



IMF REO Oct 2009: MENA Post-Crisis Priorities

Dr. Nasser Saidi,
Chief Economist, DIFCA
11th October 2009

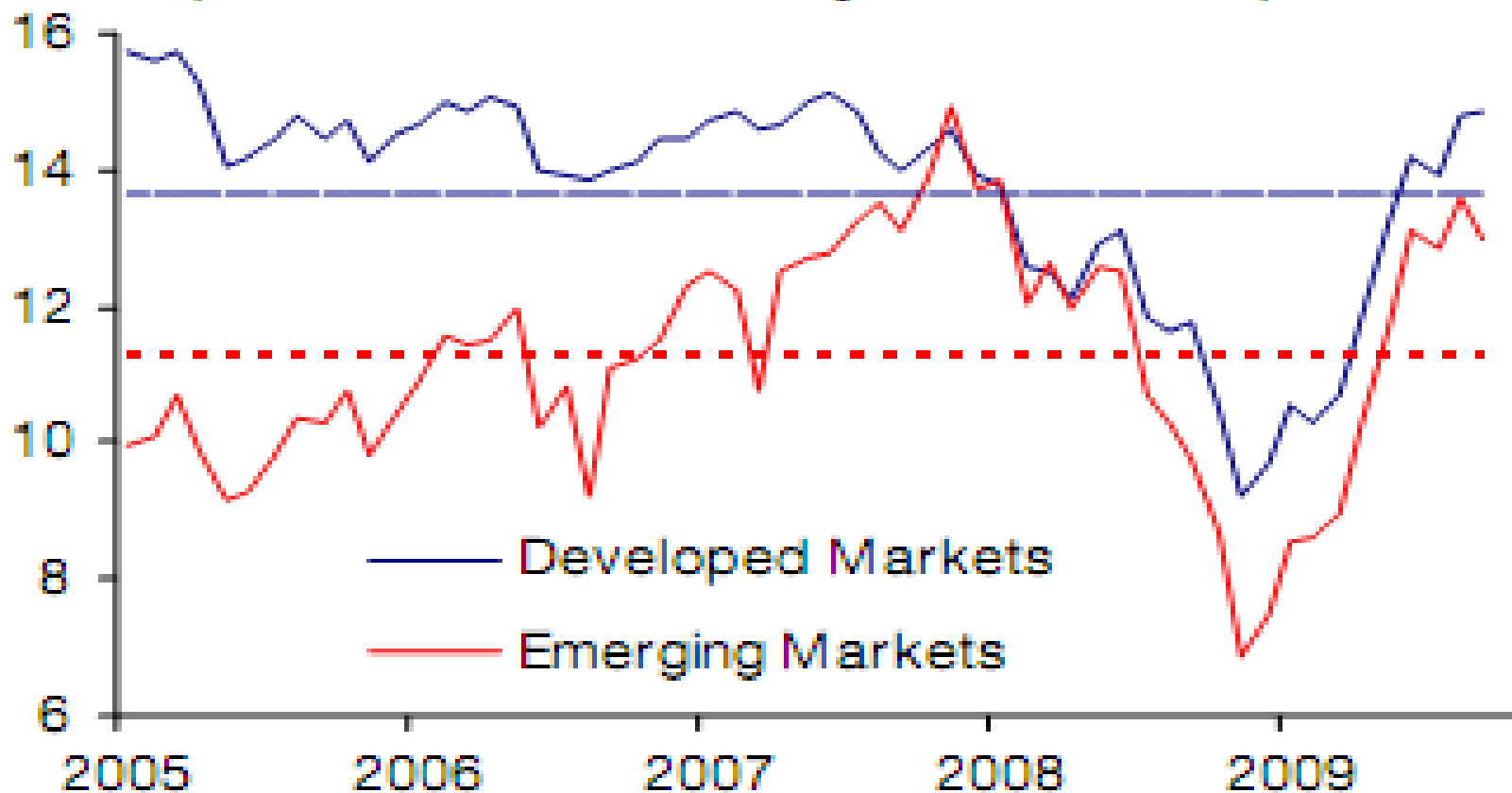


Outlook is Improving thanks to Policy Measures

- 1. Financial markets globally and in the region are regaining a degree of normalcy, although areas of stress persist**
- 2. Capital flows which had been severely hit by risk aversion are showing some signs of life**
- 3. Emerging Markets are performing better than mature markets giving credibility to the decoupling hypothesis**
- 4. Policies should remain supportive of economic growth until bank credit returns to normality**

