



Arab Firestorm: Regional & Global Fallout

Presentation at the [GE Regional Leaders' Meeting](#)

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A Changing Global Landscape

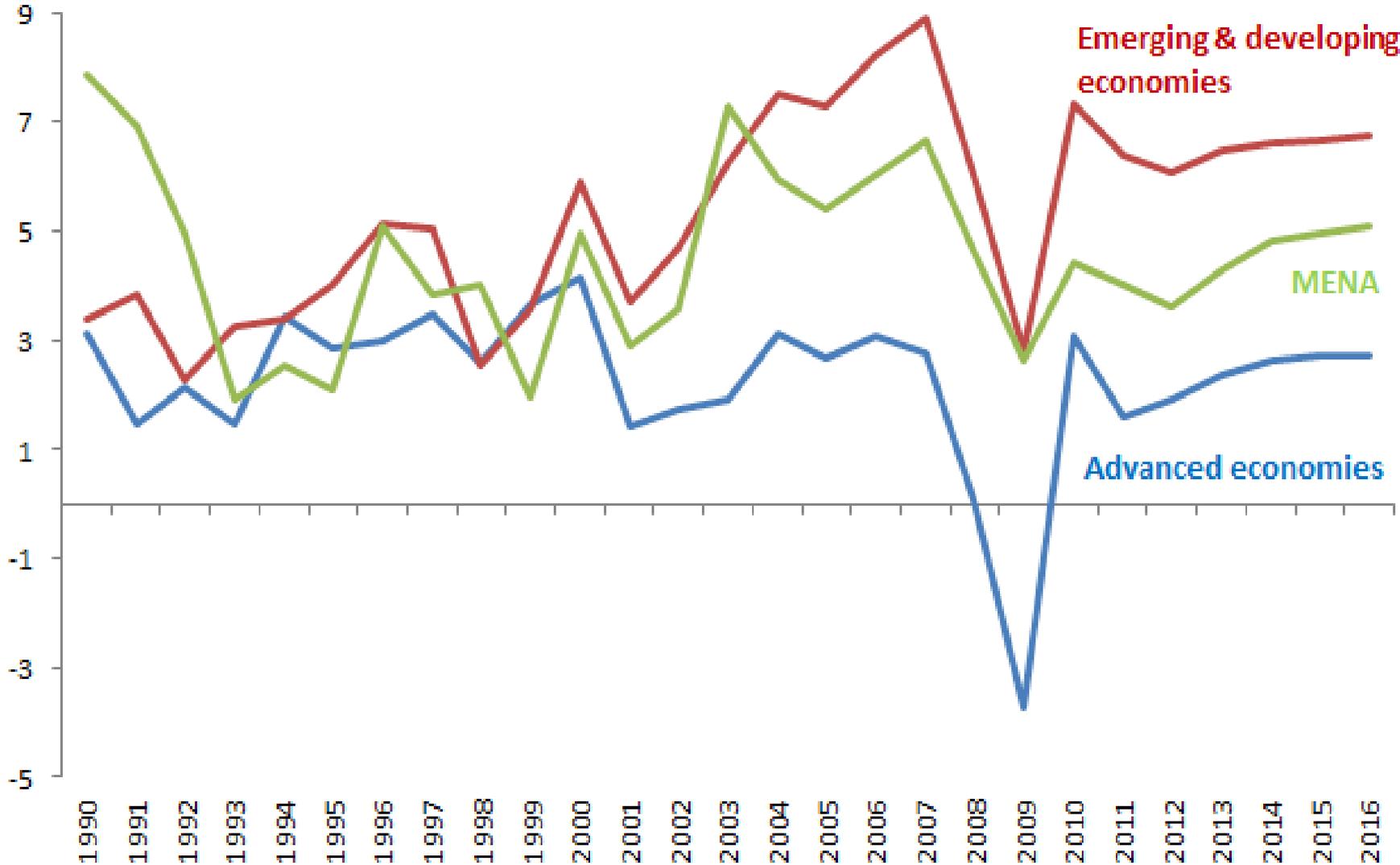
MENA Turmoil: Oil exporters vis-à-vis Oil Importers

Government Responses & Fiscal Sustainability

Who's more vulnerable to Political/Governance, Demographic & Economic pressures?

Policy Agendas for Transformation & Stabilisation

Two-speed Recovery Continues



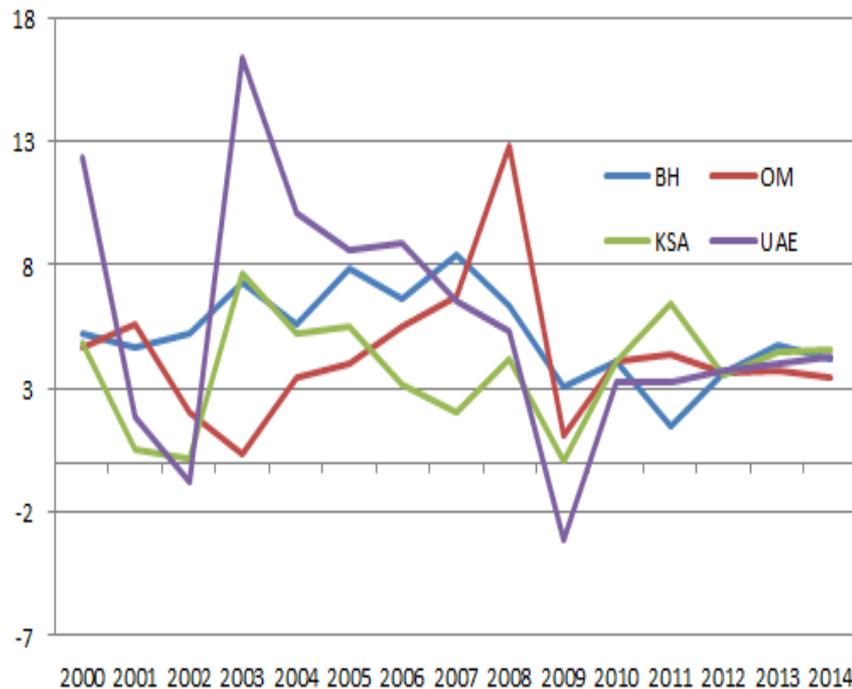
Source: IMF World Economic Outlook, Sep 2011

