



# MENA & THE Arab Firestorm

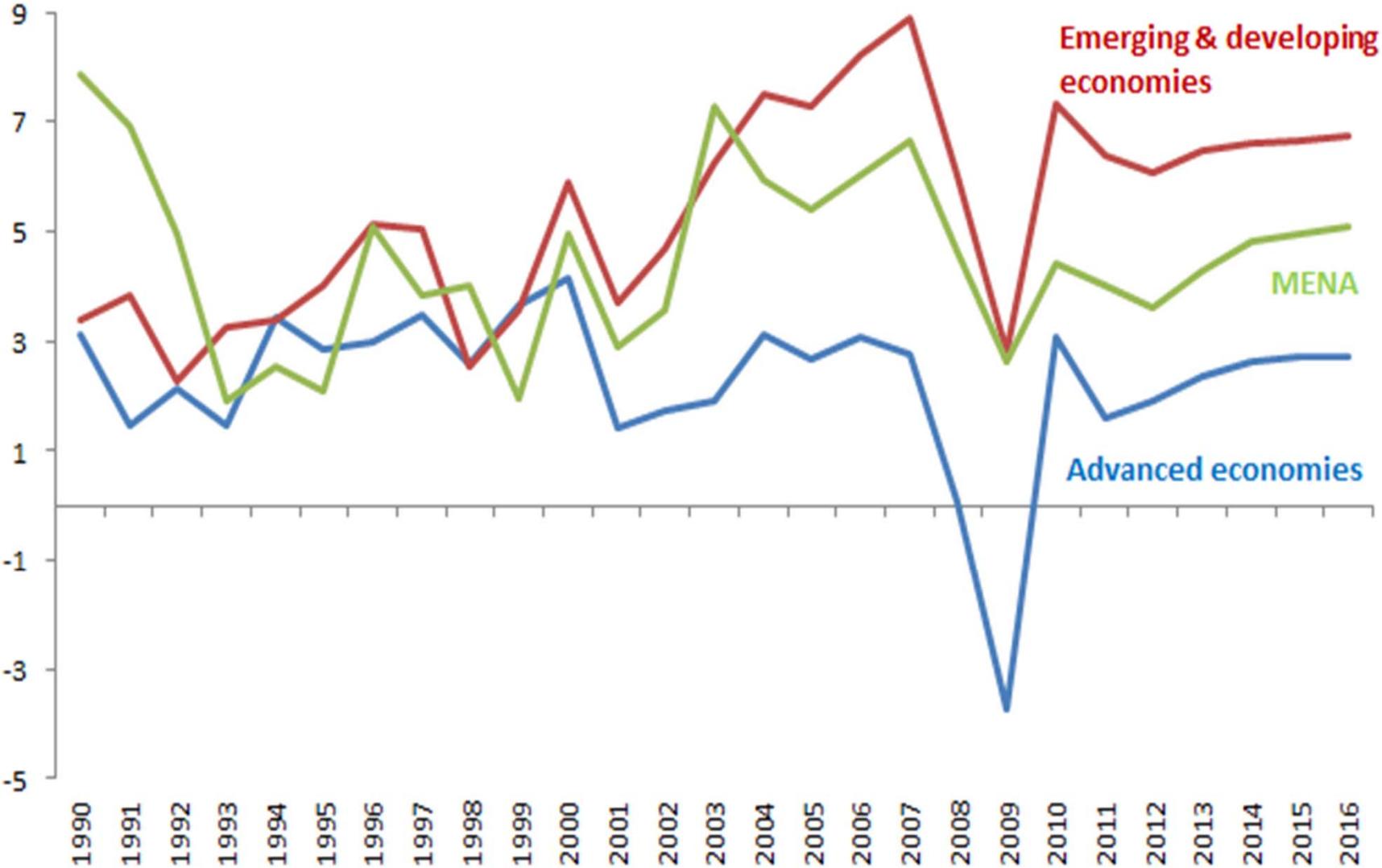
The Legal & Regulatory Framework for Doing Business in the Middle East , 2 October, 2011

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- **MENA in the Aftermath of the Great Recession & Great Financial Crisis**
- **The “Arab Firestorm” & Impact of Political Instability**
- **Reforms Required to Improve the Ease of Doing Business**
- **Drivers & Risks to Growth in MENA**

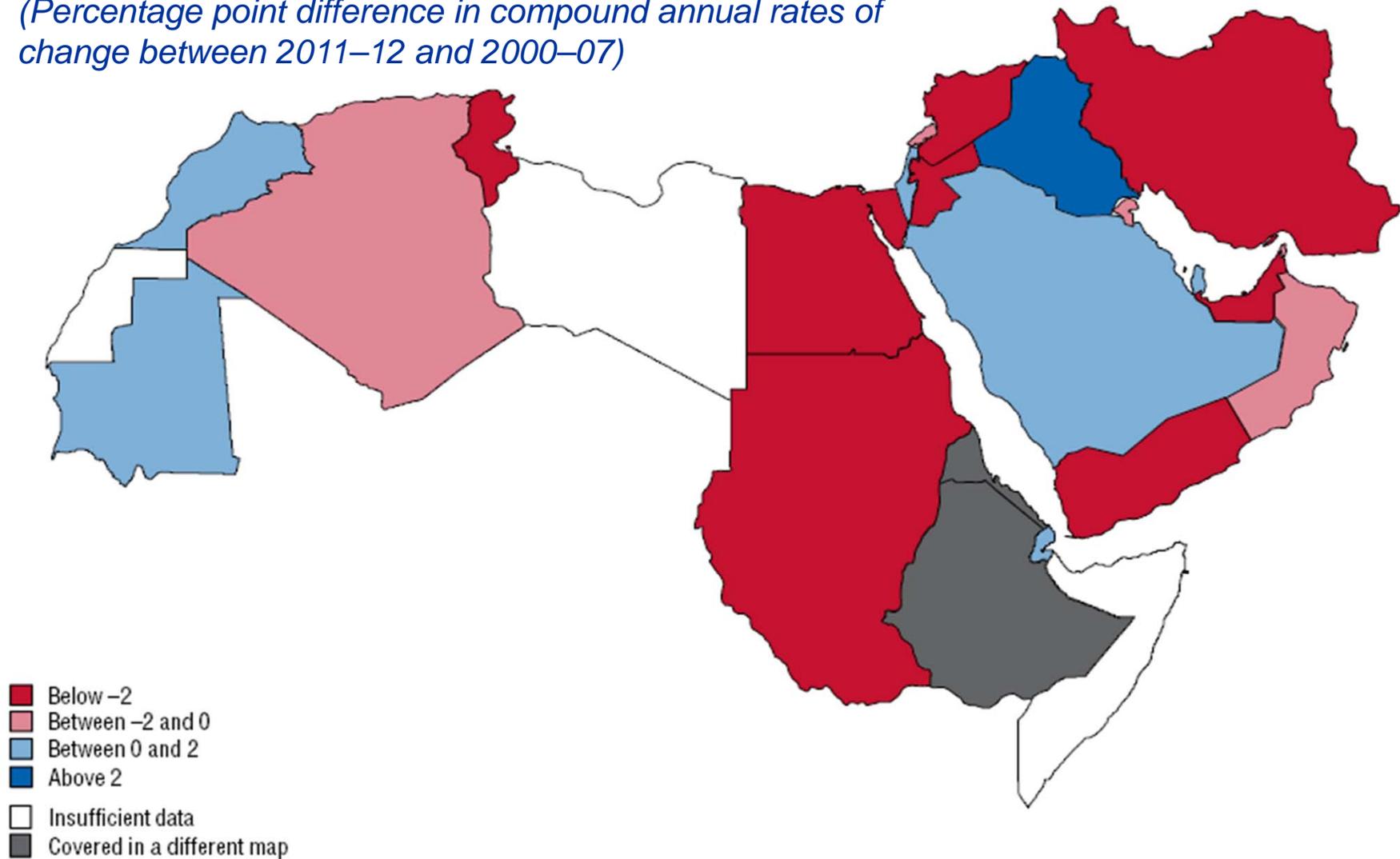
# Increased Divergence in Economic Growth



