers and is based on intertemporal redistribution. The NHIO covers health care, disease (75% of regular income), maternity (75% of regular income) for 50 days prior to and after birth as well as unemployment benefits (60% of last wage for 28 weeks). Concerning pensions, the system covers the elderly (more than 60 years), the handicapped and survivor's pensions. After 30 years of contributions, the pension amounts to 67% of the last imposed salary.
- √ A system for members of professional associations and employees of foreign companies or large Egyptian companies. They profit from higher pensions and better medical care.
- √ A system for migrant workers and free lancers of the formal sector. The latter profit from higher pension levels than those of the general scheme. However, they do not enjoy any maternity, unemployment or health care benefits.
- √ A fund (*Comprehensive Social Security System*) for casual and informal sector workers which offers a contractual retirement pension, disability and survivors' pensions of 63 EL per month. In spite of the low pension level, the system offers an average pension 10 times higher than existing contributions.
- √ A system for the army and senior officials. They enjoy the most generous system which provi-

Population living under the poverty line in Egypt (%)

Source : Index Mundi, http://www.indexmundi.com/g/g.aspx?c=eg&v=69

Pro-poor growth



Source : FEMISE calculations, based on growth and inequality data from World Income Inequality Database for 1995 and 2004.

des protection against all social risks via the *collective social security system.*

Despite the increase in the number of beneficiaries and the minimum pension level in 2007, social coverage remains feeble : only 53 % of the population enjoy social coverage. This could be due partly to the unawareness of the people of their own social risks, or their passive behaviors to secure their future. On another front, insurance providers (public or private) often fail to target the adequate schemes according to the people needs.

In addition, even if all systems provide services for retirement, only 40% of the active population is insured against working accidents and illness while 16% of workers contribute to the unemployment pension. The employers contribution rates are high (26% of wages) compared to those prevailing in other countries of middle income[4] which leads to high rates of avoidance [5]. Conversely, government employees and public sector firms are socially covered. However, a great number of pensions is well below the poverty line for many Egyptians.

The NHIO records a surplus of 2.5% of GDP. Nevertheless, the financial sustainability of the system is threatened, it currently has to deal with steady expenditures while receipts are in constant reduction.

With more than 20% of GDP spent in the social security, the country does not lack financial resources, but lacks effectiveness and equity. The majority of systems support the middle income and higher income urban classes, leaving the rural class and the poor without protection [6].

As stated in a study analysis by Markus Loewe, IMF, the Social security system in Egypt suffers from (i) its split into six different social insurance schemes, with unequal legal benefit provisions, (ii) the non-protection of serious risks, (iii) its low actual coverage, (iv) low benefit levels and (v) low internal returns to contributions:

3.2. Healthcare

In Egypt, fragmentation in 5 different health systems is a cause of inefficiencies and social imbalance.

The major systems of finance are the government sector, the public sector, private organizations such as insurance companies and finally households. The private sector consists of both nonprofit and profit providers, moreover, non-government organizations are growing at a rapid pace.

Its system is only accessible to a certain part of the population. Moreover, the weight of out-of-pocket spending is one of the highest in the Mediterranean [8]. Important inequalities persist in the health sector, with a high proportion of sick people among the poor, while real medical cover remains frail.

Table 4 shows the distribution of public health expenditures by income quintile :

√ The *Health Insurance Organization* is the most important insurance health fund in the country, it covers approximately 50% of the population. Established in 1984, it covers employees of the public and government sector. The HIO also includes medical coverage for all children who receive education through the *School Health Insurance Program.*

√ The Egyptian health system does not lack any material resources. The health infrastructure network is dense: 98% of Egyptians live within a radius of 2 km from a health care institution. Health expenditure accounts for 3.7% of GDP. However, the health system suffers from a lack of maintenance in buildings and existing equipment, general obsolescence, lack of nursing personnel, and insufficient medical equipment in hospitals.

√ The public health system is free and open to all, but services proposed are of low quality and the population has lost confidence in this system. Moreover, only doctor visitations are free. As for private clinics, they are too expensive for the majority of Egyptians. Studies have highlighted poverty-traps induced by the sector: thousands of families are indebt in order to pay-off expensive medical care.

√ The government recently undertook a n important plan which should improve and rationalize coverage, extend the *Family Healthcare Fund* to all governorships and create a new insurance scheme for those left-out by the current system.

The opposite Table summarizes the main challenges the Egyptian health system has to face. The Egyptian government currently reflects on reform possibilities of health financing. Furthermore, the country has received substantial amounts of foreign support to reform its health care system, particularly by the World Bank, USAID, and the European Commission [9].

3.3. Programs of price subsidies

In Egypt, the program of food subsidies is one of the oldest assistance programs, it provides to all Egyptians, whatever their income, subsidies on flour and bread (baladi bread), on sugar and edible oil. The food subsidies system is a non-integrated system open to all Egyptians, it has been a safety net for the poorest since the 1920s but also constitutes a tool for promoting social equity.

The system was extended in the 60s and 70s to include transport, housing, energy, soap and cigarettes. This policy made it possible to reduce consumer prices within a context of urbanization and population growth.

The system underwent two principal phases: (i) a phase of strong growth leading to unbearable levels by the beginning of the 80s and coverage of 20 types of products, (ii) a gradual reduction phase to its current level.

Table 3. Egyptian Health Revenues: Sources of finance

Source of Finance	*Percent of total health revenues*
Households	*51*
Ministry of Finance	*35*
Social Insurance contributions	*6*
Firms	*5*
Foreign donors	*3*

Source : Gericke (2004)

In the beginning of the 80s, since 99% of the population had a food rationing card, a gradual reform was introduced aiming at:

√ better targeting of ration cards based on income,

√ reduction of the number of subsidized goods,

√ reduction of the number of people profiting from the ration card system.

The percentage of card recipients went from 99% in 1981/82 to 70% in 1998 and the number of subsidized goods went from 20 to 4. In 1999/00, subsidies on bread helped 730 000 people get away from poverty, while oil-subsidies did the same for

Table 4. Distribution of public health expenditures by income quintile (%)

Income quintile	*MOH*	*HIO (General)*	*HIO (Students)*	*Other Ministry*	*Total*
Poorest	*19.4*	*14.5*	*17.5*	*13.0*	*16.4*
2nd	*20.3*	*16.1*	*17.6*	*14.4*	*17.5*
3rd	*20.1*	*15.7*	*20.9*	*19.5*	*19.1*
4th	*21.9*	*20.5*	*23.9*	*28.2*	*23.5*
Richest	*19.3*	*33.6*	*20.3*	*25.3*	*23.6*
Total(%)	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Average per capita (LE)	*24.1*	*10.4*	*5.5*	*15.4*	*55.9*

Note : Total for public health expenditures includes an additional LE 0.63 per capita of government health spending on national regulatory agencies, public administration, and support for charities which was allocated equally across the whole.

Source : Rannan-Eliya et, al, "The Distribution of Health Care Resources in Egypt : Implications for Equity"

170 000. Nonetheless, figures show that the subsidy policy benefited more to the middle-class than it did to the poor. With regards to financing, in 2008 the total weight of subsidies reached 8.5% of GDP (food and energy) whereas food subsidies alone account to 1.8% of the GDP.

In 2008, Egypt underwent a bread crisis, following skyrocketing prices in basic commodities. Government bakeries were put in place to sell subsidized bread to the poor, in order to contain an imminent social crisis which resulted in several violent demonstrations. A social plan was set up to reduce dependence on foreign corn imports (mechanism which defines a minimum price of corn, elimination of tariffs on food imports, additional subsidies and control on food exports). Moreover, the price-increase in raw materials forced the Central Bank of Egypt to increase interest rates for the first time in more than a year. The international increase in food prices also had a contagion effect on the non-food sectors of the economy as well. Nowadays, subsidies account for 25% of public expenditure (more than 7% of GDP in 2007) and constitute a constraint for the authorities: they represent a high cost increasingly difficult to support and with questionnable effectiveness, but a factor of social rest needed by poorer segments. The problem thus relies in the instrument put in place, not the principle.

Table 5. Challenges of Egyptian Healthcare

Health status concerns	*Health indicators improved in the 1980s but have not done so during the 1990s, they remain rather poor when compared to those of countries with similar income levels.*
Inequity	*The burden of households on out-of-pocket spending is greater than in any other country among MPs. The poor pay comparatively more and receive less in benefits than the non-poor. Social insurance covers less than 40% of the population. Hospital care in urban regions costs twice as much as in rural regions.*
Macro-Inefficiency	*Total health care spending in Egypt is one of the lowest in the Mediterranean (less than 4% of GDP), Egypt's commitment in health reform pales when compared to other MPs.*
Micro-Inefficiency	*Financing and risk-management is split among 29 public agencies which prohibits policy efficiency. Public health provision is defective and focuses solely on costly tertiary care. Primary care is essentially missing in the public sector; meanwhile, hospital occupancy rate is below 50%.*
Rising health care costs	*Costs of healthcare provision are expected to grow. This is essentially due to a steadily high population growth and increasing expectations of the Egyptian population.*

Source : Gericke (2004)

Notes :

1 : IMF. 2008. Country Report Arab Republic of Egypt

2 : http://www.paperblog.fr/1604844/gulf-suffers-significant-fall-in-foreign-direct-investment/

3 : As noted by Farouq Al-Oqda, governor of the CBE, « a further decrease of the interest rates wuld be an indirect subsidy to creditors to the detriment of depositors » since the value of deposits is decreasing due to a negative real interest rate. Cf. «La BCE à contre-courant» (2008), Al-Ahram, http://hebdo.ahram.org.eg/arab/ahram/2008/12/31/econ1.htm

4 : Contribution rates are particularly high for emloyers ; approximately 26% of the basic wage and 15% of the variable wage. Such high contribution rates are essentially de to a large nominal coverage in the egyptian social system.

5 : Approximately 30% of private entreprises do not pay their contributions to employees or limit their payment to a certain number.

6 : Markus Loewe (2000), IMF WP2024 'Social Security in Egypt an Analysis and agenda for Policy reform'

7 : Markus Loewe, op. cit.

8 : Amount paid in cash for service supply, that could or could not be reimbursed later on.

9 : Christian A. Gericke (2004), Financing Health Care in Egypt: Current Issues and Options for Reform , Berlin University of Technology March

Israel: Open economy with a developed countrys' conditions but specific assets and vulnerabilities

Growth rose to 4% in 2008, supported by macroeconomic stabilization and public structural reform plans. The country is an example of dynamism, it evolved by specializing in technologically intensive sectors, employing qualified labour and moving towards the knowledge economy, which resulted in the lowest unemployment rate in the region (6.1% in 2008). Thus, the country possesses a comparative advantage in high value-added products and the economy is dominated by the service sector.

Since 2003, growth has on average been close to 5% and living standards have constantly increased with a per capita GDP that is the highest in the region. The growth regime is based on the countrys' attractiveness as an investment destination and the government has succeeded in attracting capital in technologically intensive companies. Moreover, the openness of Israel also relies on the presence of "Qualified Industrial Zones" which offers the opportunity to increase attractiveness and allows exporting to the USA duty-free and quota-free.

Nevertheless, such regime is self-limited by overrelying on the confidence and anticipations of investors. In recent years, the fall in rank as an outsourcing destination in several official classifications indicates a confidence erosion, especially due to the regional context. Moreover, a number of choices such as strategically selling "start-ups" or offering exagerated tax incentives to foreign investors weigh-down the confidence of domestic investors. Hence, unfavourable anticipations will likely call economic policy into question.

In addition, this growth model makes the country depend on the economic situation of its developed partners. Dependencies are both real (lower exports) and financial (vulnerability risks) and managing difficulties necessitates better political coordination, credit support and a certain degree of budgetary flexibility. The crisis has already started affecting the Israeli economy in a major way (negative growth expected for 2009) and as in industrialized countries, policy makers start developing a number of initiatives particularly with regards to credit support and the increase of banks capital.

The following points summarize the current macroeconomic situation in the country:

√ Israel's exports in March 2009 decreased by 31.8% compared to the same period last year, meanwhile, imports fell by 35.8% in the same timeframe. Overall a trade deficit decrease of 54.9% was recorded between March 2008 and March 2009, when diamonds trade is excluded the fall is more moderate but still substantial at 50.1%.

√ Concerning tourism, early figures for the first quarter of 2009 point towards a 19.7% reduction in tourist arrivals. Meanwhile, the number of person-nights in hotels made by foreigners in March 2009 shows a 47% year-on-year decrease.

√ Entry of foreign capital has considerably reduced with an annual decrease in FDI of 40% in the last quarter of 2008, despite high levels of productivity and competitiveness in the economy.

√ Budgetary performance has largely improved in recent years. The government has control over its deficit (-2.1% in 2008) within the Maastricht criteria which allows for additional autonomy in a time of crisis compared to other countries.

√ The newly elected government will immediately have to find solutions to combat potential economic stagnation and probability of increased unemployment. The latter remains feeble compared to the rest of the region (6.1% versus 10% in 2008), nevertheless it is expected to grow at 8.1% following the aftermath of the international crisis.

√ Moreover, Israel's central bank has brought its benchmark rate to a historic low of 0.5% in order to help strengthen the economy's ability to cope with the crisis fallout on the real economy. Furthermore, a massive surplus of government bonds should be expected in 2009.

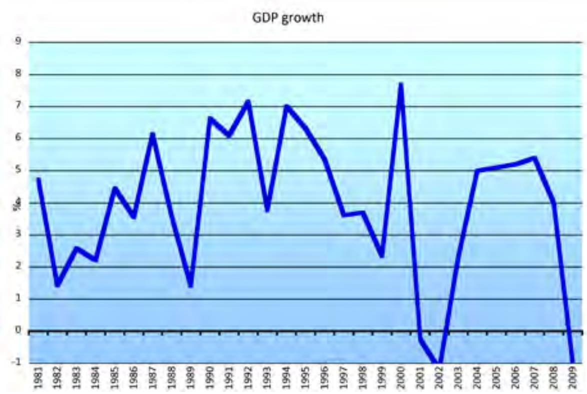
√ However, economic performances up to 2008 have not materialized into a better social situation or a more equitable distribution. Gender inequalities and discriminations against certain communities are still obvious. Social policies have been inefficient in distributing income homogeneously and the poorest decile has recorded a quasi-inexistent rate of income growth.

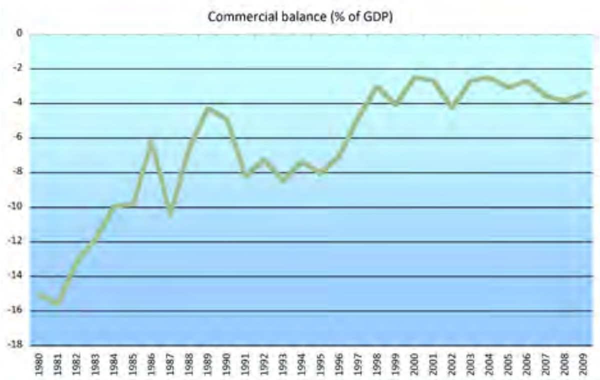
1. The shock: An open economy that overly depends on the external sector and will be deeply affected by the international crisis

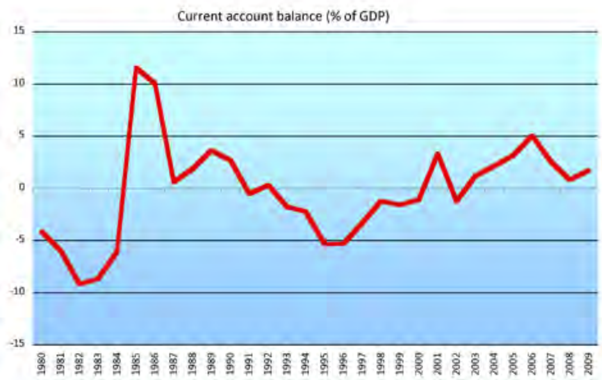
The Israeli economy is an opened economy, trade in goods and services nearly accounting for 80% of GDP. Along with Turkey, Israel will be one of the most affected countries in the region, mainly through massive reduction of its exports and an outflow of investment.

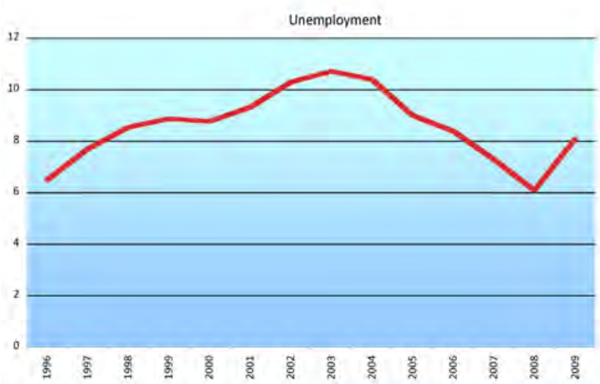
1.1. Growth is expected to plunge following the crisis repercussions on the real economy.

Since the 1990s, the Israel undergoes a transformation towards a knowledge economy in direction of the industrial sector and services. Israel records continuous growth since the bursting of the technology-bubble in the early 2000s. On average, the









annual growth rate of ICT sector during the 1997-2005 period was of 7.2% for a GDP growth rate of 2.9% and 3.2% growth in the business sector. Meanwhile, the ICT sector contributed by 16% to total GDP in 2005 [1].

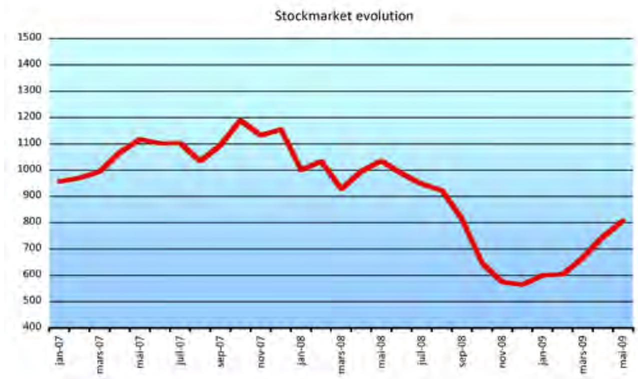
Nevertheless the first signs of growth deceleration make their appearance in 2008. In spite of a strong growth rate andincreased productivity, following macroeconomic stabilization policies and with efficient structural reforms,by more than one point of GDP compared to 2007 (from a 5.4% rate in 2007 to a 4% rate in 2008) which can be attributed to the crisis fallout on the real economy. This growth rate is close to the regional rate of growth (4.8% in 2008) and above rates recorded in several developed partner countries. While the economic conjuncture in the last quarter of 2008 faced a degradation in developed countries, Israel limited its lossesand recorded an annualized loss of 0.5% in the fourth quarter of 2008 (EIU).

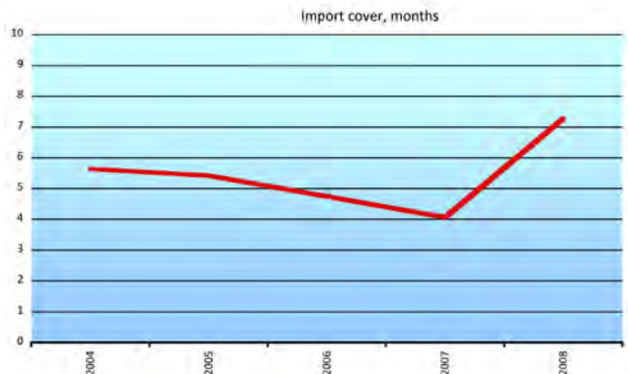
Let us note that the country still has a comparative advantage in products with a strong value added (high-technology goods) and in diamond polishing. Moreover, the service sector has a prevailing spot in the Israeli economy.

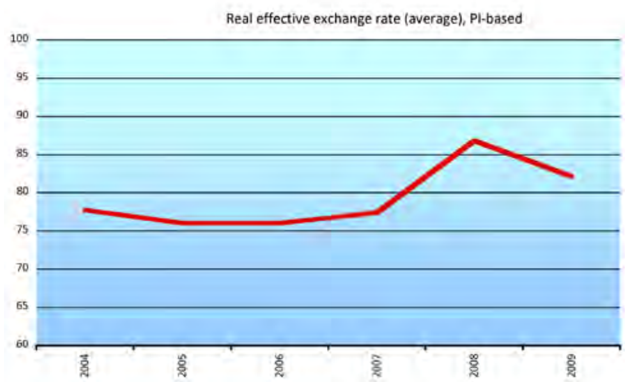
However, both the industrial and service sectors have been following a downward growth trend following their peak in 2006 a fact that was perpetuated in 2008; real GDP and per capita GDP growth have been highly correlated with the evolution of the latter sector which explains the growth slowdown.

Moreover, consumers and investors have lost part of their confidence after the financial turmoil, real GDP growth should thus further decrease in 2009 following the fall in consumption and exports. GDP has already marked a considerable reduction in the first quarter of 2009 by reaching a low of 1%.

Thus, the domestic economy fails to combat the crisis fallout and records an annualized growth rate of -3.6% during the first three months of 2009, regarded as the highest GDP fall since 2002 when growth was near the -1.2% mark. The negative per-







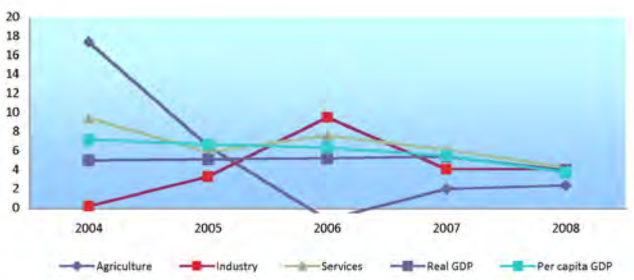
formance anticipated in the industrial sector is in great part responsible, industrial growth should fall by 8% in 2009 contributing to a negative growth of -1% in 2009, while recovery should not be expected before next year [2].

1.2. Impact on the Balance of Payments

The Israeli economy is an open economy, trade in goods and services represents approximately 80% of GDP. The shock on the real economy is transmitted through the four traditional channels butthe contagion level diverges across channels and is mostly felt through exports. Due to its commercial dependence to the EU market, exports registered a deceleration in 2008, with a weak 3.1% growth rate compared to 8.6% in 2007. This reduction is the result of the massive fall in diamond exports (—25%), when excluding such trade exports increased by 9.5% and 8.5% in 2007 and 2008 respectively.

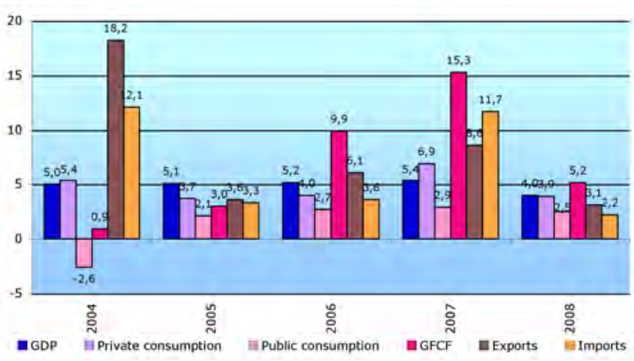
Israel's exports in March 2009 decreased by 31.8% compared to the same period last year, meanwhile, imports fell by 35.8% in the same time-frame. Overall a trade deficit decrease of 54.9% was recorded between March 2008 and March 2009 and when diamonds trade is excluded the deficit fall is more moderate but still substantial (50.1%).

Growth by sector and evolution of GDP (%)



Source : EIU

GDP decomposition and economic growth



Source : EIU

Services on the other hand are until know less affected by the crisis; total service exports increased by 12.8% in 2008, nonetheless, they are expected to decrease by approximately 20% in 2009. As for imports in the latter sector, after a 11.8% increase in 2008 they are expected to diminish by approximately 18% in 2009 and contribute to maintain a surplus in the service balance. The latter is expected however to be reduced by roughly 8% due partly to tourism decline.

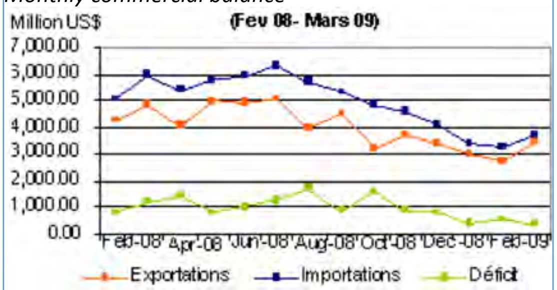
Concerning tourism, early figures for the first quarter of 2009 point towards a 19.7% reduction in tourist arrivals. Meanwhile, the number of person-nights in Tourist hotels made by foreigners in March 2009 shows a 47% year-on-year decrease while number of person-nights in hotels made by Israelis has remained stable in the same time-frame. (Israel Central Bureau of Statistics). Nevertheless, the country pursues active marketing campaign strategies and has also decided to prevent all employees in the tourism sector from being fired to protect the industry. (World Tourism Organization, Tourism and Economic Stimulus report).

Table 1 : Variation (%) in trade between March 2008 and March 2009

Trade			Trade excl. diamonds		
Exports	*Imports*	*Deficit*	*Exports*	*Imports*	*Deficit*
-31.8	*-35.8*	*-54.9*	*-22.6*	*-29.8*	*-50.1*

Source: Bank of Israel

Monthly commercial balance



Source : Bank of Israel

As for remittances, figures for the latest quarter of 2008 justify partial optimism since they showcase positive growth of 1.5% compared to the latest quarter of 2007. Early forecasts for 2009 however indicate a 15% decrease of current transfers which would only mean that remittances shall also decrease to some extent.

1.3. Impact on FDI

Foreign investors appear to have lost their confidence after the financial turmoil which signifies that real GDP growth is considerably hit from FDI reduction.

Israel-EU relations

Israel is one of Europes' largest business partners in the Euromed region, with an amount of trade constantly rising and with more than 25.7 billion euros worth of trade in 2007. The European Union is the largest market for Israeli exports and the second greatest source of imports after the United States. Israel records a trade deficit close to 4 billion euros with respect to the EU, with 14 billion euros worth of imports in 2007 while exports amounted to 11.3 billion euros. The country is part of the Euro-Mediterranean Partnership, which consists in extending free trade in the Mediterranean region thanks to a network of bilateral agreements between the EU and the numerous Mediterranean partners, the ultimate goal being to create a euro-Mediterranean free trade zone in 2010.

In 2007 main exports of Israel to the EU consisted of machinery and electrical equipment (12%), invaluable stones (16%), chemicals (17%) and crop products (10%). Israeli imports originating from the EU are essentially issued from the same sub-sectors, i.e. electric tools (17%), invaluable stones (20%), chemicals (14%) and transport equipment (9%). Moreover, trade in services marked a slight surplus on tthe EU side; the latter mainly exports to Israel travel services (29%) and transport related services (28%), while it imports business services (27%) and travel services (27%) (figures for 2005) [3].

Early post-crisis signs are all but encouraging for foreign investment, FDI has met a year-on-year decrease of roughly 40% in the last quarter of 2008, while interestingly, portfolio investment has increased substantially in the latest quarter of 2008 despite the crisis. Whether such fact is transitory or permanent will depend on the country's capacity of maintaining a modern business environment. This is generally done through efficient re-regulation of key infrastructure sectors which have perpetuated Israel's investment attractiveness. Forecasts for 2009 do not predict any additional decrease and iforeign investment in Israel is expected to remain at its 2008 levels of 5 bn US$ (IMF).

The country has traditionally encouraged domestic and foreign investment and has thus been successful in attracting capital in technology-intensive start-up firms. Investors should keep being drawn by the presence of highly-educated human capital and numerous agreements with Europe and the US have been concluded due to that. Additionally, Israel benefits from the presence of "Qualified Industrial Zones" which allows the country to increase its investment attractiveness and apply specific quotas and duty-free rules of origin to export to the USA.

2. Adapting to the crisis

2.1. Budgetary position and national debt

Budgetary performance has largely improved following the 1985 stabilization program. With the economic recovery program of 2003, preserving growth has allowed for a rise of budgetary incomes and a quasi-stabilization of the budget balance at -2.1% of GDP in 2008. However, the crisis on the real economy is expected to have negative effects on the budget, whose deficit should be degraded to attain -5.7% of GDP in 2009.

Table 2 : Investment in Israel (million US $)

	Total Direct Investment	*Portfolio Investment*
2007-Q4	*3,048.0*	*-1,152.5*
2008-Q1	*2,729.2*	*207.9*
2008-Q2	*3,050.8*	*524.0*
2008-Q3	*2,921.5*	*-1,148.9*
2008-Q4	*1,843.2*	*671.7*

Source: Central Bureau of Statistics (CBS)

National debt should keep pursuing a downward trend, nonetheless it remains too high (80% of GDP, IMF) limiting government possibilities for maneuvering. La dette publique est certes en baisse, mais reste encore beaucoup trop élevée (80% du PIB, IMF) limitant les marges de manœuvre du gouvernement. Such a high ratio of debt to GDP is only found in a limited number of countries and its gradual reduction would remove a considerable weight for the generation to come.Nevertheless, public sector investment should grow to provide continued stimulus, government spending already followed an upward trend in December 2008 and additional fiscal measures are expected in early 2009 (GLOBES). Israel will have the difficult task of balancing assistance to its population without further jeopardizing the trust it has obtained by international investors, since the country has longly showcased healthy public finances which solidify attractiveness as an investment destination.

Regarding Israel's external debt, currently, a large share (approximately 50%) of external public debt is guaranteed by the U.S and the latter have approved a new loan guarantee program until 2011 that could reach 9 bn US. Furthermore , a third of external debt is financed by governement bonds which remain a reliable and steady source of revenue.

2.2. Monetary policy and inflation: A risky yet influent monetary policy

The often contradictory interventions the Central Bank of Israel had to undertake translate the dilemma its governor, Stanley Fisher, is facing [4]:

√ Inflationary pressures due to a marked domestic demand and the rise in international prices during most of 2008, required an increase in short-term rates. However, appreciation of the shekel, deceleration of global supply and the fall in American rates pled in favour of doing the opposite. The Central Bank chose to support total supply in spite increasing inflationary tensions. Finally, in January 2009, after the crisis had erupted and inflation was less of concern due to a reverse of trend in international prices, Israel's central bank brought its benchmark rate to a historic low of 1% in order to help strengthen the economy's ability to cope with the impact on diminishing export demand and growth deceleration. The rate was further reduced in March to attain 0.5%.

√ The Bank of Israel also carries out interventions on the foreign exchange market to decrease the value of the shekel compared to the dollar. It compensates for (sterilizes) currency purchases by withdrawing its own currency (sales of government bonds) from the money market [5].

√ Overall, the Bank of Israel ought to pursue its modernization efforts and increase its credibility to the public. Inflation targeting has been a means of policy intervention, meanwhile, the bank of Israel operates on the bond market as well. Concerning the latter, the falling interest rate combined with a decrease of the CPI and a reduction of short-term bills will translate in a huge surplus of government bonds in early 2009. However, inverse trends shall be expected in later 2009 when the first signs of economic stabilization appear.

√ Two effects are expected to face-off regarding the Israeli currency. Maintaining capital inflows in 2009 should contribute to appreciation of the shekel. Moreover the recent surplus recorded in the current account contributes to such tendency. Indeed, since the middle of the 1990s, current account results have improved following a reduction in the real exchange rate (price-competitiveness gains) and due to structural changes such as the increase in the savings rate. Moreover, since 2003, the income balance is in constant increase. Nevertheless, regular tensions with Palestine and the fall in exports should rather contribute to depreciating the shekel.

2.3. Unemployment

The fall in unemployment in 2008 (6.1% vs 7.3 in 2007) contributed to maintaining private consumption growth. The effects of international economic deceleration were mitigated by feeble interest rates and a long period of appreciation of the shekel.

However, the Bank of Israel forecasts unemployment to increase to an average of 8.1%, thus above its 2007 levels. The "Labour Force Survey" published by the Central Bureau of Statistics confirms that unemployment has already evolved from 6.5% in the last quarter of 2008 to 7.6% in the first quarter of 2009, which highlights the speed to which the job market deteriorates. Recent figures show that between March and April 2009 the number of people seeking a job rose by 2.1% for a total of 235600. Granted, such growth is less marked than previous months were the rate had already increased by 2.6% in March , 2.9% in February and 4.5% from August to December, but it still remains quite high to predict any improvement (Source : Haaretz)[6].

The government will have to prioritize measures targetting the unskilled labor-force, 16500 new requests for employment have been recorded in April of which only half have been efficiently dealt with, most of the requests being for low qualification jobs. Furthermore, unemployment reduction could stem from better targetting the « hard-core unemployed », primarily older segments of the population that face difficulties in returning to work despite adequate formation. Presently, a third of the jobless have been without employment for more than 9 months while 40% live in Arab and towns in development. (Source : Haaretz).

2.4.Better orienting investment gains

Israel may find it beneficial to widen its portfolio of business partners in order to limit its dependence to demand shocks from developed markets. GDP growth shall continue relying on exports, consequently, Israel shall show signs of general progress, not only in sectors it excels, but also induce a sharper progression in less developed sectors.

