Launch of the IMF's May 2023 Regional Economic Outlook for the Middle East and North Africa

Dubai International Financial Centre, Dubai, United Arab Emirates, May 3, 2023

Press Remarks by

Jihad Azour
Director, Middle East and Central Asia Department
International Monetary Fund

Welcome to the launch of the IMF's May 2023 Regional Economic Outlook for the Middle East and North Africa. It's good to be back in Dubai to share our views on the region's economic prospects and policy priorities.

Let me begin with an overview of where the MENA region stands.

Despite a series of global shocks, growth in the region surprised on the upside last year. We estimate that real GDP grew by 5.3 percent, reflecting strong domestic demand and rebounding oil production.

However, growth is projected to decelerate this year, slowing to 3.1 percent in 2023, before picking up slightly to 3.4 percent in 2024.

For **oil exporters,** we project growth to slow to 3.1 percent in 2023, down from 5.7 percent in 2022, with the main driver of growth shifting from oil to nonhydrocarbon activities in most countries.

Growth is also set to slow in the region's **emerging markets**, falling from 5.1 percent in 2022 to 3.4 percent this year, as tighter monetary and fiscal policies to safeguard macroeconomic stability dampen domestic demand.

Meanwhile, **low-income countries** will continue to lag the region with growth of 1.3 percent this year as they struggle with heightened instability, food insecurity, persistently high inflation, and country-specific fragilities.

Our projections reflect developments prior to the oil production cuts agreed under the latest OPEC+ announcement. These cuts will lower growth for oil exporters but are expected to positively affect their fiscal and external positions as higher oil prices would more than offset the impact of lower growth. However, higher oil prices are likely to increase fiscal and external strains in MENA oil importers and add to inflationary pressures.

After surging last year, inflation has proven to be persistent. It is now forecast at around 15 percent this year (broadly unchanged from 2022) before declining modestly in 2024, representing an upward revision of about 2.5 percentage points in both years since last October.

With high projected debt levels and gross public and external financing needs, fiscal and external vulnerabilities are expected to remain elevated in the region's emerging markets.

So far, the recent financial stress in advanced economies has had limited spillovers to the region's banks, reflecting no direct exposure of the region to Silicon Valley Bank and a limited exposure to Credit

Suisse. The region's financial markets have largely moved in line with global trends.

That said, the risks to our baseline are high. Let me highlight three key risks:

- First, further financial sector instability in advanced economies could lead to contagion and more adverse credit conditions, depressing global growth, and exacerbating financial market volatility and debt sustainability concerns for many emerging markets in the region.
- Second, tighter-for-longer global financial conditions could prompt investors to reassess debt sustainability, pushing the most vulnerable economies to the brink of debt distress.
- Third, an escalation of the war in Ukraine could lead to high volatility in commodity markets, fueling additional inflationary pressures across the Middle East and North Africa and amplifying the risks of social unrest.

Therefore, striking the right policy balance will be critical.

Monetary policy should focus on maintaining or regaining price stability.

Bank supervisors should ensure that banks have governance and risk management commensurate with their risk profile and that adequate supervisory stress testing frameworks, resolution regimes, and crisis management frameworks are in place.

Fiscal policy should preserve debt sustainability, build buffers, and be supportive of monetary policy, while providing targeted and temporary support to protect the most vulnerable.

Meanwhile, structural reforms should be accelerated to bolster potential growth and enhance resilience, inclusion, and social safety nets.

Our Maya REO takes an in-depth look at a critical issue facing the MENA region: the monetary policy response to the recent surge in inflation.

We find that, in response to high inflation, the region's central banks tightened monetary policy early on compared with advanced economies, although with significant heterogeneity across countries. Our report finds that although monetary policy actions taken since 2021 have been broadly appropriate and helped curb inflation for many countries, a few countries still need to tighten further. Moreover, in several countries, monetary policy implementation is undermined by a lack of coordination with fiscal policy or fiscal dominance.

All countries would benefit from strengthening monetary policy frameworks and fostering financial development. Activating additional monetary policy transmission channels would enhance central bankers' ability to fight inflation. In addition, greater exchange rate flexibility and the use of macroprudential policies could help strengthen monetary policy effectiveness. In countries where state-owned banks play an important role in financial intermediation, reducing quasi-monetary and quasi-fiscal activities would improve monetary transmission.

Let me conclude by emphasizing that the IMF's commitment to supporting MENA countries is unwavering. In addition to tailored policy advice, we continue to assist our member countries through ongoing lending arrangements and technical assistance. Since end-March 2020, the IMF has approved **$25 billion of new financing for MENA countries**, including recent arrangements for Egypt, Mauritania, and Morocco.

The IMF has remained nimble in addressing members' evolving needs by establishing the Resilience and Sustainability Trust and helping address the food crisis facing our most vulnerable members through a Food Shock Window under its emergency financing facilities. We have also increased our presence in the field by reopening our Middle East Regional Technical Assistance Center in Beirut and setting up a new regional office in Riyadh, which will strengthen our partnership with the region. The upcoming IMF–World Bank Annual Meetings in Marrakech will also provide a platform for wide-ranging policy discussions on challenges facing the region and the world.

I'll now open the floor to your questions.