Debunking the Myth of a Changing IMF

Unpacking Conditionality in the Arab Region Post-Uprisings

Arab NGO Network for Development

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HASSAN SHERRY

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P.O.Box: 4792/14 | Mazraa: 1105-2070 | Beirut, Lebanon
Tel: +961 1 319366 | Fax: +961 1 815636

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Table of Contents

Introduction 6

IMF Conditionality in the Arab Region: A Historical Perspective 10

Unfolding Narrative Post- Crisis and Uprisings 16

IMF Lending to Arab countries Post-uprisings 20

Case Studies 26
- **Egypt** **28**
  - Monetary and Exchange Rate Policy
  - Fiscal Policy
- **Jordan** **31**
  - Monetary and Exchange Rate Policy
  - Fiscal Policy
- **Tunisia** **35**
  - Monetary and Exchange Rate Policy
  - Fiscal Policy
- **Lebanon** **40**
  - Monetary and Exchange Rate Policy
  - Fiscal Policy

Concluding Remarks 46

An Alternative Framework for Macroeconomic Management in the Arab Region 50
- Monetary Policy 52
- Exchange Rate Policy 53
- Fiscal Policy 54

Bibliography 56

Introduction

Introduction

Following widespread doubts about the future of the International Monetary Fund (IMF) during the first decade of the new millennium, the onset in 2007-2008 of the deepest global financial crisis since the 1930s has provided for the re-emergence of the Bretton Woods institution as a central actor in global economic governance (Gabor 2010). In the Arab region, this re-emergence was particularly evident in the aftermath of the uprisings that erupted early in 2011. In an IMF staff paper presented at the G8 Summit in Deauville, France, in May 2011, the Fund highlighted its readiness, along with other regional and multilateral development banks, to assist "MENA countries in developing their economic strategy and translating it into a costed multi-year sector- by-sector development agenda, embedded in a medium-term macroeconomic framework" (IMF 2011a, p.1). The IMF further emphasized its full commitment to "helping its member countries from the MENA region to secure their goals of sustainable and inclusive growth, economic stability, job creation and improved living standards" (Ibid, p. 16).

These statements cannot be decoupled from the Fund's post- financial crisis re-emergence, which has been accompanied by an unfamiliar discourse to its past. In the early years following the global financial crisis, anti-cyclical policy responses were regarded by the IMF as the order of the day (Lutz 2015). In similar fashion, former managing director of the IMF, Dominique Strauss-Kahn, conceded in a speech addressed to the European Development Days on December 6, 2010, that robust counter-cyclical economic policy played a central role in helping low-income countries (LIC) to weather the global financial crisis in a way that exceeded the expectations of the IMF (Strauss-Kahn 2010). More recently, incumbent managing Director Christine Lagarde's statement "we don't do that anymore"[1], in reference to the Fund's past structural adjustment programmes in developing and low-income countries, has become the new shibboleth of the organization (AFP 2014).

Indeed, an evident change has become apparent in IMF rhetoric and documents, with many of its officials claiming a breakup with past practices while placing much more emphasis on issues of social and economic inclusion as key priorities of International Financial Institutions' (IFI) policies (Hanieh 2015). At face value, these assertions suggest a departure from the reputation that normally precedes the IMF, which is best manifest in its traditional bias for macroeconomic stability and growth, irrespective of social costs, and propagated through the Fund's prescriptions of fiscal austerity, trade and capital account liberalization, public sector layoffs, and other economic reforms geared to altering the structure of recipient economies (Kentikelenis et al. 2016). Notwithstanding, the Arab region is yet to overcome the challenges brought about by six consecutive years of economic and political turbulence, the roots of which lie in three decades of pro-market policies that paid little heed to the inherent inadequacies of Arab economies let alone the nature of political settlements in Arab states, and had done little to reverse the dominant trends of declining productivity growth, rising poverty and inequality, as well as increasing unemployment, particularly among the youth (Mohamadieh 2013).

This paper seeks to address renewed concerns about the role of the IMF in the context of its engagement with Arab countries since the 2011 uprisings. The following key question stands out for this purpose: Has the IMF, through its programmes in the Arab region, lived up to its narrative of advancing social objectives and greater flexibility in policy design, ergo providing a wider margin of policy space to Arab countries to adopt counter-cyclical measures – expansionary fiscal, accommodative monetary or exchange rate policies – to address challenges to their long-term sustainable development [2] ?

[1] During a news conference at World Bank Group-International Monetary Fund Spring Meetings in Washington, Saturday, April 2014 ,12, Madame Lagarde said her famous statement: "Structural adjustment? That was before my time, I have no idea what it is. We don't do that anymore." It was a response to a Ghanian journalist who asserted that many people had "a phobia for the IMF" because of the harsh conditions of its past structural adjustment programmes.

[2] The challenges facing the economies of Arab countries are both structural and external. On one hand, the economies have failed to overturn the declining of productive capacities and to prevent de-industrialization. On the other hand, the region has been inflicted by a series of economic, social and security crises, the most prominent of which have been the global food and fuel crisis, the financial crisis, as well as the socio-economic and political repercussions of the uprisings.

Introduction

This paper strives to identify the answer to the above question by reflecting upon the most recent engagement of the IMF in four Arab countries. These countries are Egypt, Jordan, Tunisia and Lebanon. The choice of countries is dictated by the availability of national reports [3], presented during the recent IMF/World Bank Spring Meetings that took place in Washington DC, US, from 21-23 April, 2017. We do not pretend to be comprehensive in either breadth or depth of discussion, and we realize that our choice of only four Arab countries falls short of providing an adequate and exhaustive representation of the Arab region in terms of the status and impact of IMF programmes. With that caveat in mind, this paper shall, nonetheless, provide a general indication about IMF lending and conditionality in the region post-uprisings, and the extent to which IMF policy design and implementation in the region has drifted away from the institution's recent rhetorical focus on sustainable development, and converged more intensely into its more traditional emphasis on macroeconomic stabilization, regardless of social costs.

The paper proceeds as follows: section 2 will provide a broad historical overview of the evolving IMF role and conditionality in the Arab region. Section 3 will discuss the changing IMF narrative post- crisis and uprisings. It shall peruse the Fund's annual staff country reports (also known as the Article IV Consultation reports), factsheets, press releases as well as responses to critics and interviews, among others. Section 4 will present the case studies of Egypt, Jordan, Tunisia and Lebanon. Section 5 will conclude and discuss the features of an alternative framework for macroeconomic management in the Arab region.

[3] The national reports were commissioned by the Arab NGO Network for Development (ANND) to civil society experts in the field of development and human rights. The national reports cover Tunisia, Egypt, Lebanon and Jordan.

IMF Conditionality in the Arab Region: A Historical Perspective

IMF Conditionality in the Arab Region: A Historical Perspective

Arab countries have forged an impregnable, state-led, social compact in the post-independence years. Under this contract, the state delivered generous social welfare packages, including free health and education, subsidies on food and utilities, and increased public sector employment (Harrigan & El-Said 2014). The compact was a sort of “authoritarian bargain” between the state and the citizenry, the governments and the governed, where social and economic rights of citizens were elevated above civil and political rights (Karshenas et al. 2014). In these countries “the state went so far as to largely substitute itself for the private sector by means of both far-reaching nationalization programmes and massive public investment (Achcar 2013, p. 69, quoted in Harris 2016).” Constrained countries with more limited state capacity, such as Lebanon, capitalized on other sorts of advantages such as their geographical location and relatively liberal political economy in order to forge outward linkages, thus serving as entrepôts connecting the regional autarkic order with Western capital (Harris 2016).

Between 1960 and 1985, the Middle East and North Africa (MENA) region achieved per capita GDP growth of 3.7 percent per year, outperforming all other developing regions in income growth with equitable income distribution except East Asia and Pacific region whose annual rate stood at 4.3 percent for the same period (Yousef 2004). During that period, Arab countries witnessed enormous social outlays, and experienced remarkable improvements on various social and economic indicators. Infant mortality dwindled by half; life expectancy rose by more than ten years; primary school enrollment increased from 61 percent in 1965 to 98 percent in 1991; adult literacy improved from 34 percent in 1970 to 53 percent in 1990; inequality was well below the limits witnessed in other developing regions, with Gini levels in the MENA region ranging 0.35 to 0.50; and poverty decreased significantly, where in 1990 the MENA region had the lowest poverty among all developing regions, with only 5.6 percent of its population living on less than USD 1 a day PPP line in 1990 – the global benchmark for absolute poverty at the time (World Bank 1995; Harris 2016). The World Bank dubbed the region’s countries “high performers”, whose “achievements were the result of rapid growth in the 1970s and early 1980s and generous transfers to large parts of the population (Ibid, pp. 2, 3).”

However, the slowdown in growth as well as the serious foreign debt and balance of payments crises that hit the region during the mid-1980s raised the ante on Arab states wishing to sustain their redistributive commitments. It is beyond the remit of this paper to provide an in-depth diagnosis of the underlying determinants – political, social, economic or cultural – of the crisis of the 1980s. Suffice here to contend that the roots of the 1980s’ economic crisis in the Arab region lie in the declining global oil prices and the resultant contraction in demand for Arab labour [4] from oil-rich Arab states, decreasing remittances, and shrinking investment that impeded the development of export-oriented industrial sectors (Yousef 2004). The interplay of these internal and external factors sounded the death knell for the interventionist-redistributive model that guided Arab economies since the independence years. In response, many Arab countries introduced economic reforms in the 1980s. Some started their own reform programmes without resorting to international support. But others, who failed to get new loans from commercial creditors, turned to the IMF and the World Bank for help.

That era witnessed an amplified involvement of Bretton Woods Institutions, particularly the IMF, in the Arab region. Many (non- resource rich) Arab countries have become major recipients of IMF policy-based loans that carried macroeconomic conditionality. These loans were (and remain) conditioned on a package of macroeconomic reform policies known as stabilization and structural adjustment programmes (Harrigan & El-Said 2014). Like in other developing regions such as Latin America and Sub-Saharan Africa, IMF conditionality in the Arab region was predicated on principles of the “Washington Consensus”, which represented the «standard» reform package promoted to developing countries wracked by crises. Mandatory reforms under the terms of stabilization and structural adjustment loans required recipient countries to adopt the following: stabilization measures demanding massive cuts in government expenditures; liberalisation of ownership laws, particularly in the real estate, financial and telecommunication sectors; new and broader taxes, and higher positive interest rates; abrupt liberalization of

[4] One of the most effective mechanisms of regional wealth sharing was through labour market linkages.

trade – including the elimination of non-tariff barriers (NTB) – coupled with large currency devaluations; labour market deregulation; privatization of state-owned enterprises (SOE); and financial deregulation (Harrigan & El-Said, 2014; Hanieh 2015; Mossallem 2015).

This contractual obligation has meant that the IMF has made its way to becoming a central policymaker in Arab countries, thereby contradicting the objectives of its establishment in Bretton Woods in 1944 (El Ghonemy, 1998). This comes as no surprise. The IMF has in fact reinvented itself on several occasions and in different dimensions since its creation approximately 70 years ago (Reinhart & Trebesch 2010). As per Article I of the IMF›s Articles of Agreement, the Fund declares that the purpose of its lending is «...to give confidence to members by making the general resources of the Fund temporarily available to them … thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity (IMF 2016a, p. 2).» To this end, the IMF practiced conditional lending following its establishment. However, up until the 1980s, conditionality was confined to a set of limited reforms that were focused exclusively on alleviating budget deficit, contractionary monetary policy, and devaluation of the exchange rate (Kentikelenis et al., 2016). Meanwhile, the Fund would maintain a stance of neutrality – in congruence with the 'doctrine of economic neutrality' [5] – as regards the recipient countries' economic and social objectives (Ibid). Accordingly, while setting forth its lending conditions in favour of macroeconomic adjustment, the Fund would keep at arm's length any explicit attempt from its side to guide the recipient country through the adjustment process, for instance on 'how' to bring down the deficit. In doing so, the recipient countries should be left free to act at their own discretion regarding the choice of economic policy, especially fiscal policy – be it tax or expenditure policy, and its respective tools and instruments – for the purpose of adjustment, thereby warding off any possibility of potentially altering the underlying structures of their economies (Ibid).

However, the role and, perhaps, doctrine [6] of the IMF, and the associated conditionality, started to change with the demise of the global Bretton Woods system of pegged exchange rates in the early 1970s and the adoption of floating exchange rates by some of the world's major economies (Reinhart and Trebesch 2010). As of the 1980s, however, the policy content of the Fund›s programmes have abandoned the ‹neutrality› zone and tapped into a wider range of conditionality, often of a «structural» nature, going far and away beyond the original mandate that was articulated in the Articles of Agreement establishing the Bretton Woods institution. The newly tapped into policy areas include, inter alia, labour market deregulation, trade and financial liberalization, privatization of state-owned enterprises, legislating central bank independence, and/or restructuring tax systems (Williamson 1990). The apparent expansion – both in breadth and depth – of the remit of IMF conditionality suggests that the organization has moved beyond its original focus on economic dimensions into non-economic areas that essentially fall under the realm of politics, thus eroding policy space and national sovereignty (Stiglitz 2002). Since that era, the IMF has been criticized for being negligent of the diversity of domestic conditions and for its stubborn commitment to a neo-liberal doctrinaire view of economic development (Ban & Gallagher 2015).