MENA Regional Turmoil => Increased Divergence DIFC

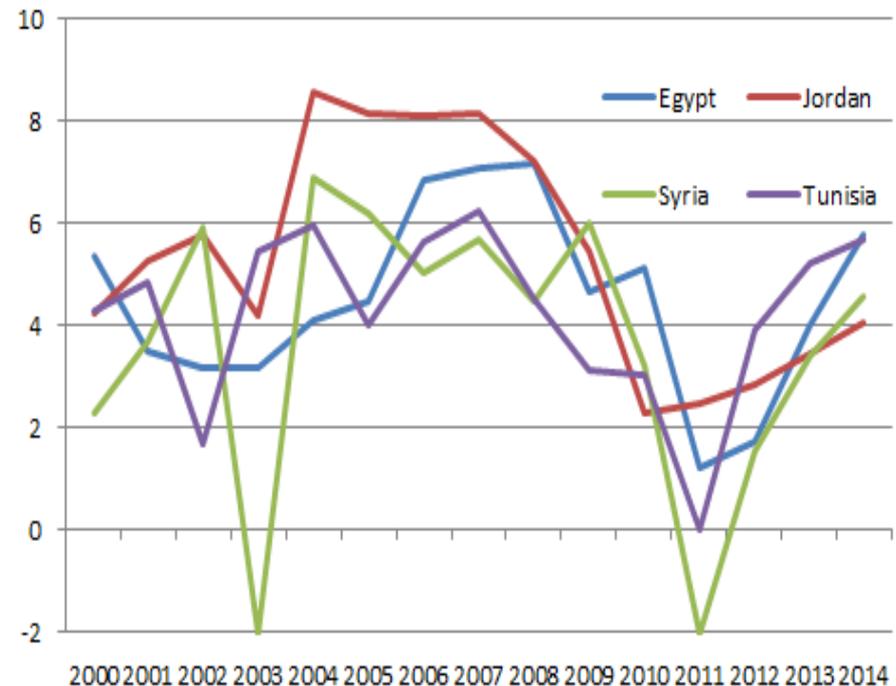
Divergence b/n oil exporters, oil importers & labor exporters

- 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.
- Government-supported consumption the primary growth driver across the region.
- Downside risk remains that private sector activity will be subdued/crowded out.
- GCC announced that it has welcomed the bids of Jordan & Morocco to join the Union.

