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**ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)**

**REGIONAL ECONOMIC FORECAST**  
**(December 2008)**

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## I. GLOBAL CONTEXT

The expansion of world economy came to an abrupt halt in the fourth quarter of 2008. A world recession, led by economies of the developed countries, is looming in 2009. The credit crunch in the financial markets in the United States and Western Europe, which erupted in the summer of 2007, culminated in a series of financial crises after the collapse of a major financial institution in the United States in September 2008. International money and capital markets froze in the early fourth quarter of 2008. The credit turmoil continued with increasing uncertainties over the economic prospects of developed countries, despite a number of interventions by central banks and finance ministries, which consisted, among others, of aggressively lowering interest rates, supplying significant amounts of additional liquidity to banking systems, injecting public funds to recapitalize commercial banks and announcing fiscal stimulus packages. The economic prospects of developing countries also became uncertain over the same period, as reflected in the rapid downward economic adjustment experienced in China and India. The external indebtedness of the private sector in many emerging and developing countries appeared to be vulnerable to the sudden freeze of international money and capital markets, despite the high level of accumulated foreign reserves held by those countries. Moreover, the decreasing risk appetite of international investors is expected to reduce capital flows to emerging and developing economies. Meanwhile crude oil prices were volatile in 2008: the price in the Organization of the Petroleum Exporting Countries (OPEC) Reference Basket had surged to a record high of US\$ 140.73 per barrel on 3 July before plunging to the level of early 2005. The demand growth for crude oil had decelerated even before the collapse of oil prices, but supply fears from the expectation of rapid demand growth of emerging and developing economies, such as China and India, supported the price surge in the first half of 2008. The financial crisis has been followed by a significant contraction of economic activities and associated supply capacity adjustments, particularly in developed countries.<sup>1</sup>

## II. REGIONAL OUTLOOK FOR THE ESCWA REGION 2008-2009

### A. GENERAL OVERVIEW

The ESCWA region demonstrated resilient economic expansion towards the end of 2008 in the face of rapidly changing external macroeconomic conditions. Average real gross domestic product (GDP) growth in the ESCWA region in 2008 is estimated to be at 6.1 per cent, compared to 5.1 per cent in 2007 (see table 1). Surging international commodity prices in the first half of 2008 had a positive effect on the region's energy and commodity-related sectors, including crude oil production, liquefied natural gas and petrochemicals. The previous growth in national wealth, together with ongoing positive business and consumer sentiment, sustained expenditure growth well into the year. The resulting domestic demand expansion contributed to continuing rapid growth in the business services, communications, construction, finance, tourism and transport sectors. However, historically high commodity prices resulted in higher prices in consumer goods in most of the countries in the ESCWA region. The average consumer inflation rate is estimated at 12.0 per cent in 2008, compared to 8.4 per cent in 2007. Despite the resulting erosion in purchasing power, consumer expectation was relatively stable. However, wage levels have displayed an upward trend, particularly in the member countries of Gulf Cooperation Council (GCC),<sup>2</sup> due to a rise in public sector wages. Together with the impact of food inflation, inflationary expectation is expected to remain in the region. For 2009, the ESCWA region is predicted to experience weak economic growth at 3.7 per cent, but inflationary pressure is forecast to remain, with an average consumer inflation rate of 8.5 per cent.

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<sup>1</sup> United Nations (2009). *World Economic Situations and Prospects 2009*. Available at: <http://www.un.org/esa/policy/wess/wesp.html>.

<sup>2</sup> The ESCWA region consists of two subregions. GCC countries are the members of the Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Non-GCC member countries of the ESCWA region are referred to as More Diversified Economies (MDEs) and include Egypt, Iraq, Jordan, Lebanon, Palestine, the Sudan, the Syrian Arab Republic and Yemen.