[5] The doctrine of economic neutrality can be understood in light of the IMF and WB post-WWII mandates, which stipulated that the two organizations shall primarily take care of the 'economic' as opposed to the 'political' aspect of the world, post-war. The Fund and the Bank should therefore be politically neutral and base their decisions solely on economic considerations, pursuant to their statutes (Swedberg, 1986).

[6] Under the original Bretton Woods system, the IMF operated within a Keynesian paradigm. Its loans were aimed at preventing devaluation and propping up demand. Such policies, however, have been turned on their heads in the 1980s, following the demise of the Bretton Woods system in the early 1970s.

In the Arab region, empirical evidence on the impact of the structural adjustment programmes on development indicators has not been kind to the assumptions that SAPs would help economies overturn their economic woes. A study surveying eight MENA countries – Algeria, Egypt, Jordan, Mauritania, Morocco, Sudan, Tunisia, and Turkey – that undertook IMF reforms in the 1980s found that the social situation in these reforming countries, including poverty and unemployment, got worse after implementing the reforms, despite improvement in macroeconomic indicators (El Ghonemy 1998). The same study showed that income inequality was aggravated in most of these countries. Harrigan & El-Said (2014) mark that the negative social impact of reform was more severe in countries which were pushed by international players to globalize rapidly, labelled the "good pupils" of the IMF, namely Algeria, Egypt, Jordan and Morocco. In those countries, inequality, unemployment and poverty deteriorated over the course of the decade of the 1990s (Ibid). As for policies of privatisation, Mossallem (2015) indicates in his report that these policies had given rise to the concentration of economic wealth in the hands a few, deepened inequality in the Arab societies, increased corruption, and impoverished the working and middle classes, thus giving rise to a deep sense of injustice.

The disconnect between the SAPs and socially-desired outcomes can best be observed by looking at the formal communications of the IMF with Arab countries in the period leading up to the uprisings [7]. Prior to 2011, the concept of sustainable and inclusive growth and what it means in terms of promoting equity, equality of opportunity, and social protection was non-existent in the formal communications of the IMF with Arab countries (Momani & Lanz 2014a). In a survey of IMF communications with Egypt, Morocco and Tunisia from 2006 through 2013, Momani and Lanz (2014a) found that inclusiveness was not embedded into the Fund's growth strategy until after the uprisings. They point out that the IMF promoted a simpler approach to growth – an approach through which growth and socio-economic inclusion were regarded as independent and dependent variables, respectively. The statements made by former IMF Deputy Managing Director Agustín Carstens and former IMF Deputy Managing Director Murilo Portugal that the main challenge for several countries of the region was to increase economic growth that would, in turn, trickle down and improve living standards, further lends credence to the above statements (Ibid).

[7] It is useful to note that the 'narrow' focus of the IMF on growth and macroeconomic stabilisation is not unique to the region. Rather, it can be observed globally.

Unfolding Narrative
Post-Crisis and Uprisings

Unfolding Narrative Post- Crisis and Uprisings

The IMF’s narrative in the aftermath of the uprisings has undergone a noticeable change. Since 2011, inclusiveness has been promoted as a requirement of growth in Egypt, Morocco and Tunisia (Momani & Lanz 2014a). Middle East and Central Asia Department Director Masood Ahmed acknowledged in 2011 the need for inclusive growth in the Arab region (IMF 2011b). He explained in 2011 that a clear lesson for the IMF was that inclusivity, job creation and social policies for the most vulnerable are essential elements if rapid economic growth was to be maintained (Ahmed 2011). These statements were echoed by Nemat Shafik, IMF Deputy Managing Director in 2012, where she confirmed that the Fund has «adapted [its] analytical work to face the new realities on the ground … [and] is integrating the concept of inclusive growth more systematically in its policy advice (IMF 2012a).”

Along similar lines, IMF managing director, Madame Lagarde, pointed out during an interview in 2012 that the Fund was paying more attention to the poor and underprivileged in the Arab region after the uprisings than before. She asserted that what “the IMF has learned as a result of the Arab renaissance is that numbers don›t tell the whole story, and we have to really examine precisely what is behind the numbers, who benefits from growth ... how are the fruits of growth allocated in a particular country so that it can be sustainable in the long term and therefore better shared in the population (IMF 2012b).» Similar emphasis has been made on health and education spending, with the IMF regarding them as key elements in fostering inclusive growth (IMF 2013a).

As suggested earlier in the introduction to this paper, the post-uprisings narrative of the IMF cannot be decoupled from the Fund’s post- financial crisis rhetoric of increased flexibility in policy design. It is essentially conceived as an episode in the sequel of the evolving role of the IMF, particularly in the period subsequent to the global financial crisis. As the world appeared to be living on the edge at the outset of the global financial crisis, a modification of IMF policy discourse was evident. Kentikelenis et al. (2016) indicate in their report that the Fund now takes account of the importance of counter-cyclical spending to sustain economic activity, the potential usefulness of capital controls, the possible perils of high income inequality, and the adverse consequences of inadequate social protection policies (Moghadam 2009; IMF 2010; IMF 2014b; IMF 2015). An IMF staff position note ‘Rethinking Macroeconomic Policy’ by Blanchard, Dell’Ariccia and Mauro (2010) provides a critique of IMF advice on macroeconomic management pre-crisis, highlights the shortcomings of conventional assumptions about macroeconomic policies in that era, and illustrates the features of an alternative macroeconomic policy framework. While the note strives to advance significant changes to macroeconomic policy design, it nonetheless maintains that, in many ways, the general policy framework remains valid. This means that the core assumptions of the framework grounded on neo-classical economic theory – private-sector led growth and development will follow once macroeconomic stability is guaranteed – are seldom challenged (Bargawi et al. 2010). Notwithstanding, the note points out some lessons learnt from the crisis that merit further flexibility in macroeconomic policy design: countercyclical policy measures are important; fiscal policy should be accorded a greater role in macroeconomic management, especially in light of the proven limits of monetary policy (including credit and quantitative easing) in fostering growth; and more active exchange-rate management is desirable (Blanchard et al. 2010). In a nutshell, the crisis ensued a noteworthy modification of the IMF’s narrative, and flexibility appears to have elbowed its way into the Fund’s lending and conditionality frameworks.

The statements made by IMF officials on one hand, and the Fund’s predisposition towards accounting for social policy and increased flexibility in policy design, on the other, signal a shift in IMF role and associated conditionality. This is a welcome transition by an institution that does not consider itself bound by human rights considerations. However, the findings of the four Arab countries’ national reports (case studies) unmasks an obvious distance between the IMF’s rhetoric as propagated in its discourse as well as factsheets, press releases and responses to critics, and the policy design of the Fund in the Arab region. This gap calls into question claims of a break between the IMF and its neoliberal past.

The following section will examine IMF lending arrangements to Arab countries post-uprisings.

IMF Lending to Arab countries Post-uprisings

IMF Lending to Arab countries Post-uprisings

Since the uprisings, and as of 30 April, 2017, the IMF's financial arrangements with Arab countries totaled USD 57.43 billion, of which USD 42 billion was in 2016 alone (IMF, 2017; Kassab, 2016). This is shown in table 1.

Table 1: Financial Arrangements between Arab countries and the IMF since 2011

Country	Type	Date of Arrangement	Expiration Date	Amount Approved* (SDR Million)**	Amount Approved (USD)***
Morocco	PLL	2016	2018	2,504.00	3.74 billion
Egypt	EFF	2016	2019	8,596.57	12 billion
Iraq	Stand-By	2016	2019	3,831	5.34 billion
Jordan	EFF	2016	2019	514.65	723 million
Tunisia	EFF	2016	2020	2,045.63	2.9 billion
Morocco	PLL	2014	2016	3,235.10	5 billion
Yemen	ECF	2014	2016	365.25	500,000
Tunisia	Stand-By	2013	2015	1,146	1.7 billion
Jordan	Stand-By	2012	2015	1,364	2 billion
Morocco	PLL	2012	2014	4,117.40	6.21 billion

Source 1: IMF financial data, available at: http://www.imf.org/data/imf-finances

Notes 1: *: As of April 2017 ,30; **: The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. As of March 2016, the value of the SDR is based on a basket of five major currencies—the US dollar, the euro, the Chinese renminbi (RMB), the Japanese yen, and the British pound sterling; ***: SDR conversion rates may differ in time due to differences in exchange rates. I therefore rely for my USD estimates on Kassab's (2016) illustration of the financial arrangements of Arab countries with the IMF.

Arab countries have received different types of IMF lending. Box 1 illustrates the various types of IMF lending facilities. Yemen, a low-income country (LIC), was provided a concessional loan at a concessional (zero) interest rate through the IMF's Extended Credit Facility (ECF) which falls under the Poverty Reduction and Growth Trust (PRGT) of the IMF. ECF loans are designed to provide medium-term assistance to LICs facing long-lasting balance of payments problems. They are conditioned on countries agreeing to implement a set of policies that will help them achieve a stable and sustainable macroeconomic position over the medium term. According to the IMF, ECF loans take into account social and other priority spending. Nonetheless, the language on what social and other priority spending refers to remains obscure.

Other (non- resource rich) Arab countries have received non-concessional loans with a market-based interest rate. Non-concessional loans are provided by the IMF through five lending windows: Stand-By Arrangements (SBA); Flexible Credit Line (FCL); Precautionary and Liquidity Line (PLL); and the Extended Fund Facility (EFF) (Ibid). Morocco received a PLL in 2012, 2014 and 2016, and was the only Arab country to receive loans from this facility. PLL is designed to meet liquidity needs of countries with strong policy frameworks and a good track record of policy implementation – those policies supported by the Fund – but facing moderate risks that do not necessitate major economic reforms. PLL loans carry focused conditionality, and use structural benchmarks as well as quantitative performance criteria in order to assess the country's progress toward meeting its program objectives. Tunisia have received a Stand-By Arrangement (SBA) in 2013, and an Extended Fund Facility (EFF) in 2016. The SBA is designed to assist countries in managing short-term balance of payments problems. However, disbursements are conditioned on attaining pre-designed targets to address the problem, with targets often designed by the IMF. These loans can also be provided on a precautionary basis, so that countries can opt not to use the funds but retain the option to do so if they see necessary. EFF loans, on the other hand, are designed to help countries facing medium- and longer-term balance of payments problems arising from structural weaknesses that require fundamental economic reforms.

They carry a strong focus on structural reforms to address institutional or economic inadequacies, in addition to policies aimed at achieving macroeconomic stability. These loans have a longer duration than SBAs because «structural reforms to correct deep-rooted weaknesses often take time to implement and bear fruit (IMF, 2017b).» Jordan, like Tunisia, has received both an SBA and an EFF, in 2012 and 2016, respectively. Iraq has received an SBA in 2016, whereas Egypt has recently agreed on an EFF loan with the IMF, calling for urgent economic reforms in an attempt to bring down budget deficit and debt, while striving to boost the country's economic growth (Mada Masr 2016).

Box 1: IMF Lending

- ***Non-Concessional Lending***: loans that are subject to the IMF's market-related interest rate.

Stand-By Arrangements (SBA): designed for countries with short-term balance of payments (BoP) problems. Carries conditionality. Duration: 12-24 months. Repayment: within 3-5 years.

Flexible Credit Line (FCL): designed for the purpose of crisis-prevention and crisis-mitigation. Carries no conditionality. Duration: 12-24 months. Repayment: within 3-5 years.

Precautionary and Liquidity Line (PLL): designed to meet liquidity needs of countries with a strong policy framework and do not need major economic reforms. Carry focused conditionality. Duration: 6-24 months. Repayment: 3-5 years.

Extended Fund Facility (EFF): designed for countries with medium- and longer-term BoP problems. Carries structural conditionality. Duration: 3-4 years. Repayment: 4-10 years.

Rapid Financing Instrument (RFI): designed to provide rapid financial assistance to countries facing urgent BoP needs. Carries conditionality. Duration: 12-24 months. Repayment: 3¼-5 years.

- ***Concessional Lending***: loans designed on concessional terms to finance needs of LICs.

The Extended Credit Facility (ECF): designed for medium-term assistance to LICs facing long-lasting BoP problems. Carries streamlined and focused conditionality; zero interest rate. Duration: 5½ years. Repayment: 10 years.

The Standby Credit Facility (SCF): designed for LICs with short-term or potential BoP problems. Can also be provided on a precautionary basis. Carries streamlined and focused conditionality; zero interest rate. Duration 4 years. Repayment: 8 years.

The Rapid Credit Facility (RCF): designed to provide rapid financial assistance to LICs facing urgent BoP needs. Carries conditionality, and a zero interest rate. Duration: 5½ years. Repayment: 10 years

Judging by the preceding illustration, one can discern the prevalence of conditionality, whether focused and streamlined or structural and far-reaching, that is embedded in IMF lending to Arab countries.

