



**MIDDLE EAST
AND CENTRAL ASIA
DEPARTMENT**

Middle East and North Africa Regional Economic Outlook: Mounting Challenges, Decisive Times

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Rodrigo García-Verdú
Middle East and Central Asia Department
International Monetary Fund

Outline

Recent Developments

Economic Outlook

Risks to the Outlook

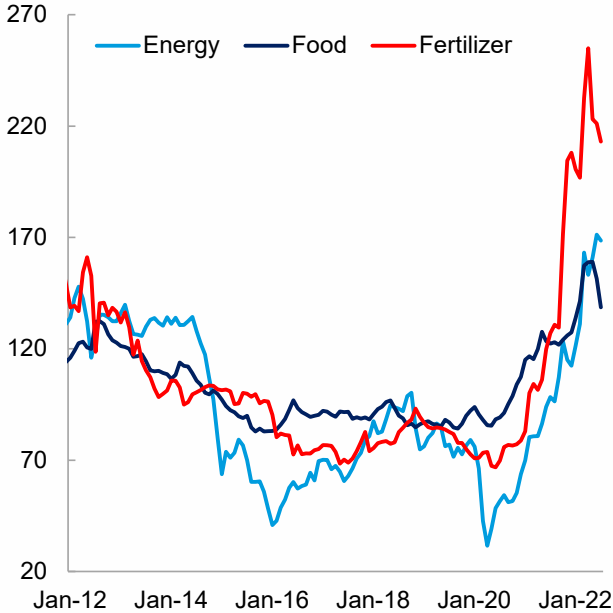
Policy Priorities

Still-resilient Economic Activity Amid Global Headwinds

Downside global risks highlighted in the April WEO have materialized ...

Commodity prices remain high

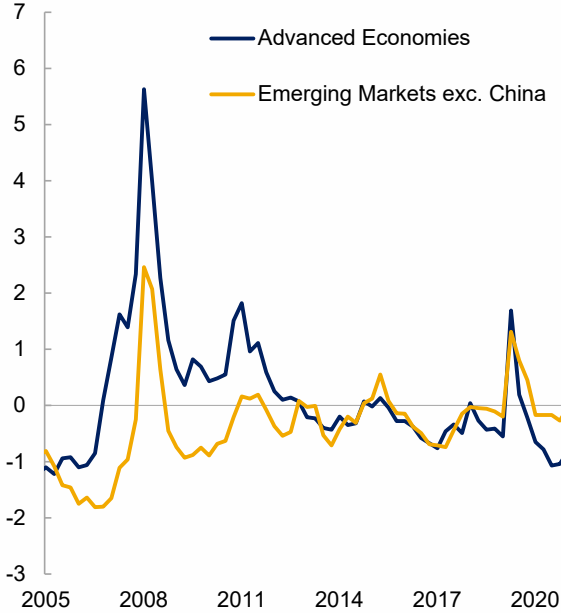
Global Commodity Prices
(Index 2010 = 100)



Source: World Bank.
Note: Energy includes coal, crude oil, natural gas. Food includes cereals, vegetable oils, other food.

Financial conditions have tightened faster and more sharply than expected

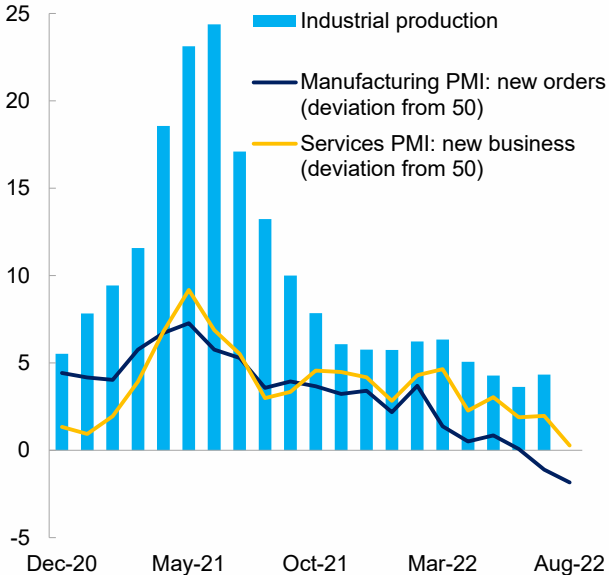
Global Financial Conditions
(Standard deviations from the mean)



Source: IMF staff calculations.
Note: The FCIs are estimated based on Koop and Korobilis (2014) and build on the estimation of Primiceri's (2005) time-varying parameter vector autoregression model and dynamic factor models of Doz, Giannone, and Reichlin (2011). The vector of financial variables includes corporate spreads, term spreads, interbank spreads, sovereign spreads, the change in long-term interest rates, equity and house price returns, equity return volatility, the change in the market share of the financial sector, and credit growth.

