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Summary of the survey of economic and social developments in the Economic and Social Commission for Western Asia region, 2009-2010

Summary

With the global economy on a path of recovery in 2010, the economic environment external to the region of the Economic and Social Commission for Western Asia (ESCWA) is expected to improve. Dollar liquidity has shown signs of recovery since the second quarter of 2009 and the price of crude oil has stabilized. However, the economic situation remains uncertain, with ongoing de-leveraging of the financial sector of several countries in the region. Several countries, mainly the region's non-oil exporters, have become more reliant on capital inflows to finance their current account deficits. Following fiscal stimulus measures undertaken in 2009, several countries are set to require fiscal austerity measures in order to balance Government budgets. Since the fourth quarter of 2009, the economic sentiment of the region can be described as cautious optimism. The economic actors in the ESCWA region are expected to carry this sentiment in 2010. In 2009 the average real growth of gross domestic product for the region was an estimated 1.9 per cent, compared to 6.0 per cent in 2008, and it is forecasted to rise to 4.6 per cent in 2010.

The monetary and fiscal authorities of ESCWA member countries have successfully defended the region's banking sector. This achievement needs to be extended through a smooth facilitation of balance-sheet adjustments in order to alleviate the core weakness that stems from the global financial crisis. In most cases, such balance-sheet adjustments will require strong fiscal support. Any monetary stimulus at this stage is still more likely to be absorbed into the balance-sheet adjustments of economic actors, rather than support increasing domestic demand, as intended by such stimuli. A strong fiscal stance is needed to sustain domestic demand

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for consistent growth. Among ESCWA member countries, the fiscal stance and fiscal constraints varied significantly, which means the effect of the fiscal stimuli on some countries could be severely limited, given that it occurs without regional or global leverages. Efforts at the national level must be strengthened to prevent fiscal contraction on both economic investments and social spending, including economic infrastructure, social protection, social safety nets, employment, education and health.

A set of additional frameworks for global and regional cooperation is needed urgently to strengthen such national fiscal efforts, to overcome the problems arising from the consequences of the global financial crisis in the region and to achieve the development goals in the aftermath of the global financial crisis.

Contents

I. Global context

1. The global economy has started to show signs of recovery since the second quarter of 2009 and the first quarter of 2010. The phase of the credit crisis in the present global financial crisis was promptly stabilized by the second quarter of 2009. Since then, dollar money markets and world stock markets have exhibited a slow albeit stable recovery. A series of coordination efforts to cope with the global financial crisis were arranged, including participation of representatives of developing countries at the Group of 20 summit meetings in November 2008, April 2009 and November 2009, with the vision of establishing a new international financial architecture and coordinated fiscal stimulus. Developing countries, including the member countries of the Economic and Social Commission for Western Asia (ESCWA), have weathered the uncertain and unstable period in the world economy. Developing countries were impacted by the plunge of financial and real estate asset prices and the collapse of commodity prices, including energy, metal and food. Moreover, the shortages of liquidity, in particular in United States dollars in late 2008, at local and international money markets became a destabilizing factor for financial sectors and national economies. During 2009, however, the end of the credit crisis and a gradual recovery in the world demand led to a resumption of positive, forward-looking economic activities in developing countries, in particular in China and India. To date, no serious balance-of-payment crisis has been observed in developing countries. This is a distinctive feature in the global financial crisis of 2008-2009 that is different from the Asian financial crisis of 1997-1998.

