

## THE MEDITERRANEAN ECONOMIES IN A CHANGING WORLD:

Lessons learned in economic and financial instability:  
what scenarios can we envisage?

A strong and sustained economic performance would help to stabilise the political, financial and social reality of the countries in the Mediterranean.

On the 24th February 2017 the European Institute of the Mediterranean, in collaboration with Banco de España, organised the international conference “The Mediterranean Economies in a Changing World: Lessons learned in economic and financial instability: what scenarios can we envisage?” The conference aimed to bring together expert researchers, representatives of international institutions, monetary authorities and multilateral organisations to share ideas and experiences with the objective of enriching the perspectives of the future of the Mediterranean region.

### Opening Remarks

Governor of the Banco de España, **Luis María Linde**, and Executive President of the IEMed, **Senén Florensa**, introduced the third annual international conference sponsored by IEMed and Banco de España.

Governor Linde stressed the need to rethink the way economic policies are designed and implemented in the current challenging environment of the Mediterranean economies. He remarked that stability and certainty are the main attributes with which such policies can contribute to economic prosperity.



Welcome address: The Mediterranean Economies in a Changing World

The exchange of experiences in the management of economic crisis among countries in the Northern and Southern Mediterranean should be facilitated to share best practices and learnings.

Senén Florensa noted that the Mediterranean economies have undergone a series of economic setbacks since the Arab revolutions, suggesting that economic triumphs and social gains have fallen short of what people expected and believed. This context led to the current period of great expectations among the population. But these turbulent moments require the necessary macroeconomic stability along with compensating social policies and the modernisation of public institutions. Today, the Mediterranean economic outlook looks more promising than some years before, as illustrated by the positive economic prospects for growth, inflation and investment. However, the Mediterranean countries are still facing many social challenges, such as youth unemployment, income and gender inequality, as well as difficulties in dealing with migration flows.



Fathallah Sijilmassi, Secretary General of the UfM, Senén Florensa, Executive President of the IEMed, and Luis M. Linde, Governor of the Banco de España, during the Opening Remarks

### Introductory Remarks

The Director of the Country Studies Branch of the Economics Department at the OECD, **Alvaro Pereira**, provided a general overview of some of the most important indicators regarding the world economy. He underlined that risks are rising significantly as the economy is tumbling around 3%; global trade has

slowed down, inequalities are growing, productivity has declined and trade restrictions are on the rise, leading to a negative global impact. This diagnosis is also applicable to the case of the Mediterranean region.

To face this challenging situation, Alvaro Pereira recommended the implementation of substantial market reforms to stimulate the economy. In order to boost growth in the Southern and Eastern Mediterranean, he suggested carrying out reforms in the energy, transportation and communication sectors along with the progressive reduction of barriers to services and trade.

**Román Escolano**, Vice-President of the European Investment Bank, made further recommendations on how to support the recovery of the Mediterranean economies. In this regard, he pointed out that the private sector is the key priority and supporting it ensures sustainable economic growth.

When it comes to specific challenges for Southern and Eastern Mediterranean economies, Román Escolano pointed out that small and medium-sized enterprises (SMEs) still have problems accessing finance, which makes it more difficult to create jobs, in particular for youths. A solution to this problem can come with the stimulation of the flow of funds from the financial sector to the real

economy, either through microfinance, credit lines or equity funds. The goal is to support SMEs, which are the drivers of progress and diversification in the region. But the number of large banking firms is relatively small and most of them are risk-averse when it comes to lending to SMEs. Last but not least, policies need to be put in place to dismantle economic barriers and to clear regulatory roadblocks for young and innovative firms.

Román Escolano, Vice-President of the EIB, addressing those present



The Secretary General of the Union for the Mediterranean, Ambassador Fathallah Sijilmassi, also focused his speech on the main challenges of the region. First and foremost, he emphasised the low level of regional and economic integration within the region. He pointed out that while 90% of the trade flows in the Mediterranean are among the European Union member states, 9% are between the EU and the southern neighbourhood, and only 1% are between the Southern Mediterranean countries. Therefore, a more economically integrated Mediterranean would translate into greater investment opportunities, trade, transfer of technology and growth. Similarly, regional cooperation would improve economic attractiveness as it allows best practices to be promoted, replicated and scaled up at all levels.