A global slowdown is underway

Global Activity Indicators
(Year-over-year percent change, 3 month moving average, seasonally adjusted)



Sources: CPB; Haver Analytics; IMF, GDS; and IMF staff calculations.
Note: PMIs are diffusion indices ranging from 0 to 100. A number greater than 50 indicates an expansion, while an index below 50 indicates a contraction.

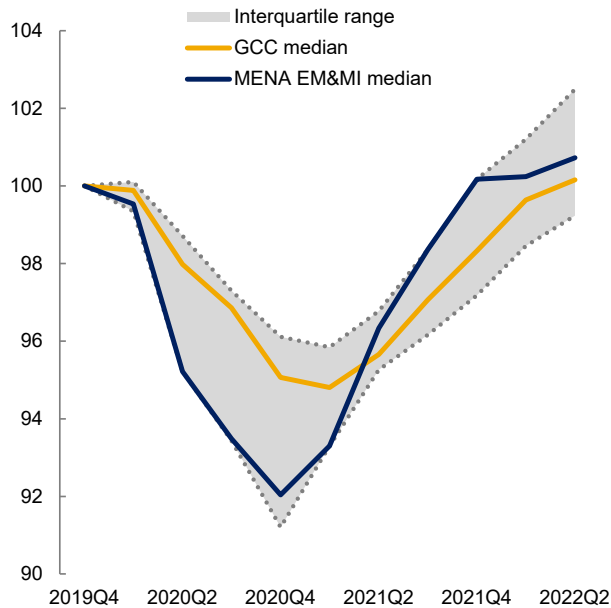
... but MENA's recovery continued in early 2022, albeit amid higher inflation and tighter financing conditions ...

Recovery is progressing

Inflation is higher and more widespread

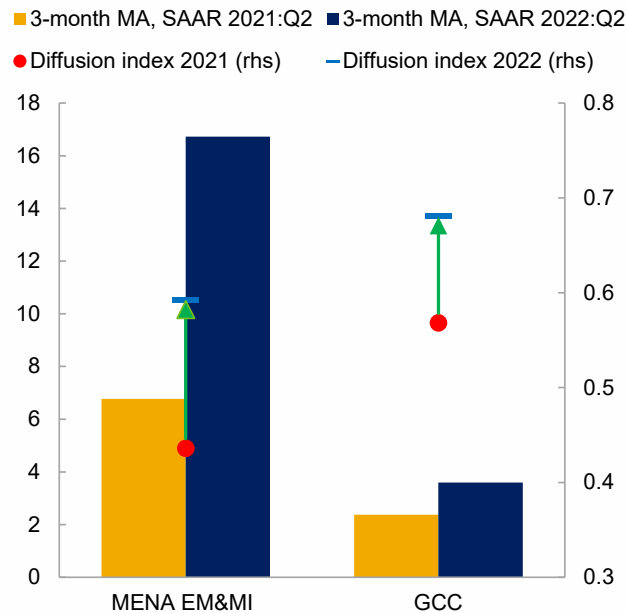
Financial conditions have worsened for MENA EM&MI

Real GDP Index
(Index 2019Q4=100, 4 quarter moving sum)



Sources: Haver Analytics; and IMF staff calculations.

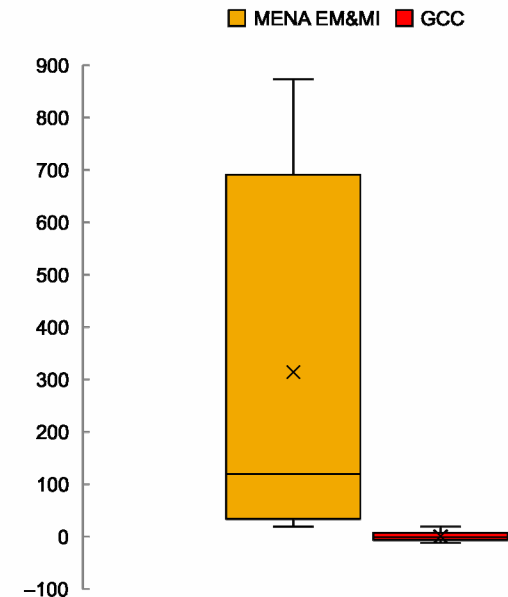
Headline Inflation
(Month-over-month percent change, annualized)



Sources: Haver Analytics; and IMF staff calculations.

