

Economic Challenges Faced by Southern and Eastern Mediterranean Countries

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Presentation outline

- Economic growth and macroeconomic stability
- Business climate, investment and privatization
- Infrastructure bottlenecks
- Social challenges
- Egypt's economic and social policy challenges
- Trade and economic integration – covered by the presentation of Ahmed F. Ghoneim

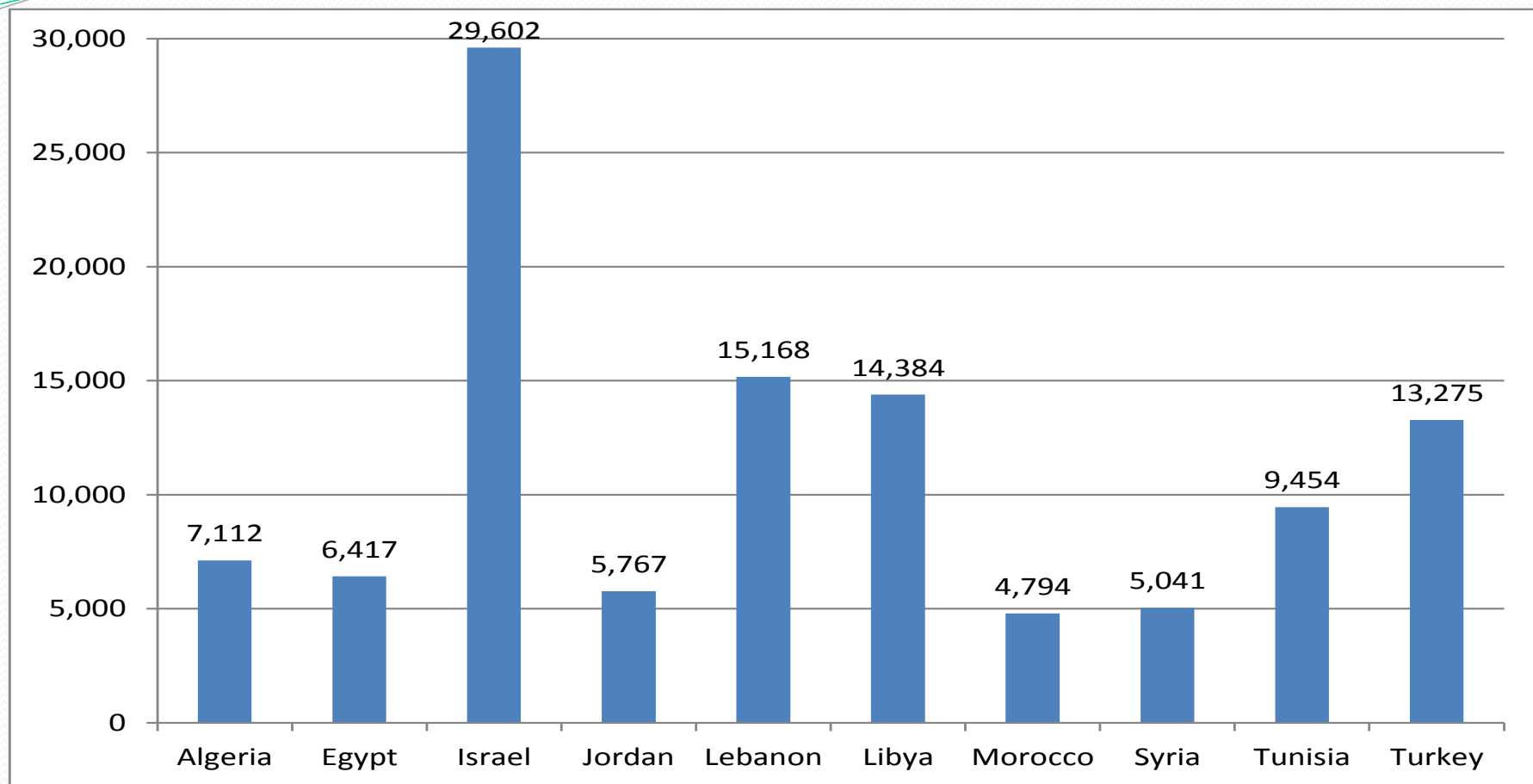


Med11: income status

- 3.3% of the world's GDP, of which 1.3% - Turkey
- Lower-middle income: Egypt, Morocco, Syria
- Upper-middle income: Algeria, Jordan, Lebanon, Libya, Tunisia, Turkey
- High income: Israel