In Yemen (a LIC), conditionality under the ECF is streamlined and focused. Yet Yemen's access to IMF lending is conditioned on it agreeing to implement a set of policies geared to achieving medium-term macroeconomic stability, and requires monitoring quantitative macroeconomic policy variables including monetary aggregates, international reserves, fiscal balances, and external borrowing as central benchmarks for achieving programme objectives. In an IMF statement in 2014 concerning the Fund›s approval of Yemen›s 3-Year Extended Credit Facility arrangement, the IMF assert that the «centerpiece of the authorities' reform package is phasing out large and inefficient fuel subsidies (IMF 2014a).»

Additional fiscal measures include reducing the budget deficit over the medium-term through civil service tax reforms. On the monetary front, Yemen is expected to adopt a pro- inflation targeting monetary policy in order to contain the inflationary effects of subsidy reform. Additionally, the program calls for greater exchange rate flexibility. A World Bank (2015, p. 100) study shows that subsidy removal in Yemen will result in the deterioration of the purchasing power of vulnerable groups, and full subsidy removal would increase the poverty rate by 9.3 percentage points (1.5 million people). The same study finds that Yemen is the poorest among Arab countries, and is the most underdeveloped country based on the non-income dimension of the human development index. It suffers from malnutrition, food insecurity, and inadequate access to water as well as inadequate social welfare, and health, all of which have been particularly acute among women, children and youth (Ibid). This suggests that the abovementioned macroeconomic targets under Yemen's loan arrangement preside over the social and other priority spending that the IMF claims to account for in the a typical ECF programme. For Yemen, the social and other priority spending is confined to a 50% increase in targeted cash transfers to the poor, following the adjustment in fuel prices (IMF 2014). It is noted that cash transfer schemes can be marred by drawbacks, especially in an LDC such as Yemen where assistance to low income groups is inconsistent, and state institutions struggle to target groups in need due to the lack of accurate population data.

Morocco, which the fund deemed a country with sound policy framework and macroeconomic management and does not need major reforms, is subject to focused conditionality under the PLL, and to structural benchmarks as well as quantitative performance criteria assessing its progress toward meeting the lending programme objectives. Explicitly, Morocco is required under its 24-month PLL to reduce its fiscal deficit to 3 percent of GDP by 2017, cut subsidies and moderate the public wage, broaden the tax base, as well as reform the public sector pension system and introduce greater exchange rate flexibility (IMF, 2016b). These reforms, the IMF acknowledges, may come to the detriment of the country's growth rate, at a time when unemployment has risen from 8.9 percent in 2011 to 9.9 percent in 2016 (Kassab 2016).

Iraq, which agreed to a three-year Stand-By Arrangement (SBA) with the IMF in July 2016, is required reduce government spending «by freezing expenditures in nominal terms at the aggregate level executed in 2015 in order to restore fiscal balance over the medium term (IMF 2016c)". This means that Iraq will be cutting current expenditures as well as oil- and non-oil related investment expenditures. Iraq's SBA also calls for overhauling Public Financial Management (PFM) in order to avoid the accumulation of arrears, restructuring state-owned banks, and maintaining the Iraqi Dinar's peg to the U.S. dollar (Ibid). Protection of social spending in order to safeguard the poor is pointed out through the country report outlining the policy package, but remains subordinate to fiscal consolidation requirements, which aim at bringing spending in line with lower global oil prices, and ensuring debt sustainability. These conditions are advanced to Iraq at a time in which it is confronting dire challenges, ranging from the unfavourable decline in oil prices during the past two years to the ISIS insurgency, both of which have had detrimental effects on the economic, social, political and cultural fronts. As a result of this double shock, Iraq has experienced retarded growth, aggravated poverty and vulnerability as well as increased unemployment (World Bank 2017). These challenges call into question the IMF's approach in the troubled country.

The above brief survey of IMF lending to Arab countries post-uprisings clearly reveals the pervasiveness of conditionality in IMF programmes, essentially underlining the continuation of the Fund's modus operandi. Egypt, Jordan and Tunisia have also received IMF loans, however with more far-reaching conditionality. The Fund's most recent lending arrangements to these countries, in addition to its policy recommendations for Lebanon, will be discussed in the next section. Specifically, the next section will evaluate, from a developmental and human rights perspective, IMF conditionality in our four representative countries – Egypt, Jordan, Tunisia and Lebanon – through a discussion of two key economic policy areas covered by the latest IMF-sponsored programmes: monetary and exchange rate policy; and fiscal policy.

Case Studies

A general trend can be discerned regarding IMF recommendations in the four chosen countries. The main elements of this trend can be summarized as follows: (i) monetary and exchange rate policy is largely contractionary, aiming at stabilizing inflation and building-up external buffers through raising interest rates, even at the expense of a shrinking real economy; (ii) fiscal policy is heavily focused on fiscal austerity, including regressive tax reforms, elimination of subsidies and the containment of government expenditures instead of promoting an expansionary policy to boost aggregate demand. These trends will be carefully examined in this section by unpacking the most recent IMF recommendations to Egypt, Jordan, Tunisia and Lebanon.

Egypt

In November 2016, the Egyptian government secured a USD 12 billion IMF loan. Egypt's three-year loan is intended to support an economic reform program that is centred about the implementation of policies and structural reforms. These economic reforms, which fall under the Extended Fund Facility (EFF) of the IMF, are geared to restoring macroeconomic stability and promoting inclusive growth. Their main objective is correcting external imbalances, restoring competitiveness, and reversing the upward trend of the budget deficit and public debt, as well as boosting growth and creating jobs while protecting vulnerable groups (IMF 2017a).

These objectives are best achieved, according to the IMF, through a series of reforms that are outlined in the "homegrown economic program" that the Egyptian authorities have developed, and which will be supported under the IMF's Extended Fund Facility (Ibid, p. 1). These reforms include, but are not confined to: liberalization of the foreign exchange system to shore up foreign reserves and encourage foreign investment and exports; monetary policy focused on reigning in inflation; strong fiscal consolidation to ensure public debt sustainability, including through civil service reforms, cutting subsidies and raising value-added tax (VAT); strengthening social safety nets including by raising expenditure on food subsidies and cash transfers; in addition to far-reaching structural reforms to foster inclusive growth.

To this end, Egypt's loan program stipulates a set of clear policy tools and instruments – a sort of conditionality that ventures into a wide array of policy areas and aims at altering the underlying structure of the Egyptian economy. Now we turn to these areas.

– Monetary and Exchange Rate Policy

The IMF has been singing the praises of Egypt's newly adopted flexible exchange rate regime and the ensuing devaluation of the Egyptian pound. Its loan program with Egypt calls for "Maintaining the flexible exchange rate regime, where the exchange rate is determined by market forces (Ibid)". This will in turn, the IMF argues, improve Egypt's trade competitiveness, as well as boost tourism and attract foreign investment, while allowing the Egyptian Central Bank (CBE) to rebuild its international reserves (Elnagar, 2016).

The Egyptian Central Bank›s decision to float the Egyptian pound and devalue the currency against the US dollar may have brightened the business community's mood and caused Egyptian stocks to shoot up (Economist 2016). However, the people were less optimistic as the already high inflation was exacerbated after the devaluation. Annual inflation has risen above 30 percent in May 2017, among the highest levels in emerging markets and the highest in Egypt in decades (Feteha 2017, Feteha & El-Tablawi 2017a). In February 2017, the cost of food and beverages rose 40.5 percent, in a country where half of its over- 90-million population lives near or below the poverty line (Feteha & El-Tablawi 2017b). The cost of imports has also surged since the devaluation of the pound, and firms have immediately passed the hit on to consumers. The impact of the devaluation is felt to a great extent in Egypt given that it is heavily reliant on imports, and is a net-importer of food and agricultural products.

The unprecedented inflationary impacts of the devaluation (along with the subsidy cuts that we will discuss later) and the floating of the exchange rate system risk aggravating the already dismal social and economic conditions in Egypt. The brunt of higher living costs will most heavily fall on the poor and vulnerable, and will most likely dampen prospects of bringing the widespread deprivations of economic and social rights to an end (El-Badrawi & Corkery 2017). By the same token, these inflationary impacts can potentially threaten stability, which is already hanging by a thread in Egypt.

In order to reign in inflationary pressures, the loan program calls for a tight monetary policy that will "focus on containing inflation and bringing it down to mid-single digits over the medium term. This will be achieved by controlling credit to government and banks as well as by strengthening the CBE's capacity to forecast and manage liquidity, improving transparency and communication (IMF 2017a, p. 3)." In response to the mounting inflationary pressures and in conjunction with the float, the Egyptian Central Bank has tightened monetary policy and raised the interest rates twice since November: 300 basis points (3%) in November 2016, and another 200 basis points (2%) in May 2017 (Knecht 2017).

Restricting money supply by raising the interest may have a restraining effect on inflation by withdrawing liquidity from the market. Nevertheless, raising the interest rate does not appear to be the most appropriate tool to control inflation since the effects of an interest rate hike will come to the detriment of private investment and consumption, thus stifling aggregate domestic demand and curbing economic growth and employment creation, while only generating a state of deflation that is short-lived. In fact, the inflation rate has soared to more than 30 percent in February 2017, despite the central bank's move to raise the interest rate in November 2016, thus defying the Fund's expectations and calling into question the very premises on which IMF policies are predicated. But the negative impact on growth is not the only effect of a tight monetary policy based on higher interest rates. This contractionary monetary policy stance does not only discourage aggregate demand and economic growth, but also carries socially unfavourable distributional effects in favour of the richer economic classes (Hussein 2017). Higher interest rates will translate into higher interest on domestic public debt, hence making it more attractive. The issuing of treasury bills (T-bills) and government bonds will certainly raise public debt, and, a fortiori, the interest on public debt. The banking sector, with sizeable surpluses to invest in T-bills, is favourite to buy the debt, thus augmenting its profits from a non-risk investment. It should be noted that debt servicing accounts for a significant part of Egyptian government's expenditures. For instance, total interest payments registered 6.4 percent of the country's GDP between July-May of 2014-2015, after it had peaked at 8.7 percent during fiscal year 2013-2014 (MoF). In this respect, a rise in the interest rates on public debt (to GDP) translates into a bigger share of the budget allocated to debt servicing. Doubtless, the rise in debt servicing is money forgone from public investments in essential services, such as health and education.

– Fiscal Policy

Among others, the policies supported by the program aim to "place the budget deficit and public debt on a declining path" and fiscal policy will be anchored to meeting this objective (IMF 2017a). According to the IMF, implementing the value-added tax (VAT) which was approved in parliament, coupled with cutting spending on subsidies and containing the wage bill will serve the purpose just fine. In particular, the IMF calculates that the introduction of a VAT of 13 percent – in lieu of the previous 10 percent – in August 2016 (scheduled to rise to 14 percent in the following fiscal year) would bring about a 2.5 percent increase in tax revenue to GDP (Ibid; Knecht & Aboulenein 2016). Simultaneously, the program calls for slashing primary expenditures [8] by 3.5 percent, through cutting subsidies and containing the wage bill.

[8] Primary expenditure is public expenditure less interest payments on public debt. Primary expenditure provides an indication of the size of the public sector.

The VAT [9] represents a consolidation measure whose inadequacy has been historically proven (Mosallem 2015). Despite basic food products being reportedly exempt from VAT, this type of regressive tax raises the costs of living and diminishes the purchasing power of the poor and middle classes, while affecting poorer households disproportionately. The loan and its accompanying reforms have spawned popular discontent, most recently manifested in the protests against the socio-economic impacts of the VAT, led by the Union of Tax Workers and the Lawyers Syndicate (El-Badrawi & Corkery 2017). But VAT also impacts women disproportionately. In fact, the impact of a rise in VAT is major given gendered consumption patterns in the Arab region in general, and in Egypt in particular. As women take care of a larger proportion of household expenditure, the increase in VAT, which is essentially applied to basic consumption goods such as food, affects women disproportionately (Abelenda and Tolmay 2015).

The program also calls for dismantling various subsidy systems in the country as a means to reduce public spending and narrow the deficit. This policy stance is mainly driven by the logic that generalized subsidies can be ineffective, costly and inequitable, and should be replaced by targeted transfers, which support vulnerable groups in a more cost-effective way (Ortiz & Cummins 2013). The 30 to 47 percent hike in subsidized fuel prices that was announced by the Egyptian government in November 2016 has been regarded by the IMF as an important step in that direction, despite the indirect effects that the hike has had on a wide range of food and transport costs (Noueihed & Aboulenein 2016). For instance, energy subsidy cuts will immediately increase the price of kerosene, the source of energy used by the poorest households for cooking purposes, eventually compromising access to energy and food safety for the poorest Egyptians. In a similar vein, El-Badrawi & Corkery (2017) argue that one area of impact of subsidy cuts has been a further increase in the price of medicine by 15 to 20 per cent in January 2017, after it had already been raised 20 per cent in May 2016. As a result, access to available and affordable medicines by low-income households will be undermined.

Under these circumstances, the IMF appears to be turning a blind eye to the fact that Arab governments provide subsidies to their people as a means of relief from the high commodity prices in light of the lack of well-developed social protection schemes in their countries. By further advancing aggressive subsidy cuts, the IMF is contradicting its endorsement of protecting social spending, and may be indirectly promoting more impoverishment and widening inequality gaps.