A more detailed evaluation of the investment climate in Israel makes possible to present certain problems in need of a solution :

√ The continuous decrease in official rankings of Israel as an off-shoring destination (49th in 2009 according to AT Kearney' s) should incite public officials to rethink domestic strategies of investment attractiveness and strengthen the country's comparative advantage in producing quality intensive products. It is also undeniable that recurring tensions with its neighbors, Palestine in particular, are at the heart of this climate deterioration; introducing a balanced political solution that guarantees its durability remainsan essential prerequisite, even if the economic situation of Israel is solely taken as a criteria.

√ Some incentives to encourage investment have been wildly criticized. For instance, the policy that consists of selling start-ups to foreign investors instead of allowing them to flourish through their own means has been largely debated. National investors are those who already experience a difficult economic and political climate, hence, they estimate that the environment is degraded and thus negatively modify their anticipations and judgement. Moreover, tax incentives are considered too biased in favor of foreign stakeholders. Such fact can be a source of market distortions and lead to loss of confidence to the government's economic policy despite valiant efforts on regulatory transparency [7].

3. Could the existing Social Protection Policies help cushion the effect of the crisis on the population?

As for the majority of countries of the Mediterranean south, good economic performances did not materialize into benefits for the entire population. In Israel, gender inequalities and discriminations towards Arab and orthodox Jewish communities remain strong: they remain particularly vulnerable to unemployment and poverty that remains a major problem for people who are not employed in high-productivity sectors. The acceleration of economic activity in Israel allowed for an alleviation of unemployment prior to 2008. Nevertheless, wages remain low on the job market and there is often inadequacy between the needs of employers and labour qualification. In addition, youth unemployment remains high.

Poverty is associated with unstable employment more than it is to complete absence of work. In Israel, having a job is not an effective protection against poverty. The unequal distribution of growth leads to an increase in the number of workers whose wages are insufficient to raise them above the poverty line. Social policies in Israel have been inefficient in distributing income in an homogeneous fashion. The poorest decile has recorded a quasi-inexistent rate of growth, meanwhile, those living in the richest decile record a 3.5% growth rate which compared to per capita GDP growth is almost superior by a percentage point.

In April 2007, the government initiated an anti-poverty plan with the objective of reducing poverty by 17.2% by 2010.

3.1. Social Security systems

The Israeli social protection scheme protects from all risks by means of national insurance (National Insurance Institute). Contributions are obligatory for all residents that are at least 18 years old. In addition, any person older than 20 years is eligible to minimum wage provided he/she has been an Israeli resident for at least 24 consecutive months (12 months for a new immigrant). This minimum income is attributed provided resources allow for it and can be cumulated with other social services provided to the unemployed.

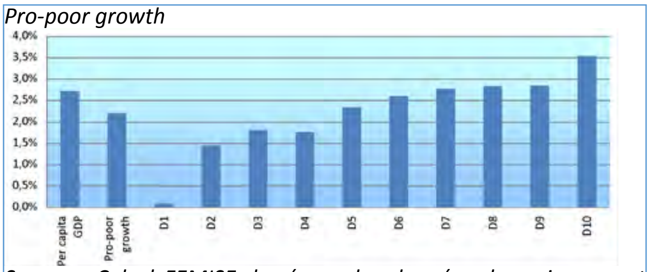
People who are aged between 18 and 67 (64 for women) and ready to work are also eligible to unemployment benefits provided they have contributed for 1 year (360 days) and during the 540 days preceding unemployment. The benefit is allocated for 175 days to those at age 45 or older, for famillies that include 3 members to support, in all other cases the total duration is fixed at 138 days. For those younger than 28 years, the maximum payment period is 67 days, but the pension amount is decreased by 25%. It should be noted that 30 days of unemployment are deducted from the maximum period of payment when an unemployed person refuses an adapted employment opportunity [8]. In addition, conditions for attributing unemployment pensions are strict.

3.2. Healthcare

The introduction in 1995 of the National Health Insurance (NHI) made it possible to provide broad coverage of the Israeli population. The Ministry of Health is responsible for public health and for the smooth operation of the health system. The Israeli health model is a mix of health insurance and a system financed by taxes. Public financing of the NHI originates from a health tax as well as a general tax on income, meanwhile, the Israeli government guarantees social benefits for all. The system thus represents a combination of both the public and private sector [9].

The health system is based on regulated competition between several funds (health plans) which provide financing and supply of health services. Four funds (non-profit organizations) cover the population and

Pro-poor growth



Source : Calcul FEMISE, basé sur des données de croissance et d'inégalités de la World Income Inequality Database pour 1997 et 2001.

offer welfare benefits to their members as defined by law. Adhesion to the funds is obligatory, but adherants have freedom of choice among them. In addition, two forms of complementary insurance exist (Voluntary Health Insurance, VHI). Complementary VHI offered by funds were met with great success, since theirrate of coverage went from 37% in 1997 to 65% in 2001. Commercial VHI with limited coverage (26%) also exist, meanwhile, 20% of the population cumulates both.

Public expenditure accounted for 57% of total health expenditure in 2005. However, private expenditure is in constant increase: it doubled between 1997 and 2004, from 10 to 20% of total health expenditure.

Although the public health system is fairly equitable, several components remain excluded, like dental or nursing care. The Israeli public health system provides good access to primary care, health indicators are good, on par with levels found in European countries, but inequalities persist regarding access to care among communities. Indeed, there is a five-year discrepancy between the life expectancy of Jewish citizens and that of the Arab populations. In Muslim Arab communities, the infant death rate amounts to 7.3 per 1,000 births, 15.5 in Bedouin populations, versus 3.1 within the Jewish population. These inequalities add to the economic and social inequalitiesof the Israeli society, where Arab populations face higher poverty and unemployment.

3.3. Programs of price subsidies

In Israel, the presence of a centrally planned subsidy system in the 1950s meant that basic foodstuffs could only be obtained through a coupon system that lead to numerous bread lines and social unrest. Until the beginning of the 1980s the Finance Ministry would be responsible for setting basic foods prices and attribute subsidies.

Preceding the election period of 1981 the Likud government more than doubled subsidy spending for basic commodities [10]. In the following years the public deficit was gigantic and inflation exceeded 400%, Israel had to undertake a massive reform of its subsidy system, among other measures, to alleviate fiscal pressures. This occurred in 1985 when the Peres government eliminated most food subsidies overnight while additional economic and financial measures were undertaken to reduce government deficit and combat inflation. A package of austerity measures was promoted to stabilize the Israeli economy, it included severe price increases of 17% to 82% on subsidized products as gasoline, bread and milk [11].

Notes :

1 : The central Bureau of statistics of Israel. 2003. Information and Communication Technologies in Israel. Statistilite No. 36. and Press Release, April 2006 on ICT Sector Estimate for 2005: Continued growth in GDP, Exports and Employment

2 : Guysen, at http://www.guysen.com/articles.php?sid=9908

3 : Source: http://ec.europa.eu/trade/issues/bilateral/countries/israel/index_en.htm

4 : Between August and September 2008, the rate of intervention of the Central Bank increased by 75 basis points (4.25%). In March 2008, the Central Bank decreased its rate by 50 basis points (3.75%) due to deceleration in the world economy. In April, the rate was further decreased by 50 basis points (3.25%).

5 : Sterilizzation is an operation in which the Central Bank substracts its own currency from the money market in order to sterilize consecutive emission to an intervention in the foreign exchange market ; a purchase of foreign exchange in return of domestic currency when the parity of the latter faces an upward trend.

6 : Haaretz at http://www.haaretz.com/hasen/spages/1089490.html

7 : Organization for Economic Cooperation and Development (2002), Investment Policy Review : Israel.

8 : Cleiss at http://www.cleiss.fr/docs/regimes/regime_israel.html

9 : Employeurs contributions were dismantled in 1997.

10 : The Political Economy of Israel (1987), par Ira Sharkansky, Publié par Transaction Publishers, ISBN 0887381170, 9780887381171, 157 pages

11 : R. Lacayo and Slater R. (1985), “Israel Battling an Enemy At Home”, TIME, Jul. 15

Jordan : Strong resilience in 2008, but with a budget and a job-market in disequilibrium

The growth of real GDP in 2008 is maintained to 5.6% mainly due to the service sector whose contribution to GDP (two-thirds) is exceeded only by that of developed economies. Jordan is an example of a country which opened-up considerably, with a type of growth based on foreign capital entry, the development of SMEs and a diversified economic orientation. Moreover, development of Specialized Industrial Zones has guaranteed Jordanian exporters access to the US market, exempted of customs duties and quotas, which stimulates the commercial structure. All this underscores a global integration effort in the world economy that resulted in an average growth rate of 5% during the 2000-2007 period.

Nonetheless, the Jordanian type of growth is not without its weaknesses: growth in the service sector is in constant fall since 2006, certain services of infrastructure remain relatively "closed", in particular due to limitations in the presence of foreign subsidiaries in many activities and because of an expensive infrastructure and transport network.

The main issue remains unemployment which is one of the highest in the region (12.7% in 2008). The coexistence of marked growth and an important unemployment rate has several reasons: (i) a high population growth (2.6% per annum), (ii) weak overseas investment in volume, (iii) lack of a strategy for investment that would create long-term employment, (iv) a strong rate of immigration which caused the segmentation of the job market in two sectors and the rise of non-qualified informal work. These reasons also involve a growth rate of GDP per capita well below that of real GDP, especially since 2007.

The international crisis should less affect the Jordanian economic growth in 2009 (estimated at 2.6%) compared to other MPs, especially if Jordan manages tostabilize its current account deficit which was the highest in the region in 2008 (12.1%). The fall in raw materials prices will result into a reduction of domestic inflation, which should give a little more room for Jordan in its macroeconomic management.

Over the last few months, the current macroeconomic situation in Jordan is characterized by the following :

√ On the demand side, growth is led by exports (textile and clothing to the USA in particular), a strong internal demand (with real progression inconstruction and real estate) and a considerable private demand(due to financial flows from the Gulf and to the service sector).

√ Exports are only slightly affected by the crisis with a year-on-year decrease of 10.3% in March 2009. Recent evolutions in the Agadir agreements should encourage Jordan to increase its volume of trade regionally and to diversify among its base of business partners, which shall facilitate its global resilience.

√ Economic slowdown in Europe and the USA is expected to translate in a decrease of current transfers (-15% estimated for 2009, EIU) and further reduce foreign-exchange resources. Remittances have shown a 12 month decrease of 9.9% in April 2009.

√ FDI seems to be the most affected component, with a recorded decrease of 71% in the last quarter of 2008, compared to the same period in 2007. Nevertheless, FDI has never been particularly high in the country to begin with.

√ The crisis has locally resulted into a reduction of industrial production during the last months of 2008 (growth lower than 6%, less than the prior year).

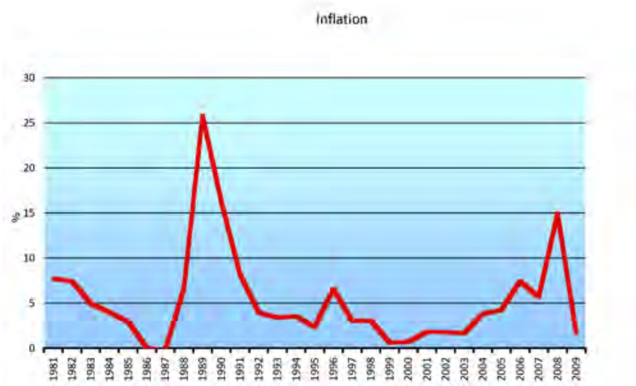
√ The budget deficit remains high due to the rise in wages which was judged necessary to compensate for the abandonment of the price subsidy regime. In 2008, the deficit reached 9.9% of GDP, and is expected to escalate to 11.2% in 2009. The budget deficit aong with increased public debt reduce margins for maneuvering in order to set up stimulus measures, hence, additional public expenditure is hardly possible for 2009.

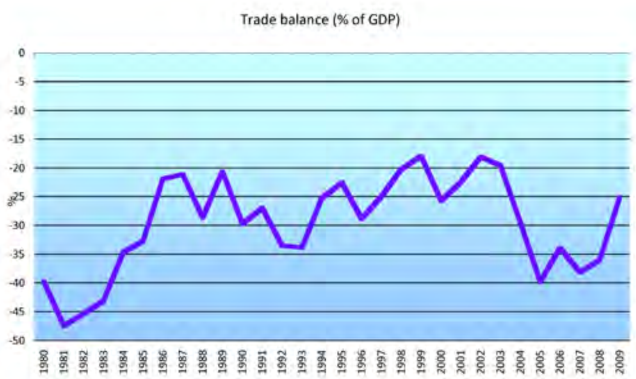
√ An additional reduction in interest rates is possible on behalf of the Central Bank of Jordan, but only if the balance of payments does not record any major imbalances.

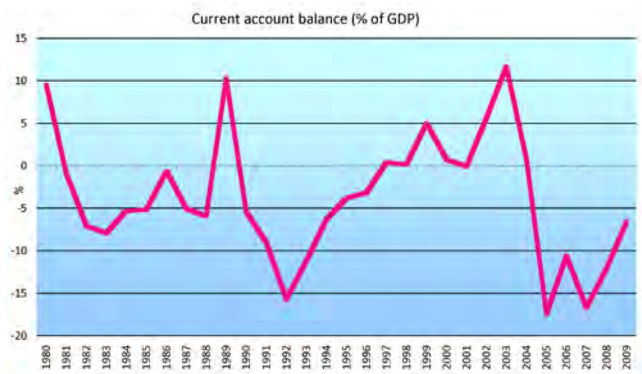
√ The reform of retirement schemes must continue being a priority for the government. The 2010-2015 period represents a time-frame when Jordan will face important demographic opportunities, with growth of the economically active population that will exceed growth of the dependent population.

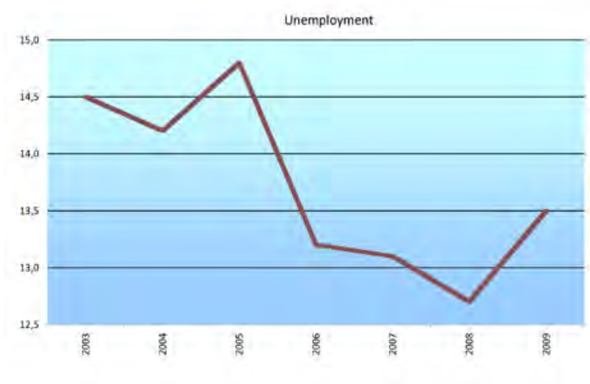
1. The shock : Initial fall in investment has given place to steady growth

Jordan has historically been among the most crisis-exposed countries in the region and was expected to be caught in a vicious cycle of massive exit of FDI, reduced domestic investment and growth stagnation[1]. However, the repercussions of the banking crisis that resulted into a profound recession 20 years ago are not expected to be repeated nowadays. Forecasts are nonetheless contrasted for the year to come regarding all four transmission channels.









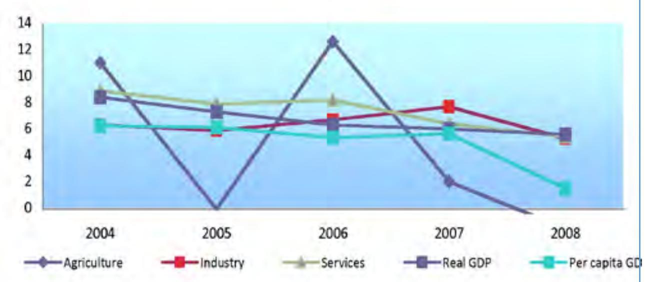
1.1 Growth prospects remain strong but the productive structure is in need of stimulus

Real GDP growth is maintained to 5.6% in 2008 but on the contrary GDP per capita is weakened (4 US 957$ in 2008). However, a net deceleration is expectes for 2009, with a growth decline in all sectors of the economy compared to the prior year.

The service sector's contribution to GDP has been constant through years and the recent decrease in services growth should be of concern as to the global efficiency of the sector. A major challenge also resides in sustaining agriculture : the government has initiated a livestock protection fund which would provide low-cost loans to farmers. Similar initiatives should follow in order to strengthen a sector overly dependent on natural hazards. Farmers are presently experiencing a major lack of rainfalls and there is imminent need to endorse the efficient use of water.

The industrial sector contributed to 24.4% of GDP in September 2008, a 1% increase compared to

Growth by sector and evolution of GDP (%)

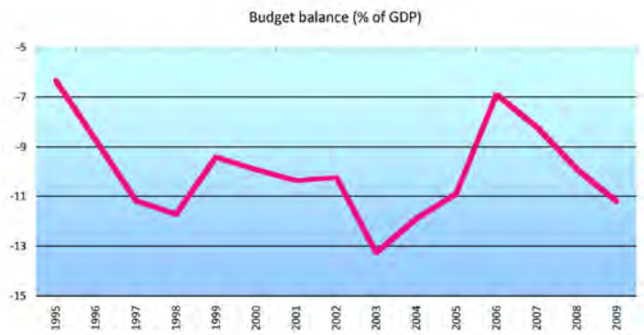


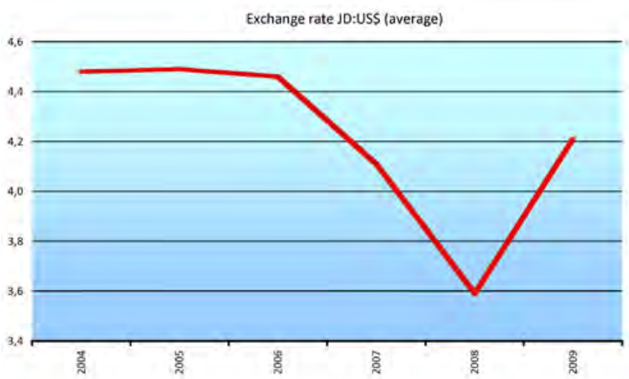
Source : EIU

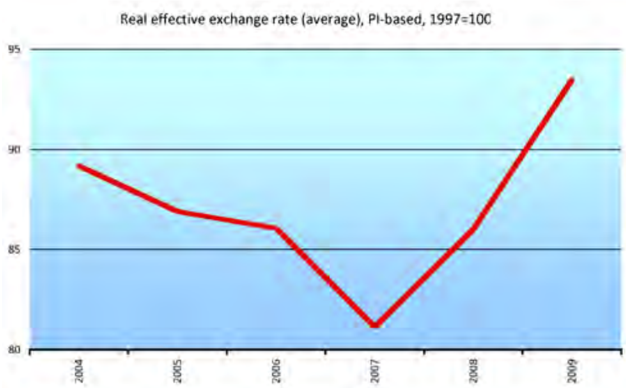
2007. Furthermore, the growth rate of industrial production stood in the first 10 mnths of 2008 to 8.5% surpassing the 2007 sectoral rate of growth (MENAFN.COM). Nonetheless, the emergence of the crisis materialized into a reduction of industrial production in the last few months of 2008 (growth rate below 6%), hence, a decrease compared to the levels attained the prior year.

1.2 Impact on the Balance of Payments

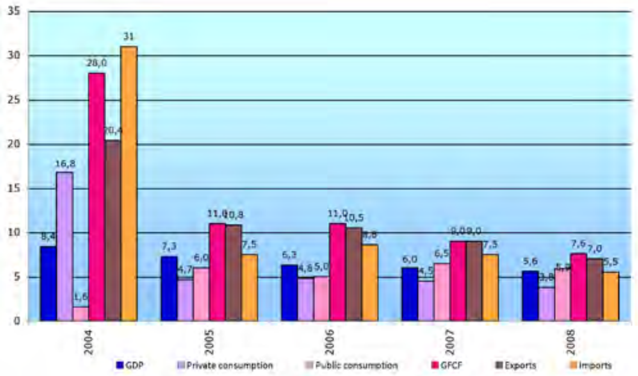
On the demand side, growth is traditionally led by exports (textile and clothing to the USA in particular), a strong internal demand (with real progres-







GDP decomposition and economic growth



Source : EIU

sion inconstruction and real estate) and a considerable private demand(due to financial flows from the Gulf and to the service sector).

Exports in 2008 recorded an increase compared to prior years (36.5% compared to 2007), making it possible to reach in 2008 a GDP growth rate superior to the 5% mark. After continuing to grow in the beginning of the year (12 month growth of +17% in January 2009), exports finally recorded a year-on-year decrease of 10.3% in March 2009. Reforms carried-out during the last few years have reached the anticipated results and have translated into significant growth. Specialized Industrial Zones allow access for Jordanian exporters to the US market exempted from customs duties and quotas. The signature of a free-trade agreement with the EFTA in 2007 and the beginning of trade negociations with Turkey, Canada and Kazakhstan have also succeeded in stimulating the global trade structure. Finally, Jordan exports to the EU, stood at JD171 million at the end of November 2008 compared to JD101 million in the same period of 2007 (an increase of 69.3%) [2].

However, the country still records a rather large and increasing imports' bill. Saudi Arabia is the main source of imports with 25% of total imports and the trade balance has widened in 2008 to almost $7 bn. This considerable gap is nonetheless expected to narrow in 2009 (to $5.3 bn) as international prices decrease, thus bringing down the imports bill.

Tourism revenues rose by 27.5% in 2008 with an increase in the number of tourists of 8.8%. Meanwhile employment in the sector increased by 11.3% and the sector represents a share of 14.7% of GDP in 2008. This is a sign of resilience against the crisis effects that originated in developed countries during the second half of 2008. It remains to be seen if such ccapacity persists in 2009. Projections for 2009 estimate tourism revenues to fall by 8%, while the indirect tourism economy is expected to contract by 5.5% (World Travel and Tourism Council)[3]. Nevertheless, in April 2009, tourism receipts still remain solid and have even increased by 7.4% in 12 months.

Remittances represent about 15% of GDP and their eventual fall could initiate large social effects for those living at the brink of poverty[4]. Other than the Jordanians working mainly in the Gulf, a considerable amount of remittances originate from the large amount of Palestinians that have settled in Jordan and moved (for parts of the family) to the Gulf seeking work, sending remittances to their families still residing in Jordan. In the early 90s, Jordan was ranked fourth most dependent country on migration earnings.

Parts of these remittances were used in consumption activities, especially real estate. Other parts financed productive investment especially in agriculture and technology. In order to manage these remittances, the state set up a number of control mechanisms, which does not seem to affect the flow of remittances and helped improve the balance of payment and invest in infrastructure development and create more jobs.

In 2008, such remittances have made up more than 20% of GNP in the first 11 months of 2008 and also grew by 11.3% per cent over the same period in 2007[5]. Forecasts of adverse impact in 2009 (-5% to -10% according to Standard and Poor's) could thus be, at least partially, invalidated. Jordanian workers that have migrated in the Gulf are relatively protected from job-loss due to the fact that they are well-trained and highly-skilled workers, hence, more difficult to be laid-off.

Forecasts are negative for 2009, with a fall expected between the -5% and -10% mark according to Standard and Poor's. Recent remittances figures showcase similar signs with a 12 month decrease of 9.9% in April 2009.

Overall, the current account deficit improved in 2008 representing 12.1% of GDP compared to 16.7% in 2007 owing to the increase of exports revenues, the still increasing tourism revenues and remittances. However, starting from 2009 and following recenty observed trends, the situation could worsen once again.

1.3 Trends in FDI

In 2006, Jordan attracted $3 bn of FDI, an increase of more than 100% of previous year's figure. Despite this increase, the country still lags behind its neighboring countries[6]. A large amount of this FDI was directed into the privatization initiatives rather than establishing new projects. Thus, we are in the presence of investment peaks rather than a tendency of an enhanced capacity for attracting investment.Recent figures from the Central Bank of Jordan confirm such fact, FDI in the last quarter of 2008 decreased by 71.4% compared to the same time in 2007.

However, the Amman Stock Exchange states that the net value of non-Jordanian investment in the first quarter of 2009, increased by JD24.8 million, compared to an increase of JD24.5 million in the same period of 2008. In Q1 2009, non-Jordanians bought JD769.3 million worth of shares (representing 28% of the overall trading value of the exchange) and sold JD744.6 million worth of shares[7]. Oil-producing nations of the Gulf that are major contributors to Jordanian investment are still looking for places to invest their capital. Crude-oil prices appear to have been stabilized to 60$ - 70$ a barrel, hence, FDI originating from oil-rich economies is likely to be maintained in Jordan and help the country get through the global financial crisis sooner than expected.

2. How can the economy overcome the crisis in 2009 ?

2.1 Budgetary position and national debt

Jordan suffered the booming invoice of importing oil and raw materials in 2008 due to inflationary pressures on prices. It also had to face considerable current account and trade deficits because the surplus of the balance of invisibles was not sufficient to make up for the rise in imports.

Moreover, and especially during this period, one of the weaknesses of the Jordanian economy resides in its excessive recourse to external sources to finance its budget deficit and remedy inefficiency of direct taxation. Since 2005, the authorities have made efforts towards budgetary rebalancing by reducing expenditure and eliminating subsidies on oil products for 2008. The initial objective was to reduce budgetary expenditure by 10% by 2010. However, the budget deficit remains high due to the rise in wages which was judged necessary to compensate for the abandonment of the price subsidy regime.

The general budget recorded a fiscal deficit of 616.7 JD million for the first eleven months of 2008, in other words an 80% increase over the deficit twelve months earlier. Furthermore, total outstanding domestic public debt also increased by more than 40% of GDP between 2007 and 2008 while net public debt (domestic and external) represented 61% of GDP in the end of November 2008, dropping by 9% of GDP compared to its 2007 levels[8].

As for 2009 budget perspectives, they are all but optimal. The government has guaranteed an economic rescue plan that could aggravate the budget deficit even more. It is highly doubtful that Jordan will be able to reduce current expenses while efficiently boosting expenditure on investment related projects that will maintain growth and reduce an unemployment rate that rose to 12.7% in 2008. Let us note that, the General Budget Law has been drafted with the assumptions of a growth rate ranging between 5% and 6% and a current account deficit at 12% of GDP in 2009, both over-optimistic expectations of economic performance in a period of crisis. Furthermore, the government has implemented human-development projects as well as its new social safety net and has proceeded to increase national aid allocations for the poor, school nutrition programs while still providing bread subsidies and cash assistance to small farmers, rendering the possibility in 2009 for budget deficit attenuation impracticable.

2.2 Monetary policy: Controlled inflation but need to lay down a clearer policy

Inflation is not a source of major concern in spite of its elevated level in 2008 (14.9%). The fall in prices of raw materials, especially that of oil, allows for forecasts of tendency reversal, with a very weak inflation rate of 1.7% expected in 2009 (EIU).

Contrary to the situation in 1989, Jordan did not record a massive devaluation of its currency. In the middle of the 90s, the Central Bank decided to focus on controling inflation through indexing the Jordanian dinar to the American dollar. Such anchoring allowed bringing credibility to the monetary policy while causing a strong influence of the American monetary policy on domestic monetary decisions.

Nevertheless, while monetary policy has proven its efficiency in influencing reserves, deposit and lending rates, it has not done the same with regards to production; the operating target and numerous transmission mechanisms of monetary policy (exchange rate, interest rate, credit) appear to have had insignificant effects on economic activity as well as on asset prices. It appears however, that Jordanian emigrants are particularly responsive to the evolution of the macroeconomic climate, both domestic and foreign[10]. As mentioned earlier, economic deceleration in the developed world has not yet translated in a decrease in the inflow of remittances, however, if it finally catches on it will materialize into reduced sources of foreign exchange and partial degradation of the balance of payments. Since the flow of remittances is determined by the difference between domestic and foreign real interest rates the CBJ should augment its interest rates in order to avoid a black market flourishing or the catastrophic scenario of remittances remaining in host countries. Nonetheless, after the financial crisis in 2008 erupted the Central Bank of Jordan had to cut its main interest rates. Now the CBJ is in dilemma since the loosening cycle of US interest rates is not yet over as expected, hence, the CBJ cannot yet undo its recent cuts especially since inflation in 2009 is expected to fall.

2.3 Further diversify among commercial partners

In spite of its exports resilience, the issue in Jordan always lies in its lack of South-South integration . Recent evolutions in the Agadir agreements should encourage Jordan to increase its volume of trade regionally and to diversify among its base of business partners. In the current period we clearly see how much it is important not to overly commercially depend on a single region. However, uptil now the USA remain the main trading partner which increases the vulnerability of Jordan to external shocks. The weak dollar in 2008 has certainly improved price-competitiveness ofJordanian exports, but their scope of diversification is still limited.

It thus seems essential to develop a national strategy of exports promotion, aiming at diversifying products which Jordan can sell but also trading partners. It will be noted finally that exports to the EU seem more diversified (chemicals, manufactured goods), and are primarily made up of machinery and transport equipment, pharmaceutical goods (promising sector with prospects for outsourcing of european companies) and clothing products.

2.4 More initiatives to attract investment

Attracting more FDI is a challenge to the economy. Limited natural resources have put the country in a difficult position compared to its neighboring countries and inability to place attractive incentives to FDI.

However, lots of investment potentials for the country lie in its several industrial zones. The country has been efficient in attracting FDI since the majority of sectors in the economy are open to foreign capital. As mentioned earlier, the greatest share originates from Gulf Arab states that have been attracted by Special Economic Zones and the low-tax incentives that accompany them. Up until now, Jordan was able to maintain such investors even when the oil price economic boom in the Gulf was fading.

Presently, the challenge resides in orienting investment flows in sectors that allow global economic activity to derive benefits, especially in telecommunications and infrastructure. Such orientation has been ongoing as in the case of a $100 million agreement recently signed for constructing an industrial port at Aqaba. Such a strategy also necessitates further development in international agreements, as was the case with the EU, and real implementation of the agreements in daily activity, meanwhile, negotiations of accession to the WTO should be pursued.

2.5 Employment, funding and the role of migrants

Jordan is the main migration destination of Palestinians since 1948[11][12]. Thee decades ago, Jordan's population increased from 500,000 to 1.5 million, one-third of the latter being refugees in just two years. According to UNRWA's figures, Palestinian refugees and their descendants registered with and clients of the UN agency number represent today about 30-35% of the Jordanians population.

The Palestinians exodus played a key role in the country's political, economic and social aspects. Palestinians now constitute an integral part of the country's population. As this has caused a major challenge to the country's development, it has also, in a way, helped the economy through two channels: the financial international aid from Arab countries to help settle the Palestinians, and the remittances of the Palestinians living in the Gulf (or elsewhere) that they sent to their families settled in Jordan. A large amount of these remittances were invested in job generation projects.

Moreover, Jordan was considered a transition migration place, where Iraqis, Lebanese and Palestinian were seeking refuge before departing to the western world. More than 1 million Iraqis entered the country, some left while others decided to stay.

Hence the domestic policies of the economy and especially on labour markets have been linked to very dynamic mobility in the Labour Force. Adding to those, the labour market also contains low skilled labour (construction and agriculture) from other Arab countries such as Egypt and domestic workers from Asia. This has caused the segmentation of the labour market into two sectors: sector employing nationals (private or public) with high wages and employment stability and sector employing foreigners (agriculture, construction and services) mainly characterized by low wages and unskilled labour.

In an unsatisying job-market situation, the small vulnerable Jordanian economy needs to redefine its internal and external migration policies and more needs to be done to dissolve segmentations in labour markets and create more jobs, to absorb the highly educated youth without excluding the non-qualified. Due to an elevated rate of population growth, Jordan will have to continue creating more than 50 000 new jobs annually to maintain unemployment at its current level, of 12.7% in 2008 (one of th highest official rates among MPs).

3. Could the existing Social Protection Policies help cushion the effect of the crisis on the population?

The country has certainly followed various strategies of poverty and unemployment reduction, but the latter have missed coherence and coordination for years. In spite of observed pro-poor growth, the distortion in the distribution of income resulted into a reduction in middle-class revenue. Hence, whereas growth seems to have profited to the poorest deciles during the 1992-1997 time-frame, results have been limited as to the tangible evolution of the social context.

From 1997 to 2005, the United Nations' Human Development Index went from 0.715 to 0.763 (mainly due to (i) improvement in life expectancy to 72 years and (ii) progress in education) then to 0.773 in 2007. Jordan now showcases regionally (and even in comparison to countries with similar incomes) one of the strongest rates of life expectancy, of elimination of adult illiteracy and of access to basic services and education.

Still in 2002, 14.2% of the population still lived under the poverty line (nearly 780 000 people with less than 32.8 dinars per person and per day). In spite of income growth at 9% the poorest decile accounted for only 3.3% of total income in 2002.

In 2003, Jordan chose pursuing a «knowledge society» type of growth with a "reform of education for an economy of knowledge". However, Jordan has not set up any strategy with regards to employment to solve major problems on the job market.

