

1 Economic Growth

Key definitions

GDP "in" a country

GNP "by" a country

Real GDP Adjusted for Inflation

Purchasing Power Parity (PPP)

Unemployment Rate

Labor force participation rate (LFPR)

Consumer Price Index (CPI)

Growth in MENA

Capital is less efficient

Iran: Trade openness not efficient

External shocks affect more

Low Factor productivity

Weak Institutions

Low stock of human capital

Inappropriate Education

Disappointing growth

Oil dependency

High Population growth (res)

Low integration in World economy

Big Govt

Low return in Capital (Human & physical)

Non-Oil Mena's g > Oil-MENA's g

Econ g < pop g Unemployment

High volatility

Low diversification

Resource dependency

Pol. instability & regional conflicts

"Process that makes improvement in quantity, quality and efficiency of financial intermediary services."

2 Financial Development

FinDev

Produces Information

Information -> highest value use of cap

Stock Market

Incentive to research firms

Monitoring Firms & CorpGov

Stocks -> Accountability

People as stakeholder

Diversification & Risk Management

"Don't put all your eggs in one basket"

Mobilization and pooling of savings

Measurement

M1, M2, M3

M2 indicator of Shadow Econ

Banking Credit Depth

General access to fin. res

Capital Market Development

M1: Money that can be accessed quickly:  
Coins, paper money, traveler's checks  
M2: M1 + Money that may take a little time to obtain  
M3: M2 + Big deposits

Repression of CapMarkets in DCs

Controlled interest rates

Inflation real rates (-)

