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COVID-19 RESPONSE MEASURES IN THE MENA REGION

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Foreword

CFA Institute examined the measures taken by policy makers in the MENA region in response to the coronavirus pandemic. The region includes a unique subset of emerging markets, as its constituent countries are at different levels of economic development and diversification. This report presents the findings of this examination.

Following tight restrictions on movement and a sudden shock to economic activities in the second quarter of 2020, government intervention was desperately sought after. Similar to other parts of the world, governments in the MENA region used all available tools to stimulate their economies.

Early in the coronavirus pandemic, the leadership of the United Arab Emirates (UAE) reassured its people that food security and health system resilience were a redline. Shortly afterwards, Sheikh Mohammed bin Rashid Al Maktoum, UAE vice president and Dubai ruler, announced a government restructuring as the UAE would need a more "agile, flexible, and speedy government" to deal with the effects of the pandemic.

In addition to the traditional monetary and fiscal response measures presented in this report, the coronavirus pandemic and its profound social and economic impact prompted the governments of the MENA region to find solutions, initiatives, and enablers to support their economies. Some industries have suffered more than others, and without such swift response, the impact would have been much more significant. Such support is crucial in navigating through this global crisis with minimum disruption and under a global economic environment that is shifting dramatically, possibly forever.

H. E. Mohammed Ali Al Shorafa Al Hammadi
Chair, Abu Dhabi Department of Economic Development

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Introduction

In the period since the acute phase of the COVID-19 crisis, the main focus of comparative analysis of government response measures has been on industrial economies and, in some cases, a select subset of emerging economies.

This report fills this gap in analysis by summarising and comparing the policy response measures taken by MENA governments in response to the COVID-19 crisis.

To organise the large variety of government response measures into a manageable framework, we used a subset of commonly used policy categories that have been formalised by the Financial Stability Board (FSB, 2020), which defines government measures in support of economic activity in response to the COVID-19 pandemic in the following categories:

- Fiscal response measures: government guarantees and direct lending to corporates, loan restructuring, capital injections, and other corporate relief
- Monetary policy measures: central bank policy interventions to maintain market integrity and ease credit conditions
- Macroprudential measures: prudential regulation policies to facilitate credit creation for the real economy and provide operational flexibility to supervised firms

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Government Fiscal Policy Measures

All of the MENA countries have implemented fiscal response measures to the COVID-19 crisis to a greater or lesser degree. The FSB report (2020) breaks down these measures into further subcategories, according to the types of policies that fall under this fiscal response category:

- Government guarantees on loans
- Direct public sector lending to firms
- Restructuring of loan terms
- Capital injections
- Corporate relief

Table 1 shows that the MENA countries have had a uniformly active response to the COVID-19 crisis. First, all countries provided corporate relief measures designed to help businesses sustain employment through policies such as government support for wage payments and deferrals or reductions in corporate taxes and social security payments. Similarly, all MENA countries mandated loan restructuring policies, typically in the form of loan repayment moratoriums for households and corporates. With the exception of Algeria and Oman, the MENA governments all provided some combination of loan guarantees to corporations — typically with a focus on small and midsize enterprises (SMEs) — or direct lending and funding-for-lending through the banking system. The majority of these fiscal response measures take the form of credit, credit guarantees, or relief from corporate dues, but equity investment also has been used to support business. In Tunisia, the Caisse des Dépôts et Consignations, which is a public investment institution, created several funds that use equity or equity-like instruments to take stakes in strategic companies.

Table 1. Government fiscal response measures by country.

Country	Loan guarantees	Direct lending	Loan restructuring	Capital injections	Corporate relief
Bahrain	✓		✓		✓
Qatar	✓		✓		✓
Saudi Arabia	✓	✓	✓		✓
UAE	✓	✓	✓		✓
Egypt	✓	✓	✓		✓
Morocco*	✓	✓	✓		✓
Tunisia	✓	✓	✓	✓	✓
Jordan	✓		✓		✓
Kuwait*	✓	✓	✓		✓
Algeria			✓		✓
Oman			✓		✓

*These countries provided open-ended loan guarantees, which did not have a pre-set finite amount attributed to them.

Response Measure Size Comparison

To get a sense of the relative sizes of these response measures, we used an alternative categorisation of fiscal response measures provided by the Bank for International Settlements (BIS). This allowed us to make direct comparisons of the economic size of these measures between the MENA countries and the industrial and emerging economies studied by BIS. The BIS report (Alberola-Ila et al., 2020) on fiscal response measures in industrial and select emerging economies to the COVID-19 crisis separates fiscal packages into three categories according to their economic and budgetary implications.

