



# Global Implications of the Arab Firestorm

Presentation to the Abu Dhabi Crown Prince Office

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# Agenda

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**Addressing MENA Vulnerability**

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**Policy Agendas for Transformation & Stabilisation: Domestic,  
Regional, International**

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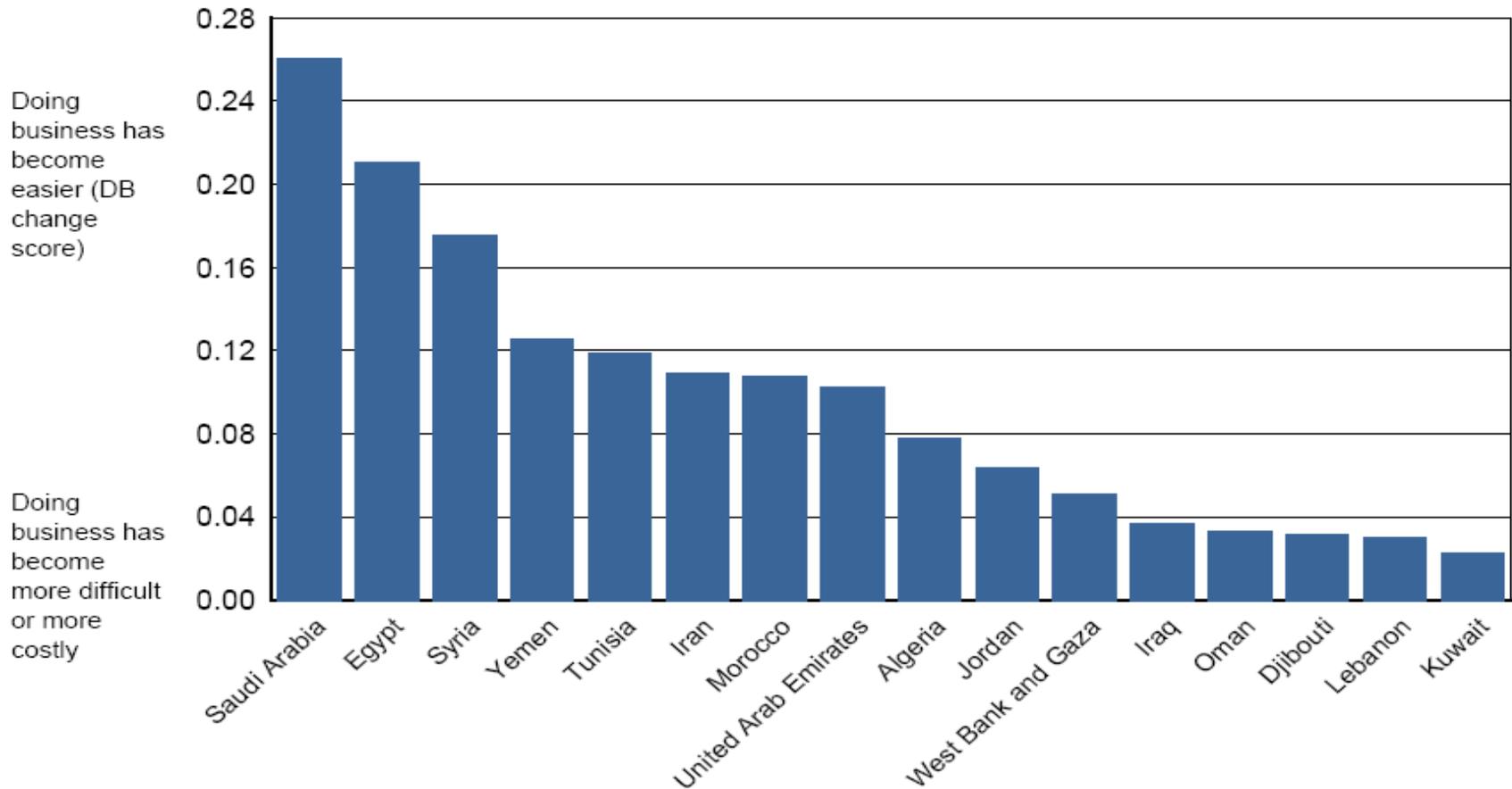
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## MENA Regional Developments

- Period of momentous change, challenges and opportunity that can lead to a historical shift in growth & development patterns
- Prior to recent events the pace of economic activity was set to continue to recover in the MENA & GCC region after the Great Recession & Great Financial Crisis
- MENA Growth is expected at 4.1% in 2011 compared to 3.8% in 2010.
- However, other EMEs have recovered faster: Developing Asia is forecast to grow at 8.4% this year; Sub-Saharan Africa at 5.5%.
- Oil Markets & Financial markets have factored in higher risks emerging from recent developments
- Transition period & its management will be critical to outcomes
- GCC/UAE have Strategic interest in smooth transitions & avoidance of 'failed States': policy action required