Source: IMF World Economic Outlook, Sep 2011

# MENA: Current Growth versus Pre-crisis Average DIFC

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



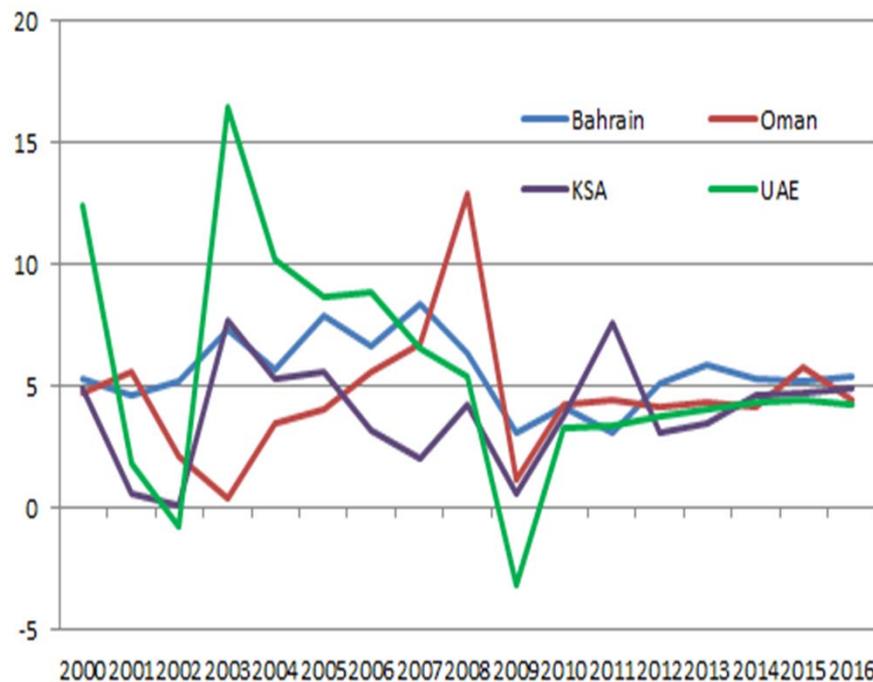
Source: IMF World Economic Outlook, Sep 2011

# 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 boosted by populist fiscal measures.
- With private sector 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 announced that it has welcomed the bids of Jordan & Morocco to join the Union.

GCC: Growth to remain under 5% in 2011 (except KSA @ 7.5% & Qatar @ 20%)



Oil Importers: Growth to dip in countries facing political upheaval



Source: IMF REO, Apr 2011

# MENA Policy Actions: More Active but Constrained DIFC

- Timely, precautionary policy measures taken during 2009-10 on the monetary and fiscal front + financial market interventions helped withstand the crisis better.
- GCC banks were not exposed to toxic assets like in the advanced countries, but contagion came via trade finance, equity markets and real estate sector.

	Deposit Guarantees	Liquidity Support / Prudential	Capital Injections	Equity Purchases / Stock mkt intervention	Monetary Easing	Fiscal Stimulus
<b>GCC</b>						
Bahrain		✓			✓	
Kuwait	✓	✓	✓	✓	✓	
Oman		✓		✓	✓	
Qatar		✓	✓	✓		
Saudi Arabia	✓	✓			✓	✓
United Arab Emirates	✓	✓	✓		✓	✓
<b>Other</b>						
Algeria					✓	✓
Iran		✓				
Libya	✓			✓	✓	✓
Yemen					✓	
Egypt	Reiterated				✓	✓
Jordan	✓	✓			✓	
Lebanon		✓				
Morocco	Already exists	✓			✓	✓
Syria		✓				✓
Tunisia		✓		✓	✓	✓

