



Arab Firestorm & Beyond: Bright Promises, Dismal Results

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- **Regional Developments: Growing Divergences**
- **Policy Responses: Short-term palliatives but Long-term vulnerabilities?**
- **Actions to mitigate risks**
- **Transition Management & Road Ahead**

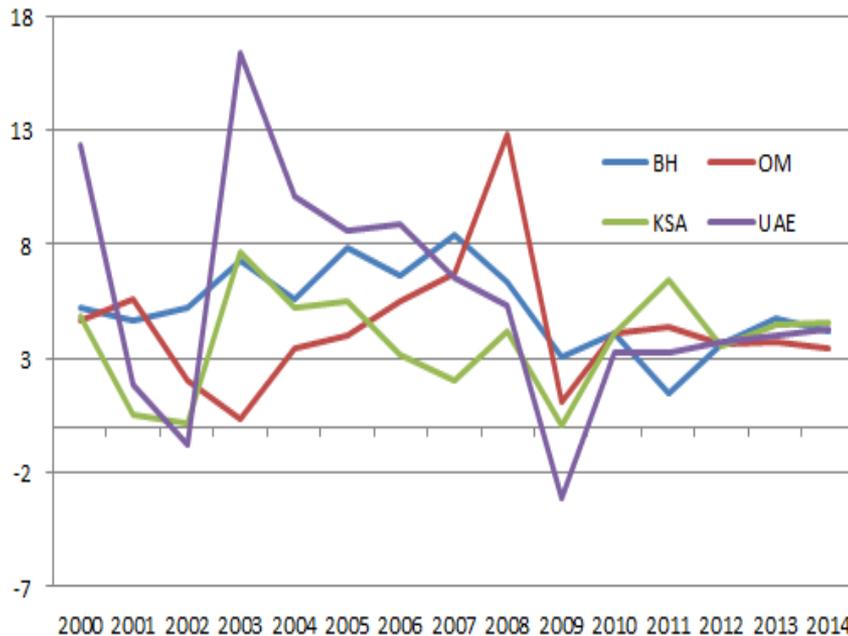
- MENA Growth is expected at 4.0% in 2011 compared to 4.4% in 2010 but with wide disparity in prospects between oil exporters & oil importers.
- Recent developments in the region highlight the need to ensure that economic growth is both *inclusive* and has a *trickle-down* impact.
- There is a need to **reduce chronically high unemployment and wide income inequality** within countries and across countries of the region.
- **Job creation is a priority** and this needs to come from the private sector for sustainable growth, innovation, economic diversification.
- While reinforcing the government sector has been the initial step, one should ensure it does not lead to a 'crowding out' of the private sector.
- Populist measures + hand outs = low productivity; begs the question: **what when support is phased out?**
- Need to focus on: **structural reforms and developmental policies** (incl. infrastructure) that encourage private sector participation, tackle job creation, lower income inequality, greater inclusiveness, lift economies to higher growth trajectories over the LT **through institutional reform & improved governance**

Increased Divergence Continues

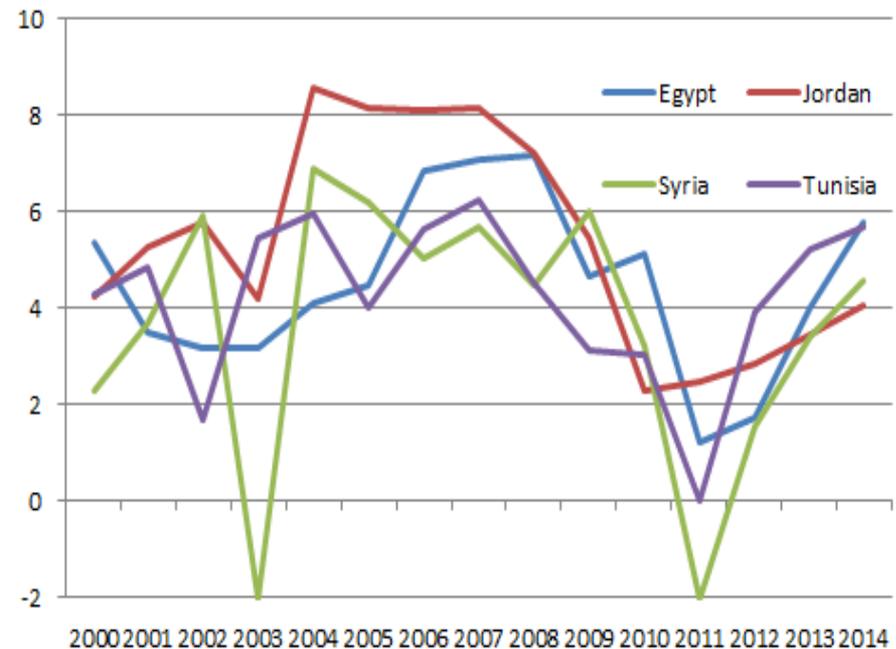
Divergence b/n oil exporters, oil importers & labor exporters