First, budgetary measures include spending on transfers, such as payments to firms and households, unemployment subsidies, and tax deferrals. Second, funding measures include loans by governments to firms, made either directly or through economic agents such as banks or the central bank, typically focussed on SMEs. Third, credit guarantees take the form of governments backstopping the credit risk of loans made by banks to target sectors and firms to encourage banks to make those loans to support the economic activity of those sectors and firms.

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Table 2 shows the size of the total fiscal response to COVID-19 in each of the MENA countries, ranked by the proportion of this total response to GDP. The Gulf Cooperation Council (GCC) states[1] dominate the rankings, with Bahrain implementing a significant fiscal response equal to approximately 29.3% of its GDP, and Qatar at 11.5% similarly implementing a response more than double the third-ranked country. It is clear that the higher-ranked countries have higher national incomes and the associated greater fiscal room for manoeuvring. It is also the case, however, that the total fiscal response measure is somewhat misleading because the three categories of fiscal response do not have equivalent immediate impacts on government spending or debt. An analysis by subcategory provides the full picture.

Table 2. Total size of fiscal response measures.

Country	Country code	FX	GDP 2019 (USD bn)	GDP per capita 2019 (USD)	Total (Local bn)	Total (USD bn)	Total (% of GDP)
Bahrain*	BH	**2.65**	38.57	20,913.0	4.26	11.29	29.3%
Qatar*	QA	**0.27**	183.47	62,021.1	78.00	21.06	11.5%
Saudi Arabia*	SA	**0.27**	792.97	20,542.2	153.40	41.42	5.2%
UAE*	AE	**0.27**	421.14	41,420.5	79.50	21.47	5.1%
Egypt	EG	0.063	303.20	3,008.8	203.00	12.79	4.2%
Morocco	MA	0.1	118.73	3,396.1	39.30	3.93	3.3%
Tunisia	TN	0.35	38.80	4,405.0	3.60	1.26	3.2%
Jordan*	JO	**1.41**	43.74	3,284.0	0.63	0.89	2.0%
Kuwait*	KW	**3.25**	134.76	32,697.3	0.60	1.95	1.4%
Algeria	DZ	0.0078	169.99	4,710.6	70.00	0.55	0.3%
Oman*	OM	**2.6**	76.98	27,896.3	-	-	0.0%

*Signifies countries with a fixed exchange rate to the USD.
**GDP data from TradingEconomics.

[1] GCC countries comprise Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Table 3 breaks down the total fiscal response into the three categories defined earlier. This breakdown shows that the outsize Bahraini response is dominated by a BHD 3.7 billion increase in its central bank's loan facilities to enable debt payment deferrals and new credit creation. As such, it is a contingent liability and its final budgetary impact is not clear. Bahrain's immediate budgetary response (at 3.8%) is in line with that of the other countries. The Qatari budgetary response (at 11% of GDP) is high even by industrial economy standards.

Table 3. Categories of fiscal response measures.

Country code	Total (% of GDP)	Budgetary (Local bn)	Budgetary (% of GDP)	Lending (Local bn)	Lending (% of GDP)	Guarantees (Local bn)	Guarantees (% of GDP)
BH	29.3%	0.56	3.8%	-	0.0%	3.70	25.4%
QA	11.5%	75.00	11.0%	-	0.0%	3.00	0.4%
SA	5.2%	104.00	3.5%	43.20	1.5%	6.20	0.2%
AE	5.1%	26.50	1.7%	50.00	3.2%	3.00	0.2%
EG	4.2%	50.00	1.0%	50.00	1.0%	103.00	2.1%
MA*	3.3%	32.00	2.7%	7.30	0.6%	n/a	n/a
TN	3.2%	2.50	2.3%	0.60	0.5%	0.50	0.5%
JO	2.0%	0.13	0.4%		0.0%	0.50	1.6%
KW*	1.4%	0.60	1.4%	-	0.0%	n/a	n/a
DZ	0.3%	70.00	0.3%	-	0.0%	-	0.0%
OM	0.0%	-	0.0%	-	0.0%	-	0.0%
Average	6.0%		2.6%		0.6%		2.8%

*These countries provided open-ended loan guarantees, which did not have a pre-set finite amount attributed to them.

