



20 YEARS
METAC

Good Governance for Economic Resilience

Twenty Years of METAC Capacity Development in the Middle East and North Africa

Good Governance for Sustainable and Inclusive Growth:
Progress and Challenges in the Middle East and North Africa



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**IMF
METAC**

**Better Governance for Sustainable
and Inclusive Growth
— Progress and Challenges in the Middle
East and North Africa**

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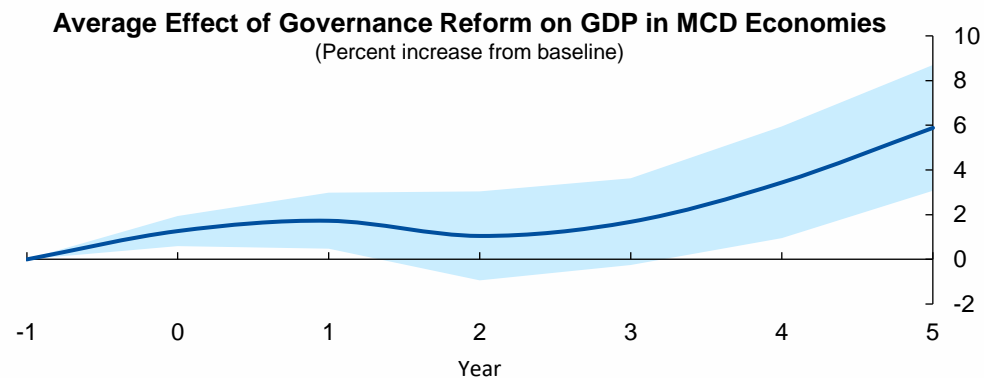
Deputy Director

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International Monetary Fund

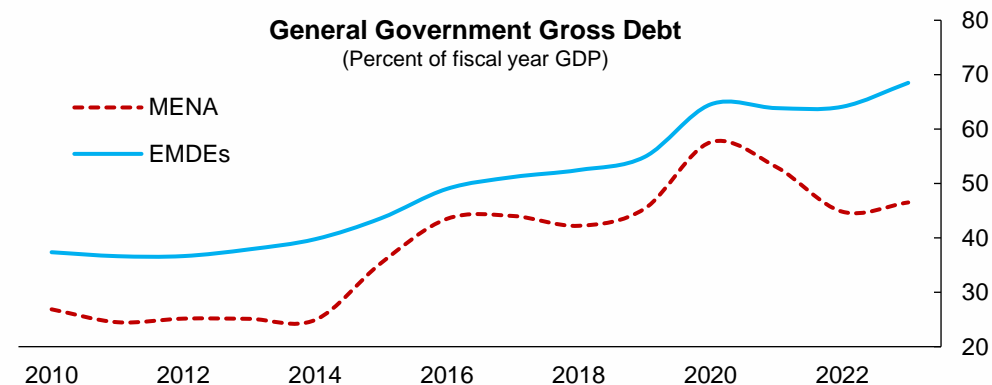
Good governance is critical for improving economic performance, even more so as fiscal and monetary policy space is limited

Good governance is key to achieving higher growth...



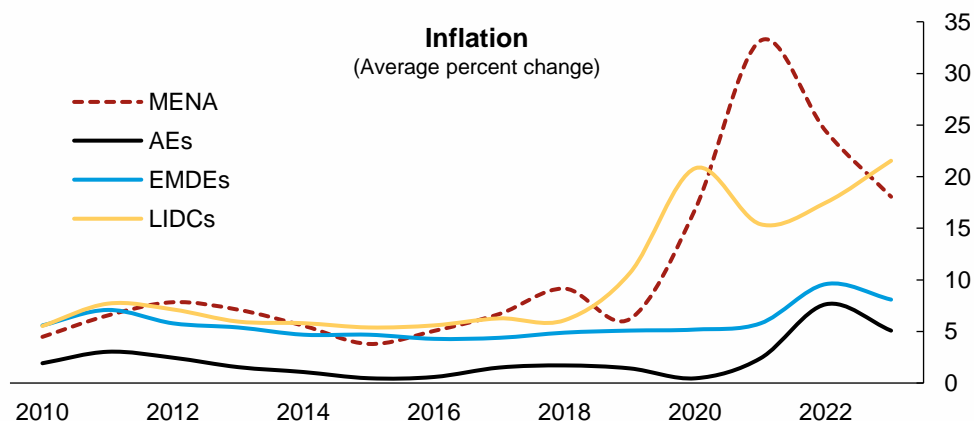
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

...as high debt levels limit space for fiscal policy...



