

INVESTING SPECIAL DRAWING RIGHTS

Towards a fair economic recovery in the **MENA region**

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Towards a fair economic recovery in the Middle
East and North Africa

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MENA DURING PANDEMIC:

DEBT + AUSTERITY

= LESS FISCAL SPACE +

MORE DEBT

IMF LOANS DURING THE COVID-19 PANDEMIC

	Facility	Date of arrangement	Amount agreed (SDR m)
Egypt	Extended Fund Facility	16 Dec 2022	2,350
	Standby Arrangement	26 June 2020	3,764
	Rapid Financing Instrument	11 May 2020	2,037
	Extended Fund Facility	11 Nov 2016	8,597
Iraq	Standby Arrangement	7 July 2016	3,831
Jordan	Extended Fund Facility	25 March 2020	1,146
	Rapid Financing Instrument	20 May 2020	292
	Extended Fund Facility	24 Aug 2016	515
Morocco	Precautionary and Liquidity Line	17 Dec 2018	2,151
Tunisia	Rapid Financing Instrument	10 April 2020	545
	Extended Fund Facility	20 May 2016	1,952

QUESTION:

**HOW SHOULD
SPECIAL DRAWING RIGHTS
BE SPENT?**

STUDY AIMED AT:

Producing knowledge and contributing to the debate => Promoting inclusive, transparent and equitable decision-making process on SDR spending

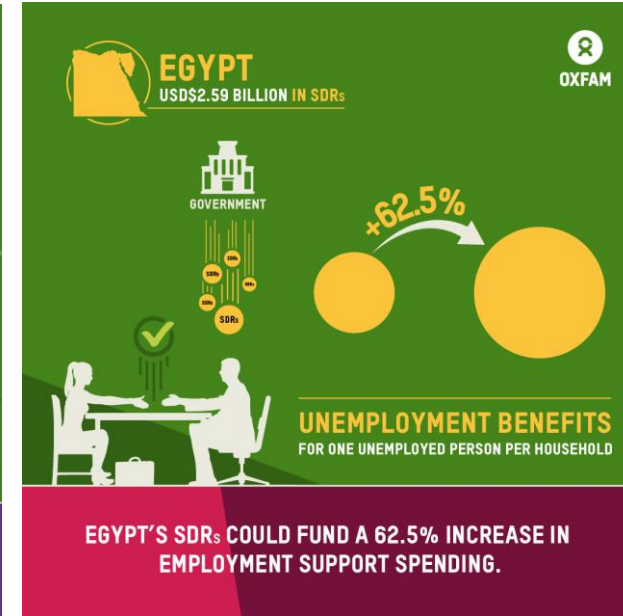
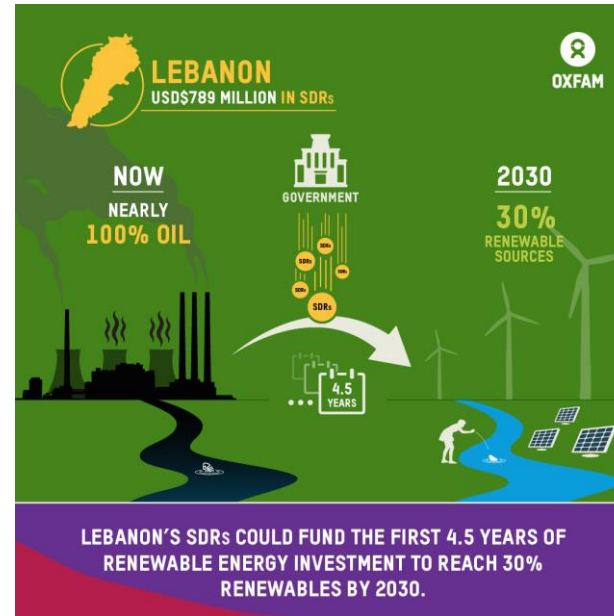
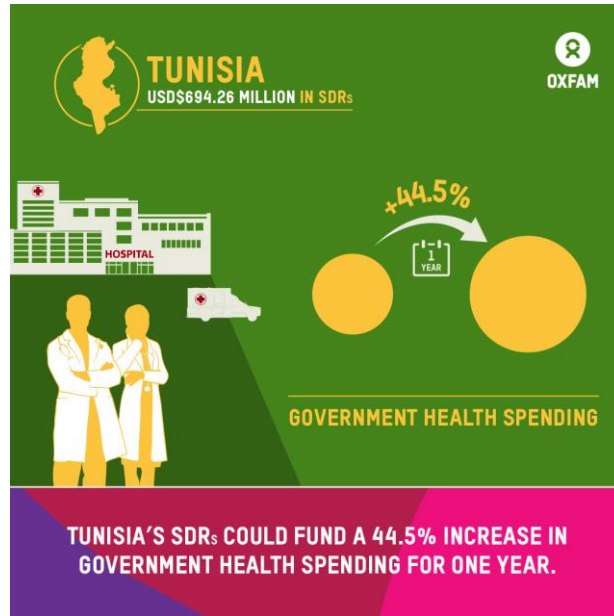
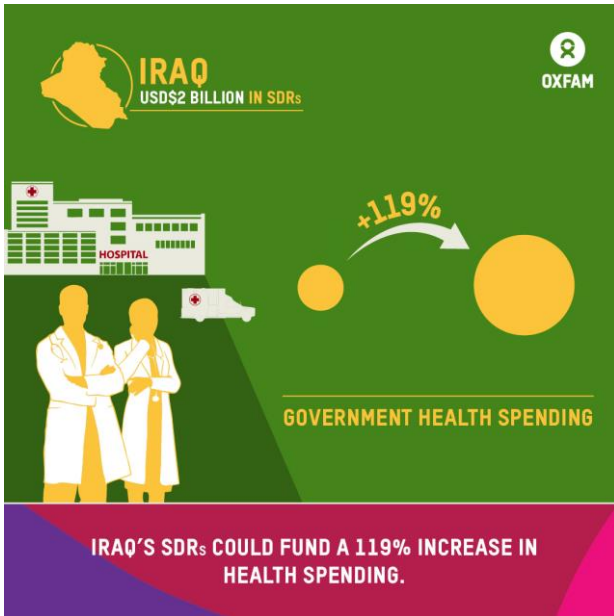
4 case studies (Egypt, Iraq, Lebanon and Tunisia):