Alongside raising VAT and eliminating subsidies, containing the wage bill is part and parcel of the IMF's fiscal consolidation package. Since recurrent expenditures such as salaries tend to receive the largest budgetary allocation, international financial institutions have traditionally supported wage caps and employment ceilings (Ortiz & Cummins 2013). The Egyptian parliament has already made a daring step towards that end in August 2016 by approving the highly controversial Law 18 of 2015. El-Badrawi & Corkery (2017) explain that the law allows the state to terminate an employee›s contract within a six-month probation period, after which an employee may be relocated, subjected to a salary reduction of 50 per cent, or expelled after two consecutive weak performance reviews. Such downsizing affects more than 5 million public sector employees, while disproportionately disadvantaging women, who will either be driven out of the labour force into unemployment, or informality, or will be coerced to compete in a discriminatory unregulated private sector where they earn 35 to 40 per cent less than their male counterparts (Ibid).

Despite its sizeable financial cost, state employment and income that is provided to medium or highly skilled Egyptians is crucial for safeguarding social and economic rights as well as ensuring political stability. It can be regarded as a tax that society as a whole pays to counter unemployment and the feelings of exclusion and injustice that accompany it, particularly among the educated youth (Adly 2016). Therefore, by further advancing wage containment as a measure to downsize the deficit, the IMF would be viewing the Egyptian state as a mere administrative body while stripping it of its social function, thus putting social and economic rights as well as stability at grave risk.

[9] The problem lies more in equal and uniform VAT taxation, rather than the VAT itself. Equal and uniform VAT are those taxes that are the same for all income groups, thereby having disproportionate effects on the poorer segments of the population.

The proceeds of fiscal savings, the IMF argues, should be used for strengthening social protection programmes: “About 1 percent of GDP from fiscal savings will be directed to additional food subsidies and cash transfers to the elderly and poor families (Elnagar, 2016)”. Whereas this argument lives up to claims by the IMF about the importance of social spending and inclusiveness, details on how to translate budgetary savings into an enhanced and inclusive social safety nets remain very limited in the IMF staff documents (El-Badrawi & Corkery 2017).

Yet, it is important to note here that the IMF, in all of its documents and communiques, explicitly endorses the development of targeted social assistance, such as targeted social safety nets. It does not, however, endorse universal social protection as an essential component of its fiscal reform agenda to developing and low-income countries. Social protection is a human right and is enshrined as such in the Universal Declaration of Human Rights (1948), the International Covenant on Economic, Social and Cultural Rights (1966), and in other major United Nations human rights instruments (ILO 2006). On the other hand, experience in many developing countries has shown that upon the inception of the recent economic crisis, these very social safety nets have not been able to play their role in ensuring the social security of the poorest groups. In fact, the numbers of the poor and the marginalized are still growing steadily as we speak. Nonetheless, even amid a global tide turn towards universal social provision, which is consistent with the Sustainable Development Goals (SDG) agenda, the IMF remains steadfast in its endorsement targeted social assistance, and particularly targeted safety nets (Kentikelenis and Stubbs 2017). Such stance far removes IMF policy from the current objectives of the international community vis-à-vis social protection (Ibid). There is an opportunity for the IMF to stand up to its claims of social protection and inclusiveness by placing universal social protection policies on an equal footing with those of macroeconomic stabilization.

To conclude, Egypt’s loan has been advanced during a troubled period, in which the country has been experiencing a deterioration of its balance of payments deficit and an erosion of its international reserves due, in large part, to the outflow of capital fleeing political turmoil. However, the policy response, as advanced through Egypt’s loan under the Extended Fund Facility (EFF), signal a biased IMF predisposition towards macroeconomic stabilization over social issues. The interplay of fiscal, monetary and exchange rate conditionality has bred social discontent and worsened welfare. The ensuing (soaring) inflation, higher import costs, higher living costs, wage stagnation, rising unemployment, as well as worsened poverty and inequality, are already being felt in Egypt (Ibid). This leads us to contend that while social policy is now included in IMF discourse and documents, the policies to be aligned with the discourse remain insignificant, inadequate, and incapable of advancing inclusive growth. Furthermore, the Fund’s policy recommendations in light of the bleak socio-economic conditions in Egypt contradict the Fund’s claim of increased flexibility in lending, not least in terms of allowing more space for the recipient country to implement counter-cyclical fiscal policies to foster growth and safeguard economic and social rights, while using monetary and exchange rate policies as accommodative measures.

Jordan

Between 2005 and 2012, Jordan did not commit to any loan arrangements with the IMF. However, the onset of the uprisings in 2011 brought about a series of exogenous shocks to the Jordanian economy, leading to a widened current account deficit and decelerated growth (IMF 2012c). The country›s imports of fuel products for electricity generation have become more expensive following the repeated sabotage of the Arab Gas Pipeline, thus compounding the losses of the public electricity company (NEPCO). At the same time, tourism, remittances, and foreign direct investment (FDI) have been weakened due to regional tensions (Ibid). The Jordanian government has resorted to social spending in order to alleviate the social impact of these shocks. Aided by large grants, expansionary fiscal policy, through increasing subsidies and wages, was the government’s main tool (IMF, 2012d). Together with waning domestic revenue, these measures meant that public financing needs have been intensifying, despite the significant budgetary grants from neighboring countries.

In late 2012, Jordan agreed to a USD 2.06 billion three-year Stand-By Arrangement (SBA) with the IMF, aimed at supporting the country to address fiscal and external challenges as well as support high and inclusive growth (IMF 2012c). The cornerstone of the program is fiscal consolidation, the main elements of which are the elimination of generalized subsidies and the reduction of the wage bill as a percent of GDP (IMF 2012d). As part of Jordan›s SBA loan, the IMF has proposed mitigating measures to accompany fiscal reforms, including strengthening the social safety and advancing targeted energy subsidies/cash transfers to shield the poor from the impact of price increases (Ibid).

Admittedly, generalised subsidies are inefficient and a significant portion is used by richer businesses as opposed to the poorer segments of the Jordanian population. However, subsidy cuts have not necessarily provided the most appropriate policy tool for addressing the reasons behind rising prices, particularly in the energy sector. The factors driving up prices have essentially been externally determined, and subsidy cuts have done little to address these exogenous factors. Likewise, Jordan's existing social safety nets and cash transfer programmes have not markedly improved the conditions of the poor, as they fell short of minimizing the impact of the newly-prescribed austerity measures (Awad 2017). This can be attributed to the non-comprehensiveness of the measures advanced under the SBA loan program, which overlooked the inadequate administrative capacities of existing state institutions to enhance social protection schemes and contain the social impacts of austerity. Sherry et al. (2014) indicate that the assistance to low income groups in Jordan has been inconsistent, and state institutions struggled to target groups in need due to the lack of accurate population data. These institutional inadequacies, in addition to the sprawling informal sector, which employed around 44 percent of the country's total workforce in 2010, have made the proposed mitigating measures sound less feasible, and more far-fetched (Ibid). Mossallem (2015) points out that, in light of the harsh economic constraints and vastly underdeveloped social protection systems, the austerity-focused package led to protests and riots in 2012, which were reminiscent of the 1989 and 1996 riots. Awad (2017) highlights that the abovementioned measures have had a disproportional impact on the poorer segments of Jordan's population, as they compromised the affordability of many basic goods, whilst the country's pervasive corruption and tax evasion – the latter of which is estimated to cost state coffers between 800 million and 1 billion JOD per year – have remained largely unaddressed under the IMF-sponsored SAP program.

On August 24, 2016, only one year after the expiration of the SBA program, the IMF Executive Board approved a USD 723 million loan for Jordan under the Extended Fund Facility (EFF) (IMF 2016d). This arrangement seeks to address important challenges that still face the Jordanian economy: timid economic growth; high unemployment, particularly among women and youth; gross public debt hovering at 93 percent of GDP; the refugee crisis and the associated pressure on the economy and public finances; and the high current account deficit (Ibid). Jordan's EFF program is underpinned by Jordan's 'Vision 2015', a ten-year framework for economic and social policies, which will assist the Jordanian authorities in addressing these challenges and achieving inclusive growth by means of advancing fiscal consolidation and broad structural reforms (IMF 2016d). The following policy tools encompass the main elements of the proposed reforms.

– Monetary and Exchange Rate Policy

After the Executive Board discussion on Jordan, Mr. David Lipton, First Deputy Managing Director, and Acting Chair, confirmed that «monetary policy has been skillfully managed, and will continue to be anchored by the exchange rate peg and focus primarily on preserving an adequate level of reserves (IMF 2016e, p. 2).» This is reflected in the IMF staff report for Jordan, where the report asserts that monetary and financial policies remain geared towards maintaining adequate reserves to anchor the exchange rate – that is, preserve the Jordanian dinar peg to the US dollar (Ibid).

The pegged exchange rate system has certainly helped the Jordanian economy maintain a stable and strong currency, not because of a large scale of exports or a strong national economy but because the currency has been fixed to the US dollar since 1995. The stability of the exchange rate in dollar terms has had several desirable effects on the Jordanian economy, such as improving investor confidence, attracting Arab and foreign investments and funds with no risk of possible loss of exchange, controlling inflation, as well as establishing confidence in the Jordanian economy and the dinar (Fanek 2015). The exchange rate peg has also succeeded in increasing foreign exchange reserves to adequate levels. Such increase is an important indicator of trust in the Jordanian economy and the dinar as a saving and investment currency, and contributes to enhancing the economy's resilience to external shocks (Al-Dabbas 2015).

Yet, important as it may be, the exchange rate peg and its objective of preserving adequate levels of reserves, should not lead to overconfidence. The Central Bank of Jordan's (CBJ) reserve is highly dependent on foreign borrowing and external grants, particularly from oil-rich Arab countries. For instance, Fanek (2016) points out that Jordan's net borrowing in US dollars during 2015 amounted to USD 1.918 billion compared to a rise in reserves of only USD 411 million. This indicates that, had it not been for foreign borrowing and external grants, the foreign exchange reserve would have dropped by USD 1.5 billion, consequently undermining Jordan's social, economic and political stability. Indeed, Jordan's reserve does not derive from sustainable sources of the country's core economic activities, such as exports of goods and services, and, to a smaller extent, remittances and foreign investment. Rather, it stems from other sensitive and unsustainable sources, which are exogenously determined and subject to fluctuations, such as Arab and foreign grants, foreign loans and tourism receipts, among others (Ibid).

What›s more, the currency peg has rendered monetary policy in Jordan ineffective in terms of being used for counter-cyclical purposes to stimulate aggregate demand and growth. Monetary policy has been forfeited as an autonomous tool for macroeconomic management and has been subordinate to the exchange rate peg that the country has adopted for the past two decades. All the more so, the strong local currency (due to the peg) risks encouraging imports, discouraging exports (a third of Jordan's imports) as well as dis-incentivising incoming tourism and encouraging outgoing tourism. This in turn exerts pressure on the country's balance of payments, since it can deepen the current account deficit, thereby contradicting the program's aim of containing it. It should be noted that the extent to which the deficit is widened or reduced depends on the difference between the inflows of capital and finance on one hand, and the rise in the trade deficit owing to the stronger currency, on the other. But in light of the regional turmoil and fears over capital flight, the potential increase in the capital account due to a stronger, pegged, currency does not seem to be capable of offsetting the rise in the deficit, which would further worsen the BoP in Jordan and render the country in more need for financing.

The abovementioned critique of Jordan's monetary policy should by no means be understood as an argument against the currency peg. To the contrary, exchange rate management is a crucial macroeconomic tool to be employed in accordance with the country›s long-run growth and development objectives. That said, the dependence of Jordan's reserves on externally determined, unsustainable, sources of foreign exchange on one hand, and the pressure that the strong JOD is likely exert on the country's trade balance, is not a cause of satisfaction. As a matter of fact, the IMF's negligence of such drawbacks to monetary policy in Jordan highlights its complacency as well as its superficial analysis as regards addressing those challenges, thereby calling into question the suitability of the IMF program's monetary and exchange rate policy approach in terms of its suitability to advance social and economic development in Jordan.

– Fiscal Policy

Policies supported by the EFF program aim at, among other things, gradual fiscal consolidation in order to reduce public debt to about 77 percent of GDP by 2021, down from 94 percent in 2016, without neglecting inclusive growth considerations (IMF 2016e). Additional measures focused on containing the public deficit include revenue-enhancing reforms to the tax system, such as advancing indirect taxes on cigarettes, alcohol, and oil (raising prices of diesel, kerosene and gasoline by JOD 0.025/liter); the revocation of some tax exemptions that were introduced in 2015; and a 10 percent reduction in current expenditures relative to the budget (Ibid).

The IMF program›s fiscal framework emphasizes the need for steady and gradual fiscal consolidation, rather than faster consolidation which would risk growth and social cohesion. The framework also acknowledges the importance of maintaining social spending and strengthening social safety nets. It explicitly calls for preserving the nominal growth of the public sector wage bill at about 1½ percent a year from 2017–19, and for protecting low-income groups through enhanced targeting of transfers, including through establishing, with the support of the World Bank, an automated data exchange between the National Aid Fund [10] (NAF) and public agencies in order to eventually put in place a National Unified Registry that would improve sharing of information, eligibility, and enrollment in programmes (Ibid). Certainly, acknowledging the risks associated with fast fiscal consolidation on one hand, and realizing the importance of enhancing the social safety net, on the other, point toward an enhanced consideration for social issues in Jordan. However, they do not signal a deviation of the IMF, in its policy design, from its orthodox fiscal austerity measures that had been part and parcel of its past lending arrangements to Jordan. In fact, the fiscal measures proposed under the EFF's fiscal framework do not serve as an appropriate response to the volatile social and economic outlook of Jordan in the context of the prevailing political, economic and social uncertainty.

