OFFICE OF THE EXECUTIVE DIRECTOR

Arab States and the Maldives

SEMIANNUAL MEMBERSHIP REPORT

October 2022–March 2023

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A WORD FROM THE EXECUTIVE DIRECTOR

The world continues to face a series of shocks that are jeopardizing recovery from the COVID-19 pandemic, which left deep scaring on global economies and reversed progress toward the sustainable development goals (SDGs). The world has just experienced the largest one-year rise (2020) and one-year fall (2021) in debt-to-GDP ratios in the past 70 years, with global debt reaching a record high of 247 percent of GDP. The combination of high debt following the pandemic and heightened global macroeconomic challenges, including high inflation, food insecurity, and climate related risks, have also exacerbated debt vulnerabilities in many counties, especially those with significant near-term dollar financing needs. The recent IMF WEO Update reports that almost 15 percent of low-income countries are estimated to be in debt distress, with an additional 45 percent at high risk of debt distress. About 25 percent of emerging market economies are also at high risk.

The global debt and climate crises are intertwined as laid out in a recent UNCTAD publication, meaning that "the world cannot afford inaction in the face of the overlap of public debt and climate change." Countries in our region are experiencing record high temperature extremes, underlining the urgency of making adaptation policies a key priority. We are also constantly reminded that climate change is an area that requires our immediate attention and action. The number of climate related shocks and natural disasters is increasing. To date in 2023, the world has experienced 2,027 earthquakes with magnitudes ranging between 4 and 9 on the Richter scale. As the Managing Director said at the World Government Summit in Dubai earlier this year, we must "think of the unthinkable." The outcomes of COP27 in Egypt have successfully paved the way for COP28, to be hosted by the UAE later this year. Our role is to continue to ensure that climate financing is addressed adequately and made part of a holistic approach to climate and sustainable development that embraces adaptation. Unifying climate action efforts is also key as the high cost of climate action is lower than the cost of responding to climate damage. The Fund is one of several multilateral organizations that is intensifying work to address climate change. The now operational Resilience and Sustainability Trust (RST) is an important tool to help low- and middle-income countries address several macro-critical challenges, including climate change, that will be key to recovering lost ground on poverty reduction and reviving progress with the SDGs.

Food insecurity challenges are also continuing to worsen as rising food prices and the global supply chain disruptions are driving up inflation across the region. Fragile and conflict-affected states (FCS) are particularly vulnerable and are expected to face higher inflation, adding to their severe economic and financial challenges. The IMF's Food Shock Window, launched in October 2022, is a new channel for emergency financing for member countries that have urgent balance-of-payments needs due to acute food insecurity, a sharp increase in their food import bill, or a shock to their cereal exports. Action is therefore needed on multiple levels to prevent a worsening of the food crisis by facilitating trade, improving the functioning of markets, and enhancing the role of the private sector. Countries are also encouraged to provided targeted support to the most vulnerable segments of the population in an effective and efficient manner.

Dr. Mahmoud Mohieldin - Executive Director

Inflation

IMF latest update of the World Economic Outlook indicates that the global inflation rate appears to have peaked in the third quarter of 2022 and is expected to decline in 2023 and 2024 due to falling commodity prices and the cooling effects of monetary policy tightening. Although the disinflation process will take time, the priority for most economies is achieving a sustained reduction in inflation toward target levels. While there are indications that monetary policy tightening is beginning to have a cooling effect on demand and inflation, it is unlikely that the full impact will be realized before 2024. Consumer demand has remained resilient and core inflation is yet to peak in most economies. It remains well above pre-pandemic levels, amid second-round effects from earlier cost shocks and robust wage growth in a tight labor market. By 2024, projected annual average headline and core inflation will still be above pre-pandemic levels for most economies, suggesting that securing global disinflation is a key global policy priority.

According to a recent blog by Tobias Adrian and Vitor Gaspar, fiscal policy can play a crucial role in containing inflation and easing the task of monetary policy, while also mitigating risks to financial stability. While governments continue to prioritize helping the most vulnerable populations, they should avoid adding to aggregate demand that risks dialing up inflation. In many advanced and emerging economies, fiscal restraint can lower inflation while reducing debt, as a smaller deficit cools both aggregate demand and inflation, reducing the need for central banks to raise rates as much. Moreover, fiscal responsibility or consolidation, where needed, demonstrates that policymakers are aligned against inflation and sustained fiscal adjustment can address looming pressures on debt sustainability, such as aging populations and the need to rebuild buffers.

