GENERAL MACROECONOMIC FRAMEWORK OF THE SOUTHERN AND EASTERN MEDITERRANEAN COUNTRIES: SOCIAL INDICATORS AND FISCAL POLICIES

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1. Introduction

This paper provides a general macroeconomic framework in order to assess the position of the MEDA countries (henceforth MEDAs) in the world economic scenario. Further it outlines an overview of these countries with regard to the pillar of the Barcelona Conference (1995) concerning the creation of an area of economic and financial prosperity. Due to the important socio-economic relations between MEDAs and the Euro countries (henceforth EUROs), the main economic indicators of this area are provided even if they do not take into account the great variations across countries.

The main aim of the paper is to provide a comprehensive snapshot of the main socio-economic indicators of the MEDAs, in order to highlight the economic and financial situation of each country. This will include the most significant trends over the period 1995-2003 and a cross-countries comparison. Such a long-term perspective, adopted for the most important indicators, will allow us to evaluate the efforts of each country to consolidate macroeconomic stability. Three different dimensions have been considered: economic, financial and fiscal.

The paper is based on the up-to-date *International Financial Statistics* as harmonized by the International Monetary Fund (IMF) for the following MEDAs: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia and Turkey. Nevertheless Cyprus, Malta and Turkey are not included in the list of the Mediterranean Partner Countries of the MEDA programme of the EU. The Palestinian Authority is not included due to a lack of data. These data are integrated by a number of *World Development Indicators* provided by the World Bank.

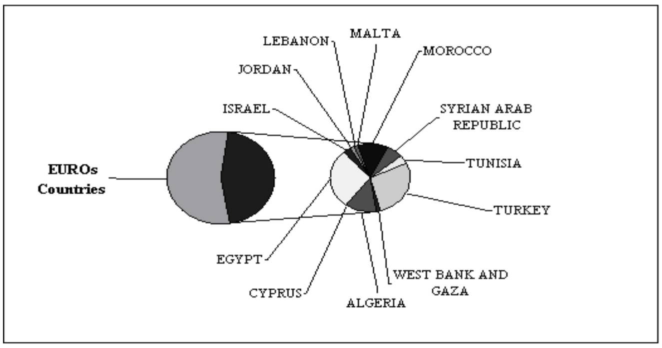
The paper is organized as follows: Section 2 provides a snapshot of the economic situation of each country focusing on the main important economic indicators. Section 3 presents the goals of the Millennium Declaration with a number of targets which summarize the main points. In the following Section 4 the most recent economic developments are presented and in Section 5 the principal fiscal indicators provide a summary description of the fiscal policies in each country. Section 6 closes the paper with some concluding remarks.

2. An economic snapshot

In 2003, more than 250 millions people lived in the MEDAs, one of the most interesting socio-economic areas in the western world. Many geo-politic, economic, cultural and religious aspects contribute to make the MEDAs an interesting society to be investigated from a number of different points of view. Moreover, the economic relationships between the EUROs and the MEDAs are getting closer, alongside the convergence of their main economic indicators. In the medium-term, it will be useful to monitor how the MEDAs economies will operate in responding to the challenge of demographic factors and boosting job creation.

In terms of population (see Fig. 1), the MEDAs have less people (about 253 millions people in 2003) than the EUROs (about 300 millions people). However they show an average annual population growth rate, projected up to 2015, equal to 1.5%. It is differentiated across countries with values higher than 2% in Jordan and Syria.

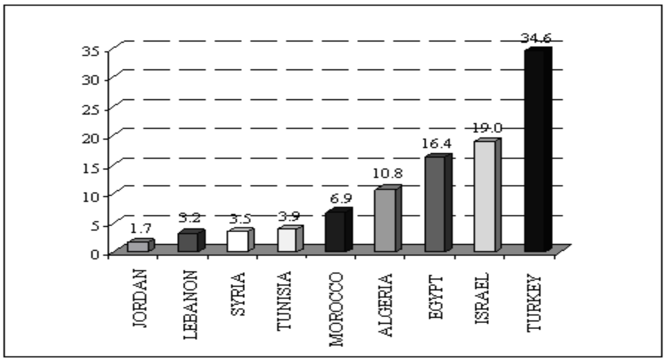
Fig. 1 – Population size (2003)



Source: IMF (2004).

Although more than 55% of the total population live in Egypt and Turkey (see Tab. 1*A* in the Annex), the distribution of total Gross Domestic Product (GDP) in the area follows a different pattern (see Fig. 2) with a higher relative importance attributed to Israel, Turkey and Lebanon.

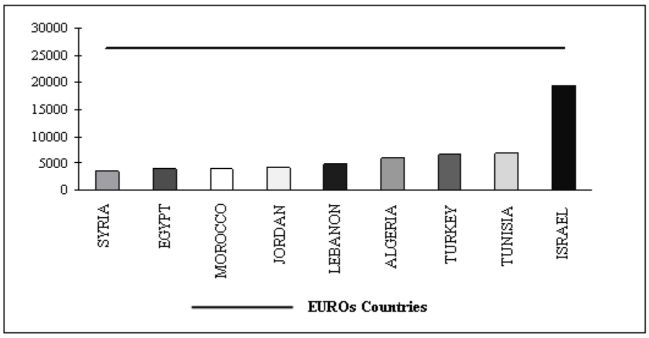
Fig. 2 – Gross Domestic Product (2003)



Source: IMF (1998-2004).

Most of the MEDAs are low and middle income countries, with income per-capita (see Fig. 3), expressed in purchasing power parity (PPP) rates, ranging between 3.430 US Dollars (Syria) and 19.440 US Dollars (Israel) in 2003. As a comparison, the per-capita GNI, expressed in PPP, in the EUROs is equal to 26.350 US Dollars.

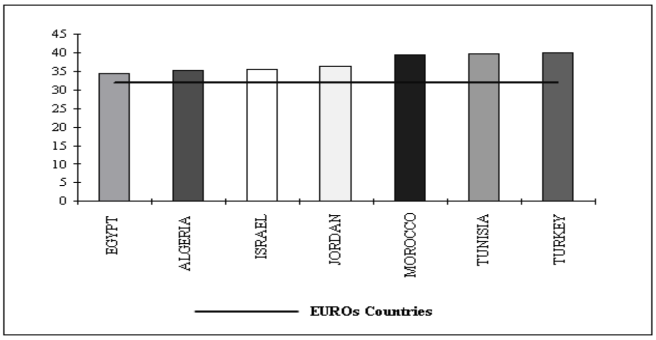
Fig. 3 – PPP Gross National Income, per-capita (2003)



Source: World Bank (2005).