EM Stock Markets Have Shown Resilience

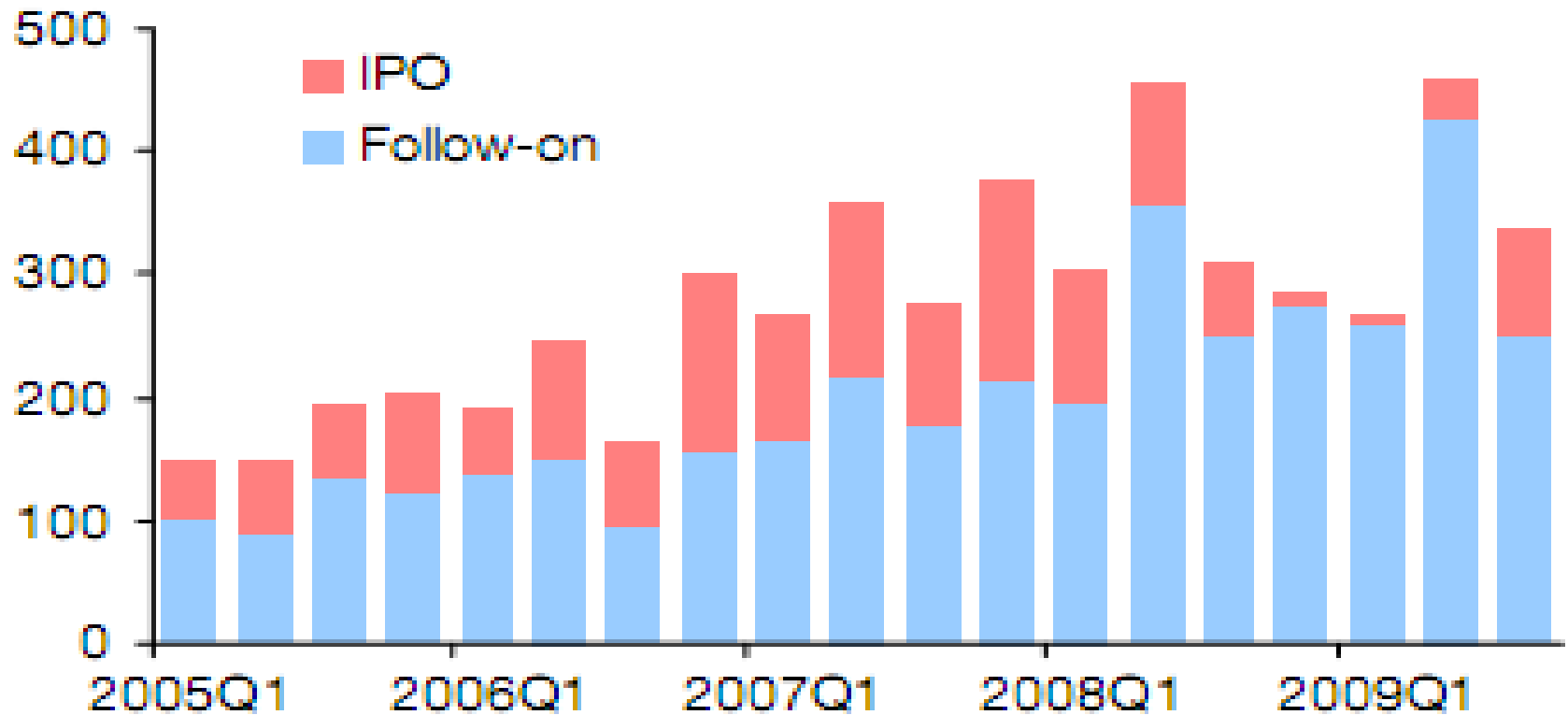
Developed & EM Equity Markets: Forward P/E Ratios
MSCI, price to 12M fwd earnings.; dotted line=period avg.