The second factor that Ambassador Sijilmassi stressed was youth employability, which is at the very heart of all the current pressing challenges, such as economic growth, social cohesion, migration or efforts to counter radicalisation and violence. In view of this reality, it was claimed that there is an immediate need to establish a multi-partner approach development between governments, financial institutions, and cooperation actors. It would help to put into action political objectives through relevant regional projects and to identify new and innovative methodologies and to develop regional and sub-regional networks.

### **The Role of Central Banks at Present, Monetary Policies and Exchange Rates in the Mediterranean Countries**

**Luis M. Linde** (Chair), Governor, Banco de España; **Abdellatif Jouahri**, Governor, Bank Al-Maghrib; **Mario Vella**, Governor, Central Bank of Malta; **Mustapha Kamel Nabli**, former Governor, Central Bank of Tunisia.

We can see today  
a slow recovery  
with inflation  
growing and a shift  
in the policies  
towards a more  
expansionary fiscal  
policy.

The first session focused on addressing the role of central banks in the Mediterranean region and their monetary and exchange rate policy management in the current economic and political context.

Two important events have shaped the economic and political reality of Mediterranean countries over the last few years. Firstly, the global economic and

financial crisis of 2008 and, secondly, the beginning of the political and social revolts that led to the Arab Springs. Following these events, there was a general slowdown of the economies in the region, the levels of growth went down, there was a general rise in unemployment, a decline in foreign and private investment, and a rise in the budget deficit and public debt.

In the Southern Mediterranean, particularly in Tunisia, the turning point was the revolts of 2011 that led to a political regime collapse followed by a democratic transition. Even though it was considered the most orderly of the region, it had its economic costs due to the lack of consistent policies, security problems and social shocks suffered. Thereafter, growth went down, there was a significant increase in unemployment, private investment also declined and most macroeconomic indicators became negative (budget deficit and public debt, among others). This forced a change towards expansionary fiscal policies while the main instrument to boost the economy was the rise of public employment and important increases in wages both in the public and private sectors. This has resulted in moderate growth over the last few years, despite the remaining political instability.



Mustapha Kamel Nabli, former Governor of the Tunisian Central Bank

As some experts argued, Tunisia seems to be stuck in a dangerous macro balance and the role of the central bank is set to be fundamental as projections indicate that the country could be involved in a liquidity crunch sooner rather than later. Keeping monetary policy relatively tight and focusing on stability rather than accommodating the needs of the treasury has been the main policy of the Tunisian Central Bank. But it has started to loosen over the last few months. In this respect, it was pointed out that the inefficiency of the fiscal policies has been managed until now through debt but there needs to be a change as this path leads either to money accommodation or a fiscal crisis.

Fiscal debt is going up and wages are still on the rise, so the treasury is having increasing difficulties financing the budget in a context where access to international finance markets is really tight and the ratings are still down.

In Morocco, however, the situation has been substantially different. Morocco has quite an open economy with a developed economic network. But it remains very much tied to the European Union, which is why its evolution has converged with the European economy. Consequently it has suffered the consequences of the euro crisis and experienced a slowdown. In the last few years, Bank Al-Maghrib undertook several reforms to tackle the imbalances in its economy. Institutionally, it reformed its statute taking into account the lessons of the crisis and strengthening its independence as a central bank, giving it the power to set the objective of price stability. It also expanded its mandate to include financial stability and enshrine its role as the lender of last resort. On the other hand, the Central Bank of Morocco adopted an accommodative monetary policy following conventional measures (cutting the exchange rate several times, injecting the necessary liquidity to meet the needs of banks and gradually lowering the required reserve ratio) as well as unconventional measures aimed mainly at facilitating the access of micro, small and medium enterprises (MSMEs) to financing. Eventually, it followed a transition to a more flexible exchange rate regime and inflation targeting.