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

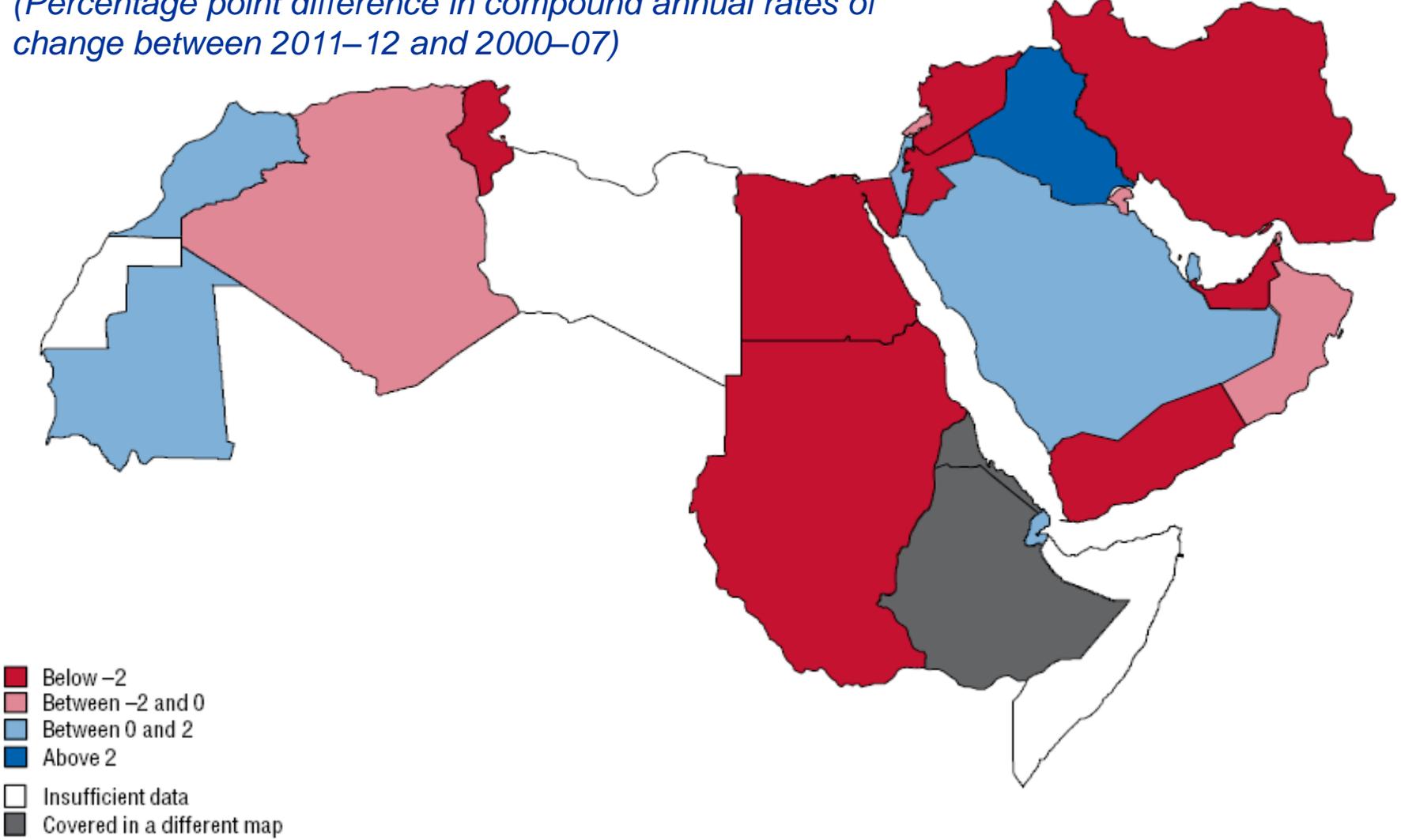


Oil importers: Slow recovery in countries hit by political upheaval



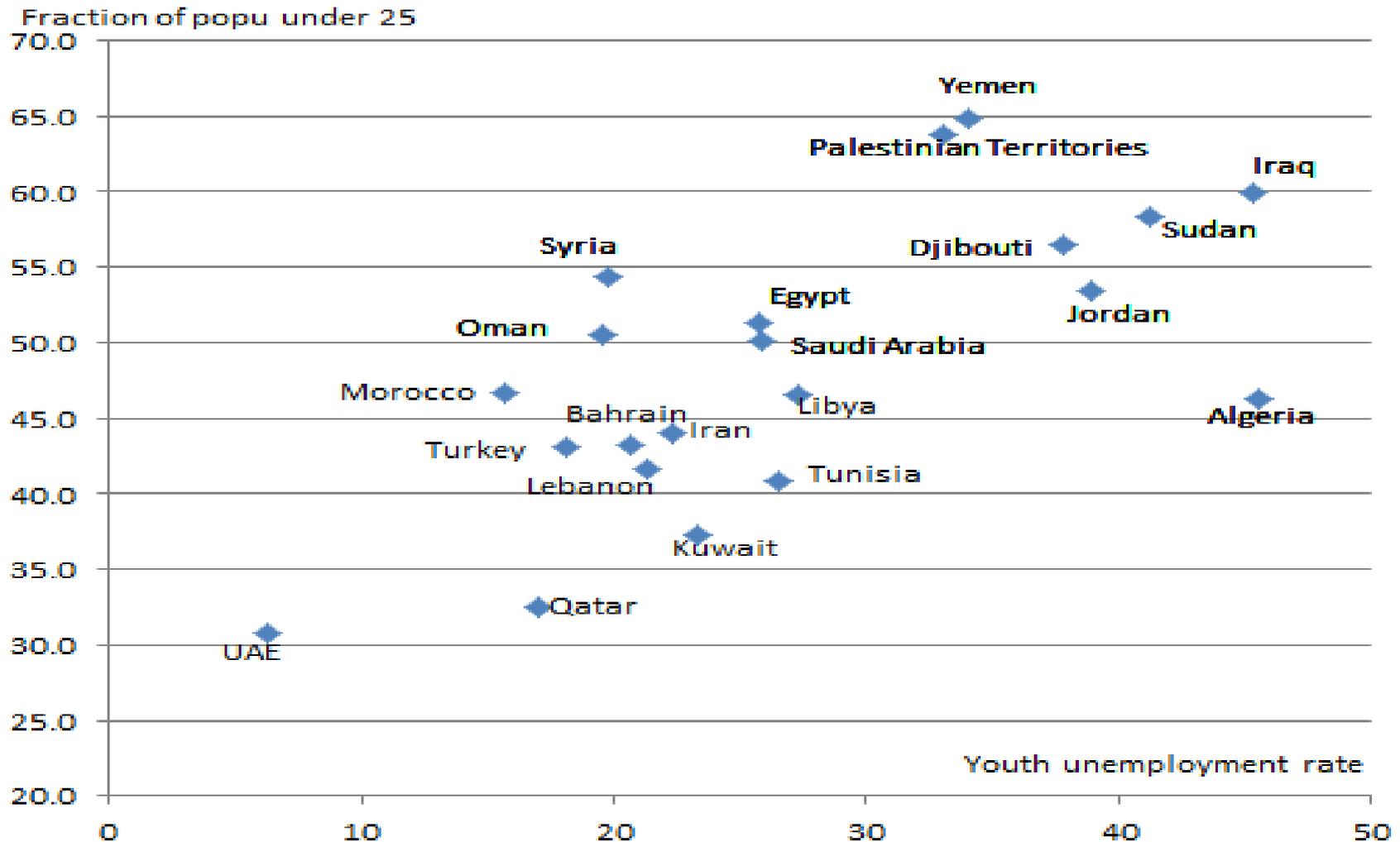
MENA: Current Growth versus Pre-crisis Average DIFC

(Percentage point difference in compound annual rates of change between 2011–12 and 2000–07)



Source: IMF World Economic Outlook, Sep 2011

Youth Population vs. Youth Unemployment



Fiscal Policy Measures Announced Since 2010

	Subsidies	Social Welfare and/ or Cash Transfers	Government Salary/ Benefit Increases	Tax Breaks or Other	Annual Cost (Percent of GDP)
Egypt			✓	✓	0.7 to 0.9
Jordan	✓	✓	✓	✓	2.0 to 2.2
Lebanon				✓	1.0
Mauritania	✓		✓	✓	1.5 to 2.2
Pakistan	✓				0.3
Syria		✓	✓	✓	2.0
Tunisia	✓	✓		✓	1.4

Sources: National authorities; and IMF staff estimates.

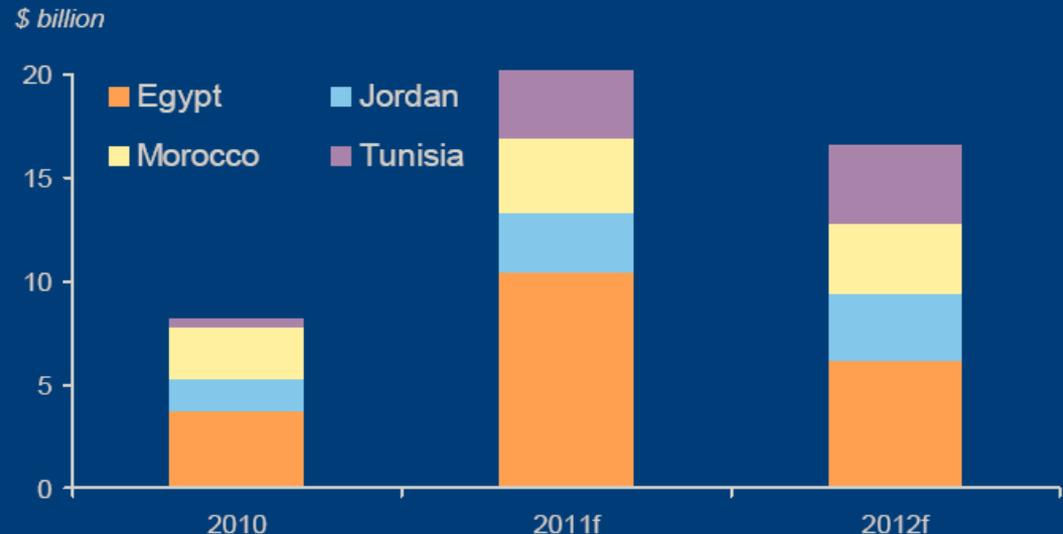
Notes: Annual cost does not include higher costs of preexisting subsidies owing to higher commodity prices. Cost estimate for Syria does not include the additional measures announced since late March.