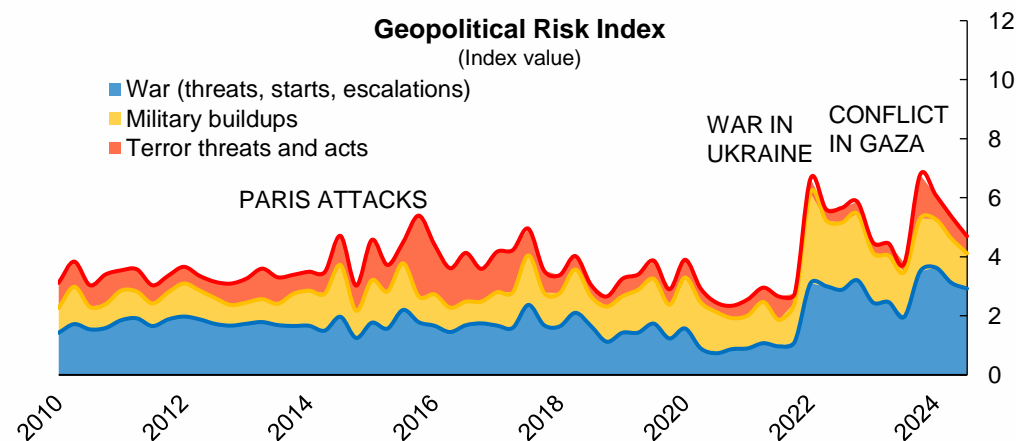
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

...while high inflation narrows the corridor for monetary policy intervention...



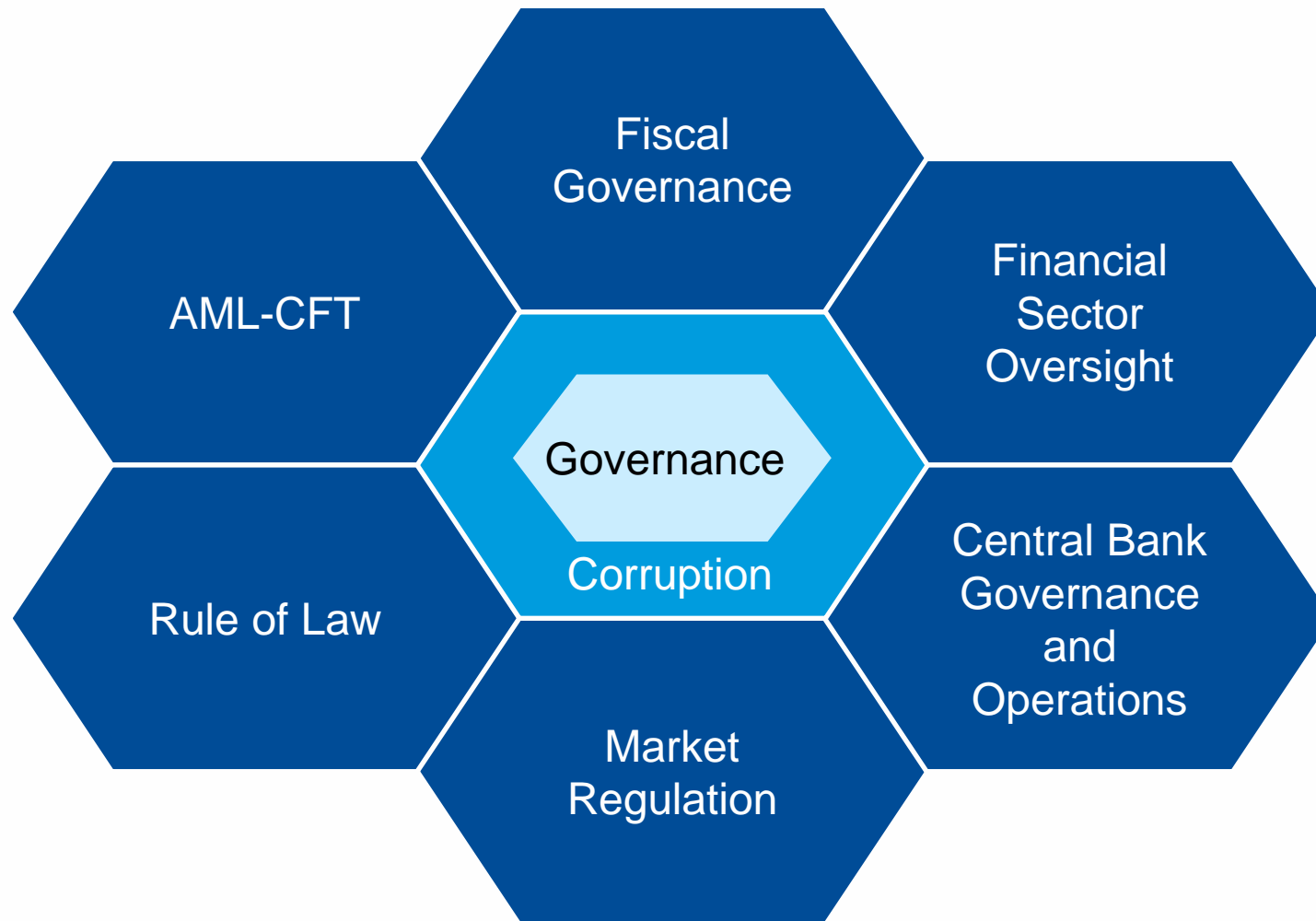
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

