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The analysis in this *Regional Economic Outlook* was coordinated under the general supervision of Jihad Azour (MCD Director). The project was directed by Taline Koranchelian (Deputy Director, MCD), S. Pelin Berkmen (Chief, MCD Regional Analytics and Strategy Division), Yasser Abdih (Deputy Chief, MCD Regional Analytics and Strategy Division), and Cesar Serra (Deputy Chief, MCD Regional Analytics and Strategy Division).

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Country Groupings

The October 2022 *Regional Economic Outlook (REO): Middle East and Central Asia* covers countries and territories in the Middle East and Central Asia Department (MCD) of the International Monetary Fund (IMF) referred to as ME&CA countries and territories. It provides a broad overview of recent economic developments and prospects and policy issues for the medium term. To facilitate the analysis, the 32 ME&CA countries and territories covered in this report are divided into three (nonoverlapping) groups, based on export earnings and level of development: (1) Oil Exporters (OE), (2) Emerging Market and Middle-Income Countries (EM&MI); and (3) Low-Income Developing Countries (LIC). Additional analytical and regional groups provide more granular breakdown for analysis and continuity. The country and analytical group acronyms and abbreviations used in some tables and figures are included in parentheses.

ME&CA OE include Algeria (ALG), Azerbaijan (AZE), Bahrain (BHR), the Islamic Republic of Iran (IRN), Iraq (IRQ), Kazakhstan (KAZ), Kuwait (KWT), Libya (LBY), Oman (OMN), Qatar (QAT), Saudi Arabia (SAU), Turkmenistan (TKM), and the United Arab Emirates (UAE).

ME&CA EM&MI include Armenia (ARM), Egypt (EGY), Georgia (GEO), Jordan (JOR), Lebanon (LBN), Morocco (MAR), Pakistan (PAK), Syrian Arab Republic (SYR), Tunisia (TUN), and the West Bank and Gaza (WBG).

ME&CA LIC include Afghanistan (AFG), Djibouti (DJI), the Kyrgyz Republic (KGZ), Mauritania (MRT), Somalia (SOM), Sudan (SDN), Tajikistan (TJK), Uzbekistan (UZB), and Yemen (YEM).

Caucasus and Central Asia (CCA) countries include Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

CCA OE include Azerbaijan, Kazakhstan, and Turkmenistan.

CCA OI include Armenia, Georgia, the Kyrgyz Republic, Tajikistan, and Uzbekistan.

CCA EM&MI include Armenia and Georgia.

CCA LIC include the Kyrgyz Republic, Tajikistan, and Uzbekistan.

Middle East and North Africa (MENA) includes Algeria, Bahrain, Djibouti, Egypt, the Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates, the West Bank and Gaza, and Yemen.

MENA OE include Algeria, Bahrain, the Islamic Republic of Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

MENA OI include Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Somalia, Sudan, the Syrian Arab Republic, Tunisia, the West Bank and Gaza, and Yemen.

MENA EM&MI include Egypt, Jordan, Lebanon, Morocco, the Syrian Arab Republic, Tunisia, and the West Bank and Gaza.

MENA LIC include Djibouti, Mauritania, Somalia, Sudan, and Yemen.

MENAP includes MENA, Afghanistan, and Pakistan.

MENAP OI include MENA OI, Afghanistan, and Pakistan.

Arab World includes Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates, the West Bank and Gaza, and Yemen.

The Gulf Cooperation Council (GCC) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

The **Non-GCC oil-exporting countries** are Algeria, the Islamic Republic of Iran, Iraq, and Libya.

North Africa countries include Algeria, Djibouti, Egypt, Libya, Mauritania, Morocco, Sudan, and Tunisia.

Fragile states and conflict-affected countries (FCS) include Afghanistan, Djibouti, Iraq, Lebanon, Libya, Somalia, Sudan, the Syrian Arab Republic, Tajikistan, the West Bank and Gaza, and Yemen.

Conflict-affected countries include Libya, Somalia, the Syrian Arab Republic, and Yemen.

Assumptions and Conventions

A number of assumptions have been adopted for the projections presented in the October 2022 *Regional Economic Outlook: Middle East and Central Asia*. It has been assumed that established policies of national authorities will be maintained, that the price of oil¹ will average US\$98.19 a barrel in 2022 and US\$85.52 a barrel in 2023, and that the six-month London interbank offered rate (LIBOR) on US dollar deposits will average 2.5 percent in 2022 and 4.8 percent in 2023. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would in any event be involved in the projections. The 2022 and 2023 data in the figures and tables are projections. These projections are based on statistical information available through late September 2022, unless otherwise noted. Non-oil indicators exclude all hydrocarbon revenues such as oil and gas revenues.

The following conventions are used in this publication:

- In tables, ellipsis points (. . .) indicate “not available,” and 0 or 0.0 indicates “zero” or “negligible.” Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2011–12 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2011/12) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY 2012).
- “Billion” means a thousand million; “trillion” means a thousand billion.
- “Basis points (bps)” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

As used in this publication, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

The boundaries, colors, denominations, and any other information shown on the maps do not imply, on the part of the International Monetary Fund, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

¹Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil.

1. Regional Developments and Economic Outlook: Mounting Challenges, Decisive Times

In a worsening global environment, economies in the Middle East and Central Asia (ME&CA) are being buffeted by a confluence of shocks: a global slowdown, high and volatile food and energy prices, faster and stronger-than-expected tightening of financial conditions, and the risk of fragmentation. The region's emerging market and middle-income economies (EM&MIs) and low-income countries (LICs) are hit hard, with many facing curtailed access to market financing, while oil-exporting countries are being buffered by still-high energy prices. The adverse impact of Russia's war in Ukraine on the Caucasus and Central Asia (CCA) has thus far been milder than expected. Still, the CCA's strong ties to Russia entail substantial risks to the region's outlook. The most urgent policy challenge for all countries is to tackle the cost-of-living crisis by restoring price stability, protecting vulnerable groups through targeted support, and ensuring food security. Policy trade-offs in EM&MIs and LICs have become more pronounced than ever, as they also need to preserve debt sustainability and financial stability. Oil exporters have the opportunity to maximize the benefits of the oil windfall by building buffers and advancing their diversification plans. CCA countries should carefully assess the magnitude and durability of the initial spillovers from the war in Ukraine and adjust their policy mix accordingly. Limited policy space in many countries raises the urgency of structural reforms to bolster economic growth while transforming economies to become more resilient, sustainable, diversified, and inclusive.

1.1. A Major Deterioration in Global Conditions

The global economic environment has deteriorated significantly. Russia's war in Ukraine continues, and sanctions on Russia are widening. Meanwhile,

the world's three largest economies—the United States, the European Union, and China—are experiencing significant slowdowns as downside risks highlighted in the April 2022 *World Economic Outlook* materialize.

A global slowdown is underway, and the risk of a recession has increased markedly. A contraction in global output in the second quarter of 2022 and ongoing weaknesses reflected in forward-looking indicators have prompted a downward revision to global GDP growth to 3.2 percent in 2022 and 2.7 percent in 2023 (0.4 and 0.9 percentage points lower, respectively, than projected in April). Although this baseline is subject to exceptional uncertainty, the risks are weighted heavily to the downside, and recession concerns are rising.

Commodity prices remain high. Although food prices are now below their prewar levels, they are still significantly above their 2021 average and projected to increase by 14.2 percent year over year in 2022—roughly unchanged from the IMF's April forecast. Wheat prices, to which several ME&CA countries are particularly exposed, are also now below their prewar levels, reflecting the July agreement between Russia and Ukraine to resume Ukrainian Black Sea grain exports, a favorable summer harvest in the Northern Hemisphere, and heightened concerns of a global recession. Still, they remain about 80 percent above their average level in 2019. High food and fertilizer prices can create severe food security challenges for LICs and fragile and conflict-affected states, as well as vulnerable groups in other countries (Box 1.1). Oil prices have been volatile and are forecast at \$98.2 per barrel for the full year, 41.2 percent higher than in 2021. However, this increase is 13.2 percentage points lower than forecast in April, with the impact of wider sanctions on energy imports from Russia more than offset by slowing global growth. Energy prices for natural gas and coal have also been high and volatile, reflecting uncertainties

Prepared by Mohamed Belkhir, Rodrigo García-Verdu (lead), and Robert Tchaidze with excellent research assistance from Vizhdan Boranova, Roy Randen, and Subi Velkumar.

surrounding the continued flow of Russian gas to Europe. These developments have driven a wedge between commodity exporters and importers with significant economic implications (Chapter 2).

Global financial conditions have tightened faster and more sharply than expected since last spring. Monetary policy across the globe is tightening at a faster pace than envisioned in response to upside surprises in inflation. The IMF's Global Financial Conditions Index has continued increasing since March 2022 and is now at its highest level since September 2020—with the tightening for emerging markets (excluding China) far above that for advanced economies. In addition, global risk aversion has increased, leading to lower equity market valuations, widening emerging market sovereign bond spreads, and increasing portfolio outflows from emerging markets (October 2022 *Global Financial Stability Report*).

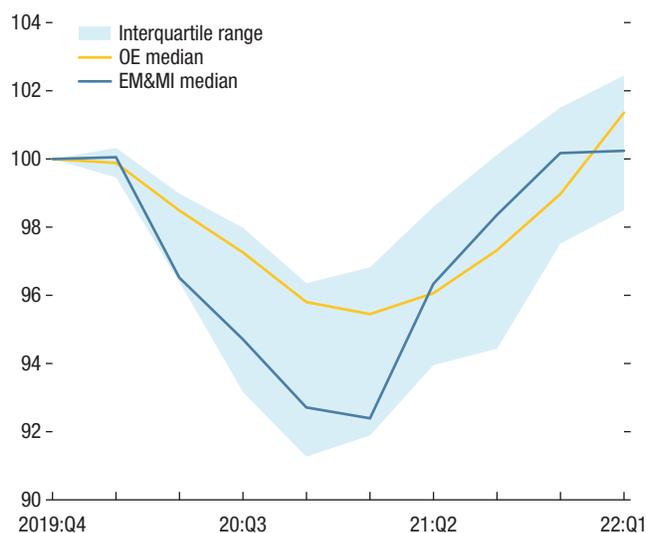
1.2. Middle East and Central Asia: Continued Recovery in Early 2022, but with Higher Inflation and Tighter Financing Conditions

Economic activity in the region held up well in the first half of 2022, but inflation surprised on the upside, and access to external market financing has been severely curtailed for vulnerable EM&MIs.

The Recovery Continued in the First Half of 2022 ...

The region has made sizable progress in recouping lost output from the COVID-19 shock. The median output for oil exporters and EM&MIs continued to expand into the first quarter of 2022, albeit at a slowing pace, particularly for the latter (Figure 1.1). Notwithstanding spillovers from the war and the sharp tightening of global financial conditions, high-frequency indicators for the second quarter of 2022 suggest that economic activity has been resilient thus far. For example, the purchasing managers' index signaled continued non-oil growth (Kazakhstan, Qatar, Saudi Arabia,

Figure 1.1. Real GDP Index
(Index, 2019:Q4 = 100, four-quarter moving sum)



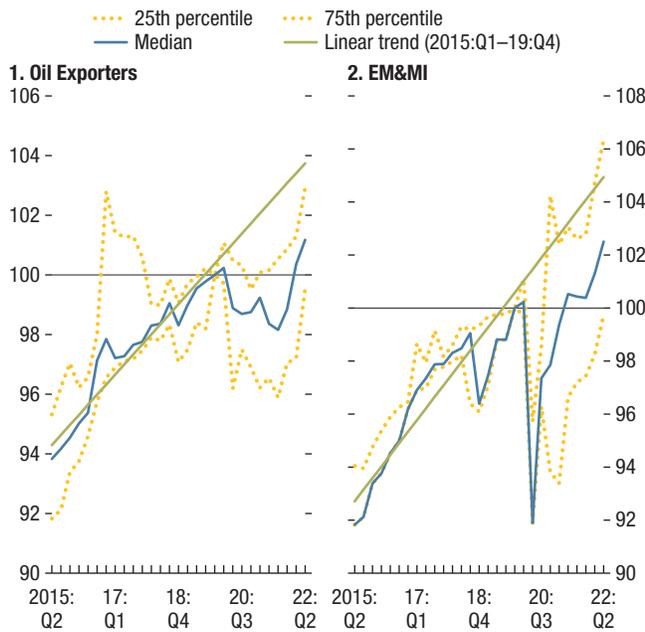
Sources: Haver Analytics; and IMF staff calculations.
Note: EM&MI = emerging market and middle income economies; OE = oil exporter.

United Arab Emirates) and industrial production continued to expand (Egypt, Jordan, Kyrgyz Republic, Pakistan, Saudi Arabia, West Bank and Gaza), albeit at a more moderate pace in most countries. Similarly, hotel occupancy rates and international flight arrivals maintained their recovery in July.

Employment continued to recover from losses accrued during the pandemic, with median employment (for oil exporters and EM&MIs) surpassing the end-2019 levels in the second half of 2021. Nevertheless, in the first quarter of 2022, the region's employment was still below levels implied by prepandemic trends (Figure 1.2). This suggests that unemployment remained elevated, particularly for women and youth in the Middle East and North Africa (MENA) region (at 22 and 32 percent, respectively), even if declining from its 2020 peak.

However, climate shocks have also caused disruption. The recent floods in Pakistan have been devastating, affecting 33 million people—1 out of 7 Pakistanis—with a significant impact on schools, critical transportation infrastructure,

Figure 1.2. Employment Index
(2019:Q4 = 100, SA)



Sources: Haver Analytics; and IMF staff calculations.
Note: SA = seasonally adjusted; EM&MI = emerging market and middle income economies.

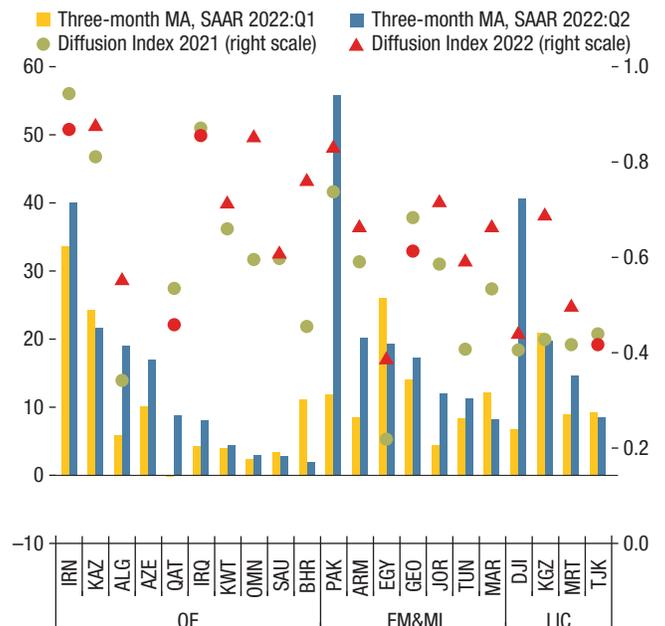
and crops, and are likely to impact growth beyond that projected.

Headline inflation increased in most countries, reaching a weighted average of 15.1 percent year over year in MENA and 13.5 percent in the CCA in July 2022. Although food prices remain the main driver of headline inflation, there is incipient evidence that inflation has become more widespread across categories and products (Figure 1.3), fueling a cost-of-living crisis in many countries. For a few countries where data from Consensus Forecasts are available, current-year inflation expectations have increased (Egypt, Pakistan), but medium-term expectations remain contained relative to end-2021 levels.

... With External and Fiscal Balances Diverging between Oil Exporters and Others ...

The increase in food and energy prices since 2021, amplified by the war in Ukraine, implies

Figure 1.3. Month-over-Month Inflation, Annualized

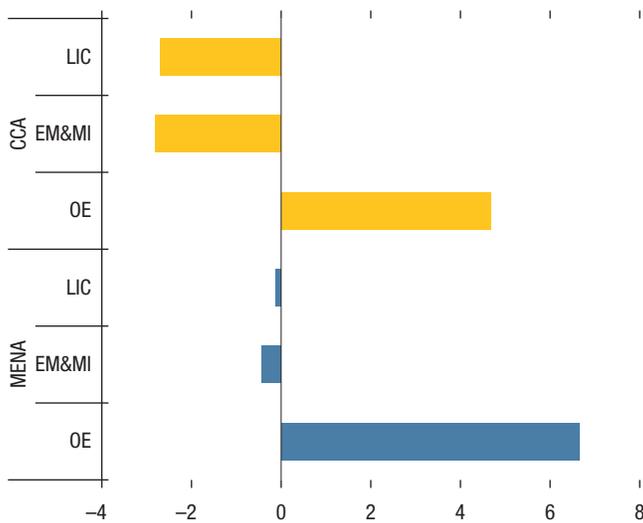


Sources: Haver Analytics; and IMF staff calculations.
Note: All inflation values are three-month moving averages (MA) of the seasonally adjusted annualized rate (SAAR) series. The diffusion index is the percent of expenditure categories or of products in the consumer price index (CPI) whose inflation exceeds a given threshold. The threshold used is the latest inflation target if the country has one, or, if there is none, the average inflation rate of each component or product over the three- to five-year period prior to the onset of the pandemic, depending on how far back the disaggregated CPI data are available. Country abbreviations are International Organization for Standardization country codes. EM&MI = emerging market and middle income economies; LIC = low-income country; OE = oil exporter.

a sizable terms-of-trade shock to ME&CA. However, the impact has varied across country groups, depending on whether countries are net food and energy exporters. On average, the net commodity terms-of-trade gain for oil exporters during the first half of 2022 was about 6 percent of GDP, while oil importers (EM&MIs and LICs) lost roughly 0.5 percent of GDP over the same period (Gruss and Kebhaj 2019) (Figure 1.4). Although recent declines in commodity prices might reduce the size of the terms-of-trade shock, the overall impact remains sizable, with significant implications for external and fiscal accounts (Chapter 2) and poverty and inequality (Chapter 3).

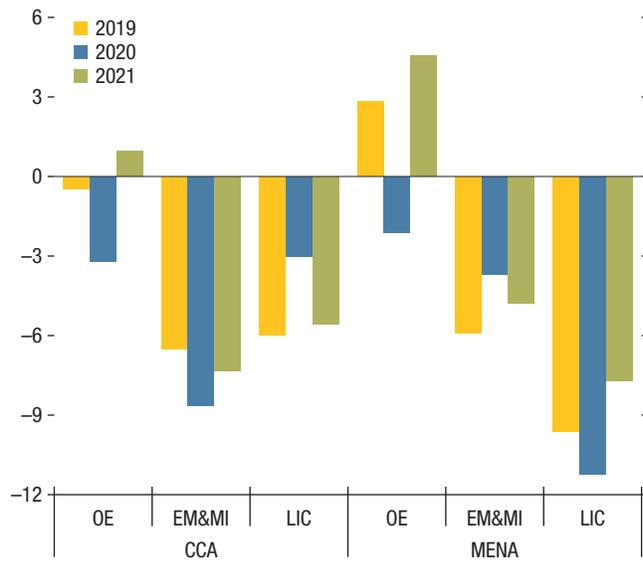
External current account balances have diverged across the region’s oil exporters and oil importers, driven by the rise in oil and other commodity

Figure 1.4. Country-Specific Net Commodity Terms-of-Trade Index January–July 2022
(Percent of GDP, weighted by PPP GDP)



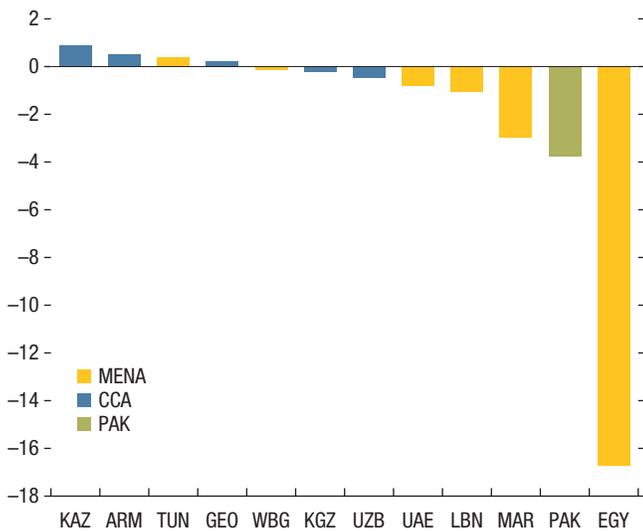
Source: IMF staff calculations based on Gruss and Kebhaj (2019).
Note: CCA = Caucasus and Central Asia; LIC = low-income country; EM&MI = emerging market and middle income economies; MENA = Middle East and North Africa; OE = oil exporters; PPP = purchasing power parity.

Figure 1.5. Current Account Balance
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; EM&MI = emerging market and middle income economies; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter.

Figure 1.6. Foreign Exchange Reserves, January–August 2022
(Billions of US dollars)

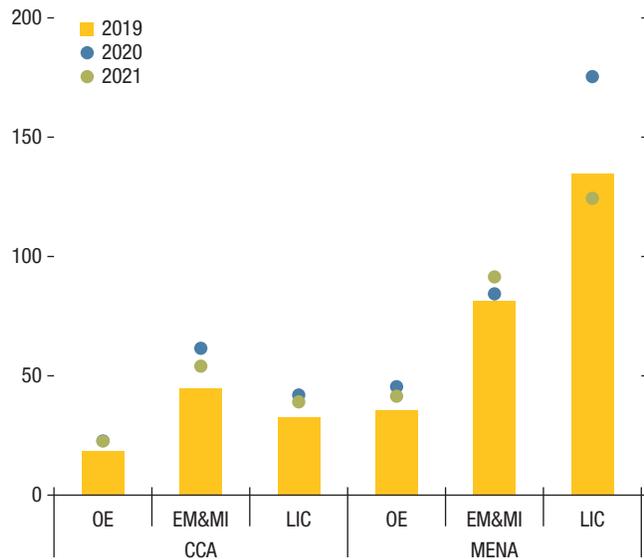


Sources: Haver Analytics; and IMF staff calculations.
Note: Depending on data availability, the foreign exchange reserve is calculated either at the end of April, the end of June, or the end of July. Country abbreviations are International Organization for Standardization country codes. CCA = Caucasus and Central Asia; MENA = Middle East and North Africa.

prices. In 2021, current account balances registered surpluses in oil-exporting countries in both the CCA and MENA regions (an average of 0.9 and 4.6 percent of GDP, respectively) and high deficits across ME&CA EM&MIs and LICs (3.6 percent and 6.6 percent, respectively) (Figure 1.5). Available data suggest that these trends continued into the first quarter of 2022, with current account deficits in EM&MIs widening further (Pakistan) and oil exporters' surpluses continuing to increase (Azerbaijan, Bahrain, Iran) amid high international commodity prices and exports.

Exchange rates and international reserves have come under significant pressure among some MENA EM&MIs and Pakistan. Since the start of the war in Ukraine, nominal effective exchange rates have depreciated by nearly 15 percent in Pakistan and 10 percent in Egypt. In contrast, after registering initial losses, nominal effective exchange rates in CCA countries have appreciated since March, partly reflecting increased money transfers to the region in the aftermath of Russia's invasion of Ukraine (see Box 1.2). Data for July

Figure 1.7. General Government Gross Debt
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; EM&MI = emerging market and middle income economies; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter.