MED11: GDP per capita, current international dollar, in PPP terms, 2010

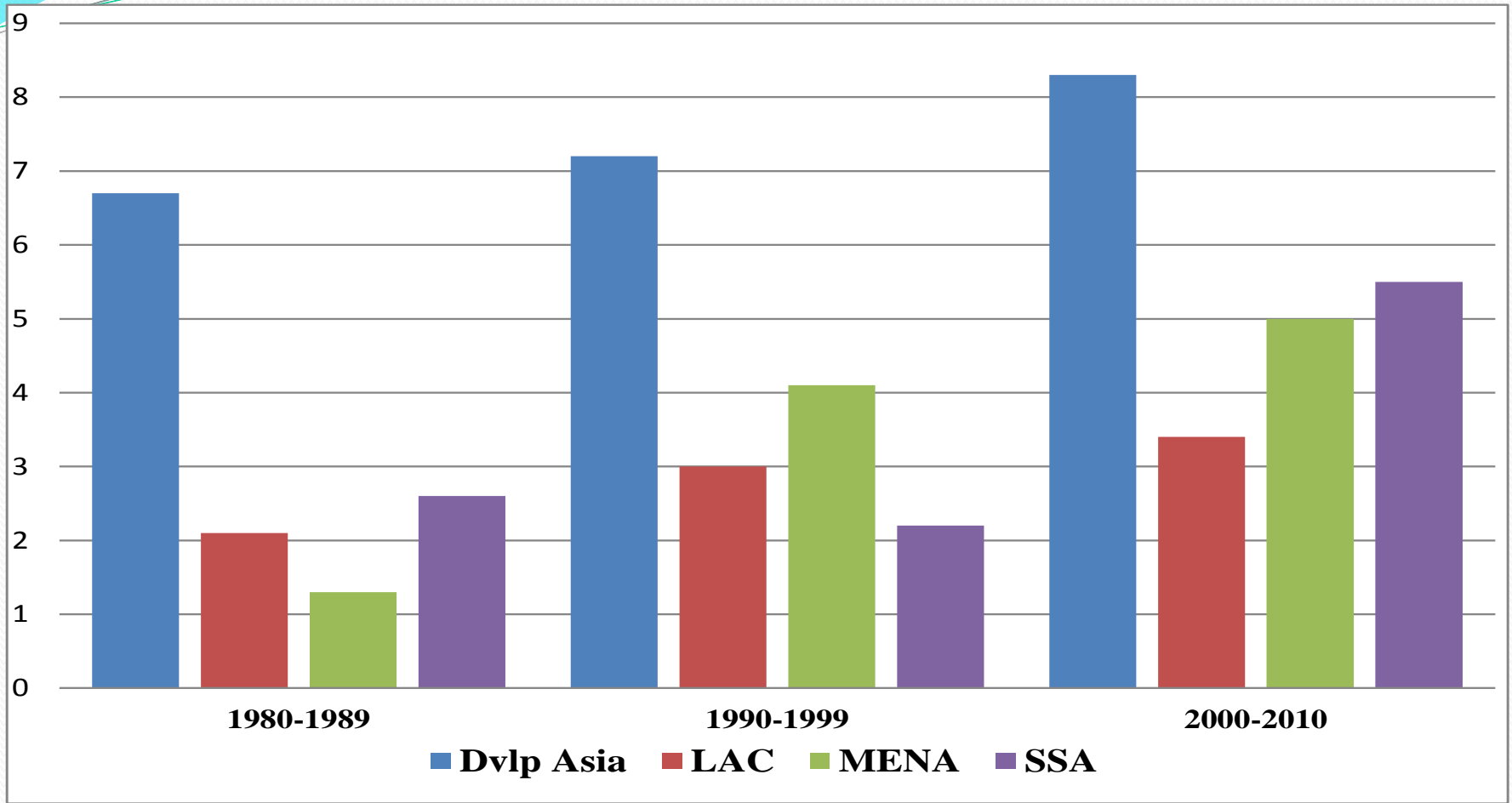


Note: data on Palestinian Autonomy is not available

Source: IMF WEO database, April 2012



Real GDP growth in selected regions, 1980-2010, annual average, in %



Note: LAC – Latin America and Caribbean, MENA – Middle East and North Africa, SSA – Sub-Saharan Africa

Source: IMF WEO database, April 2012



MED11 countries: annual growth rates, 2001-2011

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Algeria	2.7	4.7	6.9	5.2	5.1	2.0	3.0	2.4	2.4	3.3	2.4
Egypt	3.5	3.2	3.2	4.1	4.5	6.8	7.1	7.2	4.7	5.1	1.8
Israel	-0.2	-0.6	1.5	4.8	4.9	5.6	5.5	4.0	0.8	5.7	4.6
Jordan	5.3	5.8	4.2	8.6	8.1	8.1	8.2	7.2	5.5	2.3	2.6
Lebanon	4.0	3.4	3.2	7.5	1.0	0.6	7.5	9.3	8.5	7.0	1.5
Libya	-1.8	-1.0	13.0	4.5	11.9	6.5	6.4	2.4	-1.4	3.7	-59.7
Morocco	7.6	3.3	6.3	4.8	3.0	7.8	2.7	5.6	4.9	3.7	4.9
Syria	3.7	5.9	-2.0	6.9	6.2	5.0	5.7	4.5	5.9	3.4	n/a
Tunisia	4.9	1.7	5.5	6.0	4.0	5.7	6.3	4.5	3.1	3.1	-1.8
Turkey	-5.7	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.5

Notes: yellow fields – IMF estimates; no data for Palestinian Autonomy

Source: IMF World Economic Outlook database, October 2012



Determinants of long-term growth

Factors that have significant and positive growth effect:

- Macroeconomic stability, i.e., price stability (underpinned by sound monetary policies), fiscal balance, and keeping current account balance under control
- Openness: trade liberalization, capital account openness and FDI (for which good business climate and governance are important)
- Human capital, i.e. access to education and its quality



MED11: inflation (end of year) in %, 2005-2011

Country	2005	2006	2007	2008	2009	2010	2011
Algeria	1.7	3.8	4.8	4.9	5.8	3.6	5.2
Egypt	4.7	7.2	8.6	20.2	10.0	10.7	11.8
Israel	2.4	-0.1	3.4	3.8	4.0	2.6	2.2
Jordan	4.2	7.5	5.1	9.1	2.7	6.1	3.3
Lebanon	0.5	7.2	6.0	6.4	3.4	5.1	3.1
Libya	3.0	7.2	7.6	9.7	0.3	3.3	26.6
Morocco	2.1	3.3	2.0	4.2	-1.6	2.2	0.9
Syria	4.9	6.7	4.8	15.4	1.7	6.3	n/a
Tunisia	3.8	3.3	5.1	4.0	4.0	4.1	3.5
Turkey	7.7	9.7	8.4	10.1	6.5	6.4	10.4

Notes: yellow field – IMF estimate; no data for PA

Source: IMF WEO database, October 2012



MED11: GG net lending/borrowing in % of GDP, 2001-2011

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Algeria	3.7	1.2	4.9	5.3	13.6	13.9	6.2	9.0	-5.1	-0.9	-0.2
Egypt	n/a	-9.2	-9.0	-8.3	-8.4	-9.2	-7.5	-8.0	-6.8	-7.8	-9.9
Israel	-6.3	-7.8	-7.9	-6.0	-4.8	-2.4	-1.3	-3.4	-6.0	-4.6	-4.0
Jordan	-3.0	-4.1	-2.0	-1.1	-5.6	-4.0	-4.7	-4.3	-8.5	-5.6	-6.8
Lebanon	-20.7	-15.9	-13.6	-9.5	-8.4	-10.4	-10.8	-9.5	-8.3	-7.7	-6.1
Libya	-0.7	6.5	5.6	11.3	30.4	30.9	26.6	26.3	-2.0	18.0	-24.5
Morocco	-4.3	-4.9	-4.2	-3.8	-6.2	-2.0	-0.1	0.7	-1.8	-4.4	-6.9
Syria	2.3	-2.0	-2.7	-4.2	-4.4	-1.1	-3.0	-2.9	-2.9	-4.8	n/a
Tunisia	-2.1	-2.2	-2.2	-2.2	-2.8	-2.6	-2.0	-0.6	-1.2	-1.0	-3.2
Turkey	n/a	-13.9	-10.0	-3.9	-0.3	0.0	-1.7	-2.4	-5.6	-2.7	-0.2