Note: The diffusion index is the percent of expenditure categories or of products in the Consumer Price Index (CPI) whose inflation exceeds a given threshold: latest inflation target if the country has one or the average inflation of each component or product over the 3–5-year period preceding the pandemic.

Change in Spreads Since April 1, 2022
(Basis points)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

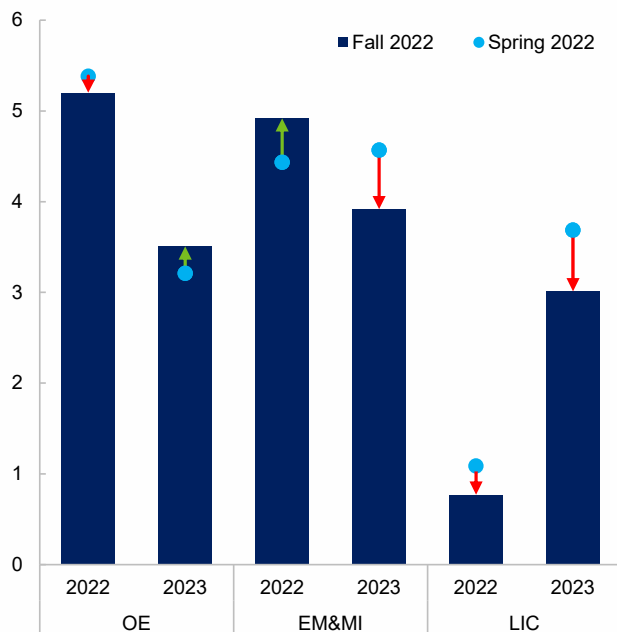
Note: The X denotes mean; the horizontal lines denote median and quartiles; whiskers denote maximum and minimum, excluding outliers.

Worsening Global Conditions Weigh on the MENA Outlook

Recovery is poised to slow in 2023 and inflation to remain elevated, with divergent trends in external balances

Growth is expected to moderate in 2023

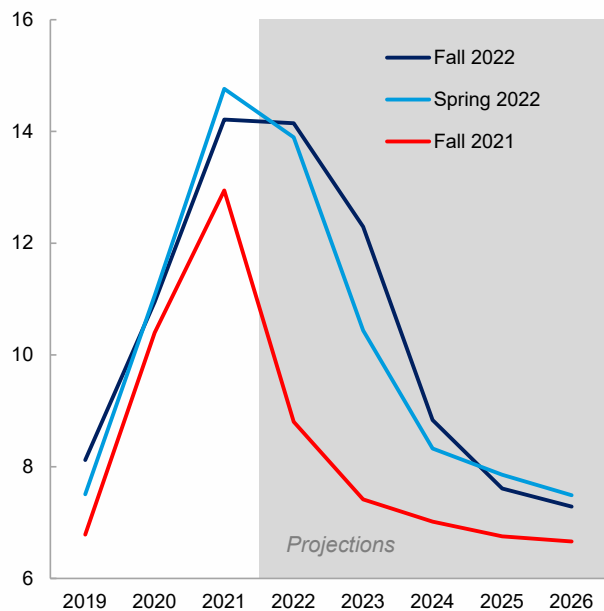
MENA: Real GDP Growth
(Year-over-year percent change)



Sources: IMF, WEO; and IMF staff calculations.

Inflation will remain in double digits through 2023

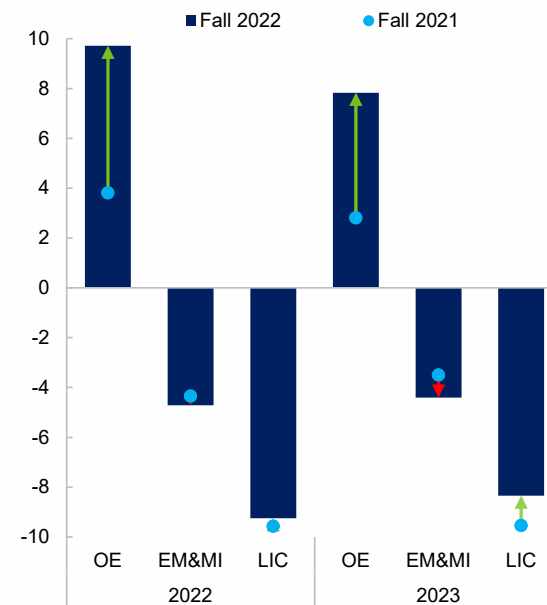
MENA: Headline Inflation
(Year-over-year percent change, average)



Sources: IMF, WEO; and IMF staff calculations.

