



**MIDDLE EAST  
AND CENTRAL ASIA  
DEPARTMENT**

# **CAREC Economic Outlook – Risks and Policy Challenges**

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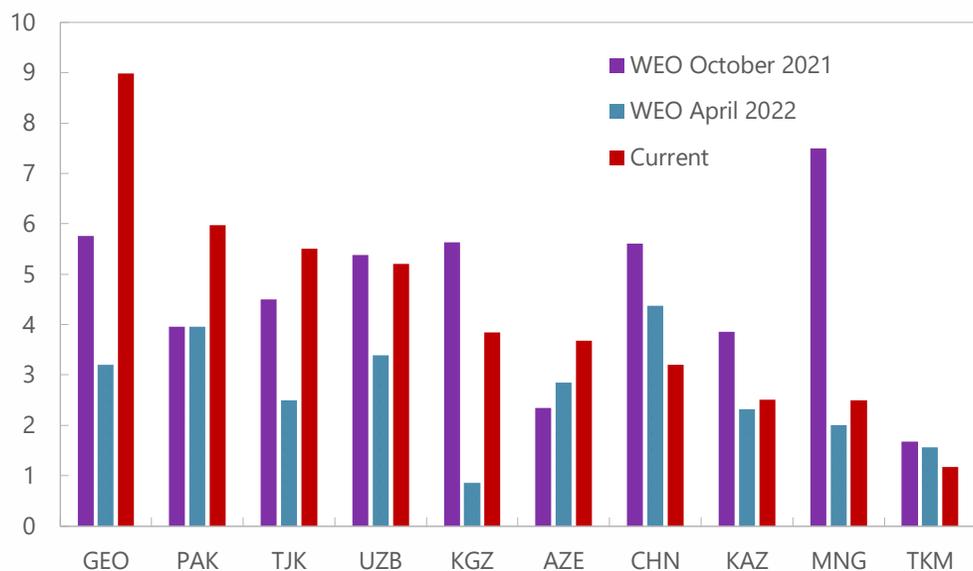
# Outline

- **Stock taking – Panorama since the onset of the War**
- **Risks and challenges**
- **Policy priorities**

# Stock taking: Resilient economic activity and trade

## 2022 growth projections revised upwards

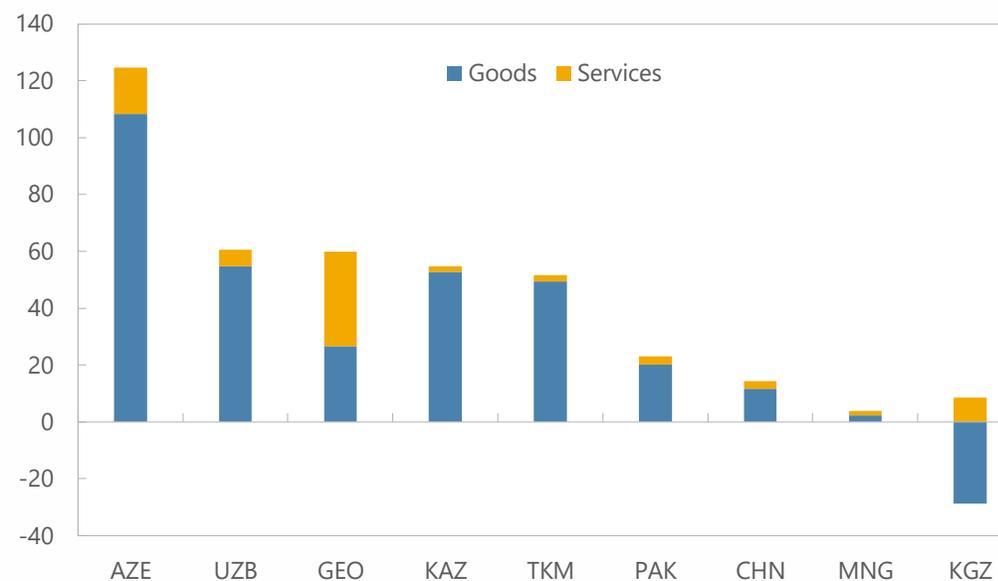
**2022 Real GDP Growth Projections**  
(Year-on-year percent)



Source: IMF WEO and national authorities.