Markets are Regaining Confidence I

Global Equity Issuance

US\$ billions

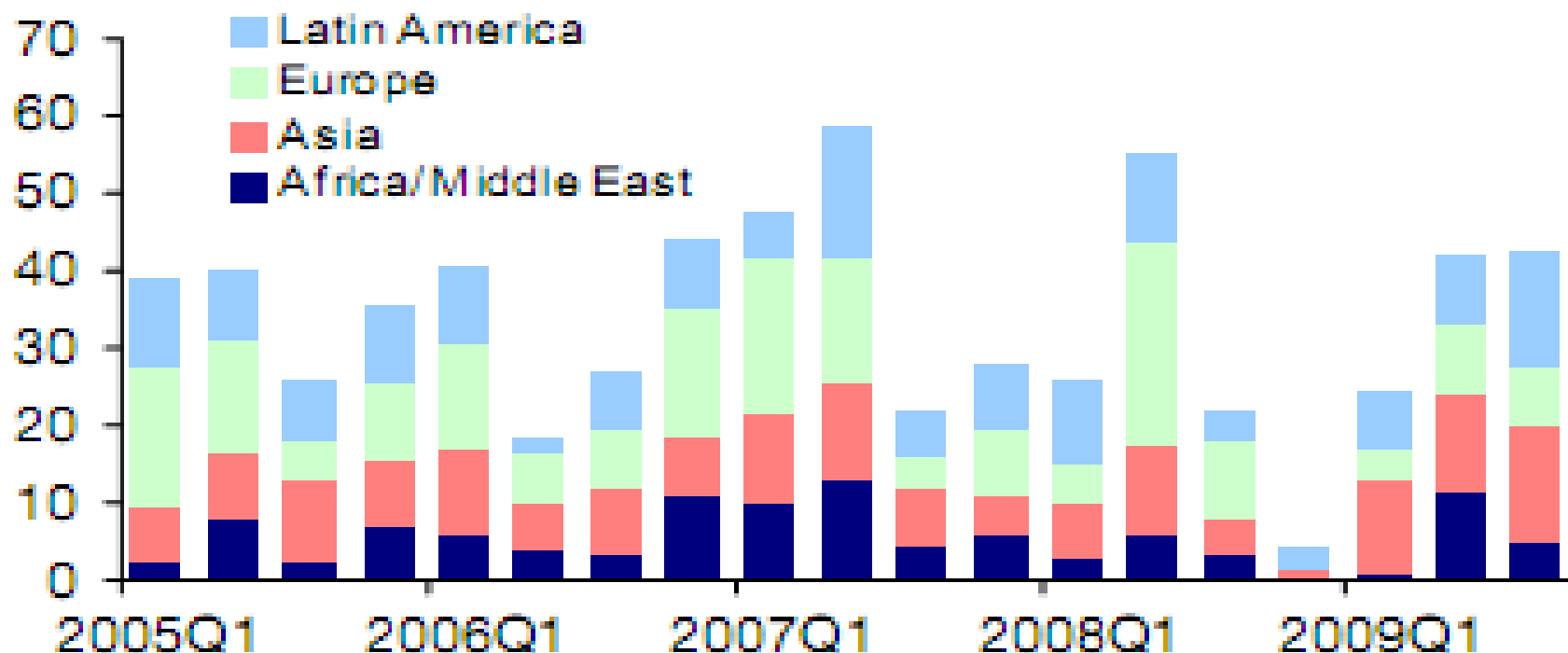


Source: Thomson Reuters; IIF calculations.