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The BIS report (Alberola-Ila et al., 2020) notes that the size of the fiscal measures in industrial economies are significantly higher than the size of the fiscal measures in emerging economies. For example, budgetary measures across the G–20 countries[2] averaged 4.6% of GDP and 8.3% of GDP among industrial economies.[3] This compares with an average budgetary response of around 2.0% of GDP in emerging economies,[4] which is similar to the average budgetary response of 2.6% of GDP in the MENA region as a whole and to the 3.6% of GDP across the GCC countries.

Around the world, lending and credit guarantee measures are lower, on average, as a proportion of GDP than direct budgetary measures. For example, the BIS report (Alberola-Ila et al., 2020) reveals that the average size of lending facilities ranges from 1.3% of GDP in emerging economies to 4.0% of GDP in industrial economies (1.7% of GDP in the G–20). In the MENA region, the use of lending response measures is even lower at 0.6% of GDP and is only slightly higher at 0.8% of GDP across the GCC countries.

Rather than direct lending support, many governments have offered credit guarantees that are designed to encourage bank lending to the economy without direct government intervention in credit markets. These are particularly prevalent in industrial economies in which the average size of credit guarantees is 6.6% of GDP, whereas emerging economies do not, on the whole, pursue this approach — the average size of credit guarantee is 0.4% of GDP. With the exception of Bahrain, which skews this statistic in the MENA region, the use of credit guarantees across MENA and within the GCC is low — an average of 0.5% of GDP.

KEY TAKEAWAY — The MENA region is broadly in line with other global emerging economies in the size of its fiscal response, with the GCC subregion having a somewhat larger average fiscal response. Bahrain and Qatar are noticeable outliers even among the GCC countries in the large size of their fiscal response.

[2]G–20 countries comprise Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States, and the European Union.
[3]Industrial economies include Australia, Canada, Germany, France, United Kingdom, Italy, Japan, and the United States.
[4]Emerging economies include Argentina, Brazil, China, Indonesia, India, South Korea, Mexico, Russia, Saudi Arabia, Turkey, and South Africa.

Central Bank Policy Measures

A distinct aspect of the COVID-19 crisis is that it is a health crisis that has caused an economic crisis. Typically, policy makers deal with a financial crisis that has caused an economic crisis. During this period of stress, however, central banks have been quite active to ensure the continued functioning of the financial system.

The FSB report (2020) breaks down central bank measures into the following subcategories, which are useful as they summarise the types of policies that can be observed:

- Monetary policy easing
- Provision of domestic currency liquidity to banks and markets
- Alleviation of USD funding shortages

Table 4 shows the various central bank policies adopted by each of the MENA countries. Monetary policy, specifically the reduction of policy rates, was observed in each country and is discussed in more detail in the next section. Beyond changes in the price of money, policies designed to address the quantity of money through domestic liquidity provision policies are observed in all countries. While quantitative easing (QE) is now a common policy lever in industrial, and increasingly, emerging economies, we do not observe central bank asset purchases in the MENA region. Instead, liquidity provision to banks is enabled through reductions in repurchase rates[5] and minimum reserve requirements. Policies to maintain USD funding are not observed in the MENA region with the exception of the Central Bank of Morocco, which adopted measures to help banks refinance in foreign currency using a wide range of collateral. None of the MENA countries participate in the Federal Reserves' expanded central bank swap line. Finally, four countries (i.e., Egypt, Morocco, Tunisia, and Jordan) drew on pre-existing International Monetary Fund (IMF) facilities to obtain financing.

[5] In the MENA region, repos are performed with the central bank as a first resort; in industrial economies, repo markets operate with the central bank as a last resort.

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Table 4. Central bank policy measures by country.

Country	Monetary policy	Domestic liquidity provision	USD funding provision	IMF funding
Bahrain	✓	✓		
Qatar	✓	✓		
Saudi Arabia	✓	✓		
UAE	✓	✓		
Egypt	✓	✓		✓
Morocco	✓	✓	✓	✓
Tunisia	✓	✓		✓
Jordan	✓	✓		✓
Kuwait	✓	✓		
Algeria	✓	✓		
Oman	✓	✓		