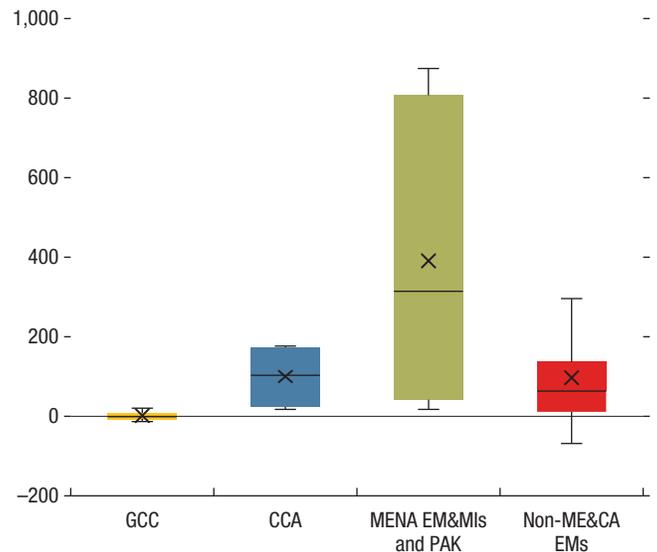
2022 also point to downward pressure on foreign exchange reserves in some countries, including Egypt, Morocco, and Pakistan (Figure 1.6).

By end-2021, fiscal balances in all country groups had improved compared to their 2020 levels. Nevertheless, while non-oil primary fiscal balances in oil-exporting countries had returned to near pre-pandemic outturns, primary fiscal balances in EM&MIs remained vulnerable and below pre-pandemic outturns. As a result, public debt ratios as a share of GDP subsided in 2021, except in MENA EM&MIs, where the average public debt-to-GDP ratio increased from 84 percent in 2020 to 92 percent in 2021 (Figure 1.7).

... and Financial Conditions Tightening Sharply for EM&MIs

Financial conditions in the region's EM&MIs—particularly those with weaker fundamentals—have tightened more than in other frontier and emerging market economies worldwide (October 2022 *Global Financial Stability Report*). Foreign-

Figure 1.8. Change in Sovereign Spreads between February and September 2022
(Basis points)

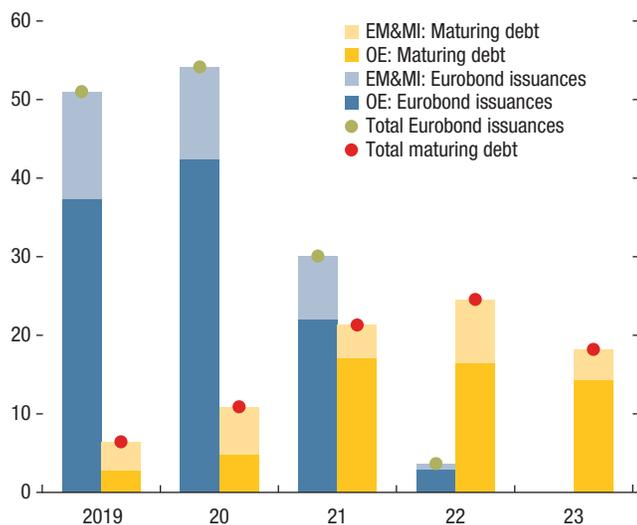


Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: The × denotes mean; the horizontal lines denote median and quartiles; whiskers denote maximum and minimum, excluding outliers. Country abbreviations are International Organization for Standardization country codes. CCA = Caucasus and Central Asia; EM&MI = emerging market and middle income economies; GCC = Gulf Cooperation Council; ME&CA = Middle East and Central Asia; MENA = Middle East and North Africa; OE = oil exporters; PAK = Pakistan.

currency sovereign bond spreads have widened substantially in several MENA EM&MIs (Egypt, Tunisia) and Pakistan, and to some extent in CCA EM&MIs (Armenia, Georgia), reflecting investor concerns about high external and fiscal vulnerabilities and spillovers from the war in Ukraine amid tightening global financial conditions and slowing global growth. Other EM&MIs (Jordan, Morocco) have experienced more moderate increases in spreads, reflecting market differentiation. In contrast, Gulf Cooperation Council (GCC) countries' sovereign spreads have remained stable since the onset of the war (Figure 1.8).

Weaker currencies and wider dollar funding spreads have pushed up the cost of external borrowing, leading to a substantial decline in sovereign Eurobond issuances amid high external refinancing needs in the region's EM&MIs. Eurobond issuances in oil exporters also

Figure 1.9. ME&CA: Eurobond Issuances and Maturing Debt
(Billions of US dollars)



Sources: Perfect Information; and IMF staff calculations.

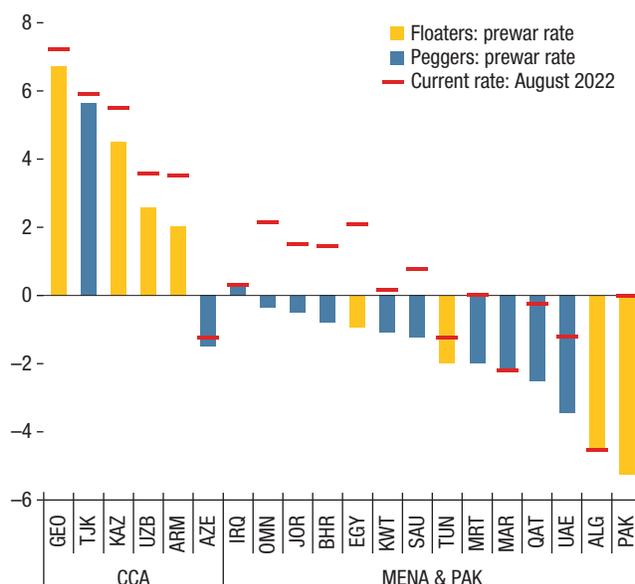
Note: Eurobond issuances in 2022 are as of September. EM&MI = emerging market and middle-income economies; ME&CA = Middle East and Central Asia; OE = oil exporter.

declined, albeit for different reasons, reflecting lower financing needs given high oil prices. The region issued just \$3.65 billion from January to September 2022, down from \$30.1 billion over the same months a year earlier. So far, this represents a sizable gap relative to the \$24.5 billion in sovereign Eurobonds maturing in 2022 across the region, about one-third of which are in EM&MIs (Figure 1.9). Countries in the region have been filling the gap with official bilateral, multilateral, and domestic financing.

Portfolio flows to the region have also come under pressure since mid-2021, and the region has lost substantial foreign capital since Russia's invasion of Ukraine in February. International investors have pulled out \$3.8 billion since July 2021, more than half of which (\$2.2 billion) was since February.

As many central banks (most CCA countries, Egypt, Mauritania, Pakistan, Tunisia) raised interest rates in response to rising inflation and exchange rate pressures, ex ante real rates turned positive in the CCA but remained negative in most MENA countries and Pakistan. In countries

Figure 1.10. Real Policy Rates
(Percent)



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

Note: Real policy rate is calculated as nominal policy rate minus one-year-ahead inflation projection. To calculate the real policy rates, various rates are used as policy rates across countries depending on availability. Prewar levels are as of February 2022. Country abbreviations are International Organization for Standardization country codes. CCA = Caucasus and Central Asia; MENA = Middle East and North Africa.

with pegs to the US dollar (GCC countries, Jordan), policy rates increased with or closely followed the US Federal Reserve's rate hikes (Figure 1.10).

1.3. Better-than-Expected 2022 but Worsening Outlook for 2023

Although ME&CA's economic recovery continued in the first half of 2022, the slowing global economy, the war in Ukraine and its consequences for commodity prices, and the tightening of global financial conditions will weigh on the region's outlook for the remainder of 2022 and 2023. Still-high oil prices are likely to continue to provide buffers for oil exporters. LICs will face risks related to food security, limited progress in vaccination rollouts, and country-specific fragilities. The CCA outlook for 2022 has been revised upward—reflecting a milder impact of the

war in Ukraine than initially expected—but is less clear for subsequent years.

Diverse Prospects for Countries in the Middle East and North Africa and Pakistan

Real GDP in MENA is forecast to grow 5.0 percent in 2022, unchanged from April, and up from 4.1 percent in 2021. For oil exporters, high oil prices and robust non-oil GDP growth are offsetting the negative impact of high food prices and rising global interest rates in 2022, with their economies growing at 5.2 percent (following 4.5 percent growth in 2021). Oil exporters also benefit from some degree of trade diversion from the war in Ukraine, as European countries look to replace their reduced oil purchases from Russia. In addition, the impact of tighter global conditions on some oil exporters has been limited, given excess banking system liquidity amid high oil prices (IMF 2022). For MENA EM&MIs, real GDP growth is forecast at 4.9 percent in 2022, an upward revision of 0.5 percentage points from April, in part reflecting a stronger-than-expected performance for Egypt during fiscal year 2022, as base effects from solid outturns in the first half of the fiscal year more than offset the negative impact of the terms-of-trade shock, tighter global financial conditions, and weaker partner demand in the second half following the outbreak of the war. Pakistan's accommodative policy stance helped offset negative external headwinds, with fiscal year 2022 growth projected at 6 percent. Growth in LICs is expected to remain weak at 0.8 percent in 2022 (a 0.3 percentage point downward revision from April), reflecting country-specific fragilities and the negative impact of high commodity prices.

Worsening global conditions will weigh on the MENA outlook, with growth slowing to 3.6 percent in 2023, unchanged relative to April. Growth in oil-exporting countries is expected to moderate to 3.5 percent as OPEC+ production increases wane, oil prices decline, and global demand slows. Growth in MENA EM&MIs is projected to decelerate to 3.9 percent, reflecting

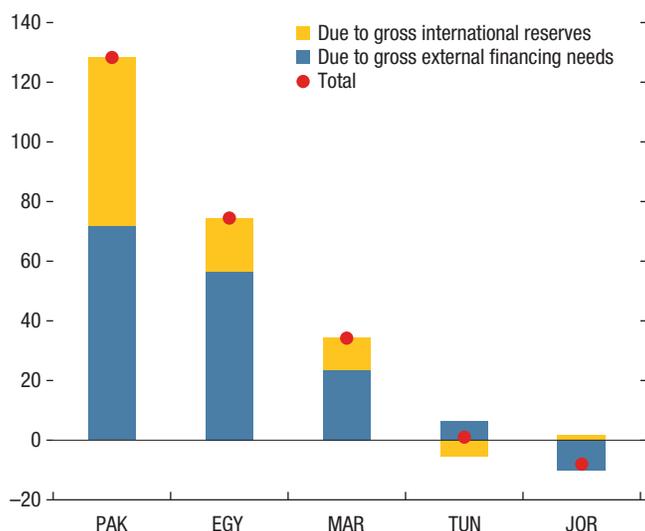
lower growth in Egypt and Tunisia amid weakening global demand and tighter financial conditions. Some emerging markets, such as Morocco, are expected to continue to benefit from idiosyncratic factors (such as better agriculture production as the drought in North Africa dissipates). Pakistan's growth is also projected to moderate, reflecting tighter macroeconomic policies in addition to global factors. LICs are expected to recover gradually in 2023 and over the medium term, assuming a gradual easing of political bottlenecks. However, they will continue to face significant challenges stemming from high food prices and food insecurity (see Box 1.1), limited progress with vaccine rollouts, and country-specific fragilities and conflict.

Headline inflation for MENA (excluding Sudan¹) is expected to remain elevated at 12.1 percent in 2022 (1.7 percentage point higher than 2021 and 1.1 percentage point above the April forecast) and 11.2 percent in 2023—an upward revision of 2.6 percentage points. These revisions mainly reflect the lagged effects of higher food prices and, in some cases, exchange rate depreciations with broadening inflationary pressures. A similar downward trajectory is projected, on average, for the region's oil exporters and LICs, but headline inflation is expected to remain broadly unchanged for EM&MIs. Pakistan's inflation is foreseen to be in double-digit territory in 2022–23, with upward revisions from April. Over the medium term, inflation is expected to moderate as commodity prices ease, growth decelerates, and fiscal and monetary stances tighten.

The external accounts of MENA oil-exporting countries are projected to improve further in 2022–23 as oil and gas prices remain considerably higher than their 2020–21 levels. The outlook for GCC countries is even brighter. The average current account surplus for oil exporters (for GCC countries) is expected to increase from 4.6 percent of GDP (8.2 percent) in 2021 to 9.7 percent of GDP (16.7 percent) in 2022—an additional

¹To remove the impact of Sudan's sizable downward revision, reflecting primarily high base effects and weak demand as triple-digit inflation continues to erode disposable incomes.

Figure 1.11. MENA EM&MI and Pakistan: External Financing Needs to Gross International Reserves
(Percentage change between 2021 and 2022)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization country codes. EM&MI = emerging market and middle income economies; MENA = Middle East and North Africa.

surplus of \$275 billion (\$208 billion)—before receding to 7.8 percent of GDP (13.7 percent) in 2023. In EM&MIs, despite high energy and food commodity prices and the global slowdown, current account deficits are projected to remain roughly at their 2021 levels (about 5 percent of GDP) in 2022, reflecting the offsetting impact of robust remittance flows and resurgent tourism in some countries, before declining slightly to 4.4 percent of GDP in 2023. LICs are projected to face a large deterioration, with higher imports concentrated on essential food and energy items. Their aggregate current account deficit as a share of GDP is projected to widen from its 2021 level of 7.7 percent to 9.3 percent in 2022 before shrinking slightly to 8.3 percent in 2023.

Robust non-oil growth in GCC countries is expected to continue supporting remittance flows to the broader region, somewhat offsetting external headwinds. The past relation between GCC countries' non-oil growth and remittance flows to MENA EM&MIs and LICs indicates remittances from the GCC could grow in the

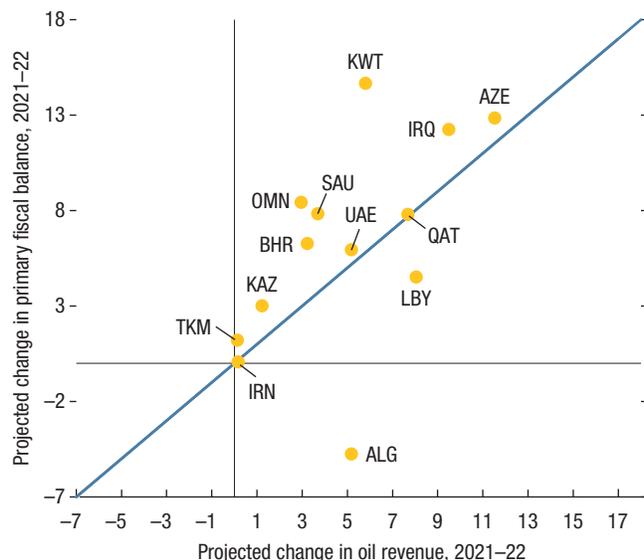
range of 1.9 percent to 3.4 percent annually over the medium term.²

Continued high current account deficits and declining foreign exchange reserves in MENA EM&MIs and Pakistan indicate higher external vulnerabilities (Figure 1.11). External financing needs of these countries will increase from 109 percent of gross international reserves (\$232 billion) in 2021 to 242 percent in 2022 (\$275 billion) before receding to 163 percent in 2023 (\$265 billion). GCC countries and associated financial institutions are stepping in to fill in part of these higher financing requirements, including to help countries address food security concerns. For example, the Arab Coordination Group has launched a food security action plan with an initial \$10 billion package. In addition, GCC countries have pledged in total \$41 billion to Egypt, Jordan, Pakistan, and Yemen in official support and investments, disbursing or rolling over more than \$22 billion to date.

The divergent effects of high commodity prices and tightening global financial conditions are also driving trends in fiscal balances for MENA countries. For oil exporters, primary fiscal balance and oil revenue projections indicate that most countries have saved the increase in oil revenues in 2021–22. This is reflected in the near one-to-one or even greater improvement in the projected overall primary fiscal balance for most MENA oil exporters (Figure 1.12). Over 2022–26, higher oil prices relative to projections at the time of the October 2021 *Regional Economic Outlook: Middle East and Central Asia* imply a cumulative windfall of about \$1 trillion for these economies. Governments in GCC countries are expected, on average, to save about 33 percent of oil revenues—a significantly higher saving rate relative to those that breached into negative territory following past declines in oil prices—a stark contrast to the procyclical fiscal policies of the past. However, in other oil-exporting countries

²According to estimates for GCC countries by De and others (2019), the elasticity of outward remittances with respect to non-oil GDP over the long term ranges between 0.6 and 1.1. The estimate is based on regressions using annual data from 1971–2017.

Figure 1.12. Oil Exporters: Primary Fiscal Balances and Oil Revenues
(Percent of GDP)

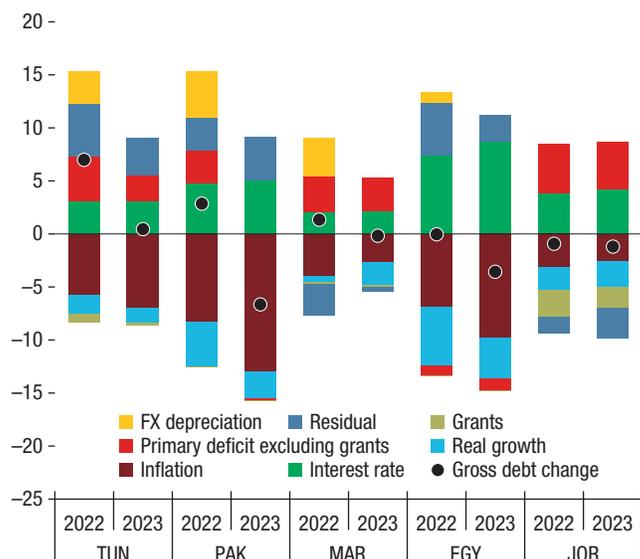


Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization country codes.

(Algeria) public savings rates are projected to fall sharply, reflecting continued procyclical policies (Chapter 2).

Whereas higher subsidies amid rising commodity prices are expected to widen 2022 primary fiscal deficits in MENA EM&MIs and Pakistan compared to prewar expectations (Chapter 2), these are likely to remain unchanged relative to 2021, on average, at about 3.0 percent of GDP in 2022 and then improve to 1.8 percent of GDP in 2023. This reflects past progress in subsidy reform, and in some cases, offsetting measures given already weakened fiscal space (Chapter 2). Tighter domestic and external borrowing conditions are expected to raise interest expenses by 0.4 percent of GDP on average in 2023 compared to 2022, and up to 1.3 percent of GDP for Egypt. Public debt-to-GDP ratios are set to increase slightly in 2022 relative to their 2021 levels due to still-elevated primary deficits in most countries and valuation effects from exchange rate depreciation in some countries, before easing in 2023. Despite higher interest rates, debt pressures are mitigated by still-negative interest rate-growth differentials,

Figure 1.13. Contributions to Changes in Gross Public Debt
(Percent of GDP)

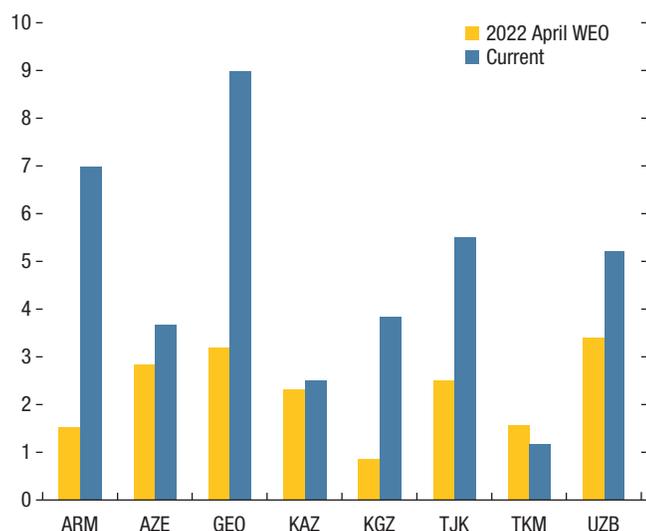


Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization country codes. FX = foreign exchange.

reflecting reliance on concessional official financing and relatively lower-costly domestic debt for most MENA EM&MIs and Pakistan (Figure 1.13).

Higher interest payments and the increased reliance on short-term financing in some EM&MIs (Egypt, Pakistan, Tunisia) will raise public gross financing needs to \$550 billion over 2022–23 (\$22 billion above gross financing needs over 2020–21). Gross financing needs are expected to reach an annual average of 33 and 22 percent of GDP for Egypt and Pakistan, respectively, over the same period. Since these higher financing needs are not expected to be matched by external financing, countries will continue relying on domestic bank financing, further increasing the already elevated sovereign-bank nexus in some MENA EM&MIs and Pakistan.

Figure 1.14. Real GDP Growth Projections for 2022
(Percent change, year-over-year)



Sources: IMF, World Economic Outlook database; and national authorities.
Note: Country abbreviations are International Organization for Standardization country codes. WEO = *World Economic Outlook*.

Unexpected Spillovers Thus Far but Uncertainty Ahead for the Caucasus and Central Asia

CCA economies performed strongly in the first half of 2022 (Armenia, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Uzbekistan) with milder-than-anticipated adverse spillovers from the war in Ukraine (Box 1.2). As a result, although real GDP growth is expected to slow to 3.8 percent in 2022 from 5.6 percent in 2021, it has been upgraded by 2.0 and 5.6 percentage points in LICs and EM&MIs, respectively, relative to April projections (Figure 1.14). The upgrade reflects (1) an upward revision to Russia's real GDP growth forecast (up 5.1 percentage points from April); (2) unexpected inflows, such as the relocation of workers and firms from Russia and significant money transfers (of capital and income), which have fueled consumption (Armenia, Azerbaijan, Georgia, Uzbekistan); (3) resilient trade, supported by trade settlement in rubles (Armenia) and a surge in cargo shipments through alternative trade routes, particularly the Trans-Caspian International Transport Route (Azerbaijan,

Georgia); and (4) fiscal stimulus in some countries (Kazakhstan, Tajikistan).

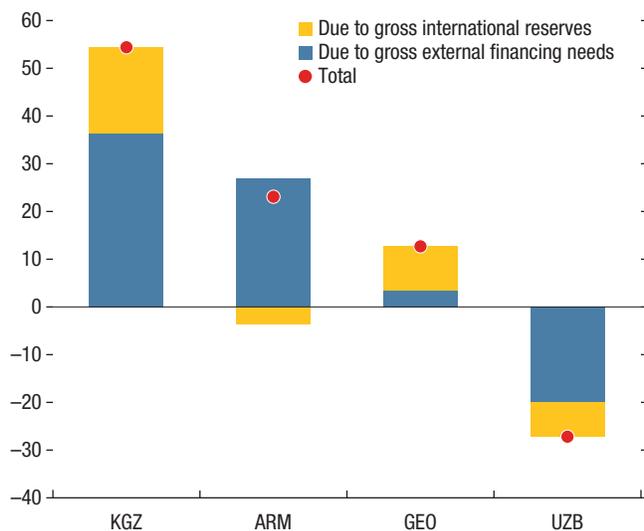
At this stage, the factors that have provided a boost to growth in 2022 are expected to fade over time. As headwinds from the war in Ukraine and the global slowdown take hold, real GDP growth in 2023 is foreseen to be downgraded by 0.2 percentage point relative to April, to 4.0 percent. Over the medium term, while growth is projected at about 3.5 percent, in line with projections for emerging market and developing economies, it remains significantly below the historical average of almost 7 percent. In addition, the projected slowdown in Russia's growth compared to prewar expectations and the risks of global economic fragmentation create significant uncertainties.