Markets are Regaining Confidence II

Emerging Market External Bond Issuance*

US\$ billions

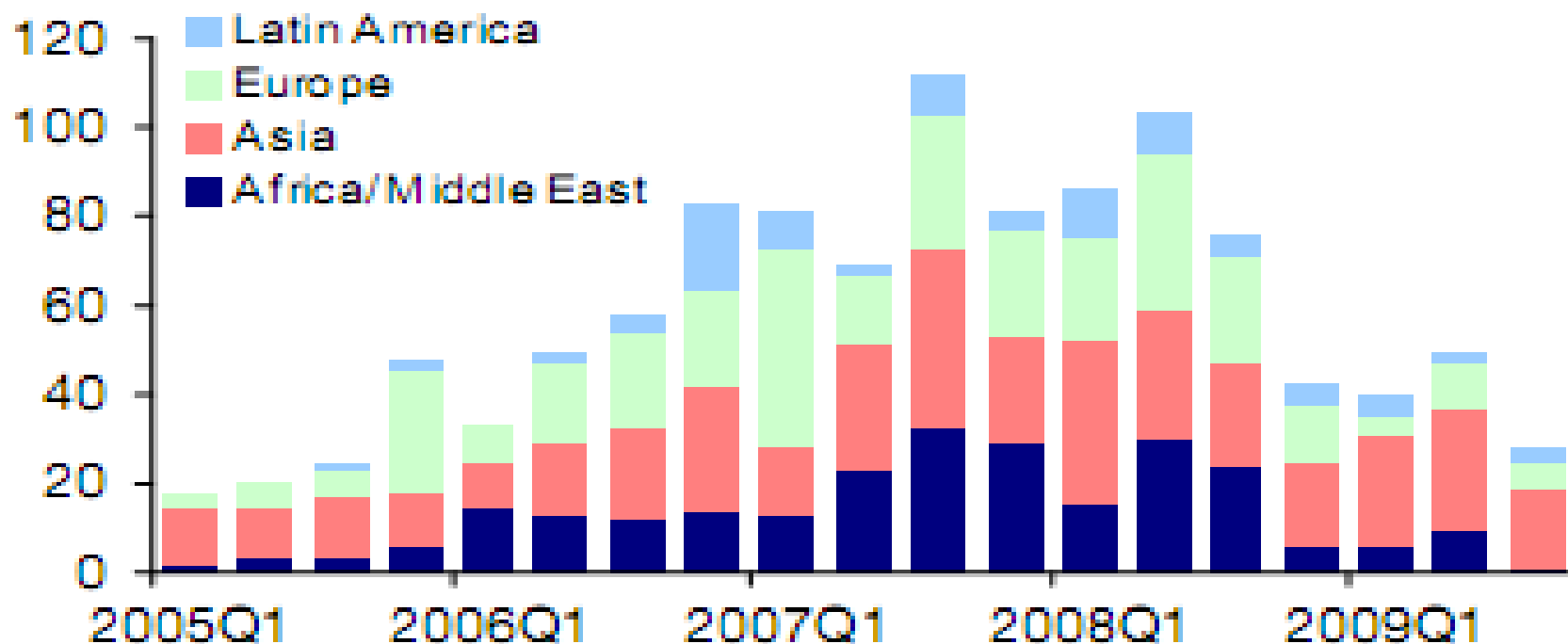


Source: Thomson Reuters; IIF calculations. * Includes bonds issued in an external market, regardless of currency, with original maturity of at least one year for the 30 major EM countries covered in the IIF's Capital Flows to EMs report.

