Middle East in Transition

Dr. Shah Mehrabi
Senior Economic Consultant
Member of the Supreme Council of the Central Bank of Afghanistan
Professor of Economics

Chairman Roh, Distinguished Panelist members, Colleagues, Ladies and Gentlemen:

I regret that I could not be with you at this meeting in this beautiful and historical city of Rome. I trust you will have a productive meeting.

I would like to thank Mr. Rohm for his continuous dedication in organizing this plenary session and for invitation to speak. Chair of the program deserve our gratitude for the excellent program organized.

Before I discuss the economic performance across the Middle East, it is important to pinpoint the fact that the external environment and difficulties in the global economy pose major challenges for this region.

- Most emerging market economies continue to enjoy steady growth with little sign of inflation and are expected to return to pre-crises growth levels in 2012, global growth rate was 2.3% and it is not expected to improve much in 2013.

- A large number of developing countries are adversely impacted by the deep recession in Europe and slow growth in the U.S and Japan.

- Oil exports are at risk given the expected decline in most commodity prices in 2013.

Let us now focus on Middle East Region and its performance.

Growth performances across the Middle East region is mixed with continued considerable risks to the future from regional conflicts and tensions. The region's oil exporting countries grew at 5 3/4 percent, while that of oil importing countries reached only 2%. (Oil exporting countries consist of Saudi Arabia, Iran, Algeria, UAE, Qatar Kuwait, and Iraq while oil importers are Egypt, Morocco, Tunisia, Sudan, Lebanon and Jordan.)

The higher growth rate in oil exporting countries was the result of complete restoration of Libya's oil production and strong expansion in the Gulf Cooperation Council countries. Lower growth rate in oil importing countries was caused by continued political uncertainty, social unrest across the Arab countries in transition and Syria, higher food and fuel prices internally and weak external demand from European trading partners.

Variations of the above-mentioned points were highlighted to reporters by my colleague, Masood Ahmad, IMF Middle East Department Director.

Based on IMF forecast, Economic growth in the oil exporting economies is projected to fall to 31/4 percent in 2013 from 5 3/4% in 2012. This is partially caused by relatively weak global oil demand. Oil exporting countries may need to adjust policies in response to lower global demand and anticipated decrease in commodity prices. Should oil prices drop significantly and sharply, these countries need to develop fiscal policy frameworks that mitigate the economic effects of oil price decline.

Inflation is expected to remain subdued in most oil exporting countries because of decreasing food prices and lower rents in some Gulf Cooperation Council countries with the exception of Iran, where the sharp depreciation of the currency and adverse economic conditions continues, will sustain inflation at high level. Oil exporting countries need to increase the pace of economic diversification which will require investment in infrastructure and improvement in the business climate in order to restore business confidence and to create economic growth.

Oil exporting countries need to invest in education, examine the education system and to strengthen skills to prepare graduates for successful careers in the private sector. Growth in the oil-importing countries is projected to be at 2 3/4 % in 2013.

These declining growth rates are accompanied by mounting concerns about the future. Political instability in turn exacerbates economic problems making it very difficult to attract investment. Newly elected government lack clear direction in terms of political and economic reforms and of a clear program that sets out priorities and policy frameworks.

This lack of a coherent economic vision discourages private investment and tourism. The Arab countries in transitions are also faced with the problem of large budget deficits and most of the resources are used to cover public salaries and benefits, with very limited funds allocated for investment in infrastructure and utilities.

Other challenges that countries in transition face is to create more employment opportunities for youth. Despite the fact that several rounds of reforms have taken place, the transition economies have not generated sufficient jobs.

Other challenges include exchange rate flexibility by the Central Bank, mobilization of external support to help finance fiscal deficits and stabilize reserves; target social safety nets should replace wasteful generalized subsidies that mostly benefit the wealthy.

Can these countries overcome these challenges and implement genuine reforms?

Given the limited resources, this region could benefit from assistance provided by oil exporting countries toward economic stability of the region. The oil exporting countries could play an important role in supporting the transition in the oil importing countries with financing to help defray the cost of change and provide protection for the poor.

The international community could also help by improving market access for creating export opportunity and also provide access to finance financial support ($90-$100 Billion in 2013).

Adequate support in financing stabilization and capacity building is also important. The European Union and the U.S. will need to provide market access for trade in products and services. The invaluable expertise, coupled with investment in the private sector by many financial institutions including "The European Bank for Reconstruction and Development" can help lead new investment into new markets. This will be critical for the region in order to move it toward the completion of economic transformation.

Conclusion:

While both oil exporting and importing countries need to address immediate challenges that lie ahead in order to provide strong foundation for economic development, the oil importing countries have an urgent and immediate challenge to implement economic reforms to transform the society and to bring about fundamental changes in the structure of the economy. These reforms must be planned, Arab led and the people of the country must themselves be the major participant in the development of these resources and the beneficiary of these changes.