MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

Middle East and Central Asia Regional Economic Outlook

АМФОТ

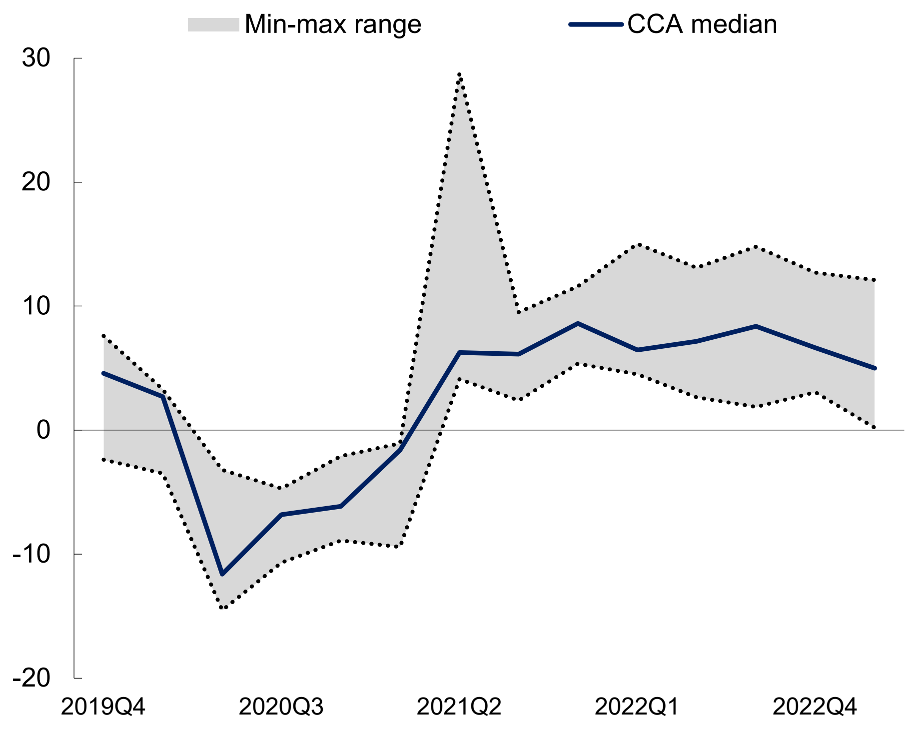
Annual Conference
December 7, 2023

Recent Developments

Growth in the CCA is slowing, amid declining inflation

Growth has slowed across the region…

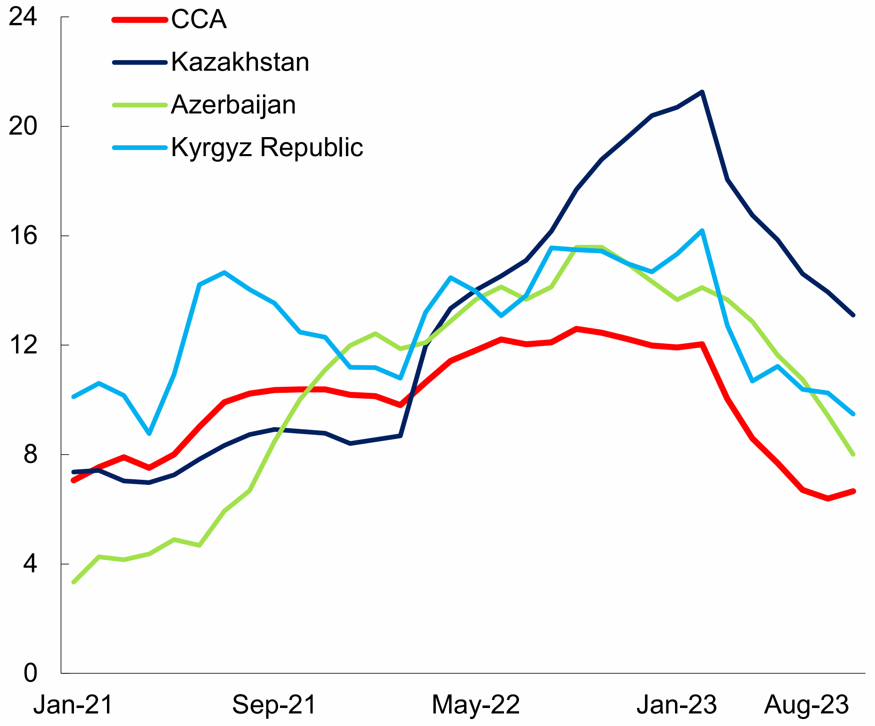
CCA: Real GDP Growth
(Year-over-year percent change)



Sources: Haver Analytics; and IMF staff calculations.