Similar to the Egyptian case, the targeting mantra of the IMF in Jordan – that is, its focus on 'social safeguards', aimed at safeguarding social spending and protecting the most vulnerable, rather than on social protection more generally – does not align with the essence of human rights. By focusing on targeted schemes, the IMF is de facto advancing social safety nets as an alternative to universal social protection schemes. As such, social safety nets carry the philosophy that social security/insurance is not a right, but rather a corrective measure necessary to address the negative externalities that arise from IMF policies, which adversely impact certain segments of the population who fail to reap the benefits of these policies, and are therefore rendered eligible for targeted social schemes (ILO 2015).

On another note, calling for an increase in sales taxes on essential products, deemed as necessities of life, such as heating fuel or natural gas for household use, signals a sort of negligence to the harsh realities that Jordanians endure, including the significant poverty and unemployment rates in the country (The Jordan Times 2016). In February, hundreds of Jordanians took the streets of Amman and other regions to protest the tax hikes, demanding the ouster of the government and venting their rage at the price increases (AFP 2017). In addition to raising taxes on basic food and fuel items, the program aims at reducing current expenditures relative to the budget. Expenditure reductions shall include, among other things, subsidy cuts in the energy sector, through reducing cross-subsidization [11], initially put into practice in order to cover the deficit incurred by the National Electric Power Company (NEPCO). These subsidy measures are expected to worsen the plight of poorer Jordanians, and may trigger civil unrest, similar to past episodes of unrest that had been triggered by subsidy removals (Al-Khalidi 2015). By advancing the above fiscal measures, argues a November editorial in the Jordan Times, the IMF will be "disregarding Jordan's commitments under various international human rights conventions, including the International Committee on Economic, Social and Cultural Rights, which has repeatedly warned state parties and international monetary institutions not to violate basic human rights, including economic and social (The Jordan Times 2016)."

[10] The National Aid Fund (NAF), established in 1986, is the primary agency responsible for distributing cash assistance in Jordan. NAF serves as the single most comprehensive state-funded social safety net.

[11] It is a strategy of setting higher prices for one set of consumers (for e.g. the rich) in order to make it possible to subsidize - that is, sell at lower prices - to another group of consumers (for e.g. the poor)

To be sure, the IMF program's calls to bring down the gross public debt, which stands at 94 per cent of GDP, are more than justified. In other words, the objective of reducing debt in itself is fundamental for the indebted country to free up resources for productive investments. However, for Jordan to overcome its debt challenges, debt reduction should be sought in a broader development plan focusing on boosting productive capacities and employment. For even if the austerity-type measures – subsidy cuts and tax increases – advanced by the IMF loan will eventually bring down the deficit, ceteris paribus, it remains unclear whether this will boost revenue generation at a rate higher than the rise in state expenditures. Insofar as efforts to boost revenue generation remain limited and do not go beyond mere austerity-type procedures, Jordan will, year after year, rely on more public debt to finance fiscal deficits.

Indeed, growth and employment in Jordan display poor records. Real GDP grew by 2.4 percent in 2015, down from 3.1 percent the previous year, and below an IMF target of 2.8 percent (IMF 2016e; AFP 2016), suggesting that Jordan is suffering from contracted economic activities. In a similar vein, official unemployment has jumped to 14 percent of Jordan's population of 9.5 million, disproportionately affecting women and youth, whereas unofficial estimates put it as high as 30 percent (AFP 2016).

Against this background, the IMF's approach to reducing national debt appears to be advanced against a total disregard for the economic, social and political realities of Jordan. Short of a strategy to raise substantial and sustainable revenue fo (and from) public investments in social and productive sectors, it is unclear how the IMF's loan programme can serve as a sustainable solution to Jordan's debt problems. Broadly speaking, calls for expenditure reduction in a country where expenditures have been also rigid, and have left little room for expenditure savings, let alone increasing prices of basic goods, will risk exacerbating the pre-existing levels of unemployment, poverty, and inequality with adverse consequences for economic and social rights in the country (Harrigan & El-Said 2014).

Tunisia

The Tunisian government was involved in negotiations with the IMF immediately after the ouster of Ben Ali›s regime. These negotiations culminated in a USD 1.74 billion Stand-By Arrangement (SBA) for Tunisia, approved by the IMF Executive Board in June 2013 (IMF 2013b).

Up until, and including, the approval of the SBA for Tunisia, the IMF had demonstrated explicit consideration for issues of inequality and living standards, and advocated improvements in social outcomes of its loans through sound redistributive policies (Momani & Lanz 2014b). In its 2012 Article IV Consultation Report for Tunisia, the IMF highlights that: "Addressing pockets of poverty and implementing targeted policies to protect the most vulnerable groups in the population will be needed. Revised poverty estimates indicate that poverty rates and inequality are higher than previously stated, in particular in the underdeveloped regions of the interior. Reducing unemployment and regional disparities would also contribute to mitigate against poverty. In addition, targeted policies, including strengthening social safety nets, will be needed to protect the most vulnerable segments of the population through the economic transformation process (IMF 2012)."

Nevertheless, the policy proposals conveyed in the 2013 SBA program seem to suggest a gap with the socially-progressive claims made earlier by the IMF. The SBA arrangement calls for, among other things, containing wages and subsidies, in addition to reforming the tax system and adopting an ambitious structural reform agenda focused on advancing private-sector development and reducing pervasive state intervention (Hanieh 2015). To this end, specific policy measures, inter alia, included a reduction in corporate taxes while raising VAT; privatization of state-owned enterprises (SOE) and the corporatisation of public banks; reforming the pension system; cutting subsidies and containing public wages; liberalization of the investment environment; and labour market deregulation (Ibid). The government›s attempt to implement these policies has sparked social protests, aimed at challenging the rising cost of living due to subsidy cuts and the scheduling of new fees and taxes. Hanieh (2015) points out that inflation averaged more than 6 percent throughout 2013, with non-administered food prices rising to 10 percent by the end of the year, the highest levels since before the uprisings. Likewise, household electricity and gas prices rose by 10 percent in January 2014; fuel prices were projected to rise by a further six percent in July 2014; and measures for a

25 percent rise in taxes on vehicles, which would disproportionately affect taxi drivers and farmers, were indicated in the 2014 budget (Mossallem 2015). In addition, public debt continued its upward trend, registering above 50 percent of GDP in 2014, whereas the unemployment rate stood at 15.2 percent, exceeding 25 per cent in the country's Western regions (Ibid; IMF 2016f). The bleak picture in Tunisia following the implementation of the policies under the SBA was reminiscent of that during the Ben Ali period.

At the time of expiration of the SBA in December 2015, Tunisia still faced important challenges. Growth did not meet expectations: real GDP growth averaged 0.8 percent in 2015, productivity declined, and youth unemployment stood at 35 percent, reaching 67 percent for young graduates and 23 percent for women (IMF 2016f). In addition, the current account deficit deteriorated, reaching (an estimated) 8.9 percent of GDP in 2015 (Ibid). These macroeconomic vulnerabilities have paved way for a second lending arrangement for Tunisia since 2011. In May 2016, the IMF Executive Board Approved a USD 2.9 billion loan under the Extended Fund Facility for Tunisia (IMF 2016f). This four-year Extended Fund Facility is intended to support Tunisia›s five-year economic vision 2016–20, which aims to promote stronger and more inclusive growth and achieve macroeconomic stability. This vision is best realized, according to the IMF, by implementing key macroeconomic and structural policy reforms, including, but not limited to, consolidating macroeconomic stability, reforming public institutions – including the civil service and state-owned banks, and improving the business climate (Ibid). The following policy areas encompass the main elements of the proposed reforms under Tunisia's EFF programme.

– Monetary and Exchange Rate Policy

An essential objective of the monetary and exchange rate policy under the EFF is stable inflation and a steady build-up of external buffers. In its June 2016 staff report for Tunisia, the IMF gives ground for the Tunisian authorities' monetary policy stance of maintaining a relatively lower interest rate (implying a real interest rate of 1 percent), deemed necessary to stimulate the lackluster economic growth (IMF 2016f). The Fund, nonetheless, invites the Central Bank of Tunisia (CBT) be ready to tighten monetary policy in order to thwart any potential resurgence of inflationary pressures, despite an earlier position in support of the authorities' choice of a relatively low real interest rate.

In a move that is not out of the ordinary, the IMF has backtracked on its earlier claims in support of the CBT's accommodating monetary policy. In an April 2017 press release following the completion of the first review of Tunisia's EFF, the IMF has called for a "tighter monetary policy [that] would counteract inflationary pressures, and greater exchange rate flexibility [that] would help narrow the large trade deficit (IMF 2017b)." On one hand, tightening monetary policy is an explicit call for raising policy (interest) rates, while, on the other, liberalizing the exchange rate heralds a devaluation the currency. Granted, higher policy rates would support positive real interest rates, which remains one of the CBT's main objectives as it helps anchor inflation expectations and manage possible depreciation pressures.

On the other hand, a weaker currency due to greater exchange rate flexibility would in theory raise Tunisia's exports and help to bridge the deficit.

In line with IMF advice, the CBT has raised the policy interest by 75 basis points between April and May of 2017, driving the rate to 5 percent, the highest level since January 2012 (CBT 2017). At the same time, the dinar has slumped against the dollar and the euro – the currencies of Tunisia's main trading partners – despite assertions made by the central bank's board that the new monetary policy approach "doesn't target a devaluation or a particular exchange rate, or a flotation of the national currency (Laghmari et al. 2017)."

While a higher rate will likely strengthen the Tunisian dinar and enhance the exchange rate against foreign currencies through attracting capital inflows, the contractionary monetary policy decision comes at a time when Tunisia's economic activity remains well below potential, growth of credit to the private sector inadequate, and inflationary pressures limited. These conditions do not justify a tight monetary policy stance, but rather warrant the adoption of an accommodative monetary policy with a relatively low real interest rate. Higher policy interests, despite supporting positive real interest rates, would obstruct the availability of credit to individuals and businesses, and hamper economic activity. On the other hand, the weakening of the currency mirrors the CBT's intention to minimize its interventions in the foreign exchange market. This implies that the CBT would refrain from using its foreign exchange reserves to support the dinar exchange rate, rendering its interventions more in the direction of purchase rather than sale of currencies. According to Taoufik Rajhi, a senior adviser to Tunisian Prime Minister Youssef Chahed, the negotiations with the IMF on short and medium term monetary and exchange rate policy focused on aligning the dinar with its macroeconomic fundamentals, and not prompting a devaluation, since Tunisia is no longer in a fixed exchange rate regime (African Manager 2017). Be that as it may, the depreciation of the dinar will most likely have an adverse impact on the budget with regard to energy bills, thereby further exacerbating the deficit. Likewise, the decline in the value of the dinar will carry negative consequences on the public debt. This is acknowledged by the IMF: "For the public sector, a large exchange rate depreciation would raise public debt ratios and increase external debt service (IMF 2016f, p. 15)."

In light of these challenges, steering monetary policy towards a fully flexible exchange rate risks increasing volatility of the nominal exchange rate, which would risk macroeconomic stability in Tunisia, especially in light of the country being a net importer of primary commodities (food and fuel). Even if the depreciation should, in theory, stimulate exports, such policy overlooks the structural roots of the problem, not least the supply constraints and other capacity limitations that cannot be addressed by market mechanisms alone. Therefore, exchange rate management, including maintaining a stable and relatively competitive exchange rate, should not be forfeited as an important tool to be employed in accordance with the country›s long-run growth and development objectives.

The EFF program also calls for simplifying the existing capital account regulations as a means to strengthen exchange rate policy (Ibid, p, 15). To this end, IMF advice rests on the elimination of capital controls, notably ex-ante controls on capital account transactions.

Capital flows to developing countries are, by and large, welcome, as they can provide lower-cost financing and signal confidence in the economy. However sudden surges in capital flows can confound macroeconomic management and create financial risks (Ostry et al. 2010). A surge in capital inflows can lead to exchange rate appreciation and weaken competitiveness of the tradable sector, thus causing de-industrialisation. This mechanism is known as the Dutch-Disease. By the same token, a surge in capital outflows carries unfavourable effects on a nation's macroeconomic dimensions, thereby undermining confidence in the economy and discouraging both foreign and domestic investment. The disruptive effects that capital flows can create are grounds for the use of capital controls in order to smooth such disruption (Gallagher 2011). As a matter of fact, the global financial crisis of 2007-2008 exposed the shortcomings of a fully-fledged liberalization of the capital account. Gallagher (2011) points out that many high-income and developing countries, among which were Iceland, Ukraine, Latvia and Pakistan, have seen their financial systems melt due to the surge in the outflows of capital towards "safety". Tunisia reels under multidimensional crises, of which the regional political and security turmoil, and the ensuing spillovers to the national level, constantly threaten intensifying surges in capital flows. Therefore, as capital flows can have disruptive effects, the use of capital controls is necessary to smooth such disruption and protect development objectives in a country like Tunisia.