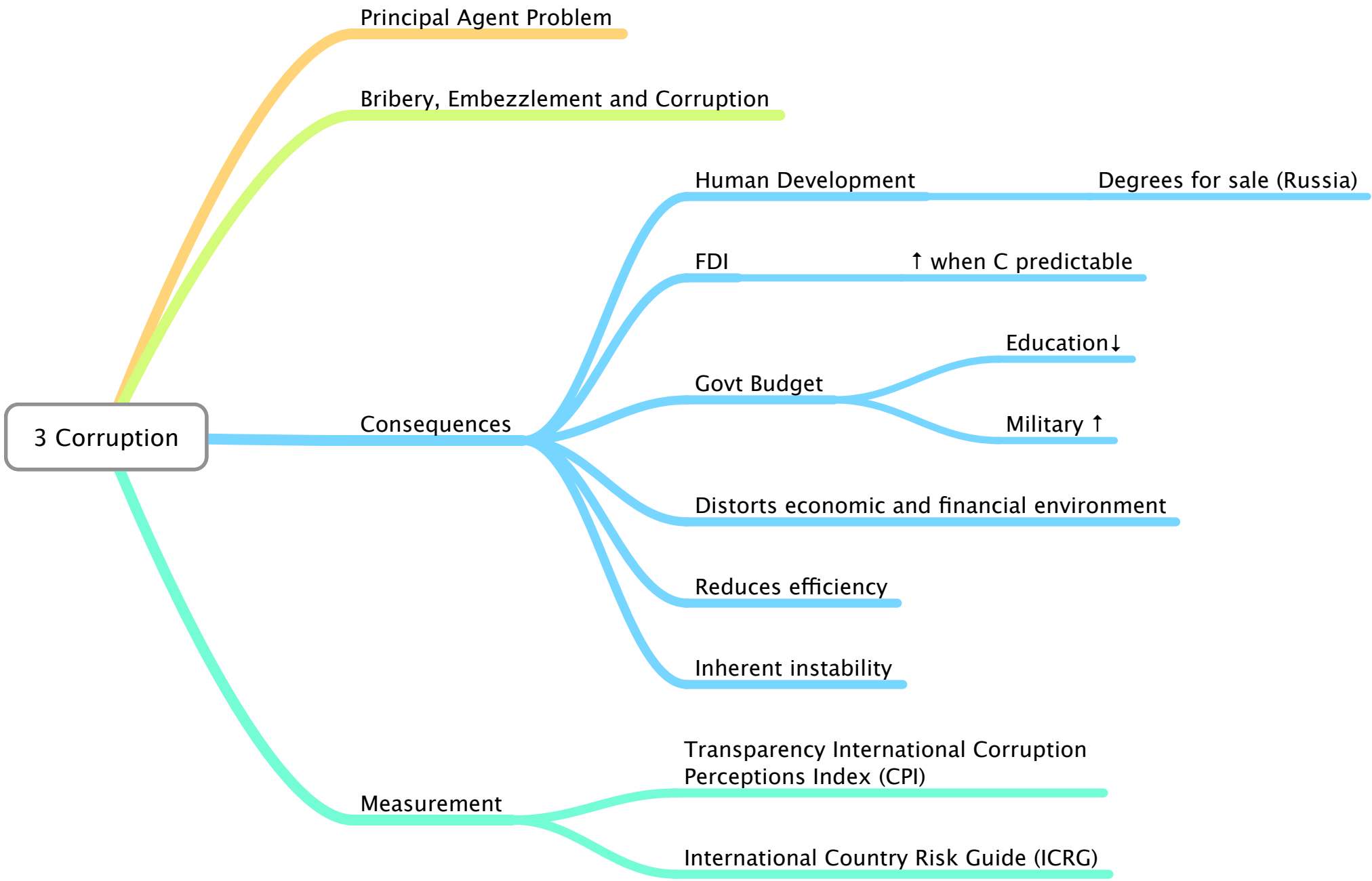
Very high reserve requirements

Regulation

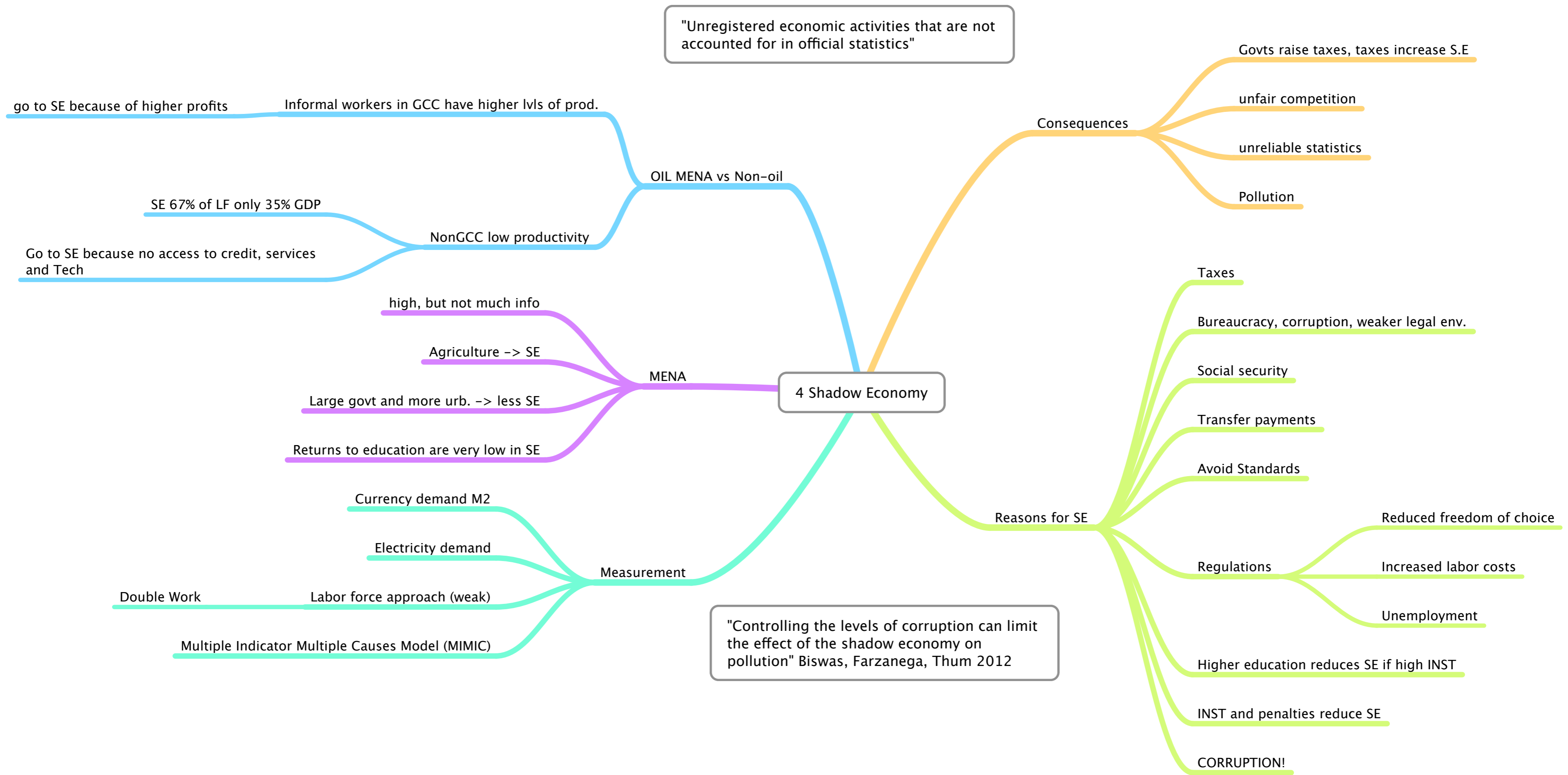
Compulsion of banks to buy govt bonds

"Priority Sectors"

MENA has lowest Financial Inclusion in the world



"Misuse of public power for private benefit"



"Unregistered economic activities that are not accounted for in official statistics"

### 4 Shadow Economy

#### Consequences

Govts raise taxes, taxes increase S.E.

unfair competition

unreliable statistics

Pollution

#### Reasons for SE

Taxes

Bureaucracy, corruption, weaker legal env.

Social security

Transfer payments

Avoid Standards

Regulations

Reduced freedom of choice

Increased labor costs

Unemployment

Higher education reduces SE if high INST

INST and penalties reduce SE

**CORRUPTION!**

#### Measurement

Currency demand M2

Electricity demand

Labor force approach (weak)

Multiple Indicator Multiple Causes Model (MIMIC)

Double Work

#### MENA

high, but not much info

Agriculture -> SE

Large govt and more urb. -> less SE

Returns to education are very low in SE

#### OIL MENA vs Non-oil

Informal workers in GCC have higher lvls of prod.