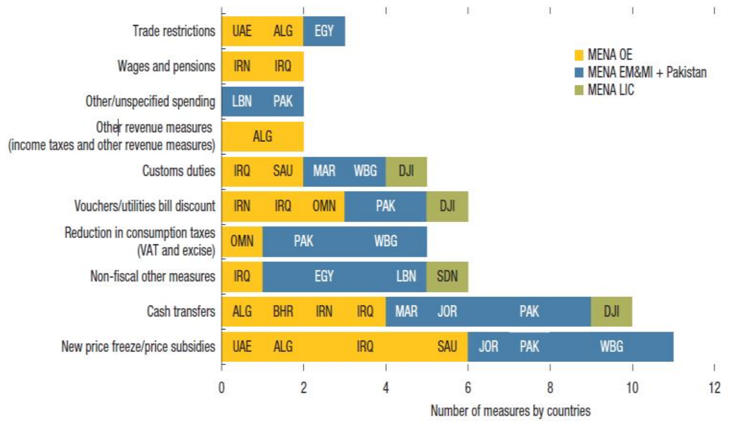
Debt

Photo Credit: iStock Photo

The world has just experienced the largest one-year rise (2020) and one year fall (2021) in debt-to GDP ratios of the past 70 years. Global debt is close to a historic record high of 247 percent of GDP. The combination of high debt following the pandemic and heightened global macroeconomic challenges including high inflation, food insecurity, and climate related risks have exacerbated debt vulnerabilities in many counties, especially those with significant near-term dollar financing needs. The recent IMF WEO Update says that almost 15 percent of low-income countries are estimated to be in debt distress, with an additional 45 percent at high risk of debt distress. Of emerging markets, about 25 percent are also at high risk. The debt landscape is changing and becoming more complex, with the increasingly diversified pool of creditors, the emergence of new forms of lending, and the wider use of confidentiality clauses (Suarez et. al., 2021). As global uncertainty and inflationary pressures increase and financial conditions tighten, debt service could become more expensive, and more countries could fall into debt distress. Tighter market conditions, combined with a surge in capital outflows and the increasing and volatile risk premium, could limit access to financial markets, which is already limited for many of our countries. Persistent output losses are also expected to have long-lasting effects on revenue generation across the region.

To help monitor debt, the IMF launched the ***2022 Global Debt Database*** ***(GDD)*** and the ***IMF Global Debt Monitor*** *in December 2022.* The GDD tool aims to improve the quality of debt related data including through bilateral consultations with country officials and IMF country desks. The GDD also enhances data transparency across countries. The IMF considers that countries with high debt vulnerabilities need to tackle them through a combination of adjustment and measures to restore growth. An IMF-supported program can facilitate that adjustment, but the IMF can only lend to a member if its debt is sustainable. There are cases where debt is unsustainable, even taking the adjustment efforts into account. If a member country enters into debt distress, only the country's government can decide whether to solve this by negotiating a debt restructuring with its creditors. An IMF-supported program can support a member in the context of a debt restructuring by providing sound economic policies and new financing, enabling the return to macroeconomic viability. The IMF is also lending its support to improving the international architecture for sovereign debt restructurings, which is critical to enabling faster and more effective debt reduction.

Figure 2.11. MENA EM&MI + Pakistan: Recently Announced Measures in Response to Higher Energy and Food Prices

