The South Mediterranean Countries: Growth and Business Opportunities within the Framework of Relations with the European Union

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Introduction

Gianluca Salsecci

This paper offers an analysis of South Mediterranean Countries[1] from three standpoints: *Economic*, focused on the one hand on the recent dynamics of the cycle, economic policy and foreign financial position and on the other hand on the long-term growth determinants in each country (Chapters I and II); *Structural*, focused on the characteristics of trade and direct investments and on the development of the local banking and financial systems (Chapters III and IV); *Institutional and Investment-related*, with particular attention devoted to the progress made by the Euro-Mediterranean Partnership and, within this framework, by the business opportunities opened up to foreign investors wishing to address the region (Chapters V and VI).

The South Mediterranean Rim includes a diverse set of countries. Based on some distinctive features, and despite considerable national differences, they can be grouped into three sub-regions: 1) North African countries that are major oil producers (Algeria and Libya), whose exports are strongly concentrated by sector (energy products and derivatives account for over 90% of the total), mostly oriented towards EU countries; 2) North African countries with a more diversified economy (Tunisia, Morocco, and Egypt), with relatively well-developed manufacturing setups in labour-intensive sectors and strong trade relations with the EU; 3) countries of the Middle East (Jordan, Israel, Lebanon, Syria), where the service sectors play a major role in relative terms and integration in the global economy is generally at a more advanced stage. These are countries that also entertain important trade relations with non-EU states (in particular the USA, China, and the Gulf countries), with specialised manufacturing skills in high-tech sectors (Israel), and the presence of relatively more advanced banking and financial systems (Israel and Lebanon).[2]

While the aggregate economic weight of the South Mediterranean countries is rather modest at the global level – accounting for around 2% of world GDP, trade, and direct investments and 3% of population – they are nonetheless prominent on the international scene, for two main reasons: the strategic presence, in some cases, of substantial oil resources, largely exported to the EU but increasingly to other regions as well; and the potential growth and business opportunities resulting from the diversification of regional economies and from the progressive growth of per capita income levels pursued at local level.

The South Mediterranean countries have grown in recent years at higher rates than the world average, but at a slower pace than other emerging regions in terms of per capita GDP. The trend was supported by the positive phase of the global economic cycle, as well as by the positive fallout of structural reforms introduced even though at various degree in several countries in the last few years.

In perspective, the IMF expects year-on-year long-term growth to stay around 5% for GDP and 3% for per capita GDP[3]. Stronger, sustainable per capita GDP growth compared to the main

[1] The Countries considered in this study are those which are part of the Union for the Mediterranean with the exception of the EU countries and of the candidates or potential candidates to the EU accession. In addition to Algeria, Morocco, Tunisia, Egypt, Jordan, Israel, Lebanon, Mauritania, Syria and Palestinian Territories, Libya is also included. Libya is not part of the UfM but enjoys the observer status within the Euro-mediterranean Partnership. EU countries, Albania, Bosnia Herzegovina, Croatia, Monaco, Montenegro and Turkey are instead not considered in this study.

[2] Due to lack of data, Mauritania and Palestinian Territories are only taken into consideration in some sections of this paper.

[3] See IMF (2009), *World Economic Outlook*, October.

emerging regions will critically depend – according to many authoritative research centres[4] – on the progress made by individual countries in structural reforms towards achieving stronger integration at the regional and international levels, strengthening of institutional governance and improvement in the business environment, sustaining infrastructural investments.

This is the framework within which the developments triggered by the Euro-Mediterranean Partnership are taking place with a driving role. Three aspects deserve particular attention. Since 1995 and the launch of the Barcelona Process, which among other goals set that of creating, by 2010, a Euro-Mediterranean free-trade area, all the South Mediterranean Countries[5] have entered into bilateral Association Agreements with the EU[6]. In perspective, with the approval by the 8th Union for the Mediterranean Trade Ministerial Conference, held in Brussels on December 9, 2009, of the *EuroMed Trade Roadmap beyond 2010*, the integration process in the region is being strengthened through completion of the network of bilateral free trade agreements, and the development of regional negotiations for the liberalisation of services and the right of establishment[7].

In 2004, in Caserta, the member countries of the Partnership endorsed the Euro-Mediterranean Charter for Enterprise. The Charter laid out common guidelines for enterprise policies of the different states, with the aim of creating favourable conditions for the growth of investments and of the private sector. A recent survey[8] indicates, albeit with varied results on a national basis, that South Mediterranean Rim Countries are gradually converging towards the Charter's guidelines. The process is at a more advanced stage in Egypt, Jordan, Morocco and Tunisia (with Israel in line with the advanced economies), whereas the transition is still considered to be at in initial phase in Algeria and Libya. While subscription to the Charter is not binding, the monitoring of its level of implementation represents an important tool in guiding enterprise policies and the institutional governance of the economy towards market economy standards.

Within the framework of the Union for the Mediterranean Project[9], started in July 2008 to provide new impulse to the Barcelona Process, the execution of a number of important infrastructure projects was provided for in the energy, water & environmental management, transport and sustainable urban development sectors together with the launch of the Mediterranean Business Developmente Initiative. South Mediterranean Rim Countries tend to suffer, as it is widely known, from a lack of infrastructure[10]. In this context, the projects

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[4] See World Bank (2008), *Structural Reform Progress and Long Term Growth*, in Economic Developments and Prospects, and Hoekman B. and Sekkat K, (2009) *Deeper Integration of Goods, Services, Capital and Labor Markets: A Policy Research Agenda for the MENA Region*, ERF Policy Research Report n. 32.

[5] With the exception of Libya, which enjoys the status of observer within the Euro-mediterranean Partenership, and of Syria which started negotiations.

[6] At the regional level, within the framework of the Greater Free Trade Arab Area (GAFTA), a Free Trade Treaty was also signed in Agadir in 2004 by Egypt, Morocco, Tunisia and Jordan. The Treaty follows the Arab Maghreb Union (AMU) agreement previously subscribed to by Algeria, Morocco, Tunisia, Libya, and Mauritania.

[7] Negotiations on free trade of services and on the right of establishment at regional level started in Marrakech in 2006. Bilateral negotiations then followed in the case of Egypt, Israel, Morocco and Tunisia.

[8] *Cfr*. European Commission *et al*. (2008), *Report on the Implementation of the Euro-Mediterranean Charte for Enterprise. 2008 Enterprise Policy Assessment*.

[9] The UfM Project includes the South Mediterranean Countries considered in this paper (with the exception of Libya) and the North Mediterranean Countries which are candidates or potential candidates to EU Accession.

[10] According to a study made between July and October 2008, Mc Kinsey estimate the volume of investment needs in infrastructure projects (falling within Inframed's target scope and excluding tourism and social housing) at approximately Euro 150 Bn. See on this point the press release by the Financial Institutions

represent a tangible instrument to boost infrastructural investments and to develop more favourable conditions for the enterprises in the region. Initiatives geared to the financing of the projects and to support SMEs have been taken by a group of 12 Euro-Mediterranean banks within the framework of the *Alliance des Banque pour la Mediterranée*, and a medium-long-term investment fund has been established by a number of leading Euro-Mediterranean financial institutions (Inframed Fund)[11]. These will add themselves to the other instruments made available by institutions at the European level to finance infrastructure investments.

Even though an empirical assessement of the effects of the policies undertaken by the Partnership is still premature, the economic developments occurred so far should be evaluated positively[12]. The Pillars of the Euro-mediterranean Partnership - the establishment, in line with the Roadmap beyond 2010, of a free trade area in the region to encourage the exchange of goods and services, the progressive implementation of the guidelines laid out by the Charter for Enterprise, the realisation of the infrastructure projects and of the mediterranean business developmente initiatives launched by the UfM - all constitute a range of extremely important tools in encouraging greater integration of the Area at the regional and international level, the advancements of structural reforms and, at the same time, a stronger long-term growth profile for the countries it includes[13].

The Recent Trend of The Economy and Long-Term Growth Determinants

In the past years the GDP growth rate in South Mediterranean countries has increased significantly. Average growth in the region between 1995 and 2007 was 4.2%, higher than the aggregate rate for the mature economies, and in particular for the EU-15 (2.4%). The rate was also stronger than in other emerging areas, such as Latin America, and in line with growth in Central-Eastern Europe. Within the Mediterranean region, growth was more moderate in countries that are net exporters of oil, and stronger in those with a more diversified output.

The region's growth profile appears more subdued, and the comparison with other regions of the world less favourable, when taking into account the higher population growth rate (1.8%) compared to other areas of the globe (1% ca. in Latin America), and in particular to Central-Eastern Europe, where a downtrend is being observed. Between 1995 and 2007, per capita GDP increased by around 2.2% ca. in the South Mediterranean countries, only slightly more than in the EU-15 (approx. 2%), and well below the average rate in Central-Eastern Europe (around 4%). As a result of these trends, the ratio of the two areas' per capita GDP rose only slightly from 18.8% in 1995 to 19.3% in 2007. In the same period per capita GDP in Central-Eastern European countries soared from 38% to 48% of the average rate in EU-15 countries.

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particitipating to the Inframed Project, *Launch of the Inframed Fund*, at the web site: http://WWW.ltic.org/upload/CP_090430.pdf.

[11] They are currently involved the *Caisse des Dépots et Consignation* (Francia), the *Cassa Depositi e Prestiti* (Italia), the *EFG-Hermès* (Egitto) and the *Caisse de Dépot et de Gestion* (Marocco). The governing bodies of those institutions have currenly approved a joint commitment of up to Euro 400 M. The Inframed fund is open to other long term investors with the aim of raising in excess of Euro 1 Bn.

[12] Following the outburst of the Palestinian-Israeli conflict in the Middle East at the beginning of the 2009 and the postponement of anticipated high level meetings, instead, the institutional developments of the UfM have shown to be be more problematic.

[13] See on this point Brach J. (2006), *Ten years after: Achievements and Challenges of the Euro-mediterranean Economic and Financial Partnership*, GIGA Working Papers, n. 36, and Breton P., Baroncelli E., Maouche M. (2006), *Trade and Investment Integration of the Maghreb*, World Bank, MENA Working Paper Series, n. 44.

In line with several studies that address output determinants using growth accounting models[14], the trend of per capita GDP can be explained by the relative contribution made by the employment utilisation rate and by the output per worker. Over the 2003–2007 period, at the peak of the last international economic cycle, per capita GDP growth in the sub-group of South Mediterranean countries for which available data allowed estimates to be drawn up[15], was of around 3%. This dynamics was mostly driven by the contribution of the output per worker, at around 2%, while the contribution made by the employment utilisation rate was about 1%.

The contribution of Factor Productivity (capital and labour combined efficiency) to the output per worker was decisive (around 2% a year), as opposed to the virtually non-existent contribution of Capital Intensity (capital to labour ratio). In the same period, in a sub-group of Central-Eastern European countries[16], output per worker grew at twice the rate, with a greater contribution of both factor productivity (around 2.5%) and capital intensity (around 1.5%). As a result, and after considering the contribution also made by the employment utilisation rate of around 1%, per capita GDP in the region was up by over 5% year-on-year, two points more than in the countries of the South Mediterranean.

The reasons behind the different trends remain to be ascertained. Several authors point out the positive impact of FDI due to the transfer of technology and innovation, as well as the financing of local enterprises[17]. To all effects, South Mediterranean countries have experienced solid FDI growth in recent years, nonetheless lagging behind other regions, and in particular Central-Eastern Europe. The FDI stock of the former amounted to USD 224Bn at the end of 2007 (33% of GDP), as opposed to USD 564Bn in the latter (52% of GDP), from USD 36Bn and USD 6Bn respectively in 1990. In 2008, incoming flows were estimated at USD 37Bn for South Mediterranean countries and USD 55Bn for Central-Eastern Europe, i.e. around 2% and 3% respectively of the global total[18].

Other authors have underlined the positive effects on FDI, and consequently on growth, of trade and financial openness on the one hand, and of the quality of the institutions, and specifically of the legal, judicial and economic governance frameworks[19], on the other. On this front, Algeria and Libya, where openness to trade (in non-oil sectors) and financial openness are lower, also show a lower FDI/GDP ratio, whereas countries with greater levels of openness (in particular Lebanon and Jordan) can boast higher FDI/GDP ratios on average.

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[14] See Barry P. Bosworth and Susan M. Collins (2003), *The Empirics of Growth: An Update*, Brooking Papers of Economic Activity.

[15] Algeria (among net oil exporters), Egypt, Morocco and Tunisia (among other North African countries), and Israel and Jordan (among Middle Eastern countries).

[16] Poland, the Czech Republic, Slovenia, Slovakia and Hungary among CEE countries, and Bulgaria, Croatia, Serbia, and Romania, among SEE countries.

[17] See Arrabitel *et al.* (2007), *Determinants of Growth in the Central and Eastern European EU Member States. A Production Function Approach*, ECB Occasional Paper Series n. 61, and Cecchini L. and Lai-Tong C. (2009), *The Links between Openness and Productivity in Mediterranean Countries*, Applied Economics, vol. 40(6), pp. 685-697.

[18] See Alessandrini S. (2001), *Comparing FDI Trends in CEE and MED Region*, presented at the Second FEMISE Conference, *Implications de l’Elargissement de l’UE pour le Pays de la Méditerranée*, March 2001.

[19] Kraay D. (2003), *Institutions, Trade and Growth*, Journal of Monetary Economics, vol. 50, pp. 133-162; Bonfiglioli A. (2007), *Financial Integration, Productivity and Capital Accumulation*, Working Paper, Institute for Economic Analysis, CSIC; Kose M. A. et al. (2008), *Does Openness to International Financial Flows Raise Productivity Growth?*, IMF Working Paper n. 242; Daniele V. and Marani U. (2006), *Do Institutions Matters for FDI? A Comparative Analysis for the MENA Countries*, presented at the conference “Bridging the Gap: the Role of Trade and FDI in the Mediterranean,” Naples, 8-9 June 2006; Loko B. and Diouf M. A. (2009), *Revisiting the Determinants of Productivity Growth: What’s New?*, IMF Working Paper n. 225.

In a recent work by the World Bank, the progress made by MENA countries in advancing structural reform is quantified based on a wide range of indicators that take into consideration trade policies, the business environment, and the quality and reliability of the Public Administration. Considering the modest starting levels, and despite appreciable national differences, the study highlights that the countries considered generally tend to occupy lower positions in the international rankings[20].

Evolution of Foreign Trade and of the Banking and Financial Systems

The many agreements signed within the region and with countries outside the region, first and foremost the European Union, combined with the trade policies pursued, have been conducive to progressively reducing tariffs in the countries of the region (from an average of 20% in 2000 to 13% on average in 2007), supporting trade flows to and from the area. Despite the progress made, obstacles are still hindering the creation of a true free trade area, including non-tariff barriers, which are still relatively high. While it is early days yet to express a view on the effects of the trade agreements, most of which only came into force in recent years, both the trend of trade and the economic integration process, within the region and with the EU, are still unsatisfactory[21].

Some researchers blame the lack of commercial integration in the region[22] mostly on the limited size of the markets, and on extensive overlapping and the limited complementarities of local productions. In this context, according to a World Bank survey, the removal of non-tariff barriers and the improvement of trade logistics in MENA countries could bring the greatest benefits, in perspective[23]. Trade flows with the EU, which account for the largest share of the foreign trade of South Mediterranean countries, and of the North African subgroup in particular, also falls short of potential levels. A recent paper by CASE and CEPS (2009), *Economic Integration in the Euro-Mediterranean Region*, generally confirms these findings. According to its authors, trade

[20] See World Bank, 2008, *Structural Reform Progress for Long Term Growth, in Economic Developments and Prospects*. Based on the World Bank's paper, with regards to trade policies the Mediterranean Countries (the survey does not include Israel) are positioned broadly in line with the world average. The strongest positions are held in the Region by Egypt, Jordan and Lebanon. As regards the quality of public administration, the Mediterranean Countries generally rank lower than the world average, albeit still in line with the other emerging regions. On the other hand, results in terms of reforms affecting the business environment are poorer, and – despite with significant differences from among countries, with Lebanon and Jordan emerging as positive examples – the Mediterranean Countries generally rank lower than the world average and below the other emerging regions. The ranking in terms of the indicators of public administration trustworthiness is very low (around the 20th percentile).

[21] The will to progress along the path of regional integration and greater openness to trade and investments in the Euro-Mediterranean area, was reasserted during the 8th Conference of the Trade Ministers of the UfM, held in Brussels on 9 December 2009. After verifying progress towards the creation of a Euro-Mediterranean Free Trade Zone, the Conference laid out a Road Map of the necessary actions and measures to strengthen openness to trade and investments beyond 2010. See http://trade.ec.europa.eu/doclib/press/index.cfm?id=472&serie=279&langId=en.

[22] See Peridy N. (2005), *Toward a Pan-Arab Free Trade Area: Assessing Trade Potential Effects of the Agadir Agreement*, The Developing Economies, XLIII-3, pp. 329-45, and Romagnoli A. and Mengoni L. (2009), *The Challenge of Economic Integration in the MENA Region. From GAFTA and EU-MFTA to Small Scale Arab Unions*, Econ. Change Restruct., vol. 42, pp. 69-83.

[23] See World Bank, 2008, op. cit.

between the South Mediterranean countries and the EU could more than triple if the Euro-Mediterranean region reached the same level as among EU-15 countries[24].

The EU plays an important role not only as a trade partner, but also in generating FDI addressed to the region (and in particular to countries of the Maghreb), followed by the Gulf countries (present in the countries of the Mashreq), the USA (primarily addressed to Israel), and Asia. The FDI stock accumulated has become considerable, as a percentage of gross domestic fixed investments, in the countries of the Middle East (in particular in Lebanon and Jordan, which had ratios of around 90% in 2007), significant in the North African countries (and in particular in Tunisia, with a ratio of more than 70%, and in Morocco and Egypt, with ratios of around 40%), but still limited in Algeria (around 10%)[25]. The trend of FDI, while significant, could also benefit from a further improvement in the business environment and from greater integration within the region, and with the EU.

As regards trade relations with the EU, discussed in Chapter III, particular attention is devoted to trade with Italy. With trade amounting to a total worth of around EUR 50Bn in 2008, Italy accounts for a significant share of the imports and exports of the South Mediterranean countries, and consistently ranks among the leading trade partners of most of the region's nations. In turn, South Mediterranean Rim countries are important trade partners for Italy, accounting for a 6.8% share of total foreign trade. Italy imports from the region around 40% of the energy minerals it purchases abroad, and exports around 8% of its total sales abroad of machinery and mechanical devices.

As a result of the broad delocalisation processes undertaken, it records important trade flows in the textile, clothing and footwear accessories, and machinery sectors. Within Italy, the South regions – due to its geographic proximity and, according to some authors, for the greater complementarities of productions – play an important role for trade with South Mediterranean Countries[26]. By business sector, refined oil products top the table of Southern Italian exports to the South Mediterranean (60% of total exports), followed by metal and mechanical industry goods (17%) and, at a distance, food, chemicals, and fashion system products.

An important contribution to the trends of productivity and growth of a country is made[27] by well-developed banking and financial systems. In an analysis carried out on a large sample of countries, some authors point out the positive role played by intermediaries and sufficiently developed local markets in supporting FDI flows and growth[28]. The characteristics of the banking and financial systems of the countries of the region are described in Chapter IV of this paper. To varying degrees from one nation to the other (and with the notable exception of Israel and Lebanon, financially more advanced), the countries of the South Mediterranean Rim have achieved only a low level of financial development to date, both in institutional and regulatory terms, as well as in terms of intermediated volumes.

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[24] See on this also Ferragina A., Giovannetti G. and Pastore F. (2005), *A Tale of Parallel Integration Process. A Gravity Analysis of EU Trade with Mediterranean and Central and Eastern European Countries*, IZA DP n. 1829.

[25] On this point, see Femise (2009), *Les Pays Partenaires Mediterraneens face a la crise*.

[26] For a more detailed analysis of the opportunities for Italy and its southern regions stemming from an intensification of trade relations between the two rims of the Mediterranean, see Giustino E., (2008), *Mediterraneo 2010. Sfida vitale per il Mezzogiorno*, Ed. Guida.

[27] For an exhaustive analysis of this topic, see Demirguç-Kunt and Levine R. (2008), *Finance, Financial Sector Policies and Long-Run Growth, World Bank,Commission on Growth and Development*, Working Paper n. 11.

[28] Alfaro L. et al. (2004), *FDI and Economic Growth: The Role of Local Financial Markets*, Journal of International Economics, Vol. 64(1), pp. 89-112.

The ratio between credit to the private sector and GDP is especially low in countries that are net exporters of oil, i.e. 12% in Algeria, 9% in Libya, but is also limited to 17% in Syria. On the other hand, ratios are relatively high in the countries of the Middle East, led by Israel (90%) and Jordan (88%), and on intermediate levels in the other countries of North Africa, such as Egypt (44%) and Tunisia (59%), yet with a peak in Morocco (78%). Deposits, which represent the main form of allocation of the financial wealth of households, highly supported by worker remittances, also account for the largest portion of the banking system's deposits.

In all the countries of the region, the presence of the state is significant, peaking at 90% of the total assets of banks in Libya, and holding some weight even in the countries with more advanced banking systems, such as Israel (30% of total assets). Important privatisation processes have also been pursued in all South Mediterranean countries, albeit recently slowed down as a result of the global financial crisis. The presence of foreign banks is marginal in Algeria and Libya; on the other hand, it is significant in Jordan, where private banks are mostly controlled by funds based in the Gulf countries. As regards North African countries, an important role is played by French banks in Morocco and Tunisia and by Italian banks in Egypt, following the placement of Bank of Alexandria, acquired in 2006 by SanpaoloIMI.

The region's financial markets, and stock markets in particular, are also scarcely developed. The number of listed companies on the main stock exchanges is still low, and trading volumes are modest. Stock markets are by all means marginal in oil-exporting countries, where market capitalisation falls short of 1% of GDP, but significant in the countries of the Middle East, and in Jordan in particular, where stock market capitalisation has reached 180% of GDP. Lastly, the weight of the stock markets is increasing in North Africa countries, and especially in Egypt and Morocco, which at the end of 2008 had market capitalisations of 54% and 79% of GDP respectively. In several countries, in particular in Egypt and Morocco, progress has been made in terms of the legislative, regulatory and institutional frameworks, encouraging the growth of the local markets. The presence of non-banking financial firms, such as insurance companies, pension funds, and mutual funds, is also modest on the whole.

While progress has been made, especially in the more advanced countries of the Middle East, but also in North Africa, much remains to be done to modernise the banking and financial systems of the South Mediterranean Rim[29]. Based on the indications provided by major international research centres, the most serious shortcomings are inadequate rules in terms of accounting, and insufficient transparency due to lack of information disclosure. The weaknesses holding back credit growth – and access to credit by enterprises, especially of small and medium size[30] – include, according to a number of contributions, low protection of creditor rights, informative shortcomings on the creditworthiness of borrowers, and the lack of adequate instruments to support risk assessment[31].

In the current economic phase, the banking and financial system's relatively limited degree of international openness has avoided direct contagion effects stemming from the financial crisis. In perspective, better integration – as proven by the experience of Central-Eastern European

[29] See, among others, Tahari A. *et al.* (2007), *Financial Sector Reforms and Prospects for Financial Integration in Maghreb Countries*, IMF Working Paper n. 125.

[30] On this topic, see Expert Group Report (2006), *Access to Finance for SMEs of the North Africa Region and the Middle East*, February, Brussels.

[31] See Djankov *et al.* (2005) *Private Credit in 129 countries*, NBER Working Paper n. 11078. On a sample of 129 countries, which includes the countries of the South Mediterranean Rim, the authors also found that protection of creditor rights, and the presence of institutions gathering information on the creditworthiness of potential borrowers, are significant growth determinants with regards to credit to the private sector.

countries – is considered as a crucial factor for the development of local banking and financial systems, and, consequently, for the growth of the region's enterprises and economies at large.

Institutional Developments and Business Opportunities within the Framework of the Euro-Mediterranean Partnership

Institutional relations with EU countries and business opportunities in South Mediterranean are discussed in the third part of this study. The aim of the Partnership was to create "a common area of peace, stability, and prosperity", to be pursued not only in the economic and financial sectors, but also in the realms of politics and security, as well as in the social, cultural and humanitarian spheres. In order to provide greater impulse to the Barcelona Process, and to strengthen dialogue between partner countries, the Union for the Mediterranean project was launched in 2008, with a new institutional structure governing the activities of the Union, based on the co-presidency of the UfM, by one EU representative, and one non-EU representative. As the Israeli-Palestinian conflict broke out again in early 2009, the high-level meetings due to take place were postponed, and the process of implementing the project was effectively slowed down.

The evolution of Euro-Mediterranean relations are analysed in Chapter V, together with a detailed report on the progress made towards the creation of the Free Trade Area (also following the recent approval of the *Euromed Trade Road Map*), on industrial cooperation instruments and, in particular, on the implementation of the Euro Mediterranean Charter signed on the occasion of the Caserta Conference in 2004[32], on the six Priority Projects, approved by the UfM member states to provide new impulse to the Euro Mediterranean Partnership[33], and on the financial instruments in support of the Euro-Mediterranean policy (ENPI and FEMIP).

A particularly important initiative in this context is the one taken by a group of twelve Euro-Mediterranean banks, which subscribed to a Protocol of Intents on the side of the first UfM summit. Within the framework of the *Alliance des Banques pour la Méditerranée*, member banks plan to launch twenty tangible projects of crucial importance for the economies of the region, aimed at facilitating financial transfers (including emigrant worker remittances), encouraging the diffusion of savings and financing products linked to the provision of banking services, supporting and assisting SMEs by facilitating their access to credit, and supporting the financing of infrastructure projects of international scope. This is an important initiative taken by the private sector in the same spirit as the institutional objectives laid out by the Union for the Mediterranean[34].

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[32] During the 5th Euro-Mediterranean Conference held in Caserta in 2004, the Ministers of Industry signed an agreement on the shared principles on which to build the policies to support enterprise in the countries of the region. In 2007-2008, with the aim of strengthening cooperation in the field of industrial policies, a pilot project was launched with the participation of the EC, the OECD, EFT, and the BEI, for an assessment of the state of advancement of implementation of the Charter. See European Commission *et al.* (2008), *Report on the Implementation of the Euro-Mediterranean Charter for Enterprise. 2008 Enterprise Policy Assessment*.

[33] The six priority projects address the following issues: 1) De-pollution of the Mediterranean; 2) Establishment of Maritime and Land Highways; 3) Civil Protection; 4) Alternative Energy Sources and a Mediterranean Solar Plan; 5) Higher Education, Research, and Establishment of a Euro-Mediterranean University ; 6) Mediterranean Business Development Initiative.

[34] The banking institutions taking part in the initiative, *Al Amana, Attijariwafa Bank, Bank of Alexandria, BIAT, BTK, CECA-Spanish Confederation of Savings Banks, CIH- Crédit Immobilier et Hôtelier, Fransabank, GCE-Groupe Caisse d'Epargne, Intesa Sanpaolo, BEI, AFD- French Development Agency*, have expressed the

A wide range of business opportunities open to potential investors wishing to address the South Mediterranean Rim, in the various countries and in different business sectors, is finally reported in Chapter VI. A summary is offered for each country, which describes its position in terms of: a) state of advancement in the implementation of the Euro-Mediterranean Charter for Enterprise; b) investment incentives; c) business opportunities; and d) infrastructural projects. Investment incentives and business opportunities are also revised on sectoral basis, together with the multilateral cooperation projects in infrastructures.

Sectors and countries of operational interest are identified based on their economic specialisation, the incentives devised to encourage investments – among them, the establishment of numerous free trade zones in several countries – the reform policies adopted to support enterprise and to improve the institutional governance of the economy. As regards the different areas of economic specialisation, these range from the energy sector in Algeria and Libya, to agriculture and food, textiles, construction and tourism in Morocco, Tunisia, Egypt, and Syria, to the processing of precious stones, chemicals, and the pharmaceutical industry in Jordan, Israel, and Lebanon. As regards sectors which make use of advanced technology, opportunities are identified in the biotechnology sector in Israel, in telecommunications in Egypt, in the IT sector in Lebanon and Israel, and in renewable energy sources, also in Israel. However, interesting initiatives in the latter fields have also been taken in Egypt, Tunisia, and Morocco[35].

Given the significant infrastructural gap, investment projects are in place in almost all the region's countries in the transport, electricity, water, environmental, health care, and training sectors. The investments are financed in part by local governments and in part by foreign entities, first and foremost belonging to the EU. On this regard, mention is made here of the instruments of the EU's European Neighbourhood Policy (ENP), of the BEI's FEMIP, of the Infra-Med Infrastructure Fund and of the initiatives adopted by the member banks of the *Alliance des Banques pour la Mediterranée*.

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desire that the projects be officially acknowledged within the framework of the Union for the Mediterranean.

[35] For a guide by business sector to investing in the countries of the South Mediterranean, see ANIMA, *La carte des investissement en Mediterranée*, prepared as part of the *Invest in Med* programme, coordinated by the MED_Alliance consortium, led by ANIMA, and which includes, among others, BusinessMed, Eurochambres, ASCAME, UNIDO, GTZ, and is 75% co-funded by the European Commission. The guide document is available from www.animaweb.org, and the programme from www.invest-in-med.eu.

The Economic Developments

1 The Economic Cycle

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In this chapter, which focuses on macroeconomic developments in the countries of the South Mediterranean, we will first analyse the dynamics of the main components of economic growth over the past decade, on both the fronts of demand and supply, and subsequently analyse the potential impacts of the recent global financial crisis on the region's economies. We will then discuss the economic policies pursued by the different countries over the past few years, and those adopted in response to the recent global recession, offering an overview of monetary and fiscal policies, and devoting particular attention to the trend of public accounts, currency policies, and foreign financial positions. The latter part of the chapter will be devoted to how the single countries have been viewed both by the main rating agencies and, in terms of spreads vs. sovereign bonds, by the financial markets, in the past year.

1.1 An Overview

The countries of the South Mediterranean have varied economic structures. The North African region includes both scarcely diversified economies, essentially dependent on the extraction of gas and oil, such as Algeria and Libya, and sufficiently diversified transformation economies which, also with the help of substantial foreign direct investments, have achieved a good level of development in both the manufacturing and services sectors (with tourism playing a leading role), and have established important commercial ties with Europe. These include Egypt, Morocco, and Tunisia.

In the Middle East, islands of technological excellence, such as Israel (biotechnology, information technology and telecommunications) – that has strong commercial ties with the United States – and financial excellence, such as Lebanon (referred to before the devastating Civil War as the Switzerland of the Middle East), stand side by side with other sufficiently well-diversified economies that, however, are not so advanced, such as Jordan and Syria, which entertain strong trade relations with the Gulf countries.

GDP e Population (2008)

	Weight (*)%	GDP nominal USD Bn	Population M	GDP per-capita at PPP USD	Income class (**)
Oil-exporting countries					
Algeria	0.33	170	34.3	7,970	Upper middle income
Libya	0.122	70	6.2	16,410	Upper middle income
Countries with Diversified exports					
Nord Africa					
Egypt	0.643	159	81.5	5,440	Lower middle income
Morocco	0.197	89	31.6	4,390	Lower middle income
Mauritania	0.009	3	3.2	1,890	Low income
Tunisia	0.121	42	10.2	8,100	Lower middle income
Middle East					
Jordan	0.044	20	6.1	5,050	Lower middle income
Israel	0.286	202	7.3	27,690	High income
Lebanon	0.064	28	4.2	10,510	Upper middle income
Syria	0.134	51	21.2	4,550	Lower middle income
Total South Mediterranean	1.92	834	205.8	6,903	
USA	20.9	14,441	304	47,496	High income
Euro area	15.5	13,614	324	33,330	High income
Japan	6.44	4,909	127	34,040	High income
Brazil	2.8	1,575	191	10,340	Upper middle income
China	11.4	4,416	1,328	6,700	Lower middle income
India	4.8	1,225	1,148	2,930	Lower middle income
Russia	3.0	1,677	142	15,940	Upper middle income
GCC (***)	1.6	1,073	39	28,525	High income
World	100	60,428	6,218	11,120	

Note: (*) Weight in world GDP at PPP. (**) World Bank classification. (***) Include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE. Source: EIU

The combined economic weight of the 10 countries of the South Mediterranean on purchasing power parity adjusted World GDP is limited, accounting for less than 2%; however, they are undoubtedly relevant on the international scene both from a geopolitical and economic standpoint.

Average per capita income (on a purchasing power parity basis) has increased by over 70% since 2000, from USD 4,000 in 2000 to USD 6,900 in 2008, staying below the world average, which was of over 11,000 dollars in 2008. Per capita income is low when compared to the levels recorded in industrialised countries and in GCC countries (over USD 28,000), but higher than average income in BRIC countries (USD 5,700), in line with China's, and significantly greater than India's.

Income distribution in the South Mediterranean countries is very uneven, both across countries and within single nations. In 2008, Israel could boast higher per capita income (USD 27,690 on a PPP basis) than in many advanced economies, and was included among the high-income countries in the World Bank's ranking. Other countries, such as Egypt, Jordan, Morocco, Mauritania, and Syria, with large populations or dense populations in limited areas, given the inhospitable desert which accounts for the remainder of their territories, have poverty-stricken areas, a per capita income of less than half the average for the world economy, and are considered by the World Bank as low average income countries. Libya, most of which is covered by the desert, has a small population and is rich in oil, and Algeria, also oil-rich but more densely populated, are ranked by the World Bank in a higher income class, but income distribution within these countries is very uneven.

In the past decade, the economies of the South Mediterranean have achieved strong average GDP growth rates, albeit falling short of the average for the emerging economies. The more moderate trend is essentially due to on the offer side to lower total factor productivity (see the chapter "Long-term economic growth"), although efficiency has improved in the past few years. On the demand side, growth was mostly driven by consumption, encouraged by policies aimed at raising the population's average quality of life, given the presence of areas afflicted by poverty. Investments also made a significant contribution, fuelled by public spending in infrastructure as well as by substantial foreign direct investment. Foreign investments, mostly originating in Europe and the Gulf countries, together with the availability of abundant cheap labour, a domestic market with strong growth potential, and progressively more open trade policies, in some cases facilitated rather positive development in manufacturing and services sectors. In the manufacturing sector, transformation industries came to the fore, tied to the primary sector and to labour-intensive, low-medium technology content productions (with the exception of Israel, a high-tech island), whereas in services foreign capitals were mostly addressed to the real estate sector and to tourist facilities.

The impact of the global economic slowdown on the economies of the region has been blander than on other emerging economies, given the lower exposure to the economic and financial trends in advanced economies, the actions taken by governments to support demand, and, in oil-producing countries, to the wealth of financial resources accumulated. Furthermore, the economic system reforms pursued in the recent past, while still limited in scope, have enhanced the effectiveness of the economic policies put in place in support of the economy. While the financial position of the countries of the Mediterranean is no cause for real concern, the financial crisis and its negative fallout on the international flow of funds and on propensity to invest in higher-risk countries, may hinder the inflow of capitals from abroad, that are essential in enabling South Mediterranean economies to make a further leap along the path to stronger growth.

1.2 Economic Growth in the Past Decade

1.2.1 Demand

Between 2000 and 2008, the countries of the South Mediterranean Rim recorded average real GDP growth of 4.3%, falling short of both the average growth rate of emerging economies taken as an aggregate, of 6% in the same period (with peaks of close to 9% in Asia), and of the rate of almost 6% achieved by Gulf countries (GCC). Growth was stronger on average in the 2005-2008 period (5%) than between 2000 and 2004 (+3.9%). The distribution of growth rates across South Mediterranean countries in the 2000-2008 period was rather concentrated, with Jordan achieving the highest average rate, at 6.3%, driven by strong ties (emigrant workers, FDI, aid) the with oil-producing countries of the Gulf, and Lebanon bringing up the rear with a 3.1% growth rate, hindered by the armed conflict and political instability.

In almost all South Mediterranean Rim countries, the strongest contribution to growth on the demand side was made by consumption, which over the entire period accounted for more than half the overall growth (2.5% out of +4.3%). This component was driven by generous pay rises, mostly concentrated in the public sector, falling unemployment, remissions from emigrant workers, and government benefits issued to the poorer social classes.

On the whole, the contribution made by investments to overall growth (1.2% over the entire period) amounted on average to less than half that made by of consumption. In oil-producing countries, an important driver of investments was public spending in infrastructure, services networks and residential housing, funded with oil proceeds. In these countries, the contribution made to growth by investments was higher on average. In countries with diversified exports, investments were well supported, as well as by public spending in infrastructure and residential housing, by substantial foreign direct investment, mostly addressed to the real estate sector and manufacturing.

South Mediterranean countries are relatively open economies. Average openness, defined as the ratio of trade in goods and services and gross domestic product, was higher than 80% in 2008, beating Latin American countries (46%), but falling short of transition economies (131%). Considering all the countries as a single aggregate, foreign trade made a zero net contribution to GDP growth. Export growth, fuelled by tight trade relations with countries outside the region (mainly Europe for Maghreb countries and Egypt; the Gulf countries for the rest of the Mashreq group; and the USA in Israel’s case), was offset by the strong import trend, driven by domestic demand and by the improvement of the population’s standard of living. It should be highlighted that for commodity-exporting countries, an indirect contribution to growth derived from improved terms of trade and higher proceeds from exported commodities. Both factors supported public spending growth.

Growth 2000-08

	Average GDP growth			Contribution to GDP growth 2000 - 2008			
	2000-04	2005-08	2000-08	Consumption	Investments	Net Trade	Government
Algeria	4.3	3.5	4.0	1.4	1.3	0.4	0.9
Libya	3.9	5.4	4.7	2.4	1.8	-0.3	0.5
Egypt	3.8	6.4	5.0	3.2	1.3	0.1	0.4
Morocco	4.8	4.9	4.8	2.7	2.0	-0.9	0.6
Mauritania	3.3	5.3	4.2	4.4	8.6	-10.3	1.5
Tunisia	4.6	5.1	4.8	3.2	0.6	0.0	0.7
Jordan	5.6	7.1	6.3	6.1	1.8	-2.5	0.9
Israel	3.0	4.9	3.8	2.2	0.4	0.9	0.5
Lebanon	4.2	1.8	3.1	1.8	0.8	0.1	0.5
Syria	3.9	5.7	4.7	3.1	1.7	-1.2	1.2
South Mediterranean	3.9	5.0	4.3	2.5	1.2	0	0.6

Source: EIU

1.2.2 Supply

In recent years, South Mediterranean countries have achieved higher diversification of their production setups, previously skewed either towards commodities, or towards agriculture. Even in the region's major oil exporters, Algeria and Libya, the weight of non-oil industries increased, mostly driven by substantial investments (funded with oil proceeds) in infrastructure, public works, construction and public services.

The other countries of the region managed to achieve encouraging growth in both the manufacturing and services (especially the financial and tourist industries, and trade). Growth was supported by several factors: a) foreign direct investment, which accounted for 30% or more of gross fixed investments in Egypt, Israel, Jordan, and Tunisia; b) privatisations via the sale of important stakes in banks, telecommunications companies and public utilities, and the encouragement of private enterprise in the form of small and medium-sized companies. Important developments in this direction were seen not only in Israel, but also in Egypt, Morocco and Tunisia; c) policies aimed at developing trade. Almost all the region's countries are implementing trade liberalisation policies as part of agreements with both the European Union and other countries of the region; d) policies aimed at improving investment confidence and the quality of public administrations.

Contribution to Added Value

% share	Agriculture	Mining	Manufacturing	Utility	Costruction	Services
Algeria	6.5	45.6	6.5	n.a	8.8	32.6
Libya	3.5	53.5	2.1	2.5	15.5	22.9
Egypt	11.4	9.6	26.6	5.3	8.5	38.6
Morocco	14.6	7.3	14.2	2.6	6.2	55.1
Mauritania (**)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tunisia	10.4	1.0	18.0	9.7	5.5	55.4
Jordan	3.5	2.1	18.5	2.5	6.2	67.2
Israel	2.6	n.a.	24.7	2.9	7.2	62.6
Lebanon (**)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Syria	20.0	{31.0(*)	31.0(*)	31.0(*)}	3.5	46.0

Note: (*) For Syria, the Central bank provides an aggregate number for mining, manufacturing and utility. (**) Lebanon and Mauritania do not provide a disaggregation of added value. Services have a significant weight (both financial, trade and transport) in the Lebanese economy, while mining activity contributes significantly to added value in Mauritania; Source, IMF, Central banks National Statistical Offices

The manufacturing sector contributes significantly to added value in Egypt, Israel Jordan, Morocco, Syria, and Tunisia. Israel represents an island of technological excellence (new economy companies in the electronics, health care, and biotechnology sectors), while the other countries have mostly developed transformation industries tied to the primary sector (agriculture and mining & oil) or labour-intensive productions with medium-low technology content, such as textiles & clothing, the mechanical sector, civilian electronics, and basic chemicals.

Main Manufacturing Sectors (2008)

	Egypt	Jordan	Israel	Morocco	Syria	Tunisia
Food transformation	^		12	23	31	18
Chemical, pharma and refining	^	^	21	36	15	12
Consumer electronics	^		18	4		6
Machinery			13	16	5	23
Construction material					18	9
Textile and clothing	^	^		21	28	42
Metal forming		^	10	18		

Note: the numbers show the share in total manufacturing output. The ^ symbol indicates that the specific sector provides a significant contribution to manufacturing activity. Source: IMF, National Statistics

The weight of the non-manufacturing sector has increased considerably in the past few years. In low average income countries (such as Egypt, Morocco, and Syria), however, the growth of the

services sector is mostly the result of government actions in support of employment and of the weaker social classes, rather than a market-based development of specific economic activities.

In the region's relatively small and very open economies (Jordan, Israel, and Lebanon), intense economic and financial relations with foreign countries have aided the development of financial services (emigrant worker remissions; deposits held by emigrant workers and represented by oil-economy capitals), and other services dependent on trade, transportation (aviation and naval sector, such as the Suez Canal for Egypt), and tourism. Services tied to the tourist industry play a considerable role not only in Jordan, but also in the North African countries (Egypt, Morocco, and Tunisia).

Tourism, Remissions of Emigrant Workers and FDI (2008)

% share	Tourist revenues/GDP	Remissions of emigrant workers/GDP	FDI/GDP
Algeria	0.3	1.3	1.1
Libya	n.a.	n.a.	n.a.
Egypt	5.4	5.9	7.3
Morocco	8.6	7.5	4.1
Mauritania	n.a.	n.a.	n.a.
Tunisia	6.5	2.8	4.3
Jordan	12.6	16.9	11.0
Israel	1.8	n.a.	5.2
Lebanon	2.6	1.7	19.9
Syria	3.6	1.8	1.8

Source: World Bank

1.2.3 Current Economic Trends: the Impact of the Recession

The global economic slowdown has negatively impacted growth in the economies of the South Mediterranean. This impact, however, has proven more moderate than in other regions of the world, due to a more limited exposure to the economic and financial trends of the advanced economies, and to the greater support provided by governments in the region to demand. In South Mediterranean economies, the recession had the following main effects:

- Drop in oil prices. After peaking at almost USD 150 per barrel in the summer of 2008, the price of oil (North Sea Brent) dropped to USD 30 per barrel in early 2009, and subsequently climbed back to close to USD 80 per barrel at the end of 2009. The average price of oil in the first 10 months of 2009 was USD 61 per barrel, down from USD 97 per barrel in 2008. The drop in oil prices had a direct impact on oil-exporting countries such as Algeria e Libya (lower revenues, production cuts to support quotations, lower purchasing power), and an indirect impact on countries with large populations such as Egypt and Morocco, as well as on Jordan and Lebanon (slower inflow of capitals from the Gulf countries in the form of deposits, direct investments, and emigrant worker remissions, decreased receptive capacity abroad for excess labour).
- Smaller remissions from emigrant workers (especially from the Gulf countries for Egypt, Jordan, and Lebanon; from Europe for Mauritania, Morocco, and Tunisia). These flows represent an important driver of domestic demand, for durable goods in particular.
- Weaker foreign demand originating in European markets and in the Gulf countries. In the first seven months of 2009, the North African countries with diversified exports (Egypt, Morocco, and Tunisia) saw the total worth of their exports drop by between 20% and 30% compared to the same period last year.
- Drop in foreign direct investment. Foreign direct investment accounts for a large share of overall investments in the North African countries with diversified exports (Egypt, Morocco, and Tunisia), but also in the Middle East (Lebanon and Jordan), and in Israel.