Inflation is expected to accelerate from 9.2 percent in 2021 to 12.9 percent in 2022 and remain elevated at 10.5 percent in 2023, an upward revision of 2.2 and 1.9 percentage points in 2022 and 2023, respectively. As in the MENA region, food inflation is the main driver of the increase in headline inflation in the CCA region. However, in some countries, strong demand is expected to contribute to higher inflation. Inflation is forecast to moderate over the medium term as food prices ease and fiscal stances tighten.

In the past, remittances—mainly from Russia—played an important role in offsetting the negative impact of food price increases, particularly on the poor. However, historically remittances from Russia have been strongly correlated with Russian GDP. Thus the projected slowdown in Russia raises risks to sustained remittance flows, with potential implications for poverty and inequality in the region (Chapter 3).

Higher oil prices and spillovers from the war in Ukraine are dominating external account developments, with oil exporters benefiting from high oil prices and increased money inflows and tourism receipts to some EM&MIs offsetting external headwinds. The average current account surplus for CCA oil exporters is expected to increase sharply from 0.9 percent in 2021 to 8.3 percent in 2022, before subsiding to 7.3 percent

Figure 1.15. CCA OIs: External Financing Needs to Gross International Reserves
(Percentage change between 2021 and 2022)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization country codes. CCA = Caucasus and Central Asia; OI = oil importer.

in 2023. In oil-importing countries (EM&MIs and LICs), the current account deficit is expected to narrow to 4.4 percent of GDP in 2022 from 6.1 percent in 2021, before widening slightly to about 5.0 percent from 2023 onwards. External financing needs are projected to increase in 2022 for Armenia, Georgia, and the Kyrgyz Republic, but narrow for Uzbekistan (Figure 1.15).

Turning to fiscal policy, countries that have benefited from the positive terms-of-trade shock (Azerbaijan, Kazakhstan) and unanticipated positive spillovers from the war in Ukraine (Armenia, Azerbaijan, Georgia, Uzbekistan) are expected to see improved primary fiscal balances in 2022–23. Azerbaijan and Kazakhstan’s non-oil primary fiscal balances are expected to tighten over 2022–23 (a net tightening of 2.7 percent and 2.9 percent of non-oil GDP, respectively). Likewise, primary balances in Armenia, Georgia, and Uzbekistan are projected to improve over 2022–23 in the range of 1.8 percent to 3.5 percent of GDP. In contrast, the Kyrgyz Republic and Tajikistan, which are expected to confront the highest increases in poverty and inequality from the war’s

impact (Chapter 3), will see a widening of their primary balances in 2022–23, reflecting a sizable increase in public sector wages (Kyrgyz Republic) and lower tax revenues due to the new tax code enacted in 2021 (Tajikistan).

Overall, public debt trajectories are forecast to improve slightly for oil exporters (from 22.6 percent of GDP in 2021 to 19.8 percent of GDP in 2022), EM&MIs (from 54.1 percent of GDP to 45.0 percent of GDP during the same period), and LICs (from 39.1 percent of GDP to 37.2 percent of GDP). EM&MIs and LICs continue to benefit from relatively lower interest bills (an average of 1.2 percent of GDP in 2022–23, unchanged from 2021), reflecting their reliance on concessional financing from bilateral and multilateral partners.

1.4. Risks to the Outlook Are Tilted Heavily to the Downside

The balance of risks is weighted heavily to the downside, driven by exceptional uncertainty amid a confluence of shocks that could adversely impact global and regional economic performance. Upside risks include a larger-than-expected moderation in food commodity prices, supported by the resumption of Ukrainian grain exports, and, for EM&MIs and LICs, a greater-than-expected decline in oil prices.

A protracted war in Ukraine and broadening sanctions on Russia could reduce these countries’ exports of oil, gas, food, and fertilizers, leading to shortages, higher and more volatile international prices for food and energy products, and a significant deceleration in Europe, an important MENA trading partner.

Domestic inflation could continue to rise and broaden further. In a perfect storm of large external cost-push shocks, tightening of global financial conditions that lead to exchange rate pressures, and fragile anchoring of inflation expectations, risks to the inflation outlook could become unusually large. Moreover, if the second quarter evidence of price increases becoming more generalized (see Section 1.2) continues into

the second half of 2022 and beyond, inflation expectations may de-anchor. This would, in turn, feed into higher inflation—of about 0.2 percentage point, on average, for a 1-percentage-point increase in five-years-ahead inflation expectations (April 2022 *Regional Economic Outlook: Middle East and Central Asia*)—and lead to a vicious circle of higher expectations and actual inflation that would destabilize the macroeconomy.

Disinflationary policies could be more costly than expected, both globally and domestically. Globally, this could trigger a severe slowdown in economic activity (with recession risks currently elevated), further worsening external conditions for the region. Domestically, high dollarization, shallow financial markets, and maturing monetary policy frameworks—and nascent credibility—weaken the sensitivity of aggregate demand to changes in policy rates in CCA countries (Poghosyan and others, forthcoming) as well as in some MENA countries (Gray and others 2013). This means that making a dent in inflation in these countries could require large increases in policy rates that would risk tipping ME&CA economies into a recession. Also, a lack of coordination between monetary and fiscal policies would add to inflationary pressures, requiring even tighter monetary policy to tame inflation.

If China's slowdown persists, this could affect countries with direct trade linkages with spillovers to others, exacerbate the global slowdown, and reduce commodity prices, diminishing buffers for oil exporters.

Higher food prices and more pervasive food and energy shortages could lead to food insecurity and social unrest, particularly in 2023. Rising fertilizer costs amid low strategic reserves could present risks to the 2023 agricultural harvest, worsening food insecurity in LICs and some EM&MIs with weak access to markets (Box 1.1). Combined with employment gaps, possibly lower remittances in the CCA region, and limited policy space, this could worsen poverty and inequality (Chapter 3) and ultimately lead to social unrest in the region, as evidenced by earlier episodes of high food and

energy prices. Social unrest risks, in turn, could lead to political instability, procyclical policies in oil-exporting countries (Chapter 2), reform reversals, and reduced capacity of authorities to implement reforms, putting a further drag on economic activity.

Tighter-than-expected financial conditions could trigger debt and external stress and financial stability risks:

- High levels of external public debt falling due in 2022–23 for the region's EM&MIs (about twice as much each year on average as in 2019) together with limited access to markets, as evidenced by low issuances year-to-date, indicate high near-term refinancing risks.
- The tightening of global financial conditions, over and above current expectations, is likely to translate into higher government debt service costs, worsening debt dynamics in several countries and further complicating access to markets. It can also leave governments no choice but to rely on shorter-term domestic financing, crowding out private credit and thereby investment, and exacerbating sovereign-bank linkages (April 2021 *Regional Economic Outlook: Middle East and Central Asia*). In some countries, the capacity of the banking system to lend to the government is already limited due to elevated public sector exposure, raising the risk of a funding crunch. Resorting to monetary financing would fuel inflation further.
- Faster-than-expected tightening of US monetary policy, resulting in a total increase of 300 basis points in the 10-year US Treasury yield in 2022 relative to 2021, could lower portfolio inflows to the region by nearly \$18 billion (about 3 percent of the region's external financing needs).³ If accompanied by heightened global risk aversion, this would

³Current *World Economic Outlook* projections entail a rise in the 10-year US Treasury yield of about 180 and 300 basis points through 2022 and 2023, respectively, from 2021. A risk scenario where the full projected tightening is frontloaded in 2022 implies an additional 120-basis-point rise in the 10-year US Treasury yield above current projections for 2022.

present additional risks, pressuring exchange rates and refinancing choices.

Under a downside scenario of higher oil prices—a negative shock for all countries but oil exporters—tighter global financial conditions, a deeper slowdown in China, and deceleration of global economic activity (October 2022 World Economic Outlook), real GDP for the MENA and CCA regions is estimated to decline by 0.9 and 2.2 percentage points in 2023, respectively.

The fragmentation of the world economy could magnify these risks. The war in Ukraine could contribute to the fragmentation of the world economy into geopolitical blocs. This fragmentation could lead to changes in trade, foreign direct investment, and financial flows to the region, and diminish the effectiveness of multilateral and regional cooperation to address climate change. Given its close ties to Russia and trade linkages to Europe and China, the medium-term outlook for the CCA region may be affected significantly by the degree of fragmentation.

1.5. Decisive Times to Address Mounting Challenges

In an increasingly difficult and uncertain global environment, with policymakers across the region battling inflation and high debt, policies will differ across different groups. EM&MIs and LICs will need to preserve fiscal sustainability while ensuring social stability. Oil exporters will need to maximize the benefits of the oil windfall in an uncertain environment by building buffers and making progress with their transition and diversification plans. Nevertheless, the near-term priorities for all countries are to maintain or restore price stability while protecting the vulnerable, respond to tightening global financial conditions while ensuring financial stability, ensure food and energy security, and manage lingering pandemic-related risks. Given looming fragmentation risks, global and regional cooperation is critical to achieve these objectives. 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 ones.

Securing Price Stability

Reducing inflation is a key priority to preserve macroeconomic stability and avoid increases in inequality and poverty. To this end, coordination across monetary, fiscal, and structural policies will be important and differ across economies depending on the drivers and extent of price pressures.

Countries with signs of inflation becoming broad-based and expectations rising above targets need to tighten monetary policy. This is even more important in countries where inflation is partly being fueled by demand pressures. Having an overall tighter fiscal stance, with support targeted to those in need, will help contribute to disinflation while supporting social cohesion.

In countries with pegged exchange rates, monetary accommodation should be withdrawn further as monetary policy tightening proceeds in advanced economies. This would help contain inflation pressures and protect the pegs amid weakening external conditions.

Over the longer horizon, strengthening monetary policy frameworks will be important to mitigate the impact of future shocks on inflation as such efforts would strengthen transmission channels, boost central bank credibility, and help anchor inflation expectations. Modernizing monetary frameworks could include measures such as (1) focusing monetary policy on domestic price stability while strengthening central banks' autonomy; (2) reducing dollarization, including by developing financial markets and institutions; (3) enhancing communication and increasing the transparency of monetary operations and foreign exchange interventions; and (4) focusing on returning inflation to targets to help anchor inflation expectations.

Tackling Food Insecurity

Decisive action on a global and regional scale is needed to prevent a major food crisis in 2022 and the years ahead when harvests are bound to suffer from insufficient fertilizers and higher input costs, including for energy. Lifting trade restrictions and excess storage reserves, complemented by trade facilitation measures, are key to enabling the flow of critical food staples and agricultural inputs to countries in need and eliminating price distortions that reduce incentives for efficient production in main export markets. Efforts should also focus on scaling up next season's agricultural production by improving access to fertilizers and its main inputs, including natural gas, trade financing, and supply chain capabilities, while investing in climate resilient agriculture.

For vulnerable LICs and fragile states, donors and international agencies should prioritize the provision of grants and concessional loans and close the funding shortfalls of the World Food Programme. Global and regional cooperation, such as the plan adopted by the Arab Coordination Group, is critical to preventing a humanitarian crisis amid rising food insecurity risks (Box 1.1).

Protecting the Vulnerable While Ensuring Debt Sustainability

Trade-offs in fiscal policy are becoming increasingly complex for many of the region's oil-importing countries. High public debt burdens in emerging market economies, tighter financial conditions, broadening inflation, and development needs for LICs require creating the space for priority spending. Given that in some countries fiscal policy may have reached its limit, accelerating fiscal adjustment will be critical to maintaining debt sustainability. In this regard, strengthening medium-term fiscal frameworks would help anchor confidence in fiscal sustainability. Adjustment will need to be targeted at inefficient expenditures while enhancing the efficiency and effectiveness of social protection, education, and health spending

(including to manage lingering pandemic risks and preparedness to act swiftly and equitably in response to the next variant or pandemic threat). At the same time, domestic revenues should be boosted by eliminating widespread tax exemptions and inefficient tax incentives and strengthening revenue administrations to reduce tax avoidance and evasion (see Verdier and others 2022). In cases where fiscal consolidation is not feasible and debt sustainability is at risk, debt operations may need to be considered.

Oil exporters need to maximize the benefits of the oil windfall for the next generations by building buffers, keeping fiscal reform momentum, and progressing with their diversification plans. They should avoid procyclical spending (or continue to avoid such policies), particularly raising spending categories that would be difficult to reverse once oil prices fall (for example, public sector hiring and wage increases).

Protecting the vulnerable and preventing a worsening of poverty and inequality amid high commodity prices and a global slowdown call for tailored, near-term policies depending on countries' existing vulnerabilities, economic structure, and available policy instruments, including the development, coverage, and effectiveness of social safety nets. This difficult environment also provides an opportunity for ME&CA countries to move away from generalized subsidies, strengthen their targeted social safety nets, and implement cost-effective measures to protect those in need while building a framework resilient to future shocks, including through reduced dependency on fuel (see Chapter 2 for a menu of near- and medium-term fiscal policies applicable to all ME&CA countries).

Responding to Tightening Global Financial Conditions

In the face of rising global interest rates and risk aversion, central banks with flexible exchange rates should let their currencies depreciate and raise their policy rates as needed to control inflationary pressures. In cases of excessive exchange rate

volatility, central banks will need to intervene in the foreign exchange market to mitigate disorderly market conditions. In highly dollarized economies (Armenia, Georgia, Kyrgyz Republic, Tajikistan, Uzbekistan) and those with high shares of foreign-currency-denominated debt (Armenia, Tunisia), the balance-sheet effects of exchange rate movements should be monitored carefully.

With the worsening economic outlook and the erosion of already-weak profit margins, reflecting the legacy of the pandemic and recently rising input costs, firm failures may increase, implying that reforms to insolvency frameworks would be particularly valuable ahead (October 2021 *Regional Economic Outlook: Middle East and Central Asia*). In this context, as interest rates rise, banks will gain from higher net income but may suffer losses as loan origination declines and default rates rise. Therefore, where bank exposures to sectors with rising vulnerabilities are high, debt calibration of macroprudential policies will be needed to support financial stability.

Pressing Ahead with Structural Reforms for Inclusive and Resilient Growth

With macroeconomic policies focused on addressing the cost-of-living crisis and preserving fiscal sustainability, accelerating structural reforms has become even more urgent to mitigate any potential adverse effects on growth and bolster a sustainable and inclusive recovery. Priorities include reforms that address structural weaknesses and boost productivity while mitigating the current challenges facing countries in the region. For example, reforms that address tax inequities and high informality also contribute to improving debt sustainability and reinforce the tighter monetary policy stance needed to restore price stability. Reform priorities include:

- *Redesigning tax systems* to increase fiscal revenues and make them more equitable, including by broadening tax bases and increasing tax progressivity (Verdier and others 2022).

- *Reducing informality*, including through well-designed tax policies, which could boost productivity while also facilitating the inclusion of women and youth in labor markets (Cardarelli, Vera Martin, and Lall, 2022).
- *Fostering private sector development* by easing the entry of new firms, eliminating barriers, and preventing existing ones from scaling up. Doing so will require reforming state-owned enterprises to level the playing field (Ramirez-Rigo and others 2021), improving access to financial services for small and medium enterprises, reducing the scope for red tape and corruption (Jarvis and others 2021), and lowering the cost of doing business in the region.
- *Stepping up digitalization* to foster efficiency, inclusion, and resilience by broadening the coverage of digitalization and internet connectivity and scaling up investments in new technologies.
- *Taking measures to adapt to the climate challenge*, ensure energy and water security, and engineer a smooth transition toward more diverse and less carbon-intensive economies (Duenwald and others 2022). The recent floods in Pakistan are a reminder of the need to move steadfastly on this front.

IMF Support

The IMF remains fully committed to supporting the region through financing, capacity development, and policy advice. Since the start of the pandemic, the IMF has provided \$21.3 billion in financing to the ME&CA region. Since the beginning of the war in Ukraine, the IMF Executive Board has approved a new financing arrangement for Georgia and augmentations to existing arrangements for Jordan and Pakistan. Just as we stepped up during the pandemic, the IMF is again adapting its toolkit to address members' needs. To help address the urgent food crisis facing our most vulnerable members, we have enhanced our emergency financing facilities by

establishing a new food shock window—recently approved by IMF Board—to allow easier access for countries facing food and fertilizer-related balance of payments pressures. We have also complemented our existing toolkit by establishing and recently operationalizing the new Resilience and Sustainability Trust, which will support low-income and vulnerable middle-income countries in building resilience to external shocks and address longer-term challenges, including climate change and pandemic preparedness. To confront food insecurity, the IMF is also working in close coordination with the World Bank, World Trade Organization, World Food Programme, Food and Agricultural Organization, and other multilateral development banks and international organizations to ensure an efficient international response that builds on each international organization’s core mandate and comparative advantage.

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Box 1.1. Food Security in the Middle East and Central Asia

Four factors—the surge in global food commodity prices over the past two years,¹ countries' dependency on wheat and fertilizer imports from Russia and Ukraine, generally low storage and strategic reserves, and soaring external borrowing costs—are straining both the availability and affordability of basic food staples in the Middle East and Central Asia region (Box Figure 1.1.1). Many countries diversified their import sources to secure sufficient supplies of wheat and other food staples (Egypt, Jordan, Morocco, Tunisia). However, there is evidence of food shortages in others. In Somalia, a large share of the population is estimated to be experiencing high levels of acute food insecurity due to a severe drought compounded by global food supply disruptions. In Sudan, fertilizer shortages have contributed to food insecurity, with wheat production falling by roughly one-third from 2021 to 13 percent below the five-year average.

Some countries, most notably low-income countries (Mauritania, Somalia, Sudan, Yemen), have seen their wheat reserves fall to three months of consumption or less. Faced with limited access to financing and drought or low domestic harvest (Djibouti, Somalia, Sudan), these countries rely on international aid to secure staple food imports.

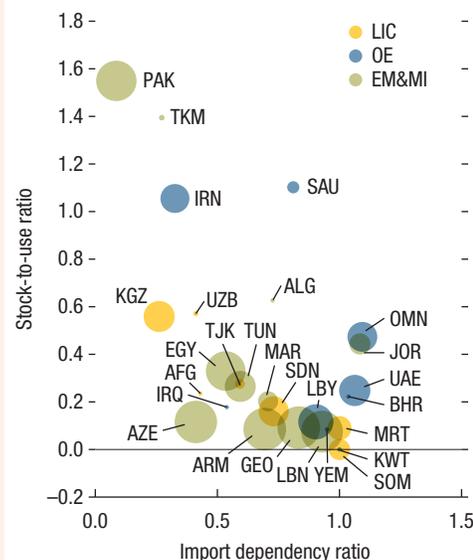
High global food prices are also trickling down to domestic food inflation, which has accelerated across the region in recent months, affecting food affordability, especially for the poor. Food inflation rates have reached 15 percent or more in Algeria, Armenia, Azerbaijan, Egypt, Georgia, Kazakhstan, the Kyrgyz Republic, Pakistan, and Uzbekistan, and 12 percent in Somalia.

Significant risks surround food affordability and availability. Soaring fertilizer and fuel prices may hamper countries' capacity to scale up domestic production of food products and adversely impact harvest yields in future seasons. In addition, current export restrictions on food and fertilizers (Egypt, Kazakhstan, Kyrgyz Republic, Pakistan) could result in broadening food supply shortages and even higher prices, exacerbating affordability concerns, particularly among low- and middle-income countries with large vulnerable populations.

Prepared by Mohamed Belkhir.

¹Despite receding in recent months, global food prices remain higher than their 2021 levels. The July agreement between Russia and Ukraine to facilitate Ukrainian grain exports could improve supply worldwide and soften cereal prices further.

Box Figure 1.1.1. ME&CA Wheat Import Dependency and Stock-to-Use Ratio, 2021/22



Sources: Comtrade; US Department of Agriculture (USDA); and IMF staff calculations.

Note: Import dependency ratio calculated as imports over domestic consumption. Stock-to-use ratio is calculated as end-of-period stock divided by the difference between domestic consumption and production. 2021/22 is the market year as defined by USDA; end-of-period stocks are ending inventories for the market year. The size of each circle increases with share of wheat imports from Russia and Ukraine. Country abbreviations are International Organization for Standardization country codes. EM&MI = emerging market and middle income economies; LIC = low-income country; ME&CA = Middle East and Central Asia; OE = oil exporter.

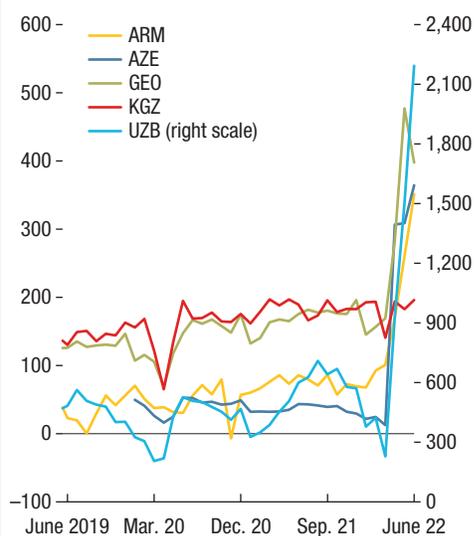
Box 1.2. The Impact of Russia's War in Ukraine on Caucasus and Central Asia Countries

Despite the Caucasus and Central Asia (CCA) region's strong trade, remittances, and financial links with Russia, to date, the adverse impact of Russia's war in Ukraine on the CCA region has been milder than initially expected. To a large extent, this reflects the near-term resilience of Russian economic growth, unexpected money transfers, and policy measures to avoid secondary sanctions. Moreover, trade routes remain open, financial flows continue (reflecting the many nonsanctioned Russian banks), and existing arrangements (for example, membership in the Eurasian Customs Union and long-term gas contracts) are helping to mitigate the impact of higher food and energy prices.

Although oil exporters have received a boost from high commodity prices, high-frequency indicators suggest that the postpandemic recovery is also continuing in the region's oil-importing countries. Available data indicate that the unexpected relocation of businesses and individuals from Russia may have played a significant role.

Box Figure 1.2.1. Money Transfers: Net Inflows

(Millions of US dollars)



Sources: Haver Analytics; and national authorities.

Note: Country abbreviations are International Organization for Standardization country codes.

In recent months, money transfers into several CCA countries (Armenia, Azerbaijan, Georgia, Uzbekistan) have increased significantly (Box Figure 1.2.1). Such transfers cannot be explained by regular flows of remittances; instead, they may signal capital movements, including from returning expatriates. These inflows have contributed to growth in banking deposits and local currencies, reversing initial postwar losses against the US dollar in Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

The impact is particularly evident in Armenia, where the number of arrivals from Russia has increased significantly (an increase of 200 percent in the first quarter of 2022 compared to the same period in 2021 and 50 percent compared to prepandemic levels) and hotel occupancy rates are at record highs. Reported arrivals from Russia to Georgia increased in comparison to 2021 but are still lower than in 2018–19. However, arrivals from Belarus and Kazakhstan also increased significantly (increases of 114 and 36 percent, respectively, in the first half of 2022 compared to the same period prepandemic), which may reflect relocations from Russia in the absence of regular direct flights to Georgia.

