

Launch of the IMF's October 2023 Regional Economic Outlook for the Middle East and Central Asia

"Building Resilience and Fostering Sustainable Growth"

Press Remarks by

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Good morning, and welcome to the 2023 Annual Meetings. Thank you very much to the Moroccan authorities for hosting the Annual Meetings in Marrakech despite the very difficult times they are facing these days. Our thoughts are with the people of Morocco.

Let me give you a summary of where we see the region's economic prospects and policy priorities before taking your questions.

CONTEXT

Growth in many economies in the Middle East and Central Asia is slowing, reflecting the combined effect of tighter policies, oil production cuts, geopolitical tensions, and other domestic challenges.

For the **Middle East and North Africa**:

- We have **lowered our real GDP growth forecast** to 2.0 percent for 2023 (a downgrade of 1.1 percentage points from our last projections in April).
- **Growth will accelerate** to 3.4 percent in 2024 as some of these factors fade.
- **Persistent structural hurdles** will constrain growth over the forecast horizon. Importantly, growth is not forecast to be strong or inclusive enough to create jobs for the **100 million Arab youth who will reach working age over the next 10 years**.

For the **Caucasus and Central Asia**:

- **GDP growth** is projected to **remain relatively robust at 4.6 percent** (a 0.3 percentage-point upgrade) reflecting still-strong trade and financial flows from Russia.
- Growth will likely **ease in 2024 to 4.2 percent** (0.3 percentage-point downgrade) as these flows gradually normalize.
- Persistent structural challenges will mean that medium-term growth remains lackluster.

Inflation is easing, but large differences between countries persist.

- For example, in MENA, **inflation is slowing**, but it remains high in Egypt and Sudan. Excluding these two countries, average inflation in MENA is projected to peak at **13.4 percent in 2023** before falling to **9.7 percent in 2024**.
- In the CCA, price pressures are expected to **continue abating**, easing from **11.0 percent in 2023** to **8.3 percent in 2024**.

Financing conditions in the region remain generally tight.

- MENA central banks have **continued raising rates in 2023**, albeit at a slower pace than last year.
- The monetary policy tightening cycle appears to have **peaked in the CCA**.
- A **higher-for-longer interest rate environment** could strain corporates, financial institutions, and public finances in the region, with implications for banking sector profitability, credit provision, economic growth, and financial stability.
- **Sovereign-bank linkages** may worsen the implications of higher-for-longer.

The balance of risks has improved since April as adverse global challenges have receded, but risks remain tilted to the downside, and climate-related threats are rising.

- **On the upside**, a faster-than-anticipated global decline in inflation would reduce pressure on central banks to raise interest rates further.
- **Downside risks** include:

- **Reduced external demand** if China were to experience a sharper-than-expected slowdown.
- **Reignited global price pressures**, for example because of an escalation of the war in Ukraine.
- **Climate-change-related or natural disasters**, which can have wide-ranging economic and social impacts. The recent earthquake in Morocco and floods in Libya provide a stark reminder of how natural disasters can have rapid and devastating consequences.

MAIN PRIORITIES

Policy space is limited in the wake of recent shocks, and **policymakers face difficult choices**.

Price stability should remain the focus of **monetary policy**.

- **Where inflationary pressures are persistent, monetary policy should remain tight** until signals of sustained disinflation are well-established.
 - **Further tightening may be required** in some economies, such as Egypt and Tunisia.
- **Where inflation is returning to target** and underlying inflationary pressures are receding, any policy easing should be done cautiously and with due attention to signs of renewed price pressures.

Fiscal consolidation efforts should focus on **building buffers** and **safeguarding debt sustainability**, especially in emerging markets and those economies with high debt levels and financing needs.

- **Oil exporters** should focus on economic diversification and boosting fiscal buffers to strengthen resilience.
- **All countries** would benefit from domestic revenue mobilization and increased spending efficiency.

- Fiscal reforms that help increase **budget transparency** and the **adoption of credible medium-term fiscal frameworks** will help reach domestic goals and facilitate access to external market financing.

Structural reforms can help support near-term growth and longer-term growth prospects. Our REO shows that:

- **Sequencing and packaging reforms strategically** can magnify growth dividends: **A first-generation reform package** that includes governance, external sector, and regulatory reforms could increase output by almost **10 percent over five years**.
- **Governance reforms** can generate positive output effects even during periods of weak growth or limited policy space.
- **Major governance reforms** could increase output by about **6 percent over five years**.
- These benefits extend beyond governance: **regulatory quality reforms** have a positive impact on output, contributing to a **4 percent increase after five years**.

With the **Annual Meetings taking place in the Arab World** after two decades, the **time is ripe to rethink the region's development model**.

Promoting inclusive growth will require substantial reforms to close the gap between the development models of the past and what is needed going forward.

WHAT IS THE IMF DOING TO HELP?

The IMF continues to engage closely with ME&CA countries to provide policy advice, technical support, and financing.

- Approved **\$34 billion** in financing to 15 ME&CA countries since the onset of the pandemic.
- Fund has allocated **\$49.3 billion** Special Drawing Rights.

- In the past year alone, IMF programs were approved for **Armenia, Egypt, Mauritania, Morocco, and Pakistan**.

Morocco recently became the **first country in the MENA region** to secure financing under the **Fund's Resilience and Sustainability Facility**.

- The RSF provides long-term financing to strengthen economic resilience by supporting policy reforms that reduce climate-related risks, among others.

REMINDER: Together with our partners, the Dubai International Financial Centre, we will formally launch the REO report **today at 11:30 AM**. The discussion will feature a distinguished **panel of experts** from across the region.

QUESTIONS