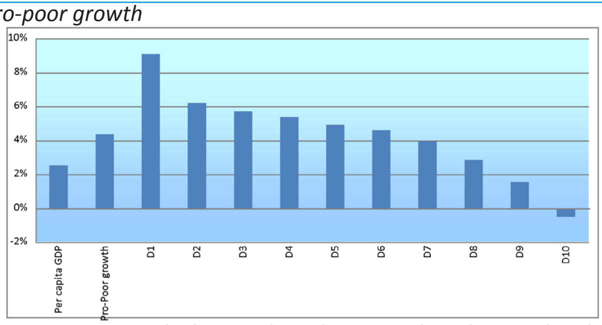
As for foreign development aid, in recent months, a 6 million euro loan was obtained from the Spanish Agency for International Development Cooperation (AECID) to aid the Woman Fund in Jordan, meanwhile, the Islamic Development Bank provided a loan of 350000 US$ for improving the standards of living for economically active jobless poor.

Political stability shall allow the government to concentrate on economic and social policies with the objective of increasing the standard of living for the Jordanian population. The government currently tries to take into account difficulties through the following plans: (i) a new policy of residences (100 000 residences at low cost over the next fiveyears); (ii) the creation of a social safety net to protect the poor and to compensate for eliminating agricultural and oil subsidies.

3.1 Social Security Systems in Jordan

In Jordan, the pension systemreform constitutes a priority for the government. Since January 1995, new employees of the public sector join the *Social Security Corporation* (SSC). The latter covers employees of more than 16 years, employees of the public sector since 1995, university employees and municipality and village employees. The starting retirement age is fixed at 60 years for men and 55 years for women. The SSC coverage rate is currently increasing, covering 40.8% of the labour force and 46.1% of the employed. The number of active people covered rose to 662 000, a rise of 11.7% compared to 2005. The 2010-2015 period represents a timeframe when Jordan will face important demographic opportunities, with growth of the economically active population that will exceed growth of the dependent population. But, it should be recalled that to seize such an opportunity it should be advisable to create the necessary jobs which "transform" the "working-age population" into an "active population".

Pro-poor growth



Source : FEMISE calculations, based on growth and inequality data from World Income Inequality Database for 1992 and 1997.

3.2 Healthcare

In Jordan, health expenditure considerably rose to 9.9% of GDP in 2006. Healthcare in Jordan is obtained through various modes of health insurance, which include the Ministry of Health (MoH), the royal medical services and the private sector which accounts for approximately 60% of health insurance. As observed by the WHO, the private sector is limited to urban areas where the population can afford higher expenses. The civil servants receive care through public health regimes. Public health care centers also cover health education, water, safety, cleansing, food quality control and control of plague.

A survey on Jordanian healthcare showed that in 2001 «Jordanians made 3.55 outpatient visits per capita annually, with females making more visits than males. About half of outpatient visits occur at MoH facilities, 40% occur at private facilities»[13].

Nonetheless, despite such mechanisms, as of now approximately 40% of the population is without insurance, the latter spend every year approximately twice as much as the insured for patient care and 3.5 times as much for inpatient care.

Le système de santé jordanien fournit des soins médicaux de bonne qualité à Amman et dans sa périphérie. Mais à l'extérieur de cette zone, les services de santé sont d'une qualité moindre.

Finally, the major problem for the government is that in that with the present situation, the financial costs are untenable, while at the same time coverage and services must be improved, especially for certain layers of the population and in specific regions. Taking into account the special status of Jordan, more particularly as a reception centre forrefugees, it is a question that shall also be considered at the International community level and, in particular within the framework of the Euromed and the Union for the Mediterranean.

3.3 Programs of Price subsidies

The end of food and oil subsidies became a reality in 2008, in spite of a strong probability for social tensions following this decision. To avoid such scenario, a safety net was created: 380 million dinars were allotted in order to avoid a massive degradation of the standard of living of low incomes which constitute the majority of the Jordanian population.

This removal had a limited budget result, however, the government was successful in targeting the poor with the use of a new efficient social safety net (through direct income support, indexation and other measures. As noted in a 2008 European Commission study (European Neighborhood Policy : Review of EU Neighbor Countries) « salaries and pensions in the public sector have been increased in line with the inflation rate. Cash assistance has been increased to the poorest benefiting from the National Aid Fund, and a one-off cash subsidy for the families of all non public sector employees or retirees with a per capita income of up to JD 1000 per year has been provided in order to enable them to face the 2008 price increase ». Additional measures are expected for 2009, wages of public servants will be indexed on annual inflation and productivity, while a set of instruments will offset the rise in food prices.

Notes :

1 : World Bank (2009), Global Economic Prospects 2009, The International Bank for Reconstruction and Development / The World Bank

2 : http://star.com.jo/index.php?option=com_content&task=view&id=14801&Itemid=55

3 : MENAFN, http://www.menafn.com/qn_news_story_s.asp?StoryId=1093247444

4 : IFAD, http://www.ifad.org/pub/factsheet/remittances/e.pdf

5 : UN-INSTRAW, http://www.un-instraw.org/grvc/index.php?option=com_content&view=article&id=28%3A-migrant-workers-remittances-li-

kely-to-keep-flowing&catid=3%3Anews&Itemid=11&lang=en

6 : Nations Conference on Trade and Development, Jordan 2006.

7 : http://star.com.jo/index.php?option=com_content&task=view&id=15408&Itemid=52

8 : Recent Monetary & Economic Developments In Jordan (2009), Central Bank of Jordan, Research Dept. Monthly Report, January

9 : Tushar Poddar, Randa Sab, and Hasmik Khachatryan (2006), "The Monetary Transmission Mechanism in Jordan", IMF Working Paper WP/06/48, Middle East and Central Asia Department, February

10 : M El-Sakka, "Migrant Workers' Remittances and Macroeconomic Policy in Jordan", M. I. T., Dept. of Economics: Kuwait University at http://www.cba.edu.kw/research%20serial/

11 : http://www.migrationinformation.org/Profiles/display.cfm?id=236

12 : These refugees are under the mandate of the « United Nations Relief and Works Agency » (UNRWA)World

13 : Health Organization (2006), Country Cooperation Strategy for WHO and Jordan 2003 – 2007, EM/ARD/004/E/R

Lebanon: An economy reborn that needs to consolidate its productive structure

The economy recorded a growth rate of 6.3% in 2008, a record rate for the last 4 years, mainly due to the service sector. The country is guided by the development of its service sector which accounts to 70% of GDP. The financial sector has succeeded in maintaining economic growth in times of war and the Central Bank keeps supporting the banking environment and government with necessary liquidities. In addition, Lebanon seeks to further open-up more and its sectors depend on reform and liberalization initiatives.

The Lebanese growth regime exhibits a remarkable capacity in attracting overseas investments (especially in real estate) which allowed the country the country to survive after the conflict. In addition, Lebanese workers from abroad contributed in a considerable way through sending funds. Moreover, growth is also largely assisted by the EPCA (Emergency Post-Conflict Assistance) program of the IMF and assistance obtained at the Paris III conference. Thus, it represents a transitory typeof growth which aims at rebuilding the countrys' foundations.

Nevertheless, a number of elements explains the volatile growth in the country: a lack of development in industry, excessive dependence to imports which results in a negative trade balance, political instability, public over-indebtedness and important social inequalities which are sources of tensions. Moreover, an urgent need to reinforce productivity and employment is being felt, this is achieved through better industrial competitiveness with the development of SMEs (95% of firms in Lebanon), a collaboration between the public and private sectors and more opportunities for the youth (22.6% of the 15-24 years-old are unemployed and the rate reaches 30.7% among women). During the Third Inter-Lebanese Forum on "Competitiveness of firms and competition" coordinated by the FEMISE network, a large array of orientations for the development of the industrial structure was proposed, particularly concerning the need to take into account the various constraints small and medium-size firms constantly face in the elaboration of macroeconomic policies, improving the business environment to reduce transaction costs and the development of the countrys' infrastrucutre which is a pre-requisite for the healthy development of firms, especially in sectors such as electricity, transport and ICT.

The agricutural sector also appears operating below potential. Several reasons were identified at the time of the Fourth Inter-Lebanese Forum on "Agriculture" coordinated by the FEMISE network: problems in distribution channels, inoperative measures of trade protection and safeguards, a difficult access to overseas markets and institutional inefficiency or absence. To ensure the competitiveness of a sector which is a source of income for 30% of the population, it appears necessary: to clarify land-property issues (titles, registers), to better target the subsidy policy, to develop incentives for the introduction of agricultural projects, to apply measures of trade protection in order to avoid unfair competition for Lebanese producers and to set up insurance procedures against natural hazards.

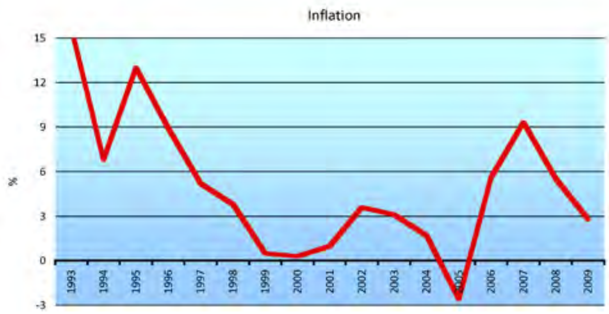
However, socio-economic realities in Lebanon go beyond a simple increase in production and GDP: it is rather a question of ensuring territorial balance, of reducing political antagonisms and structuring dialogue between various camps. The crisis emergence makes convergence towards a common vision of the economic model even more necessary, and should allow Lebanon cure its major structural deficiencies. Macroeconomic management is in peril and budget financing is likely to be compromised, a situation that the new government will have to manage by also accumulating more reserves to shield interest rates while also covering social needs related to the crisis on the most vulnerable populations.

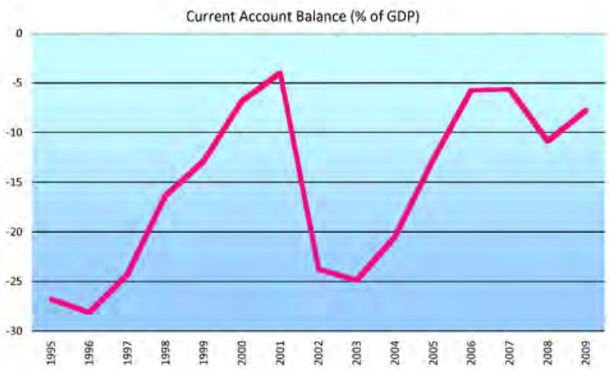
With the crisis, the need to moderate social effects on the population has become imperative. Protecting the most deprived shall depend on the improvement of the quality of life, more opportunities for employment, educational and health services of quality and social safety nets that target specific segments of the population. A model of generalized social protection constitutes an "integrated" approach which seems more adapted to the Lebanese case since it would allow «attacking» the roots of the social problem in a more effective manner than with a temporary compensatory scheme.

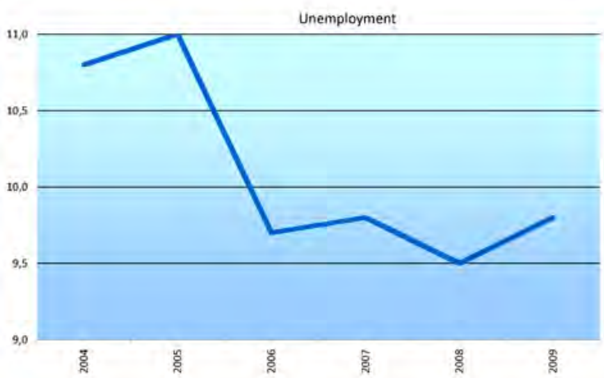
At the macroeconomic level, several points deserve to be underlined:

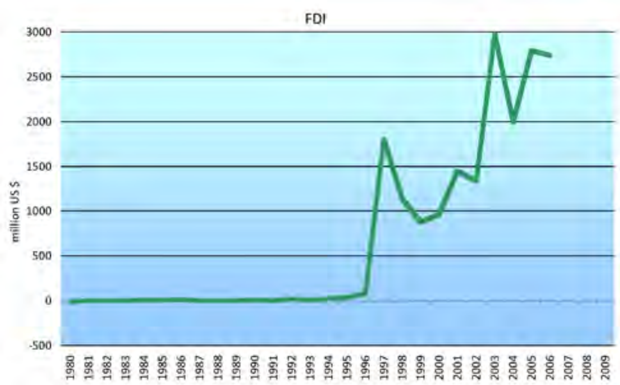
√ Economic slowdown is expected in 2009 with a GDP growth of 2.4% due to the global slowdown, internal and external political unrests. Lebanon has not yet reached its full potential due to political tensions and structural rigidities. Given Lebanon's significant human resources, well-educated workforce, large Diaspora, well developed banking sector, and attractive climate and geography, the country could achieve an even higher economic performance.

√ Private consumption increased by 6.3% in 2008. It shall be preserved as an engine of growth, while the same should be said on investment which







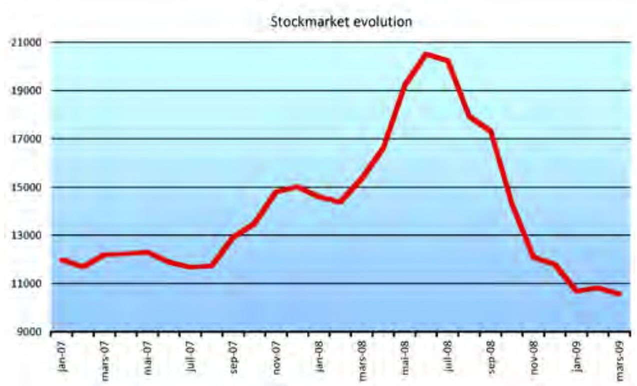


needs support by banking credits which will imply a reorientation of credits outstanding (in favour of firms and private individuals as opposed to government bonds).

√ Goods exports recorded a growth of 23.5% in 2008, despite the global slowdown with GCC countries traditionally representing the larger importers of Lebanese goods. In May 2009 exports registered a 10% year-on-year increase. .

√ Due to its dependence on oil-imports Lebanese imports account to almost half of GDP in 2008, hence, deteriorated the trade balance (deficit of 40.4% of GDP in 2008). However, in 2009, the deficit could decrease due to globally decreasing prices of oil.

√ Meanwhile, early indications for the tourism sector show relative resilience to the crisis and an increase of more than 50% of the number of tourists in the first quarter of 2009 compared to the same quarter last year. Furthermore, estimations for Lebanon's travel and trade industry point towards $2.5bn in 2009 which is equivalent to 9.3% of GDP.



Remittances, which are the country's main source of currency (surpassing revenues from tourism and FDI) have averaged more than 20% in recent years. The global slowdown is expected to negatively affect gross and net remittances inflows up to -12% (-2.4% of GDP) and -25% (-3% of GDP) respectively in 2009

√ FDI, which is the second source of currency diminished by 21% in 2008, which is still not as marked as in many countries of the Mediterranean region that recorded a more brutal decrease. Resilience in medium and long term investment is due to on-going projects that account to a total of 25 billion US$.

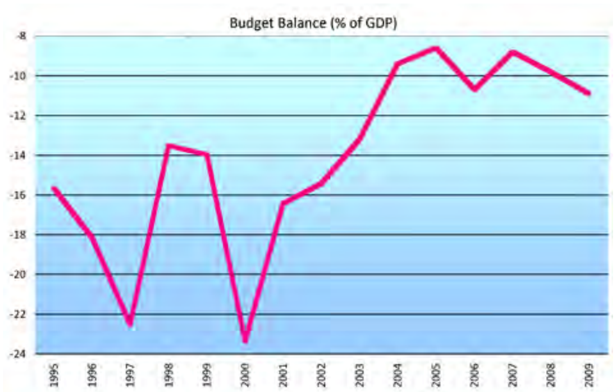
√ The major challenge remains balancing the budget deficit: the latter has been one of the highest in the region in 2008 (at 9.8%) following the rise in expenditures caused by the cost of rebuilding. It is estimated at 10.9% of GDP in 2009.

√ Inflation reached 5.5% but remains under control compared to most of MPs. The prices of food products are in decrease which should increase a rise in consumer confidence in 2009.

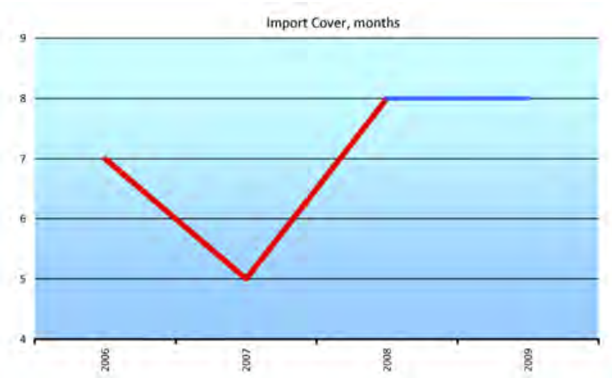
√ Financial stability is maintained, the Bank of Lebanon continues to accumulate reserves and bank deposits remain relatively stable.

√ The country has to be more diversified in terms of introduction new sectors taking advantage of its highly educated and technically qualified human resources and creating appropriate and attractive jobs and encourage them to stay in the country and participate in its development.

√ Poverty is a serious problem in Lebanon, with at least 5% of the population living in extreme



√



poverty and a quarter living under the poverty line. Social systems cover only half of the population.

1. The shock: Political unrests and global crisis slow down an economy which is expected to pick-up rapidly

The economic effect on Lebanon will be one of the most moderate in the region. However, political unrests linked to elections and disputes over power shall have another major impact on the sustainability of the economy and its relations with its neighbors and the rest of the world. Establishing a durable inter-lebanese dialogue is crucial for an economy whose main sectors are dependant on its openness and liberalization, including the financial sector, tourism and trade in services.

1.1. Economic Growth hits its highest level since 2005 but with expectations of a slowdown

The country has a long history of political unrests and wars that caused major fluctuations in its development. In the early 90s, the economy was recovering after long years of war, and by early 2000, average economic growth reached 5-6%. The 2006 attack on Lebanon curbed down the economy again and GDP growth was negative, in addition to political conflict between parties over power. The economy has rapidly picked-up in 2007 and a year later, in 2008, and despite the worldwide slowdown, the country showed a great survival with GDP growth reaching its maximum level of 6.3%.

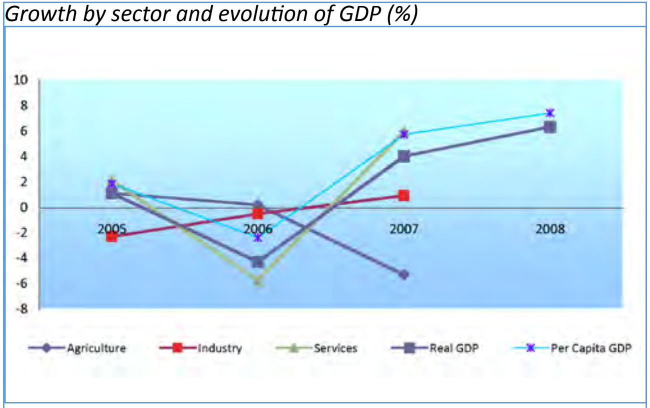
The economic crisis thus constitutes an additional challenge for the country. The impact of the crisis will touch the main sectors of the economy: tourism, real estate, construction and the financial sector. The GDP growth rate is predicted to be severely affected and fall to 2.4% in 2009.

Agriculture contributes to approximately 6.5% of GDP and employs close to 15% of the active population in corn, plants and tobacco. The main industrial activity is construction. However, the economy is guided by the development of the service sector, especially financial services and tourism. The latter represents more than two thirds of Lebanese GDP. The financial sector in particular represents the country's main survival tool. Despite its imperfections, it helped the economy survive even during times of war and the Central Bank continued to supply the banking sector and the government with required liquidity and services. Of course, another raison of survival is the resilience of the civil society and its determination to sail the economy towards a stable and sustainable shore.

After the conflict the government set up his economic stabilization plan. In 2006, all components of GDP, with the exception of public consumption were degrading. Since then, the country has recorded a rebirth of economic activity primarily due to investment, trade and consumption.

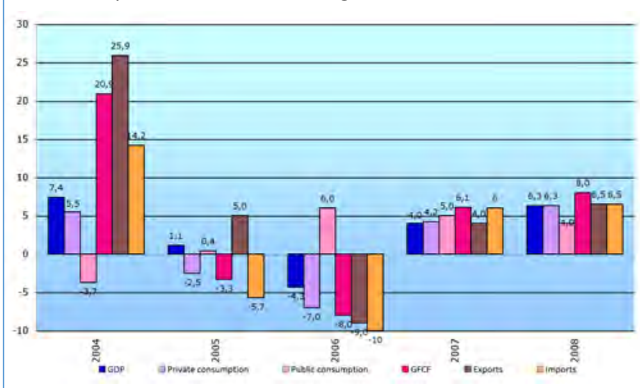
Private consumption built up to 6.3% in 2008 and should be preserved as an engine of growth throu-

Growth by sector and evolution of GDP (%)



Source : EIU

GDP decomposition and economic growth



Source : EIU

gh investment measures capable of providing sufficient confidence to consumers as well as bankers in order to avoid credit constriction.

1.2. Impact on the Balance of Payments

Lebanese merchandise exports recorded a growth of 23.5% in 2008, despite the global slowdown. GCC countries represent the larger importers of Lebanese goods (with 24% of total Lebanese exports in 2007). Moreover, in April 2006, the association agreement with the EU entered into force. This could explain the increase in exports of 6.5 points in GDP terms, meanwhile, the same growth trend was observed with regards to imports.

Total exports were still increasing in the first two months of 2009 (table 2), for the January-February period they showcased a 12 month increase of 44.7%, an indication of the transmission channel's resilience to the economic shock (Central Bank of Lebanon). Since then, the evolution has been more erratic, with a fall of 10% and of 17% in March and April respectively (year-to-year), before increasing in May by 10% compared to May 2008.

Due to its high dependence on oil-imports and the rise in international prices, Lebanese import bills amounts to almost half of its GDP in 2008. Consequently, Lebanon saw its trade balance deteriorate showcasing a deficit of 40.4% of GDP, its highest since 1996. Nevertheless, in 2009, it is expected that this deficit will decrease partly due to the decreasing prices of imported goods (especially oil).

Tourism revenues represent one of the country's main source of currency and engine of growth. Since early 90s, Lebanon has been attracting tourists from all over the world. Recently, Lebanon has become one of the major destinations of Arab tourists especially from the Gulf area (Saudi Arabia and the UAE).

Early indicators show an increase of more than 50% in the number of tourists in the first quarter of 2009 compared to the same quarter last year. Some domestic national figures show that the number of Arab tourists that entered the country has doubled (accounting by 45.8% of total arrivals), while the number of tourists from other nationalities has decreased (from Europe 24.5% and 9.8% from America, most of those are from the Lebanese Diaspora living abroad). The interesting part is that there was a recorded increase in the average cost of rooms by almost 50% (highest in the region) as a result to the high demand on the sector,

Table 1. Indicators of external performance in Lebanon, by quarter

		Q1-08	Q2-08	Q3-08	Q4-08	Jan-09	Feb-09	Mar-09	Apr-09
Total exports	(m. US$)	874.49	871.53	897.06	835.24	281	449	272	231
Total exports	Annual variation	40.55%	26.30%	26.02%	5.42%	7%	45%	-10%	-17%
Total imports	(m. US$)	3497.79	3816.61	4529.64	4292.63	1067	1035	1138	1797
Total imports	Annual variation	29.49%	37.94%	49.20%	29.63%	-4%	-15%	-3%	37%
Passanger flows	Annual variation	6.44%	17.23%	29.64%	24.32%	11.27%	37.71%		
Remitttances	(m. US$)	687.4	749.1	472.7					
Remitttances	Annual variation			-34.91%					

*Source: Central Bank of Lebanon, * Passanger flows arriving at Beirut International Airport* specially from the Gulf tourists, who are tended to spend more . Estimations for Lebanon's travel and trade industry point towards $2.5bn in 2009 which is equivalent to 9.3% of GDP [1].

Remittances are considered a major source of revenues for the country, surpassing revenues from tourism and FDI. They are also considered a main source of income for many households, considering the number of Lebanese emigrants and their commitment towards their families at home. Despite the difficulty in obtaining exact figures for remittances, it is clear that they are near 20% of GDP at least (23.5% for 2007 and 21.6% for 2008 according to the EIU). The global slowdown is expected to negatively affect net remittances inflows up to 25% (3% of GDP) in 2009 (IMF Article IV Consultation April 2009). In fact, early figures for 2009 show that remittances have been cut by a third (year on year decrease of -34.9%, table 1).

Half of remittances originate from emigrants to the USA, Canada and Australia. Remittances from GCC and African countries are also high with Saudi Arabia having a share of 7% . A large part of the remittances is directed to finance the post-conflict reconstruction. These remittances helped the government, at some point of time, to prevent the crisis of balance of payments. However, the government failed to engage with the Lebanese diaspora abroad to leverage larger amount of the finances for development purposes. On the micro level, remittances are largely used for the consumption and only small part is used for investment or savings. Remittances helped finance some small development projects in the country, but those were only on the ad hoc basis.

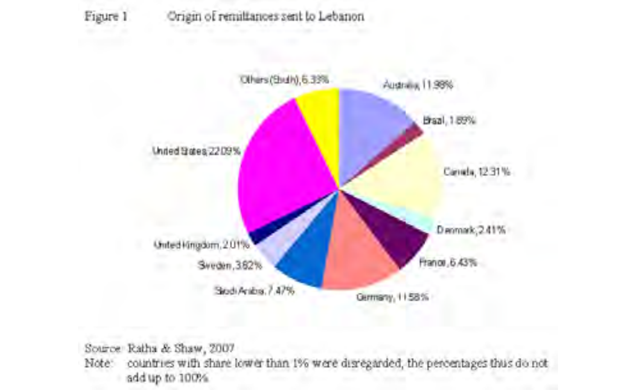
Services trade balance finally remained positive in 2008, as tourism revenues seemed to be resilient to the crisis. Despite this surplus and the flows of remittances, the current account balance deficit widened in 2008 (10.9% of GDP) as the merchandise trade deficit seems to be too large to be offset by the surpluses achieved in the services balance and current account transfers and remittances. In 2009 the narrowing of the trade deficit will offset the impact of the lower services and works remittances, the current account will amount to 7.8% of GDP.

1.3. Impact on FDI

Lebanon has traditionally shown relative openness to foreign direct investment inflows. The Investment Development Authority of Lebanon (IDAL) has been put in place and grants foreign investors the necessary licenses to pursue new investment opportunities all the while offering them with tax exemptions and financial incentives that have made Lebanon attractive investment-wise. In 2007, FDI reached $2.9 bn with an increase of about 4% despite the war in 2006. Nonetheless, in 2008, FDI diminished by approximately 21% (Central Bank of Lebanon) and while such figure represents a significant decrease it still is not as marked as in many countries of the Mediterranean region.

Oil-income has traditionally originated from Arab partners who have massively invested in construction contributing to Lebanon becoming the 4th largest recipient of Arab investment. A potential deterioration of investment resources from the Gulf countries could adversely affect investment. However, according to the Central Bank of Lebanon portfolio investment will be the one to consi-

Origin of transfers sent to Lebanon



Source: Ratha and Shaw (2007)
Note :Countries with a share below 1% have been excluded, hence, the sum does not equal 100%;

derably decrease (by 41%) while FDI is expected to decrease less (by 15%). Such resilience to further decrease in medium and long term investment is explained by several on-going projects that are seeing the light despite the crisis and account to a total of 25 billion US$. Let it be noted that IDAL is also setting up the Investor Support and Information Center (ISIC) with the objective of offering investment information to potential investors.

2. How can the economy overcome the crisis in 2009?

The main priority that the country has to face in all circumstances is political internal division that has caused a delay in the progress that this country could have achieved. However, after acquiring political stability, it is imperative that the economy restores its macroeconomic balances, which is crucial for the efficiency of any other economic or social reforms.

2.1. Fiscal position and Public Debts

The 2006 war had a negative impact on the Lebanese already large budget deficit. Public disorder led to extensive tax evasion which forced the government to borrow from the Central Bank of Lebanon resulting in an expansionary monetary policy stance. Lebanonhas become the most indebted average revenue country in the world, in spite of an inflow of foreign currencies the budget deficit still remains high to 10.6% of GDP in 2008 [3]. The 2008 budget policy was characterized by:

√ A rise in government incomes simultaneously linked to rerecovery of the post-conflict economic activity and to flows of international assistance. Taxation represent the majority of receipts which increased by approximately 21% compared to 2007.

√ A rise in government expenditure due to the increasing cost of public debt service and of ongoing rebuilding. The rise in receipts exceeds that expenditures which, at first sight, could be interpreted as a positive step towards a less unbalanced budget. Monthly expenditures in the first quarter of 2009 increased by approximately 18% (year to year) but slower than receipts which could allow avoiding, for the time being at least, a massive deterioration of budgetary prospects for 2009 (deficit of 10.9% of GDP according to the EIU).

√ With the crisis, the government will undeniably not be able to continue raising funds to finance its deficit while increasing the debt service. The lack of confidence and unfavorable expectations that currently weigh on Lebanon shall not allow it presently.Thus, internal political dialogue and international support via assistance shall become themain factors on which the country should rely to obtain a more balanced situation in the short run.

This could be done by diversifying the economy's activities specially developing the industrial and agriculture sector to generate more revenues. Increasing taxes in this case is not an option, when the economy is already suffering from slowdown, but revising the taxation system and make it more efficient could lead to more revenues. An increase in taxes is not possible, because of international deceleration as well as due to the social situation of the population, however, a revision of the system aiming at increased tax-effectiveness, intended to increase receipts, must be considered.

Finally, public debts have been pilling up reaching in 2007 about 170% of GDP. While it slightly declined to 164.3 in 2008, debt services reached 45% of the state expenses. One major cause of this enormous figure is the inefficient and costly ways used to manage the monetary and financial systems as will be addressed below. Decreasing debts services could very much depend on how efficient the monetary polices reforms will be.

2.2. Monetary policy and inflation

The Financial and banking sectors of Lebanon are characterized by a long history of liberalization compared to other economies in the region. The sectors depend almost entirely on the evolution of the international markets and hence are exposed and vulnerable to external shocks and crisis.

The monetary system uses two currencies simultaneously (the Lebanese pound and the US dollar) with a fixed peg of the pound to the dollar. The Central bank, being also the larger holder of foreign debts, defends the peg using its influence on interest rates. This system has caused inflexibility in the management of the economy and resulted in the formidable pile up of government debt through the exaggerated level of interest rate being charged on the issuance of Lebanese Tbills despite the decreasing inflation.

Other than maintaining a pegged exchange rate to the US dollar, the Central bank of Lebanon is controlling for inflation, as one of its primary objectives. Inflation in 2008 reached 5.5% down from 9.3% in 2007. Due to the recession and falling prices inflation is expected to decline to 2.8% in 2009. Nevertheless, interest rates have remained relatively high, despite the US tendency of rate-cuts, and they will keep their current trend given the 2009 pre-election climate of instability.

The solution to this problem doesn't come in a straightforward way. If the Lebanese Lira devaluates, due to the adoption of a more flexible exchange rate, this will be catastrophic for the public debts, since half of those are in dollars.

Public debt and debts services

Domestic debt between Jan-Feb08 and Jan-Feb09 rose by 27.3% reaching 611.4 bn LL, while foreign debts represented 186.6 bn LL in the first two months of 2009 which signifies a 14.7% year-on-year decrease. Moreover, government debt payments increased by 14% in the same period to a total of 798 bn LL which is explained by the debt stock expansion (34.026 bn US$ in 2008, an increase of 7.7% compared to the prior year) . Meanwhile the ratio of debt service payment rose to 19.7% of Lebanon's export earnings from trade, compared to 17.5 % the prior year.

In order to overcome this effect, a continued prudent fiscal and monetary policies, vigilant financial supervision, proactive contingency planning, and a resumption of the Paris III reform policy agenda to reduce structural vulnerabilities shal be needed.

2.3. Unemployment

As in most countries of the Mediterranean, the largest share of the poor originates from the informal sector were working conditions are hardly bearable (in terms of security, wage and daily hours worked). Recorded unemployment in Lebanon was around the 11.5% mark in 2001 (and 12.5% in 2006) which placed the country among the frontrunners in joblessness urging the need for rapid amelioration in working conditions and opportunities.

It becomes immediately noticeable that women are the ones bearing the most difficulties in obtaining a job since they face an unemployment rate

Table 2. Budget Transactions in 2007-2008 (millions of LL)

Budget Transactions	Jan-Dec 2007	Jan-Dec 2008	Variation in %	Jan-Mar 2008	Jan-Mar 2009	Variation in %
Receipts	8 093 626	9 794 988	21.02%	2 927 848	3 990 534	36.30%
Taxes	5 582 892	7 182 442	28.65%	2 077 909	2 824 452	35.93%
Excl. taxes	2 510 734	2 612 546	4.06%	849 939	1 166 082	37.20%
Expenditure	10 070 580	11 034 010	9.57%	3 504 634	4 131 652	17.89%
General	5 130 429	5 729 580	11.68%	1 645 054	2 059 881	25.22%
Interest payment	4 694 552	4 957 351	5.60%	1 673 985	2 028 749	21.19%
External debt and main repayments	245 599	347 079	41.32%	185 595	43 022	-76.82%

Source : Lebanese Ministry of Finance

of 18.2% which is approximately twice as much as in the case of men (9.3% in 2001). Furthermore, most striking is the situation for younger segments of the population, in 2001 the rate of unemployment for the 15-24 group was even higher at 22%, meanwhile 30% of young women remain without work (versus 19% for men).