The Gini index shows to what extent MEDA countries are different (see Fig. 4) in economic inequality with respect to income distribution: the lowest value is in Egypt (34.4) and the highest in Turkey (40). The average value of Gini index in EUROs is equal to 32 showing that, on average, the European societies are more equal than the MEDAs'.

Fig. 4 – Gini index (2003)



Source: World Bank (2005).

A first look at the unemployment rates (see Tab. 1) highlights that unemployment is one of the issues of primary importance to deal with, not least because of the rapid labour force growth. Despite the fact that data was not updated for some countries, in 2002 most of the MEDAs experienced high levels of unemployment, in particular Algeria, Morocco and Tunisia. With the important exception of Algeria, which exhibits a great reduction in the unemployment rates (from 29.5 in 2000 to 17.7 in 2004) other countries (*i.e.* Israel and Turkey) show an increasing trend.

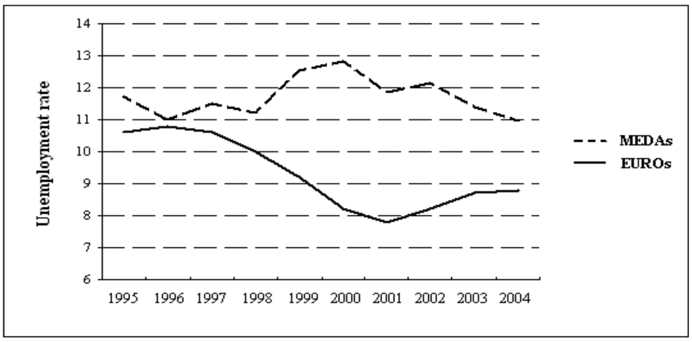
Tab. 1 – Unemployment rates

Country	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Euro Area	10.6	10.8	10.6	10.0	9.2	8.2	7.8	8.2	8.7	8.8
Algeria	28.1	28.0	28.0	28.0	29.2	29.5	27.3	25.9	23.7	17.7
Cyprus	2.6	3.1	3.4	3.4	3.6	3.4	3.0	3.2	3.5	3.4
Egypt	11.3	-	8.4	8.2	8.1	-	8.2	9.0	-	10.2
Israel	6.9	6.7	7.7	8.6	8.9	8.8	9.3	10.3	10.7	10.4
Jordan	-	-	-	-	-	-	-	13.0	-	-
Malta	3.7	4.4	5.0	5.1	5.3	4.5	4.7	4.7	5.7	-
Morocco	22.9	18.1	16.9	19.1	22.0	21.5	19.5	18.3	-	-
Syria	-	-	-	-	-	-	11.0	12.0	-	-
Tunisia	-	-	15.7	-	15.8	15.6	15.0	14.9	14.3	13.9
Turkey	6.6	5.8	6.9	6.2	7.3	6.6	8.4	10.3	10.5	10.3

Source: IMF (2000, 2001, 2002, 2003, 2004, 2005); IMF (1998-2004).

Moreover the disparities in unemployment between the MEDAs and the EUROs have been persistent, much wider from 1998 to 2002. However from 2002 labour market indicators point towards some convergence in labour market conditions (see Fig. 5).

Fig. 5 – Unemployment rates trend (1995-2004)



Source: IMF (2000, 2001, 2002, 2003, 2004, 2005); IMF (1998-2004).

3. The Millennium Development Goals

In September 2000, all the Members of the United Nations adopted the *Millennium Declaration* in order to highlight the essential role of development in improving the welfare of all people, eliminating poverty and building a peaceful world. The Millennium Development Goals focus on a number of targets considered important thresholds for measuring development progress, not only for developing countries but also for rich countries. The targets deal with income poverty, education, the status of women, health, the environment and global development progress. The following Tab. 2-4 show various indicators for each country that can be useful to complement the economic indicators in order to understand the position of each country in the world economic scenario.

Concerning the first goal (*Eradicate extreme poverty and hunger*) the measures related to income distribution show a lower percentage of resources at the bottom of the distribution in Morocco, Tunisia and Turkey, countries characterized, as noted above, by higher inequality. Moreover, Morocco and Turkey show the highest percentage of child malnutrition (10%), while high values of under-nourishment are evident across the population in Jordan and Morocco (7%).

The indicators of the second goal (*Achieve universal primary education*) reveal the worst situation, in terms of the enrolment of children in schools in Turkey (88%), Egypt and Morocco (90%): these countries present the lowest youth literacy rate (71% of males and 51% of females in Egypt in 1990; 77% and 61% in Morocco) and the biggest differences between male and female. Such kinds of discrimination are absent in Israel and Jordan. Nevertheless some countries, as Lebanon and Morocco, have to make efforts to increase the primary completion rate (respectively, 68% and 75%) as soon as possible in order to achieve the objective of "Education for All" as declared by the United Nations.

The third goal (*Promote gender equality and empower women*) looks at gender inequality as a cause of lower economic growth further to the primary result of the disadvantage of women throughout their lives. In most of the MEDAs more women are overcoming the bias against educating women, even if Turkey (85%) and Morocco (88%) are still experiencing a low ratio of female to male enrolments in school. As a long-term consequence and due to social and cultural factors, in some countries (Egypt, Lebanon and Turkey) the role of women in decision-making positions is very low (around 2-4%).

Despite the progress made toward the forth goal (*Reduced child mortality*) some countries (Algeria, Egypt, Morocco and Turkey) are still above the targeted level with infant mortality rate above 30%. Morocco, Syria, Lebanon, Algeria and Tunisia show a high maternal mortality ratio (goal 5, *Improve maternity*), as a consequence of the denial of access to modern health services and lower levels of births attended by skilled health staff. The sixth goal (*Combat HIV and other diseases*) is strictly related to the health conditions of the population even if it focuses on some specific diseases: the percentage of people infected with HIV is very low in MEDAs, while the incidence of tuberculosis should be monitored, especially in Morocco.

The seventh goal (*Ensure environmental sustainability*) can be achieved by protecting the environment and using its resources wisely: in this area Egypt, Tunisia and Morocco have made the fastest progress, even if Syria and Morocco still show low values in the area of access to an improved water source. The ratio of GDP, expressed in purchasing power parity rates (PPP), to energy use is a measure of energy efficiency and it highlights inefficiencies in Syria, Lebanon and Jordan but also good performance in Morocco.