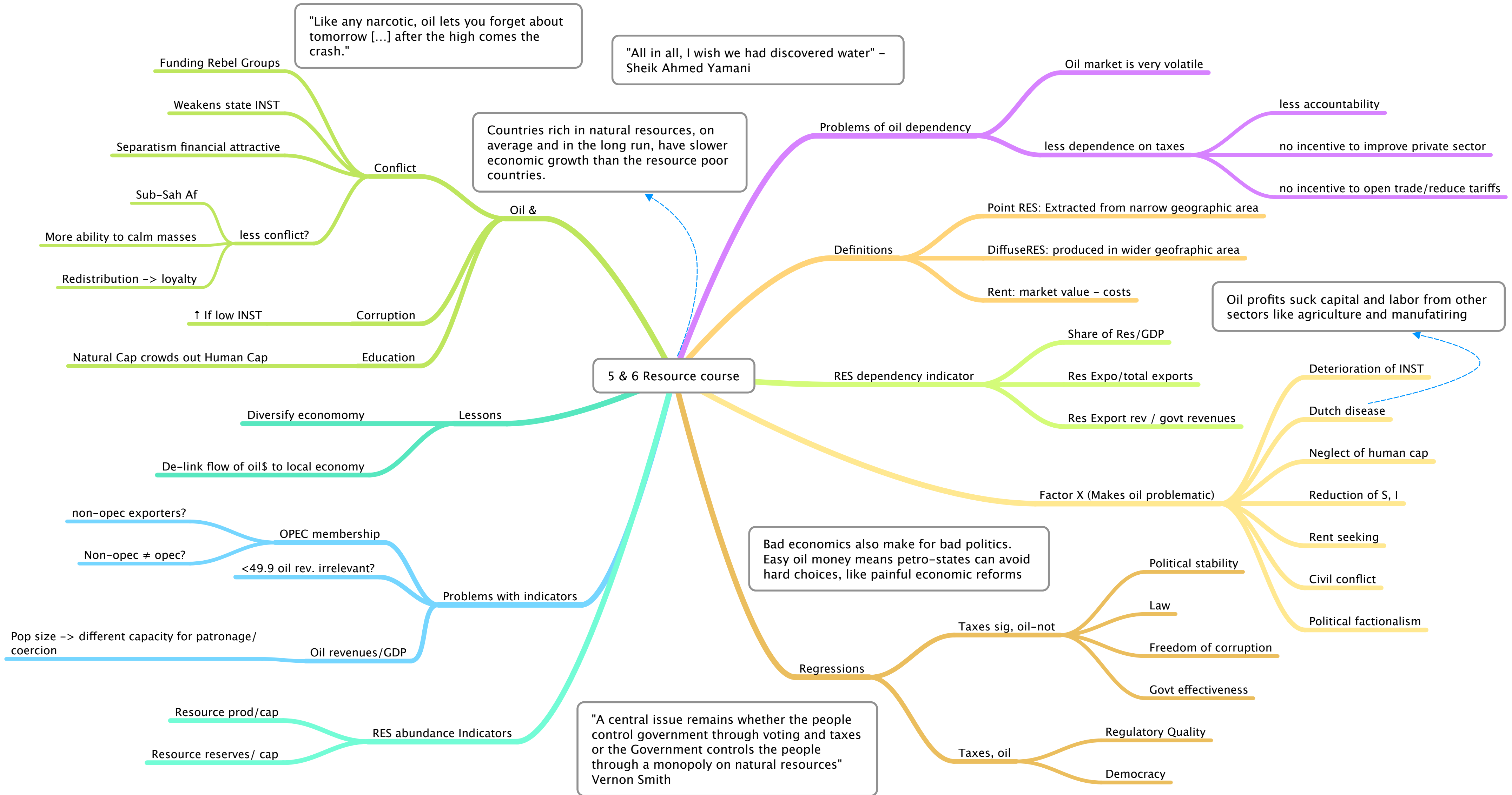
go to SE because of higher profits

NonGCC low productivity

SE 67% of LF only 35% GDP

Go to SE because no access to credit, services and Tech

"Controlling the levels of corruption can limit the effect of the shadow economy on pollution" Biswas, Farzanega, Thum 2012



9: Military Spending

MENA  
Highest military burden  
M.S important employer

Measurement  
Share of mil/GDP  
Share of mil / govt expend.  
Per cap mil. exp.

Determinant of Military spending

Arms race Model

Depend on enemies/allies  
Do not successfully explain  
Threats to security are most influential  
Changes from outside to inside threats have changed mil.spend.

Economic, pol, strategic factors

Socioeconomic

↑Pop→Mil.sp↓  
large pop = sec  
Civil consu > Security  
GNP has negative effect (insignificant?)  
GDP/cap →↑  
Mil. is part of govt. spending (↑→↑)  
Aid→↑  
11.4% leaks into military