- GCC growth - boosted by high oil output & prices; Bahrain's protests will impact growth in 2011 while in KSA, growth will be boosted by the populist fiscal measures.
- With private investment continuing to lag, **government-supported consumption** will remain the primary growth driver across the region.
- **Downside risk remains that private sector activity will be subdued/crowded out.**

GCC growth to stay under 5% till 2015 (except Qatar & KSA in 2011)



Oil importers: Slow recovery in countries hit by political upheaval



Policy Responses to Turmoil: Costs

- Measures were geared towards appeasing short-term concerns as opposed to finding medium/ long-term solutions to chronic structural problems
- Countries of the region need to move away from populist support towards goals of economic diversification, increased private sector participation, labour market flexibility among others.

	Measures	Size (% of GDP)	Type of spending
Bahrain	BHD2,660 handouts, 25% cut in housing loans	> 1.5	Current
Kuwait	KWD1,000 handouts, free food rations until end-March 2012	>2.5	Current
Oman	43% rise in minimum wages, unemployment benefit of USD390, employment for 50,000 Omanis	>1.5	Current & Capital
Qatar	Boost in basic salaries and social benefits for state civilian employees by 60%; Military staff of officer rank will receive a 120% increase in basic salaries and benefits, with other ranks getting a 50% rise; a one time payment of 10 billion riyals toward its pension fund and another 10 billion for retirees' subscriptions.	>5	Current
S. Arabia	Increased minimum wage, bonus/ unemployment payments, more funding for housing loans, construction of 500,000, housing units, new public jobs, extended social security, etc	>23	Current & Capital
UAE	Infrastructure program for northern emirates, 70% increase in military personnel pension, food subsidies	>1.0	Current & Capital

Source: DB Research, June 2011, DIFC Economics

Social Policy Measures Implemented during 2011

OIL IMPORTERS

Jordan	Raised the salary of civil servants, the military, and retirees by JD 20 (US\$28) a month for a cost of US\$233 million. One time cash transfer of JD100 (US\$140) for civil servants, military, retirees and NAF beneficiaries for the holy month of Ramadan for a cost of JD80 million (US\$113 million)	Subsidies of US\$839 million on: (i) fixing the prices of oil products (Octane 90, Solar, kerosene) for 6 months; (ii) subsidizing gas cylinders used for cooking; (iii) wheat and barely subsidies.	Total of US\$169 million. Suspending the special sales tax on kerosene and diesel; reducing the tax on gasoline from 18 to 12 percent.	Total of US\$57 million. Allocating transfers to the state-run consumer corporations to subsidize the price of sugar, rice and frozen poultry, and implementing income-generating projects in poor areas.	US\$35 million Municipality fund to tackle small infrastructure bottlenecks in underprivileged areas	5% of GDP (for all the package including forgone taxes and wage increase); 3.1% (for expenditures without wages)
Lebanon				Total cost estimated at US\$36 million over three months, renewable: A US\$300 per month worth of gasoline provided to taxi and truck drivers (approved in May and still pending execution).		Minimum of 0.1% of GDP if valid only for one quarter.
Egypt	15 percent increase in wages and pensions (LE2 billion or 0.17 percent of GDP).	Increase in subsidy of about 0.2 percent of GDP due to the rise in global food prices (LE2.8 billion).		Addition of 150,000 families to the social solidarity program (LE100 million).	To permanently hire the temporary contract employees (about 450,000).	0.8% of GDP.