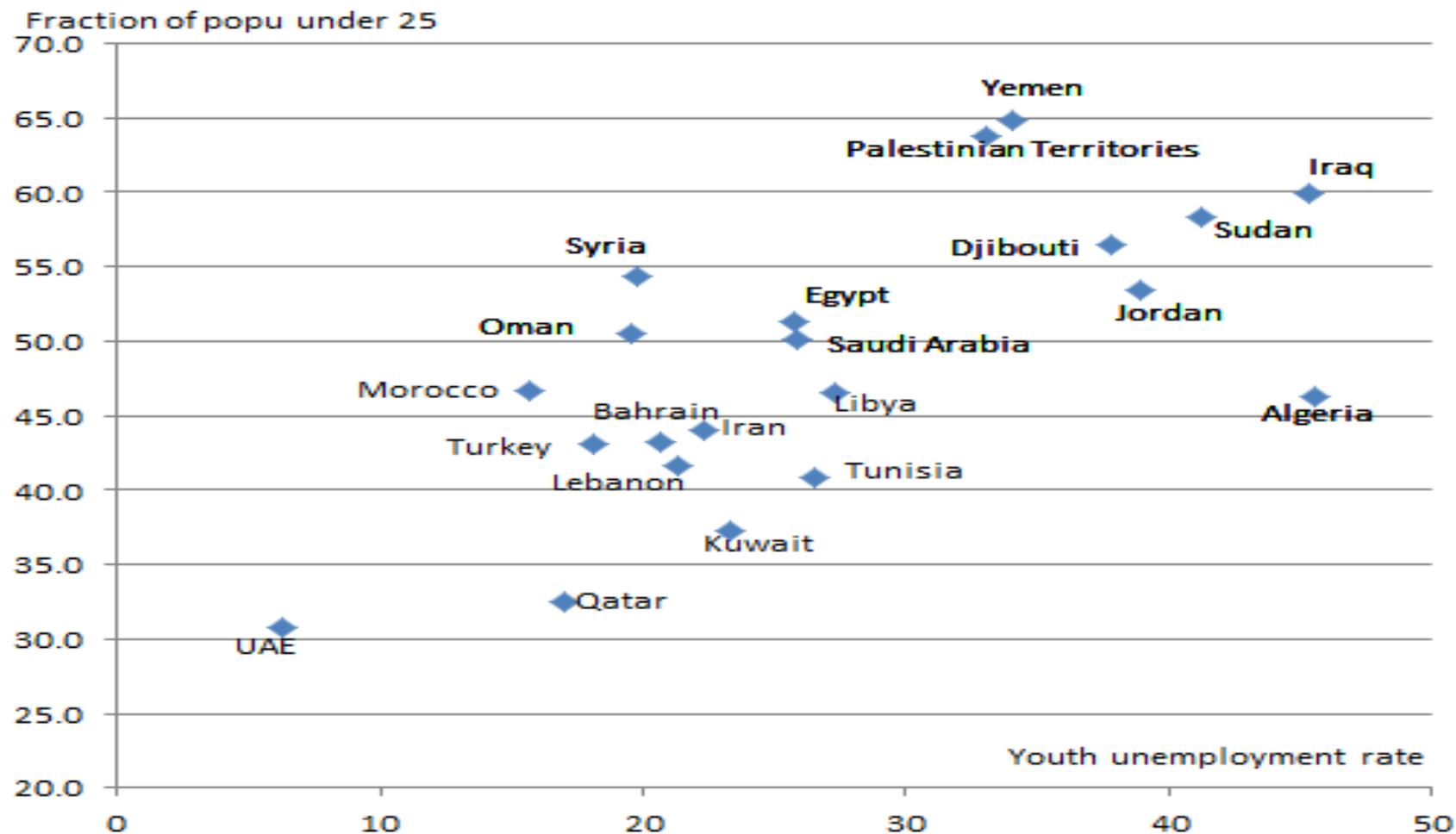
# WB Doing Business Reforms: Change Analytical Model?