In addition, the country must deal with a large influx of foreign immigrants (1.4 million estimated) which are employed (formally or informally) primarily in the construction sector (39%) followed by agriculture seasonal employment (33%), municipal and sanitation work (20%), services (8%) and industry (2%). Such immigrants are inclined to accept wages for low-skilled jobs that are well below those perceived by Lebanese nationals. Meanwhile, domestic potential high-skilled employees flee to more developed economies were satisfactory jobs can meet their demand, since they are unable to do so locally. To that extent, a framework linking education and employment has to be rethought, allowing for supply and demand for work to converge and avoid the Lebanese human capital to erode.

For efficient changes to occur, there is imminent need for reform of the current labor law which is not adapted to modern times, for instance it does not account for temporary lay-offs, and restrains the implementation of growth stimulating strategies. Moreover, the National Employment Office (NEO) needs to be rehabilitated and receive the appropriate funds to conduct proper and efficient job-seeking services.

2.4. Development of SMEs and agriculture to increase productivity and employment

To deal with unemployment in an effective way Lebanon also needs to enhance its industrial competitiveness. The relatively low-level of investment and the lack of a technologically developed infrastructure combined with elevated input costs (ex. in telecommunications and energy) constitute important barriers to the private sector's development, hence, to the deployment of a balanced employment framework between public and private segments of the economy. Competitiveness is very limited and Informal Micro Enterprises (IMEs) account for approximately 40% of non-agricultural employment[4]. Moreover, 80% to 90% of the industrial structure is concentrated in 6 sectors (foods and drinks, metallurgy, nonmetal mineral products, furnishing and other manufacturing products, clothing, wood).

In order to benefit from its highly qualified human resources the country must create attractive jobs and encourage the Lebanese to remain in the country and take part in its development and also create much more wealth than the one created by sending remittances. Lebanon thus needs to further develop its network of SMEs to generate employment, to create value-added and to go beyond self-sufficiency while growing and profiting from economies of scale. To that extent, during the Third Inter-Lebanese Forum on "Competitiveness of firms and competition" coordinated by the FEMISE network, several orientations for the development of the industrial structure were recommended, among which [5]:

√ The need to take into account the various constraints small and medium-size firms constantly face in the elaboration of macroeconomic policies. International trade agreements, commercial defence mechanisms, tariff dismantling and the structure of taxation are important components and their negative effects must

Table 3. Unemployment trends by sex and age (2001)

Age/Sex	*Men*	*Women*	*Total*
15-24	*19.3*	*30.4*	*22.6*
25-34	*8.9*	*18.7*	*11.9*
35-49	*5.4*	*9.7*	*6.3*
50-64	*6*	*5.7*	*5.9*
65+	*3.6*	*3.8*	*3.6*
Total	*9.3*	*18.2*	*11.5*

Source: Kasparian, C. (2003), "L'entrée des Jeunes Libanais dans la Vie Active et l'Emigration", Presse de l'Université Saint-Joseph.

be a constant source of concern for political parties.

Brain Drain vs. Remittances: where do we go from here?

Emigration from Lebanon is a long historical phenomenon that started in the 19th century, due to different pressures in their home country and to look for better life elsewhere. Recent migrants from Lebanon consist of engineers, businessmen, doctors bankers as well as craftsmen and qualified manpower. Since early 1990, most of the migrants are young and educated that has not found the right jobs to meet their education. Lebanese migrants are located in OECD, GCC and even African countries.

The Lebanese dispora is well established and old and hence is able to send regular and increasing amounts of remittances for their home countries. This confirms the fact that Lebanese keep ties with their home countries and are committed to help their families. Huge amounts of remittances were infused in the economy after the war in 1990 to help reconstruct the country "post-conflict Reconstruction". Both families (22% of the Lebanese household's incomes are from remittances and 88% of savings) and government depended heavily on this generous flow of cash to re-build the country. 85% of the funds in the post conflict reconstruction (either originating from remittances or foreign aid) were used for the country's infrastructure projects (road, electricity, water, ..etc.). Other than helping the country in its reconstruction, remittances are the main source of currency (higher than FDI and tourism) and helped the economy to avoid a crisis of balance of Payment. Despite this formidable flow of cash, the government is lacking systematic approach towards these flows and has not created channels to encourage and make the outmost use of it. At the same time on the household level, the majority of remittances were spend on consumption, investment and very small amount on establishing businesses for job creation.

Hence, remittances at some point of Lebanese history were a key element to its reconstruction and development. Today, in a new phase of development, and with the changing environment, Lebanon needs to diversify its economy and depend on its highly educated skilled young labour force. Bringing back the settled expatriate is difficult and the country could continue to benefit from generous remittances injected in the economy, but avoiding brain drain of the young generation should be the main task of the government. It is important for the country to create adequate employment that would absorb these young educated and encourage them to remain in the country. This job creation will generate sustainable and long term growth and welfare that surpass by far the benefits that could be achieved from remittances.

√ Improving the business environment in order to reduce transaction costs and restrict corruption. Achieving such goal is accomplished through independence of the legal system and the application of laws, improvement of the commercial law and reinforcement of mediation. Moreover, transparency in accounts and the generalization of standards for internal auditing according to international rules shall be essential in supporting growth of SMEs.

√ Infrastructural development which is a requirement to firm development, especially in sectors such as electricity, transport, ICT and water access.

These pre-requisites constitute a first step towards enhanced competitiveness before undertaking more specific measuressuch as formalization of the informal firms (recording, progressive entry in common law), access to financing (to support the emergence of investment funds), access to markets (exports promotion center, missions abroad) and introduction of innovation policies (development of competitiveness poles, industrial parks).

Regarding the agricutural sector, the latter also appears operating below potential. Several reasons were identified at the time of the Fourth Inter-Lebanese Forum on "Agriculture" coordinated by the FEMISE network: problems in distribution channels, inoperative measures of trade protection and safeguards, a difficult access to overseas markets and institutional inefficiency or absence. According to the participants, development of the agricultural potential will rest on the adoption of a new strategy supported by a strong collective political will which is pressed on two pillars:

√ the first is an economic model which implies durable improvement of agricultural activities to make them profitable as well as more competitive.

√ the second pillar essentially relies on compatibility between the search for profit and the attention which must be given to the social balance, the health of consumers, the environment and finally management of the limited water resources.

To ensure the competitiveness of the sector while preserving social and environmental balance, independent measures should:

√ deal with land property issues by clarifying title ownership, by finding an appropriate solution to land fragmentation, by changing conditions of tenant farming and by differentiating between constructible and agricultural land,

√ better target subsidy policies with clear and transparent conditions on their attribution,

√ develop incentives for the implementation of agricultural projects,

√ apply measures of trade protection to avoid unfair competition against Lebanese producers, especially within the framework of regional and bilateral agreements recently signed,

√ set up insurance procedures against natural hazard to reduce losses due to bad climate.

Beside the need of laying down market rules, the sector would undoubtedly need extended access to credit, better water management, a better marketing policy without forgetting the necessary development of agricultural institutions to help land-owners [6].

2.5. More FDI needed to backup the international aid necessary for reconstruction.

With an enormous Debt bill (about 170% of GDP in 2007), an infrastructure that still suffers from previous wars and hasn't been able to stabilize when it was hit again by an attack, Lebanon turned to the international community for help to support its plan for reconstruction and reforms. Previously (Paris II), Lebanon received $2.4 billion in direct financial support, which was combined with contributions from the banking sectors.

Other than the direct benefits of this aid to the economy, such as sustainability of public debts and sharp reduction in its costs, it raised external confidence in the financial systems. After the conflict of 2006, and the tragic losses that the country has endured, it was estimated that the direct cost of the reconstruction would amount to $2.8 billion. In addition to the indirect cost of the GDP loss that has been evaluated at $2.2 billion[7].

Therefore, the Lebanese government is not lacking at this point financial resources and it has some basic financial support to implement its economic program, nevertheless, such fact is in itself insufficient. The government needs to attract more FDI and further improve it business environment and regain the confidence it once had before the conflict. The country was efficient in attracting FDI in previous years and showcased a 170% increase in per capita FDI inflows in the 2000-2007 period (COMTRADE, Nathalie Roux), furthermore, these per capita inflows were the highest among MPs (excluding Israel).

Nonetheless, Lebanon could potentially face investment stagnation, plans were underway in opening-up the telecommunications and energy sectors, however, the possibility of a global recession has put on hold the bidding procedure for acquiring a new license by potential foreign investors in telecommunications or for acquiring shares in EDL (Electricité du Liban). The latter sector in particular is both inefficient and extremely costly for public finances. Delays put extra weight on the budget, such privatization should help the government repay its public debt, while deficient infrastructure also constitutes a barrier to competitiveness of lebanese firms.

3. Could the existing Social Protection Policies help cushion the effect of the crisis on the population?

Latter decades have been all but easy for the Lebanese population. Within this context and despite the admirable public and civil society good will, many have fallen in the poverty trap.

Measuring poverty in Lebanon is difficult due to the lack or low quality of data. The government currently carries out a survey on household incomes and expenses and has launched a national plan of poverty reduction. According to the EC Progress Report (05/08), 5% of the population live in extreme poverty and a quarter of the Lebanese live below the poverty line. In the 2008 human development report, Lebanon is ranked 78th by the United Nations on 179 countries with a human development index of 0.796.

In 2004, the percentage of deprived households on total households was already considerable. Three specific categories of the population in need of immediate assistance could be identified, they are: the elderly, widowed heads of households and female heads of households.

After the war in 2006, social conditions naturally deteriorated and Lebanon was seeking aid for reconstruction and social assistance. A first step was done at the Stockholm Conference for Lebanon's Early Recovery where a draft of a recovery program was presented, the latter ensuring over 940 million US dollars for Lebanon. The focus of the program was oriented towards the immediate needs of the Lebanese people and on supporting the government in its process of healing and reconstruction[9]. A socio-economic reform program was launched in January 2007 at the "Paris III" conference with the objective of increasing Lebanons' potential growth and lowering national debt at a bearable level[7]. Maintaining social and economic stability was one of the plans main pillars, this would be achieved through the development of social safety nets that would efficiently target those in need. Nonetheless, application of these programs needs political stabilization among all.

Regarding low-income assistance, EU-Lebanon cooperation has been fruitful (economic and social funding for development of 25 billion euros) with the objective of improving socio-economic conditions of low income groups through local economic development and job creation (via micro-credit).

A number of projects have been undertaken to improve the living condition of households living in territories were hostilities took place. One such project was initiated by INTERSOS and UNICEF which set up two Child Friendly Spaces (CFS) covering the schools of the Caza of Tyre and Nabatiye and established "a community-based and participatory approach, though the establishment of youth committees aims at rendering the management of the CFS sus-

Table 4. Lebanon: Paris III Aid(in millions of $)

				Of which : New grants and loans to government				
		Pledges			*Oct-Dec 08*			
	Total pledges 1/	*Total*	*of which : budget support*	*Jan 07 - Sep 08 received*	*Prog. EPCA*	*Received*	*Proj. 09*	*Total 07 - 09*
Total	*7565*	*5018*	*2327*	*933*	*172*	*20*	*685*	*1639*
Multilateral	*3978*	*2213*	*835*	*161*	*107*	*20*	*320*	*500*
Bilateral	*3587*	*2805*	*1492*	*773*	*65*	*0*	*366*	*1138*
Memorandum item :								
Other grants and loans 2/	*...*	*...*	*...*	*428*	*93*	*70*	*268*	*766*

Source: Lebanese authorities and Fund staff estimates
1/ Pledges for support to Lebanon through the government, the private sector, United Nations organizations and civil society organizations.
2/ Not Paris III related : support related to reconstruction after the 2006 war with Israel, reconstruction of surrounding areas of the Nahr El-Bared refugee camp, and various project grants and loans.

tainable". The CFS provided psychological support to children and young women through various recreational activities and contributed to hygiene promotion as well as to mine-risk awareness.

As underlined by participants in the Second Inter-Lebanese Forum on "Social Policies in Lebanon" coordinated by the FEMISE network, the country needs a model of generalized social protection, an "integrated" approach which seems more adapted to the Lebanese case since it would allow «attacking» the roots of the social problem in a more effective manner than with a temporary compensatory scheme. Accordingly, strategies of social protection should have above all:

- √ focus on poorest segments of the population,
- √ respect the budget which is already largely overdrawn,
- √ be accompanied by suitable institutions for coordination and application.

3.1. Social Security Systems

The Lebanese social protection system has been characterized by limited scope of social assistance. Certain social services apply only to a small part of the population such as retirement schemes or pensions in the event of industrial accidents. In 2000, 56.6% of the Lebanese population was not covered by a permanent social security system. Moreover, the retirement pension scheme has a weak impact. Concerning employees, they enjoy a pension system (end off service indemnity, EOSI) which offers a lump sum payment at the time of retirement. This system is managed by the National Social Security Fund (NSSF) and functions by capitalization and covers only 30% of the labour force.

The government is exerting all efforts to improve social indicators and promote social development especially to the poor. In 2007, the government undertook a Social Action Plan (SAP) that aims to: (i) reduce poverty and improve the quality of education and health indicators; (ii) improve the efficiency of social spending while preserving budgetary allocations at an appropriate and sustainable level; and (iii) minimize regional disparities and achieve better dissemination of allowances for social intervention.

Concretely, the plan translated into:

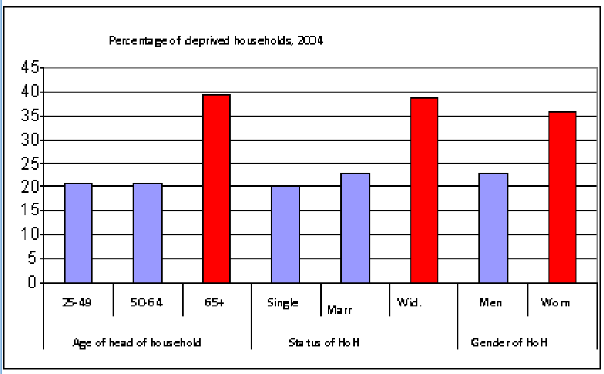
- √ cash transfers to poor people defined on specific criteria such as the elderly, disabled people and female-heads of households,
- √ school feeding, books and transport services provided to children living in poor areas and risking abandonment of basic education,
- √ free hospital care for the poor.

The share of social spending in total expenditures (excluding debt service) has been on constant rise and the percentage of total social spending from GDP has reached 8% in 2005 up from 4.8% in 1994 (Y. Nader, 2008). Until now, the recovery program has been widely criticized, mainly by its lack a national social development strategy. Existing safety nets are considered weak and suffers from lack of efficient mapping of needy ares and groups and hence cannot be used as efficient shock absorbers. Hence, a serious deficiency remains in standard data on poverty and social indicators (Amal Karaki, Ramzi Naaman, Mahasin Rahhal 2007).

3.2. Healthcare

In Lebanon, health expenditure amounts to 8.7% of GDP in 2007, of which only 43.5% is

% age of deprived households, 2004



Source: Amal Karaki, Ramzi Naaman and Mahasin Rahhal (2007) [8].

public expenditure. Total expenditure exceeds the percentage observed in the majority of MPs and is close to (and in certain cases exceeds) rates of OECD countries. However, the same cannot be said on public contribution. Moreover, health indicators do not seem to profit from such expenditure since they remain lower than those in other countries with similar income.

There are four major types of health financing agents and programs in Lebanon:

- √ the government through the Ministry of Health (MOH) and the Ministry of Social Affairs (MOSA) with a share of 30% which is rather weak compared to many other countries,
- √ social Insurance through the National Social Security Fund (NSSF), the Civil Service Cooperative (CSC) and the Security Forces. In this regard, health expenditures by the public sector are fragmented across those multiple public health insurance funds contributing to very high administrative costs within the system and largely cover expensive hospital based-care,
- √ private firms which, compared to other countries, is a fairly well-developed sector and
- √ households out-of-pocket expenditures, which according to the WHO reached approximately 40% of total health expenditure in 2006.

The private sector largely dominates the supply of medical services: the public sector accounts for only 2% of the supply of medical care, whereas the private sector supports 89% (the rest being financed by international aid). The private orientation of the health system covers big cities and high-income communities to the detriment of the poorest populations. Thus, health services are of good quality, but suffer from an important fragmentation leading to inefficiencies and distortions. In addition, financial fragmentation and the weak regulation of the private market constitute difficulties for efficient reform of the health system.

The unequal distribution of expenditure results in a paradox: the weak coverage (more than half of the population is not formally assured) coexists with a surplus of health service supply (with a ratio of 3.6 hospital beds for 1,000 inhabitants in 2005). The health system is also characterized by a certain preference for hospitalization vis-a-vis primary education and preventive care. The global weakness in prevention and primary education care increases the cost of health expenditure and reduces the effectiveness of healthcare.

In January 2007, the Ministry of health (MoH) proceeded to a reform of the health system according to the principles of equity, financial stability, macro-economic efficiency and quality. This reform included the implementation of a health card allowing to rationalize rhospital admissions, storage and organization of medical informations, 16.000 people being initially concerned. The hospital admissions shall be facilitated by the presentation of the health card and fraud opportunities will be reduced. In the long term, the card will allow up to date medical files for all patients and automate refundings.

Finally, as underlined by participants at the Second Inter-Lebanese Forum, the Lebanese health system needs reforms which are more “preventive” instead of continuing “curative” initiatives which are also more expensive. The reform of the sector necessitates an effective regulation, respect of quality standards, transparent prices but also a balance between public and private sectors, investment initiatives in infrastructure and in new technologies of health as well as health services accessible to any region of the country and to all segments of the population.

3.3. Programs of Price Subsidies

Price subsidies programs in Lebanon are criticized by being not targeted and rather random. With about 25% of the population living under the poverty line, targeted subsidies programs for basic materials (basic food, electricity, ..etc.) and social services (education and health) are essentials.

However, it is believed that $100 mn are wasted due to inexistence of targeting policies in both the Electricity Company and social safety nets.

Notes :

1 : http://www.ameinfo.com/198386.html

2 : Dilip Ratha and William Shaw (2007), South-South Migrationand Remittances, WorldBank working paper no102.

3 : EIU Country Report, Lebanon

4 : Yasmine Nader (2008), « Integrated Social Policies for Lebanon », Economic Research Forum (ERF), Background Paper for the Second Inter-Lebanese Forum on Economic and Social Development, FEMISE, May.

5 : Augier P. (2008), Troisième Forum Inter-Libanais sur « La compétitivité des entreprises et la concurrence », Background Paper sous la coordination de Pr. Jean-Louis Reiffers (FEMISE), Novembre.

6 : Augier P. et Blanc P. (2009), Quatrième Forum Inter-Libanais sur « L'Agriculture », background paper sous la coordination de Pr. Jean-Louis Reiffers (FEMISE), Février

7 : Lebanese Republic. 2007. "Recovery, reconstruction and reform". International Conference for support to Lebanon, Paris

8 : Protecting the Poor and vulnerable in Iraq, Jordan, Lebanon, Syria and West Bank & Gaza: Design and Implementation Issues of Selected Safety Nets and Unemployment Assistance Instruments, Amman, June 4 –7, 2007, Lebanon Country Presentation byAmal Karaki, Ramzi Naaman, Mahasin Rahhal

9: Speech Stockholm Conference for Lebanon's Early Recovery, 31 August 2006, Jan Eliasson, Minister for Foreign Affairs Carin Jämtin, Minister for International Development Cooperation

Morocco : A strong sensitivity to the crisis in a context of return to significant growth

In spite of the world economic crisis, growth was restored in 2008 to 5.4% following the dynamism in household consumption, public administration and investment (infrastructure projects). Morocco remains a partially dynamic economy and its growth model is based partly on the service sector which represents the greatest share of GDP (44% in 2008) and employs about 45% of the active population. However, the country remains strongly dependent to agriculture (15% of GDP and 40% of employment) which sometimes allows for sustaining a high rate of growth (of 7.8% in 2006) but which also makes the country vulnerable in the event of rain-shortage (GDP growth of 2.2% and 3.2% in 2005 and 2007 respectively). Thus, in spite of recent reforms in infrastructure, growth has been unable to create the necessary dynamics allowing for a real economic takeoff.

The Moroccan type of growth is gradually oriented towards global factor productivity especially thanks to a rise in foreign investment during the last decade related to the launching of colossal infrastructure projects. However, while this model allows penetration of the knowledge economy in the country, it is also likely to create a form of excessive dualism between foreign subsidiary companies and domestic firms.

The principal limit of this model is that it does not support human development enough. Job creation is certainly in progression, the official unemployment rate went from an average of 14.4% in 2000-2007 to 9.5% in 2008, but youth employment is still suffering. In spite of growth, job creations were not enough to absorb the new entrants in the job market. Thus, indicators of human development remain alarming, poverty in 2007 was established to 9% of the population (nearly 30% in the rural communities) and 17.5% of people are seen as vulnerable (with financial resources higher than 50% of the poverty line).

The difficulty in effectively changing a model of growth, and go towards a more diversified type and with more employment creation, can be explained by several reasons: irregular growth, an informal sector still dominating, a foreign exchange rate still overestimated over the average period, persistent problems in the business climate, underdevelopment of SMEs, banking over-liquidity. In the middle of the crisis, growth alternatives are limited, and are likely to call into question a certain number of reforms to deal with short-term issues. Hence, in 2009 growth is expected at 0.6%, one of the lowest rates in the region.

The crisis thus affects Morocco at a time when the country had appreciably increased its growth and diversification rate and where social and human needs had started to be taken into consideration. From all Mediterranean countries Morocco seems to be one of the most crisis-exposed. The crisis effects are mainly felt through demand and foreign transfers and are starting to be diffused across the general macroeconomic management.

Whereas the level of foreign-exchange reserves had strongly increased during the last decade, the tendency was reversed during the fourth quarter of 2008, following the counter-performance of exporting sectors fully exposed to the crisis, such as textile-clothing, cars, electronics, tourism, a phenomenon that was further amplified by the decrease in migrants transfers. This phenomenon was accompanied by continuous increase of imports in all firms (except in the energy sector) and in capital equipment, semi-goods and gross products. This resulted into an important aggravation of the current account deficit, which became deficitary as of 2008 (- 5.2% of GDP), on the opposite side of the trend observed since 2001. More precisely, we should stress that:

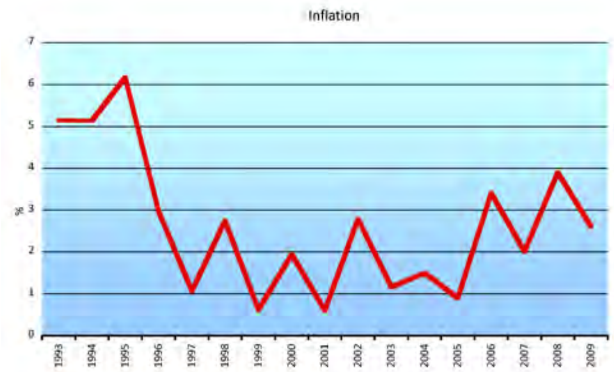
√ These evolutions were ongoing during the first half of 2009 with a 34.5% contraction in goods exports, a 14.5% fall in travel receipts and a 12.8% decrease in remittances. In this context, the current account balance shall approach -6% of GDP at the end of the year. These are important issues for the fundamental balances of the country especially regarding the possibility of maintaining consumption and domestic investment at a sufficient level.

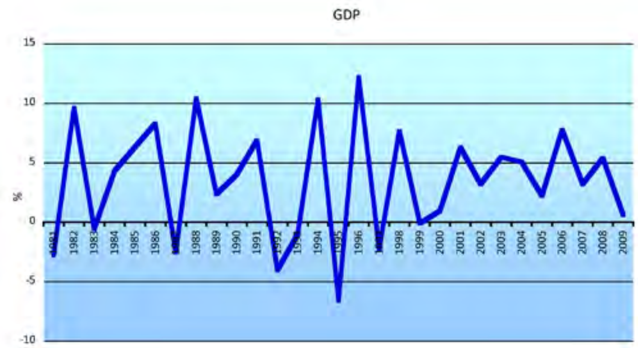
√ FDI is decreasing (annual drop of 22% in 2008 according to the EIU, and of 30.7% in May 2009 according to Bank-Al-Maghrib), since it is directly hit by the crisis, both at the inflow and outflow levels.

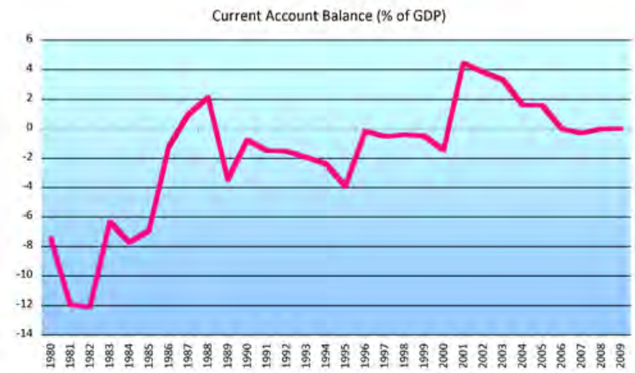
√ In such an unfavourable context monetary reserves are in reduction, they reached 7.2 months of imports of goods and services in May 2009 (versus 9.9 months in December 2007) and appear in constant decrease. This will limit import possibilities especially those necessary to infrastructural development.

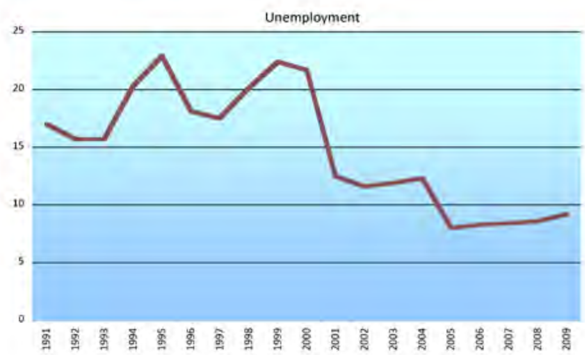
√ The government must make more efforts in terms of fighting against bureaucracy which constitutes a major implicit obstacle to investment, control publc expenditure and simplify its tax system.

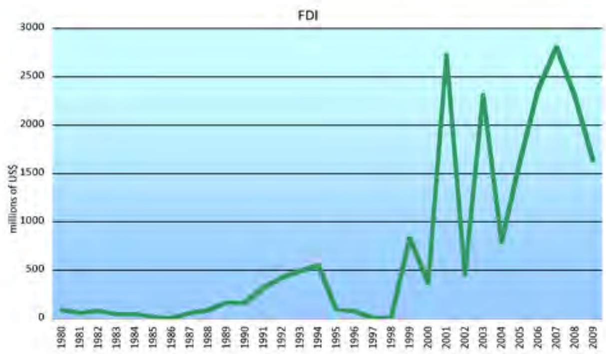
√ The growing subsidy-cost resulted in a deficit expansion which went from 1.1% in 2007 to 2.1% in 2008. An increase in expenditure on safety,











social protection, subsidies and infrastructure is envisaged which shal push the deficit around 3.8% of GDP, that is to say the threshold currently fixed by the government.

√ Bank Al-Maghrib has adopted a system of implicit inflation targeting with a rate of inflation t 3.9% in 2008. This low level is positive from a social point of view, however, it increases the load on public accounts. In January 2009, the fall of statutory reserves by 3 points (from 15 to 12%) made it possible for banks to recover 11 billion dirhams in an effort of reinforcing the sector.

√ Attracting more FDI should be a main aim for sustaining growth and development, either by restoring traditional sectors, such as tourism, agriculture or mining with large infrastructure projects or by promoting new promising sectors such as high technology or energy.

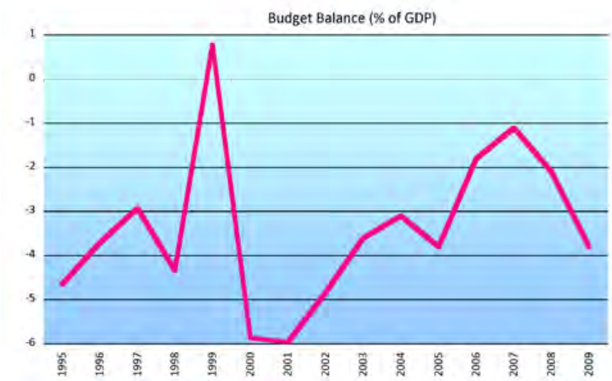
√ The level and content of current growth add difficulty in reducing poverty, consolidate the vulnerable population, reduce youth unemployment due to population growth and to the number of new entrants in the job market. Moreover, social coverage is still incomplete, heterogeneous and the social coverage policy is unable to define clear and hierarchical objectives (the medical system covered only 16% of the population in 2005).

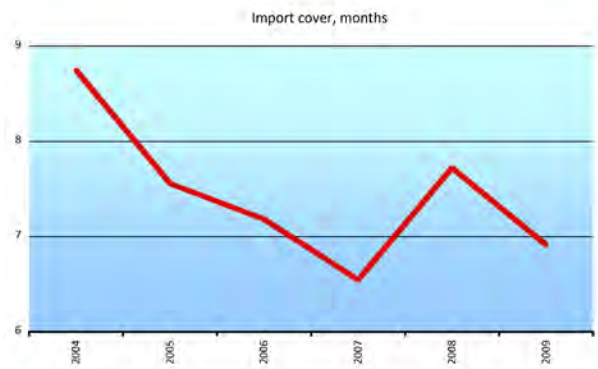
1. The Shock : Despite growth, export and tourism revenues will be affected.

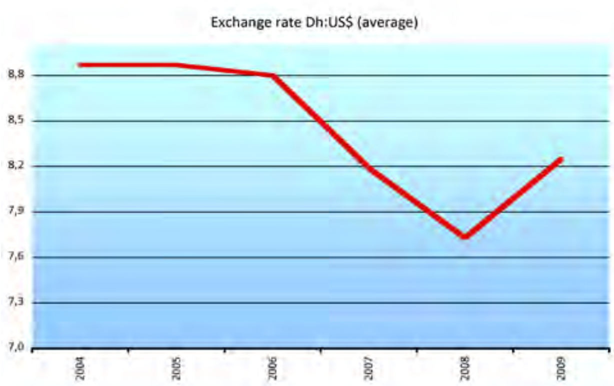
1.1. Economic growth that is still vulnerable to external chocks and climate fluctuations

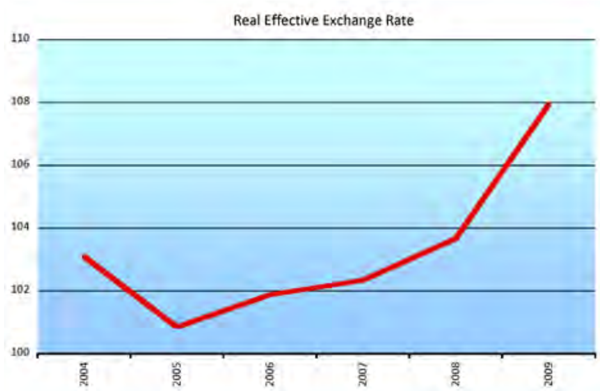
During the last five years, Morocco recorded positive performances which testify a certain resilience to external shocks. Growth is primarily drawn by domestic demand and to a lesser extent by exports. In 2008, growth was restored, after a catastrophic year of drought which caused a deceleration of 3.2%, following the dynamism in household consumption, public administration and investment (infrastructure projects). Economic growth reached an outstanding rate of 5.4% in 2008 and marked a major rebound largely due to pluviometry.

Agriculture in 2008 represented 20% of GDP employing approximately 40% of the active popula-









tion. The sector still remains sensitive to climatic fluctuations and GDP suffers each time the following period. In order to put this vulnerability to a minimum the government is financing large infrastructural projects to upgrade the agricultural sector in terms of diversifying the products and make it more resilient to drought. After achieving a growth rate of 6% in 2007, industrial sector growth has slowed down to 3.6% in 2008. The industrial sector represents around 36% of the GDP and employs only 15% of the active population. The main industrial products are textiles, processed food and some electronic(and automotive components. The service sector represents the major share of GDP contributing with 44% to the latter) while it employs about 45% of the active population.

After decomposing GDP we observe private consumption in 2008 grew in volume with a rate of growth estimated at 5.2% (versus 3.8% in 2007) which is remarkable if we consider that this increase took place in an increased inflationary context in the first half of 2008. In the same manner, public consumption followed this upward trend recording a growth in volume of 4.8% (versus 4.4% in 2007). Investment growth was maintained at a significant level (higher than that of private and public consumption) but appreciably lower than that of the previous year. During 2009 households will profit from the new tax reduction and the anticipated decline in inflation. They will nevertheless have to face a deceleration in activity following the reduced export potential that shall have inevitable negative effects on employment.