Source: IMF Regional Economic Outlook

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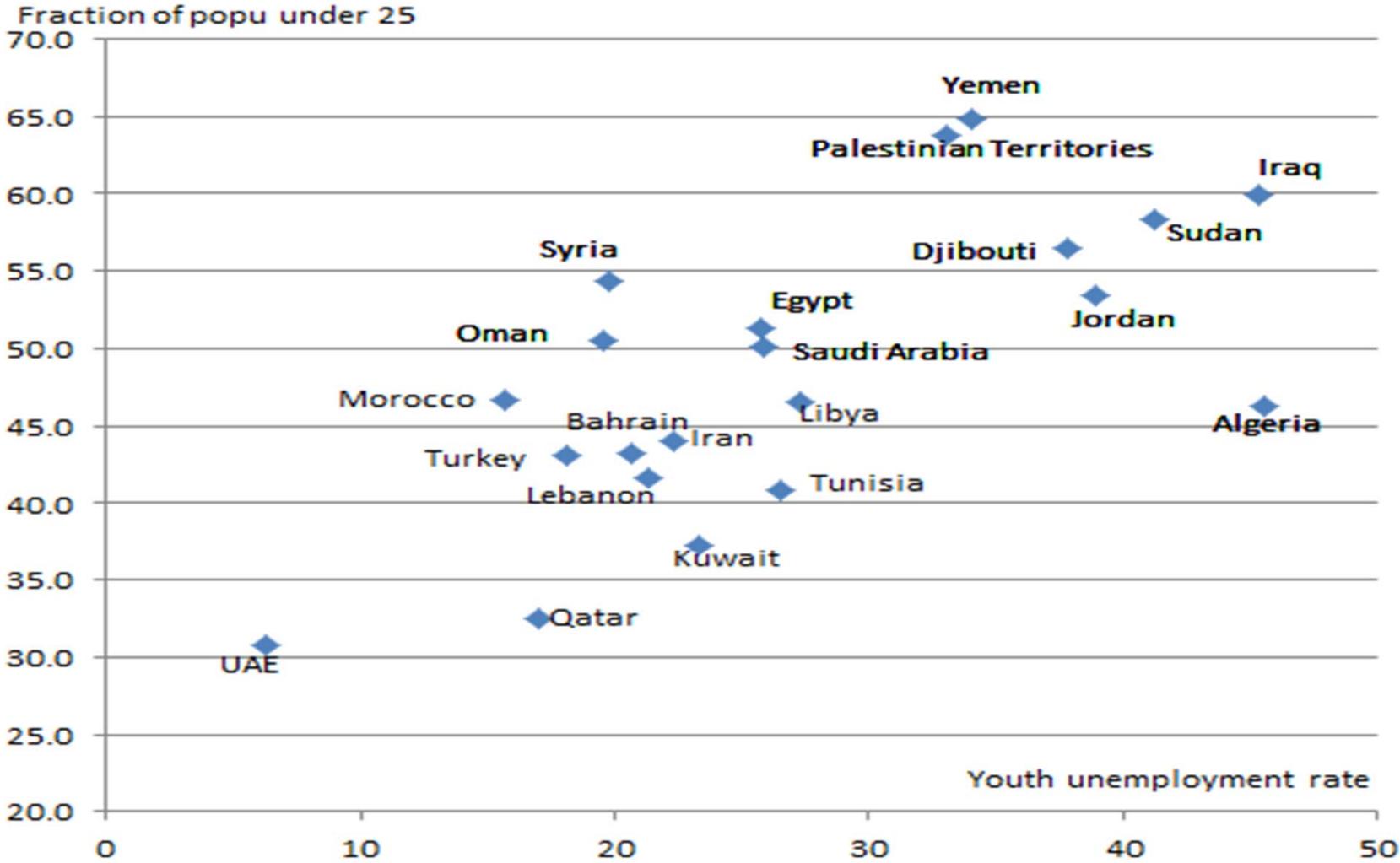
# Recent MENA Regional Developments



- Prior to recent events the **pace of economic activity** was set to continue to recover in the MENA region after the GFC & GR.
- 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.
- 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** (incl. infrastructure) that encourage private sector participation, tackle job creation and lift economies to higher growth trajectories over the longer term.

# Explosive Mix: Young & Unemployed Populations DIFC

### Youth Population vs. Youth Unemployment



Source: UN Population Division, DIFCA Economics

# Policy Responses to Turmoil I



	Wages	Subsidies	Tax cuts	Transfers	Infrastructure	Jobs	Total cost
<b>GCC</b>							
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

Source: World Bank Report on MENA, May 2011

# Policy Responses 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	None	N/A	N/A
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