2. The global financial crisis has had a negative impact on social development mainly by decreasing effective income levels and increasing unemployment rates. While the global financial crisis was predicted to affect international migration dynamics, the extent of the effect on migratory and demographic structure was less significant than anticipated. According to the International Labour Organization (ILO), the world unemployment rate was an estimated 6.6 per cent in 2009, representing an increase from 5.8 per cent in 2008.[1] A significant share of new unemployment arose in developed countries, with proportionally lower increases of unemployment rates for developing countries. However, employment in developing countries faces serious stagnation. The chronic high unemployment rate of developing countries does not show any sign of improvement in the recent economic recovery towards the first quarter of 2010. A concern is that the global financial crisis will have a greater impact on social development than on economic development owing to the depletion of fiscal resources for social safety nets. A number of developing countries are planning fiscal austerity measures in 2010, following active fiscal positions in 2009. In the area of social development, most Governments have considered the structural impediments that stem from the economic impact of the global financial crisis. However, the deteriorating fiscal positions tend to limit their options.

[1] See International Labour Organization, *Global Employment Trends* (January 2010).

3. Within that global context, the ESCWA region has been experiencing a volatile external macroeconomic environment since the fourth quarter of 2008.[2] The crisis experienced by the financial sector of developed countries immediately influenced the ESCWA region in two main areas, namely, dollar liquidity and crude oil prices. The majority of ESCWA member countries have pegged their national currencies to the United States dollar. In the region where the major crude oil exporters are located, crude oil prices are both an indicator of the income and wealth of oil exporters, and of general business and consumer confidence throughout the region, including non-oil-exporting countries, on account of intraregional spillover effects.

4. Given that the world economy is on a path of recovery in 2010, the economic environment external to the ESCWA region is expected to improve. Dollar liquidity has shown signs of recovery since the second quarter of 2009 and the price of crude oil has stabilized. However, the economic situation remains uncertain, with de-leveraging of the financial sector of several countries in the region still ongoing. Several countries, mainly the region's non-oil exporters, have become more reliant on the capital inflows to finance their current account deficits. Moreover, following fiscal stimulus measures taken in 2009, several countries are set to require fiscal austerity measures in order to balance Government budgets. Since the fourth quarter of 2009, the economic sentiment of the region can be described as cautious optimism. The economic actors in the ESCWA region are expected to carry this sentiment in 2010.

II. Oil sector development

5. According to estimates by the Organization of Petroleum Exporting Countries (OPEC), total world demand for 2009 averaged 84.4 million barrels per day, while total supply of crude oil averaged 84.1 million barrels per day.[3] The demand for crude oil is estimated to have decreased in 2009 by 1.3 million barrels per day compared to 2008. Weak demand from countries in the Organization for Economic Cooperation and Development has been sustained, whereas the demand of developing countries has proved resilient. OPEC maintained its lower production quota, which came into effect in January 2009. High compliance by OPEC countries has been observed for the current production ceiling of 24.8 million barrels per day. Owing to the limited expansion capacity for exploration and production, crude oil production by countries not members of OPEC is expected to increase modestly in 2010. Considering these situations, demand and supply of crude oil is forecasted to balance at approximately 85.0 million barrels per day in 2010, which is 0.7 per cent higher than the level in 2009.

6. There is clear evidence that the surge in crude oil prices in 2008 was caused by financial speculation. Towards July 2008, crude oil futures became an attractive financial asset. During the surge, there was decreasing real demand for fuel

[2] The ESCWA region consists of two subregions, namely: the countries of the Gulf Cooperation Council, comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; and those non-Gulf Cooperation Council members referred to as more diversified economies, incorporating Egypt, Iraq, Jordan, Lebanon, the Sudan, the Syrian Arab Republic, Yemen and Palestine.

[3] See Organization of Petroleum Exporting Countries, *Monthly Oil Market Report* (March 2010).

products, such as gasoline and heating oil, which caused a significant decline in refining margins. The trend of refinery margin, as measured by the spread between the western Texas intermediate crude oil price and the reformulated blendstock for oxygenate blending gasoline price, had started to decline well before the prices reached their peak. This trend was reversed in the second quarter of 2009 and has continued into the first quarter of 2010. It is the sign that the world demand for crude oil has been on a stable recovery path. Considering the increasing spare production capacity of crude oil as well as enhanced world refining capacity, speculative forces in crude oil futures markets are not expected to have the same impact as they had in early 2008. In 2010 speculative forces are expected to be a stabilization factor for crude oil prices rather than a factor that increases price volatility. The average OPEC reference basket price for 2010, as of the end of March 2010, was forecasted in the range of $55.2 to $92.0 per barrel, with a median of $73.1 per barrel (see table 1).