…and inflation has declined, but remains high in some countries

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

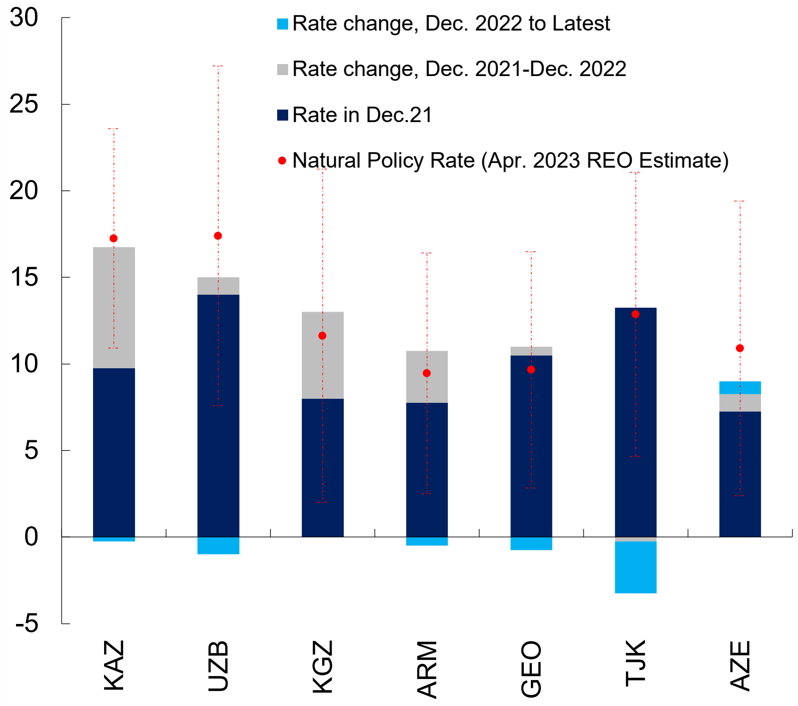


Sources: Haver Analytics; national authorities; and IMF staff calculations.

Financing conditions have lessened somewhat in 2023

Tightening cycles have begun to end

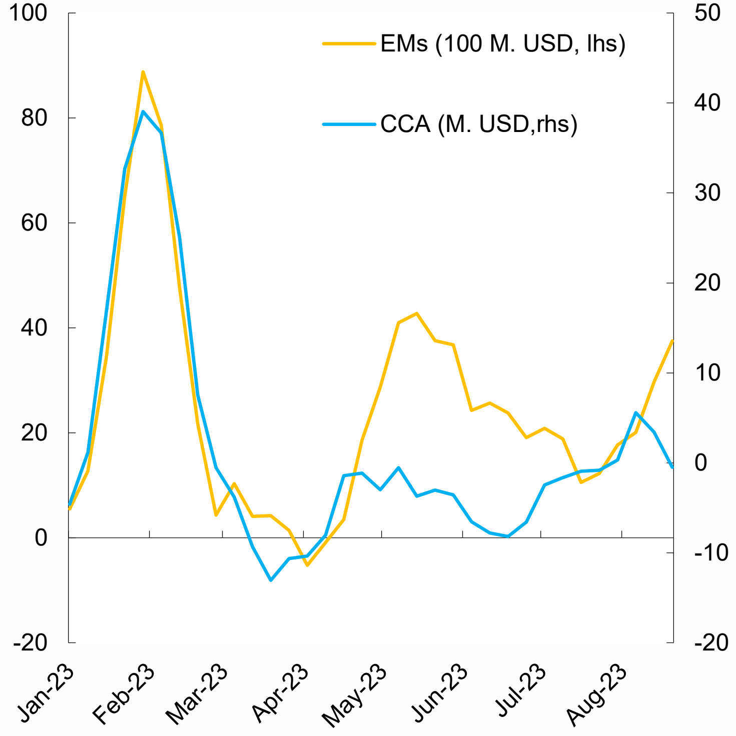
CCA: Policy Interest Rates
(Percent)



Sources: Haver Analytics; national authorities and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization country codes. The ranges around the natural rate estimates reflect one SD confidence intervals.

Portfolio flows to the region remained positive in the second quarter of the year

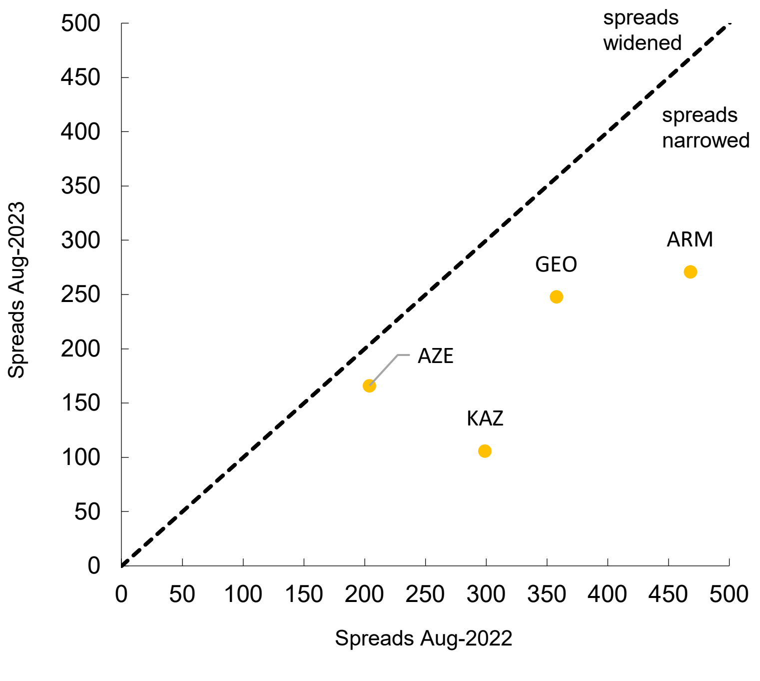
Portfolio Flows to CCA
(Millions of US dollars, monthly average net flows)



Sources: Haver Analytics; and IMF staff calculations.

Spreads have generally narrowed

JP Morgan EMBIG Spreads
(basis points)

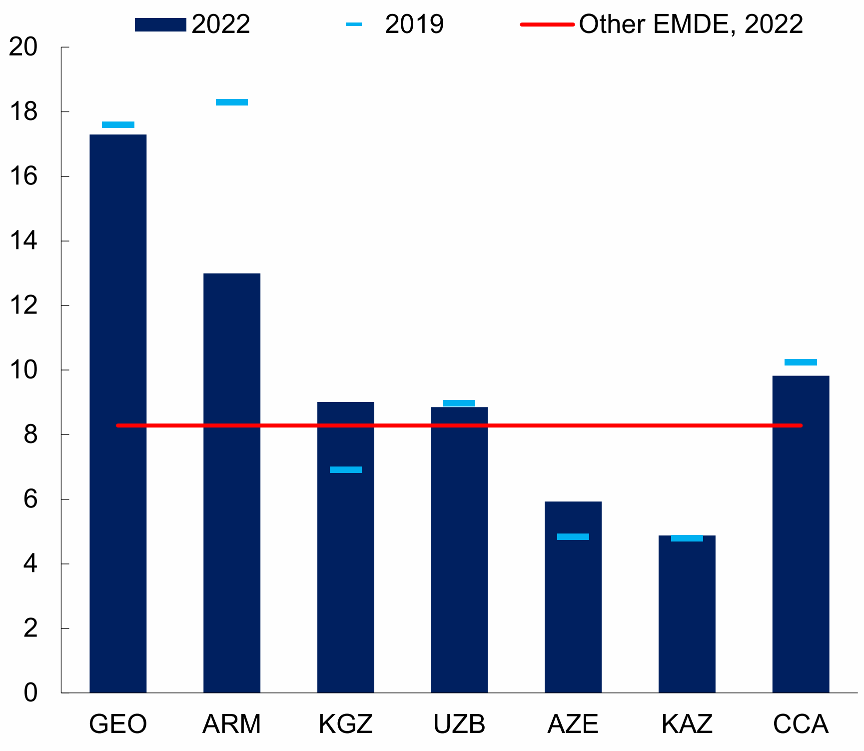


Source: Bloomberg Finance L.P

Long-standing challenges persist leading to high unemployment and subdued productivity

Long-standing labor market challenges persist

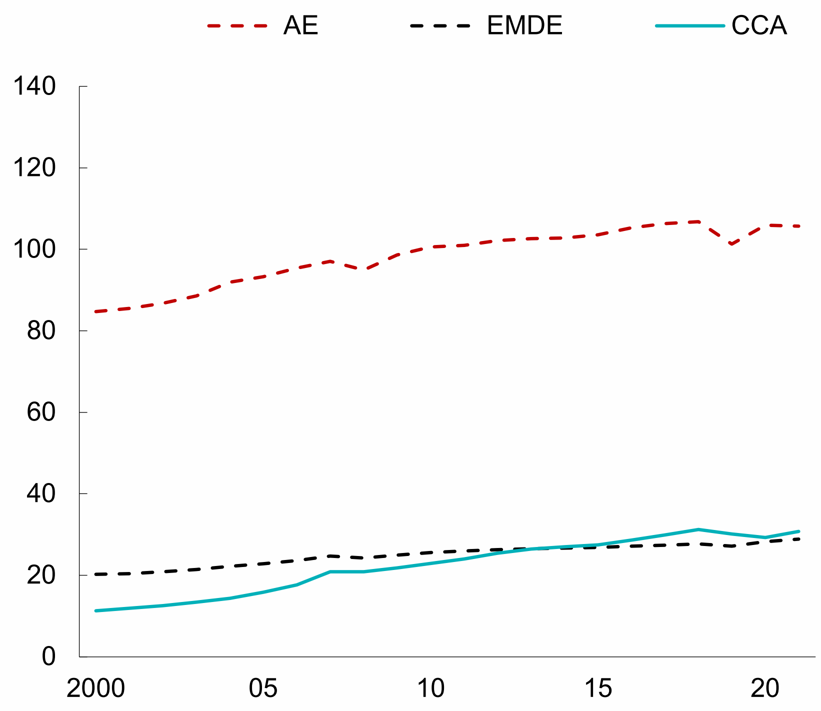
CCA: Unemployment Rate
(Percent)



Source: IMF, World Economic Outlook database; and IMF staff calculations.