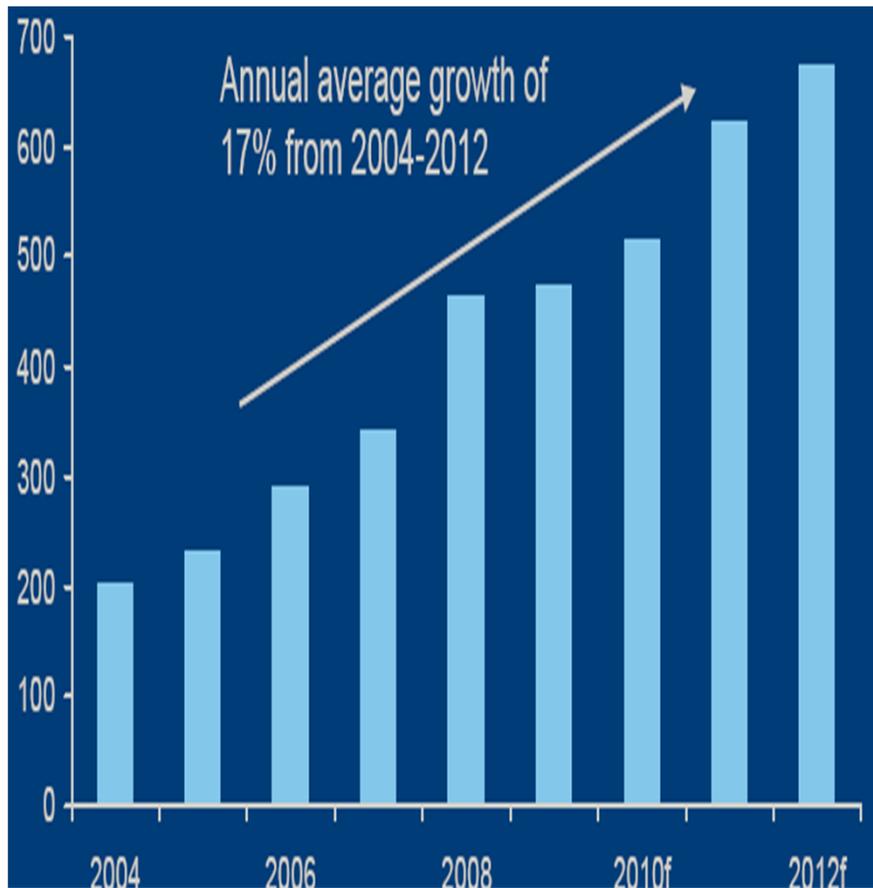
Source: DB Research, June 2011

# Government Spending & Fiscal Sustainability

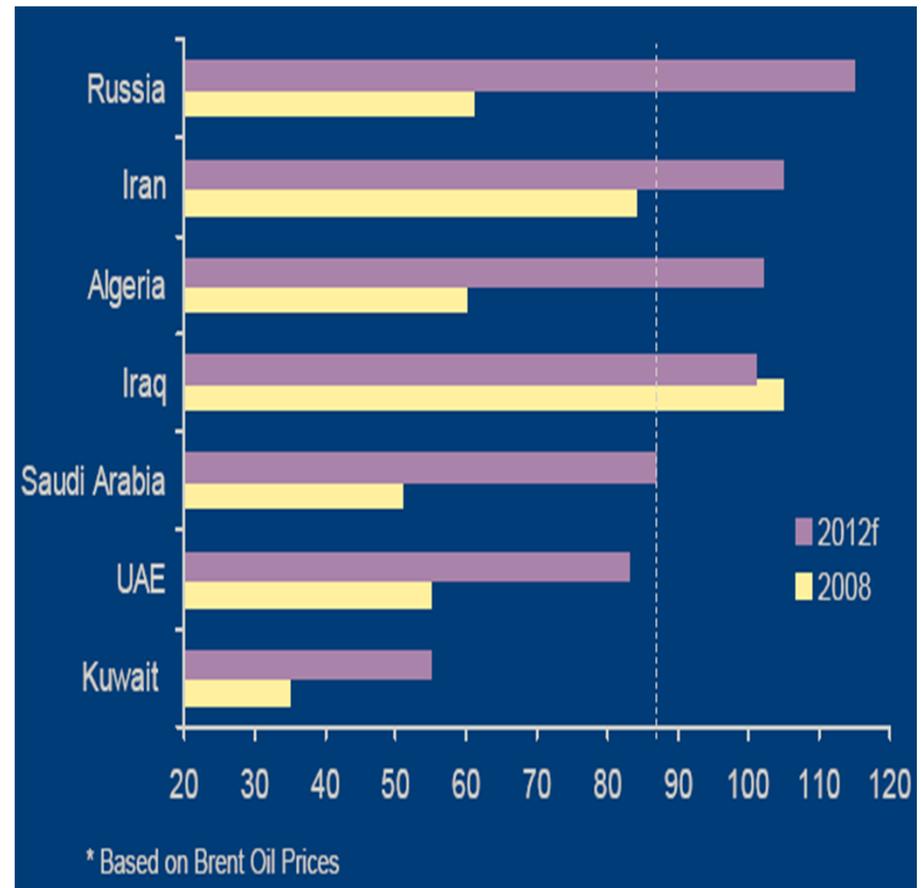


Policy response has largely been populist spending encouraging consumption => Growing threat to fiscal sustainability & external balance

