"Global Financial and Economic Crisis: Impact and Response in the MENA Region" Conference
May 15, 2009

The Carnegie Middle East Center hosted a roundtable of leading policy-makers, regional experts, and representatives of international organization from the Middle East region to discuss the "*Global Financial and Economic Crisis: Impact and Response in the MENA Region"*. Participants included Susan Joekes (Senior Program Specialist at the IDRC Regional Office in Egypt), Nada al-Nashif (Director of the International Labor Organization Regional Office in Beirut), Dr. Yousef Al Ebraheem (Economic Advisor at the Amiri Diwan and former minister of finance in Kuwait), Dr. Makram Sader (Secretary General of the Association of Banks of Lebanon), Dr. Charles Abdallah (Head of Regional Cooperation on Economic Issues at the EU in Lebanon), Dr. Ramla Khalidi (First Social Affairs Officer at UNESCWA), and Dr. Ibrahim Saif (Carnegie Middle East Center).

Panelists from Turkey, Iran, Kuwait, Tunisia, Morocco, Egypt, Sudan, Jordan, Palestine, Syria and Lebanon provided insights on the emerging public policy rhetoric and addressed the policy debates regarding government intervention, market regulation, financial architecture, the future of capitalism, and trade protectionism. Concluding the discussions, the panelists reached consensus on several aspects. First, countries of the Middle East have resorted to short-term survival policies that lacked coordination among monetary, fiscal, and social policies. Second, the countries are far from responding collectively at the sub-regional level though the GCC countries have exemplified a state of higher coordination measures. Third, most of the problems of the Middle Eastern countries are structural problems that were exacerbated further by the crisis. Finally, there is a strong need to reconsider social policy in the Middle East.

Opening the discussion, Yousef Al Ebraheem offered a comparative overview of the current situation of the GCC countries with specific relevance to the case of Kuwait. In terms of coordination at the regional level, Al Ebraheem emphasized that although the GCC countries have agreed to coordinate, "less coordination took place than what was anticipated". He stressed that the impact would have been minimized "had they acted as a bloc" explaining that there are significant common interests by giving the example of Kuwaiti companies that have huge investments in UAE, like Global.

Al Ebraheem responded to a question about the "lessons learner" by GCC countries, by stating that now is the time to put off the fire not the time to discuss future path. He added that the monetary authorities are trying to avoid serious disasters. He further clarified that this does not mean that Kuwait wants to go back to the situation prior the crisis." We were not happy with the over 100 dollars a barrel oil price. At that time, we were suffering from double digit inflation."

The Director of the Syrian Consulting Bureau for Development and Investment, Nabil Sukkar, predicts that the impact of the crisis will be mostly felt in terms of a "slower pace of economic liberalization". The fact that there are no Syrian companies operating abroad and that the country lacks a stock market, the direct impact of the

financial crisis has been limited. Sukkar further cautioned that before making sure that the G20 measures will be effective, Syria should be more careful in its attempts towards global integration.

Turkey's recent macroeconomic problems were mainly home-grown and stemmed to a large extent from excess aggregate demand generated in the public sector to force the economy to grow faster than private savings would allow, explained Bahri Yilmaz from Sabanci University in Turkey. Suffering from severe unequal income distribution where 1 percent of the population owns 65 percent of the total savings, the increase in non-agricultural unemployment from a level of 11 percent in January 2007 to a level of 18 percent in January 2009 will exacerbate the situation. According to Yilmaz, these figures confirm the rapid slow down in economic activity making the Turkish economy even more dependent on foreign capital and international liquidity, where considering the present financial turbulences are likely to shrink.

Lahcen Achy from the Institut National de Statistiqes et d'Economie Appliquee (INSEA) in Rabat emphasized the importance of differentiating between existing structural problems exacerbated by the crisis and emerging problems caused by the crisis. Achy argued that most of Morocco's vulnerabilities are of the former nature. The increase in commodity prices (particularly oil) as the world economy recovers this would put further pressure on external as well as internal balance. Hence, as Morocco has been hit by the crisis 18 months after Europe, Achy predicts that the country will be at the heart of the crisis when the world economy recovers. However, Achy suggests that the post-crisis situation in Morocco will not be a continuation of the pre-crisis. "We are not going back to garment. What will come afterwards is different," he states.