Regional economic integration between the shores of the Mediterranean remains weak, making it more difficult for a proper recovery.

On the political side, Morocco has remained the most stable country in the Southern Mediterranean. The absence of significant upheavals has contributed to the solidity of its economy. It was pointed out that the popularity and credibility of the monarchy, which acts as arbiter, has contributed to the political stability of the country.

When it comes to the European Union, the case of Malta was presented as a recent experience of integration into the euro area (2008). The member countries of the euro area chose to go beyond the fixed exchange rates by adopting a single currency. This factor eliminates volatility within the monetary union and the euro as a free floating currency helps protect the economy of its member countries from external shocks, facilitates trade between them and therefore fosters economic integration. However, the downside of eliminating national currencies is that it implies that signals regarding economic imbalances disappear and it can allow these imbalances to increase. More importantly, the absence of a national currency also implies that a valuable tool for stabilising the economy in the short term in the face of asymmetric shocks is no longer available. During the euro crisis of 2012, the disadvantages of being part of a monetary union became evident. In this regard, greater efforts need to be made to reduce, and eventually eliminate, internal imbalances within the monetary union in order to protect its sustainability.

Controlling inflation and promoting growth is possible if the capital account is managed, as the use of traditional macroeconomic fiscal and monetary policies is not enough. There is a need for macro prudential capital flow management instruments.

When it comes to the European neighbourhood, many Southern Mediterranean countries have historically relied on stable exchange rates as the nominal anchor. Some of them are moving towards more flexible exchange rate regimes under the advice of international financial institutions. But there are limitations to domestic policies, especially when dealing with spillovers from neighbouring economies.

Countries with more flexible exchange rates are not shielded, although they can disentangle their monetary tensions by allowing the depreciation of the exchange rate. This would have side effects on inflation. And the likely swings of capital flows can have implications for financial stability, as emerging market economies have shown.

Now after some years growth has come back and the region is slowly recovering. The levels of growth are positive, inflation is coming back, deficits are diminishing and there is a global sense of progress. However, the countries of the Mediterranean basin still face many challenges. Overcoming the remaining effects of the 2008 economic and financial crisis and coping with the decline in oil prices, the impact of which is accentuated by a low, sometimes absent, economic diversification, are some of these challenges. Moreover, some countries in the south are still suffering from the consequences of the Arab Spring, including struggling with insecurity and armed conflicts. Finally, the region has experienced the worst refugee crisis since the Second World War in recent years, boosting migratory flows into certain countries of the region as well as from south to north, an issue that also needs to be addressed. These movements accentuate the rise of populism, reinforce nationalism in the countries of the north and widen the gap between the two shores.

The need for coordination in the monetary policies of the region is essential in this respect in order to properly internalise the spillovers of these challenges.

No monetary policy is substitute of structural economic and financial reforms.

While it is difficult to coordinate monetary policies, central banks should consider the effects of their decisions, as they have the potential to secure financial stability and this can affect positively in other countries and the spillback effects will hit back in their own economies.

Political stability is needed to make reforms succeed.

In conclusion, it is important to remember that central banks still face several major challenges today apart from the sometimes difficult compromise between the basic missions of monetary policy, financial stability and growth support.

According to some speakers, combating money laundering and the financing of terrorism remains an important issue in order to maintain social stability and improve security. The rapid digitisation of the economy increases the risks of cybercrime, a scourge in recent years, and finally the development of virtual currencies, such as the Bitcoin, which poses several problems of volatility, security and transaction control.



Abdellatif Jouahri, Governor of Bank Al-Maghrib

### **Improving the Business Climate in Economies Going through Deep Reforms**

**Carlos Conde** (Chair), Head of Division, Middle East and Africa, OECD; **Hammad Ben Elafdil**, Former Director General, Moroccan Agency for Investment Development; **Claudia Pani**, Project Manager SwitchMed – Green Entrepreneurship Regional Activity Centre for Sustainable Consumption and Production (SCP/RAC); **Josep Maria Gascón**, Director of Strategy and Competitive Intelligence, Catalan Agency for Business Competitiveness, ACCIÓ; **Sudqi Al-Omouh**, Deputy Secretary General, Business Development, Secretariat of the Union for the Mediterranean.