Further reform to the monetary policy framework, the IMF emphasizes, should be based on plans “to gradually move towards a credible inflation-targeting framework in the medium term (Ibid, p. 67).” Yet, focusing monetary policy on inflation targeting presents challenges to long-term growth and development in Tunisia. While demand-side factors such as increasing fiscal deficits and growth of the money supply – often argued by the IMF as the main determinants of inflationary pressures – do come into play in determining inflation, the latter can be driven by non-monetary factors such as an exogenous supply shock which can play a decisive role in influencing inflationary pressures (Bargawi et al. 2010). The 2007-2008 global food and fuel crisis is a case in point. The rising inflation rates experienced in developing countries during the crisis were largely driven by the rising food and fuel prices and structural bottlenecks, and not by demand-side or monetary factors. Against this backdrop, moving towards a monetary policy centred about inflation targeting could risk dampening aggregate demand and strengthening the recessionary trends in a country that has been struggling to revive the economy since 2011 on one hand, and stills reels under multidimensional crises, including spillovers from regional turmoil, on the other; not to mention the structural bottlenecks impeding sustainable growth such as infrastructure gaps and weak climates (policy, regulatory and administrative) for productive investments. Therefore, responding effectively to inflationary pressures in Tunisia requires first a profound understanding of their underlying determinants, instead of resorting to policies that are focused on interest rates or on inflation targeting.

– Fiscal Policy

Under the EFF economic reform programme for Tunisia, fiscal policy will focus on placing public debt on a downward path. The programme targets a reduction in the structural fiscal deficit by 2.2 percent of GDP by 2019 in order to stabilize the debt-to-GDP ratio, and aims at reducing the latter from 53 percent in 2015 to under 50 percent by 2020 (IMF 2016f). For this purpose, the Fund has supported the Tunisian authorities’ move to freeze hiring in the public sector, suspend a salary increase that had already been agreed upon with the Tunisian General Labor Union (UGTT), as well as reduce the public sector wage bill from 13.5 percent of GDP in 2015 to 11 percent by 2018, while mobilizing additional public revenues through broadening the tax base (Adly & Meddeb 2017). These calls are embodied in a 2016 staff report, according to which “containing the wage bill remains an immediate priority to ensure fiscal sustainability”, and “reforming energy subsidies in a sustainable manner while strengthening the existing social safety net is necessary to improve budget composition over the longer term (IMF 2016f, p.13,17).” The report also calls for mobilizing additional public revenues by means of “a more progressive and efficient tax system [that] will broaden the tax base and improve equity (Ibid, p. 1-2).”

Chandoul (2017) notes that the proposed reforms, notably subsidy reforms, are reminiscent of those carried out by the Bourguiba regime, and under pressure from the IMF and World Bank. These reforms, Chandoul argues, which saw the price of bread and flour increase by 100% at the end of 1983, stirred the «Tunisian Bread Riots» in January 1984, a popular uprising that started in Southern Tunisia and expanded to the rest of the country, and was led mainly by the poor youths and peasants, seasonal workers, and unemployed persons. She further points out that the current reforms do not differ from those promoted under the IMF and the World Bank’s coordinated intervention in Tunisia during the 1986-1988 transition period. In fact, these reforms rest upon the same arguments provided during the 1986-1988 period which regard consumer subsidies as an inefficient means of helping the poor since they disproportionately benefit the better-off to the extent that they consume more of the same products than the poor, thus neglecting the local political settlement dynamics in the country (and more broadly, in the Arab region).

Along similar lines, official attempts not only to contain the public sector wage bill, but also to suspend a salary increase that had already been agreed upon with the UGTT, have sparked a political crisis in Tunisia in 2016 with the UGTT threatening to withdraw its support for the government. Popular discontent, in addition to resistance from representatives of labor, business, and professional groups to the proposed wage reforms, has driven the government to back down from implementing its fiscal and economic reform obligations under the EFF.

In response to the government's hesitant reforms, the IMF has halted the disbursement of the second tranche of the USD 2.9 billion loan in February 2017. Sharan Burrow, General Secretary of the International Trade Union Confederation (ITUC), responded to the loan freeze: "The IMF is pushing Tunisia to the brink, with potentially devastating effects on the economy and the democratic system which, almost alone in the region, has been built by the people following the end of the dictatorship in 2011 (ITUC 2017)." Similarly, Jihen Chandoul of the Tunisian Observatory of the Economy (OTE) labeled the move "blackmail by the IMF", and suggested that the halted reforms will deepen inequalities and stand in contradiction to the objectives of the revolution (BWP 2017).

The loan freeze has also triggered an official response – a pledge for accelerating reforms. According to a news site, Africanews.com (2017), Ridha Saidi, economic adviser of the prime minister in Tunisia, discussed the IMF›s concerns with the lack of reforms to wages and the retirement age, and pointed out that the government is planning to cut 20,000 public jobs as well as to sell stakes in commercial banks and increase tax levels. These assertions come in an attempt to restart the loan.

As is always the case, the pledged fiscal and economic restructuring measures, which are in line with the programme's requirements, are hardly a technical matter. They are, in fact, deeply political in light of their consequences on the distribution of wealth and economic burdens. The regressive nature of Tunisia's reform package – that is, fiscal restructuring that is based on slashing expenditures, notably on wages and subsidies, and increasing indirect taxation, with hesitant efforts to raise tax revenues from big businesses and property owners through direct and progressive tax policies – has bred an unfair redistribution of the burden of reform to the detriment of the working and middle classes. Indeed, in its budget for 2017, the Tunisian government has disclosed plans to raise VAT and other consumption taxes, including a 25 percent rise in vehicle tax and increases in electricity prices (Reuters 2016). All-the-more, the new investment law (No.71/2016), approved in September 2016 and expected to take effect in 2017, grants private enterprises significant tax incentives that would, according to the law, encourage investment and spur economic recovery.

These austerity-type measures – cuts in fuel subsidies, containing public sector wages and raising VAT – and the accompanying increase in energy and gas prices, have essentially translated into reduced real incomes among poor and middle-class households as well as salaried workers in the public sector. Consequently, the deteriorating purchasing power of major segments of the Tunisian society has undermined popular acceptance of the IMF-sponsored economic reform programmes, and raised the likelihood of a resurgence of protests and sit-ins in response to the worsening economic and social conditions in the country (Adly & Meddeb 2017). Popular discontent has further been intensified in light of the preferential treatment that these programmes have extended to businesses in terms of generous tax holidays and other incentives.

The economic reform package for Tunisia exposes a lack of consideration on behalf of the IMF to Tunisia's still fragile democratic system. The stringent IMF conditionality embedded in the EFF programme demonstrates a lack of preparedness on behalf of the IMF to grant Tunisia sufficient flexibility both in policy design – fiscal and monetary policy – and in establishing an institutionalized process of negotiation among the different stakeholders in a way that balances the economic, social and political components of reforms, and allows for a more just redistribution of burden between labor and capital (Ibid).

Lebanon

Historically, IMF lending arrangements to Arab countries did not involve Lebanon. In other words, the country has not received direct loans under the Fund's traditional lending facilities. That said, the role of the IMF in Lebanon has come into prominence with the USD 77 million loan that it promised to pour into the Lebanese economy through the central bank of Lebanon (referred to, hereafter, as "BDL"). The loan, which has actually been in the form of a currency swap, where Lebanon would exchange its own currency for the vital reserve currencies it needs for balance of payments purposes, has been pledged in the context of the third international donor conference for Lebanon – Paris III – held in January 2007, following the Lebanese-Israeli war of 2006. The utilization of this financial transaction has, nevertheless, been contingent on an economic reform plan presented by the Lebanese government and resting on a number of pillars. These are: maintaining price stability through adjusting monetary and exchange rate policies; phased fiscal adjustment through streamlining expenditures and raising revenues, and implementing tax reforms including increasing VAT rates; speeding up negotiations around Lebanon's accession to the World Trade Organization (WTO); a privatization program designed to increase investment; and promoting the private sector (Sherry 2014).

However, the IMF has been an active influencer of policy in Lebanon by means of its periodic staff documents, particularly its annual staff country reports, commonly referred to as the Article IV Consultation reports. Most recently, on December 12, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Lebanon (IMF 2017c).

According to the report, Lebanon's outlook is dominated by the protracted conflict in Syria and the ensuing refugee crisis, which continue to add to poverty and unemployment and place pressure on the economy's already-weak public finances and infrastructure. Growth has been timid, hovering around 1 percent in 2016, as tourism, real estate, and construction – the country's traditional growth drivers – have received a strong blow due to the overall volatile geopolitics and security conditions (Ibid). On the fiscal side, public debt remains high at 148 percent of GDP in 2016 (MoF 2017), while the country's monetary stance of fixing the exchange rate regime has been reeling under the pressures of declining foreign exchange inflows up until mid-2016.

In light of these trends, the report stipulates a package of economic reforms to help address the country's challenges. These reforms focus on three key areas: immediate fiscal adjustment, mainly to assist in lowering the public debt burden; safeguarding financial stability while standing ready to increase interest rates to support financial inflows if needed; and laying the ground for longer-term job-rich, sustainable growth.

The following policy areas lay down the main recommendations that the IMF advances to the Lebanese government through its Article IV Consultation Report.

– Monetary and Exchange Rate Policy

The IMF commends the Lebanese Central Bank's monetary policy that is geared to supporting the exchange rate peg, and further acknowledges that the exchange rate peg is the appropriate nominal anchor. This stance by the Fund is grounded in the mainstream argument that «Lebanon's macrofinancial structure rests on the banking sector's ability to attract continued inflows, while maintaining confidence in the peg (IMF 2017c, p. 14).» The BDL, in turn, has been (and remains) a strenuous protagonist of this policy. Indeed, since the end of the civil war, the dominant central objectives of monetary policy have been financial stability and the maintenance of capital inflows – usually in the form of US-dollar funds that would be re-deposited in foreign prime banks – both of which have been achieved by means of currency stability using the exchange rate as a nominal anchor in postwar stabilisation (Dibeh 2005).

Despite the currency stability that BDL's monetary policy has helped achieve since the early 1990s, the IMF's endorsement of such policy in the report overlooks the grave costs at which the stability of the Lebanese pound has been attained. During Lebanon's early post-war reconstruction phase, namely between 1993 and 1997, the BDL's monetary policy was focused on maintaining high interest rates, in addition to conducting the weekly Lebanese Treasury bills (T-bills) auction market in which a 54 percent cumulative premium on domestic funds (high yielding Lebanese T-bills) over foreign denominated Eurobonds was present (Hakim & Andary 1997). This, in addition to laying the grounds for a sharp increase in public debt, has allowed the banking sector – the main buyer of T-bills – which was suffering from low capital adequacy ratios by the end of the civil war, to make super profits and survive without having a viable business base (Ibid). The fortunes of the banking system have been extended also beyond the 1993-1997 period, and well into the 2000s, where the commercial banks have become buyers of government-issued foreign currency denominated Eurobonds, allowing them to adjust their balance sheets and avoid potential threats of currency collapse (Dibeh 2005).

More recently, the exchange rate peg has come under tremendous pressure due to decelerating deposit inflows in light of the tighter regional and global financial conditions as well as the shifting geopolitical tensions. The BDL, acting in accordance with the mainstream view of preserving confidence in Lebanon's financial system, and in an attempt to avert an impending flagging of the country's external position due to the weak global financial environment and the slowdown in deposit inflows to the Lebanese banking sector, has conducted a financial operation in 2016 aiming at bolstering foreign reserves. To this end, the BDL issued about USD 12 billion of dollar-denominated eurobonds that it sold to the commercial banks, replenishing its foreign reserves (Johnson 2017).

Reacting to BDL›s recent financial operation, the IMF suggested that the operation is not a sustainable solution to Lebanon's funding needs and increases the dollarization risk despite its success in offsetting a decline in reserves. Indeed, the increase in BDL's foreign exchange liabilities (that affect its balance sheet), the excess Lebanese pound liquidity and the sizeable reduction in banks' foreign exchange liquidity held abroad, in addition to the narrowed spread between the Lebanese pound and USD deposit rates that intensify the dollarization risk, all present unsustainable outcomes of the operation (IMF 2017c, p. 8-9). Whereas the IMF's critique of the financial operation is apposite, it remains insufficient as it falls short of addressing the outcome of the operation – that is, the banks' enormous maximization of profit through the use of public funds – whereby banks' profits amounted to an equivalent of nearly USD 5 billion (Abdo 2017).