Presenting a controversial case, Ghassan Omet from the University of Jordan argues that the Jordanian economy has been immune from the current financial crisis and global recession. In line with Achy's depiction, Omet stated that the problems of Jordan are structural. Omet questioned the wisdom of the government's ineffective monetary policy by recently reducing interest rates three times and minimizing reserve requirement indicating that "available evidence indicates that there is no statistical link in our data between monetary policy and bank credit, on the one hand, and bank credit and economic activity, on the other."

Mongi Boughazala from the University of Tunis was skeptical about the range of "arbitrary" policies adopted by the government. Boughazala indicates that the Tunisian government has not attempted at designing a comprehensive plan and questioned the effectiveness of stimulus measures pointing that the government has simultaneously decreased interest rates by 75 basic points and decreased money supply, thus neutralizing the effect.

Heba Nassar from Cairo University called for rethinking rescue packages and advanced for comprehensive policies in line with the concept of "social crisis mangatement". Presenting a detailed overview of the proclaimed policies, Nassar cautioned that until this moment, it is not yet clear which policies have been actually adopted and implement.

Munir Rached, VP of the Lebanese Economic Association, evaluated Lebanon's monetary and fiscal policies and called for the development of longer term instruments in the Lebanese financial market. Presenting the arguable case of Lebanon, Rached confirmed that the Lebanese banks have not been directly affected by the crisis. The banks' funding mostly comes from domestic sources and Lebanese diaspora, provides the sector with a stable deposit base. Also, the traditional conservative regulatory framework has minimized the banks' exposure to international whole sale funding. Among many other recommendations, Rached proposes reforming the interest rate policy to strike a balance between cost and adequate reserve level.

Sahar Rad from UNCTAD presented the peculiar case of Iran by arguing that Iran’s isolation from the financial world due to U.S. and international sanctions delayed the initial shocks of the international financial crisis. Rad observed that the limited financial reliance on and link to the global financial and commercial systems reduced the immediate impact of the crisis on Iran’s banking and financial system. However, since Iran's main exposure to the world economy is confined to oil exports and limited imports, Iran is highly sensitive to volatile oil prices especially since oil revenues make around 80 percent of Iran's foreign income and over 50 percent of the fiscal budget. However, Rad argues that the Iranian government has been relatively successful in its attempts to reduce its dependence on oil export revenues by investing in petrochemicals industry.

"The policy response of the Palestinian National Authority to the global financial crisis is constrained by the limited policy space available to it under the terms of the Paris Protocol," highlighted Mohammad Nasr from Birzeit University. Nasr who emphasized the overriding impact of Israeli policies and practices on the Palestinian economy, evaluated the impact of the crisis on the Palestinian financial sector as minimal. Commercial banks pursue conservative financial policies. About 95% of the foreign assets of banks operating in the West Bank and Gaza Strip are placed in overseas government-guaranteed bank deposits, and the Palestinian Monetary Authority itself has a diversified investments portfolio in 22 banks outside Palestine. The Palestinian Stock Exchange (PSE) also has a modest degree of exposure to the international financial system. The indirect effect of the crisis emanates from its impact on other countries, thus affecting foreign aid (30 percent of GDP in 2008), remittances, and foreign direct investment.

A country where political disputes, autocratic regime, and military violence have wrecked its economy, Safiat Ali Saber Ali from Gezira University in Sudan outlined the result of years of deliberately mismanaged policies especially in the agricultural sector. Sudan was traditionally one of the world's largest producers of cotton due to the successful Gezira scheme. However, the government has decided to move wheat production from the northern region of the Nile Valley to the Gezira although environmental and climatic conditions are less favorable. Hence, cotton's contribution to export revenue had dropped from 45-65% during the Seventies to 22 percent in 1995 to less than 3% in 2001. The result is that "instead of being an agriculture-based economy depending on cotton as an important cash crop, Sudan has turned into an oil-dependent economy," stated Saber. This situation has deepened the economic and social impact of the financial crisis, which the government responded to by increasing

taxes, increasing prices of essential commodities like sugar and flour by more than 30 percent and freezing wage increases.

Highlights: