

April 11, 2021: REO Launch Press Briefing

Wafa Amr, Senior Communications Officer, IMF: A year into the pandemic where does the region stand, how does the recovery look, and what can policymakers do to accelerate it?

Jihad Azour, IMF's Middle East and Central Asia Department Director:

Thank you, Wafa, and I'd like to welcome everyone to the launch of our update to the *Regional Economic Outlook* for the Middle East and Central Asia.

1. Introduction: Amid hope, divergent recovery paths ahead

A year ago, when we convened our Spring Meetings for the first time virtually, the world was grappling with the early stages of a burgeoning humanitarian and economic crisis. Our region reacted with urgency and resolve, implementing measures aimed at containing the pandemic's spread and, in many countries, fiscal support and accommodative monetary policy that helped cushion the economic blow.

Now, a year later, the COVID-19 vaccine and favorable external environment offer hope that the end of the crisis is within sight. While growth is expected to pick up in the region, the path to recovery is still long and divergent, with many countries falling behind.

This is for several reasons.

First, progress on the vaccine rollout varies widely across the region, with some countries, like the GCC and Morocco, in advanced stages, while others risk falling behind, as widespread inoculation is not expected until 2022-23. Second, fragile and conflict-affected states, especially those with

low incomes, face a particularly difficult path ahead, given their limited vaccine access and ongoing instability. Third, countries whose economies are heavily reliant on contact-intensive sectors, especially tourism, will recover more slowly than others. Fourth, countries that did not implement strong fiscal support in the wake of the pandemic are now further behind on the road to recovery. Finally, the rise in oil prices is helping the fiscal and external balances of oil exporters and supporting the non-oil recovery, although OPEC+ cuts are limiting their impact on overall growth.

2. The regional outlook

Against this backdrop, the outlook remains highly uncertain, with the pandemic's trajectory, dependence on tourism, and available policy space all having a significant impact on individual country forecasts. Overall, real GDP growth for the Middle East and North Africa region is expected to pick up to 4 percent in 2021. In the Caucasus and Central Asia, output is projected to rise by 3.7 percent in 2021, returning to its precrisis level. Accelerating vaccinations could boost GDP by 1 percent by 2022.

The pandemic has exacerbated many economic challenges in the region and further exposed how much work remains to protect the most vulnerable, ensure equal opportunities for women and young people, and reduce poverty.

One particular concern going forward is rising government debt and growing financing pressures that have worsened in the past year and will constrain further policy action. This is particularly important, considering the risk of a rapid rise in US bond yields, which could lead to tighter financial conditions, renewed capital outflows, and higher sovereign spreads.

Addressing these and other challenges will help shape the region's future, which is why countries must consider 2021 the year of policymaking to implement policies that help bring the pandemic to an end, accelerate the recovery, promote debt sustainability, and build more inclusive and green economies.

3. Policies to emerge from the crisis toward a better future

First, to exit the crisis, securing access to vaccines and supporting health systems remain the most urgent imperatives. Regional and international cooperation will be critical to ensuring that low-income states are not left behind.

Second, to help accelerate the recovery, keeping policy support flexible, well-targeted, and in place until the recovery is entrenched will be important. For the many countries without policy space, further support should be balanced with debt sustainability. Developing medium-term fiscal and debt management strategies will help to reduce elevated debt burdens while providing maximum support to growth.

Support should target viable firms, especially small ones. Preparing workers for the post-pandemic world will also be vital, especially for the region's large youth population.

Finally, to build forward better countries must not lose sight of deep-seated transformational challenges, such as persistent poverty and climate change. Capitalizing on trends like increasing digitalization will help prepare their economies for the future and improve the efficiency of social safety nets, which is so critical to reducing poverty and inequality. Improving

governance should also be prioritized, as well as policies that adapt and invest in climate resilient infrastructure.

In 2020, the IMF supported the region with \$17 billion in financing. As countries move into the recovery phase, we remain a committed partner as the region works to emerge from this crisis and build a better future.

I look forward to discussing our analysis of the outlook for the MENA region in a webinar Monday with a distinguished panel of experts, which will be followed later this week with an event focused on the CCA.

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