The second session was devoted to the analysis of the business environment in the Mediterranean economies, the need to introduce changes and reforms from

a governmental standpoint, the improvement of transparency, granting a business-friendly regulatory framework and the consolidation of a strong industrial and entrepreneurial fabric along with the support for the private sector.

When talking about business climate, experts agreed that there is a need to analyse the concept beyond its classic definition and include other elements such as social inclusion and take into account specific actors of society such as woman or youths. The reason behind this is to face one of the biggest challenges in terms of sustainable economic development: the lack of inclusion and limited participation of women and youths in the economy, thus losing some of the main assets of an economic system.



From left to right: Sudqi Al-Omoush, Josep Maria Gascón, Carlos Conde and Hammad Ben Elafdil

Nevertheless, participants pointed out that countries from both shores have improved the conditions for private sector initiatives to establish and develop, even when the last decade has been one of transition and political instability for some countries (Tunisia, Egypt). Experts indicated that the evolution has been remarkable in aspects such as social integration, transparency and anticorruption policies, all of them being key elements for enabling a greater business climate and attracting foreign investment. This progress has been possible due to the

introduction of reforms with the clear objective of erasing the arbitrariness with which the public administration traditionally operated. The role of public actors is fundamental when talking about business climate, not only because of the overall legislative framework but also when it comes to the independence of the judiciary. The level of trust the private sector has in public administration and institutions is fundamental as it allows engagement in business activities while having confidence in the correct application of the rule of law and the functionality of mediation, arbitration and administrative courts to solve conflicts of interest.

On the other hand, improvement in business-enabling infrastructures through policy changes is still necessary and should be considered a priority. In this respect, the discussion turned to the suitability of introducing structural reforms in times of instability. Some argued that drawing up the public agenda and determining the priority should come from debate among national stakeholders rather than from the outside, as it ensures more effectiveness and better social acceptance.

Deep political reforms in fields such as the labour market have traditionally demanded not only a great level of political will, but also consensus across all relevant actors in order to succeed. Moreover, there is a need to take into account the private sector when going through processes of regulation, thus developing a comprehensive and binding public-private dialogue.

Some defended the idea that SME representatives should be allowed to participate actively in these processes and have a greater role, as the representation of the private sector is usually restricted to big enterprises

Promoting and improving the situation of SMEs through policy reforms is essential for the Middle East and North Africa (MENA) region and remains a top priority in order to solve the challenge of job creation, as the unemployment rate still remains high in countries like Egypt, Morocco, Jordan and Tunisia. SMEs are an important

The authorities should take into consideration all the specifics and sensitivities when defining and implementing reforms to improve the business environment.

SMEs will have an important role in the invigoration of national economies only if governments help them to overcome constraints and create a fertile environment for them.

contributor to the GDP of MENA countries but it still remains low in comparison to the northern shore of the Mediterranean.



Hammad Ben Elafdil and Claudia Pani during the second session of the Conference

Morocco was identified as a great example of progress when it comes to business climate, and since 2010 has escalated sixty positions in the World Bank's Doing Business Report. The fostering of a regional committee in Morocco for the improvement of the business climate in 2008 and the development of a National Committee in 2010 were presented as an example of recently created business-enabling frameworks. They serve as platforms of dialogue between the government and the private sector in order to exchange points of view and ideas to improve the laws and public regulations and to redound in the overall competitiveness of the country.

Other actions and projects, such as the Egyptian Regulatory Reform and Development Activity (ERRADA), were presented as examples of initiatives to support the public sector efforts to build a better regulatory system to review business-related regulations. Reforms should be based on a dialogue between public and private institutions and civil society and aimed at increasing economic efficiency, competitiveness and creating more job opportunities. Even in times of

instability or deep reform there is room for administrative and bureaucracy simplification in order to help create a friendlier environment that allows SMEs when starting or developing their business.