TABLE. REAL GDP GROWTH RATE AND CONSUMER INFLATION RATE, 2005-2009  
(Annual percentage change)

Country/Area	Real GDP growth rate					Consumer inflation rate				
	2005	2006	2007 <sup>a/</sup>	2008 <sup>b/</sup>	2009 <sup>c/</sup>	2005	2006	2007	2008 <sup>b/</sup>	2009 <sup>c/</sup>
Bahrain	7.9	6.5	8.1	6.3	3.5	2.6	2.1	3.3	4.3	4.0
Kuwait	11.4	6.3	4.6	6.1	2.7	4.1	3.1	5.5	10.2	7.5
Oman	6.0	7.2	6.1	6.0	3.5	1.9	3.4	5.9	11.2	7.0
Qatar	6.1	12.2	9.5	10.5	6.0	8.8	11.8	13.8	14.0	10.5
Saudi Arabia	5.6	3.2	3.4	5.3	2.8	0.7	2.2	4.1	11.0	8.7
United Arab Emirates	10.5	9.4	5.2	6.7	3.5	6.2	9.3	11.1	12.4	8.8
GCC countries <sup>d/</sup>	7.3	5.6	4.5	6.0	3.2	2.8	4.3	6.3	11.2	8.6
Egypt <sup>e/</sup>	6.8	7.1	7.2	6.5	5.3	4.9	7.6	9.5	17.1	9.7
Iraq	-0.7	6.2	5.0	8.9	5.3	37.0	53.2	30.8	2.0	5.0
Jordan	7.1	6.3	6.0	5.3	3.6	3.5	6.3	5.4	14.4	7.9
Lebanon <sup>f/</sup>	1.1	0.0	4.0	5.5	3.9	-2.6	5.6	9.3	12.0	6.5
Palestine <sup>g/</sup>	6.7	-4.7	-3.1	3.0	3.5	3.5	3.8	2.5	10.5	6.0
The Sudan	8.6	11.3	10.0	6.0	5.2	8.5	7.2	8.0	15.0	11.0
Syrian Arab Republic	4.5	5.1	6.6	4.5	3.5	7.4	10.0	4.5	11.4	6.0
Yemen	5.6	3.2	3.3	3.4	2.8	11.8	20.8	12.6	16.8	14.4
More diversified economies <sup>d/</sup>	5.0	5.8	6.2	6.3	4.8	9.8	15.1	12.0	13.4	8.5
Total ESCWA region <sup>d/</sup>	6.5	5.6	5.1	6.1	3.7	5.3	8.2	8.4	12.0	8.5

Source: World Economic Situations and Prospects 2009, unless otherwise stated.

a/ The estimated figures for Bahrain, Iraq, Oman, Qatar and Yemen, valid as of 15 November 2008.

b/ November 2008 estimations.

c/ November 2008 forecasts.

d/ Figures for country groups are weighted averages, where weights for each year are based on GDP in 2000 constant prices.

e/ For GDP growth rate of Egypt, the figures are for the country's fiscal year that starts in July of the year and ends in June of the following year.

f/ GDP figures are from the Ministry of Trade and Economy. CPI data are from Central Agency for Statistics.

g/ Figures are from the Palestinian Central Bureau of Statistics.

## B. GCC ECONOMIES

The economies of the countries of the GCC benefited from record oil export revenues in 2008, despite the fall of crude oil prices since their peak in July 2008, and directly resulted in another year of considerable fiscal surpluses for these countries. However, the sudden change of sentiment in the world economy and oil markets has started to affect business and consumer confidence in the region. Economic fundamentals are considered to be sound despite media reports on the weak performance of regional stock markets, announcements of delays in mega-project and the slowdown in real estate markets.

The fact that business and consumer confidence remains relatively positive despite the collapse in crude oil prices reflects the achievement of a certain degree of economic diversification in GCC economies. Compared with the structure of their economies during previous oil booms, GCC countries are now more diversified and the current income effect of oil revenues has been leveraged through the development of the financial and services sector. These two sectors have consistently added more value to GCC economies in recent years, and the income generated by these sectors has contributed to a sustained expansion of domestic demand. This robust growth trend in domestic demand has created strong expectations and confidence among economic actors, business and consumers.