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



# Potent Mixes: Young Population & Youth Unemployment

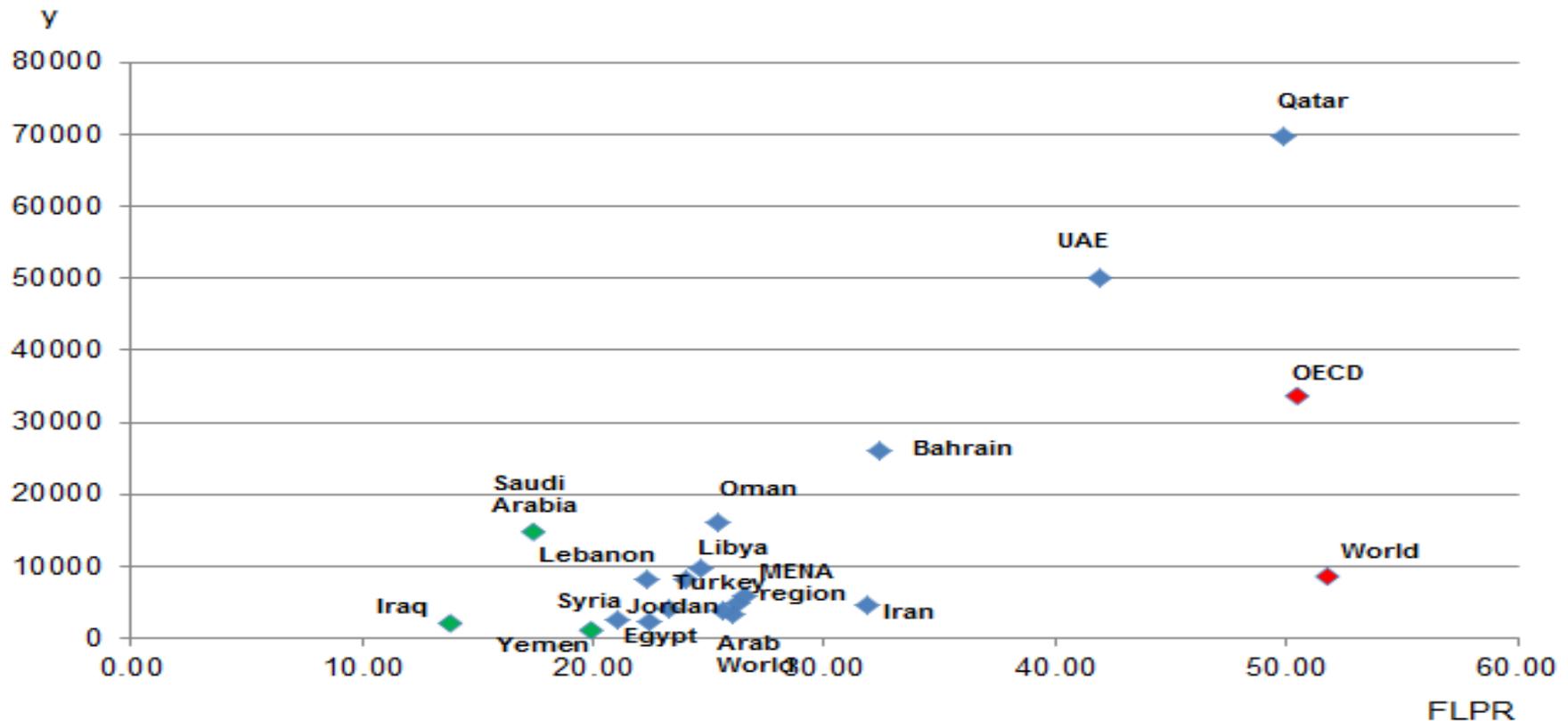
## Youth Population vs. Youth Unemployment



# Female Labour Force Participation Remains Key to GDP

- Participation of women in the labour force is low during initial stages of growth; but picks up after a critical level of development has been achieved
- Addition of females into the labour force would add substantially to GDP: about **25-30%**!

**Female labour force participation rate vs. income per capita**



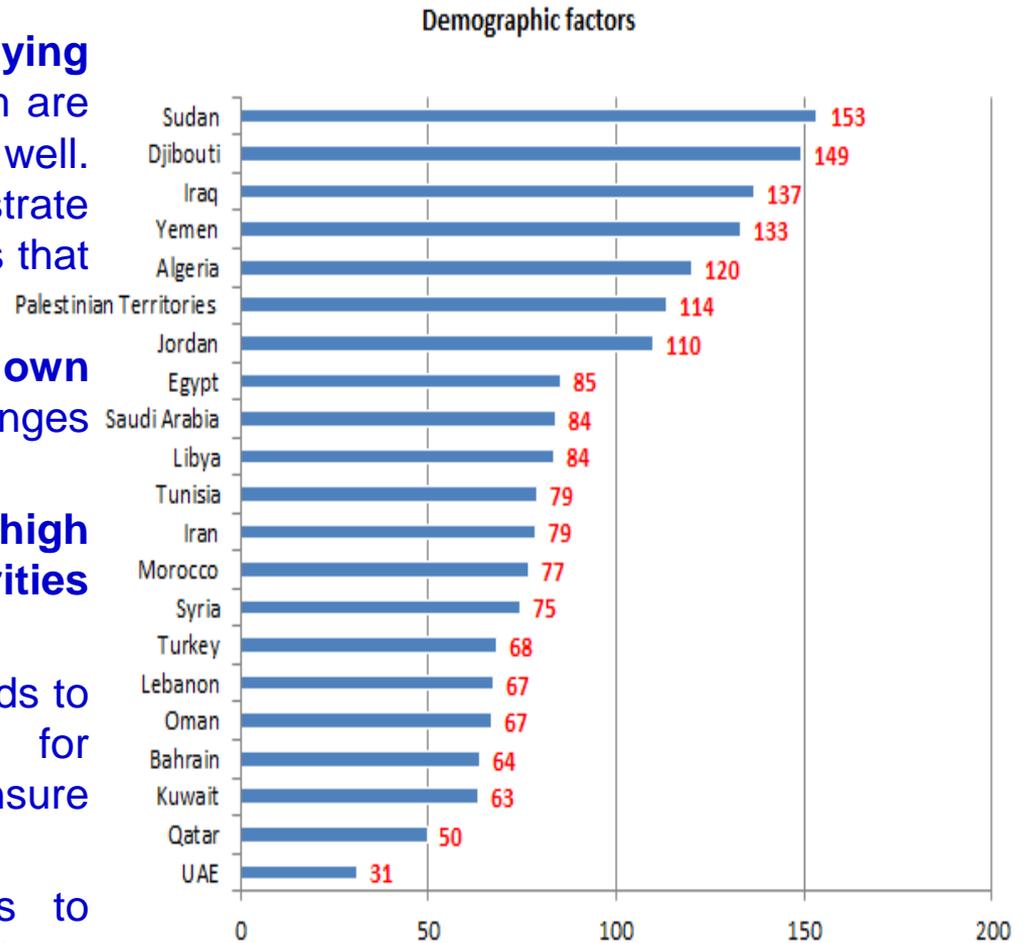
# MENA Vulnerability Index Factor Composition

