

October 19, 2021: MCD Press Briefing

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Good morning, and welcome to the 2021 IMF Annual Meetings. Since the beginning of this year, the Middle East and Central Asia region has made good progress and the recovery is ongoing despite the new outbreaks. Yet, the recovery is uneven and incomplete, and has to fully take hold throughout the region. In addition, the overall environment remains uncertain, and new challenges are emerging.

1. Uncertain outlook

I'd like to offer a snapshot of the overall outlook for the region. We project real GDP for countries in the Middle East and North Africa (MENA) to expand by 4.1 percent in both 2021 and 2022, after contracting by 3.2 percent in 2020. Real GDP growth in the Caucasus and Central Asia (CCA) is projected at 4.3 percent this year and 4.1 percent in 2022, following a contraction of 2.2 percent in 2020. This is a marked improvement from last year's sharp contraction. Yet, the recovery has been uneven, and the success of the vaccine rollout varies widely, with low-income countries and fragile and conflict-affected states showing limited progress.

Going forward, concerns about economic scarring and divergent recovery prospects persist: over the medium term, real GDP is expected to remain below precrisis projections by around 2½ percent in MENA and by around 7 percent in the CCA. Countries that managed to recover more quickly will also have lower output losses. At the same time, the employment recovery remains weak and rising inflation is reducing the ability to use monetary policy to spur growth.

In addition, risks have increased, with the renewed uncertainty around new pandemic waves; vaccination delays; tighter global financial conditions; social unrest and geopolitical risks; as well as climate shocks.

2. New challenges emerge

Inequities are on the rise, with young people, women, and migrant workers, as well as small companies, bearing the brunt of the crisis.

To address these issues, our regional economic outlook takes an in-depth look at two critical issues facing the region: the state of labor markets and the pandemic's impact on the corporate sector.

The region's unemployment rate worsened last year, particularly for workers in contact-intensive sectors. The average unemployment rate for the Middle East and Central Asia rose to 10.7 percent in 2020, far exceeding rates seen during other recent crises. We examined the full scope of the region's employment challenges and advised policies to improve outcomes, including for women and young people, through higher growth and stronger labor market responses to growth.

Our report also assessed the impact of the crisis on the region's corporate sector, and found that region's firms are not recovering equally, even though the corporate sector has bounced back to pre-pandemic levels. Smaller firms and those in contact-intensive sectors, in particular, are lagging behind, while digitally enabled firms and those with strong precrisis fundamentals were able to partly mitigate the pandemic's impact.

3. Policy tradeoffs and building a transformational recovery

With limited policy space, recovering from the pandemic will require countries to manage difficult policy tradeoffs.

Accelerating vaccine acquisition and distribution, particularly by low-income countries, remains the most urgent priority and will require strong global and regional cooperation. In the meantime, policy support should target the most vulnerable, and the eventual withdrawal should be gradual and well communicated. If inflation proves persistent, central banks may need to adjust policy rates policies to prevent de-anchoring of inflation expectations. Improving policy frameworks will be important to reduce trade-offs and bolster credibility. For example, when fiscal adjustments occur, they should be anchored in a credible, medium-term fiscal plan that clearly illustrates debt sustainability.

The current situation could also prove to be a transformational moment for the region as it looks ahead to a more inclusive, resilient, and greener future.

We are encouraged by the fact that several countries are planning to invest in their future by reorienting the role of the state toward health and education, expanding social safety nets, and incentivizing digital and climate-resilient technologies.

The IMF continues to engage closely with the region's countries to provide policy advice and technical support, as well as US\$20 billion in financing since the crisis began. The Fund has also allocated \$49.3 billion of Special Drawing Rights to supplement the region's reserve assets, a step that will

help countries cope with difficult policy tradeoffs and accelerate their recoveries.

More details can be found in our report on the Regional Economic Outlook, which was published this morning, and we invite you to join us tomorrow for a webinar highlighting our outlook for the MENA region. Our discussion will feature a distinguished panel of experts and will be moderated by CNN International's Becky Anderson. We will also have events spotlighting the Caucasus and Central Asia and our chapters on labor markets and the corporate sector in the weeks ahead.

With that, I will be happy to take your questions.