Third Meeting of the
OIC–COMCEC Central Banks Forum

29 September 2021

Keynote Speech

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بسم الله الرحمن الرحيم

Excellencies, Distinguished Participants,
Ladies and Gentlemen,

السلام عليكم ورحمة الله وبركاته

Very Good Day to you all

It is a great pleasure for me today to address your august forum at its 3rd meeting. I would like, at the outset, to express my deep thanks and appreciations to the Central Bank of the Republic of Turkey for organizing this important and timely meeting and for inviting me as a speaker.

[Slide 1: Title]

Availing of this opportunity, I would like to present a quick overview of the economic and financial outlook of the OIC countries amidst the COVID-19 pandemic, mostly with highlights from our recently completed annual report on "OIC Economic Outlook 2021", which will be submitted to the forthcoming 37th Ministerial Session of COMCEC in November.

We are witnessing an unprecedented global crisis caused by the COVID-19 pandemic with startling implications for our societies and economies. The pandemic is far from over yet, the human toll is still rising worldwide, but thankfully, we now have multiple vaccines available that can help us reduce the risk and severity of infection, easing the lockdowns and restarting the economic and social activities to pave the way for a strong recovery.

In addition to the dramatic implications for the health of people, the pandemic has triggered a major global economic and financial crisis. In the last year, almost all macroeconomic indicators deteriorated significantly all over the world, and the OIC MCs were no exception. This year, however, projections signal for recovery in many indicators, though some of them are only partial.

[Slide 2: Global GDP Growth]

First of all, the measures taken to control the spread of the virus, such as the lockdowns and the travel restrictions, have resulted in an unprecedented slowdown of economic activities all over the world.

Prior to the pandemic, the world real GDP was expected to grow last year by 3.4%. However, it is now estimated to have contracted by 3.2%. This contraction is even smaller than the pessimistic projections made earlier in the last year, indicating that growth rates improved for many regions in the second half of 2020 thanks to eased lockdowns and strong policy responses as well as more adaptation to new ways of working. The IMF estimates that the contraction could have been three times as large without the extraordinary policy response and support.

Developed economies, which have historically recorded lower growth rates than developing economies, contracted by 4.6% compared to a contraction of 2.1% in developing countries.

According to the IMF, after the contraction in the last year, the global economy is projected to grow at 6% this year, moderating to 4.9% in the next year. Additional fiscal supports, the anticipated speeding and widening of vaccination coverage and the continued adaptation of all sectors of the economy to the pandemic life are expected to contribute to the recovery process.

[Slide 3: GDP Growth in the OIC]

The economic contraction in the OIC MCs in the last year was moderate as compared to the global averages. Before the outbreak of the pandemic, economic growth in OIC countries was projected at 3.7% for the year 2020, but under the pandemic conditions, it actually contracted by 1.6%.

In parallel with the global recovery, economic activity in OIC countries is expected to recover with growth rate of 4.3% in this year and 4.5% in the next year, which is around the past ten-year average.

It is worth noting here that, 39 OIC countries recorded a negative growth rate last year, though this number was only 11 during the global financial and economic crisis in 2009.

[Slide 4: Unemployment]

Like in other parts of the world, the pandemic has brought unprecedented disruptions to labour markets in OIC countries. The challenges imposed by the pandemic have exacerbated the lack of employment opportunities that would have existed even without the pandemic.

Given the working-hours losses, it is estimated that the pandemic caused a loss of 54 million Full-Time-Equivalent (FTE) jobs across OIC countries in the last year, accounting for a fifth of the losses at the global scale.

As the pandemic transformed from a public health crisis into an employment crisis, estimates show that over 4 million people across the OIC countries were pushed last year into unemployment, raising the total number of unemployed people to 49.3 million.

Consequently, unemployment rate in OIC countries climbed up from 6.4% in 2019 to 7.1% in 2020. Projections indicate a further slight rise in the unemployment rate to 7.2% this year before easing to 6.7% in the next year. However, it will still be above the pre-pandemic levels and the global average.