Market-based linkages from oil prices to final demand are more complex than ever before and the pattern of linkages differ from one GCC country to another. These developments can have a positive impact on the expansion of domestic demand when business confidence is strong, but can become a source of vulnerability when confidence is dented. Therefore, in our forecast, future GDP growth for this subregion is dependent on: (a) the level of crude oil prices; (b) the extent of the financial crisis in the United States and Europe and its effect on the domestic financial sector of GCC countries; (c) the speed with which the economic effects of present private and public investment is materialized in terms of output levels, productivity and the domestic production structure; (d) the robustness of domestic demand growth through market-based linkages; and (e) fiscal and monetary policies for selective demand management.

The first two factors are external to the GCC countries. The effect of these factors became increasingly uncertain towards the end of 2008. As of November 2008, the OPEC Reference Basket price forecast the price of crude oil in 2009 as US\$ 60 per barrel. The effect of the rapid pace of investment has to date been limited to the demand side of the GCC economies. Domestic demand growth is expected to be less robust in 2009 as deleveraging takes place in international and domestic asset markets with downward adjustments of stock markets and slower growth in real estate markets. As fiscal and monetary authorities of GCC countries have sought to push down inflationary pressures without stalling domestic demand growth, selective demand management for a 'soft landing' remains a challenge. Having considered these factors, the average growth rate of real GDP for GCC countries is expected to slow down to 3.2 per cent in 2009.

### C. MORE DIVERSIFIED ECONOMIES

In the subregion covering the more diversified economies (MDEs), the macroeconomic balance, and particularly the external balance, is important as aggregate demand growth can easily be dented by foreign exchange constraints. Jordan, Lebanon, the Occupied Palestinian Territories and Yemen are projected to have current account deficits in 2008, and the trend is expected to continue in 2009. These economies, however, are predicted to hold sizeable foreign reserves due to income transfers, foreign direct investment (FDI) (in the case of Jordan and Lebanon) and oil export revenues (in the case of Yemen). Therefore, domestic demand in the countries of this subregion, including those with current account deficits, has not been subjected to foreign exchange constraints in 2008. As of the end of November 2008, business and consumer confidence was relatively stable in spite of chronic structural issues, such as unemployment.

Production structures remain fragile in this subregion. Investment activities in the construction, manufacturing, telecommunications, financial and service sectors have transformed production structures to a different extent from country to country. However, recent robust economic growth has relied more on consumption growth than physical investment in the composition of domestic demand. In our forecast, future GDP growth in this subregion is dependent on: (a) the level of crude oil prices; (b) regional monetary liquidity and credit expansion trends; (c) capital and income inflows in the form of portfolio and FDIs and workers' remittances; (d) physical investments in manufacturing and services sectors in order to increase the potential for export growth; and (e) policy readiness to fend off negative developments in external economic factors. The first three factors are external to the MDEs and are expected to become more uncertain over the near term. Non-oil export growth has yet to be established to the extent the growth becomes significantly export-led. In the present context, however, the economies' weak dependency on non-oil goods export may prevent them from facing a sudden impact of contracting world demand as was experienced by leading export-led developing countries such as China. Taking all these factors into consideration, the growth rate of real GDP in the MDEs is expected to reach an average of 4.8 per cent in 2009.

### D. POLICY ISSUES

In 2008, central banks in the ESCWA region maintained a stable foreign exchange rate against nominal exchange rate anchors, particularly the United States dollar. The depreciation of the United States dollar against other major international currencies caused a price appreciation of imported goods from Europe and Asia, but no policy initiatives were taken to appreciate national currencies to alleviate the

