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IMF Regional Economic Outlook for the Middle East and Central Asia Sees Positive Near-Term Economic Outlook, but Highlights the Need for Policies to Strengthen Resilience to Downside Risks

The International Monetary Fund (IMF) today released the September 2006 [Middle East and Central Asia Regional Economic Outlook \(REO\)](#). Mr. Mohsin Khan, Director of the IMF's Middle East and Central Asia Department, highlighted the report's main findings:

“Economic performance in the Middle East and Central Asia region remains strong, despite security problems in some countries and recent asset price reversals. Growth in the region continues to outpace global growth and should average 6–7 percent in 2006 and 2007—similar to the rates of the past three years. Strong external inflows resulting from high oil and non-oil commodity prices, foreign investments, and remittances are fueling credit growth, and inflation continues to edge up, though it remains moderate in most countries. The region’s fiscal and external surpluses are still rising, but at a slower pace than in recent years. Progress in reducing debt and building official reserves has put the region in a better position to absorb shocks and address development needs.

“High oil prices, a favorable global environment, and generally good economic policies underpin this strong performance, but there are risks. Most importantly, further conflict and a worsening security situation would eventually have a broader impact on the regional economy than we have seen so far. Global developments, including a sharper-than-expected tightening of international financial market conditions, or a slowdown resulting from a disorderly unwinding of global imbalances, could also hit regional growth. Policies should continue to aim at strengthening the region’s resilience to such developments.

“Policies are on the right track. With the growing realization that the increase in oil prices—and hence in oil revenue—will endure, many oil-exporting countries have started to pick up the pace of spending and are putting in place major programs to upgrade their social and physical infrastructure. As a case in point, the Gulf Cooperation Council (GCC) countries’ investment plans for 2006–10 amount to over \$700 billion—covering investments in the oil and gas sector, infrastructure, and real estate. Once under way, these projects should enhance growth and employment, and help narrow the region’s large external surplus. In addition, the oil projects will boost production and petroleum refining capacity, and so help to promote global oil market

stability. Oil importers are continuing to make progress with fiscal consolidation and financial sector oversight.

“Large external inflows are creating difficult challenges for monetary policy. Real exchange rate appreciation will eventually be needed in response to permanently higher inflows. For countries with flexible exchange rate regimes, a combination of monetary tightening and nominal appreciation would be the best way to limit inflationary pressures. For countries with pegged exchange rates, open trade regimes and flexible labor markets will help to constrain increases in consumer prices.

“Continued structural and institutional reforms will help to ensure that higher spending translates into increased productivity and potential output, and boost the region’s resilience to shocks. In the financial sector, strengthening prudential measures and improving risk management practices will reduce the impact of future asset price volatility and lessen the risk of financial sector instability. Increased regional cooperation—especially in Central Asia, the GCC, and the Maghreb countries—will promote trade and investment, and improve the prospects for sustainable long-term growth.”

An overview of the REO will be delivered by Mr. Khan in the UAE on October 9, at a presentation hosted by the Dubai International Financial Center (DIFC) and chaired by Dr. Nasser Saidi, Chief Economist of the DIFC. The full text of the September 2006 *Middle East and Central Asia Regional Economic Outlook* can be found on the IMF's website, www.imf.org.