\$ billion	Tourism		FDI	
	2010e	2011f	2010e	2011f
Total	30.9	22.3	18.5	8.6
Egypt	11.6	8.0	6.5	1.5
Jordan	3.4	2.9	1.7	1.4
Lebanon	3.0	2.3	5.5	3.4
Morocco	6.7	6.8	1.7	1.4
Syria	3.5	0.6	1.8	0.4
Tunisia	2.7	1.6	1.3	0.5

- *Short-term outlook subject to unusually large uncertainties: political & security situation + growing uncertainty about external demand.*
- *Remittances, tourism, FDI will decline, as will output (given high unemployment rates, budget deficits)*

- *Need for fiscal consolidation greatest among oil-importing economies*
- *Pro-cyclical fiscal expansion could further crowd out needed private investment, perpetuating the problems with job creation in the private sector.*

Oil Importers: External Financing Needs*



*Includes grants and net external borrowing. Actual figures for 2010. Forecasts for 2011 and 2012 assume official reserves in months of import cover remain the same as in 2010.

Policy Responses to Turmoil: Measures

	Wages	Subsidies	Tax cuts	Transfers	Infrastructure	Jobs	Total cost
GCC							
Bahrain		Increase in food subsidies, including flour and meat by 44 million dinars.	25% cut in housing installment payments.	US\$2600 per family.	Construction of public housing by at least 6000 units per year.	20,000 new jobs at Ministry of Interior.	
Kuwait		Free food for 13 months through discount price program.		US\$3600 grant to all Kuwaiti citizens.	US\$4 billion for construction of new housing.		
Oman	Unemployment benefit program of US\$390 per month; US\$520 minimum wage.	Pay subsidies and fix the prices of essential commodities.				A new public sector employment program covering 50,000 citizens.	
Saudi Arabia	Unemployment allowance was set at SR2000 (US\$530) per month, and a SR3000 (US\$800) per month. minimum wage was instituted for nationals working in the public sector.			US\$300 million in grants for charities and needy students, a bonus payment of 2 months' salary/stipend to all public employees and scholarship students.	0.5 million new houses to be built with budget allocation of SR250 billion (US\$67 billion).	Add 60,000 new security jobs in the Ministry of Interior; add 500 new jobs at Ministry of Commerce and Industry.	25% of GDP

Policy Responses in the GCC to Turmoil: Costs

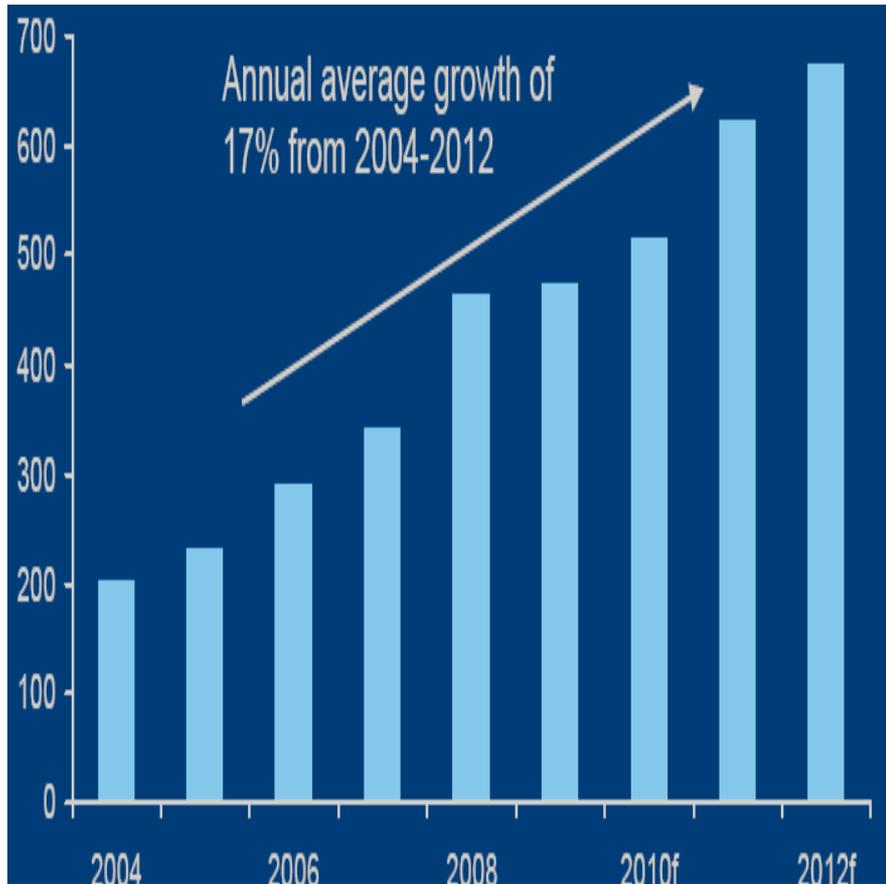


	Measures	Size (% of GDP)	Type of spending
Bahrain	BHD2,660 handouts, 25% cut in housing loans	> 1.5	Current
Kuwait	KWD1,000 handouts, free food rations until end-March 2012	>2.5	Current
Oman	43% rise in minimum wages, unemployment benefit of USD390, employment for 50,000 Omanis	>1.5	Current & Capital
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