[Slide 5: Inflation]

With the collapse of economic activity due to the pandemic, consumer price inflation fell in the last year in most countries across the world. Nevertheless, unlike the global inflation rate, which slightly declined to 3.2%, average inflation in OIC countries rose sharply last year to 9.1%, compared to 7.5% in 2019.

Thus, on average, OIC countries continued to have a higher inflation rate last year. And, this trend is expected to continue in this year as well, where inflation is projected to further rise to 9.9% compared to the world average of 3.5%.

Looking at the inflation rates in the 5-year period from 2016 to 2020, the average consumer prices in OIC countries were 45.3% higher in 2020 compared to 2016, which was considerably above the world average increase of 17.2%.

[Slide 6: Fiscal Balance]

The fiscal measures implemented to counter the effects of the pandemic, combined with reduced government revenues due to the economic downturn, have led to historically high government deficits all around the globe.

Government deficits have also expanded in OIC countries, averaging at 7.6% of GDP in 2020, compared with 3.6% in 2019. This expansion in deficits resulted from an increase in expenditures and a con-current decrease in revenues.

Although fiscal support for mitigating the impacts of the pandemic did play a role in this regard, available data show that OIC countries, on average, provided relatively limited support in proportion to their GDP as compared to both developed and developing countries.

Current projections for this year signal for a decline in expenditures to 26.1% of GDP and an increase in revenues to 20.8% of GDP, resulting in a reduction in Government deficits to 5.3% of GDP, which is yet still above the pre-pandemic level of 3.6%.

[Slide 7: Exports]

The containment measures and lockdowns, which aimed to curb the spread of the virus, have negatively affected both the demand and the supply. International transportation and Global Value Chains were also severely disrupted during the closures. Thus, leading to a steep decline in international trade.

Falling already by 5.4% in 2019, merchandise exports of OIC countries further declined by 17% in 2020, much sharper than the global drop of 7.3%. Consequently, the value of their exports declined to about 1.5 trillion US dollars in 2020, and accounted for a smaller share of the global merchandise exports.

The impact of the pandemic on international trade has been more critical in services than in merchandise. The value of global trade in services fell last year by one fifth of its value in 2019, and OIC countries experienced even a greater fall. Their services exports plummeted by 37.6% and amounted to 279 billion US dollars, whereby their share in global services exports also dropped down.

[Slide 8: Current Account]

The slowdown in economic activities, the disruptions in the Global Value Chains, the sudden halt in tourism activities, and the reduced demand in developed countries have shaped the current account balances across the world.

As a group, the OIC countries, have recorded current account deficits every year since 2015, with the exception of 2018. Last year, the deficit increased to 186 billion US dollars, which is 5.7 times the deficit in the year before. Thus, the 2020 deficit was 2.7% of GDP, up from 0.4% in 2019. Given that the deficit in services trade actually decreased by 3 billion US dollars in 2020, the deterioration in the balance of merchandise trade (from a surplus of 70 billion US dollars in 2019 to a deficit of 90 billion US dollars in 2020) contributed significantly to the widening current account deficit.

Yet, projections for this year signal narrowing of current account deficit to 48 billion US dollars or 0.7% of GDP.

[Slide 9: FDI]

Global flows of foreign direct investment have been severely hit by the pandemic. According to UNCTAD statistics, global FDI inflows dramatically fell last year by 35% to around 1 trillion US dollars, mainly due to the decline in flows into developed countries.

FDI flows to OIC countries followed a similar trend as developing countries, and fell last year by 12.5% to 100 billion US dollars. Projections for this year show that FDI flows are expected to increase by 2.4-to-9.1%, with a median projection of 6%, implying that flows will not reach to the 2019 level even in the case of the most optimistic scenario.

