

Executive Summary

The Regional Economic Outlook: Middle East and Central Asia (REO) is prepared every six months by the Middle East and Central Asia Department (MCD) of the International Monetary Fund. The last REO was published in October 2008, just as the global economic crisis was breaking, when it was not yet clear how it would manifest itself around the world and affect the countries in the region. The scale and reach of the economic downturn is now much more evident. This REO, therefore, focuses on how the evolving crisis is affecting countries in the Middle East and Central Asia.

The Middle East and Central Asia region comprises a diverse set of countries, ranging from some of the poorest countries in the world to some of the richest, from oil and commodity exporters to oil importers, from countries on the Atlantic coast with strong links to Europe to countries in Central Asia with ties to Russia and lands farther east. The global crisis is meanwhile spreading around the world in many different ways. Ironically, the one channel through which the downturn is not affecting the MCD region in any significant way is through direct exposure to financial stress (and “toxic” assets) in the United States and Europe. The downturn is instead affecting the region through three indirect channels:

- the sharp drop in oil prices, which is shrinking revenues for oil exporters, as well as import costs for oil importers;
- the contraction in global demand, trade, and related activity, which is lowering exports, tourism, and remittances; and
- the tightening of international credit markets and lower investor appetite for risk, which is affecting capital inflows, depressing local asset prices, and reducing investment.

These factors are weighing on MCD countries in different ways, depending on where they are and what they do. The drop in oil prices has most directly affected the oil-exporting countries, whose oil revenues in 2009 will be less than half what they were in 2008. Lower oil prices are, by contrast, helping to reduce import costs for oil-importing countries, offsetting to some extent the decline in their own export receipts. Countries in the Caucasus and Central Asia, many of which are commodity exporters and are suffering from lower commodity prices, have also been affected by the sharp economic downturn in Russia.

In view of these differences, and in order to better analyze the effects of the crisis, this REO has divided the countries of the Middle East and Central Asia region into three subregions: Middle Eastern oil exporters (MEOEs), Middle Eastern oil importers (MEOIs), and the Caucasus and Central Asia (CCA).

Highlights of the REO are shown overleaf. The bottom line is that nearly all countries in the region will be seriously affected by the global crisis in important but different ways. Because of their different starting conditions, for example, outstanding debt levels or inflation rates, some countries may have more room than others to adjust policies to resist the downturn.

In sum, countries that can afford to maintain or enhance spending, such as many of the oil and commodity exporters, can and should do so. Other countries in the Middle East will be more fiscally constrained, but most countries will have some scope to loosen monetary policy. All countries will need to keep a close eye on conditions in their banking systems. And some countries will need to allow greater flexibility in their exchange rates.