7. The total crude oil production of ESCWA member countries is estimated to stand at 18.0 million barrels per day on average in 2009, which represents a contraction of 11.1 per cent from the previous year, owing to the significant reduction of production in the OPEC quota. The production of Gulf Cooperation Council countries was estimated to be 13.8 million barrels per day in 2009, which is the lowest level since 2003. The crude oil production of more diversified economies, namely, Egypt, Iraq, the Sudan, the Syrian Arab Republic and Yemen, was 4.1 million barrels per day in 2009. The total gross oil export revenues of the ESCWA region were estimated to be $381.9 billion in 2009, which represents a decline of 38.0 per cent from the previous year. It is forecasted to recover by 14.5 per cent, to $437.3 billion, in 2010, with the forecasted median crude oil price (OPEC reference basket price) of $73.1 per barrel. In 2010 the total crude oil production of ESCWA member countries is projected to be 18.8 million barrels per day. A modest increase from OPEC member countries in the region is expected following an adjustment in the organization’s supply policy. Crude oil production of Gulf Cooperation Council countries is forecasted to be 14.3 million barrels per day in 2010. Intensified investment in the recent past is expected to enhance the crude oil production capacity of more diversified economies, which is projected to be 4.5 million barrels per day in 2010. However, continuing weak crude oil production has been observed in the Syrian Arab Republic and Yemen. Both countries have ensured their position in the energy sector through the exploration and production of natural gas. Yemen, in particular, began exporting liquefied natural gas in November 2009. In that context, Qatar has established itself as the world’s largest natural gas exporter and the gas sectors in other Gulf Cooperation Council countries, as well as Egypt and the Sudan, have been developed.

8. Despite the collapse of crude oil prices in 2008, the subsequent recovery of the price in the range of $60 to $80 per barrel in the course of 2009 has placed the ESCWA oil producers in an advantageous position. As repeatedly claimed by OPEC member countries, in particular Saudi Arabia, a price of around $70 per barrel has been deemed appropriate. This price range is not considered high enough to dent demand for crude oil or too low to hamper investment in exploration and development of crude oil production capacity. Moreover, in this price range, the region’s oil producers can ensure a better production margin compared to most oil producers in other regions where exploration costs are much higher. With a stable forecast of the crude oil price for 2010, the ESCWA region’s exporters of crude oil are expected to consolidate this competitive edge in the oil and energy sector.

Table 1
Crude oil price estimation and forecast
(OPEC reference basket: United States dollars per barrel)

				Forecasted annual average for 2010		
Year	*Minimum*	*Maximum*	*Annual average*	*Lower*	*Median*	*Higher*
2008	33.36	140.73	94.45			
2009	38.14	78.0	61.06			
2010				55.2	73.1	92.0

Source: OPEC for 2008 and 2009. The figures for 2010 are forecasts as of the end of March 2010.

III. Economic trends and developments

9. Real growth in gross domestic product in the ESCWA region averaged approximately 1.9 per cent in 2009 compared to 6.0 per cent in 2008, with a forecast of 4.6 per cent for 2010 (see table 2). This anticipated recovery is the result of higher external demand and domestic demand bolstered by active fiscal measures. Economic sentiment in the ESCWA region has improved from a certain degree of pessimism to cautious optimism during 2009. In the region where the major crude oil exporters are located, this renewed optimism has come in the wake of a strong recovery of crude oil prices in the range of $60 to $87 per barrel since the second quarter of 2009. Moreover, several worst-case scenarios that could have affected the region's socio-economic development have not transpired. Specifically, balance-of-payment crises and associated extreme currency devaluations did not occur even in countries where current account positions were weak. In addition, the once feared reverse mass exodus of expatriate workers from Gulf Cooperation Council countries did not take place. The region's monetary authorities successfully defended respective banking sectors from the global financial crisis after the fourth quarter of 2008. The region's fiscal authorities successfully took an active stance to cushion the impact of the global recession.