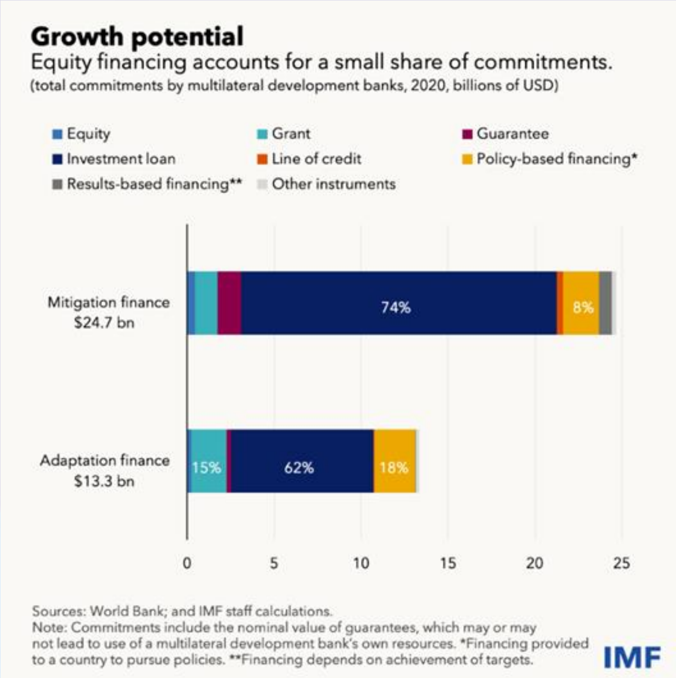


Sources: National authorities; and IMF staff calculations.
Note: Other unspecified spending includes subsidized wheat at the official exchange rate (Lebanon) and reduction in power price for all residential and commercial users (power blanket subsidy in Pakistan); Non-fiscal other measures are all relevant new measures that may either affect households, industries, governments, or prices and supply including reallocation of imports and exports, regulatory measures, and so on. This also includes cases in which government announces introduction of price controls of energy or food products but does not finance this by a fiscal measure, but rather by lowering the margins or profits of energy or food companies. Country abbreviations are International Organization for Standardization country codes. EM&MI = emerging market and middle-income economies; LIC = low-income country; MENA = Middle East and North Africa; OE = oil exporter; VAT = value-added tax.

Although the threat of the Covid-19 pandemic to the global economy has largely receded, global economic uncertainty remains elevated, prompted by the war in Ukraine and trade uncertainties associated with geoeconomic fragmentation. In responding to the current crises, MENA authorities should heed the lessons from past crises to calibrate policies that are efficient, affordable, and durable according to the latest IMF Regional Economic Outlook. To respond to the global commodity price surge, MENA economies should seek to enact gradual energy subsidy reforms while strengthening social safety nets to provide targeted support to vulnerable segments of the population hit by higher energy price pass through. Resilience and the flexibility to enact swift responses to shocks also depend on the depth of buffers. MENA oil exporters should look to capitalize on oil price windfalls to strengthen fiscal buffers, while middle- and low-income countries should try to build buffers over the medium term to build resilience to future shocks as price pressures ease.

While the MENA region had made significant gains in poverty reduction and human development going into the pandemic, the benefits of economic development have not accrued fairly across all segments of society. In the latest IMF research compendium on promoting inclusive growth in MENA in the post-pandemic recovery, staff has highlighted a number of policy priorities, namely: leveling the playing field between public and private firms, designing cost effective and targeted social support mechanisms, redesigning tax systems to raise tax yields, promoting digitalization as a tool to improve inclusion and efficiency, investing in human capital and reducing barriers to female participation in economic activities, and promoting green investments as a conduit for growth and job creation.

Climate Change



Work on climate adaptation and resilience should be prioritized to help climate vulnerable members who have already exhausted their policy space for mitigating the adverse impacts of the pandemic and the cost-of-living crisis on their citizens. Capacity development and tools to strengthen public financial management and public investment management related to climate projects for policymakers such as the Fund's C-PIMA and the climate assessments of the Financial Sector Assessment Program (FSAP) are very helpful. But, although they should continue to be a part of the Fund's climate engagement, they are not enough.

The Fund's work on climate change must translate into facilitated access to climate finance for debt-ridden and climate-vulnerable countries. The lack of climate finance is still a significant obstacle facing countries susceptible to climate risks. Our region is an example. It receives the lowest funding for climate adaptation and needs 3.3 percent of GDP per year for individual countries over the next 10 years. Challenges that prevent the redirection of capital to climate action—both within and outside the global financial sector—are significant and the world has a responsibility to address these challenges. The historic deal at COP27 in Sharm El Sheikh to create a "Loss and Damage Fund," in which countries responsible for high carbon emissions compensate climate-vulnerable countries, is an important first step towards achieving climate justice. We hope that negotiations around its funding and operationalization are swiftly concluded in time for the COP28. The Fund has an important and unique role to play through its convening power to help turn climate finance pledges into projects on the ground for resource-strapped climate-vulnerable countries. The recently operationalized Resilience and Sustainability Facility (RSF) is a welcome first step. However, more effort is needed to create innovative financial mechanisms, such as de-risking instruments, along with building a broader investor base.