Global FDI flows are expected to increase this year by 10-to-15%, still about 25% below the 2019 level. The pace of economic recovery, the possibility of pandemic relapses with more contagious new variants of the virus, the potential impacts of recovery spending packages on FDI, and policy pressures are among the factors considered to shape the outlook.

[Slide 10: Reserves & SDR]

The COVID-19 crisis and the associated financial shocks have once again highlighted the need for having sufficient international reserve buffers to help preserving macroeconomic and financial stability in the face of such crisis.

Policy makers have relied on a variety of policy tools, including making use of international reserves, to cope with the pandemic crisis and the associated financial vulnerabilities. In the face of global dollar liquidity shortages, some central banks in developing countries intervened in the foreign exchange market to support depreciating currencies, and several central banks have established or expanded swap lines to improve their foreign exchange reserves.

Globally, total international reserves amounted last year to 14.5 trillion US dollars, with an increase of 9.1% from the previous year. Although both developed and developing countries increased their reserves, nearly two-thirds of this increase originated from developed countries.

In OIC countries, however, the data available in the last year for 35 member countries indicate a decline in reserves by 3.2% as compared to 2019.

The recent general allocation of Special Drawing Rights (SDRs) equivalent to 650 billion US dollars to boost global liquidity and address the long-term global need for reserves has improved the reserves of the IMF's current 190 members. As you know, the allocation became effective last month, on the 23rd of August, and the newly created SDRs were credited to the IMF member countries in proportion to their existing quotas in the Fund.

Accordingly, the OIC member countries saw an increase of about 77 billion US dollars in their total international reserves due to this new SDRs allocation. Accounting for 82% or 63 billion US dollars of this amount, the 34 OIC countries for which the 2020 reserves data are available have seen an increase in their total reserves at varying rates from 2 to 40%.

At a time of unprecedented crisis, I hope these new resources will further strengthen the resilience of our economies and help to cope with the negative impacts of the COVID-19 pandemic.

[Slide 11: Uneven Recovery]

As a final remark, I would like to highlight the rising concerns over the uneven recovery and divergence among countries in the post-pandemic recovery period, which, I believe, should be taken into consideration in the formulation of the recovery policies.

The pandemic has affected countries at different scales. Their economic structure, such as high reliance on tourism or primary commodity exports, played a significant role. Divergences have been observed even within countries, as the pandemic more heavily affected young workers, females, informal workers, and those with relatively lower skills, increasing income inequalities and exacerbating disparities.

Therefore, the formulation and implementation of targeted, country-specific or regional policies are of great importance.

On the other hand, just as the entry into the pandemic, the recovery is also expected to be uneven, leading to a divergence between countries. Several international organizations, such as the IMF, the UN, the World Bank, and the OECD, who all expect a strong recovery starting from this year, share and highlight this common concern.

This state of affairs is mostly linked to wide differences in the pace of vaccination, the extent of economic policy support, and structural factors such as reliance on tourism and trade. In addition, the emergence of more infectious strains of the virus, such as the Delta variant, is threatening the outlook for recovery across the world.

Large divergences in recovery speeds also raise the prospect of divergent policy stances across countries. The IMF warns that developing economies, especially those with large external financing needs, may face a risk of tighter financial conditions and large portfolio outflows if developed countries move toward policy normalization and rapidly increase interest rates. In that case, developing countries would also suffer an increase in currency volatility.

The recovery efforts must, therefore, be guided by the objective of preventing a growing cross-country divergence in economic development. Transparency, communication, and stronger international coordination and cooperation are critical for more balanced and inclusive growth during the recovery from the COVID-19 pandemic and beyond.

[Slide 12: End]

Distinguished Participants, Ladies and Gentlemen,

I will stop here, and let me conclude by thanking you all for your kind attention. I am confident that discussions and deliberations during this forum will be highly instrumental in promoting and enhancing the joint efforts to determine the most appropriate ways to orient the economic recovery in our member countries.

I wish you a successful meeting and fruitful deliberations.

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