Whether these relocations are temporary or more permanent remains to be seen. While host economies are benefiting from a short-term consumption boost, the medium-term impact is less certain. So far, it is unclear whether these relocations will drive a large-scale increase in new businesses.

The war in Ukraine will remain a multidimensional risk surrounded by substantial uncertainty and will demand proactive and agile policy responses. Spillover risks related to inflation, food security, and external financing loom large. Sociopolitical tensions are elevated in some countries and could be exacerbated by domestic price pressures and poverty or inequality challenges (Chapter 3). If the war persists, resulting in a widening of sanctions or shifting of geopolitical alliances, the economic ties between the CCA region and Russia could come under pressure, with possible adverse implications for CCA economies.

Prepared by Robert Tchaidze.

2. A Repeat of the Past? Fiscal Implications of Commodity Price Surges in the Middle East and North Africa

High international food and fuel prices are exacerbating fiscal pressures in the Middle East and North Africa (MENA) at a time when countries face tightening global financial conditions and extraordinary uncertainty, while policy space is reduced from the pandemic. During past episodes of rising commodity prices, policymakers responded swiftly to mitigate their impact. However, responses often lacked targeting and prior planning, resulting in adverse fiscal and distributional impacts, including (1) large and persistent fiscal loosening, (2) increased budget rigidity, and (3) diminished budget equity, all combined with (4) a lack of offsetting fiscal adjustment. These responses heightened debt sustainability risks for oil importers and led to procyclical fiscal policies in oil exporters, followed by abrupt fiscal adjustments when oil prices fell. While most MENA countries have once again resorted to similar policy responses as in the past, particularly generalized price subsidies, they have done so at a smaller scale. This reflects both a more limited fiscal space and past progress—albeit yet unfinished—with subsidy reform. While countries foresee some fiscal expansion in 2022 compared to prewar expectations, they are expected to continue their subsequent adjustment paths. As the global outlook remains challenging and downside risks extraordinary, it will be important for policymakers in the region to consider (1) cost-effective measures to address the pressures from rising food and fuel prices and (2) reforms to enhance fiscal resilience, including reduced dependency on fuel, ahead of the next commodity cycle.

Prepared by Filippo Gori, Jeta Menkulasi (lead), Issouf Samake, and Ling Zhu, with excellent research assistance from Azhin Abdulkarim and Roy Randen.

2.1. Recurrent Global Commodity Cycles

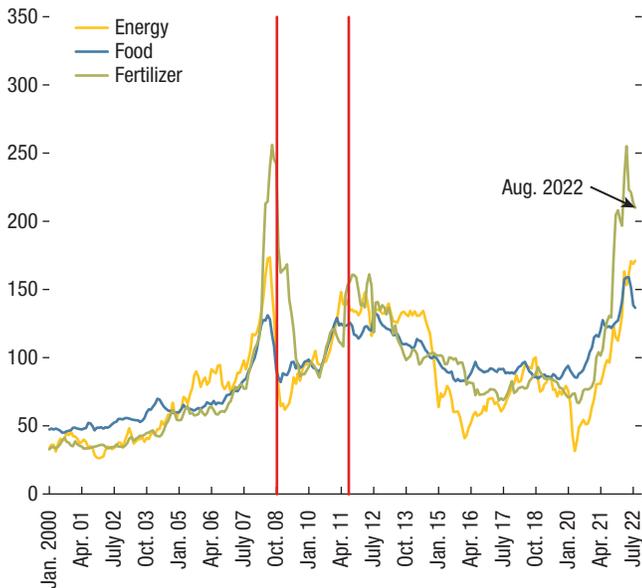
A Global Commodity Price Upswing Broadly Similar to the Past ...

Commodity prices have risen sharply since mid-2020 on the back of surging postpandemic demand and supply-side constraints (Figure 2.1). The war in Ukraine has exacerbated price pressures in international markets. The current commodity price upswing is broadly comparable to those observed in 2008 and 2011, both in magnitude and comovement across energy, food, and agricultural inputs, with food prices reaching record levels in the current episode. Although energy and food prices are expected to decline over the next two years, there is significant uncertainty surrounding this forecast; thus, the current episode might last longer than previous ones.

... while at a Distinctly Different Global and Cyclical Position

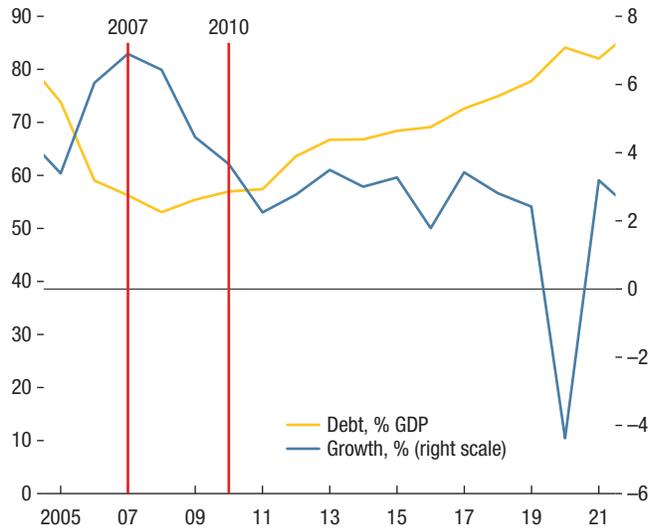
The current commodity price shock is occurring in a global and regional context that is distinct from previous episodes (Figure 2.2). Global financial conditions for emerging markets are significantly tighter than in past episodes, reflecting higher international and domestic interest rates and higher risk premiums associated with elevated debt or ties to Russia and Ukraine (Chapter 1). Debt levels are also 25–40 percentage points of GDP higher than in past episodes (Figure 2.2), intensifying fiscal pressures for all emerging markets in the MENA region. Limited fiscal space comes when growth is substantially lower than before the 2008 commodity price surge for several countries in the region (Egypt, Jordan, Tunisia) but broadly similar to before the 2011 episode (Figure 2.2). Risks to the outlook are elevated and,

Figure 2.1. Global Commodity Prices
(Index, 2010 = 100)



Source: World Bank Commodity Price database.
Note: Energy includes coal, crude oil, and natural gas. Food includes cereals, vegetable oils, and other foods. Fertilizers include diammonium phosphate, monoammonium phosphate, triple super phosphate, urea, and phosphate rock.

Figure 2.2. Gross Public Debt and Growth in MENA EM&MI + Pakistan
(Median)



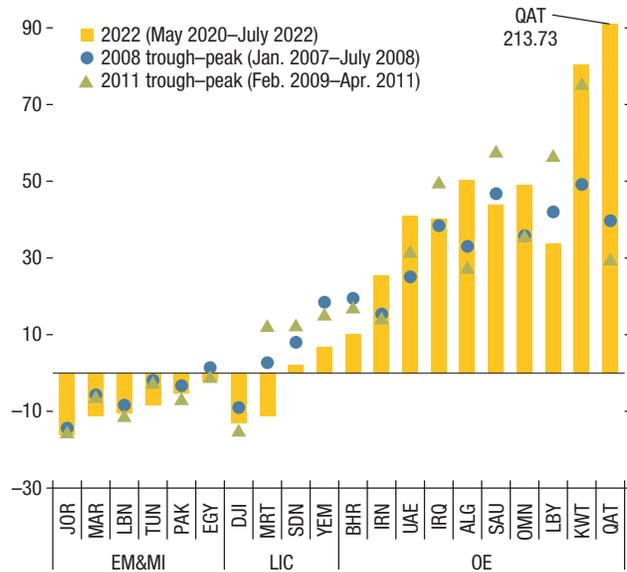
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Country abbreviations are International Organization for Standardization country codes. EM&MI = emerging market and middle-income economies; MENA = Middle East and North Africa.

if realized, may depress global growth further and keep inflation higher for longer.

Commodity Exporters and Importers are Facing Opposite Terms-of-Trade Shocks ...

As in the past, the heterogeneity of MENA countries' trade structures is resulting in contrasting commodity terms-of-trade movements across the region (Figure 2.3). While oil exporters registered considerable improvements, the region's emerging market oil importers—especially Jordan, Lebanon, Morocco, and Tunisia—have seen the largest terms-of-trade deteriorations since May 2020. In low-income countries, terms of trade have improved for Sudan and Yemen, reflecting commodity exports such as gold (Sudan) and crude oil (Yemen), while deteriorating for Djibouti and Mauritania. Moreover, the current commodity price increase is associated with larger terms-of-trade movements than in previous episodes.

Figure 2.3. MENA + Pakistan: Commodity Terms of Trade
(Percent change)



Sources: IMF, Commodity Terms of Trade database; and IMF, World Economic Outlook database.
Note: Country abbreviations are International Organization for Standardization country codes. EM&MI = emerging market and middle-income economies; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter.

... with Varying Degrees of Pass-Through to Domestic Prices

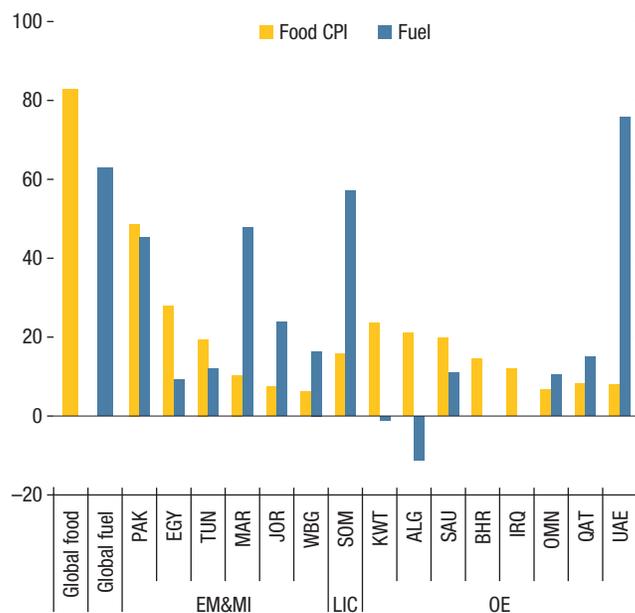
Domestic food and energy inflation has only partially mirrored global prices, reflecting the prevalence of subsidies, long-term import contracts (energy), and, in some cases, good harvests (Figure 2.4). Although global food commodity prices have risen by 80 percent since 2019, domestic food price inflation has ranged from 6 to 49 percent among the MENA region's oil importers and from 7 to 24 percent among oil exporters. And while international crude oil prices increased by 63 percent over the same period, domestic prices for gasoline in the region have increased by 26 percent and 12 percent on average for oil importers and exporters, respectively. For the region's oil importers, the implied average pass-through for domestic gasoline prices of 41 percent is substantially higher than that observed during 2007–14 of about 15 percent (Kpodar and Abdallah 2016) and broadly equivalent to the current average for emerging markets elsewhere.

2.2. Lessons from Past Episodes of Commodity Price Surges¹

Fiscal responses to past commodity price surges in the MENA region have been associated with persistent fiscal expansions in both oil importers and exporters, reflecting procyclical policies for the latter. The adjustment that eventually followed was generally insufficient, resulting in diminished future fiscal space for oil importers, and at times abrupt for oil exporters, with sharp adjustment to falling oil prices and rising financing needs. Higher spending proved difficult to reverse, increasing budget rigidity and resulting in low-quality fiscal adjustment, with public investment typically bearing the brunt. Moreover, social protection, which relied mainly on subsidies and

¹This section looks at a time window from 2005 (three years before the 2008 commodity price peak) to 2016 (five years after the 2011 commodity price peak). Fiscal balances presented in this chapter are not cyclically adjusted due to one-off events and structural breaks across many countries that inhibit a reliable estimation of potential output.

Figure 2.4. Domestic versus Global Food and Fuel Price Inflation
(Percent change from 2019)



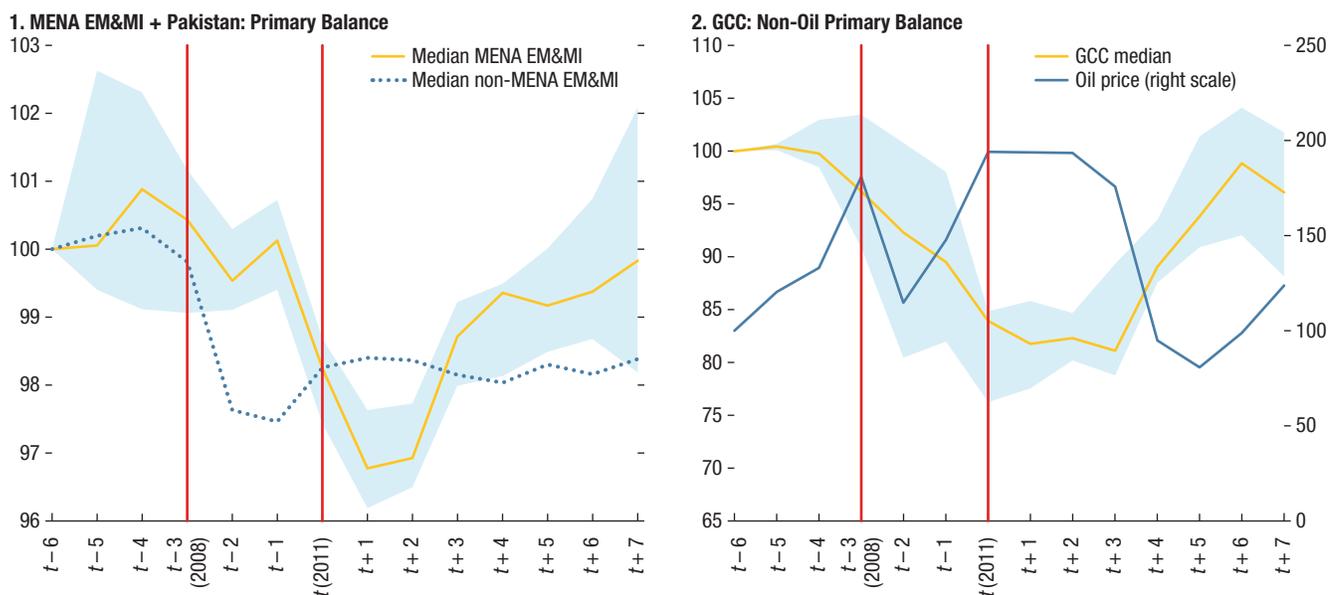
Sources: IMF, International Financial Statistics database; Global Petrol Database; World Bank Commodity Price database latest data as of June 2022; and IMF staff calculations.

Note: Global food commodities include cereals, fats and oils, and other food. Global fuel prices are UK Brent crude oil USD price. Domestic fuel refers to average retail price for gasoline octane 95 in USD. Fuel price inflation for BHR and IRQ is zero. Country abbreviations are International Organization for Standardization country codes. CPI = consumer price index; EM&MI = emerging market and middle-income economies; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter; USD = US dollar.

public employment, was inefficient and locked governments into a vicious cycle of ever-growing reliance on costly interventions with limited protection of the vulnerable. As a result, the region's countries were left in a less resilient state to handle future shocks.

Past Commodity Price Surges Have Been Associated with Persistent Fiscal Expansions

The MENA region's oil-importing emerging markets have experienced a steady and synchronized deterioration, on average, in primary balances since 2008, bottoming out in 2012 with a cumulative expansion of 3 percentage points of GDP (Figure 2.5, panel 1). Egypt, Jordan, and Tunisia experienced a larger

Figure 2.5. Primary Balances*(Percent of GDP; non-oil GDP for oil exporters; index, 2005 = 100)*

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

Note: Time $t-3 = 2008$, and $t = 2011$. The shaded area is the spread between the first and third quartile for MENA EM&MI and Pakistan. For the purpose of this chart, index values are calculated to preserve the interpretation of changes in fiscal aggregates as percentage points of GDP. Example: a value moving from 100 to 102 implies a 2 percentage point of GDP increase for the respective fiscal aggregate. EM&MI = emerging market and middle-income economies; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

cumulative deterioration, reaching about 5–6 percentage points of GDP. The confluence of higher commodity prices and the Arab uprisings led to continued fiscal expansions in MENA emerging markets, which took several years to reverse. Primary balances improved but did not return to pre-oil price surge levels for six years on average after the 2011 shock. In contrast, the fiscal response of the region's low-income countries was limited, reflecting financing constraints. Relative to other emerging markets, MENA countries saw a larger drop in primary balances through the 2011 shock, but for a shorter period.

The region's oil-exporting countries also expanded their fiscal stances following the 2008 increase in international oil prices, reflecting procyclical policies amid the oil price boom (Figure 2.5, panel 2). This expansion was most notable among Gulf Cooperation Council (GCC) countries, with Kuwait, Oman, and the United Arab Emirates experiencing the sharpest deteriorations in non-oil primary balances—the result of sharp increases in

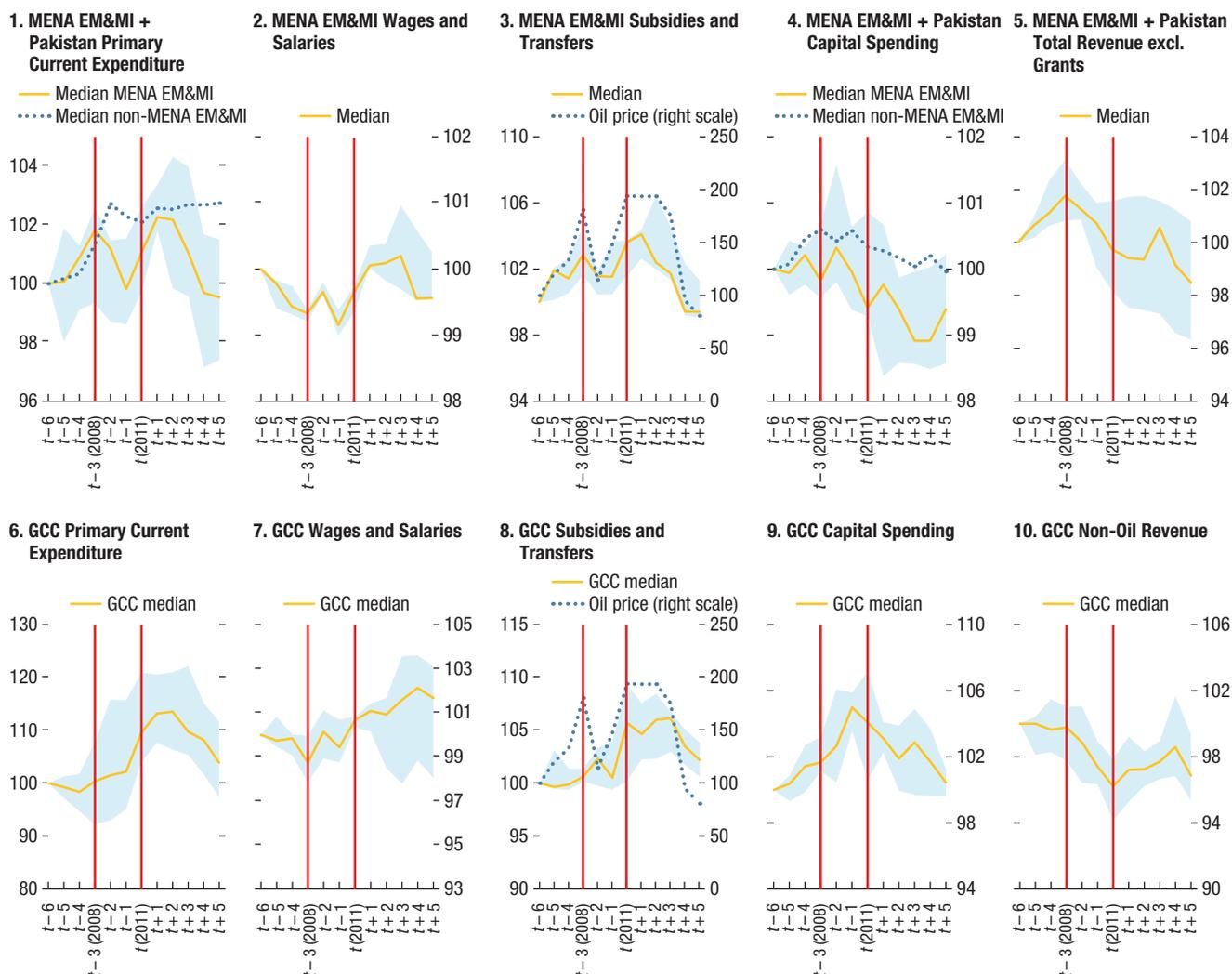
both current and capital spending and, to a lesser degree, declining non-oil revenues.² Outside the GCC, Algeria also followed procyclical policies.

Higher Current Spending Proved Difficult to Reverse, Resulting in Increased Budget Rigidity

Subsidies and transfers tend to move with commodity prices. For MENA emerging markets, subsidies and transfers peaked on average in 2012—having increased by 3 percentage points of GDP since 2007—and declined thereafter, reflecting both falling commodity prices and subsidy reforms (Egypt, Jordan, Morocco, Tunisia).³ For some (Egypt, Tunisia), however,

²The procyclical response was also observed outside the general government in GCC countries, reflected in a substantial increase in domestic bank lending to state-owned enterprises following the oil price surge since 2008.

³Given generally weak social safety nets in the region, the main component of “subsidies and transfers” is assumed to capture generalized price subsidies.

Figure 2.6. Historical Fiscal Response to 2008 and 2011 Commodity Price Surges*(Percent of GDP; non-oil GDP for oil exporters; index, 2005 = 100)*

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

Note: Time $t-3 = 2008$, and $t = 2011$. The shaded area is the spread between the first and third quartile for MENA EM&MI and Pakistan. For the purpose of this chart, index values are calculated to preserve the interpretation of changes in fiscal aggregates as percentage points of GDP. Example: a value moving from 100 to 102 implies a 2 percentage point of GDP increase for the respective fiscal aggregate. EM&MI = emerging market and middle-income economies; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

subsidies remained elevated for longer and were only gradually or partially reversed. Subsidies were more persistent in oil exporters, increasing by 6 percentage points of GDP at their peak in 2014 (Figure 2.6, panels 3 and 8). In both country groups, food subsidies represented a small share of the overall fiscal cost.⁴

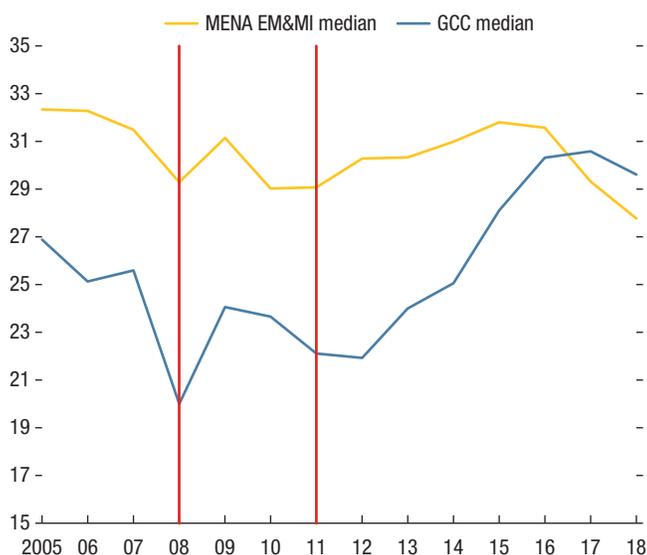
⁴In 2010, although price subsidies in the MENA region and Pakistan amounted to 7.8 percent of GDP on average, only 15 percent of this amount (1.2 percent of GDP) reflected the cost of food

Other fiscal responses—wage increases⁵ and tax exemptions—were also introduced and persisted for longer, further increasing budget rigidity (Figure 2.6, panels 2 and 5). Among the

subsidies (April 2011 *Regional Economic Outlook: Middle East and Central Asia*).