Markets are Regaining Confidence III

Emerging Market Syndicated Loans*

US\$ billions



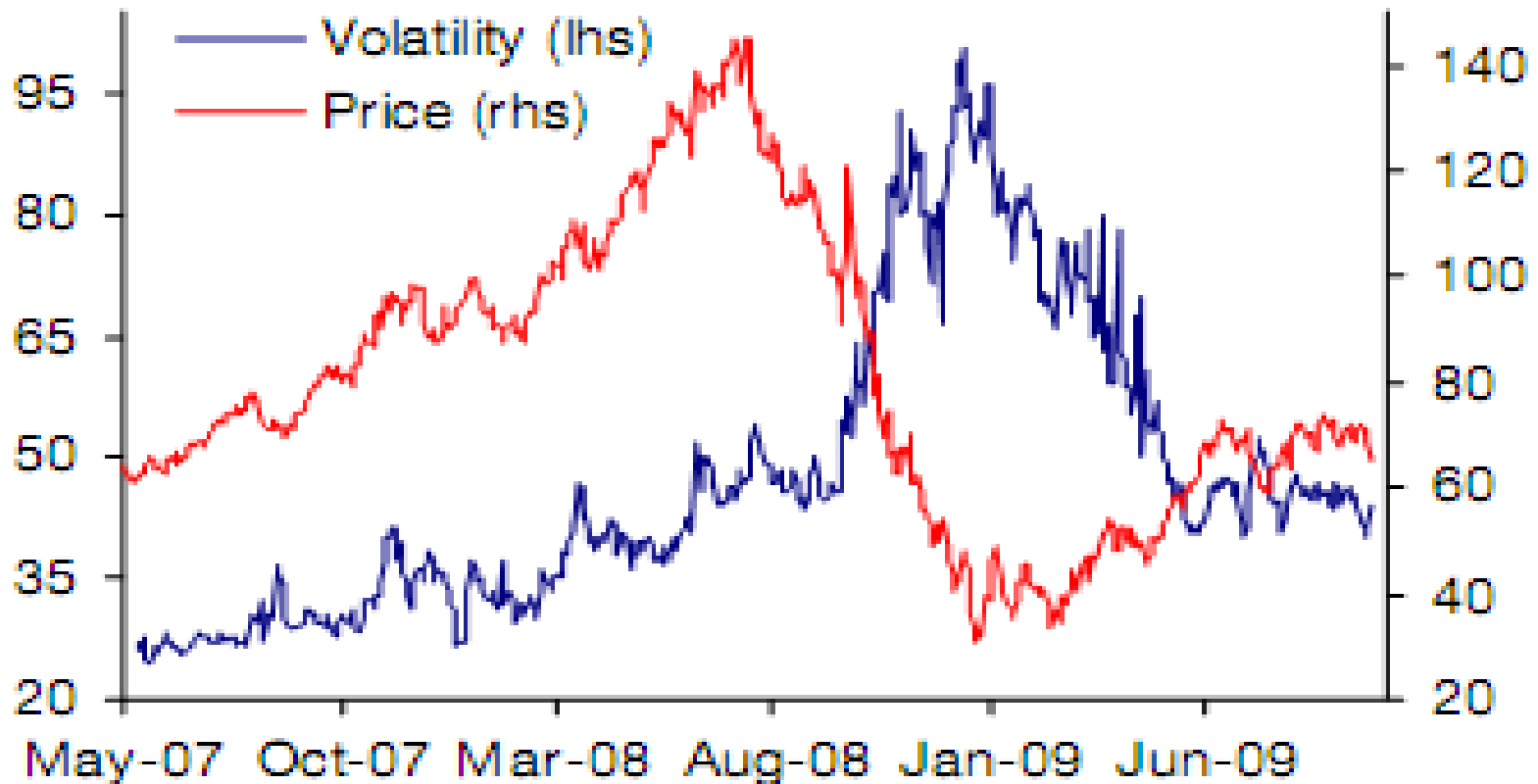
Source: Thomson Reuters; IIF calculations. * Includes syndicated loans regardless of currency, with original maturity of at least one year for the 30 major EM countries covered in the IIF's Capital Flows to EMs report.

