

# Arab Countries Response to Global Economic Crisis

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# General Observations

- In response to the current global financial crisis, Arab countries have adopted different fiscal, financial, monetary, and sectoral policies to spur economic growth and mitigate the effects. Hence Expectedly, we observed varying patterns of policy response across the GCC countries, al-Mashreq countries, and al-Maghreb countries ... and within the sub-regions.
- Five main factors attribute to the this scene:
  1. economies depend on **different drivers of economic growth**
  2. The political context greatly influences the **speed** with which states respond to emerging difficulties and **shapes the measures** they opt for
  3. The financial wealth of countries has **decisive implications** for their **policy choice flexibility**
  4. The quality of public institutions and the lobbying powers of the business elites and private sector affects **the content of the rescue packages**
  5. Countries face different **social challenges** in varying degrees.

# Arab Economies

## Population and GDP per capita in Arab Countries (2008)

Country Group	Total Population (million)	Population Share (%)	GDP (PPP US\$ billion)	GDP Share (%)	Per Capita GDP (PPP US\$)
DE (6)	156.4	51.5	833.3	34.2	5328.0
MOE (2)	39.9	13.1	331.7	13.6	8313.3
OE (6)	40.2	13.2	1117	45.9	27786.1
PEE (4)	67.1	22.1	152.8	6.3	2277.2
Total	303.6	100	2434.8	100	8019.8

Source: LAS and UNDP (2008)