High oil prices will support a significant improvement in oil exporters' external balances

MENA: Balance on Current Account
(Percent of GDP)

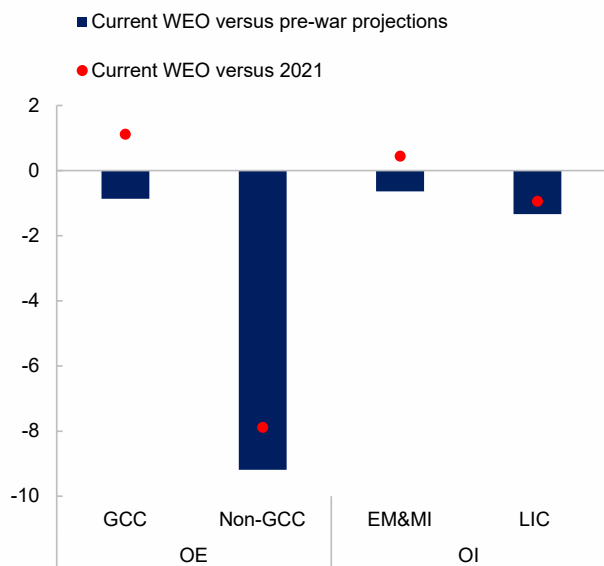


Sources: IMF, WEO; and IMF staff calculations.

Emerging markets are facing added fiscal and external vulnerabilities while most GCC countries are breaking from past procyclical policies

2022 primary balances projected to be weaker relative to prewar expectations...

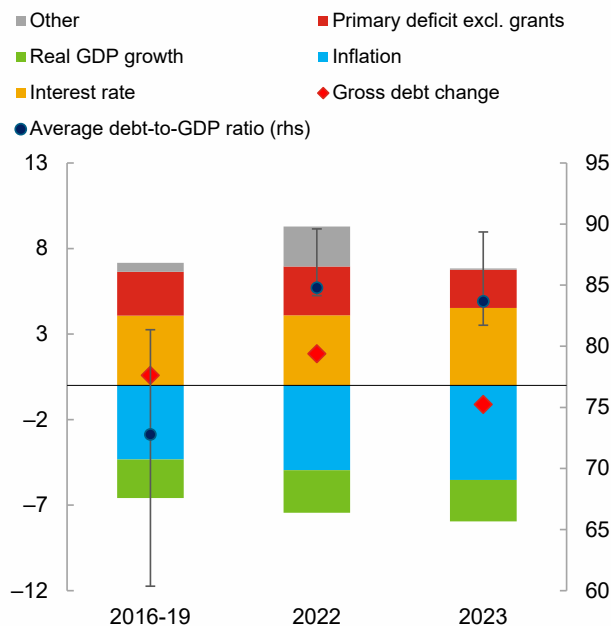
MENA: Change in Primary Balances, 2022
(Percent of GDP; simple average)



Sources: IMF, WEO; and IMF staff calculations.
Note: Pre-war projections correspond to October 2021 WEO. For OEs, non-oil primary balance in percent of non-oil GDP is reported.

...but debt pressures are mitigated by still negative real interest rates...

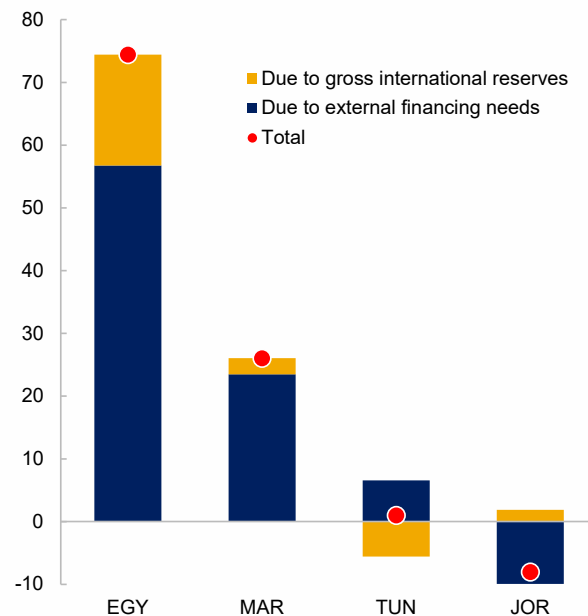
MENA EM&MI: Contributions to Changes in Gross Public Debt-to-GDP Ratios
(in percentage points)



Sources: IMF, WEO; and IMF staff calculations.
Note: "Other" includes contributions from the exchange rate, grants, and other flows. Vertical lines show the interquartile range for the debt ratio in 2016, 2022, and 2023.