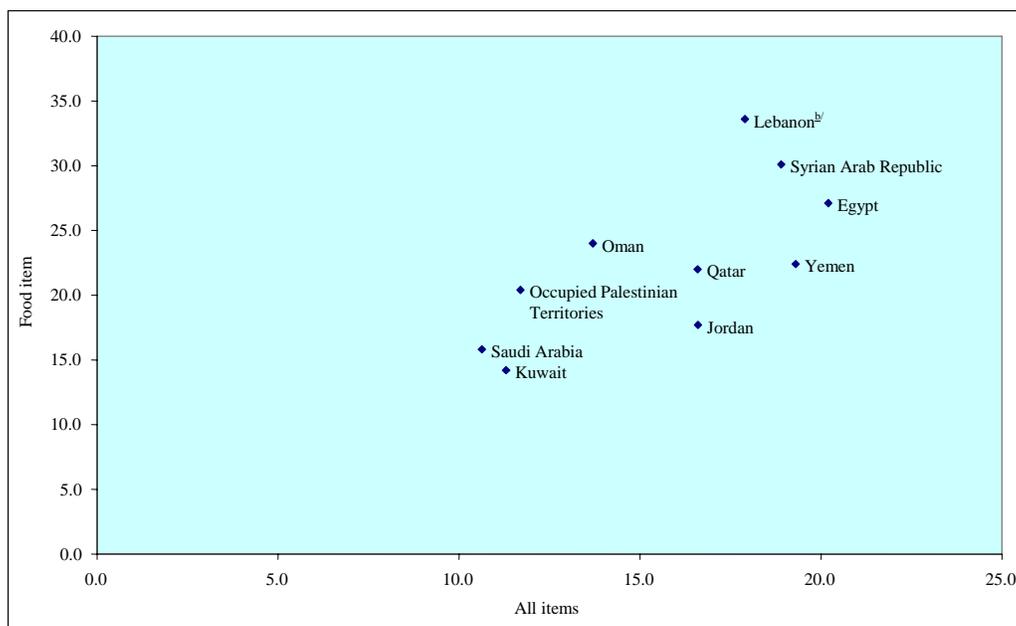
predominant and significant import-led component of inflation. With the exception of Egypt, Iraq, Kuwait, the Sudan, the Syrian Arab Republic and Yemen, central banks in the region maintained the foreign exchange regime of pegging their national currencies to the United States dollar. The national currency of Kuwait was pegged to a basket of currencies of its major trading partners, while that of the Syrian Arab Republic was pegged to SDR. Iraq continued to gradually appreciate its national currency against the United States dollar at a rate of 4.8 per cent in the year up to November 2008, while Egypt, the Sudan and Yemen maintained a stable exchange rate against the United States dollar throughout the year. The policy of keeping a nominal exchange rate anchor constrained the monetary policy of those countries with a pegged exchange rate regime, as they had to follow the monetary easing that began in the United States in September 2007. As a result, effective monetary measures to alleviate inflationary pressures and the associated excessive domestic liquidity and credit growth have been difficult to implement. Prior to the world credit crisis that became apparent in September 2008, GCC countries and Jordan have taken various monetary sterilization measures, including increasing the reserve requirements of commercial banks, liquidity absorption through open market operations and tightening the growth of Government deposits in the banking sector. However, as the impact of the world credit crisis spread into the region, the monetary stance of central banks shifted and resulted in a significant easing in the liquidity supply.

Governments in the ESCWA region were able to form an active fiscal expenditure policy for the fiscal year covering 2008, emphasizing each country's socio-economic developmental needs, including health, education and infrastructure. GCC countries are expected to record fiscal surpluses in 2008 due to historically high oil revenues. However, the combined effect of the domestic and international price surge in commodities, and particularly food items, continued to pose a policy dilemma for policymakers in the ESCWA region. Pressing developmental needs put pressure on policymakers to introduce expansionary fiscal policies amidst rising demand and inflationary pressures. High commodity prices became a significant fiscal burden on Jordan, Lebanon, the Syrian Arab Republic and Yemen as these countries subsidized basic food items and fuel products. However, Jordan and the Syrian Arab Republic reduced their fuel subsidies in February and May 2008, respectively, leading to a rise in the price of fuel products and transport costs in those countries. According to conservative revenue forecasts, GCC countries are not expected to experience fiscal deficits at the present crude oil price forecast of US\$ 60 per barrel in the OPEC Reference Basket price for 2009. However, other countries in the region are expected to come under further fiscal constraints in the coming fiscal year.