Limited progress on implementing structural reforms weighs on productivity

Labor Productivity
(GDP per person employed, thousands)



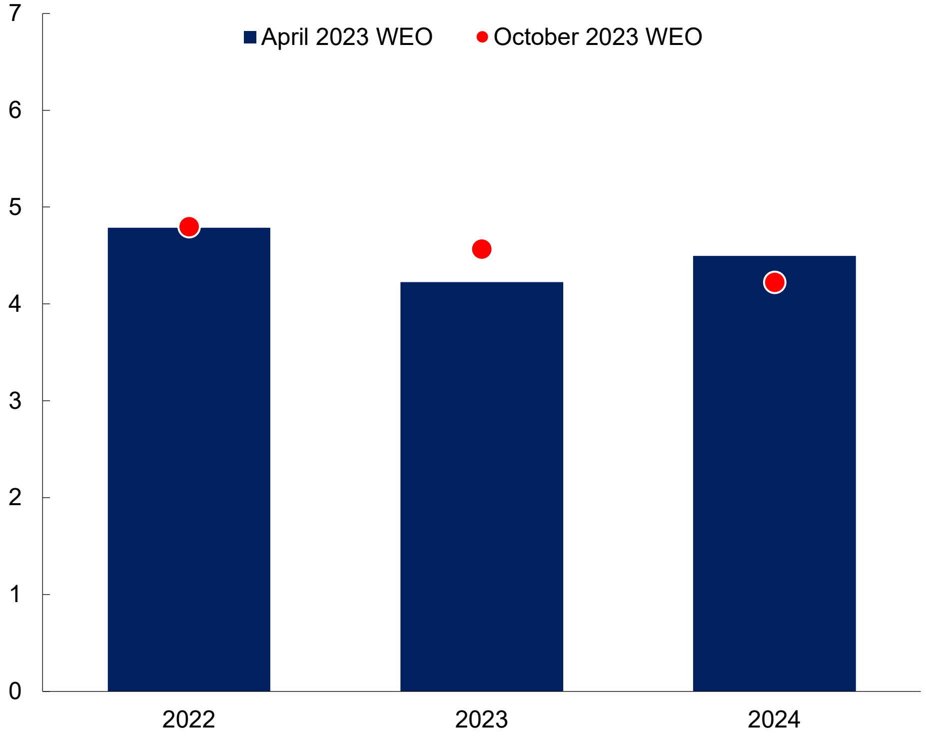
Source: World Bank, World Development Indicators, ILOSTAT; and IMF staff calculations.

Outlook: Growth is set to decelerate in 2023 while inflation to abate gradually

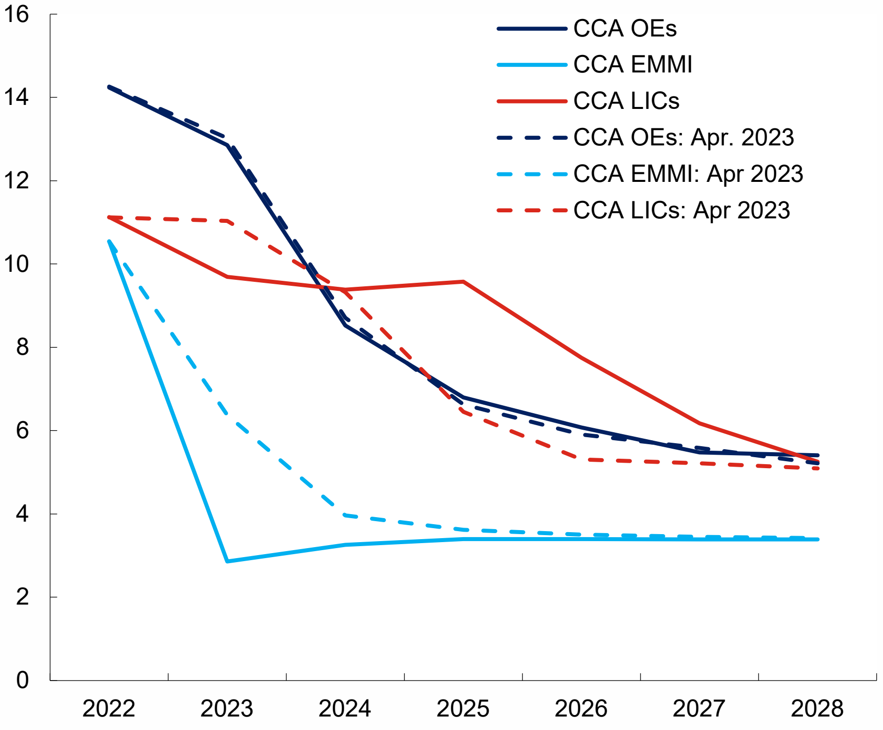
CCA growth is expected to gradually weaken …