Another pillar of discussion was the access to finance for SMEs and entrepreneurs. In the case of the European Union, small and medium-sized enterprises represent over 99% of businesses and two thirds of total private sector employment, and they are fundamental to ensure sustainable economic growth and job creation for the EU-28. On the other side of the Mediterranean basin, there are more than two million SMEs in the MENA region that account for around 20-40% of private sector employment. In this respect, both sides of the Mediterranean and especially the southern shore, need to do a better job of promoting entrepreneurship and improving access to finance to support SME viability, competitiveness and access to new markets. This tends to lead to social and economic inclusiveness.

Some projects, such as Switchmed, were presented as initiatives to engage investment networks and create platforms with local financiers to enhance access to finance for entrepreneurs in the region. It is clear that providing stakeholders with tools to resolve environmental and social challenges and connect them with supporting partners is fundamental for growing sustainable SMEs.

Youth employment and support to entrepreneurship are considered a political priority, and special efforts should be targeted to the high-tech start-up segment.

Finally, experts agreed that in the case of Southern Mediterranean countries, even when there are many differences, there are also multiple similarities when it comes to the financial ecosystem. There is a lack of financial offer and in most cases banks are considered risk-averse. But, at the same time, there has been an evolution that is driving them towards considering new kinds of products more viable. Bureaucracy is still heavy and there is a need to reshape fiscal policies in order to adapt more to the reality of SMEs and their capabilities. The case of Lebanon was presented as one where there is venture capital available and banks have liquidity for SMEs but growth is limited because of market size.

### **Budgetary and Fiscal Policies That Can Be Developed in Today's Context**

**Ibrahim Saif** (Chair), Minister of Energy and Mineral Resources, Jordan; **Elena Flores**, Director for International Economic and Financial Relations and Global Governance, DG Economic and Financial Affairs, European Commission; **Ahmed Galal**, former Minister of Finance, Egypt; **Antonio Oporto**, Board Director, European Bank of Reconstruction and Development (EBRD); **Moctar Mohamed El Hacene**, Director Economic Development and Integration Division, United Nations Economic and Social Commission for Western Asia (ESCWA).



Ibrahim Saif, Jordan Minister of Energy and Mineral Resources and Ahmed Galal, former Egyptian Minister of Finance

During the introduction, the chair mentioned the general existence of budget deficits all over the Mediterranean region, and how to address these weaknesses, what measures could be taken and how to implement them. Furthermore, the idea of the social contract was also brought to the table so as to combine the economic measures required by the economic context while keeping in mind the protection of the citizens through welfare.

The speakers focused on four countries in particular, which they considered to be fairly representative of the southern shore of the Mediterranean: Egypt, Morocco, Tunisia and Jordan. However, they had different opinions on whether today the region could be considered as a single entity in comparison with a few years ago. Moreover, some of the panellists believed that Morocco was a different story and could be considered on its own, due to its particularities and the absence of significant revolts in that territory. All in all, it was considered that the four countries had at least some elements in common, with the economic slowdown as a good example.

There was a common opinion, among the speakers, that politics played an important role in the challenges faced by the countries in the region. According to some, the real shock in these countries was not the global financial crisis or the euro crisis, but the political situation. However, economics and politics are very much linked. It was conceded that the influence of the Arab Springs is still latent in all the countries analysed, and the consequences can be seen in all the economies of the region.

The speakers agreed that the crisis in the region was fundamentally a political one, even though it had later spilled on to the economy.

Two types of factors were mentioned as a cause of the imbalances of the Mediterranean economies: cyclical factors and structural factors. Social unrest, political tensions and conflict, which are clearly cyclical, have forced an increase in defence spending, social spending and a flow of refugees. In addition, economic growth has not been supportive and neither has the global economic and financial international environment. The other cyclical factor affecting the economic context of the region is the changing prices of oil. The recent fall in oil prices has been quite beneficial for European countries (net importers of oil) but very negative for certain Mediterranean countries. This factor has become persistent over time.

Having presented the current context, the speakers debated the fiscal challenges of the region and how these challenges were addressed and what measures

Carrying out a fiscal policy that enhances growth is essential.

countries should take. Reducing fiscal vulnerabilities remains the main issue today in the region, as supported by all the panellists. There are three main reforms required.