For a successful financing outcome, the Fund will need to widen its net of collaborations with development partners to address climate challenges from within a country-specific sustainable development agenda. Beyond its direct impacts on physical infrastructure and economic activity, climate change creates cascading effects on livelihoods and sustainability through a socioeconomic, environmental, and political nexus. As a result, it is important for the Fund to widen its circle of partners beyond the World Bank to include stakeholders such as the High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities (HLEG), the entire UN system, academics, research organizations, and think tanks at the global, regional, and national levels. Finally, by moving to a lower carbon future, the Fund needs to ensure that countries are laying down policies that safeguard an orderly and well-planned energy transition so as not to jeopardize growth and development. We look forward to the upcoming COP28 in Dubai, which will focus on "*realistic, practical, and pragmatic solutions to accelerate the global energy transition.*"

Food Security

Globally, poverty and food insecurity are both on the rise after decades of development gains. Supply chain disruptions, climate change, the COVID-19 pandemic, financial tightening through rising interest rates and the war in Ukraine have caused an unprecedented shock to the global food system, with the most vulnerable hit the hardest. Food inflation remains high, with dozens of countries experiencing double-digit inflation. According to the World Food Programme (WFP), 349 million people face acute food insecurity in 79 countries. Undernourishment has also been on the rise for the past three years and .is expected to worsen, with global food supplies projected to drop to a three-year low in 2022/2023, according to the Food and Agriculture Organization (FAO). Help is particularly needed in 24 countries that FAO and WFP have identified as hunger hotspots; 16 of them are in Africa. Fertilizer affordability, as defined by the ratio between food prices and fertilizer prices, is also the lowest since the 2007/2008 food crisis, leading to lower food production and impacting smallholder farmers the hardest, worsening the already high local food prices.

In response to the food, fuel, and fertilizer price increases, countries have spent over $710 billion on social protection measures for one billion people, including approximately $380 billion on subsidies. However, most of the money has been spent in high income countries, with only $4.3 billion disbursed in low-income countries for social protection measures, compared with $507.6 billion in high-income countries. On February 8th, 2023, FAO Director General Qu Dongyu, IMF Managing Director Kristalina Georgieva, World Bank Group President David Malpass, WFP Executive Director David Beasley, and World Trade Organization Director General Ngozi Okonjo-Iweala issued a joint statement calling for continued urgent action to address the global crisis on food and nutrition security. The statement highlighted that to prevent a worsening of the food and nutrition security crisis, further urgent actions were required to (i) rescue hunger hotspots, (ii) facilitate trade, improve the functioning of markets, and enhance the role of the private sector, and (iii) reform and repurpose harmful subsidies with careful targeting and efficiency. In response to the crisis, countries should balance short-term urgent interventions with longer-term efforts to support resilience.

Digitalization

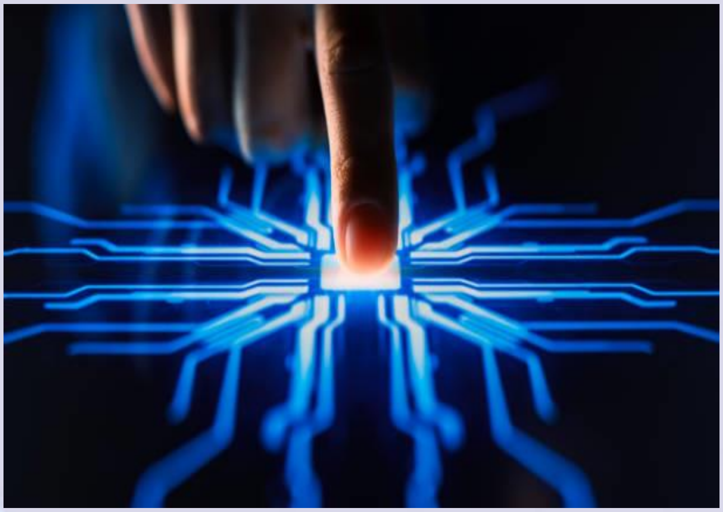


Photo Credit: iStock Photo

The IMF is continuing to develop and deepen its work on digital money and its implications for the global financial system, in line with its mandate of ensuring domestic and international financial and economic stability.

With the growth in crypto assets and their increased use in global financial markets, the IMF has intensified its work on crypto assets. In February 2023, the IMF released a paper entitled "Elements of Effective Policies for Crypto Assets", aiming to address questions about how to respond to the rise of crypto assets and the associated risks. The paper presents a policy framework that includes nine elements to guide the Fund's approach, with the aim of achieving key policy objectives such as macroeconomic stability, financial stability, consumer protection, and market and financial integrity.