- Reduced tourist flows. In its recent report on 2009 growth prospects for the MENA economies, the World Bank estimates that revenues generated by tourism in 2009 (in relation to GDP) could drop by over 3% in Jordan (to 9% of GDP), by 1.5% in Egypt (to 4.2% of GDP), and by around 0.5% in Morocco, Tunisia, and Lebanon.
- The recession has forced several countries (among which Algeria, Egypt, Jordan, and Syria) to postpone important reforms of their fiscal and social benefit systems (which are particularly generous).

However, oil-producing countries accumulated substantial resources during the positive phase of the oil cycle, which they can use to finance budget deficits and support demand. Countries with more diversified economies have also pursued fiscal stabilisation policies in recent years, as well as economic and financial system reforms, which in several instances now confer greater freedom to economic policy authorities in using both the fiscal and monetary levers.

Based on the latest estimates drawn up by EIU and the International Monetary Fund, growth in Mediterranean countries should slow to 2.8% in 2009, from over 5% in 2008. The slowdown will largely be due to the contraction or slowdown in investments in countries with a more developed manufacturing sector (Egypt, Israel, Morocco, Syria, and Tunisia), where this component of GDP is more sensitive to the weakening of foreign demand and FDI. Consumption is also expected to slow, albeit at a slower rate than investments. Support offered to consumption in the form of pay rises in the public sector and social benefits issued to the poorer classes, will offset in part the negative impact of higher unemployment and reduced remissions from abroad. Foreign trade is expected to make a negative contribution to GDP growth, mostly as a result of the sharp drop in exports, suffered in particular by the countries more exposed to the European economic cycle (Egypt, Morocco, Syria, and Tunisia) and to the trends of the US economy (Israel). Imports, on the other hand, should prove more resilient, supported by domestic demand.

Macro Forecasts for South Mediterranean Countries

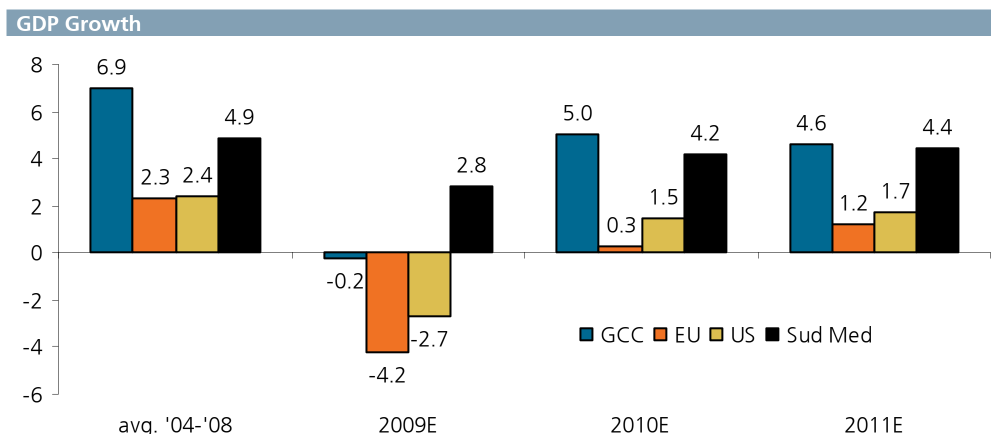
% chg.	2008	2009E	2010E	2011E
South Med total				
GDP	5.1	2.8	4.2	4.4
Consumption	5.9	3.6	4.5	4.9
Investments	9.8	-0.6	5.4	6.6
Exports	8.2	-7.0	3.3	4.6
Imports	11.3	-4.4	5.7	6.8
Public spending	4.5	6.0	6.2	4.6
Inflation	8.7	5.2	5.4	4.3
Country GDP growth %				
Algeria	2.8	2.6	4.6	4.4
Libya	6.0	4.0	4.6	4.7
Egypt	7.2	4.7	5.4	5.7
Mauritania	3.5	1.5	3.0	3.8
Morocco	6.2	4.0	3.8	4.3
Tunisia	4.6	1.2	2.7	2.9
Israel	4.0	0.6	2.6	2.8
Jordan	5.6	3.1	3.0	3.7
Lebanon	8.0	5.1	5.8	5.5
Syria	5.1	1.9	4.1	4.5

Source: EIU, IMF

In the medium term, the leading forecasting institutions expect the real GDP growth rate in the region as a whole to start accelerating gradually as of 2010, driven by the forecast recovery in demand in Europe and in the Gulf countries. Based on the forecasts provided in the latest IMF report (WEO, October 2009) economic growth in the region should rise to close to 5% in the long term (2014), above the world average (4.5% as forecast by the IMF), but below the

average for the emerging economies (6.5%, IMF forecast). Average estimated growth in the region in the next five years (4.4%) is almost 1.5% lower than the average growth rate recorded in the 2004-2008 five-year period (5.8%).

GDP Growth



Source: IMF Outlook, October 2009

1.3 Economic Governance

1.3.1 Monetary Policy

In 2007, and in the first half of 2008, the main concern of the central banks of the South Mediterranean Rim countries was to counter inflation pressures, by hiking interest rates and draining excess liquidity. Although several countries had put in place policies geared to cooling prices and energy subsidies, between 2004 and 2008 the average inflation rate in the countries of the South Mediterranean rose to 5.6%, from 2.3% in the previous five-year period. At the global level, on the other hand, the average inflation rate remained broadly the same in the same two periods (4.3% in 2004-2008 and 4.2% in the previous five years). In the closing months of 2008 and in 2009, following the easing of upwards tensions on prices (the average rate in 2009 is forecast at around 5%, vs. 8.7% in 2008) and the global recession, central bank focus shifted to supporting economic growth.

Despite the decline in nominal interest rates, in 2009 year real rates have increased in almost all the countries considered. The Israeli central bank was the first to start hiking rates (by 25bps to 0.75%), last August, with inflation stubbornly on higher levels than the 3% target. The rate rose to 1.25% by end 2009. In countries with a fixed exchange rate regime (Jordan and Lebanon), substantial debt in currency forced central banks to keep the spread between domestic rates and rates vs. the dollar wide, in order not to compromise parity. In Northern African countries with diversified exports (Egypt, Morocco and Tunisia), structurally high inflation due to lingering inflexibilities in these economies, hindered the drop in nominal rates.

Interest rates and Inflation

	Real interest rates (*)		Inflation (*)		Interest rates (*)	
	2009	2008	2009	2008	2009	2008
Egypt	-3.5	-8	13.3	21.5	9.75	13.5
Morocco	4.0	1.5	-0.7	2	3.25	3.5
Tunisia	0.4	0.5	4.1	4.7	4.5	5.25
Jordan	6.25	-12.65	-1.5	19.4	4.75	6.75
Israel	-2.5	-1.25	3.8	5.5	1.25	4.25
Lebanon	5.5	0.0	2.0	8.0	7.5	8

Note:(*) The figures are the latest available; Source: Central banks, Thomson Reuters - Datastream

1.3.2 Fiscal Policy

In recent years, the uptrend in revenues (fuelled by the favourable economic situation, by higher export commodity prices and, in the non-oil-exporting countries of North Africa, by initial reforms aimed at strengthening fiscal management, widening the taxable base, and redefining taxation), and spending management policies (in Egypt, Jordan, Morocco, Syria, and Tunisia, focused on revising criteria on which social benefits are issued), allowed the countries of the South Mediterranean Rim to achieve stronger control over public accounts, to reduce debt as a percentage of GDP, and to increase fiscal policy discretion. In 2009 the policies put in place to support the economic cycle, and slower economic growth as a result of the recession, will generally result in a deterioration of public accounts and in higher public debt.

In the countries of the South Mediterranean Rim, the public debt/GDP ratio dropped from an average of 81% in 2000 to just over 59% in 2008. Oil-exporting countries were not only able to bring down the debt/GDP ratio into single-decimal-digit territory, but also to establish sovereign wealth funds. Specifically, in Algeria extra revenues generated by higher-than-estimated oil prices, were deposited in the "Fonds de régulation des recettes (FRR)", estimated to be worth around USD 60Bn at the end of 2008. To manage extra financial assets from oil sales, in June 2007 Libya established the Libyan Investment Authority (LIA), into which pre-existing funds were incorporated, such as the Oil Reserve Fund, the Libyan Foreign Investment Company, and Libya's African investment portfolio. Based on unofficial data (source: IIF), at the end of 2008 almost 80% of an approximate total of USD 70Bn managed by LIA were invested in short-term financial instruments in currency, with shares accounting for just over USD 8Bn.

Although their fiscal position has improved, Northern African countries with diversified exports have higher debt-to-GDP ratios than their peer average. National accounts are conditioned by still substantial social benefit spending in support of the large portion of the population which lives in poverty, and a still limited taxable base, which amplifies the cyclicality of revenues. Among Middle Eastern countries, Jordan is in the worst position, and Syria in the best. Periodic involvement in armed conflicts has led to strong public debt growth in Israel and Lebanon. However, these latter countries, also thanks to a highly developed financial system, do not face particular difficulties in terms of financing.

Public Deficit and Debt

	Public deficit/GDP				Public debt/GDP			
	2008	2009E	2010E	Avg. 2000-08	2008	2009E	2010E	Avg 2000-08
Algeria	3.4	-7.9	-5.4	7.5	13.5	20.0	21.3	21.2
Libya	26.2	-2.7	5.8	21.3	3.3	4.9	4.2	9.6
Egypt	-6.9	-6.9	-8.5	-8.3	86.4	79.0	79.7	113.5
Mauritania	-1.0	-3.1	-3.5	-5.3	n.a.	n.a.	n.a.	n.d.
Morocco	0.4	-1.0	-2.3	-3.7	55.6	53.6	51.8	71.2
Tunisia	-1.2	-6.4	-5.3	-2.9	48.0	53.9	56.6	57.5
Jordan	-9.9	-11.4	-10.3	-10.2	62.2	69.8	71.0	81.8
Israel	-2.1	-4.6	-4.3	-2.4	76.8	80.4	82.9	88.8
Lebanon	-10.0	-10.8	-10.3	-13.4	161.0	160.8	151.0	167.3
Syria	-2.2	-8.2	-5.7	-2.6	25.7	33.3	34.6	58.4
Sud Med	-0.3	-6.3	-5.0	-1.7	59.2	61.7	61.5	74.4

Note: (*) The (+) sign indicate a budget surplus; Source: EIU.

1.3.4 Exchange Rates

In almost all the countries of the South Mediterranean Rim, currency fluctuations are more or less tightly controlled. Limitations imposed on capital flows, and relatively poorly developed domestic currency markets, played to the advantage of controlled currency regimes. Of the region's countries, only Israel allows its currency to fluctuate freely. The most widespread regime in the other countries is a pegged exchange rate with respect to the US dollar, or to a basket that replicates the composition of the International Monetary Fund's SDRs (Special Drawing

Rights). This option is chosen by almost all the countries of the Middle East with diversified exports and by Libya. It is aimed at conferring a certain degree of stability to the domestic markets (both financial and real), that the Authorities would otherwise not be able to guarantee, for political reasons (conflicts, international sanctions, weak government) or structural shortcomings of their economies. North African countries with diversified exports and Algeria, on the other hand, have a controlled fluctuation regime. In Tunisia and Morocco, given these countries' intense trade relations with the European Union, fluctuation is controlled with respect to a basket of currencies, two-thirds of which is accounted for by the euro; in Algeria and Egypt, on the other hand, fluctuation is controlled, without preannounced benchmark levels, against the US dollar. In all these countries, which can boast relatively solid manufacturing and tourism services setups, or as in Algeria's case must promote diversification in the production of energy to offer employment to its large and growing population, exchange rate policies are primarily aimed at safeguarding competitive positions without compromising the containment of inflation pressures. In the past decade, controlled-fluctuation currencies have depreciated against their benchmark currencies. Currency depreciation was strongest in Egypt (over 50%), which has a history of periodic currency crises, and Tunisia, set on preparing its economy to the Free Trade Agreement with the European Union. In recent years, the currencies mentioned above have shown greater resilience, also thanks to substantial FDI (the Egyptian pound and the Algerian dinar both appreciated against the US dollar).

Exchange Rate Regime and Equilibrium REER

Country	Regime	% over (+), under (-) valuation with reference to the REER based on (*)	
		10 y avg.	Fundamental equilibrium (**)
Algeria	managed floating (vs USD)	-10.1	-11.2
Libya	peg SDR	2.1	n.a.
Egypt	managed floating (vs USD)	4.8	-7.1
Morocco	managed floating (basket 2/3 Euro; 1/3 USD)	1.3	-0.2
Mauritania	managed floating	n.a.	2.0
Tunisia	managed floating (basket 2/3 Euro; 1/3 USD)	-8.7	n.a.
Jordan	peg USD	-10.3	3.20
Israel	free floating	4.0	7.5
Lebanon	peg USD	-10.2	3/-12
Syria	peg SDR	-5.1	8.4

Source: Intesa Sanpaolo calculation on Thomson Reuters data. (*) The columns show the % difference between the REER as at end October 2009 and the calculated with the specific model. (**) Estimates using a few economics and financial variables

The table above illustrates the over (under) valuation of the real effective exchange rate as at October 2009 compared to the average for the past 10 years, and to an "equilibrium" exchange rate. For each currency, the real effective exchange rate's difference is shown compared to the average real effective exchange rate over the past 10 years on the one side, and against the equilibrium real effective exchange rate (REER) on the other. Equilibrium exchange rates are the fundamentals-based rates estimated by the IMF in its most recent "Country Report Art IV", updated in this paper using our elaborations incorporating the intervening real effective exchange rate changes for each country vs. the date considered in the "Country Report Art. IV", and July 2009.

Foreign Financial Position

In the past few years, oil-producing countries of the South Mediterranean Rim have achieved considerable current account surpluses, accumulating substantial reserves in currency. By contrast, in the majority of the region's other countries strong demand for imported products, and the deterioration of export agricultural and manufacturing product trade terms, have resulted in current account deficits being incurred. Egypt and Israel are the two exceptions, as they achieved a current account surplus thanks to strong performances in services and transfers. However, in the same period many of these countries benefited from large foreign direct investments, which tilted the balance of payments into positive territory, and allowed the accumulation of reserves in currency.

Oil-producing countries have felt the impact of the significant reduction of their trade surplus, caused by declining oil prices, and are therefore estimated to show a modest current account surplus in 2010. The foreign financial position of the other countries, on the other hand, should have improved, benefiting in terms of trade from a stronger drop in imports compared to exports. Only in Egypt and Syria the positive trend of trade is estimated to be outbalanced by deteriorating positions in services and transfers, resulting in a larger current account deficit.

Of the Mediterranean countries, only Jordan and Tunisia (and probably Lebanon, for which only the debt-to-GDP ratio is available, and is well over 100%) have a markedly negative foreign financial position, in excess of 100% of GDP, determined by FDI and loans in currency.

Analysis of the reserve cover ratio shows that none of the region's countries, not even those with a larger foreign debt as a percentage of GDP, such as Lebanon, or with significant current account deficits (also as a percentage of GDP), such as Jordan, or with a markedly net financial position, such as Tunisia, faces problems in financing its foreign position in 2010. In all countries, at the end of 2009 reserves were larger than the aggregate that includes the current deficit that needs financing and estimated debt reaching maturity in 2010.

Current Balance, Foreign Debt, Reserve Cover Ratio and Net Foreign Position

	Current balance/GDP			Foreign debt/GDP			Reserve cover ratio	NFP/GDP
	2008	2009E	2010E	2008	2009E	2010E	2010	2008
Algeria	19.7	-1.8	1.4	2.5	2.7	2.2	(*)	n.a.
Libya	41.3	11.2	21.4	6.5	11.1	9.4	(*)	n.a.
Egypt	-0.8	-1.7	-1.3	16.9	13.7	12.6	5.4	-16.9
Mauritania	-5.0	-4.7	-8.7	60.6	47.8	58.2	n.a.	n.a.
Morocco	-6.4	-3.7	-4.2	22.7	21.9	20.4	3.0	-36.7
Tunisia	-4.2	-4.3	-3.3	49.2	50.8	53.9	1.6	-105.9
Jordan	-11.7	-6.2	-5.2	33.8	32.9	31.0	2.9	-128.4
Israel	1.1	2.4	2.2	42.6	43.0	41.8	7.9	1.9
Lebanon	-10.5	-9.9	-10.5	115.7	116.0	109.3	2.9	n.a.
Syria	-1.4	-2.8	-2.4	14.2	14.9	13.8	2.2	n.a.
South Med	2.2	-2.2	-1.1	36.5	35.5	35.3		

Note: (*) Algeria and Libya are expected to record a current account surplus larger than the foreign financing requirement for the year. Source: EIU, Central banks, IMF

1.4 Ratings and Financial Markets

The main rating agencies cover six of the ten countries of the South Mediterranean Rim. Only two of them (Israel and Tunisia) are assigned investment grade status. The others are rated as speculative investments, albeit to different degrees. Egypt and Morocco are just one notch below investment grade status, and Jordan two. Only Lebanon is ranked among highly speculative investments.

Effective economic policy management, the significant reduction in recent years of foreign debt and public debt as percentages of GDP, solid foreign financial positions, and substantial reserves accumulated, all support the medium-high rating assigned by the major agencies (A by S&P) to Israel's sovereign debt in currency. Also based on the rating agencies' views, Tunisia's investment grade status reflects the progressive reduction of public debt and foreign debt, the structural reforms pursued, and continuity in economic policy management, which has significantly reduced the vulnerability of the economy to external shocks.

A large sovereign debt, the inflexibility of public accounts (with current spending accounting for too large a share, conditioning the use of counter-cyclical fiscal policy measures), low average per capita income with a large portion of the population still living in poverty, are behind the BB+ rating assigned to Egypt and Morocco, just one un notch below investment grade.

The ratings assigned to Jordan (BB) and Lebanon (B-) are conditioned by large public deficits and current trade deficits, as well as by strong dependence on foreign transfers in the form of aid, remissions from emigrant workers, and FDI, which make these economies particularly vulnerable to external shocks.

In South Mediterranean countries as well, CDS spread widened to new historical highs last winter, at the height of the financial crisis. Spreads subsequently narrowed back, and are now on the same levels as at the beginning of the autumn of 2008.

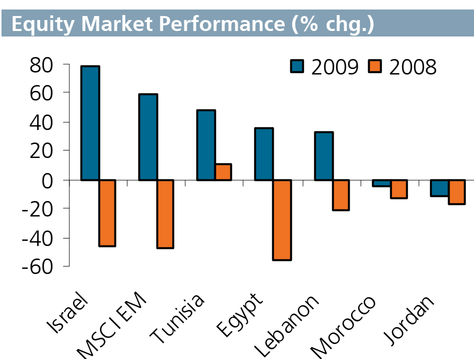
As a result of restored investor confidence in the emerging economies, between January and December 2009 quotations rose significantly on the stock markets of the South Mediterranean countries with diversified economies (in one case – Israel – indices outperformed the Emerging Economy MSCI index). The weakness of the stocks of potassium and phosphate producers prevented the equity markets of Jordan and Morocco from matching the increases recorded on the other stock markets of the Mediterranean. However, it should be said that these markets lost considerably less ground last year.

Rating and CDS Spread

	Rating S&P	Spread 31.12.2009	Maximum spread in 2008-09
Egypt	BB+	250	800
Jordan	BB	n.d.	n.a.
Israel	A	125	285
Lebanon	B-	287	1204
Morocco	BB+	132	359
Tunisia	BBB	189	656

Note:(*) The small spread of Morocco mainly reflects the low liquidity of the issue; Source: Bloomberg and Thomson Reuters

Equity Market Performance (% chg.)



Source: Thomson Reuters - Datastream.

2 Long-term Economic Growth. Main Drivers

Antonio Pesce

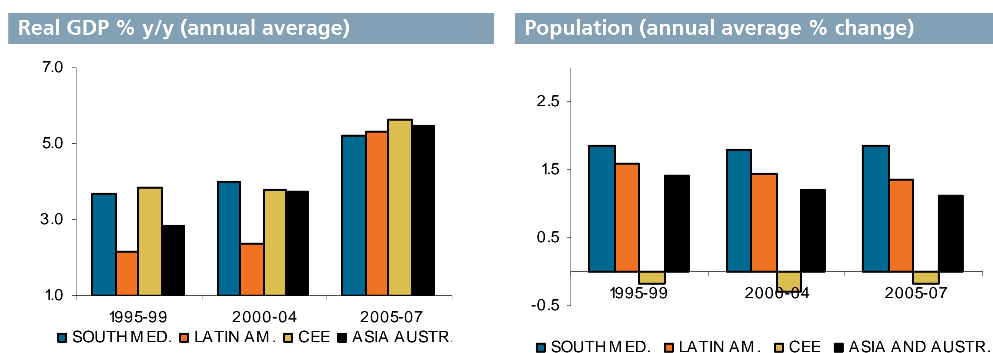
This chapter will discuss the main determinants of economic growth in the countries of the South Mediterranean Rim. The underlying theoretical paradigm of the analysis is based on the "growth accounting" approach, suggested by an extensive literature on the topic. Focus will be on the relative contributions made to economic growth by the utilisation of factors of production (capital and labour) and their efficiency, as defined by total factor productivity[36].

2.1 The Components of GDP Growth

In the period between 1995 and 2007, the South Mediterranean experienced an average annual real GDP growth rate of around 4.2%, in line with Central Eastern Europe (4.2%), and higher than the real GDP growth rate recorded by the EU15 (2.4%) and by other emerging economies, such as Latina America (3%) and Asia[37] (3.8%).

Real GDP % y/y (annual average)

Population (annual average % change)



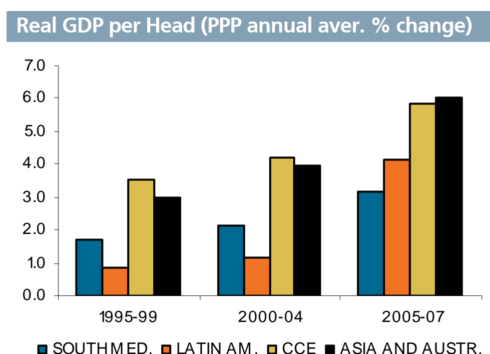
Source: EIU and own calculation on EIU data

Source: EIU and own calculation on EIU data

Compared to the other regions, the South Mediterranean has also experienced the strongest population growth rate since the second half of the 1990s. On average, demographic growth was 1.8%, as opposed to just over 1% in Latina America, and a negative rate in the CEE. As a result of stronger demographic growth, the trend of per capita income in the South Mediterranean (+2.2% on average between 1995 and 2007) was less upbeat than in the other economic regions, and only slightly stronger than in the EU15 (2% on average in the same period). Due to these trends, real per capita income in the South Mediterranean did not improve significantly in relative terms. It increased from 18.8% of the EU15's per capita real GDP in the early 1990s, to only 19.3% in recent years. Over the same time span, in Central Eastern Europe, for instance, per capita income growth increased significantly, from around 38% to around 48% of per capita income in the EU15.

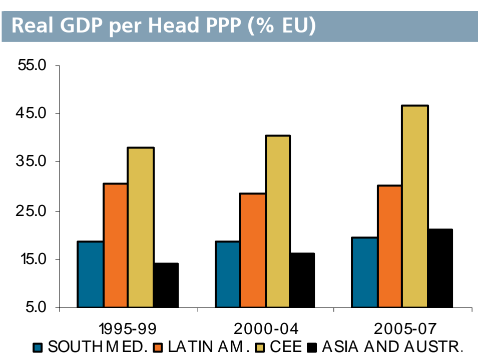
[36] An exhaustive description of this approach is provided in Barry P. Bosworth and Susan M. Collins (2003), "The Empirics of Growth: An Update, Brooking Papers on Economic Activity".
[37] EIU estimates.

Real GDP per Head (PPP annual aver. % change)



Source: EIU and own calculation on EIU data

Real GDP per Head PPP (% EU)



Source: EIU and own calculation on EIU data

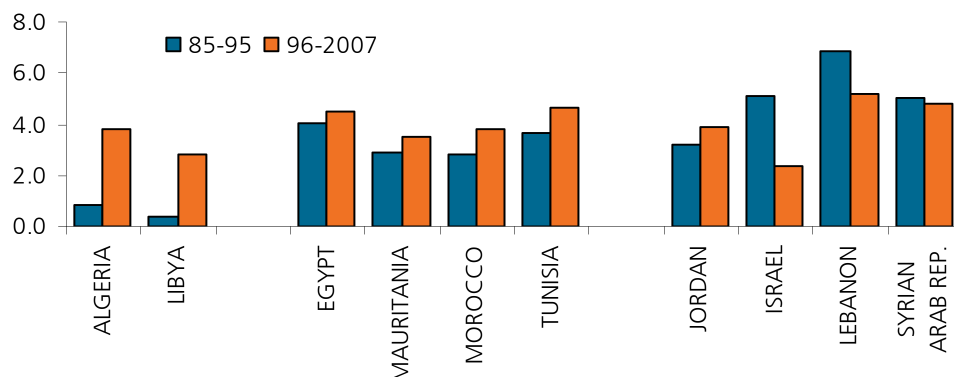
More in detail with regards to individual economic regions, the Middle Eastern countries with diversified exports achieved a 5.2% average annual growth rate of per capita real GDP between 1985 and 1995, as opposed to average rates of 3.7% in Northern African countries with diversified exports, and of 0.7% in oil-exporting countries. Over the following years the situation changed noticeably. In Middle Eastern countries with diversified exports, the average annual growth rate of per capita real GDP slowed to 3.5% (in the 1996-2007 period), whereas it accelerated to 4.4% in Northern African countries with diversified exports, and to 3.5% in oil-exporting countries.

Specifically, between the 1985-95 period and the 1996-07 period, per capita real GDP growth rose from 0.8% to 3.8% in Algeria, and from 0.4% to 2.8% in Libya. These countries' economies, essentially based on oil & gas extraction, benefited considerably from the positive commodity price trend.

As of the second half of the 1990s, the average trend of per capita real GDP improved compared to the previous decade also in Northern African countries with diversified exports, which bet on greater economic diversification both in the manufacturing and non-manufacturing sectors (tourism especially). However, none of these countries recorded a growth of more than one per cent. In the 1985-95 decade, average per capita GDP growth in each Northern African country with diversified exports ranged between 2.8% in Morocco and 4% in Egypt. Between 1996 and 2007, the growth rate ranged between 3.5% in Mauritania and 4.7% in Tunisia.

Middle Eastern countries with diversified exports achieved the strongest increase in per capita real income between 1985 and 1995, beating oil-exporting countries and Northern African countries with diversified exports; by contrast, the trend of Per capita GDP in Middle Eastern countries with diversified exports declined in the following decade, as a result of the armed conflicts which involved several of the region's countries. Lebanon, for instance, experienced 6.8% average annual growth in the 1985-95 period, and a rate of 5.2% between 1996 and 2007; in Israel, per capita GDP slowed from 5.1% in 2.4% in the same period. Jordan was the only country in the region to mark an exception, achieving positive, albeit limited, per capita GDP growth, from 3.2% to 3,9%.

Real GDP per Head (% y/y annual average)



Source: EIU

The trend of per capita real GDP may be explained as resulting from the combined action of two forces: the labour factor utilisation rate, and the average product per worker. We consider now the contributions made to the trend of per capita real GDP by labour factor utilisation (employment-to-population ratio), and product per worker[38]. Analysis of the data reveals a rather varied picture. In some South Mediterranean countries, product per worker increased more than the labour factor utilisation rate. In Jordan, the only Middle Eastern country in which per capita GDP accelerated in the last decade compared to the previous, the growth of product per worker is the main variable supporting the GDP trend in the medium-long term, making a 3.2% contribution per annum, with more intensive labour factor utilisation playing a secondary role and contributing 0.7% a year. Also in Libya, where per capita income accelerated more than in all the other countries of the Mediterranean, higher product per worker is the main variable driving the GDP trend, making an annual contribution of 3%, as opposed to 0.7% contributed by more intensive labour factor utilisation. An interesting aspect is that in all Northern African countries with diversified exports, product per worker increased more than the labour factor utilisation rate, making a decisive contribution to the improvement of per capita GDP in the sub-region. On the other hand, in Algeria and Israel greater labour factor utilisation made a stronger contribution to the per capita GDP trend than product per worker. The difference between the two contributions, however, is rather limited, at only 0.4% in both cases.

GDP Growth and Drivers (average 2003-2007)

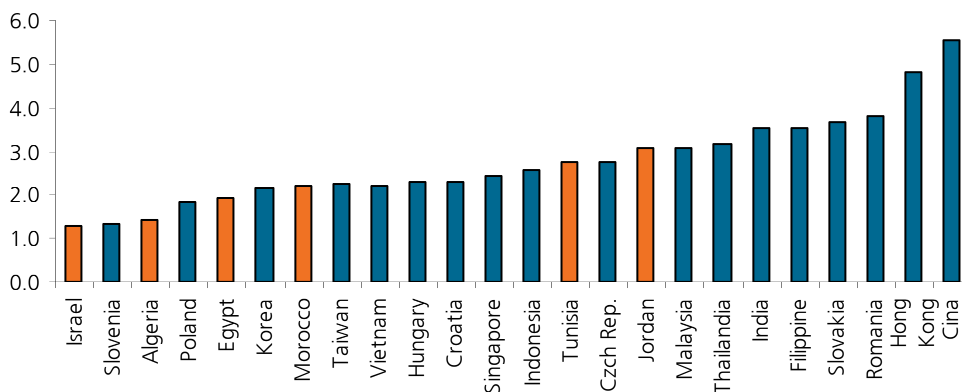
	GDP (% real change)	Real GDP growth per head (%) (1)	Employment/ Population growth (%) (2)	Product per worker growth (%) (3)	Real Stock of Capital/ Employment growth (%) (4)	Total factor productivity growth (%) (5)
Oil exporter						
Algeria	4.5	3.5	1.7	1.3	-0.1	1.4
Libya	5.9	3.7	0.7	3	n.a.	n.a.
Nord Africa with export diversified						
Egypt	5.1	3.3	0.9	2.4	0.1	2.3
Mauritania	5.7	2.5	n.a.	n.a.	n.a.	n.a.
Morocco	5.2	4	0.9	3.1	0.8	2.2
Tunisia	5.5	4.6	1.8	2.7	0	2.7
Middle East with export diversified						
Israel	4.4	2.6	1.5	1.1	-0.2	1.3
Jordan	7.1	3.9	0.7	3.2	0.1	3
Lebanon	2.5	1.1	n.a.	n.a.	n.a.	n.a.
Syrian Arab Republic	5.1	1.7	n.a.	n.a.	n.a.	n.a.
Average South Med.		3.3	1.2	2.1	0.1	2
Average CEE SEE		5	1.2	3.8	1.4	2.4

Source: Own calculations based on EIU data base; Note: data average 2003-2007; (1) is approximately (2)+(3) and (3) is approximately (4)+(5)

[38] Referred to the 2003-2007 five-year period.

By running a simple growth accounting model, the trend of product per worker may be explained as the combined effect of two factors[39]: capital accumulation (considered here in terms of capital per worker), and the growth of total factor productivity (TFP). In all the countries of the region for which data are available, TFP emerges as being more important than the contribution made by capital accumulation. Again with the exception of Algeria and Israel, TFP contribution to per capita GDP growth is stronger than the contribution of the labour factor utilisation rate. However, TFP growth in several countries of the South Mediterranean is relatively moderate when compared to trends in other regions[40]. On average, real per capita GDP growth was lower in the South Mediterranean region than in CEE and SEE countries, as while the employment growth rate in relation to the population was the same, the trend of product per worker in the South Mediterranean Rim was slower than in CEE and SEE countries. More in detail, weaker product-per-worker growth was mostly due to a lower contributions of TFP and of capital accumulation per worker.

TFP (annual average growth 2003-07)



Source: own calculation on EIU data; Nota: South Mediterranean Countries are indicated with orange colour

The reasons behind these findings have been investigated by several authors, among which we mention Boileau Loko and Mame Astou Diouf (2009)[41]. The latter found that greater openness to trade and strong institutions, as for instance an efficient judicial system, or an independent central bank, have a positive impact on TFP, together with macroeconomic stability and the percentage of female workers on the total. Foreign direct investment is also a drivers of TFP growth. The impact of FDI, however, is tied to the level of education of the domestic workforce and to the institutional framework of the country which receives them. By contrast, a large public sector and high added value in the agricultural sector penalise productivity growth. In

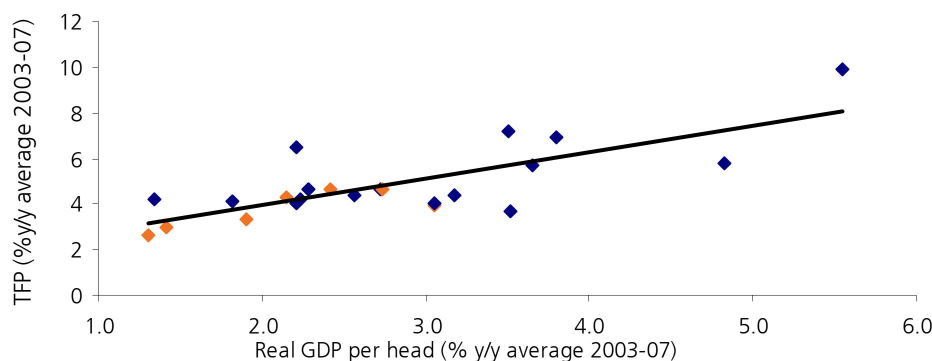
[39] The functional form underlying our analysis is a Cobb-Douglas production function, where $\alpha=0.35$, in line with the majority of empirical papers on economic growth. In particular, $g[GDP/L] = \alpha * g[(K/L)] + g[TFP]$ where g indicates the percentage change of the variable in square brackets, GDP/L is the product per worker, and K/L is the Capital/Labour ratio. TFP is estimated as residual, and therefore includes the effects of other factors in addition to capital and labour efficiency. For details, see Salsecci G. *et al.* (2008), *Long-term Growth Perspectives and Financial Market Development in CEE and SEE Countries*, Research Department Intesa Sanpaolo.

[40] For details on TFP in CEE and SEE countries and in Asia see Salsecci G. *et al.* (2008), *Long-term Growth Perspectives and Financial Market Development in CEE and SEE Countries*, Research Department, and Salsecci *et al.* (2008), *Vietnam: Trade Specialisation, Banking Development and Economic Perspectives*, Research Department Intesa Sanpaolo, respectively.

[41] Boileau Loko and Mame Astou Diouf (2009). "Revisiting the Determinants of Productivity Growth: what's new?". IMF working paper 09/225.

Algeria, Morocco and Tunisia, both labour factor accumulation and TFP[42] play an important role in driving economic growth. However, due to the infrastructural and institutional gap separating these countries from other emerging economies, their TFP trend is relatively slower compared to the latter's.

TFP and Real GDP per Head (% y/y av. 2003-07)



Source: own calculation on EIU data; Note: South Mediterranean Countries are indicated with orange colour

This view is also supported by Vittorio Daniele and Ugo Marani's paper (2006)[43]. Based on the analysis drawn by these authors, the difference in total factor productivity trends is the main reason behind the different economic performances of the industrialised and emerging countries considered. In the South Mediterranean, and more in general in MENA, TFP was rather moderate on average compared to other emerging economies, hindered by the region's relatively low capacity to attract FDI. Specifically, governance and the institutional framework, identified as the main determinants of FDI, are considered as being a weakness of South Mediterranean Rim countries.

2.2 Factor Productivity, Foreign Direct Investment and Openness to Financial Flows and Trade

FDI flows fuel productivity growth by means of the exchange of technology and know-how it triggers[44]. The chart below provides a graphic illustration of the positive correlation linking TFP growth and FDI as a percentage of GDP in 21 emerging economies of the Mediterranean, Asia, and Europe.

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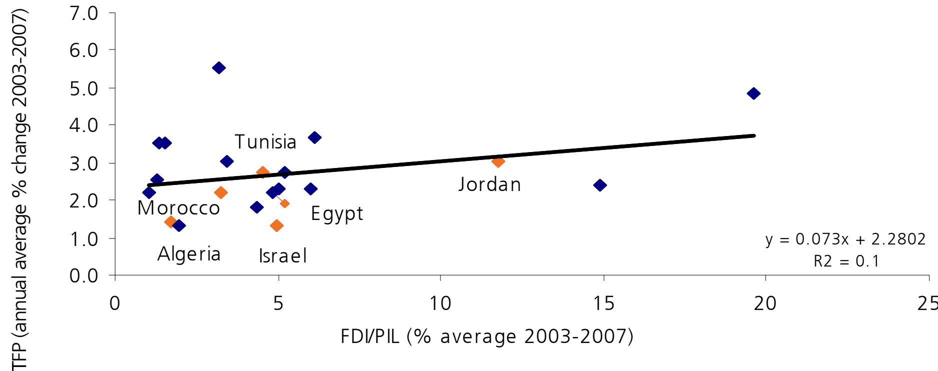
[42] Boileau Loko and Mame Astou Diouf (see previous note) estimate the productivity of human capital separately from TFP. Therefore, to draw a comparison between their findings and this paper's, the sum of the two components should be considered. In the 2000-2005 period, Boileau Loko and Mame Astou Diouf estimate that the sum of the TFP growth and of the human capital productivity was 1.2 in Algeria, 1 in Morocco, and 1.2 in Tunisia. These estimates are slightly lower than the ones indicated as TFP growth contribution in the "GDP growth and drivers" table. However, it should be taken into account that in the period considered by the aforementioned authors (2000-05), economic growth in each country was slower by over 1.5% than in the time period considered by this paper (2003-07).

[43] Vittorio Daniele and Ugo Marani (2006). "Do institutions matter for FDI? A comparative analysis for the MENA countries", paper presented at the International Workshop "Bridging the Gap: the role of trade and FDI in the Mediterranean" Naples, 8-9 June 2006.

[44] See Marco Neuhaus (2005), "The impact of FDI on Economic Growth". Published by Physica Verlag, Springer Company, as part of the "Contributions to Economics" series.

TFP and FDI

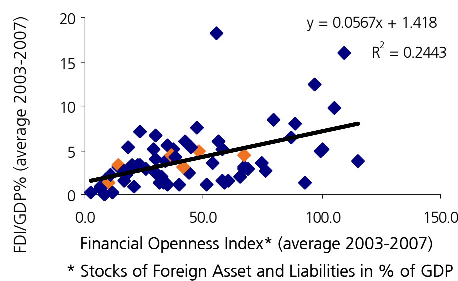


Source: own calculation on EIU data; Note: South Mediterranean Countries are indicated with orange colour

Between 2003 and 2007, Jordan attracted foreign direct investments worth around 11.7% of GDP (annual average), and simultaneously enjoyed the strongest growth in productivity (annual average of 3%). In the other countries of the South Mediterranean, for which data are available, FDI as a percentage of GDP did not exceed 5% (with the exception of Egypt, 5.2%), and the lowest rate was recorded in Algeria (1.7%), where productivity grew was lowest, at 1.4% (annual average in 2003-2007).

The ability to attract FDI is tightly linked to a country's degree of openness to international financial flows (measured as the sum of foreign financial assets and liabilities as a percentage of GDP) and openness to international trade (measured as the sum of imports and exports as a percentage of GDP). Algeria, which between 2003 and 2007 attracted the smallest FDI flows among the countries considered, is also the country with the lowest degree of financial openness (8.9%), compared for instance to much higher indices in Egypt (37.4%) and Morocco (41.6%). The latter countries' greater openness to financial flows, on the other hand, enabled them to attract stronger foreign direct investment flows.

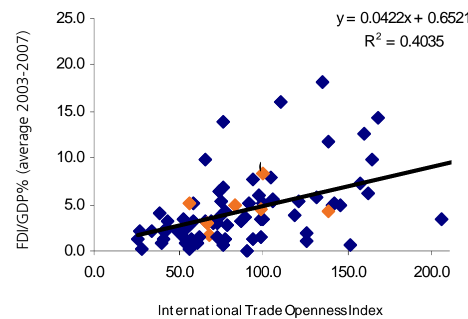
FDI and Financial Openness Index



* Stocks of Foreign Asset and Liabilities in % of GDP

Note: South Mediterranean Countries are indicated with orange colour; Source: own calculation on EIU data

FDI and International Trade Openness



Note: South Mediterranean Countries are indicated with orange colour; Source: own calculation on EIU data

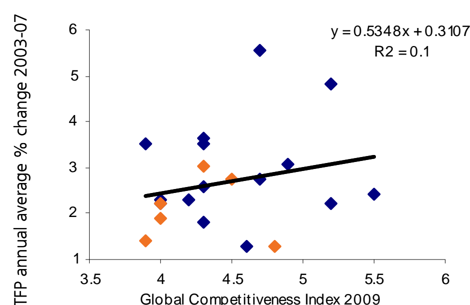
The trade policies pursued by the Mediterranean countries, and especially entry into the WTO and the commitments made by signing the Barcelona Process (see chapter 5), have favoured the region's integration with the world market. Of the countries considered, Jordan is the one with the highest openness to international trade index (137.9% on average in 2003-2007), followed by Tunisia (98%). Also on this front, of all the South Mediterranean countries, Algeria has the lowest index (68.4%) and attracts the smallest FDI flows as a percentage of GDP.

2.3 Factor Productivity and Structural Reform

A number of structural economic indicators can help explain the reasons for which, in many countries of the South Mediterranean, TFP is relatively lower than in other emerging economies, and in particular those located in Asia and Europe. While South Mediterranean countries have implemented substantial economic and institutional reform, based on the Global Competitiveness Index[45] or on the World Bank's structural indicators, this has not been enough to bridge the gap separating the institutional framework of South Mediterranean countries from those of other economic regions[46].

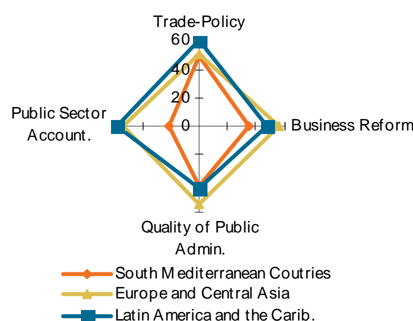
There is a positive correlation linking TFP growth and the Global Competitiveness Index (GCI) in 21 emerging economies in the South Mediterranean, Asia, and Europe. The lowest GCI levels in the sample are concentrated in countries of the South Mediterranean Rim. Algeria, Egypt, Libya, and Morocco all have a GCI no higher than 4, and rank between 70th (Egypt) and 88th (Libya) in the overall ranking of the 134 countries considered by the GCI. Israel, Tunisia, and Jordan, on the other hand, show an index of between 4 and 5, ranking between 27th (Israel) and 50th (Jordan).

TFP and global competitiveness index



Note: South Mediterranean Countries are indicated with orange colour; Source: own calculation on EIU data

Structural indicators of World Bank



Note: the index changes from "100" (best status) to "0" (worst status). Source: World Bank.

The World Bank also provides other structural economic indicators. According to the institution's "Economic Developments and Prospects 2009" report, based on current structural indicators (*Trade Policy, Business and Regulatory Reform, Quality of Public Administration, Public Accountability*), the South Mediterranean Rim lags behind other economic regions, such as Latina America and East Asia (see chart above right), despite the fact that between 2000 and 2007 South Mediterranean countries made the most progress in terms of trade and governance. According the World Bank report mentioned above, important advancements were achieved in reducing trade barriers to international trade and in improving the efficiency of import and export procedure logistics. Customs tariffs, also as a result of the agreements undersigned as part of the Barcelona Process, were cut from 20% on average in 2000 to 13% in 2007, albeit with rather significant differences persisting across the region's countries. Egypt is the country that has taken the strongest action on this front, cutting customs tariffs to 9.1% on average in 2004, and subsequently to 6.9% in 2007. Many countries of the region made considerable

[45] The Global Competitiveness Index is a synthetic indicator calculated by the World Economic Forum based on a set of sub-indices referred to numerous aspects of a country's economic, social and institutional structure. The index ranges from 1 and 7. The higher a country's GCI, the more competitive that country is. The World Economic Forum also compiles a ranking based on the GCI, ordering countries from the most to the least competitive.