## Exports accelerating

**Exports**  
(Percent change from H1 2021 to H1 2022)



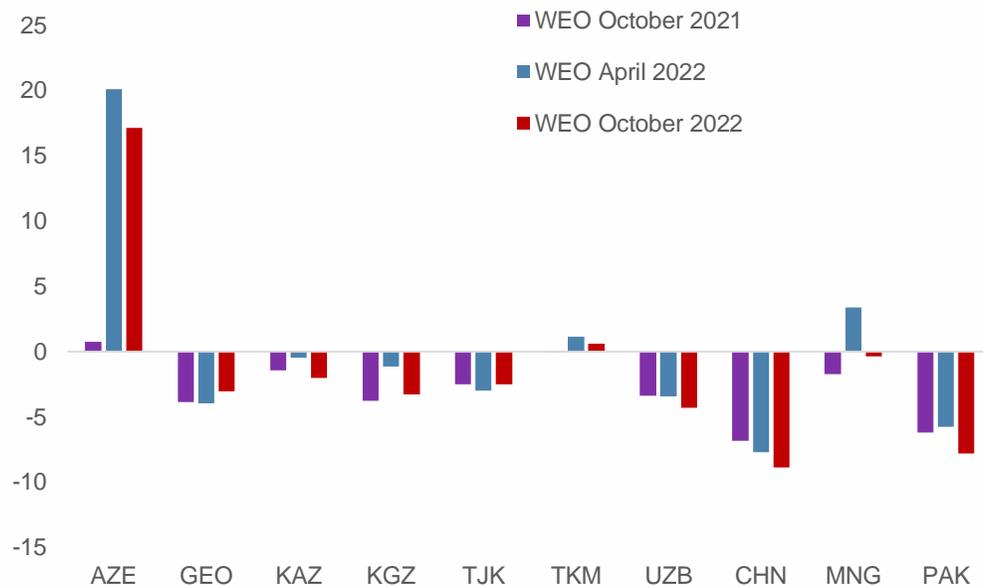
Source: Haver (National Authorities).

# Stock taking: Divergent fiscal positions

Fiscal balances have been varied

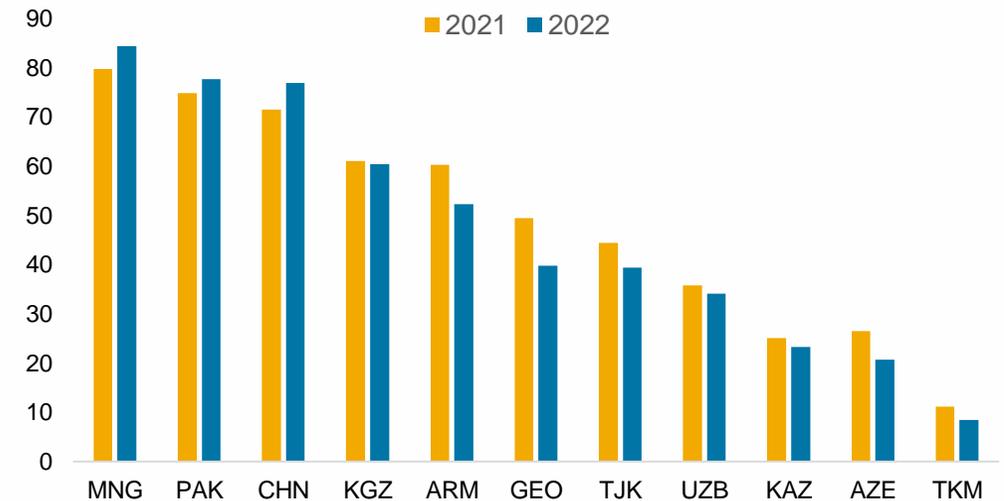
Public debt is projected to decline in most countries

**2022 Fiscal Balance Projections**  
(Percent of GDP)



Source: IMF World Economic Outlook and staff estimates.  
Note: Data for China reflects staff adjustments (please see IMF Fiscal Monitor for details).