⁵A higher wage bill in the region, due to an increase in public-sector employment or wages, is often seen as a form of social protection, albeit one that is poorly targeted and adds to budget rigidities (IMF 2020).

Figure 2.7. Wages and Salaries
(Percent of total government spending)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: EM&MI = emerging market and middle-income economies; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

region's emerging markets, wages and salaries notably increased at about the time of the 2011 commodity price surge and, despite some adjustment, remained elevated five years later. On average, the wage bill increased by 1 percentage point of GDP at its peak, reaching up to 4 percentage points in Tunisia in 2017 from its 2010 level.⁶ Similarly, tax revenues declined markedly since 2010, reflecting not only the cyclical downturn but also various tax breaks largely in response to rising food and energy prices in Egypt, Jordan, and Lebanon (October 2011 *Regional Economic Outlook: Middle East and Central Asia*). For oil exporters, the sustained wage bill expansion that began in 2010 lasted for more than five years, reaching 15.4 percent of non-oil GDP on average for GCC countries and Algeria, and up to 33 percent for Kuwait. The persistent increase in budget rigidity from the expansion of wages and public employment across both country groupings is underscored by the sustained rise of the share

⁶Due to a lack of high-frequency data needed for empirical analysis, the impact on fiscal variables is only indicative. It does not account for noncommodity price events that may have also affected fiscal outcomes.

of wages and salaries in total spending since 2011 (Figure 2.7).

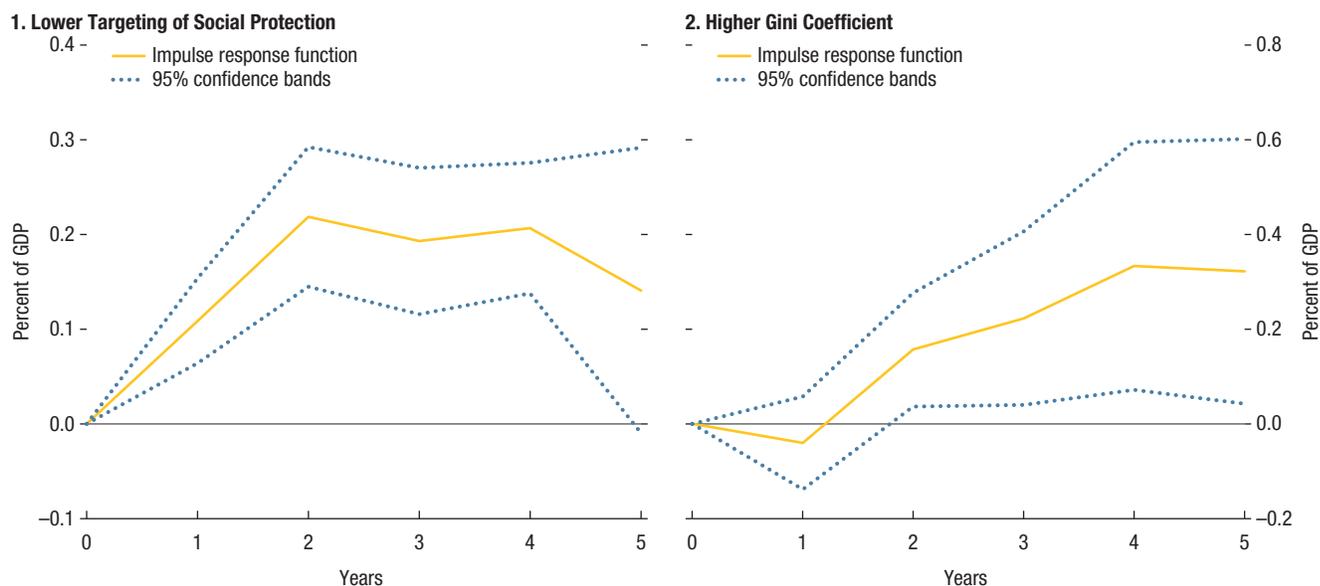
Generalized Subsidies and Tax Exemptions Were Less Effective in Protecting the Vulnerable

Generalized price subsidies and tax exemptions have been less effective in reaching vulnerable segments of the population and represent a costly social protection tool. Past studies found that the bottom 40 percent of the population in Egypt, Jordan, Lebanon, Mauritania, Morocco, and Yemen received between 5 and 20 percent of the overall fiscal transfers for diesel and gasoline subsidies (Sdravovich and others 2014). The regressive nature of energy subsidies is even more acute in the MENA region's poorest countries, where higher consumption levels, rates of car ownership, and connection to the national electricity grid are concentrated in the higher-income segments of the population. Food subsidies were somewhat better targeted, with the bottom 40 percent of the population receiving, for example, between 30 and 60 percent of wheat-related subsidies, generally reflecting the use of self-targeting mechanisms.⁷ Value-added tax (VAT) exemptions were intended to reduce the final prices of goods and services consumed by vulnerable households, but these measures tended to be poorly targeted (Jewell and others 2015).

Empirical estimates of the dynamic response of price subsidies and transfers after commodity price surges suggest governments are locked in a vicious cycle of ever-growing reliance on costly fiscal interventions as long as their social safety nets remain inadequate. The empirical work carried out for this chapter points to a statistically stronger increase in subsidies following a large positive shock to oil prices in MENA countries with lower targeting of social protection programs (Figure 2.8, panel 1). Similar evidence is found for

⁷Self-targeting mechanisms include quality differentiation (for example, subsidizing lower-quality items or inferior goods that are more likely to be consumed by the poor) and food rationing and queuing programs.

Figure 2.8. Impact of Selected Social Variables on the Response of Subsidies and Transfers to an Increase in Oil Prices (Percent)



Source: IMF staff calculations.

Note: The figure shows cumulative impulse response functions for the interaction term between a positive (above the median) oil price shock and (1) panel 1: a dummy variable identifying poor targeting in domestic social safety nets (below the MENA median of the first quarter beneficiary incidence) and (2) panel 2: higher Gini coefficient (above the MENA median). Dependent variable = subsidies and transfers, % of GDP. MENA = Middle East and North Africa.

countries where inequality is above the regional average (Figure 2.8, panel 2; see Online Annex).

Subsequent Fiscal Adjustment Was Insufficient and Generally of Low Quality, Reducing Fiscal Space for Priority Spending

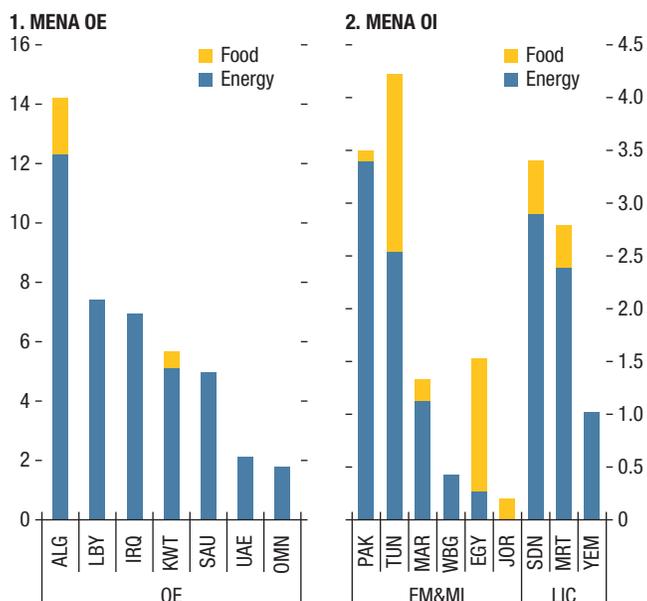
Because the expanded current expenditure was reversed only gradually (Figure 2.6, panel 1), aided by declining oil prices and energy subsidy reform in some countries—revenues took even longer to recover—the subsequent fiscal adjustment in oil-importing countries relied heavily on cuts to capital expenditures (Figure 2.6, panel 4). Still, these cuts were insufficient to offset the overall costs of the preceding fiscal expansion. As a result, public debt increased markedly, rising by 18 percentage points of GDP on average in MENA emerging markets between 2008 and 2015. Also, reduced public investment weighed on economic growth by widening infrastructure gaps,

particularly for oil-importing countries (October 2014 *Regional Economic Outlook: Middle East and Central Asia*).

The collapse of oil prices in mid-2014 triggered a recalibration of fiscal policies in oil-exporting countries and an abrupt fiscal adjustment through substantial cuts to capital expenditure and energy subsidy reforms in all GCC countries. Since 2018 some GCC countries added excise taxes (Qatar) and VAT (Bahrain, Oman, Saudi Arabia, UAE). However, these efforts did not reverse the preceding expansion, driving an increase in net public debt of about 30 percentage points of GDP on average between 2008 and 2018.

Costly and ineffective tax exemptions, generalized wage increases and subsidies, and resulting cuts to infrastructure spending have reduced fiscal space and the ability of governments to deliver adequate public services. Social spending, including on health, education, and social protection, lags other peer groups in levels and socioeconomic outcomes (IMF 2020).

Figure 2.9. MENA + Pakistan: Existing Food and Energy Subsidies
(Percent of GDP, 2021)



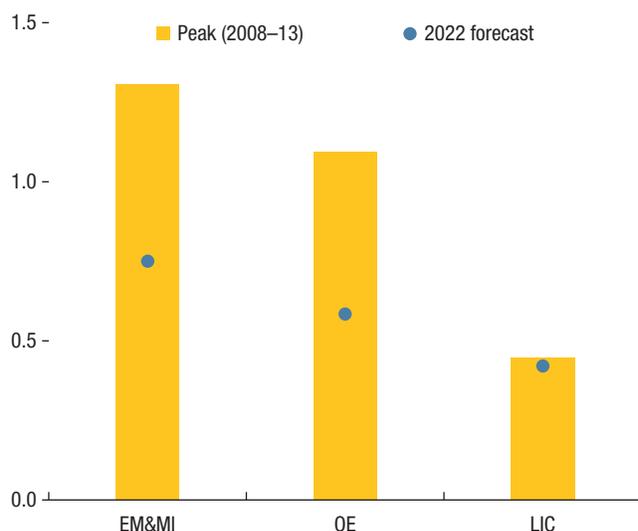
Source: IMF desk survey.
Note: For oil exporters, food and energy subsidies include budget and off-budget operations. Country abbreviations are International Organization for Standardization country codes. EM&MI = emerging market and middle-income economies; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter; OI = oil importer.

2.3. Current Surge in Commodity Prices: Fiscal Implications

2.3.1. Policy Responses in the Aftermath of the War in Ukraine

As in past episodes, countries in the region have limited the pass-through of higher global commodity prices to domestic retail prices through generalized price subsidies and, in some, tax cuts. For most countries, the first line of defense has been to automatically increase existing subsidies. In 2021, energy subsidies amounted to 1.5 and 5.8 percent of GDP on average among oil importers and exporters, respectively (Figure 2.9). Food subsidies were less costly, reaching as high as 1.5–2 percent of GDP for Algeria, Egypt, and Tunisia. In 2022, the automatic increase of existing energy and food subsidies—and the introduction of new ones—is projected to cost

Figure 2.10. MENA: Subsidies and Transfers
(Percent of GDP per \$10 of international oil price)

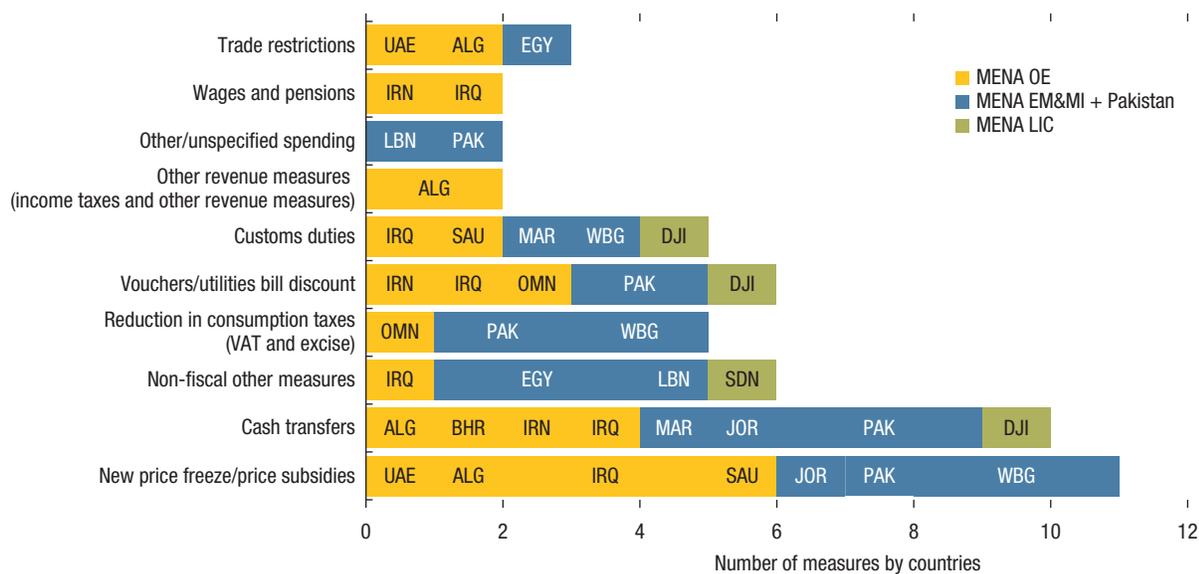


Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: EM&MI = emerging market and middle-income economies; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter.

an *additional* 0.8 and 0.3 percentage point of GDP on average, respectively. For some countries, the additional fiscal cost of energy subsidies is expected to range from 1.7–3 percent of GDP (Iraq, Mauritania, Tunisia), whereas the additional cost of food subsidies is expected to reach about 1 percent of GDP for Iraq and Tunisia.

Still, in 2022 subsidies are projected to increase by less than in past episodes—roughly 50 percent of their peak between 2008 and 2013 for the region’s oil exporters and emerging markets (Figure 2.10)—reflecting both past subsidy reforms and countries’ limited fiscal space at the current juncture. Indeed, several countries have allowed an upward adjustment in domestic gasoline prices (Jordan, Mauritania, Morocco, Pakistan, Saudi Arabia, Tunisia, UAE) (Figure 2.4). Tax cuts have focused on food-related consumption taxes such as VAT (Oman, West Bank and Gaza), excises on fuel (Pakistan), and customs duties (Iraq, Morocco, Saudi Arabia, West Bank and Gaza).

MENA countries have also introduced targeted measures to mitigate the impact of higher food and energy prices on the vulnerable. Measures

Figure 2.11. MENA EM&MI + Pakistan: Recently Announced Measures in Response to Higher Energy and Food Prices

Sources: National authorities; and IMF staff calculations.

Note: Other unspecified spending includes subsidized wheat at the official exchange rate (Lebanon) and reduction in power price for all residential and commercial users (power blanket subsidy in Pakistan); Non-fiscal other measures are all relevant new measures that may either affect households, industries, governments, or prices and supply including reallocation of imports and exports, regulatory measures, and so on. This also includes cases in which government announces introduction of price controls of energy or food products but does not finance this by a fiscal measure, but rather by lowering the margins or profits of energy or food companies. Country abbreviations are International Organization for Standardization country codes. EM&MI = emerging market and middle-income economies; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter; VAT = value-added tax.

aimed at protecting low-income households have included temporary cash transfers targeting vulnerable segments of the population such as the unemployed, students, widows and orphans (Bahrain, Djibouti, Iran, Iraq, Jordan, Morocco), and vouchers or discounts on utility bills (Djibouti, Iran, Oman, Pakistan) (Figure 2.11).

Concerns about rising domestic food prices have prompted additional measures. Some countries in the region have introduced subsidies to support domestically produced wheat (Egypt) or raised existing subsidies (Tunisia) and facilitated the provision of fertilizer handouts and livestock feed (Mauritania, Pakistan). Some countries resorted to temporary trade restrictions, including export bans on some food products (Algeria, Egypt, UAE). Additionally, Iran increased minimum wages.

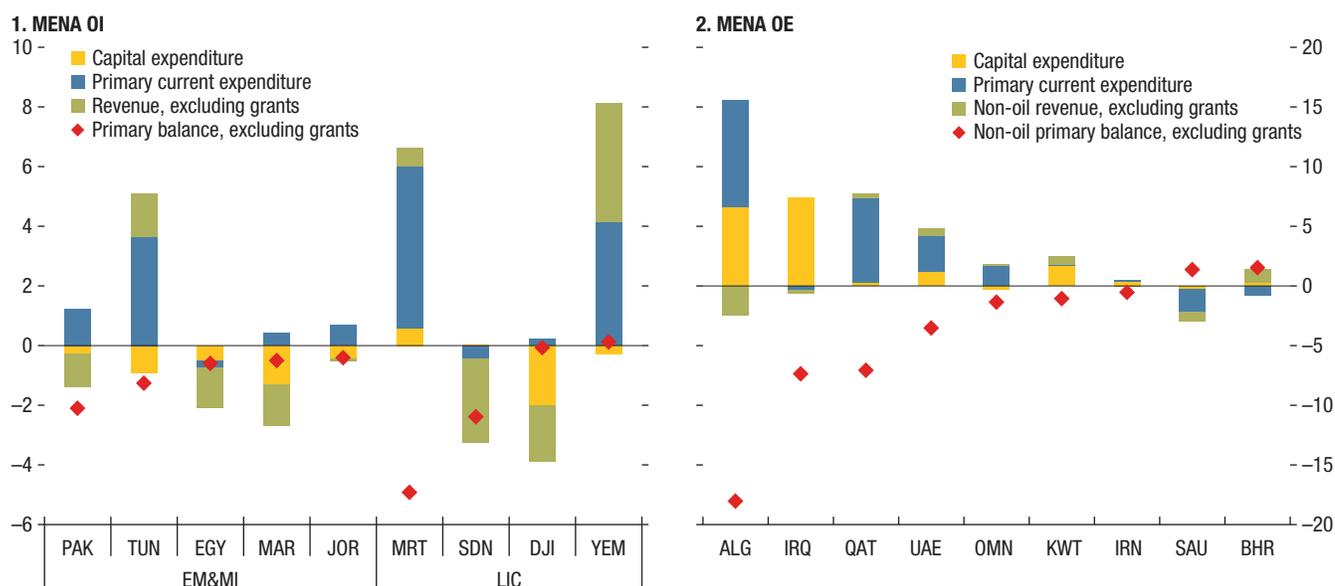
The overall fiscal cost of these policy responses varies significantly across countries. The estimated average cost, including the increase in subsidies (existing and new) as well as other new measures, is estimated in the range of 0.8–1.3 percent

of GDP. Most of these measures have been announced as temporary. Although measures are in the remit of the general government for oil importers, they tend to be off budget for most oil exporters, raising transparency concerns.

2.3.2. Significant Risks around the Fiscal Outlook

Generally Weaker Primary Balances in 2022 Relative to Prewar Expectations ...

The war in Ukraine and policy responses to mitigate its impact are expected to weaken primary balances in 2022 in most MENA countries and Pakistan relative to prewar projections (Figure 2.12). While primary balances for MENA emerging markets and Pakistan are projected to worsen compared to prewar expectations, these are projected to remain unchanged from 2021 on average. The worsening reflects higher primary current spending primarily in Pakistan and Tunisia—due to higher subsidies and other

Figure 2.12. Change in 2022 Primary Balances*(Percent of GDP; non-oil GDP for oil exporters; difference between current and October 2021 WEO projections)*

Source: IMF, World Economic Outlook database.

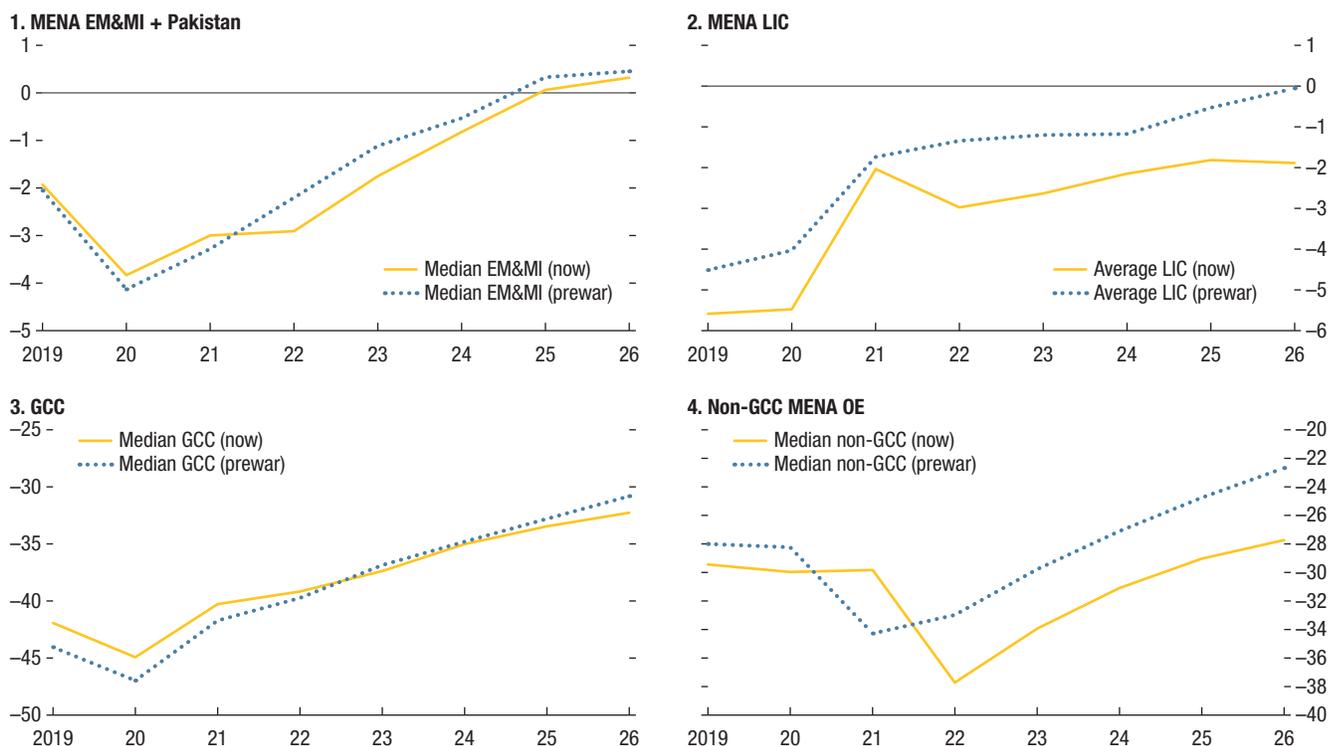
Note: Country abbreviations are International Organization for Standardization country codes. EM&MI = emerging market and middle-income economies; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter; OI = oil importer; WEO = *World Economic Outlook*.

measures—partially offset by lower capital expenditures. In Egypt, cuts to other current expenditures are offsetting higher subsidies. Among low-income countries, Mauritania, Somalia, and Sudan are projected to loosen their primary balances both relative to prewar projections and 2021, reflecting higher energy and food subsidies and in the case of Sudan, lower-than-expected revenues following the economic fallout of ongoing political instability. Among oil exporters, most GCC countries—also in a break from the past—have not expanded their non-oil primary balances and continue their consolidation efforts into 2022. In contrast, procyclical policies in Algeria, Iraq, Qatar, and UAE are expected to result in a looser fiscal stance in 2022 as compared to 2021—a reversal from the expected consolidation prior to the war—reflecting higher subsidies (Algeria, Iraq, UAE) and higher wages (Algeria, Qatar, UAE). However, the fiscal loosening across country groups is significantly less than in past episodes (see Figure 2.15), indicating a combination of limited fiscal space and fiscal prudence.

