Statement by Stanley Fischer

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Mr. Chairman, your Excellencies, Ladies and Gentlemen,

It is an honor and a pleasure for me to participate, on behalf of the IMF, in this fourth MENA Economic Conference. At the outset, I would like to thank His Highness, the Emir of Qatar, and the organizers for inviting us to this important event.

We meet this year in Qatar against the background of a mixed regional economic and political picture, and in the context of a rapidly changing, and at times turbulent, world economy. Regrettably, this year has witnessed too many setbacks to the peace process. These setbacks have an immediate and deplorable human cost; they also have an economic cost, not least in undermining regional integration.

Fortunately, this year has also witnessed further improvements in economic conditions in several countries of the region. These improvements will facilitate greater and more durable regional economic interactions when and as the political conditions permit. They will also allow countries in the region to benefit more from the opportunities offered by the rapidly globalizing world economy while minimizing the risks. Indeed, as we reflect on what has been achieved in these gatherings‹in Casablanca, Amman, and Cairo--it becomes ever clearer that they are as much about globalization as about regional integration.

In my presentation this morning, I would like to discuss with you briefly some of our thoughts on the evolution of the MENA economy in 1997, and their implications for the region's integration with the world economy. Being in Qatar, I will also say a few words about developments in our host country and, more generally, in the economies of the GCC. For those of you who are interested in more information, we are making available studies prepared for this Conference.[1]

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Since our meeting in Cairo a year ago, the MENA economy as a whole has continued to strengthen. Building on the gains made in 1996, the region is seeing both continued macroeconomic progress and a strengthening of structural reforms--this, after over a decade of deteriorating or, at best, stagnant macroeconomic performance.

- Economic growth is continuing at some 4 percent, with the growth spreading to an increasing number of countries in the region.

- Inflation has been further reduced; average inflation in the region this year will be 10 percent, half the level of just 6 years ago.

- The external current account position has continued to strengthen, enabling several countries to build up their foreign exchange reserves to more comfortable levels.

A major factor behind these improvements is the sustained implementation of fiscal adjustment by many countries in the region. Budget deficits have been reduced significantly: from about 9 percent of GDP in 198690 to an estimated 2 percent of GDP in 1997.

With macroeconomic policies having been strengthened in many countries, several economies are now intensifying structural reforms. These reforms, which are critical for dealing with the region's high unemployment and poor social indicators in several countries, encompass a broad range of measures. Let me outline a few key areas:

- Privatization has been gaining strength in Egypt, Israel, Jordan, Kuwait, and Morocco, and is progressing, albeit more slowly, in other countries. In addition, plans are underway in many countries--in the Mashreq, Maghreb, and the GCC--to encourage greater private sector participation in a wide range of activities, including utilities, ports, and transportation.

- Greater reliance is being placed on market mechanisms, including through measures to remove price distortions and liberalize the setting of prices. As a result, countries such as Algeria and Yemen are moving decisively away from a public sector oriented approach to supplying goods and services and toward greater reliance on the market.

- Financial sectors are developing quickly, particularly in the GCC economies, as steps are taken to strengthen the soundness of banks, diversify saving and investment instruments, and promote equity markets.

- Finally, several of the non-oil MENA economies are addressing their overly protective external trade regimes through reductions in tariffs and nontariff barriers, for example, most recently in Egypt and Jordan.

Since Casablanca, improved economic policies and performance have contributed to a sea change in investor sentiment toward several countries in the region. Boosted by favorable international credit ratings, investment flows to the MENA region are growing--from domestic, regional, and international sources--as are the range and intensity of institutional linkages between MENA and the rest of the world. Privatization programs in Egypt, Kuwait, and Morocco have attracted significant external capital inflows, and the recent success in placing international bond issues by Lebanon, Qatar, and Tunisia are a sign of deepening relations with international capital markets. While recent turbulence in emerging markets may temporarily reduce overall capital flows to emerging markets, countries that manage to preserve stability are likely to gain a larger share of the total, and could even see increased capital inflows after a while.

More fundamentally, this is a region that is gradually breaking away from many of the policies of the past. Economic reforms are now embraced by more MENA countries than in any period in the region's recent history. The underlying philosophy has shifted from one in which the state substitutes for the private sector to one where the state seeks to complete markets and supports the private sector. The private sector is also starting to respond more decisively to the improved economic environment, increasingly recognizing that international markets offer the greatest scope for prosperity. And that is one of the surest signs that the economic environment is changing decisively.

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So much for the past. Looking forward, the MENA region is now better placed to deal with key elements of its urgent unfinished policy reform agenda.