Croissance sectorielle et évolution du PIB(%)

Source : EIU

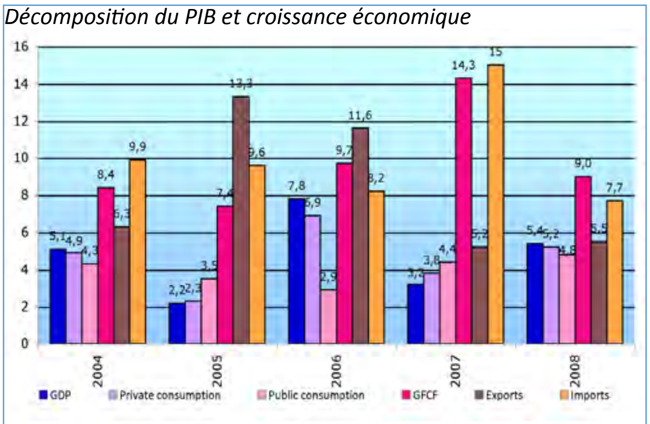
1.2 Impact on the Balance of Payments

In 2008, the growth rate of exports amounted to 5.5%. In spite of the commercial opening policy and the various free trade agreements (with the EU in 2000, the USA in 2004 and countries of the Agadir agreement), the EU remains the first trading partner of Morocco (70% of Moroccan exports were intended to Europe in 2007 while 50% of imports are coming from the EU).

The situation in the beginning of 2009 appears less bright according to Bank Al-Maghrib. The evolution of ttrade indicates a considerable year-on-yea fall in exports by -35.1% between May 2008 and May 2009. The fall is further accentuated since the 12 month rate of return had already reached 32% in the first quarter of 2009. This is mainly due to exports excluding phosphates which went from 29 427.9 million dirhams in the first quarter of 2008 to 22 355.6 million dirhams in the first quarter of 2009 (- 24%). In addition, imports also recorded an annual fall of 16.8% in the first quarter andfurther decreased in May by 20% (year on year). The trade deficit widened in 2008 caused by the reduction in exports which surpassed that of imports. However, this gap should be reduced with the deceleration of imports in 2009. The service balance in 2008 marked a surplus of 8%, in spite of deceleration of tourism revenues.

The latter sector should be seriously affected by the crisis in 2009, tourism receipts are one of the

Décomposition du PIB et croissance économique



Source : EIU

primary sources in foreign currencies and accounted for approximately 7% of GDP in 2008. Morocco accomodated 8 million tourists in 2008, that is to say 7% more compared to 2007. However, revenues in the first semester of 2009 fell by 14.4% (Ministry of Economy and Finance).

Table 2. Tourism Indicators

	Tourist inflows		*Tourism receipts*		*Person/nights of non-residents*	
	volume	*variation in 12 months (%)*	*(Mios dh)*	*variation in 12 months (%)*	*volume*	*variation in 12 months (%)*
March-06	*380 000*	*-*	*3 129*	*-*	*1 109 252*	*-*
March-07	*491 000*	*29.21%*	*4 346*	*38.89%*	*1 334 790*	*20.33%*
March-08	*571 000*	*16.29%*	*4 050*	*-6.81%*	*1 219 193*	*-8.66%*
March-09	*568 000*	*-0.53%*	*3 339*	*-17.56%*	*1 082 407*	*-11.22%*

Source : Bank Al-Maghrib

The world-wide crisis appears to have a severe impact on Moroccan tourism in 2009, which strongly depends on the inflow of European tourists. A decreasing number of reservations is already recorded in 2009, consequently, the government "Vision 2010" project, whose objective is to attract 10 million tourists and includes construction of new parks and locations, must be revised. The government was constrained to reduce its announced targets and add a possibility of delay in the projects' delivery (which could be prolonged up to 2016).

According to the *Centre Marocain de Conjoncture* (CMC) remittances from moroccans abroad dropped by 2.4% in 2008 (53.66 billion DH in 2008 compared to 55 billion in 2007) and should drop even more in 2009 [1]. In the first half of 2009, such transfers already recorded an annual fall of 12.8% according to the Ministry of Economy and Finance. The exposure to the crisis in Europe of such an important source of currency constitutes a serious problem for the balance of payments.

Table 1. Trade in Morocco

	Q12009 vs Q12008 year on year change (%)
Exports	*-30.4%*
Phosphates and derivatives	*-52.0%*
excl. phosphates and der.	*-24.0%*
Clothing	*-11.2%*
Hosiery	*-5.6%*
Citrus fruits	*-11.4%*
Imports	*-16.8%*
Energy products	*-36.2%*
excl. energy products	*-11.5%*
Corn	*-58.9%*
Personal and household goods	*3.7%*
Consumer goods	*3.3%*

Source : Bank Al-Maghrib

Finally, concerning the current account, after a few years of surpluses, it recorded its first deficit in 2007 (0.3% of GDP) due to a bad harvest, followed by another slight deficit in 2008 because of import pricesraising and an over-dependence to oil-product imports. The country should benefit from the fall in oil-prices, in order to reach balance in 2009.

1.3 Impact on FDI

Moroccan growth is also sustained by considerable investment (domestic and foreign) with an increase in the GFCF of 8.5% of GDP in 2008, originating in particular from launching important infrastructural projects. Significant opportunities in investment despite the crisis context reflect the government willingness to perpetuate its policy of attracting foreign investment. However, more needs to be done to create an investment friendly environment and cut down on bureaucracy that is considered the main impediment to attracting investment.

After several years in rise, Morocco recorded in 2008 significant drops in its inflows of FDI (- 28.7% compared to 2007) to reach 27 billion dirhams. FDI was still in retreat in early 2009, according to the Ministry of Economy and Finance : investment revenue and private loans fell by 35% in the first half of 2009 (year-on-year), to 12.6 billion dirhams. In addition, FDI expenditure increased by 1.8% over the same period to reach 9.1 billion dirhams.

2. Adapting to the crisis

2.1 Budget perspectives

Consolidating the budget is a major stake for the years to come. The growing cost of subsidies resulted in deficit expansion which went from 1.1% in 2007 to 2.1% in 2008. An increase in expenditure on safety, social protection, subsidies and infrastructure is envisaged which shal push the deficit around 3.8% of GDP, that is to say the threshold currently fixed by the government. The stake lies in the governments' capacity to keep expenditure under control in spite of the current crisis context. The main constraints which shall weigh in the next months suggest increased efforts in order to:

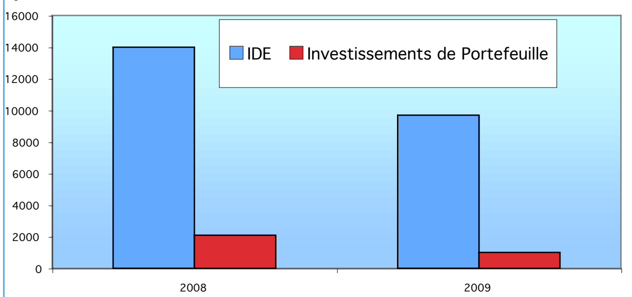
√ control the wage bill and reform the subsidy-system towards better targeting in basic products and for households that are most in need. The context of moderate inflation anticipated for 2009 should support such task.

√ continue simplifying the tax system and the reduction in market distortions, while seeking not to weigh-downtoo much on national debt.

2.2. Monetary policy and inflation targeting

For a long time Morocco pursued a price stabilization policy. For this purpose, Bank Al Maghrib (BAM) intervened on the money market, by targeting an array of aggregates, within the government framework of monetary and financial policy. It was only in December 2006 that the BAM started pursuing a new policy of implicit inflation targeting. For a long time liquidities have been abundant in the economy due to two factors: remittances from workers abroad and improvement of the governments' budgetary stance.

Evolution of incur FDI and portfolio investment at end May, millions of dirhams



Source : Bank-Al-Maghrib

Today the Banks' rate is maintained at 3.25% and the BAM keeps pursuing its policy of inflation control. Weak inflation in Morocco is positive, from a social point of view as well, however, in the context of recession, the government must apply additional measures. In January 2009, in order to reinforce resistance of its domestic banking environment, the decrease of statutory reserves by 3 points (from 15 to 12%) allowed banks to recover 11 billion dirhams.

2.3. Combat unemployment

Unemployment remained under 10% in 2008 (at 9.5%), but the situation of the moroccan youth, under-employment and informal employment remain worrying. To date, job creations were not enough to compensate for the new entrants in the job market. The government has set the creation of 250.000 new jobs per annum until 2013, an ambition which requires constant progress with regards to economic diversification and improvement of the education system. Moreover, the international crisis, currently reflected on the real sphere of the Moroccan economy will slow down the current rhythm of job-creation, hence, a rise in unemployment is expected for 2009.

2.4. Diversifying among trade partners

The EU is the main trading partner of the country in real terms in spite of other trade agreements that the country has signed. Opportunities from these other agreements remain largely unexploited. Trade relations with the USA, for example, have not yet produced the anticipated results: Moroccan exports to the USA still remain low. Moreover, intra-regional trade is under-developed (3% of total trade).

This represents a main challenge in the year to come: with a decrease in foreign demand emanating from industrialized countries (mainly of the OECD), Morocco may find it beneficial to develop new outlets for its exports, especially towards its Mediterranean neighbors and keep pursuing structural reforms in order to stimulate productivity and development in nonagricultural sectors.

2.5. Improving competitiveness in traditional sectors and promoting new sectors to attract more FDI

The key component in maintaining growth is to ensure a strong rate of investment, which implies attracting more FDI. These investments must make it possible to improve productivity in traditional sectors, especially tourism, mining and agriculture and, in addition, develop new promising sectors.

Tourism is a dynamic sector which generates growth and creates employment, thus, the government has initiated great infrastructural projects to ensure growth in the sector. Nevertheless, the current crisis has forced the government to revise its objectives and extend their expiries. However, the crisis is not the only challenge to which the sector is confronted. Many domestic and foreign investors consider that bureaucracy and the lack of professionalism in the sector constitute important obstacles to development.

Morocco could also develop its agricultural potential by establishing an investment policy which will allow improving the situation in rural areas, increase productivity of the sector, diversify unexploited branches of the sector and benefit from proximity with the European market. To that extent and with the objective of decreasing economic vulnerability to climatic risks, the introduction of an investment plan aiming at reinforcing water management within the framework of environmental objectives of the Union for the Mediterranean (UpM) constitutes a unique opportunity.

Developing the mining sector can also play an essential role in the domestic economic infrastructure. The sector contributed to 2.2% in GDP annually between 2003 and 2007 and occupies the third position as a source of foreign reserves. The stake lies in implementing measures that shall render the sector more attractive to foreign capital. Again, the UpM offers an opportunity for better orienting exports of phosphate and derivatives.

In addition, the government initiated a development plan adressed to high technology sectors for over the next 12 years and which can only be qualified as a remarkable initiative. The latter remains strongly concentrated in the area of Casablanca and it would thus be desirable to extend it in the remainder of the country. In another example, Rabat Technopolis is a new project which can legitimately be used as an example regarding tax incentives and reduction of administrative formalities.

Another sector in full growth is the energy one (which includes the electrical production). Electrical production in 2004 approximately increased by 9%, thanks mainly to an ambitious program of electricity supply in rural areas and a significant reduction of prices. Great projects are implemented and should contribute to sustaining high growth, a process already launched since 2002. However, coverage of the most distant areas remains frail, which forces the government to actively seek for suppliers of renewable energy to extend such services to these areas, creating a strong investment potential, but also development of local know-how.

3. Can existing policies of social protection help cushion the crisis impact on the population ?

During the 1990s poverty increased considerably, essentially affecting women and rural populations.

Social policies conducted by the Moroccan government between 1985 and 1995 did not lead to any distributional shifts in favor of the poor. The poorest deciles seems to have benefited the least from growth distribution; the poorest decile showcased a growth rate of less than 2% while per capita GDP growth was more than double. Meanwhile, richest deciles saw their income share grow at a faster pace than real GDP (with the exception of the tenth decile).

Since then, Morocco has effectively launched several social programs and has made a significant effort in favour of the most underprivileged regions. In May 2005, the country launched the *Initiative Nationale de Développement Humain* (INDH), the objective of which is to achieve durable human development which can take into account inequalities between regions, provinces and communes. The goal of this initiative was to target interventions on poorest and most vulnerable populations in a decentralized logic, articulating various levels of decisions (local, communal, provincial, regional and national).

However, the impact of growth on well-being and human development did not attain the expected levels. According to the *Haut Commissariat au Plan*, from 2001 to 2006, the HDI improved by 1.4% and the poverty rate was reduced but indicators of human development remain on alarming levels: poverty in 2007 was established at 9% of the population and 17.5% of people are considered vulnerable. The following two priorities emerge:

- √ It appears necessary to carry out an active fight against exclusion in urban regions by targeting the 2.5 million most underprivileged inhabitants. For that, a policy that upgrades basic infrastructures is necessary along with improvement of socioeducational services and health. Moreover, promotion of income-generating activities and employment (proximity trade, craft industries and small trades) must be developed as initiatives of development, perhaps within the framework of the UPM and valorization of the migrants savings

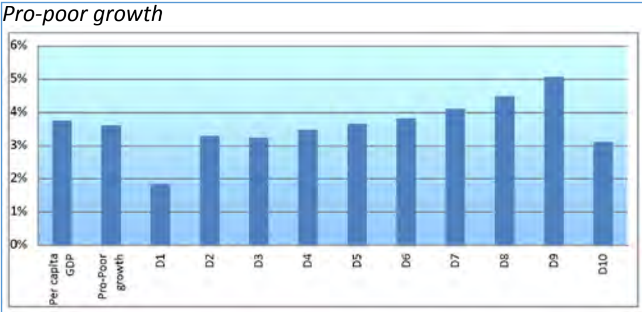
- √ Priority attention must be given to the development of better access to education and care, for the poorest in particular. Mortality/morbidity indicators remain worrying with a strong inequality regarding access to care. Concerning education, within the framework of the Millenium Development Goals which propose greater access education, Morocco undertook many reforms, particularly through a process of decentralization of the education system. However, progress remains to be achieved: the education system only partially manages to educate human resources which are needed by sectors in expansion and the rate of illiteracy eradication remains weak (52.3% according to HDR/08).

3.1. Social Security systems in Morocco

In spite of reforms in progress, Morocco still faces strong heterogeneity in retirement schemes. To date, four primary pension schemes are in charge:

- √ The Caisse Nationale de Sécurité Sociale (CNSS), which covers employees in the private sector, but also in agriculture, gathers 840.000 people. For years, the surplus of the CNSS has been invested with little strategy and at very low yields.
- √ The Caisse Marocaine de Retraites (CMR) for public administration employees and the military occupies the second place among pension funds with 746.216 contributors (in 2007, it registered 545.851 pensioners). In 2007, the CMR launched "ATTAKMILI", an optional mode of supplementary pension funded individually

Pro-poor growth



Source : FEMISE calculations, based on growth and inequality data from World Income Inequality Database for 1985 and 1995.

in order to make it possible to recipients of the CMR to have a supplement to their basic retirement pension.

√ The Régime Collectif d'Allocation de Retraites (RCAR) for nontitular civil servants.

√ The Caisse Interprofessionnelle Marocaine de Retraites (CIMR) which covers private sector epersonnel on a voluntary basis. The CIMR counts 212.176 contributors and has adopted a mixed pension scheme where capitalization mitigates the deficit of distribution.

During these last years, the financial positions' deterioration of pension funds functioning on the a distribution scheme have led public authorities to undertake reforms, especially in the CMR.

Since 2003, the contribution rate of employers in the military pensions scheme was increased from 7 to 10%. In the same way, between 2004 and 2006 the contribution rate of employers and wage contributions to the civil pensions scheme increased by two points.

3.2. Health Insurance

Half a century ago, there were only about 300 public health physicians and 400 private practitioners in Morocco , today the health care services cover 16% of the population (for 2005) . Moreover, health education programs have insured a rising quality of health and an increasing life expectancy rate [2]. The medical condition in Morocco is improving even if certain indicators remain at alarming levels.

√ In 2007, life expectancy at birth was of 71 years, the death rate for children of less than five years was of 37 per 1.000 births. In addition, in 2000, health coverage remained limited with only 4.5 million people (16.4% of the population) benefiting from health insurance, in spite of an active system of social coverage more than 40 years in place.

√ Health coverage is still insufficient: in 2004, there were only 9 hospital beds for 10.000 inhabitants. 25% of the Moroccan population was located at more than 10 km from the nearest sanitary center. Furthermore, a strong concentration of the health system occurs, in both public and private sectors.

Moreover, as noted by the Regional Health Systems Observatory, health care in Morocco has been plagued by waste disposal problems, scarcity of drinking water and the rapid population growth.

This is why, Morocco undertook, after a fifteen year-old debate, a health system reform in direction of a redeployment of the systems major functions, especially by distinguishing between financing and care provision.

√ The Plan de Développement Économique et Social includes the implementation of universal coverage, financed by a contributory system,

Table 3. Pension systems in Morocco

Conditions	*CNSS*	*CMR*	*RCAR*	*CIMR*
Rate of contribution	*11.89 (1/3; 2/3)*	*20% (50%-50%)*	*18% (2/3; 1/3)*	*Entre 6 et 13%*
Retirement age		*60 years*		
Pension calculation	*50% of taverage wage of the last 8 years (non-indexed) plus 1% for additional year.*	*2.5% of the last wage for each year of contribution*	*2% of the career average wage (indexed by wage evolution) for each year of contribution*	*System working by points*
Maximum Benefits	*70% of the average wage*	*100% of the last wage*	*90% of the average wage*	*none*
Minimum Benefits	*500DH*	*500DH for 5 years of contribution*	*none*	*none*

Source: M. Ben Braham (2008), «Pension Systems Generosity in North Africa », Networks Financial Institute (NFI), Working Paper No. 2008-WP-06 the Assurance Maladie Obligatoire (AMO) [3] and the Régime d'Assistance Médicale aux Économiquement Faibles (RAMED) which should allow for a 50% coverage and self-financing in hospitals. This reform of the national health system (law n°65-00) anticipates the progressive extension of basic coverage to the entire population.

√ The Agence Nationale de l'Assurance Maladie (ANAM), introduced in June 2005, is a public fund with legal entity and financial autonomy, charged with ensuring technical framing of the system. As of August 2005, the implementation of the AMO made it possible to extend basic coverage to 34% of the population and the objective is to increase coverage to 80% by the end of 2009. Regarding the private sector, 700.000 additional people were affiliated with the AMO. Furthermore, 2008 will be remembered by the introduction of a medical help system to benefit the most underprivileged (with the objective of covering 60% of the population) and by the preliminary study on launching an obligatory health insurance for independent and liberal professions (10 million people concerned).

√ The "Santé, Vision 2020" program should allow development of health and improvement of medical care within the INDH framework.

3.3. Price subsidy programs

In Morocco, the Caisse de Compensation created in 1941 aimed at supporting the entry of European products in the Moroccan market. It became through time, a vast program of subsidies for consumer goods, oil and gas.

During the 60s, its objective resumed at stabilizing prices to avoid any risk of inflation. One of the complaints concerning the fund was that it maintained prices stable in order to freeze wages, balance was thus maintained but at the expense of modest growth. The Moroccan dilemma could be summarized in the following question: How can we reconcile a pricing policy which undermines export-competitiveness while supporting an economic ideal which seeks competitiveness?

The system remained viable due to the government budget, in this way affordable prices to agricultural producers were ensured while prices were also affordable for the population. Therefore, let us note that this policy was not initially caused by the fight against poverty. Subsidies on basic goods benefitted to all layers of the population instead of just a fraction as could have been the case with an alternative which would have only benefitted the active population paid.

Following the financial crisis in the 80s, suppression of the old subsidy system was expected to open the path to a consequent number of reforms which would provide strong and durable growth.

Subsidies reduction currently appears difficult in a tense social context due to a strong reduction in purchasing power. The operational budget of the Caisse de Compensation went from 3 billion dirhams in 2002 to 20 billion in 2008, becoming increasingly heavy budget-wise in a context of raw-material prices increasing. The finance law plan of 2008 records a 48% increase in cash advances. In the middle of 2008, the government was obliged to re-examine its budget-law in order to take into account the increasing costs of subsidies which account for 11% of total public expenditure, that is to say 151% more than the sum initially envisaged.

Health related social issues in Morocco : Sanitation and Water

Morocco has one of the lowest rural water supply and sanitation access rates in the region (56% for rural water supply and 35% for rural sanitation).*

The country is characterized by a strong sensitivity to climatic risks which limits available water resources. In addition, the African Development Bank states that the delay regarding adequate purification of waste water, slackened in rough state in the natural environment (sea, rivers, wadis, nature, wells), has as a consequence the deterioration of the quality of water resources which *constitutes a threat for pubic health and could also be of danger to drinking water provision and its socioeconomic development**.*

To tackle these matters the Moroccan "Rural Water and Sanitation Project" has been put in place. The project could be seen as a means to ensure additional technical and monetary assistance to the Office National de l'Eau Potable (ONEP) and municipalities, respectively handling urban and rural sanitation.

Moreover, a big number of social projects, with the objective of providing a better medical access to all Morrocans, were launched by developed partners or international organizations. Regarding the EU, it finances projects that also englobe optimal management of resources and drinking water both in urban and rural regions.

** World Bank (2006), Promoting Rural Sanitation and Hygiene in Morocco, Water Supply and Sanitation Feature Story, #11 March.*
*** Banque Africaine de Développement (2006), Royaume du Maroc, neuvième Projet d'alimentation en eau potable et d'assainissement, Rapport D'évaluation département infrastructure région Nord, Est et Sud, Mai*

Notes :

1 : http://www.moroccobusinessnews.com/Content/Article.asp?idr=18&id=913

2 : Jennifer Prah Ruger and Daniel Kress (2007), « Health Financing And Insurance Reform In Morocco », Health Affairs, 26, no. 4,1009-1016

3 : Management of the AMO basic regime is operated by the Caisse nationale de sécurité sociale (CNSS) for the private sector and by the Caisse nationale des organismes de prévoyance sociale (CNOPS) for the public sector.

Syria : An economy that resists due to its production structure and oil, despite the decrease in exports

In Syria, the rate of growth has been persistently high in the latter years and managed to attain the 4.8% mark in 2008. The increase in growth rate has been exemplary, following economic reforms gradually implemented and the increase in liquidities originating from Gulf countries. Production has been reorientated towards the industry sector (30% of GDP and labour) and services (42% of GDP and 40% of labour) but to the detriment of agriculture. Moreover, Syria still produces sufficient oil and thus benefits from its natural resources while also diversifying its productive structure, which results in an increase of regional demand for non-oil Syrian exports.

Syria is in transition towards an open-market economy, with progressive liberalization of trade, development of the banking and financial environment and improvement of the business environment in order to attract foreign investors to the Syrian market. The Syrian model represents a particular case compared to other countries which have followed growth models based on intensive accumulation. Former policy decisions have left permanent traces in the institutional framework and business climate which are generally regarded as less attractive than in other Mediterranean countries by international experts.

The Syrian model is based on the development of SMEs, a genuine engine of Syrian growth. However, this remarkable comparative advantage is not fully exploited due to a partly rigid institutional framework. The economic reform program towards a market economy is limited due to fears of an increase in inequalities and risks of social tensions. Because of a marked proportion of the population just above the poverty line, any modification in the distribution of income privileging competition exposed sectors and comparative advantage sectors is likely to have a significant impact on poverty. Moreover, growth remains insufficient vis-a-vis demographic pressures, limiting per capita GDP growth which is among the weakest in the region. Challenges for Syria are considerably high: the country shall effectively provide vocational training and find employment for the Syrian youth of 15-24 years which represents nearly 40% of the population, the highest proportion of youth in the Mediterranean region. This can be achieved through better adequacy between the job market and the education system, improvement in quality of teaching, and measures which attenuate brain-drain towards developed countries.

In the next few months, the crisis shall have additional effects on the real economy, but it is also likely to affect the global process of opening. Nevertheless, maintaining the Syrian dynamism strongly relies on imperatively pursuing such opening, especially by reducing "service-factor" costs which involve positive externalities and allow re-examining non-tariff barriers in all sectors of the economy.

In 2009, the macroeconomic situation in Syria could be briefly characterized by the following :

√ Affected by the crisis through its progressively opening external sector, the growth rate should slow down to 2% in 2009.

√ The trade balance is particularly exposed to world fluctuations in raw materials prices. Oil and derivatives account for 2/3 of Syrian exports. The trade balance was in deficit in the context of oil prices peaking then plummetting. For 2009, estimates point towards a 16.1% fall in total exports mainly due to a deterioration of 48.2% in oil exports.

√ Tourism revenues are inclined to an increase by 8% while most forecasts as well as actual data on tourism revenues for the first months of 2009 point towards a tourism decline worldwide.

√ Concerning remittances, this channel shows no indication of negatively affecting the domestic economy, to that extent; remittances show tendencies of 5% increase.

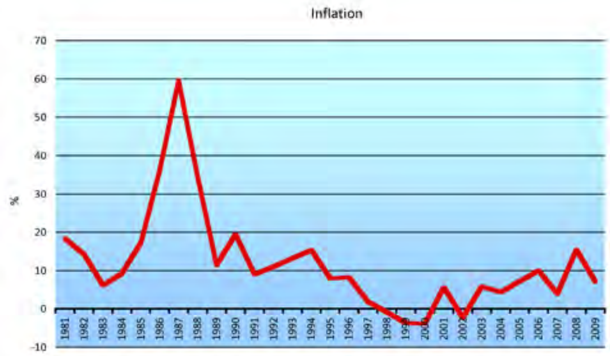
√ Despite the global crisis, FDI increased in 2008 by approximately 32% compared to the previous year. It is expected that flows would increase by 4.5% in 2009 (according to IMF).

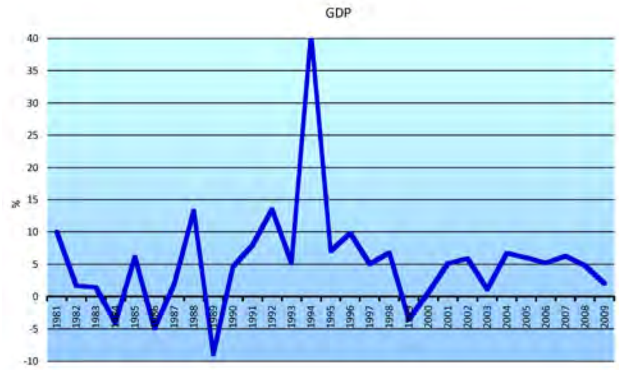
√ The Syrian Government has taken slow but constant steps to reduce the budget deficit which has seems to be fruitful, as the deficit decreased from 5% in 2004 to 2.7% in 2008.

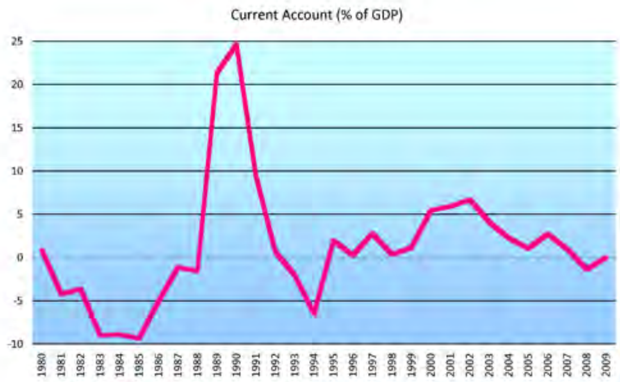
√ Inflation remains high and budgetary monetary coordination becomes necessary to fight against an estimated two-digit inflation in 2009.

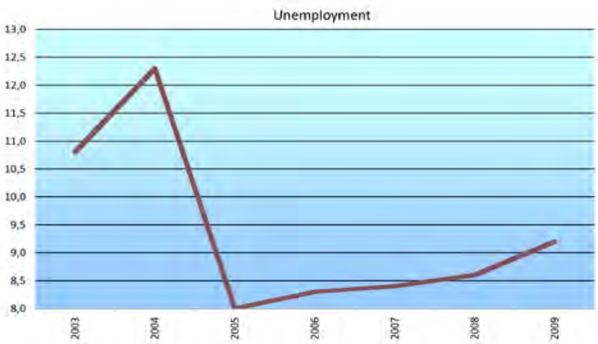
√ Syria shall keep improving its business climate which is currently among the worst in the Mediterranean according to international experts. The current operating banking, commercial and governance structures are still regarded as important obstacles to the emergence of a dynamic business climate.

√ Special attention shall be given to the social protection system. To mitigate the effects of the economic transition process Syria should renovate an expensive and ineffective social protection system, often supplemented by an informal abstract system.







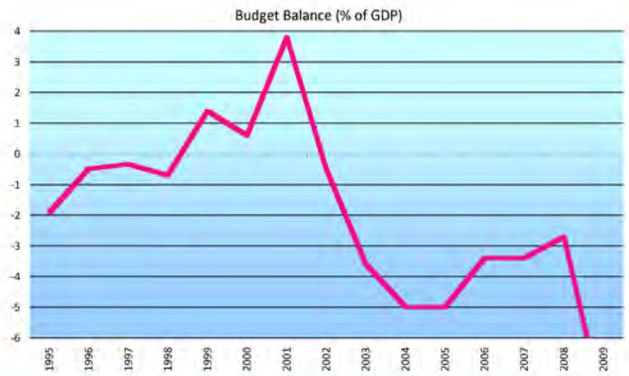


1. The shock: Growth perspectives look positive despite loss of steam in oil-exports

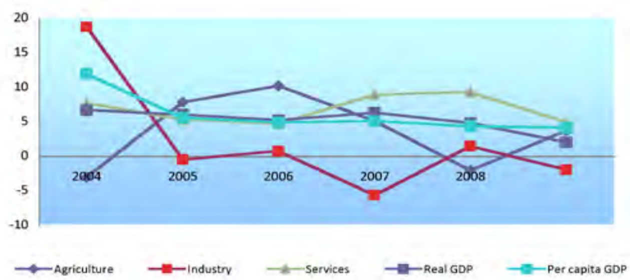
Syria is one of these countries were growth could remain relatively resilient. Although slow, but the openness of the country has been a remarkable achievement. The current crisis has, so far, mildly affected the economy, because of the limited financial and economic integration into the global economy. The rather positive climate in Syria draws from fiscal and structural reforms being at an advanced stage and a steady resurgence of agriculture.

1.1 Lower growth perspectives that nonetheless remain important

Syria has been one of the front-runners throughout the region in growth acceleration and economic reform has been moving ahead gradually. The rate of growth has been persistently high in the past few years and managed to attain the 4.8% mark in 2008 (versus 6.3% in 2007) despite the crisis fallout.



Growth by sector and evolution of GDP(%)



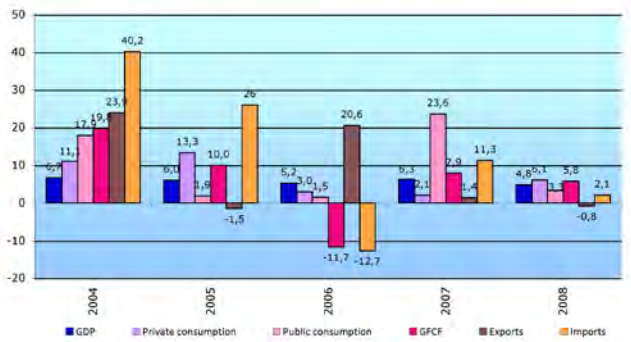
Source : EIU

Production has been progressively transferred towards industry and services; the industrial sector, accounts for roughly 30% of GDP while it also employs the same share of total workforce, as for services, they represented approximately 42% of GDP in 2003 while employing 39.7% of Syrians[1].

Nevertheless, agriculture still represents a great share in total value (24.8% of GDP in 2008) and employs slightly less than a third of the available workforce. Such fact has allowed for complementarities in growth sustainability, whenever the country was hit by drought (as in 2004 and recently in 2008) industry would register positive rates of growth, while in periods of industrial stagnation or depression agriculture would thrive (2005, 2006 and 2007). Moreover, despite the fact that Syria has officially become a net oil importer since 2007, it still produced enough oil to profit from the rise in prices in the first half of 2008. We shall also note that investment remains strong (5.8%) as well as private consumption (6.1%) as engines of growth, however exports showcase a stagnating performance with a 0.8% fall in real terms for 2008.

The year ahead will be a challenge for Syria who will have to proceed to further diversification of its economy in order to remain unaffected by the crisis repercussion on the real economy. The service sector has shown remarkable expansion in the latter years and will keep doing so, nevertheless, potential contraction of tourism, averted for the moment, could draw downwards total services

GDP decomposition and economic growth



Source : EIU

growth. Similarly, reverse of trend in oil-prices will diminish the output of the corresponding sector despite vigorous investment. Growth rate in Syria is expected to be 2% in 2009.