10. Nevertheless, downside risks remain. Despite the forecast of a stable crude oil price in 2010, within the forecasted range, its price could drop as low as $55 per barrel (see table 1). While commercial banks in the region have weathered the global liquidity crisis, the problem of liquidity for business entities and households remains. A low level of liquidity circulation could depress the level of asset prices and force commercial banks into a further series of balance-sheet adjustments. Property prices in the region are still weak and fragile, and a strong recovery in 2010 is not predicted despite anticipated economic recovery. Most notably, the balance-of-payment situation of Yemen has worsened. Its national currency, the Yemeni rial, depreciated against the dollar by 10 per cent in one year up to March 2010. ESCWA member countries have accumulated a healthy level of foreign reserves. Consequently, the threat of an imminent balance-of-payment crisis can be ruled out. However, there is a need for caution about the potential balance-of-payment fragility of those countries in the region with current account deficits.

11. Consumer price inflation peaked in the second half of 2008. The rate of consumer inflation declined in 2009. On average, the consumer inflation rate was estimated to be 4.7 per cent in 2009 compared to 11.9 per cent in 2008 (see table 2). The inflation rates throughout the ESCWA member countries differ greatly and are indicative for different approaches of fiscal management. For several countries in the region, the rate of price decline has been steep. Iraq, Jordan and Qatar experienced deflation in the consumer price level in 2009. The rapid decline in the consumer inflation rate was led by the price of food and property rentals, which were precisely the items that had led to a historically high consumer inflation rate in 2008. The anticipated second-round effect of the inflation pressure of 2007-2008 did not materialize. Moreover, the upward wage adjustments, in particular in the public sector of Gulf Cooperation Council countries during 2007-2009, did not influence general price levels as had been expected. Given the projected economic recovery, the consumer inflation rate on average is forecasted at 6.9 per cent for 2010.

Table 2
Real GDP growth rate and consumer inflation rate, 2006-2010

	Real GDP growth rate (percentage)					*Consumer inflation rate (percentage)*				
Country/area	*2006*	*2007*	*2008*[a]	*2009*[b]	*2010*[c]	*2006*	*2007*	*2008*	*2009*[b]	*2010*[c]
Bahrain	6.7	8.4	6.3	2.8	3.6	2.1	3.3	3.5	2.8	3.6
Kuwait	5.2	4.4	6.3	-1.2	4.1	3.0	5.5	10.6	4.0	4.7
Oman	5.5	6.8	12.8	3.7	4.0	3.4	5.9	12.6	3.4	4.2
Qatar	12.2	9.5	16.4	8.9	12.5	11.8	13.6	15.2	-4.9	1.2
Saudi Arabia	3.1	2.0	4.3	0.2	3.6	2.2	4.1	9.9	5.1	6.2
United Arab Emirates	13.0	6.2	7.4	-1.5	3.8	9.3	11.1	12.3	1.6	4.2
Gulf Cooperation Council countries[d]	**6.1**	**3.9**	**6.3**	**0.4**	**4.2**	**4.3**	**6.3**	**10.8**	**3.6**	**5.2**
Egypt[e]	7.1	7.2	4.7	4.6	5.5	7.6	9.5	17.1	11.8	13.5
Iraq	6.2	5.0	7.5	5.2	6.5	53.2	30.8	2.7	-2.8	6.1
Jordan	8.0	8.9	7.9	2.8	3.2	6.3	4.7	13.9	-0.7	3.5
Lebanon	0.0	7.5	6.2	7.0	5.5	1.5	6.7	10.0	1.5	3.9
Palestine	-5.2	5.4	5.9	6.8	4.0	3.8	1.9	9.9	2.8	3.0
Sudan	10.0	10.2	6.0	4.5	5.0	7.2	8.1	14.9	11.2	13.2
Syrian Arab Republic	5.0	5.7	4.3	3.5	4.2	10.0	4.5	15.2	2.8	5.0
Yemen	3.8	4.4	4.7	2.0	4.8	10.8	7.9	19.0	3.7	11.5
More diversified economies[d]	**5.9**	**6.8**	**5.4**	**4.6**	**5.3**	**14.2**	**11.5**	**13.8**	**6.7**	**10.0**
Total ESCWA region[d]	**6.0**	**5.0**	**6.0**	**1.9**	**4.6**	**7.9**	**8.2**	**11.9**	**4.7**	**6.9**