Firstly, the above suggests that reviving and propping up the banking sector has been part and parcel of the BDL's central banking strategy ever since the reconstruction period. Essentially, the role of the BDL has been that of a mediator between the interests of the state and the interest of commercial banks, a sort of linchpin of the institutional nexus and the political economy of the reconstruction period for purposes of stabilization (Dibeh 2005). Dibeh (2005, p. 16) asserts that "one of the major outcomes of this state-central bank-commercial banks collusion was the extraordinarily stability of the Lebanese pound (LP) which hovered around 1500 [LP per USD] since 1993." Interestingly, in many advanced capitalist economies, the central bank has historically played a crucial role in economic development, and, in developing countries, it has performed an allocative role by channeling credit toward growth- and employment enhancing sectors and economic activities, thus acting as a key agent in the process of development (Epstein 2006). However, the BDL's role of stabilization and of promoting the financial sector under IMF tutelage goes against the historically observed developmental role of central banks which conducts sectoral policies in support of medium- to long term financing of productive investments, including industry (Ibid).

Secondly, despite acknowledging that the banking sector has been a critical pillar of Lebanese resilience, the IMF has not properly assessed its role in funding the private sector and securing liquidity for investments, which have, hitherto, been marginal. Abdo (2017) points out that the state and individual consumers represent the two main clients of Lebanese private banks, with the share of bank loans to the public sector and deposits at BDL standing at 57.4 percent of bank assets in 2014, and consumption loans amounting to 50 percent of household income in the same year. Abdo further indicates that the distribution of private banks' loans in the Lebanese economy is heavily skewed towards rent-seeking activities, with 34 percent of loans equally disbursed among construction and building (16.7 percent) and housing (17.2 percent). This predisposition is largely dictated by the fact that most of the commercial banks in Lebanon are politically connected. Chaaban (2015) finds that 18 out of 20 commercial banks in Lebanon have major shareholders linked to political elites, and 43% of banking sector assets could be attributed to political control. Such crony capital within commercial banks in Lebanon has played a key role in propagating the poor quality of banks' loans – the non-productive allocation of credit – as well as their exposure to public debt (Ibid).

Notwithstanding the proven inadequacy of Lebanon's monetary policy to support productive investments and revive growth and development, the IMF calls in its report the BDL "to use interest rates as a more direct and easily communicated policy tool to secure foreign exchange inflows (IMF 2017c, p.22)". In other words, the BDL is requested to stand ready to increase interest rates in order to attract inflows. Such proposition, however, risks intensifying the rent-seeking behavior at the expense of the already stagnating real economy, suggesting that the IMF has not deviated from its contractionary monetary policy bias towards more counter-cyclical, expansionary, policies. In effect, monetary policy that is centered about high interest rates has proved to cultivate an environment of exclusionary growth that inhibits productive private sector investments. Despite the fact that higher interest rates [may] attract further capital inflows, the post-reconstruction period has shown that the excess of inflows, in addition to official development assistance (ODA) and the sizeable remittances have become a fetter in production, as they have led to an appreciation of the real exchange rate – a sort of Dutch Disease phenomenon – that suffocated the tradeable and industrial sectors to the benefit of non-tradeables such as finance, construction and real estate, among others. On a similar note, higher interest rates have historically ensued higher interest payments on deposits and Lebanese T-bill subscriptions, and have de-linked finance from its desired destinations, including industrial, and other productive, pursuits. As Gaspard (2004) emphasizes, the high cost of money – high interest rates – has led to a situation whereby the financial sector has become de-linked from the real economy, and economic opportunity has been stripped from the majority of people and enterprises.

The above account is not to appraise the validity of the fixed-exchange rate policy for a small and open economy such as Lebanon's. The main problem does not necessarily lie in the policy per se, but rather in the ungrounded generous interest rates that BDL has been paying local banks for their US-dollar deposits at the central bank, despite the persistently low interest rates in international market which offer no high-yield alternatives to depositors (Gaspard 2017). The IMF does not address this properly in its report. All the more, its calls upon the BDL to remain ready to raise interest rates "as a more direct and easily communicated policy tool to secure foreign exchange inflow" reinforces the continued policy of high interest rates. It is noted that this comes at a time when international interest rates, such as in the US and European financial markets, are starting to rise. This means that for Lebanon to continue its policy of attracting US-dollar funds, it has to offer raise interest rates above the international rates by providing depositors (banks) with a significant margin, or "spread", above $-Libor. Consequently, this will augment the onus of servicing all government and BDL debts, thus putting more pressure on the financial situation in Lebanon.

Against this background, it is safe to assume that the role played by the IMF-backed monetary policy, BDL and the banking sector in Lebanon since the end of the civil war has been a critical factor in engendering a finance-biased rentier economy (Dibeh 2005). Actually, the structure of the monetary system in Lebanon, the use of public debt management by BDL to reach monetary goals at the expense of the Treasury, in addition to the rent-seeking behavior by politically affiliated commercial banks all warrant serious concerns to Lebanon's long-term development that the IMF does not properly address in its report.

–Fiscal Policy

The IMF deems fiscal consolidation an indispensable element of any reform agenda for Lebanon. In its report, the Fund highlights the need for a major progress in lowering the public debt burden by pushing the Lebanese government to adopt a proposed adjustment package that combines revenue and spending measures. These measures include, but are not limited to, tax and subsidy reforms as well as public employment rationalization.

On the revenue side, the report proposes a set of tax reforms that includes an increase in the corporate income tax (from 15 to 17 percent); the introduction of a capital gains tax on real estate; an increase in the rate on interest income tax (from 5 to 7 percent); and an increase in the VAT rate from 10 to at least 11 percent, in addition to excise taxes and other duties and fees. The proposed progression in corporate income as well as interest income and capital gains taxes is indeed a timely and much sought after reform to the Lebanese tax system. However, the country's prime objective of stabilisation that warrants restrictive monetary policy, and the accompanying policy of bond-financing of deficits which brought about mounting public debt in the post-war period, render tax reforms a mere extractive measure rather than an instrument for redistribution and encouragement of productive economic activities (Abdo 2017).

On the other hand, the proposed increase in VAT, including on diesel, and other excises signals a lack of concern on behalf of the Fund about the regressive nature of the proposed taxes. A study on the implications of a rise in the VAT in Lebanon on poverty and equity finds that an increase in the VAT translates into a significant rise in both extreme and overall poverty rates, due, in large part, to the impact of increasing prices on the lower middle class and households living just above the poverty line who risk falling into poverty (Salti and Chaaban 2009). In effect, by overlooking the need to restructure the VAT system through levying varying VAT rates on different goods and services, in accordance with the needs of the different income groups, the report does not appear to be contributing to redressing the regressive impact of these indirect taxes.

Similarly, the report emphasizes the need to increase tax compliance through promoting electronic tax declaration, among others, especially that tax collection is weak and stands at 50 percent of estimated capacity. Important as it may be, this recommendation exemplifies the administrative approach by which the IMF views taxation. Abdo (2017) points out that such administrative attitude overlooks the fact that the low tax compliance is an issue of power relations rather than a technical matter. He further indicates that, granted, these measures would disproportionately affect wage earners, especially that tax evasion is more commonly found among high-income earners with diversified sources of income. The issue of power relations becomes all the more obvious when considering the flagrant inequality in taxes levied among productive sectors such as industry and agriculture, and rentier sectors such banks and real estate. At very least taxes should be applied on (rentier) economic activities generating super profits, such as financial and real-estate activities, whose elites are intertwined with government officials (Ibid).

Therefore, the way in which tax-related recommendations are advanced in the report reflect a sort of bias on the side of the IMF towards using taxation as a mere revenue extraction tool for purposes of debt servicing, rather than a means for economic restructuring and distribution, including by supporting an economic policy geared at nurturing domestic sectors with potentials for dynamic growth, high value added output and employment.

On the expenditure side, the report proposes that "average electricity tariffs need to be increased to reduce (and eventually eliminate) transfers to Electricité du Liban (IMF 2017c, p. 18)". To this end, the report recommends "bringing tariffs up to cost-recovery levels (Ibid, p. 27)". Whereas it's economically plausible to equate tariffs to cost-recovery, such proposition does not provide a long-term and sustainable solution to the underperforming electricity sector in Lebanon. In fact, electricity reform should not be de-linked from the ailing infrastructure ecosystem in the country, including, but not limited to, internet, transport and green energy. A longer-term solution should be sought in an overall comprehensive reform effort that would place dynamic growth and decent employment generation at the forefront of policy-making, including through enhancing the current physical and social infrastructure.

In light of the above discussion, fiscal policy appears to remain in the eyes of the IMF much less an instrument of economic management to affect incentives for inclusive and sustainable growth and development. It rather serves as a tool for revenue collection, necessary to service debt instead of ensuring an expansion of public investments and other social expenditures. In a similar vein, economic policy in Lebanon since the end of the civil war has been peculiar. The different elements of economic policy – monetary, fiscal, and exchange rate – have been treated in a very conservative manner, very much in line with the mainstream rationale that the IMF has been a champion of. This has spawned a finance-biased economy at the expense of the real economy, crowded out investment and exacerbated deindustrialization, thereby deepening economic and social inequalities.

Admittedly, the constraints inherent in the political settlement in Lebanon have become a fetter that interferes with any alternative vision to policy making by authorities. While it remains unclear whether the IMF's role in Lebanon vis a vis successive governments can be characterized as collusion, the Fund's lack of 'positive conditionality' as regards helping the country to overcome 'structural challenges' deriving from elite capture seems to suggest so.

An adequate mix of fiscal-monetary policy as well as exchange rate and interest rate policy is the sine qua non of a successful reemergence of the Lebanese economy. This necessitates a serious effort by the state and the IMF, in consultation with various stakeholders such as civil society organizations and trade unions, among others, to set national priorities and identify the appropriate policy mix in order to ensure sustainable and inclusive growth.

Concluding Remarks

Concluding Remarks

The findings of the case studies on our group of Arab countries unmasks an obvious distance between the IMF's rhetoric as propagated in its discourse as well as factsheets, press releases and responses to critics, and the policy design and practice of the Fund, namely those embedded in its staff country reports.

In Egypt, the IMF loan program appears to be promoting, at face value, socially and politically desirable policies by calling for strengthening social safety nets, including through raising expenditure on food subsidies and cash transfers. Yet, irrespective of the fact that the report does not devise an adequate roadmap through which an enhanced and inclusive social safety net can be achieved, the Fund's unwavering endorsement of targeted social assistance, such as targeted social safety nets, rather than universal social protection far removes Egypt from the path of achieving the SDGs through making social protection available for all. Furthermore, the monetary, exchange rate and fiscal policy mix advanced for Egypt largely undermines the Fund's claims about the importance of social spending and inclusiveness, as it risks aggravating the already dismal social and economic conditions in the country. In particular, devaluation-induced inflation in addition to the slashing of state employment and the aggressive subsidy cuts may be promoting more impoverishment and widening inequality gaps among Egyptians.

Jordan's IMF loan programme also appears include some measures related to social issues and inclusiveness. Some of the programme's recommendations include requests for gradual fiscal consolidation rather than faster consolidation, and for maintaining social spending, including by preserving public sector wage growth and strengthening social safety nets through enhancing the targeting of transfers. Nonetheless, the broader monetary-fiscal framework appears to contradict the above socio-politically appeasing measures, as it fails to properly respond to Jordan's political, economic and social uncertainty. Specifically, requests for increasing sales taxes on basic food and fuel items, in addition to cuts in current expenditures relative to the country's budget contradict the claims about maintaining social spending. By the same token, the Fund's focus on 'social safeguards' – that is, targeted social spending aimed at protecting only the most vulnerable – rather than on social protection renders social security a mere corrective measure that aims to alleviate the adverse impacts that IMF policies may have on poorer segments of the society, thereby stripping universal social protection of its human rights dimension. On a different note, the IMF's support to Jordan's monetary and exchange rate policy without addressing the fact that the country's reserves are heavily dependent on externally determined, and unsustainable, sources of foreign exchange, highlights the IMF's complacency about the monetary policy challenges in Jordan, and calls into question the suitability of the IMF program's monetary and exchange rate policy approach in terms of its suitability to advance social and economic development in Jordan. Such IMF-backed economic policy mix risks exacerbating the pre-existing, high levels of unemployment, poverty, and inequality in Jordan, with adverse consequences for economic and social rights in the country.

In Tunisia, despite the loan programme's call for strengthening social safety nets, the overall policy framework devised by the IMF appears to carry the most stringent conditionality compared with the other representative countries. The deeply regressive austerity-type measures – cuts in fuel subsidies, containing public sector wages and raising VAT – and the accompanying increase in energy and gas prices, will most likely diminish the purchasing power of major segments of the Tunisian society, and further undermine popular acceptance of IMF intervention in the country. In addition, the proposed contractionary monetary policy framework, including the abandonment of exchange rate and capital account management, would risk macroeconomic instability in the country, while undermining long-run growth and development objectives. In fact, the IMF-backed economic reform package for Tunisia exposes a lack of consideration on behalf of the Fund to Tunisia's still fragile democratic system, in addition to a lack of preparedness to grant the country sufficient flexibility both in policy design and in establishing an institutionalized process of negotiation among the different stakeholders in a way that balances the economic, social and political components of reforms.