Notes: yellow field – IMF estimate; no data for PA

Source: IMF WEO database, October 2012



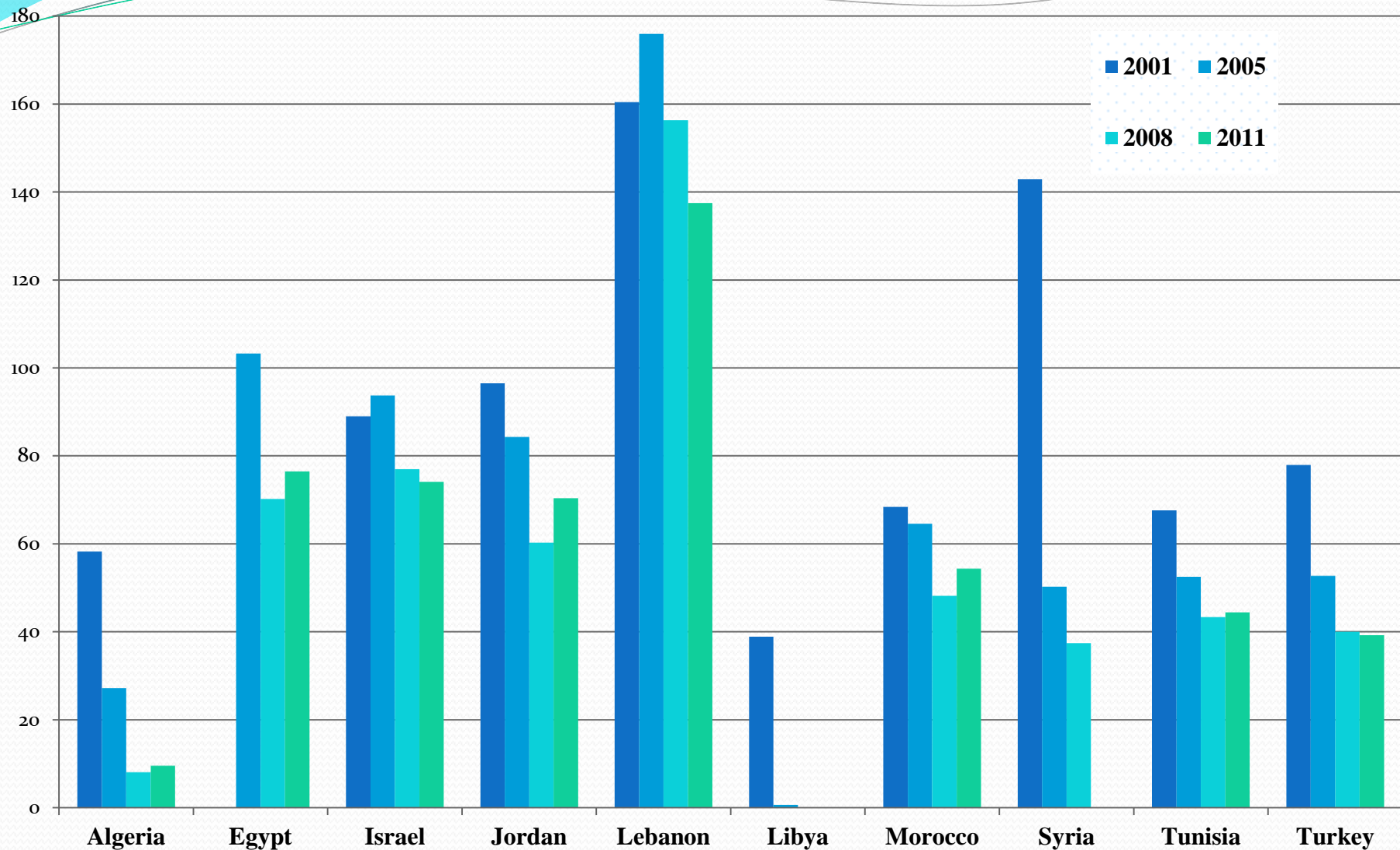
Energy subsidies in selected MED countries (2010 or most recent available data)

Country	% of GDP
Algeria	6.6
Morocco	4.0
Tunisia	2.5
Egypt	9.3
Israel	2.0
Jordan	2.0
Lebanon	4.0*

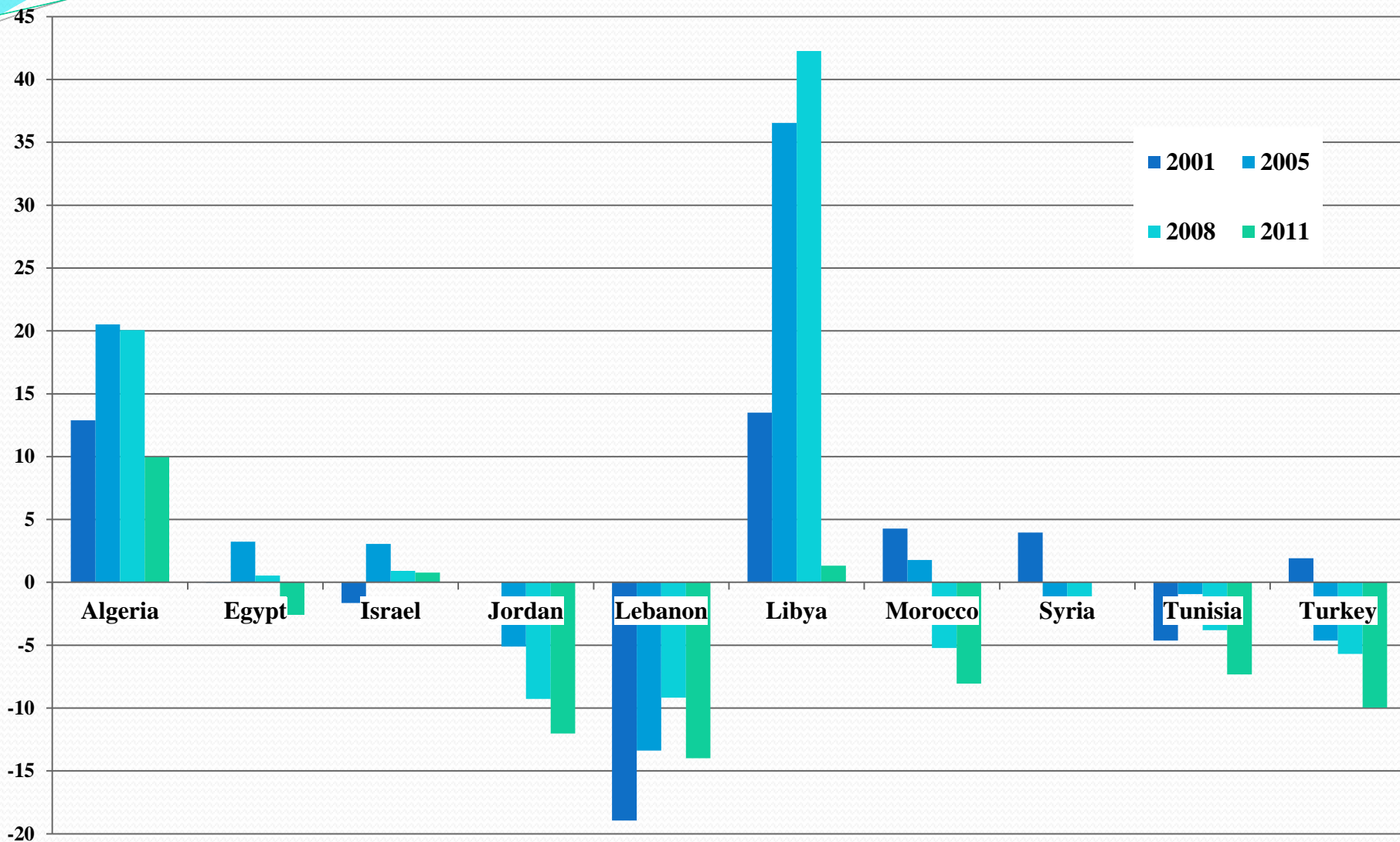
Note: * - only electricity. Source: Bergasse (2012)