Source: National sources unless otherwise stated.

[a] The estimated figures for Kuwait, Qatar, Iraq and Lebanon are as of 31 October 2009.

[b] March 2010 estimations.

[c] March 2010 forecasts.

[d] Figures for country groups are weighted averages whereby weights for each year are based on GDP in 2000 constant prices.

[e] For the GDP growth rate of Egypt, the figures are for the country's fiscal year starting in July of the year and ending in June of the following year.

12. In the Gulf Cooperation Council subregion, despite the weak performance of stock markets and the real estate sector, the delay in private sector projects and the rapid decline in commercial and residential rental prices, a considerable portion of economic actors and policymakers saw economic fundamentals as being sound. Such optimism is a crucial drive for forward-looking behaviour of consumption and investment. In 2009, Gulf Cooperation Council countries marked a low-level growth of 0.4 per cent in real GDP on average. This weak estimation is due mainly to the prompt compliance with the significant cut in the production quota of OPEC member countries in the subregion, namely, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates. Given that fiscal support on the part of fiscal authorities is strongly anticipated, domestic demand in the subregion is not expected to shrink in parallel with the GDP estimates. Rather, it was the significant reduction in net exports that caused the reduction in real GDP estimates. Countries not members of OPEC in the subregion exhibited a more modest decline in growth performance in 2009. Resilient business and consumer confidence has been observed in the Gulf Cooperation Council economies despite pockets of weakness in certain sectors of the economy, in particular the real estate sector. The prospects for the Gulf Cooperation Council countries in 2010 depend on the following: (a) recovery of external demand and crude oil prices; (b) persistently active fiscal stances; and (c) smooth balance-sheet adjustments of economic actors, in particular commercial banks, business entities and households. The forecast of real GDP growth of Gulf Cooperation Council economies for 2010 is 4.2 per cent.

13. More diversified economies showed resilience in their growth performance in 2009 and registered, on average, a growth rate of 4.6 per cent in real GDP in 2009. Despite potential fragility in external balances in terms of relatively weak current account positions, domestic demand continued to grow with strong capital account positions. Moreover, oil exporters in the subregion, namely, Egypt, Iraq, the Sudan, the Syrian Arab Republic and Yemen, were not subject to the OPEC production quota and could avert a sharp decline in crude oil production levels. A comparatively lower reliance on manufacturing exports and international capital markets insulated the subregion from the initial impact of the global financial crisis. Moreover, while the export level to the United States of America and Europe was severely impacted, its effect on the aggregated economy was limited. In addition, funding liquidity remained available owing to the limited exposure to international money markets. While the property markets were affected, the effect can be characterized as a moderate decline at most. Much of the concerns related to economic development in the subregion remained, including such structural issues as chronically high unemployment. The prospects for more diversified economies in 2010 depend on the following: (a) recovery of external demand from the United States of America, the countries of the European Union (EU) and the Gulf Cooperation Council economies; (b) sufficient margins against potential foreign exchange constraints; and (c) active fiscal measures with international and regional supports. As such, the forecast of real GDP growth of the more diversified economies for 2010 is 5.3 per cent.