Monetary Policy

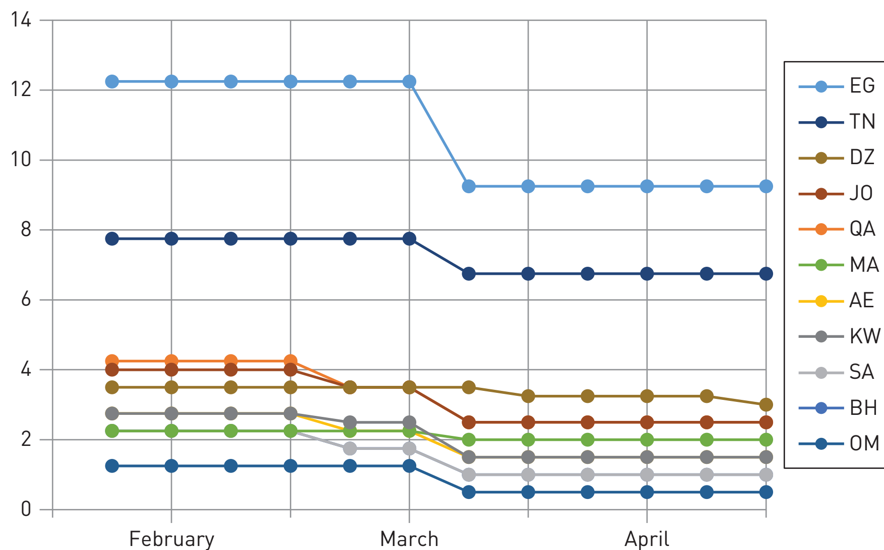
Monetary policy is a key instrument in modern economic crisis management, and COVID-19 has been no exception. According to the BIS report (Alberola-Ila et al., 2020), industrial economies have cut policy rates by an average of 40 basis points (although the United States cut its policy rate by a total of 150 basis points), whereas emerging economies have cut policy rates by an average of 114 basis points. This comparison is incomplete because industrial economies, by virtue of having historically low policy rates going into the crisis, have mostly pursued unconventional monetary policy measures, such as QE, through the large-scale purchase of government bonds and other market-maker and lender-of-last-resort activities (Mehrling et al., 2013).

Emerging economies, by comparison, had more room to relax monetary policy using traditional measures, such as interest rate cuts. Nevertheless, even many emerging economies launched local currency bond purchase programmes as reported by BIS (Arslan et al., 2020). In summary, central bank balance sheets have risen rapidly and dramatically in response to the COVID-19 crisis, as reported by BIS (Cavallino and De Fiore, 2020).

In the MENA region, this pattern is not observed to the same extent. First, note that Jordan and the GCC countries Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) all have currencies whose value is pegged to the USD. This

means that they are not able to conduct a fully independent monetary policy,[6] and most of these countries followed the interest rate cuts by the Federal Reserve in the United States, which cut its policy rate by 50 basis points on 3 March and by 100 basis points on 16 March, as shown in figure 1. The average rate cut in these countries was 125 basis points, similar to the 150 basis points cut observed in the United States. Interestingly, the other MENA countries, whose currencies are not pegged to the USD, also cut interest rates by an average of 125 basis points. The variation within this "floating currency" group is much higher than among the "pegged currency" group, with Egypt cutting its policy rate by 300 basis points and Morocco implementing a cut of only a 25 basis points.

FIGURE 1. POLICY RATE DURING THE ACUTE PHASE OF THE COVID-19 CRISIS.



KEY TAKEAWAY—The MENA region is broadly in line with global emerging economies in cutting policy rates by an average of 125 basis points. The GCC subregion is particularly driven by US Federal Reserve policy rate changes because the local currency pegs to the USD.

[6]See, for example, "Classification of Exchange Rate Arrangements and Monetary Policy Frameworks," International Monetary Fund, 30 June 2004, https://www.imf.org/external/np/mfd/er/2004/eng/0604.htm

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Prudential Regulatory Policy Measures

Prudential policy is an important counterpart to monetary policy in ensuring the healthy functioning of the financial system. The FSB report (2020) breaks down prudential policy measures into subcategories, some of which are useful because they summarise the types of policies that can be observed:

- Release of countercyclical capital and other capital and liquidity buffers
- Restrictions on dividends, share buybacks, and bonuses
- Expected credit loss provisioning guidance
- Flexibility in the application of prudential requirements

The Basel III reforms define a series of capital buffers on top of the minimum requirement of 4.5% of core equity that applies to all banks. These additional buffers are intended to help banks absorb losses without encroaching on core capital. That is, the intention is that they are designed to be drawn down in a countercyclical fashion, and not only in extremis.