**Government Debt**  
(Percent of GDP)



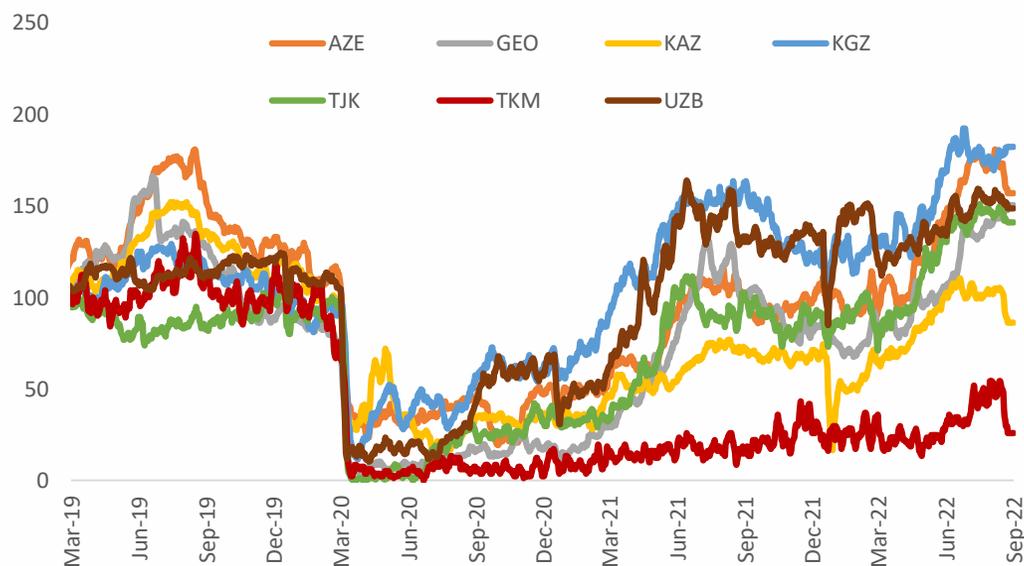
Source: IMF World Economic Outlook and staff estimates.  
Note: Data for China reflects staff adjustments (please see IMF Fiscal Monitor for details).

# Stock taking: Increased cross-border flows

## International travel picking up

### International Arrivals

(7-day moving average of number of flights, March 2019 = 100)

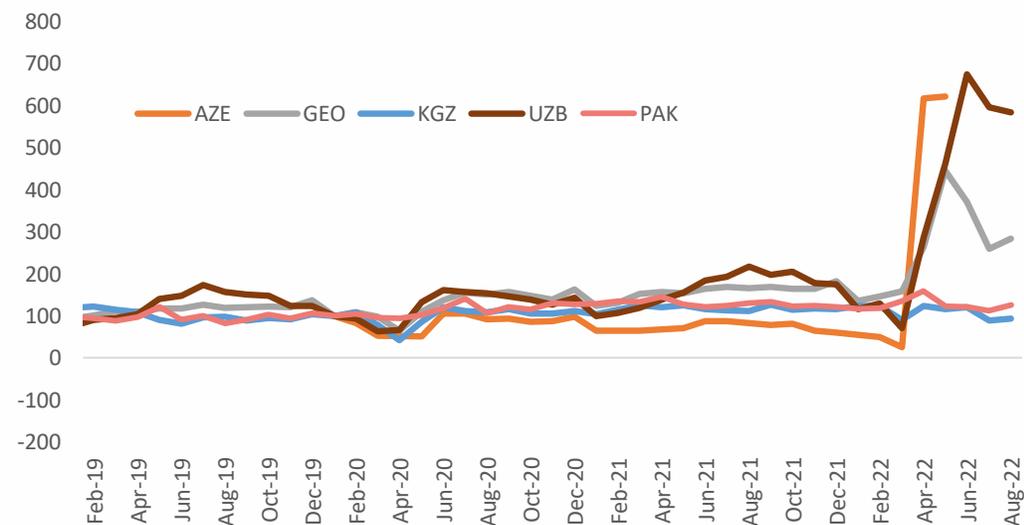


Source: FlightRadar24.

## Strong money transfers

### Money Transfers: Net Inflows

(Index, Jan 2020 = 100)



Source: Haver and National Authorities.

Note: Data for Pakistan is proxied by the Secondary Income Balance.