Tab. 2 – Millennium Development Goals 1-2

	GOAL 1 Eradicate extreme poverty and hunger				GOAL 2 Achieve universal primary education			
Year 2003*	Poverty gap at $2 a day %	Share of poorest quintile in consumption	Prevalence of child malnutrition % of children under 5	Prevalence of under-nourishment % of population	Net enrolment ratio - Primary % of relevant age group	Youth literacy rate – Male % ages 15-24	Youth literacy rate – Female % ages 15-24	Primary completion rate %
Euro Area	-	7.6	-	-	99	-	-	-
Algeria	3.8	7.0	6	5	95	94	86	96
Egypt	11.3	8.6	9	3	90	71~	51~	91
Israel	-	6.9	-	-	100	100	99	-
Jordan	1.4	7.6	4	7	91	99	100	98
Lebanon	-	-	-	3	91	-	-	68
Morocco	3.1	6.5	10	7	90	77	61	75
Syria	-	-	7	4	98	97	93	88
Tunisia	1.3	6.0	4	<3	97	98	91	101
Turkey	2.5	6.1	10	3	88	98	93	95

* Data are for 2003 or closest year available; ~ 1990.

Source: World Bank (2005).

Poverty gap is the mean shortfall from the poverty line (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line; this measure reflects the depth and incidence of poverty. **Share of poorest quintile in consumption** is the share of consumption that accrues to the poorest 20% of the population. **Net enrolment ratio** is the ratio of children of official school age who are enrolled in school to the population of the corresponding official school age. **Literacy rate** is the percentage of people ages 15-24 who can read and write. **Primary completion rate** is the percentage of students successfully completing the last year of primary school in a given year.

Tab. 3 – Millennium Development Goals 3-6

	GOAL 3 Promote gender equality and empower women		**GOAL 4 Reduce child mortality**		**GOAL 5 Improve maternit y**	**GOAL 6 Combat HIV and other diseases**	
Year 2003*	Ratio of female to male enrolments in schools	Women in parliaments - % of total seats	Under 5 mortality rate per 1,000	Infant mortality rate – per 1,000 live births	Maternal mortality ratio per 100,000 live births	HIV prevalence % adults	Incidence of tuberculosis per 100,000 people
Euro Area	100	22	6	4	9	0.3	13
Algeria	99	6	41	35	140	0.1	53
Egypt	93	2	39	33	84	<0.1	28
Israel	99	15	6	5	17	0.1	9
Jordan	101	6	28	23	41	<0.1	5
Lebanon	102	2	31	27	150	0.1	12
Morocc o	88	11	39	36	220	0.1	112
Syria	93	12	18	16	160	<0.1	42
Tunisia	100	12	24	19	120	<0.1	22
Turkey	85	4	39	33	70	<0.1	26

* Data are for 2003 or closest year available.
Source: World Bank (2005).
Under 5 **mortality rate** is the probability that a newborn baby will die before reaching age five, per 1,000 live births. **Infant mortality rate** is the number of infants dying before reaching one year of age per 1,000 live births in a given year. **Maternal mortality rate** is the number of women who die from pregnancy related causes during pregnancy and childbirth, per 100,000 live births. **HIV prevalence** is the percentage of people who are infected with HIV. **Incidence of tuberculosis** is the estimated number of new tuberculosis cases.

The eighth and final goal (*Develop a global partnership for development*) is complementary to the others and involves the mutual responsibilities of rich and poor countries for achieving the Millennium Developments Goals: the former, by providing more aid and better access to the industrialized markets and, the latter, by improving governance and development policies. The targets of this goal include indicators related to access to new technologies, access to the market and repayment of debt. The level of new technologies is still low in some MEDAs, Algeria and Syria in particular, and it can be an obstacle to increase in productivity and improvement of people's lives. The average tariff barriers, calculated on all products, show how far a country is from a full liberalization of trade: Morocco and Tunisia have the least liberalized markets with an average tariff rate above 20%. Concerning debt, all MEDAs are classified as "less indebted" and only Lebanon shows a percentage of total debt to exports greater than 70%.

Tab. 4 – Millennium Development Goals 7-8

	GOAL 7 Ensure environmental sustainability		**GOAL 8 Develop a global partnership for development**			
Year 2003*	Access to an improved water source % of population	GDP per unit of energy use – PPP $ per kg oil equivalent	Fixed line and mobile phone subscribers per 1,000 people	Internet users per 1,000 people	Tariff barriers – All products – Simple mean tariff %	Total debt service as % of exports of goods and services
Euro Area	-	6.4	1386	378	-	-
Algeria	87	5.6	115	16	18.4	19.5
Egypt	98	4.6	212	39	19.1	11.0
Israel	100	6.0	1419	301	7.9	-
Jordan	91	3.9	356	81	14.5	20.4
Lebanon	100	3.8	426	117	7.5	73.2
Morocco	80	10.1	284	33	28.9	25.7
Syria	79	3.2	147	-	14.7	3.0
Tunisia	82	7.7	310	64	25.6	13.7
Turkey	93	5.7	662	85	2.6	17.1

* Data are for 2003 or closest year available.

Source: World Bank (2005).

Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source. **GDP per unit of energy use** is the PPP GDP per kilogram of oil equivalent of commercial energy use. **Tariff barriers-All products-Simple mean** is the unweighted average of the effectively applied rates for all products subject to tariffs. **Total debt device** is the sum of principal repayments and interests actually paid in foreign currency, goods or services on debts.

4. Recent economic developments

In the last years of the 1990s the economy of most of the MEDAs (see Tab. 5 and 6) was influenced by important external factors, including modifications in commodity prices and growth in export markets. The trend of oil prices caused terms-of-trade losses in many of the non-oil-producing countries due to a persistent depressed level of non-fuel commodities and primary goods compared to higher oil import prices.