Both domestic and international factors pose important challenges for policymakers, business leaders, and regional and international institutions. Domestically, rapidly growing labor forces in several countries emphasize the need to generate more jobs--and productive ones. On the international front, competition is intensifying, while the increased mobility of capital implies increased marginalization for those whose reform efforts are lagging. This is a world of enormous opportunities, but as the recent currency crises in Southeast Asia have illustrated, it is a more complex world, which increases the premium for sound economic management.

We now have a well-established body of international experience that sheds light on the main elements of a successful strategy.

- First, growth will not be sustained unless macroeconomic stability is preserved;
- Second, countries must continue to redefine the role of government in economic activity. Strategies aimed at disengaging government from commercial activities can take many forms. Privatization programs are an important element, but they need to be implemented in a way that prevents emergence of private monopolies;
- Third, countries need to strengthen financial systems, especially with respect to bank soundness and market infrastructure;
- Fourth, economic and financial statistics, as well as their timely dissemination, need to be improved. This not only enhances transparency and reduces the risks of market disruption, but also helps policymakers.

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While we should rightly draw encouragement from the recent economic progress made by the MENA region as a whole, we must also recognize that not all economies are doing well. In particular, the Palestinian economy has been hit hard by the reversals in the peace process and measures taken by Israel. This has disrupted investment and growth, and added to unemployment and economic deprivation. If the peace process revives, the Palestinian economy will be able to put behind it the stagnation and disruptions of 1996 and 1997.

Countries in this region have much to gain from increased regional economic interaction and a strengthened regional institutional base, and the revival of the peace process would contribute to economic development. But that is no reason to hold economic policies hostage to the politics. Every country in this region can improve its economic performance by strengthening its economic policies--and the recent performance of the regional economy provides strong evidence for this view.

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Let me now say a few words about the economy of our host country, Qatar, as well as about other GCC economies.

Qatar's recent growth performance (10 percent in 1996 and a similar rate projected for 1997) has been impressive, reflecting in large part investments to exploit the massive reserves of natural gas. Such investments, which are expected to continue in the near future, will capitalize on the country's competitive advantage in petrochemical and energy intensive industries. In this light, Qatar's medium-term economic prospects are highly favorable. However, policymakers have an important responsibility to manage wisely the transition to the period when the investment in gas begins to pay off. The Qatari authorities are fully aware of the need to balance their ambitious investment and growth strategy with the need to preserve financial stability.

How about the GCC as a whole? It is hard not to be impressed by the capacity of the countries of the GCC to overcome the difficulties that stemmed from the 199091 regional crisis and the high volatility of international oil prices. Although continued vigilance in policymaking remains essential, the GCC economies have largely left behind their financial problems. Foreign assets are growing--as they should give the nonrenewable nature of the oil wealth--while GCC fiscal deficits have declined from double digit rates in 1990-91 to less than 3 percent of GDP in 1996.

Nor is this success solely a result of favorable conditions in international oil markets. While the higher international oil prices of 1996-97 have certainly helped, much is due to the policies of the countries themselves, particularly expenditure restraint and reductions in military outlays, as well as efforts to mobilize non-oil revenue.

Structurally, the GCC economies enjoy a liberal trade system, convertible currencies, and free movements of capital. In addition, their modern and technologically advanced financial systems have been an important catalyst for promoting their integration into the international economy. Indeed, those in MENA who are still not convinced about the merits of open economic systems should look no further than their GCC neighbors.

To be sure, the GCC countries have their share of economic challenges. Many of the needed economic reforms that I mentioned earlier--particularly redefining the role of government--apply equally well to the GCC countries. To this, we must add the need to manage wisely nonrenewable resources. Fortunately, there is now a broad consensus on what needs to be done. This makes our policy dialogue with the GCC countries, and with the MENA region as a whole, more fruitful as we focus less on what to do and more on how to do it.

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Let me conclude by saying a few words about the IMF's involvement in MENA. We have formal financial arrangements with a number of countries (Algeria, Djibouti, Egypt, Jordan, Mauritania, and Yemen) which support their countries' reform programs. I must emphasize that these are not IMF programs: they are the countries' reform programs, which we support. We are providing significant technical assistance, most intensely in the West Bank and Gaza and in the low-income countries of the region. Finally, we are also playing an increasingly active advisory role in most countries in the region, resulting in a process of consultation and dialogue that we hope and believe is mutually beneficial.

Our interaction in the region is not limited to governments. Indeed, with the encouragement of governments, we are reaching out to different sectors of society--through seminars, publications, and special briefings for journalists, academics, parliamentarians, and regional institutions. Our increasingly diversified activities in MENA reflect the fact that the economic development of this promising region requires the participation of all segments of society. We are doing our best to help in that process.

Thank you.

[1]Namely, "The Economy of the Middle East and North Africa in 1997," and "Financial Systems and Labor Markets in the Gulf Cooperation Council Countries."