... Somewhat Delaying Medium-Term Fiscal Adjustment ...

The 2022 fiscal expansion is expected to be carried over the medium term, with weaker primary balances by 2026 vis-à-vis prewar expectations (Figure 2.13). Despite this loosening, all MENA emerging markets are expected to continue their adjustment paths (albeit at a slower pace), reflecting the anticipated temporary nature of the policy response to the war in Ukraine and a foreseen easing of commodity prices. Among oil exporters, GCC countries are expected to save about 20 percent of total revenues on average (or 33 percent of oil revenues) despite the expected decline in oil prices over the medium term—a significantly higher saving rate relative to past episodes when saving rates breached into negative territory following declines in oil prices (Figure 2.14). Among non-GCC countries, Algeria's government savings rates are projected to fall sharply, whereas Iraq is expected to save about one-quarter of its oil revenues.

Figure 2.13. Primary Balances: Current versus Prewar Expectations
(Percent of GDP; non-oil GDP for oil exporters; simple average)



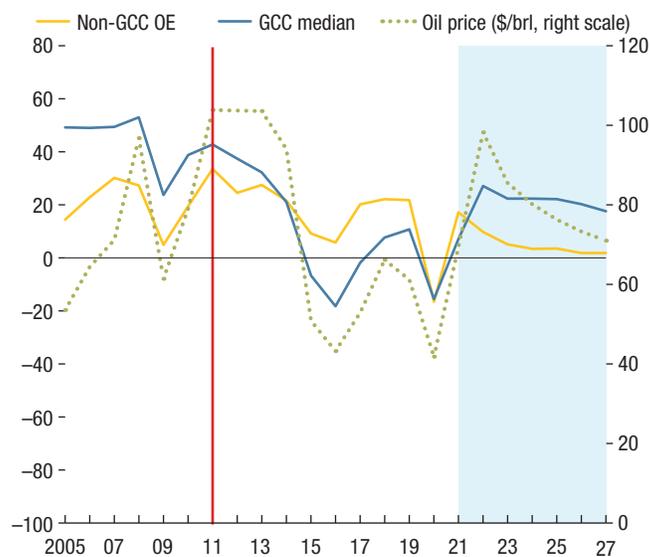
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: EM&MI = emerging market and middle-income economies; GCC = Gulf Cooperation Council; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter.

... and Surrounded by Substantial Risks

The outlook entails substantial risks, including higher-for-longer commodity prices, tighter and more volatile financial conditions, and a deeper global slowdown. Past episodes of rising commodity prices have shown how tenuous social stability in MENA emerging markets can be. For oil exporters, large oil revenues carry the risk of fiscal profligacy, although so far this has not happened in most countries (Figure 2.15). A combination of these downside risks could result in significant pressures on the fiscal outlook as observed in the historical fiscal outcomes following commodity price surges, when the risks of social instability and higher-for-longer oil prices materialized inflicting larger-than-initially expected pressures on fiscal accounts (Figure 2.15). Although the pandemic’s legacy and eroded fiscal space may have severely limited the scope for an expansionary fiscal response, the

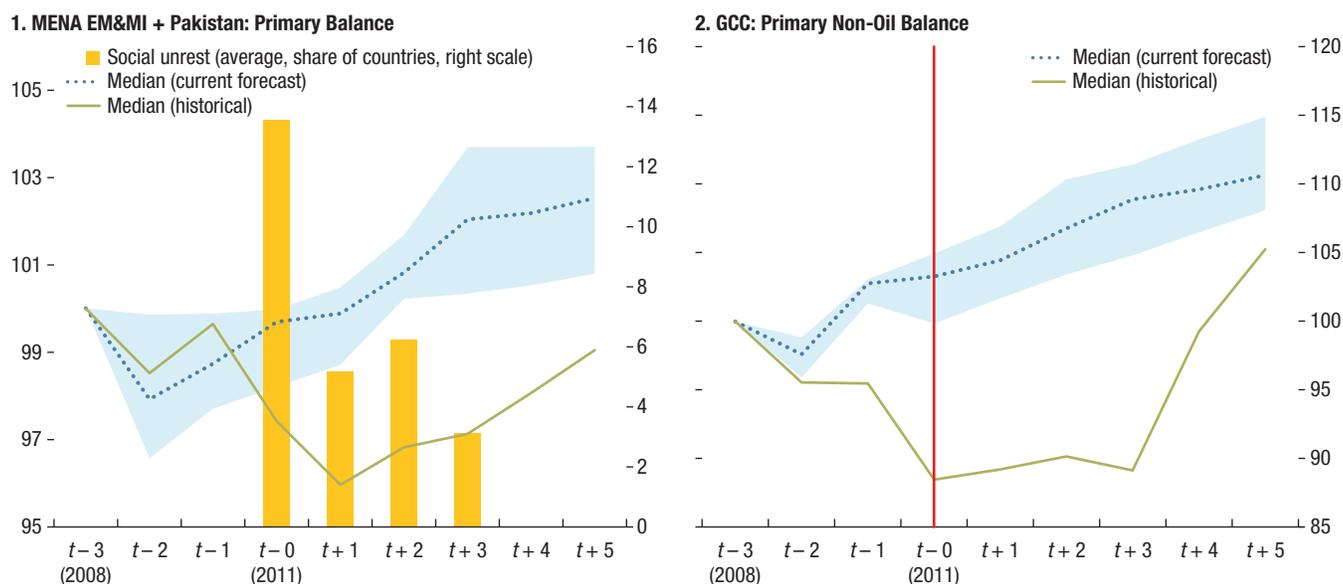
Figure 2.14. MENA OE: Government Saving Rates
(Percent of total revenues)



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

Note: Non-GCC OE includes Algeria, Iran, and Iraq. bbl = barrel; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa; OE = oil exporter.

Figure 2.15. Forecast Fiscal Responses 2022–27, Compared with Realized Fiscal Response to 2011 Oil Price Shock
(Index, 2008 = 100)



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

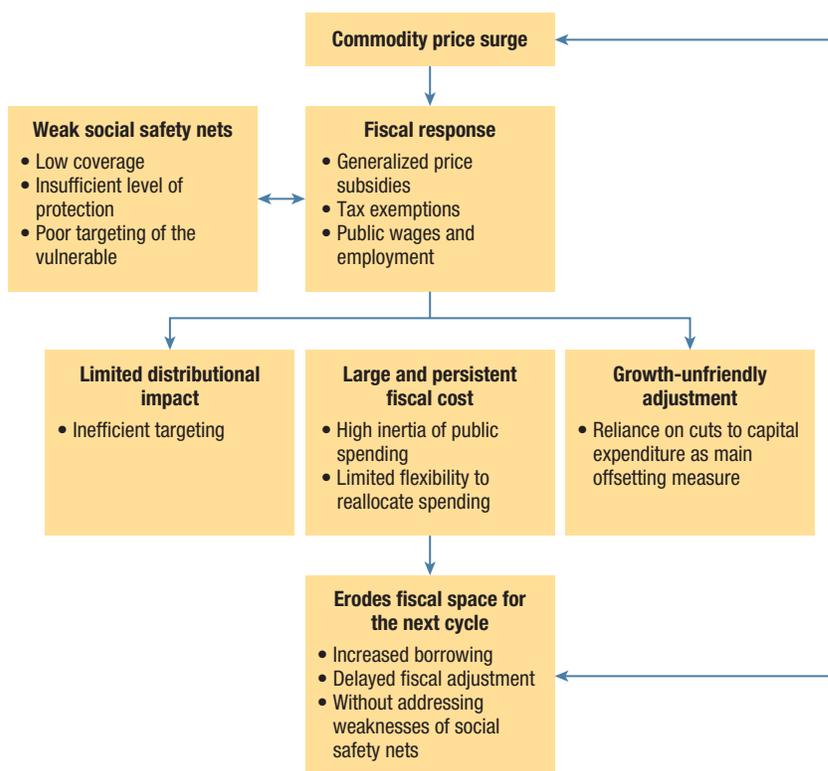
Note: For the current forecast, time $t - 0 = 2022$. For the historical series, time $t - 0 = 2011$. The shaded area is the spread between the first and third quartile for MENA EM&MI and Pakistan. The historical line refers to the median response of the 2008–16 period. For the purpose of this chart, index values are calculated to preserve the interpretation of changes in fiscal aggregates as percentage points of GDP. Example: a value moving from 100 to 102 implies a 2 percentage point of GDP increase for the respective fiscal aggregate. 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. EM&MI = emerging market and middle-income economies; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

lack of a response could cause further scarring to those most exposed to the spillovers from the war and stoke social tensions. Furthermore, although general governments in oil exporters are expected to avoid the procyclical responses of the past, there is a risk that other public entities such as state-owned enterprises and sovereign wealth funds spend the oil windfall, thereby raising the need for greater transparency and oversight regarding their operations.

2.4. How Should Fiscal Policy Respond to a Surge in Commodity Prices?

The current surge in commodity prices and ensuing fiscal pressures call for careful calibration of policies to provide the most effective protection to the vulnerable while ensuring debt sustainability and avoiding new budgetary rigidities, given

the challenges of rolling them back. Countries should aim to break the unsustainable cycle of untargeted and inefficient social protection and generalized subsidies by implementing cost-effective measures to protect those in need while strengthening resilience to future shocks, including by completing the unfinished business of energy subsidy reform (Figure 2.16). International support will be needed in low-income countries, where fiscal space is lacking and policymakers are mainly resorting to price subsidies. The risk of commodity prices remaining elevated for a longer period will make these choices even more consequential. In a limited fiscal space environment, any short-term fiscal expansion using untargeted measures will necessitate either abrupt and painful offsetting measures or an increase in borrowing, thereby fueling macroeconomic imbalances and exacerbating fiscal vulnerabilities. As a result, countries will need to fund any near-term crisis-support measures by reprioritizing spending.

Figure 2.16. The Unsustainable Cycle of Inefficient Social Protection

Source: IMF staff.

2.4.1. Near-Term Policies: Cushion the Impact of Inflation on the Vulnerable

Implementing targeted cash transfer programs as a first line of defense. In countries with relatively well-targeted social safety nets (for example, Morocco, Pakistan, and Tunisia), temporary and targeted cash transfers should be used as the main policy instrument to lessen the impact on the vulnerable. Other less-targeted transfer programs, such as in-kind food transfers, can be expanded temporarily as needed and should be tailored to the needs of poor households.

Achieving quick gains in social protection. Most MENA countries lack traditional social registries to implement well-targeted cash transfer programs. However, lessons from the pandemic suggest that mobile phone network data can be used to improve humanitarian assistance targeting by

identifying beneficiaries and delivering transfers, even to informal workers (Aiken and others 2022).

Using self-targeted food price subsidies judiciously if targeted assistance is difficult to implement swiftly and the threat of reduced food security looms large. Food subsidies can help contain the negative impact of high global food prices on the vulnerable, usually at a relatively low fiscal cost. Even though food subsidies benefit all households, they have an inherent targeting as they are typically allocated to staple food products consumed mainly by the poor (Verme and Araar 2017).

Refraining from costly and regressive price subsidies on fuels. Fiscal resources should be directed to the more cost-effective measures listed earlier, whereas international energy prices should be allowed to pass through gradually to preserve fiscal space; this is particularly important for oil importers, given the risk of higher-for-longer global commodity

prices. In the short term, when countries cannot swiftly roll out well-targeted programs, measures to shield vulnerable households could be considered, such as uniform lump-sum utility bill discounts or focused subsidy support for fuels mainly consumed by the poor (for example, propane gas). Lifeline electricity tariffs could also be considered if their design is progressive.⁸

Preventing tax cuts and blanket exemptions. Although intended to reduce the final price of the goods and services consumed by vulnerable households, these measures are often poorly targeted. Instead, countries should implement VAT refunds for low-income households while gradually transitioning to a single VAT rate (Barreix and others 2022; IDB 2022).⁹

Where appropriate, ensuring measures are temporary by introducing sunset clauses. Policymakers should include a sunset clause alongside all new measures, including existing ones that have been expanded, to ensure they will be phased out when commodity prices return to previous levels.

Avoiding expansionary fiscal policies that fuel domestic inflationary pressures, worsen intergenerational equity, or increase debt and financing pressures. For oil-exporting economies, containing nonsocial current spending increases would be important in the presence of a surge in oil revenues. All countries should avoid expansions to the public wage bill and pensions that undermine fiscal sustainability, favor a narrow segment of the population when inflation disproportionately affects the poor, and ultimately constrain productive capital and social spending needed to shield the vulnerable.

⁸Lifeline electricity tariffs are targeted subsidies based on household consumption levels—reduced rates for a first block of electricity consumption, which is enough to cover basic needs.

⁹Offering value-added tax refunds to low-income households instead of exempting food or other staple food products would improve the progressivity of tax systems while creating incentives to reduce evasion and informality. However, this would be feasible only if the purchases are formal transactions that generate a tax record. The prospect of getting a refund on certain transactions would encourage consumers to request invoices and to use digital means of payment, thus reducing opportunities for tax evasion and informality (IDB 2022).

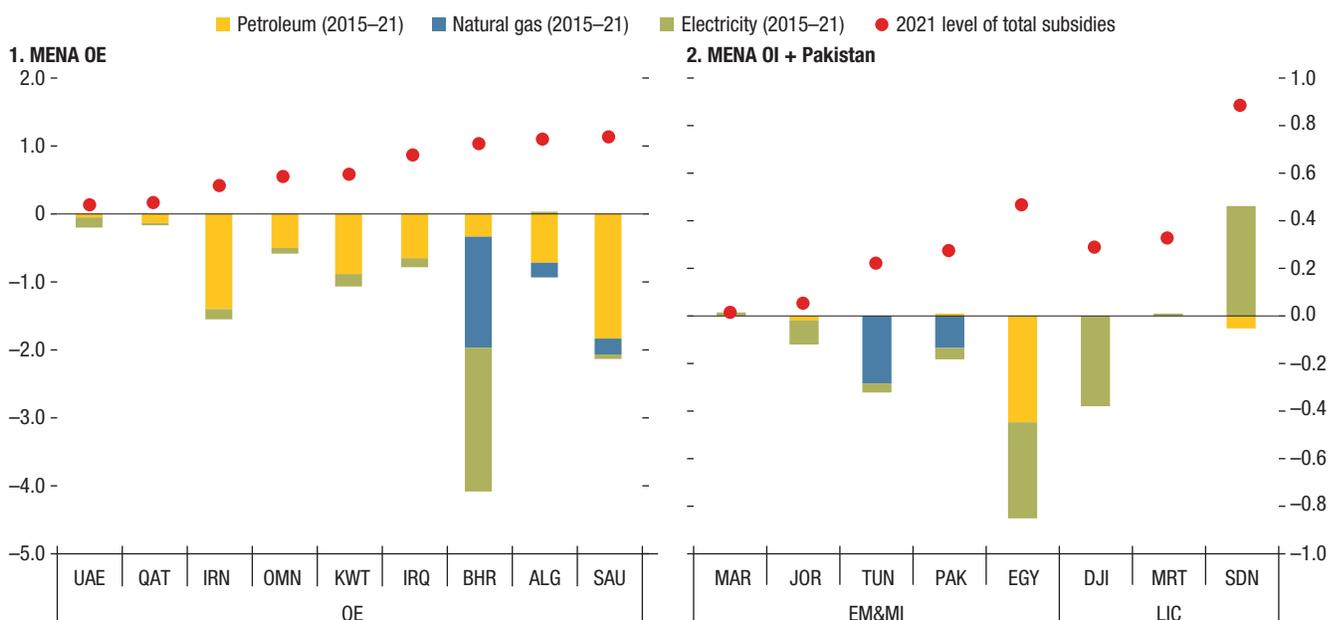
2.4.2. Medium-Term Policies: Building Resilience to Future Commodity Price Shocks

Completing energy subsidy reforms in conjunction with a more robust social safety net. MENA countries should move to an automatic adjustment mechanism of energy pricing. Despite the impressive reduction in explicit energy subsidies over the past six years, the current level of subsidies remains high (Figure 2.17). Reforming further generalized energy subsidies will not only help create fiscal space to improve public services, but also bolster equity (Coady, Flamini, and Sears 2015) by removing the highly regressive nature of such subsidies that benefit mostly the wealthier. Therefore, safety net and energy subsidy reform must work in tandem (Feltenstein 2017). A more robust safety net would provide targeted compensation as subsidy reform allows for a higher pass-through to domestic energy prices. At the same time, the fiscal space created by subsidy reform can help finance higher safety net coverage in addition to other progrowth capital spending. Several countries are progressing in this direction, including Tunisia (expanding coverage of social safety nets) and Saudi Arabia (improving targeting by establishing a social registry).

Enhancing energy efficiency. Maintaining artificially low domestic energy prices (due to subsidies) can result in distortions encouraging overconsumption and energy waste, deterring energy efficiency-enhancing investment and creating arbitrage opportunities and smuggling. In this respect, in addition to gradually eliminating fuel subsidies, the transition toward a greener and more efficient energy utilization would ultimately reduce energy dependency and effectively lower exposure to oil price fluctuations.

Bolstering revenue mobilization through tax reforms to increase fiscal space in oil importers and diversify revenue away from hydrocarbons in oil exporters. Reforms should focus on removing inequitable tax exemptions and incentives, strengthening tax administration, and improving tax progressivity (IMF 2022).

Figure 2.17. Change in Energy Subsidies 2015–21
(Percent of GDP per \$10 oil price)



Source: IMF, FAD Explicit Subsidies database.

Note: Data refer to the change between 2015–21 of the (energy subsidies as a percent of GDP)/international oil price. Petroleum products include gasoline, diesel, LPG, kerosene, and other oil products. Country abbreviations are International Organization for Standardization country codes. EM&MI = emerging market and middle-income economies; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter; OI = oil importer.

Adopting risk-management strategies. Commodity price cycles and the volatility surrounding them are here to stay. Risk management strategies can help mitigate this volatility with hedging financial instruments, including long-term fixed-price contracts (Bacon and Kojima 2008). Risk management requires considerable knowledge of financial instruments and appropriate institutional frameworks (Daniel 2001). Countries with limited experience can start with shorter-term contracts and gradually extend contract durations to avoid locking in unfavorable price levels (for example, Jordan’s long-term natural gas contract). Some oil exporters use put options to set a minimum price on oil exports (for example, Mexico’s “Hacienda hedge”), which can be costly with a high option premium but allows benefiting from upside risks and proves effective at reducing sovereigns borrowing cost (Ma and Valencia 2018).

Continuing to enhance governance and public financial management. Greater fiscal transparency and accountability, including of public entities

outside the general government, could help improve spending efficiency (IMF 2021a) and contain risks and fiscal costs stemming from state-owned enterprises in the region (IMF 2021b). Moving toward a medium-term fiscal framework and adopting fiscal rules can help reduce budget rigidity and decouple fiscal policy from oil price swings. For oil exporters, this would reduce fiscal procyclicality and improve intergenerational equity by saving a portion of oil windfalls during oil price upswings. Alongside these, setting up a ring-fenced stabilization fund could help ensure enough flexibility for countercyclical fiscal policies, including boosting social spending in response to adverse shocks.

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3. War in Ukraine: Risks to Poverty and Inequality in the Caucasus and Central Asia

Russia's war in Ukraine is affecting countries in the Caucasus and Central Asia (CCA) through several channels. This chapter examines the potential impact on poverty and inequality resulting from exacerbated inflationary pressures and potential risks of reduced remittance flows in the war's aftermath. Based on simulations using microdata from household budget surveys, the war in Ukraine risks raising poverty by about 1 percentage point and inequality by about 1 percent, and reducing real household consumption by about 2 percentage points, on average. The poorest countries in the region are expected to bear the brunt of the impact on poverty, which could increase by about twice the regional average and add to already-difficult policy challenges. Likewise, poorer households across the region are most at risk from rising food prices and a potential decline in remittances. Mitigating the war's potential impact on the vulnerable will be a key priority for policymakers and will require stronger social safety nets. Understanding the heterogeneity of the war's impacts across households and countries would help to design policy support programs better toward the most in need.

3.1. Looming Risks of Reversing Progress toward Reducing Poverty and Inequality

The region was making good progress toward reducing poverty and inequality before the COVID-19 pandemic. The average share of the population living in extreme poverty (with income below the World Bank's poverty line of \$1.9 per day) declined from about 33 percent in 2000 to less than 5 percent in 2019, consistent with trends among other emerging market economies (Figure 3.1). However, despite these gains, overall poverty rates remained high from a global

perspective, with more than 40 percent of the region's population living on less than \$5.5 per day in 2019. Inequality as measured by the Gini coefficient had also decreased since 2000 but remained broadly stable at about 0.32 over the last decade.

Progress has likely stalled since the pandemic.

Decreased income, job losses, and work interruptions during the pandemic have been particularly damaging for poor households, with women, youth, and low-wage and informal workers among the hardest hit. About half a million more people in the region are estimated to have entered extreme poverty during 2020–21.

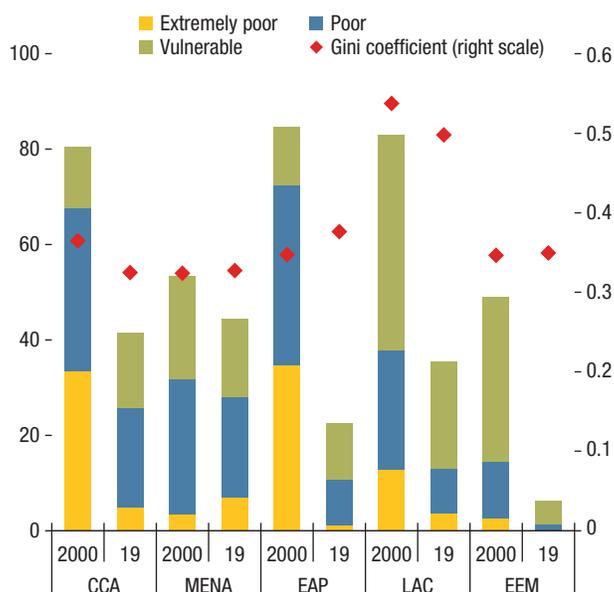
Potential Challenges Ahead

The war in Ukraine and sanctions on Russia could pose additional challenges for CCA countries because of their geographic proximity to Russia, close trade and financial links, and a heavy reliance on remittances from Russia in some countries. The war's impact on inflation and remittances is cause for concern and could threaten progress toward reducing poverty and inequality.