Social Policy Measures Implemented during 2011

Tunisia	Payment of 50 percent employer contribution to the mandatory regime of social security for the wages paid. Reduction in hours of work. Could you please let us know where did this info come from? We know that this can apply to firms that have suffered damages from the revolution, but not that it was a generalized tax relief.	Food and fuel subsidies where increased increase in February / March (lowering food consumption prices, and failing to increase fuel prices in line with the system).	Postponement of the tax declaration and payment for 2010 to September 2011 (with possibility to seek a further extension to March 2012).	Adding 15000 more young people to receive a monthly allowance of 80 dinars in 2011; expansion of direct cash transfers program to poor families, from 135,000 to 185,000 households; expansion of free medical insurance cards to an extra 25,000 individuals; provide microcredit or gifts to	Accelerating public infrastructure investment project and support pilot projects in Telecommunications sector.	Recruitment of 20,000 new civil servants and a plan to have private sector. Create an additional 20,000 jobs.	
	Wages	Subsidies	Tax cuts	Transfers	Infrastructure	Jobs	Total cost
				support home improvements for 20,000 households; one-off lump sum transfer of TDN 400 per person and TDN 600 per family to the Tunisians coming back from Libya.			
Morocco	Salary increases by US\$75 net per month for all civil and military public employees, in the central level as well as at the local level. The salary increase measure was effective as of May 1, 2011.	Injected approximately US\$ 1.3 billion in subsidies to curb price hikes for staples.		The minimum pension was increased from MAD600 to MAD1000 per month for retired public employees and their families. This benefited 90,000 people. The cost to the budget is estimated at US\$54 million annually. AMAL-2 program for the unskilled unemployed: Provides 100 TDN per month to approx 25,000 people for the year, at a total cost of approx. 30 million for AMAL 2 for one year.		Set up an employment program for educated unemployed. Half of 4303 graduates will be hired by the government, while the other half will be integrated into autonomous public establishments. The new budget law has provided 18,802 new job positions.	The annual total cost for the 2011 budget of salary increase is estimated at US\$508 million and it will cost US\$760 million in 2012.

Risks / Vulnerabilities

1. Contagion from Europe: i.e. losses of income/ wealth/ portfolios; also via trade, tourism, remittances
2. Fiscal vulnerabilities; Price of Oil/ Dependence on oil
3. Promised funds fail to materialize
4. Government Spending/ Job Creation
5. Insufficient Reforms/ Election delays

Policies

1. Develop Local Currency Debt Markets; Diversifying trade patterns towards EMEs; Greater Regional Integration/ GCC Common Market
2. Greater Economic & Revenue diversification; Spending on infrastructure
3. Creation of a MENA Plan to disburse promised funds; potential for creation of a MENA BRD
4. Greater role for the private sector/ SMEs; Education Reforms; Greater Female Participation; inclusiveness
5. Governance & Capacity Building Institutions