[46] See the World Bank's "Economic Developments and Prospects 2008".

efforts to improve their integration with the global economy. Egypt, Jordan and Morocco, for instance, are WTO members, and Algeria and Lebanon are currently negotiating their entry into the World Trade Organisation. Important bilateral agreements between the EU and the countries of the Mediterranean, within the framework of the European Neighbourhood Policy (ENP), have defined specific actions aimed at promoting the latter's integration in the EU market, and at providing them with specific financial assistance. Based on the World Bank's "*Trade Policy*" index, the Mediterranean has made the most progress in terms of trade, scoring 63, against 57 for Latina America and 55 for Europe and Central Asia. However, as regards the current situation, the South Mediterranean Rim's score (47) is still lower in relative terms than that of the other two regions (50 and 60 respectively).

In recent years, South Mediterranean countries have put in place several measures to improve governance in the region. Many actions were geared to improving the efficiency of public services, speed up bureaucracy, overcome the weaknesses of the judicial system, and fight corruption. While South Mediterranean Rim countries emerge as having made the most progress on this front as well, margin for further improvement is still significant when comparing the current situation to that in other emerging economic regions.

A business-friendly regulatory framework and an efficient judicial system are necessary conditions to encourage private investment. Among other factors, the ease of establishing a business plays a key role in deciding the destination of foreign direct investments. A wide range of strategies have been pursued to improve the business climate, embracing measures aimed at sector-specific issues as well as actions geared to strengthening institutions which offer support to all business sectors. Many sectors have seen privatisations. In Morocco, considerable efforts have been made to liberalise the aviation and gas exploration sectors. The banking sector has also undergone significant reform geared to increasing liberalisation in the industry. In Algeria, for instance, 13 foreign banks have established a local presence since the liberalisation process began. Egypt is on of the South Mediterranean countries to have implemented the most exhaustive reform of trade regulations, introducing for instance laws on bankruptcy (voluntary liquidation is now possible), or on the resolution of business disputes (via the establishment of a dedicated court). In general, however, despite the considerable progress made by single countries, the South Mediterranean Rim on the whole still ranks behind other emerging regions.

Structural Indicators of World Bank

	Trade-policy		Business and Regulation		Quality of public administration		Public sector accountability	
Country/Region	Current* status (2007)	Reform** progress (2003-2007)	Current* status (2007)	Reform** progress (2003-2007)	Current* status (2007)	Reform** progress (2003-2007)	Current* status (2007)	Reform** progress (2003-2007)
Oil Exporter								
Algeria	58	69	30	51	32	11	27	56
Libya	-	-	-	-	4	15	0	45
North Africa								
Egypt Arab Republic of	72	96	20	61	42	94	23	75
Mauritania	-	-	-	-	-	-	-	-
Morocco	64	55	31	17	75	90	32	77
Tunisia	56	57	49	52	73	75	20	30
Middle East								
Israel	-	-	-	-	-	-	-	-
Jordan	50	91	49	37	54	22	34	62
Lebanon	13	91	42	3	-	-	-	-
Palestinian Territories	-	-	-	-	-	-	-	-
Syrian Arab Republic of	32	38	23	8	13	48	8	67
Regional averages (unweighted)								
South Mediterranean Countries	49	71	35	33	42	51	21	59
MENA	47	63	44	29	47	47	20	64
East Asia and the Pacific	49	43	63	45	46	50	39	41
Europe and Central Asia	50	55	56	63	54	64	53	56
Latin America and the Caribbean	60	57	47	46	43	42	57	42
High-income OECD	82	63	84	63	89	48	91	48
World	50	50	50	50	50	50	50	50

Note: *Current status reflects country's current placement in a worldwide ordering of countries, with "100" reflecting the country (countries) with the best status and "0" reflecting the country (countries) with the worst status. See 2007 Economic Developments and Prospects (by The World Bank) for details.**Reform progress reflects the improvement in a country's rank between 2000 and 2007 in a worldwide ordering of countries, with 100 reflecting the country (countries) that exhibited the greatest improvement in rank and 0 reflecting the country (countries) that exhibited the greatest deterioration in rank. See 2008 Economic Developments and Prospects (by The World Bank) for details.
Source: EIU

The Microeconomic Structure

3 Trade Agreements, Customs Tariffs and Trade Infrastructures

Wilma Vergi

This chapter offers an analysis of the trade flows and foreign direct investments involving the countries of the South Mediterranean Rim. An initial paragraph provides an overview of the trade agreements in place, of customs tariffs, and of the quality of the infrastructures on which trade relies. In the second paragraph, trade flow trends are examined in greater depth, first in general terms, then with respect to the three main areas of the region. By examining trade flows over the past eight years, light is shed on the ties which exist between the various countries of the region, and between these and the other economies, as well as on the goods that are exchanged. A discussion of the specialisation of exports, and of trade concentration and diversification, helps draw a clearer picture of the structure of commerce in the Mediterranean region, highlighting differences and similarities in some of the sub-regions which it includes. Italy is an important commercial and industrial partner for many of the countries considered in this paper. The paragraph dedicated to trade underlines the importance, for Italy and for its southern regions, of commercial relations with the countries of the South Mediterranean Rim. The chapter comes to an end with a closer look at foreign direct investments in the region.

3.1 Trade Agreements

In recent years the countries of the South Mediterranean have signed numerous trade agreements, both within their region and with the rest of the world. The Euro Mediterranean Partnership, established in Barcelona in 1995, was intended to encourage trade relations between Northern and Southern Mediterranean countries, opening up new opportunities for both the European Union and the various countries of the Southern Rim[47]. One of the main agreements involving countries of the African and Middle Eastern regions is AMU (Arab Maghreb Union), entered into in 1989 by Algeria, Libya, Morocco, Mauritania, and Tunisia, aimed at strengthening economic integration between member states. A treaty with a longer history is GAFTA (Greater Arab Free Trade Area), signed in 1957 by Jordan, the UAE, Bahrain, Saudi Arabia, Kuwait, Oman, Qatar, Morocco, Syria, Lebanon, Iraq, Egypt, Tunisia, Libya, Palestinian Territories, Sudan and Yemen. This organization led to the birth in 2004 of the Agadir Agreement for the establishment of a free trade zone between a number of Mediterranean nations. Member states include Egypt, Jordan, Morocco and Tunisia.

Trade agreements

	AMU	GAFTA	COMESA	EU	EFTA	AA	WTO	Altri
Algeria	x			x				
Egypt		x	x	x	x	x	x	Israel
Israel				x	x		x	Messico, Canada, Mercosur*
Jordan		x		x	x	x	x	USA, Singapore, Israel
Lebanon		x		x	x			
Libya	x	x	x	x**				
Mauritania	x						x	
Morocco	x	x		x	x	x	x	USA
Palestinian Territories		x		x***				
Syria		x		x****				
Tunisia	x	x		x	x	x	x	

Note:* negotiating; ** Observer; *** ad interim association agreement; **** initiated in December 2008 Source: WTO – World Bank

[47] See Anna M. Ferragina – "*L'evoluzione della specialisation italiana verso i partner mediterranei nel decennio 1995-2005: fra riorientamento, vocazione e perdita di quote di mercato*" CESPI (2007), page 3, and Institut de la Mediterranée – "Investing in a Euro Mediterranean Free Trade Area" (2000)

Furthermore, a dense network of bilateral trade agreements exists between all the North African and Middle Eastern countries of the region, aimed at encouraging both trade and investments. An important aspect of these agreements is the reduction of customs tariffs.

Bilateral Trade Agreements

	Algeria	Egypt	Israel	Jordan	Lebanon	Libya	Mauritania	Morocco	Palestinian T.	Syria	Tunisia
Algeria											
Egypt	BIT, TA		FTA								
Israel		FTA		FTA							
Jordan	BIT, TA	BIT, TA	FTA								
Lebanon	TA	BIT, TA		BIT, TA, FTA							
Libya		BIT, TA									
Mauritania											
Morocco	TA	BIT, TA		BIT, FTA	BIT,FA	BIT, TA					
Palestinian T.		BIT, TA		TA							
Syria	BIT, TA	BIT, TA		BIT, FTA	BIT, TA	BIT, TA		BIT, FA			FA
Tunisia	BIT, TA	BIT, FTA		BIT, FTA	BIT	BIT, FTA		BIT, FTA		TA	

Source: World Bank

BIT = Bilateral Investment Treat; TA = Trade agreements; FTA = Free Trading Agreement (tariff reductions); FA = Framework agreement for cooperation and for exchange of information and expertise.

3.1.2 Customs Tariffs

Thanks to the bilateral and multilateral trade agreements put in place, customs tariffs have been significantly reduced throughout the Mediterranean region[48]. In the past, governments resorted heavily to customs tariffs to protect local productions, often similar to those of neighbouring countries due to limited processing differentiation, from competition. While significant differences linger across the region's countries, the process of cutting the customs tariffs applied to different categories of goods has been impressive on the whole. Morocco, for instance, cuts the average duty applied to total imports from 64.5% in 1993 to 20.9% in 2005, and the duty on generic manufactured goods decreased from 67% to 21.5%. Average customs tariffs dropped most in the Middle Eastern region, down by half in a decade. Considerable progress was also made in North Africa, with the exception of Mauritania, where declines were very limited. In the major oil-exporting economies, a widespread reduction of duty applied to manufactured goods was recorded, as opposed to still high tariffs on chemical products.

[48] For further details, see World Bank – "Structural Reform Progress for Long term growth – Economic Developments and Prospects" (2008) – Chapter 3

Average Applied Import Most Favoured Nations Tariff Rates on non Agricoltural and non Fuel Products (simple average)							
Market	Year	Total	Ores and metals	Manufactured products	Chemical products	Machinery and transport equipment	Other manufactured products
Algeria	1993	24.4	12.1	25.2	13.2	16.8	33.2
	2006	18.1	11.9	18.6	14.3	11.8	23.0
Libya	1996	18.6	8.3	19.2	6.9	21.3	23.0
	2002	16.8	7.7	17.4	6.5	19.3	20.7
Egypt	1995	28.4	13.8	29.3	14.1	19.1	39.2
	2005	12.9	5.1	13.4	6.3	8.0	18.4
Morocco	1993	64.5	28.0	67.0	49.5	55.3	78.3
	2006	20.9	12.8	21.5	16.6	10.8	27.9
Mauritania	2001	10.5	5.6	10.8	4.9	8.4	14.2
	2006	10.4	5.6	10.7	5.0	8.2	13.9
Tunisia	1992	28.6	21.5	29.0	23.6	25.3	32.6
	2006	20.9	15.1	21.3	13.8	13.6	27.5
Jordan	2000	21.8	16.0	22.1	18.0	14.4	27.0
	2006	10.2	6.4	10.5	1.6	9.3	14.4
Israel	1993	8.4	1.0	8.9	3.4	5.1	12.5
	2006	4.4	0.5	4.7	1.8	3.6	6.3
Lebanon	1999	9.8	4.1	10.1	4.7	7.7	13.3
Palestinian T.	n.a.	n.a	n.a	n.a	n.a	n.a	n.a
Syria	2002	19.8	6.9	20.7	5.5	15.1	28.8

Source: UNCTAD - Handbook of Statistic 2008

3.1.3 Trade Infrastructures

Based on the World Bank's LPI (Logistics Performance Index), the trade infrastructures of South Mediterranean Rim countries lag slightly behind those in other, competing regions, such as Asia, Latin America, and Eastern Europe Eastern Europe. While the situation is quite mixed, the region emerges as being rather competitive on the whole, although there are some shortcomings which leave a considerable margin for improvement. If on the one hand infrastructure in Algeria and Syria is still underdeveloped, Israel and Jordan are more advanced in relative terms.[49]

LPI Index – International Comparison								
	LPI	Of which:						
		Customs	Infrastructure	International shipments	Logistics	Tracking & tracing	Domestic logistics costs	Timeliness
Middle East and North Africa*	**2.42**	**2.24**	**2.27**	**2.44**	**2.33**	**2.35**	**2.95**	**2.88**
Algeria	2.06	1.60	1.83	2.00	1.92	2.27	3.17	2.82
Egypt	2.37	2.08	2.00	2.33	2.38	2.62	2.83	2.85
Morocco	2.38	2.20	2.33	2.75	2.13	2.00	2.38	2.86
Mauritania	2.63	2.40	2.20	2.60	2.70	2.80	3.11	3.10
Tunisia	2.76	2.83	2.83	2.86	2.43	2.83	3.20	2.80
Jordan	2.89	2.62	2.62	3.08	3.00	2.85	2.92	3.17
Israel	3.21	2.73	3.00	3.27	3.23	3.46	2.17	3.58
Lebanon	2.37	2.17	2.14	2.50	2.40	2.33	3.40	2.67
Palestinian T.	n.a.	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Syria	2.09	2.17	1.91	2.00	1.80	2.00	2.89	2.67
East Asia and Pacific*	**2.58**	**2.41**	**2.37**	**2.64**	**2.54**	**2.53**	**3.04**	**3.01**
South Asia*	**2.30**	**2.06**	**2.07**	**2.28**	**2.32**	**2.32**	**3.12**	**2.73**
Latin America*	**2.57**	**2.38**	**2.38**	**2.55**	**2.52**	**2.58**	**2.97**	**3.02**
East Europe and Central Asia *	**2.59**	**2.39**	**2.39**	**2.61**	**2.53**	**2.55**	**2.97**	**3.04**

Source: World Bank *regional average
LPI Index is ranled between 1 and 5. Nigher number means higher performance.

[49] For further details, see World Bank – "Regional Integration for Global Competitiveness" – Economic Developments and Prospects (2008) – Chapter 2

3.2 The Mediterranean Countries' Foreign Trade

3.2.1 Trade Trends by Geographical Region

In the past few years, the South Mediterranean region has experienced strong trade growth. The economic policies pursued by the governments of several countries, combined with the international initiatives and with intra-region economic collaboration programmes, have reaped significant effects on the economies of the region, increasing their openness to trade and foreign direct investment.

According to the IMF, in 2008 total trade in the region was worth over USD 618Bn, or around 1.9% of the world total. The average annual growth in the worth of exports in nominal terms between 2000 and 2008 came close to 28%, whereas imports increased by over 24%. The annual growth rate was much stronger than the world average and than that of other regions, such as Latin America, but fell short of Emerging Europe.

Export/Import 2008 (mld USD): Average Annual Growth Rate and Word Trade Share

	Exports (fob)				Imports (cif)			
	2000 – 2008 (chg %)	2008	2008 (chg %)	World share 2008 (%)	2000-2008 (chg %)	2008	2008 (chg %)	World share 2008 (%)
World	19.0	16069	15.6		19	16575.7	15.6	
South Mediterranean	27.7	302.0	27.4	1.9	24.2	320.3	29.7	1.9
Oil exporter	38.4	140.9	36.3	0.9	43.6	58.6	45.2	0.4
Algeria	32.8	79.3	34	0.5	42	39.3	44.1	0.2
Libya	48.1	61.6	39.4	0.4	47.3	19.2	47.6	0.1
North Africa	30.7	71.0	23.7	0.4	26.4	131.9	27.9	0.8
Egypt	50.5	32	25.9	0.2	24.1	64.6	27.2	0.4
Morocco	18.9	19.2	23.2	0.1	32.4	42.5	30.6	0.3
Mauritania	41.2	2.3	33.5	0.0	31.9	2.3	29.7	0.0
Tunisia	23.9	17.5	20.4	0.1	23.6	24.8	25.5	0.1
Middle East	16.6	90.1	18.1	0.6	17.6	127.9	20.8	0.8
Jordan	64.9	7.8	43.8	0.0	33.7	16.7	25.5	0.1
Israel	11.5	61.4	13.5	0.4	9.6	65.2	15.1	0.4
Lebanon	55.0	3.9	19.6	0.0	22.1	17.2	33.1	0.1
Palestinian Territories	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Syria	32.0	17	25.1	0.1	53.3	28.5	24.9	0.2
Asia	35.4	2333.1	17.4	14.5	37.6	2187.3	22.4	13.2
Latin America	19.4	933.3	17.5	5.8	18.0	997.7	26.7	6.0
Emerging Europe	46.8	1390.2	28.1	8.7	47.9	1421.6	24.6	8.6

Source: IMF Direction of Trade (Figures on Palestinian Territories are not available)

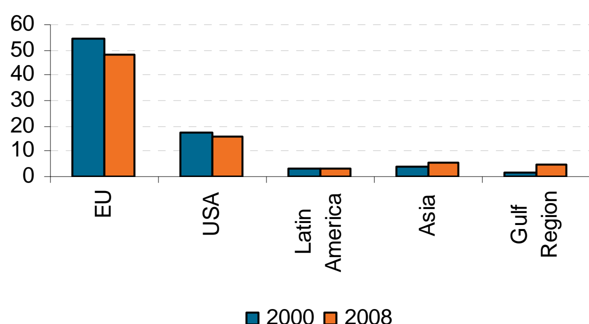
For the South Mediterranean countries, the European Union is traditionally the main target and provisioning market for goods, due to both the historical and economic ties between the two regions, and to their geographical proximity. The signing of the Barcelona Process (see Ch. 5) kicked off stronger trade integration in the Euro Mediterranean area, opening up markets and encouraging trade within them. The value of trade flows with the EU was very substantial indeed in 2008, accounting for just under one half of total trade flows involving the countries of the South Mediterranean (USD 270.9Bn). In recent years, however, the weight of trade with the EU has decreased marginally to the advantage of other emerging economies: this is because on the back of greater commercial diversification, trade opportunities between the economies of the South of the world have increased. Average annual growth of the value of South Mediterranean countries' exports to the EU between 2000 and 2008 was 23.3%, whereas imports increased by 18.2%. This rate was in any case higher than the global rate. The full impact of the trade agreements signed in the past few years between the two rims of the Mediterranean is still waiting to be felt, as more time is needed for the effects to start seeping

through[50]. For the EU, the South Mediterranean accounted for 2.3% of total imports in 2008, and 2.1% of total exports.

Trade with the United States, the region's second most important trade partner (USD 70.8Bn), accounted in 2008 for a 16% of exports, and around 7% of total imports. However, the increase in trade flows with the US in the time period considered was slower on the whole than the growth of trade with the EU, at only +8.1% for imports and +23.9% for exports. The importance of Asia as a trade partner, on the other hand, increased, accounting in 2008 for a share of around 12% of total imports, and 6% of total exports. The part of Asia whose relevance in these terms has increased most in the past decade is the South East. The trend of trade with the Persian Gulf region was particularly upbeat, encouraged by the development of intra-regional trade agreements. The average (simple) annual growth in exports between 2000 and 2008 was 97.3%, while imports increased on average by 53.3%. The role played by Latin America in commanding trade flows, by contrast, is modest on the whole, as the region accounts for around 3% of both imports and exports, with exports growing at an average annual rate of 28% in the period considered, and imports by 48% (see chart below). The other regions of the world do not present particular specificities.

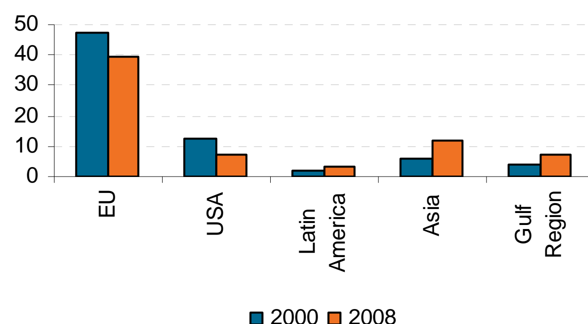
Intra-region trade is still moderate both within the area defined by the AMU and by the Agadir Agreement, and slowed in the period compared to the previous decade. The World Bank blames this lack of regional integration mostly on the scarce complementariness of the countries' commercial and productive setups.[51]

Export Structure by Geographical Destination(% on total)



Source: Intesa Sanpaolo on IMF Direction of Trade data (EU 15)

Import Structure by Geographical Origin (% on total)

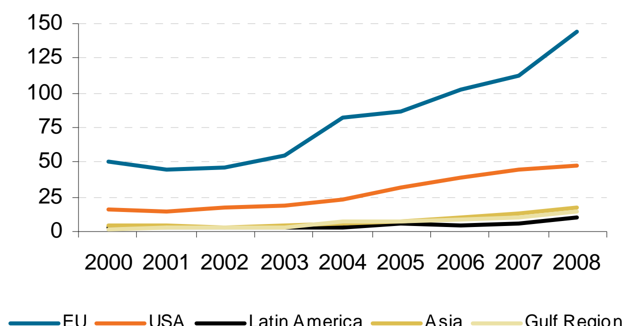


Source: Intesa Sanpaolo on IMF Direction of Trade data (EU 15)

[50] On this topic see CASE – "Economic Integration in the Euro Mediterranean Region" (2009) – Page 11

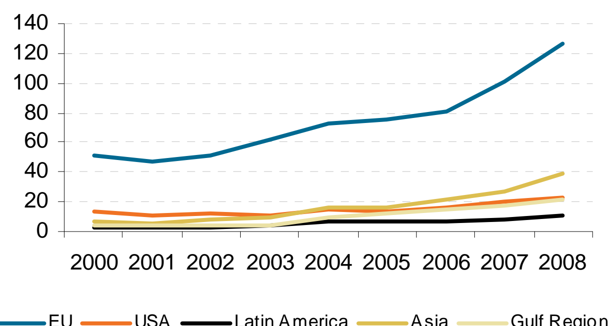
[51] For a more detailed discussion, see World Bank – "Regional Integration for Global Competitiveness – Economic Developments and Prospects" (2008) – Chapter 2.

Exports Trend 2000/2008 (Bn USD)



Source: Intesa Sanpaolo on IMF Direction of Trade data (EU 15)

Imports Trend 2000/2008 (Bn USD)



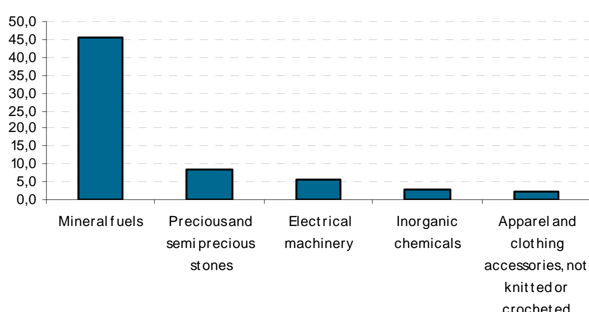
Source: Intesa Sanpaolo IMF Direction of Trade data (EU 15)

The geographical structure of trade in the countries of the South Mediterranean is varied. The main target markets for Energy product exporters (Algeria and Libya), and North African countries with diversified exports, have the EU as their main target market. For the Middle Eastern region, Europe still accounts for a significant portion of trade, albeit smaller. Neighbouring Arab states of the Persian Gulf, the United States, and South East Asia, are particularly important trade partners for these countries.

3.2.2 Trend of Trade by Category of Goods

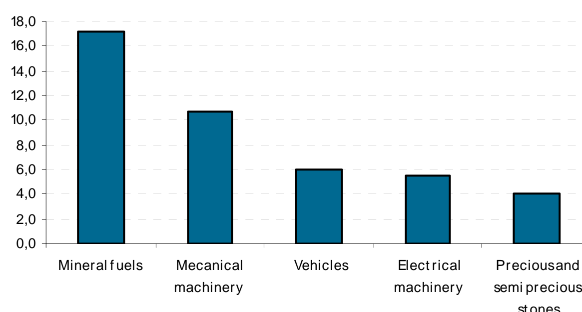
Broken down trade data by goods categories show that in 2008 (Comtrade data) exports of mineral fuels made up almost half of the total (45.5%), followed by gemstones (8.3%), electric and electronic machinery (5.5%), inorganic chemicals (2.9%), and non-textile apparel accessories (2.3%). Strong domestic demand for capital goods conditioned the import trend: behind fuels (17.1%), an especially important role was played by machinery, both electric (5.6%) and mechanical (10.7%), as well as by means of transport (6.1%). Gemstones are imported by the Middle East at an intermediate processing stage.

Exports Structure by Product Group– 2008 (% on total)



Source: Intesa Sanpaolo on Comtrade data

Imports Structure by Product Group– 2008 (% on total)



Source: Intesa Sanpaolo on Comtrade data

3.2.3 The Impact of the Global Recession

The global recession, which also hit the economies of emerging and developing countries as of the second half of 2008, has had repercussions on trade throughout the region[52]. The plunge in foreign demand has limited intermediate processing on behalf of third parties, commodity le

[52] For further details see FEMISE – "*Les pays partenaires mediterraneens face a la crise*" – (August 2009)

exports, and exports of specialist finished products. As regards the major energy producers, the negative impact on export volumes of weaker global demand for oil and gas were direct. The contraction was smaller for imports, driven by domestic demand in particular in the large energy-producing economies. Data hitherto available for 1H09 reveal widespread declines throughout the region. EIU's full-year 2009 estimates point to a marginal improvement in the trend, albeit still widely negative compared to the first half of the year.

2009 – Trends in Export and Import

	Export (fob)		Import (cif)	
Yearly var. %	January/May 09/08	Forecast EIU 2009	January/May 09/08	Forecast EIU (fob) 2009
World	-31.0	-9.4	-30.0	-9.4
Major oil exporters				
Algeria	-44.6	-33.3	10.7	1.0
Libya	-50.0	-47.3	10.1	0.8
North Africa				
Egypt	-18.8	-23.2	-10.5	-21.7
Morocco	-30.4	-24.3	-29.0	-20.1
Mauritania	-38.7	n.a.	-11.2	n.a.
Tunisia	-29.9	-27.6	-29.1	-23.3
Middle East				
Jordan	-9.1	-10.3	-22.1	-18.0
Israel	-34.3	-22.4	-37.6	-26.4
Lebanon	-15.7	-7.8	-1.8	2.5
Palestinian Territories	n.a	n.a	n.a	n.a
Syria	-36.9	-27.9	-22.3	-18.1

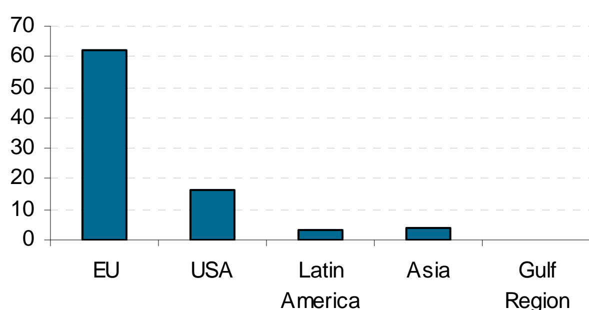
Source: Intesa Sanpaolo on IMF Direction of Trade data –(Data on Palestinian Territories are not available) Forecast on 2009 EIU (nov.2009)

3.3 Geographical Breakdown

3.3.1 Exports and Imports of Oil-exporting Countries

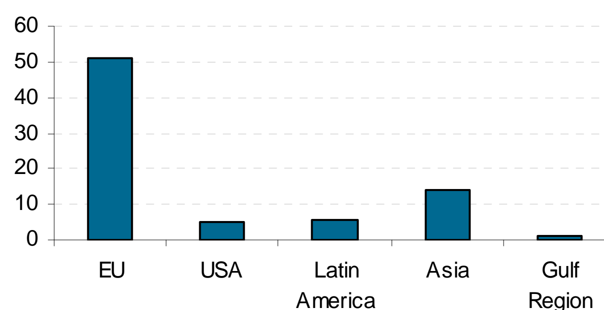
Trade flows involving Algeria and Libya, whose exports consist almost entirely of energy products, are mostly towards European countries. The existence of gas and oil pipelines linking these nations to Italy and Spain guarantees uninterrupted flows towards Europe. Exports are also significant to the United States and Canada, where gas and oil are transported by sea. Imports mostly originate in EU countries, although China now also ranks among the leading suppliers.

Export Structure by Geographical Destination– 2008 (% on total)



Source: Intesa Sanpaolo on IMF Direction of Trade data (EU 15)

Import Structure by Geographical Origin – 2008 (% on total)



Source: Intesa Sanpaolo on IMF Direction of Trade data (EU 15)

Trends by Categories of Goods

Export trends by categories of goods involving Algeria and Libya point to a generally stable energy component in the overall mix, albeit with some differences. While in Algeria the weight of the energy component stayed broadly unchanged between 2000 and 2007, at around 98% of total exports, over the same period of time the percentage dropped slightly in Libya, from 92.6% to 90.6%. More in detail, Algerian exports of oil derivatives and products decreased, as opposed to stronger sales of crude oil. The weight of the remaining categories, already very limited, decreased further.

Export Structure by Product Group (% on total)

		Food and agricultural items	Energy items	*Coal, coke, oil*	*Petroleum products*	*Natural gas and related products*	Non energy minerals, metals	Manufactured goods	*Chemicals products*	*Machinery and vehicles*	*Other manufactured goods*
Algeria	2000	0.2	98.1	42.0	15.1	40.9	0.3	1.4	0.7	0.2	0.5
	2007	0.6	98.4	56.2	9.8	32.4	0.7	1.0	0.6	0.0	0.4
Libya	2000	0.7	92.6	n.a.	n.a.	n.a.	0.0	6.7	4.2	0.1	2.3
	2007	0.1	90.6	n.a.	n.a.	n.a.	0.5	3.9	2.8	0.2	0.8

Source: Comtrade

Imports of food products contracted in both nations thanks to the implementation of domestic policies aimed at improving and extending agricultural land utilisation. Manufactured goods followed an opposite trend: while in Algeria domestic demand supported the foreign purchases of machinery and means of transport, as well as of generic manufactured products and chemical products, used to oil refinement and extraction processes, Libyan imports of generic manufactured products and chemical products decreased, as opposed to higher machinery imports.

Import Structure by Product Group (% on total)

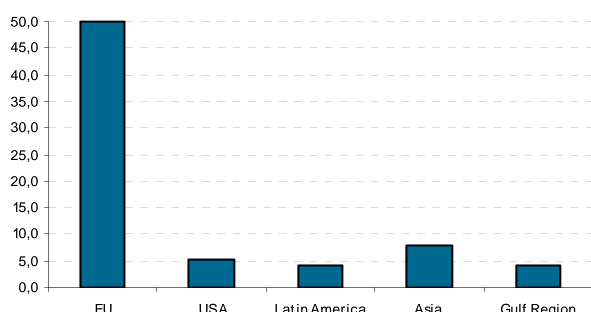
		Food and agricultural items	Energy items	*Coal, coke, oil*	*Petroleum products*	*Natural gas and related products*	Non energy minerals, metals	Manufactured goods	*Chemicals products*	*Machinery and vehicles*	*Other manufactured goods*
Algeria	2000	30.8	1.4	0.4	1.0	0.0	1.2	66.6	11.6	34.5	20.5
	2007	20.9	1.1	0.6	0.5	0.0	1.7	76.3	11.7	38.0	26.6
Libya	2000	28.3	0.3	n.a.	n.a.	n.a.	1.6	69.8	7.4	33.2	29.2
	2007	14.5	8.6	n.a.	n.a.	n.a.	2.5	69.0	6.7	37.7	24.6

Source: Comtrade

3.3.2 Exports and of North African Manufacturing Economies

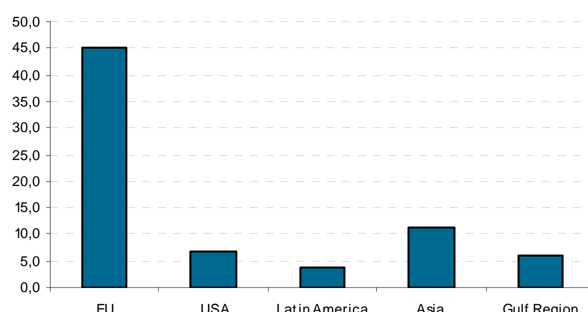
The main trade partners of the countries of Northern Africa are France and Italy, which command important shares of both imports and exports. The sub-region's other main suppliers included China, a major supplier of machinery, followed by Germany and Spain. The most important target markets for the goods produced in the region are Spain and Germany, followed by India, whose purchases mostly consist of phosphates and fertilisers.

Export Structure by Geographical Destination– 2008 (% on total)



Source: Intesa Sanpaolo on IMF Direction of Trade data (EU 15)

Import Structure by Geographical Destination– 2008 (% on total)



Source: Intesa Sanpaolo on IMF Direction of Trade data (EU 15)

Trends by Category of Goods

Between 2000 and 2008, the weight of food & beverages on total exports decreased: to around 10% for Egypt and Tunisia, and on slightly higher levels for Morocco and Mauritania, at around 15-20%.

Fuels and energy derivatives have become more important items on Egypt's export list on the whole: while in 2000 they accounted for a share of total exports of around 42%, their weight increased to almost 45% in 2008. The importance of oil derivatives also strengthened in the other countries, remaining moderate. Other mining products, such as metals and minerals, also grew in importance in the region, and especially in Mauritania, where the extraction of iron minerals have become the main pillar of the country's exports, accounting for around 64% of the total in 2008.

Non-energy manufactured goods account for a large portion of the exports of Morocco, Tunisia, and Egypt (respectively 67.5%, 72.0%, and 41.7% in 2008), and represent a smaller component of Mauritania's (14.8%). In Egypt's case, adding this value to that of processed energy products, the percentage of the manufacturing sector on the whole rose to 76.5% of the country's total exports last year. The weight of manufactured goods increased significantly on the back of policies aimed at stepping up production diversification. In the period considered, Morocco and Tunisia experienced significant growth in the segments of machinery and means of transport, as well as in chemical products. Exports of generic manufactured products, on the other hand, grew in Morocco to 36%, while losing some ground in Tunisia to the advantage of chemical products and oil derivatives.

Export Structure by Product Group (% on total)

		Food and agricultural items	Energy items	*Coal, coke, oil*	*Petroleum products*	*Natural gas and related products*	Non energy minerals, metals	Manufactured goods	*Chemicals products*	*Machinery and vehicles*	*Other manufactured goods*
Egypt	2000	13.0	41.9	8.4	33.2	0.3	3.9	38.4	6.6	1.0	30.8
	2008	10.2	44.1	8.5	20.0	14.8	4.1	41.7	11.5	4.7	25.5
Morocco	2000	23.5	3.7	0.0	3.7	0.0	8.8	64.0	12.0	11.0	41.0
	2008	19.1	3.8	0.0	3.8	0.0	9.7	67.5	14.8	16.7	36.0
Mauritania	2000	20.8	0.0	n.a.	n.a.	n.a.	45.7	0.0	0.0	0.0	0.0
	2008	13.2	8.3	n.a.	n.a.	n.a.	63.7	14.8	0.0	0.0	14.8
Tunisia	2000	9.4	12.1	10.4	1.6	0.0	1.6	76.9	10.6	14.0	52.3
	2008	9.0	17.3	13.6	3.7	0.0	1.7	72.0	15.2	21.0	35.8

Source: Comtrade

For the countries of this sub-region imports of food and agricultural products decreased, thanks to government action aimed at improving the utilisation of existing crops in the national

territory. By contrast, fuels and energy products experienced a particularly strong growth trend, on the back of economic growth and of higher specialisation in the processing and transformation of oil derivatives destined to the foreign markets. The share of metals and minerals also increased. Imports of manufactured products account for around half of the entire region's total imports, but the trend of this component of imports varies significantly from one country to another: Mauritania and Tunisia experienced a slowing trend, as opposed to growth in Egypt and Morocco. In Morocco in particular the both machinery and chemical products increased their weight on total imports, as greater industrial development fuelled growing demand for capital goods required by the production setup. In Egypt and Tunisia, by contrast, imports of machinery and means of transport decreased, to the advantage of chemical products.

Import Structure by Product Group (% on total)

		Food and agricultural items	Energy items	*Coal, coke, oil*	*Petroleum products*	*Natural gas and related products*	Non energy minerals, metals	Manufactured goods	*Chemicals products*	*Machinery and vehicles*	*Other manufactured goods*
Egypt	2000	30.0	7.6	0.2	5.3	2.1	2.5	55.4	11.6	25.3	18.5
	2008	14.1	11.6	3.2	4.7	3.7	9.6	64.7	12.3	23.8	28.6
Morocco	2000	16.8	17.7	13.0	1.7	2.4	2.6	62.9	8.7	27.5	26.7
	2008	10.3	20.1	11.5	4.9	3.7	4.9	63.7	9.2	28.3	26.2
Mauritania	2000	19.1	22.9	0.0	22.1	0.8	0.3	40.9	3.1	25.3	12.5
	2008	28.2	35.0	0.0	33.4	1.6	0.7	36.1	3.8	20.1	12.2
Tunisia	2000	11.3	10.5	3.0	5.8	1.7	2.7	75.4	8.9	32.5	34.0
	2008	10.0	16.9	3.8	9.6	3.5	6.3	66.8	9.5	27.3	30.0

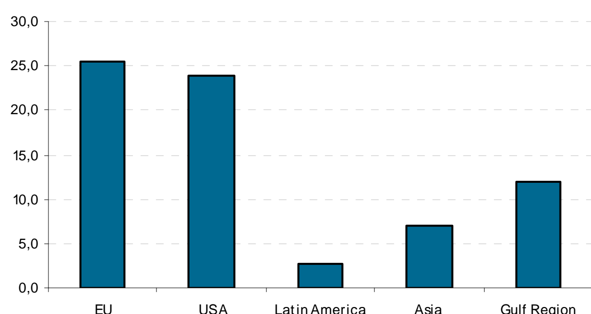
Source: Comtrade

3.3.2 Exports and Imports of the Countries of the Middle East

The trade structure of the Middle Eastern region differs from that of North Africa and in itself.

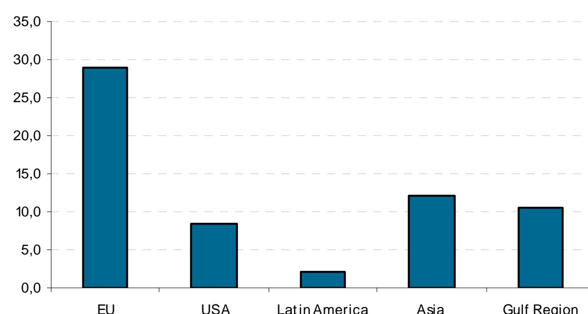
Imports mostly originate in EU countries, but also in the United States, Asia (and in particular China, which supplies machinery and yarns), and the Gulf countries, with Saudi Arabia playing a leading role among the latter as an oil supplier. Among EU countries, Belgium stands out for its exports of diamonds and gemstones to the region. As regards export flows, the main target market is the EU, followed by the US, Belgium, where diamonds return after having been cut, Hong Kong for machinery, India for chemical products and fertilisers, and Italy, also in the machinery segment.

Export Structure by Geographical Destination– 2008 (% on total)



Source: Intesa Sanpaolo on IMF Direction of Trade data (EU 15)

Import Structure by Geographical Destination– 2008 (% on total)



Source: Intesa Sanpaolo on IMF Direction of Trade data (EU 15)

Trends by Category of Goods

Within the region, Israel stands out for its specialisation in manufactured products, especially those with a high technology content produced in the 25 hi-tech industrial parks, and in the

processing of gemstones, with diamonds leading the way. Syria, which was a net exporter of energy products in the past, has now reduced its share of oil exports to the advantage of manufactured goods and agricultural produce. Lebanon and Jordan have also seen their manufacturing sector grow, to the detriment of the relative weight of machinery and means of transport. Chemicals, and drugs in particular, account for a significant shares throughout the region, and especially in Jordan and Israel.

Export Structure by Product Group (% on total)

		Food and agricultural items	Energy items	*Coal, coke, oil*	*Petroleum products*	*Natural gas and related products*	Non energy minerals, metals	Manufactured goods	*Chemicals products*	*Machinery and vehicles*	*Other manufactured goods*
Jordan	2000	14.0	0.0	0.0	0.0	0.0	10.9	75.1	22.2	19.1	33.8
	2008	13.5	0.2	0.0	0.2	0.0	8.2	78.2	33.9	15.3	29.0
Israel	2000	2.5	0.7	0.0	0.7	0.0	1.9	94.8	12.9	35.6	46.3
	2008	2.7	0.9	0.0	0.9	0.0	1.5	94.8	25.2	22.0	47.6
Lebanon	2000	17.0	0.2	0.0	0.2	0.0	6.3	75.2	13.5	12.3	49.4
	2008	9.3	0.2	0.0	0.2	0.0	9.2	80.9	8.0	2.9	70.0
Palestinian T.	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Syria	2000	8.8	76.4	69.2	7.2	0.0	5.3	9.6	0.3	0.1	9.2
	2008	20.7	41.1	34.5	6.6	0.0	1.7	36.4	5.3	4.9	26.2

Source: Comtrade

Imports of food & beverages and agricultural commodities have been decreasing in this region as well, thanks to government measures aimed at developing the primary sector. A slight increase was recorded only in Israel, as was also the case with fuels. Growth in the machinery and means of transport sectors, while still insufficient to meet domestic demand for capital goods, has led to widespread reductions in the imports of these items, with Jordan marking the only exception. Energy product import trends varied, accelerating in Syria and in Lebanon especially in terms of refined oil products, and in crude oil in Israel and Jordan, which is then refined domestically.

Import Structure by Product Group (% on total)

		Food and agricultural items	Energy items	*Coal, coke, oil*	*Petroleum products*	*Natural gas and related products*	Non energy minerals, metals	Manufactured goods	*Chemicals products*	*Machinery and vehicles*	*Other manufactured goods*
Jordan	2000	19.4	4.8	0.0	3.6	1.2	3.6	70.7	12.0	32.3	26.4
	2008	7.0	10.2	7.6	1.3	1.3	0.8	82.0	8.8	34.4	38.8
Israel	2000	4.7	10.0	6.8	3.1	0.1	2.0	83.1	8.9	34.8	39.4
	2008	6.0	19.8	15.2	4.3	0.3	2.4	71.7	10.9	27.7	33.1
Lebanon	2000	16.7	16.5	0.1	15.5	0.9	2.9	63.1	10.2	21.8	31.1
	2008	14.2	21.3	0.3	20.2	0.8	2.2	61.3	11.4	3.0	46.9
Palestinian T.	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Syria	2000	13.6	3.7	0.0	2.2	1.5	5.9	73.0	13.0	20.9	39.1
	2008	10.9	32.6	1.3	29.5	1.8	3.7	52.0	11.3	16.7	24.0

Source: Comtrade

3.3.4 Export and Import Concentration

This paragraph will examine the level of concentration and diversification of the imports and exports of the region's countries, based on a set of indicators commonly used in literature on these topics.

The number of products exported in the period considered (between 1995 and 2006), increased across the board. Based on the Finger & Kreinin diversification index (see table), the foreign trade structure of the countries considered was still limited in 2006, in some cases well off the world average. The major oil exporters were essentially still bound to the processing of energy

products, leaving their trade patterns broadly unchanged compared to the previous decade. North African countries with diversified exports, on the other hand, show a more similar export structure, albeit with differences compared to the "world system", but still with markedly lower concentration levels. Higher diversification is observed in the Mediterranean states of the Middle East[53]. The higher concentration surveyed in some countries is explained by strong polarisation on the specialisation of exports (see following paragraph)[54].

Export Concentration and Diversification Indices

	1995			2006		
	Number of products exported	Diversification Index	Concentration Index	Number of products exported	Diversification Index	Concentration Index
World	261	0	0.053	260	0	0.079
Algeria	99	0.821	0.530	108	0.797	0.606
Libya	29	0.522	0.768	94	0.795	0.843
Egypt	164	0.669	0.247	196	0.684	0.356
Morocco	168	0.746	0.179	199	0.678	0.159
Tunisia	193	0.670	0.216	209	0.608	0.187
Jordan	191	0.641	0.217	202	0.597	0.145
Israel	219	0.568	0.283	216	0.609	0.377
Lebanon	180	0.600	0.102	200	0.658	0.125
Palestinian Territories	n.a	n.a	n.a	n.a	n.a	n.a
Syria	130	0.691	0.539	186	0.693	0.340

Source: UNCTAD - Handbook of Statistic 2008

An analysis of imports yields a more coherent picture, albeit with some peculiarities. In 2006, the number of products imported by the region's countries was large and close to the world average, on the rise compared to 1995, albeit at a slower pace than for exports, but moving from a higher initial level. In all countries, the concentration index is on values quite close to the world average, and has increased over time due to the improvement of the population's per capita income, and to industrial sectors trends. The diversification index confirms that the situation is closer to the "world system" average than it is on the front of exports.