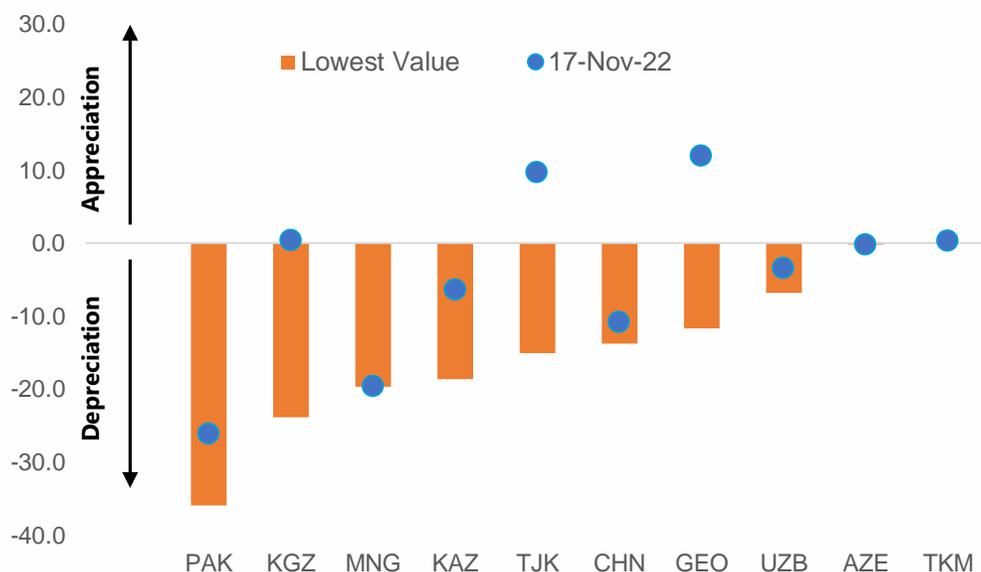
# Stock taking: Stabilized FX and sovereign debt markets

## Currencies have recovered

## Sovereign spreads have narrowed until very recently

### Exchange Rates

(LC/USD, percent change relative to end 2021)

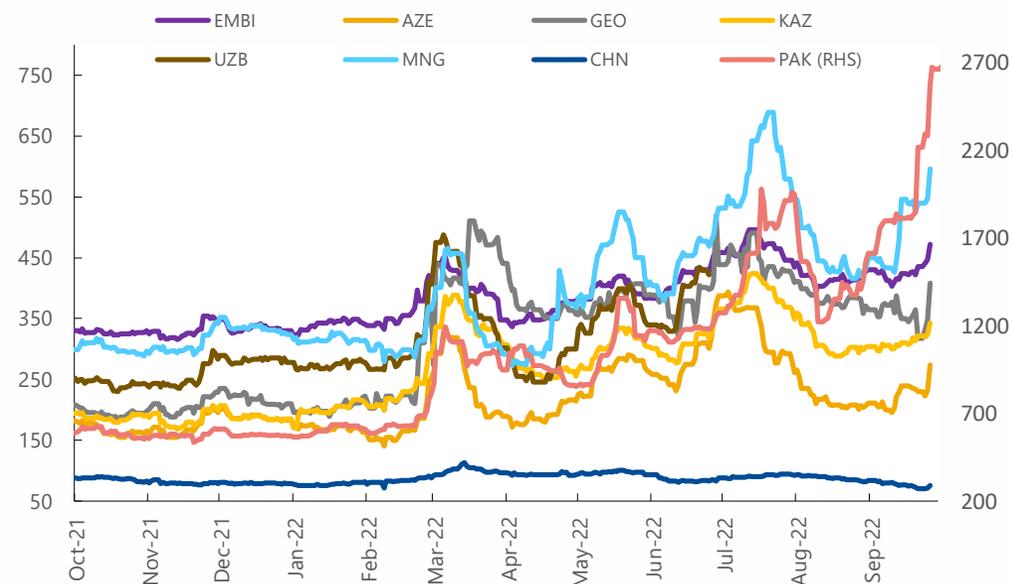


Source: Haver (National Authorities).

Note: AZE and TKM have pegged exchange rates.