Strategic

External wars →↑  
External threats →↑  
Internal threats →↑

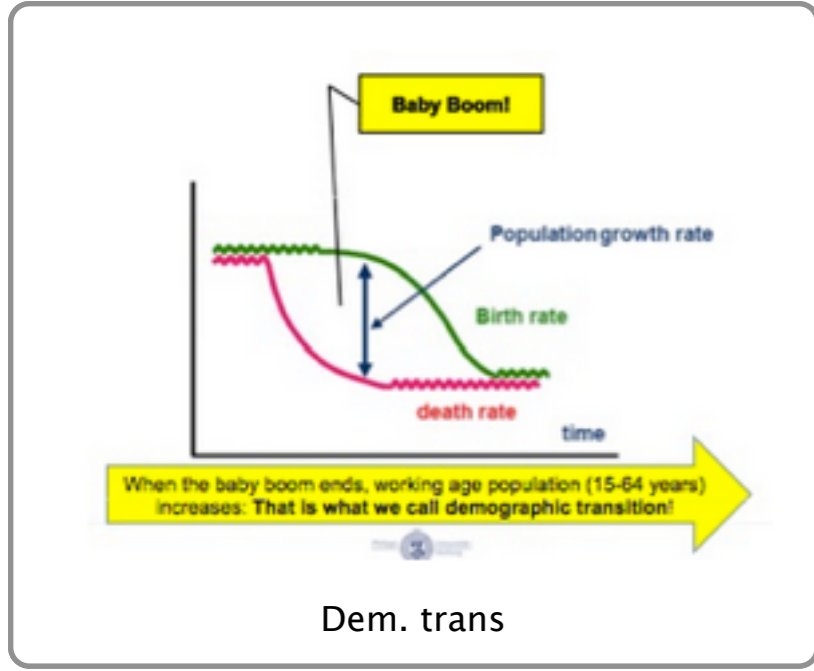
Political

Democracy →↓  
Democracy\*low income →↑  
Loot seeking  
↑ changes preferences

Consequences

Controversial!  
Decreases econ. g  
High opportunity cost  
crowding out!  
Crowds out health, education  
increases econ g.  
Keynesian multiplier  
G↑→Y↑  
Technological spill over  
Positive externalities  
Positive and significant in Iran (Farzenegan)

'Loot seeking' opportunities will become less valued relative to accountability: a lack of democracy will be more provoking at higher levels of income



10 Demographic transition

:= Increase in Labor force caused by transition from high fertility/mortality to low fertility/mortality

Natural resource rich countries have had a hard time to manage the working age population, channelizing them to productive activities.

MENAs Problems

Oil dependency

Rent seeking

Corruption

Industrialization

If new workers can't find jobs

S.E↑

Political protests ↑ (Instability)

Res Rent → ↓capacity to to absorb labor force

Same pie between more people!

Policies Matter! (IRAN)

Growth effects of Dem.Trans

Demographic Window: End of Baby Boom

Lower dependency ratio

more working population

"Demographic dividend to econ growth"

Labor supply↑

Extended expectancy horizon S↑↑

More free time for women (LS↑)

Window of Opportunity

Measurement

Population ages 15-64/total pop

Age dependency ratio

<15;>64 / total pop

the lower the D.R the less burden to econ!



11: Institutions and Governance

"An effective state is vital for the provision of the goods and services that allow markets to flourish and people to lead healthier, happier lives" World Development report 1997

"Governance is the exercise of political, economic and administrative authority necessary to manage a nation's affairs" OECD

"Humanly devised constraints that shape human interaction" (North, 1990)

- "Good" governance
  - Participation
    - Men & Women
  - Consensus oriented
    - All have stake in it
  - Accountability (!)
    - Impossible without transparency & Rule of Law
  - Transparency
    - Follows Rules & Regulations
  - Responsiveness
    - All stakeholders | Timeframe
  - Effectiveness and Efficiency
    - Produce results
  - Equity and inclusiveness
  - Rule of Law
    - Fair legal Framework

- Measurement (Worldwide Governance Indicators WGI)
  - Voice and Accountability
  - Political Stab
  - Govt effectiveness
  - Regulatory quality/burden
  - Rule of LAW
  - Control of corruption