IV. Economic policy developments

14. Policymakers in the ESCWA region faced an increasing policy dilemma in the course of 2008 as the consumer inflation rate soared in respective countries. Fiscal

expansions were sought in order to achieve the development aspirations, while monetary authorities had to tighten their monetary stance to alleviate inflationary pressures. However, with the exception of Egypt, where a floating exchange rate regime was adopted, monetary authorities in the region have a limited space for their policy options subject to the need to stabilize foreign exchange rates. At the onset of the global financial crisis in September 2008, most Governments in the ESCWA region did not have to deal with this dilemma yet given that both active fiscal measures and monetary easing were required to prevent the financial crisis from adversely affecting respective domestic economies.

15. The fiscal policy response to the global financial crisis varied among ESCWA member countries. For the fiscal year covering 2009, expansionary fiscal stances were sought in Gulf Cooperation Council countries, which have accumulated sizeable fiscal surpluses since 2002. In the latest budget formation of those countries, infrastructure investment, health and education, and social provisions were emphasized. For the 2009 fiscal year, public expenditure in terms of nominal GDP was estimated to be 25.2 per cent in Bahrain, 38.0 per cent in Kuwait, 43.0 per cent in Oman, 33.0 per cent in Qatar, 40.6 per cent in Saudi Arabia and 27.0 per cent in the United Arab Emirates. The fiscal stance became more cautious in more diversified economies owing to a weak revenue prospect and public debt constraints. Fiscal austerity measures have been considered for the 2010 fiscal year, in particular in Jordan, the Sudan and Yemen, in order to preserve the fiscal deficit at a manageable level. For the 2009 fiscal year, public expenditure in terms of nominal GDP was estimated to be 36.0 per cent in Egypt, 40.1 per cent in Jordan, 36.8 per cent in Lebanon, 24.0 per cent in the Sudan, 25.4 per cent in the Syrian Arab Republic and 30.2 per cent in Yemen. With the implementation of austerity measures, any weakening of revenue prospects is envisaged to translate into declining Government budget spending, despite the importance given to fiscal stimulus as the key to safeguarding economic growth in the aftermath of the financial crisis. Consequently, more diversified economy countries could require additional international support for their contribution to the fiscal stimuli at the global level.

16. The monetary policy response to the global financial crisis has led to a series of reductions in policy interest rates in the region since September 2008, together with the reduction in reserve requirements for commercial banks and the provision of extra liquidity facilities. This strong easing in the monetary stance is in line with other measures aimed at protecting the national banking sector from the financial turmoil. The notable exception is Egypt, whose Central Bank did not lower its policy interest rates until it confirmed a lower inflation figure in February 2009. It is also notable that Qatar has not resorted to interest rate policy to confront the crisis, but has applied measures more directly aimed at its financial sector. In addition to monetary easing, policy measures to cope with the global financial crisis included fiscal and institutional supports to the financial sector. Kuwait, Qatar and the United Arab Emirates took measures aimed at enhancing the balance sheets of commercial banks through fiscal support. Moreover, Jordan, Kuwait, Saudi Arabia and the United Arab Emirates promptly decided to guarantee bank deposits in 2008.

17. Liquidity management by monetary authorities in the ESCWA region has encountered difficulties that stem from the interplay between the foreign exchange rate regime and the open capital account. The region’s foreign exchange rate regime is represented by pegging the countries’ respective national currencies to the United

States dollar or to a basket of foreign currencies. This regime serves the purpose of providing stability in foreign exchange transactions that involve trade, finance and investment. However, in combination with the open capital account, the regime makes it difficult for monetary authorities to manage domestic liquidity, represented by money supply. Monetary authorities thus have less control of the monetary base, which is the total amount of cash in circulation and bank deposits with the monetary authority. Monetary authorities attempt to control the monetary expansion at an appropriate level by adjusting the composition of the monetary base. However, such measures run counter to final demand management in most ESCWA member countries.