### Sovereign Spreads

(In basis points)



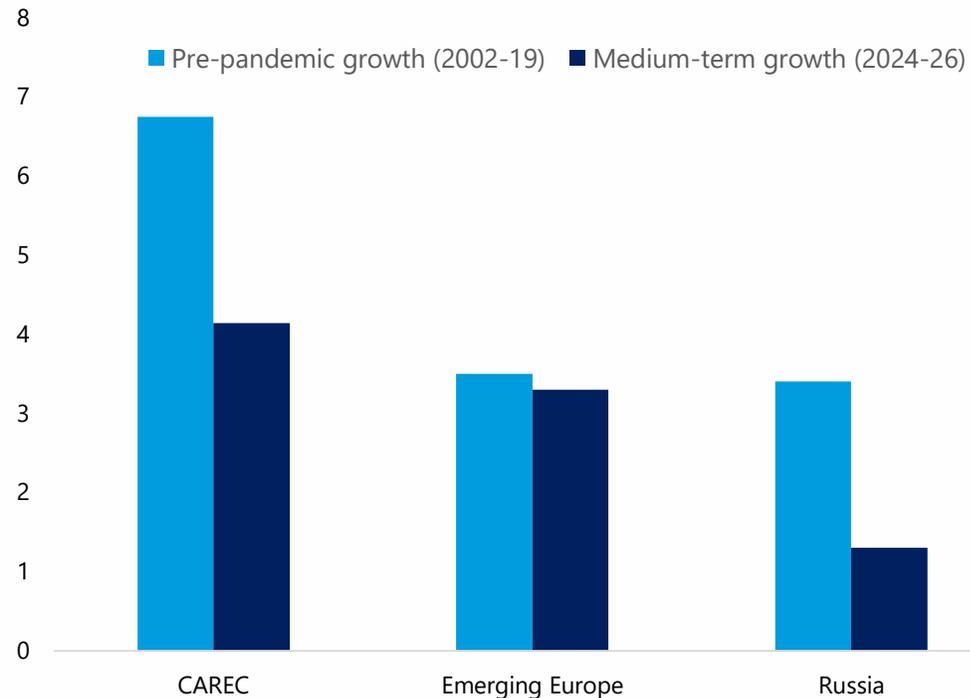
Source: Bloomberg, JPMorgan EMBIG Diversified Index, and IMF Staff Calculations.

# Risks and policy challenges: Factors that have supported CAREC resilience might fade away

Growth remains subdued over the medium-term

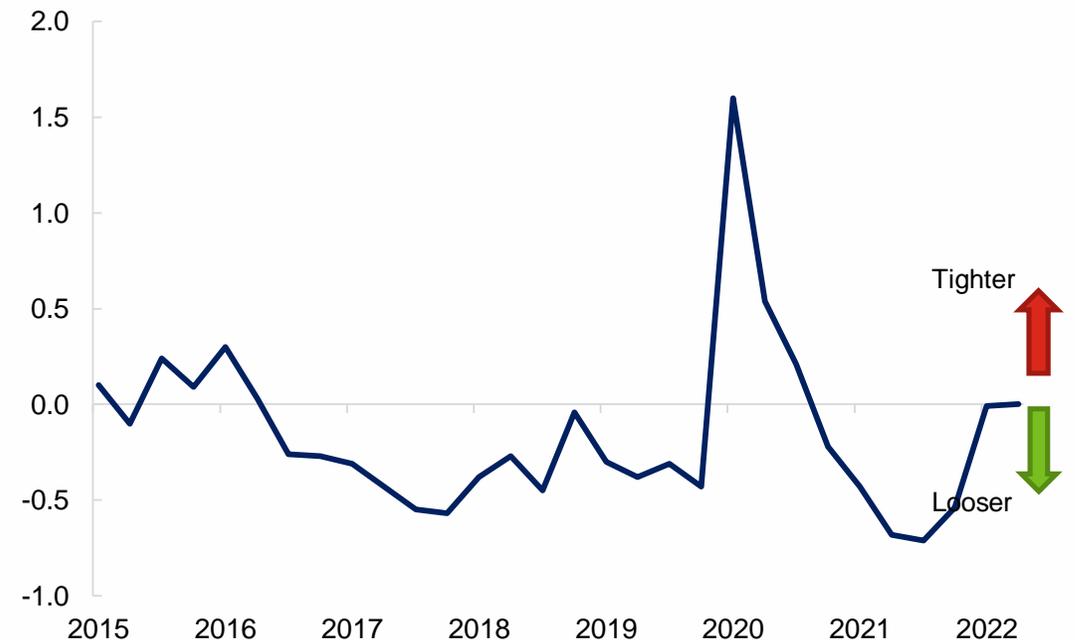
Global financial conditions have tightened sharply

**CAREC: Historical versus Medium-term Growth**  
(Year-over-year percent change; period averages)



Sources: IMF, WEO; and IMF staff calculations.