In some CCA countries inflation is declining rapidly, while it is projected to be more persistent in others

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

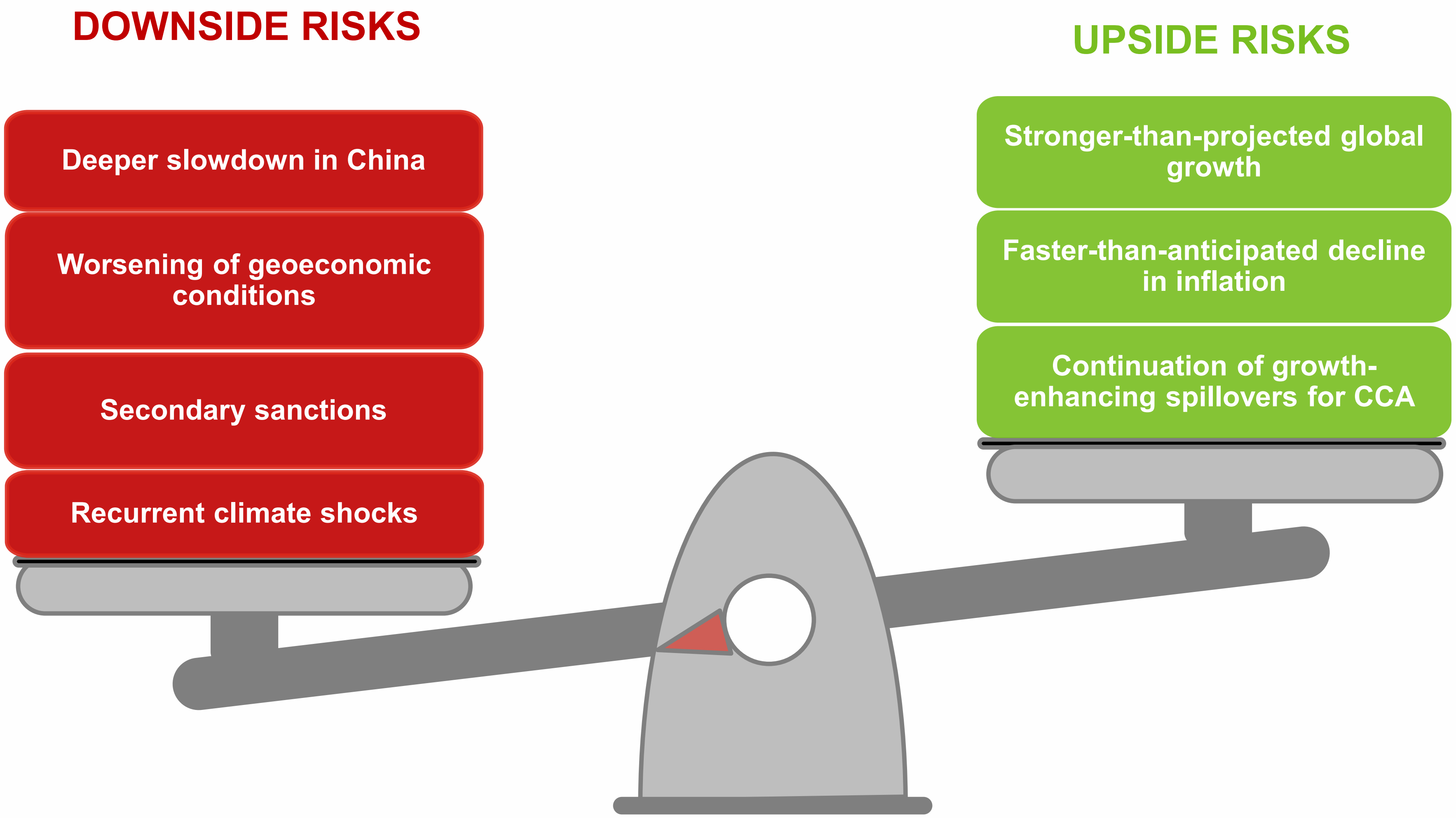


CCA: Headline Inflation
(Year-over-year percent change)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Risks: While the balance of risks has improved since April, it remains tilted to the downside