Exploring priority avenues for fiscal spending aiming at **SUSTAINABLE AND INCLUSIVE ECONOMIC RECOVERY** that contributes to **REDUCING INEQUALITY + AVOIDING FURTHER AUSTERITY** in MENA.

SDR ALLOCATION AS A SHARE OF 2020 MACRO-ECONOMIC INDICATORS

	Official foreign exchange reserves	Annual public expenditures	Annual government deficit	External public debt	Annual debt service to the IMF	Annual foreign debt service
Iraq	4%	3%	6%	3%	181%	34%
Lebanon	2%	5%	13%	1%	∞	240%
Tunisia	7%	6%	22%	2%	331%	31%
Egypt	7%	3%	10%	2%	771%	25%

SDRS CAN MAKE A DIFFERENCE



**PRIORITY AVENUES FOR
FISCAL SPENDING OF
SDRS:
COUNTRY CASE STUDIES**

MAIN REASONING + SPENDING PRIORITIES

SDRs = non-permanent source of funding

→ Should be used for sustainable impact
(not recurrent spending)

SDRs = FX reserves

→ Should contribute to dealing with
balance of payments vulnerabilities
that are structural

Inclusive econ recovery

→ Should contribute to reducing
inequality & austerity

- Food security: increasing self-sufficiency
- Energy security: renewable energy
- Healthcare
- Social protection
- Education

LEBANON

- More than half of Lebanese population below poverty line
- 90% of displaced Syrian households in extreme poverty
- 72% of the Lebanese population in multidimensional poverty
- **Ramping Currency depreciation + Inflation**
- **Ukraine war = rising prices of food, beverages, transportation, health expenses (400-450% increase)**
- **\$1.1bn SDRs**
- **Lebanon has already lost over \$20bn in FX since October 2019, including \$5bn since receiving the SDR allocation**
- **Healthcare, education, social coverage** = Seed funds to partially finance the establishment of a universal health coverage scheme or a high-quality public education system.
- Financing **food and energy sustainability**
- Part of an overall reform package + Need Tax Reform to ensure sustainable financing

EGYPT

- Main sectors = farming, industry, extractive industries, transportation, construction.
- Import dependency + Bread subsidies
- Rising budget deficit, increased borrowing costs, Inflation, currency depreciation
- Higher wheat import bill (Ukraine war)
- 30% of population living in poverty
- **Education, health** (lack of spending)
- **Food security** (invest in small farmers struggling to sell crucial crops such as wheat) (while today Egypt focuses on labour, fertilizer and water intensive produce for export purposes)

TUNISIA

- Devaluation, inflation, budget deficit and increased public debt + decrease in GDP
- Unemployment, Poverty and vulnerability set to increase
- IMF loan presented as the only option to avoid defaulting on foreign debt and continue importing products in foreign currency (mainly wheat, oil and gas).
- Wheat prices
- **3 structural deficiencies:** lack of food self-sufficiency, energy sovereignty and low value-added manufacturing.
- structural trade deficits → currency depreciation → debt trap.
- EU's Common Agriculture Policy = switch to cash crops, (water and energy intensive) + energy imports. = external debt trap
- Food self-sufficiency and sovereignty + industrialization efficiency
- Debt cancellation

... WATCH OUT!

... THE TRAP!

Governance issues

Lack of structural reforms / fair and comprehensive economic recovery plans

... THE POTENTIAL OF SDRS

WE NEED more SDRs...

BUT we need to be ready for them
(legal framework, governance, accountability, fair and inclusive economic recovery plans)