1.2 Impact on the Balance of Payments

Trade liberalization constitutes the principal element of the governments' reform program within the Great Arab Free Trade Area (GAFTA), negotiations on an association agreement with the EU and adhesion demands to join the WTO. The signing of bilateral preferential agreements also allowed for an increase in commercial opening. The country has undertaken a modernization process of its customs and a simplification in customs procedures , hence, since 2004 tariffs have strongly decreased.

However, this evolution towards openness has not prevented Syria from undergoing the trade aspect of world recession: IMF forecasts for 2009 predict a fall in total exports of about 16.1%, mainly due to a deterioration of 48.2% in oil exports.

Services trade is not yet able to become a reliable growth engine. While on average it has recorded an 11% annual growth over the 2000-2007 period, this progression remainsbelow the 14% Mediterranean average (COMTRADE).

The tourism sector in Syria has witnessed progress in the past 5 years. According to the Syrian minister of Tourism, the ministry has reported a 15% increase in the total number of arrivals of tourists in 2008 (compared to 2007). Almost half of those tourists came from Arab countries (13% increase compared to 2007). Tourism revenues reached \$3.5 billion, marking an increase of 8% (IMF). Syria holds a lot of potentials in its tourism sector, which is expected to further develop with the increasing investment in new tourism projects, accounting for \$8.2 billion[2]. Forecasts regarding tourism revenues in Syria for 2009 remain positive despite the crisis, as more than half of the tourism is depending on neighboring Arab countries.

Remittances flows to Syria are considered among the lowest in the region (2.3% of total remittances to the Middle East and North Africa region), amounting by less than \$1 billion in 2007, despite the rather large number of Syrian migrates. Remittances are less the regional average and considered extremely low compared to the size of the economy (2.3% of GDP). However, despite its low level, remittances, such as in any other developing country, have helped increase individual income, raise consumption and the quality of life. Again, lots of efforts need to be done to attract more remittances from Syrians living abroad, by opening more the economy to world integration and moving gradually to a market-based economy. Because of its rather small size, remittances show tendencies of increase, of +5% according to the IMF.

1.3 Impact on FDI

According to the Syrian Investment Agency, US\$1.19bn worth of FDI was destined to Syria in 2008. Despite the global crisis, FDI increased in 2008 by approximately 32% compared to the prior year (AnimaWeb)[3]. On notera l'afflux d'IDE en provenance des pays du Golfe qui constitue une source constante en capital. The IMF expects that FDI to Syria will increase by 4.5% in 2009.

The most important source of FDI in Syria remains the oil sector : FDI exceeded US\$1bn, mostly due to the oil & gas sector with respectively inflows of US\$415m and US\$490m. Furthermore, there are six duty free zones operating in Syria which are meant to attract more FDI. The Syrian Investment Bureau initiated a "one-stop-shop" service that renders administrative procedures a lot simpler for setting up a company (with a minimal capital of US\$ 200,000). (AnimaWeb)

2. Therapy: How can the economy overcome the crisis in 2009 ?

The country's political climate, often listed as a source of vulnerability for the domestic economy, has shown signs of improvement; for the first time since the 1940s, Syria and Lebanon established diplomatic ties in late 2008 which could be viewed as an effort of Syria reaching out towards the region and turn its back on political tensions. Great potentials are awaiting for Syria's openness to the world, and its integration in the global economy.

2.1. Budgetary stance and public debt

The sustainability of the Syrian budgetary condition strongly depends on oil revenues which represent almost half of the States' total budget. The government slowly but constantly progresses in dismantling energy subsidies which explains the deficit reduction compared to previous years (2.7% in 2008 versus 3.4% in 2007 and 5% in 2004). In spite of such reduction, the deficit persisted due to a 25% increase in civil servant wages and pensions in May 2008 and is expected to widen in 2009. The need for continuous dismantling of public subsidies on oil products and food (at the price of compensatory measures for the weakest incomes) shall be counterbalanced by an additional need for resources to strengthen dynamism of the real economy. The government will probably not be able to disengage great investment projects since growth in 2009 cannot rely on n exports due to unfavorable economic conjencture.

Moreover, budgetary policy will have to be harmonized together with the one of the Central Bank. Let us note that 2008 shall be remembered by an acceleration in price rises (oil and food stuffs), therefore, in spite of a trend reversal at the end of the year, Syrian inflation reached 15.4%.

2.2 Monetary policy : Fighting against inflation, new exchange rate regime and restructuring the banking and financial system

Despite a substantial reduction, inflation is still expected to remain high, at the 7.1% mark for 2009 (EIU). The policy reaction of the CBS to the crisis should take account of the following: a tendency of price reduction in foodstuffs and oil which should help further attenuate inflation but a rise in budget-deficit which should have the opposite effect. Hence, the Central Bank of Syria should proceed in further modernizing its tools of monetary policy in order to restrain inflation. The Central Bank of Syria already set up a monetary reform implementing:

- √ since October 2007 a new exchange rate regime in which the Syrian Pound is attached to the IMFs SDR,
- √ the launching of new bonds on the market,
- √ the development and modernization of the banking environment via several decrees.

In addition, the regime should attempt containing imported inflation and variations in domestic demand. Finally, the monetary authorities have expressed the will to prioritize currency stability which allows for prospects of appreciation of the Pound vis-a-vis the dollar.

Finally, the banking and financial environment are both undergoing deep reorganization since the emergence of private banking in 2004 (10 private establishments along with the 6 preexistent public banks). Private banking has had great success in depositing, but shall imperatively consider providing-more attractive loans. The general improvement in the business environment should be realized in order to gradually restore confidence in investors and authorities shall facilitate access to financing. In that respect, Syrian banks are now authorized to lend in foreign currency to foreign investors.

2.3 Stimulating the business climate and eliminating trade barriers especially in the service sector

Syria should imperatively stimulate its business climate which is currently among the worst in the Mediterranean. The country is ranked 137th among 181 economies regarding the ease of conducting business and is also ranked very low regarding the ease of granting credit and in contract execution (respectively 178th and 174th) [4]. The 2004 UNCTAD ratio had already ranked Syria 121st on 140 regarding FDI performance, which accounted to only 10% of Syrian GDP, confirming the need for creating a more favorable investment climate. Globally, the private sector only receives a weak share of total loans. Moreover, the investment rate in the private sector did not exceed the 9% mark in the 10 last years.

Investment development is also accomplished by the business partners perception of governance in the country. However, the latter is considered of rather poor quality in Syria, with the exception of the political stability criterion, all governance indicators are in degradation compared to their prior levels. It is thus clear that currently, the business climate perception is not likely to attract foreign investors.

In spite of recent progress, the Syrian trade system remains very restrictive, primarily due to important non-tariff barriers. According to a World Bank study, it was found that the Non-tariff barriers in Syria raise on average by 22% the domestic price of imported goods (versus only 8 percent for tariffs). The results indicate that welfare gains resulting from elimination of such barriers could increase by up to 4.8% of GDP, provided that increased competition generates optimal technological spill-overs[5].

Hence, Syria has all to gain in efficiently re-regulating its market and gains could be threefold:

- √ domestic producers would profit since output would grow at a faster pace,
- √ increased growth will translate in more competition, hence, lower prices which benefit the consumer,
- √ a more competitive market will attract more investment and foreign establishment will further contribute to growth trends.

Nevertheless, complete deregulation can be harmful; while it might lead to perfect competition it can also be detrimental to consumers by forcing them to pay higher prices from private firms. As noted in a study, a regulated service market is of use to services trade, what hampers trade is the lack of regulatory homogeneity across countries. Dissimilar regulations that do not recognize foreign firms' qualifications inevitably lead to increasing fixed costs of service provision. Syria should thus seek to harmonize its market environment with that of its developed members, in that respect regulatory homogeneity could bring:

- √ An increasing demand for Syrian services,
- √ Better terms of trade, increased consumption,
- √ Reduction in implicit barriers will translate into allocative efficiency of service sectors between trading partners.

2.4 Undertaking an efficient strategy in ICT development and unemployment reduction

Preparation of a government plan for developing information and communication technologies signifies that Syria must during the following eight years:

- √ Ensure development of the service sector has a role to play, this time as a means to attract foreign investors. As noted by Golub, Jones and Kierzkowski (2007) "those countries with favourable business climates and well-functioning service links are able to attract FDI and other mobile inputs" [6]. If Syria manages to sufficiently develop its service-infrastructure and lower costs for such services, then other sectors will benefit as well through a spill-over effect, even if the service-link investment is limited in reducing costs of a specific part of production.
- √ Attract and channel overseas investment towards the production of technologically intensive goods.
- √ Provide efforts in education and vocational training suited for ICT specialization. In this respect the need for developing scientific branches is evident in order to put a stop to brain-drain trends towards developed countries in order to pursue academic studies. Local authorities already an-

ticipate the return of highly qualified Syrians. The greatest challenge for the country sis that it must effectively provide vocational training and find employment for the Syrian youth of 15-24 years which represents nearly 40% of the population, the highest proportion of youth in the Mediterranean region (MEDSTAT II).

Job creation is a necessity in the current demographic context. The job market must deal with 300 000 new arrivals per year during the 10 following years and the unemployment rate is considerably high (8.6% in 2008) in particularamong the younger population due to an abundant labour force (population growth and inflow of refugees) and the existence of many rigidities in the job market. In addition, Syria exports its qualified labour to Gulf countries and its non-qualified labour to Jordan and Lebanon. In attempting to solve the issue of unemployment, Syria must implement measures aiming at a better adequacy between the job market and the education system by increasing competence and qualifications. This necessitates improvement in schooling rates but also a higher quality of teaching in order to make the Syrian workforce more competitive.

3. Could the existing Social Protection Policies help cushion the effect of the crisis on the population ?

For 25 years, Syria has made constant progress with regards to its human development indicators. The Human Development Index went from 0.623 in 1985 to 0.724 in 2007. Syria corresponds to lower average income economies with a per capita GDP in 2008 of 4 532$ PPP.

The issue currently is that the economic reform program that Syria is following towards a market economy is likely to increase inequalities. Due to a strong proportion of the population just above the poverty line, a modification in income distribution (for example by eliminating the current subsidy system) is likely to have a significant impact on poverty. Last available data shows that approximately 11.4% of the population live under the poverty line (United Nations statistics, 2005). This percentage is currently decreasing, since in 1997 when it amounted to 14.3%. The government has launched, within the United Nations' development framework, a poverty reduction program which rests on local and national needs and priorities.

Economic growth did not benefit the most disadvantaged populations and the Gini coefficient went from 0.32 in 1997 to 0.37 in 2004, which indicates an increase in income disparities. Moreover, in 2003-04, the poorest 20% only absorbed 7% of expenditure while the richest 20% absorbed 45%. Moreover, poverty is striking in rural regions with considerable geographical disparities (north and North-East regions being poorest). To mitigate the effects of the economic transition process, Syria must renovate its expensive and ineffective social protection system which is often supplemented by an informal system.

3.1 Social security systems in Syria

Social security in Syria follows a long tradition of state control. The Social Securities Establishment (SCE) was established in 1959 and followed by two amendments in 1976 and 2001. It covers all employees and workers in industry and agriculture, provides voluntary coverage for Syrians working abroad and supplies treatment to public servants through a special branch. This corresponds to approximately 88 percent of all state employees but only a feeble 36 percent of the private sector. All the insured, with the exception of the self-employed, provide 7% of their salary combined with an optional additional 1% for supplementary disability and death benefits. Meanwhile, employer contribution accounts to 14% of total salaries. Social coverage is summarized in the following table.

The meager coverage of private employees has often led to criticism and to the demand for a reform of social security in order to "improve the ratio of subscribers in the private sector and the payment of due subscriptions in the state-owned sector»[8].

The Syrian government has all to gain by ensuring the viability of social safety nets through instruments targeting specific parts of the population. By doing so, Syria could lighten a budget balance expected to be largely in deficit in the coming year due to the trend of oil-price decline, hence, reduction of export-tax revenues.

3.2 Health Insurance Coverage

In Syria, the private sector plays a central role in the supply of medical care and 85% of health expenditure is carried out by households. Civil servants and their families are refunded (entirely or partly) for medical care carried out in private centers.

The Syrian government set up a programme of health system reform: the National Health Strategy 2000-2020 includes the implementation of a H-card in two of the largest hospitals with the following two objectives: to provide each citizen a health report which can be used in an event of urgency, and create a precise real-time health-map for Syria.

3.3 Programs of Price Subsidies

In Syria, the constitution of 1973 makes the State a supplier of vital free social services. The limited aspect of the Syrian social safety net is both a cause and a consequence of the importance of the subsidy system on food and agricultural prices. The Syrian government is centrally planned and has subsidized bread, rice, sugar but also electricity and oil prices during decades.

Table 1. Social protection in Syria

Social Coverage	*Qualifying Conditions*	*Benefits*
Old-Age Pension	*Age 60 (men) or age 55 (women), at any age in dangerous work, with 180 months of contributions. Age 55 (men) or age 50 (women) with 240 months of contributions. At any age with 360 months of contributions.*	*2.5% of the insured's basis earnings times the number of years of contributions, up to a maximum of 75% of the basis earnings.*
Early Pension	*At any age with 300 months of contributions.*	*2.5% of the insured's basis earnings times the number of years of contributions, up to a maximum of 75% of the basis earnings.*
Old-age Settlement	*Age 60 (men) or age 55 (women) who do not qualify forthe old-age pension.*	*A lump sum of between 11% and 15% of total covered earnings.*
Disability pension	*Those facing the loss of at least 80% of working capacity.*	*40% of the insured's basis earnings plus 2% for each year of covered employment.*
Disability benefit (voluntary)	*Those with assessed degree of disability that exceeds 35%.*	*A lump sum equal to 50% of the insured's insurable earnings in the previous year. The benefit is increased by an additional 50% if the insured is totally disabled as a result of an accident at work.*
Survivor Pension	*Unemployed widows, orphans younger than 21, dependent parents. The deceased (non-occupational death) met the contribution conditions for disability pension.*	*37.5% of the deceased's disability pension, 25% for orphan pension and 12.5% for dependent parents pension.*
Death Benefit (voluntary)	*Eligible survivors, death resulting from occupational injury is covered.*	*A lump sum equal to 100% of the insured's wages in the previous year is payable to a survivor. The lump sum is increased by 50% if the insured's death was caused by an accident at work.*
Funeral Grant	*All*	*A lump sum of 1 month's earnings, maximum of 100 pounds.*

Source : "Syria Social Security Programs Throughout the World: Asia and the Pacific", 2004, at http://www.ssa.gov/policy/docs/progdesc/ssptw/2004-2005/asia/syria.html [7]

Subsidies in Syria have been arbitrary in their targeting, as evoked by Abdullah Dardari, deputy prime minister for economic affairs "the best-off Syrian households benefited 59 times more from government subsidies than the poorest families"[9]. Oil revenues have faced a sharp decrease in Syria in the past decade, however, oil prices have rose dramatically in the last years and remain at a high level despite the current international context. Thus, the cost of subsidizing fuel has become untenable. Between 2002 and 2007 government expenditure on diesel subsidies averaged between $1 billion and $1.5 billion per year, meanwhile, diesel consumption went from 5.5 million tonnes in 2002 to approximately 7.8 million tonnes in 2007(UN office for the Coordination of Humanitarian Affairs).

The annual subsidy-cost amounts today to 15% of GDP, that is to say 9 billion dollars. The government seeks to reduce the extent of subsidies while limiting the effects on the poorer populations, while at the same time social policies remain limited. In the beginning of May 2008, the government stopped providing oil subsidies which led to the price of gasoline multiplying by 3 along with a 5-year program of subsidy alleviation. The substantial budgetary profit (estimated at 2 billion dollars US) is limited since the government increased wages and pensions of civil servants by 25% to reduce social effects. The government also announced its plans to implement a quota system using "smartcards" to efficiently target fuel consumption. Nevertheless, the announcement of such scheme was met with social unrest.

The government also emitted edible-oil coupons and granted compensations to «production victims» of the energy bill rise. Regarding food subsidies, the government wishes to pursue provision of basic food at controlled prices in spite of the considerable rise in the latter (food prices increased by 20% over the first six months of 2008). The rise in the price of rice resulted into poorest populations increasingconsumption of subsidized bread sold at a fixed price in public bakeries. As for the international rise in the price of corn (83% in 2007), it resulted into weakening corn self-sufficiency in Syria, a trend already in place following two consecutive years of drought in the south-east of the country.

Notes :

1 : http://memory.loc.gov/frd/cs/profiles/Syria.pdf

2 : Global Travel Industry News, 2009

3 : Animaweb at http://www.animaweb.org/en/actu-detail.php?actu=6467

4 : Doing Business 2009 at http://francais.doingbusiness.org/ExploreEconomies/?economyid=183

5 : M. Chemingui and S. Dessus (2003) Assessing Non-Trade Barriers in Syria, World Bank, Washington, DC

6 : Golub, Stephen S., Jones, Ronald W. and Kierzkowski, Henryk (2007) Globalization and Country-Specific Service Links, Journal of Economic Policy Reform, 10:2, 63 — 88

7 : Syria Social Security Programs Throughout the World: Asia and the Pacific

8 : "Syria Won't Listen to top Economists Who say it is Time to Downsize", citation of Samir Aita, SyriaComment.com, October 07, 2005

9 : "SYRIA: Oil price rises could provoke unrest", IRIN, humanitarian news and analysis, UN Office for the Coordination of Humanitarian Affairs, 25 September 2007

Tunisia: A growth rate that remains constant in spite of the crisis but difficulties in maintaining the rate of opening

The economy continued to grow at a 4.6% rate in 2008, in spite of a 2% deceleration compared to 2007, fueled by sustainable development in the service sector which represented 58% of GDP in 2008 and is strongly correlated with the growth rate of GDP per capita. Tunisia represents a remarkable example of dynamism in the region because its growth was obtained by an increase in productivity rather than by capital accumulation and active population growth. Moreover, this increase in productivity occurred by the means of total factor productivity, a sign of the penetration in Tunisia of the knowledge economy.

This new growth mode conceals should undeniably be an example for other countries in the region since it is based on development of the service sector, allows distribution of income which does not handicap domestic competitiveness (wage rises are related to productivity increase rather than to price increases which allows maintaining the foreign exchange rate at a stable level) and, normally, circumvents substitution of capital to labor which generally accompanies such intensive accumulation models of growth.

But Tunisia's weakness is that in spite of remarkable growth in GDP in these last years, unemployment (14.2% of the active population), especially in the qualified youth (42.5% according to the World Bank), has reached absurd levels for such type of growth. There is probably an ensemble of explanations which can be called upon and which should be taken into account urgently by the economy's strategic policy-making: inefficiency in systems of vocational training and orientation, excessive dualism between foreign establishments in technological poles and the remainder of the productive structure with the first being "under-exploited", insufficient development in SMEs and firm creation (which require a more vigorous policy and an adapted legal framework for a "small business act"), insufficient dynamism of the banking system with regards to credit facilitation to such companies, lack of development funds and investment accompanied with the necessary tax incentives as in Europe etc. However, the level of final demand also plays a major part since it allows bringing real production closer to its potential level.

The crisis will simultaneously affect the possibilities of the Tunisian economy to cure its structural imperfections and the insufficient final demand stimulus. Without a minimum of ease in macroeconomic management, there is a risk of delaying necessary developments. It is a question that should be taken into account by the euro-Mediterranean partnership which should support the availability in reserves of the Central Bank.

Certain essential points characterizing the current macroeconomic situation should be underlined.

√ Although weaker than before, investment and private consumption are the main engines of final demand, whereas public consumption is falling, which could obviously be labeled a good strategy of adapting to the crisis since it shows the government's concern of avoiding considerable budget deficits.

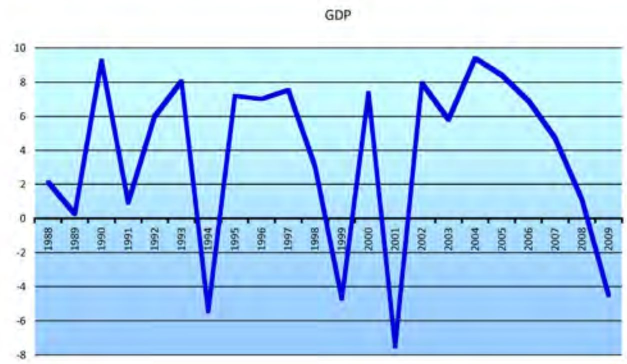
√ Tunisia is the only country in the region which managed to maintain current deficit to a sustainable level at 4.2% in 2008 despite the marked rise in the price of hydrocarbons and basic commodities. After the first 9 months of 2009, the deficit is estimated at 1.2% of GDP.

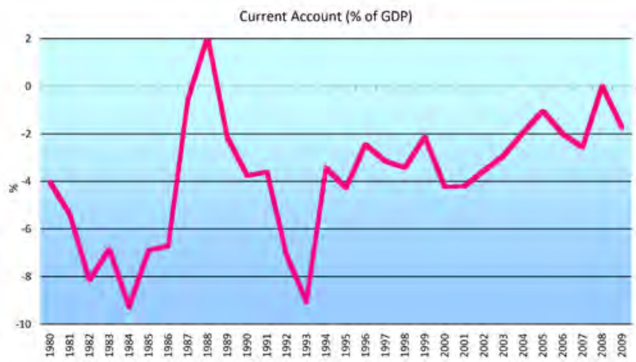
√ Tunisia's tourism is mainly attributed to an inflow of tourists from Western Europe, hence, expected decrease in European demand in a period of crisis is expected to obstruct tourism revenue. The challenge in tourism in the years to come will rely on the country's capacity to restructure the sector and use it as a creator of employment, an income generator, and a means to attract foreign investment and to initiate infrastructure projects. Also, domestic efforts should be undertaken to attract more foreign capital in industrial sectors capable of diversifying the employment structure. The new investment law will undeniably contribute to such strategy.

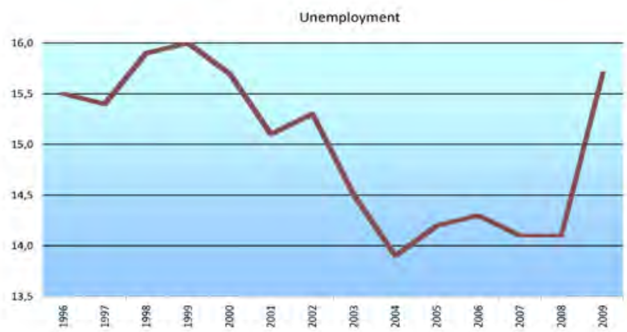
√ The need for a reinforcement strategy namely in the production of "strategic" goods such as cereals, milk and certain vegetables of regular consumption is presently being felt, it should mainly englobe the effects of price increases on such food products.

√ Budgetary stability shall be difficult in a context of considerable rise in the price of oil in 2008 followed by an increase in public expenditure in 2009 to avoid a crisis on the real economy. A deterioration of the public deficit is expected for 2009 (at -3.8%).

√ In addition, inflation remained modest compared to the Mediterranean average, it reached 5% in 2008 and should decrease at approximately 3.1% in 2009. Regarding monetary policy, implicit inflation targeting by the Central Bank appears better suited than explicit targeting, while putting







on-hold plans for flexibility of the foreign exchange rate and capital account convertibility seem as a favorable choice.

√ The Tunisian social security system offers broad and non-discriminatory coverage for a diverse population. However part of the population still remains without coverage (free lances or informal workers). The crisis shall affect the global means of intervention and risks pushing back both essential targeted actions and extension of current social coverage.

1. Pressures on the current account that are currently under control

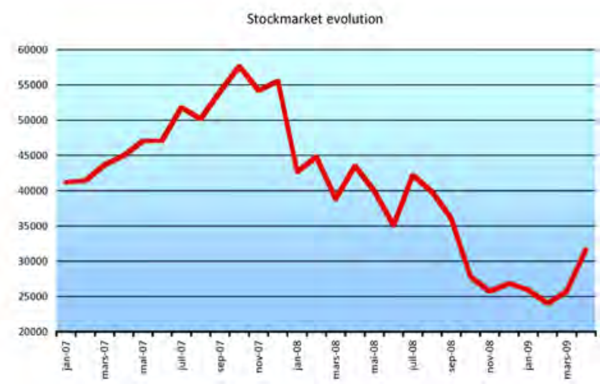
Tunisia, as most MPs will be affected by the crisis due to the fall in international demand. This decline should produce a significant effect on final demand since it cannot be compensated by sufficient growth in internal demand if macroeconomic balance is to be maintained. As a result, growth should decline, employment tensions and price distortions will rise and the balance of public accounts will be threatened. Nevertheless, past efforts allow for some maneuvering in maintaining an important volume of investment and not overly rely on public consumption to maintain a reasonable level of balanced production.

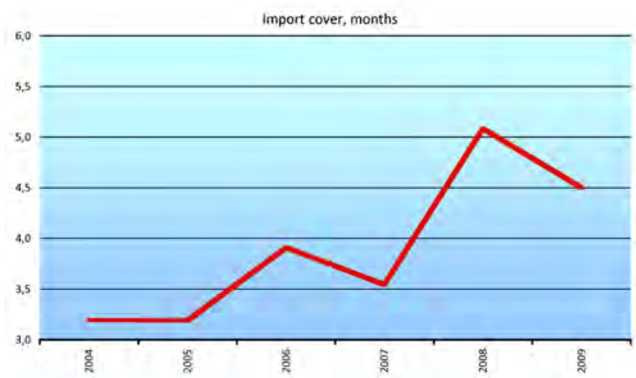
1.1 Growth perspectives remain high despite the slowdown

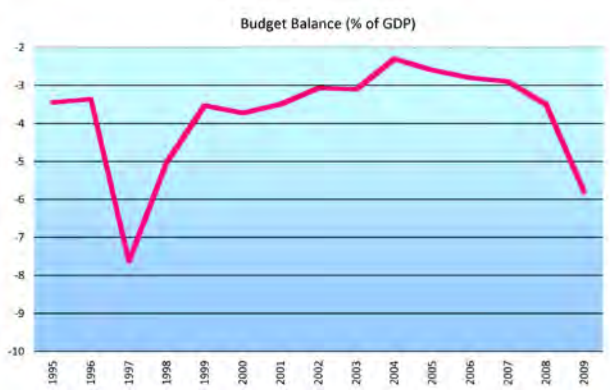
The Tunisian government has led considerable efforts in maintaining growth for living standards to be on-par with developing OECD countries.

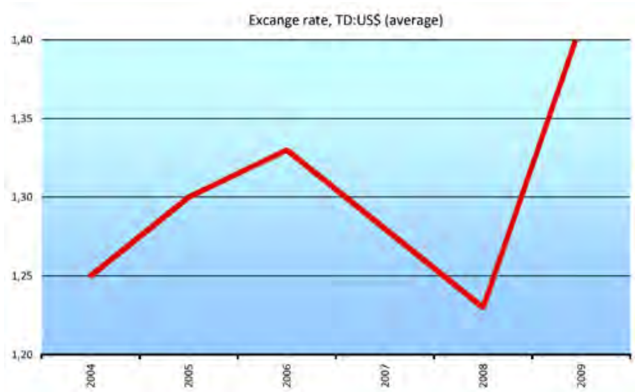
In doing so, the country has maintained an average GDP growth rate of 5.5% between 2003 and 2007. In 2008, due to an unfavorable international environment, Tunisia's economic performance has been relatively more modest with a 4.6% growth rate versus 6.3% in 2007.

√ Tunisian GDP is fueled by sustainable development in the service sector. In 2008, the service sector represented a share of 58% of the GDP, followed by the sector of industry (30,2%)

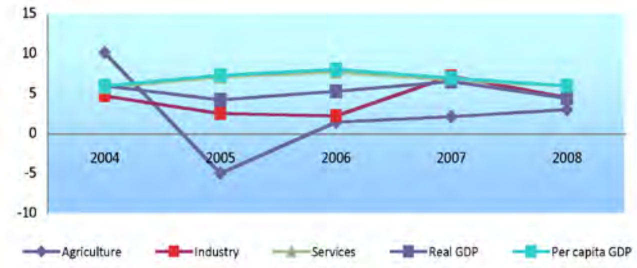








Growth by sector and evolution of GDP (%)



Source : EIU

and agriculture (11.7%). Such expansion is due primarily to continuing expansion in telecommunications and transport followed by an increase in tourism receipts.

√ The feeble performance in agriculture in 2005 contrasts with a growth rate in rise during the last three years. The sector affects 17.7% of Tunisian employment (versus 20.2% for industry and 61.1% for services) and has successfully overcome a year filled with food-prices variations and the emergence of the international crisis. Nevertheless, economic conjuncture in 2009 shall affect agricultural production and the government shall come up with a reinforcement strategy in the production of "strategic" goods such as cereals, milk and certain vegetables that are of regular consumption.

√ Moreover, high levels of growth in industrial sectors such as ICT, mechanical engineering industries explain the constant rate of growth in the Tunisian industry. Among these sectors, the crisis effects mainly occur in the mechanical industry especially in subsidiaries of international firms which are locally established. Moreover, the international situation along with increased competition in the textile sector limits the exchanged volumes. The currently unaffected construction sector is in full development thanks primarily to massive infrastructural projects that should contribute to maintaining growth in the year to come.

Macroeconomic adjustment at the end of the period, shows that the Tunisian economy could maintain a satisfactory level of investment and private consumption along with control of public consumption due to budgetary tensions. This implies that expectations remain positive and that macroeconomic policy has been efficiently led.

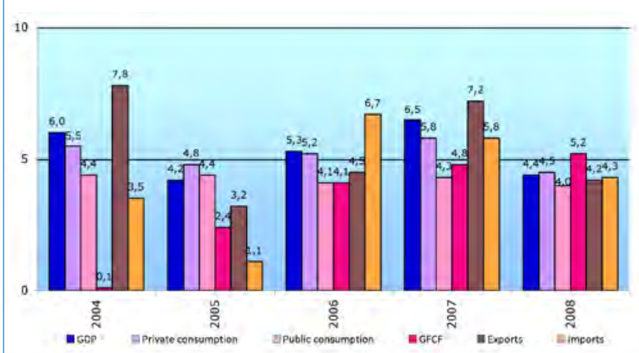
1.2 An external account in peril

Along with the association agreement, the policy of improving the business climate allowed for an important opening of the economy and a marked export increase. The EU remains Tunisia's first commercial partner, while trade is centered around France, Italy, Germany and Spain.

Merchandise exports recorded a 21.8% growth rate in 2008, despite the global crisis. In the fourth quarter of 2008 exports achieved a growth of 8% compared to the exports at the same semester in 2007. However, in end September 2009, exports decreased by 21.7% (estimated annual fall in 2009 of 28%). More than 60% of this fall is due to the drop of prices in oil, phosphate and derivatives and olive oil in international markets, to which is added the shrinking of international demand especially from Europe.

Let us note that the main exporting commodity of Tunisia to main EU partners is Textiles, which already decreased by 16% in the first half of 2009. Tunisia is also a main exporter of phosphate whose global price dropped within the crisis resulting in a drop of 54% in the first half of 2009 [1].

Décomposition du PIB et croissance économique



Source : EIU

At the same time, imports in 2008 increased by 23%, with an import baskets that vary from basic food products and cereals to chemical and capital goods. Import bill will drop in 2009 as commodity prices fall and domestic demand decreases. Forecasts point to a 16% decrease while figures for the first quarter of 2009 already showcase a 12 month 16.4% fall.

Merchandise trade performance in 2008 caused the trade deficit to widen by more than 1 billion dollars compared to 2007. However, due to the fall in import bill, the deficit is expected to return to its normal level that preceded the crisis in 2009.

Services exports have also increased in 2008, but with a much smaller rate of 12%, the last quarter of 2008 recorded a growth of 8.5% (compared to the same semester in 2007), while imports increased by only 8.2%. Service balance marked a surplus in 2008; however this trend is expected to slow in 2009 due to the decrease in tourism revenues that would hardly be offset by a slower growth of service imports.

These elements show that, despite being an oil-importer, Tunisia is the only country in the region whose trade balance was close to equilibrium in 2008; it is expected however that equilibrium will mark some imbalances in 2009 (despite a quasi-equilibrium in the first 9 months). Nevertheless, foreign exchange reserves cover approximately 4.5 months of imports and ratios of foreign debt are currently sustainable and allow for policy maneuvering.

The tourism Sector is one of the country's main sources of GDP growth, generating about 5% of the GDP (in 2008) and employing about 12% of the Labour force. Tourism revenues which is the country's main source of foreign currency, achieved an increase of 10.2% in 2008, the last quarter of the year marked a record of 8.9% compared to the same quarter previous year.

The summer season of 2009 has been above expectations, the expected sharp fall in tourism receipts, following the decrease in hotel reservations of Europeans towards Tunisia and a decline in the average length of stay, appears to have been averted by the arrival of new tourists (originating mostly from Eastern Europe and Algeria). Thus, it appears the sector remained resilient to the crisis effects : for the first four months of 2009 the sector recorded a 4.3% increase in tourism revenues (in dinars, while the increase is of 2.3% in Euros) and a 2.2% increase in tourism flows. Several studies show that destinations with more favorable exchange rates have an advantage as price is a determinant in the destination choice while proximity is also of great importance. To that extent and despite initial fears the tourism sector in Tunisia seems to bode well.