Inflation and food security risks. Inflation had been rising across the region during 2021, and the war's impact on global food and energy prices contributed to a marked deterioration in the inflation outlook (Figure 3.2). Although global food and energy prices have stabilized in recent months, they remain well above 2021 levels amid high uncertainty. Higher inflation is expected to be driven primarily by surging food prices. This is particularly concerning for low-income households where saving rates are low and food costs represent a significant share of total consumption expenditures. Higher food prices could worsen inequality and poverty rates for vulnerable groups, adversely affect food affordability and security, and raise risks associated with social unrest.

Prepared by Nordine Abidi, Mehdi Akhbari, Bashar Hlayhel, Troy Matheson (lead), and Sahra Sakha, with input from Rose Mungai, William Seitz, and Salman Zaidi (World Bank).

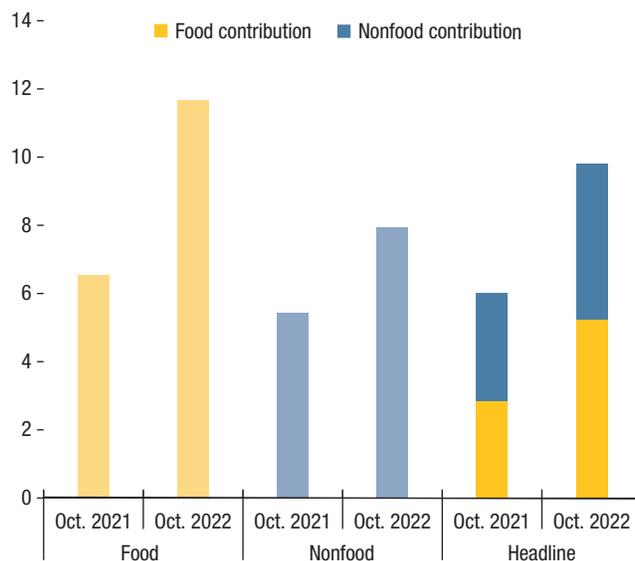
Figure 3.1. Poverty and Inequality
(Percent of total population)



Sources: Povcal Net database; World Bank; and IMF staff calculations.
Note: Poverty lines are expressed in 2011 purchasing power parity US dollars; Extremely poor means consumes less than \$1.9/day. Poor means consumes less than \$3.2/day. Vulnerable means consumes less than \$5.5/day. CCA = Caucasus and Central Asia; EAP = East Asia and Pacific; EEM = Europe emerging markets; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa.

Disruptions to remittance flows. While high-frequency indicators suggest remittances to the region have been resilient since the war began, lower growth in Russia, pressures on the ruble, restrictions on payment systems, and a global slowdown could hamper remittances in the future. Remittances currently account for between 10 and 30 percent of GDP for Armenia, Georgia, the Kyrgyz Republic, Tajikistan, and Uzbekistan, and Russia is the most important source of remittances for most countries, particularly the Kyrgyz Republic and Tajikistan (Figure 3.3, panel 1). Historically, remittances from Russia are strongly correlated with Russian GDP. The prospect of sustained sanctions could damage Russia's productive capacity over the medium term and lead to persistent changes in migration patterns and a reduction in remittance flows. Based on Russia's projected GDP losses since the war's onset (comparing the October 2022 and October 2021 *World Economic Outlooks*), remittances from Russia

Figure 3.2. Projected CPI Inflation (2022–23)
(Percent, average)



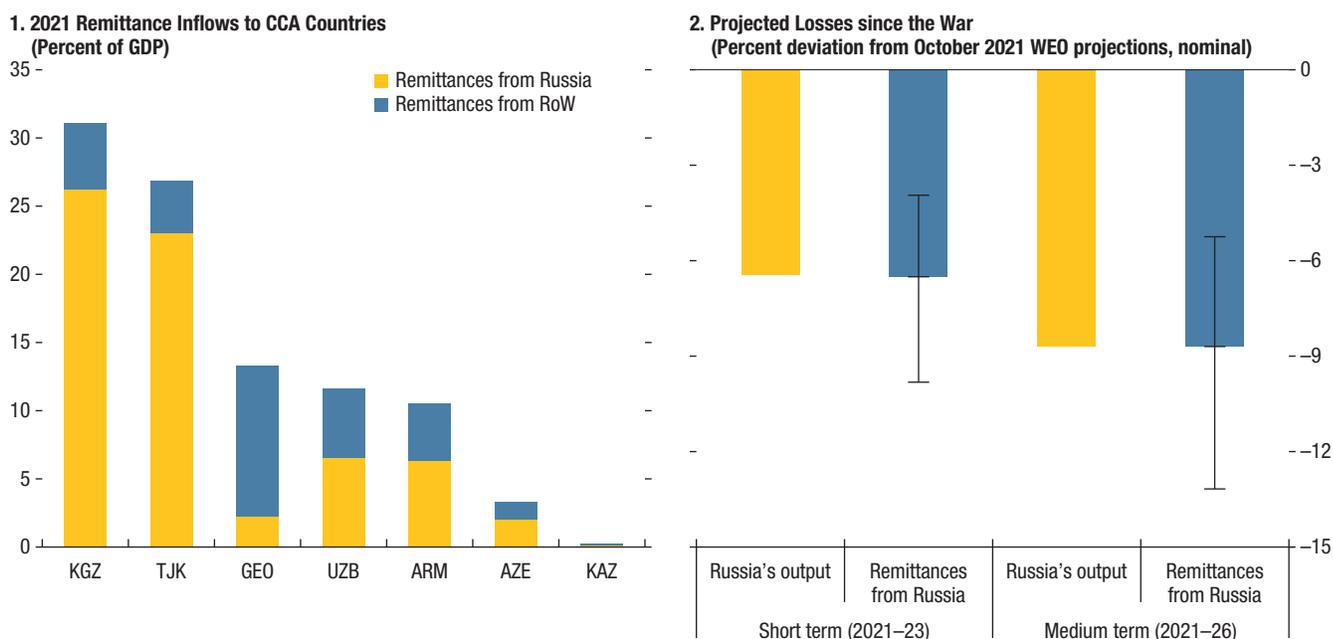
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Notes: Food and nonfood inflation are derived from a simple macroeconomic model. See Online Annex. Inflation rates are purchasing power parity gross domestic product-weighted averages across Caucasus and Central Asia countries excluding Turkmenistan. CPI = consumer price index.

to CCA countries are estimated to contract in the range of about 4–10 percent by 2023 and 5–13 percent by 2026, compared with prewar estimates (Figure 3.3, panel 2). Declines in remittances from Russia of this magnitude could worsen poverty and inequality and deeply affect households that rely heavily on them as a source of income and consumption.

3.2. How Do Inflation and Remittances Affect Poverty and Inequality?

This section uses data from household budget surveys to assess how inflation and remittances affect poverty and inequality across the region.¹ From this point forward, all poverty and inequality statistics

¹Although data availability limits the coverage of empirical exercises related to remittances to three of the eight countries in the region (Armenia, Georgia, Kyrgyz Republic), the simulation exercises include all countries except for Azerbaijan and Turkmenistan.

Figure 3.3. Importance of Remittances and Projected Losses since the War in Ukraine

Sources: Central Bank of the Russian Federation; IMF, Balance of Payments and International Investment Position Statistics database; National Bank of Georgia; and IMF staff calculations.

Note: Remittances losses from Russia are estimated using a quarterly trivariate vector autoregression model for each country containing nominal remittances from Russia, each country's nominal GDP, and Russia's nominal GDP (all measured in USD) using data from 2010–21. 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. Country abbreviations are International Organization for Standardization country codes. CCA = Caucasus and Central Asia; RoW = rest of world; WEO = *World Economic Outlook*.

discussed are derived from distributions of unit-record consumption data from household budget surveys. Poverty rates are based on the World Bank's new poverty line for lower-middle-income countries of \$3.65 per day using 2017 prices, and inequality is measured using the Gini coefficient.

The Poor Are Vulnerable to Higher Food Prices

Low-income households tend to spend a greater share of their income on food. Food shares in the lowest decile of the income distribution range from about 70 percent for Tajikistan to about 40 percent for Georgia (Figure 3.4, panel 1). For similar reasons, high-income households are more exposed to higher prices for other goods and services, including energy. Consumption shares, however, are only one of many factors that affect consumer spending when prices change. For example,

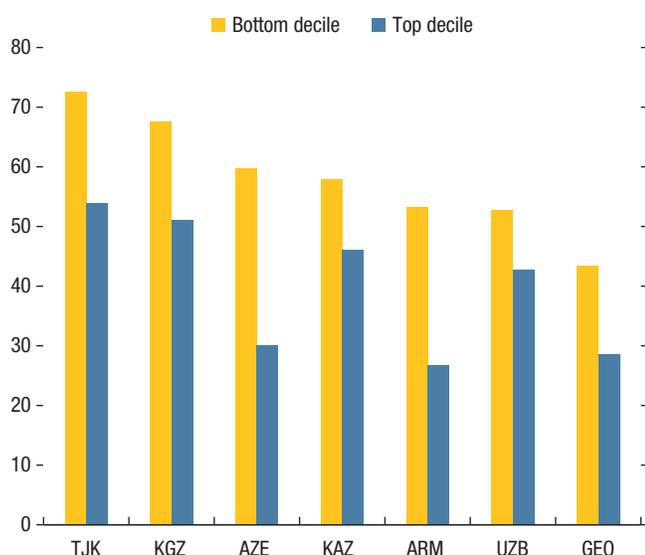
households that are net producers of goods and services (food producers in the current context) will benefit from higher income (and profits) when prices rise, while net consumers experience a loss in purchasing power (Deaton 1989).

High food price inflation increases poverty and inequality. Figure 3.4, panel 2, illustrates the average impact on poverty and inequality from changes in relative prices, where headline inflation is 10 percent, nominal household income is assumed to adjust with headline inflation, and food and nonfood inflation range between 0 and 20 percent.² Poverty rates and inequality

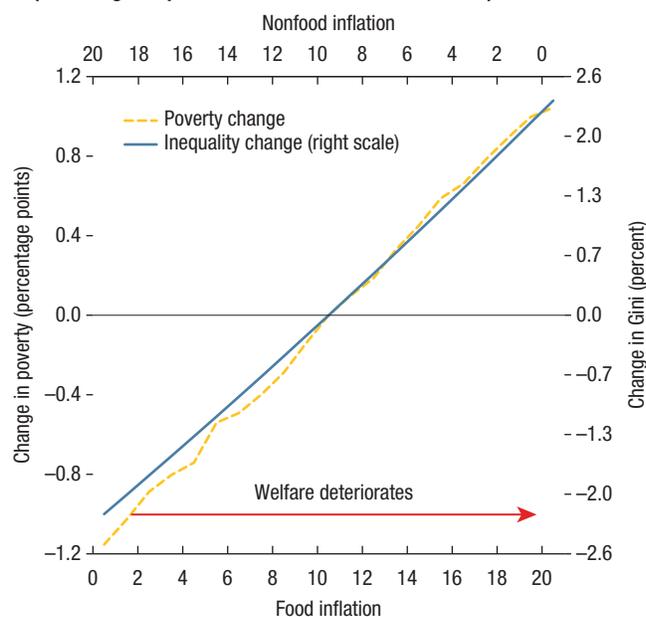
²Deaton (1989) outlines a way to evaluate changes in consumer welfare after changes in food prices. The microsimulations presented in this chapter are based on this framework (see Online Annex). The simulations are qualitatively similar for different rates of headline inflation. For example, fixing headline inflation at 20 percent instead of 10 percent shifts the lines in the figure so that the changes in poverty and inequality are zero when food and nonfood inflation are 20 percent.

Figure 3.4. Food Shares and Welfare Effects of Relative Price Changes

1. Food Shares of Consumption (Percent)



2. Welfare Changes after Relative Price Changes (Assuming non-production incomes rise with inflation)



Sources: National authorities statistics offices; and IMF staff calculations.
 Note: Country abbreviations are International Organization for Standardization country codes.

deteriorate when food inflation rises relative to nonfood inflation. The adverse effects on poverty and inequality from higher relative food prices are primarily driven by relatively high (net) food consumption shares in the lower end of the consumption distribution. Rising poverty results from declining purchasing power for poorer households because their nominal income fails to keep up with their consumption expenditure (a decline in consumption), and rising inequality reflects the consumption of poorer households being more sensitive to food prices than more affluent households (a widening of the consumption distribution).³ Importantly, if incomes do not adjust with headline inflation (as is likely to be the case in the short term), poverty

³Similar logic explains why increases in the relative price of non-food consumption reduce poverty and inequality. Households at the bottom end of the consumption distribution experience an increase in purchasing power because their nominal incomes (increasing with headline inflation) outstrip their consumption expenditures (an increase in consumption) due to their relatively low (net) nonfood consumption shares, and inequality falls because more affluent households are more sensitive to nonfood prices than poorer households (a narrowing of the distribution).

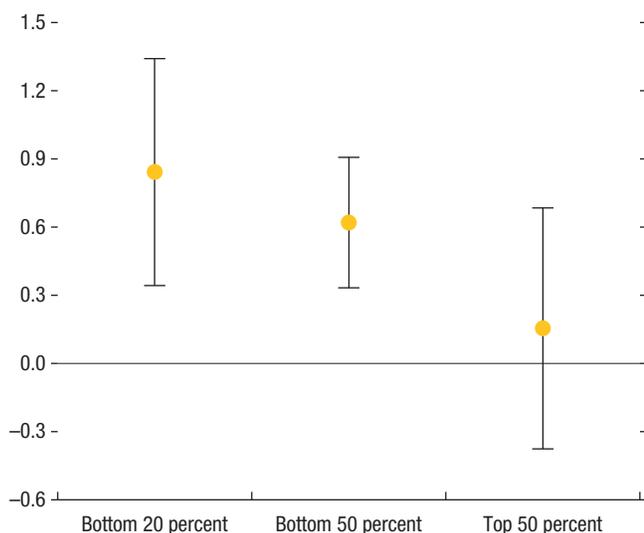
rates deteriorate, more so when food inflation is relatively high, and inequality is more sensitive to relative price changes. Looking across countries, poverty in the Kyrgyz Republic is the most sensitive to relative price changes,⁴ and inequality is most sensitive in Armenia. Poverty and inequality are the least sensitive to relative price changes in Kazakhstan.

Remittances Are a Lifeline for the Poor

Remittances helped offset the impact of past surges in food prices for vulnerable households. Estimates suggest that a 1 percent increase in domestic food prices led to a 0.8 percent increase in remittances for households in the bottom quintile of the income distribution and an increase of about 0.6

⁴As detailed in the Online Annex, the incomes of households that are not primary producers of food and nonfood items are assumed to be indexed to headline inflation. Removing this assumption makes the inequality line in Figure 3.4, panel 2, steeper and shifts the poverty line up so that poverty deteriorates for all relative price combinations (see Online Annex, Annex Figure 3.1).

Figure 3.5. Response of Remittances to Higher Food Prices Larger for Poorer Households
(Percent)



Source: IMF staff calculations.

Note: Numbers reflect peak responses after food price shocks. The lines indicate the 90 percent confidence interval. The x-axis represents different groups across the consumption distribution.

percent for households in the bottom half of the distribution. The effect of remittances on more affluent households is small and not statistically significant (Figure 3.5).⁵ This result suggests that migrants from poorer households were able to respond to shocks at home and increased transfers to their families after a rise in food prices, helping to limit the decline in food consumption when food prices rose.⁶ Looking ahead, such a capacity to respond to shocks at home could be severely diminished under prolonged sanctions on the Russian economy and weakening labor markets for CCA migrants, thereby exacerbating the impact of high food prices on vulnerable households.

Remittances also account for an important share of income for many households and help alleviate poverty and inequality. The share of poor households that receive remittances is higher in the

⁵The analysis is based on local projection methods using quarterly data (see Online Annex). At the lower end of the income distribution, remittances rise for two quarters after the food price shock and dissipate after about a year.

⁶Similar analysis does not find a statistically significant and robust response from governments' provision of social transfers to vulnerable households after an increase in food prices.

Kyrgyz Republic than in Armenia and Georgia, with shares ranging from about 15 percent in the Kyrgyz Republic to 5 percent in Georgia for the bottom third of income distributions. Remittances also tend to make up a larger share of income for poorer remittance-receiving households, ranging from about 71 percent in Tajikistan to 28 percent in the Kyrgyz Republic (Figure 3.6, panel 1).⁷

- Excluding remittances from household incomes increases inequality by about 3.4 percent and poverty rates by about 5.7 percentage points on average (Figure 3.6, panel 2), with larger impacts for the Kyrgyz Republic than for Armenia and Georgia.⁸ In this scenario, total consumption per capita would decline by about 11 percent on average. Note that the impacts on welfare that result from removing remittances from incomes represent upper bounds of the potential effects of declining remittances. This is because remittances are a substitute for the income that migrants would have earned if they had not decided to work abroad. To help overcome this bias, a counterfactual income without migration for remittance-receiving households is estimated following the propensity score matching method (see Online Annex).⁹
- The results using estimated counterfactual incomes show that migration and remittances improve welfare for all countries. Without migration and with counterfactual incomes replacing remittances, inequality would be about 2 percent higher, and poverty rates would increase by almost 2.7 percentage

⁷The demographic profiles for migrant and nonmigrant households differ across countries. For example, in Georgia, migrant-sending families are more educated and richer on average compared with Armenia and the Kyrgyz Republic. Estimated distributional impacts of remittances after the downturn in Russia in 2014–15 show that remittances acted as a shock absorber for the poor in some countries after that shock but not in others (see Online Annex).

⁸The results are broadly robust when using income instead of consumption to calculate poverty and inequality and over different sample periods (see Online Annex).

⁹The propensity score matching method essentially assumes that income without migration is comparable to that of non-remittance-receiving households with comparable characteristics (for example, demographics and geographic location).

Figure 3.6. Importance of Remittances and Their Impact on Welfare



Sources: National authorities statistics offices; and IMF staff calculations.
 Note: Income excludes social transfers and pensions. Country abbreviations are International Organization for Standardization country codes. Poor = bottom third of income distribution; rich = upper third of income distribution.

points.¹⁰ In this scenario, total consumption per capita would decline by about 4 percent on average. The lower impacts on welfare in this scenario suggest that households may respond to the loss of remittance income by increasing working hours or finding alternative employment. Still, these efforts only partially make up for the income from past remittances. Note also that the estimated income declines would be larger if returning migrants faced delays in finding jobs or their wages were lower because of an increased labor supply as migrants return. In this case, the estimated impacts on welfare would lie somewhere between the two scenarios displayed in Figure 3.6, panel 2.

3.3. Where Does the Region Stand in the Early Months of the War in Ukraine?¹¹

The following discussion draws on monthly phone surveys conducted by the World Bank to assess the war’s impact on households. The surveys cover Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan from the pre-COVID-19 period to July 2022.

Households reported concerns about the war’s impact on inflation and food affordability. In July, 86 percent of households surveyed in Kazakhstan said that rising prices are one of the country’s most serious challenges. More than 90 percent reported that prices are rising too quickly for the items they commonly buy. Similar concerns were reported across the region. Measures strongly linked to food affordability, such as whether survey respondents were able to buy enough food for

¹⁰The average poverty rate is 18 percent, and Gini coefficient is 0.34 across the three countries included in the analysis.

¹¹This section was written in collaboration with the World Bank.

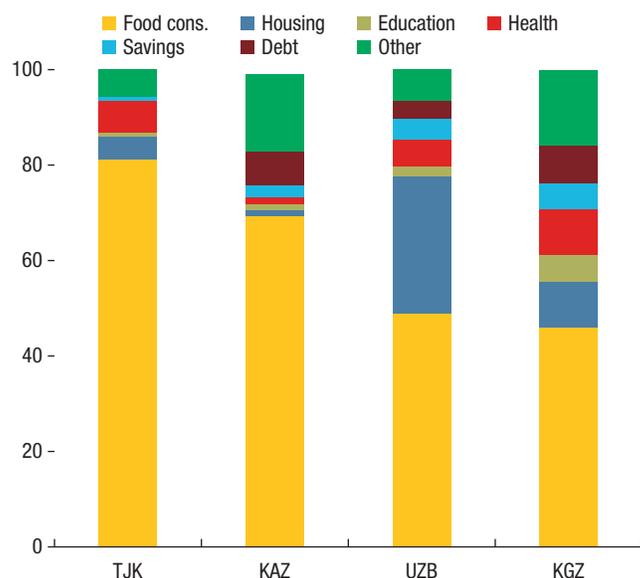
all family members, have deteriorated across the region in 2022. So far, affordability concerns have only translated into a reported reduction in food consumption in Tajikistan.

Food security is tied closely to remittances. For remittance-receiving households, a sizable proportion of remittance income continued to be used to purchase food in 2022, ranging from nearly half in the Kyrgyz Republic and Uzbekistan to 80 percent in Tajikistan (Figure 3.7). Therefore, remittances have an outsize impact on food security in the region. According to World Bank (2022), sending a migrant abroad tends to reduce food insecurity across the main migrant-sending countries (Kyrgyz Republic, Tajikistan, Uzbekistan).

Remittances have been volatile.

- There has been a significant increase in money transfers to several CCA countries in recent months and outsize contributions from Russia compared with past year averages (Armenia, Azerbaijan, Georgia, Uzbekistan) that cannot be explained by regular flows of remittances (Chapter 1). Survey respondents reported that personal transfers (in real local currency terms) contracted during the early months of the war but have since surged, partly reflecting the ruble's sizable strengthening against Central Asian currencies. The increase in households' purchasing power from these transfers has so far mitigated the war's impact in the region.
- Surveys show that migration disruptions following the start of the war were short-lived, and net migration has so far remained robust. Between March and July, the share of households with a migrant rose for the Kyrgyz Republic, Tajikistan, and Uzbekistan. At the same time, the share of households with a member considering migration has fallen since the beginning of the year in the Kyrgyz Republic and Tajikistan. Very few respondents in Uzbekistan expect any household member to go abroad soon.

Figure 3.7. Primary Use of Remittances (Percent)



Source: World Bank Listening Survey.

Note: Country abbreviations are International Organization for Standardization country codes.