... while some EMs face higher external financing needs

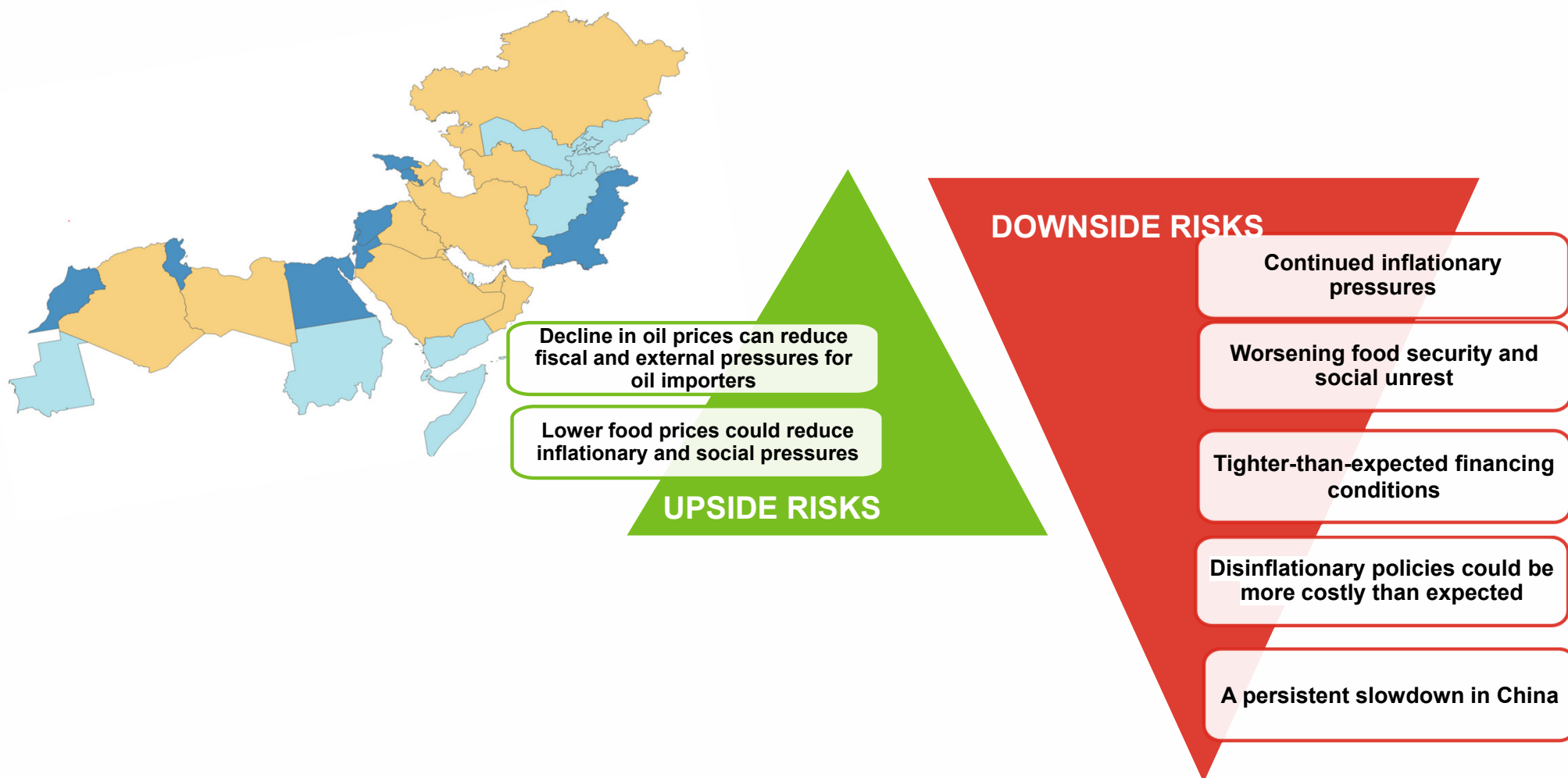
MENA EM&MI: External Financing Needs to Gross International Reserves
(Percentage change between 2021 and 2022; contributions)



Sources: IMF, WEO, and IMF staff calculations.

