

## April 27, 2022: MCD Press Briefing

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Thank you for joining us. Our Spring Meetings this year occurred at a time of uncertainties with the war in Ukraine and sanctions on Russia are triggering significant economic spillovers to the Middle East and Central Asia. Our *Regional Economic Outlook* looks at how these spillovers and other global trends affect the outlook for our region:

#### 1. Recovery and Challenges

Last year, the Middle East and Central Asia experienced a better-than-expected recovery, a result of strong domestic demand, with real GDP growth revised up to 5.8 percent in the Middle East and North Africa and to 5.6 percent in the Caucasus and Central Asia. However, inflation also surged and remains elevated. This has reduced countries' monetary policy space when fiscal policy was already constrained with higher post-pandemic public debt.

As 2022 began, the Omicron variant swept through the region, with most countries seeing temporary spikes in COVID-19. However, this new wave resulted in fewer deaths and no broad mobility restrictions.

#### 2. A New Shock Hits

Then, in February, the war in Ukraine quickly reverberated through global financial and commodity markets, worsening growth and inflation prospects and adding to already-high levels of uncertainty.

With close trade and financial linkages with Russia, as well as reliance on remittances and tourism, countries in the Caucasus and Central Asia are among the most vulnerable to the war's spillovers. The Middle East and North Africa region's oil-importing countries are also exposed through commodity price and global financial channels, as well as their reliance on wheat imports.

#### 3. Outlook for 2022

Looking ahead, the war in Ukraine is expected to dominate the 2022 outlook, compounding the headwinds from faster-than-expected normalization of monetary policy in advanced economies and the slowdown in China, which is a significant market for exports for many of the region's oil-exporting countries.

We project real GDP growth in the MENA region at 5 percent in 2022. While this is a 0.9 percentage point upgrade from October, this forecast masks significant differences across countries, with oil exporters upgraded due to higher energy prices and production in line with the OPEC+ agreement, and most emerging market and middle-income countries and low-income countries downgraded.

In the CCA region, real GDP is projected to grow by 2.6 percent in 2022, a 1.5 percentage point downgrade from October, which reflects the profound impact of the war in Ukraine on the countries in this region.

Downside risks dominate the outlook and include a prolonged war with further sanctions on Russia. This raises food insecurity concerns and the risk of social unrest; tighter-than-expected global financial

conditions, which could trigger capital outflows; persistent inflation; and a more pronounced slowdown in China.

#### **4. Policies to Emerge on a Stronger Path**

This difficult environment and the uncertainties ahead have created extraordinarily complex policy tradeoffs—especially for oil-importing countries with limited policy space. So how can countries manage these tradeoffs while maintaining focus on tackling long-term challenges?

In the near term, there are several policy priorities countries should consider. First, adjusting monetary policy based on country circumstances to control inflation and avoid derailing the recovery. Given market volatility, exchange rates should be allowed to adjust, with interventions used only to prevent market disruptions.

On fiscal policy, oil exporters have the opportunity to rebuild buffers. In emerging market and middle-income countries where fiscal space is limited, growth-friendly fiscal consolidation prioritizing health, social spending, and investment will be critical.

Tackling rising global food and energy prices is vital. While allowing domestic prices to gradually to increase, countries should compensate vulnerable households and firms with transparent, temporary, and targeted transfers. Garnering international cooperation to prevent a food crisis that could exacerbate the already-dire conditions facing low-income countries will be equally important.

The path to recovery continues to require effectively managing the pandemic, which is why expanded global and regional efforts to provide equitable access to a comprehensive COVID-19 toolkit are needed.

With the limited policy space, structural reforms have become even more important to prevent scarring from the pandemic and war and ensure a private sector-led inclusive recovery.

Specific priorities include reallocating public expenditures toward expanded and better-targeted safety nets as support measures are withdrawn; increasing revenue-generating capacity to ensure fiscal sustainability; promoting the private sector and reducing informality to foster growth and inclusion; and adjusting to climate change through adaptation. I would encourage you to read our recently published departmental research paper on the key climate issues the region faces and how adaptation can be a component of a comprehensive climate strategy.

The IMF continues to work closely with the region, providing policy advice and technical support, as well as \$20 billion in financing to the Middle East and Central Asia region since the pandemic began. The Fund has also allocated \$49.3 billion of Special Drawing Rights to supplement the region's reserve assets, which will help countries cope with policy tradeoffs. The IMF's recently approved Resilience and Sustainability Trust, which will help steer resources to countries that need them most, could also help in this effort.

Next month we will hold a virtual launch event spotlighting the MENA region, and I am looking forward to visiting the CCA to highlight more findings from this Regional Economic Outlook report and what they mean for countries as they continue working toward a transformational recovery.

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