MED11: general government gross debt in % of GDP, 2001-2011

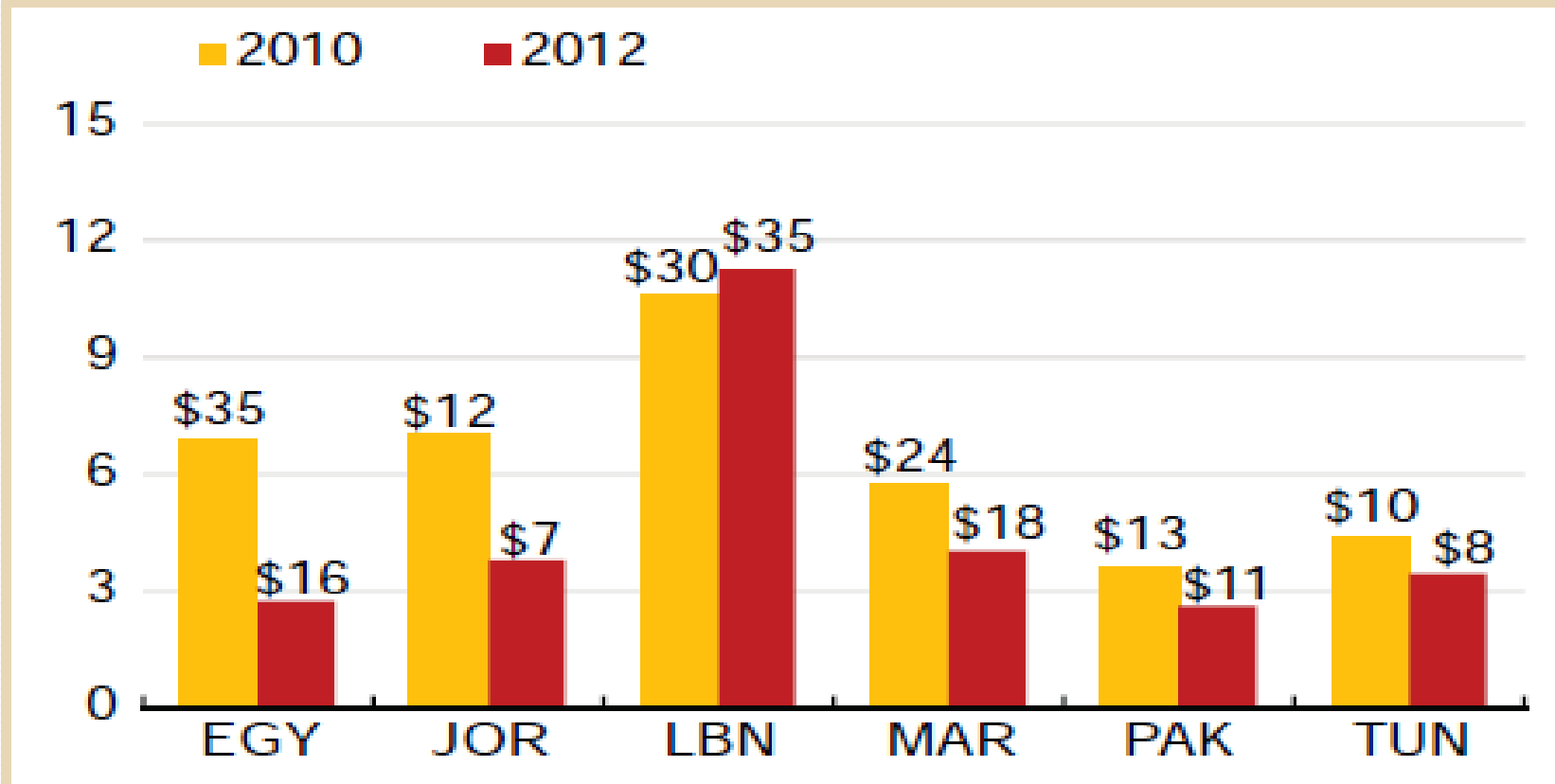


MED11: current account balance in % of GDP, 2001-2011



Gross International Reserves Declining

(Months of imports and billions of U.S. dollars)



Sources: National authorities, and IMF staff calculations.

Source: IMF Regional Economic Outlook: Middle East and Central Asia, November 2012, Figure 2.10, p. 42



Macroeconomic policy recommendations:

- Fiscal balance contributes to price stability: role of **subsidies** needs to be revisited to achieve its objective of assisting the poor. **Better targeted instruments** at lower fiscal cost are possible.
- Ensure a **competitive exchange rate** to maintain sustainable current account balance and stimulate external competitiveness
- Continue to foster **greater openness** of the economy
- **Avoid expensive public employment policies**. Replace them by improving business environment that will create private sector jobs.
- Keep eye on **non distortive revenue policies**: replacing tariffs revenues by broad based VAT/ sales taxes rather than by increasing business income taxes



Private Sector Development

- MED11 scores badly in business climate rankings what impedes FDI inflow and domestic private sector
- Danger of further deterioration as result of political instability
- Access to credit is inadequate (state banks still dominant and poor financial supervision). Large connected firms privileged
- Problem is less with poor legislation (significant improvements still to be made) but with its weak enforcement, clientism and privileges ⇒ Arab Spring