## **II. INFLATION AND FOOD CRISIS IN THE WESTERN ASIA REGION**

After a long period of relative price stability, consumer price inflation picked up in the ESCWA region in 2006. Initially, it was led by a rapid growth in domestic demand for property assets. The pace of expansion was supported by strong business and consumer sentiment due to surging oil revenues in oil-exporting countries and the resulting increase in the flow of funds for non-oil exporting countries in the region. The main inflation driver at this point was the rise in the rental price of business and residential properties and the rising value of property assets. Gradually rising commodity prices on international markets also consolidated the upward trend in inflation in the region by adding cost-push factors. The rising price of construction materials inflated the nominal value of newly-built properties and associated rental prices. For non oil-exporting countries, the hike in crude oil prices passed through into the cost of transport. The ESCWA region had already been under mounting inflationary pressure when international grain prices began to surge over the second half of 2007 and the first half of 2008.

**Figure I. Consumer price inflation in selected ESCWA member countries  
June 2007-June 2008<sup>a/</sup>  
(Percentage)**



Sources: Central Bank of Egypt (Egypt); Department of Statistics (Jordan); Central Bank of Kuwait (Kuwait); Central Administration for Statistics (Lebanon); Ministry of National Economy (Oman); Qatar Statistics Authority (Qatar); Saudi Arabian Monetary Agency (Saudi Arabia); Central Bank of Syria (Syrian Arab Republic); Central Bank of Yemen (Yemen).

<sup>a/</sup> The figures shown are of countries where the data are collectable in October 2008. The figures are annual growth rates in June 2008 over the same month in 2007.

<sup>b/</sup> The data for Lebanon are indicative and based on a simple average of the old series for 2007 and the new series for 2008. This is due to changes in the composition for CPI at the end of 2007.

The extraordinary hike in international grain prices was immediately passed through into the price of food items in the region. The latest data available for the first half of 2008 shows the extent of the food and headline inflation rates (figure I). The highest increases in food prices were in Lebanon where they rose by 33 per cent in the year to June 2008; however, lower increases were registered in other countries, for example in Kuwait where they only rose by 14 per cent over the same period.<sup>3</sup> Governments in the region subsidized basic food items to varying degrees and strengthened price monitoring systems in order to prevent distributors and wholesalers from engaging in unjustifiable pricing. However, the speed and scale of the hike in international grain prices was such that an effective extension of food subsidies and other fiscal measures were difficult to be implemented. Although few cases of visible social unrest have been reported, food inflation significantly eroded the purchasing power of low-income households, which had already suffered from rising rents.

The issue of food security became a crucial policy item because of the serious social repercussions associated with food inflation. The instantaneous pass-through of international grain prices into domestic food prices in 2007 was structurally caused by the fact that the region was a net importer of food items, including regional staples such as wheat and rice. The scarcity of natural water in most parts of the ESCWA

<sup>3</sup> Bahrain, Iraq, the Sudan and the United Arab Emirates are not covered in this comparison due to the unavailability of itemized CPI data for the first half of 2008.

region is a major obstacle to agricultural development. Saudi Arabia decided to phase out its wheat production programme due to the high cost of natural water; this move also came at a time when wheat prices reached historical highs in January 2008.<sup>4</sup> The potential for agricultural development exists in Iraq, Lebanon and the Syrian Arab Republic, but this potential has not been fully sufficiently realized.

The challenge for policymakers in the region is to achieve food security, particularly in those countries where a sufficient level of self-sufficiency in staple food items is either difficult or effectively impossible. A number of countries, notably GCC countries, have initiated food security policies by seeking locations to establish large-scale agricultural projects in Asia and Africa.<sup>5</sup> Jordan has followed the same path by signing an agricultural project agreement with the Sudan.<sup>6</sup>

The region is in a position to benefit from its cost advantage in fertilizer production to enhance the food security in the region.<sup>7</sup> The scope for regional cooperation on food security has gradually come in focus but it has yet to be seen if an effective cooperation framework can be established following this year's food crisis.