Import Concentration and Diversification Indices

	1995			2006		
	Number of products exported	Diversification Index	Concentration Index	Number of products exported	Diversification Index	Concentration Index
World	261	0	0.052	260	0	0.081
Algeria	231	0.463	0.084	234	0.467	0.096
Libya	188	0.397	0.080	224	0.397	0.096
Egypt	237	0.436	0.076	241	0.428	0.099
Morocco	236	0.414	0.082	246	0.338	0.105
Tunisia	242	0.392	0.076	241	0.397	0.084
Jordan	228	0.385	0.084	234	0.343	0.159
Israel	246	0.261	0.146	245	0.265	0.182
Lebanon	236	0.364	0.086	244	0.437	0.162
Palestinian Territories	n.a	n.a	n.a	n.a	n.a	n.a
Syria	190	0.499	0.090	225	0.517	0.220

Source: UNCTAD - Handbook of Statistic 2008

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[53] For a more detailed discussion, see FEMISE – "*Les pays partenaires mediterraneens face a la crise*" – (August 2009)

[54] On this topic see also Anna M. Ferragina – "*L'evoluzione della specialisation italiana verso i partner mediterranei nel decennio 1995-2005: fra riorientamento, vocazione e perdita di quote di mercato*" (2007) - CESPI

Note	
Number of products exported	Number of products exported or imported that are greater than 100000 USD or more than 0,3% of the coutriy's total export or import
Diversification Index	Diversification index ranges between 0 and 1. Reveals the extent of the differences between the structure of the trade of the country and the world average The index value closer to 1 indicates a bigger difference from the world average Diversification index is computed by measuring absolute deviation of the country share from world structure, as follows: $I_j = \frac{\sum_i \lvert h_{ij} - h_i \rvert}{2}$ Where hij = share of product i in the total exports or imports of country j Hi = share of product i in the total world exports or imports
	The index is a modified Finger - Kreinin measure of similarity in trade. For more details, read the article of Finger J.M. and M.E. Kreinin (1979) "A measure of export similarity and its possible uses" in the Economic Journal, 89 905-12
Concentration index	The Herfindahl-Hirschmann index is a measure of the degree of market concentration. It has been normalized to obtain values ranking from 0 to 1 (maximum concentration) according to the following formula: $I = \frac{\sqrt{\sum_{i=1}^{n} (x_i/X)^2} - \sqrt{1/n}}{1 - \sqrt{1/n}}$ where I = index n = number of products x = value of exports of product i $X = \sum_{i=1}^{n} x_i$

3.3.5 Export Specialisations

The analysis of export specialisations offered in this paragraph is aimed at highlighting the specificities, in terms of the product categories, of the exports of South Mediterranean Rim countries, based on a set of indicators such as the weight on the global total, net trade, and the Balassa and Lafay specialisation indices, commonly used in literature on the topic[55].

Large oil Exporters

Algeria and Libya obviously show high export specialisation in mineral fuels, a sector in which they command important shares of the world market. De-specialisation is widespread across other export items, of marginal weight on total exports, due to substantial inflows.

[55] The Balassa specialisation Index (BI) is calculated as (share of exports in sector A of country B/total exports of country B)/(share of exports in sector A/total global exports), i.e. BI = (exports in sector A of country B/global exports in sector A) x (global exports/total exports of country B). If the index is higher than 1, specialisation exists.

The Lafay specialisation index considers both exports and imports. It is more appropriate in evaluating countries that process goods for third party countries (delocalisation) $LI = 100[(X_{ij}-M_{ij})/(X_{ij}+M_{ij})-S_k(X_{ik}-M_{ik})/S_k(X_{ik}+M_{ik})]\ (X_{ij}+M_{ij})/S_k(X_{ik}+M_{ik})$ where: i = country, j = good, X = export, M = import. Positive values indicate specialisation, negative values de-specialisation.

Exports Specialisation in Algeria (2006)	Exports as a share of world exports	Net trade (USD Bn)	Balassa Index	Lafay Index
Mineral fuels and related materials	3.04	53.30	6.7	260
Iron and Steel	0.08	-1.01	0.2	-15
Inhorganic chemicals	0.23	0.07	0.5	-1

Source: WTO

Exports Specialisation in Lybia (2006)	Exports as a share of world exports	Net trade (USD Bn)	Balassa Index	Lafay Index
Mineral fuels and related materials	2.1	35.87	6.6	228
Organic chemicals	0.1	0.37	0.4	1
Iron and Steel	0.1	0.14	0.3	-2

Source: WTO

Manufacturing Countries of North Africa

The overall picture of export specialisations in North African countries is more varied, compared to major oil producers. Industrial production, mostly concentrated in the textiles and clothing in Morocco and Tunisia, is markedly specialised in these sectors. Fuels and cements are important export items for Egypt, while electric and electronic machinery exports, still substantial for both Tunisia and Morocco, are characterised by limited specialisation in both countries.

Exports Specialisation in Egypt (2006)	Exports as a share of world exports	Net trade (USD Bn)	Balassa Index	Lafay Index
Mineral fuels and related materials	0.5	6.21	3.3	88
Iron and Steel	0.4	-0.33	2.5	4
Salt. sulfur cements	2.6	0.68	15.7	8

Source: WTO

Exports Specialisation in Morocco (2006)	Exports as a share of world exports	Net trade (USD Bn)	Balassa Index	Lafay Index
Clothing access. not knitted or crocheted	1.51	2.291	14.5	53
Electrical machinery	0.12	-0.298	1.1	16
Inhorganic chemicals	1.25	0.791	12	20

Source: WTO

Exports Specialisation in Mauritania (2006)	Exports as a share of world exports	Net trade (USD Bn)	Balassa Index	Lafay Index
Ores, slag and ash	4.32	0.59	46.4	183
Mineral fuels and related materials	0.23	0.39	2.4	94
Fish, crustaceans molluscs	4.47	0.40	48	123

Source: WTO

Exports Specialisation in Tunisia (2006)	Exports as a share of world exports	Net trade (USD Bn)	Balassa Index	Lafay Index
Clothing access. not knitted or crocheted	1.59	2.22	16.2	81
Electrical machinery	0.12	0.17	1.3	16
Mineral fuels and related materials	0.08	-0.02	0.8	7

Source: WTO

The Countries of the Middle East

The Middle Eastern region is characterised by high specialisation in the processing of gemstones, especially in Israel, Jordan and Lebanon. The textile sector is important in Jordan and, to a lesser degree, in Syria. The mechanical and electronic industries suffer from high despecialisation throughout the region, with a strong demand for imported capital goods. In Israel, however, the high-tech segment holds significant weight, produced in the 25 hi-tech industrial parks.

Exports Specialisation in Jordan (2006)	Exports as a share of world exports	Net trade (USD Bn)	Balassa Index	Lafay Index
Clothing access. knitted or crocheted	0.58	0.78	13.4	79
Pearls, precious stones and metals, jewellery	0.2	0.33	4.7	40
Fertilisers	1.63	0.45	37.8	45

Source: WTO

Exports Specialisation in Israel (2006)	Exports as a share of world exports	Net trade (USD Bn)	Balassa Index	Lafay Index
Pearls, precious stones and metals, jewellery	7.1	7.27	18.1	61
Electrical machinery	0.4	1.64	1	14
Mecanical machinery	0.2	-1.51	0.5	-12

Source: WTO

Exports Specialisation in Lebanon (2006)	Exports as a share of world exports	Net trade (USD Bn)	Balassa Index	Lafay Index
Pearls, precious stones and metals, jewellery	0.09	-0.01	7.3	13
Electrical machinery	0.007	-0.298	0.6	3
Iron and Steel	0.03	-0.077	2.6	5

Source: WTO

Exports Specialisation in Syria (2006)	Exports as a share of world exports	Net trade (USD Bn)	Balassa Index	Lafay Index
Mineral fuels and related materials	0.25	1.3	2.7	42
Other manufacturers	0.23	0.6	2.6	18
Clothing access. knitted or crocheted	0.39	0.57	4.3	17

Source: WTO

3.4 Trade with Italy

The analysis carried out in previous paragraphs shows that Italy is one of the main trade partners for many of the South Mediterranean countries. These countries also account for an important share of Italy's trade balance. In 2008, Italian imports originating in the South Mediterranean Rim accounted for 8.8% of the total, and exports for 4.7%.

Import/Export Details Italy vs Countries South Mediterranean Rim– (mln Euro)	Import 2008 (cif)	Export 2008 (fob)	Balance 2008	Yearly Growth rate 2000/2008		% on tot imp. Italy 2000	% on tot imp. Italy 2008	% on tot exp. Italy 2000	% on tot exp. Italy 2008
				import	export				
Major oil exporter									
Algeria	8597.1	3007.6	-5589.5	6.6	31.0	2.18	2.28	0.33	0.82
Libya	17390.3	2638.5	-14751.8	21.5	19.6	2.47	4.61	0.39	0.72
North Africa									
Egypt	2247.1	2905.6	658.5	12.3	11.1	0.44	0.6	0.59	0.79
Mauritania	117.1	29.8	-87.3	6.3	-2.8	0.03	0.0	0.01	0.0
Morocco	609	1688.7	1079.7	1.2	16.9	0.21	0.2	0.28	0.5
Tunisia	2328.7	2948.3	619.6	8.8	6.8	0.53	0.62	0.73	0.81
Middle East									
Israel	1157.1	1843.3	686.2	3.3	-0.2	0.35	0.31	0.72	0.5
Jordan	57.5	426.4	368.9	39.2	10.6	0.01	0.02	0.09	0.12
Lebanon	34.9	774.0	739.1	10.5	1.6	0.01	0.01	0.26	0.21
Palestinian Territories	0.7	3.6	2.9	9.4	-2.3	0.00	0.0	0.00	0.0
Syria	818.3	1029.7	211.4	1.5	14.9	0.28	0.2	0.18	0.28
Mediterranean Total	33357.8	17295.5	-16062.3	12.3	10.6	6.51	8.8	3.60	4.7
Latin America	10788.6	12193.7	1405.0	8.1	2.3	2.53	2.9	3.95	3.3
Asia	47053.0	27108.6	-19944.4	10.9	5.4	9.71	12.5	7.28	7.4
Emerging Europe	42277.5	44367.9	2090.4	10.9	14.2	8.73	11.2	7.98	12.1
World	377284.0	365806.1	-11477.9	5.7	5.1	100.00	100.0	100.00	100.0

Source: ISTAT

Broken down data reveal that trade with South Mediterranean countries is particularly intense on some specific categories of goods. For instance, in 2008 the region supplied around 40% of all the energy minerals imported by Italy from the rest of the world, and over 30% of refined oil products. At the same time, the region absorbed almost 8% of the mechanical machinery and devices exported from Italy, and a similar percentage if its processed metal products. In the textile and clothing sector, just over 7% of total imports originated in South Mediterranean countries.

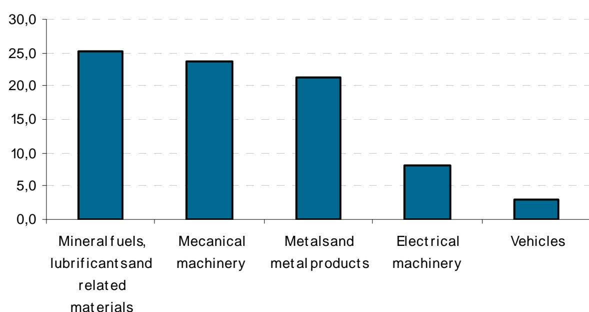
Italian imports from the region mostly consist of oil products and derivatives (73% of the total in 2008). Other imported product categories in the same year included textile and clothing industry products (3.8%), synthetic fibres and chemical products (2.9%), as well as processed metal products (2%). Of Italy's total exports to the economies of the South Mediterranean Rim in 2008, around 35% were accounted for by mechanical machinery and devices, 20% by refined

oil products, 20% by metals and processed metal products, 10% by chemical products and synthetic fibres, and 8% by electric and electronic machinery.

Specificities of Major Oil Exporters

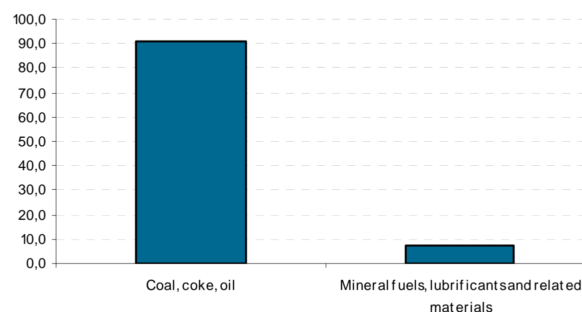
Italy imports energy minerals and derivatives from Algeria and Libya. In addition to refined oil products, exports include mechanical and electronics industry products. The share of metals and processed metal products is also significant, as are exports of means of transport.

Exports Italy vs Major Oil Exporters-2008



Source: ISTAT

Imports Italy from Major Oil Exporters 2008

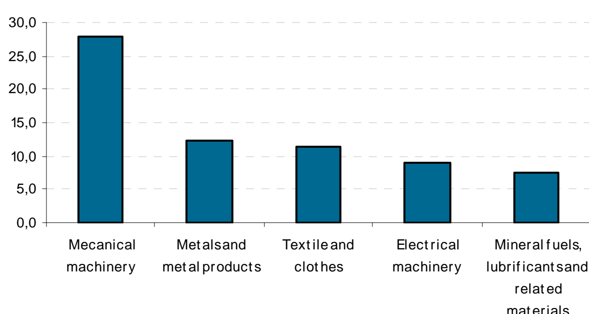


Source: ISTAT

Specificities of the Manufacturing Countries of North Africa

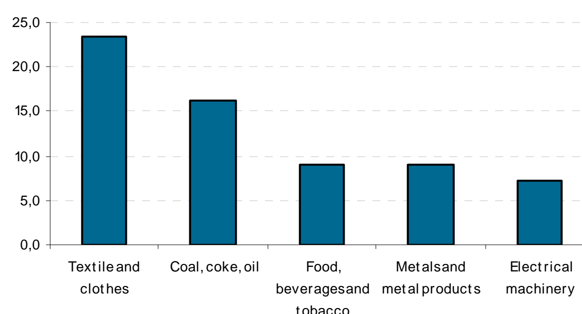
The structure of trade with the countries of North Africa is mixed. The textile and clothing industry, traditionally a pillar of industry manufacturing activity in the Maghreb, is one of the sectors which contributes most to trade flows: many Italian companies have relocated part of their production facilities to Tunisia and Morocco, supporting inflows and outflows. A similar trend is observed for electric and electronic machinery, mostly manufactured in Egypt, and semi-finished metal products, processed in all the countries of the region. Italian imports also include food products and energy minerals from Egypt, while the largest shares of exports are commanded by mechanical machinery and devices.

Exports Italy vs North Africa Countries - 2008



Source: ISTAT

Imports Italy from North Africa Countries - 2008



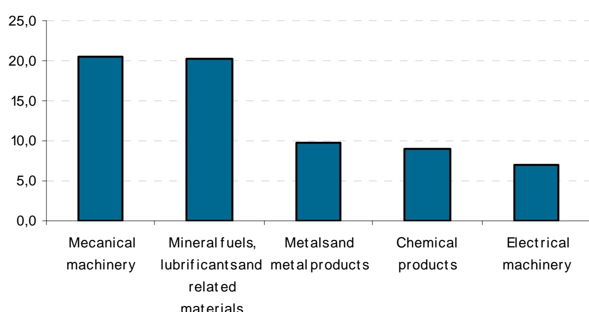
Source: ISTAT

Specificities of the Countries of the Middle East

Trade flows between Italy and the Middle Eastern countries are weaker than is the case with the other two sub-regions of the South Mediterranean Rim. Imports mostly consist of energy minerals from Syria, followed by chemical products from Lebanon, Israel, and Jordan, energy derivatives from Syria and Israel, and mechanical and electronic machinery from Israel. Italian

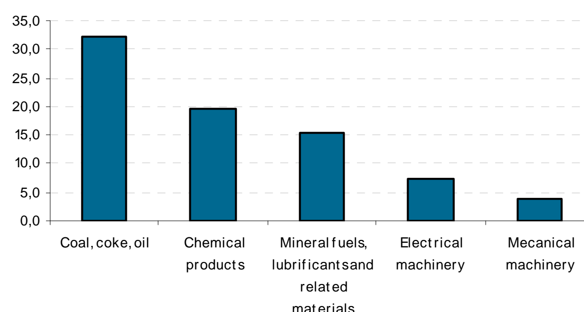
exports to this sub-region are also predominantly accounted for by mechanical machinery and devices (20.4% in 2008), fuelled by domestic demand for capital goods, refined oil products (20.1%), metals and processed metal products (9.7%), chemical products (9.1%) and electronic machinery (6.9%). Delocalisation also makes a contribution, albeit smaller than in trade with North Africa countries, in the machinery sector, primarily in the electric and electronic segments, and to a lesser degree in the mechanical segment.

Exports Italy vs. Middle East - Countries 2008



Source: ISTAT

Imports Italy vs. Middle East - Countries 2008



Source: ISTAT

3.4.1 Southern Italy and the Mediterranean[56]

Southern Italy (including the Italian Isles) entertains intense trade relations with the countries of the Mediterranean. Oil and natural gas account for a large portion of the imports of Southern Italia regions from these countries, whereas almost 60% of exports are represented by products deriving from oil refinement. Such strong inflows and outflows are explained by the presence in Sicily and Sardinia of some of the most important refining facilities in Italy. Italian production of refined oil products is largely concentrated in these plants (around 60% of the total in 2008).

Trades Between South Italy and the South Mediterranean Rim Countries

	Imports (cif)				Exports (fob)			
	Euro M		Composition %		Euro M		Composition %	
	2003	2008	2003	2008	2003	2008	2003	2008
Total, of which	7,323.6	10,139.8	100.0	100.0	1,662.2	4,299.7	100.0	100.0
Coke, mineral fuels, lubrificants and related materials	687.3	1,434.8	9.4	14.2	760.2	2,523.2	45.7	58.7
Products of metallurgy	42.6	143.4	0.6	1.4	129.3	303.7	7.8	7.1
Mechanical machinery	12.2	21.7	0.2	0.2	101.0	200.9	6.1	4.7
Chemical products	133.9	220.0	1.8	2.2	106.8	168.7	6.4	3.9
Oil and natural gas	6,023.4	7,674.4	82.2	75.7	0.0	162.2	0.0	3.8
Agricultural products, animals and huntings animals	46.1	45.5	0.6	0.4	31.4	103.2	1.9	2.4
Alimentary products	74.7	102.4	1.0	1.0	94.7	95.8	5.7	2.2
Metals products	10.0	19.5	0.1	0.2	43.2	92.8	2.6	2.2
Vehicles	1.4	12.7	0.0	0.1	29.9	79.2	1.8	1.8
Electrical machinery	5.5	7.3	0.1	0.1	37.9	69.3	2.3	1.6
Electrical household appliance	15.6	37.9	0.2	0.4	27.0	64.7	1.6	1.5
Other transport equipment	0.2	9.8	0.0	0.1	22.2	62.3	1.3	1.4
Rubber and plastic products	6.2	21.5	0.1	0.2	35.8	60.6	2.2	1.4
Other minerals non metals products	22.8	15.3	0.3	0.2	25.6	59.5	1.5	1.4
Textiles products	15.3	25.2	0.2	0.2	76.7	57.5	4.6	1.3
Clothing apparel	89.1	86.1	1.2	0.8	36.2	56.7	2.2	1.3
Leather products	74.6	76.3	1.0	0.8	19.0	41.5	1.1	1.0

Note: 2008 provisional data. Source: Intesa Sanpaolo on Istat data

[56] Written by Giovanni Foresti and Stefania Trenti – Industrial Office – Research Department– Intesa Sanpaolo

Libya is the main supplier of these facilities, as also indicated by oil import flows from the country. Libya is also Italy's main trade partner in the region in terms of exports, mostly accounted for by refined oil products, with the marginal addition of food products and products tied to the metal and mechanical production chains.

Italy's second most important trade partner in terms of exports is Tunisia, followed in decreasing order of importance by Egypt, Israel, Algeria, Syria, Morocco, and Lebanon. In the 2000s, all these countries recorded significant growth in terms of imports originating in the regions of Southern Italy.

By sector, behind refined oil products, as would be expected, Southern Italian exports to the countries of the South Mediterranean mostly include products tied to the metal and mechanical production chains (metal processing, metal products, mechanical products and means of transport), which on aggregate account for around 17% of total exports. Products tied to the food, chemicals, and fashion system production chains follow at a distance.

Therefore, trade flows involving the typical goods of the industrial districts of Southern Italy, mostly tied to the fashion system, are limited. In 2008, the Mediterranean Rim absorbed just under 4% of the total exports of Southern Italian districts (EUR 133.3M). However, this rather modest amount increased significantly in the course of the decade (from less than 2% in 2003).

Trades Between South Italy and the South Mediterranean Rim Countries

	Imports (cif)				Exports (fob)			
	Euro M		Composition %		Euro M		Composition %	
	2003	2008	2003	2008	2003	2008	2003	2008
Libya	2,772.8	7,791.2	37.9	76.8	408.1	1,407.5	24.6	32.7
Tunisia	211.6	303.5	2.9	3.0	479.1	746.7	28.8	17.4
Egypt	366.5	747.7	5.0	7.4	113.1	557.6	6.8	13.0
Israel	156.1	330.7	2.1	3.3	124.9	343.7	7.5	8.0
Algeria (a)	3,203.1	455.4	43.7	4.5	120.9	325.8	7.3	7.6
Syria	482.2	302.3	6.6	3.0	33.3	313.9	2.0	7.3
Morocco	89.5	109.6	1.2	1.1	160.6	299.7	9.7	7.0
Lebanon	10.9	6.6	0.1	0.1	175.9	251.8	10.6	5.9
Jordan	1.9	2.6	0.0	0.0	32.4	39.2	1.9	0.9
Mauritania	28.9	90.1	0.4	0.9	14.0	13.7	0.8	0.3
Palestinian T.	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Total	7,323.6	10,139.8	100.0	100.0	1,662.2	4,299.7	100.0	100.0

(a) The decrease in Algeria imports is related to a different Istat calculation of natural gas, which comes to Italy with TTPC and TMPC pipelines in Mazara del Vallo (TP). Since 2006 these flows are nor calculated to Trapani district but to "not specified districts".
Note: 2008 provisional data. Source: Intesa Sanpaolo on Istat data

Of these districts, those that experienced strongest growth in the total worth of exports to the region considered were the Naples clothing industry and, more markedly, the Nocera Inferiore food preserve industry, on the back of exports to Libya. In these two districts, the weight of goods exported to the Mediterranean countries increased respectively to 9.3% and 5.8%.

Greater hardships, on the other hand, were incurred by the Murgia upholstery industry, the Naples shoe industry, and the Abruzzo furniture industry, all of which suffered a drop in exports between 2003 and 2008.

Exports of Southern Italy districts to South Mediterranean Rim Countries (data on current prices)						
	Euro M		Composition %		% district total export	
	2003	2008	2003	2008	2003	2008
Total district of Southern Italy, of which:	73.3	133.3	100.0	100.0	1.7	3.9
Canned food of Nocera Inferiore	10.2	55.1	13.9	41.4	1.4	5.8
Clothing of Naples	15.8	26.5	21.6	19.9	6.3	9.3
Padded forniture of Murgia	15.1	13.8	20.6	10.3	1.3	2.5
Clothing South Abruzzo	5.1	9.4	6.9	7.1	1.3	2.2
Shoes of Naples	9.9	9.4	13.6	7.1	5.2	5.6
Forniture of Abruzzo	5.9	4.9	8.1	3.7	5.8	3.9
Clothing North Abruzzo	3.4	3.9	4.6	2.9	2.5	4.8
Clothing of Bari region	2.3	3.4	3.1	2.5	2.2	3.2
Shoes of North Bari region	2.0	2.1	2.7	1.6	0.8	1.2
Tanning of Solofra	0.5	2.1	0.7	1.6	0.2	1.7

Source: Intesa Sanpaolo on Istat data

3.5 Foreign Direct Investments

Based on UNCTAD data for 2008, FDI stock as a percentage of GDP generally increased more than the world average in the region considered, albeit falling short of the growth rates achieved by other emerging regions. The reforms put in place by several governments to encourage foreign investments, privatisations and business climate improvements, helped support the uptrend of FDI flows in the past decade. Nonetheless, in absolute terms amounts are still limited.

According to UNCTAD's World Investment Prospects Survey of September 2009, the aggregate formed by the countries of North Africa was once again in 2008 one of the least successful in attracting the interest of international investors, compared to other emerging economic regions in Asia or Latin America, showing modest FDI amounts in absolute terms. At the end of the year, Mediterranean countries as a whole had attracted just over 1.8% of the world investment stock.

Based on FEMISE data, the Mediterranean region may have been impacted in recent years by competition from Eastern European countries In addition a still modest development of the industrial sector and an insufficient economic integration among the different members of the South Mediterranean Rim may have also impacted[57]. Compared to 1990, investment stock growth was lively: at the beginning of the period considered, FDI levels as a percentage of GDP were in most cases lower than, or close to, 10%, with the exception of Tunisia which already enjoyed substantial foreign capital inflows (61.8%). In 2008, the average rate had risen to 30%, with Algeria bringing up the rear at 9.1%, and Jordan topping the rank at 89.9%.

Detailed FDI flow data broken down by geographical origin and product category are not available for the single countries of the region. Based on UNCTAD[58] and ANIMA[59] data, the strongest investor in the region as a whole is still the European Union (and in particular France and the United Kingdom), followed by the Gulf countries, Japan, and the United States. At the end of 2007, around 40% of the FDI stock originated in the EU, as opposed to 34% in Gulf countries. Gulf countries are showing increasing interest, with a preference for the real estate sector, the tourist industry, and large scale retail. According to ANIMA, the investments made by the Gulf countries are not aimed at creating complementary activities to their production setups, but rather to put to use income flows generated by the sale of energy products. EU states, on the other hand, are focused on investments that could have a positive long-term fallout on

[57] For a more detailed discussion, see FEMISE – "*Les pays partenaires mediterraneens face a la crise*" – (August 2009)

[58] UNCTAD - World Investment Report 2008

[59] http://www.animaweb.org/investir_environnementaffaires.php

employment levels, and involve the transfer of technology. EU investments, more than any others, have also been geared to the strengthening of infrastructure and of logistics platforms.

While to different extents, due to the specificities of some countries, overall FDI flows directed to the economies of the Mediterranean Rim still have a significant margin for growth. The creation in some states (Israel, Jordan, Egypt, Tunisia) of industrial areas dedicated to specific productions or exports, for instance, has increased and encouraged capital flows, aiding infrastructure growth and the transfer of technology. Also according to UNCTAD and ANIMA data, the largest FDI flows have been attracted by the energy sector, services (banks, insurance companies, transportation, travel & leisure) and the manufacturing sector (motor vehicles, chemicals, agriculture and food, textiles).

As regards Italy, no detailed data are available on FDI in the region, although given the strong trade relations it entertains with the Mediterranean countries, it should be considered as an important investor. According to ICE, an important role is played by SMEs, alongside the major names of Italian industry present in the main sectors of goods. The most important names that have invested in the Mediterranean Rim include Agusta, Alenia, Ansaldo, Ass. Generali, Astaldi, Benetton, Bongiorno, Danieli, De Longhi, Enel, ENI, Fantuzzi, Fiat, Gavazzi, Grimaldi, Impregilo, Italcable, Italcementi, Iveco, Luxottica, Marzotto, Miroglio, Nuovo Pignone, Piaggio, Pirelli, Saipem, Sirti, Sorin, Stefanel, ST Microelectronics, Sergio Tacchini, Techint, Telecom, Tim, Tiscali, and Uno a Erre. The presence of Italian banks in the region is also significant, with Intesa Sanpaolo, MPS, and Unicredito leading the way.

Foreign Direct Investments

	Stock FDI - 1990		Stock FDI - 2000		Stock FDI - 2007		Stock FDI - 2008		Flows 2008
	USD Bn	% on GDP	USD Bn	% on GDP	USD Bn	% on GDP	USD Bn	% on GDP	USD Bn
Algeria	1.521	2.5	3.497	6.4	11.815	8.9	14.458	9.1	2.6
Libya	0.678	2.3	0.451	1.3	8.723	14.1	12.834	12.8	4.1
Egypt	11.043	28.0	19.955	20.0	50.503	37.8	59.998	37.0	9.5
Mauritania	0.059	5.6	0.146	13.6	1.905	69.7	2.008	63.5	0.103
Morocco	3.011	10.4	8.842	23.9	38.613	52.6	41.001	47.5	2.4
Tunisia	7.615	61.8	11.545	59.4	26.193	73.5	29.083	70.3	2.8
Israel	4.476	7.9	5.893	18.6	55.900	34.1	57.481	28.9	9.6
Jordan	1.466	36.5	3.135	37.1	16.058	102.1	18.012	89.9	2.0
Lebanon	0.053	1.9	4.988	29.9	20.563	83.5	24.17	83.5	3.6
Palestinian T.	n.a.	n.a.	0.932	22.6	1.121	20.5	1.15	20.0	0.029
Syria	5.954	53.4	7.279	37.0	8.221	21.9	10.337	18.9	2.1
South Mediterranean Rim	35.876	14.8	63.528	19.9	223.557	33.3	252.52	30.0	36.832
Western Asia	53.311	10.2	261.331	9.7	378.277	23.2	362.559	18.0	90.255
Asia and Oceania	631.314	16.1	2090.680	25.4	2843.929	29.3	2583.855	22.8	388.709
Latin America	248.293	9.9	933.610	24.3	1125.109	29.9	1181.616	27.3	144.377
Africa	95.586	12.5	339.635	26.2	424.316	32.7	510.511	33.2	87.647
South and Central East Europe	6.013	n.a.	140.322	20.9	563.895	52.1	506.843	38.5	55.097
World	3237.229	9.1	12404.439	18.1	15660.498	28.4	14909.289	24.5	1697.353

Source: UNCTAD

4. The Banking and Financial System

Davidia Zucchelli

To significantly varying degrees, the countries of the South Mediterranean Rim have achieved a low level of financial development, both in terms of volumes and of institutional and regulatory frameworks. State presence in the sector remains very strong, often dominant, hindering in some countries, first and foremost in Libya and Algeria, the development of a more advanced financial system, capable of addressing the private sector. In general, banks play a markedly predominant role, and the presence of other non-banking financial firms is marginal. Israel and Lebanon are the two important, financially more advanced exceptions.

Limited integration with foreign markets and the many restrictions imposed on operations by central banks, which for instance do not allow local banks to purchase foreign securities or derivatives, have effectively protected the countries of the region from the harshest effects of the current international financial crisis. Nonetheless, local banks are in any case sensitive to the slowdown under way in the real economy, which may lead to a deterioration in the quality of loans portfolios and profitability losses.

In this chapter, after examining the structure of the banking systems, we will analyse the trends of the main aggregates and of profitability, and highlight their main strengths – important in supporting a recovery – and weaknesses, in the current context of economic and financial uncertainty. The crisis under way may actually accelerate the implementation of further, important reforms aimed at improving the systems' structure and operations, governance processes, and level of transparency.

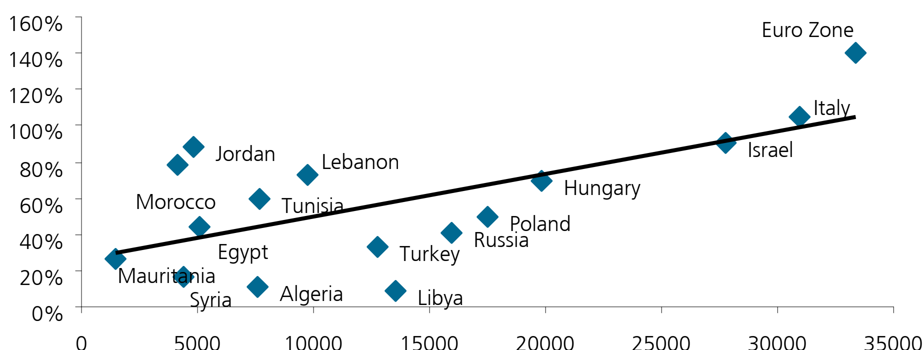
4.1 The Banking System

4.1.1 Level of Banking Penetration

Economic growth over the past decades has fuelled banking activity in the region; however, as opposed to the situation in many other emerging economies, banking penetration is still shy of significant levels as the starting point was particularly low. An approximation of banking penetration based on the ratio of credit to the private sector and gross domestic product (CRPS/GDP), varies significantly from very low values in Libya, Algeria, and Syria, all economies conditioned by oil income, to higher values in Jordan, Lebanon, and Israel. The other North African countries are in an intermediate position. However, it should be pointed out that in some countries another indicator, i.e. total assets (TA) to GDP, is often higher than the CRPS/GDP ratio, essentially due to the fact that it includes securities and items referred to the public sector, that in many countries of the region are very significant. In Lebanon, for instance, the TA/GDP ratio is higher than 300%, against a CRPS/GDP of around 70%; Jordan has a TA/GDP ratio of over 200%, and a CRPS/GDP of 90%, resulting from the substantial resources collected, but also from the modest opportunities in issuing loans to the economic system.

The presence of non-banking financial firms, such as insurance companies, pension funds, and mutual funds, is very modest throughout the South Mediterranean Rim, often irrelevant (with the sole exception of Morocco), especially taking into account the high income levels surveyed in some countries. Lastly, while increasing in number, leasing and factoring companies are still very small in size.

Lending to the Private Sector/GDP and per Capita GDP (USD, PPP, 2008)



Note: data as at 2003 for Mauritania; Source: IMF, EIU

Deposits represent a major strength for many countries, especially of the Middle East, where the deposits/GDP ratio is often well over 200%, thanks to emigrant worker remittances. Consequently, the loans-to-deposits ratio is generally low, and ranges from a minimum of 24% in Libya, due to the role played by the State, that deposits the huge resources available to it in some specialised institutions, to 118% in Tunisia.

Main Banking Indicators (2008)

	Assets/ GDP (%)	CRPS/ GDP (%)	Deposit s/ GDP (%)	CRPS/ Dep (%)	TA USD Bn	Number of banks*	Nr. of banks per mln hab.	% of TA held by State-owned banks	% of TA held by major banks**
Algeria	59.8	11.6	40.5	29	102.4	21	0.6	n.a.	50 (3)
Libya	55.9	8.6	36.0	24	40.1	12	1.9	90	56 (2)
Egypt	124.8	43.8	77.4	57	198.6	39	0.5	42	42 (3)
Morocco	110.4	78.4	88.1	89	90.4	16	0.5	15**	75 (3)
Tunisia	88.2	59.8	50.8	118	35.6	42	4.1	33	33 (3)
Jordan	209.8	88.7	106.4	83	42.0	23	3.7	n.a.	24 (1)
Israel	146.4	90.3	91.0	99	279.2	26	3.6	30	95 (5)
Lebanon	327.1	73.1	230.0	32	94.3	54	12.9	n.a.	80 (10)
Syria	72.8	17.0	49.8	34	36.9	23	1.1	78	78 (5)

Note: *The number of major banks to which he share is allocated is in parenthesis. **Excluding Banque Centrale Populaire.
Source: central banks, IMF, rating agencies, EIU

4.1.2 The Structure

Across the region, banking systems generally show a high level of concentration, even in countries where the number of banks is high[60]. In these terms, common traits may be observed among the countries belonging to the three sub-regions: the number of active institutions is lowest in Libya ad Algeria, where the banking systems are dominated by state-owned banks; Northern African countries show a higher level of diversification, whereas the banking systems of the Mediterranean countries of the Middle East are very fragmented, with high TA concentration despite the high number of banks active on the market.

In Libya and Algeria, to which Syria may also be added, for the purposes of this paper, the banking systems revolve around the state-owned banks, and the number of banks in relation to the population is still very low. In Libya in particular, the fast pace of growth of specialised banks should be underlined, especially active in the management of public funds, which at the end of

[60] The use of channels based on modern IT solutions, such as mobile banking, still scarcely accessible, is hindered by regulators as well as by a lack of innovative drive on the banks' part.

2007 accounted for around 47% of TA, succeeding in consistently eroding the market shares of retail banks[61]. The country has made important progress in restructuring and privatising its banking system, a process that, however, is still under way. In July 2007, the government sold a 19% stake of Sahara Bank, Libya's second largest state-owned bank, to BNP Paribas, which also acquired the option to take over control of the institution in the following 3-5 years. Furthermore, in February 2008 another 19% stake in Wahda Bank, the fourth largest state-owned bank, was sold to Jordan's Arab Bank. In March 2008, two of the leading state-owned banks were merged, to create Gumhouria Bank, the country's major bank, which accounts for 39% of TA. The Libyan central bank recently authorised the establishment of two new banks with foreign shareholders[62], and declared its intention to privatise Gumhouria Bank and National Commercial Bank, born from the merger of 21 small regional banks, that account on aggregate for 56% of the system's TA. The government has also devoted particular attention to the smaller private banks, offering incentives to support their market shares[63]. In Algeria the market is dominated by three state-owned banks: Banque Nationale d'Algérie, Crédit Populaire d'Algérie, and Banque de Développement Local, which account for around 50% of TA.

The banking systems of North Africa, and of Tunisia in particular – one of the region's smallest, with TA of approximately USD 40Bn at the end of 2008 – count a large number of institutions (42), against a population of around 10 million, and competition his high. The current crisis may accelerate the consolidation process, and – according to S&P – mergers are more likely to take place between the smaller private banks, than the state-owned banks[64]. In Egypt and in Morocco, numerous integrations and mergers carried out in the past significantly reduced the number of banks on the market (to 39 and 16 respectively).

In the countries of the Middle East, and in Lebanon and Jordan especially, opportunities for further mergers have arisen, and at the same time for a more competitive environment. In Lebanon, which counts as many as 54 banks with a population of only 4.5 million, mostly concentrated in Beirut, 10 banks account for over 80% of TA, and the leading three alone command approximately 50% of TA. Jordan's banking system is also highly fragmented (with 23 banks), but dominated by Arab Bank, which alone accounts for 24% of TA. Five banks dominate the market in Israel, with a 95% share of TA.

4.1.3 The Role of the State

State presence is significant in many other countries of the region, dominant in the oil-exporting countries and in Syria, and very strong also in those with more advanced banking systems, such as Israel. This a source of weakness, that may be overcome by encouraging the privatisation process, currently put on hold due to the global recession. State-owned banks have channelled substantial resources to public assets and enterprises, accumulating at the same time large losses on loans and laying bare serious inefficiencies. This has been particularly true in Algeria, Libya, and Syria, and to a lesser degree also in Egypt and Tunisia. In Algeria, plans were in place to privatise of one of the country's major banks, Crédit Populaire d'Algérie, and subsequently also Banque de Développement Local; both operations were postponed due to uncertainty on the financial markets. In Tunisia, the government controls the three largest retail banks, which

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[61] See IMF, The Socialist People's Libyan Arab Jamahiriya – 2009 Article IV Consultation Preliminary Conclusions Of The IMF Mission, June 2009.

[62] See IMF, Country Report: Libya, 2009, July 2009.

[63] See IIF, Country Report: Libya, 2009.

[64] See S&P, Banks In North Africa Are Holding Up Under The Global Financial Storm But Face Local Headwinds, April 2008; and S&P, Country Report: Tunisia, October 2009. Following the privatisation of Banque Tuniso in 2008, S&P considers new initiatives in the short term unlikely, as interest is currently low both on the side of central authorities, and of international investors.

account for over 30% of TA and are instrumental in the management of financing in several strategic sectors, namely STB (manufacturing and tourism), BNA (agriculture), and BH (social housing). While there are no plans to privatise these banks, the State seems ready to sell stakes in smaller banks, as was recently the case with BTK, to Groupe Caisse d'Epargne, and will be shortly with Banque de Tunisie et des Emirats (BTE). However, the effects of these operations on the sector's overall ownership structure will be marginal, given the modest size of the banks involved. In Egypt, the banking system è dominated by three state-owned banks – National Bank of Egypt, Banque Misr and Banque du Caire – which control 42% of TA. In 2006 the government sold the Bank of Alexandria to Sanpaolo IMI, but the privatisation of Banque du Caire is still on hold. In Israel, following extensive privatisations carried out in the past decade, the state still controls Bank Leumi, the country's second-largest bank, which accounts for almost 30% of the system's TA.

4.1.4 Foreign Banks and Foreign Presence of the Region's Banks

The presence of foreign banks varies from country to country, and is expected to strengthen in the future thanks to a more open attitude on the part of central authorities, and to greater financial integration at the international level. At the present stage, the presence of foreign banks ranges from marginal proportions in the Mediterranean countries of North Africa (Algeria and Libya), and in the Middle East, to countries such as Morocco and Tunisia, where, by contrast foreign banks, most of which French, have played an important role for long time now, across business sectors (controlling 20% and 35% to total assets). Other countries, among which Syria, are in an intermediate situation.

In Algeria, 13 new branches of foreign banks have been since the reform process kicked off. In response to the global recession, however, the central government has put in place a number of measures hindering the activity of foreign investors and banks, such as limitations on the participation in state-commissioned projects, and the obligation imposed on state-owned companies to use only local banks, and not foreign banks. The share of banking assets owned in Morocco by foreign entities (mostly French shareholders) with strategic ends is higher than 20%. The country's central bank holds the view that the other minority shareholders, also European, are unlikely to dispose of their stakes in the near future, considering their long history of investment in the country. In Tunisia, assets owned by foreign banks, also predominantly French, account for around 37% of the total, with mostly strategic ends[65].

In Israel, four international banks are active in the corporate and investment banking business, but are unable to access the retail market sector. In Jordan, Arab Bank ranks first in terms of asset size. In Syria, where the market is dominated by the state-owned Commercial Bank of Syria, the cap imposed on foreign shareholdings in banks (49%) was lifted in 2005, and allowed new banks, including Islamic institutions, access to the market. In response to demand from Arab institutional investors – and most recently from the United Arab Emirates Federal National Council – for greater financial openness in the country, the Ministry of Finance recently assured that the limitations imposed on foreign investments will be removed. However, the reform process seems to be progressing very slowly and cautiously.

As regards the foreign presence of South Mediterranean Rim banks, state ownership and the low level of financial development have in many cases significantly hindered the implementation of strategies in this direction. Nonetheless, a mention must go to the Lebanese banks that have attempted to expand into neighbouring countries already as of 2003, on the back of the

[65] According to rating agency Fitch, the parent banks intend to expand their retail activity, and therefore are not planning to dispose of assets in the short term. See Fitch, "North African Bank Exposure to the International Financial Market Crisis: Why their Contagion Risk is Limited", 2008.

substantial liquidity available to them and to the limited size of the domestic market. These banks have focused primarily on Iraq, Jordan, Egypt, Oman, Saudi Arabia, Syria, and Libya. In Jordan, the Arab bank, the largest player on the national banking market, represents the most significant example of an Arab financial institution which is integrated in the MENA region, with shareholders of different nationalities and branches in many of their countries of origin. External geographical growth was pursued between 2006 and 2008 by Moroccan banks, to reduce exposure to competitive pressures on the domestic market. The country's leading banks extended their presence in Northern and North-Western Africa, and mostly in Tunisia, Algeria, and Libya, by means of selective acquisitions.

The table below summarises the main balance sheet items of the major banks of the countries considered, that rank among the top 1,000 banks in the world in terms of assets, as selected by The Banker. Focus is on profitability and capital ratios.