### Oil exporters: Gov't spending (\$bn)



### Breakeven Oil prices (\$)

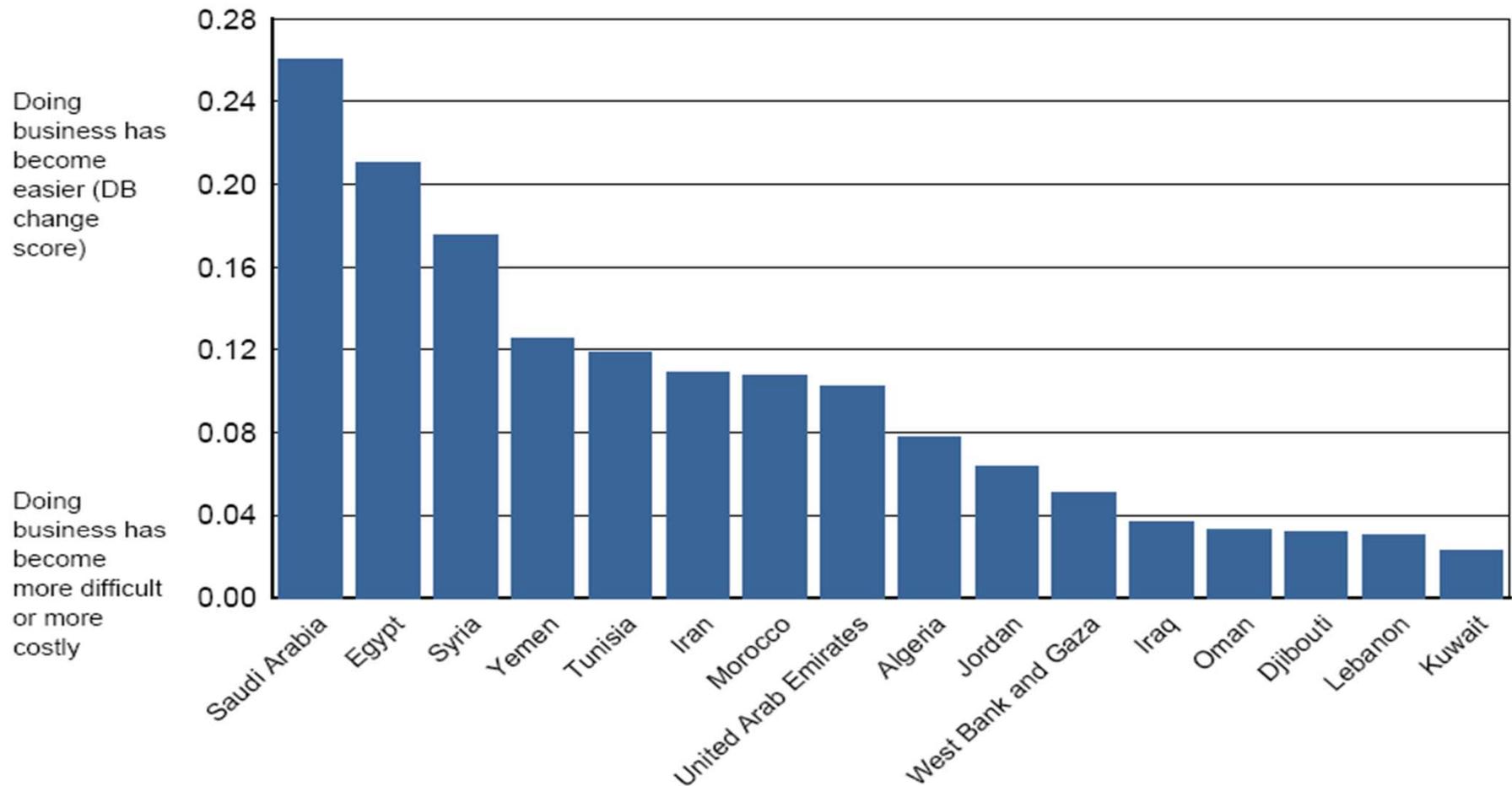


Source: IIF Annual Meetings, Sep 2011

# WB Doing Business Reforms: Change Analytical Model?



WB DB ranks Saudi Arabia, Egypt, Syria, Yemen & Tunisia among top reformers over past 5 years => Need to add Inclusiveness & Trickle-down as factors to gauge reforms!



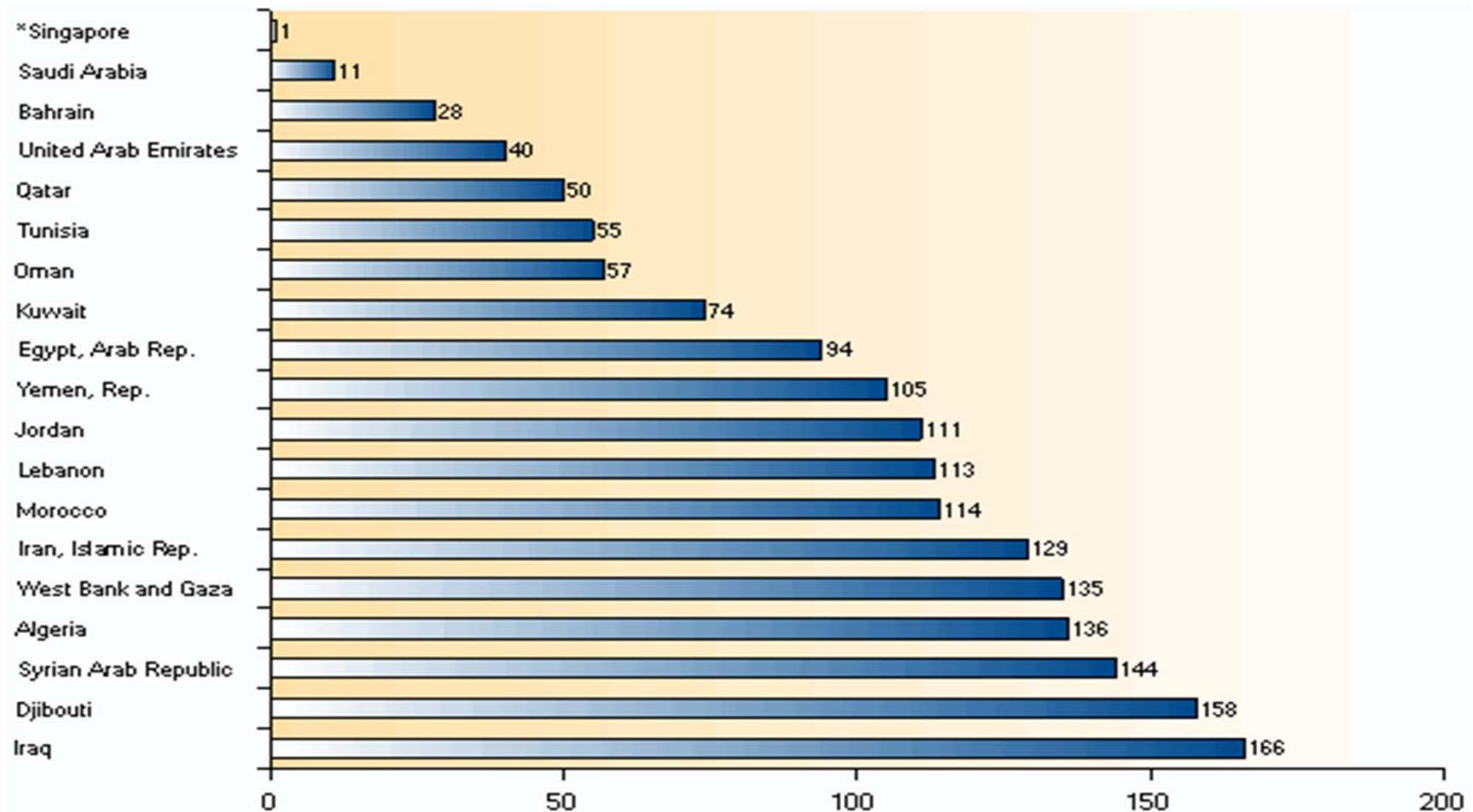
Source: Doing Business 2011, World Bank.

- 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, not only the issues of Political and Governance reforms

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# Ease of Doing Business in the MENA region, 2010 DIFC

In MENA, 11 of 18 economies implemented business regulation reforms, 22 in all. Six modernized customs procedures and port infrastructure to facilitate trade and align with international standards. These include Bahrain, Egypt and UAE.