Nevertheless, the crisis can expose structural weaknesses in the sector which in turn could re-orientate tourism development in a long-run perspective.

It appears tourists have the tendency of not returning to Tunisia following their first encounter in the country due to a low-quality service in most hotels[2]. This is a serious problem that could endanger the country's main source of income and job creation.

Tunisian workers' remittances increased in 2008 by almost 8.6% (and by 9.3% in the first quarter of 2009 compared to the same period in 2008). Most of these remittances originate from Tunisians working in the EU. Still, as unemployment rises in Europe, risks of decreasing remittances arise, expectations point towards a decrease of 5% to 10% in 2009 (Standard and Poor's agency). It is to note that remittances represent almost 5% of the GDP in Tunisia.

Current transfers increased by 5% in 2008, the last quarter of the year recorded an increase of 10% over the same quarter in 2007 while in the first quarter of 2009 we observe a 4.7% 12 month increase. This surprlus is expected to narrow as revenues decrease.

Overall, the current-account deficit, increased in 2008 by 5% and reached 4.2% of GDP. It is expected that this deficit will decrease reaching 3.1% of GDP in 2009.

1.3. Impact on FDI

The current-account deficit was covered by foreign investment inflows and by medium- and long-term loans.

In 2007, FDI reached 2.1 billion dollars, allowing for the ceation of 271 new companies, 222 extensions of current firms and 20 000 new jobs. Such investments are primarily destined to the sectors of energy (60% of total FDI), electrical industry, mechanical and chemical industries but also high value-added sectors (electronics, information technologies, pharmaceuticals). These flows increased vividly by 51% in 2008; this can be explained by the simultaneous presence of extraordinary circumstances such as privatizations (BTK and STAR, 282 million dinars), the GPL project by British Gaz (189 million dinars), the Enfidha airport privatization deal (189 million dinars in 2008) as well as other privatizations in tourism and industry (worth 187 million dinars).

The business climate reform with better conditions of establishment for firms and the modernization of the economic structure has allowed for increased dynamics of overseas investment. This reinforcement in investment has particularly benefitted the energy sector as well as agriculture, fishing and commercial services.

However, in the first three months of 2009 FDI inflows appear to have decreased by 47% compared to the first three months of 2008. Despite efforts, the country needs to do more to remove administrative barriers that will help increase the flow of investment, in a context were it appears to come as a second factor of crisis transmission (following exports).

Table 1. Current Account in Tunisia (millions of TD)

	2007	*2008**	*Q4-2007*	*Q4-2008*	*Q1-2008*	*Q1-2009**
			Exports			
- Goods	*19 409.6*	*23 637.0*	*4 992.5*	*5 414.6*	*5 820.9*	*4 728.4*
- Services	*6 290.6*	*7 070.6*	*1 588.8*	*1 757.2*	*1 394.9*	*1 420.2*
Of which: Tourism	*3 077.3*	*3 390.2*	*755.9*	*855.0*	*528.9*	*544.0*
- Factor income	*2 574.2*	*2 801.4*	*622.6*	*589.6*	*576.4*	*555.3*
Of which: Labour income	*2 198.5*	*2 387.2*	*531.1*	*511.4*	*477.7*	*522.3*
- Current transfers	*261.6*	*274.7*	*45.2*	*49.7*	*46.2*	*48.4*
			Imports			
- Goods	*23 094.6*	*28 575.7*	*6 106.8*	*7 278.3*	*6 448.8*	*5 391.0*
- Services	*3 591.5*	*3 886.7*	*868.2*	*867.3*	*940.6*	*882.5*
Of which: Tourism	*2 993.7*	*3 444.8*	*703.9*	*681.7*	*745.8*	*708.9*
- Factor income	*886.8*	*858.9*	*236.0*	*233.8*	*206.6*	*208.3*
Of which: Labour income	*31.1*	*33.3*	*7.3*	*7.9*	*8.4*	*8.9*
- Current transfers	*2 937.6*	*2 201.7*	*1 206.3*	*815.2*	*460.8*	*512.6*
Current Balance	*-1 174.9*	*-2 156.8*	*-437.1*	*-1 024.1*	*-305.2*	*-239.0*

Source: Central Bank of Tunisia

2. Adapting to the crisis

2.1. Budgetary position and public debt

In 2008, the world context of inflationary pressures and the elimination of price-subsidies on oil led to a price rise for domestic consumers and a rate of inflation at 5% (versus 3% in

2007). In spite of a reduction in export-growth, the persistently high level of public expenditure maintained private consumption (at 4.5% in 2008) and cushioned th economic shocks.

In addition, the government managed maintaining budget stability (1.1% deficit in 2008 versus 2.9% in 2007). Nonetheless, the high oil-price context in 2008 weighed-down the budget share allocated to subsidies; similarly, certain foodstuffs profiting from such subsidy mechanism contributed to increasing the invoice even more. Budgetary prospects for 2009 do not forecast a return to equilibrium. The budget will have to contribute to a threefold reinforcement of employment, consumption and investment, it is thus being increased in 2009 (increase of 12% compared to the 2008 estimate) without taking into account the complimentary finance law which includes an increase in credit granted to compensate for prices in hydrocarbons and consumer goods. The reverse in trend in commodity prices will undeniably reduce subsidy costs, nevertheless, receipts are not expected to augment in the light of export decline which means that containing the fiscal deficit at the 3% mark seems improbable (current forecasts predict a 5.9% deficit of GDP in 2009).

On the other hand the country's medium- and long-term loans rose sevenfold to TD833m. Most of them are soft loans from official, rather than private, providers of development finance, such as the European Investment Bank and The African Development Bank, each provided loans of more than $200 mn towards the cost of specific large infrastructure projects.

2.2 Searching for macro-economic balance by fighting against inflation, through flexible exchange rate and control over the budget deficit

To date Tunisia has been pursuing a policy of gradual transition towards inflation targeting in order to allow total convertibility of the dinar. The banking system is improving its indicators of banking credit and according to the IMF it approaches international standards. Moreover, the Tunisian Central Bank keeps adapting its policy to macroeconomic variables in a context of transparency and increased credibility.

In addition, Tunisia is trying to introduce more flexibility into the exchange rate system and capital mobility while gradually removing restrictions on residents. However, in spite of its efforts, Tunisia is exposed to a risk of deceleration in external demand following the financial crisis, difficulties in producing positive expectations regarding the exchange rate and thus intricacies to control macroeconomic management which is dominated by the "parity-game" of interest rates (we shall note that in a flexible exchange rate system and when the capital account is convertible, traders compare the anticipated return of one dinar placed to Tunisia - which depends on the domestic interest rate - with to the expected return on any other money market - which depends on the anticipated exchange rate of the dinar compared to the currency and interest rate abroad).

√ An important issue lies in the banking environment: in spite of the new banking law the system is not well prepared to deal in a sustained way with actions of monetary policy that consist in freely modifying the interest rate. To date, Tunisian banks register a high rate of non-performing loans. Moreover, past monetary experience (bankruptcy rate of 60%) implies that the system is still fragile.

√ Total convertibility of the dinar in a fixed exchange system is difficult since the fixity of the real exchange rate requires a flexible nominal exchange rate, except in obtaining a favorable inflation differential with respect to main partners. In this respect, one should wonder if the current system of inflation targeting pursued by the Central Bank is best suited. The financial system does not seem well prepared yet and external constraints are considerable. Acting on financial agents anticipations is a well-suited approach, nevertheless, when it is conducted by the Central Bank which engages itself on a general price-level, its credibility is put to test. From this point of view, it appears premature to orient the policy towards an explicit targeting regime. More well-targeted measures that allow preserving the credibility of the Central Bank should be the way to go in the current state of affairs. In other words, implicit targeting allowing more room for maneuvering appears preferable in the current context (Workshop on "Monetary Policies and Inflation Targeting", 24-25 October, 2008, Tunisia)[3].

2.3. Diversifying the base of trading partners

Trade activity considerably increased during these last years in spite of a context of increased competition. Tunisian exporters profited from the dinar depreciation vis-a-vis the euro and also from marked improvement in competitiveness linked to the wage/productivity ratio. Nevertheless, such price-competitiveness is likely to be insufficient in the year to come.

While Tunisia has been efficient in diversifying its exported production, the same cannot be said with regards to its trading partners. For instance, its textile industry overly depends on domestic demand from the EU since textile-exports to the rest of the world are absent (in 2002 the US accounted for only 1% of the sectors share in exports). Furthermore, the dependency on outsourcing in the Tunisian industry vis-à-vis European car constructors and industries will be an additional weight on the economy's revenues and value-added. Hence, it appears more than important that Tunisia further develops trade with its Mediterranean partners and other major industrialized regions. A policy seeking to reinstate investment attractiveness to such foreign investors could considerably increase FDI flows since domestic conditions are favorable.

2.4. Increasing the contribution of FDI

Domestic and foreign investment has been attracted through tax-exemptions and reduction of the burdensome bureaucracy. Nevertheless, domestic efforts are far from their full potential and several additional steps must be undertaken to attract more foreign capital and ensure enhanced participation to national development. Introduction of the new Finance Law in the current year is the best opportunity to invigorate productivity and competitiveness and attract FDI through further reduction of red tape. Targeting specific sectors that ensure employment creation and potential export-growth is of crucial necessity. In that respect Tunisia has all to gain by elaborating a strategy of investment attractiveness in non-agricultural sectors as a means to diversify its employment structure.

√ In this context, the new investment law implies the reduction of implicit administrative obstacles for foreign investors to buy property; moreover the limit of foreign ownership on Tunisian firms will be increased.

√ The development of industrial sectors such that of aeronautics is an insurance for employment and growth. In 2009, the country will have the opportunity to advertise its territory as an ideal destination for large companies in the sector, offering a qualified and inexpensive labour-force, various tax-exemptions as a subcontractor country and the opportunity of producing at lower costs[4].

√ En outre, la Tunisie pourra accroitre sa capacité d'innovation et en conséquence d'attractivité d'IDE en s'appuyant sur l'établissement d'une politique de migration régulée des compétences. Le maintien de la main d'œuvre qualifiée devrait s'effectuer a travers : l'amélioration de l'efficacité de l'administration publique pour répondre à l'évolution des besoins des citoyens et du secteur privé; et le renforcement des partenariats avec les opérateurs locaux.

√ Moreover, Tunisia shall be able to increase its innovation capacity and consequently its FDI attractiveness by relying on the establishment of regulated migration policy of competence. To maintain the presence of the qualified labour-force the country should : improve the effectiveness of public administration and adapt it to the evolution of citizens' needs as well as to those of the private sector; reinforce partnerships with local authorities.

What remains to be done is to further utilize international investment in order to dynamize the local production structure. Development assistance and support in the creation of new firms require a more vigorous policy and a less complex legal framework, investment funds, tax incentives and any measure that could be included within a "small business act" adapted to the Tunisian state of affairs. It is thus a question of maximizing FDI spill-overs by proposing an efficient production framework constituted of SMEs. We shall note that FDI represent 20% of total investment flows in Tunisia at end-period and 75% of the stock. This insufficient development in high-performance SMEs is certainly one of the major causes of the youth unemployment issue in Tunisia, since all studies show that the country actually possesses a decisive resource (human capital) in attracting foreign investors and orient investment in restructuring the enterprise network.

3. Could the existing Social Protection Policies help cushion the effect of the crisis on the population?

Tunisia seemed to be efficient in ensuring pro-poor growth in the late 80s, with poorest deciles benefiting from stronger growth. The second and third deciles exhibited a rate of income growth close to 5.5%, about one percentage point above the actual average rate of per capita GDP growth.

Two decades later, the government keeps pursuing its policy of supporting wages by raising the SMIG and the SMAG in July 2006. This measure has benefited 280.000 workers, increased retirement pensions, and increased assistance to the most in need. The average annual salary increased while poverty decreased and a redistribution policy in favour of the middle-class constitutes an objective for the 11th economic and social development plan 2007-2011. Finally, Tunisia registers an increase in fixed per capita income and better social coverage. In addition, life expectancy went from 65 years in 1985 to 74 years in 2006 (WDI 2009).

Nevertheless, the reduction of the unemployment rate (14.2% in 2008, estimated at 14.5% in 2009) remains a difficult task. Recent years will be remembered by the multiplication of public interventions to the benefit of new job-applicants and qualified youth unemployment remains a major socio-economic issue for the Tunisian economy.

3.1. Social Security systems in Tunisia

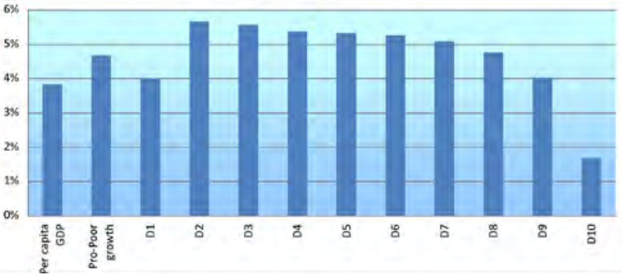
Since November 7th, 1987, the Tunisian social security schemes met a quantitative and qualitative change, offering broad and non-discriminatory coverage according to a number of principles :

√ Extension of social coverage for the near-total of a diverse population (public agents, nonagricultural employees, student, fishing, agricultural employees)
√ Unification of the free lances scheme in 1995
√ Extension of coverage to people working abroad and their families.

To ths day, tunisian social security schemes are managed by three public organizations with a large financial and legal autonomy and administered by :

√ The Caisse Nationale de Sécurité Sociale (CNSS) for the private sector which groups

Pro-poor growth



Source : FEMISE calculations, based on growth and inequality data from World Income Inequality Database for 1985 and 1990.

5 schemes of which the one of most importance is the RSNA (Régime des Salariés Non Agricoles)

- √ The Caisse Nationale de Retraite et de Prévoyance Sociale (CNRPS) for officials and public servants
- √ The Caisse de Retraite et de Prévoyance du Personnel des Services Publics de l'Électricité et du Gaz et des Transports (CREGT)
- √ The social security scheme is obligatory and covers all urban employees as well as agricultural workers and free lances. Social coverage is consistently extending going from 54.6% of the active population to 80.7% in 1997 and 95% currently (source Central Bank of Tunisia).

In 2004, a law imposed a unified scheme applicable to all members of the public and private sectors. In addition, a scheme of voluntary protection against unemployment is offered to employees provided they can justify to have lost their employment, to having contributed for at least 3 consecutive years while working for their company and finally having registered at the office of employment without receiving any offer of employment. The assistance granted to the unemployed represents twelve times the amount of the last wage perceived within the limit of the SMIG. The pension scheme is considered to be generous since on average, one contributor can exert his rights to retirement after only 10 years of contributions in the private sector and 15 years of contributions in the public sector, provided that he/she is 60 years old at retirement age. In spite of these efforts, a large part of the population remains without coverage, especially those without employment; and households whose ability to pay taxes is insufficient for contributions (e.g free lances with no employer to cover the contribution, or informal employees).

According to the 2004 census, the demographic constraint will start to weigh on financing of the pension retirement scheme due to an ageing trend of the population: the demographic ratio for all schemes went from 6.616 in 1987 to 4.6 in 2006 (source: CNSS). This ratio is expected to continue dropping to reach 3.72 in 2012.

Table 2. Tunisia's Pension System

	CNRPS	*CNSS*				
		RSNA	*RSAA*	*RSA*	*RTNS*	*RTTE*
Retirement age	*60 years*				*65 years*	
Minimum contribution	*15 years*	*5 years*	*10 years*			
Contribution rate	*(7/9.7)%*	*(4.74/7.76)%*	*(2.5/5)%*	*(1.75/3.5)%*	*-/7%*	*5.25%*
Pension calculation	*2% for the 10 first years, 3% for the second 10 years and 2% after*	*4% for the 10 first years, 2% for the 20 years after*			*3% for the 10 first years, 2% for the 25 years after*	
Minimum Benefits	*2/3 of the Minimum Guaranteed Wage in Industry (MGWI)*		*50% of Minimum Guaranteed Wage in Agriculture (MGWA)*	*40% of the MGWA*	*30% of MGWI or MGWA*	

Source: M. Ben Braham (2008), «Pension Systems Generosity in North Africa », Networks Financial Institute (NFI), Working Paper No. 2008-WP-06

We shall finally note that the number of insured went from 900,745 in 1987 to 1,510,179 in 1996. Moreover, the rate of cover was of 77% in 1996 and the number of recipients of disability pensions, retirement pensions and survivor pensions almost doubled to reach 339.207 the same year.
In 1987, expenditure on retirement pensions rose to 161 million DT; in two decades it multiplied by 11 rising to 1.880 million DT in 2006.

3.2. Health Insurance coverage

Tunisian health infrastructures offer good quality services, and are divided into three sectors:

- √ The public sector which is the principal person health care provider. It possesses more than 88% in bed-capacities and more than 60% of the medical personnel.
- √ The para-public sector with 6 polyclinics.
- √ The private sector which gains in importance and which accounts for 12% of the total bed-capacity and 70% of high-quality services. Private clinics are primarily concentrated in major urban zones, of which half in the capital.

Tunisia follows a health policy which aims at ensuring access to care for all the population. Thus more than 80% of the Tunisian population has access to health care either within the traditional framework or through a program of medical assistance. Moreover, health expenditure per capita increased by more than 50% between 2001 and 2008.

To types of health coverage exist for the 7 million (71% of the population):

- √ The CNSS (Caisse Nationale de Sécurité Sociale) covers 1.950 million private sector affiliates,
- √ The CNRPS (Caisse Nationale de Retraite et Prévoyance Sociale) covers approximately 0.746 million employees and retired of the public sector.

The poorest individuals are covered by special programs of medical assistance. The most deprived receive coverage through the AMG1 (free care) in the public sector while the most vulnerable are covered by the AMG2 (cheaper care).

3.3. Programs of Price Subsidies

In Tunisia, the Caisse Générale de Compensation (created in 1970) has the objective of stabilizing the fluctuation in prices of basic food products, maintain the purchasing power of households to a stable level and encourage national production.

Since its creation, the expenditure of the Tunisian CGC increased from 1.3 million dinars in 1970 to 203 million dinars in 2003 (0.6% of GDP). Subsidized products include bread (450 grams), baguette (250 grams), semolina, seed oil in bulk, conditioned seed oils. Prices of subsidized products are fixed by the administration and are periodically adjusted in order to mitigate the effect of cost increases in production factors, world prices and the value of the US dollar. Since 1970, the budgetary costs of subsidies have not ceased growing, from 1.3 million to 700 million DT.

In the Tunisian finance law of 2008, subsidies on basic commodities are estimated at 700 million dinars. For the Tunisian government, even if the CGC remains an undeniable social conquest, an important mechanism of welfare transfer, the blaze in oil prices and food products is a considerable weight on the GCC budget: subsidies on hydrocarbons went from 942 million dinars in June 2007 to 2.458 million dinars in July 2008. This explains why, in June 2008, milk has ceased being part of the CGC.

Table 3. Health expenditure per capita (US $)

2001	*119*
2002	*121*
2003	*141*
2004	*155*
2005	*158*
*2006**	*168.3*
*2007**	*176.8*
*2008**	*185.3*

Source : World Bank

In an effort to combat a high inflation rate led by the soaring food prices, the Tunisian government seeks to increase domestic production and subsidies while at the same time maintaining its budget deficit at reasonable levels (with a 3% target).

Since independence, Tunisia is one of Mediterranean countries that has developed its social protection system the most. It thus constitutes an important advantage in a period of bad conjuncture. Nonetheless, the system operates on the basis of formalization and thus has difficulties in covering all branches of the population, especially those in informal employment or in specific cases of destitution. Moreover, while it consolidates the middle-class, it has little to offer in ameliorating the situation of the poorest (see poorest quintile share in growth). This has a double consequence, from one hand, it becomes imperative to control the current increase in unemployment for the system to become sustainable, from the other hand, affirmative actions targeting the most vulnerable populations should keep being developed.

Notes :

1. Press release of the governor of the tunisian Central Bank, April 09.
2. Elkhadra.Over-Blog, http://elkhadra.over-blog.com/article-16577632.html
3. See http://www.femise.org/en/2008/12/conferences/workshop-sur-les-politiques-monetaires-et-la-cible-dinflation-24-25-octobre-2008-tunis-tunisie/
4. «Tunisie-France 2009, année de l'aéronautique ?», http://www.webmanagercenter.com.tn/management/article.php?id=66378

Turkey : A growth rate plummeting in a context of unemployment and inequalities.

Since 2002, Turkey has been following a new model of growth becoming the example of an open and dynamic economy which succeeded in integrating the international economy. Its case vis-a-vis world recession resembles more the one of its European neighbors than that of South Mediterranean economies. Growth is characterized by a strong acceleration in productivity which goes beyond simple economic convergence. Moreover, the productivity increase was carried out by the means of total factor productivity, which essentially signifies a technological progress and important economies of scale.

The reform in firms taxation, the new labor regulation and amendments on the trade law constitute independent measures introduced to change the model of growth, increase competitiveness and instigate employment. The mode of Turkish growth now rests upon structural modifications of the economy and conceals two considerable assets: a service sector in full development (trade, tourism) which represents a little more than half of GDP (50.5% in 2008), and a competitive manufacturing industry (especially in the case of textiles). The country thus relied on its vast tourist potential, which makes tourism the first source of revenue for the economy, and was able to develop its clothing industry which today is one of the most competitive worldwide.

However, recorded growth rates have been irregular (5.8% in 2003, 8.4% in 2005 then 4.7% in 2007) and the high levels of productivity actually hide great vulnerabilities. Unemployment is above 10%, wealth is very unequally distributed, only 10% of SMEs (SMEs account for 65% of activity) are localised in the East and South-east of the country and the informal economy represents about half of GDP and 40% of employment [1]. The policy strategies of the economy must take into account all these elements to increase economic resilience through an adapted monetary policy which reduces inflation (10.1% in 2008), a solidified banking system, an exchange rate policy which allows for absorption of shocks and a clear budget policy which can reduce debt.

Turkeys' opening also means that the country is fully hit by the crisis. Economic growth is plummeting (1.1% in 2008 and -4.5% expected in 2009). Financial deterioration, export potential decrease to developed economies and the increase in social risks are all problems Turkey will have to face and solve as fast as possible.

The following points give an overview of the current macroeconomic situation :

√ The low growth-level is driven by export demand and public consumption. The advantage of a devaluated currency which renders products attractive to foreign consumers is counterbalanced by the economic deterioration in EU countries.

√ Expected plummeting in exports revenues, tourism activity and workers remittances for the year to come will have additional unfavorable effects on the country's external sector. The service sector, which has been a constant engine of growth in current years, will be specially affected.

√ Imports expenditures shall substantially decrease (by almost 16%), which will bring the current account deficit to decrease in 2009 (reaching -0.7% of GDP).

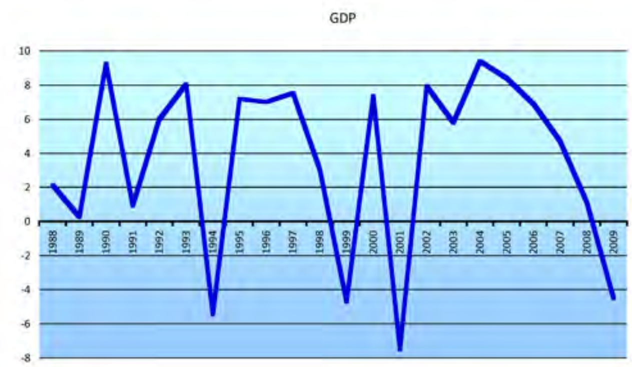
√ FDI stood at $17.718 billion in 2008, down 19.6 percent from 2007. This trend continue in 2009, as FDI massively decreased by a 12 month rate of 52.2% in January-May 2009. The challenge for Turkey resides in its capacity of retaining the confidence of investors which has been fragilized in the past. In doing so, the country should seek to remove bureaucratic obstacles to private-sector investment and efforts will be fruitful if the country diversifies its investment base.

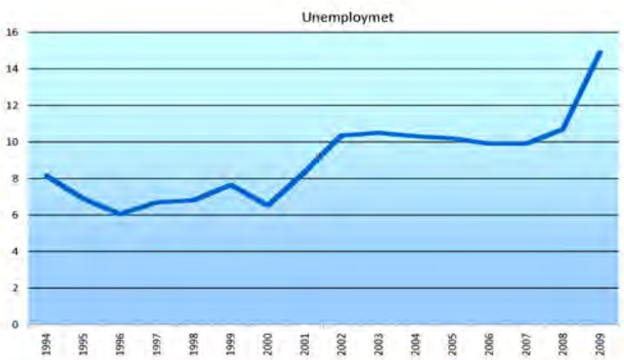
√ In terms of public expenditure, the government has already increased taxes indirectly in 2007 as well as adjustment in the price of electricity in an attempt to reach an excess of 5.5% of GDP in 2008. Due to the crisis and the deterioration of the economy's activities, a deficit of 1.8% of GDP was rather reported, which is expected to reach 5.6% in 2009. Hence, an additional budgetary effort should be needed, which would however contradict public and private investment needs.

√ The current monetary policy is unable to obtain tangible results. The international context of prices of agricultural food products and oil rising has once againg increased inflation. Whereas the rate of the latter has always been below forecasts with an implicit targeting regime, the opposite case characterizes the current explicit system in which targets have been missed in all cases.

√ The Turkish social security system, which functions by distribution, is characterized by weak coverage of the labour force (only 42% of the labour force contributes to social protection, in other words only 11 million people) and an important fragmentation. Its recent reform aims at reducing costs (profit estimated by the IMF at 75% of 2007 GDP in current value) [2].

√ Inefficient price-subsidies in targeting the poor was replaced by Direct Income Subsidies (DIS). As this policy has not resolved the existing





structural problems of agriculture, its effect was somewhat limited.

1. The shock: Reduction of exports, remittances and investment outflows profoundly affect the economy

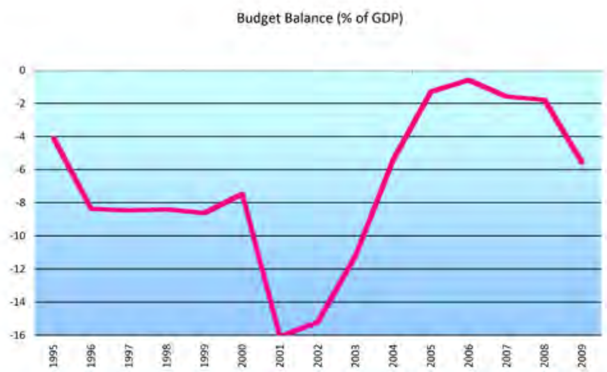
Turkey is the one country from the South Med region (and to some extend Israel) that is severely affected by the crisis. GDP growth rate decelerated to 1.1% in 2008 versus 4.7% in 2007. The impact of the crisis on the Turkish economy will be no different from the remaining south Med countries, and will be transmitted through the four channels: mainly by exports, remittances and FDI while tourism forecasts show some resilience.

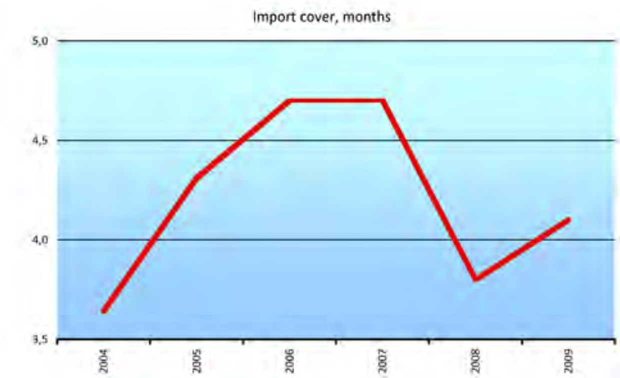
1.1. Economic growth has contracted in 2008 especially due to the massive reduction of the gross-fixed capital formation.

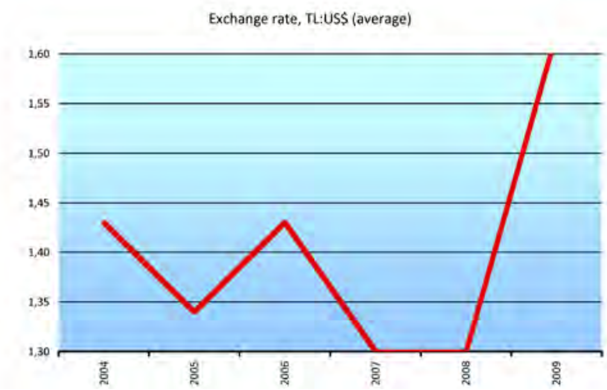
Real GDP growth and per capita GDP have traditionally been consistent with the evolution of industrial and service activity. The service sector represents slightly more than half of GDP (50.5% in 2008) followed by the industrial and agricultural sectors (respectively 35.1% and 9.1% of GDP in 2008). Nevertheless, agricultural production still overly depends on weather conditions, harvest saw a significant increase during 2008 while the prior year was plagued by a relentless drought; the sector simply cannot constitute a trustworthy source of growth with such conditions. Industry will thus be a key element in growth sustainability in this critical year and boosting public and private investment in high value added sectors should be the way to go.

The industry sector is thus key in growth sustainability during this critical year and the increase in both public and private investment in high value-added sectors must be preserved.

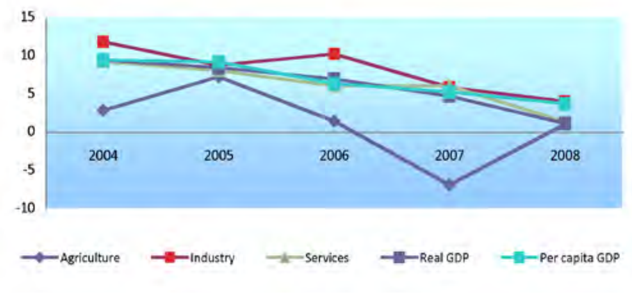
The key industries in Turkey are textiles, iron and steel, chemicals, cement, food processing, motor vehicles, construction, glass and ceramics, and mining. The automotive and textile sectors should be on the top of the government agenda in terms of







Sectoral growth and GDP evolution(%)



Source : EIU

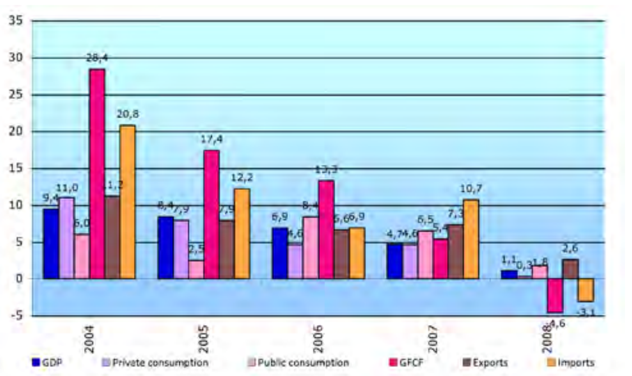
public expenditure and support. The former sector appears to be closely integrated with the EU and thus is overly dependent on foreign demand trends while the latter sector is in need of additional restructuring towards production of higher value-added goods.

Also, the construction sector, which is of the economy's key sectors and driving forces have witnessed a slowdown in 2008. In the first quarter of 2008, the number of new buildings decreased by 13% compared to the same quarter of the previous year. By the third quarter of 2008, the sector shrank by 4.3% due to the eruption of the global financial crisis.

1.2 Impact on the Balance of Payments

Turkey is in cross-roads in the sense that all its economic privileges seem to be counterweighed by current developments. The advantage of having a devaluated currency which allowed Turkish goods to be more attractive to foreign consumers will be

GDP decomposition and economic growth



Source : EIU

offset by the anticipated economic deterioration in the European Union.

The deceleration in private consumption (growth of 0.3% in 2008 versus 11% in 2004) has been usually compensated by strong export growth. Traditionally, more than half of Turkish exports are destined to the EU, especially Germany. They are mostly composed of manufactured goods (93.4% in 2007) and more precisely automobile goods.

The climate is all but euphoric since goods exports have been falling by 30.2% in January-May 2009 compared to the same period in 2008. The crisis impact on the real economy through reduced Turkish exports originates from an important reduction in import demand from the developed trading partners, especially from Europe. The share of exports to the EU went from 55.8% in the latest quarter of 2007 to 45.2% twelve months later (equivalent to a value drop of 29.8%) mostly due to the reduced share of exports towards the UK and Italy (drop of 37.2%). Also, exports to Russia and China were met with a decrease in value of 7.7% and 10.4% respectively. In 2009, exports are expected to decrease by 25.2% compared to 2008, whereas imports will increase by 16%. This will bring the trade balance deficit to shrink.