**Global Financial Conditions Index**



Source: IMF staff calculations.

# Risks and policy challenges: Inflation has become more persistent

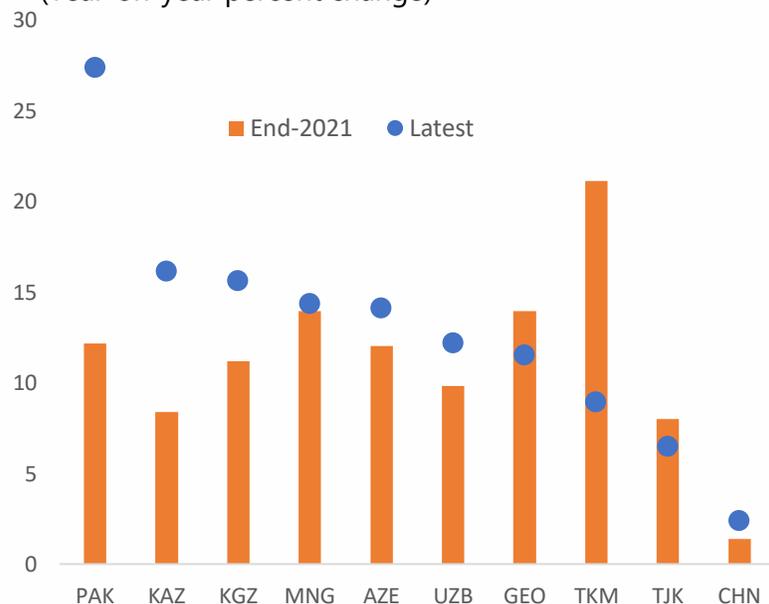
Inflation edged up across the region...

...and despite policy rate hikes...

... real interest rates have generally decreased since March

## Headline CPI

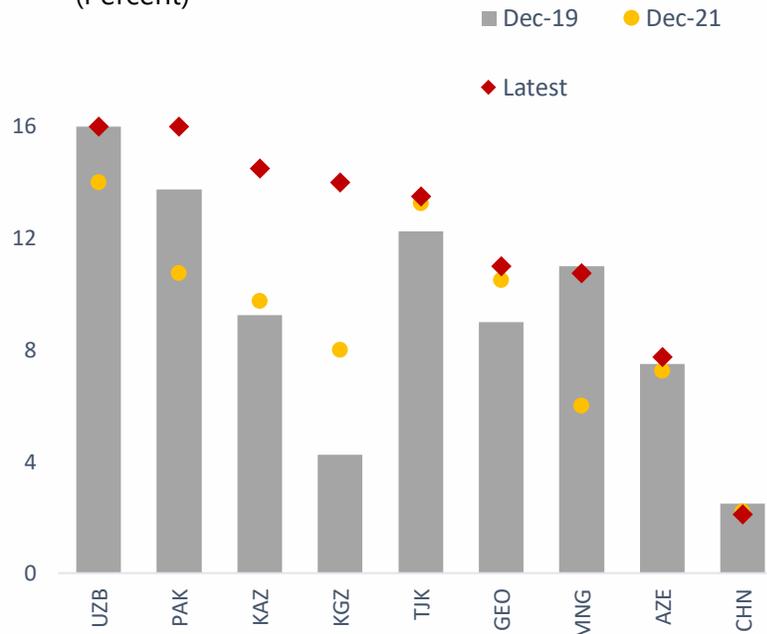
(Year-on-year percent change)



Source: Country Authorities.