Indicators of business climate in MED11 countries

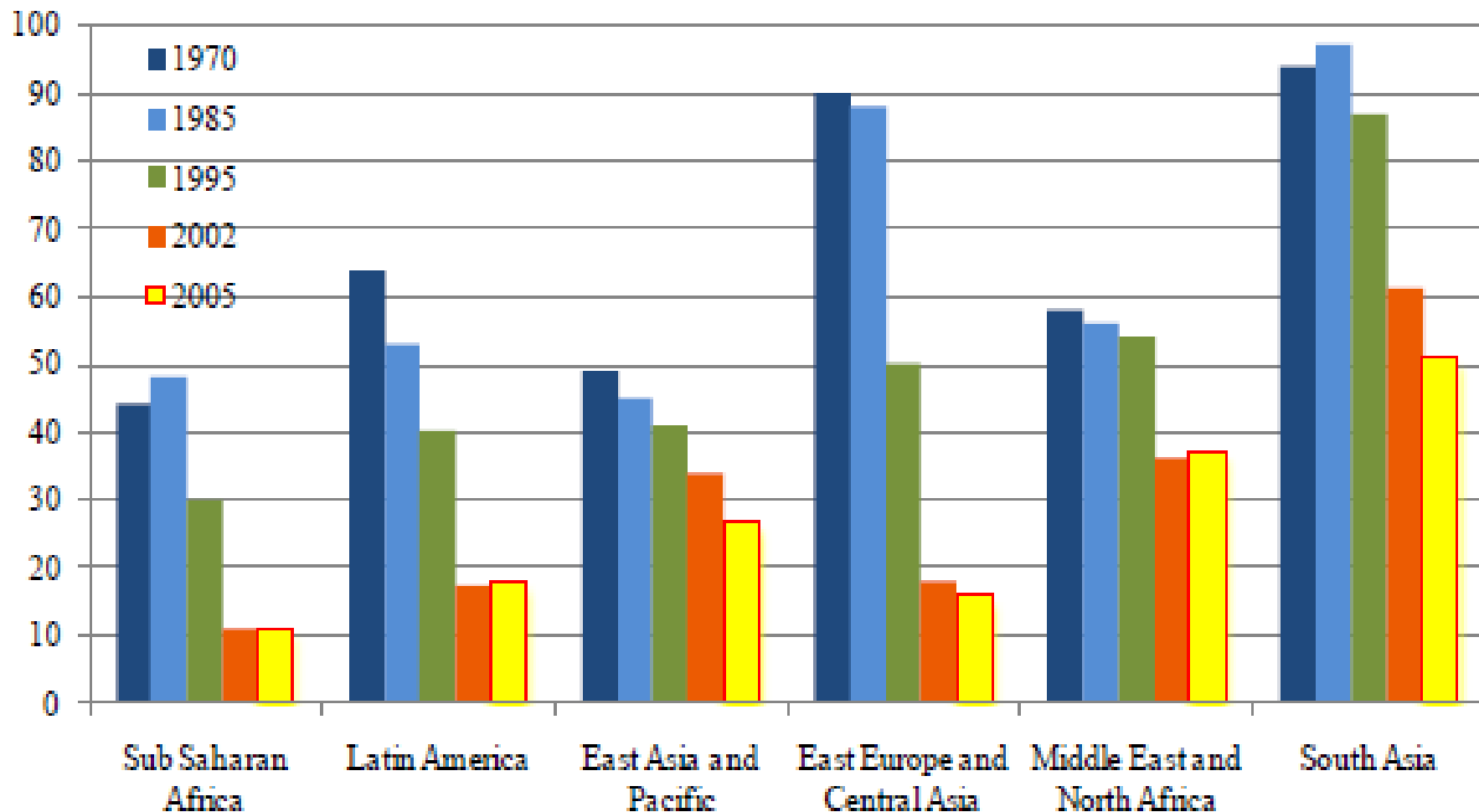
Country (No. of countries ranked) indicator	WBDB 2012 (183) rank	HFIEF (179) rank (score; category)	2012 TI CPI 2011 (182) rank (score)
Algeria	148	140 (51.0; M/UF)	112 (2.9)
Egypt	110	100 (57.9; M/UF)	112 (2.9)
Israel	34	48 (67.8; ModF)	36 (5.8)
Jordan	96	32 (69.9; ModF)	56 (4.5)
Lebanon	104	90 (69.2; ModF)	134 (2.5)
Libya	n/a	176 (35.9; Repr)	168 (2.0)
Morocco	94	87 (60.2; ModF)	80 (3.4)
Palestinian Autonomy	131	n/a	n/a
Syria	134	139 (51.2; M/UF)	139 (2.6)
Tunisia	46	95 (58.6; M/UF)	73 (3.8)
Turkey	71	73 (62.5; ModF)	61 (4.2)

Notes: WBDB 2012 – World Bank Doing Business 2012; HFIEF 2012 – Heritage Foundation Index of Economic Freedom 2012; TICPI 2011 – Transparency International Corruption Perception Index 2011; ModF – moderately free, M/UF – mostly unfree, Repr - repressed

Source: <http://www.doingbusiness.org/reports/global-reports/doing-business-2012>,
<http://www.heritage.org/index/ranking>, <http://cpi.transparency.org/cpi2011/results/>