...amid heightened uncertainty in the region.



Sources: Caldara, Dario, and Matteo Iacoviello (2022); and IMF staff calculations.

To ensure a systematic assessment of governance vulnerabilities and their economic impact, the IMF focuses on six key state functions

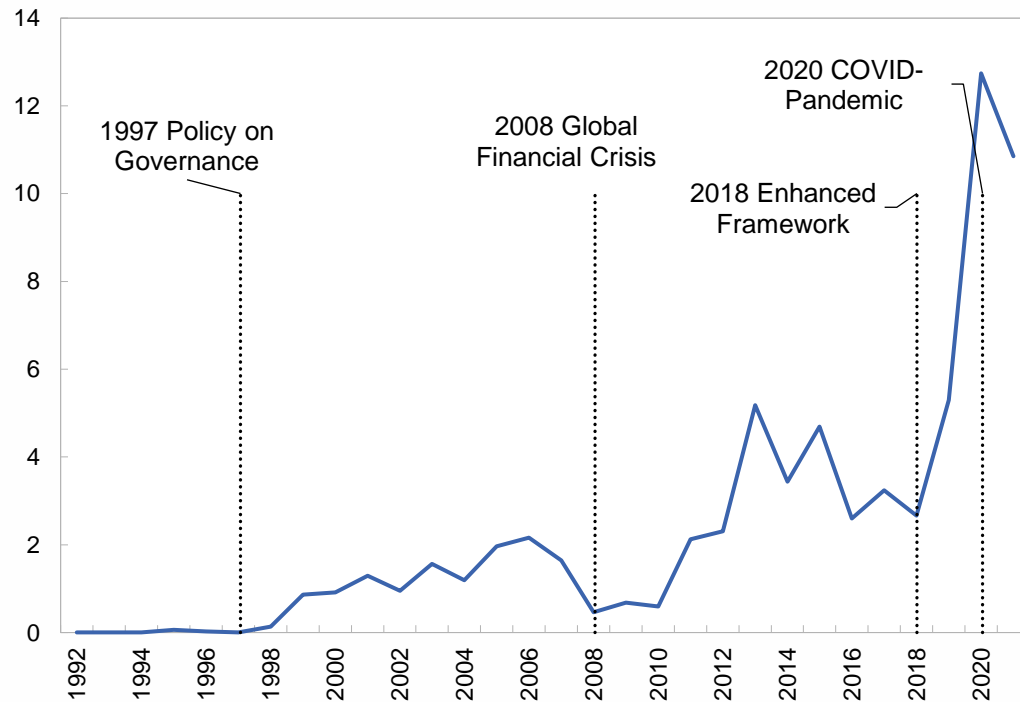


Governance issues are featured more prominently in IMF engagement, recognizing its importance for economic prosperity

The IMF has placed more emphasis on governance issues in recent years.

Governance assessments in the MENA focus on a variety of topics, with corruption receiving the most mentions.