Stabilization is Sustaining Oil Prices

Implied Volatility of Crude Oil Prices

percent

US\$ per barrel



... and Trade

Worldwide Dry Bulk Shipping Costs

Baltic Dry index; Jan 2, 2009 = 1000

Up 455% on the
year at its peak
in early June



Now up
182% on
the year

Changes to REO MENAP GDP Growth Forecasts

REO Issued	2005	2006	2007	2008	2009	2010
May-06	6.1	6.2				
Sep-06	6.3	6.6	6.2			
May-07	6.2	6.5	6.4			
Oct-07	6.1	6.6	6.6	6.7		
May-08	6.2	6.6	6.4	6.3		
Oct-08	6.2	6.5	6.5	6.4	5.9	
Feb. 09	5.9	5.8	6.1	5.8	3.8	4.9
May-09	5.8	5.8	6.0	5.7	2.6	3.6

Policy Measures in the GCC

Measures have been largely successful in preventing an escalation of the financial crisis and preventing a spread of contagion to domestic financial institutions: **effective as a precautionary intervention and emergency response.**

Policy Response to the Global Financial Crisis

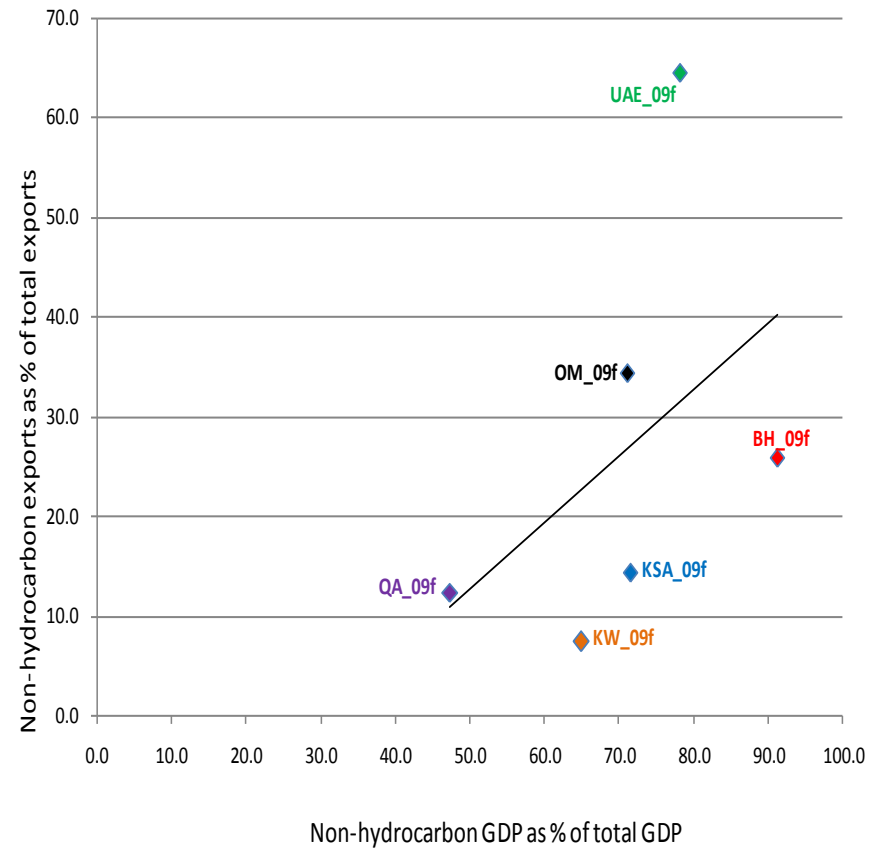
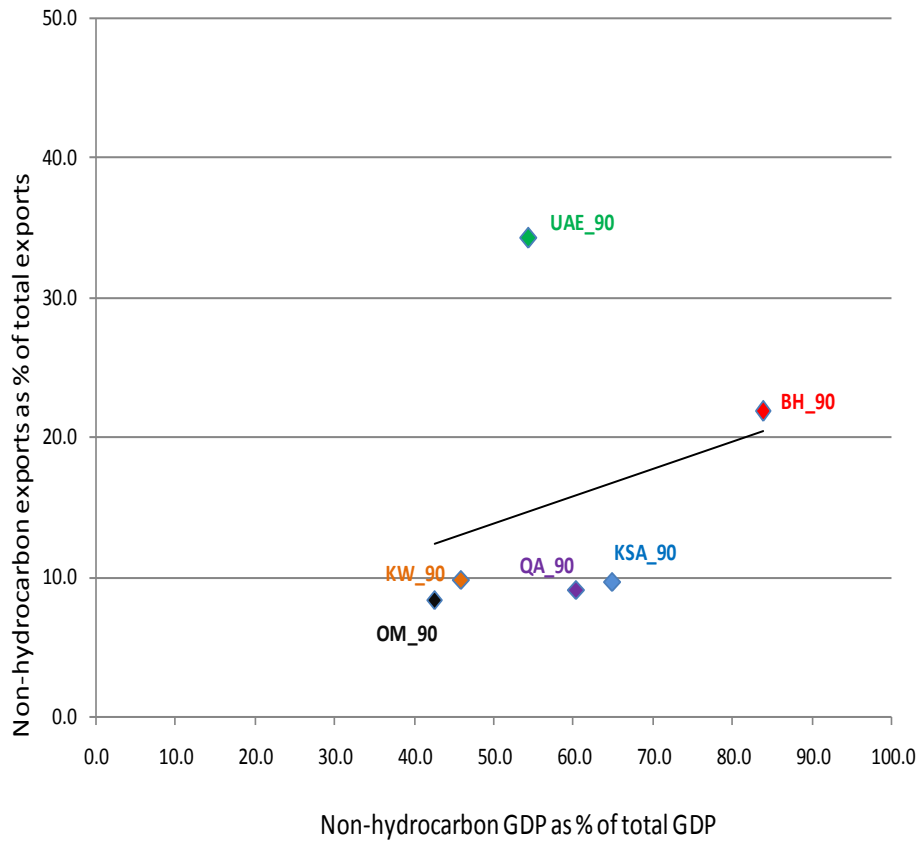
	Deposit Guaran.	Liquidity Support	Capital Inject.	Equity Purch.	Monetary Easing	Fiscal stimulus
Bahrain		X			X	
Kuwait	X	X	X	X	X	
Oman		X		X	X	
Qatar		X	X	X		X
S. Arabia	X	X			X	X
UAE	X	X	X		X	X