Largest Banks in Terms of TA (ranking among the top 1000 in the world in terms of equity*)	Total Assets (USD M)	Total NPL/ Loans	BIS Cap. ratio	Cost/ income	ROA %	ROE %	Rating
Algeria							
Crédit Populaire d'Alg.(2007)	7997	n.a.	n.a.	19.3	0.86	11.87	-/-/-
Libya							
Libyan Arab Foreign Bank	18014	n.a.	7.71***	n.a.	1.7	n.a.	-/-/-
Egypt							
National Bank of Egypt (2007)	37425	n.a.	n.a.	n.a.	0.22	6.9	BB+/Ba2**/BB+
Commercial International Bank (Egypt)	10413	2.89	22.19	32.34	3.25	46.2	BB+/Ba2**/BB+
National Société Générale Bank	8393	na	na	27.73	2.82	49.15	-/-/-
Arab African Internat.Bank	7695	2.43	14.83	27.88	2.17	40.36	-/-/-
HSBC Bank Egypt	6207	1	12.85	26.0	3.85	66.76	-/-/-
Bank of Alexandria	5728	n.a.	n.a.	32.48	1.31	23.23	-/Ba2**/-
Credit Agricole Egypt (2007)	3918	n.a.	20.67	43	2.44	37.8	-/-/-
Morocco							
Attijariwafabank (2007)	27475	n.a.	n.a.	44.19	1.85	27.79	BB/Ba2**/BB+
Gr. Banques Populaire (2007)	20668	n.a.	n.a.	47.27	2.3	29.85	-/-/-
Banque marocaine du Commerce Exterieur (2007)	13892	5.25	8.68	56.74	2.0	37.17	BBpi/Ba2**/-
Société Générale Marocaine de Banques (2006)	5126	n.a.	n.a.	47.98	1.86	25.9	-/-/-
Banque Marocaine pour le Comm. et l'Ind. (2006)	5034	n.a.	n.a.	44.1	1.98	29.88	-/-/-
Crédit du Maroc	4725	n.a.	n.a.	45.2	1.52	27.05	-/Ba2**/-
Tunisia							
Société Tunisienne de Banque (2007)	4180	n.a.	8.39***	n.a.	n.a.	n.a.	-/Baa2**/-
Banque International Arabe de Tunisie (2007)	3961	12.8	13.92	59.3	0.6	7.22	-/-/-
Banque Nationale Agricole	3857	n.a.	7.1***	54.59	0.56	7.9	-/-/-
Banque de Tunisie (2007)	1692	n.a.	19.87	26.14	3.76	n.a.	-/Baa2**/-
Jordan							
Arab Bank	45630	4.1	16.22	42.0	2.33	22.33	BBB/Ba3**/A-
The Housing Bank for Trade and Finance	7657	n.a.	23.16	36.02	2.62	18.68	-/Ba3**/-
Jordan Kuwait Bank	2909	0.5	14.99	36.7	3.3	32.35	-/-/-
Union Bank	1600	n.a.	23.23	45.47	1.86	10.8	-/-/-
Israel							
Bank Leumi le-Israel	81744	4.5	11.49	76.3	0.01	0.17	BBB+/A1**/A-
Bank Hapoalim	80707	6.7	11.15	n.a.	-0.57	-8.41	BBB+/A1**/A-
Israel Discount Bank	47935	n.a.	n.a.	79.57	0.31	6.39	BBB-/A2**/-
Mizrahi Tefahot Bank	29987	n.a.	n.a.	61.19	0.85	16.59	-/A1**/-
First International Bank of Israel – FIBI	26018	n.a.	n.a.	81.99	0.34	6.3	-/A2**BBB+
Union Bank of Israel	8970	n.a.	11.5	30.20	0.32	6.84	-/-/-
Lebanon							
BLOM Bank	17900	3.92	29	42.47	1.7	24.02	B-/B2**/-
Audi Saradar Group (2007)	17191	3.99	20.01	49.72	1.41	15.6	-/-/-
Byblos Bank	11230	3.37	22.38	47.33	1.31	16.09	-/B2**/B-
Bank Med	9546	n.a.	14.8	n.a.	0.81	17.23	-/-/-
Fransabank	8389	n.a.	26.72	53.77	1.31	23.13	-/-/-
Banque Lebanon-Francaise	6414	8	16.44	50.8	1.34	18.0	-/-/-
Bank of Beirut	5737	4.63	8.88***	48.8	1.44	17.84	-/B2**/-
Credit Libanais (2007)	3776	n.a.	31.63	58.6	0.93	12.2	-/-/-
Syria							
Commercial Bank of Syria	16569	n.a.	n.a.	n.a.	1.83	16.89	-/-/-

Note: * 2008 data except where otherwise indicated; ** Deposit Rating *** Capital assets ratio. Source: The Banker, July 2009

4.1.5 Structural Reforms

Over the past few years, important structural and institutional reforms have been implemented in various countries of the region, with Syria, Egypt, Libya, Morocco, and Tunisia at the fore, mostly geared to encouraging the participation of private investors, openness to foreign markets, compliance with international accounting standards and solvency criteria, as well as more adequate credit information management. While some privatisations have already been carried out, as mentioned above, the financial crisis will in all likeliness hinder further operations in the short term, as the growth plans of European and Gulf state banks, traditionally the most interested in affirming a presence in the Mediterranean Rim, have been put on hold.

Libya in particular has made considerable efforts to support the private sector, with the aim of fuelling the growth of its basic, non-oil economy, and therefore to create jobs. In addition to disposing of some of its banking stakes, the country's central bank has encouraged smaller institutions to seek international strategic partners; it has also established a dedicated institution to manage non-performing loans, and imposed stricter solvency requirements. In 2007 the Libyan Investment Authority was created, a sovereign fund with an initial endowment of USD 40-50Bn, which has improved transparency in the management of oil income. The IMF has expressed a positive view on the central bank's recent initiatives, which include the creation of a credit bureau, and the initiation of regular reporting on financial stability.

The reforms undertaken in 2003 in Egypt were extensive and have aided, among other things, consolidation in the banking sector and balance sheet restructuring, in state-owned banks especially. However, the process still hasn't been completed. After the disposal in 2006 of Bank of Alexandria, the privatisation of Banque du Caire, initiated in 2008, has been put on hold due to the lower-than-expected bids received by the government. In the past decades, the institutional and regulatory frameworks have also been strengthened in Tunisia, mostly thanks to the introduction of new monetary market instruments, appreciated on the international market, as proven by the country's access to the international capital markets at favourable terms and conditions[66].

The International Monetary Fund (IMF) is calling for Syria to speed up the reforms undertaken, awarding a priority to the restructuring of state-owned banks, that should be increasingly oriented towards retail activity[67]. In order to enhance the efficiency of the public support offered to strategic sectors, the IMF recommends that this be issued directly by the government rather than through state-owned banks, with resources put to books in a single account, to aid transparency.

While gradual progress is being made in improving compliance with international standards and best practices, and increasing openness to the international markets, much remains to be done in the South Mediterranean Rim to modernise the national banking systems. The main rating agencies and international financial institutions denounce a widespread lack of transparency, as well as serious regulatory shortcomings in terms of accounting and credit management (protection of the lender's rights, system of guarantees and information on the solvency of the borrower), that will become urgent issues in the years ahead, as the credit market recovers, and an adequate diffusion of banking services is pursued. Greater international openness would

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[66] See Chailloux A., Durré A. and Laurens B., "Requirements For Using Interest Rates As An Operating Target For Monetary Policy: The Case Of Tunisia", IMF, WP/09/149. Among other things, this paper examines the economic reforms implemented, geared in the banking sector to reduce the presence of the state, strengthen the ability of banks to encourage financial investment, increase competition and bolster the financial solidity of banks.

[67] See IMF, Syrian Arab Republic – 2008 Article IV Consultation, Concluding Statement, October 29, 2009.

allow the foreign assets in some countries' possession to be invested, in some cases limiting their exposure to the risk of financial and real estate bubbles, through enhanced diversification.

4.1.6 Exposure of International Banks to the Countries of the Mediterranean

An overview of the exposure of international banks to the countries of the region[68] as a percentage of domestic GDP draws a markedly varied picture, albeit relatively stable between 2006 and 2008. The highest values as a percentage of domestic GDP were recorded in Morocco, both in 2006 and 2008, where growth was significant in the period considered. The highest exposure in absolute terms, however, was surveyed in Egypt, at around USD 36Bn. Despite the fact that Israel ranks third in terms of the exposure of international banks as at December 2008, exposure as a percentage of domestic GDP remains modest, at around 5%. Overall exposure to GDP is higher in Lebanon, although the rate decreased between 2006 and 2008, to 14%.

Annual percentage changes in overall exposure vary considerably over time from one country to another. As is the case in the majority of the countries included in the BIS sample – as well as in mature economies – last March banking exposures were negative. The exceptions were Algeria, Libya, Egypt, and Palestinian Territories. In Libya in particular, exposure accelerated in 2008, and was confirmed in March 2009, mostly benefiting the country's banks: in March 2009, a hefty 76% of the total exposure of international banks to the country was concentrated in the local banking sector (from 35% in 2006), whereas exposure to the private sector dropped from 53% in 2006 to 20% in 2009.

BIS Banks Exposure to South Med. Countries (y/y % chg., USD M, by sector, % shares)

Countries	y/y % chg. 2006	y/y % chg. 2007	y/y % chg. 2008	y/y % chg. 3/2009	USD M 2008	BIS**/ GDP(%) 2008	Banks (% shares) 2006	Banks (% shares) 3/2009	Public sector (% shares) 2006	Public sector (% shares) 3/2009	Private sector (% shares) 2006	Private sector (% shares) 3/2009
Algeria	21.1	30.4	21.5	11.3	6539	4	40	14	16	26	44	61
Libya	84	46	3710	1475	9297	13	35	76	11	5	53	20
Egypt	47.7	41.6	22.6	4.0	36274	23	11	15	45	28	44	57
Morocco	21.0	11.9	45.5	-0.7	24156	27	12	16	15	9	74	75
Mauritania	-36.8	34.7	14.9	-2.0	223	8	39	39	0	18	61	43
Tunisia	17.6	5.2	11.4	-4.7	7159	17	18	27	17	18	65	55
Jordan	6.0	46.7	0.3	-15.7	2668	13	18	23	29	24	52	53
Israel	24.9	28.8	-7.2	-13.8	10630	5	10	8	31	34	59	57
Lebanon	-3.4	16.3	-28.5	-41.1	3897	14	16	16	22	26	62	59
Palestinian T.	28.0	37.5	-25.0	280	33	n.a.	28	7	19	14	53	78
Syria	92.6	-35.5	-18.2	-21.4	260	1	58	8	18	16	23	76
Tot. 11 South Med. countries	26.2	26.0	29.1	3.8	101*	12.1	15	20	29	21	57	59
Tot.Africa&ME	27.6	50.9	2.3	-3.2	480*	n.a.	19	19	15	15	66	66
Tot. EMEurope	53.4	65.5	0.4	-14.9	1333*	n.a.	23	18	19	18	57	64
Tot. World	27.6	26.6	-11.7	-19.0	24967*	n.a.	28	25	17	17	54	58

Note: data as at March 2009. *Billion dollars. **BIS banks exposure to South Med. Countries. Source: Bank for International Settlements (BIS)

In other countries, increased exposure went to the advantage of the private sector. The growth in exposure to the private sector accelerated in Palestinian Territories in March 2009, reaching an overall rate of 78%. In Syria as well, the exposure of foreign banks was mostly concentrated on the private sector in March 2009, as opposed to banks in 2006 (58% of the total). A similar trend was observed in Algeria.

[68] Quarterly data on the exposure of the institutions surveyed every three months by the Bank for International Settlements (BIS) in 24 countries. Figures include both cross-border transactions and local claims of domestic banks foreign affiliates' in all currencies.

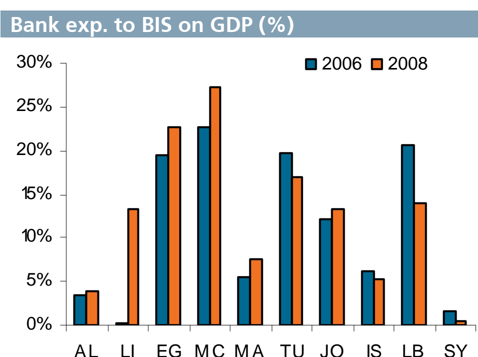
The comparison between the exposure of Italian banks and French banks to the different countries of the region shows that the latter is much greater in terms of volumes, due mostly to historical reasons. The exposure of French banks – which rose sharply in many countries in 2008 – is worth more than one billion US dollars in absolute terms in Algeria and Lebanon, and comes close to that figure in Libya. Italian banks have issued comparable sums only in Egypt.

Exp. Italian and French Banks (USD M)

	Italian banks			French banks		
	2007	2008	Jun-09	2007	2008	Jun-09
Algeria	18	92	80	3700	4403	4720
Libya	4	4	1	771	986	980
Egypt	163	5665	5616	393	530	646
Morocco	247	48	46	185	159	153
Mauritania	0	0	0	130	158	152
Tunisia	98	107	114	37	72	87
Jordan	41	18	41	292	335	398
Israel	87	81	142	175	196	159
Lebanon	0	38	11	2235	1651	1585
Palestinian T.	0	0	0	2	1	1
Syria	3	3	0	24	81	80

Source: BIS

Bank exp. to BIS on GDP (%)



Source: BIS, EIU

Private Equity: a New Growth Driver in North Africa.

Despite the international crisis, demand for equity finance remained high especially in Tunisia, Morocco, and Egypt[69]. The increasing diffusion of these instruments has been driven by strong economic growth, as well as by the initiatives taken by governments, such as privatisations, banking system reforms, the creation of special tax-free investment zones, and the offer of fiscal incentives. On the demand side, the interest shown by fund managers and investment firms, in Europe and the Gulf states especially, is increasing, as these instruments allow them access to enterprises in North Africa that would otherwise be complex, given the backward stock exchanges these countries have. Equity finance could bring significant benefits to the region, mostly in terms of corporate governance and enterprise productivity, thanks to the experience of professional investors and to the growth strategies, they would be able to implement. Despite lingering political tensions between some countries, such as Morocco and Algeria, and barriers against trade and investments, some companies have already found supported in venture capital initiatives. In May 2008, for instance, the Tunisian company Altea, active in the packaging business, entered the Moroccan market by acquiring 100% of Optima, one of the five largest companies of the sector in the country, and it now intends to establish a company in Algeria, CogitelA. In general, the most difficult obstacles to overcome are still the restrictions limiting divestment, and forex risk. The use of IPOs as a means of disposing of the investment is limited by the low level of development of the local equity markets. Other obstacles are the local management's lack of skills, the modest size of the countries, the predominantly family-run nature of the manufacturing structure, and the weakness of the legal system, which offers weak protection to investors and hinders financial innovation.

4.1.7 The Measures Adopted by Central Banks to Help their Banking Systems Face the Recession.

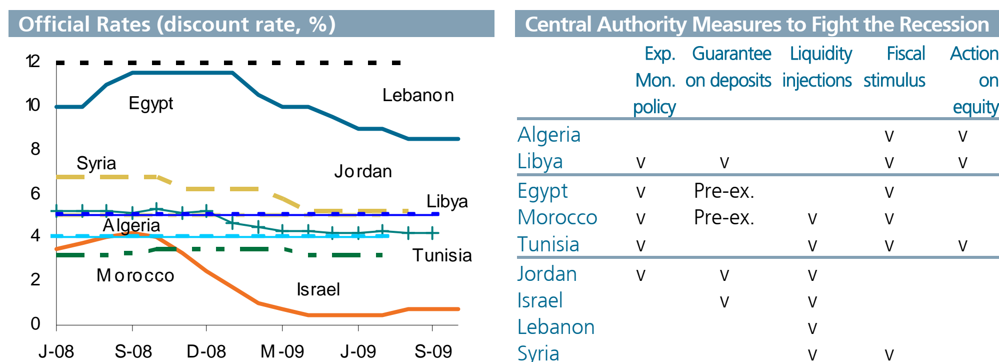
The banks of the region have been able to face the current financial crisis without suffering serious setbacks thanks first to very restrictive regulatory frameworks, that have limited operations. While they were shielded from exposure to derivatives and structured products, and

[69] See Global Insight, "Private Equity Seen Increasingly as a Growth Engine in North Africa", October 2009.

were therefore unaffected by the crisis in its initial phase, they are now being hit by the slowdown of the domestic and global real economy.

The measures adopted by the central banks in this context reflect the level of development of the local monetary policy, the instruments available, the liquidity conditions on the markets, and the loans trend. In order to ease liquidity restriction – obviously not in countries with excess liquidity, such as Libya - central banks have reacted by implementing an expansive monetary policy. In some countries, for instance Egypt, the official interest rate was used, or the compulsory reserve coefficient; in others, where the rate is not significant, other instruments were resorted to, such as certificates of deposit (in Jordan), to absorb, or rather, in the current phased, to inject liquidity into the system, with direct effects on rates and banking spreads.

Morocco and Tunisia have both decide to reduce compulsory reserves and rates, and liquidity has been injected into the system. In Morocco in particular, the central bank brought the benchmark rate down for the first time in six years, and more recently, at the beginning of October, also the compulsory reserve coefficient, by a further 2% to 8%, the lowest level in the past 50 years (from 15% at the beginning of 2009). In Tunisia, the compulsory reserve coefficient was cut from 10% to 7.5%, and the benchmark rate was lowered by 75bps to 4.5%. In this country the benchmark rate represents a highly effective tool, as up to 80% of loans are linked to the overnight rate (Taux Moyen du Marché Monétaire), which makes the lending rate (not only on new loans) sensitive to official rate changes.



Source: IFS, Reuters, Central banks

Central Authority Measures to Fight the Recession

	Exp. Mon. policy	Guarantee on deposits	Liquidity injections	Fiscal stimulus	Action on equity
Algeria				v	v
Libya	v	v		v	v
Egypt	v	Pre-ex.		v	
Morocco	v	Pre-ex.	v	v	
Tunisia	v		v	v	v
Jordan	v	v	v		
Israel		v	v		
Lebanon			v		
Syria			v	v	

Source: IMF, Regional Economic Outlook, October 2009

In other countries, shielded from liquidity tensions, central bank actions have been guided more by slowing inflation. This has been the case in Egypt, where the central bank cut the official rate of interest five times in 2009, from 11.50% to 8.5%, for the first time since 2006, after a string of hikes in 2008; in September the central bank also cut the rate on overnight deposits to 8.25% from 8.5%. Monetary easing was also implemented in Libya and Algeria, albeit not so intense, as these countries are shielded from liquidity tensions.

In Jordan – which still benefits from substantial remittances, albeit on the decline - the central bank has taken preventive action by offering total guarantee on banking deposits, has cut the official rate (by 150bps since the end of 2008), the compulsory reserve coefficient from 10% to 7%, and the benchmark rate on loans to banks. With an eye on liquidity, it has also suspended the issue of certificates of deposit[70]. In Lebanon, to support the credit market, the central bank

[70] For a discussion of the monetary policies pursued by the central banks, of the progress made towards increasing independence, and the use of certificates of deposit as monetary policy instruments in addition to government bonds, and also as a way of exceeding the limits imposed on exposure to public debt, as is also the case in Lebanon, see S. Maziar, "Monetary Policy and the Central bank in Jordan", IMF, WP/09/191.

has recently announced the offer of guarantees, as well as the easing of compulsory reserve requirements on deposits. The Bank of Israel has also put in place several measures aimed at supporting the system's liquidity and driving economic, such as reducing the issues of government bonds, introducing long-term monetary market operations, and lengthening the duration of repo transactions.

4.1.8. Deposits and Liquidity

Funding and liquidity indicators are generally adequate in the region. The main source of deposits is represented by income generated by the retail sector and, in many cases, also by emigrant worker remittances[71]. Some countries, especially of the Middle East, such as Lebanon and Jordan, actually have excess liquidity, which is addressed to the purchase of domestic government bonds. Banks have been able to face pressures on the financial and credit markets resulting from the international crisis thanks to their liability structures, and to a low loans/deposits ratio, together with a high deposits-to-GDP ratio. This is still particularly true in Lebanon.

Deposits (2008, USD Bn, % shares & changes)

	Dep. (USD Bn)*	Sight dep. (% share of total)	Liabilities from non residents (% of dep.)	Total dep. y/y % chg. 2008	Sight dep. y/y % chg. 2008	Liab. from non residents y/y % chg
Algeria	69.4	56	1.1	14	15	32
Libya	25.8	84	0.4	60	65	-51
Egypt	123.2	9	4.3	9	10	27
Morocco	72.2	74	0.9	12	8	4
Tunisia	20.5	28	19.2	15	12	7
Jordan	21.3	19	36.5	14	9	15
Israel	173.6	9	13.6	9	17	-5
Lebanon	66.3	2	23.9	15	28	16
Syria	25.3	29	1.2	31	14	3

Note: *Including sight deposits, term deposits, and in currency. Excluding liabilities from non residents. Source: IFS

However, it should be said that in some countries, deposits are mostly sight deposits, especially the public sector's, and therefore represent an important factor of vulnerability. The level of innovation is generally modest. For instance, certificates of deposit were only introduced in Libya in May 2008. Currently issued at a fixed rate and with a single maturity (91 days), they have become the main monetary policy tool (as is also the case in Jordan). The issue of new certificates of deposit the shorter maturities is now being planned, with a new auction-based procedure. The diffusion of credit and debit cards is still limited. In Syria, for instance, they have only been allowed for a few years.

The weight of deposits made by non-residents is important only in Middle Eastern countries, and especially in Jordan[72]. In Israel this component underwent a negative, albeit limited, percentage change in 2008.

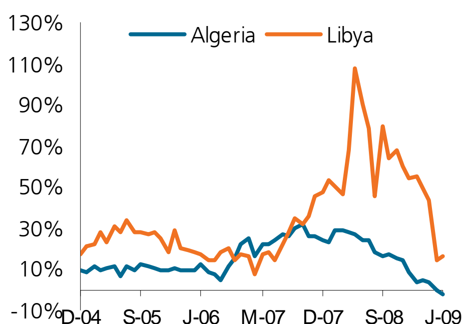
Due to the global recession and to the drop in remittances, annual percentage changes started to slow in all countries already as of the opening months of 2008, staying nonetheless on significantly high levels throughout 2008 (at around 15%). Since the beginning of the year, the

[71] The links between remittances and economic growth, and between the latter and the financial deepening process, have been analysed in many papers. On the topic, see among others, IMF, Barajas A., Chami R., Fullenkamp C., Gapen M. Montiel P. "Do Workers' Remittances Promote Economic Growth?", WP/09/153, which highlights that a positive correlation does not exist.

[72] See Vandenbussche J., Blazsek S. and Watt S., "The Liquidity And Liquidity Distribution Effects In Emerging Markets: The Case Of Jordan", IMF, WP/09/228.

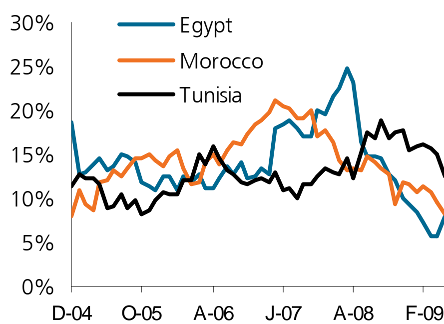
slowdown has been sharper in Algeria (-5% in June), which is planning to open new branches of domestic banks in foreign countries with a large number of Algerian immigrants, to encourage the deposit of remittances from abroad. In Israel, recent growth has been marginal (+0.3% up to March).

Deposits: Oil-exporting Countries



Note: y/y chg., latest reading in June. Source: IFS.

Deposits: North African Countries

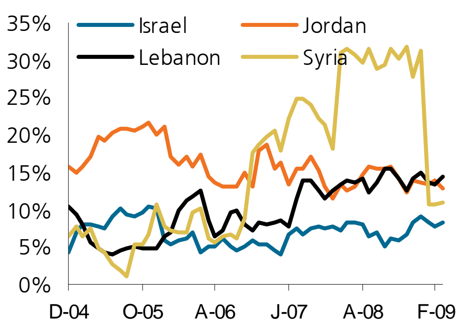


Note: y/y chg., latest readings: EG (May), MR (July), TU (June). Source: IFS.

Exposure to currency risk is generally low, as a result of strict regulatory limitations on deposits from foreign banks and enterprises. In Algeria, for instance, holding deposits in foreign currency is prohibited by law, and such deposits must be made to the central bank, which carries out all the transactions in currency. In Lebanon, where the diaspora guarantees substantial flows even during severe recessions such as the current, deposits in dollars slowed (+8% y/y in August, against 50% growth in deposits in local currency), and the share of deposits in dollars held by retail banks dropped to 66% in August 2009 from 73% in August 2008[73].

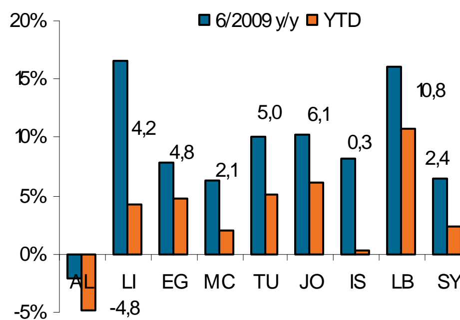
Liquidity management is frequently subject to restrictions, and often carried out with the central banks themselves as the counterpart, all the more so in the case of transactions in currency, generally carried out on customers' request in support of trade activities. In most cases, only transactions in local currency are allowed on the interbank market. Even in countries such as Tunisia, where the interbank market has the technical features of an advanced market (the Real-Time Gross Settlement – RTGS – system was adopted in 2006), almost exclusively short-term transactions are carried out (overnight or with maturities shorter than one month).

Deposits: Middle Eastern Countries



Note: y/y chg., latest reading: LB (July), GI and SI (June), Israel (March). Source: IFS

Deposits: y/y % chg. and YTD



Note: YTD changes highlighted. Source: IFS

[73] See IMF, "Lebanon: Report on Performance Under The Program Supported by Emergency Post-Conflict Assistance", July 2009.

4.1.9 Loans: Portfolio Quality Deteriorating

In many of the region's countries, lending activity is still limited by scarce demand, as a result of modest economic development, as well as by a lack of adequate instruments to support the credit market, such as legislation safeguarding lenders, expertise in conducting investigations, and tools with which to assess risks, such credit bureaux. The World Bank's survey of investment confidence found that only a small percentage of enterprises (around 10%) turn to banks to finance their investments, relying on retained earnings[74].

Loans (2008, USD Bn, y/y % chg., % share chg.)

	CRPS (USD Bn)	CRPS (y/y % chg.)	Loans in currency (% share)	Loans to public sector (% share)	Loans to households (% share)	m/l terms loans (% share)	Real estate loans (% share)
Algeria	19.8	16.9	n.a.	46	n.a.	54.5	n.a.
Libya	6.1	46.6	n.a.	n.a.	n.a.	n.a.	17*
Egypt	69.7	13.1	29.1	7.8	12	n.a.	19.9
Morocco	64.2	22.7	n.a.	15*	29	20*	32.7
Tunisia	24.1	14.6	n.a.	5.4	25	44	17.5
Jordan	17.8	13.5	13.9	27	42	39.6	n.a.
Israel	171.8	7.6	25	n.a.	36**	n.a.	16
Lebanon	21.1	18.6	84	39	29	5	n.a.
Syria	8.6	31.6	3	60	79	n.a.	13

Note: * 2007; **23% residential mortgages and 13% other technical forms. Source: central bank, IFS, EIU, rating agencies

The low level of loans issued to the private sector as a percentage of GDP – in many of the region's countries, with the exception of the Middle Eastern and Morocco – is also due to the limited range of products and services offered by banks, and to the fact that risk management techniques are still not advanced, fording banks to issue credit relying mostly on their personal acquaintance with the borrower. In general, small borrowers offer no real guarantees, mostly due to the difficulty in establishing property rights. It should also be considered that in many countries, such as Syria and Libya, the weight of the public sector and the government's interference in managing domestic credit is such that it creates a significant displacement effect[75]. In Morocco, Egypt, and Tunisia, the loans trend is mostly explained by weak demand, due to the low income of households and to an industrial setup still reliant on small and medium enterprises on the corporate side. Lending to households takes on different weights across the region, and is strongest in the countries of the Middle East. The role played by microfinance institutions should be highlighted, as they are experiencing strong growth rates, particularly in Morocco and in Egypt, and are useful in overcoming difficulties in accessing credit, a widespread problem for SMEs especially[76].

Broken down by sector, the loans portfolio shows significant concentration in the real estate sector and in the tourist industry, especially in Morocco, Israel, and Tunisia. Portfolio diversification is higher in Jordan. In Israel, loans can be divided into three categories: non-

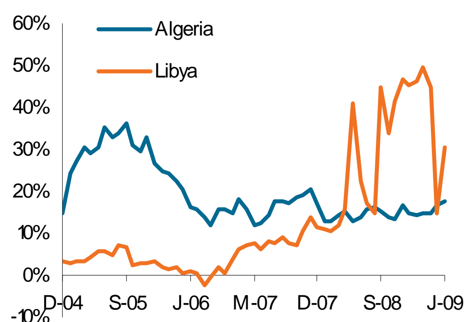
[74] See World Bank, "Middle East and North Africa Region, 2009 Economic Developments and Prospects, Navigating through the Global Recession", October 2009, p. 65.

[75] For a clear analysis of the trend, of its drivers and implications in terms of terms of risk, albeit with rata referred to 2006, see J. Crowley, "Credit Growth in the Middle East, North Africa, and Central Asia Region", IMF, WP/08/184. Another interesting paper highlights the main drivers of financial system growth as being macroeconomic stability, with inflation control and protection of the rights of lenders, together with the management of information on the creditworthiness of potential borrowers (credit bureau). See M.Dehesa, P.Druck, A. Plekhanov, "Relative Price Stability, Creditor Rights, and Financial Deepening", IMF, WP/07/139.

[76] The international authorities, including the World Bank, monitor microcredit trends with particular attention, providing increasing support to the sector across the globe. See R. Zoellick's contribution to the International Monetary and Financial Committee meeting, October 2009, Istanbul.

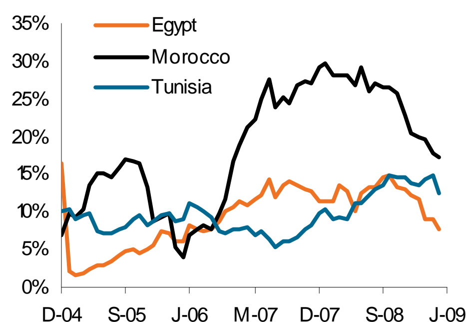
indexed loans in shekels (around 48% of CRPS at the end of 2007), items tied to domestic inflation (27%) and those in, or tied to, foreign currencies (25%), each of which subject to peculiar competitive and price pressures. The component in currency is substantial only in Lebanon (84% of the total), as in the other countries, legislation usually prohibits ownership of assets in foreign currency.

Loans to the Private Sector: Oil-exporting Countries



Note: y/y chg., latest reading June 2009. Source: IFS

Loans to the Private Sector: North African Countries



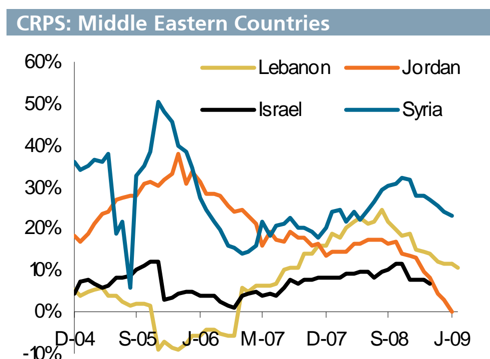
Note: y/y chg., latest reading: EG (May), MR (July), TU (June). Source: IFS

In the past few years, the growth rates in lending to the private sector has been strong, especially in Morocco and Syria[77]. Since the spring of 2008, however, there has been a gradual slowdown, although monthly year-on-year growth rates have remained high nonetheless. Since the beginning of the year, trends have been diverse in the sub-regions considered. However, growth was weaker in the countries of the Middle East, and stronger in North African countries, with the exception of Egypt, which recorded a slowdown between January and May (-0.3%). Modest lending growth in Egypt, as indicated by the loans-to-GDP ratio, still at around 50%, is due not only to weak demand from the economy, but also to the high percentage of non-performing loans (approximately 15% of loans as at 2008), especially for state-owned banks, as well as to low capitalisation levels.

In Morocco, the structure of the industrial sector has played a major role in cooling the lending activity of banks, characterised as it is by the local branches of large multinational companies on the one hand, and by small, family-run businesses with low credit capacity[78] on the other.

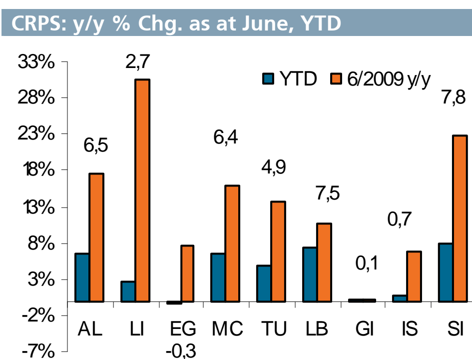
[77] See IMF, "Regional Economic Outlook, Middle East and Central Asia", October 2009.
[78] See Allein L., Oulidi, "Credit Market in Morocco: A Disequilibrium Approach", IMF, WP/09/53, which provides an analysis of the trend of credit and of its determinants, including the fact that up to 2005 NPLs were very high, and many have induced banks to implement risk aversion policies. The authors also highlight that the roof imposed on interest rate hikes may also have denied access to credit to potentially riskier borrowers and prove that there is no correlation between the trend of bank loans and interest rates.

CRPS: Middle Eastern Countries



Note: y/y chg., latest reading: LB (July), GI and SI (June), Israel (March). Source: IFS

CRPS: y/y % Chg. as at June, YTD



Note: YTD changes highlighted. Source: IFS

While the banking systems of the countries considered have not been heavily impacted by the international recession, due to their low level of integration with the rest of the world economy[79], they may nonetheless be affected by the hardships being incurred by the real economy at both the international and domestic levels[80]. The global recession should in fact result in higher non-performing loans, especially in export sectors and in the tourist industry. There is little transparency on the actual worth of non-performing loans; however, data available point to high levels mostly in countries where less efficient, state-owned banks, play a major role, for instance in oil-exporting countries such as Algeria.

Concern over portfolio quality is particularly serious in Morocco, following the sharp growth experienced by the real estate sector, as this often came about – as pointed out by the IMF (WP/09/53) – without implementing adequate valuation methods to assess creditworthiness, despite the intervention of the central bank, which approved a code of conduct for the issue of mortgages. In other words, a real estate bubble cannot be ruled out, especially in the luxury segment. A further source of risk in this country is the expansion into neighbouring countries, pursued by Attijariwafa Bank especially, which in recent years has implemented a very aggressive geographical expansion strategy.

Non-Performing Loans/Total Loans (%)

	2003	2004	2005	2006	2007	2008	2009
Algeria	n.a.	n.a.	n.a.	n.a.	n.a.	35.5	n.a.
Libya	n.a.	n.a.	33	25	24.5	20.2	n.a.
Egypt	24.2	23.6	26.5	18.2	19.3	14.8	n.a.
Morocco	18.7	19.4	15.7	10.9	7.9	6	n.a.
Mauritania	n.a.	n.a.	n.a.	n.a.	n.a.	27.2	n.a.
Tunisia	24.2	23.6	20.9	19.3	17.6	15.5	n.a.
Jordan	15.5	10.3	6.6	4.3	4.1	4.2	n.a.
Israel*	2.6	2.5	2.3	2.0	1.5	1.5	n.a.
Lebanon	n.a.	17.7	16.4	13.5	10.1	7.5	7.2
Syria	n.a.	n.a.	n.a.	n.a.	5.3	n.a.	n.a.

Note: *5 major banking groups; Source: IMF

Provisions/Non-performing Loans (%)

	2003	2004	2005	2006	2007	2008	2009
Algeria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Libya	n.a.	n.a.	61.1	69.0	64.0	68.8	n.a.
Egypt	57	60.2	51	76.2	74.6	92.1	n.a.
Mauritania	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Morocco	54.9	59.3	67.1	71.2	75.2	75.3	n.a.
Tunisia	44.1	45.1	46.8	49	53.2	56.8	n.a.
Jordan	51.9	63.8	78.4	79.6	67.8	63.3	n.a.
Israel*	78	61	45	33	17	47	n.a.
Lebanon	46.3	46.1	50.2	54.4	56.6	61	61.8
Syria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: *5 major banking groups; Source: IMF

In Tunisia, despite its open and relatively well-diversified economy, a source of weakness is high exposure to cyclical sectors, more vulnerable to the recession, such as the more markedly export-

[79] Femise also agrees in "Les Pays partenaires mediterraneens face a la crise", Aout 2009, p.9.

[80] The general failure to adopt mark-to-market valuation criteria will lead to delayed visibility in accounts, until approximately 2010. Furthermore, according to S&P, the economic slowdown will result in banks in the region suffering deteriorating loans portfolio quality and profitability, offsetting the progress made in recent years, characterised by strong economic and financial growth. S&P, April 2009, p.3.

oriented mechanical and electronics industries, although these have benefited from support from the central authorities, as well as the tourist industry. Non-performing loans accounted for more than 15% of total loans at the end of 2008, concentrated in smaller, weaker banks[81], but modest provisioning should also be taken into account, limited to 57% of non-performing loans. In Jordan as well, greater exposure to cyclical sectors, such as export companies, the real estate market, and the tourist industry, represents a factor of weakness in the current economic phase. Furthermore, the exposure of Jordanian banks to the Palestinian territories, which amounts to around 11% of TA, as indicated by the rating agencies, is also a weakness. The Jordanian banking system is also directly and indirectly exposed, to a significant extent, to the trend of the Amman stock exchange, as a result of lending issued to households, that could affect portfolio quality. The ratio of non-performing loans to total loans increased to 6.4% as at June 2009, from 4.1% in full-year 2008, most of which tied to the construction sector.

3.2.10 Profitability and Equity

The main source of income for the banks in the region, and in North African countries especially, is traditional lending activity, and therefore interest income, which in recent years has been boosted by strong credit growth rates. The contribution of the other segments, services first among them, is still marginal. The factor that strongly conditions bank profitability in the countries considered, as pointed out by the rating agencies, is ownership: state-owned banks are less profitable, less efficient, and have worse capital ratios in all the countries, due not only to lack of skills, but also to the limited range of products offered, and to delayed technological development. In the short term, profitability may continue to suffer from deteriorating portfolio quality, and in some cases also from the cost of necessary investments in technology, and compliance with international accounting standards.

ROA & ROE (%)

	ROA			ROE		
	2006	2007	2008	2006	2007	2008
Algeria *	1.1	1.4	2.5	n.a.	n.a.	n.a.
Libya	1.2	1.2	1.3	22	27	33
Egypt	0.8	0.9	0.8	14.3	15.6	14.1
Morocco	1.3	1.5	1.2	17.4	20.6	16.7
Tunisia	0.7	0.9	1	7	10.1	11.2
Jordan	1.7	1.6	1.4	14.8	14.0	13.0
Israel**	1.09	1.13	0.03	17.3	15.6	0.4
Lebanon	0.9	1	1.1	10.1	12.1	14
Syria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: * Source WP/09/220. **data referred to the five largest banking groups. Source: IMF.

Bank Rates (%, June 2009)

	Deposit rates	Lending rates	Spread
Algeria	1.75	8	6.25
Libya	2.5	6	3.5
Egypt	6.7	12.3	5.6
Morocco	3.91	n.a.	n.a.
Tunisia	n.a.	n.a.	n.a.
Jordan	5.02	9.38	4.36
Israel	2.31	5.26	2.95
Lebanon	7.33	9.43	2.1
Syria	7.9	10.1	2.2

Note: data for Algeria, Libya, Morocco and Lebanon as at July, for Tunisia, Syria and Jordan as at June, for Egypt as at May, for Israel as at March. Source: IMF

An interesting paper[82] focused on the link between the price of oil and bank profitability, covering 11 countries of the MENA region, including Algeria and Libya, shows that the price of oil plays a role in macroeconomic growth and, indirectly, on the profitability of banks, with a very strong correlation. Earnings growth recorded in Libya up to 2008 was largely determined by the non-remuneration of sight deposits (80% of total deposits[83]).

81 According to IMF, Banks' soundness indicators continued to improve in 2008, but the level of non performing loans remains relatively high in Tunisia: see IMF, Article IV, Public Information Notice No. 09/134, December 14, 2009:

82 See Poghosyan T., Hesse H., "Oil Prices And Bank Profitability: Evidence From Major Oil-Exporting Countries In The Middle East And North Africa", IMF, WP/09/220.

83 It should be considered that as of 2007, the Libyan Investment Authority holds a large part of its assets in bank deposits.

In Morocco as well, profitability benefits from the low interest paid on deposits, largely made up of non-remunerated sight deposits (60%), although, as pointed out by the rating agencies[84], competition on prices has become significant. The capital adequacy ratio was estimated at around 11% in 2008, and is lower for specialised banks. Egyptian banks have a low level of operational flexibility, with significant differences between state-owned and private institutions. The former suffer from low automation and excess staff, whereas private banks can count on more modern technology and on more advanced risk management tools.

Of the countries of the Middle East, despite lingering domestic political tensions and the economic crisis, in Lebanon profitability is supported by the security portfolio, which mostly includes government bonds. La profitability is modest in Jordan due to strong competition on prices and the inflexibility of cost of labour.

The banks of the region are generally weak in terms of equity. Capital is lacking as a resource compared to other, neighbouring MENA countries. Domestic generation capacity remains weak, and is considered adequate only in a few countries, to the point that the rating agencies highlight the need for fresh capital. The difference between data referred to private banks, more solid, and state-owned banks, is often considerable. The capital ratio of private banks in Syria, for instance, was 13% in mid 2008, higher than the minimum threshold required by the central bank (12%), but there is no transparency on data referred to state-owned banks. The latter have also financed a number of state companies operating at a loss – according to the IMF[85] - and could therefore face a serious deterioration in portfolio quality and capital ratios. In Libya, banks are well-capitalised and profitable, with a capital adequacy ratio of 16% at the end of 2008, albeit mostly as a result of the substantial interest obtained on accounts with the central bank.

Capital/Total Assets (%)

	2003	2004	2005	2006	2007	2008	2009
Algeria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Libya	5.8	5.2	5.6	5.2	5.3	4.3	6.2
Egypt	5.3	5.1	5.3	5.6	5.1	5.3	5.7
Morocco	7.6	7.6	7.7	7.4	6.9	7.3	n.a.
Mauritania	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tunisia	n.a.	n.a.	n.a.	n.a.	13.2	13.4	13.9
Jordan	6.4	7.2	8.2	10.7	10.6	10.4	n.a.
Israel*	n.a.	n.a.	n.a.	6.03	6.24	5.86	n.a.
Lebanon	6.9	6.8	7.5	9.1	8.1	7.8	7.8
Palestinian T.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Syria	3.8	4.3	5.4	13.8	13.1	11.8	n.a.

Note: *data referred to the five largest banking groups. Source: IMF, central bank.

Capital/Weighted Assets (%)

	2003	2004	2005	2006	2007	2008	2009
Algeria	n.a.	n.a.	n.a.	n.a.	n.a.	12.9	n.a.
Libya	n.a.	n.a.	19.1	17.2	16.0	17.8	n.a.
Egypt	11.1	11.4	13.7	14.7	14.8	14.7	n.a.
Morocco	9.6	10.5	11.5	12.3	10.6	11.2	n.a.
Mauritania	n.a.	n.a.	n.a.	n.a.	28.2	31.5	n.a.
Tunisia	9.3	11.6	12.4	11.8	11.6	11.7	n.a.
Jordan	15.9	17.8	17.6	21.4	20.8	18.3	n.a.
Israel*	10.4	10.7	10.6	10.8	10.9	11.2	n.a.
Lebanon	22.3	21.2	22.9	25	12.5	11.4	n.a.
Palestinian T.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Syria	n.a.	n.a.	n.a.	n.a.	12.9	n.a.	n.a.

Note: *data referred to the five largest banking groups. Source: IMF, IIF.

In Tunisia, the issue of Tier2 instruments and/or capital increases are being planned in order to strengthen the equity of banks, which declined in 2006 and 2007, while staying well above the minimum regulatory requirement (8%).

In Jordan capitalisation seems adequate. Jordanian banks have embraced Basel II with standard approach as of January 2008, and a minimum capital ratio of 12%. The capital adequacy ratios of the Israeli banking groups are still lower, but increasing. In 2000 the ratio stood at 9,24% (only slightly higher than the minimum capital ratio required in Israel, 9%) while in 2008 the ratio stood at 11,22%.