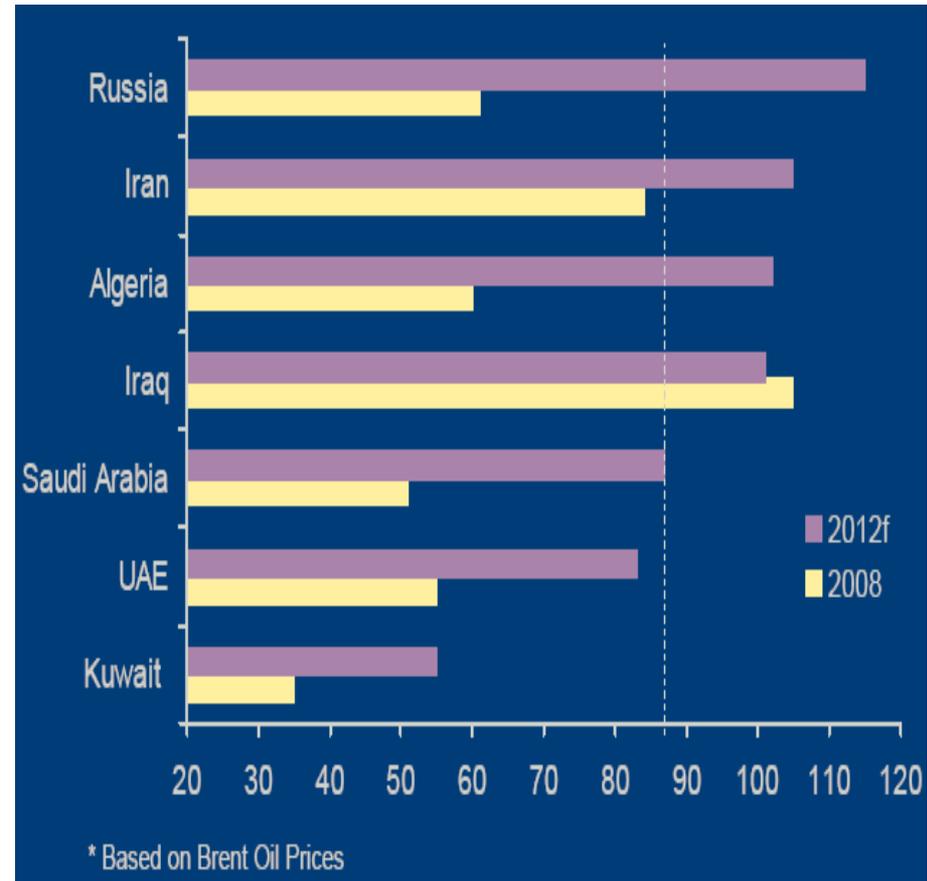
Source: DB Research, June 2011, DIFC Economics

Policy response has largely been populist spending encouraging consumption
=> Growing threat to fiscal sustainability & external balance

Oil exporters: Govt spending (\$bn)



Breakeven Oil prices (\$)



- Risk aversion rising: higher short-term economic and financial volatility, and likelihood of a correction in price of risky assets
- Lower MENA growth resulting in lower growth of EU exports to MENA
- **Energy transport infrastructure security & supply vulnerability:**
 - **Oil chokepoints** are critical part of global energy security, whose blockage leads to a substantial disruption in energy markets.
 - Straits of Hormuz, Suez, Bab-el-Mandeb and Malacca are world's biggest maritime chokepoints critical for petroleum markets with strategic geopolitical importance.

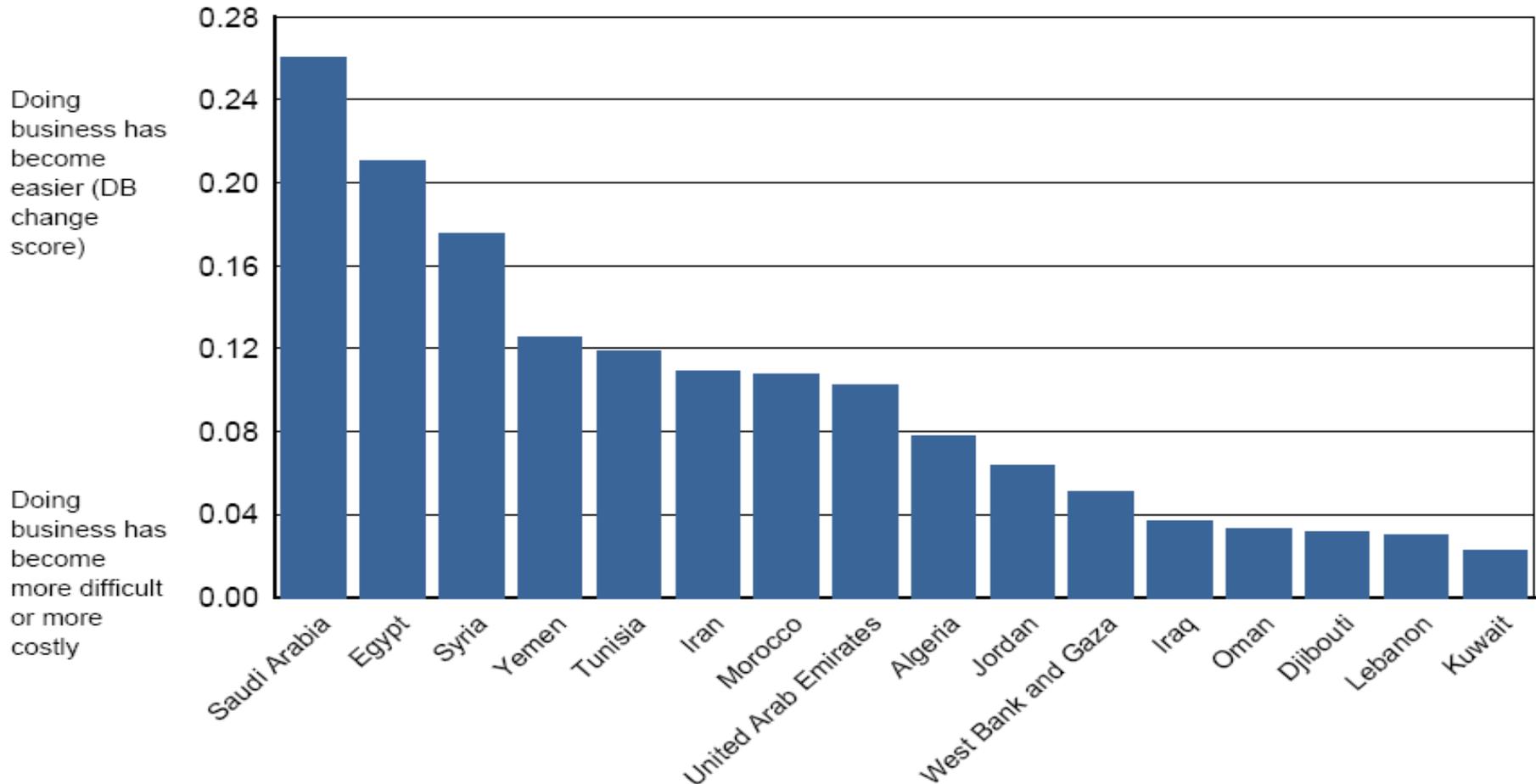
Economic & Geostrategic landscape of MENA shifting toward more regionalism (GCC inviting Morocco, Jordan) and East

Geostrategic implications will include change in global strategic alliances with new players: China, Turkey and others

WB Doing Business Reforms: Change

Analytical Model?