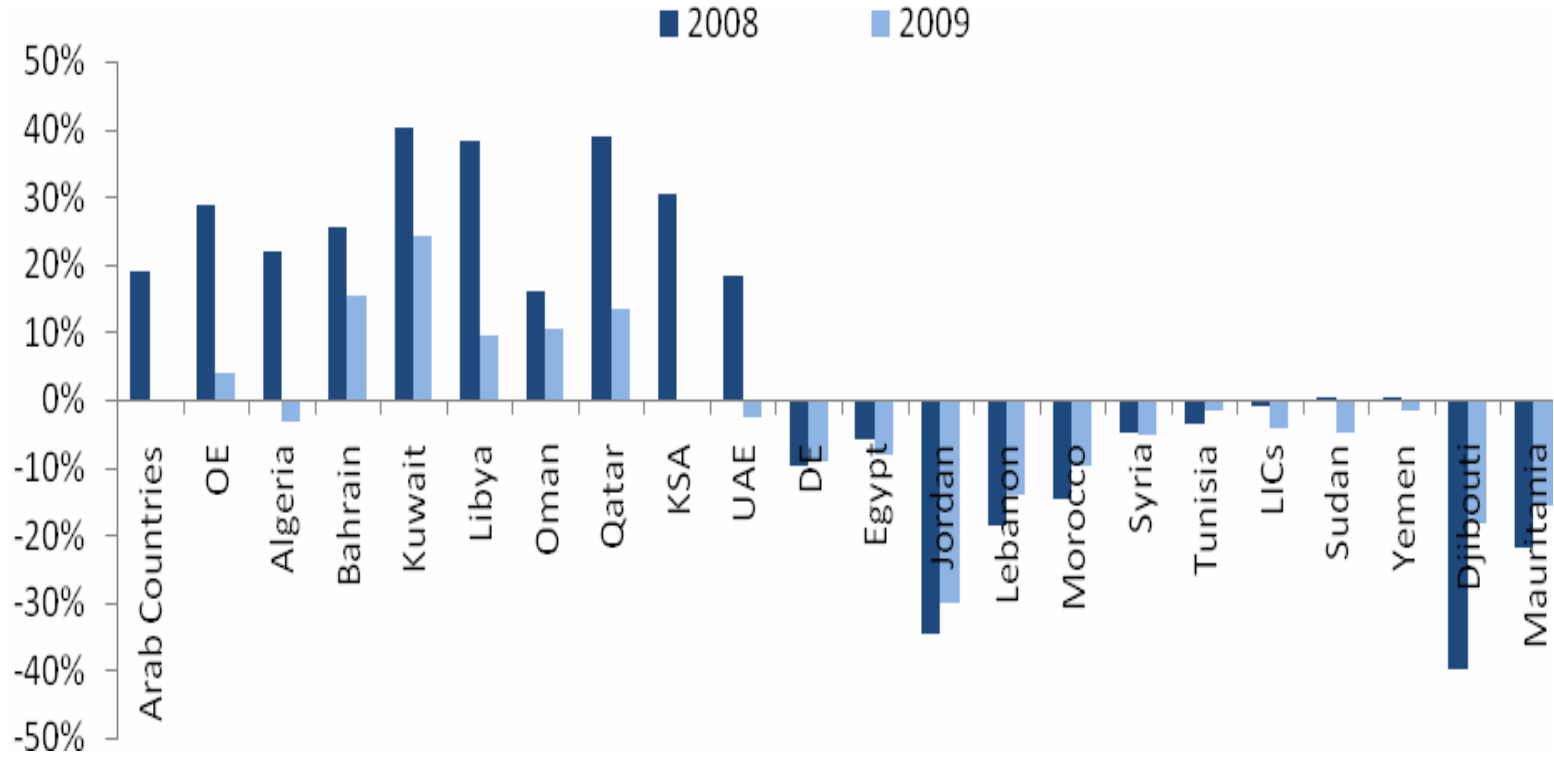
# How Countries have been affected

- It depends on the each countries

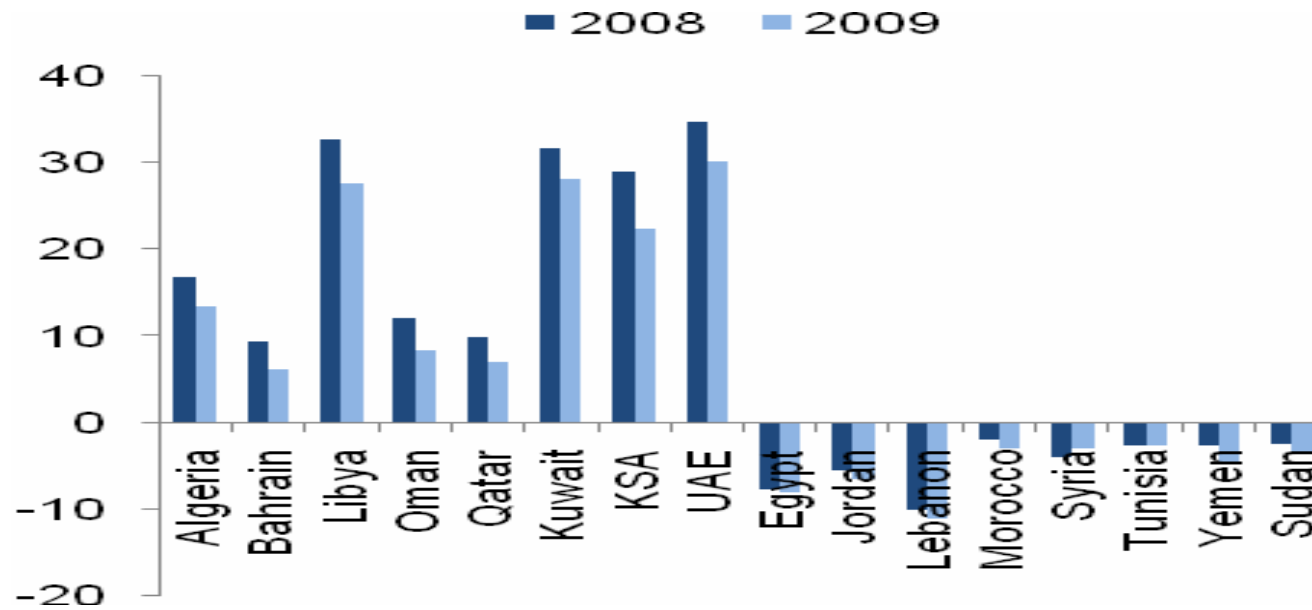
However there are commonalities:

- Export decline
- Worker's Remittances
- FDI inflow
- Lab. Movements
- Foreign assistance and grants
- Domestic Investments and Credit by Banks