Regulation of crypto assets was a common theme these past few months with the publication of a separate paper exploring the importance of regulating crypto assets through the development of common taxonomies that could inform global and cross-sectoral standards while improving data insights. The authors recommended that crypto asset service providers be licensed, registered, or authorized to ensure adequate management and mitigation of risks. The IMF also held a roundtable on Regulation and Supervision of Crypto Assets in December 2022 to discuss policy recommendations to help address risks stemming from crypto asset markets while also ensuring that countries could benefit from the digitalization that crypto assets can help support.

More broadly, the focus of the September 2022 issue of *Finance and Development Magazine* was crypto, CBDCs, and the future of finance. The issue covered the risks and benefits of crypto, the importance of regulation, the rise of CBDCs (or central bank digital currency) and how to implement them so that they offered the most benefits, along with examining the importance of decentralized finance. The issue explored the benefits and risks of digital money under the wider umbrella of digitalization. Digitalization was further explored in a working paper published in October 2022. The paper investigated the role of digitalization in improving economic resilience and found that firms in industries that are more digitalized experienced lower revenue losses following recessions.

2023 World Bank–IMF Spring Meetings

The International Monetary and Financial Committee (IMFC)

(The UAE is our constituency's representative at the IMFC)
IMFC Plenary Session
IMFC Press

Regional Meetings

African Caucus Meeting of Ministers and Governors (Egypt is a member)

Middle East, North Africa, Afghanistan, and Pakistan (MENAP) Ministers and Governors Meeting with the IMF Managing Director

Middle East and Central Asia Department (MCD) Governors Meeting

Other

Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development
(Egypt and Lebanon are members)
(UAE is an observer)

V20 – Ministerial Meeting
(Yemen, Lebanon, and Palestine are members)

Surveillance and the Use of Fund Resources

Bahrain

On June 24, 2022, the IMF Executive Board concluded its Article IV consultation with The Kingdom of Bahrain and considered the staff appraisal, without a meeting, on a lapse-of-time basis. Executive Directors endorsed the staff's appraisal, mentioning that Bahrain implemented a commendable pandemic policy response and is moving ahead with fiscal and structural reforms. The authorities' crisis policy actions successfully mitigated the health and socioeconomic impact of the COVID-19 pandemic, prevented job losses, and helped the economic recovery after containment measures were lifted. Renewed fiscal reform momentum and favorable oil prices eased fiscal and external vulnerabilities. The recovery is projected to continue at a moderate pace, with headwinds stemming from fiscal adjustment and the tightening of global financial conditions. Risks to the outlook remain tilted to the downside.

Egypt

On December 16, 2022, the Executive Board approved a 46-month arrangement under the Extended Fund Facility (EFF) for Egypt in an amount of SDR 2,350.17 million (equivalent to 115.4 percent of quota or about $3.0 billion). The program would support Egypt's comprehensive economic reform program aimed at addressing the additional challenges stemming from the conflict in Ukraine. The Executive Board's decision enables an immediate disbursement of SDR 261.13 million (equivalent to about $347 million), which will help meet balance of payments needs and provide support to the budget. Over the course of the program, the EFF is expected to catalyze additional financing of about $14 billion from Egypt's international and regional partners, including new financing from GCC countries and other partners through the ongoing divestment of state-owned assets, as well as traditional forms of financing from multilateral and bilateral creditors.

Beginning with the EFF of 2016, Egypt has successfully partnered with the IMF to support an historical reform program of macroeconomic stabilization followed by emergency assistance from the Rapid

Financing Instrument, approved in May, and a Stand-by Arrangement approved in June 2020 to mitigate the COVID-19 shock.

Iraq

The Governor of the Central Bank of Iraq and a visiting Iraqi delegation met with Executive Director Mohieldin, the MCD Director, and the IMF Iraq Mission team during a visit to Washington DC in February 2023. The discussion focused on steps taken to strengthen foreign exchange operations, and on recent developments. On January 27, 2023, the Executive Board concluded its Article IV consultation with Iraq and considered the staff appraisal without a meeting on a lapse-of-time basis. Executive Directors endorsed the staff's appraisal. The Iraqi economy is recovering well, and the near-term outlook is positive amid a large oil windfall. Inflation remains subdued due to significant subsidies and price controls and fiscal and current account balances are expected to register surpluses, boosting foreign exchange reserves to $105 billion.

The non-oil primary fiscal deficit has widened and is projected to remain elevated. With gradually declining global oil prices over the medium term, both fiscal and external current account balances are expected to become deficits, resulting in renewed financing pressures, drawdown of foreign exchange reserves, and exhaustion of fiscal savings. Near-term policies should focus on addressing the cost-of-living crisis and saving the bulk of the oil windfall. Providing adequate indexation of targeted cash transfers and low-income pensions will be important to protect the vulnerable from the rising cost of living. The central bank should stand ready to tighten domestic financial conditions should inflation risks begin to materialize.