- Governance and Growth
  - Uncertainty↓, efficiency↑ →g↑
  - Without strong PR transactions are limited
  - Inadequate regulation undermines invest.
  - Corruption undermines legitimacy of public inst
  - No govt restraints hinders g-promoting inst
  - Governance matters for g!
  - Higher I doesn't necessarily mean better governance
  - Not a luxury good

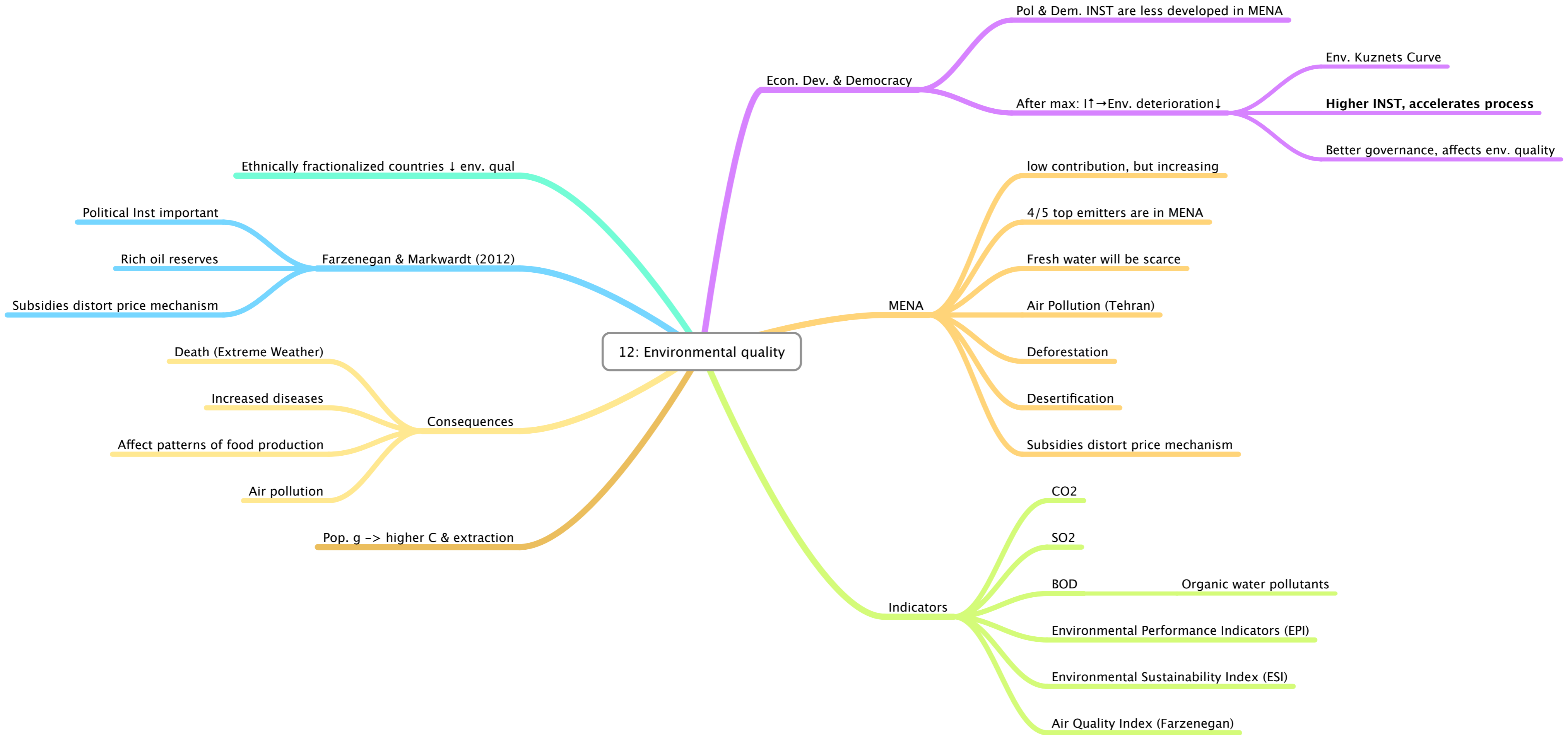
- Scope of Governance
  - State's Institutional arrangements
  - Process for formulating policy
  - Information flows within govt
  - Relationship between citizens and govts

