

Launch of the IMF's October 2022 Regional Economic Outlook for the Middle East and North Africa

Dubai International Financial Centre, Dubai, United Arab Emirates,
October 31, 2022

**Press Remarks by
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Welcome to the launch of the IMF's Regional Economic Outlook for the Middle East and North Africa. I am delighted to be in Dubai to exchange views about the region's economic prospects and policy priorities.

Let me begin with a snapshot of where the region stands.

The worsening global conditions weigh on the outlook for MENA. Economic activity has been resilient so far, but inflation surprised on the upside, and the region is facing exceptional uncertainties and downside risks.

The region's multispeed recovery has continued in 2022, with activity in oil exporters still benefiting from high energy prices, while the pace of expansion in emerging market and middle-income economies is slowing as they face a deep terms-of-trade shock, higher sovereign spreads, and eroded access to market financing.

Overall, the region is projected to grow at 5 percent in 2022, up from 4.1 percent in 2021. However, worsening global conditions will weigh on the outlook for 2023, with growth slowing to 3.6 percent.

Economic growth in **oil exporters** is foreseen at 5.2 percent in 2022, up from 4.5 percent in 2021. Growth is projected to slow to 3.5 percent in 2023 as OPEC+ production wanes, oil prices ease, and global demand slows.

For **emerging markets and middle-income economies**, we project growth at 4.9 percent this year, up from 3.6 percent in 2021, and growth will slow to 3.9 percent in 2023.

Meanwhile, **low-income countries** are struggling with high commodity prices, limited progress in vaccination rollouts, and country-specific fragilities, with growth expected to remain weak at 0.8 percent this year.

As in much of the rest of the world, inflation has continued rising in many MENA countries in 2022 and has become broad-based, leading a cost-of-living crisis in most of the countries. Headline inflation for the region is projected at 14.2 percent on average in 2022 and is expected to remain in double digits in 2023 for the fourth consecutive year.

I'd now like to briefly discuss global economic challenges and the risks countries in the region are facing.

Hit by multiple shocks, the global economy is facing extraordinary challenges and MENA countries have not yet felt the full impact of this.

Indeed, like other parts of the world, the MENA region is facing exceptional uncertainties and downside risks. Persistently high commodity prices and pervasive food shortages increase risks of food insecurity, social unrest, and fiscal pressures. Tighter-than-expected financial conditions risk fueling a funding crunch in the region's emerging markets and could tip the balance toward financial instability and debt distress in countries with weaker starting positions. Further broadening inflation is also a concern, as it may require deeper disinflationary policies, which may be more costly than expected.

Therefore, now is the time to act to mitigate the cost-of-living crisis while preserving fiscal sustainability and building resilience. This is the most pressing policy priority for all countries in the region.

This entails:

- (1) Restoring price stability by tightening monetary policy in countries where inflation is becoming broad-based or where there are signs of a de-anchoring of inflation expectations.
- (2) Tackling food insecurity through decisive efforts to scale up next season's agricultural production by securing access to fertilizers and investing in climate-resilient agriculture; and
- (3) Protecting the vulnerable while ensuring fiscal sustainability, with support targeted to those in need. This will help contribute to disinflation while supporting social cohesion. *Temporary* food subsidies can be used when targeted assistance is not feasible and food insecurity looms large.

However, countries should avoid regressive and costly energy subsidies and tax exemptions. Maintaining debt sustainability will be critical and may necessitate accelerating fiscal adjustment in countries with limited fiscal space.

Oil exporters should maximize the benefits of the oil windfall by building buffers and avoiding procyclical spending, keeping fiscal reform momentum, and progressing with their diversification plans.

The worsening global environment, tightening macroeconomic policies, and the limited policy space in several countries raise the urgency of pressing ahead with structural reforms to bolster economic growth while transforming economies to become more resilient, sustainable, diversified, and inclusive. Completing energy subsidy reforms in conjunction with enhancing social safety nets will be key to freeing up resources for expanding the reach of social protection. Investing in energy efficiency will help reduce energy dependency and ultimately lower exposure to oil price fluctuations.

Other priorities to enhance inclusive and resilient growth include reforms to improve the business environment, reduce informality and improve tax equity, and investments in climate-resilient technology and infrastructure.

Our REO this year takes an in-depth look at a critical issue facing the MENA region: the fiscal implications of surging commodity prices.

Our report shows that while most MENA countries have resorted to generalized price subsidies as in the past, this time around they have done so on a smaller scale, reflecting both limited fiscal space and past—albeit yet-unfinished—subsidy reform. In addition, most oil exporters continued with their prudent fiscal policies. Looking ahead, it will be important for policymakers in the region to consider cost-effective measures to address the pressures from rising food and fuel prices and reforms to enhance fiscal resilience, including reduced dependency on fuel, ahead of the next commodity cycle. You can read an extended discussion of these near- and medium-term fiscal policies in our report.

Let me conclude by underscoring that the IMF's commitment to working with MENA countries is unwavering. In addition to regional surveillance, we continue to support our countries through our ongoing lending arrangements, tailored policy advice, and technical assistance. The IMF has remained nimble in addressing members' evolving needs by establishing the Resilience and Sustainability Trust, which will support countries to build resilience to external shocks and address longer-term challenges, including climate change. Likewise, to help address the food crisis facing our most vulnerable members, the IMF has established a new food shock window under its emergency financing facilities.

We look forward to our continued strong engagement in the years ahead with countries throughout the region. I'll now open the floor to your questions.