18. Since the second quarter of 2009, the region's monetary authorities have repeatedly claimed the existence of sufficient levels of liquidity. In the same period, commercial banks and business entities have often pointed to the lack of liquidity as the major challenge for economic recovery. It is worth noting that what monetary authorities refer to as liquidity corresponds to "outside liquidity" for commercial banks, by which commercial banks are able to borrow funds. However, what commercial banks and the business sector mean by liquidity is the "inside liquidity", as represented by cash reserves and by an assured projection of future cash inflows. The shortage of outside liquidity for commercial banks is a symptom of the early stage of a financial crisis, where the systemic risk of financial sector prevails. The customary remedy for this systemic risk by a central bank is the injection of liquidity into the banking system. However, against the shortage of "inside liquidity" of commercial banks and business entities, a different set of policy interventions is required, because the shortage of "inside liquidity" implies a need for balance-sheet adjustments by which commercial banks and business entities can wind down their indebtedness in line with the value of assets. The existence of the contrasting view on liquidity on the part of the region's monetary authorities, commercial banks and business entities is proof of the need for further balance-sheet adjustments.

V. Social dynamics

19. With the onset of the current global financial crisis, combined with an abrupt plunge in crude oil prices, one of the major social concerns in the ESCWA region was the state of expatriate workers in the region's major oil exporters, namely, the Gulf Cooperation Council countries. The economic boom leading up to 2008 in those countries had expanded their foreign workforce. Despite active efforts with regard to human resources development aimed at promoting employment for national workforces in the private sector, the Gulf Cooperation Council countries have continued to depend on expatriate workers. The expansion of the private sector in the past few years has pulled expatriate workers into those countries. Given that the global financial crisis initially impacted the subregion's core activities in the private sector, namely, finance and construction, massive job losses and an exodus of expatriate workers from the Gulf Cooperation Council countries were feared as a major repercussion of the crisis. That state of affairs would have affected both host countries and labour-exporting countries in the Arab and Asia regions.

20. Despite several media reports that have suggested the departure of expatriate workers following redundancies, there has been no sign of a large-scale exodus of such workers as of the first quarter of 2010. Moreover, the evidence suggests that

the financial crisis has not resulted in a significant decline in workers' remittance in 2009. It is estimated that the outflow of such remittance from Gulf Cooperation Council countries has decreased slightly, from $48.8 billion in 2008 to $47.9 billion in 2009. However, the inflow of workers' remittance to more diversified economies is estimated to have declined more steeply, from $22.7 billion in 2008 to $18.9 billion in 2009. This can be attributed to a steep decline in the remittances from the United States of America and EU, which are main sources of workers' remittances to more diversified economies. The size of workers' remittance inflows is estimated to remain high at 13 per cent of GDP in Jordan and 24 per cent of GDP in Lebanon in 2009.

21. Gulf Cooperation Council countries have been actively engaged in labour market reforms in recent years. Job security for respective nationals has become an urgent policy challenge, as the economies have been slowing down. In that context, Bahrain, Kuwait, Qatar and Saudi Arabia took measures aimed at reforming the sponsorship system of expatriate workers by the third quarter of 2009. In particular, in May 2009 Bahrain decided to allow expatriate workers to change jobs without the need to first seek the permission of sponsors. This was the first decision of significant relaxation of the sponsorship system in the Gulf Cooperation Council countries. The decision was enforced in August and, in the same month, Kuwait indicated a plan to follow Bahrain's move. Unemployment and underemployment, however, have remained the major socio-economic issues, especially in more diversified economies. The chronically high unemployment rate has persisted, despite a modest improvement in Egypt, Jordan and the Syrian Arab Republic recently. The economic slowdown in 2009 has exacerbated the employment condition and these countries have discussed an employment creation strategy, with the issue of youth unemployment as a policy priority.

