

**Q1) By providing examples, analyse the classification scheme of exchange rate regimes in Arab countries.**

It is distinguished between two main groups:

- **The first group** involves countries that follow pegged exchange rate regimes. In these countries, the local currency is either pegged to a single currency, the SDR, or other weighted composites formed from the currencies of major trading or financial partners.
- Note: Most Arab countries belong to the first group as 12 of them follow a pegged regime.

**Example: Exchange Rate Regimes in Arab Gulf Cooperation Council (AGCC) Countries.**

- ✓ **Before year 2000:** Currencies of Saudi Arabia, Qatar, Bahrain, U.A.E are officially pegged to the SDR; while Oman’s currency is officially pegged to the dollar, and Kuwait’s currency is determined on the basis of a fixed-but adjustable relationship between the dinar and a weighted basket of currencies.
- ✓ **After year 2000:** The AGCC countries decided a strategy to formalize a common peg to the dollar as an initial step toward a possible common currency area in the future.
- **The second group** involves countries that follow more flexible forms of exchange rate regimes, which are either managed floating or independent floating. In particular, most of these countries adopted a managed floating exchange rate regime. They include Tunisia, Algeria, Egypt, Lebanon, and Mauritania.

**Note about Egypt:** During 2000, Egypt departed from the peg to the U.S. dollar adopted in early 1991 to a more flexible exchange rate. In late 2016, Egypt announced a floating regime (totally market-determined).

**Q2) Analyse the Maastricht Convergence Criteria and Stability & Growth Pact.**

■ **Convergence Criteria**

The Maastricht Treaty specifies that EU member countries must satisfy several convergence criteria in terms of:

- ✓ **Price stability:** Maximum inflation rate 1.5% above the average of the three EU member states with lowest inflation.
- ✓ **Exchange rate stability:** Stable exchange rate within the ERM without devaluing on its own initiative.
- ✓ **Budget discipline:** Maximum public-sector deficit 3% of the country’s GDP and Maximum public debt 60% of the country’s GDP.

■ **Stability and Growth Pact (SGP)**

A Stability and Growth Pact (SGP) in 1997 sets up:

- ✓ The medium-term budgetary objective of fiscal positions (balance or surplus).
- ✓ A timetable for the imposition of financial penalties on countries that fail to correct situations of “excessive” deficits and debt.

### Q3) Demonstrate the European System of Central Banks (ESCB)

It consists of the European Central Bank (ECB) in Frankfurt plus national central banks of euro zone. The ESCB has the following characteristics:

- ✓ The ECB conducts monetary policy for the euro zone.
- ✓ The ECB sets its own inflation target (its main purpose being the achievement of price stability).
- ✓ Market interventions by the ECB are carried out through national central banks.
- ✓ The ECB has no direct power over fiscal policies of the member states. (It can, however, issue recommendations).
- ✓ National governments are barred from intervening on matters of monetary policy.
- ✓ Monetary financing of public expenditure is forbidden.
- ✓ National central banks remain in charge of banking supervision.
- ✓ Monetary policy is designed to be independent from political pressures. (The ECB President and Executive Board are appointed for eight years). However, it is dependent on politicians in two respects:
  - The ESCB's members are politically appointed.
  - The Maastricht Treaty leaves exchange rate policy for the euro zone ultimately in the hands of the political authorities.



### Q4) Define FDI and analyse its mutual benefits between the host and receiving country in the context of the Eu-Mediterranean relationship.

- Foreign Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise.
- For the receiving and host country, this form of capital flow is beneficial in the following respects:
  1. The reception of investment capital while the availability of equity is reduced or absent.
  2. It provides an opportunity for the host economy to promote its products more widely in international markets.

3. Technology and know-how transfer which helps modernize technologies sectors and/or the emergence of new sectors.
4. The opportunities for increasing the share of main economic sectors in GDP such as the primary, services, and manufacturing sector.
5. Provide financial stability, promote economic development and enhance the well-being of societies.

**Note:** FDI effects on receiving or host countries vary widely from country to country and are subject to many factors, among which are:

- ✓ The overall level of economic and social development
- ✓ Capacity of efficient FDI absorption
- ✓ Availability of natural resources
- ✓ State of energy, transport, communications and public services infrastructures
- ✓ Technological innovations in communications and data processing.

### **Q5) What are the main forms of European aids?**

About 25% of EU aid is “budget support” which is aid given directly to governments so they can do their work. By providing governments of developing countries the freedom to decide which sectors to be developed, the EU directly supports the country's own policies and systems so that the results can have a lasting effect. The EU does not only work with the governments but also makes sure that civil society organizations are included: this could be non-governmental organizations, trade unions, human rights groups, environmental organizations, chambers of commerce and many others.

The main sectors, in descending order, that the aid from EU institutions and members is spent on are:

1. Government and civil society.
2. Humanitarian Aid.
3. Education.
4. Banking and financial services.
5. Transport and Storage.
6. Agriculture.

### **Q6) Discuss the OECD’s definition of ODA and its influence on Arab economies.**

The DAC defines ODA as “those flows to countries and territories on the DAC List of ODA recipients and to multilateral institutions. These flows are:

- provided by official agencies, including state and local governments, or by their executive agencies; and
- Each transaction of which:
  - is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
  - is concessional in character.

#### **■ The Impact of Foreign Aids on Economic Growth**

Three arguments regarding the impact of ODA on economic growth:

- ✓ Aid is bad for Economic Growth.
- ✓ Aid is vital for Economic Growth.
- ✓ Positive influence of aid is linked to political & economic conditions.

In general, we can say that: the question whether or not foreign aid enhances economic growth and efficiency in resource use has long been debated, but still no consensus is found among researchers and policy makers. Empirically, there is little evidence of a significant positive effect of aid on the long-term growth of poor countries. Empirical evidence is in favor of the argument that aid spurs economic growth only in certain macroeconomic environments. This also depends on the type of Aid itself, as we can say that developmental aid has a positive effect on growth, while non-developmental aid is mostly growth neutral or negatively associated with economic growth.

■ **The Social Influence of Foreign Aids:**

- ✓ Development efforts usually aim at enhancing aid recipients' welfare through alleviating poverty, lowering unemployment and income inequality, providing improved social infrastructure and accumulating human capital.
- ✓ Developmental Foreign Aid may reduce poverty level and improve indicators of health and education.