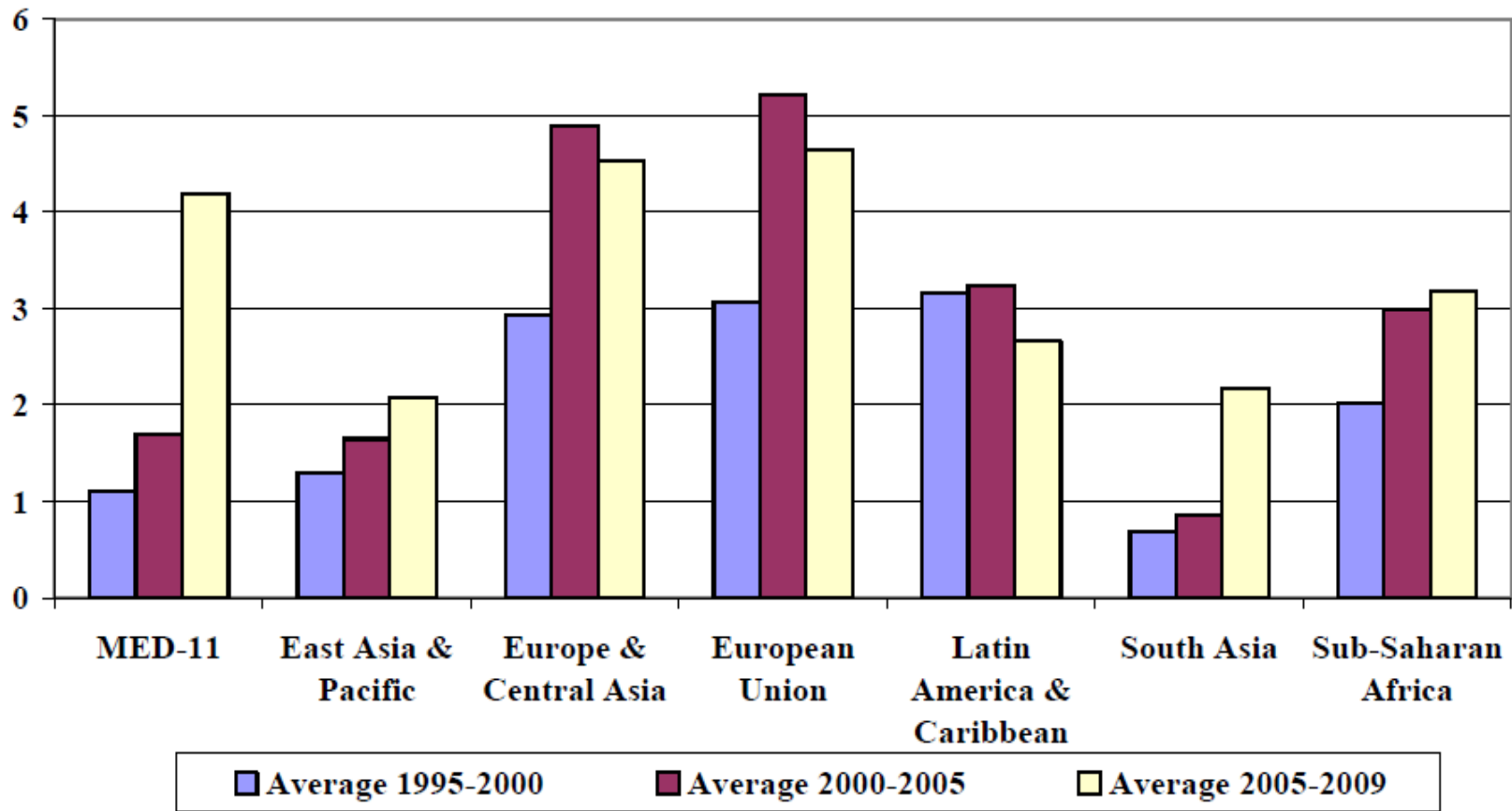
Share of state banks in total banking sector assets (%), 1970-2005



Source: Woodward, Safavi & Kozarzewski (2012)



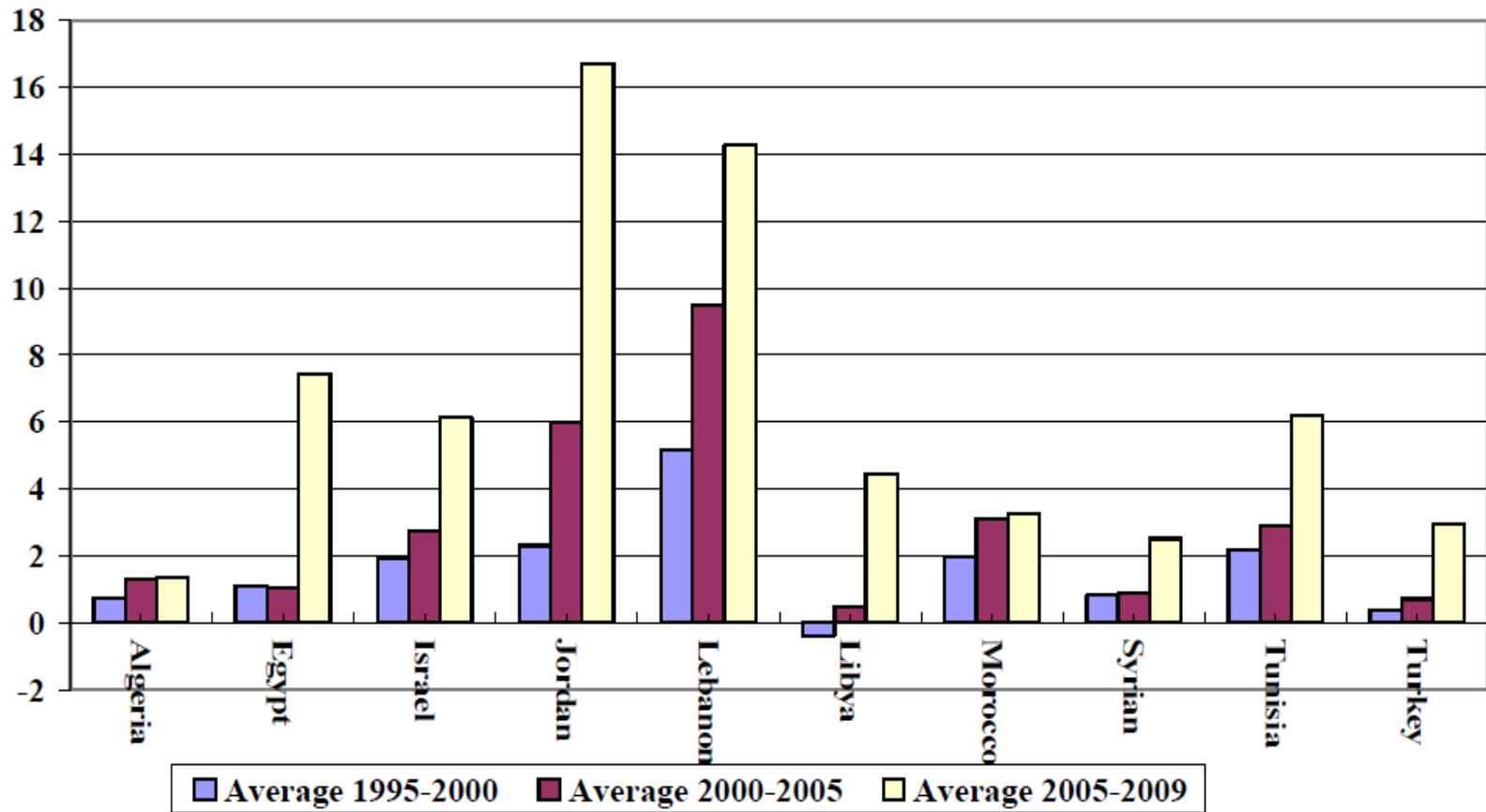
FDI Flows by regions, 1995-2009, % of GDP



Source: UNCTAD (2009), *World Investment Report 2009* (online database), Sekkat (2012).