Tab. 5 – Real GDP (annual % change)

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Euro Area	2.3	1.5	1.8	3.6	3.5	2.9	1.0	0.4	1.2	2.0	1.6	2.1
Algeria	3.8	3.8	1.1	5.1	3.2	2.1	2.6	4.0	6.9	5.3	4.6	4.7
Cyprus	6.1	1.9	2.3	5.0	4.8	5.0	4.1	2.1	1.9	3.7	3.8	4.0
Egypt	4.5	4.9	5.9	7.5	6.1	5.4	3.5	3.2	3.1	4.1	4.8	5.0
Israel	6.8	4.6	3.5	3.7	2.5	8.0	-0.9	-0.7	1.3	4.3	3.7	3.6
Jordan	3.9	1.0	3.3	3.0	3.1	4.1	4.9	4.8	3.3	6.7	5.0	5.5
Lebanon	6.5	4.0	4.0	3.0	1.0	-0.5	2.0	2.0	3.0	5.0	4.0	3.5
Malta	7.3	3.2	4.9	3.4	4.1	9.9	-1.7	2.2	-1.8	1.5	1.5	1.8
Morocco	-6.6	12.2	-2.2	7.7	-0.1	1.0	6.3	3.2	5.2	3.5	3.0	3.8
Syria	5.8	4.4	5.0	6.8	-3.6	0.6	3.8	4.2	2.6	3.6	3.5	3.6
Tunisia	2.4	7.0	5.4	4.8	6.1	4.7	4.9	1.7	5.6	5.8	5.0	5.9
Turkey	8.1	6.9	7.6	3.1	-4.7	7.4	-7.5	7.9	5.9	8.0	5.0	5.0

Source: IMF (2000, 2001, 2002, 2003, 2004, 2005).

On the one hand, appropriate macroeconomic policies and fiscal and financial reforms allowed the economy of many MEDAs to be broader based, benefiting from stronger export market growth. The new free trade agreement between the United States, Turkey, Morocco, Egypt, Jordan and Tunisia should intensify this positive trend.

On the other hand, recent fluctuations in commodity prices showed the vulnerability of most of the MEDAs to changes in the prices of primary goods.

Tab. 6 – Consumer prices (annual % change)

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Euro Area	3.0	2.3	1.6	1.1	1.1	2.1	2.4	2.3	2.1	2.2	1.9	1.7
Algeria	29.8	18.7	5.7	5.0	2.6	0.3	4.2	1.4	2.6	3.6	3.5	3.5
Cyprus	2.6	3.0	3.6	2.2	1.6	4.1	1.9	2.8	4.2	2.2	2.5	2.5
Egypt	9.4	7.0	6.2	4.7	3.7	2.8	2.4	2.4	3.2	8.1	9.9	8.0
Israel	9.4	11.4	9.0	5.4	5.2	1.1	1.1	5.6	1.5	-1.1	1.0	2.0
Jordan	2.3	6.5	3.0	3.1	0.6	0.7	1.8	1.8	2.3	3.4	3.5	2.0
Lebanon	10.6	8.9	7.7	4.5	0.2	-0.4	-0.4	1.8	1.3	3.0	2.0	2.5
Malta	4.0	2.4	3.1	3.8	2.2	3.1	2.5	2.7	1.9	2.7	2.4	1.9
Morocco	6.1	3.0	1.0	2.7	0.7	1.9	0.6	2.8	1.2	2.0	2.0	2.0
Syria	7.7	8.9	1.9	-1.0	-3.7	-3.9	3.0	0.6	5.0	3.5	4.0	4.0
Tunisia	6.3	3.8	3.7	3.1	2.7	3.0	1.9	2.8	2.8	3.6	2.5	2.5
Turkey	93.7	82.3	85.0	83.6	63.5	54.3	53.9	44.8	25.3	10.6	9.0	6.1

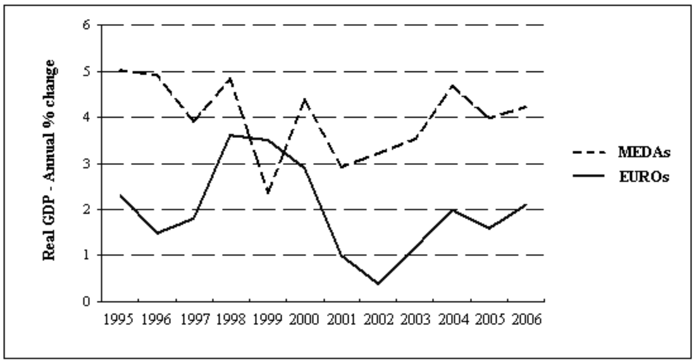
Source: IMF (2000, 2001, 2002, 2003, 2004, 2005).

More reforms should be encouraged mainly aimed to obtain a broader base for economies, to support labour-intensive growth by an expansion of the private sector in the markets in which MEDAs can have a comparative advantage. (In the Annex, see Tab. 4*A* about *Interest rates*, Tab. 5*A* about *Exchange rates* and Tab. 6*A* about *Current account balance*).

Looking at the performance of the MEDAs and the EUROs economies (see Fig. 6), the economic growth is persistently higher in the MEDAs of about 2-3% but it is possible to highlight a similar pattern in the two areas (with the exception of 1999 due to adverse factors especially in Morocco, Syria and Turkey). It can prove to what extent both the MEDAs and the EUROs performances are driven by other economies and subject to global influence.

In the Maghreb region (Algeria, Morocco and Tunisia) the 2005 outlook was positive despite the expected slowdown in growth. After a period characterized by civil unrest, political violence, high unemployment and a growth of around 2%, **Algeria**, one of the oil producing countries of the area, since 2002 has taken advantage of higher oil prices with significant improvements in fiscal and external balances. After a massive liberalization programme in the mid-1990s, the private sector has expanded rapidly in recent years. Nevertheless, the slowdown in growth already noted in 2004 (after a positive 2003 characterized by favourable weather conditions and the reconstruction after the earthquake), due to a reduction in the hydrocarbon production, seems to persist in 2005 and 2006 as well. Moreover, after 2002, the strong GDP growth has had effects on inflationary pressures, with an inflation level at 3.6% in 2004.

Fig. 6 – Real GDP change trend (1995-2006)



Source: IMF (2000, 2001, 2002, 2003, 2004, 2005).

In 1999 and 2000 a serious drought hurt economic prospects in **Morocco** but in the subsequent years the effects of reforms aimed at deregulating the economy and improving firm competitiveness have contributed to a positive growth level that should continue in the coming years even if the economy is still dependent on the effects of the agricultural sector. The increase in tourism (+16% in 2004) encouraged the development of new plans, considering tourism as one important resource for the country.