In the short run, the food price inflation that occurred in 2007-2008 is expected to have a lasting impact on the prospect of headline inflation in 2009. Public sector wages were raised in the oil-exporting countries to allow public sector workers to cope with ongoing inflation, and in the non-oil exporting countries minimum wages were raised as an anti-inflationary measure in spite of the difficult fiscal situation facing these countries. International grain prices have since fallen from their peak of the first half of 2008. However, the second-round effect of inflation, triggered by food price inflation, is expected to stay in the region throughout 2009. In 2009, the consumer inflation rate is expected to reach 8.6 per cent in the GCC countries and 8.5 per cent in the MDEs.

### III. IMPACTS OF THE CREDIT CRISIS IN THE ESCWA REGION

The credit crisis in the United States and Europe is envisaged to impact Western Asia's economies in three sequential phases, namely: (a) through monetary liquidity; (b) through changes in the valuation of financial and tangible assets; and (c) slowing demand growth in the world economy. The expected severity of each of these three phases on the region's macroeconomic performances will be determined by a series of external, internal and policy factors, and it is still uncertain how quickly the impact will be felt or how each phase will unfold. The economies and financial sectors of ESCWA member countries were thought to be relatively immune to the ongoing credit crisis due to their limited disclosed exposures to troubled financial assets in the United States and Europe. However, economic events towards the end of 2008 showed that the ESCWA region has not been totally insulated against the world economic turmoil.

As of November 2008, countries with banking sectors with sizeable direct linkages to international money and capital markets, notably Kuwait, Saudi Arabia and the United Arab Emirates, began to be affected by the first phase related to monetary liquidity. The effects of this have been reflected in: (a) the rapid repatriation of foreign funds; (b) a relative tightening in monetary stance amidst spiraling domestic credit growth; and (c) the worsened accessibility to international money and capital markets.

The region's foreign exchange regime and associated monetary policy largely explain why these countries have exposed to a risk of the abrupt change in monetary liquidity. GCC countries, with the exception of Kuwait, have adopted a foreign exchange rate regime that consists of a peg with the United

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<sup>4</sup> Arab News, *Saudi Arabia Plans to Import Wheat* (29 January 2008).

<sup>5</sup> Financial Times, *Foreign Fields* (20 August 2008).

<sup>6</sup> Jordan Times, *Jordan to go ahead with Sudan agricultural project* (27 November 2008).

<sup>7</sup> Financial Times, *The food sector's other growing need* (1 September 2008).

States dollar. Although Kuwait's currency is pegged to a basket of currencies, the United States dollar continues to represent a significant portion of the basket. Most of the central banks in the region lowered their policy interest rates, following a series of interest rate cuts by the United States Federal Reserve since September 2007 in order to maintain the parity between their national currencies and the United States dollar. Despite the monetary sterilization initiatives by the concerned central banks,<sup>8</sup> GCC countries experienced rapid domestic monetary expansion and spiraling domestic credit growth<sup>9</sup> at a time when inflationary pressures had already been mounting since early 2007.

The alignment of the region's monetary policy on that of the United States became the focus of policy debates, and the argument for foreign exchange regime reforms, including a de-pegging and/or revaluation of national currencies against the United States dollar intensified as the United States dollar weakened. Regional currencies pegged to the United States dollar came under pressure to appreciate during the first quarter of 2008, which led to an excessive availability of liquidity as speculative foreign funds flowed into the region in anticipation of an immediate revaluation of regional currencies. The three-month money market rate of the currencies of Kuwait, Saudi Arabia and the United Arab Emirates went below the LIBOR rate on the United States dollar during this period (figure II). However, as the United States dollar strengthened and the region's policymakers renewed their commitment to their foreign exchange regimes and the flow of speculative funds gradually subsided, three-month money market rates rose in the second quarter of 2008, leading to liquidity scarcity as speculative foreign funds were repatriated.