First, the capital conservation buffer is set at 2.5% of total risk-weighted assets. Second, the countercyclical buffer extends the capital conservation buffer by adding a layer of capital requirements that can vary between 0% and 2.5% of total risk-weighted assets countercyclically by prudential authorities. Finally, globally systemically important banks (G-SIBs) have an additional "surcharge" capital buffer between 1% and 3.5%.

While capital buffers seek to maintain bank solvency, the Basel III measures also mandate liquidity buffers. For example, the liquidity coverage ratio (LCR) is designed to improve short-term bank resilience, while the net stable funding ratio targets longer-term liquidity resilience.

By releasing the capital and assets bound up in these buffers, prudential authorities are able to support the ability of banks to continue lending into the real economy. A summary of measures taken in the MENA region is shown in table 5. For example, the Central Bank of the UAE lowered the LCR from 100% to 70%, released 60% of the capital conservation buffer, and allowed G-SIBs to use 100% of the systemic surcharge.

Restrictions on the ability of banks to issue dividends and perform share buybacks were a common feature of the industrial economy response to the COVID-19 crisis with many authorities issuing guidance to this effect, including the Systemic Risk Council of which the CFA Institute is the sole sponsor.[7] In the MENA region, only two jurisdictions (Morocco and Tunisia) issued explicit guidance on dividends and share buybacks. It is the case, however, that the Basel III reforms stipulate certain automatic distribution reductions as a result of capital buffers being released.

The unique nature of the COVID-19 crisis, specifically the sudden cessation of large parts of economic activity, raised significant and unexpected questions about the creditworthiness of many otherwise viable businesses. The introduction of the International Financial Reporting Standard 9 – Financial Instruments (IFRS 9), which provides banks with a systematic approach for recognising expected credit losses (ECL),[8] is in this context concerning because of the extent of uncertainty about future economic conditions and the widespread implementation of debt repayment moratoria. As reported by the FSB (2020), numerous jurisdictions, the Basel Committee on Banking Supervision, and the International Accounting Standards Board all have issued guidance on how banks should prudently account for expected COVID-19-related credit losses. In the MENA region, only the GCC countries and Jordan have adopted IFRS for domestic companies, and of those, only the Central Bank of the UAE has provided explicit guidance on how banks should deal with the IFRS 9 ECL provisions in light of COVID-19.

[7] See, for example, “SRC Statement on Financial System Actions for Covid-19,” Systemic Risk Council, 19 March 2020, https://www.systemicriskcouncil.org/2020/03/src-statement-on-financial-system-actions-for-covid-19/
[8] See, for example, “IFRS 9 and Expected Loss Provisioning: Executive Summary,” BIS, 13 December 2017, https://www.bis.org/fsi/fsisummaries/ifrs9.htm

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Table 5. Macroprudential policy measures by country.

Country	Buffer release	Dividend and buyback restrictions	ECL provisioning guidance	Prudential flexibility
Bahrain*	✓			✓
Qatar*				✓
Saudi Arabia*				
UAE*	✓		✓	✓
Egypt**				✓
Morocco	✓	✓		✓
Tunisia		✓		
Jordan*				
Kuwait*	✓			✓
Algeria	✓			✓
Oman*	✓			✓

*IFRS are required for domestic public companies.
**IFRS are required or permitted for listing by foreign companies.

Finally, almost all jurisdictions pursued an approach of prudential flexibility to deal with the COVID-19 crisis. Examples include increased loan-to-value ratios applicable to mortgages, reductions in risk weights attached to loans to SMEs, and decreased reserve requirements.

KEY TAKEAWAY — The MENA countries have pursued a policy of prudential flexibility in dealing with the COVID-19 crisis. The majority of policy response measures in this field are in the form of capital and liquidity buffer relief for banks to maintain lending into the real economy.

Summary

The COVID-19 response in the MENA region has been broadly in line with other emerging economies. While industrial economies have continued and extended so-called unconventional monetary policies, particularly large-scale central bank asset purchases as well as unprecedented wage subsidies, the fiscal and monetary possibilities of emerging economies are more limited in scope and scale.

The response of MENA governments therefore has focused on government loans and credit guarantees, loan repayment moratoria for households, and corporate relief focused on SMEs. MENA central banks, in turn, have used conventional monetary policy levers, such as interest rate changes and provision of liquidity to domestic users as well as macro-prudential policy tools in the form of capital and liquidity buffer relaxation.

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Author

Sviatoslav Rosov, PhD, CFA

Contributors

Anas Ben Chekroun

Karina Karakulova, CFA

William Tohmé, CFA

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