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

# Addressing Vulnerabilities & Challenges I

## DEMOGRAPHIC FACTORS

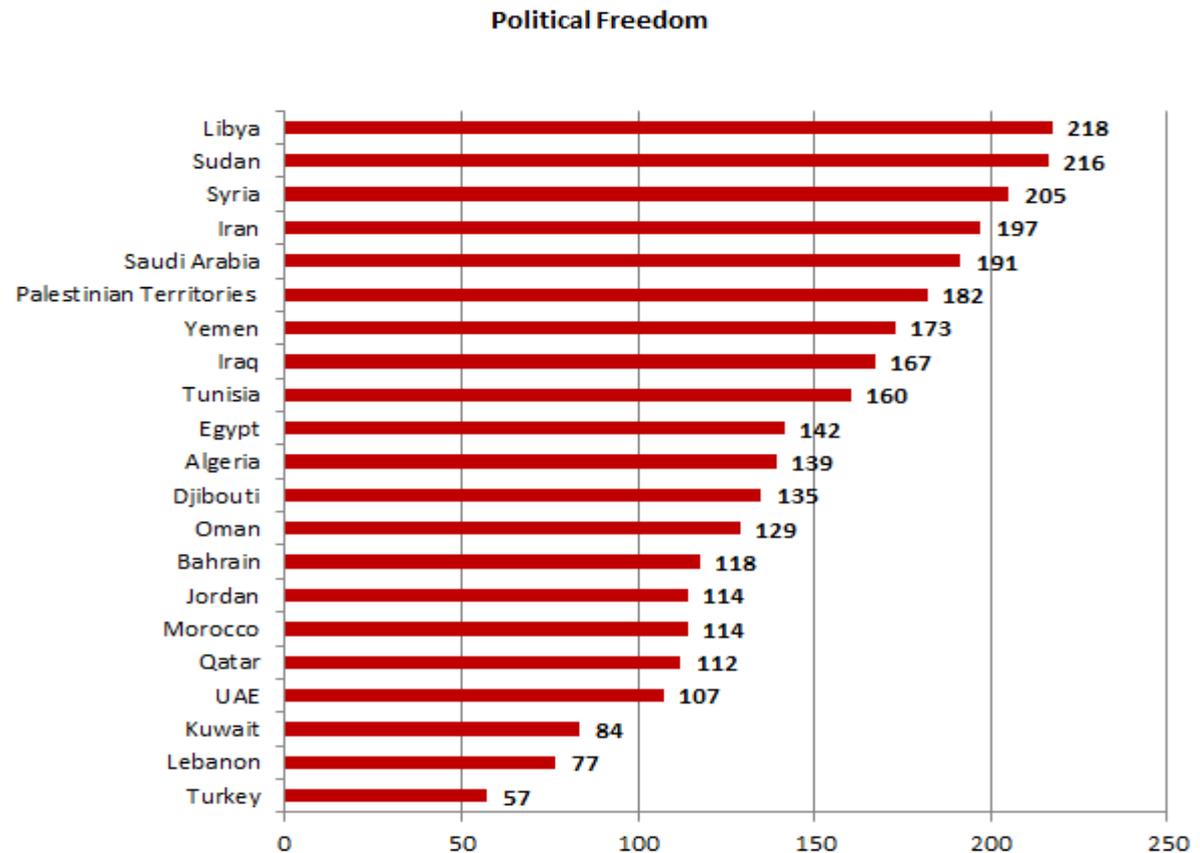
- **Vulnerability indicators + underlying conditions** which led to the firestorm are **present in other countries** as well. Countries in **Central Asia** demonstrate the similar set of crucial preconditions that could lead to turmoil.
- Each country needs to **develop its own mix of policies** to address challenges and vulnerabilities
- Need to **reduce chronically high unemployment & income disparities** within countries & across region.
- Job creation is a priority and this needs to come from the private sector for sustainable growth and to ensure productivity growth.
- Critical role for FOEs and SMEs to engage in job creation and investment.



# Addressing Vulnerabilities & Challenges II

**POLITICAL FACTORS** - indicators which grade political freedom are qualitative rankings which take into account several factors relating to overall governance.