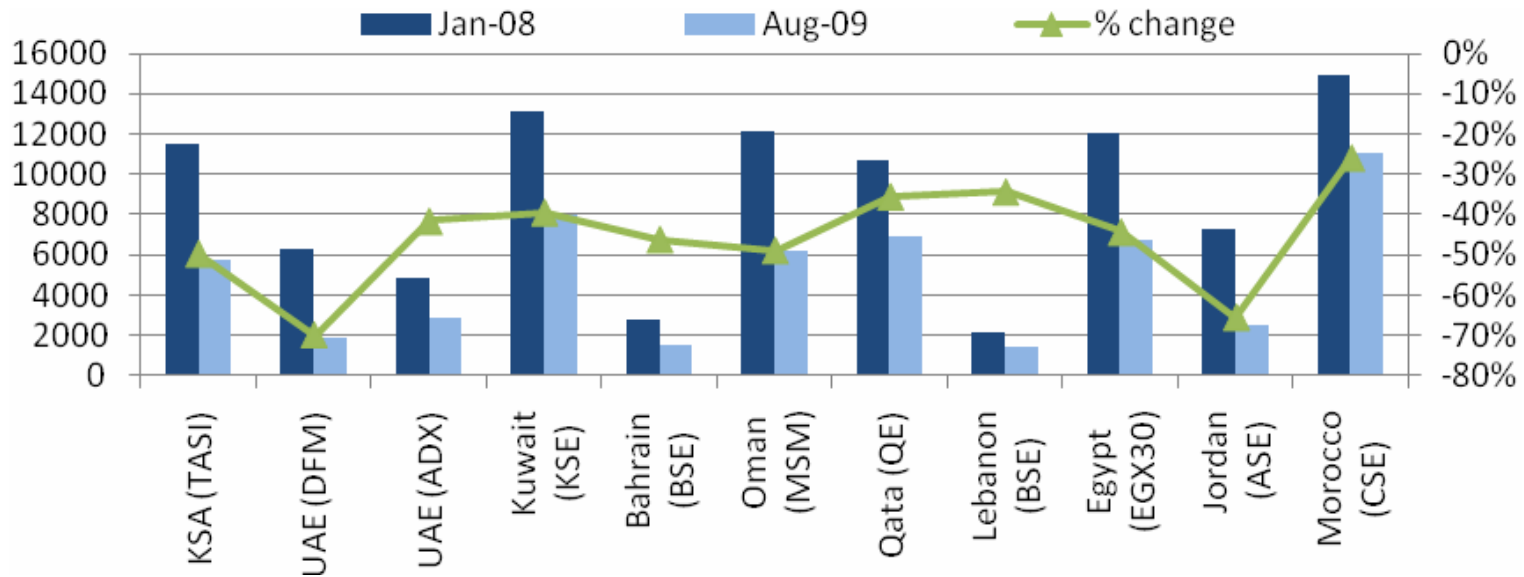
# Current Account Deficit



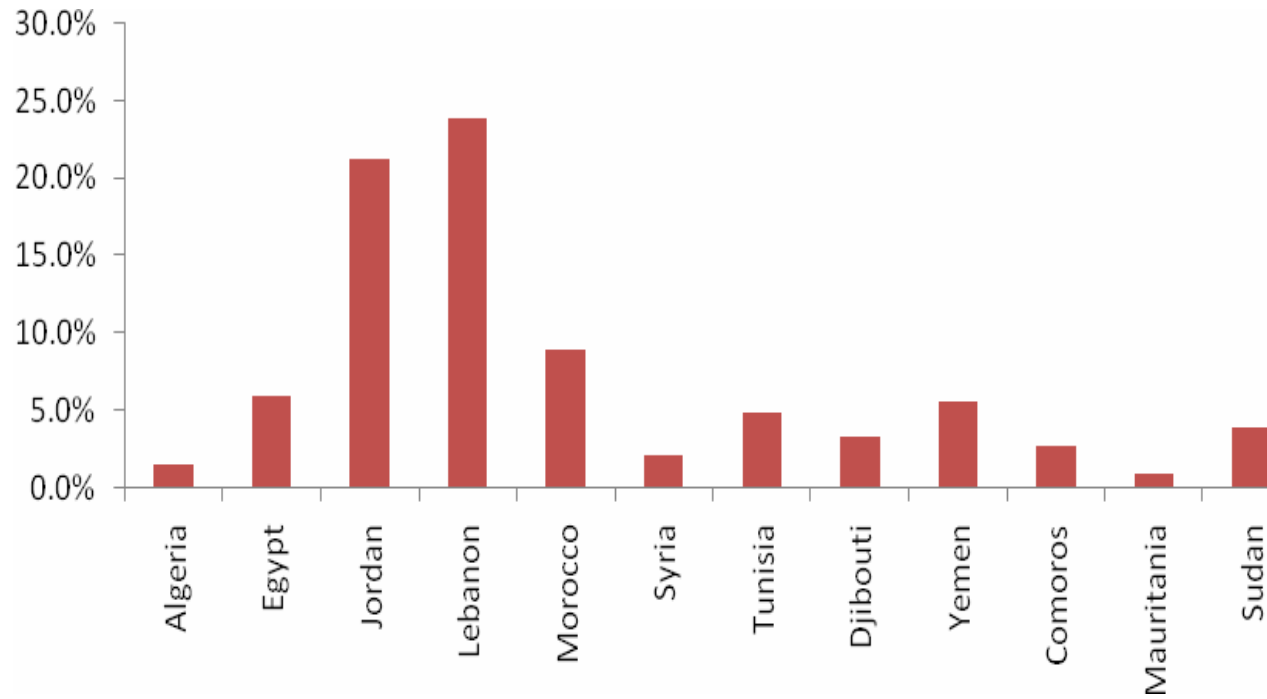
# Fiscal Space



# Financial Market Performance



# Worker's Remittances



# Status of response

- A reluctance to admit a potentially significant hit on their economies featured Arab countries' initial response to the crisis. initially, Arab statesmen perceived the current financial crisis as a strictly "American and European" crisis that might indirectly and temporarily affect their economies.
- However, that state of denial has not lasted for long before they admitted that the crisis will have negative impacts - a significant impact destabilizing of their economies
- However the observed responses were highly deficient:
  - - partial responses: they focused on only a few sectors (unclear benchmark)
  - - weak coordination between monetary and fiscal policy.
  - - lacked transparency: plans not publicly debated
  - - exclusively designed by governments with minimum engagement from the private sector
  - - lacking a long-term vision: compromising long-term stability for short-term gains

# GCC countries: a new era of policy activism

- Naturally, since GCC countries were the first to feel the heat of the financial crisis, they responded **much earlier** than other Arab non-oil producing countries.
- However, what is surprising is their approach: to varying degrees, they adopted an open approach by discussing openly the implications of the crisis... updating their citizens with regard to the proposed measures..
- Remarkably, the issue of public money came to the forefront of public debate.
- An important instigation behind this change is arguably the labour-threat:  
FOR after years of labour market “nationalization” through citizen quotas in private sector, the lay-off threat forced new realities: private sector employees considered themselves at a disadvantage relative to their peers in public sector. Hence, this forced a new approach

And a new ERA of policy activism

# Policy response

The response came through two FRONTS: at the national level and sub-regional level – unlike other sub-regions.

At the national level, countries relaxed monetary policy, at one hand, and opted for an expansionary fiscal policy, at the other. The policy agenda to include social policies in addition– through emphasis on education and health services, subsidizing basic commodities, etc...

At the regional level, (rather ambitious). they have agreed to coordinate fiscal, monetary, and financial policies as well as to adopt measures to help ease inter-bank lending rates and introduce new regulations to their stock markets. This consensus has been further emphasized in the Arab economic and social summit held in Kuwait last January and in other meetings of their finance ministers. However, ... without addressing the practical means for bringing it about.

