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IMF Regional Economic Outlook for the Middle East and Central Asia Sees Sustained Growth, Highlights the Need to Contain Inflationary Pressures

The International Monetary Fund (IMF) today released the May 2008 *Regional Economic Outlook: Middle East and Central Asia*. Mr. Mohsin Khan, Director of the IMF's Middle East and Central Asia Department (MCD), highlighted the report's main findings:

“The short-term outlook for the region covered by the Middle East and Central Asia Department remains very favorable. For the region as a whole, real GDP growth is expected to be around 6 percent on average in 2008, slightly less than in 2007. Almost all countries in the region have been largely unaffected by the recent financial turmoil in developed countries. As in most other emerging markets and developing countries, this resilience owes much to the region’s strengthened macroeconomic position and progress with structural reforms.

“The key macroeconomic policy challenge in the short run for most of the countries in the region is to contain rising inflation,” Mr. Khan said.

The Regional Economic Outlook (REO) covers 30 countries, divided into three groups for analytical purposes: Oil exporters, low-income countries (LICs), and emerging markets¹. For each of the three groups the REO presents key economic issues and an assessment of growth prospects as well as policy challenges. In addition, the REO takes a closer look at topical issues related to individual countries or industries in the region.

Oil-exporting countries have greatly benefited from the boom in oil prices. Non-oil economic activity is expanding rapidly, partly due to large public investment programs as

¹ **Oil exporters** comprise Algeria, Azerbaijan, Bahrain, Iran, Iraq, Kazakhstan, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria, Turkmenistan, and the U.A.E.. **Low-income countries (LICs)** comprise Afghanistan, Armenia, Djibouti, Georgia, the Kyrgyz Republic, Mauritania, Sudan, Tajikistan, Uzbekistan, and Yemen. **Emerging markets** include Egypt, Jordan, Lebanon, Morocco, Pakistan, and Tunisia.

well as a high level of business confidence. However, inflation is a growing concern. In oil-exporting countries with currencies pegged to the U.S. dollar, it will be a challenge to control inflation as long as there is monetary easing in the United States and a weakening US dollar, especially if the price of imported goods, in particular food, continues to rise. Therefore, the burden of adjustment may fall on fiscal policy. However, the room for maneuver in the fiscal domain is also limited by the need for higher investment to alleviate supply bottlenecks and the political pressure for higher wages and spending on social programs. Tolerating somewhat higher inflation for a while may be necessary for some of the countries.

Low-income countries recorded real GDP growth of 8¾ percent in 2007. Growth is projected to moderate to about 7 percent in 2008. Improved policy frameworks, structural reforms, a pick-up in private investment, and better public infrastructure could lay the foundation for high productivity gains and sustained growth in the range of 6-7 percent over the medium term.

Average real GDP growth in **emerging market countries** was about 6 percent in 2007, and is projected to accelerate slightly to 6.3 percent in 2008. Such a favorable development, however, is contingent on governments' continued efforts to pursue fiscal consolidation and structural reforms, so as to boost business confidence and improve the investment climate.

In most of the region's countries, strengthening the banking system remains a high priority. A healthy and dynamic financial system is key to sustained higher growth and lower unemployment. It is also a prerequisite for any country to be successfully integrated into the world economy. For most countries, competition and efficiency would be enhanced by restructuring and privatizing inefficient state banks, by developing local debt markets, and by encouraging the establishment of foreign banks.

The full text of the May 2008 *Regional Economic Outlook: Middle East and Central Asia* can be found on the IMF's website, www.imf.org.