Tourism revenues represented approximately 5% of GDP in 2007. Between 2000 and 2007, the number of tourists visiting turkey increased four times, which made Turkey one of the 10-top destinations worldwide. In order to attract tourists, extreme prices cuts were applied to enhance tourist activity. This procedure saved tourism revenues which increased in 2008 by 18% compared to the prior year (13.6% due to an increase in the number of visitors and 4.9% due to the rise in average spending per visitor). Furthermore, tourism revenues remained resilient in the latest quarter of 2008 compared to the same period in 2007. However, due to these prices cuts, while the number of tourists could augment, the profits might not follow. For the time being, tourist activity in the same time-frame (Jan-May 2009 vs Jan-May 2008) is diminishing, though faintly at -5.5%. The Minister of Tourism is expecting tourism revenues to increase by 10% by the end of 2009. However, due to recent price reductions, receipts could fall even if the number of tourists increases.

Workers remittances mark a year on year decrease of 41.5% compared to the first five months of 2008. It is to note that over 2 million Turkish workers have migrated for employment throughout Europe. Turkish migration has mainly been directed to Western Europe and especially Germany, since the early 1960s. In view of the socio-economic turmoil remittances are anticipated to go back to low levels following job-losses in European countries.

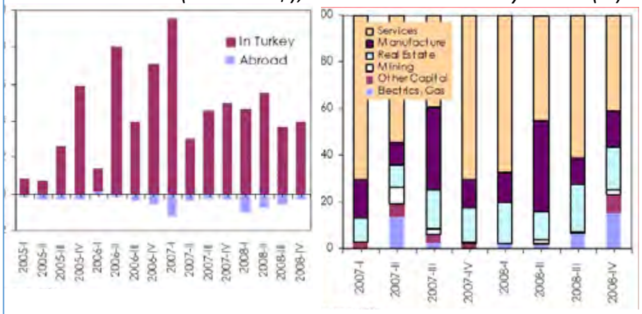
Given this global picture of foreign account, the current account deficit is expected to decrease from -5.7% of GDP in 2008 to approximately -0.7% in 2009, according to EIU forecasts which are based on projections of data from the Central Bank of Turkey.

1.3 Impact on FDI

Direct investment in Turkey appears reduced in the latest quarter of 2008 when compared to the same period a year ago and even more so when compared to its level in 2006. In fact FDI stood at $17.718 billion in 2008, down by 19.6 percent from 2007. This trend continues in 2009, as FDI decreased substantially by 52.2% in January-May 2009 (Central Bank of Turkey) compared to the same period in 2008.

At the sectoral level, a marked year-on-year decrease in the share of investment in services is immediately noticeable during the last quarter of 2008, a share that has primarily been directed to the energy sector. Services still had the largest share in FDI for 2008, nonetheless, this is principally due to the prevalence of the banking sector, and thus, the decline in investment in services could be largely attributed to the sub-sector in question.

Direct Investment (billion US$), Inward FDI by sector (%)



Source : Central Bank of Turkey

2. Therapy: How can the economy overcome the crisis in 2009?

2.1 Budgetary stance and public debt

The Central Bank and the IMF have asked the government to restore a more rigorous budget policy. The government announced indirect increases in taxes as of November 2007 and a price increase in electricity, the objective being to reach a budget surplus of 5.5% of GDP in 2008. Unfortunately, this has not been the case and the country recorded a budget deficit of 1.8%. This deficit should grow even further in 2009 reaching 5.6% of GDP, which brings turkey close to the levels reached during its financial crisis in 2001.

Turkey's $10 billion 3-year agreement with the IMF arrived to expiration which meant the removal of a massive source of financing. In that respect Turkey will have to route for additional fiscal reform to meet the IMF criteria and more particularly reduce the government deficit. A consensus should be found between the IMF and Turkey on whether or not the primary surplus target of 3% is plausible and on how the country can contain public spending in such harsh times for the domestic economy.

Moreover, the European Commission announced recently that it will provide Turkey with some financial aid in order to help secure investment in the domestic economy, reform the banking sector as well as contribute in improving the economic competitiveness.

2.2. Monetary Policy : Fighting inflation, need to coordinate budgetary and monetary coordination

Towards the end of 2005, the default risk was quite lower than it was in the past. The budget was practically balanced, national debt at a manageable level and inflation below the implicit target. Nevertheless, in 2006 Turkey migrated towards explicit targeting of inflation. From 2006 to 2007, inflation went above the 10% bar due to the joint effect of a rigorous monetary policy and a slacking domestic demand. But the international context of prices rising in agricultural food products and oil, relaunched global price increase. Whereas the rate of the latter has always been below forecasts with an implicit targeting regime, the opposite case characterizes the current explicit system in which targets have been missed in all cases. Several factorss explain the deviations: the way in which the governor of the BCT was replaced raised questions as to the independence of the latter, political division increased, and the high energy and foodstuffs prices combined with an upward trend in prices of metals all resulted into a modification of the inflation target in 2008 from 4% to 9.3%. Once again, this target could not be reached and inflation climbed to 10.1%. It is also possible that the traditional links between monetary aggregates and inflation were weaker than initially thought due to the introduction of new financial assets, financial deepening and a more open capital-account. Whatever the case, Turkey appears to be missing essential margins for maneuvering necessary during skyrocketing foodstuffs prices, which should lead the authorities to rethink their explicit targeting choice.

Regarding the economic situation, a reduction of the "overnight" rate by 75 bass points (to 9.75%) was presented as a response to the 23.7% fall in industrial activity recorded in February (compared to February 2008) and to the significant progression of unemployment which reached 15.5% in April 2009 (EIU).

2.3 Fighting unemployment

Over the 1980-2002 period, the annual growth rate of GDP averaged 4% whereas the median rate of employment growth was of 0.8%. Later on, over the 2002-2006 period , the average rate of growth of 7.5% left unemployment unchanged around the 10% mark. A strong economic growth associated with limited job creation implie productivity growth detrimental to employment and/or insufficient vis-a-vis the active population increase. At the firm level, the consequence was that "the fear of unemployment replaced the fear of inflation"[3]. The current conjuncture will only reinforce this trend due to the fact that unemployment has progressed strongly. It is thus expected that the latter increases from 10.7% of the active population in 2008 to 14.9% in 2009 (EIU).

Turkey must imperatively accelerate the transformation of its employment structure in a pressuring demographic context. Between 2000 and 2006, the growth rate of the nonagricultural population was of 3.4% per annum. Moreover, the natural rate of growth (difference between birth and death rates) is of 1.3% and the activity ratio of women is growing which explains an average progression of the female active population of more than 5% in more than a decade [4].

Moreover, to be able to create jobs, Turkey must imperatively improve education and youth vocational training. Schooling rates are lower than in Europe which can be explained by premature abandonment of studies by an important percentage. In addition, the rate of schooling for girls remains lower than that of boys (60.6% versus 71.3% in 2006).

Finally, concerning wages, the last years will be remembered by a number of wage austerity measures in the context of the IMF's stabilization program which resulted in real wages decreasing over the 2003-2006 period (in spite of a 40% rise in minimum wages in 2004). That being said, 2007 was the year such rigour was relaxed due to the upcoming elections.

2.4 Efficiently orienting investment

Due to recent election, the Turkish government showed restraint towards the IMF pre-requisites which in turn delayed agreement and further discouraged domestic and foreign investors in the already slow-moving economy. We shall note that despite increased attractivity in terms of FDI in the 2000s, Turkey shall quickly find a way to attract more flows to resist the crisis and remedy structural deficiencies, especially with regards to employment. To this end, additional reforms in investment conditions will be vital to entice domestic as well as foreign investors in specific sectors. Nevertheless, investment expenditure shall not act as an adjustment variable (which was the case in previous years) but as an active one instead, capable of remodeling existing infrastructure through the creation of new projects.

In that respect, Turkish firms have all to gain by looking for business opportunities abroad, through cost-efficient strategies to further boost the Turkish presence in foreign markets. In the meantime, the government should stimulate the domestic key sectors: textiles, automotive and construction by initiating more public infrastructure investments. Furthermore, the Treasury is presently seeking to remove bureaucratic obstacles to private-sector investment and efforts will be fruitful if the country diversifies its investment base to counterbalance the recent lack of vigor in US and European investors. Naturally, textiles and the automotive sector are also implicated by such measures. The latter in particular is in need of a rescue plan. The fading consumer demand along with an export-potential to the EU drastically dwindling has already made car producers postpone production for limited periods. The sector is expected to shrink by at least 15% in 2009 following an already sharp decline in demand in the last three months of 2008.

As for the textile sector, the sector has proven to be particularly resourceful in terms of growth, devoting a consequent share of government spending in the sector should always be a main concern. Investment opportunities allowing for sectoral renovation towards high-value products will be a key in allowing Turkey to suffer the least possible harm during the crisis fallout. Industrial output figures for December 2008 depicted a 25.9% output decrease in the textile sector.

To that extent the authorities already proceeded to a reduction in lending rates by 3.75% in a timespan of three months and should keep introducing such welcome initiatives which serve as a stimulus to domestic production.

3. Could the existing Social Protection Policies help cushion the effect of the crisis on the population?

3.1. Social Security systems in Turkey

The Turkish social security system, which functions by distribution, is characterized by weak coverage of the labour force (only 42% of the labour force contributes to social protection, in other words only 11 million people) and an important fragmentation (see table below).

The majority of the labour force belongs to *Sosyal Sigortalar Kurum* (SSK) which covers workers of the private sector and contractual workers of the public sector. This scheme gathers 48% of the labour force. As for civil servants they contribute to th *Emekli Sandigi* (ES) and account for 22% of contributing labour force. In addition, free-lancers and agricultural workers belong to the *Bag-Kur* (BK) which accounts for 8% of contributors.

As for recipients, only 29% of the population of more than 65 years receives a retirement pension (1.2 million people), including 47% by the SSK, 18% by the ES, 30% of BG free lancers and 5% of the agricultural BG.

The Turkish economy also has one of the highest levels of taxation on labor among OECD countries along with low job creation and a high share of workers in the informal economy. Employment subsidies were also put in place through a series of regional plans, specifically through Law 4325 in 1998, Law 5084 in 2004, and Law 5350 in 2005, to increase investment and employment in low-income zones.

In addition, an unemployment insurance scheme was set up in June 2000 for employees who lost their job involuntarily, after contributing at least 600 days and worked during the 120 days preceding interuption of their contract. The unemployment pension is given during 180 days for a 600 day contribution, 240 days for a 900 day contribution and 300 days for a 1.080 day contribution. In May 2006, the Parliament adopted a reform of the system, however, the new system shall come into effect in 2016 and only concern new entrants.

3.2. Healthcare

The Turkish health system is also characterized by an important fragmentation, both regarding financing and healthcare provision. Health services are provided by a vast array of public and private actors, the main ones being the ministry of health, the SSK and university hospitals. Healthcare provision by private centers, although limited, constantly gains in importance, especially in the urban zones and the Western part of the country. Various health insurance packages provide financial protection to targeted groups:

- √ Health insurance through the SSK (employees of the formal sector) is the most important,
- √ The Bag-Kur scheme concerns free lancers (rural population and informal sector),
- √ Insurance through the ES covers retired civil servants
- √ Finally, we shall note the existence of optional private insurance schemes.

In 1992, the Turkish government introduced the system green card system with the aim of providing social protection to people with low-incomes by offering free access to medical and hospital care. There are currently 11 million green card hol-

Table 1 : Social security in Turkey

	SSK	*BK indep. workers*	*BK (agric.)*	*ES*
Retirement age	*58/60*	*58/60*	*58/60*	*58/60*
Contribution	*19.4 years*	*25 years*	*25 years*	*25years*
Replacement rate	*54%*	*65%*	*70%*	*75%*
Pension calculation	*Average income*	*Average income*	*Last income level*	*Last wage*
Contribution rate	*20%*	*20%*	*20%*	*20%*
Wage indexing on inflation	*Yes*	*Yes*	*Yes*	*Yes*

Source : Turkey Joint Poverty Assessment Report, World Bank, 2005.

On Turkish employment subsidies

Two types of employment subsidies exist: General subsidies that apply to all workers and establishments and specific subsidies that cover only certain types of workers (ex. low-wage, women, youth) or certain sectors of employment. In Turkey, the subsidy schemes included four distinct instruments: a decrease in employers' social security contributions, credits on income taxes on wages, subsidies on electricity consumption and land subsidies.

All provinces with per capita GDP of $1500 or less (in 2001) and provinces designated as priority development regions were covered for an estimated time span of five years. Under Law 5084, only new registered employment was subsidized, firms located within industrial zones were fully subsidized while those outside industrial zones received compensation for only 80% of social security contribution. Subsidy programs are believed to have lead to important increases in employment (despite high cost of job creation) in eligible provinces ranging from 5%-13% for the subsidy scheme under Law 5084 and from 11%-15% for Law 5350.

ders. This program, whose weight for public finances is rapidly increasing, hardly achieved its goal of coverage to all poor since 58% of people living below the poverty line and 2/3 of the extremely poor are yet to receive medical cover. Moreover, 2/3 of green card holders are not poor. For the last 20 years, many efforts have been provided to extend the health network and ensure equal access to services through the country. In spite of some progress, the health network remains largely unequal with important inequalities through regions regarding access to the care and medical conditions. Facing weak health insurance coverage (in 2001/02, more than 1/3 of the population was without access to healthcare, including to green card access), the Turkish government seeks to set up a universal health insurance based on the principles of solidarity and risk grouping to cover the entire population

3.3. Programs of price subsidies

In Turkey, food subsidies were present in the agriculture industry for many years. However, the applied policies were inefficient in targeting the poor and the weight on public resources translated into their abandonment and replacement by Direct Income Subsidies (DIS). The latter were introduced in 2000 in limited cities and were applied throughout the country in 2001, their share increased to 53 percent in 2002, and 78 percent in the following years. However, as noted by Nuray Kizilaslan et al (2007) « the replacement of all subsidization tools with the DIS system without resolving the existing structural problems of agriculture has not been rational"[6].

Notes :

1 : http://www.ladocumentationfrancaise.fr/dossiers/europe-turquie/economie-turque.shtml

2 : International Monetary Fund (2008) IMF Country Report No. 08/272, Août.

3 : World Bank (2008), Human Development Report 2007/2008, Fighting climate change: Human solidarity in a divided world.

4 : Turkish Industrialists and Businessmen's Association (Tusiad) at www.tusiad.org

5 : Turkey Joint Poverty Assessment Report, World Bank, 2005.

6 : Nuray Kizilaslan, Ilyas Cetin and Halil Kizilaslan (2007) Direct Income Subsidy Practices in Turkey, Australian Journal of Basic and Applied Sciences, 1(2): 115-125.

LISTS OF ANNEXES

Annex 1.1 : Periods covered in Table 4a, by country and transmission channel

	Goods exports	*Goods imports*	*Tourism (value)*	*Remittances*	*FDI*
Algeria	*Q1 2009 VS Q1 2008*	*Q1 2009 VS Q1 2008*	*2008 VS 2007*	*n.d*	*2008 VS 2007*
Egypt	*July-March 08/09 VS July-March 07/08*	*July-March 08/09 VS July-March 07/08*	*Q1 2009 VS Q1 2008*	*Q1 2009 VS Q1 2008*	*July-March 08/09 VS July-March 07/08*
Israel	*March 09 VS March 08*	*Q1 2009 VS Q1 2008*	*March 09 VS March 08*	*Q4 08 VS Q4 07*	*Q4 08 VS Q4 08*
Jordan	*March 09 VS March 09*	*March 09 VS March 10*	*April 09 VS April 08*	*April 09 VS April 09*	*Q4 08 VS Q4 09*
Lebanon	*May 09 VS May 08*	*May 09 VS May 08*	*Q1 2009 VS Q1 2008*	*-34.90%*	*2008 VS 2007*
Morocco	*May 09 VS May 09*	*May 09 VS May 09*	*1st sem. 09 VS 1st sem. 08*	*2nd sem. 09 VS 1st sem. 08*	*3rd sem. 09 VS 1st sem. 08*
Palestine	*n.d*	*n.d*	*n.d*	*n.d*	*n.d*
Syria	*n.d*	*n.d*	*2008 VS 2007*	*n.d*	*2008 VS 2007*
Tunisia	*Q1 2009 VS Q1 2008*	*Q1 2009 VS Q1 2008*	*Jan-Apr 09 VS Jan-Apr 08*	*Q1 2009 VS Q1 2008*	*Q1 2009 VS Q1 2008*
Turkey	*Jan-May 09 VS Jan-May 08*	*Jan-May 09 VS Jan-May 09*	*Jan-May 09 VS Jan-May 10*	*Jan-May 09 VS Jan-May 11*	*Jan-May 09 VS Jan-May 12*

Sources	*Exports/Imports*	*Tourisme*	*Remittances*	*FDI*
Algeria	*Centre national de l'informatique et des statistiques des Douanes*	*Emarrakech.info*	*n.d*	*Agence nationale pour le développement de l'investissement, ANDI*
Egypt	*Central Bank of Egypt*	*REUTERS*	*Central Bank of Egypt*	*PAPERBLOG.fr*
Israel	*Bank of Israel*	*CBS.gov*	*Central Bureau of Statistics*	*Central Bureau of Statistics*
Jordan	*Central Bank of Jordan*	*MENAFN*		*Central Bank of Jordan*
Lebanon	*Lebanese Ministry of Finance*	*Travel Daily News*	*Central Bank of Lebanon*	*Central Bank of Lebanon*
Morocco	*Bank Al-Maghrib*	*Ministere de l'Economie et des Finances*	*Ministere de l'Economie et des Finances*	*Ministere de l'Economie et des Finances*
Palestine	*n.d*	*n.d*	*n.d*	*n.d*
Syria	*n.d*	*FMI*	*n.d*	*ANIMAWEB*
Tunisia	*Central Bank of Tunisia*	*ECONOSTRUM*	*Central Bank of Tunisia*	*tunisiaonlinenews. com*
Turkey	*Central Bank of Turkey*	*n.d*	*Central Bank of Turkey*	*Central Bank of Turkey*

Annex 2.1 : Methodology in calculation of statistics and trade indicators

Data on goods trade is taken from the COMTRADE database (1-digit data from the SITC rev3). Since certain countries such as Syria (2007) and Lebanon (2005 to 2007) have not declared their trade in some years, we have estimated the value of their imports and exports through « mirror data », in other words the data their partners have declared, declarations of imports (exports) of all partners being an estimation of the country's exports (imports). In order to avoid errors caused by the difference between caf and fob values, we have proceeded in a two-step manner :

√ *In a first step, we have calculated the growth rate between the missing year and the year preceding the missing year.*

√ *In a second step, we have applied this growth rate to the data declared that year.*

The calculation of intrabranch trade, sectoral trade and technologie intensive goods trade was conducted with the use of SITC rev3 data of 5dgs by applying suggested nomenclatures from the center of international trade for sectors and the nomenclature of technological levels suggested by Yvonne Wolfmayr-Schnitzer (WIFO).
The indicator of contribution to the balance (CB) offers a representation of countries' specialization founded on highlighting their advantages and disadvantages.

$$CS = \frac{1000}{Y_i}\left[(X_i^k - M_i^k) - \sum_k \left(X_i^k - M_i^k\right)\left[\frac{X_i^k + M_i^k}{\sum_k (X_i^k + M_i^k)}\right]\right]$$

X_i^k = exports of product k from country j

M_i^k = imports of product k from country j

Yi = GDP of country i

It compares the actual balance for a product to the one that should be observed if no specialization occured. In other terms the weight of each product in the country's X+M yields a coefficient that is applied to the global balance of the country and represents the theoretical balance without specialization. The indicator of contribution to the balance CB is obtained by the difference between real and hypothetical balances. A positive CB is a comparative advantage and a negative CB is a comparative dissadvantage. We ajust CBs to avoid size effects and render our indicators comparable. They are normalized to 100 and the indicator varies between -100 and +100.

Annex 2.2 : Openness rate (X+M) in MPs

	1990	1995	2000	2005	2006	2007
Algeria	7%	48%	57%	65%	65%	61%
Egypt	34%	25%	21%	34%	32%	34%
Israel	52%	53%	57%	71%	67%	68%
Jordan	91%	81%	63%	116%	118%	121%
Lebanon	67%	50%	36%	53%	54%	55%
Morocco	41%	40%	57%	62%	55%	63%
Syria	30%	61%	43%	55%	67%	70%
Tunisia	73%	74%	71%	83%	86%	98%
Turkey	23%	34%	41%	52%	42%	42%
MPs9	35%	42%	45%	58%	51%	51%

Source : Comtrade – Calculations N. ROUX

Annex 2.3 : Commercial balances - Total trade of MPs (in million dollars)

Partner	MP	1 990	1 995	2 006	2 007
World	Algeria	4 350	-1 426	33 157	32 532
	Egypt	-5 977	-8 295	-6 911	-10 828
	Israel	-3 272	-8 994	-1 043	-2 528
	Jordan	-1 540	-1 928	-6 280	-7 831
	Lebanon	-1 347	-4 680	-8 916	-7 076
	Morocco	-894	-3 822	-10 768	-17 043
	Syria	58	-537	-569	-3 109
	Tunisia	-1 978	-2 428	-3 103	-3 934
	Turkey	-9 341	-14 109	-53 055	-62 844
	MP9	-19 941	-46 218	-57 487	-82 661
Rest of the World	Algeria	1 332	-1 014	14 149	18 391
	Egypt	-4 321	-5 499	-6 915	-10 128
	Israel	-1 104	-406	4 660	2 857
	Jordan	-751	-710	-3 281	-4 140
	Lebanon	-599	-1 461	-4 878	-3 577
	Morocco	-503	-1 830	-6 988	-9 755
	Syria		-1 088	-3 540	-6 323
	Tunisia	-904	-991	-1 957	-3 498
	Turkey	-7 499	-8 599	-45 240	-54 275
	MP9	-14 351	-21 598	-53 990	-70 448
EU	Algeria	2 902	-326	17 419	12 605
	Egypt	-1 548	-2 985	149	-1 163
	Israel	-2 221	-8 520	-5 411	-5 245
	Jordan	-727	-1 084	-2 351	-2 851
	Lebanon	-709	-3 059	-3 390	-2 800
	Morocco	-490	-1 860	-2 731	-5 477
	Syria	154	500	2 487	2 111
	Tunisia	-970	-1 317	-1 002	-27
	Turkey	-2 002	-5 786	-9 484	-9 163
	MP9	-5 612	-24 437	-4 314	-11 789

Source : Comtrade – Calculations N. ROUX

Annex 2.4 : Share (in %) of MPs trade with the EU

	Exports			Imports			X+M		
	1995	2000	2007	1995	2000	2007	1995	2000	2007
Algeria	65%	63%	43%	59%	57%	49%	62%	61%	45%
Egypt	46%	27%	28%	39%	42%	21%	40%	38%	24%
Israel	32%	27%	26%	52%	44%	35%	44%	36%	31%
Jordan	8%	5%	3%	33%	35%	22%	25%	28%	16%
Lebanon	23%	20%	15%	61%	45%	36%	57%	42%	33%
Morocco	62%	75%	70%	56%	58%	50%	58%	64%	56%
Syria	70%	69%	40%	47%	47%	14%	57%	59%	24%
Tunisia	79%	80%	79%	71%	70%	63%	74%	74%	70%
Turkey	51%	52%	24%	47%	49%	20%	49%	50%	22%
MP9	50%	49%	34%	51%	49%	30%	51%	49%	32%

Source : Comtrade – Calculations N. ROUX

Annex 2.5 : Trade in services of the EU25 with MPs by sectors (in millions of euros)

			2003	2004	2005	2006	2007
Exports	Total services	MPs	15 445	14 411	15 926	17 189	18 713
		Turkey	3 285	3 761	4 525	5 627	6 299
	Other business services	MPs	4 357	4 620	4 802	5 309	5 349
		Turkey	792	1 167	1 284	1 858	2 008
	Transport	MPs	3 852	3 881	4 590	4 632	5 109
		Turkey	1 017	1 119	1 433	1 576	1 696
	Travel	MPs	3 448	2 522	2 705	2 612	2 828
		Turkey	612	599	781	862	926
	Services exc. Travel	MPs	11 997	11 889	13 220	14 577	15 886
		Turkey	2 673	3 162	3 744	4 765	5 373
Imports	Total services	MPs	26 640	24 263	27 497	27 761	30 573
		Turkey	8 452	9 794	11 047	10 439	11 490
	Other business services	MPs	3 276	2 594	2 873	3 299	3 983
		Turkey	628	739	758	950	1 039
	Transport	MPs	6 671	6 067	7 117	7 615	8 066
		Turkey	1 935	2 150	2 464	2 688	3 213
	Travel	MPs	13 164	12 961	14 387	13 513	14 710
		Turkey	5 302	6 283	7 123	6 077	6 321
	Services exc. Travel	MPs	13 476	11 301	13 110	14 248	15 863
		Turkey	3 150	3 511	3 924	4 361	5 169
Balances	Total services	MPs	-11 195	-9 851	-11 571	-10 572	-11 860
		Turkey	-5 167	-6 033	-6 522	-4 812	-5 191
	Other business services	MPs	1 081	2 026	1 929	2 010	1 366
		Turkey	164	429	525	908	968
	Transport	MPs	-2 819	-2 186	-2 526	-2 984	-2 957
		Turkey	-918	-1 031	-1 031	-1 112	-1 517
	Travel	MPs	-9 716	-10 439	-11 682	-10 901	-11 882
		Turkey	-4 690	-5 684	-6 342	-5 215	-5 394
	Services exc. Travel	MPs	-1 479	588	111	329	23
		Turkey	-477	-350	-180	404	204

Source : Eurostat

Annex 2.6 – Commercial balances of MPs trade by sectors (in billion dollars)

		1995	2000	2006	2007
World	Clothing	9 335	10 760	17 470	18 269
	Textiles and fabrics	-995	-1 140	-2 507	-3 987
	Processed food	-2 729	-3 200	-3 234	-4 215
	Fresh food	-4 492	-4 714	-3 579	-9 033
	Computers, telecoms	-2 531	-4 331	-6 337	-9 279
	Non-oil minerals	520	2 508	5 660	5 586
	Metals and other manuf. Prod.	-6 248	-5 193	-11 018	-13 660
	Non-electric machinery	-11 063	-11 930	-20 141	-24 170
	Transport equipment	-7 480	-10 153	-13 273	-12 742
	Leather & related products	-61	-234	-631	-946
	Electronic components	-2 821	-2 916	-4 174	-3 265
	Chemicals	-7 688	-9 782	-15 941	-19 286
	Wood, paper	-4 377	-4 437	-5 707	-6 940
	Other manuf products	-2 796	-3 129	-3 373	-3 384
ROW	Clothing	2 696	2 127	3 167	2 260
	Textiles and fabrics	-610	-240	-1 291	-2 614
	Processed food	-1 458	-1 700	-2 985	-3 516
	Fresh food	-4 496	-4 878	-5 200	-10 247
	Computers, telecoms	-1 231	-877	-4 991	-7 057
	Non-oil minerals	2 948	4 508	6 605	6 877
	Metals and other manuf. Prod.	-2 378	-2 625	-6 308	-8 908
	Non-electric machinery	-2 885	-3 195	-6 448	-8 290
	Transport equipment	-3 696	-3 164	-5 441	-5 112
	Leather & related products	-14	-220	-805	-1 087
	Electronic components	-872	-573	-2 994	-2 190
	Chemicals	-1 711	-2 040	-3 472	-5 174
	Wood, paper	-1 927	-2 011	-2 566	-3 063
	Other manuf products	-682	-809	-339	-190
EU15	Clothing	6 645	8 467	14 125	16 009
	Textiles and fabrics	-474	-1 009	-1 070	-1 373
	Processed food	-1 373	-1 560	-245	-698
	Fresh food	156	201	1 621	1 214
	Computers, telecoms	-1 312	-3 492	-1 390	-2 222
	Non-oil minerals	-2 395	-1 978	-1 109	-1 291
	Metals and other manuf. Prod.	-4 060	-2 714	-4 056	-4 752
	Non-electric machinery	-8 186	-8 644	-13 579	-15 880
	Transport equipment	-3 844	-7 068	-7 768	-7 629
	Leather & related products	-50	-34	160	141
	Electronic components	-1 989	-2 377	-1 006	-1 075
	Chemicals	-6 065	-7 885	-12 631	-14 112
	Wood, paper	-2 458	-2 459	-3 108	-3 876
	Other manuf products	-2 105	-2 384	-2 971	-3 195

Source : Comtrade – Calculations N. ROUX

Annex 2.7 : Concentration Index of MPs exports between 1995 and 2007

		1995-1999	2000-2007	1995	2000	2007
Monde	Algeria	0.52	0.58	0.53	0.52	0.66
	Egypt	0.25	0.28	0.24	0.32	0.28
	Israel	0.28	0.35	0.28	0.3	0.4
	Jordan	0.21	0.13	0.21	0.11	0.17
	Lebanon	0.1	0.09		0.12	
	Morocco	0.17	0.16	0.18	0.18	0.15
	Syria		0.55		0.34	
	Tunisia	0.21	0.19	0.21	0.21	0.18
	Turkey	0.1	0.09	0.11	0.1	0.12
	MP9	0.11	0.16	0.11	0.13	0.2
RDM	Algeria	0.62	0.73	0.64	0.62	0.79
	Egypt	0.26	0.29	0.25	0.43	0.29
	Israel	0.34	0.4	0.35	0.36	0.45
	Jordan	0.21	0.14	0.23	0.11	0.17
	Lebanon	0.13	0.11		0.16	
	Morocco	0.28	0.23	0.3	0.27	0.23
	Syria		0.17		0.3	
	Tunisia	0.19	0.13	0.19	0.17	0.14
	Turkey	0.07	0.06	0.1	0.07	0.12
	MP9	0.14	0.18	0.14	0.18	0.23
UE15	Algeria	0.54	0.57	0.54	0.55	0.61
	Egypt	0.28	0.35	0.26	0.29	0.28
	Israel	0.17	0.23	0.17	0.21	0.29
	Jordan	0.44	0.28	0.46	0.26	0.24
	Lebanon	0.17	0.14		0.19	
	Morocco	0.18	0.19	0.17	0.2	0.18
	Syria		0.86		0.5	
	Tunisia	0.25	0.23	0.25	0.26	0.23
	Turkey	0.15	0.15	0.16	0.15	0.18
	MP9	0.13	0.18	0.13	0.16	0.19

Concentration Index = degree of concentration of a country's Exports compared to the products it exports. The Herfindahl-Hirschmann index is normalized and obtained through

$Hj = [\sqrt{S(X_j/X)^2} - \sqrt{(1/n)}] /(1-\sqrt{(1/n)})$

avec Hj = Country's Index

X_j *= export value of product j*

X *= total exports of country j*

n = number of products (3 dgs of the sitc rev3 = n=239)

The Index is comprised between 0 and 1 (maximum concentration)

Source : Comtrade – Calculs N. ROUX

Annex 2.8 : Intrabranch trade indicators (manufacturing products)

		i95_99	i00_07	i1995	i2000	i2006	i2007
World	Algeria	2.56	1.63	1.7	2.22	1.74	1.26
	Egypt	7.37	14.69	6.18	6.75	13.55	15.13
	Israel	35.39	44.81	31.27	37.89	40.57	42.64
	Jordan	28.62	33.19	28.35	29.59	29.88	29.87
	Lebanon	14.81	20.41		14.58		
	Morocco	14.7	19.19	9.05	16.77	19.08	19.17
	Syria		9.52		2.76	9.93	
	Tunisia	21.41	28.07	21.16	21.57	28.13	29.17
	Turkey	25.32	33.59	21.26	27.35	21.3	25.04
	MP9	36.75	44.78	33.49	39.58	39.85	41.02
ROW	Algeria	3.27	2.01	1.58	1.85	1.37	1.39
	Egypt	8.87	14.25	6.7	7.24	15.83	15.76
	Israel	35.8	43.65	31.79	38.08	39.74	40.47
	Jordan	28.48	33.98	28.38	34.01	29.06	30.1
	Lebanon	15.82	21.2		14.58		
	Morocco	7.75	11.12	5.93	7.88	8.74	8.89
	Syria		9.06		2.23	10.41	
	Tunisia	16.31	22.35	14.42	14.37	18.72	21.18
	Turkey	27	32.49	21.33	28.76	22.35	26.07
	MP9	37.82	46.02	33.8	41.15	39.62	41.61
EU15	Algeria	0.86	0.95	0.52	1.64	1.36	1.03
	Egypt	2.67	6.25	1.85	2.2	5.02	6.38
	Israel	27.56	38.07	25.2	29.76	35.28	40.42
	Jordan	5.59	4.55	7.41	3.24	4.06	3.81
	Lebanon	5.44	5.48		5.04		
	Morocco	14.78	20.22	6.56	17.04	20.59	21.72
	Syria		2.01		0.3	2.09	
	Tunisia	20.07	25.12	19.08	19.38	25.02	26.33
	Turkey	17.1	26.24	13.48	20.13	13.72	17.03
	MP9	27.01	33.71	24.12	29.11	27.38	29.88

Source : Comtrade – Calculations N. ROUX