The reforms undertaken in **Tunisia** between 1999 and 2004 allowed the country to survive three consecutive years of drought and to consolidate its growth rate at 5%, driven by tourism and exports that can enjoy the depreciation of the dinar. Many efforts have been carried out in the modernization of small and medium-size firms but further improvements in the clothing and textiles sectors must be planned in order to benefit from the free trade area with the European Union planned for 2008.

In the Mashreq region (Egypt, Syrian Arab Republic, Jordan and Lebanon) the average rate of growth has been robust and it was expected to remain strong in 2005 and 2006.

From 1998 to 2003 annual output growth in **Egypt** slowed as a consequence of difficulties in the domestic policy framework, instability in the security situation and a decline in tourism. The positive period which started in 2004 (4.1% and 5.0% expected in 2006) is due to strong export performance (that benefited from the depreciation of the national currency), revitalization of domestic consumption and the natural gas sector. Nevertheless the current economic growth is not enough to contrast the high unemployment rate, steadily rising, and at about 10% in 2004. The level of inflation was about 3% from 1999 to 2003, while a strong increase has been noted in 2004 and it has projected further, especially due to the depreciation of the pound, higher commodity prices and moderate monetary policies.

From 1998 the growth in **Jordan** (6.7% in 2004, 5.5% expected in 2006) takes advantage of robust export performance, growth in partner countries and exchange rate depreciation, while the domestic demand is now more stable than in the previous years.

In 2003 the growth and the stability of the **Syrian Arab Republic** economy suffered from the Iraq war and it is still at risk of instability even if it is projected to pick up.

After 1999, persistent budget deficits and high levels of public debt contributed to severe economic vulnerabilities and only in 2004 **Lebanon** economy enjoyed indirectly the increase in oil prices, strong exports and an improvement in tourism and construction activities.

After some years of uncertain growth due to security concerns and crisis in information technology spending, a more secure situation, higher domestic demand and exports of high technology goods, contributed to a growth acceleration in **Israel** in 2004 (4.3% in 2004, even if it was expected to be lower in 2005 and 2006). From 2000 (with the exception of 2002), the inflation has been always very low and it allowed the Bank of Israel to reduce the interest rates that contributed to strengthen the domestic demand.

After the recession in 1999, the recovery of **Turkey's** economy in 2000 (+7.4%) was due to reconstruction following the earthquakes, stronger exports to European countries and Russia, increase in tourism, falling interest rates and improving consumer confidence. After another crisis in 2001, the economy improved significantly from 2002 with good performances in the industrial and tourism sectors. Improved financial markets conditions in 2003, strong macroeconomic policies and structural reforms in 2004 contributed to a robust growth in Turkey (8.0%), even if the projections are a little bit lower (+5.0% in 2005 and 2006). In 2004 Turkey has reached its lowest rate of inflation (10.6%) in 30 years, which is expected to decrease further and to achieve single digit level. This reduction of inflation started with disinflation programmes in 2000 even if the lagged impact of oil prices and lira depreciation could have negative effects.

After good performance at the end of 1990s, the **Cypriot** economy experienced a slowdown, due to a decline in tourism, even if the projections for 2005 and 2006 showed a positive trend.

5. Fiscal policies

Even if important structural fiscal reforms allowed MEDAs to achieve good economic performances, in many countries fiscal policies must be implemented in a less procyclical fashion in order to avoid following the boom and bust cycles. Moreover trade restrictiveness is still higher in Maghreb and Mashreq regions (see Tab. 7, 8 and 9. In the Annex, see also Tab. 7*A* and 8*A* about *Public Expenditures* and *Public Revenues* as percentage of GDP in each country).

Tab. 7 – Government balance (% of GDP)

Country	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Euro Area	-5.0	-4.3	-2.7	-2.3	-1.3	0.1	-1.7	-2.4	-2.8
Algeria	-1.3	3.0	2.3	-3.6	-0.4	9.9	4.4	0.2	5.1
Cyprus	-0.9	-3.3	-5.2	-4.2	-4.4	-2.4	-2.3	-4.5	-6.3
Egypt	3.4	-1.4	-1.7	-	-	-	-5.6	-5.9	-6.1
Israel	-4.4	-4.2	0.3	-1.4	-2.0	-0.6	-4.6	-3.8	-5.6
Jordan	0.9	-1.6	-3.2	-5.0	-2.4	-2.0	-3.2	-3.2	-0.3
Lebanon	-	-	-	-	-	-19.3	-15.1	-13.3	-13.3
Malta	-3.6	-7.7	-6.6	-8.5	-6.1	-6.3	-6.4	-5.9	-10.5
Morocco	-4.5	-3.0	-0.7	-2.8	-2.7	-2.5	0.4	-4.4	-2.5
Syria	-	-2.9	-1.4	-2.2	-1.1	-2.1	1.8	-2.8	-4.1
Tunisia	-3.2	-3.1	-4.1	-0.9	-2.4	-2.7	-3.5	-1.9	-3.2
Turkey	-4.1	-8.4	-8.5	-8.4	-13.0	-11.4	-19.6	-14.5	-10.4

Source: World Bank (2005); IMF (1998-2004); OECD (2005); European Commission (2005).

Generally, in the Maghreb region, in order to enhance economic growth and to reduce the high unemployment levels, most of the countries have already implemented some financial sector reforms including the privatization of state-owned banks and more incentives to trade liberalization. They have decreased the role of government in the economy, reducing labour taxes and cutting public debt in order to encourage the underlying economic growth within a generally good context of budgetary policies. Moreover they have implemented strong reforms of the tariff systems.

Tab. 8 – Public debt (% of GDP)

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Euro Area	73.6	75.2	75.1	74.3	72.9	70.4	69.6	69.5	70.8	71.3
Algeria	-	-	-	-	-	56.1	-	-	48.1	37.4
Cyprus	49.7	52.1	55.3	59.6	59.9	59.9	61.9	65.2	69.8	71.9
Egypt	-	-	-	-	-	74.6	84.5	89.3	98.7	102.7
Israel	116.9	114.3	107.9	109.8	103.2	94.0	99.0	104.2	108.6	104.5
Jordan	105.1	106.2	100.4	101.2	100.1	93.9	90.7	-	91.9	85.8
Lebanon	-	-	-	-	-	135.2	-	-	-	-
Malta	35.9	42.8	48.1	53.1	56.8	57.0	62.4	62.7	71.8	75.0
Morocco	79.2	75.6	79.1	74.7	75.4	75.7	74.8	71.5	69.4	70.2
Syria	-	-	-	-	-	-	-	-	32.0	-
Tunisia	57.5	55.3	62.5	59.7	61.4	62.6		-	60.3	59.2
Turkey	35.8	37.9	43.9	41.4	53.5	50.9	99.9	86.3	74.4	74.3

Source: World Bank (2005); IMF (1998-2004); OECD (2005); European Commission (2005).