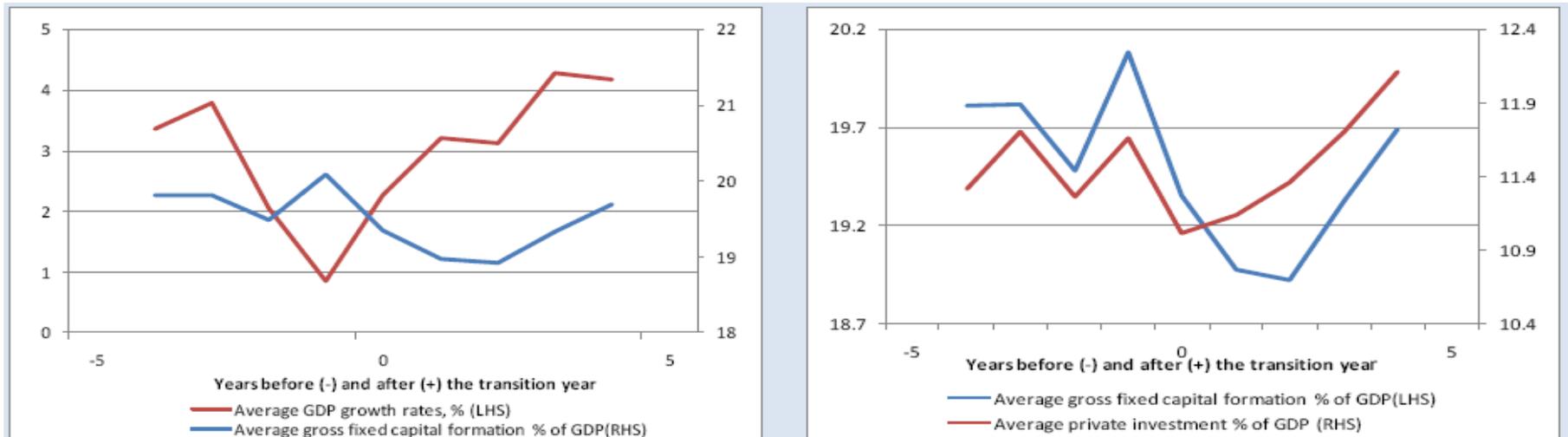
Countries with Successful Transitions

SSA	EAP	ECA	LAC	MENA	OECD	SA
Benin	Fiji	Armenia	Argentina	Lebanon	Greece	Bangladesh
Burundi	Indonesia	Bulgaria	Bolivia		Korea South	Pakistan
Central African Republic	Philippines	Croatia	Brazil		Portugal	
Comoros	Thailand	Hungary	Chile		Spain	
Guinea-Bissau		Romania	Dominican Rep		Taiwan	
Kenya		Turkey	Ecuador			
Liberia			El Salvador			
Madagascar			Guyana			
Malawi			Honduras			
Mali			Nicaragua			
Mozambique			Panama			
Niger			Peru			
Senegal			Uruguay			
Sierra Leone						
South Africa						
Zambia						

Characteristics of Successful Transitions

- On average growth declines by around 3% during transition, but rebounds to or above its pre-transition rate within one to two years.
- The average investment rate declines with a delay, by less than 2%, but takes at least 5 years to recover.
- Private investment bottoms out more quickly than public investment and leads the recovery.

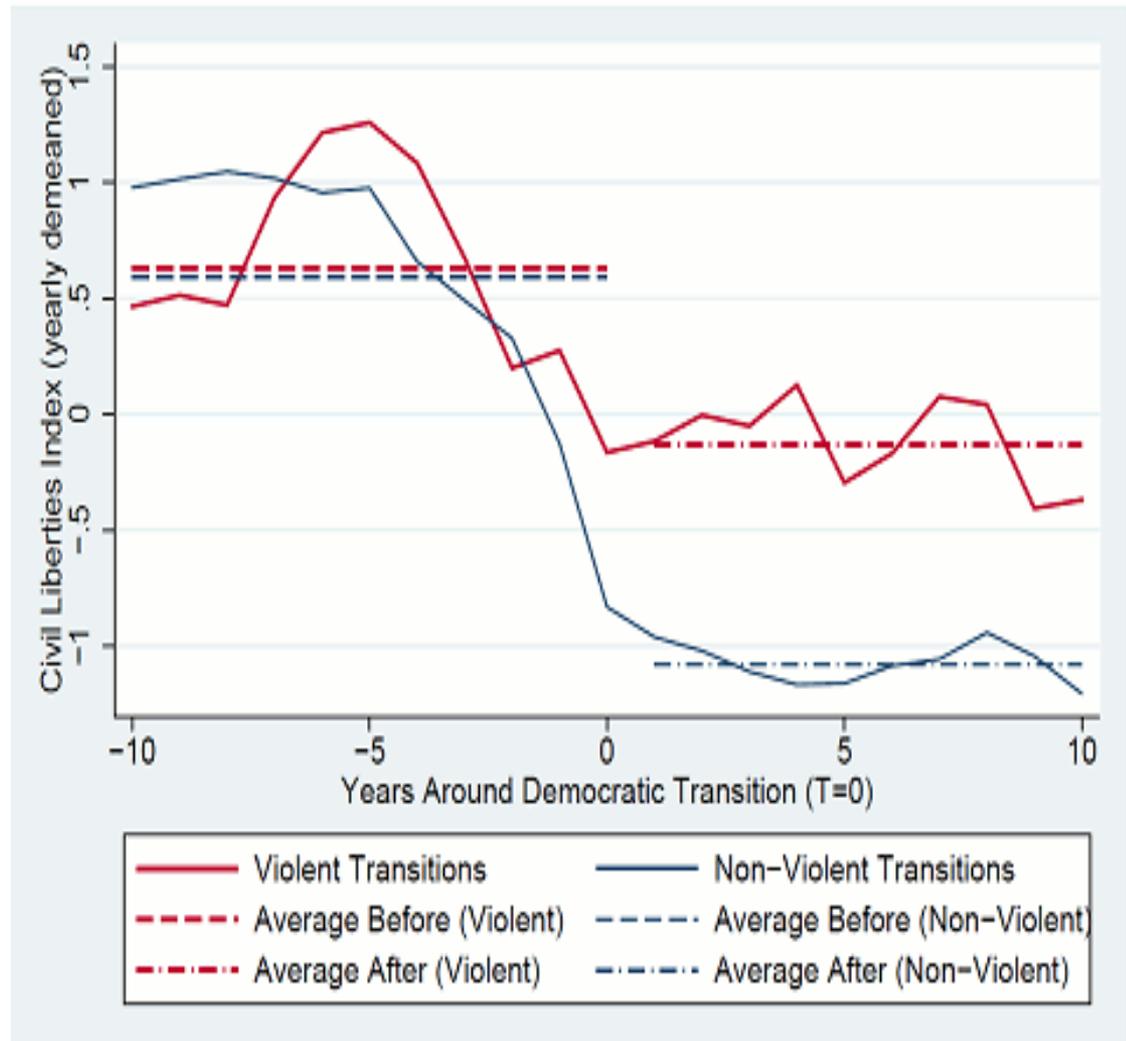
Average growth & investment performance during a successful transition