Structural changes in the banking sector in the ESCWA region also explain the rapid onset of some of these developments. The spiraling growth of domestic credit has been significantly higher than the growth of domestic deposits in the GCC countries, with the exception of Qatar. In order to meet the rapidly growing demand for credit, the banking sector increasingly sought financing from sources other than domestic deposits. Foreign borrowing became less costly due to the interest rate policy of central banks whose lending rates were kept significantly higher than their deposit rates. As the foreign liabilities of the banking sector increased sharply in Saudi Arabia and the United Arab Emirates, the sector became more sensitive to developments in international money and capital markets. A worrying sign of the region's state of monetary liquidity is that the three-month money market rate did not come down in line with that of the United States dollar in the fourth quarter of 2008. In the monthly averaged rate in November 2008, the spread between the three-month United States dollar LIBOR rate widened to a historical high for the currencies of Kuwait, Saudi Arabia and the United Arab Emirates (figure II). This indicated that monetary liquidity remained tight despite monetary easing by central banks.

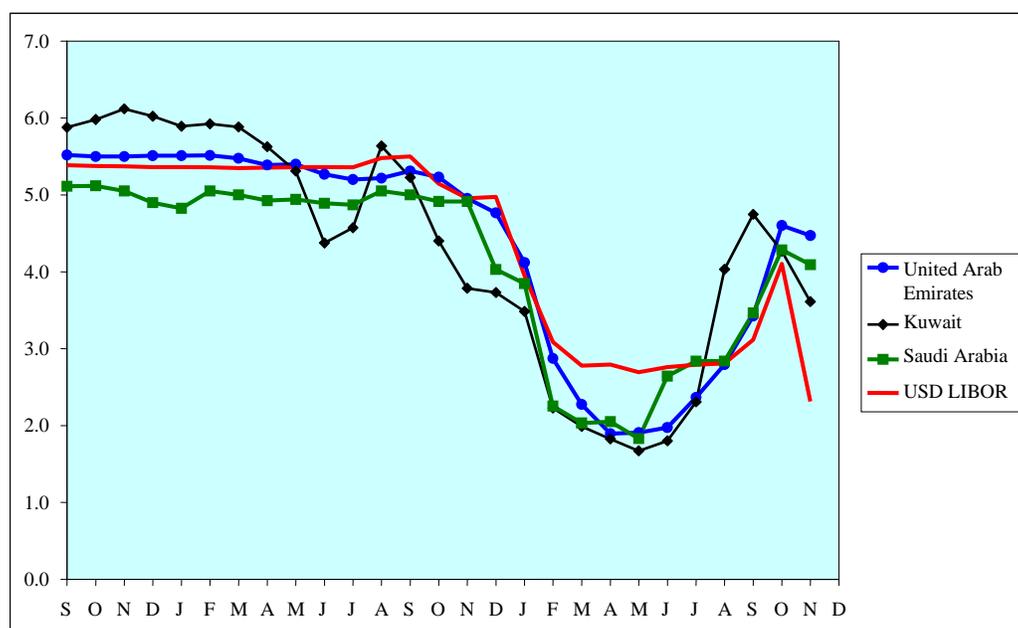
As of November 2008, it is not yet clear whether the first phase of emerging liquidity constraint will be followed by changes in the valuation of financial and tangible assets, particularly in the GCC member countries. The region's financial wealth, in terms of stock market capitalization, has decreased significantly in 2008. However, local business sentiment stayed relatively strong and views on asset price growth in real estate is mixed. Moreover, in oil-exporting countries, the role of foreign funds as liquidity providers is still marginal compared to the Government sector that manages the proceeds of crude oil exports. The Government sector, including general Government and sovereign wealth funds, is well positioned to supply liquidity, when it deems necessary, to their respective banking sectors. This readiness of the part of Governments to intervene through monetary channels is one of the factors behind resilient business sentiment in the asset price valuation in the region. The Government sector's strategic fiscal expansion, including active public investments in infrastructure, energy and the non-oil sector, is another underlying factor for the strong sentiment in asset price valuation.