Algeria, at the beginnings of the 2000s, implemented a number of reforms aimed at privatizing public sector companies, restructuring the bank sector and reforming the housing and land system and, from 2000, it shows a public budget surplus. The government has decided in 2005, starting a process of fiscal consolidation, to cut the link between the public expenditures and the hydrocarbon revenues, judged to be too volatile. Moreover, the concentration of investments in oil and gas production capacities is a source of vulnerability also due to the reduction in Algeria's OPEC quota and, even if the large oil-related revenues contributed to budget surpluses, it is still necessary to diversify the economy.

If in the recent past the budgetary situation was highly dependent on revenues from privatization, **Morocco** has now to decide how to manage the budget deficit (about 2.5% in 2003) following a decreasing number of privatizations and a reduction in a number of duties.

In a similar way, **Tunisia** has to manage the budgetary policy (in 2003 the deficit was at 3.2%) looking at the effects of the tariff dismantlement following the agreements with the European Union.

The fiscal position of the Mashreq countries has to be strengthened, public debt reduced and monetary policies implemented to reduce the existent high inflation.

Egypt's economy still remains highly protected by a tariff system despite some reductions in the 1990s. In 2004, 21 out of 27 custom tariff rates were cancelled with a reduction of the average rate from 14.6% to 9.1%. The annual deficit is growing (6.1% in 2003) and fiscal consolidation is essential to improve debt sustainability (about 100% of GDP in 2003) that now is becoming problematic.

In Israel, after years characterized by tight fiscal policy and loose monetary policy, an economic reform programme launched in 2003, primarily in electricity and communications markets, included a reduction in the size of the public sector intervention. Further government announcements about a reduction of the size of government and public debt (104% of GDP in 2005) had to be tested in the course of 2005.

The deficit in **Turkey** (10.4% in 2003) follows a decreasing trend from 2001 and the results of the negotiations with the European Union will affect the fiscal policies in order to reduce the deficit and the public debt again. Nevertheless strong reforms related to taxes and expenditures systems and bank system will need revision in order to make the investment environment more attractive.

From the beginning of the 2000s, **Jordan's** public finance has been characterized by extremely high volatility, as a consequence of a number of measures of fiscal consolidation, pension reform and other structural measures including reinforced revenue administration. Even if a strong fiscal stimulus supported the growth in 2004, the debt reduction needs further measures (85.8% in 2003).

In **Syria**, additional reforms, including trade liberalization, introduction of a value added tax, liberalization of interest rates, new foreign exchange regimes, are needed to lift economic growth in order to face the high unemployment rates.

Lebanon faces extremely serious debt dynamics with gross public debt over 135% of GDP in 2000 and a deficit of around 19% of GDP. Political developments have increased financial market uncertainties and, according to the international institutions, new cuts in public spending and higher fiscal revenues must be a priority for the medium-term sustainability together with trade liberalization and privatization in order to improve growth prospect.

From a brief look at the main indicators related to central government revenues in the MEDAs (see Tab. 9) it is possible to catch some issues about the tax policies in each country.

Tab. 9 – Central government revenues (% of total current revenue)

Year 2003	Taxes on income, profits and capital gains	Taxes on goods and services	Taxes on international trade	Other taxes	Social contributions	Grants and other revenue
Euro Area	23	28	0	3	37	7
Algeria	66	9	13	1	0	11
Egypt (1995)	17	13	10	10	10	41
Israel	28	28	1	5	16	22
Jordan	8	28	10	9	1	43
Lebanon	11	44	11	12	1	21
Morocco (2000)	24	36	16	3	5	16
Syria (2000)	38	19	10	6	0	27
Tunisia	23	35	8	4	19	12
Turkey (2000)	29	41	1	7	0	21

Source: World Bank (2005).

As predicted from the tax assignment theory with respect to the low-income countries, many of the MEDAs economies rely basically on indirect taxes on international trade and goods and services (55% in Lebanon, 52% in Morocco, 43% in Tunisia and 42% in Turkey). An exception to this general view is Algeria where *taxes on income, profits and capital gains* represent the 66% of total current revenue. On the contrary, it should be noted the extremely low relative importance of them in Jordan (8%).

Another aspect of interest that should be investigated more deeply relates to the absence of *social contributions* in Algeria, Syria and Turkey and the low level of them in Jordan (1%), Lebanon (1%) and Morocco (5%).

Nevertheless, the figures about *grants and other revenues* are important to understand the dependency of the public economy on external sources because they also include grants from other foreign governments, international organizations and voluntary and non-repayable receipts. In Jordan and Egypt (even if the more updated data refer to 1995) this revenue source shows a percentage above the 40%.

The following Tab. 10 shows other summary details of the tax policies in the MEDAs and it provides evidence of two other important conclusions of the tax assignment theory.

Tab. 10 – Tax policies

Year 2003	Tax revenue - % of GDP	Taxes on income, profits and capital gains - % of total taxes	Domestic taxes on goods and services - % of value added in industry and services	Export duties - % of tax revenue	Import duties - % of tax revenue
Algeria	32.0	74.0	3.8	-	14.6
Egypt (1995)	-	33.8	6.0	-	20.5
Israel	29.9	45.8	-	-	0.9
Jordan	18.8	14.8	11.0	-	15.9
Lebanon	15.2	14.1	11.0	-	14.3
Morocco (2001)	25.0	28.5	12.7	0.0	18.8
Syria(2001)	17.4	51.5	6.0	1.5	11.7
Tunisia	20.6	32.8	11.8	0.1	10.8
Turkey (2001)	23.8	42.2	15.3	0.0	1.1

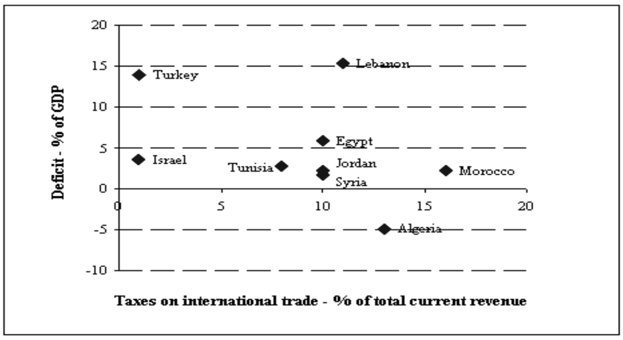
Source: World Bank (2005).