Exceptional Uncertainties, Mounting Vulnerabilities and High Downside Risks

Uncertainty is high and downside risks dominate



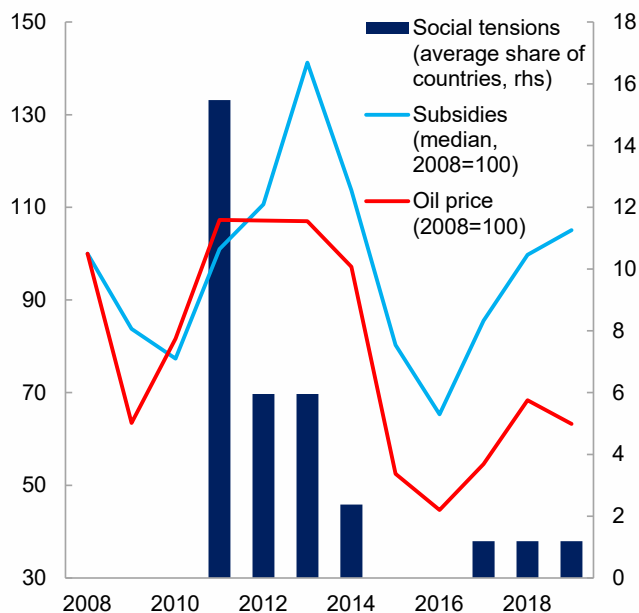
Persistently high commodity prices could threaten fiscal and social stability while tighter financial conditions risk a funding crunch

High-for-longer commodity prices could exacerbate fiscal and social pressures ...

... and raise debt non-stabilization concerns, particularly if downside risks materialize ...

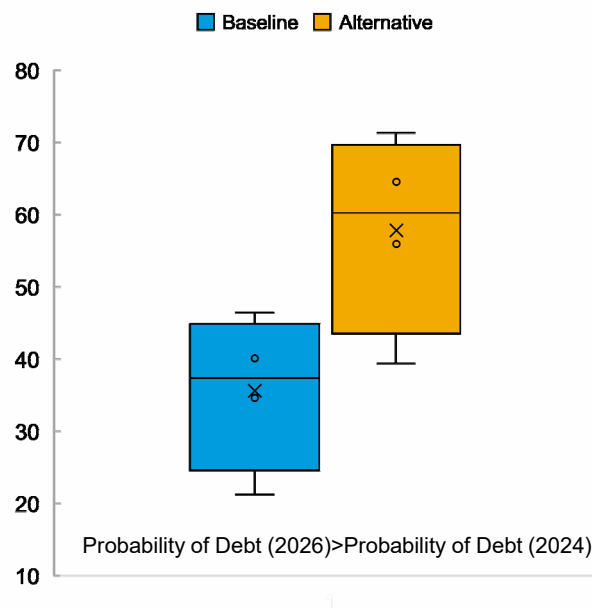
... at a time of elevated risks of a funding crunch in emerging markets

MENA EM&MI: Interaction Between Subsidies and Transfers, Oil Price and Social Tensions, 2008-2019



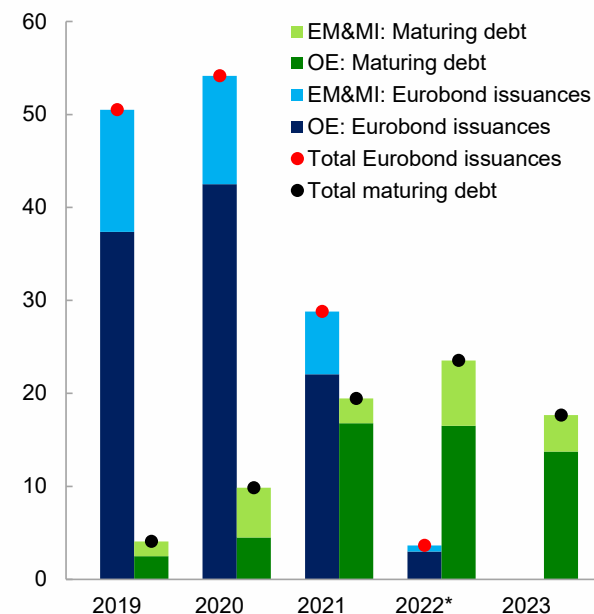
Sources: IMF staff estimates; Barrett and others, 2020 for social unrest data. Note: Social unrest events are inferred from exceptionally large increases in country media coverage of key terms related to protests, riots, and other forms of civil disorder.