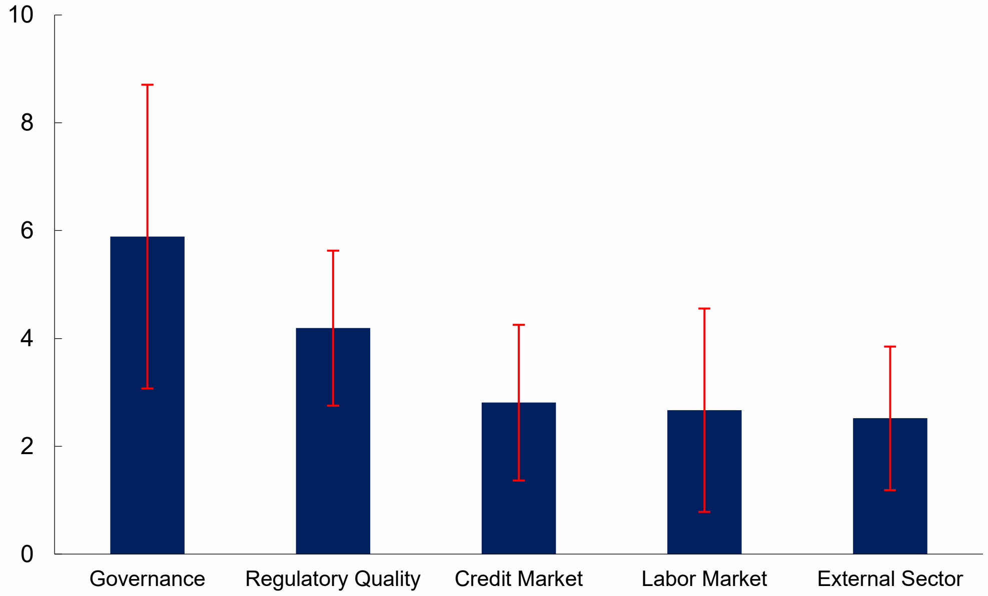
Policy Priorities

Structural reforms offer a way to build resilience and bolster growth both in the near and longer terms

Structural reforms can lift output significantly, even when growth is low and policy space is limited…

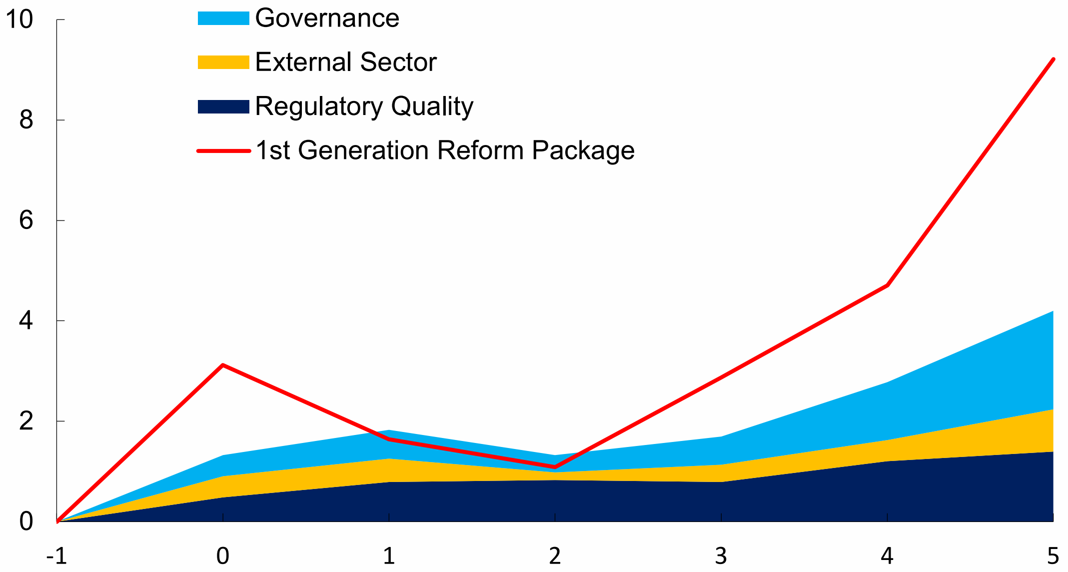
…and strategic packaging of reforms can further amplify their benefits

Output Effects of Reforms after 5 Years
(Percent)



Source: IMF, *World Economic Outlook*, World Bank, Fraser Institute, and IMF staff calculations.
Note: The blue bars reflect average impacts following major historic reforms (2 standard deviations) and the red lines are 95 percent confidence intervals.