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<sup>8</sup> The sterilization measures included: increasing reserve requirements of domestic banks; liquidity absorption through open market operations; tightening in growth of Government's deposits in the banking sector; and an asymmetric interest rate policy between central bank's deposit rate and lending rate where the lending rate was kept significantly higher than the deposit rate.

<sup>9</sup> The simple average of domestic credit year-on-year growth among GCC member countries at the end of July 2008 reached 40.1 per cent.

**Figure II. Three-month money market rate September 2007 - November 2008**  
*(Percentage per annum: monthly average)*



Source: Central Bank of Kuwait, Saudi Arabian Monetary Agency, National Bank of Dubai, British Bankers' Association.

Non oil-exporting countries in the region, notably Jordan and Lebanon, are more vulnerable to changes in the valuation of financial and tangible assets. MDEs, including non oil-exporting countries, could expand domestic demand without facing severe foreign exchange constraints as a result of a regional spill-over of positive income effects from oil-exporting GCC member countries. Foreign reserves continued to increase due to the inflow of regional funds, despite the fact that the trade balance of Jordan and Lebanon has been deteriorating. If severe, the downward adjustment in the level of liquidity of the GCC countries, is likely to lead to an adjustment in the asset prices in Jordan and Lebanon with a reduced inflow of regional funds. At worst, it may lead to deterioration in the external balance and possibly impose foreign exchange constraints on domestic demand expansion in these two countries. Countering fiscal measures may lead to rising costs to refinance Government debts because both of these countries do not possess a fiscal cushion from oil revenues. This would cause a crowding-out effect on the private sector and may further weaken domestic demand.

Slowing demand growth in the world economy will affect the whole region. If the present world credit crisis leads to a further collapse in world demand for crude oil, crude oil prices are likely to drop significantly lower from their average highs in 2008. Decreasing oil revenues would give GCC member countries less room to maneuver to support liquidity levels and asset prices through Government interventions. The external and fiscal imbalances of non-oil exporting countries, such as Jordan and Lebanon, would become more difficult to sustain due to decreasing regional inflow of funds. This phase would also increase the macroeconomic vulnerabilities of those countries that rely heavily on oil revenues to maintain external and fiscal balances, namely Iraq, the Syrian Arab Republic and Yemen.

Several regional Governments adopted timely measures to limit adverse effects of the world credit crisis between September and November 2008. The central banks of Kuwait, Oman, Saudi Arabia and the United Arab Emirates took measures to assure and provide liquidity to their banking sectors. In parallel with

the United States Federal Reserve, the region's central banks lifted monetary sterilization measures to further ease their monetary positions, and Jordan, Kuwait, Saudi Arabia and the United Arab Emirates announced bank deposit guarantee schemes.

#### **IV. CONCLUSION**

The ESCWA region is expected to achieve positive growth in 2009, in spite the world's major economies that are expected to enter the phase of recession. Nevertheless, the rate of growth is forecast to decelerate to its lowest level in seven years. Inflationary pressures from domestic sources are expected to remain, but monetary liquidity constraints are expected to bind economic activities. The challenge for policymakers in the ESCWA region is to seek effective aggregate demand management through coordinated fiscal and monetary policies. The options are limited due to institutional constraints and a suitable regional foreign exchange rate regime in the regional context is a challenging target that will have to be resolved in the ongoing discussions on GCC Monetary Union, which is scheduled to be implemented in 2010. The role of fiscal policy will gain in importance in 2009 in order to sustain business confidence and consumer expectations at a time when uncertainties persist in the world economy. A regional cooperation architecture for food security would be effective as several countries in the ESCWA region have significant potential for agricultural development. Although external economic conditions for 2009 are not bright, the realization of a policy space for regional cooperation in economic issues can be utilized to further strengthen sustainable and resilient economic growth in the ESCWA region.