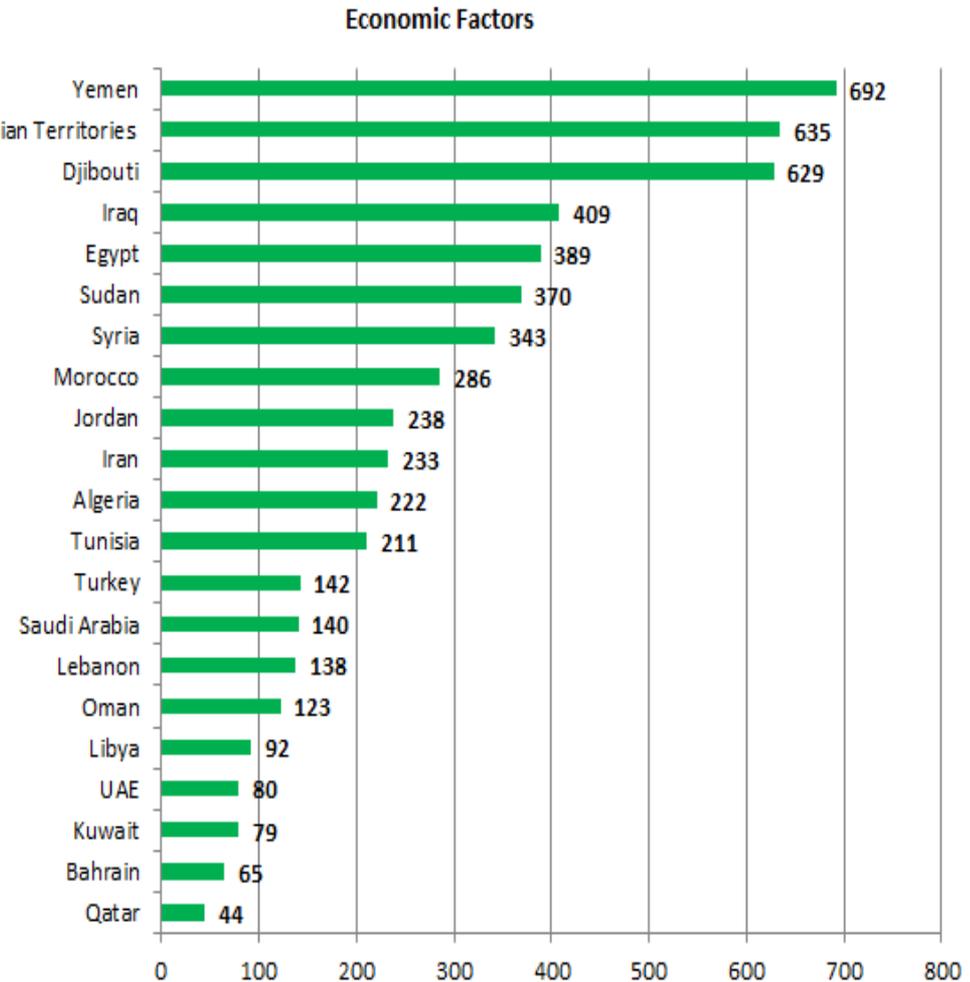
- **Voice & Accountability Index**
- **Press freedom index**
- **Rankings of civil liberties**
- **Rankings of corruption**
- **Rankings of political rights**



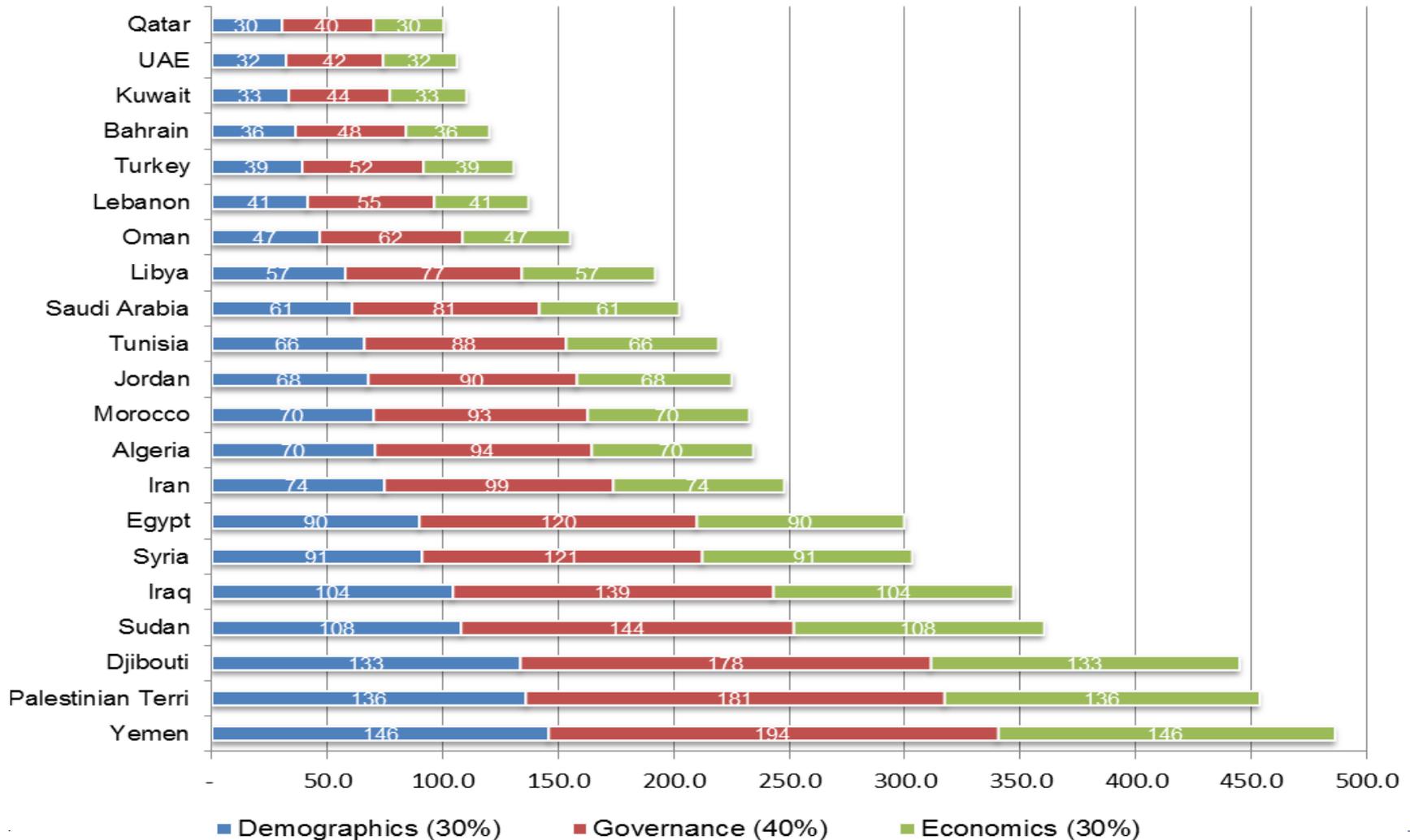
# Addressing Vulnerabilities & Challenges III