FDI Flows as % of GDP, 1995-2009, MED11 countries



Source: UNCTAD (2009), *World Investment Report 2009* (online database), Sekkat (2012)



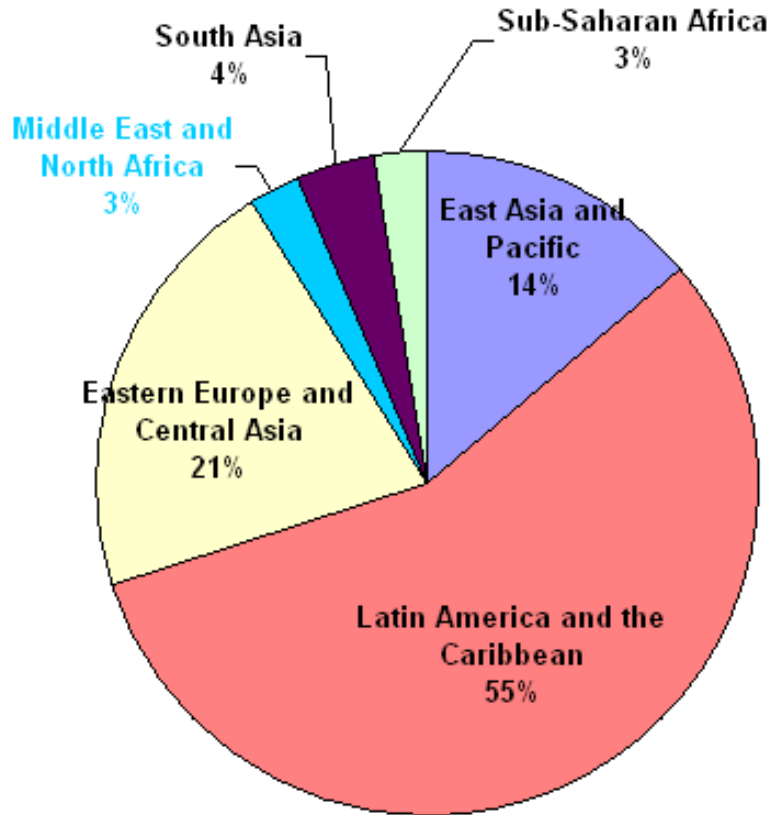
Privatization

- All MED countries have privatization policies in place but uneven progress. Best in Israel, Jordan, Turkey and Tunisia. Worse in Libya, Syria and Lebanon. Progress in Morocco and Egypt (the role of military) falls somewhere in between.
- Danger of populist reversal
- Progress in setting up the institutional and regulatory framework to ensure that privatization does not lead to monopoly operations, also varies from country to country.

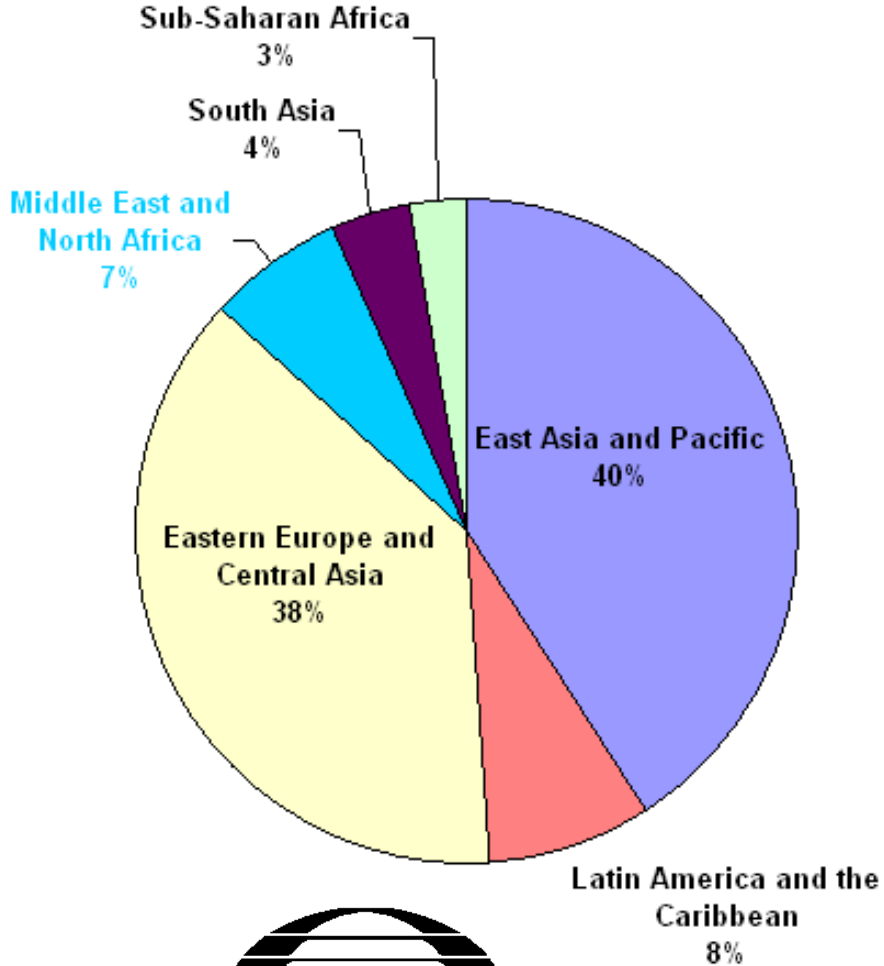


Total Privatization Revenues by Regions (% of total revenues for developing countries)

1990-1999
Total Revenue: US\$ 315.7 bn



2000-2008
Total Revenue: US\$452.7 bn



Source: Privatization in the Middle East and North Africa: Region Fact Sheet

Private Sector Development and Privatization (policy recommendations):

- Each country should review the factors that account for its poor business climate and elaborate a remedial strategy.
- Improving access to finance for the SMEs and new enterprises, the dynamic and job creating sector
- Focus not only on formal reforms but also on their implementation ⇒ strengthen implementing institutions & listen to representative delegates of the private sector
- Pursue privatization process and strengthen the regulatory framework – also for ICT sector



Infrastructure bottlenecks

- **Transport infrastructure (roads, railways, sea ports, airports)**
 - MED11 lag behind similarly situated countries what hinders trade and economic growth
 - Significant new investments are required to catch up but their size must be adjusted to available public and private funding (including donor aid and FDI)
- **ICT**
 - Telephone density is lower than in most other regions of the world—particularly fixed lines. But MED is catching up fast in cellular telephony
 - Privatization focused on cellular telephony while fixed lines still largely under state control
 - Regulatory framework still needs greater focus to ensure fair competition
 - Sector will benefit from better business climate to ensure it can absorb fast technological changes in this sphere



