



Ministry of Finance

Keynote speech by

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***“The current Developments in the MENA
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*Your Excellencies,
Distinguished Members of the Summit,
Ladies and Gentlemen,*

- I am honored today to stand before you and I would like to start by thanking the Government of Italy, the Associazione of Bancaria Italiana, the Union of Arab Banks, and the World Union of Arab Bankers for organizing this important summit.
- This summit convenes in a critical time as some Arab countries face sever political unrest and challenges led by developments and transformations in the world.
- The challenges we face could threaten the future security and stability of our countries. This requires further cooperation and understanding in addressing this situation by implementing reforms, both on local and regional fronts.

- I hope this summit will serve as an effective mechanism to reach common vision and adopt clear strategy to overcome the challenges that face us in this time of change.
- As you are all aware, the global economy has lately suffered severely from the financial crisis, resulting in sluggish economic growth rates, and higher levels of unemployment. This has placed governments under increasing fiscal constraints in compensating for the losses in overall economic welfare, particularly in those countries with already limited resources. In response to the global financial meltdown, policymakers in the region have been setting stimulus packages to spur economic growth and assure fiscal discipline.
- By end 2010, the World Bank and IMF outlook for the region had improved, representing confidence in the region's recovery plans from the economic slowdown. Economic growth for the MENA had

accelerated from 1.8 percent in 2009 to 3.8 percent in 2010.

- Today, the MENA region is witnessing major political, economic, and social challenges, which then became to be known as the ‘Arab Spring’ movement. This movement originated from high unemployment rates, particularly among the youth reaching 30% in some countries, surging food and oil prices, particularly in oil-importing countries, and double-digit inflation rates.
- To ease the hardship and resolve social pressures due to the economic slowdown, governments in the region had committed to social, economic, and political plans. These plans target expanding food and oil subsidies to protect the poor from higher oil and food prices, reduce income and consumption taxes on low and middle-income households, and attract labor-intensive programs and projects to further create jobs, especially, among the unemployed youth.

- The increased government spending on these rescue packages have added additional burden on the already exhausted fiscal balances, particularly in oil-importing countries, which on average spent an extra 1 percent of GDP on such packages. On the other hand, higher oil prices allowed oil-exporting countries to spend significantly more on their rescue packages, resulting in relatively more extended social and economic impacts and lower opportunity costs, especially on their fiscal stance. (e.g. Saudi Arabia's most recent package reached around 17% of GDP). Higher oil prices, however, will lead to higher food prices, shaving-off their net gains and surpluses. On the contrary, oil-importers, who have limited financial resources, will need to seek innovative socioeconomic plans to create jobs and meet financing needs.
- One major adverse effect of the current social and political unrest in the region is the outflow of dear capital, due to the increase in country risks of certain economies (e.g. Egypt capital flight is

estimated at \$500 million to \$1 billion daily). Moreover, the appetite of foreign investors to invest in the region had been sluggish and investors, who are willing to invest, are demanding higher rates of return on their investments to compensate for the increasing country risks.

- Another main concern is the Tourism sector, being a major contributor to MENA GDP. Due to the unrest, tourists are avoiding the region as a whole and diverting their plans to other destinations such as Greece. As a result, estimated losses of tourism receipts during the first three months of the turmoil exceeded \$4.5 billion.
- These leakages (capital flight, loss of potential capital inflows, and tourism) in the MENA region, in addition to the direct adverse impacts of social and economic distress on labor productivity, levels of employment, and economic growth would further assert additional pressure and role by the Governments to revive their economies. It is

estimated that the MENA region would need to grow, in real terms at 7.5 percent, to absorb the unemployed and new entrants to the labor force. This real growth is 3 percent higher than the average in the last decade.

- Many argue that even with oil prices ranging between \$100 to \$110 per barrel, the global economy will remain on the recovery path. Should events in the MENA region escalate however, causing more profound supply shocks to the global oil market, the speed of global economic recovery will be significantly impaired. Furthermore, many economies in the region, through their monetary authorities, had been tightening credit conditions in an attempt to curb inflationary pressures. In many cases, these policies had been exaggerated, leading to further sluggish growth rates, affecting not only the local economy but also major trading partners with the MENA region.
- Despite the economic and social challenges, the MENA region is well-endowed in many aspects; the

region has a vibrant and dynamic youth population. This segment of the society, if adequately prepared and equipped to enter the labor force, will attribute to the overall prosperity of the society. Investments and project owners will also reap economic benefits from the relatively cheap and abundant manpower.

- Also, the MENA region is considered the biggest regional energy source worldwide as it holds 30 percent of the world's oil reserves. Together with its geographic strategic location and its accessibility to regional and international markets, trade and investments see great opportunities to expand doing business in the region. Jordan, for instance, is well connected to neighboring countries and global markets through modern transportation and communication networks, coupled with several bilateral and multilateral trade agreements, gives Jordan access to markets of more than one billion consumers.
- To reduce unemployment rates, governments have been embarked on attracting labor-intensive and

large infrastructure projects to create jobs in the medium term. In Jordan, and due to the tight fiscal space, the Government had been promoting Public Private Partnerships as a tool to finance mega projects, such as: the National Railway System and the Red-Dead Sea Project. Furthermore, governments in the region should stimulate job creation by supporting Small and Medium Enterprises as studies show that more than 60% of new jobs created take place at the SME's level.

- It is equally important for international organization to continue and increase their technical and financial assistances to oil-importing countries. The latest IMF \$35 billion initiative to support MENA economies in transition and assure social cohesion and macroeconomic stability is a great example of the international organization support and involvement. Furthermore, regional and development banks should also assume an important role in the development process to emphasize private-sector led growth and job creation.

- At the end, an important ingredient for the success of the economic, social, and political plans adopted by the MENA region countries is that each country is unique and has its own distinct characteristics. Accordingly, a “one-size-fits-all” approach to resolve economic and social challenges is far away from reality. Any successful plans need to take into account the unique characteristics of an economy and strategically plan solutions that address problems from bottom to top, not vice versa.
- The economic and social hardship viewed in the MENA region is a global challenge that is not confined in a specific geographical region. We should all work together, and in harmony, to come up with plans that assure sustainable growth and equitable distribution of development gains among society’s segments and regions.

Thank you for your kind listening.