Source: Doing Business 2011, World Bank

<b>Economy</b>	<b>Ease of Doing Business Rank ▲</b>	<b>Starting a Business</b>	<b>Dealing with Construction Permits</b>	<b>Registering Property</b>	<b>Getting Credit</b>	<b>Protecting Investors</b>	<b>Paying Taxes</b>	<b>Trading Across Borders</b>	<b>Enforcing Contracts</b>
Saudi Arabia	1	1	1	1	1	1	3	2	14
Bahrain	2	8	2	4	4	4	6	5	9
United Arab Emirates	3	4	3	2	2	12	2	1	13
Qatar	4	11	4	6	12	8	1	7	5
Tunisia	5	5	11	7	4	5	11	4	3
Oman	6	7	6	3	10	8	4	10	6
Kuwait	7	14	7	10	4	2	5	13	8
Egypt, Arab Rep.	8	2	17	11	2	5	16	3	16
<b>SUBNATIONAL</b>									
Yemen, Rep.	9	6	5	5	14	15	17	15	1
Jordan	10	12	8	13	10	12	8	8	12
Lebanon	11	10	15	14	4	8	9	11	10
Morocco	12	9	9	15	4	16	15	9	7
<b>SUBNATIONAL</b>									
Iran, Islamic Rep.	13	3	16	17	4	17	14	17	2
West Bank and Gaza	14	16	18	8	15	3	7	12	4

# Doing Business in the GCC



<i>Economy</i>	<i>Ease of Doing Business Rank</i>	<i>Starting a Business</i>	<i>Dealing with Construction Permits</i>	<i>Registering Property</i>	<i>Getting Credit</i>	<i>Protecting Investors</i>	<i>Paying Taxes</i>	<i>Trading Across Borders</i>	<i>Enforcing Contracts</i>	<i>Closing a Business</i>
Singapore	1	4	2	15	6	2	4	1	13	2
Hong Kong SAR, China	2	6	1	56	2	3	3	2	2	15
New Zealand	3	1	5	3	2	1	26	28	9	16
United Kingdom	4	17	16	22	2	10	16	15	23	7
United States	5	9	27	12	6	5	62	20	8	14
<b>Saudi Arabia</b>	<b>11</b>	<b>13</b>	<b>14</b>	<b>1</b>	<b>46</b>	<b>16</b>	<b>6</b>	<b>18</b>	<b>140</b>	<b>65</b>
Bahrain	28	78	17	29	89	59	14	33	117	26
<b>United Arab Emirates</b>	<b>40</b>	<b>46</b>	<b>26</b>	<b>4</b>	<b>72</b>	<b>120</b>	<b>5</b>	<b>3</b>	<b>134</b>	<b>143</b>
Qatar	50	111	30	58	138	93	2	46	95	36
Oman	57	76	70	21	128	93	8	88	104	72
Kuwait	74	141	91	90	89	28	9	113	114	61

Source: Doing Business 2011, World Bank

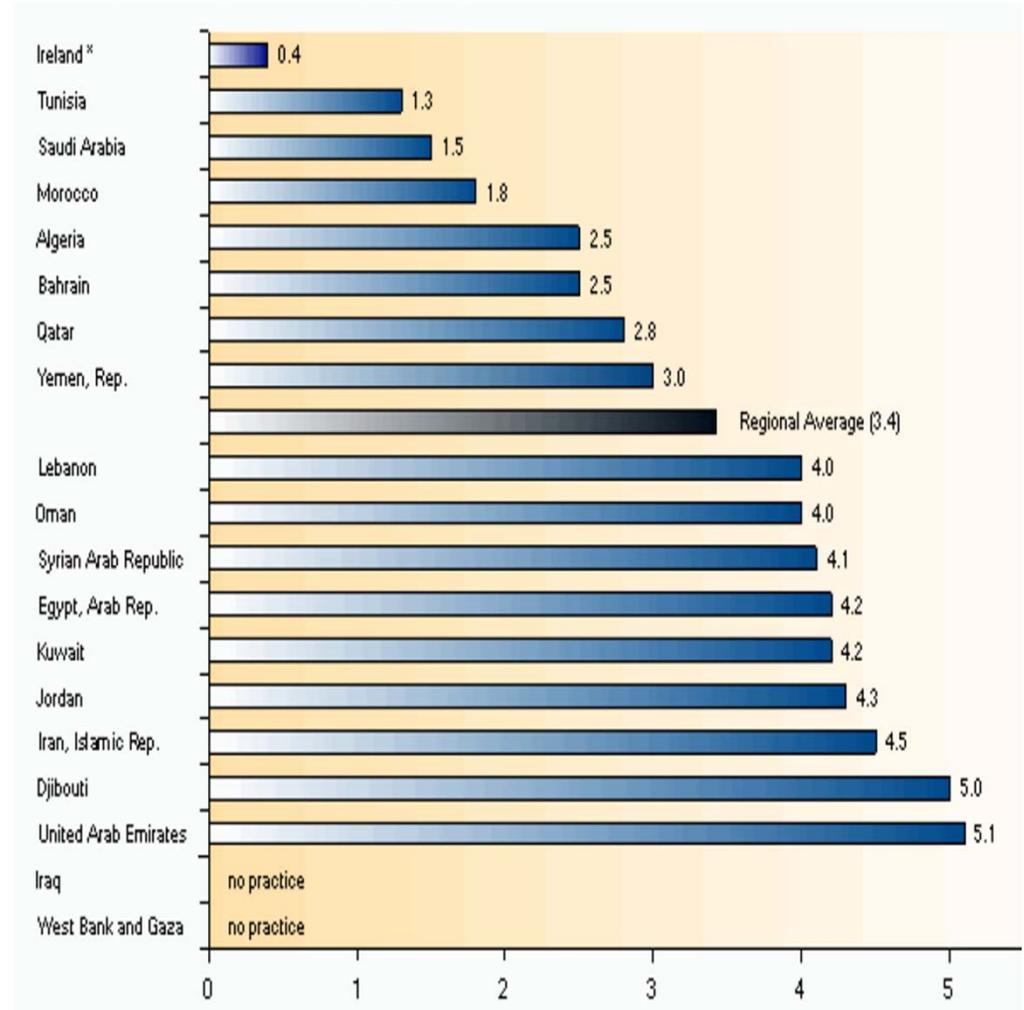
# It takes 5.1 years to go through Insolvency in UAE DIFC

WB Doing Business indicators identify weaknesses in the bankruptcy law + main procedural & administrative bottlenecks in the bankruptcy process.

Methodology covers 3 measures:

1. Time to go through the insolvency process,
2. Cost to go through the process and
3. Recovery rate, how much of the insolvency estate is recovered by stakeholders, taking account of time, cost, depreciation of assets and the outcome of the insolvency proceedings.