[84] See Fitch, cit., 2008.

[85] IMF, Syrian Arab Republic – 2008 Article IV Consultation, Concluding Statement, October 2008.

Islamic Finance[86]

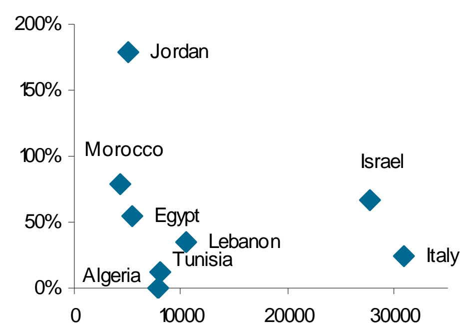
Islamic finance has recorded strong growth rates in the past few years, thanks to strong demand for products compliant with the Sharia, although its role varies greatly from one country to another[87]. In some countries it is virtually non-existent, such as in Tunisia, whereas in others it is growing at strong rates despite having been only recently introduced, for instance in Morocco[88]. As regards the level of risk taken on, the profile of Islamic banks is comparable to that of retail banks, and the main form of risk faced by both is credit risk. However, Islamic banks cannot invest in derivative financial products or in other retail banks. The main difference lies in the concentration of risk, as Islamic banks operate only in some countries and certain sectors, such as real estate. In Tunisia the central bank recently issued an authorisation to operate as a universal Islamic bank. In Lebanon, in 2004 the central authorities also permitted this activity. There were four Islamic banks in 2006, but their share of total assets was very modest (around 0.2% in 2006). In Jordan, Islamic banks accounted for 10% of TA at the end of 2008, with an asset growth rate of 20.6% in the 2001-2008 period, significantly stronger than that of traditional banks, i.e. 11% in the same period.

4.2 The Financial Markets

Financial intermediation activity in the countries of the South Mediterranean Rim is virtually exclusive to banks. The presence of non-banking financial intermediaries and of stock markets, as well as recourse to the international debt market, are generally still marginal.

As regards equity markets, the number of listed companies is small, and volumes traded are modest. Year-end 2008 data show that in oil-exporting countries Algeria and Libya, the role of the stock markets is by all means marginal, as opposed to a significant role in the Middle East, and an extremely important role in Jordan, where capitalisation as a percentage of GDP is close to 180%. In the other North African countries, the capitalisation-to-GDP ratio ranges from a modest 12% in Tunisia, to almost 80% in Morocco.

Market Cap/GDP and per Capita GDP (2008, USD)



Note: PPP per capita GDP in US dollars. Source: National stock exchanges, EIU, Thomson Reuters - Datastream, Fitch

Main SE Indicators (2008)

	Cap/ GDP (%)	N. list. comp.	Index % chg. 2008	Index % chg. 2009*	Price / Book value
Algeria	0.1	n.a.	n.a.	n.a.	n.a.
Libya**	1	10	n.a.	n.a.	n.a.
Egypt	54	373	-53.9	41.7	1.7
Morocco	79	73	-13.5	-2.3	5.2
Tunisia	12	50	10.6	40.0	n.a.
Jordan	179	262	-17.0	-11.6	1.7
Israel	67	642	-51.1	62.2	1.7
Lebanon	35	15	-21.5	33.6	n.a.

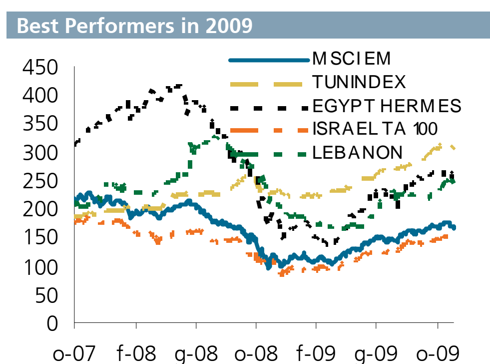
Note: *YTD as at 4 Nov. 2009. MSCI EM index as at 4 Nov. 2009, of 40545 (+48.8% since the beginning of the year and -47.2% in 2008). **8/2009. Source: National stock exchanges, EIU, Thomson Reuters - Datastream, The Banker, Fitch

[86] Literature abounds on the topic. See among others: M. Iqbal, P. Molyneux, “Thirty Years of Islamic Banking, History, Performance and Prospects”, New York, Palgrave Macmillan, 2005.
[87] See IMF, “Regional Economic Outlook: Middle East and Central Asia”, p.10.
[88] It should be said that any assessment of the effects of the crisis on the financial and economic equilibrium of Islamic banks is a difficult task, due to the lack of transparent data, on both the assets in which they have invested, and for instance to what use the liquidity available to them was put to use. See R. Hamaui e M. Mauri, “Economia e finanza islamica”. Il Mulino, 2009.

Capitalisation as a percentage of GDP, which had risen to over 100% on the Egyptian stock market, unwound rapidly to 54% at the end of 2008, due to the recession, but also to the decline in the number of listed companies, from over 700 in January 2006 to 373 at the end of 2008, all domestic, partly as a result of their failure to meet listing requirements. All the companies listed on the Amman stock exchange are also domestic (262 in 2008), whereas in Tel Aviv 642 were listed, of which 12 foreign. The Casablanca stock exchange, with an estimated capitalisation of around 80% of GDP, reached after surging to over 100% in 2008, is the largest in the Maghreb. The stock list includes 73 companies (53 in 2000).

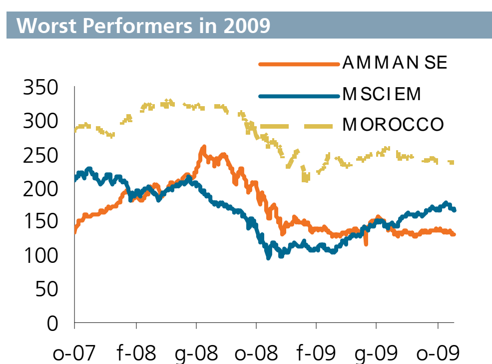
The Damascus stock market was established in March 2009, with a handful of companies (Banque Bemo Saudi Fransi; Arab Bank Syria; Bank of Syria and Overseas; United Group and Al Ahlia Transport), and is still of negligible size. In 2008 the Tripoli stock exchange was opened, with five names on its stock list (now 10), and its capitalisation surged in August following the IPO of Gumhouria Bank, which saw the transfer of 15% of the bank's capital to private shareholders.

Best Performers in 2009



Source: Thomson Reuters - Datastream. Indices re-based to 100=2005

Worst Performers in 2009



Source: Thomson Reuters - Datastream. Indices re-based to 100=2005

Capitalisation broken down by sector shows a general prevalence of the financial and real estate sectors. Governments have resorted to the stock markets to privatise many state-owned companies, which have contributed directly to the depth of the market. In Egypt, for instance, in 2006 these included in the banking sector: Commercial International Bank, Bank of Alexandria, and Egyptian American Bank. Other large operations were carried out in the telecom sector, with the privatisation of Etisalat Misr and Telecom Egypt.

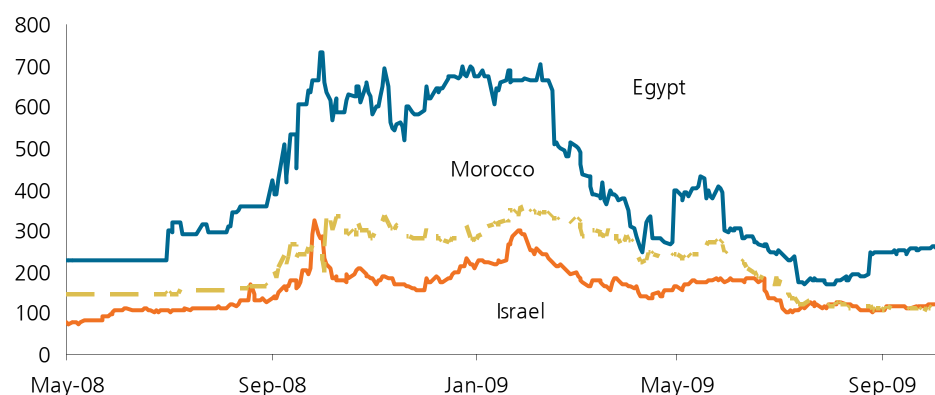
In the past few years, the legislative, regulatory and institutional picture has improved significantly, especially in Egypt and in Morocco[89]. The Cairo and Alexandria Stock Exchange (CASE) was the first stock market of an Arab to achieve membership in the World Federation of Exchanges, in November 2005, followed by the Amman and Tel Aviv stock exchanges. The efforts made to improve the stock markets have attracted foreign investors, mostly Arab and from the Gulf countries, supporting performance. It's trend has been in line with the stock exchanges of the other main emerging economies, slowing down in 2008, and scoring a strong recovery in the past few months. The Tunisian market was one of the best performing in the world in 2008, with gains of 10.6%, and has hitherto gained 40% in 2009. The Egyptian stock exchange suffered the exit of international investors, and declined by 54%. The Moroccan

[89] For an analysis of the African stock markets, see L. Senbet, I. Otchere, "African Stock Markets", contributions to the High-Level Seminar on African Finance for the 21st Century, organised by the IMF, Tunis, 4-5 March 2008.

market suffered a 20% drop in 2008, due to the hardships encountered by the tourist industry and the real estate sector, and is still negative in 2009 (-2.3%).

Trading in government bonds is more intense, especially in Morocco and Lebanon, although the market remains illiquid, limited to short-maturity instruments, without benchmark yield curve. Despite the progress made in the past few years, the corporate bond segment is modest and scarcely developed compared to other emerging economies. Higher volumes are recorded in Morocco. Not even banks, very frequent issuers both in mature countries and in many emerging economies, resort to the debt market in the countries of the South Mediterranean, also given the substantial liquidity available to them. Enterprises turn almost exclusively to banks for external funding, rarely resorting to the issue of bonds. In the future, as pointed out by Fitch[90], the fact that banks may adopt stricter risk pricing policies, as a result of more demanding capital requirements, may encourage recourse to the markets by medium-sized companies especially. However, in order to grow the corporate bond market needs a more efficient pricing mechanism and greater transparency. While progress has been made in terms of governance, disclosure and compliance with international accounting standards, protection of the rights of investors – also according to Fitch – still seems insufficient.

10Y CDS



Source: Thomson Reuters - Datastream

[90] See Fitch, North African Corporate Bond Markets, October 2009.

Institutional Developments and Investment Opportunities

5 The Relationship Between the EU and Countries of the South Mediterranean

"The birthplace of three monotheistic religions and a melting pot of civilisations, cultures, waves of migration and trade, the history of the Mediterranean is indistinguishable from that of Europe. The Mediterranean basin is where north meets south, and east meets west. As the region where three continents converge, it is much more than simply a European Union border. Stability in the Mediterranean is vital for our security and prosperity as well as that of our Mediterranean friends and neighbours"[91].

Benita Ferrero-Waldner, Commissioner of External Relations and European Neighbourhood Policy.

Raffaella Donnini*
Stefano Mazzocchi *

This chapter discusses the birth of the Barcelona Process, the changes which followed the launch of the ENP (European Neighbourhood Policy) in 2004, and the recent creation of the Union for the Mediterranean (UfM) at the Paris Summit on 13 July 2008. The institutional structure of the UfM is examined together with the proposed priority projects and their state of implementation.

In this context, the main aspects of the Euro Mediterranean industry cooperation policy - with a special focus on the Euro-Mediterranean Charter of enterprises - are analyzed.

The chapter ends with an overview of the most important financial instruments established by the EU to support the Euro-Mediterranean policy, and a description of the "Twelve Euro-Mediterranean Banks" project created in the run-up to the first UfM Summit.

5.1 The Birth and Evolution of the Barcelona Process

Until 1995, the European Union (EU) only entertained bilateral relations with the countries of the Mediterranean, and not a single policy for the region. In 1995, during the Spanish Presidency of the EU, the Barcelona Process was launched by the then 15 EU members and 12 Mediterranean partners[92], as a framework to manage both bilateral and regional relations. The Barcelona Process - based on the Barcelona Declaration - formed the basis of the Euro-Mediterranean Partnership and intended to establish a common area of peace, stability, and prosperity, by reinforcing three key aspects: political and security dialogue; economic and financial partnership (see box "Towards a Euro-Mediterranean Free Trade Area" below); social, cultural and human partnership[93].

The Barcelona Process foresaw the adoption of a series of bilateral Association Agreements between EU Member States and the Mediterranean partner countries. While certain aspects are

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* Intesa Sanpaolo, International Regulatory and Antitrust Affairs Office – Brussels. The Authors wish to thank Anita Kiss for her collaboration.

[91] EuropeAid Cooperation Office. Regional Co-operation. An overview of programmes and projects. Brussels.

[92] The Mediterranean partners were Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, the Palestinian Authority. The League of Arab States and the Arab Maghreb Union (AMU) were also invited, as was Mauritania (as a member of the AMU). Later, Turkey became a candidate country for EU accession and Cyprus and Malta joined the EU.

[93] Barcelona Declaration. Adopted at the Euro-Mediterranean Conference 27-28/11/95.

common to all of them (political dialogue, economic cooperation, etc.), details differ from country to country[94] .

Since the 1995 Barcelona Conference, several more Euro-Mediterranean Conferences of the Ministers for Foreign Affairs have been held, where important decisions have been taken.[95]

The results of the Euro-Mediterranean Partnership have not proven completely satisfying. From a political standpoint, results have been scarce in terms of the stabilisation of the region, the promotion of democratic reform, and the liberalisation of politics. As regards the economy, the gap separating the North and South rims of the Mediterranean in terms of GDP per capita has not been reduced, and the creation of a productive trans-Mediterranean system isn't being fostered. In addition, the trade relations between the EU and the Mediterranean partners remained unbalanced, and due to low foreign direct investment (FDI), economic integration has remained weak[96] .

Towards a Euro-Mediterranean Free Trade Area

The idea of establishing a Euro-Mediterranean Free Trade Area was introduced with the Barcelona Declaration in 1995. The parties set 2010 as the target date for the gradual establishment of this area. To achieve this goal they agreed to progressively eliminate all tariff and non-tariff barriers to trade in manufactured products; adopt rules of origin and certification right; pursue and develop policies based on the principles of market economy; and modernise their economic and social structures, giving priority to the promotion and development of the private sector. In May 2002, the EuropeAid Co-operation Office of the European Commission charged the European Centre for the Regions - the Barcelona Antenna of the European Institute of Public Administration – with management of a programme for industrial cooperation and an internal market between the EU and the Mediterranean partners, called "Regional Programme for the Promotion of the Instruments and Mechanisms of the Euro-Mediterranean Market" (EuroMed Market Programme), aimed at facilitating economic cooperation, the setting up of a Euro-Mediterranean Free Trade Area, and supporting enhanced intra-regional economic cooperation on a South-South basis, as achieved by the Agadir Agreement.[97] The Agadir Agreement, the first South-South free trade agreement, was signed by four South Mediterranean countries (Egypt, Jordan, Morocco and Tunisia) in Rabat on 25 February 2004, and came into force on 6 July 2006. The main objectives of the Agreement are: to create a free trade area between Member Countries, to increase trade mainly between them and the EU, economic development and integration through the implementation of the Pan-Euro-Med rules of origin, to attract FDI. A Technical Unit was established in Amman (Jordan) to supervise the

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[94]For the list of the Association Agreements please visit the website:
http://ec.europa.eu/external_relations/euromed/index_en.htm.

[95] At the Stuttgart Conference in 1999, Libya was welcomed for the first time as a special guest of the presidency and now has observer status. At the fifth Euro-Mediterranean Conference of the Ministers for Foreign Affairs held in April 2002 in Valencia, the participants adopted an Action Plan that included several short and medium-term initiatives aimed at strengthening the three aspects of the Barcelona Process. Just after the conference, a new investment facility, FEMIP (Facility for Euro-Mediterranean Investment and Partnership), was established for the region.

[96] Cugusi Battistina Unione per il Mediterraneo: perfezionamento o svuotamento di un disegno politico? CeSPI Working Papers 52/2009.

[97] European Institute of Public Administration and European Centre for the Regions. (2009). Towards a Free Trade Area. Barcelona.

implementation of the Agreement and to offer advice and technical support on all related matters. [98]

During the 8th Euromed Trade Ministerial Conference (Brussels, 9th December 2009), the Euro-Mediterranean Trade Ministers took stock of progress in the establishment of the Euro-Mediterranean Free Trade Area by 2010 and backed the "Euromed Trade Roadmap beyond 2010".

Concerning the first point, Euromed Ministers appreciated progress in implementing Association Agreements now signed between EU and all their Mediterranean counterparts except Syria and promoted the conclusion of the free trade agreement with Syria. They called for progress in regional negotiations on liberalisation of trade in services and the right of establishment and bilateral negotiations on this topic are ongoing with Egypt, Israel, Morocco and Tunisia. Other interested partners are invited to set up similar bilateral negotiations.

The Ministers noted relevant progress in negotiations on the setting up of a more efficient dispute mechanism for the trade provisions of the Associations Agreements (a bilateral protocol with Tunisia was already signed and bilateral protocols with Jordan, Lebanon and Morocco were initialled). In agricultural trade, Ministers welcomed the conclusion of bilateral agreements with Egypt and Israel and progress in talking with Tunisia and Morocco. They also stressed the importance of launching negotiation on further liberalisation of agricultural, processed agricultural and fisheries products with other Med countries. In June 2009 was established the first ACAA agreement[99] with Israel and Ministers agreed on the need to develop similar discussions with other Med partners. Concerning free trade agreements among Mediterranean partners, relevant milestones are the recent signing of the Association Agreement establishing a free trade area between Jordan and Turkey and the implementation of the "Agadir Agreeement". This latter, showed a development in the trade flows among partners even if there is still potential. Significant progress was also achieved in the adoption of a single regional convention on preferential rules of origin in the Pan Euro-Mediterranean area, which will bring the Western Balkans into the system and will lead to the simplification of the Pan Euro-Mediterranean rules of origin.

Concerning the second point, it is worth highlighting that concrete actions were identified to turn Euro Mediterranean Associations Agreements into deep and complete Free Trade Agreements: giving priority to the conclusions of the negotiations; implementing - as soon as possible - initiatives foreseen by the Roadmap (such as the trade and investment facilitation mechanism, raising the awareness of the Euromed business community on the roadmap itself and encouraging the organization in 2010 of an "Euro-Med business forum", boosting the cooperation in fighting against piracy and counterfeiting); launching bilateral negotiations on a package of non tariff and regulatory issues; developing south-south integration and completing the network of free trade agreements and its extension to cover not only goods but also services, investment and regulatory issues[100].

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[98] Agadir Agreement, "Historical background" and "Objectives", http://www.agadiragreement.org.

[99] Agreements on Conformity Assessment and Acceptance of Industrial Products.

[100] The conclusions of the Conference are available at the following website: http://trade.ec.europa.eu/doclib/docs/2009/december/tradoc_145575.pdf.

5.2 From the Barcelona Process to the European Neighbourhood Policy

In 2004 the European Commission introduced the European Neighbourhood Policy (ENP), which now provides the framework for not only the Euro-Mediterranean Partnership, but also for all relations with EU neighbours. The policy was introduced with the aim of avoiding the emergence of new dividing borders between the enlarged EU and its neighbours, and instead to boost the prosperity, security and stability of all the parties involved. The introduction of the ENP marked a first step in reforming Euro-Mediterranean relations[101]. The ENP addresses the EU's neighbours by land or sea, with the exception of the countries currently participating in the enlargement process[102]. The ENP is divided in two geographical regions. Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine are part of the Eastern co-operation[103], while Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Territories, Syria and Tunisia are part of the Southern co-operation. The core of the ENP is represented by the Bilateral Action Plans, established between the EU and each partner country. They foresee an agenda of economic and political reforms with short and medium-term priorities. The implementation of the Action Plans is ongoing[104]. The ENP is based on existing agreements between the EU and its partners: therefore, the ENP is not currently activated for Libya and Syria since agreements between the EU and these two countries have not yet come into force.

In 2005, at the Barcelona Conference, the Euro-Mediterranean Partnership celebrated its 10th anniversary. During this conference, the EU Member States and the Mediterranean member countries laid out new objectives and a five-year work programme to further develop their partnership. Migration, social integration, justice, and security, were added as the fourth pillar of cooperation.

The Barcelona Process has been supported by its MEDA budget line. Since 2007 support is provided by the ENPI budget line (see chapter "Financial Instruments to Support the Euro-Mediterranean Policy").

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[101] Aliboni Roberto, *L'Unione per il Mediterraneo: le relazioni euro-mediterranee in una prospettiva nuova*, Senato della Repubblica Servizio Studi, Servizio Affari internazionali, pg. 5. "The road that led to the reform of the EU's Mediterranean policy and resulted in the introduction of the UfM was long and winding. The reform was implemented in two rounds: the introduction of the European Neighbourhood Policy in 2004, and of the UfM in 2008. The ENP divided the competence between the EU Member States and the Commission – the competence that the holistic approach of the Barcelona Process had unified in the framework of the Euro-Med Partnership. While it gave the power to the Senior Officials to manage the policies related to CFSP (Common Foreign and Security Policy) and other non-communitised policy areas (wide areas, for example judicial, security, and migration issues), it confirmed the competence of the Commission to manage all community issues with partner countries in a bilateral manner. While with the Euro-Med Partnership Association Agreements only had a complementary role, with the ENP they regained the autonomy and central role they had had in the framework of previous Mediterranean policies. Indeed, before the CFSP, only the Global Mediterranean Policy in 1972 existed - while the European Policy on Cooperation had just been established - that was necessarily the only common policy, and the Commission was the sole European actor on the scene."

[102] Croatia, The former Yugoslav Republic of Macedonia, Turkey, Albania, Bosnia and Herzegovina, Montenegro, Serbia, Kosovo under UN Security Council Resolution 1244.

[103] Even if Russia is also a neighbour of the EU, EU-Russia relations are developed through a Strategic Partnership covering four "common spaces": economic issues; Freedom, Security & Justice; External Security; Research & Education.

[104] Action Plans were signed with Israel, Jordan, Moldova, Morocco, Gaza/West Bank, Tunisia and Ukraine in 2005, with Armenia, Azerbaijan and Georgia in 2006, and with Lebanon and Egypt in 2007.

5.3 The Union for the Mediterranean

Although the Euro-Mediterranean Partnership achieved important goals, a lot remained to do, as stated on 20 May 2008 in the Communication of the European Commission on the Barcelona Process: Union for the Mediterranean[105]: " […] more engagement and new catalysts are now needed to transform the objectives of the Barcelona Declaration into tangible realities".

With the aim of giving momentum to the Euro-Mediterranean Partnership, French President Nicolas Sarkozy, during a speech in Tangeri, in October 2007, introduced the idea of a Mediterranean Union that would initially involve only States with a Mediterranean coastline[106]. After strong opposition from Germany, that feared this new regional initiative could destabilise the core of the European project, the European Council deeply limited the French plan by declaring the UfM as a coherent continuation of the Euro-Mediterranean Partnership.

On 13 July 2008, in Paris, under the French Presidency of the EU, this new initiative was finally launched with the title "Barcelona Process: Union for the Mediterranean". The Partnership – for the time being – includes 43 partners: the 27 Member States of the EU and 16 Mediterranean partners[107] .

5.3.1 The institutional structure

During the Ministers of Foreign Affairs meeting held in Marseille (November 2008), the institutional structure of the UfM was outlined. The co-Presidency coordinates and supervises the activities of the UfM. In order to share responsibility, one President is recruited from an EU Member State and the other from a non-EU state. The non-EU President will be selected by consensus for a non-renewable period of two years. According to the new Treaty of Lisbon, the EU co-President is elected and corresponds to the President of the European Council lasting for a renewable period of two-and-a-half years[108]. The Senior Officials are mandated to deal with all the aspects of the initiative: evaluate progress, meet regularly to prepare ministerial meetings and submit project proposals and the annual work programmes to Ministers for approval. Furthermore, they have a mandate to approve the guidelines of project evaluation. On occasion of the biannual Meetings of the Heads of States, the participants lay out the strategic priorities. The UfM Secretariat's mandate is of a technical nature and its main activity consists of identifying, following up, and promoting key projects to enhance the UfM's economic and social

[105] Communication from the Commission to the European Parliament and the Council "Barcelona process: Union for the Mediterranean" COM (2008) 319 (Final), 20/05/08.

[106] Cugusi Battistina *Unione per il Mediterraneo: perfezionamento o svuotamento di un disegno politico?* CeSPI Working Papers 52/2009 (2009) pg. 9-10 "The Mediterranean Union couldn't rely on the support of the states (Italy and Spain) expected by Sarkozy. They conditioned their support to the French President on the application of the referring statements of the acquis and of the Community policies in the area, underlying the Rome Call: "The Union is not intended to encroach on the preserve of the cooperation and dialogue procedures already uniting the Mediterranean countries, but to supplement these and give them an extra boost seeking to complement and work in cooperation with all the existing institutions." (Rome, Call for a Union for the Mediterranean by Italy, France, Spain, 2007). France alone, against the fierce opposition of Germany, couldn't succeed, taking into account the weakening alliance among the states that had a shared interest in the Mediterranean. The Spanish and Italian reluctance to support the idea of a Mediterranean Union against the will of the EU, among others, was a contributing factor leading to the communitisation of the idea."

[107] Morocco, Algeria, Tunisia, Lebanon, Mauritania, Egypt, Jordan, the Palestinian Authority, Israel, Syria, Turkey, Monaco, Albania, Croatia, Bosnia and Herzegovina, Montenegro.

[108] COM (2008) 319 (Final), 20/05/08: "the Presidency on the EU side will correspond to the President of the European Council and the President of the Commission (at the level of Heads of State and Government) and the High Representative/Vice President of the Commission, at the level of Ministers of Foreign Affairs".

development, and finding the financial resources necessary for their implementation as well[109]. Barcelona was chosen as the permanent seat of the UfM Secretariat. The Joint Permanent Committee, based in Brussels, is in charge of preparing Ministerial meetings[110].

Following the outburst of the Arab-Israeli conflict in the Middle East at the beginning of the 2009, the high level meetings were postponed.

5.3.2 The Six Priority Projects

The UfM was supposed to promote a fresh start to the Euro-Mediterranean Partnership by increasing political dialogue between the partner countries and by providing a balanced sharing of responsibility between different partners while also making relationships between them more concrete through the implementation of regional and sub regional projects, valuable for the citizens of the entire region.[111]In line with this last point, UfM Member States agreed to support, as a priority, six projects (see Box "The six priority projects"), to help bring together the European and Mediterranean partners. According to the European Commission, financial support could come from the private sector, from bilateral agreements between EU Member States, contributions from Mediterranean partner countries, international financial institutions and regional banks, and from the Community budget for the Mediterranean (see the chapter "Financial Instruments to Support the Euro-Mediterranean Policy")[112].

On these topics two important Summits have been held, one in Paris on 25 June on the sustainable projects and their implementation, and the second on 7 July in Brussels on the financial crisis, at the UfM Finance Ministers level. At this conference, Ministers also took note of the launch of InfraMed, a long-term investment fund set up at the end of April 2009 in Alexandria. Its objective is to finance infrastructure projects in Southern Mediterranean Rim countries in sectors such as energy (transfer and distribution networks, renewable energy), transport and sustainable development[113].

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[109] The Secretary General, who should be recruited from a Southern partner country, would be assisted by five Deputy Secretaries General coming from, for the first term of office, Greece, Italy, Israel, Malta and the Palestinian Authority.

[110] It is useful to recall the creation of the "Marseille Centre for Mediterranean Integration" which aims to facilitate access to best knowledge and practices and improve cooperation to support development policies geared towards greater integration and convergence in the Mediterranean Region. Launched by the World Bank and the EIB, together with the Governments of Egypt, France, Jordan, Lebanon, Morocco and Tunisia, and the City of Marseille. It focuses on five clusters with 14 programs concerning urban and spatial development, sustainable development, transport and logistics, skills, employment and labour mobility challenges including youth and knowledge economy, innovation and technology.

[111] Communication from the Commission to the European Parliament and the Council "Barcelona process: Union for the Mediterranean" COM (2008) 319 (Final), 20/05/08.

[112] In July 2009 the European Commission allocated an additional contribution of EUR 72M to the priority projects for the 2009-2010 period, as follows: Environment - De-pollution of the Mediterranean (EUR 22M over the 2009-2010 period); Maritime and Land Highways (EUR 7.5M); Alternative Energies: Mediterranean Solar Plan (EUR 5M); FEMIP (EUR 32M over the 2009-2010 period), EUR 1M to the Euro-Mediterranean University in Portoroz.

[113] In July 2009 Italy hosted an informal meeting, the "Economic and Financial Forum for the Mediterranean" in Milan, with the participation of Governments and other stakeholders, to discuss how to promote economic cooperation in the Mediterranean.

The Six Priority Projects

De-pollution of the Mediterranean

The environmental quality of the Mediterranean Sea has suffered serious degradation. Under this section, activities are built on the Horizon 2020 Programme, launched in 2008. During the first Paris Ministerial meeting (June 2009), the Ministers discussed the implementation of a list of projects concerning water and the environment, transport, energy, and urban development. At the beginning of 2010 a new "Mediterranean Strategy on Water and the Environment" is expected to be adopted as a global framework for the selection of projects submitted to the UfM Secretariat.

Maritime and Land Highways

The Mediterranean Sea is an important highway for trade in the region. The development of maritime highways, the connection of ports throughout the entire Mediterranean basin, as well as the construction of coastal motorways and the modernisation of the trans-Maghreb railway, will enhance the flow and the freedom of movement of goods and people. A first list of priority projects on transport and infrastructure was adopted by the Euro Med Forum on Transport (December 2008) and is awaiting final approval.

Civil Protection

The Mediterranean region is particularly defenceless and exposed to natural and man-made disasters. A joint Civil Protection Programme on Prevention, Preparation and Response to disasters (PPRD), linking the region to the EU Civil Protection Mechanism, is therefore, a priority. Activities are carried out by a consortium lead by Italy.

Alternative Energies: Mediterranean Solar Plan

The research, development and marketing of all alternative energy resources are crucial for the sustainable development of the Mediterranean region. The Mediterranean Solar Plan (MSP) is one of the UfM's major tangible initiatives. The MSP's objectives are: to develop 20 GW of renewable energy production capacity, to generate electricity with low carbon impact by exploiting the solar energy of the Mediterranean countries; to guarantee economic performance and the feasibility of projects, taking advantage of the possibility of exporting part of the electricity generated to EU countries, and face increasing energy demand, while at the same time promoting energy efficiency and the development of the energy sector in all the countries of the region[114]. KfW Bankgroup, EIB and AFD (Agence Française de Développement) decided to contribute to the project with EUR 5Bn[115]. The World Bank is committed through the "Clean Technology Fund" with a budget of USD 750M.

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[114] The MSP will be developed in three steps: in 2008, outlining the objectives and the preparation of the MSP; in 2009-2010 the preparation of the pilot phase with immediate action plans including pilot projects to test the regulatory, financial and institutional mechanisms; in 2011-2020 the deployment of large-scale renewable energy and energy efficiency projects.

[115]Dossier de Presse, Union pour la Mediterranée, Réunion ministèrielle sur le projets de développement durable (Paris, 25/06/09): http://www.developpement-durable.gouv.fr/IMG/pdf/DP_UPM_3_modifs_mission_UPM_DEF_cle6ec61c.pdf. Multilateral and national financial institutions have been activated to finance the projects. The Global Environment Facility launched a programme, "Sustainable Med", focused on sustainable development, with USD 50M at its disposal. The EIB acts through FEMIP, whose lending capabilities rose to EUR 7.5Bn for the 2009-2013 period. For the same period the AFD is providing an annual contribution of EUR 1Bn for various sectors and projects, such as urban development and transport, MSP, de-pollution of the Mediterranean, sustainable water management, assisting companies, maritime and land highways, agriculture and food security, etc.

Higher Education and Research, Euro-Mediterranean University

The inauguration of the Euro-Mediterranean University in Slovenia in June 2008, through a cooperation network of partner universities and other institutions in the region, intends to provide study, research and training programmes, and thus upgrade the establishment of the Euro-Mediterranean Higher Education, Science and Research Area. A university is due to open in Morocco, in the city of Fez, complementary to the Euro-Mediterranean University in Slovenia.

The Mediterranean Business Development Initiative

Micro, small and medium enterprises (MSMEs) account for around 99% of the total companies in the Mediterranean, and for two-thirds of the jobs in the region. They are an important source of attraction for employment, investments, economic growth and income redistribution. However, funds are not easily available to MSMEs. The EU always has been active in encouraging support of MSMEs. In 2000 it issued the European Charter for Small Enterprises and, four years later, the Euro-Mediterranean Charter for Enterprise. It groups policies to promote the business environment around ten lines of action (see the chapter The Euro-Mediterranean industrial cooperation). In this environment, the MBD Initiative was launched by Italy and Spain to foster economic growth and development in the Mediterranean Basin, forming the object of a feasibility study by the EIB to suggest the best and most efficient ways to implement it.

5.4 The Euro-Mediterranean Industrial Cooperation

The Euro-Mediterranean industrial cooperation is organized in a Work Programme for the 2009-2010 period[116] approved during the Euro-Mediterranean Conference in Nice (November 2008). This Work Programme focuses on the following six areas:

1) Implementation of the Euro-Mediterranean Charter of Enterprises

In 2007-2008, a pilot project was launched by the European Commission, the OECD-Organization for economic co-operation and development, the ETF- European Training Foundation and the EIB in order to strengthen the Euro-Mediterranean Charter of Enterprises policy process (see box: The Euro-Mediterranean Charter of Enterprises), in collaboration with Governments and key stakeholders of the nine countries involved[117]. The project assessed the progress completed by the target countries through the development of 77 indicators across the ten policy area of the Charter. The results were published in a first regional report in 2008[118]. Globally, they prove a convergence towards the policy guidelines of the Charter even if progress in the region is not homogeneous. Egypt, Jordan, Morocco and Tunisia have demonstrated the most remarkable improvements[119].

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[116] http://ec.europa.eu/enterprise/policies/international/files/2009_2010_work_programme_en.pdf.

[117] Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria and Tunisia.

[118] For more information: Report on the implementation of the Euro Mediterranean Charter for enterprises (2008 Enterpises Assessment): http://www.oecd.org/dataoecd/39/22/41779100.pdf.

[119] Related to the implementation of each of the ten Charter policy field, it is worth noting these main points:

Dimension 1: In most Mediterranean countries building blocks for enterprises are established, even if, for example, it still not exists a comprehensive development strategy for business.

Dimension 2 and 3: Education systems do not currently promote entrepreneurial spirit; there is a lack of life long learning perspective while practice on training for expanding enterprises is well developed (Egypt, Israel, Jordan, Morocco and Tunisia).

Dimension 4: Asset backing lending is the main source of external financing but high collateral requirements are needed. Furthermore, there is a little risk capital and venture capital industry is at an early phase (except

The Euro-Mediterranean Charter of Enterprises

The Euro-Mediterranean Charter of Enterprises was adopted during the Caserta Ministerial Conference (2004). Its main goal is to create a promising environment for the development of investments and the private sector in the Mediterranean partner countries through the elaboration of common principles on which Mediterranean partner policies should be based. Each Mediterranean partner will apply the principles of the Charter according to the progress they already achieved and to their own priorities. There are ten areas of action:

I. *Simple procedures for enterprises*. Transparent rules governing business activities and their uniform application are to be pursued; upgrading the governance thanks to user friendly documents and make progress on line administration; simplifying procedures for the setting-up, transferring and closing of a company.

II. *Education and training for entrepreneurship*. Encouraging entrepreneurial spirit at an early stage and during all school levels, supporting entrepreneurial initiatives by young people and developing adequate training schemes for small company managers.

III. *Improved skills*. Improving constantly the skills of personnel through personalized training scheme; adapting University curricula to match the needs of innovative companies and promoting links between research, University and industry.

IV. *Easier access to finance and investment-friendly taxation*. Upgrading the access to finance for SMEs, in particular new companies and businesses with high growth potential. Banks should be able to offer tailor-made products for SMEs and create specific departments to assess the financing requirements of small businesses. Public authorities should bring into line the interests of banks and of enterprises. These latters should be able to provide financial institutions with evidence of their trustworthiness and have easy access to advice for the preparation of their business plans. Innovative financial instruments (venture capital, business angels and other forms of funding of high-growth companies) should be promoted as well as efficiency of taxation. Moreover, information on fiscal incentives in favour of companies need to be broadly disseminated.

V. *Better market access*. Improving regional initiatives to ease investments and trade of goods and services; establishing a Euro - Mediterranean free trade area focusing on concrete measures to boost South-South integration.

Israel), a lack of development in credit information system (except Israel and Tunisia) while credit guarantee scheme are increased operating in partnership with commercial banks (Egypt, Morocco, Jordan and Tunisia).

Dimension 5: Government export agencies are well established as well as export promotion programmes. Implementation of the intra regional trade integration is at an early stage while Egypt, Israel, Morocco and Tunisia are improving in the simplification of the International trade procedure.

Dimension 6: Volumes of R&D investments are scarce for region and there is a lack of resources for technological innovation (except Israel).

Dimension 7: Private-public practices of consultation are well-established but geared to insider interests versus new market entrants.

Dimension 8: in most countries, agencies have been set up to support the establishment of enterprises, although there is a lack of tools with which to monitor and assess the effectiveness of the programmes implemented, at the cost of considerable resources.

Dimensions 9 and 10: the quality of information needs to be improved, although interactive Internet sites, portals and information centre networks are being developed (Egypt, Israel, Morocco, and Tunisia).

The next report on the implementation of the Charter is due by 2012.

VI. *Innovative companies*. Reinforcing the capacity of business to innovate through, for example, a more efficient protection of intellectual property, development of adequate financial instruments and fiscal incentives. Encouraging enterprises to take part to International, European and National cooperation programmes.

VII. *Strong business associations*. Boosting the representation of SMEs interests in the policy and lawmaking process. Business associations also have a fundamental role to keep informed their members about legislation and standards applicable in the Euro-Mediterranean region.

VIII. *Quality business support schemes and services*. Rising the quality of services offered to enterprises which should be addressed to the enterprises needs, in particular to new and small one.

IX. *Strengthening Euro-Mediterranean networks and partnerships*. Sharing information, know how, using common infrastructures or organising joint procurement and encourage SMEs to become familiar with new technologies and modern management techniques through responding to the demands of large companies which are established locally.

X. *Clear and targeted information*. Spreading information among entrepreneurs to allow them to develop their business performance.

2) Promoting Investment

Mediterranean partner countries are informed, through workshops and meetings, of policy initiatives, programmes and measures especially conceived to develop flows of foreign and local investment. In 2009-2010, the efforts are focused on the regional "Invest in Med"[120] Programme, the activities of the FEMIP and the NIF (for those two facilities, see Paragraph Financial Instruments to support the Euro- Mediterranean policy).

3) Trade Facilitation of Industrial Products

Efforts are focused on strengthening the approximation of the Mediterranean partners' legislation in the fields of technical legislation, standards and conformity assessment, to the system of the EU. A concrete example of doing this is the signing of bilateral agreements on conformity assessment (ACAA Agreement on Conformity Assessment and Acceptance of Industrial Products) between the EU and a Mediterranean partner country.

4) Innovation and Technology Transfer

The main aim is to upgrade enterprise competitiveness, innovation and technology transfer through, for example, the fixing of policy goals, regional networking, exploiting the results of

[120] The Invest in Med Programme intends to upgrade trade sustainable relations, investments and partnership between the two rims of the Mediterranean. Co-financed (for the 75%) by the EU for the 2008-2011 period, it is managed by the MedAlliance consortium which gathers economic development organizations, chambers of commerce and of industry (ASCAME, EUROCHAMBRES), entrepreneurial federations (BUSINESSMED). MedAlliance is leaded by ANIMA- Euro-Mediterranean Network of Investment Promotion Agencies. Only members of the MedAlliance network can lead an initiative under this Programme. Initiatives concern the economic development in the Mediterranean region. Within the Invest in Med Programme a sectoral guide, *La Carte des investissements en Méditerranée*, has been published to support the business sector through the investments in the Mediterranean. This document is available at the following website: http://www.animaweb.org/en/etudes.php.

Medibtikar[121] programme and, if possible, connecting the Mediterranean partner countries to the Enterprise Europe Network[122].

5) Euro-Mediterranean Dialogue on the Future of the Textile and Clothing Sector

In 2009 efforts are concentrated on two relevant aspects: capacity building of the social partners of the textile and clothing sector in the Mediterranean countries, thanks also to the support of the European partners[123], and on the promotion of innovation in the textile and clothing sector.

6) Sustainable Industrial Development and Energy Efficiency

Mediterranean partner are informed of activities and projects on sustainable industrial policy and on exchange of experience and best practice with the EU on this issue.

5.5 Financial Instruments to Support the Euro-Mediterranean Policy

5.5.1 The European Neighbourhood Policy Instrument

ENPI is the financial instrument established to provide support to the ENP, which replaces the previous programmes addressed to the region (namely MEDA and part of TACIS). Running from 2007 to 2013, ENPI has a global budget of EUR 11.2Bn.

Approximately 90% of the overall budget is dedicated to bilateral projects (single country initiatives, complemented by regional initiatives involving two or more countries).

ENPI provides its financial support to bodies fulfilling the necessary requirements mainly through calls for proposals or calls for tenders directly managed by EuropeAid, the Commission's office in charge of managing external EU aid programmes.

The remaining 10% of the ENPI budget is allocated to the Cross-border Cooperation Programme and to the Neighbourhood Investment Facility (NIF), launched in May 2008. The latter is intended to support the operations of financial institutions involved in the development of the regions of the neighbourhood, with grants, risk capital operations, and technical assistance in infrastructure (transport, energy, environment and social issues), as well as in the private sector (SMEs). To benefit from the NIF, a project must be submitted by an eligible financial institution[124]. For the 2007-2013 period, the European Commission has earmarked a total amount of EUR 700M for the NIF. Member States and partner countries can decide to contribute to a specific trust fund managed by the European Investment Bank (EIB) as well.

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[121] Euromed Innovation & Technology Programme.

[122] It is a network aiming at assisting and advising companies (with a special focus on SMEs) on policies, programmes and EU funding opportunities.

[123] Euratex (the European apparel and textile organization) and ETUF/ TCL (European trade union federation:= textile, clothing and leather).

[124] For the time being, they are the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB), the Nordic Investment Bank (NIB), Agence Française de Développement (AFD), Kreditanstalt für Wiederaufbau (KfW), Oesterreichische Entwicklungsbank AG (Oeeb), Società Italiana per le Imprese all'Estero (SIMEST), and Sociedade para o Financiamento do Desenvolvimento (SOFID). For further information: http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm

5.5.2 FEMIP – Facility for Euro-Mediterranean Investment and Partnership

In addition to the ENPI, the EU assists the Mediterranean partner countries through another facility called FEMIP, an instrument of the EIB, geared to supporting the opening-up and the modernisation of the economies of nine Mediterranean countries[125] in line with the ENP's goals.

Created by request of the EU Heads of State and Governments during the 2002 Barcelona Summit, FEMIP became immediately operational, investing EUR 8.5Bn between October 2002 and December 2008 in the target countries.

For the 2007-2013 period, FEMIP has at its disposal a lending budget of EUR 8.7Bn to sustain projects in the countries concerned[126].

Activities are focused on sustaining the private sector (both local initiatives and foreign direct investment) and on establishing an investment-friendly environment, essentially through: loans which are made available to private or public sector promoters of projects; private equity and technical assistance in support of the entire project life cycle. Following the UfM Summit in Paris in July 2008, FEMIP is now contributing to three of the UfM's six priority projects (the de-pollution of the Mediterranean, maritime and land highways, and the MSP). For the 2009-2010 period this EIB instrument will contribute to the above mentioned projects a global budget of EUR 32M.