On the one hand, it is well-known that the level of taxation is higher in high income countries due to the provision of broader range of social services but also that a low level of taxation may reflect weak administration and large-scale tax evasion. A quick overview of the level of fiscal obligations in each country, measured by tax revenue as a share of GDP, shows that it varies across countries from 15.2% in Lebanon to 29.9% in Israel and 32% in Algeria.

On the other hand, it is common to consider the share of *taxes on income, profits and capital gains* with respect to total taxes as a measure of an economy's level of development, due to the high administrative costs and other general problems of collecting them. With the exception of Algeria (which shows an incredible high share of direct taxes equal to 74%), Syria (51.5%) Israel (45.8%) and Turkey (42.2%) show percentages higher than other MEDAs.

As noted above, many countries have lowered import tariffs in recent years: nevertheless in some countries they still represent an important share of tax revenue (Morocco 18.8%, Jordan 15.9%). The following Fig. 7 shows a measure of the budget vulnerability, highlighting that in most of the MEDAs the taxes on international trades still represent more than 10% of the total current revenue. The loss of this important revenue source will be particularly serious for countries with a critical budgetary situation as Lebanon and Egypt.

Fig. 7 – Budget vulnerability to free trade



Source: IMF (1998-2004); World Bank (2005); OECD (2005); European Commission (2005).

6. Conclusions

This paper provided a general macroeconomic framework of the MEDAs focusing on various social indicators and the main outcomes of the fiscal policies implemented over the past 10 years.

Even if it is not easy to compare the MEDAs and the EUROs as a whole, due to the great cross-country variations within each of the two set of countries, it was worthwhile to compare the trends of the main indicators and to highlight the perspective convergences.

Subject to a moderate and constant population growth, the MEDAs should make more efforts to improve their situation in relation to the Millennium Development Goals. In particular, more attention must be paid to the condition of children and women in Egypt, Lebanon, Morocco and Turkey.

Labour market performance varies considerably across the MEDAs, with only Algeria, Morocco and Tunisia showing a clear negative trend in the unemployment rates. Nevertheless, from 2002 labour market indicators of the MEDAs point towards some convergence in labour market conditions of the EUROs.

Looking at the performance of the MEDAs and the EUROs economies (with the economic growth persistently higher in the MEDAs of about 2-3%) reveals to what extent both the MEDAs and the EUROs performances are subject to global influence.

It is widely accepted that the general objective of the Barcelona Process of "*turning the Mediterranean region into an area of dialogue, exchange and cooperation*" depends on the establishment of a Euro-Mediterranean free trade zone and many improvements in the recent past have been reached. Nevertheless, the data presented in this paper allow us to highlight two main points related to this irreversible process.

Firstly, it should be essential to evaluate the social impact of market liberalization and privatization programmes implemented from the mid-1980s: as seen, many vulnerable population groups still need to realize their human potential, reduce insecurity and improve their welfare protection. It requires an improvement in the targeting of the subsidies and social spending that often contrasts with the objectives of a reduced public intervention in the economy.

Secondly, the development of a free trade zone has direct consequences for the public finance of the MEDAs, since, generally, customs revenues constitute an important budget resource. These short-term consequences should be taken into account as important as the long-term consequences of a better economic performance.

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Annex

Tab. 1A – Population (millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Algeria	27.9	28.4	28.8	29.3	29.8	30.2	30.7	31.3	31.8
Cyprus	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Egypt	61.6	62.8	64.0	65.2	66.5	67.8	69.1	70.5	71.9
Israel	5.3	5.5	5.6	5.8	5.9	6.0	6.2	6.3	6.4
Jordan	4.2	4.4	4.6	4.7	4.9	5.0	5.2	5.3	5.5
Lebanon	3.2	3.2	3.3	3.4	3.4	3.5	3.5	3.6	3.7
Malta	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Morocco	26.8	27.3	27.7	28.2	28.6	29.1	29.6	30.1	30.6
Syria	14.6	15.0	15.4	15.8	16.2	16.6	17.0	17.4	17.8
Tunisia	8.9	9.1	9.2	9.3	9.4	9.5	9.6	9.7	9.8
Turkey	63.1	64.1	65.2	66.2	67.3	68.3	69.3	70.3	71.3
West Bank & Gaza	2.6	2.7	2.8	3.0	3.1	3.2	3.3	3.4	3.6

Source: IMF (2004).

Tab. 2A – Real GDP (billions of National Currency)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Algeria	2004990	2570030	2780170	2830490	3238200	4098820	4241800	4454800	5124000	-
Cyprus	4148	4300	4522	4863	5214	5679	6104	6370	6805	7216
Egypt	204000	229400	257200	287400	307600	340100	358700	378900	417500	474400
Israel	269719	315495	356651	394136	429918	470733	477797	493707	501984	526852
Jordan	4715	4912	5137	5610	5767	5989	6339	6699	7056	-
Malta	1146	1201	1288	1362	1456	1668	1694	1742	1796	1854
Morocco	282470	319390	318340	344010	345590	354210	383180	397780	418660	-
Syria	570975	690857	745569	790444	819092	903944	954051	999451	-	-
Tunisia	17052	19066	20898	22561	24672	26650	28760	29930	32210	35100
Turkey	7762	14772	28836	52225	77415	124583	178412	276003	359763	430511

Source: IMF (1998-2004).

Tab. 3A – Economic indicators

Year 2003	Gini index	PPP Gini per-capita	GDP in billions $	PPP GDP in billion
Euro Area	32.0	26350	6999.1	8087
Algeria	35.3*	5930	61.6	189
Egypt	34.4*	3940	93.9	266
Israel	35.5~	19440	108.6	130
Jordan	36.4*	4290	9.8	23
Lebanon	---	4840	18.2	22
Morocco	39.5*	3940	39.4	119
Syria	---	3430	20.2	60
Tunisia	39.8*	6850	22.2	103
Turkey	40.0*	6710	197.8	475

* Refers to expenditure shares by percentiles of population. ~ Refers to income shares by percentiles of population.
Source: World Bank (2005).