# Across Gcc

- Monetary policy focused on injecting liquidity in the market to boost investor confidence
  - Governments of the GCC countries first focused on **recapitalizing the banking sector by purchasing toxic assets to strengthen the banks' balance sheets**
  - And on **issuing state guarantees on fresh loans to investment firms.**

# UAE

- Of all the GCC countries, the emirate of Dubai has been the worst hit. While the sovereign debts of Dubai are 10 billion dollars, the debts of the affiliated company total around 70 billion dollar.
- The UAE central bank and finance ministry made available 32.7 billion dollars in emergency funding to help banks cope with tight credit conditions and ease the funding shortage.
- UAE central bank designed swap facilities with maturities ranging from one week to twelve months to help banks meet liquidity needs.
- Abu Dhabi in a better financial position .. Injecting money to its banks...

# Saudi Arabia

- Unlike the UAE Saudi Arabia was cautious – curtailing inflows of speculative money that might throw its banking system off-balance, and it has somehow managed to deflate the emerging property bubble.
- Highly criticised at times, the Saudi Arabian Monetary Authority, SAMA, had always insisted on pegging its exchange rate, even though it had resulted in inflation in the short term. Also SAMA has maintained a very liquid, very safe, minimal risk, international assets
- So far, SAMA has cut interest rates five times to bolster the credit market
- The kingdom has been keen on using public spending to maintain all current and planned projects worth 600 billion dollars – the 2009 projected expenditures up by 15% from the originally planned figure for fiscal year 2008 (51% in construction, petrochemicals, oil and gas and water. But based its budget on a conservative 36\$ a barrel. Also part of the expenditures will subsidise basic goods, increase public wages, and enhance education and health services..

# Oman and bahrain

- Constrained by limited financial resources, bahrain and oman followed a different track of interventions by focusing on policies to strengthen the manufacturing and construction sectors.
- Though the omani central bank has pronounced its readiness to provide liquidity to banks in hardship, no case has been recorded in that direction so far.
- Omani minister of trade and industry called upon Omani industrialists to respond effectively to the financial crisis by doubling the efforts to develop new marketing and management strategies to become more competitive by enhancing quality and more competitive prices. Also, compared to other countries, the omani construction sector was marginally influenced since real demand is generated locally and not subject to global speculation.
- Bahrain's budget **breaks even at an oil price of around 70 dollars per barrel**. the country in a political deadlock. The parliament rejected the proposed draft budget by demanding that it increases its proposed spending by 8.9 percent to finance additional social services and education.

# Qatar

Qatar is in a relatively more comfortable position and has focused its efforts on preventative measures. Qatar's minister of finance and acting minister of economy and commerce recently revealed intentions to consolidate and restructure the regulatory bodies within the financial sector in Qatar by establishing the Financial Regulatory Authority of Qatar.

# Response in Other Countries

- Responses were constrained by the limited fiscal space
  - Limited ability to expand public spending
  - Declining government revenues has complicated the matters
  - Limited maneuverability to alter the tax regime
  - Declining exports and in some cases FDI inflows
- Monetary policy tools have limited impact (stability vs. growth)
  - Cut down interest rate, reserve requirements
  - Ensure deposits in the commercial banks
  - Maintain a stable exchange rate policy
  - Attempt to release more liquidity >>>>> BUT
- The banking system became more conservative and has tightened their lending policy >>>>> the outcome is a slow down and a vicious circle.

# The way forward... Suggestions to policy recommendations

- Admit the presence of the problem
- A more collective effort should be pursued... how realistic is that giving the internal political disputes is to be discussed.
- Interlinked with this is the need to focus attention on the social implications of the crisis.
- At the country level, there is no agreement on which sectors should be regarded as priority sectors – the criteria to select these sectors have been neither clear nor transparent. Giving limited financial resources, it is important to get priorities right.
- Arab countries continue to disregard the informal economy in the policy response. With widening lay-off threats, the newly unemployed joining the informal economy would further push wages down.
- Countries should not compromise long-term objectives for short-term responses that are more politically friendly
- In addition to traditional rescue packages, gov. need to pioneer schemes to ease monetary policies to avoid crowding out the private sector.
- Re-visited Tax regimes and try to provide incentives to encourage investment
- Engage the private sector in designing policy response in a more institutional manner