Key Outcomes

1. **Contra-cyclical fiscal policies played a major role in mitigating the effects of global financial crisis**
2. **The GCC governments maintained spending commitments to continue infrastructure projects**
3. **The banking sector has been protected from the worst repercussions of international market seizure and supported when needed without overburdening the Treasuries' coffers**
4. **Liquidity has gradually improved thanks to enhancement in the operations of the central banks**
5. **Non-oil sector (except real estate) has been remarkably resilient, unlike in previous episodes of oil prices slump**

Economic Diversification is a Key Driver

Non-hydrocarbon exports as % of total exports compared to Non-hydrocarbon GDP as % of total GDP



Lessons for the GCC: Post Crisis Priorities

The current policy mix hinges on a **countercyclical boost from fiscal policy** and a **supportive monetary policy** with **increased guarantees** for the stability of the banking system. The need is for:

- **Build policy-making capacity:** Monetary, Banking & Financial policies aimed at (i) strengthening the soundness and capitalization of banks and financial institutions; (ii) reducing vulnerability to crises & contagion effects
- Ideal opportunity to **develop the pillars of a financial system and safety net** with a solid regulatory framework and best-practice governance.
- **Consolidation of the stock exchanges.**
- **Develop housing finance:** create a mortgage guarantee scheme and a deposit insurance corporation.
- Focus on **increased diversification**

Debt Market Development Tops the List of Structural Reforms

- Efficient public debt management would allow governments to smooth the boom and bust cycle induced by oil price fluctuations
- Reforms in public finance management and transparency in the use of resources are necessary to confidently tap the markets
- Domestic, local currency debt markets can help insulate the domestic economy from contagion effects
- The immense financial wealth of the region can be efficiently channeled to attractive investments in infrastructure and high value added sectors
- Financial intermediation should be tailored to the needs of local entrepreneurs



Thank You

DIFC Economics