**ECONOMIC FACTORS** – below are some easily quantifiable & critical factors that led to the “days of rage” in MENA.

- **Food price inflation:** higher inflation, the country will be more vulnerable
- **GDP per capita:** higher the output, lesser the degree of discontent & vulnerability
- **Military spending as a % of GDP:** Higher the spending on military related activities, lesser the amounts set aside for health & education => higher vulnerability



# MENA Vulnerability Index (2010 data)



# Addressing Vulnerabilities & Challenges I

## DEMOGRAPHIC FACTORS

- **Vulnerability indicators + underlying conditions** which led to the firestorm are **present in other countries** as well. Countries in **Central Asia** demonstrate the similar set of crucial preconditions that could lead to turmoil.
- There is a need to **reduce chronically high unemployment** and **wide income disparities** within countries and across the region.
- Job creation is a priority and this needs to come from the private sector for sustainable growth and to ensure productivity growth.
- Critical role for Family Owned Enterprises (FOEs) and Small & Medium Enterprises (SMEs) to engage in job creation and investment.
- Each country needs to **develop its own mix of policies** to address challenges and vulnerabilities

# Addressing Vulnerabilities & Challenges II

**POLITICAL FACTORS** - indicators which grade political freedom are qualitative rankings which take into account several factors relating to overall governance:

- **Voice & Accountability Index**
- **Press freedom index**
- **Rankings of civil liberties**
- **Rankings of corruption**
- **Rankings of political rights**

**ECONOMIC FACTORS** – below are some easily quantifiable & critical factors that led to the “days of rage” in the MENA region

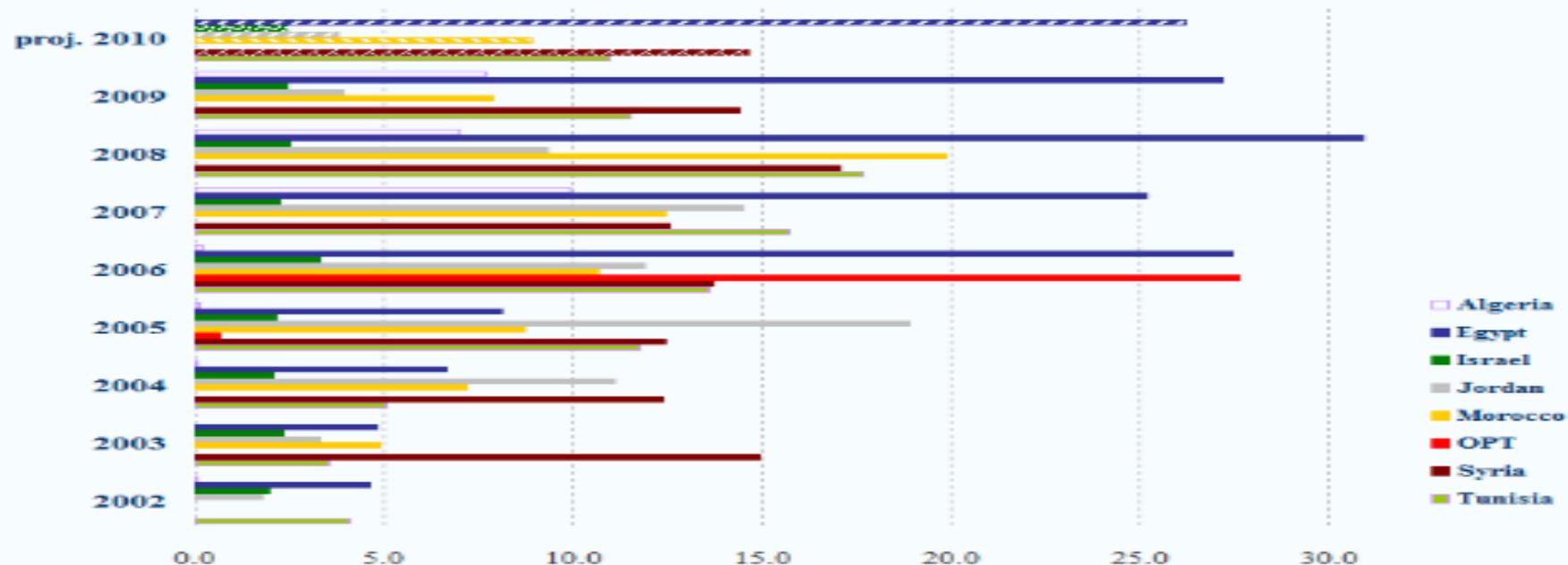
- **Food price inflation:** higher inflation, the country will be more vulnerable
- **GDP per capita:** the higher per capita income & lesser degree of inequality, the lesser the degree of discontent & vulnerability
- **Military spending as a % of GDP:** Higher the spending on military related activities, the lesser the amounts set aside for health, education & social spending => higher vulnerability