WB DB ranks Saudi Arabia, Egypt, Syria, Yemen & Tunisia among top reformers => Need to add Inclusiveness & Trickle-down as factors to gauge reforms!



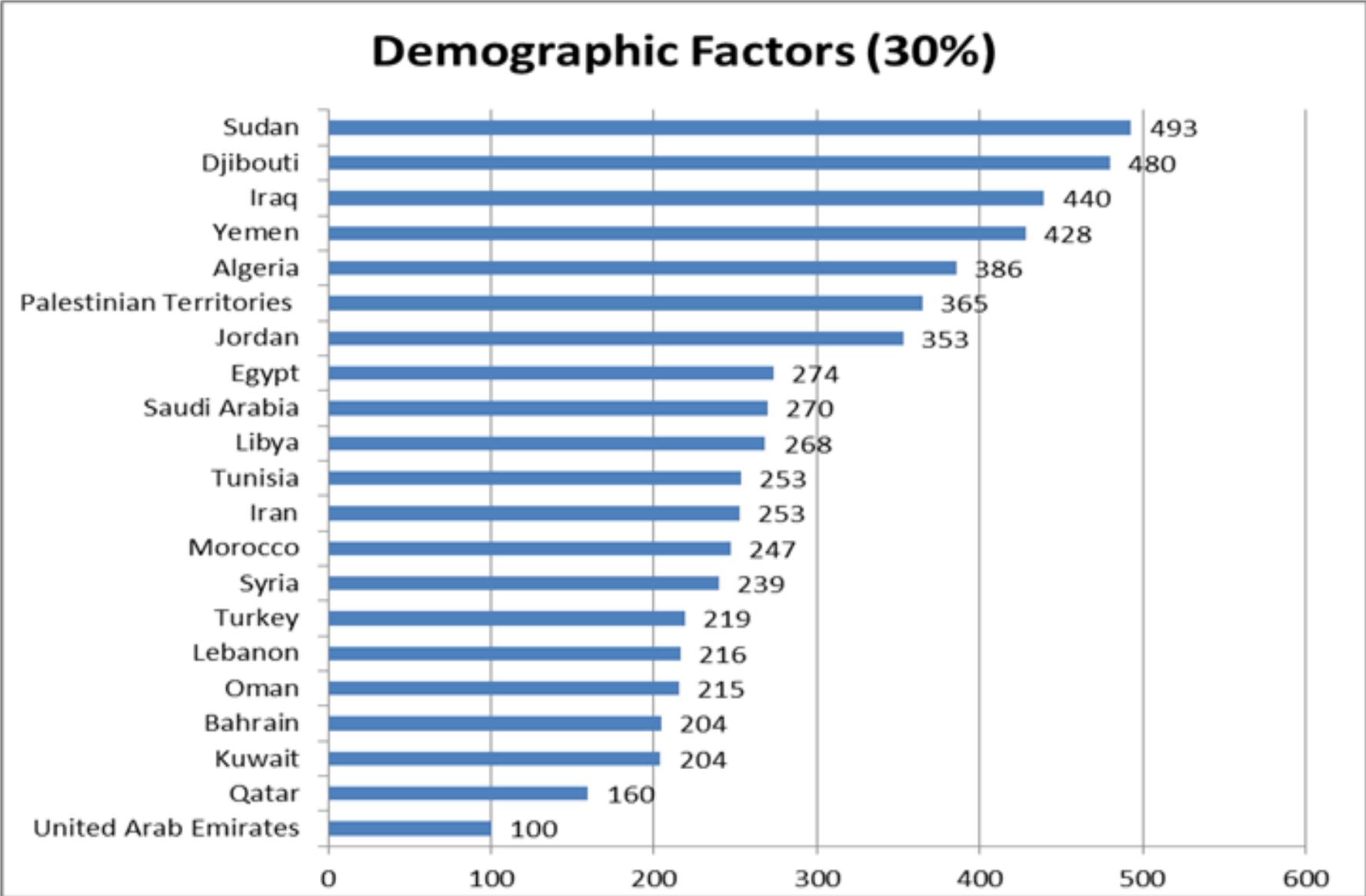
- Prior to recent events the **pace of economic activity** was set to continue to recover in the MENA & GCC region after the financial crisis.
- MENA Growth is expected at 4.0% in 2011 compared to 4.4% in 2010 but with wide disparity in prospects between oil exporters & oil importers.
- Recent developments in the region highlights 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 disparities** with the 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 etc.
- Hence, there is a critical role for **Family Owned Enterprises (FOEs)** and **Small & Medium Enterprises (SMEs)** to engage in job creation and investment.
- While reinforcing the government sector has been the initial step, we should ensure it **does not lead to a ‘crowding out’** of the private sector.
- Need to focus on: **structural reforms and developmental policies** that encourage private sector participation, tackle job creation and lift economies to higher growth trajectories over the longer term.

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- MENA countries face and share a number of common vulnerabilities:
 - Demographic
 - Political & Governance
 - Economic
 - Structural Reforms need to address each of the underlying factors leading to vulnerability