## Monetary Policy Rates

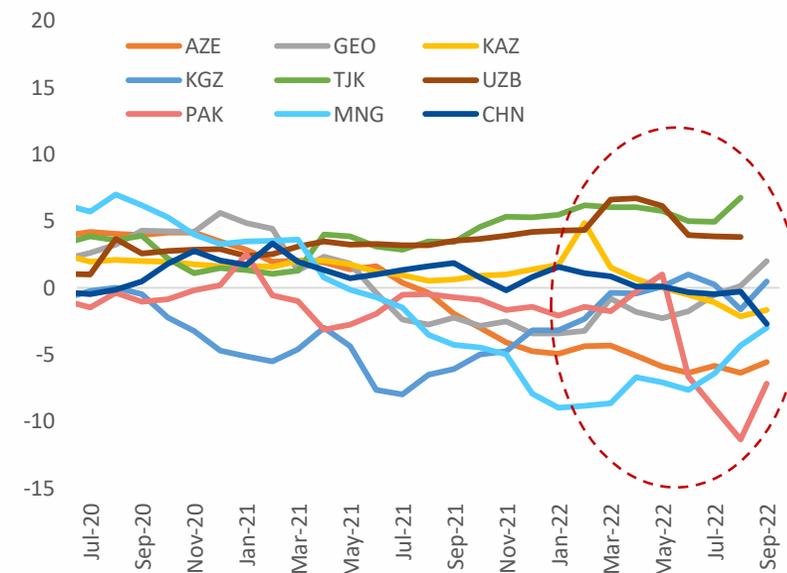
(Percent)



Source: Haver (National Authorities).  
Note: Last update, September 2022.

## Real Interest Rates

(Difference between policy rate and headline CPI)

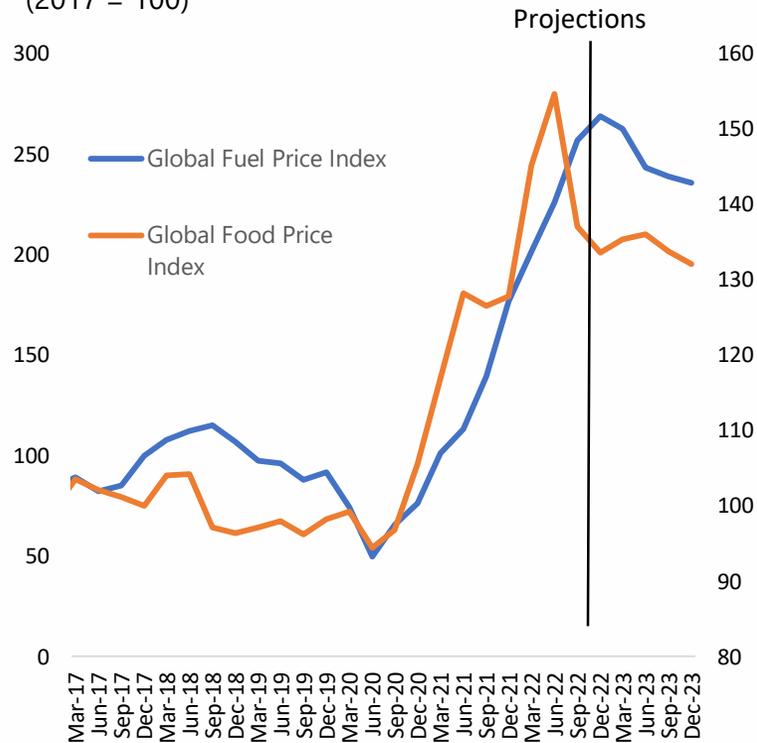


Source: Country Authorities.

# Risks and policy challenges: Rising commodity prices and a potential decline in remittances could exacerbate poverty

Global food and energy prices set to remain elevated...