Source: Freund and Mottaghi (2011). *Note: Mean growth performance during more than 40 successful transitions based on information in the database of the Polity IV Project, which includes an index of regime characteristics, scaled from 0 (authoritarian) to 10 (democracy). Successful transitions are those for which the index must jump by at least 5 points, and the new higher level must be sustained for at least 5 years to qualify as a transition. Thus, this data includes only countries with complete transitions. The graph records performance for a balanced panel of 42 countries with data for 11 years. See Annex Table 1 for the list of countries in the panel.

- Regime transitions have taken different paths in different countries.
- In some cases mass movements have succeeded in opening up the possibility for a rapid and peaceful regime change;
- In others, the path towards democracy is faced with stronger resistance by parts of the ruling elites - appears longer and more uncertain
- Results indicate **peaceful transitions to democracy lead to democracies with better average protection of property rights and civil liberties compared to democracies that emerge after violent conflicts.**

Violent and peaceful transitions to democracy



Source: Cervellati et.al (2011): "Violence, democratisation and civil liberties: The new Arab awakening in light of the experiences from the "third wave" of democratisation", voxeu.org, March.

- Determinants of democratisation scenario: evidence suggests that **higher inequality before the transition is associated with a significantly larger likelihood of violent civil conflicts** during the regime change.
- Evidence documents **significant interactions between inequality and political freedom for the quality of democracies**.
- Evidence from democratisation transitions during 1970-2003 suggests that **countries that rely less on natural resources and have lower inequality are more likely to experience nonviolent democratic transitions**.
- Lessons for Arab world:
 - Regime shifts will follow different transition paths in different countries.
 - Level of violence which characterises the regime transition may persistently affect the future prospects of democracy

Source: Cervellati et.al (2011):“Violence, democratisation and civil liberties: The new Arab awakening in light of the experiences from the “third wave” of democratisation”, voxeu.org, March, 2011

Financing Needs, Middle Income MENA Oil Importers 1/ (in billions of U.S. dollars)

	Est.	Projections			
	2010	2011	2012	2013	2011-13
Current account deficit (excl. official transfers)	21.2	29.2	28.3	27.9	85.4
External amortization	23.0	22.1	23.1	26.3	71.5
External gross financing needs	44.3	51.3	51.4	54.2	156.9
Budget deficit (excl. grants)	36.7	44.3	45.7	41.7	131.7
Public external amortization	7.2	7.9	8.3	7.7	23.8
Fiscal financing needs 2/	43.9	52.2	54.0	49.4	155.6
Public short-term domestic debt 3/	96.1	93.3	111.0	128.6	

Sources: National authorities, and IMF staff estimates and projections.

1/ Comprises Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia.

2/ Assuming full domestic rollover, zero external rollover.

3/ Remaining maturity basis. Excludes Syria as data on short-term public domestic debt are unavailable.

- Not a “Berlin Wall” Moment but Arab countries will **need to ‘own’ their transformations** and be “able to clean up their own backyard”
- Period of Transformation for MENA: **Transitions & their Management will affect final outcomes; path dependence**
- Issue of **macroeconomic stability** (deterioration implies inflation, greater unemployment) **vs. trying to manage transition**
- **Forecasts too optimistic for oil importers**; quick recovery not seen on the ground
- **Geostrategic implications** will include change in global strategic alliances with new players like China, Turkey and others gaining importance.
- **Financing requirements are accumulating** for countries in turbulence
- **Deauville partnership & its promises** => necessity to build capacity through institution building for long term engagement
- Reconstruct & Develop countries destroyed by war & violence + Address Arab Firestorm (through disbursement of pledged funds) = Creation of a **MENA Bank for Reconstruction & Development + Greater Role for Arab League/ AMF**



Thank You!