The 2023 budget law should avoid a procyclical spending boost and aim to increase savings with a gradual tightening of the fiscal stance. Achieving sustainable and inclusive private sector-led growth in the medium term will entail accelerated structural reforms aimed at better protecting the vulnerable, creating a level playing field in the labor market, and improving the private sector's access to electricity and finance.

Jordan

Jordan's performance under its IMF-supported program continues to be strong, with the Government of Jordan and the Central Bank of Jordan fully owning their Extended Fund Facility program and remaining committed to its objectives. These include, notably, maintaining macroeconomic stability and persevering with economic reforms, while protecting the most vulnerable segments of the population.

The IMF Executive Board successfully completed the Fifth Review of Jordan's program supported by the Extended Fund Facility (EFF) on December 21st, 2022. The completion of the review will make the equivalent of SDR 257.325 million (about $ 343 million) immediately available. This brings total IMF disbursements to Jordan since the start of 2020 to SDR 1,276.247 million (about $1.699 billion), including a purchase of SDR 291.55 million (about $407 million) in May 2020 under the Rapid Financing Instrument.

Kuwait

An IMF mission conducted a Staff visit to Kuwait in December 2022. The team held discussions with the Ministry of Finance, Central Bank, and other officials. Staff discussed recent economic developments, the outlook, and the country's policy priorities. Kuwait's economic recovery has been aided by successful vaccination efforts and swift responses to the COVID-19 crisis, allowing for the relaxation of all social distancing restrictions. Real GDP growth has rebounded from a decline of 8.9 percent in 2020 to an estimated +1.3 percent in 2021, with projected growth above 8 percent in 2022. Inflation has been contained, and the overall fiscal and current account surpluses have significantly increased due to higher oil prices and output. The country's banking system has weathered recent shocks well, and efforts are ongoing to improve fiscal revenue collection and spending efficiency, promote digital transformation, advance financial technology, and invest in green energy. However, uncertainties and risks surrounding the external environment, such as potential impacts of monetary policy tightening in advanced economies and volatility in oil prices, could hinder progress towards economic diversification and higher competitiveness.

Lebanon

On April 7, 2022, the Lebanese authorities reached Staff-Level Agreement (SLA) with the IMF on policies for a Four-Year Extended Fund Facility. The program aims to address the unprecedented crisis facing the country, which is compounded by continued pressures resulting from hosting large refugee flows from Syria since 2011. Close engagement between the Lebanese authorities and IMF staff is ongoing with the aim to accelerate implementation of measures agreed under the SLA, and this includes additional legislation. In September 2022, an IMF mission visited Beirut to discuss recent economic developments and progress in implementation of prior actions agreed under the April 7, 2022 SLA.

To date, about half of the agreed upon prior actions in the SLA with the IMF were completed:

- The financial sector rehabilitation strategy was approved by the Council of Ministers.
- The banking secrecy law was adopted by Parliament.
- The 2022 Budget was adopted by Parliament.
- The energy sector strategy was approved by the Council of Ministers.
- The Capital Control law has been approved by the Joint Parliamentary Committees and referred to Parliament for a final vote.

The Maldives

The Maldives' economy is recovering from the COVID-19 pandemic, underpinned by a strong resumption in tourism on the back of the authorities' rapid vaccine rollout and policy support measures. The authorities acted quickly to mitigate the impact of the pandemic, responding with a combination of fiscal, monetary, and prudential measures that sought to reduce its economic impact and provide temporary support for vulnerable households and businesses most affected by the crisis.

The IMF Executive Board concluded the [2022 Article IV Consultation with the Maldives](). The ongoing economic recovery provides an opportunity to swiftly implement needed reforms to secure fiscal and debt sustainability, including by raising domestic revenue and rationalizing public spending. Maldives' economic activity rebounded strongly from the pandemic-induced contraction, supported by decisive policy measures. Real GDP growth recovered sharply to 37 percent in 2021 from the unprecedented contraction of 33.5 percent in 2020, as tourism activities bounced back. Inflation has risen but is contained due to price subsidies. Average headline inflation rose from 0.2 percent (y/y) in 2021 to 2.7 percent in July 2022, mostly reflecting higher costs of energy, food, transportation, and healthcare. Revenue recovery was robust in 2021, but fiscal vulnerabilities remained high. The fiscal deficit remained in double digits, reflecting elevated capital spending, an increased interest burden, and a higher wage bill. Continued support to SOEs added to fiscal vulnerabilities. The banking system remains sound, supported by strong buffers, but risks stem from the sovereign-bank nexus. The IMF called for prudent and well-coordinated fiscal and monetary policies to safeguard macroeconomic stability, restore debt sustainability, and sustain the current exchange rate peg, while supporting sustainable growth. Critical reforms include raising domestic revenue, rationalizing public spending, in particular capital spending, reducing the interest burden by limiting non-concessional borrowing, and reforming subsidies while providing targeted assistance to the most vulnerable.