The first reform considered inevitable is the need to reduce subsidies, in particular energy subsidies. This has been done progressively in Morocco and Egypt so far. Energy subsidies are costly, inefficient and unfair, and they impose serious constraints on the public budget. They need to be phased out or rationalised in order to make more space for reform and reduce public spending. In parallel, social measures to compensate the worst hit part of the population should be developed.

In a second stance, reform should also be implemented in public employment regarding the public wage bill with the aim of developing a social safety network for the population. In the long term, pension modernisation would also be advisable.

The third key measure is tax system reform because the current tax system is very inefficient in the definition of the tax base and progressivity. There is also a need to improve the tax collection and management systems. This is particularly important in these countries, where the informal sector represents a large proportion of the economy. Controlling tax evasion, tax avoidance and illicit financial flows is paramount.

Another aspect of fiscal policy mentioned by some of the panellists was the subject of state-owned enterprises, a common characteristic of all the Mediterranean economies. The burden of these types of companies is detrimental to the general economy as it is a source of public spending while they tend to be very inefficient and costly. Moreover, these companies, whether monopolies or not, tend to be a disincentive for the development of private companies in their sectors.

However, the experts also stressed the difficulty of carrying out fiscal reforms in such a complex situation as the one the region is currently facing in the midst of political transitions. With political shocks and social uncertainty comes economic uncertainty, lack of economic growth, rising unemployment and even poverty, which makes it very difficult to undertake major restructurings of the public sector.

There was a great deal of discussion regarding the policies carried out in order to tackle the fiscal imbalances. There were some critical opinions about the policies executed in the Mediterranean countries in the aftermath of the global financial crisis. First, through stimulus and expansionary fiscal policies and later by contractive fiscal policies supported by the International Monetary Fund due to the continuing fiscal deficits. These types of policies only enhanced the negative numbers of these countries. It was noted that all the countries analysed in the session, Egypt, Tunisia, Jordan and Morocco, had resorted at one point or another to international assistance to face and resolve their need for funding. However, other speakers disagreed with this stance as they believed these



countries had taken the easy solution, which was increasing spending in those parts of the budget that were more electorally popular.

Additionally, during the debate, the idea of a changing world was brought to the table: a different world with new challenges, such as the rise of populism, more nationalist economic policies or the influence of technology. And the need to change how we talk about or approach

Elena Flores, DG Economic and Financial Affairs, European Commission, and Alvaro Pereira, OECD

The speakers agreed that with political stability the economic and social future would be much brighter.

this situation was mentioned. While some supported the need to promote the private sector and the influence of enterprises in this new world, others disagreed and were sceptical, referring to the new wave of protectionist policies returning to the global economic agenda.

### **Economic Scenarios for the Region for 2020**

**Elisabeth Lipiatou** (Chair), DG Research and Innovation, European Commission; **Mourad Ezzine**, Director, Centre for Mediterranean Integration, World Bank; **Jorge Sicilia**, Chief Economist BBVA Research, BBVA; **Kristel Van der Elst**, CEO, The Global Foresight Group and former Member of the Executive Committee, World Economic Forum.

The last session of the conference was devoted to the analysis of the prospective scenarios for the region in 2020, with the date being indicative due to the short-term forecasting deadline. Diverse points of view were presented during the session but the main forecasts remained somewhat pessimistic. The region presents many challenges to its future in very diverse areas as these are changing times on a global and regional level. Conflicts, political uncertainty and economic crisis are overlapping, and Mediterranean societies are starting to call for deep reforms once again, thus envisaging an eventual new round of widespread popular demands. What can we expect in the coming years for the countries in the region?