MENA EM&MI: Baseline versus Alternative Scenario of Debt Non-stabilization (Percent)



Source: IMF staff calculations. Note: Estimates are based on new Sovereign Risk and Debt Sustainability Framework (SRDSF) where probabilities of debt non-stabilization are derived via simulated symmetric shocks to drivers of debt such as primary balance, real interest rate, growth and exchange rate. The alternative scenario includes: (i) higher real effective interest rates by 150 bps to capture higher-than-expected monetary tightening; (ii) a cap on yearly projected growth for each country (at the average real growth during the period 2001-2019), to capture downside risks to growth; and (iii) lower primary balances by 1 percent of GDP, to capture looser than expected fiscal dynamics.

MENA: Eurobond Issuances and Maturing Debt (Billions of USD)



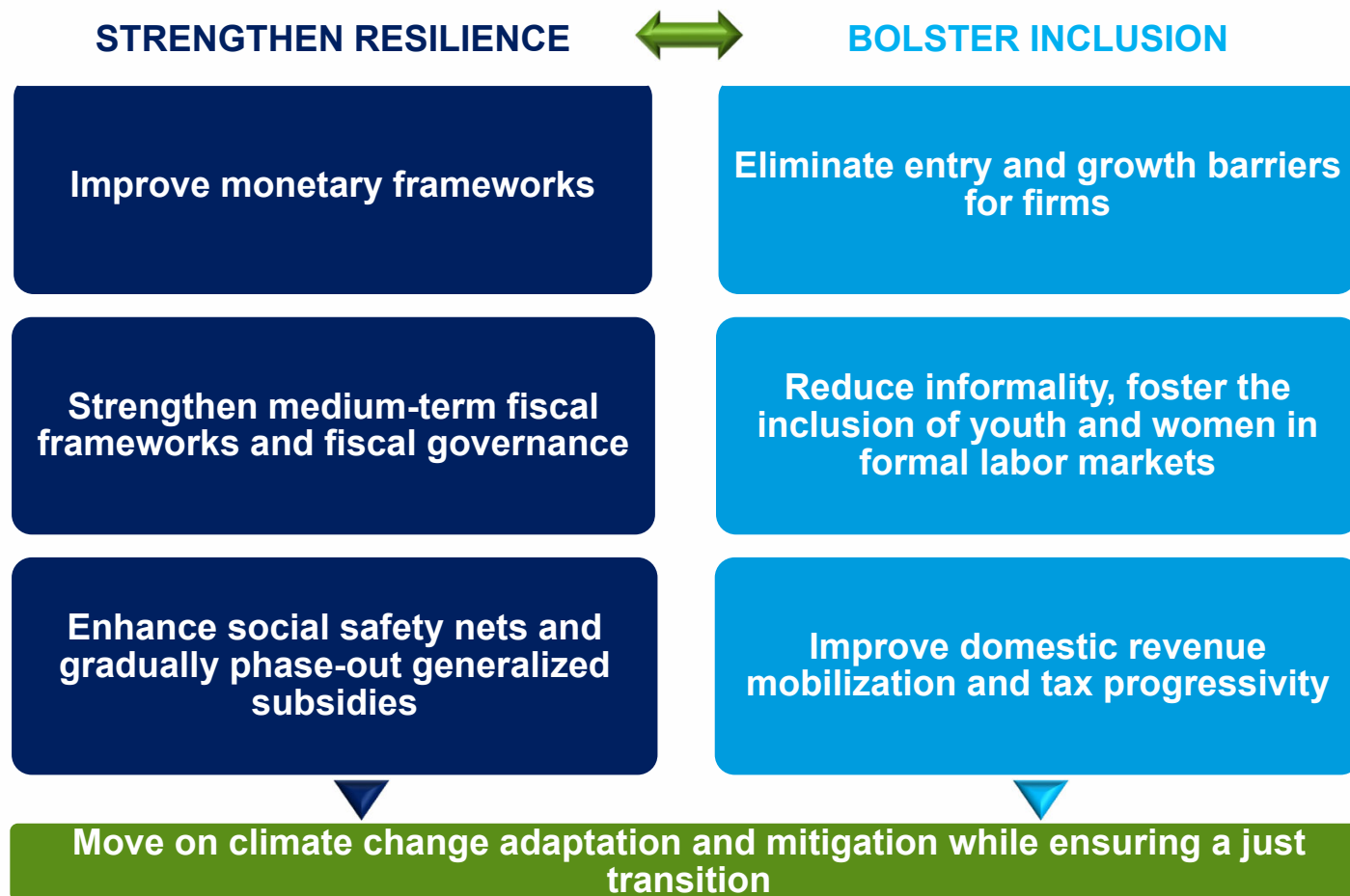
Sources: Perfect Information; and IMF staff calculations. Note: 2022 issuances are reported as of end-September 2022.