Output Effects of First-Generation Reform Package
(Percent)

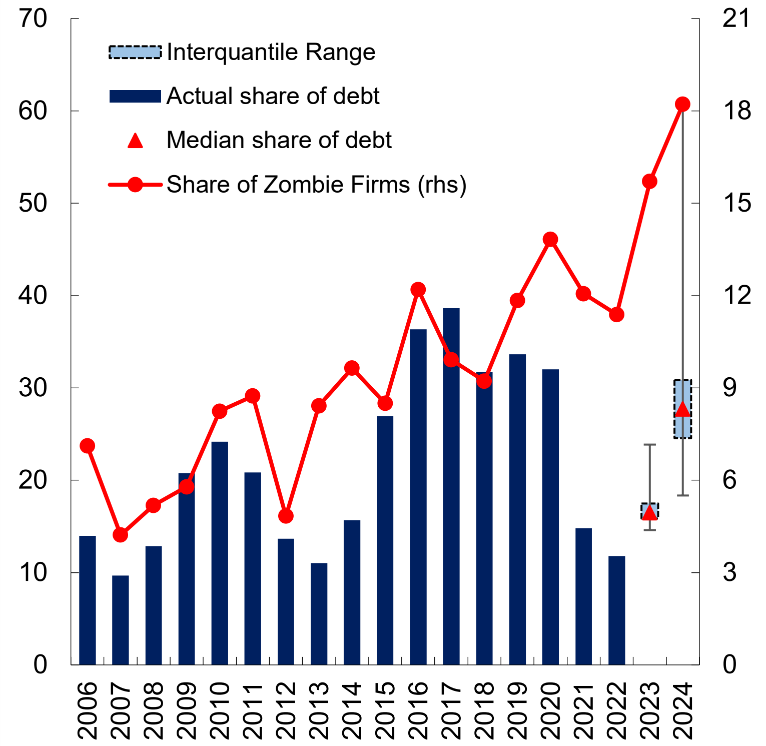


Sources: IMF, *World Economic Outlook*, World Bank, Fraser Institute, and IMF staff calculations.
Notes: The scale of the x-axis is years, where t=0 is the first year of the reforms are implemented. The red lines denote the response to a major historical first-generation reform package—defined as the sum of one-third of a major historical reform (two standard deviations) on its three components. The stacked areas denote the responses to one-third of a major historical reform (two standard deviations) on the three components of the first-generation reform package, namely governance, trade, and product market, when implemented individually.

Higher-for-longer interest rates call for strong policies to preserve financial stability and enhance growth potential

Debt at risk of default could double in the corporate sector…

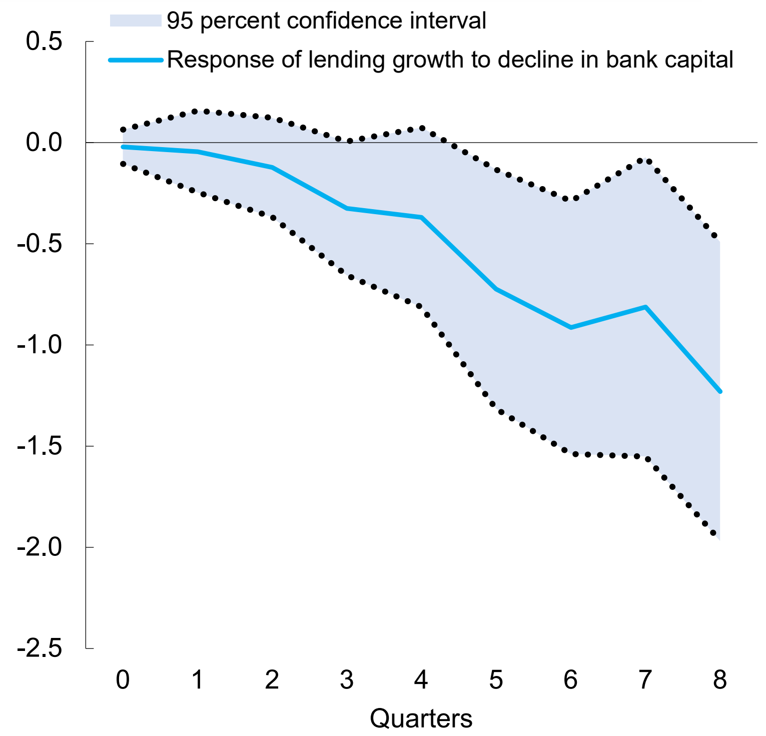
Total Debt Held by Zombie Firms
(Percent of total)



Sources: S&P Capital IQ; and IMF Staff Calculations
Notes: Data for 2023 and 2024 are simulation results. Zombie firms are defined as firms with an ICR below 2.5 and borrow at a rate lower than the top rated firms.