The Twelve Euro-Mediterranean Banks' Project

In the run-up to the first Summit of the UfM, twelve Euro-Mediterranean financial institutions[127] – including the Intesa Sanpaolo Group and its subsidiary Bank of Alexandria – signed a Protocol ratified in January 2009 by a Memorandum of Understanding, that led to the launch of the cooperation "Alliance des banques pour la Méditerranée" which foresees the implementation of twenty concrete projects. In accordance with the projects, four workgroups were created, each chaired by one or more members of the cooperation. Each workgroup is in charge of managing one of the following business areas, and is guided by a common benefit logic:

- The workgroup and the projects related to financial transfers are chaired by the CECA (the objectives include, among others, the development of a common platform for the transfer of migrant worker remittances; the proposal of an "account to account" system to reduce the cost of money transfers for migrants);
- The workgroup related to banking products is chaired by BIAT-AWB (the objectives include, among others, the offer of savings products in the North-Mediterranean, medium or long-term financing in the Southern Rim, and the distribution of a package for students of the South moving to Europe);

[125] Algeria, Egypt, Palestinian Territories, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia.

[126] These resources are augmented by loans totalling EUR 2Bn under the Euro-Mediterranean Partnership Facility II, as well as EU budgetary funds for technical assistance and private equity activities. For further information on FEMIP financial resources see: http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/enpi-south/sustainable/femip_en.htm

[127] Al Amana; Attijariwafa bank; Bank of Alexandria; BIAT; BTK; CECA-Spanish Confederation of Savings Banks; CIH- Crédit Immobilier et Hôtelier; Fransabank; GCE-Groupe Caisse d'Epargne; Intesa Sanpaolo; BEI; AFD- French Development Agency.

- The workgroup for support and assistance to SMEs is chaired by Intesa Sanpaolo (the objectives include, among others, the creation of dedicated desks in each bank for the Euro-Mediterranean area; the signing of a multilateral agreement to facilitate the opening of bank accounts for SMEs; the granting of trade guarantees; the channelling of documentary credits; the facilitation of information exchanges related to business opportunities; the creation of a common market system);
- The workgroup on the financing of infrastructures and international projects is chaired by GCE. With particular reference to this workgroup, Banca Infrastrutture Innovazione e Sviluppo (BIIS) – the Intesa Sanpaolo Group bank that caters to the needs of private and public actors realising large infrastructure and utility projects – signed a specific cooperation agreement to finance infrastructure projects in the Mediterranean area with special emphasis on transport, water, waste management, electricity, renewable energy, telecommunications, education, health, sport and social housing. BIIS is obliged to to participate in the mutual sharing of information between partner banks on projects in the Euro-Mediterranean area, to involve the partners in calls for tenders concerning infrastructures, to invite partner banks in syndicated loans or advisory mandates, and to develop specific financial products for infrastructure projects.

The members of this initiative have asked that their projects – which are tangible and promise a wealth of positive effects for the inhabitants of the Mediterranean - are recognised within the framework of the UfM, as is the case with the six priority projects launched in 2008 at the Paris Summit.

6 Investment Incentives and Business Opportunities

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The Mediterranean region is considered a promising market for European investors. Most countries have embraced important reform programs, opening-up their economies to private enterprise and offering strong investment incentives as well as business opportunities to local and foreign investors.

The chapter is divided into three sections. The first section reviews each country from a number of standpoints which are relevant with relation to business. The first standpoint is given by the implementation of the enterprise policy[128], following the guidelines presented the in Euro-Mediterranean Charter for Enterprise, structured in 10 Dimensions. The other standpoints are investment incentives, business opportunities, and infrastructural projects financed by the EU.

The second section describes investment incentives and business opportunities by economic sector. The analysis lists incentives and business opportunities together with the MED countries comparative advantages in the various economic sectors.

The third Section reviews multilateral cooperation infrastructure projects in MED countries, financed by EU parties and some key EU financial sources.

6.1 Investment Incentives and Business Opportunities by Country

6.1.1 North African Countries

Oil Exporters

Algeria

A – Implementation of the Euro-Mediterranean Charter for Enterprise (MED charter): Overall Assessment and the Way Forward [129]

Algeria embarked on its economic reform phase in the mid-1990s, by adopting a market-led strategy, but the shift from depending on a few specific strategic industries and a high level of tariff protection (Vertical Industry Policy), to a Horizontal Industry Policy, is still far from complete.

The top priority should be the increase of the SME sector size.

B - Investment Incentives[130]

- Algeria is an important exporter of both oil and natural gas, and holds the world's 7th largest reserves of natural gas. The country is also rich in other mineral resources, such as phosphate and iron.
- Algeria is located close to its target markets, i.e. Europe, Africa, and the Arab countries, and therefore enjoys easy access to these markets.
- Investment laws offer business incentives to promote foreign investment.
- Labour is abundant.

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* Bank of Alexandria, Research Department.

[128] On the Euro-mediterranean Chart for Enterprise, see Chapter V.

[129] Report on the Implementation of the Euro-Mediterranean Charter for Enterprise, 2008 Enterprise Policy Assessment by the European Commission, the OECD and the European Training Foundation, in consultation with the European Investment Bank.

[130] How to invest in Algeria, www.animaweb.org; US Trade Mission to Algeria, February 21–26, 2009; 2009 US–Algeria Trade Conference, "Business Opportunities in Algeria", www.algeria-us.org; Main strengths and opportunities, www.medibtikar.eu.

- There are five free trade zones in the country, in which investments are exempted from customs, taxes and other fees.

C- Business Opportunities[131]

- Energy: The country's wealth of mineral resources offers business opportunities in improving the production of hydrocarbons and export capacity, in upgrading energy transport infrastructures, and in the development of renewable energy sources, with focus on turbine generation, solar panels, and wind farms.
- Agriculture, fishing and food: Food processing, conservation technologies, marketing initiatives.
- Technology: Fibre optic cables, signal repeating stations, radar and surveillance equipment, e-government and e-learning platforms, mapping systems, project management training and software, telecommunications and increased internet connectivity.
- Construction: There are housing shortages, in the residential segment for middle class families, as well as hotels, resorts, and hospitals.
- Water Resources: Dam construction projects, water distribution network renovations, pumping stations, pipes, and desalination and treatment plants for drinking water.

D- Infrastructural Projects[132]

- Medgaz Pipeline: this project will contribute to the transportation of gas natural under the Mediterranean Sea, from Algeria to Spain, with the construction of a new pipeline over 210 kilometres long, for a total cost of EUR 1Bn, financed in the order of up to EUR 500M by the EIB.

Libya

A - Implementation of the MED Charter: Overall Assessment and the Way Forward.

- Not included in the Charter Assessment

B - Investment Incentives[133]

- Market-oriented reforms have been embraced.
- Offshore Free Trade Zones are encouraged.
- Foreign investment is overseen and regulated by the Libyan Foreign Investment Board (LFIB).
- A number of international and bilateral agreements on investment protection are being ratified, in particular with Egypt, Tunisia, Morocco, Austria, Germany, France.
- Libya enjoys the advantages of duty-free trade with Tunisia, Algeria, Morocco, and Mauritania, as a member of the Arab Maghreb Union (AMU).
- Libya is a member of the Greater Arab Free Trade Area (GAFTA, also called PAFTA, Pan Arab Free Trade Agreement).
- The country's oil reserves are among the largest in the world.
- The first free zone was established in Misurata in 2000, as the sole operating Free Trade Zone in the country, and includes a portion of the port of Misurata.

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[131] See previous note.

[132] http://www.eib.europa.eu/projects/pipeline/2008/20080163.htm

[133] 2009 Investment Climate Statement, BUREAU OF ECONOMIC, ENERGY AND BUSINESS AFFAIRS, February 2009. www.investinlibya.ly.com

C - Business Opportunities[134]

- Transportation sector: This sector offers potential opportunities in the construction and management of airports, building and implementation of civil aviation systems, highways, subways and railroads, improvement and operation of seaports with the participation of the seaport company.
- Health sector: There is massive need for more hospitals, laboratories, analysis and diagnosis centres, production of drugs and medical instruments, manufacturing and maintenance of medical equipment.
- Education sector: Construction of universities, higher education institutes, training centres, schools and international institutes.
- Industrial sector: Cement industry, electric and electronic industry, household articles, plastic industry, leather industries, fodders industry, flour milling and packing, food industries, mechanical industries, chemical industry, manufacturing and maintenance of marine fishing equipment, machinery & equipment and spare parts, iron and steel industry, waste recovery industry.
- Agricultural sector: Cultivation of farm crops & fodders and operation of poultry, parent stations.
- Maritime Wealth sector: Aquaculture and fish canning.
- Tourism sector: Tourist utilities in terms of hotels, resorts, and villages, administration of tourism structures, construction of yachting, leisure utilities, tourist homes and flats.
- Public Utilities sector: Household gas network, water desalination stations, waste water purification and drainage stations, waste recycling factories.

D - Infrastructural Projects[135]

- On August 30, 2008, Libya and Italy signed a treaty that envisages investments of USD 5Bn over a 20-year period in the joint construction of planned infrastructure projects in Libya. Italy has agreed to provide financing for these infrastructure projects and will manage all funds related to them. The construction of these projects will be carried out by Italian companies. Libya, in turn, has agreed to allow tax exemptions to the Italian companies involved.

Diversified Exporters

Egypt

A - Implementation of the MED Charter: Overall Assessment and the Way Forward[136]

Egypt has made great progress in implementing an extensive enterprise policy approach at all the levels of the Charter's dimensions, except for Dimension 2 (See Box, Ch. V) related to education and training for entrepreneurship. The ties between research centres, universities, training institutions and education in general, need to be enhanced. Although Egypt has performed well in many areas ranging from microfinance to innovation and the provision of business services, the level of intervention must be stepped up in order to fulfil the various needs of the enterprise sector, including SMEs.

Egypt ranks as a top global reformer in the World Bank's "Doing Business" indices for 2010, an acknowledgement it has garnered for the fourth time in the past seven years.

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[134] See previous note.

[135] http://www.shearman.com/files/upload/MA-030309-Landmark-Treaty-Between-Libya-%20and-Italy-Takes-Effect.pdf

[136] Report on the Implementation of the Euro-Mediterranean Charter for Enterprise, 2008 Enterprise Policy Assessment by the European Commission, the OECD and the European Training Foundation, in consultation with the European Investment Bank.

B - Investment Incentives[137]

Tax breaks, reduced tariffs, the introduction of a law on intellectual property, legislation on money laundering, and a law governing competition. Simplifying investment-related procedures and establishing affiliated Investment Service Bureaus. No limit on foreign equity participation in financial services and privately owned telecommunications services. Well-diversified industrial base and low cost of production inputs (energy, labour, etc.)

There are currently 10 Public Free Zones in Egypt: Alexandria, Nasr City, Port Said, Suez, Damietta, Qeft, Shebin El Kom, Media Production City, Ismailia Public Free Zone, Port Said East Port.

The North-West Gulf of Suez has been designated as Special Economic Zone (SEZ). Investors in SEZs benefit from flexible administrative and labour regimes, and exemption from taxes and fees on all imported materials and equipment.

C - Business Opportunities[138]

Egypt is an active consumer of infrastructure projects and its related activities. As for transport services, the government is seeking to make Cairo the new hub of the Middle Eastern region and of the EU. As For what concerns hydrocarbons, Egypt recently became the world's 7th largest exporter of liquefied natural gas, and it has the capacity to export liquefied natural gas (LNG) to Jordan, Syria, Lebanon, Spain and Italy. The government's strategy aims to diversify gas consumption and increase exports. There is increasing demand for gas and electricity, and a plan is in place for the installation of an additional 13.4 GW by 2012. There are plans for the construction of an electricity transmission line between Egypt and the Congo. Foreign investments may be addressed to the construction, ownership, operation, and transfer (BOOT) of electrical power generation plants. The Health Care and Pharmaceutical sector is open to new investments. Egypt has implemented a "Family Health Model" supported by several donors (the EU, the World Bank, ADB and USAID). There are attractive investment opportunities in health care groups. Various plans for tourist resorts are being examined and support the possibility of investing in the related fields

D - Infrastructural Projects[139]

- Egyptian Power Transmission: The total cost of the project is EUR 850M, and the EIB will finance EUR 270M. This project is still under appraisal.
- Integrated Water and Wastewater Services Program (IWSP): This project is aimed at improving the health of the population in the targeted governorates. The European Investment Bank will finance this project with a EUR 70M investment.

[137] **Ministry of Investment : www.investment.gov.eg/moi-portal
- Egypt State Information Services : www.sis.gov.eg/en/pub/magazine/issue44
- Ministry of foreign Affairs : www.mfa.gov.eg/foreignpolicy/internations
- The World Bank group, doing business 2010 : www.doingbusiness.org
- The Institute of international finance, country report – Egypt 2009.
- General Authority for Investment http://www.gafinet.org/English/Pages/FreeZones.aspx#
- http://www.emporikitrade.com/uk/countries-trading-profiles/egypt/presentation

[138] See previous note.

[139] *** http://www.eib.europa.eu/projects/pipeline/2008/20080687.htm
- http://www.eib.europa.eu/projects/pipeline/2007/20070089.htm
- http://en.wikipedia.org/wiki/Cairo_Metro
- http://www.spie.eu/index.php?id=620

- Gulf of El Zayt Wind Farm: This project will contribute to meeting increasing demand for electricity, making the most of wind power. The total cost of this project is estimated at around EUR 340M, of which the EIB will finance up to EUR 50M.
- Cairo Underground: In 2007, Egypt's National Authority for Tunnels (NAT) signed a contract with France for phase 1 of the construction of line 3 of Cairo's underground system. The contract is worth a total of EUR 370M. Line 3 is expected to be fully operational by October 2019. Egypt is the first African and Arab country to have an underground system, which transports 3 million passenger daily.
- In November 2008, the EU and Egypt signed a Memorandum of Understanding (MoU) towards a strategic power partnership, as Egypt is an important energy producer.

Mauritania

A - Implementation of the MED Charter: Overall Assessment and the Way Forward

- Not included in the Charter Assessment

B- Investment Incentives[140]

- Mauritania enjoys the advantages tied to its status as Most Favoured Nation (MFN) towards all its trading partners, has no export restrictions, and very few non-tariff import barriers.
- Mauritanian exports have preferential treatment on the EU market.
- Free Custom duties are the country's main trade-policy facility.
- Mauritania holds membership in many economic clusters such as the Arab Maghreb Union (AMU), the Senegal River Development Agency, and the Permanent Inter-state Committee for Drought Control in the Sahel.
- It has trade agreements in place with Algeria, Egypt, Gambia, Morocco, Senegal, Mali, and Tunisia. It is a signatory of the Cotonou Agreement, and an observer at the Economic Partnership Agreement (EPA) negotiations between the EU and the Africa Caribbean Pacific (ACP) countries.
- Banking sector reform and modernisation began in 2007.
- New investment law has been introduced to slim-line administrative business procedures with "one-stop shops", and offers attractive tax benefits for foreign investors.
- There are currently no free trade zones in Mauritania. However, UNCTAD-supported free trade zones are under consideration.

C - Business Opportunities[141]

The government encourages foreign investments in the country. Over 90% of total investments in the Mauritanian economy are of foreign origin.

Mining industry: Mauritania's exports mostly consist of iron ore. The country has substantial mineral reserves of iron ore, copper, gypsum and gold.

[140]http://intemasolutions.blogspot.com/2008/12/mauritania-business-opportuinties.html
http://businessafrica.net/africabiz/countries/mauritania
phphttp://www.africaneconomicoutlook.org/en/countries/north-africa/mauritania
http://intemasolutions.blogspot.com/2008/12/mauritania-business-opportunities.html
[141] See previous note.

The fish industry: Fishing is a very profitable business in Mauritania and represents a large portion of the economy. The fishing domain shall be segmented in:

- Bottom fishing: There are more than 180 Mauritanian fishing boats and an additional 150 European ones fishing in Mauritanian waters. This industry is flourishing as it is an easy business, and fish is sold for a good price.
- Pelagic Fishing: There are a lot of very attractive business opportunities to grasp.
- Specialised Fishing: No over exploitation at all.

D - Infrastructural Projects[142]

Investments for EUR 27.5M have been announced for the mining sector. TheEIB and SNIM (Société Nationale Industrielle et Minière) have signed a EUR 22.5M financing agreement for the renovation of the Guelbs power station. Under the terms of this agreement, the EIB has announced it will acquire a direct EUR 5M equity participation in the Mauritanian company El Aouj S.A., a subsidiary of Australian company Sphere Investments Limited.

Morocco

A - Implementation of the MED Charter: Overall Assessment and the Way Forward[143]

Government policy framework is being satisfactorily structured and balanced. Many challenges still need to be met in terms of the resources available to enhance the government's strategy, and to provide effective support on various programs, with particular regards to maximizing skills and innovation.

According to the Charter's appraisal, the Moroccan government's priorities should be the following: to intensify efforts to promote strategies focused on public sector reform, and conduct regulatory impact studies on key new legislation and regulations in the business sector.

B - Investment Incentives[144]

- Low cost skilled labour.
- No Tax on export goods.
- Joint Ventures, Production Contracts, and Licensing Agreements with the US, the EU, and Arab countries. The government is eager to start up a number of specialised business zones across the Kingdom, to address a greater portion of foreign markets for offshore services, which are expected to be worth USD 38.74Bn over the next ten years.
- Profits after taxes may be transferred without limitation, as well as the proceeds from selloffs and the partial or full liquidation of foreign investments.
- The Moroccan Free Trade zones are the following: Tangier Exportation Free Zone, Logistical Free Zone 2007. Furthermore, Morocco intends to establish a Euro-Mediterranean Free Trade zone by 2012.

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[142] http://www.eib.europa.eu/projects/press/2004/2004-116-27,5-mio-deur-pour-le-secteur-minier-en-mauritanie.htm

[143] Report on the Implementation of the Euro-Mediterranean Charter for Enterprise, 2008 Enterprise Policy Assessment by the European Commission, the OECD and the European Training Foundation, in consultation with the European Investment Bank.

[144] http://www.animaweb.org/en/pays_maroc_en.php
http://www.emporikitrade.com/uk/countries-trading-profiles/morocco/presentation
http://www.statelyinvest.com/morocco_free_trade_zones.php

C - Business Opportunities [145]

Energy and mining: The port of Tangier Med is an increasingly attractive logistics platform. The Country is rich in phosphates, and the monopoly of the Office Chérifien des Phosphates has been lifted, opening up great investment opportunities for foreign investors to access the market.

Tourism: A development plan is in place for the creation of new apartment buildings, 5-star hotels, and a convention centre. The Country is seeking to quadruple tourist activity by the end of 2010, doubling hotel capacity, developing seaside resorts (construction of six new world-class establishments), and diversifying tourism products, implementing a new tourism development plan called "Vision 2010", to which a budget of EUR 150M has been allocated for hotel renovations.

Water: The government is adopting a national program to control water pollution and maintain water quality, by reducing the pollution rate by 60% by 2010, and 80% by 2015.

Agriculture and food industries: The State provides local or foreign investors with land under long-term leases, to carry out investment initiatives.

Textiles, clothing, and high technology industries: The Country recently signed a free trade agreement with Turkey, to support vertical integration of textiles through the purchase of textiles from Turkey, complying with the European Union's rules of origin.

D - Infrastructural Projects[146]

The Country's second national programme focuses on upgrading road infrastructure to set up rural roads, with investments of EUR 2.2Bn up to 2015.

Autoroutes du Maroc (ADM VI): This project consists of two stretches of motorway, for a total of 98Km. It aims at overcoming traffic in the cities of Temara, Rabat-Salé and linking the motorways that meet in the Rabat-Salé metropolitan area from the South, the East, and the North.

The total cost is approximately EUR 380M, and the EIB will finance EUR 190M.

Tunisia

A - Implementing the MED Charter: Overall Assessment and the Way Forward[147]

Tunisia has a very effective enterprise policy that attracts considerable government resources. It has achieved good results in complex areas such as innovation and the provision of business support services. Tunisia is better positioned than other countries in the region for human resources for its stress on possessing the required skills in the whole learning system. The Charter assessment shows that Tunisia has to improve the targeting of its policy measures. It should also introduce more powerful and effective policy evaluation mechanisms. This will also bring Tunisia closer to recognised best practices.

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[145] See previous note.

[146] http://www.eib.europa.eu/projects/pipeline/2008/20080419.htm

[147] Report on the Implementation of the Euro-Mediterranean Charter for Enterprise, 2008 Enterprise Policy Assessment by the European Commission, the OECD and the European Training Foundation, in consultation with the European Investment Bank.

B - Investment Incentives[148]

- Skilled human resources with a young, educated population, and a knowledge-based society
- Fast and increasing improvements in infrastructure
- Favourable legal framework and tax system
- Establishment of the Foreign Investment Promotion Agency (FIPA) to speed up administrative procedures
- Significant comparative advantages in the manufacturing sector, and in particular the textile and clothing industry
- Favourable environment for SMEs

C - Business Opportunities[149]

Textile sector: Production of yarn, fabrics for clothing plants, modernisation and upgrading of operating plants, development of the fashion design platform.

ICT sector: Business Process Outsourcing (BPO), IT software and services (Off-shoring).

Electronics: Printed circuits, electronic cards, connectors, coils and transformers, capacitors and resistors

Metal construction: Equipment for major projects (oil, industry, etc.), bottled gas, laser cutting of thin sheet metal.

Foundry and tooling activities: Manufacture of mechanical parts smelted under pressure, manufacture and maintenance of moulds, household items and fixtures (accessories such as pipes, radiators, faucets, etc.), industrial faucets, parts for water distribution and hydraulic circuit connectors, parts for construction/public works equipment or for industrial machines.

D - Infrastructural projects[150]

Sfax-Gabès Motorway: This will help link North Tunisia to the industrial hubs of South Tunisia (Sfax-Gabès) and facilitate access to the ports. The total cost of the project is around EUR 468M, of which the EIB will finance up to EUR 234M.

Réseau Ferroviaire Rapide: This is the project for the construction of two railway lines in the metropolitan area of Tunis. Its total cost is EUR 550M, and the EIB will finance EUR 177M.

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[148] Dun&BradstreetLtd(D&B)country report,September,2009
http://www.investintunisia.tn/site/en/article.php?id article=757
http://www.investintunisia.tn/site/en/article.php?id article=765
[149] See previous note.
[150] http://www.eib.europa.eu/projects/pipeline/2009/20090154.htm

6.1.2 Middle Eastern Countries

Israel

A - Implementing the MED Charter: Overall Assessment and the Way Forward[151]

Over the years, Israel has developed a more effective enterprise policy. The results achieved are good. In some areas, Israel's performance has been close to that of advanced countries, such as OECD member states, but there are still areas that need improvements. Such areas include: institutional framework for enterprise policy, better legislation and administrative simplification, and better management of lower and upper secondary education.

B - Investment Incentives[152]

- Israel encourages both local and foreign investment by offering a wide range of incentives and benefits to investors in industry, tourism, and real estate. Special emphasis is placed on hi-tech companies and R&D activities.
- Israel can also count on an extensive network of international trade and economic cooperation agreements with countries throughout North America, Europe, and Asia including: free trade area agreements which help eliminate or reduce tariffs and other trade barriers between participating parties, protection of investment agreements, and treaties to avoid double taxation.
- There is one free zone in Israel located in Eilat. It provides a 20-year income tax reprieve and a 15% flat tax on the investing company's distributed profits. It also allows full exemption from import and export duties and taxes, full repatriation of foreign investor profits, and lifts otherwise applicable currency controls.

C- Business Opportunities[153]

Electronics and ICT sector: Israel is active in many key areas, such as wireless technologies (Wi-Fi and Wi-Max networks), satellite systems, broadband and optical technology, Internet security (Firewalls by Check Point), microchips (Intel). Israel also distinguishes itself in medical imaging and devices, electro-optics, cellular tissues, aeronautics, and nanotechnology.

Life sciences: therapeutics, diagnosis, bio-data processing, and agro-technologies

Energy: Tap natural gas to produce electricity

Transport: Airport infrastructure

Chemical industries: biotechnology drugs, products and manure

Tourism: historical, religious and cultural heritage

The diamond industry: the Country is the world leader in polished diamonds

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[151] Report on the Implementation of the Euro-Mediterranean Charter for Enterprise, 2008 Enterprise Policy Assessment by the European Commission, the OECD and the European Training Foundation, in consultation with the European Investment Bank..

[152] http://www.animaweb.org/en/pays_israel_marketingterritorial_en.php
http://www.eib.europa.eu/projects/pipeline/2009/20090307.htm

[153] See previous note.

D - Infrastructural Projects[154]

Israel Electric Corporation (IEC) Efficiency and Reliability Program: The total cost is EUR 600M, of which the EIB will finance EUR 250M. This project is still under appraisal.

Jordan

A - Implementing the MED Charter: Overall Assessment and the Way Forward[155]

Jordan's results are good in some areas such as: public-private consultation and the provision of enterprise services. However, its progress in entrepreneurship learning and Euro-Mediterranean networking and partnerships is still slow, and needs to be supported, as shown by the assessment. Jordan also needs to complete its policy framework. The country's regulatory & legislative banking environment needs to be improved. It is also very important for Jordan to link innovation support to skill development, and to concentrate on high-priority sectors.

B - Investment incentives[156]

Jordan has been negotiating and implementing a series of international trade agreements. The Country affords strong investment incentives, besides a strong regulatory environment and supportive structures.

Moreover, there are currently two operating free zones in Jordan, in Aqaba and Zarqa. There are currently about 700 commercial trading and industrial projects based in Jordan's two free zone areas. They include storage, repackaging, mixing, and manufacturing operations. Land and buildings in the free zone areas are available for rent at concessionary prices.

There is a free zone project at the Sahab Industrial Estate, that has been designated to serve industrial investors and to encourage the establishment of export-oriented industries. Meanwhile, the free zone project at Queen Alia International Airport has been allocated for the purpose of serving transit trade and establishing light high-tech, pollution-free industries. In addition, plans are under consideration to promote private free zones in Jordan, as well as to set up a trilateral free zone including Jordan, the Palestinian Territories and Israel.

C - Business Opportunities[157]

Agriculture & food sector: Production of crops that are water efficient and establishment of large land sheep farms to make use of economies of scale instead of cottage sheep farming.

Energy and utilities sector: Wind farms to generate electricity from wind power, and projects to generate electricity from solar power, water purification plants, waste water treatment, and electricity generation plants.

Minerals & Processing: Extraction of copper, phosphate, uranium, basalt, and silicon; glass production and precious metal production processes.

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[154] http://www.eib.europa.eu/projects/pipeline/2009/20090307.htm

[155] Report on the Implementation of the Euro-Mediterranean Charter for Enterprise, 2008 Enterprise Policy Assessment by the European commission, the OECD and the European training foundation, in consultation with the European Investment Bank.

[156] www.kinghussein.gov.jo
www.jordaninvestment.com /Industry Sectors
www.jordaninvestment.com/Business and Investment
http://www.bei.org/projects/loans/2002/20020608.htm

[157] See previous note.

Pharmaceutical Sector: Research activities in natural products, development of new drug delivery systems, biotechnology R&D, diagnostic kits for laboratories and consumers, production of generic and OTC products.

D - Infrastructural Projects[158]

The EU Investment Bank has signed contracts for the financing of a number of projects in Jordan, including:

- Regional Gas pipeline, with a total cost of EUR 100M in 2004
- Amman Ring Road, with a total cost of EUR 63.1M in 2007.
- South-North water conveyor, with a total cost of EUR 165.8M in 2009.

Lebanon

A - Implementing the Charter of Enterprises: Overall Assessment and the Way Forward[159]

Excluding the dimensions of access to finance and innovation policy, with relation to which Lebanon enjoys high scores, for the other dimensions of the Chart (see Box, Ch. V) the country have obtained relatively lower scores. Work on the enterprise policy agenda set in 2005 needs to be reactivated, taking into account essential changes and integration issues to match the new political and economic contexts. The network of business development centres across the country needs to be extended, improving their structure and enhancing their role in implementing government and donor-funded programmes.

B - Investment Incentives[160]

- Its strategic geographical position makes Lebanon a regional and international hub for trade, finance, services, industry, culture, and tourism.
- Free market economy with liberal economic environment, active entrepreneurial private sector, Liberal Financial Environment and a free foreign exchange market.
- Investment guarantees given its Multilateral Investment Guarantee Agency (MIGA) membership. In addition, the National Institute for the Guarantee of Investments makes insurance coverage available to investors, providing compensation for losses resulting from non-commercial risks.
- Expanding infrastructure, with one of the best infrastructure setups in the region.
- Legal framework with no discrimination between nationals and foreigners.
- Moderate tax rates: taxation in Lebanon is among the lowest in the world.

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[158] http://www.bei.org/projects/loans/2003/20030068.htm
http://www.bei.org/projects/loans/2008/20080462.htm

[159] Report on the Implementation of the Euro-Mediterranean Charter for Enterprise, 2008 Enterprise Policy Assessment by the European Commission, the OECD and the European Training Foundation, in consultation with the European Investment Bank.

[160] http://www.animaweb.org/en/pays_liban_marketingterritorial_en.php.
http://www.kishtpc.com/Free-En/free_lebanon.htm

- Lebanon has two free zones: the Beirut port and the Tripoli port. Two new free zones are planned for North Lebanon: the Selaata Free Zone and the Qlaiaat Free Zone. All free zones offer business and financial incentives, including the possibility of 100 percent foreign ownership, customs exemptions on goods entering and leaving the free zone, long-term low-cost land and building leases, and low-cost utility rates for industries

C - Business Opportunities[161]

- Tourism: Arab tourism, health and wellness tourism, convention and business tourism, amusement parks, etc.
- ICT: Software development, basic services, back office services, call centres, etc.
- Industry: Agriculture & food, furniture, jewellery, cosmetics, clothing, paper & packaging, etc.
- Agriculture: Fruit & vegetables, organic products, dairy products, tobacco, olive oil, wine, canned fruits, honey, etc.
- Health and education: Private schools and universities, cosmetics, healthcare services, etc.
- Financial and professional services: Insurance, communication, advertising, financial services, consulting services, etc.

D - Infrastructural Projects[162]

The EU supports Lebanon in building culture and quality infrastructures in the economic sector by means of the "Qualeb" program.

EUR 18M have been addressed to reinvigoration, mostly in the form of infrastructure projects promoting local development strategies in North Lebanon.

EIB signed a EUR 70M loan to support new water treatment facilities in the Kesrwan region. On occasion of the Paris III conference on the reconstruction and development of Lebanon in 2007, the EIB also pledged to lend EUR 960m over a five-year period.

The Neighbourhood Investment Facility (NIF) supports major infrastructure projects mostly in the energy, transport, and environment sectors.

Palestinian Territories

A - Implementing the MED Charter: Overall Assessment and the Way Forward[163]

Strong performance was achieved in public–private consultation involving business associations, as opposed to weaker results in all the other Charter areas (see Box, Ch. V). Deep reform needs to be implemented by the Authority, with particular regards to taxation, the provision of services, and facilitating access to finance by private enterprises.

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[161] See previous note.
[162] www.enpi-info.eu/enpi_pdf.php?id=507&id_type=2&portal_id=1
http://www.eib.org/projects/press/2009/2009-056-eib-supports-water-and-road-infrastructure-in lebanon.htm
[163] Report on the Implementation of the Euro-Mediterranean Charter for Enterprise, 2008 Enterprise Policy Assessment by the European Commission, the OECD and the European Training Foundation, in consultation with the European Investment Bank.

B- Investment Incentives[164]

- Palestinian Territories, with its strategic location and need for widespread infrastructure development, is an untapped emerging market with enormous investment potential.
- The Palestinian economy is a market-based economy in which the private sector plays a leading role, with a framework of economic legislation to encourage and support foreign and local investment.
- Free Trade Agreements are in place with the US, EU, EFTA, Canada, Russia, Jordan, Egypt, Syria, and Saudi Arabia.
- Special Trade Agreements with Arab League Nations.
- Advantageous incentives for international and local investors.
- No restrictions on profit and capital repatriation.

C- Business Opportunities [165]

Agriculture: Chicken farming and slaughterhouses, production of plants for medical purposes, salt water fish farm, hydroponic equipment, agricultural trade warehousing, multi-pool fish farming.

ICT: WiMAX broadband telecommunications network for the West Bank, broadband telecommunications services network, IT System for Enabling Health Advancement (SEHA), Internet Data Centre (IDC), Software and ICT Service House.

Infrastructure: Industrial buildings and warehouses, commercial buildings, commercial towers, gold and silver processing factories, technician training centres.

Manufacturing: Pharmaceutical plant expansion, processing, storing, and sale of vegetable oil, solar power water heating, construction, stone and marble dry sludge treatment, production and development of security doors, waste-to-energy power plants, paper recycling plants, plastic recycling, concrete production.

Tourism: hotels, resorts, holiday villages, malls for handicrafts and other goods.

D - Infrastructural Projects [166]

In 2005, the EIB financed the upgrading of the electricity grid in Gaza, at a total cost of EUR 45M.

In 2008, the European Union committed over EUR 67M to supporting the development of infrastructure projects. The funds are part of an overall EU package pledged at the Paris donor conference in December 2007.

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[164] http://www.pipa.gov.ps/; http://www.pipa.gov.ps/p_book.pdf
[165] See previous note.
[166] http://www.eib.org/projects/loans/2005/20050462.htm

Syria

A - Implementing the MED Charter: Overall Assessment and the Way Forward[167]

Syria achieved relatively low scores in all the Charter's dimensions (see Box, Ch. V). The Government should focus on a limited number of priorities to advance in policy reforms.

B- Investment Incentives[168]

- The Syrian economy is benefiting from the process of gradual economic reform initiated two-three years ago, which is continuing as part of the current five year "National Development Plan 2006-2010". Syria has clearly taken a number of steps to improve conditions for private investment, including lifting taxation on profits, and exemption from customs. Foreign investors have the right to own the land on which their businesses are located. Also, the country has introduced a "one-stop-shop" service.
- Syria has signed bilateral free trade agreements with many Mediterranean countries, including: Algeria, Egypt, Jordan, Lebanon, Libya, Tunisia, and Turkey. Syria has eight free trade zones: the Damascus free zone, Adraa free zone, Airport free zone, Lattakia free zone, Tartous free zone, Lattakia seaport, Aleppo free zone, and Alya'rubiyeh free zone. Four new free zones are planed to be launched in Alyaroubia, Dier Alzoor, Hessia and Tartous seaport.

C - Business Opportunities[169]

Transport infrastructure: Syria is seeking to capitalise its geographic location to become a gateway for transit, by upgrading its transport infrastructure.

The Services Sector: reform is ongoing in the financial sector in particular, geared to implementing a vast modernisation program and a new legal framework for privatisation. As regards information technologies, the country's telecom and internet grids will be extended and new operators, in particular web-based, are expected to propose new services and contents.

Tourism: Plans are in place to make tourism a pillar of the national economy.

Agriculture and manufacturing: Food processing industries, dynamic small and medium industries, most notably in the textile sector, pharmaceutical subcontracting firms, and mechanical assembly firms.

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[167] Report on the Implementation of the Euro-Mediterranean Charter for Enterprise, 2008 Enterprise Policy Assessment by the European Commission, the OECD and the European Training Foundation, in consultation with the European Investment Bank.

[168] http://www.animaweb.org/en/pays_syria-eng.php

http://www.medibtikar.eu/Business_and_investment,138_html

http://www.emorikitrade.com/uk/countries-trading-profits/syria/presentation

www.freezones.com.sy/english

Bureau of International Narcotics & law Enforcement Affairs 2009, International Narcotics Control Strategy Report (INCSR) February 27, 2009.

[169] See previous note.

D - Infrastructural Projects[170]

- The highway network will be doubled over the next five years, and modernisation and extension work will be carried out in the ports of Lattakia and Tartous, in addition the country's five airports (Qamishli, Lattakia, Deir-ez-Zor, Aleppo, and Homs). Syria intends to capitalise on its geographic location and to become a gateway for transit between the Mediterranean and Iraq, and between Turkey and the Gulf countries. The Ministry of Transport hopes to attract foreign investors by offering concession contracts in the form of BOT.

- Syria Municipal and Environmental Infrastructure: The total cost of this project is EUR 100million, of which the EIB will finance EUR 50M.

6.2 Investment Incentives and Business Opportunities by Sector

6.2. Investment Incentives

Mediterranean partner countries represent an interesting opportunity for European businesses, both in terms of growth potential and of competitive production costs. The countries are implementing the "Invest in MED[171]" program, launched in 2008 and supported by IEVP[172], with a duration of three years. The Program is aimed at encouraging investments locally and internationally by improving the business climate, fuelling trade and investment flows, facilitating enterprise development, and bringing their policies closer to those of the EU, so that their economies may evolve towards greater openness to private enterprise. On the other hand, most countries have implemented financial sector reforms and adapted the legislative framework to support innovation and technology transfer, facilitate access to venture capital and develop skills.

Most of the Mediterranean partner countries share the offer of investment incentives, which may be summarised as follows:

- Free trade agreements lifting or reducing tariffs and other trade barriers between the participating parties.

- Joint ventures, production contracts, and licensing agreements with the EU (and the US) by most of the countries.

- Ratification of international conventions and bilateral agreements, on investment protection in particular.

- Wealth of cheap labour.

- Easy access to the domestic markets.

- Market-oriented reforms, well-implemented in Tunisia's case since the start of its structural adjustment program in 1989, with the country now considered as one of the best performing economies in the region; and in Egypt, where structural adjustment plans have been undertaken since 1991, ranked top global reformer by the World Bank four times in the past seven years. In Morocco, an ambitious program is being developed with the hope of achieving the desired goals, while in Lebanon reforms have been hindered by the armed conflicts involving the country.

[170] http://www.eib.europa.eu/projects/pipeline/2008/20080246.htm

[171] Euro-Mediterranean industrial cooperation 2009-2010 work programme

[172] Instrument européen de voisinage et de partenariat

- Skilled labour, as the literacy rate is 90% in Jordan, Tunisia offers high-quality labour, and many Jordanian workers have studied and been trained in the UK.
- Developing markets with increasingly strong demand, given the expected growth rates of population of the Mediterranean countries.
- Increasingly numerous infrastructural development projects in most Mediterranean countries, with the assistance of the EU based on the priority areas identified by the Union for Mediterranean.
- Legal framework in several countries which avoids discrimination between nationals and foreigners, so that foreigners' rights are protected.
- Slim-lining of administrative procedures for establishing companies in several countries. Establishment of the Investment Development Authority in Lebanon (IDAL), and the Ministry of Investment in Egypt acting as a one-stop-shop service for investors.
- Creation of free zones which support economic growth by establishing export-oriented products, to the advantage of foreign currency revenue and employment. Egypt has ten free zones, Algeria has five, Morocco, Tunisia, Lebanon and Jordan have two, Syria has eight, Israel and Libya one.

In the first three quarters of 2008, South Mediterranean countries and Turkey, attracted approximately 600 investment projects, worth an estimated gross total of almost EUR 26Bn. Projected in full-year terms, these figures (800 projects, EUR 35Bn or USD 52.5Bn) are rather close to the volumes observed in 2006 and 2007 (USD 59Bn and USD 55Bn respectively, according to UNCTAD).

6.2.2 Business Opportunities[173]

The Mediterranean is viewed by international companies as an attractive place to invest money. The "Invest in MED" program highlighted the business opportunities in 15 priority sectors in MED countries, as follows:

Agriculture / Agribusiness

Activities involved: agriculture & food, cereals, food crops, food processing, horticulture, intelligent equipment (micro-irrigation, etc), composting, packaging.

Niche markets: promotion of Mediterranean products (oils, fruits, etc), catering (air transport, canteens, tourism etc), organic agriculture and by-products, horticulture, vine growing, medicinal plants, dairy production.

This sector is in great need of modernisation. Syria is one of the Mediterranean countries which is self sufficient in terms of food supplies.

Textiles and Clothing

The European technological platform for the future of the textile and clothing industry is working to determine future innovation and research strategies for the industry, in order to improve competition standards in this traditional, well-rooted industry in MED countries.

Activities involved: yarn, fabrics, leather, clothing, fashion.

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[173] Business Opportunities in the Mediterranean, ANIMA Investment Network, www.invest-in-med.eu

Niche markets: sportswear, footwear, technical textiles, organic fibres (cotton), fast fashion (orders facilitated by efficient logistics), industrial textiles, haute couture (subcontracting or new brands).

Most prominent countries in this sector: Egypt, Israel and Syria. Of the 300 largest textile companies in the world, two are based in Egypt, two in Israel, and one in Syria.

Water and Utilities

Activities involved: production/distribution of drinkable water, collection and treatment of sewage, collection and treatment of waste, urban transport.

Niche markets: new resources and demand management in the water sector (less consuming processes, recycling). Desalination plants (design, maintenance), water distribution, sewage treatment, waste treatment, urban transport.

Mechanical Industries, Electronics, Automotive Industry

Activities involved: aeronautics, machinery, vehicles and automotive equipment, railways, tramways, tractors, electronics.

Niche markets: automotive components (wiring, transmissions, braking systems), low-cost cars, commercial or collective transport vehicles, revival of railway or tramway projects, aeronautical sub-contracting.

Most prominent countries in this sector: Morocco and Tunisia.

ICT-information and Communication Technologies

Activities involved: telecommunications networks and services, remote services, software, outsourcing of administrative functions, media.

Niche markets: computer sciences (software development, videogames, freeware, remote maintenance), business process outsourcing (remote translation, e-learning, call centres, shared service centres), production of contents (databases, web sites), other applications (online banking and shopping, electronic money).

Most prominent countries in this sector: Israel, Morocco, and Egypt.

Heavy and Energy-consuming Industries

Activities involved: metalworks, petrochemical industry, fertilisers, plastics, cement, glass, ceramics, and especially their by-products.

Niche markets: efficient construction materials (thermal insulation), aluminium by-products, specialty chemicals industry, alloys, stone and marble by-products.

Countries to which these resources are available: Algeria, Libya, Egypt, and to a lesser degree Tunisia and Syria.

Energy Efficiency and Renewable Energy

Activities involved: transport, manufactured goods, construction, industrial processes and equipments, wind, solar power.

Niche markets: manufacturing of equipment, installations, maintenance, consultancy and engineering in energy efficiency and renewable energies (wind power, solar power: passive, water heating, photovoltaic).

Infrastructure, Transport, Logistics

Activities involved: infrastructures and services for road, sea, rail and air transportation, logistics, express freighting.

Niche markets: assistance to contracting authorities, engineering and construction contracts, PPPs, concessions (container terminals, airports, roads, public transport). Express delivery.

The countries that can count on quality infrastructures are Israel, Tunisia, Morocco, and Egypt (marine infrastructures).

Health Care and Drugs

Activities involved: para-pharmaceuticals, generic drugs, biotechnologies, packaging, medical imaging, biological analysis laboratories, R&D, clinical trials.

Niche markets: basic inputs for the pharmaceutical and cosmetics industries (vegetable extracts, homeopathy, phytotherapy, perfumes, etc). Creation of private clinics, care centres, etc. Generic drugs, biotechnologies, pharmaceutical packaging. Research and clinical tests. Interpretation of imagery and medical analysis laboratories (inshore and offshore).

Countries with high demand for health care are Algeria, Morocco, and Egypt. In the pharmaceutical sector Tunisia, which is the world's fifth largest producer of phosphates, Morocco, and Israel, which is a leader in biotechnologies.

Social housing, Urban Regeneration

Activities involved: major construction projects (new towns, new neighbourhoods), urban regeneration programmes, renovation of ageing buildings.

Niche markets: technical assistance to contracting authorities (including new eco-efficient building standards), thermal insulation of old buildings, social housing construction programme entrusted to private promoters.

Services to Businesses and Industrial Sub-contracting

Activities involved: outsourcing of services for the industry, engineering (process optimisation, design, etc), consulting, legal advice.

Niche markets: consulting and auditing services, security, recruiting, leasing/fleet management, industrial cleaning, print shops, interim management, facility management.

Vocational Training

Niche markets: e-learning, "corporate" seminars/academies, creation of private institutions, coaching of company leaders, technological middle management, training of trainers.

Bank, Finance, Insurance

Niche Markets: financing of enterprises, and SMEs in particular, private equity, personal/consumer credit (middle class, loans to purchase automobiles, real estate, etc). Other financial products (guarantees, factoring, leasing, etc) and insurance products (except for car insurance, more developed).