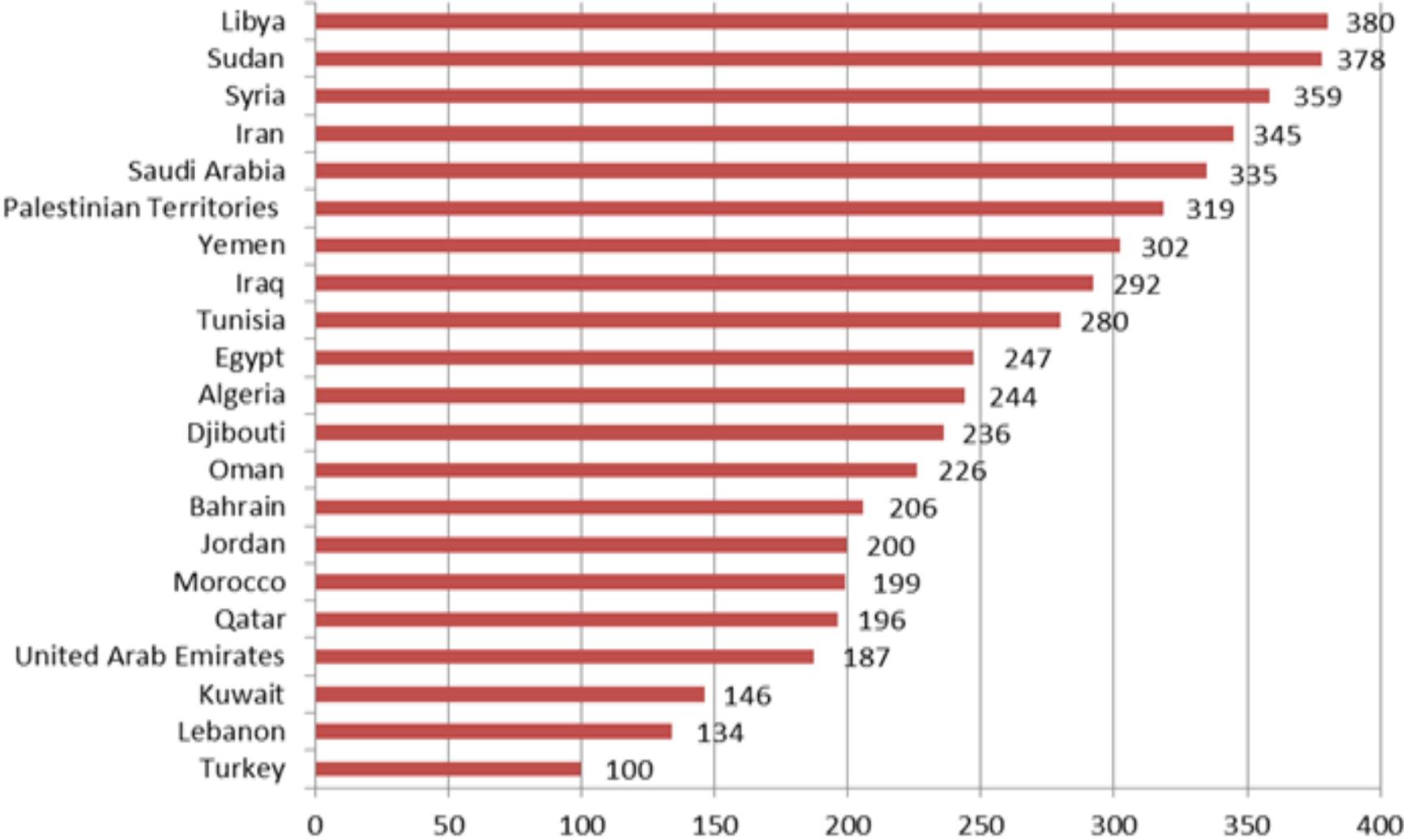
MENA Vulnerability Index Factor Composition



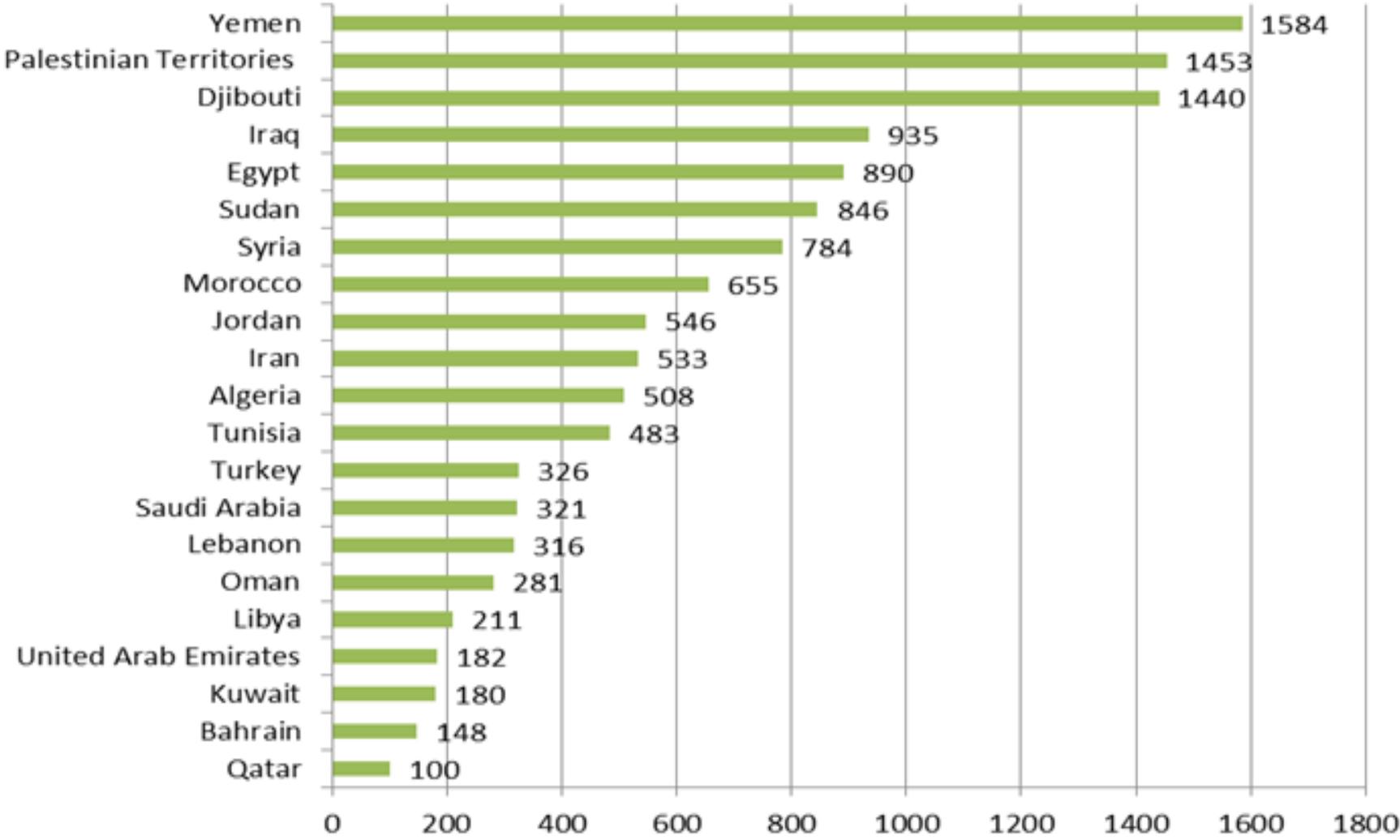
DEMOGRAPHIC FACTORS	POLITICAL & GOVERNANCE FACTORS	ECONOMIC FACTORS
Fraction of population under 25	Voice & Accountability Index	Food price inflation
Youth unemployment rate	Rankings of political rights	GDP per capita
Age dependency ratio	Rankings of corruption	Military spending as a percentage of GDP
Infant mortality rate	Rankings of civil liberties	
	Press freedom index	