In Lebanon, on the other hand, no formal lending arrangement with the IMF has been made recently. Nevertheless, the IMF-backed policy framework aligns well with the post- civil war economic policy mix which has spawned a finance-biased economy at the expense of the real economy, crowded out investment, as well as exacerbated deindustrialization and further deepened economic and social inequalities. This bears out the contention made earlier in the paper that the IMF's role in Lebanon vis a vis the successive governments can be characterized as collusion, owing in large part to the IMF policies' disregard of the country's 'structural challenges' deriving from elite capture on one hand, and of the constraints inherent in the political settlement in Lebanon, which have become a fetter to sustainable and inclusive growth.

The findings of our case studies on Egypt, Jordan, Tunisia and Lebanon lead us to contend that the stability-focused macroeconomic policies are essentially in collision with a longer-term development-oriented agenda. While little room for social policy in IMF discourse and documents does exist, it remains insignificant, inadequate, and incapable of advancing inclusive growth. The Fund's advice on enhancing the social dimensions in these countries remains inexplicit compared to its advice on other financial, monetary and (contractionary) fiscal policy. In particular, while the IMF regularly sets specific targets for macroeconomic variables, it does not identify such specific targets for achieving inclusive growth, improving health and education outcomes, or reducing inequality (Momani and Lanz 2014a). In fact, the policy proposals advanced through IMF staff country reports signal a biased IMF predisposition towards macroeconomic stabilization over social issues. By the same token, the Fund's policy recommendations in light of the bleak socio-economic conditions in the countries of the region contradict [12] the Fund's post- crisis and uprisings claim of increased flexibility in lending, not least in terms of allowing more space for the recipient country to implement counter-cyclical fiscal policies in order to foster growth and safeguard economic and social rights, while using monetary and exchange rate policies as accommodative measures.

[12] The gap between rhetoric and practice is explained by Kentikelenis et al. (2016) as evidence of the twin processes of 'paradigm maintenance' and 'organized hypocrisy' in international bureaucracies. In fact, various studies tap into the discipline of organizational sociology in an attempt to explain the behaviour of international public organizations and bureaucracies. Essentially, these bureaucracies are spaces where political and apolitical activities coexist and are rich in contradictions. They face an amplitude of pressures from different stakeholders: shareholders and/or principals (including governments), internal bureaucratic or technocratic agendas, and the general public. The apparent gap between objectives and policy practice de facto threatens the legitimacy of the organization. The IMF, as a contemporary international organization, can also be perceived along similar lines. It is influenced both by environments that are external in nature and others that take the form of internal pressures. The interplay of these exogenous and endogenous factors would result in a 'decoupling' between discourse-embedded objectives and the actual policy design and practice. The response of the IMF, and other similar organizations, to these pressures takes the form of masking such obvious disconnection by engaging in 'organized hypocrisy' (Brunsson 1989; Shanley 1991), deemed indispensible for the survival of the organization.

An Alternative Framework for Macroeconomic Management in the Arab Region

Civil Society Organisations (CSOs) in the Arab region express grave worry over the enduring rigidity of the IMF's policy framework imposed on Arab countries, particularly in the context of the adverse socio-political and economic conditions that plagued the region in the aftermath of the uprisings. The rigid framework, civil society argues, will strip the national authorities of the requisite policy space to implement counter-cyclical policies as well as the needed public investment to overturn the current (protracted) recession and stimulate long-term growth and development.

Today, after 6 years since the onset of the Arab uprisings, there is an opportunity for the IMF to stand up to its claims about strengthening its commitment to the social dimensions of macroeconomic policy, as well as to inclusiveness and granting recipient countries more policy space. This opportunity is best seized by placing these matters on an equal footing with those of macroeconomic stabilization.

In the Arab region, there is a need for IMF policy design to account for the forgotten Keynesian attitudes to growth and development. Approaches such as deficit-financing, loose monetary policies and counter-cyclical fiscal stimuli ought to be embraced in recession-wracked Arab countries. The following recommendations, categorized into three groupings – monetary, exchange rate, and fiscal policy – are devised to this very purpose.

Monetary Policy

Monetary policy, as advanced by the IMF, has shown a strong bias towards keeping inflation at very low levels through raising the interest rates. Important as controlling inflation may be, a monetary policy that is based on high interest rates would essentially undermine the basis for stimulating private investment and economic growth rendering too high the cost of credit. It would also stifle demand in a region facing lengthened recessionary trends, and carry a disproportionate impact against the poor (McKinley 2005). Indeed, an important observation that arises from our case studies is the high cost associated with inflation targeting in the various countries. For example, in Egypt, notwithstanding the hefty inflationary impacts, the cost of reigning in inflation through a conservative monetary stance has been high, and has come at the detriment of private investment and consumption, while only generating a state of deflation that is short-lived as the Egyptian case study shows. In Lebanon, on the other hand, the relatively lower inflation has been the product unusually high interest rates, the costs of which have been an intensification of rent-seeking behavior at the expense of the already stagnating real economy, a financial sector that is de-linked from the real economy, let alone unprecedented debt-to-GDP ratios which are among the highest in the world.

Bargawi et al. (2010) argue that the basis for inflation targeting extends from the mainstream macroeconomic framework that the IMF advocates, which presumes that inflationary pressures are mainly triggered by the monetization of fiscal deficits (issuing debt instruments, including bonds with favourable interest rates to buyers). Such macroeconomic framework, however, turns a blind eye to other explanatory factors that could trigger inflation. An adverse external supply shock - such as the 2007-2008 global price hikes, over which policymakers had little control – can be one of these factors determining inflation. Inflationary pressures can also have structural roots, such as supply-side constraints – structural bottlenecks, lagging technological capabilities and low productivity– and infrastructure weaknesses that the market itself cannot resolve. Indeed, the underlying causes of inflation can go beyond the mere monetization of fiscal deficits, and have structural or supply shock bases. Even policies of exchange rate peg[13] , such as those adopted in Jordan and Lebanon, have encouraged non-tradeable sectors, which represent important drivers of inflation. In that case, IMF-endorsed monetary policy based on high interest rates would serve as an inadequate response to recession wracked Arab (and developing) countries, and it could further exacerbate inflation in the short term by making credit more expensive.

[13] Again, that is not to argue for the removal of the peg. Rather, it is to highlight that the underlying causes of inflation are several, and go beyond the mere monetization of fiscal deficits

Therefore:

• Ideally, the monetary policy approach of the IMF in Arab countries should be one of an accommodative role to more expansionary fiscal policies with a strong focus on investments and strengthening of productive capacities. That said, monetary policy should not play the leading role in macroeconomic management, but should rather be employed to accommodate expansionary, counter-cyclical, fiscal policies.
• Monetary policy should ensure the availability of liquidity – that is, growth of the money supply – which is necessary to stimulate private investment and meet the growing demand for money. This would imply making liquidity accessible at affordable rates, through encouraging moderately low real rates of interest, which would also help contain the borrowing costs for both the private sector and the government (Bargawi et al. 2010).
• An accommodative monetary policy stance that would be supportive of public capital (human and physical) investment can stimulate private investment and boost economy-wide labour productivity through building up essential economic and social infrastructure. Expansion of productivity, and the ensuing lower unit costs of production, will open possibilities for price stability (or fall, granted productivity increase outweighs the increase in production costs), thereby keeping inflation in check.

Exchange Rate Policy

The IMF has favored a free-floating, market determined, exchange rate regime, with Jordan and Lebanon being exceptions. However, the Arab region has been found wanting of broad-based, structurally diversified, domestic economies. Furthermore, policymakers in Arab countries have historically demonstrated limited capacity to provide adequate responses to recurrent shocks, such as terms-of-trade shocks or sudden outflows of capital. These structural inadequacies of Arab economies mean that adopting a fully flexible exchange rate risks increasing volatility of the nominal exchange rate, where such volatility would exacerbate macroeconomic stability of (non oil-rich) Arab economies. The consequences of such volatility will further be augmented given the highly dependent nature of Arab countries on foreign trade, whether in terms of being net importers of primary commodities (food and fuel), or being reliant on relatively low value-added exports as one of a handful of means to attract foreign exchange and boost growth.

On another note, exchange rate policy (in non-fixed exchange rate regimes) can provide a crucial tool alongside fiscal and monetary policy. While safeguarding social and economic rights of citizens in Arab countries presupposes public investments in basic essential sectors including, but not limited to, health and education as well as ensuring social protection for all, these can lead to inflation. In this regard, exchange rate management (in non-fixed exchange rate regimes) could serve as a tool for policy makers in Arab countries to curb potential inflationary effects of the fiscal and monetary ease, and, therefore, prevent rapid exchange rate appreciation and an ensuing loss in competitiveness.

Therefore:

• Arab countries should be allowed sufficient policy space to devise an exchange rate management strategy centered about the attainment of a stable and relatively competitive exchange rate. Granted, it would allow Arab economies to reign in the adverse effects of unforeseen, exogenous, shocks on one hand, and, on the other, foster export competitiveness and economic diversification.

Fiscal Policy

Fiscal austerity has, time and again, fallen short of promoting robust employment-generating growth or of improving living standards or social cohesion in the Arab region. It has become largely accepted among various economists that fiscal spending, even at the risk of deficits and debt burdens, can rescue an economy from recession or depression and aid in the development of productive capacities. Despite its cost, state expenditure is crucial for safeguarding social and economic rights as well as ensuring political stability, all of which society as a whole enjoys. Therefore, by further advancing measures to squeeze the deficit, the IMF would be omitting the redistributive role of the state by stripping it of its social function, thereby undermining human rights. It would also be jeopardizing efforts to reverse the dominant trends of declining productivity growth, rising poverty and inequality, let alone de-industrialisation and increasing unemployment. For example, the Fund's continuous calls for subsidy cuts makes it clear that the IMF looks at subsidies from a pure quantitative, economic, lens, rather than their actual socio-political function as the last shred of legitimacy that Arab states have retained from the decades-old social compact. As for the mounting debt in various Arab countries, the lack of long term solutions in the IMF policy framework draws a bleak picture of the future of their economies and their ability to achieve inclusive and sustainable growth. In fact, with no debt relief on the table, the short term solutions proposed by the Arab authorities and the IMF will only prolong debt crises (Mossallem 2017).

Therefore:

• Safeguarding economic and social rights of citizens in Arab countries presupposes public investments in basic essential sectors including, but not limited to, health and education as well as ensuring social protection for all. That purpose necessitates a counter-cyclical, expansionary, fiscal policy that would spur economic recovery in times of economic distress like these.
• The IMF should work with Arab governments on placing benchmarks for public expenditure on vital social and economic sectors, and the same for progressive taxation policies, just as it places targets on budget deficits (Mossallam 2015).
• Reforming subsidies ought to be the last stage of a robust economic development plan based on wage-led growth policies, the pillar of which are increasing productivity through the encouragement of productive sectors as a part of a wider economic and industrial policy framework.
• The IMF should bring debt relief to the table if it is earnest about helping Arab countries regain some of their fiscal space, which is necessary for the restructuring of their fragile economies, without plunging further into the debt trap (Ibid). Granted, such move will certainly demonstrate willingness on behalf of the IMF to devise alternative policies that feed into the achievement of the SDGs.
• The Fund's 'pro-cyclical' fiscal policy of containing fiscal deficits during recessionary periods should be reversed. Arab countries should be allowed to run deficits in order to spur economic recovery, especially during recessionary periods. Running deficits can make available the means to support public investment and boost aggregate demand, as stipulated by the standard Keynesian [14] rationale.
• Incurring deficit and debt – or alleviating their impact on macroeconomic stability – can be made possible by increasing the tax base through introducing more just tax policies, including through increasing direct taxation on one hand, and making indirect taxation fairer. In addition, incurring deficits and debt for purposes of productive capital investments shall, in the long run, alleviate the debt burden through laying the basis of a robust and diversified economy, thus generating more revenues for the state. This is important, especially in the context of some states, such as Lebanon or Jordan, whose capacity to incur significant additional deficit is limited.

[14] According to the standard Keynesian (economist J.M. Keynes) school, counter-cyclical government spending during recessionary periods can boost aggregate demand and facilitate economic recovery.

• Concerns over the inflationary effects of public investment should not be prioritized in the context of the Arab region. Inflationary pressures in developing countries, and in Arab countries in particular, can arise to a great extent from the structural specificities of the economies of these countries on one hand, or from exogenous factors, on the other. Therefore, running deficits to finance public investments should, therefore, stimulate both aggregate supply and aggregate demand, and prompt an expansion of productive capacities, thereby keeping domestic short- to medium term inflationary pressures in check.

• National governments should be urged to consult with civil society organizations — including labor unions, NGOs, and municipal authorities — on key economic reform agendas and national development plans, especially concerning the development of social protection schemes (Sherry et al. 2014). The envisaged participatory approach to policy making should be able to yield short-term alternatives to fiscal austerity and subsidy reform. Alternatives should encompass, among other measures, debt relief and progressive taxation systems that would make available the necessary fiscal space for comprehensive reforms and sustainable social protection policies.

• Achieving internationally agreed- upon standards for universal social protection should be integrated into the IMF's policy framework. An integrated perspective on social protection policy, including on intervention (policies and programmes), should be the outcome of collaboration and coordination among a diverse range of global actors, including the IMF, and national actors including civil society groups (Norton et al. 2001). Such collaboration and coordination presents an opportunity for the IMF to fundamentally transform its policies and practices to befit the challenges to sustainable development in Arab and, more broadly, developing countries.

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