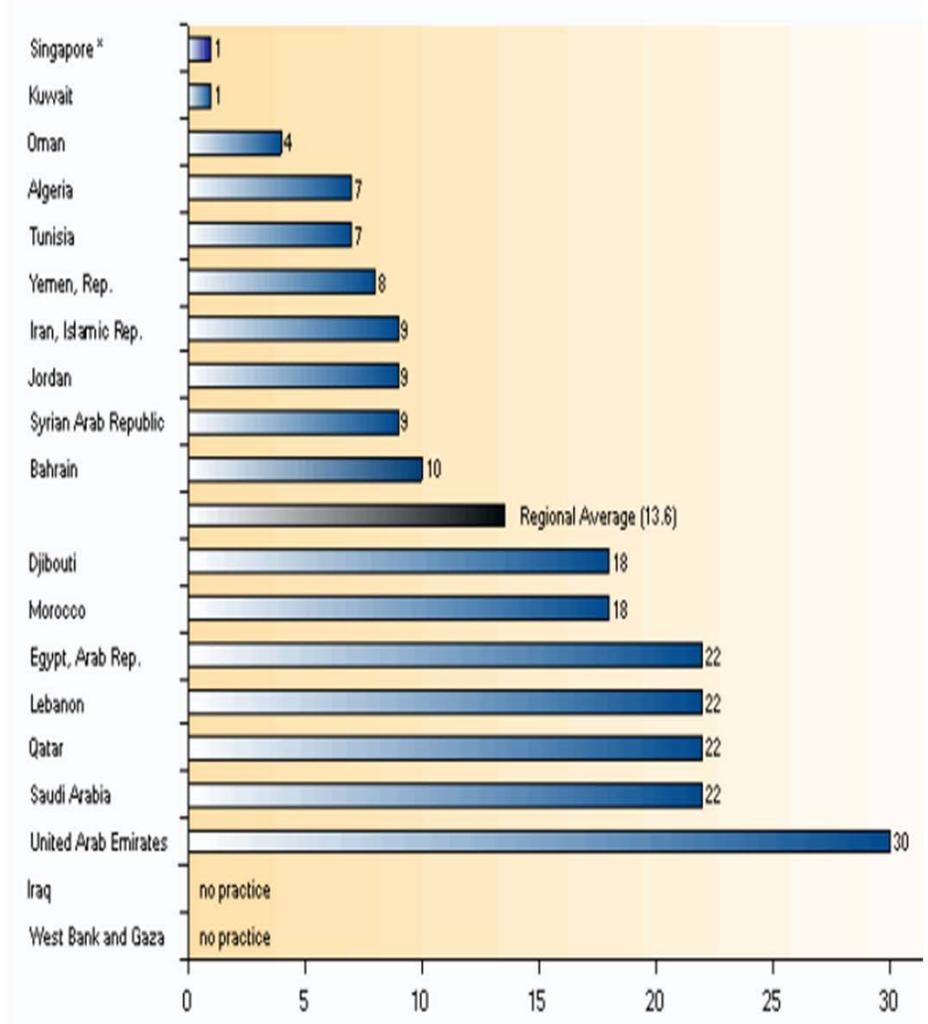
Time to go through insolvency (years)



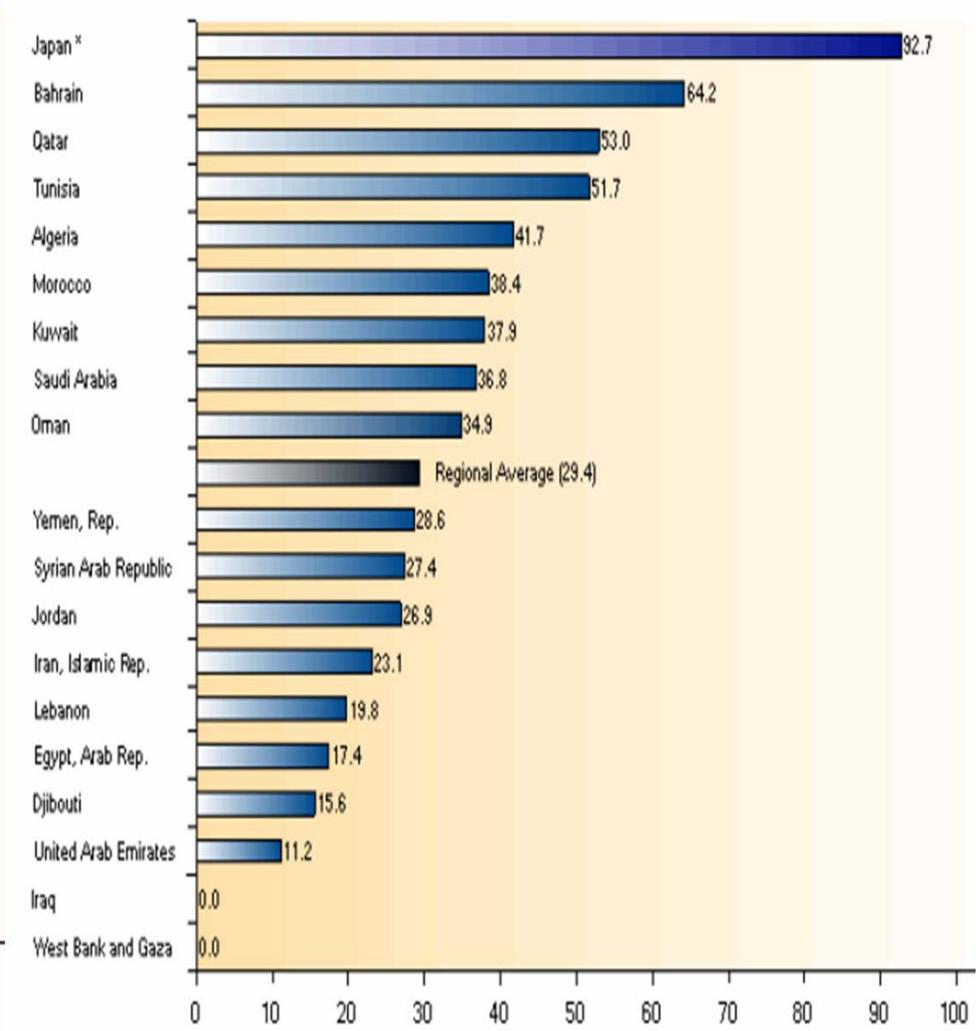
# UAE lowest ranked in MENA on Insolvency Cost & Recovery Rate



Cost of insolvency (% of estate)



Recovery rate (cents on the dollar)



This graph compares the costs needed to go through an insolvency process. \* An economy with the lowest cost is included as a benchmark. Colombia, Kuwait, and Norway also have the lowest costs to go through an insolvency process.