Supermarket Distribution

Niche markets: One-stop shops, hypermarkets in urban fringe areas, hard discount stores.

Value-added Tourism

Niche markets: eco-tourism, countryside lodgings, B&B, excursion tourism.

Value-added tourism: medicalised stays, thalassotherapy, congresses, workshops, professional training, incentives, weddings, cruises. Historical and religious tourism. Tourist agencies and e-services.

Countries of especially high interest for the travel & leisure sector are Egypt, Jordan, Morocco, Lebanon, and Israel.

6.3 Multilateral Cooperation Projects

The economic development of the Mediterranean area depends, to a large degree, on expanding and strengthening infrastructure and transport services between the Mediterranean partner countries themselves and the neighbouring European Union. Such development will be crucial in attracting European investors, and in establishing and ultimately smoothly operating the free-trade area in the region.

The Moroccan Ministry of Transport and Equipment has pointed out that considerable funds are needed to implement road construction projects in Med countries, and has warned against the infrastructure gap in the region, that will persist unless larger financial resources and innovative solutions are made available. Therefore, the EU aims to promote cooperation with the countries of the southern Mediterranean in order to improve transport infrastructure, and to make the public and private players concerned aware of EU initiatives.

Since October 2002, the operations of the European Investment Bank (EIB) in Mediterranean partner countries have been grouped under the umbrella of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). The areas of infrastructure addressed by the EU's financial program include: transport, water & sanitation networks, energy, and information & communication technologies (ICT).

6.3.1 Euro-Med Cooperation Infrastructure Projects

The EU's cooperation with the Mediterranean countries started with the Euro-Med Partnership, aimed at promoting cooperation and economic integration among partners, and at establishing a framework for relations. The partnership was born in 1995 with the Barcelona declaration, which established a framework covering issues such as politics, security, economic and financial partnership, social, cultural, and human partnership.

The Union for the Mediterranean[174] defined six priority areas/fields for cooperation, i.e. De-pollution of the Mediterranean, Maritime and Land Highways, Civil Protection, Alternative Energies: Mediterranean Solar Plan, Higher Education and Research, Euro-Mediterranean University, The Mediterranean Business Development Initiative.

These priority areas mostly address the infrastructure sector, through the cooperation program launched by the European Neighbourhood Policy. The EU is funding 25 projects which back

[174] Formerly known as the Barcelona Process, changed to "Union for the Mediterranean" at the Paris summit for the Mediterranean in July 2008. See on this point Chapter V.

these priority areas and reduce the infrastructure gap between the Mediterranean countries and European standards.

These projects are funded by the European Neighbourhood and Partnership Instrument (ENPI). ENPI has allocated total funds of almost EUR 12Bn for the 2007-2013 period. Around 90% of ENPI funds will be used for bilateral actions, while the remaining 10% will be allocated to cross-border cooperation (regional actions).

Many other projects have also been laid out and financed by the European Investment Bank (EIB) to enhance infrastructure in the Mediterranean region, via bilateral and multilateral cooperation agreements. Some of the projects most recently appraised by the European Investment Bank (EIB) in 2008-2009, presented by Mediterranean countries, are described below.

6.3.2 Multilateral co-operation Projects[175]

In the Energy sector, at the Union for the Mediterranean Summit in July 2008, the partners committed to developing a Mediterranean Solar Plan. They advanced implementation of the 2008-2013 priority action plan, laid out in 2007 by the Euro-Mediterranean energy ministers. In 2008, the European Commission, Israel, and the Palestinian Authority, resumed trilateral energy dialogue on the Israeli-Palestinian "Solar for Peace" initiative and the establishment of a joint energy office.

In April 2008, the Mediterranean partners participated in an EU-Mashreq Ministerial meeting which promoted energy cooperation in the Mashreq and completion of the Arab Gas Pipeline beyond Syria. Egypt, Jordan, Lebanon, and Syria (with Turkey and Iraq as observers), supported by the European Commission, continued work towards the creation of a Euro-Mashreq natural gas market. In 2008, European Neighbourhood Policy (ENP) partners adopted new energy strategies (Morocco and the Palestinian Authority) or worked towards preparing a new one (Egypt).

ENP partners completed an EC-funded study for a Trans-Caspian/Black Sea energy corridor. Parties to the Arab gas pipeline confirmed they would work towards connecting the pipeline to the Union. The pipeline now reaches Syria. The gas pipeline between Egypt and Israel was completed, and gas exports to Israel have started. Italy and Tunisia made advancements on expanding a gas pipeline between them. Tunisia developed plans for an additional gas interconnection with Algeria and a new one with Libya. Algeria started construction of a new gas interconnection with Spain (Medgaz) and continued preparations for a link with Italy.

In the electricity segment, in October 2008 the Palestinian Authority joined the Arab electricity interconnection project alongside Egypt, Jordan, Lebanon, Libya, Syria, Iraq, and Turkey. The Jordan-Jericho (West Bank) electricity interconnection has been completed. Morocco and Spain have decided to construct a third link between the countries.

ENP partners somewhat improved energy efficiency and started the process of promoting the use of clean energy, notably renewable energy. The Cairo-based Regional Centre for Renewable Energy and Energy Efficiency for the Middle East and North Africa was established with support from the EC, Denmark, and Germany. Wind power is being developed, mostly in Egypt and Morocco. Tunisia adopted a strategy to enhance energy efficiency.

[175] Commission of the European Communities, Brussels, 23/04/2009, sec (2009) 522/2, Commission Staff Working Document.

As regards Nuclear Power Plants (NPP), Egypt and Jordan confirmed plans for the construction of nuclear power plants.

Egypt and Tunisia benefited from the allocation of Neighbourhood Investment Facility funds (under the European Neighbourhood and Partnership Instrument) in the area of electricity infrastructure and electricity production from renewable energy sources.

Regarding telecommunication systems, the second phase of the "New Approaches to Telecommunications Policy" (NATP2) project was completed in June 2008, and the follow-up project NATP3 is under preparation. In July 2008, the Euromed group of electronic communications regulators (EMERG) was established in Malta, and started to organise workshops for the Mediterranean regulatory authorities.

In the transport sector, negotiations on more comprehensive Euro-Mediterranean aviation agreements were launched in 2008 between Israel, Jordan and Lebanon. The drawing-up and implementation of road safety action plans remains a main focus of transport policy, in particular in Egypt, Israel, Morocco and Tunisia. In some countries, the implementation of comprehensive railway restructuring plans has started (Egypt) or is reaching completion (Tunisia).

6.3.3 Major Financing Sources

Based on the European Neighbourhood Policy (ENP) and the cooperation between the Euro-Med countries in the infrastructure area, and the huge amount of financing needed to carry out these projects, the EU has established many institutions and financial agencies to help in the funding of these cooperation projects, and to support relations with the EU's European Neighbourhood Partners. Some of the most important agencies are described below.

Facility for Euro-Mediterranean Investment and Partnership

The European Investment Bank (EIB) launched the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), under which the whole range of services provided by the EIB to assist the economic development of the Mediterranean partner countries is brought together. This is considered an important step in the development of a financial partnership between the EU and Med countries, and EUR 8.5Bn billion were invested between October 2002, when operations began, and December 2008. FEMIP is helping to achieve the objectives laid down by the Union for Mediterranean (UFM) as the priority areas are perfectly in line with FEMIP's major objectives and goals. FEMIP has committed to contribute to three of the UFM's six priority areas, i.e.[176] De-pollution of the Mediterranean, Maritime and Land Highways, Alternative Energies: Mediterranean Solar Plan.

European Neighbourhood and Partnership Instrument

The European Neighbourhood and Partnership Instrument is the main financial mechanism through which assistance is provided to support European Neighbourhood partner countries. ENPI decided in 2007 to breakdown the funds over a four-year period starting in 2007, to cover country, regional, and cross-border programs. In the 2007-2013 period, ENPI's financing of loans through the European Investment Bank will add up to a total of EUR 12.4Bn.

Infra-Med Infrastructure Fund

This is an infrastructure investment fund that was launched in 2009, which sets forth a new model of cooperation between the EU and the Mediterranean partner countries. The fund is led

[176] Weekly.ahram.org.eg/2009/946/ec2.htm

by Egypt's EFG-Hermes, Caisse des Dépôts (CDC) of France, Cassa depositi e prestiti (Cdp) of Italy, Caisse de Dépôt et de Gestion (CDG) of Morocco, and the European investment bank.

It provides a source of equity financing for infrastructure projects across the Mediterranean region. It primarily invests in sustainable urban, transport, and energy infrastructures. To date, EUR 400M out of one billion euros have been committed by Infra-Med Fund sponsors[177].

[177] www.bei.org/projects

Appendix

Tables of economic data of non EU Countries of the Union for the Mediterranean [178]

Albania

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	3.1	3.1	3.1	3.1	3.2
GDP per head (USD at PPP)	5402	5870	6400	6930	7180
GDP (% real change pa)	5.8	5.5	6.3	6.5	2.5
Consumer prices (% change pa; av)	2.4	2.4	2.9	3.4	2.1
Unit labour costs USD (% change pa)	n.a.	n.a.	n.a.	n.a.	n.a.
Recorded unemployment (%)	14.2	13.9	13.2	12.5	12.0
Budget balance (% of GDP)	-3.6	-3.2	-3.7	-5.3	-6.4
Public debt (% of GDP)	56.7	55.8	53.4	53.6	55.4
Money market interest rate (%)	5.5	5.5	5.9	6.2	6.2
Exchange rate local currency:USD (av)	99.9	98.1	90.4	83.9	93.9
Real effective exchange rate (CPI-based)	n.a.	n.a.	n.a.	n.a.	n.a.

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	-0.6	-0.7	-1.2	1.9	-1.2
Current account balance/GDP (%)	-6.8	-7.3	-11.2	14.9	-9.8
Total external debt/GDP (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Debt-service ratio, paid (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Short term external debt/Total external debt (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Short term external debt/Foreign reserves	n.a.	n.a.	n.a.	n.a.	n.a.
Import cover (months)	4.5	4.8	4.4	3.9	3.6

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	0.6	0.8	1.0	1.2	n.a.
Import (USD Bn)*	2.6	3.0	4.1	4.6	n.a.
International trade openness**	68.6	74.3	82.1	77.6	74.0
FDI flows (USD Bn)	0.264	0.324	0.658	0.956	n.a.
FDI stock/GDP	11.3	14.5	19.2	20.3	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	15.18	22.07	29.75	33.55	n.a.
Deposits/GDP (%)	52.1	57.0	62.0	54.4	n.a.
CRPS (yoy, %)	74.0	57.5	48.4	32.2	17.9*
Deposits (yoy, %)	16.3	18.5	19.8	2.8	7.5*
Market Capitalization/GDP (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Country financial openness index**	n.a.	n.a.	n.a.	n.a.	n.a.

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread and Rating	
Spreads*	n.a.
Fitch	n.a.
Standard&Poor's	n.a.
Moody's	Baa1

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

[178] Libya, not part of the UfM but enjoying the Observer Status within the Euro-mediterranean Partnership, is also included. Due to lack of data Montenegro and Palestinian Territories are not reported.

Algeria

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	32.9	33.5	34.2	34.7	35.3
GDP per head (USD at PPP)	7061	7280	7560	7830	8000
GDP (% real change pa)	5.1	1.8	3.1	2.8	2.6
Consumer prices (% change pa; av)	1.6	2.5	3.5	4.4	5.1
Unit labour costs USD (% change pa)	9.7	17.1	21.2	26.5	2.9
Recorded unemployment (%)	15.4	12.3	11.8	11.3	11.1
Budget balance (% of GDP)	13.6	13.9	6.2	3.4	-7.9
Public debt (% of GDP)	13.7	21.7	11.9	13.5	20.0
Money market interest rate (%)	1.6	2.1	3.2	3.3	3.7
Exchange rate local currency:USD (av)	73.3	72.6	69.3	64.6	72.6
Real effective exchange rate (CPI-based)	77.0	77.1	76.2	78.7	79.0

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	21.2	29.0	30.5	34.5	-3.0
Current account balance/GDP (%)	20.5	24.7	22.7	19.7	-1.8
Total external debt/GDP (%)	16.3	4.9	4.1	2.5	2.7
Debt-service ratio, paid (%)	11.4	21.9	2.1	2.3	2.4
Short term external debt/Total external debt (%)	3.1	9.5	12.9	19.8	38.4
Short term external debt/Foreign reserves	0.0	0.0	0.0	0.0	0.0
Import cover (months)	27.6	36.9	39.9	35.1	38.3

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank.

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	46.0	54.5	59.1	79.3	52.9
Import (USD Bn)*	19.8	21.4	27.3	39.3	39.7
International trade openness**	71.3	70.6	72.3	76.1	67.8
FDI flows (USD Bn)	1.081	1.795	1.662	2.646	1.700
FDI stock/GDP	8.2	8.8	8.9	9.1	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	11.8	12.1	13.0	12.5	n.a.
Deposits/GDP (%)	37.8	40.9	46.4	43.8	n.a.
CRPS (yoy, %)	32.8	14.9	17.3	16.9	17.5*
Deposits (yoy, %)	9.6	21.9	24.1	14.3	-2.1*
Market Capitalization/GDP (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Country financial openness index**	8.8	9.3	9.6	8.6	10.4

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads*	n.a.
Fitch	n.a.
Standard&Poor's	n.a.
Moody's	n.a.

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor’s

Bosnia Herzegovina

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	3.8	3.8	3.8	3.8	3.8
GDP per head (USD at PPP)	6610	7300	8020	8650	8490
GDP (% real change pa)	3.9	6.9	6.8	5.4	-3.2
Consumer prices (% change pa; av)	3.7	7.5	1.6	7.3	0.2
Unit labour costs USD (% change pa)	n.a.	n.a.	n.a.	n.a.	n.a.
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Budget balance (% of GDP)	0.8	2.2	-0.1	-4.0	-5.2
Public debt (% of GDP)	27.5	23.4	34.0	40.0	43.0
Money market interest rate (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Exchange rate local currency:USD (av)	1.6	1.6	1.4	1.3	1.4
Real effective exchange rate (CPI-based)	113.9	118.0	115.7	119.5	120.0

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	-1.8	-1.0	-1.6	-2.8	-1.5
Current account balance/GDP (%)	-17.1	-8.0	-10.5	-14.9	-8.6
Total external debt/GDP (%)	49.2	46.2	42.5	39.8	48.7
Debt-service ratio, paid (%)	3.8	8.0	7.6	4.1	6.2
Short term external debt/Total external debt (%)	15.8	20.2	26.1	21.7	18.3
Short term external debt/Foreign reserves	n.a.	n.a.	n.a.	n.a.	n.a.
Import cover (months)	3.8	5.0	5.1	3.3	4.4

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	2.2	2.8	3.2	3.6	3.0
Import (USD Bn)*	5.8	6.1	7.7	9.7	7.8
International trade openness**	n.a.	n.a.	n.a.	n.a.	n.a.
FDI flows (USD Bn)	0.613	0.718	2.115	1.009	0.500
FDI stock/GDP	43.1	41.9	45.8	42.1	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	44.3	48.3	56.4	54.7	n.a.
Deposits/GDP (%)	36.9	41.5	46.8	39.2	n.a.
CRPS (yoy, %)	27.4	23.3	27.9	20.8	4.1*
Deposits (yoy, %)	23.6	27.0	23.6	4.5	-3.1*
Market Capitalization/GDP (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Country financial openness index**	n.a.	n.a.	n.a.	n.a.	n.a.

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads *	n.a.
Fitch	n.a.
Standard&Poor's	n.a.
Moody's	n.a.

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor'

Croatia

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	4.5	4.5	4.5	4.5	4.5
GDP per head (USD at PPP)	14942	16164	17540	18350	17610
GDP (% real change pa)	4.2	4.7	5.5	2.4	-5.7
Consumer prices (% change pa; av)	3.3	3.2	2.9	6.1	2.4
Unit labour costs USD (% change pa)	3.1	4.2	13.1	17.1	0.8
Recorded unemployment (%)	18.0	16.9	15.1	13.5	15.2
Budget balance (% of GDP)	-4.1	-3.0	-2.6	-2.1	-3.8
Public debt (% of GDP)	43.4	45.4	49.7	42.7	46.1
Money market interest rate (%)	3.1	2.1	4.3	6.0	7.0
Exchange rate local currency:USD (av)	5.9	5.8	5.3	4.9	5.3
Real effective exchange rate (CPI-based)	108.8	111.1	114.0	119.0	118.7

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	-2.6	-3.3	-4.4	-6.4	-3.7
Current account balance/GDP (%)	-5.7	-7.5	-8.4	-9.2	-5.9
Total external debt/GDP (%)	68.4	87.1	91.9	78.8	89.6
Debt-service ratio, paid (%)	25.8	33.0	36.4	28.9	33.5
Short term external debt/Total external debt (%)	14.1	14.5	10.5	11.6	10.1
Short term external debt/Foreign reserves	0.5	0.5	0.4	0.5	0.4
Import cover (months)	4.9	5.6	5.6	4.4	6.9

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	8.7	10.3	12.6	14.2	10.2
Import (USD Bn)*	18.4	21.4	25.8	30.7	21.1
International trade openness**	90.9	104.5	103.6	92.2	79.6
FDI flows (USD Bn)	1.788	3.457	4.982	4.383	2.000
FDI stock/GDP	37.7	63.3	76.9	44.9	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	53.0	60.1	63.1	64.9	n.a.
Deposits/GDP (%)	54.3	59.0	63.9	61.2	n.a.
CRPS (yoy, %)	16.9	22.9	15.1	12.1	5.6*
Deposits (yoy, %)	10.5	17.8	18.9	83.0	1.3*
Market Capitalization/GDP (%)	n.a.	83.0	125.4	51.7	51.8
Country financial openness index**	38.9	48.1	49.9	44.4	52.8

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads *	228
Fitch	BBB-
Standard&Poor's	BBB
Moody's	Baa3

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

Egypt

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	77.2	78.6	80.1	81.5	83.1
GDP per head (USD at PPP)	4321	4679	5060	5440	5660
GDP (% real change pa)	4.5	6.8	7.1	7.2	4.7
Consumer prices (% change pa; av)	4.9	7.6	9.5	18.3	11.8
Unit labour costs USD (% change pa)	12.0	6.4	10.1	14.7	13.7
Recorded unemployment (%)	11.2	10.6	8.9	8.7	9.6
Budget balance (% of GDP)	-9.6	-8.2	-7.5	-6.9	-6.9
Public debt (% of GDP)	130.4	113.7	101.2	86.4	79.0
Money market interest rate (%)	8.6	9.5	6.9	11.4	8.5
Exchange rate local currency:USD (av)	5.8	5.7	5.6	5.4	5.5
Real effective exchange rate (CPI-based)	68.9	72.5	74.6	84.8	96.5

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	2.2	2.7	0.5	-1.3	-3.5
Current account balance/GDP (%)	2.2	2.3	0.3	-0.8	-1.7
Total external debt/GDP (%)	29.3	24.2	21.1	16.9	13.7
Debt-service ratio, paid (%)	6.3	5.0	4.4	6.8	5.5
Short term external debt/Total external debt (%)	6.3	5.7	4.8	5.3	4.9
Short term external debt/Foreign reserves	0.1	0.1	0.0	0.0	0.0
Import cover (months)	7.5	7.6	7.0	6.0	7.8

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	15.6	21.8	25.4	32.0	24.6
Import (USD Bn)*	33.4	39.8	50.8	64.6	50.6
International trade openness**	63.0	61.5	66.4	91.5	70.4
FDI flows (USD Bn)	5.376	10.043	11.578	9.495	7.800
FDI stock/GDP	28.5	35.4	37.8	37.0	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	51.2	49.3	46.4	44.4	n.a.
Deposits/GDP (%)	84.3	83.9	84.7	78.5	n.a.
CRPS (yoy, %)	5.1	10.5	11.3	13.1	5.9*
Deposits (yoy, %)	10.8	14.2	19.6	9.3	7.7*
Market Capitalization/GDP (%)	85	87	107	54	48
Country financial openness index**	35.4	44.2	46.9	45.5	42.4

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads*	250
Fitch	BB+
Standard&Poor's	BB+
Moody's	Ba1

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

Jordan

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	5.6	5.8	5.9	6.1	6.3
GDP per head (USD at PPP)	4228	4570	4850	5060	5110
GDP (% real change pa)	8.1	8.0	6.6	5.6	3.1
Consumer prices (% change pa; av)	3.5	6.3	5.4	14.9	0.1
Unit labour costs USD (% change pa)	n.a.	n.a.	n.a.	n.a.	n.a.
Recorded unemployment (%)	14.8	13.2	13.1	12.7	13.5
Budget balance (% of GDP)	-10.9	-6.9	-8.2	-9.9	-11.4
Public debt (% of GDP)	81.7	68.7	69.4	62.2	69.8
Money market interest rate (%)	6.2	6.7	5.8	5.0	3.2
Exchange rate local currency:USD (av)	0.7	0.7	0.7	0.7	0.7
Real effective exchange rate (CPI-based)	86.9	86.1	81.2	86.1	88.4

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	-2.2	-1.6	-2.9	-2.4	-1.3
Current account balance/GDP (%)	-17.4	-10.6	-17.7	-11.7	-6.2
Total external debt/GDP (%)	60.9	53.9	50.6	33.8	32.9
Debt-service ratio, paid (%)	6.4	5.9	5.6	14.6	4.6
Short term external debt/Total external debt (%)	7.6	8.7	11.5	17.5	15.2
Short term external debt/Foreign reserves	0.1	0.1	0.1	0.1	0.1
Import cover (months)	5.5	6.3	6.1	5.6	8.8

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	4.3	5.2	5.5	8.0	7.1
Import (USD Bn)*	10.5	11.5	13.5	17.0	13.9
International trade openness**	145.9	144.7	147.9	148.6	141.1
FDI flows (USD Bn)	1.774	3.268	1.950	1.954	1.305
FDI stock/GDP	104.1	114.0	102.1	89.9	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	87.9	94.2	92.0	83.6	n.a.
Deposits/GDP (%)	116.2	114.8	110.2	100.4	n.a.
CRPS (yoy, %)	30.2	24.7	13.5	13.5	0.3*
Deposits (yoy, %)	20.0	14.9	11.5	13.7	10.3*
Market Capitalization/GDP (%)	298	200	249	179	154
Country financial openness index**	n.a.	n.a.	n.a.	n.a.	n.a.

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, central bank, domestic stock exchange

Spread e Rating	
Spreads (*)	n.a.
Fitch	n.a.
Standard&Poor's	BB
Moody's	Ba2

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

Israel

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	6.9	7.1	7.2	7.3	7.4
GDP per head (USD at PPP)	23390	24983	26570	27730	27800
GDP (% real change pa)	5.1	5.3	5.2	4.0	0.6
Consumer prices (% change pa; av)	1.4	2.1	0.5	4.6	3.3
Unit labour costs USD (% change pa)	1.8	2.1	9.8	18.4	-9.2
Recorded unemployment (%)	9.0	8.4	7.3	6.1	7.9
Budget balance (% of GDP)	-1.8	-0.9	0.0	-2.1	-4.6
Public debt (% of GDP)	93.5	84.4	78.1	76.8	80.4
Money market interest rate (%)	3.4	5.1	5.2	2.8	1.8
Exchange rate local currency:USD (av)	4.5	4.5	4.1	3.6	3.9
Real effective exchange rate (CPI-based)	76.1	76.1	77.5	86.9	85.4

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	4.2	7.4	4.6	2.2	4.6
Current account balance/GDP (%)	3.1	5.1	2.8	1.1	2.4
Total external debt/GDP (%)	57.8	59.3	53.4	42.6	43.0
Debt-service ratio, paid (%)	12.3	11.7	12.5	12.8	12.5
Short term external debt/Total external debt (%)	10.0	10.4	12.1	10.6	7.3
Short term external debt/Foreign reserves	0.3	0.3	0.4	0.2	0.1
Import cover (months)	5.8	5.7	4.7	6.1	11.8

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	42.5	46.5	54.1	61.4	47.6
Import (USD Bn)*	44.9	47.8	56.6	65.2	48.0
International trade openness**	85.5	85.1	86.7	81.5	67.3
FDI flows (USD Bn)	4.272	14.763	9.020	9.639	5.750
FDI stock/GDP	24.7	26.1	34.1	28.9	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	89.7	86.3	88.5	90.1	n.a.
Deposits/GDP (%)	88.7	86.4	88.3	91.0	n.a.
CRPS (yoy, %)	11.9	3.8	8.3	7.6	6.9*
Deposits (yoy, %)	10.1	5.0	7.9	9.0	8.2*
Market Capitalization/GDP (%)	91	111	141	67	97
Country financial openness index**	43.7	60.3	62.4	55.2	59.6

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, central bank, domestic stock exchange

Spread e Rating	
Spreads*	125
Fitch*	A
Standard&Poor's*	A
Moody's*	A1

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

Lebanon

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	4.1	4.1	4.2	4.2	4.2
GDP per head (USD at PPP)	9470	9720	10670	11690	12290
GDP (% real change pa)	2.8	0.6	7.5	8.0	5.1
Consumer prices (% change pa; av)	-1.2	2.4	5.7	10.0	1.2
Unit labour costs USD (% change pa)	n.a.	n.a.	n.a.	n.a.	n.a.
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Budget balance (% of GDP)	-8.6	-13.5	-10.2	-10.0	-10.8
Public debt (% of GDP)	177.2	179.9	167.8	161.0	160.8
Money market interest rate (%)	5.2	5.2	5.2	5.2	5.2
Exchange rate local currency:USD (av)	1507.5	1507.5	1507.5	1507.5	1507.5
Real effective exchange rate (CPI-based)	96.3	94.5	92.7	94.1	97.5

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	-2.7	-1.3	-1.3	-3.1	-3.1
Current account balance/GDP (%)	-12.7	-5.6	-5.3	-10.5	-9.9
Total external debt/GDP (%)	133.5	137.4	127.1	115.7	116.0
Debt-service ratio, paid (%)	13.3	14.2	16.8	17.0	19.3
Short term external debt/Total external debt (%)	11.9	13.6	13.3	17.1	15.5
Short term external debt/Foreign reserves	0.3	0.3	0.3	0.3	0.2
Import cover (months)	11.6	12.7	11.3	11.4	15.1

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	2.2	2.5	3.2	3.9	3.6
Import (USD Bn)*	9.6	10.9	13.0	17.2	17.7
International trade openness**	63.8	63.4	70.2	79.7	74.5
FDI flows (USD Bn)	2.624	2.675	2.731	3.606	2.215
FDI stock/GDP	71.1	82.9	83.5	83.5	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	66.6	68.3	70.9	72.1	n.a.
Deposits/GDP (%)	218.9	228.7	230.4	226.9	n.a.
CRPS (yoy, %)	-9.2	5.9	15.9	18.6	11.4*
Deposits (yoy, %)	4.9	8.0	12.4	14.9	16.9*
Market Capitalization/GDP (%)	22.7	37.0	43.5	32.9	41.3
Country financial openness index**	n.a.	n.a.	n.a.	n.a.	n.a.

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads*	287
Fitch	B-
Standard&Poor's	B
Moody's	B2

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

Libya

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	5.9	6.1	6.2	6.3	6.4
GDP per head (USD at PPP)	13490	14300	15920	17090	18220
GDP (% real change pa)	9.9	5.9	5.6	6.0	4.0
Consumer prices (% change pa; av)	2.9	1.8	6.3	10.4	2.0
Unit labour costs USD (% change pa)	n.a.	n.a.	n.a.	n.a.	n.a.
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Budget balance (% of GDP)	32.8	36.4	28.0	26.2	-2.7
Public debt (% of GDP)	7.0	5.1	4.1	3.3	4.9
Money market interest rate (%)	4.0	4.0	4.0	4.0	5.0
Exchange rate local currency:USD (av)	1.3	1.3	1.3	1.2	1.2
Real effective exchange rate (CPI-based)	24.4	24.0	24.3	25.4	26.5

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	17.5	23.9	28.5	35.7	6.1
Current account balance/GDP (%)	40.8	44.5	43.7	41.3	11.2
Total external debt/GDP (%)	10.0	8.3	7.6	6.5	11.1
Debt-service ratio, paid (%)	2.9	2.6	2.3	1.8	3.4
Short term external debt/Total external debt (%)	32.6	37.1	44.6	48.2	47.5
Short term external debt/Foreign reserves	0.0	0.0	0.0	0.0	0.0
Import cover (months)	35.2	45.2	46.9	42.7	47.9

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	29.0	39.8	44.2	61.6	32.5
Import (USD Bn)*	8.7	10.3	13.0	19.2	19.4
International trade openness**	98.3	100.7	107.3	108.4	112.6
FDI flows (USD Bn)	1.038	2.013	4.689	4.111	4.152
FDI stock/GDP	5.3	7.6	8.0	10.8	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	8,1	6,7	6,4	7,3	n.a.
Deposits/GDP (%)	20,9	19,5	24,6	30,6	n.a.
CRPS (yoy, %)	2,7	3,7	11,4	46,6	30,4*
Deposits (yoy, %)	25,1	17,3	47,6	59,9	16,5*
Market Capitalization/GDP (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Country financial openness index**	10.4	13.1	24.0	29.7	67.0

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads*	n.a.
Fitch	BBB+
Standard&Poor's	A-
Moody's	n.a.

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

Morocco

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	30.5	30.9	31.2	31.6	32.0
GDP per head (USD at PPP)	3547	3904	4095	4385	4570
GDP (% real change pa)	2.2	7.8	3.2	6.2	4.0
Consumer prices (% change pa; av)	1.0	3.3	2.0	3.8	1.8
Unit labour costs USD (% change pa)	n.a.	n.a.	n.a.	n.a.	n.a.
Recorded unemployment (%)	11.0	9.7	9.8	9.5	9.2
Budget balance (% of GDP)	-5.0	-2.1	0.2	0.4	-1.0
Public debt (% of GDP)	69.9	66.6	63.7	55.6	53.6
Money market interest rate (%)	2.8	2.6	3.3	3.4	3.0
Exchange rate local currency:USD (av)	8.9	8.8	8.2	7.8	8.1
Real effective exchange rate (CPI-based)	100.9	101.9	102.4	103.3	105.3

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	0.9	1.3	-0.2	-5.7	-3.5
Current account balance/GDP (%)	1.6	2.0	-0.3	-6.4	-3.7
Total external debt/GDP (%)	27.2	26.3	24.7	22.7	21.9
Debt-service ratio, paid (%)	11.3	7.6	7.1	7.4	8.8
Short term external debt/Total external debt (%)	4.2	10.4	10.3	10.1	8.2
Short term external debt/Foreign reserves	0.0	0.1	0.1	0.1	0.1
Import cover (months)	8.7	9.5	8.5	5.9	7.8

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	11.1	13.1	15.6	19.2	14.5
Import (USD Bn)*	20.9	24.7	32.5	42.5	33.9
International trade openness**	70.2	73.9	80.7	86.9	68.4
FDI flows (USD Bn)	1.653	2.450	2.803	2.388	1.736
FDI stock/GDP	35.2	45.6	52.6	47.5	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	53,3	56,9	68,8	78,4	n.a.
Deposits/GDP (%)	72,6	77,0	85,0	88,1	n.a.
CRPS (yoy, %)	13,2	16,7	29,1	22,7	15,6*
Deposits (yoy, %)	14,3	16,1	17,6	11,7	7,1*
Market Capitalization/GDP (%)	45.8	75.1	101.2	73.9	68.2
Country financial openness index**	36.0	47.2	53.2	47.3	47.1

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads*	132
Fitch	BBB-
Standard&Poor's	BB+
Moody's	Ba1

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor’s

Mauritania

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	3.0	3.1	3.1	3.2	3.3
GDP per head (USD at PPP)	1611	1810	1850	1910	1920
GDP (% real change pa)	5.4	11.7	1.9	3.5	1.5
Consumer prices (% change pa; av)	12.1	6.2	7.3	7.3	4.5
Unit labour costs USD (% change pa)	n.a.	n.a.	n.a.	n.a.	n.a.
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Budget balance (% of GDP)	-7.6	4.0	5.5	-1.0	-3.1
Public debt (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.
Money market interest rate (%)	10.0	10.0	13.3	12.0	11.0
Exchange rate local currency:USD (av)	265.5	268.6	258.6	245.0	260.0
Real effective exchange rate (CPI-based)	n.a.	n.a.	83.0	85.6	88.3

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	-0.9	0.0	0.0	-0.1	-0.1
Current account balance/GDP (%)	-50.9	1.6	0.2	-5.0	-4.7
Total external debt/GDP (%)	134.6	91.5	95.5	60.6	47.8
Debt-service ratio, paid (%)	8.8	8.9	6.8	3.3	1.7
Short term external debt/Total external debt (%)	7.2	14.1	14.9	24.9	18.7
Short term external debt/Foreign reserves	2.6	1.2	1.3	2.2	3.3
Import cover (months)	0.5	1.5	1.7	1.1	0.7

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	1.0	1.4	1.7	2.3	n.a.
Import (USD Bn)*	1.3	1.4	1.8	2.3	n.a.
International trade openness**	152.4	345.9	332.8	347.5	207.7
FDI flows (USD Bn)	0.814	0.155	0.153	0.103	n.a.
FDI stock/GDP	88.0	60.1	69.7	63.5	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Deposits/GDP (%)	n.a.	n.a.	n.a.	n.a.	n.a.
CRPS (yoy, %)	n.a.	n.a.	n.a.	n.a.	n.a.
Deposits (yoy, %)	n.a.	n.a.	n.a.	n.a.	n.a.
Market Capitalization/GDP (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Country financial openness index**	n.a.	n.a.	n.a.	n.a.	n.a.

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads*	n.a.
Fitch*	n.a.
Standard&Poor's*	n.a.
Moody's*	n.a.

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

Syria

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	19.1	19.8	20.5	21.2	21.9
GDP per head (USD at PPP)	3970	4160	4390	4560	4560
GDP (% real change pa)	6.0	5.2	6.3	5.1	1.9
Consumer prices (% change pa; av)	7.2	10.0	3.9	15.7	3.8
Unit labour costs USD (% change pa)	n.a.	n.a.	n.a.	n.a.	n.a.
Recorded unemployment (%)	8.0	8.3	8.4	8.6	9.2
Budget balance (% of GDP)	-5.0	-3.5	-3.5	-2.2	-8.2
Public debt (% of GDP)	32.7	34.0	28.8	25.7	33.3
Money market interest rate (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Exchange rate local currency:USD (av)	53.4	52.0	50.0	46.6	46.7
Real effective exchange rate (CPI-based)	73.8	84.3	83.6	90.1	98.6

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	0.3	0.9	0.5	-0.7	-1.4
Current account balance/GDP (%)	1.1	2.7	1.1	-1.4	-2.8
Total external debt/GDP (%)	23.3	19.9	17.1	14.2	14.9
Debt-service ratio, paid (%)	1.6	1.3	1.1	0.8	1.0
Short term external debt/Total external debt (%)	13.3	14.2	15.9	17.2	15.4
Short term external debt/Foreign reserves	0.2	0.2	0.2	0.2	0.2
Import cover (months)	5.1	5.5	4.7	3.9	4.2

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	10.1	11.9	13.6	17.0	12.3
Import (USD Bn)*	15.7	18.2	22.8	28.6	23.4
International trade openness**	80.8	75.4	76.4	75.8	57.8
FDI flows (USD Bn)	0.583	0.659	1.242	2.116	1.478
FDI stock/GDP	30.8	28.9	21.9	18.9	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	14.9	14.9	15.1	17.0	n.a.
Deposits/GDP (%)	46.6	44.6	44.3	49.6	n.a.
CRPS (yoy, %)	50.6	14.1	20.1	31.6	22.9*
Deposits (yoy, %)	10.6	8.8	18.1	31.3	6.5*
Market Capitalization/GDP (%)	n.a	n.a	n.a	n.a	n.a
Country financial openness index**	n.a	n.a	n.a	n.a	n.a

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads*	n.a.
Fitch	n.a.
Standard&Poor's	n.a.
Moody's	n.a.

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

Tunisia

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	9.9	10.0	10.1	10.2	10.3
GDP per head (USD at PPP)	6558	7090	7680	8120	8250
GDP (% real change pa)	4.0	5.7	6.3	4.6	1.2
Consumer prices (% change pa; av)	2.0	4.5	3.2	5.0	3.7
Unit labour costs USD (% change pa)	n.a.	n.a.	n.a.	n.a.	n.a.
Recorded unemployment (%)	14.2	14.3	14.1	14.2	14.0
Budget balance (% of GDP)	-2.2	-2.8	-2.9	-1.2	-6.4
Public debt (% of GDP)	59.0	54.1	50.9	48.0	53.9
Money market interest rate (%)	5.0	5.1	5.2	5.2	4.3
Exchange rate local currency:USD (av)	1.3	1.3	1.3	1.2	1.3
Real effective exchange rate (CPI-based)	85.2	84.6	82.2	81.6	84.8

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	-0.3	-0.6	-0.9	-1.7	-1.6
Current account balance/GDP (%)	-1.0	-2.0	-2.6	-4.2	-4.3
Total external debt/GDP (%)	62.3	60.8	57.4	49.2	50.8
Debt-service ratio, paid (%)	12.6	14.2	11.2	12.1	13.9
Short term external debt/Total external debt (%)	17.2	17.8	18.1	19.4	21.5
Short term external debt/Foreign reserves	0.7	0.5	0.5	0.4	0.4
Import cover (months)	3.6	4.9	4.5	4.0	6.3

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	10.6	11.7	14.5	17.5	12.6
Import (USD Bn)*	13.3	15.0	19.8	24.8	19.0
International trade openness**	98.6	98.9	100.3	101.4	93.0
FDI flows (USD Bn)	0.782	3.312	1.617	2.761	1.400
FDI stock/GDP	58.8	71.0	73.5	70.3	n.d.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	62.5	60.9	60.9	63.3	n.a.
Deposits/GDP (%)	49.4	50.0	51.6	54.0	n.a.
CRPS (yoy, %)	8.3	7.7	9.8	14.6	13.7*
Deposits (yoy, %)	9.7	11.8	13.4	15.4	10.1*
Market Capitalization/GDP (%)	10.3	13.4	14.5	16.7	24.1
Country financial openness index**	58.9	71.0	74.7	72.4	81.4

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads*	189
Fitch	BBB
Standard&Poor's	BBB
Moody's	Baa2

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

Turkey

Key Macroeconomic Variables	2005	2006	2007	2008	2009e
Population (M)	69.7	70.4	71.2	71.9	72.6
GDP per head (USD at PPP)	10730	11710	12480	12730	12010
GDP (% real change pa)	8.4	6.9	4.7	0.9	-6.0
Consumer prices (% change pa; av)	8.2	9.6	8.8	10.4	6.1
Unit labour costs USD (% change pa)	10.7	-1.1	12.8	12.8	-4.9
Recorded unemployment (%)	10.2	9.9	10.1	11.0	14.4
Budget balance (% of GDP)	-1.3	-0.6	-1.6	-1.8	-6.3
Public debt (% of GDP)	51.1	45.5	39.6	40.0	48.4
Money market interest rate (%)	14.7	15.6	17.2	16.0	9.5
Exchange rate local currency:USD (av)	1.3	1.4	1.3	1.3	1.5
Real effective exchange rate (CPI-based)	145.7	145.1	159.1	161.7	150.3

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

External Vulnerability	2005	2006	2007	2008	2009e
Current-account balance (USD M)	-22.1	-31.9	-37.7	-41.3	-14.4
Current account balance/GDP (%)	-4.6	-6.0	-5.8	-5.7	-2.3
Total external debt/GDP (%)	35.0	39.1	38.9	38.0	42.4
Debt-service ratio, paid (%)	37.5	32.6	32.1	34.2	43.4
Short term external debt/Total external debt (%)	21.9	20.4	16.6	18.2	16.0
Short term external debt/Foreign reserves	0.7	0.7	0.6	0.7	0.6
Import cover (months)	5.1	5.2	5.2	4.2	6.2

Note: e= Estimate. Source: EIU, IIF, IMF, WB, EBRD, ISI, EC, ICE, Central Bank

Trade and FDI	2005	2006	2007	2008	2009e
Export (USD Bn)*	73.6	85.6	107.4	132.3	99.9
Import (USD Bn)*	116.6	139.5	170.0	202.0	136.8
International trade openness**	47.2	50.3	49.8	52.3	47.2
FDI flows (USD Bn)	10.031	20.185	22.046	18.198	7.500
FDI stock/GDP	17.8	20.2	24.4	9.6	n.a.

Note (*) Calculated by Intesa Sanpaolo on EIU data at November 2009; (**) Sum of imports and exports as a percentage of GDP; Source: IMF, EIU

Banking and Financial System	2005	2006	2007	2008	2009e
CRPS/GDP (%)	22.25	25.94	29.50	32.61	n.a.
Deposits/GDP (%)	37.7	39.1	40.9	45.6	n.a.
CRPS (yoy, %)	49.5	36.3	26.4	24.6	7.7*
Deposits (yoy, %)	35.3	21.3	16.3	25.4	18.3*
Market Capitalization/GDP (%)	33.4	30.6	44.3	16.2	37.7
Country financial openness index**	16.5	19.5	26.0	25.8	31.8

Note: CRPS=credit to the private sector. *June, % yoy change; ** Sum of foreign financial assets and liabilities as a percentage of GDP. Source: EIU, IFS, Central Bank, Stock Exchange

Spread e Rating	
Spreads*	183
Fitch	BB+
Standard&Poor's	BB-
Moody's	Ba3

Note: (*) As at 31 December 2009. Source: Datastream, Fitch, Moody's, Standard&Poor's

Glossary	
ANIMA	Agencies Network for Investment in the Mediterranean Area
Agadir Agreement	Arab Mediterranean Free Trade Agreement – created in 2004
AMU	Arab Maghreb Union – created in 1989
COMESA	Common Market for Eastern and Southern Africa – created in 1994 (Libya 2005)
CIS	Commonwealth of Independent States
EFTA	European Free Trade Association – created in 1960
EIA	Energy International Agency
EIU	Economist Intelligence Units
ENEL	Ente Nazionale Energia Elettrica
ENI	Ente Nazionale Idrocarburi
FEMISE	Forum Euroméditerranéen des Instituts de Sciences Économiques
FDI	Foreign direct investments
GAFTA	Greater Arab Free Trade Area – created in 1957
ICE	Istituto Nazionale per il Commercio Estero (Italian Foreign Trade Agency)
IMF	International Monetary Fund
ISTAT	Istituto Nazionale di Statistica (Italian National Institute of Statistics)
LPI	Logistic Performance Index
Maghreb	Algeria, Libya, Mauritania, Morocco, Tunisia
Mashreq	Egypt, Jordan, Lebanon, Syria
Middle East Countries with Diversified Exports	Jordan, Israel, Lebanon, Syria
MENA – Middle East and North Africa	Algeria, Iraq, Mauritania, Sudan, Bahrain, Jordan, Morocco, Syrian Arab Republic, Djibouti, Kuwait, Oman, Tunisia, Egypt, Lebanon, Qatar, United Arab Emirates, Iran, I.R. of Libya, Saudi Arabia, Yemen Rep.
Mercosur	Mercado Común del Sur (Argentina, Brazil, Paraguay and Uruguay) – created in 1991
North Africa Countries with Diversified Exports	Egypt, Mauritania, Morocco, Tunisia
Central Eastern European Countries (CEE)	Czech Republic, Hungary, Poland, Slovak Republic, Slovenia
South Mediterranean Countries	Algeria, Egypt, Jordan, Israel, Lebanon, Libya, Mauritania, Morocco, Syria, Tunisia, Palestinian Territories.
Oil Exporting Countries	Algeria, Libya
South Eastern European Countries (SEE)	Bulgaria, Romania, Croatia, Serbia, Bosnia, Montenegro, Albania
EU – European Union	Austria, Belgium, Bulgaria, Cipro, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, United Kingdom, Czech Republic, Romania, Slovak Republic, Slovenia, Spain, Sweden, Hungary
EU15 – European Union 15	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherldands, Portugal, United Kingdom, Spain
UNCTAD	United Nations Conference on Trade and Development
UfM	Union for the Mediterranean
WTO	World Trade Organization

Data are updated on information available up to end December 2009

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