Oman

In November 2022, the IMF Executive Board concluded the Article IV consultation [1] with Oman and considered and endorsed the staff appraisal without a meeting [2]. Strong vaccination efforts allowed for the relaxation of all social distancing restrictions, and the economic recovery is gaining traction. Overall GDP growth rebounded from -3.2 percent in 2020 to +3.0 percent in 2021, and is projected at 4.3 percent in 2022, supported by increased hydrocarbon production and continued recovery of non-hydrocarbon economic activity. Rebounding economic activity and elevated global inflationary pressures are expected to push up average inflation to 3 percent in 2022. Direct spillovers to the Omani economy from the war in Ukraine have been limited. The banking system has weathered recent shocks relatively well. Financial soundness indicators appear healthy, benefiting from prudent oversight by the Central Bank of Oman and the strong buffers going into the crisis.

Qatar

The 2022 Article IV consultation took place in Doha, Qatar from February 13 to March 1, 2022. Staff assessed that the Qatari authorities' swift and decisive response to the COVID-19 crisis helped dampen its health and economic impacts and paved the way for a speedy recovery. The comprehensive economic support package has provided much needed relief to the most affected households and firms and ensured sufficient liquidity in the banking system. Economic recovery is gaining strength on the back of rebounding domestic demand, higher hydrocarbon prices, and the 2022 FIFA World Cup. Real GDP growth is thus expected to accelerate in 2022 and the North Field LNG expansion project will support growth prospects and further strengthen fiscal and external positions over the medium-term. Downside risks to the outlook stem from potential new virus strains, geopolitical tensions and conflicts, tighter and more volatile global financial conditions and energy market volatility. In the long run, while Qatar's focus on LNG can help to ease the energy transition process, to entrench the recovery and foster stronger and more diversified growth, policy priorities include carefully managing the exit from remaining financial sector support to safeguard banking sector strength, embarking on a growth-friendly medium-term fiscal consolidation, and further advancing structural reforms to achieve the goals in Qatar National Vision 2030. Qatar has made commendable progress in advancing structural reforms during the pandemic. It became the first GCC country to abolish Kafala with a mandatory minimum wage and allowances for food and housing. Various reforms have been introduced to boost foreign and private investment and improve productivity and competitiveness. The recently launched National Environment and Climate Change Strategy envisages a 25 percent reduction of trend greenhouse gas emissions by 2030. Strong reform momentum will continue to improve productivity and inclusiveness, further enhance the business environment and attract private investment, and embrace new global trends, such as digitalization and green growth, for more diversified and stronger growth in the long term, as well as addressing climate challenges.

Somalia

Somalia continues to experience multiple shocks including prolonged drought due to five consecutive failed rainy seasons. This has resulted in humanitarian crises and severe food insecurity exacerbated by rising global food and energy prices. However, with strong support from the international community widespread famine conditions have been averted but severe food insecurity in many parts of the country remain. As a result of these shocks, after having recovered from the COVID-19 pandemic and recorded 2.9 percent growth in 2021, the economy is expected to slow to 1.7 percent in 2022 before rebounding to 2.8 percent in 2023. Inflation in 2022 was elevated at 6.8 percent but is expected to somewhat moderate to 4.2 percent in 2023. Further, concerted pressure by the government led to substantial security improvement and the liberation of many parts of the country from the Al-Shabaab insurgent group. However, it is still able to mount sporadic attacks.

On December 5, 2022, the Executive Board concluded Somalia's Article IV Consultation and 4th Review under the Extended Credit Facility. The Directors commended the authorities for their strong commitment to reforms in a very challenging environment. Despite multiple shocks, Somalia continues to implement far reaching reforms to enhance domestic revenue mobilization, improve public finance management, strengthen governance and the integrity of institutions, as well as bolster central bank governance and ts legal framework. While the country remains fragile, substantial progress continues to be made to rebuild economic and security institutions.