Policies Need to Tackle Near-term Challenges while Strengthening Resilience and Inclusion

Policy priorities should be tailored to tackle near-term country challenges

	Oil Exporters	EM&MIs	LICs
Restore price stability	Tighten monetary policy where inflation is becoming broad based and expectations are rising		
Protect the vulnerable	Use temporary and targeted cash transfers to lessen the impact on the vulnerable; if not feasible and the threat of food insecurity looms large, use temporary food price subsidies		
Ensure fiscal sustainability	Prioritize expenditure and rein in inefficient fiscal outlays		
	Avoid procyclical spending and build fiscal buffers	Accelerate fiscal adjustment to mitigate financing needs and ensure debt sustainability if fiscal space is limited	If needed, seek grants and concessional financing to mitigate risks of debt distress
	Contain current spending to provide space for diversification plans		
Other policies	Improve access to fertilizers, as needed, and invest in climate-resilient agriculture		
	Employ macroprudential measures to manage credit and asset price booms	Manage lingering pandemic risks from low vaccination rates	

Amid high uncertainty and accumulated vulnerabilities, a multi-pronged reform agenda is needed to strengthen resilience and inclusion



The IMF remains engaged in supporting the region

FINANCIAL SUPPORT

**\$16.7 billion of new financing since 2020
(8 countries)**

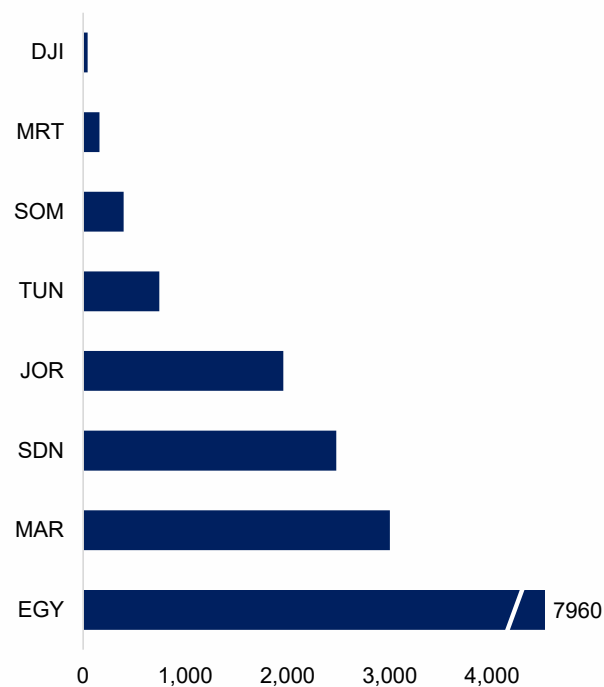
\$42 billion of SDR allocated to the region

Recent support includes EFF augmentation for Jordan, staff-level agreements with Egypt, Tunisia, and Mauritania.

RST to channel financial resources from countries with strong external positions into affordable long-term financing for vulnerable countries

A new emergency financing instrument to help countries respond to food shocks (Food Shock Window)

MENA: IMF Financing From Start of Pandemic
(March 23, 2020-present, millions of USD)



KEY MESSAGES

Economic activity in the region has been resilient thus far, but inflation surprised on the upside, and emerging markets face curtailed market access

MENA oil exporters, EM&MIs, and LICs face diverse prospects

MENA is facing exceptional uncertainties and downside risks, including persistently high commodity prices and broadening inflation, tighter-than-expected financial conditions and related fiscal challenges, and repercussions from a possible global recession

Making a dent in inflation, protecting the vulnerable, and ensuring fiscal sustainability are paramount; in parallel, countries should move on a variety of fronts to strengthen resilience and inclusion

IMF support remains critical

Thank you