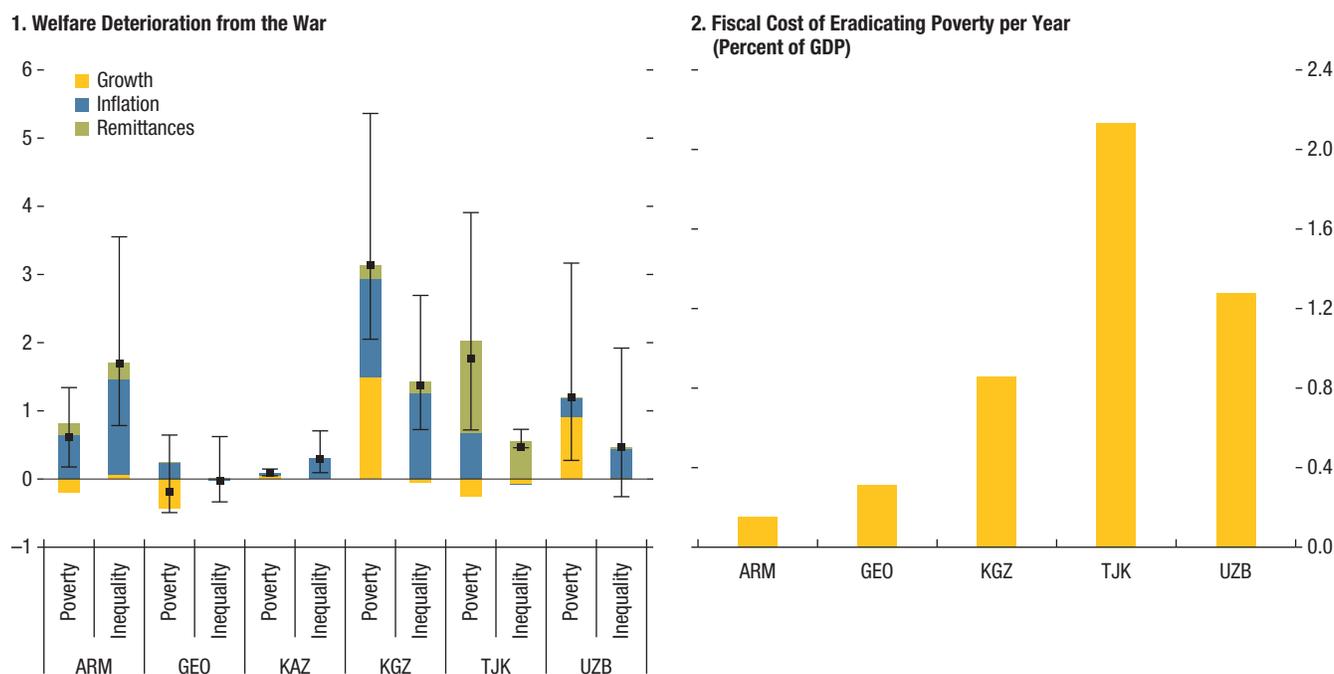
3.4. Looking Ahead: Risks to Poverty and Inequality

This section presents results from simulations of the war's potential direct impacts on welfare indicators based on changes to *World Economic Outlook* projections between October 2021 (prewar baseline) and October 2022 for all countries in the region except Azerbaijan and Turkmenistan.¹² The simulations use each country's projections for growth and inflation to estimate changes in poverty and inequality in 2023. For each country, the potential decline in remittances from Russia is calibrated based on each country's share of remittances from Russia and the estimated impact of the projected decline in Russia's nominal GDP since the war (Figure 3.3).

The war risks increasing poverty rates and inequality. Relative to prewar estimates, poverty rates are

¹²See Online Annex for details about the model and assumptions underpinning the scenarios. The scenarios do not account for any general equilibrium effects. Estimates for Kazakhstan and Uzbekistan were produced jointly with the World Bank.

Figure 3.8. Estimated Welfare Deterioration from the War in Ukraine and Costs of Poverty Eradication (2023)



Source: IMF staff calculations.

Note: In panel 1, changes in poverty are measured in percentage point change and changes in inequality are measured in percentage change. Poverty is measured at the \$3.65 purchasing power parity US dollars per day. Lower (upper) end of vertical line represents a positive (negative) scenario where real GDP is assumed to be higher (lower) by 1 percent and relative food prices are assumed to be lower (higher) by 5 percent relative to World Economic Outlook database baseline projections. Kazakhstan is omitted from panel 2 because poverty rates based on the poverty line displayed are effectively zero. The remittances channel might be underestimated due to underreporting of remittances in the household budget surveys, particularly for Uzbekistan. Country abbreviations are International Organization for Standardization country codes.

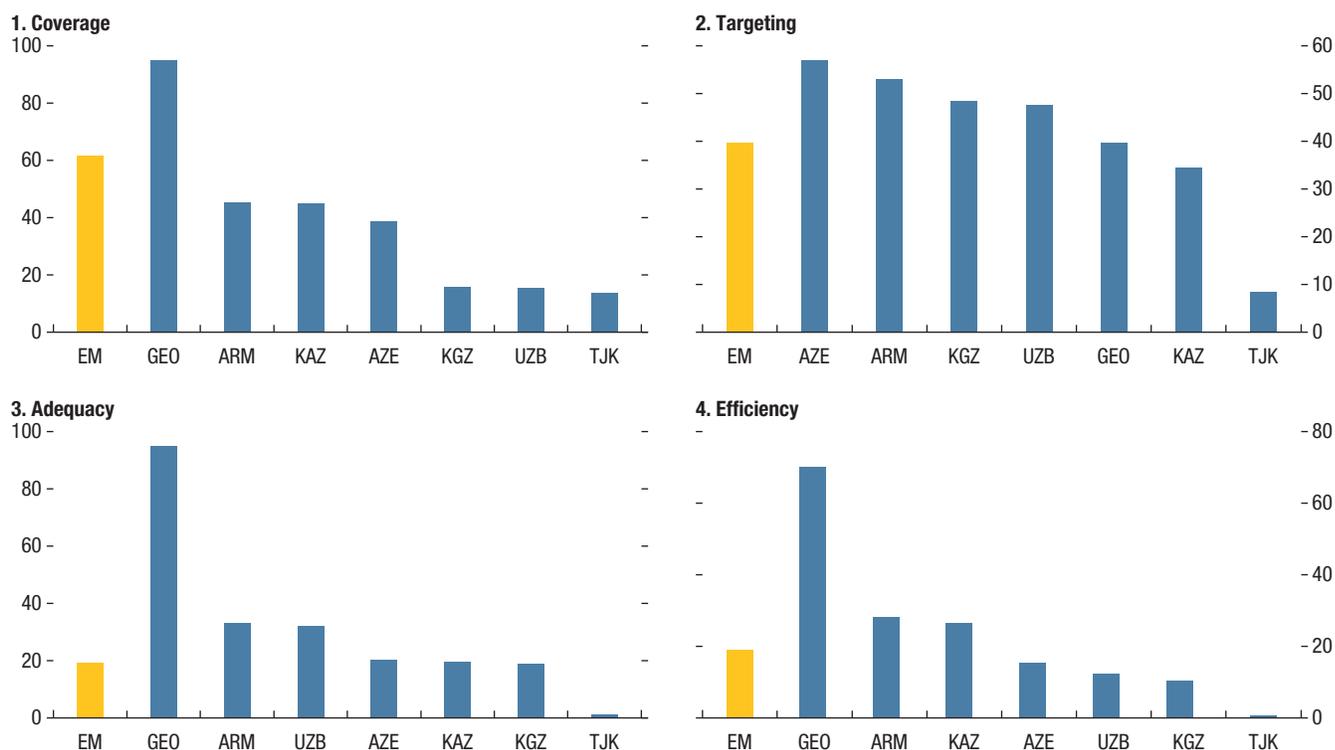
estimated to increase by 1.1 percentage points and inequality by 0.7 percent on average in 2023, with the poverty rate reaching 17 percent and the Gini coefficient reaching 0.33 (Figure 3.8, panel 1). The war is estimated to have a much larger impact on welfare in poorer countries, where poverty rates are already high. Specifically:

- Poverty.** The projected increases in poverty are largest in the Kyrgyz Republic and Tajikistan, with poverty rate increases around twice the regional average. By contrast, the impacts on poverty are much lower in more affluent countries (Georgia, Kazakhstan, and to a lesser extent, Armenia). Relatively high food price inflation is the largest contributor to poverty across all countries, except for Uzbekistan (which has a relatively large downward revision to growth since October 2021), with relatively large impacts from a decline in

remittance flows estimated for Armenia, the Kyrgyz Republic, and Tajikistan.

- Inequality.** The largest impacts on inequality in the region are expected to be in Armenia and the Kyrgyz Republic (primarily due to relatively high food price inflation) and Tajikistan (mainly due to the decline in remittances).
- Consumption.** The war's impact is largest for the most vulnerable households in the most vulnerable countries, but all households in the region will feel its impact. The war is expected to reduce real household consumption in the region by about 2 percentage points on average compared with prewar projections, with the most significant declines in the Kyrgyz Republic and Tajikistan and the lowest in Armenia and Georgia.

Figure 3.9. Social Transfers across the CCA
(Percent)



Source: IMF, Fiscal Affairs Department Social Protection and Labor Toolkit.

Note: The data correspond to the latest available year for each country. Coverage is the share of population in the bottom quintile receiving a social transfer; targeting is the percentage of transfers to the bottom quintile relative to total transfers to the population. Adequacy is the total transfer amount received by beneficiaries in the bottom quintile as a share of pre-transfer income or expenditure of beneficiaries; efficiency is the reduction (percentage change) in the poverty headcount due to transfers. Country abbreviations are International Organization for Standardization country codes. CCA = Caucasus and Central Asia; EM = emerging market economies.

The fiscal costs of eradicating poverty are low on average but higher for low-income countries that are more susceptible to risks stemming from the war. Figure 3.8, panel 2, shows the costs of moving all households below the poverty line of \$3.65 per day to the poverty line, with costs reaching 2.1 percent of GDP in Tajikistan and 1.3 percent of GDP in Uzbekistan. While the costs of eradicating poverty across the region are generally low, achieving such a goal would require significant improvements in both the coverage and targeting of existing social safety nets (Figure 3.9).

3.5. How Can the Risks Be Mitigated?

Spillovers from the war in Ukraine could put the region's progress toward reducing poverty and inequality at risk. These risks are the largest for the most vulnerable in the poorer countries in the region. Nevertheless, higher food prices threaten the well-being of many households, raising food security concerns and adding to risks associated with social unrest. At the same time, reliance on Russia as a destination for migration and source of remittances could pose challenges for households most dependent on remittances for their economic well-being, particularly if remittances are hindered by prolonged sanctions and the prospect of subdued output growth in Russia over the medium term.

To prevent increases in inequality and poverty, poor and vulnerable segments of the population need to be protected in a targeted manner. Where possible, countries should allow prices to adjust freely because rising prices are an important signal that resources have become scarce and help to spur additional supply and curb demand. Generalized food and energy price subsidies that aim to contain the impact of higher prices for everyone—regardless of their ability to pay—are costly, particularly where fiscal space is limited. Food subsidies that offset rising food prices in the simulations in the previous section are estimated to cost 1.4 percent of GDP on average, while the fiscal cost of moving all households in poverty to the poverty line of \$3.65 per day would cost 0.8 percent of GDP on average across countries. In the current context:

- For countries with stronger social safety nets, offsetting the impact of higher food and energy costs on living standards with targeted cash transfers to the most vulnerable or those at particular risk of harm from shortages would be most effective. Countries with limited fiscal space could reprioritize spending or pursue concessional financing or grants to ensure debt sustainability.
- For countries with underdeveloped safety nets and where an expansion of coverage is not feasible, prices could only gradually adjust to reflect international price developments. In addition, they can expand their most effective programs and leverage digital methods, which can help to identify eligible households and provide delivery mechanisms such as smart cards or mobile money (IMF 2020).
- Where food security is of particular concern and all other options have been exhausted, governments could consider temporarily reallocating spending toward food price subsidies or the direct distribution of staple foods while maintaining budget neutrality. Policies to support food supply could also be deployed, including the provision of finance for grain and fertilizer imports and increasing storage capacity.

A persistent decline in remittances may require additional targeted support to protect vulnerable households. To the extent that remittances act as a buffer against rising prices and other adverse shocks, social safety nets may need to be expanded to help fill this gap if remittances from Russia decline. Likewise, a decrease in remittances might also portend a return of migrants from Russia that could have implications for domestic labor markets and levels of social support. Finally, falling remittances could weigh on government revenues (Abdih and others 2012) due to the significant potential contraction in average real consumption across households, highlighting the importance of better targeting support to help reduce fiscal costs, especially where fiscal space is limited.

The pandemic exposed gaps in existing social safety nets that need to be addressed to support the most vulnerable. Even though the fiscal costs of eradicating poverty are generally low across the region, such a policy is only feasible if vulnerable households can be targeted with adequate support in real time. Social protection generally compares favorably to other emerging economies for most countries in the region, particularly in Georgia and, to a lesser extent, Armenia. Still, there is room to improve the coverage, targeting, adequacy, and efficiency of social safety nets for all countries (Figure 3.9). In particular:

- Efforts to means test existing programs should be ramped up, and countries without sufficient targeting of social safety nets should revisit the design and eligibility criteria of programs while eliminating untargeted support.
- Building stronger systems to identify those eligible for social benefits is essential. Integrating different social programs into a single social registry would increase efficiency and reduce administrative costs. Information on the most vulnerable should be kept current to deliver support in a more timely and effective manner. Deepening financial inclusion to extend electronic payments to remote areas is also vital to enhancing the efficiency and transparency of

transfers. Efforts to identify eligible citizens who are not receiving social benefits should be strengthened. Coordination among government agencies to streamline application procedures is important.

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ME&CA: Selected Economic Indicators, 2000–23*(Percent of GDP, unless otherwise indicated)*

	Average 2000–18	2019	2020	2021	Projections	
					2022	2023
ME&CA^{1,2}						
Real GDP (annual growth)	4.6	1.7	-2.7	4.5	5.0	3.6
<i>of which non-oil growth</i>	5.6	2.8	-2.6	5.1	4.2	3.5
Current account balance	6.3	0.4	-2.5	2.4	7.2	5.7
Overall fiscal balance	1.7	-3.2	-7.8	-3.2	0.2	-0.7
Inflation (year average; percent)	7.1	7.7	10.5	12.9	13.8	13.1
ME&CA oil exporters						
Real GDP (annual growth)	4.6	0.5	-3.8	4.5	4.9	3.5
<i>of which non-oil growth</i>	5.9	2.4	-3.4	5.5	3.6	3.4
Current account balance	9.4	2.5	-2.2	4.3	9.6	7.8
Overall fiscal balance	3.7	-2.0	-8.2	-2.4	1.9	0.5
Inflation (year average; percent)	6.7	6.1	8.7	11.1	12.6	11.4
ME&CA emerging market and middle-income countries^{1,3}						
Real GDP (annual growth)	4.4	3.7	-0.9	4.5	5.4	3.7
Current account balance	-3.4	-5.3	-3.2	-3.3	-4.6	-4.2
Overall fiscal balance	-5.2	-6.7	-7.3	-6.5	-6.4	-5.8
Inflation (year average; percent)	6.8	8.3	8.2	7.8	11.2	13.9
ME&CA low-income developing countries²						
Real GDP (annual growth)	4.4	2.9	-1.4	4.3	3.2	3.8
Current account balance	1.8	-5.6	-4.8	-6.6	-6.3	-6.2
Overall fiscal balance	-1.7	-4.4	-3.8	-3.0	-3.1	-2.7
Inflation (year average; percent)	12.9	19.5	39.3	69.5	42.6	25.9

Sources: National authorities; and IMF staff calculations and projections.

Note: Data refer to the fiscal year for the following countries: Afghanistan (March 21/March 20) until 2011, and December 21/December 20 thereafter, Iran (March 21/March 20), and Egypt and Pakistan (July/June).

The 32 ME&CA countries and territories are divided into three (nonoverlapping) groups, based on export earnings and level of development: (1) Oil Exporters (ME&CA OE), (2) Emerging Market and Middle-Income Countries (ME&CA EM&MI); and (3) Low-Income Developing Countries (ME&CA LIC).

ME&CA OE include Algeria, Azerbaijan, Bahrain, Iran, Iraq, Kazakhstan, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Turkmenistan, and United Arab Emirates.

ME&CA EM&MI include Armenia, Egypt, Georgia, Jordan, Lebanon, Morocco, Pakistan, Syrian Arab Republic, Tunisia, and West Bank and Gaza.

ME&CA LIC include Afghanistan, Djibouti, Kyrgyz Republic, Mauritania, Somalia, Sudan, Tajikistan, Uzbekistan, and Yemen.

¹2011–23 data exclude Syrian Arab Republic.²2021–23 data exclude Afghanistan.³The FY2022/23 projections for Pakistan are based on information available as of end-August 2022 and do not include the impact of the recent floods.

MENA: Selected Economic Indicators, 2000–23*(Percent of GDP, unless otherwise indicated)*

	Average 2000–18	2019	2020	2021	Projections	
					2022	2023
MENA¹						
Real GDP (annual growth)	4.4	1.0	-3.1	4.1	5.0	3.6
<i>of which non-oil growth</i>	5.5	2.6	-2.8	4.9	3.9	3.5
Current account balance	7.3	1.1	-2.6	3.0	7.5	5.9
Overall fiscal balance	1.9	-3.1	-8.2	-3.0	0.7	-0.6
Inflation (year average; percent)	6.9	8.1	10.9	14.2	14.2	12.4
MENA oil exporters						
Real GDP (annual growth)	4.4	0.1	-4.0	4.5	5.2	3.5
<i>of which non-oil growth</i>	5.8	2.3	-3.6	5.5	3.6	3.4
Current account balance	10.1	2.8	-2.1	4.6	9.7	7.8
Overall fiscal balance	3.8	-2.3	-8.4	-2.4	1.8	0.4
Inflation (year average; percent)	6.6	6.3	9.1	11.4	12.4	11.4
MENA emerging market and middle-income countries¹						
Real GDP (annual growth)	4.4	3.9	-0.5	3.6	4.9	3.9
Current account balance	-3.8	-5.9	-3.7	-4.4	-4.5	-4.1
Overall fiscal balance	-5.6	-6.5	-7.4	-6.8	-6.0	-6.6
Inflation (year average; percent)	6.5	9.6	6.9	7.1	10.6	10.6
MENA low-income developing countries						
Real GDP (annual growth)	2.4	-0.6	-4.1	0.6	0.8	3.0
Current account balance	-3.0	-9.6	-11.2	-7.7	-9.3	-8.3
Overall fiscal balance	-2.7	-6.4	-3.8	-0.6	-2.1	-1.6
Inflation (year average; percent)	14.5	33.4	93.2	184.0	95.7	48.7
MENA excl. conflict-affected countries						
Real GDP (annual growth)	4.4	1.3	-2.6	3.7	5.3	3.3
<i>of which non-oil growth</i>	5.6	2.9	-2.5	4.9	4.0	3.4
Current account balance	7.3	1.0	-2.5	2.9	7.5	5.9
Overall fiscal balance	2.0	-3.4	-8.0	-3.2	0.6	-0.8
Inflation (year average; percent)	6.8	8.3	11.0	14.2	14.1	12.5
MENA excl. fragile states and conflict-affected countries						
Real GDP (annual growth)	4.1	1.2	-1.6	3.7	5.3	3.3
<i>of which non-oil growth</i>	5.4	2.8	-1.1	4.2	4.2	3.4
Current account balance	8.1	1.7	-1.8	2.8	7.2	5.6
Overall fiscal balance	2.4	-3.5	-7.8	-3.3	0.0	-1.3
Inflation (year average; percent)	6.6	7.9	8.4	9.7	11.5	11.6
MENAP^{1,2,3}						
Real GDP (annual growth)	4.4	1.3	-2.8	4.3	5.1	3.6
<i>of which non-oil growth</i>	5.5	2.7	-2.5	5.0	4.2	3.5
Current account balance	6.8	0.7	-2.4	2.7	7.5	5.9
Overall fiscal balance	1.6	-3.5	-8.0	-3.2	0.2	-0.9
Inflation (year average; percent)	6.9	7.8	10.9	13.4	13.9	13.4
Gulf Cooperation Council						
Real GDP (annual growth)	4.3	1.0	-4.5	3.1	6.5	3.6
<i>of which non-oil growth</i>	6.2	2.5	-3.6	4.5	4.0	3.7
Current account balance	13.5	5.5	-1.2	8.2	16.7	13.7
Overall fiscal balance	6.8	-1.7	-8.9	-0.6	7.3	6.0
Inflation (year average; percent)	2.6	-1.5	1.2	2.2	3.6	2.6
Arab World¹						
Real GDP (annual growth)	4.6	1.8	-4.4	4.0	5.4	3.9
<i>of which non-oil growth</i>	5.8	2.9	-4.0	5.0	4.1	3.8
Current account balance	8.0	1.4	-3.6	4.2	10.9	8.6
Overall fiscal balance	2.7	-2.8	-9.1	-2.3	3.6	2.6
Inflation (year average; percent)	4.7	3.5	6.2	9.3	9.4	7.4

Sources: National authorities; and IMF staff estimates and projections.

Note: Data refer to the fiscal year for the following countries: Afghanistan (March 21/March 20) until 2011, and December 21/December 20 thereafter; Iran (March 21/March 20), and Egypt and Pakistan (July/June).

MENA includes Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, West Bank and Gaza, and Yemen.

MENA oil exporters: Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

MENA emerging market and middle-income countries include Egypt, Jordan, Lebanon, Morocco, Syrian Arab Republic, Tunisia, and West Bank and Gaza.

MENA low-income developing countries include Djibouti, Mauritania, Somalia, Sudan, and Yemen.

MENA excl. fragile states and conflict-affected countries include Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and United Arab Emirates.

MENAP: MENA, Afghanistan, and Pakistan.

Gulf Cooperation Council includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

Arab World includes Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, West Bank and Gaza, and Yemen.

¹2011–23 data exclude Syrian Arab Republic.²2021–23 data exclude Afghanistan.³The FY2022/23 projections for Pakistan are based on information available as of end-August 2022 and do not include the impact of the recent floods.

CCA: Selected Economic Indicators, 2000–23*(Percent of GDP, unless otherwise indicated)*

	Average 2000–18	2019	2020	2021	Projections	
					2022	2023
CCA						
Real GDP (annual growth)	6.9	4.1	-2.1	5.6	3.8	4.0
Current account balance	-0.0	-2.0	-3.6	-1.0	4.8	3.8
Overall fiscal balance	2.2	0.1	-5.4	-3.1	0.6	1.0
Inflation (year average; percent)	9.1	6.6	7.5	9.2	12.9	10.5
CCA oil and gas exporters						
Real GDP (annual growth)	7.3	3.0	-3.0	4.5	2.6	3.8
<i>of which non-oil growth</i>	7.4	3.9	-2.1	5.3	3.5	3.2
Current account balance	0.1	-0.5	-3.2	0.9	8.3	7.3
Overall fiscal balance	2.8	1.1	-5.6	-2.3	2.1	2.6
Inflation (year average; percent)	8.0	4.7	6.1	8.6	14.1	11.1
CCA emerging market and middle-income countries						
Real GDP (annual growth)	5.9	6.1	-7.0	8.4	8.2	3.8
Current account balance	-9.3	-6.5	-8.6	-7.3	-6.5	-6.1
Overall fiscal balance	-1.7	-1.1	-6.9	-4.6	-1.8	-1.9
Inflation (year average; percent)	4.5	3.4	3.5	8.6	10.4	6.4
CCA low-income and developing countries						
Real GDP (annual growth)	6.4	5.8	1.1	7.3	5.1	4.5
Current account balance	1.9	-6.0	-3.0	-5.6	-3.5	-4.3
Overall fiscal balance	0.8	-3.2	-4.3	-5.1	-4.0	-3.5
Inflation (year average; percent)	12.9	12.3	11.7	10.7	11.0	10.6

Sources: National authorities; and IMF staff estimates and projections.

Note: CCA oil and gas exporters include Azerbaijan, Kazakhstan, and Turkmenistan.

CCA emerging market and middle-income countries include Armenia and Georgia.

CCA low-income and developing countries include Kyrgyz Republic, Tajikistan, and Uzbekistan.