Somali authorities also continue to diligently implement requirements to reach the HIPC Completion Point (HIPC CP) in 2023. With technical and capacity development support from the IMF, World Bank, and other development partners, the country is making steady progress in implementing the floating HIPC CP Triggers, a set of challenging reforms. Beyond HIPC CP, it is imperative to build resilience to climate shocks and deepen reforms that support inclusive growth, while maintaining fiscal sustainability.

United Arab Emirates

The 2022 Article IV Consultation for the UAE took place on November 2-17, 2022. Staff appraised that economic growth had been robust, led by a strong rebound in tourism, construction, and activity related to the Dubai World Expo, as well as higher oil production in line with the OPEC+ production agreements. GDP growth is projected to reach above 6 percent in 2022, improving from 3.8 percent in 2021. Inflation has risen with global trends and is expected to average just over 5 percent this year. Fiscal and external surpluses have increased further, benefiting from the higher oil prices as well as the removal of the temporary COVID crisis-related fiscal support to businesses and households with the gradual waning of the pandemic. Increased global uncertainty led to larger financial inflows, contributing to rapid real estate price growth in some segments. The economic outlook remains positive, supported by domestic activity. Non-hydrocarbon growth is expected to be around 4 percent in 2023 and to accelerate over the medium-term as a result of the implementation of ongoing reforms. Inflationary pressures are projected to moderate gradually, supported by the impact of tightening financial conditions. Further development of domestic capital markets, including through the issuance of local currency debt by the federal government, will also support growth. However, the outlook is subject to significant external uncertainties, including the impacts of global headwinds. As a result, near-term policies should focus on ensuring sustainable growth and maintaining financial stability, while guarding against inflationary outcomes. Ongoing structural reforms, such as those to support private sector employment and female labor force participation, increase trade and foreign investment, and harness the benefits of technology and education, will help deliver sustainable and inclusive growth. Furthermore, the UAE, which will host the 2023 COP28 in Dubai, was the first country in the region to set a 2050 net zero goal and the authorities are advancing their economic reform agenda to diversify away from a heavy reliance on the oil sector in line with the Strategy 2050.

Yemen

Yemen continues to face a major humanitarian crisis. Food insecurity is rising amid higher global commodity prices and a shortfall in humanitarian assistance. The rise in global commodity prices has exacerbated the economic and humanitarian crisis in Yemen, with the population already suffering from eight years of conflict. The ongoing conflict has claimed lives, displaced millions, demolished the country's physical infrastructure, crippled its institutions, and eroded any previous development gains. The UN estimates that 75 percent of the population need humanitarian assistance (23.4 million by end-2022), with 17 million facing acute food insecurity. National capacity is severely constrained. However, despite these significant limitations, the Ministry of Finance and the Central Bank of Yemen have leveraged the Fund's support through capacity development and technical assistance -- which has also been offered by Yemen's development partners -- to enable progress toward building stronger institutions. Yemen needs the support of the international community to help it safely navigate the dire outcomes of the present humanitarian situation.

An IMF team conducted a virtual and an in-person mission to Amman, Jordan with the Yemeni authorities from September 27 to October 6, 2022. Discussions covered recent economic developments in Yemen, the outlook, and progress on key reforms. "Despite the challenging headwinds, some encouraging developments have been paving the way to greater macroeconomic stability. In particular, the truce has supported a period of relative calm, including reduced conflict casualties and greater exchange rate stability. Moreover, the authorities have introduced an FX auction system and eliminated the administered budget exchange rates, including for oil revenues, helping reduce the budget deficit and recourse to financing from the central bank. Looking ahead, a more stable exchange rate and the recent decline in global food prices are expected to translate into lower inflation toward the end of the year." The mission underscored the importance of external support as a critical lifeline for Yemen. In particular, additional external assistance is needed to finance essential food imports, help meet urgent social spending needs, and address pressing infrastructure gaps. Such financing would also reinforce macroeconomic stability and the reform momentum. Yemen's last Article IV consultation was September 24, 2014.

Upcoming Events of Interest

April 10-16, 2023, "Spring Meetings," International Monetary Fund, Washington D.C.
October 09-15, 2023, "Annual Meetings of the IMF and World Bank Group," Marrakesh, Morocco.

Communication

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Membership Report
Twice a year, we share the ways in which our office has engaged with our members and with the IMF Board. These reports present topics of interest and positions that aim to further the interests of our members. The next issue will be released in April 2023. Past reports can be found on our website here.

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