- Consists of
  - Process of selection, monitoring and replacing govt
  - Capacity to formulate and implement sound policies
  - Respect for institutions

- Governance and Business Env.
  - ↓ if bad governance
    - People to deal with bureaucracy
  - Costs & Risks↑
  - Inclusiveness & Account.
    - ↓ arbitrary, distorted policies
    - ↑Bureaucratic performance
    - ↑Delivery of public services
  - Governance↑ easier for entrepreneurship
  - TC↓
  - ↓Reduce uncertainty and unpredictability

- INST
  - Formal/Informal
  - Econ/pol
  - Singapore: Economic +, pol -

- Fallacies
  - Governance cannot be measured
  - IC = Well-governed ; DCs = Poor Governance
    - Greece & Italy
    - Chile, Costa Rica, Latvia
  - Significant progress cannot occur in short time



13 Globalization

Measurement

KOF Index of Globalization

Trade Openness

Imports+Exports/GDP

But: Oil?

Cost of exports

Foreign direct investment FDI

No full benefits

Workers dont have necessary skills Missmatch btw. S & D

Low quality of education

Biz. env. doesn't promote entrepreneurship

Bad regulatory & Legals

Lack of competitiveness

MENA

Exports mainly to EU

No benefit from LATAM, ASIA

Glob & Inequality

Kuznets curve

Econ glob → ↑ inequality (until max.)

Political & Social glob. reduce inequality



Economic integration, through increased flow of goods, services, investments, labor, information and ideas. [+ Cultural, pol, military]

Success

Tunisia

"Outsourcing Hub"