Tab. 4A – Interest rates

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Euro Area	-	-	-	-	3.0	4.8	3.3	2.8	2.0	2.0
Algeria	14.0	13.0	11.0	9.5	8.5	6.0	6.0	5.5	4.5	4.0
Cyprus	6.5	7.5	7.0	7.0	7.0	7.0	5.5	5.0	4.5	5.5
Egypt	13.5	13.0	12.3	12.0	12.0	12.0	11.0	10.0	10.0	10.0
Israel	14.2	15.3	13.7	13.5	11.2	8.2	5.7	9.2	5.2	3.9
Jordan	8.5	8.5	7.8	9.0	8.0	6.5	5.0	4.5	2.5	3.8
Lebanon	19.0	25.0	30.0	30.0	25.0	20.0	20.0	20.0	20.0	20.0
Malta	5.5	5.5	5.5	5.5	4.8	4.8	4.3	3.8	-	-
Morocco	-	-	-	6.0	5.4	5.0	4.7	3.8	3.3	3.3
Syria	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	-	-
Tunisia	8.9	7.9	-	-	-	-	-	-	-	-
Turkey	50.0	50.0	67.0	67.0	60.0	60.0	60.0	55.0	43.0	38.0

Source: IMF (1998-2004).

Tab. 5A – Exchange rates (US Dollar per National Currency)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Euro Area	-	-	-	-	1.067	0.924	0.896	0.944	1.131	1.243
Algeria	0.021	0.018	0.017	0.017	0.015	0.013	0.013	0.013	0.013	0.014
Cyprus	2.211	2.145	1.948	1.934	1.844	1.611	1.556	1.643	1.936	2.137
Egypt	0.295	0.295	0.295	0.295	0.295	0.288	0.252	0.222	0.173	0.161
Israel	0.332	0.313	0.290	0.264	0.242	0.245	0.238	0.211	0.220	0.223
Jordan	1.428	1.410	1.410	1.410	1.410	1.410	1.410	1.410	1.410	1.410
Lebanon (*1000)	0.616	0.635	0.649	0.658	0.662	0.662	0.663	0.663	0.663	0.663
Malta	2.833	2.775	2.592	2.574	2.504	2.285	2.223	2.310	2.654	2.906
Morocco	0.117	0.115	0.105	0.104	0.102	0.094	0.089	0.091	0.105	0.113
Syria	0.089	0.089	0.089	0.089	0.089	0.089	0.089	0.089	0.089	0.089
Tunisia	1.058	1.027	0.905	0.879	0.844	0.731	0.695	0.704	0.777	0.803
Turkey (*100000)	2.192	1.267	0.683	0.392	0.251	0.169	0.089	0.067	0.067	0.070

Source: IMF (1998-2004).

Tab. 6A – Current Account Balance (% of GDP)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Euro Area*	-	-	-0.3	0.4	0.8	0.3	0.4	0.5	0.5
Algeria	-1.9	0.0	16.9	12.4	7.8	13.3	13.3	15.4	14.7
Cyprus	-6.7	-2.6	-5.2	-4.4	-5.4	-3.4	-4.1	-3.4	-2.7
Egypt	-3.1	-2.0	-1.2	0.7	2.4	2.4	4.4	4.5	3.4
Israel	-0.9	-2.6	-1.7	-1.7	-1.3	-0.1	-0.1	-0.2	-
Jordan	-	-	0.7	-0.1	4.5	11.3	-0.8	-1.7	-5.0
Lebanon	-	-	-	-	-13.2	-13.6	-16.1	-16.3	-12.9
Malta	-4.9	-3.7	-14.9	-5.0	-2.1	-5.8	-10.3	-4.0	-3.0
Morocco	-0.4	-0.8	-1.4	4.9	4.1	3.6	1.2	-	0.3
Syria	-	-	-	-	7.1	3.5	-0.4	-0.4	-2.9
Tunisia	-3.4	-2.0	-4.2	-4.2	-3.5	-2.9	-2.1	-2.5	-2.5
Turkey	1.0	-0.7	-4.9	2.3	-0.8	-3.4	-5.2	-4.5	-3.7

* Calculated as the sum of the balances of individual euro area countries.
Source: IMF (2000, 2001, 2002, 2003, 2004, 2005).

Tab. 7A – Public expenditures as % of GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Algeria	-	-	-	-	-	29.3	-	-	24.6
Cyprus	31.5	34.0	35.5	35.6	34.3	35.0	36.3	37.7	41.5
Egypt	33.7	32.4	30.5	25.1	27.6	27.3	29.3	28.1	-
Israel	46.5	47.4	46.3	46.4	46.0	44.3	46.9	-	52.4
Jordan	31.2	33.9	32.7	33.5	31.3	31.2	32.0	-	30.5
Lebanon	-	-	-	-	-	35.7	-	-	29.7
Malta	39.1	41.6	41.6	42.3	-	-	-	-	-
Morocco	33.2	27.8	30.3	30.7	31.7	34.4	36.0	30.7	31.7
Syria	24.9	22.5	24.4	23.5	23.2	23.2	-	-	-
Tunisia	32.7	32.6	32.0	31.7	31.9	28.6	-	-	27.9
Turkey	22.2	26.8	29.9	32.1	38.1	39.4	49.5	-	-

Source: IMF (1998-2004); World Bank (2005).

Tab. 8A – Public revenues as % of GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Algeria	-	-	-	-	-	39.2	-	-	36.0
Cyprus	30.5	30.7	30.4	30.3	30.5	32.7	34.1	33.3	35.3
Egypt	36.1	30.2	28.3	24.0	29.3	28.2	27.7	26.5	-
Israel	40.1	39.2	40.7	40.6	40.3	41.4	40.9	-	44.4
Jordan	28.3	27.8	25.5	25.4	26.5	25.2	24.9	-	24.0
Lebanon	-	-	-	-	-	19.5	-	-	19.6
Malta	35.1	32.2	34.2	33.1	-	-	-	-	-
Morocco	29.0	24.8	27.9	26.5	32.2	28.5	33.3	26.3	28.1
Syria	22.9	22.0	24.0	22.8	23.9	23.9	-	-	23.9
Tunisia	30.0	29.7	28.8	31.3	29.1	28.6	-	-	29.4
Turkey	18.1	18.5	21.9	24.2	25.6	28.4	30.5	-	-

Source: IMF (1998-2004); World Bank (2005).