# Food Prices & Political Instability

- Food price inflation increases likelihood of civil conflict and civil strife
- Food price inflation can have severe socio-economic & political effects in emerging countries, well illustrated in recent events in rioting, demonstrations & political changes in MENA countries.  
e.g. In Egypt, food represents 40% of household budgets & food price inflation hit 20% resulting in near 10% decline in purchasing power.
- Higher Fuel & Food prices will add import cost of some 3% of GDP for Egypt, Lebanon, Jordan, Morocco, Syria, & Tunisia
- “Inflation targeting” cannot neglect food price inflation: Inflation cannot be dealt purely through monetary policy.
- Macroeconomic policies **cannot be shaped in isolation from measures to ensure social safety nets** are in place and that the poorest people are protected.

# MENA Food & Fuel Subsidies: % Current Gov't Spending

**Graph 2 Food and fuel subsidies**  
% of current government expenditures



	2002	2003	2004	2005	2006	2007	2008	2009	proj-2010
Algeria	0.04555	0.02676	0.08032	0.12087	0.20223	9.92692	7.03802	7.7101	
Egypt	4.62983	4.8281	6.65072	8.09834	27.4303	25.2051	30.9127	27.1935	26.2384
Israel	1.95287	2.33383	2.10275	2.12264	3.29848	2.25855	2.49221	2.45399	2.45399
Jordan	1.8	3.3	11.1264	18.8894	11.8881	14.5032	9.34631	3.88487	3.7853
Morocco		4.85437	7.21154	8.75	10.6977	12.4424	19.9115	7.84314	8.91089
OPT				0.68214	27.625				
Syria		14.9722	12.4012	12.4398	13.7213	12.5689	17.0744	14.406	14.6341
Tunisia	4.07802	3.54117	5.05514	11.8014	13.606	15.7138	17.6694	11.5558	10.9777

Note: Empty cells are years for which information is not (yet) available.

Source: Ministries of Finance of the respective countries, IMF Article IVs, own calculations.

# Reforms Necessary at Country & Regional Level

## □ **Financial Sector Development:**

- Develop Local Currency **Money, Debt & Capital Markets**
- Develop **Mortgage Markets** (including Mortgage Guarantee) for medium & long-term Housing Finance
- Develop & Improve **Access to Finance** for SMEs, FOEs and Growth Cos.
- Develop **2nd Tier Equity Markets** for SMEs, FOEs & Growth Cos.

## □ **IMF & other International & Regional Institutions can provide assistance** in a number of initiatives for MENA region:

- Develop Social Safety Nets
- Launch Arab-Stat initiative to remedy statistical information & data gap

## Regional Initiatives to Address Vulnerabilities

- On the regional level, Institutional Rebuilding & Reform is required of two institutions for them to become effective as instruments for pan-Arab cooperation and to address challenges:
  - Arab League
  - Arab Monetary Fund to act as a regional equivalent of the IMF
  
- MENA should have a **Bank for Reconstruction and Development**, with a mandate to:
  - Finance Infrastructure
  - Act as a Development Bank
  - Develop regional financial markets
  - Provide technical & financial resources for countries in need of reconstruction: e.g. Iraq, Sudan, Lebanon, Palestine
  - Participate in Private Sector funding & initiatives similar to the WB-IFC

# Policy agendas for transformation & stabilization: domestic, regional, international

## DOMESTIC

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

## REGIONAL

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

## INTERNATIONAL

- Resolve Israel-Palestine Cancer
- US-EU & Advanced Economies need to reform policies related to:
  - Aid
  - Trade
  - Investment
- Economic Focus not Military Engagement