Textile Prod

Car assembly

Food Processing

IT

Simplified regulation

Modern Infrastructure

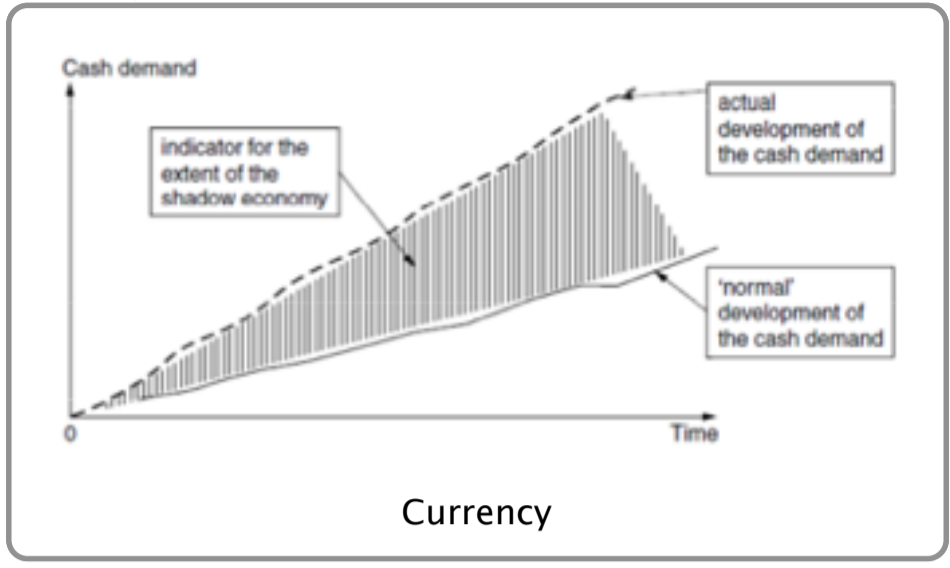
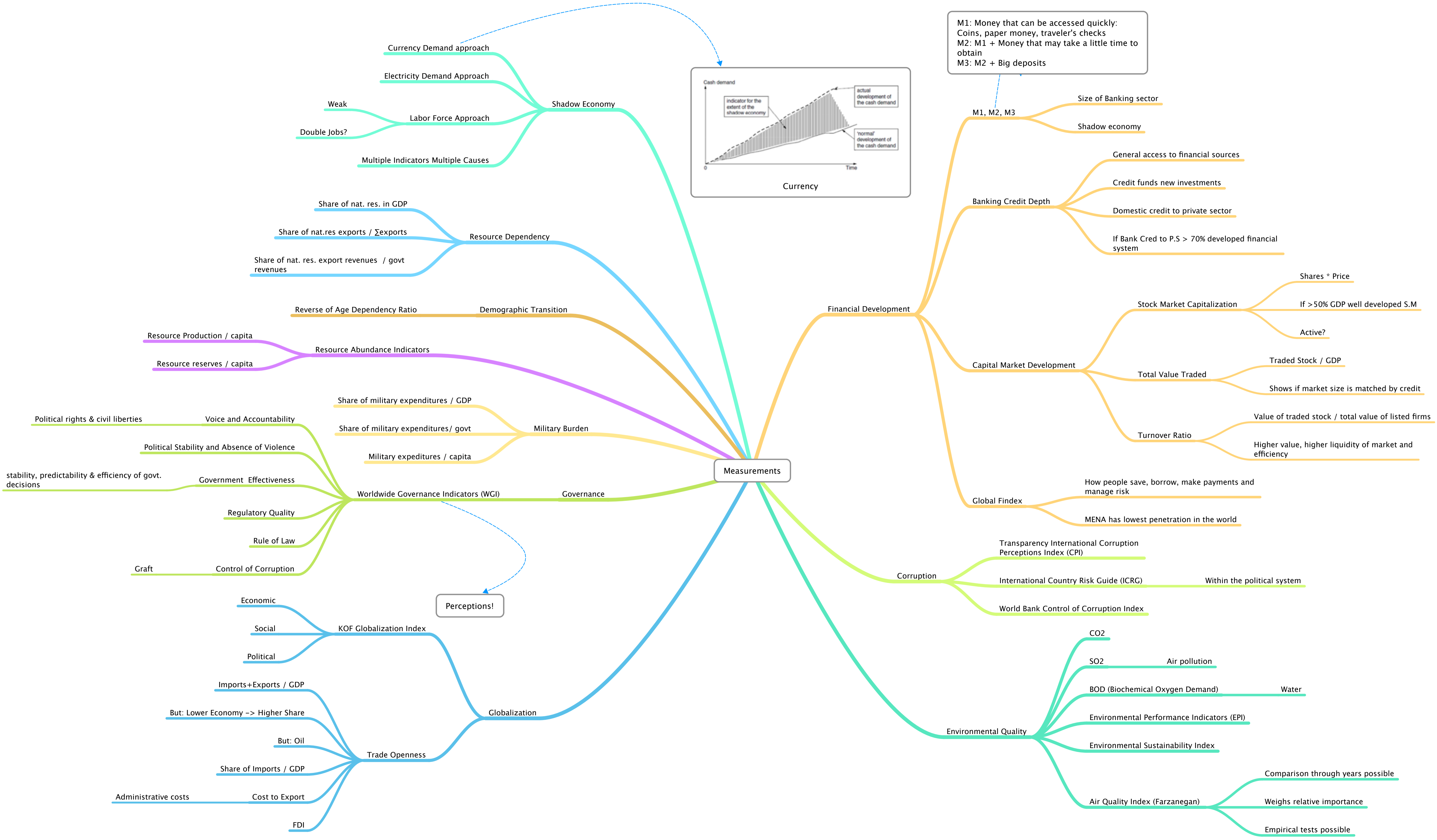
Government incentives

Commitment to knowledge based economy

Egypt

"Smart Village"

IT



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Perceptions!