Confronting the COVID-19 Pandemic in the Middle East and Central Asia

April 2020

1. The Shocks

- **The Middle East and Central Asia region has been hit by two large and reinforcing shocks**. In addition to the devastating toll on human health, the COVID-19 pandemic and the plunge in oil prices are causing significant economic turmoil in the region through simultaneous supply and demand shocks. Almost all MCD countries have reported confirmed COVID-19 cases, and oil prices fallen by more than 50 percent since the start of the year.
- **The pandemic has resulted in severe trade disruptions and losses, affecting job-rich sectors and businesses**. Containment measures in major economies and key trading partners have significantly reduced external demand. The resulting global slowdown has impacted global value chains in the region, as well as job-rich retail and manufacturing sectors, and small and medium enterprises (SMEs). At the same time, restrictive containment measures introduced by governments in the region and fear of contagion are weakening consumer demand, particularly in tourism, hospitality, and retail sectors. Meanwhile, global financial conditions have tightened sharply, adding to the region's challenges.
- **The impact could be long lasting**. While there is considerable uncertainty around the depth and duration of the crisis, this pandemic will compound the region's unemployment problem and worsen the already high public and external debt vulnerabilities of many countries.

2. Country Responses

- **Countries have been swift in their responses to the crisis**. They have taken measures to protect lives, contain the spread of the virus, and support hard-hit sectors. While health spending was increased in all countries to support emergency needs and to enhance health care infrastructures, health-related responses differentiated depending on the state of preparedness and current levels of spending.
- **The size of fiscal measures varied across countries depending on available policy space**. Many countries have announced fiscal support packages, comprising both revenue and expenditure measures, of an average size of 3.8 percent of GDP.
- **Central banks have provided immediate support**. Liquidity support measures have been announced in seven countries, with an average of 3.4 percent of GDP. Monetary policy stance has been eased across the region, with the exchange rate used as a buffer where appropriate.

3. Outlook and Vulnerabilities

- **The economic impact will be substantial, with the region contracting in 2020 by an average of 3.1 percent**. Most countries have revised growth down by more than 4 percentage points in one year, equivalent to removing $425 billion from the region's total output. For nearly all countries, these revisions are higher than those seen during the global financial crisis in 2008 and the oil price shock of 2015.
- **Fragile and conflict-affected states are expected to be hit particularly hard.** The economic downturn is expected to exacerbate the already large humanitarian and refugee challenges facing these countries, especially given their weak health infrastructures and living conditions that may be conducive to a rapid spread of the pandemic.

- **External and fiscal balances have come under stress**. Oil-exporting countries are hit by a double whammy of lower global demand and lower oil prices, with oil exports expected to decline by more than $250 billion across the region. As a result, fiscal balances are expected to turn negative, exceeding 10 percent of GDP in most countries. Oil-importing economies would be adversely affected by a large decline in remittances and investment and capital flows from oil-exporting countries. The large deterioration in their fiscal deficit—due to the impact of lower growth on tax revenues and scaled-up spending—is expected to raise public debt to almost 95 percent of GDP in the MENAP region.
- **Vulnerabilities are rising, in line with global trends**. Large forthcoming maturing debt presents financing risks in current market conditions. High public debt levels may limit fiscal space available to undertake additional measures.

4. Policy Priorities

- **The immediate priority is to save lives**. Essential health spending should be accommodated, regardless of fiscal space. Non-essential expenditure should be delayed to create space. External financing and donor support may be needed.
- **Policies should protect engines of growth, mitigating the impact on households, hard-hit sectors, and SMEs**. Fiscal policy should ensure adequate social safety nets, and provide temporary and targeted tax relief, subsidies, and transfers. Monetary and financial policies should ensure liquidity needs are met while financial soundness is maintained.
- **Looking ahead, the objective should be to put the economy on track to sustainable growth**. This would require restoring confidence, by providing broad-based fiscal and monetary support where policy space is available, and seeking external assistance where space is limited. Support should be unwound only when economic recovery is well underway; and protectionist policies should be avoided.

5. The Role of the IMF

- **The IMF is responding to an unprecedented demand for emergency assistance**. So far, there have been 12 requests for IMF financing. The Kyrgyz Republic was the first member country to benefit from the Rapid Financing Instrument/Rapid Credit Facility, since also extended to Tunisia. Jordan's new IMF-supported program makes space for crucial health-related expenditure. Morocco has drawn on its Precautionary and Liquidity Line (PLL) for needs arising from the current crisis.
- **MCD has been engaging closely with members**. Several regional teleconferences were organized to engage with the authorities on the rapidly evolving shocks. Staff are providing advice through continued bilateral engagements and dissemination of Fund policy initiatives and best practices.
- **We continue to coordinate closely with IFIs, MDBs, RDBs, and donors**. Across the MCD region, IMF staff have been working closely with colleagues at the World Bank, Asian Development Bank and European Bank for Reconstruction and Development, as well as coordinating with regional bodies, including AMF, AFSED, and CAREC, with the aim of mobilizing policy advice, financial assistance, donor support, and debt relief.

CCA – Key Indicators

	2019	2020	2021
Real GDP Growth (percent change)			
CCA	**4.8**	**-1.0**	**4.7**
Oil exporters	4.6	-0.8	
Oil importers	6.2	-2.2	5.0
Non-oil GDP Growth (percent change)			
CCA oil exporters	5.3	-1.1	3.4
Fiscal Balance (percent of GDP)			
CCA	**0.6**	**-5.6**	**-3.1**
Oil exporters	0.8	-5.4	-3.0
Oil importers	-1.4	-7.0	-3.7
Non-Oil Fiscal Balance (percent of non-oil GDP)			
CCA oil exporters	-12.3	-15.5	-12.9
Current Account (percent of GDP)			
CCA	**-1.6**	**-7.2**	**-5.0**
Oil exporters	-1.0	-6.7	-4.6
Oil importers	-6.4	-10.5	-7.3