22. Meanwhile, the reform measures for social development in the region witnessed certain gains in 2009. In the budget formation for the 2009 fiscal year, the fiscal priority of the region's Governments incorporated the areas of education and health in parallel with economic stimulus packages to cope with the global financial crisis. Jordan is planning to reform its Social Security Corporation in order to establish an unemployment fund and broaden its national coverage. In Yemen, the Social Fund for Development has been active in implementing social projects. However, despite expressed concerns for fiscal priority in the area of social development, there is still concern, in particular for more diversified economies, that deteriorating fiscal positions could result in a decline of Government spending on social development.

23. There is a continuing need to develop gender equality in the ESCWA region in order to reflect the increasing number of women who have attained higher education and the increasing intention of women to participate in labour markets. In February 2009 Jordan lifted its reservations on paragraph 4 of article 15 of the Convention on the Elimination of All Forms of Discrimination against Women. This measure gave women in Jordan freedom of mobility and the choice of residence without the consent of their husbands or other male family members. Moreover, in February 2009 Saudi Arabia appointed its first female minister as the Deputy Minister of Education for Girls' Affairs. In the general election in Kuwait, in May 2009, four female candidates were elected to Parliament. However, despite these changes, challenges for gender equality in the region remain. In terms of employment, the unemployment rate of women in the region remains substantially higher than that

for male counterparts. According to preliminary results by ILO, the female unemployment rate was an estimated 15.0 per cent in the Middle East and 15.6 per cent in North Africa in 2009 compared to the male unemployment rate of 7.7 per cent in the Middle East and 8.6 per cent in North Africa.[1] The anticipated stagnation of employment in the ESCWA region is set to have disproportionately adverse effects on female job seekers.

VI. Concluding remarks

24. The global economy is expected to be on a path of recovery, albeit at a slow pace. Despite active fiscal measures, the United States of America, EU and Japan, as well as some developing countries, have experienced deflation. The declining price level could be beneficial, given that it could contribute towards improving income in real terms. However, it indicates a weak state of domestic demand, despite the active and expansionary fiscal and monetary measures taken by those countries. The decline in general price levels could also represent a decline in nominal wage levels. The consistently rising unemployment rates in major developed countries indicate an absence of negotiating position on the side of labour.

25. The declining general price levels could increase the debt burden in real terms for commercial banks, business entities and households, which incurred debt in the currently devalued real estate and financial assets. The massive and intensive balance-sheet adjustments, which have been the core of the global financial crisis, are expected to continue, albeit to a lesser extent. The recovery projection for 2010 coincides with deepening vulnerability and a sustainable recovery can only be assured by smooth balance-sheet adjustments of commercial banks, business entities and households. From a global perspective, policymakers need to facilitate such adjustments without denting domestic demand. This challenge applies equally to policymakers in the ESCWA region.

26. As the world economy recovered from recession through the second and third quarters of 2009, the economic sentiment of the ESCWA region improved from pessimism to cautious optimism. This is due in part to firm crude oil projections. However, other bases of optimism remain weak. With declines in property prices and associated rental prices throughout the region, the deterioration in the asset side of balance sheets could require policy aimed at facilitating balance-sheet adjustments.

27. The monetary and fiscal authorities throughout the ESCWA region have successfully defended the region's banking sector. A smooth facilitation of balance-sheet adjustments requires, in most cases, strong fiscal support. Any monetary stimulus at this stage is still likely to impact the balance sheets of economic actors, thereby offsetting in part the demand stimulus effect. Consequently, a strong fiscal stance is needed to sustain domestic demand and growth. Among ESCWA member countries, the fiscal stance and fiscal constraint have varied significantly. Efforts at the national level can be strengthened in order to prevent fiscal contraction from negatively affecting spending in such areas as economic infrastructure, social protection, social safety nets, employment, education and health. A set of additional frameworks of global and regional cooperation is urged in order to strengthen national fiscal efforts and support balance sheets of key actors, and enhance the attainment of development goals in the aftermath of the global financial crisis.