Major social challenges

- **Demography and labor market**
 - Fast population growth
 - High unemployment, especially for youth (1/4 of the age group)
- **High and growing income inequality**
- **Gender discrimination**
 - Lower female education level than males
 - Low female labor market participation
 - Higher female unemployment than for males
- **Education**
 - Continuous illiteracy
 - Short schooling period (5-7 years)
 - Poor quality of education



Youth unemployment in MED countries, % of labor force in age 15-24, 2007

Country	Female	Male
Egypt	47.9	17.2
Israel	17.0	15.0
Jordan	47.9	23.7
Lebanon	21.5	22.3
Morocco	15.5	17.9
Palestinian Autonomy	42.6	34.0
Syria	49.1	13.1
Turkey	20.8	19.6

Source: http://api.worldbank.org/datafiles/SL.UEM.1524.FE.ZS_Indicator_MetaData_en_EXCEL.xls,
http://api.worldbank.org/datafiles/SL.UEM.1524.MA.ZS_Indicator_MetaData_en_EXCEL.xls



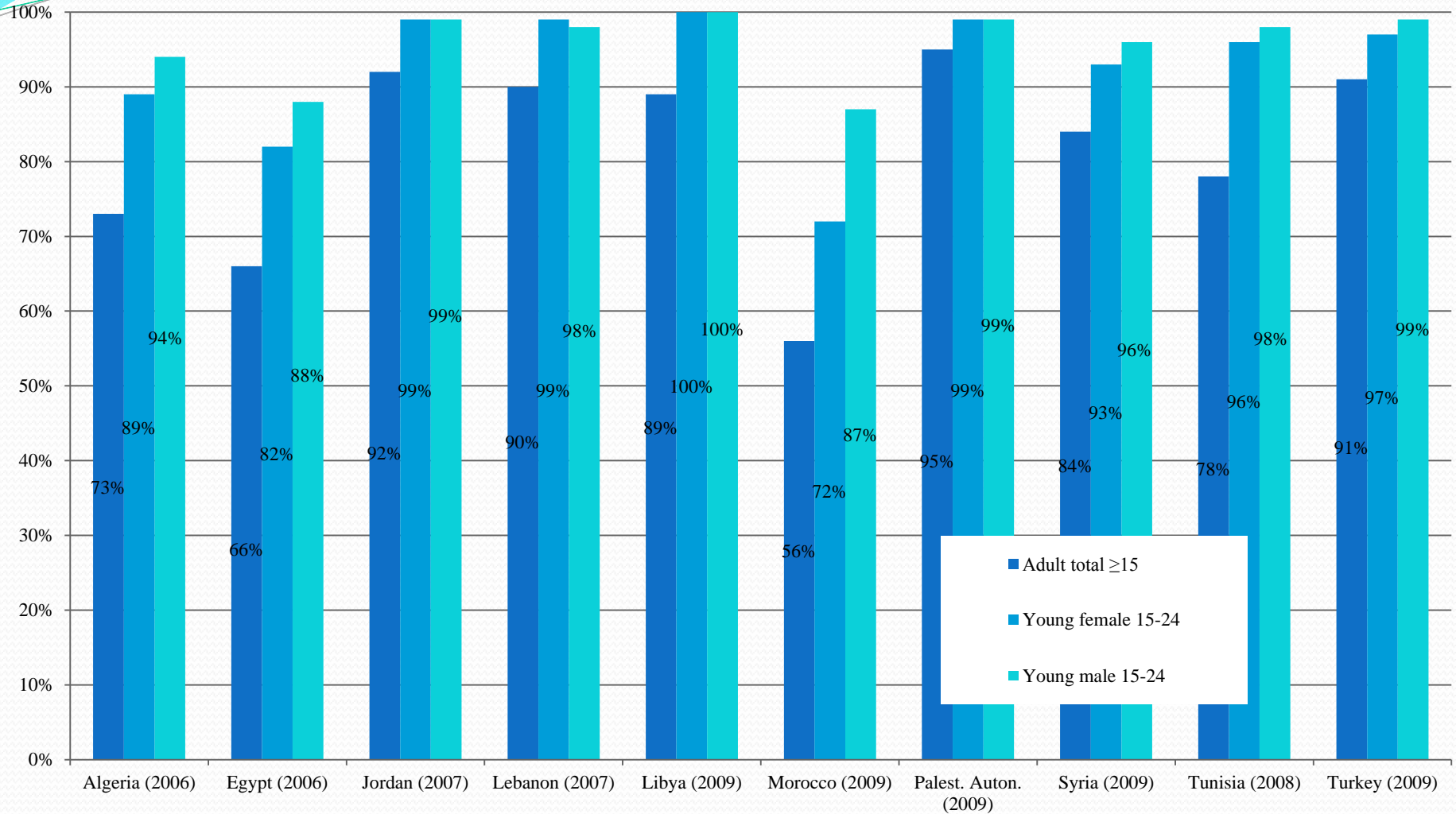
Indicators of Gender Inequality

Country	Population with at least secondary education (% ages 25+), 2010		Labour force participation rate (%), 2008	
	Female	Male	Female	Male
Algeria	36.3	49.3	38.2	83.1
Egypt	43.4	61.1	24.4	76.4
Israel	78.9	77.2	61.1	70.1
Jordan	57.6	73.8	24.7	78.3
Lebanon	24.1	74.8
Libya	55.6	44.0	25.1	81.1
Morocco	20.1	36.4	28.7	83.6
Palestinian Auton.	16.7	72.4
Syria	24.7	24.1	22.0	82.1
Tunisia	33.5	48.0	27.7	74.2
Turkey	27.1	46.8	26.9	74.6

Source: El Laithy (2012)



MED11: Literacy rates



Source: http://api.worldbank.org/datafiles/SE.ADT.LITR.ZS_Indicator_MetaData_en_EXCEL.xls,
http://api.worldbank.org/datafiles/SE.ADT.1524.LT.FE.ZS_Indicator_MetaData_en_EXCEL.xls,
http://api.worldbank.org/datafiles/SE.ADT.1524.LT.MA.ZS_Indicator_MetaData_en_EXCEL.xls

Summary of Egypt's economic and social challenges

- Political instability \Rightarrow deteriorating business and investment climate and political obstacles in taking adjustment steps
- Large food and energy subsidies \Rightarrow high fiscal deficit \Rightarrow increasing public debt \Rightarrow inflation pressures
- Deteriorating external accounts and declining international reserves
- Business 'red tape', inefficient public sector, poor governance, corruption
- Stalled privatization process
- Rising unemployment, especially among youths
- Continuing high illiteracy, poor education system
- Gender discrimination