**Global Food and Fuel Energy Prices**  
(2017 = 100)

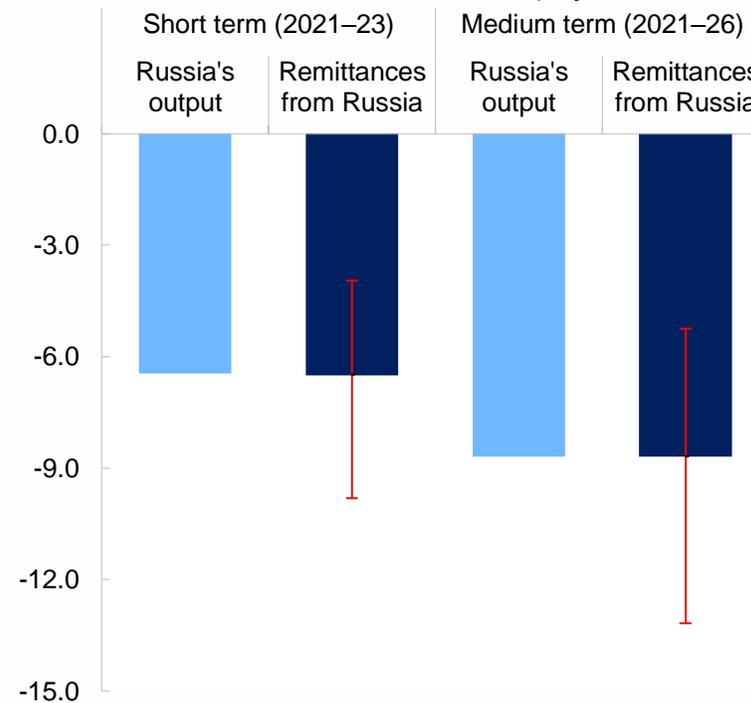


Source: IMF World Economic Outlook.

...and remittances from Russia could decline in the years ahead...

**Projected Losses since the War**

(Percent deviation from October 2021 WEO projections, nominal)



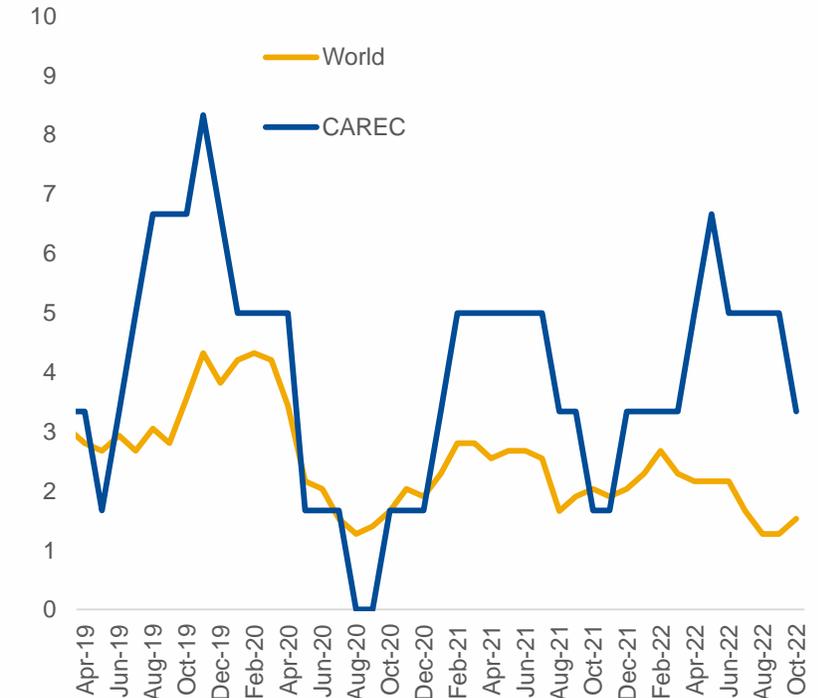
Sources: IMF staff calculations.

Note: The losses displayed reflect the estimated impacts of structural shocks to Russia's nominal GDP and the country's nominal remittances from Russia. The remittance bars reflect the median responses across all countries in the region except for Turkmenistan. The lines represent the maximum and minimum responses across CCA countries.

...raising the risk of social tensions

**Recent Trends in Social Unrest**

(Fraction of countries, percent, 6-month moving average)



Source: Barrett and others, 2020.

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

	Oil Exporters	EMs	LICs
<b>Restore price stability</b>	Tighten monetary policy where inflation is becoming broad based and expectations are rising		
<b>Protect the vulnerable</b>	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		
<b>Ensure fiscal sustainability</b>	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		
<b>Other policies</b>	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
	Step up the reform momentum to strengthen resilience and inclusion		

**Thank you**