Political Factors (40%)



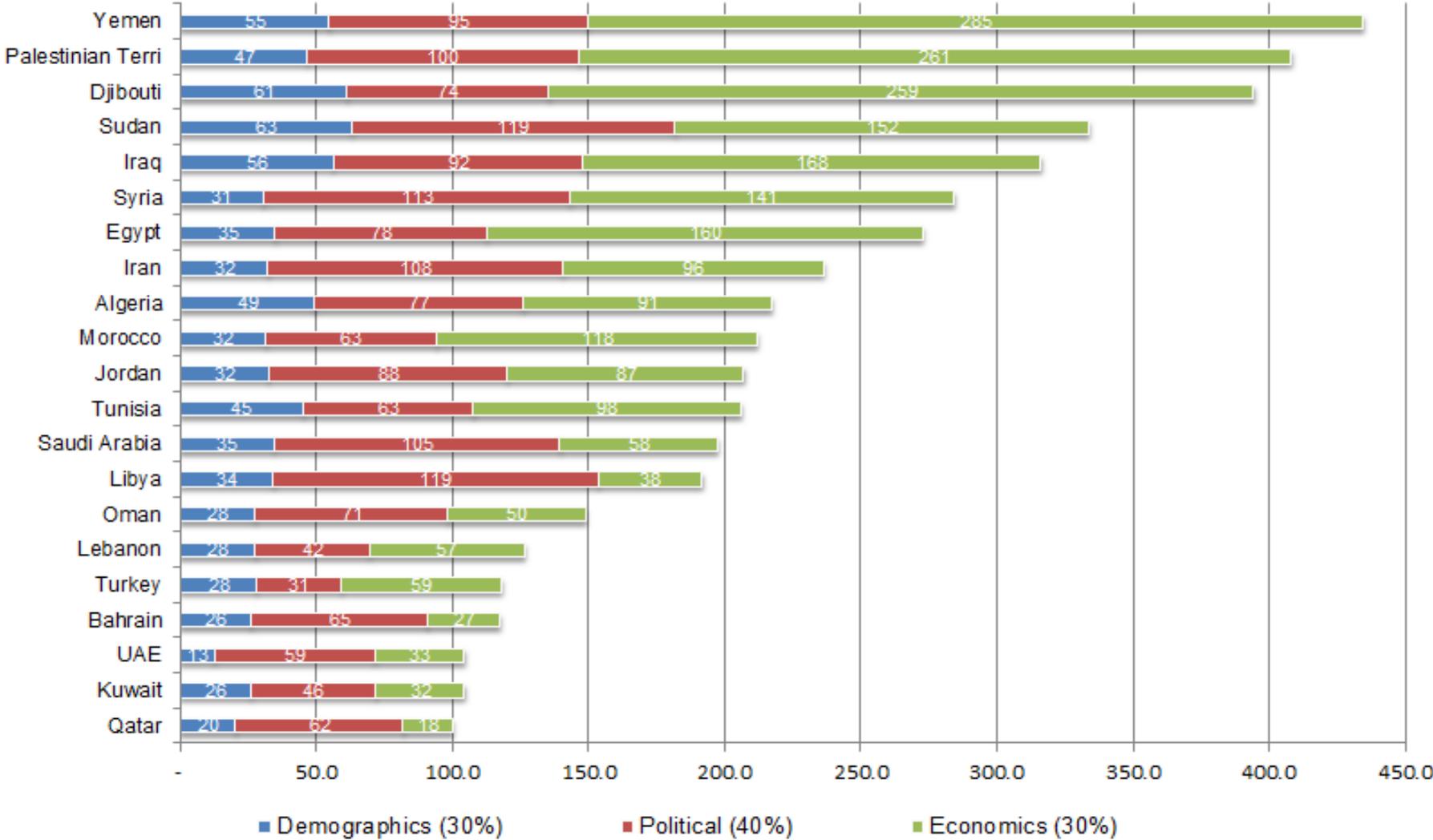
Economic Factors (30%)



MENA Vulnerability Index (2010)



MENA Vulnerability Index



Source: DIFC Economics

DOMESTIC

- Political Transformation
- Governance
- Social Safety Nets
- Educational Transformation
- Women Empowerment
- Fiscal Transformation
- Economic Diversification
- Job Creation

REGIONAL

- MENA Bank for Development & Reconstruction
- GCC Common Market & Common Currency
- Regional Economic Integration
- Develop Local Currency Financial Markets
- Shift Economic Policy Toward Asia & EMEs

INTERNATIONAL

- Resolve Israel-Palestine Cancer
- Aid
- Trade
- Investment
- Economic Focus not Military Engagement

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- Period of Transformation: Transition & its management will be critical to outcomes
 - International consequences: **oil price surge, increased energy insecurity & risk aversion** in financial markets.
 - MENA regional turmoil resulted in **spillovers** seen in increased regional divergence, plunge in equity markets, lower tourism & FDI and higher risk premiums & borrowing costs.
 - Not a “Berlin Wall” Moment, but Arab countries will need to ‘own’ their transformations and be “able to clean up their own backyard”

- **Geostrategic implications will** include change in global strategic alliances with new players: China, Turkey and others
- Policies on trade, aid, immigration, arms & military intervention need to be revised
- Need to address Demographic, Political & Economic Vulnerability Factors: Need Growth to be both inclusive and has a **trickle-down, “pull up” effect.**
- Addressing vulnerabilities underlines the importance of **job creation, lowering income disparities** and promoting growth & development through **institutional rebuilding through a MENA Bank for Reconstruction and Development.**

Arab Spring or Firestorm?