The economic outlook for the Mediterranean, as some argued, is that advanced economies from the region will not grow at a faster rate than the last few years, essentially due to factors like global uncertainty, low oil prices and limited fiscal space. In this respect, the MENA economic outlook has worsened since the Arab Spring, and will remain subdued to a real GDP growth ranging between 3-4% overall. Some Southern Mediterranean countries will begin to improve, as is the case of Egypt, Tunisia and Morocco, but a rapid turnaround by 2020 is unlikely. Nevertheless, others such as Jordan or Lebanon will continue to be affected by the spillover of the conflicts in the neighbouring countries (Iraq, Syria). The end

of the war in Syria and decreasing violence in Iraq and Libya will also be essential to boosting growth and employment. The same would be applicable to the reduction of terrorist incidents when it comes to tourism, investment and other third sector initiatives.

MENA countries have started to see progress when it comes to the financial sector and improving regulation and policies in favour of the private sector and young entrepreneurs. Nevertheless, The Doing Business 2017 report presents some countries (Algeria, Egypt, Jordan) ranking lower in 2017 than in 2016 when looking at indicators on business regulation and the protection of property rights, showing that reforms should be improved and better implemented.

Additionally, there are many socioeconomic factors to be taken into account, such as the increasing level of frustration within young generations, better connected to the rest of the world than ever before due to digital technologies. They have to face a reality that directly confronts their future and expectations. Even though there are potential complementarities outside their countries, economic migration from the MENA region to other parts, such as ageing Europe, is becoming more difficult due to more restrictive security measures taken by the countries of destination.

As experts pointed out, another element to consider when analysing the perspectives for the region is the percentage of people with secondary or higher studies. This has increased compared to the levels in the 1990s and the trend is expected to consolidate in the next ten years. This means that the education sector will be both the engine and the beneficiary of the growing middle class. But if the education provided and the skills trained do not meet the real demand of the economy, and do not bring innovation, it will generate frustration once again. Whether this human capital has a positive impact on the society and the level of productivity in these countries remains to be seen. Nevertheless, the population pyramid is a real challenge in MENA countries because of its broad

It remains to be seen how countries will face the fiscal constrains in the short and long term. It is clear that more economic diversification will be needed, especially in the case of oil exporting countries.

base. Consequently, some voices argue that economic growth will have to be over 5% to absorb the young population entering the labour market.

Youth unemployment rates are high in the region and projections are not very encouraging. Rethinking the education range and system as well as the budget dedicated to education is fundamental in order to close the gap and reduce the skills mismatch when facing the transition to the labour market.

Finally, some voices pointed out the strategic relevance of some countries when it comes to prospects for the future of the region and special mention was made of the case of Egypt: a state with great geostrategic value and many converging interests and with a population that has continued to grow, reaching more than 90 million. Until now, the migration patterns of Egypt have mostly been towards the Gulf countries, which have been able to absorb these flows, but the need to introduce deep reforms in order to face the challenges that will arise in the future was suggested.



Mourad Ezzine, Director of the Center for Mediterranean Integration.

## Conclusions

The Mediterranean region has undergone many changes in the last few years. However, these changes have not responded to the expectations of the population and the prospects and projections made have not materialised. The long-term geopolitical and economic uncertainties remain the same. Critical issues related to environment, water scarcity, food security and climate change still need to be dealt with. Unemployment is, and will be, a key priority in the national and regional agenda of all, both in the northern and southern economies of the Mediterranean. Nevertheless, this does not mean there has been no progress. On the contrary, there are examples of new policies that have reformed strategic sectors that have made it possible for some Mediterranean countries to overcome the recent economic recession.



The Mediterranean Economies in a Changing World participants

On the one hand, when it comes to the Northern Mediterranean countries, the evolution of the economies will depend greatly on how the political uncertainties

More reforms will have to be put in place in order to tackle the present challenges, and they will have to be sustainable, both in the short and long term, in order to consolidate the progress made.

that surround the European Union will evolve. During 2016, the European project suffered a great setback with the Brexit referendum, which has led to speculation on whether this might question the future of the European project. Others argued this could become a turning point where the European leaders would need to invest greatly in this common project, even if this could entail moving towards a European Union with different speeds.

Experts concluded that while integration and trade between the countries of the region remains an important field with great potential for economic synergies, experience shows that there is both a lack of political will and economic complementarities. Both problems can be fixed progressively but they require time and commitment by all parties.