## Capital Market Resources for SMEs/ FOEs

- Many MENA governments have programmes to foster SMEs: incubators, fiscal & financial incentives, procurement advantages etc.
- However, SMEs need long-term sources of finance & capital
- MENA capital markets are dominated by bank assets and equities: Debt securities make up just 10% of capital markets (GFSR Apr '11)
- Regional stock markets have adopted a model best tailored for large, well established companies, with a long track record, operating in mature sectors but do not cater to the needs of companies displaying a promising growth potential, such as SMEs and FOEs
- **Financial crisis has exacerbated the challenges** - banks deleveraging & the region's equity markets have not recovered completely.
- Newer, dynamic businesses and family enterprises find listing & other regulatory requirements of larger established exchanges burdensome & result in loss of control over their companies.
- Dedicated Equity Market for SMEs/FOEs provides 'exit mechanism' for Government SMEs programmes, Private Equity & Banking Industry

## National/ Regional Equity Mkts for SMEs & Growth Cos

Stock exchange designed to meet the needs and the ambitions of this segment might become a key driver in the development of a liquid capital market

The market would target companies that are not ready or suitable for listing in a main equity market



It would be conceived as a “**stepping stone**” to the main market

These companies could benefit from **MORE FLEXIBLE:**

- *Forms of public quotation;*
- *Listing requirements;*
- *On-going reporting obligations;*
- *Tailor-made regulation.*

# Housing Finance- Mortgage Market & Guarantee Scheme

The DIFC has proposed two initiatives to jumpstart the real estate sector:

- Young fast growing population => need to build mortgage markets; securitisation market => house ownership & **housing finance**
- A mortgage guarantee scheme is a special **form of credit insurance** that protects lenders against loss from borrowers' default on mortgage loans caused by economic adversity.

Five main **beneficial effects** for UAE economy, the public and the financial sector:

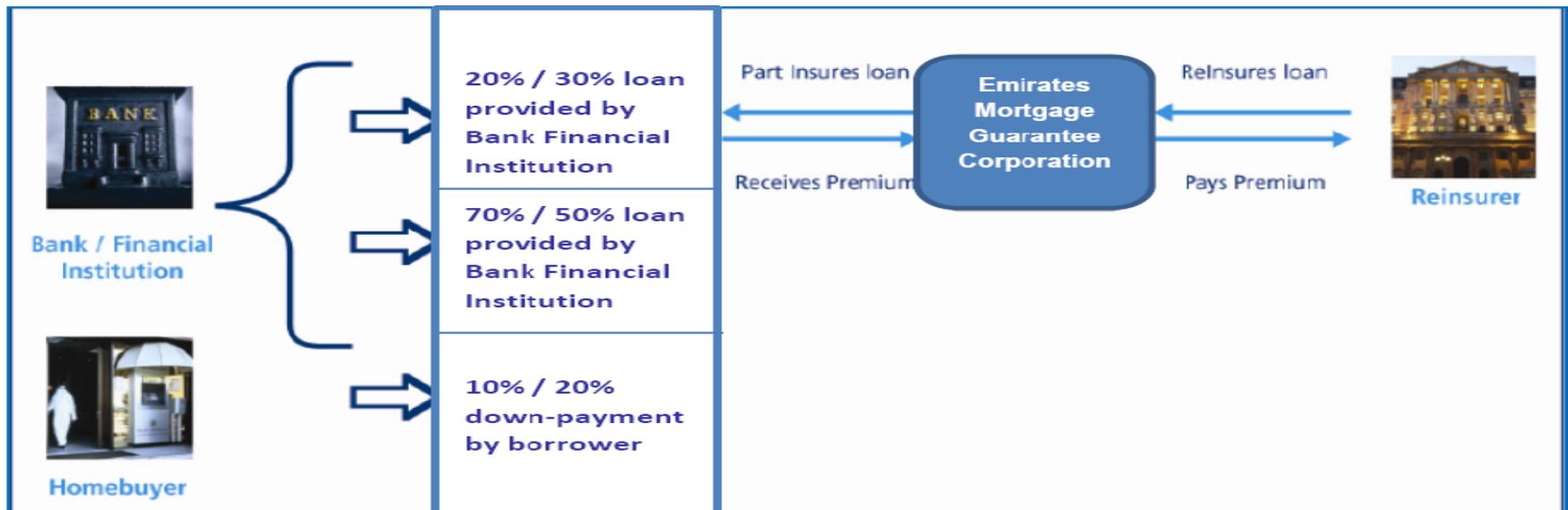
- Revitalize the real estate market and the construction sector** as engines of growth for UAE economy;
- Facilitate broader **home ownership**;
- Support the growth of the **mortgage market** and **build up capital markets**;
- Allow banks to **offload some risk from their balance sheets** spurring the resumption to normal lending levels;
- Promote product innovation and standardization** while fostering the development of a liquid secondary mortgage backed security market.

# Emirates Mortgage Guarantee Corporation

An **Emirates Mortgage Guarantee Corporation** would provide insurance coverage of eligible housing loans to approved institutions:

- for an amount of up to **30% of the value at origination** (subject to the eligibility criteria of different mortgage guarantee products);
- enabling banks to advance **mortgage loans of up to 80-90% of property value**;
- with the **home buyer putting down 10-20%** of the value.

With the additional protection of mortgage guarantee, the **down payment** required for potential homebuyers **can be reduced without additional risk to the banks**.





***Thank you!***  
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