…and some banks could face losses, hampering credit provision…

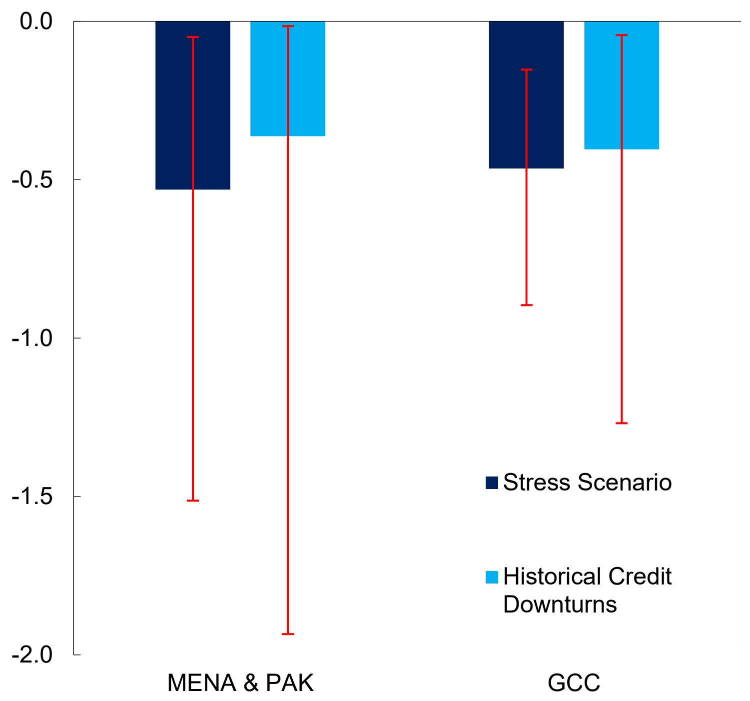
Effect of 1 Percentage Point Lower Capital Ratio on Real Credit
(Percent)



Sources: Fitch Connect; and IMF staff calculations.

…and weighing on output

Effect of Real Credit Contraction on Real Output
(Percent)



Sources: International Financial Statistics; and IMF staff calculations. The output losses displayed reflect the median and 95th percentile of losses across countries in each subregion for a stress scenario (dark blue bars) and historical downturns (light blue bars). The confidence intervals around these estimates are displayed in red.

Policymakers must accelerate structural reforms to enhance growth, inclusion, and resilience to shocks, while deploying macro policies to safeguard stability

Structural Policies

- Improve governance & level the playing field
- Improve social protections
- Invest in education & digitalization
- De-carbonization, while ensuring energy security

Recovery

Macro & Conjunctural Policies

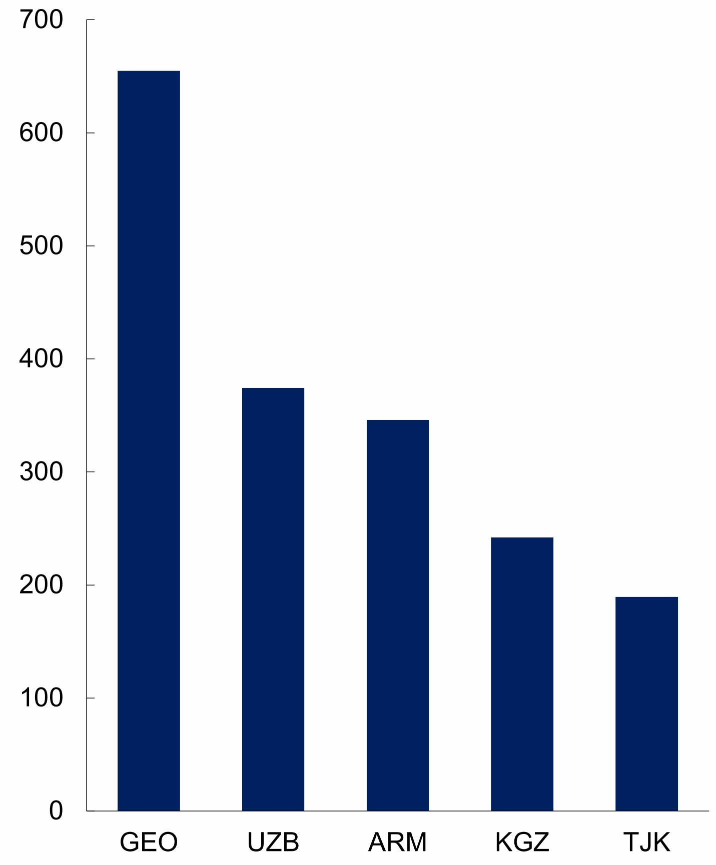
- Monetary policy: remain focused on ensuring price stability
- Fiscal policy: fiscal stance should remain prudent and aim at rebuild buffers; All countries need to strengthen medium-term frameworks
- LICs to maintain stability, mitigate food insecurity & seek international assistance as needed

Resilience

The IMF remains strongly engaged in supporting the region and is expanding its presence in the field

- $1.8 billion of new financing for 5 CCA countries since the onset of the pandemic, including a recent Fund arrangement for Armenia.
- $560 million in emergency financing were provided by IMF and emergency financing facilities were enhanced to address the food crisis confronting our most vulnerable members.
- The IMF has increased its presence in the region by opening its CCA and Mongolia Regional Capacity Development Center

CCA: IMF Financing Since the Pandemic
(March 2020–September 2023, millions of USD)



Thank you