This graph compares the recovery rate after an insolvency process. \* The economy with the highest recovery rate is included as a benchmark.

# What More is Required?

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- Given MENA's exposure to the crisis, countries must take preventative measures to mitigate the economic & financial impact and consequences of the crisis.
- Well established Insolvency Regimes & Creditor Rights Systems & frameworks are a part of market infrastructure and are a key standard for sound financial systems.
- Effective insolvency systems, based on developed legal frameworks, relying on a sound judicial system and on the availability of lawyers and accountants experienced in insolvency proceedings, play a critical role for reorganization & restructuring, for the orderly exit of insolvent corporations and for the efficient reallocation of resources.
- In order to bring in Insolvency reform, a holistic view needs to be taken i.e. the Labour Law, Companies Law, Creditors rights need to be looked into while revising existing Insolvency frameworks.
- Particulars of Islamic Finance need to be addressed.
- The issue of 'bounced cheques' being a criminal offence needs to be revisited.
- Risk relating to the prevalent practice of acceptance of personal guarantees needs to be recognized in the context that this provision defeats the purpose of LLCs and Corporations.
- Personal bankruptcy law needs to be developed as well.

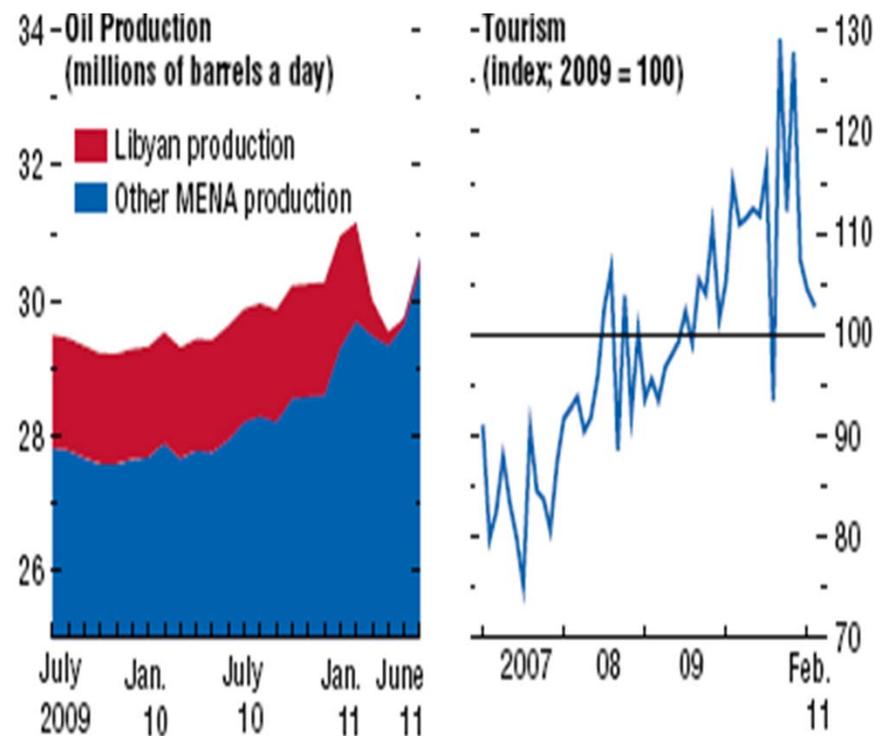
- **Legal Reform:** Insolvency law is outdated and inconsistent with modern business needs. UAE/MENA countries still view the purpose of insolvency legislation as being limited to winding-up bankrupt companies, without providing an opportunity to revive them through reorganization & restructuring.
- **Judicial reform:** Courts lack the institutional capacity and specialized resources to effectively implement reorganization legislation.
- There is a need to develop **Special Financial Claims Courts** that would be able to facilitate adjudication of highly technical financial issues, particularly those relating to Insolvency laws
- Accreditation or Licensing process required for **Insolvency Practitioners**
- **Forum for Insolvency Reform in MENA ((FIRM) established by Hawkamah Institute for Corporate Governance + IFC + WB Legal Dep't + INSOL + OECD +UNCITRAL**

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# Bottomline: Middle East Economic Growth Outlook DIFC

- Oil prices & stimulatory macroeconomic policies have helped growth
- Oil-exporters' growth is forecast to reach 5% in 2011 and about 4% in 2012: led by Qatar (natural gas exports), Iraq & Saudi Arabia.
- Lower tourism receipts, remittances, capital flows & investment interacting with high unemployment, growing social unrest & rising food prices to dampen growth prospects for oil importers
- Outlook for oil importers is much more subdued (especially for Egypt, Syria and Tunisia), with growth projected at 1.5% in 2011.
- Slow recovery in investment will raise oil importers' growth to 2.5% in 2012.

**Need of the hour:** fiscal consolidation + an inclusive medium-term growth agenda that establishes strong institutions to stimulate private sector activity, opens up greater access to economic opportunities and addresses chronically high unemployment, especially for youth.



Source: IMF World Economic Outlook, Sep 2011

## Upside Risks

- Stronger demand, particularly from China and other emerging markets, supports oil revenues, regional liquidity and capital inflows.
- Sufficient policy response in the EU, including delayed austerity in France and Germany and avoidance of a disorderly Greek (and other) default or exit, reduces the external demand slump.
- GCC government investment at home and in MENA, as well as multilateral bank support, offsets the lack of other capital.

## Downside Risks

- Promised funds for North Africa and Jordan fail to materialize, or do so too slowly, putting pressure on domestic budgets and crowding out private investment.
- Insufficient reform and election delays reignite protests and strikes.
- Government spending keeps inflation high , weighing on consumption.
- A financing shock emanating from the Eurozone reduces liquidity.

# What Next?

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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
- Need to address Demographic, Political & Economic Vulnerability Factors: Need Growth to be both inclusive and has a **trickle-down, “pull up” effect.**
- Addressing vulnerability underlines the importance of **job creation, lowering income disparities** and promoting growth & development through **institutional rebuilding through a MENA Bank for Reconstruction and Development.**



***Thank You!***  
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