References to 'Governance' in MENA Staff Reports
(Average)

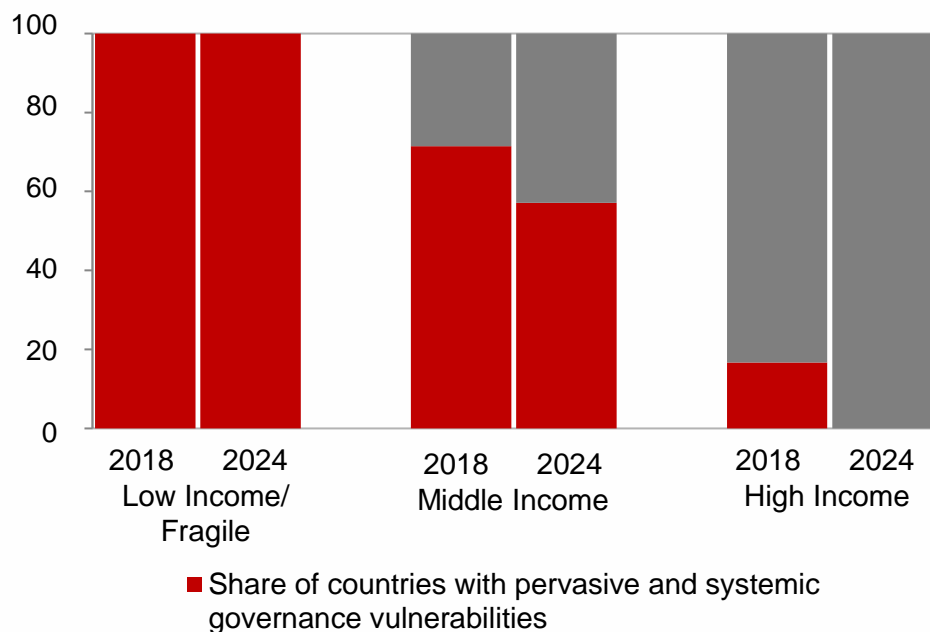


Economic Governance and Control of Corruption — Status and Progress

Gradual improvement in governance in MENA high- and middle-income countries, but low-income and fragile states face major challenges

Governance vulnerabilities have improved in MENA middle- and high- income countries...

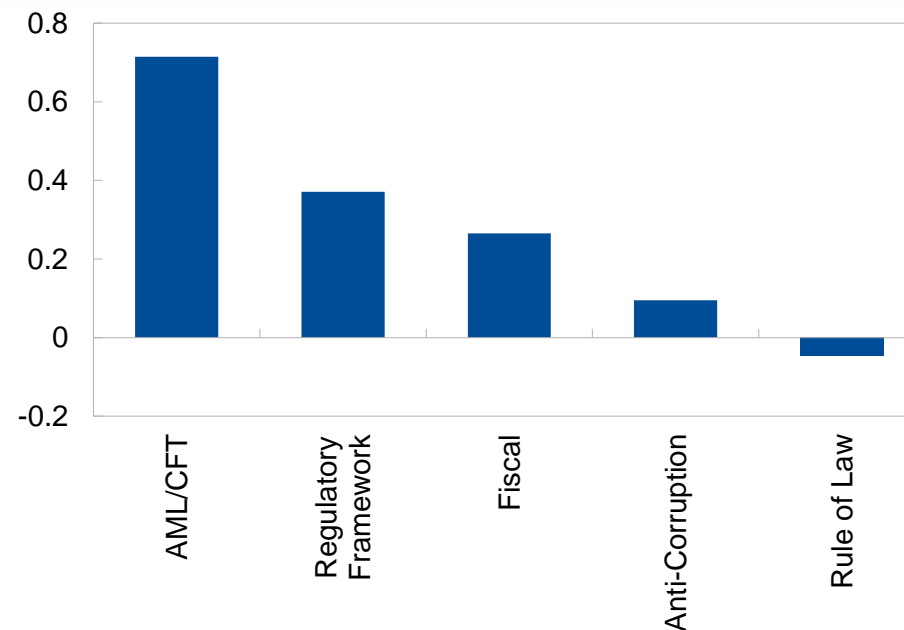
Degree of Governance Vulnerabilities (2018 – 2024)
(Percent)



Note: The red bars shows the percent of MENA countries that have pervasive and systemic governance vulnerabilities in the respective samples.

...albeit more in some areas than others.

Average Change in Governance Indicators by Key Economic State Function 1/
(2018 – 2024)



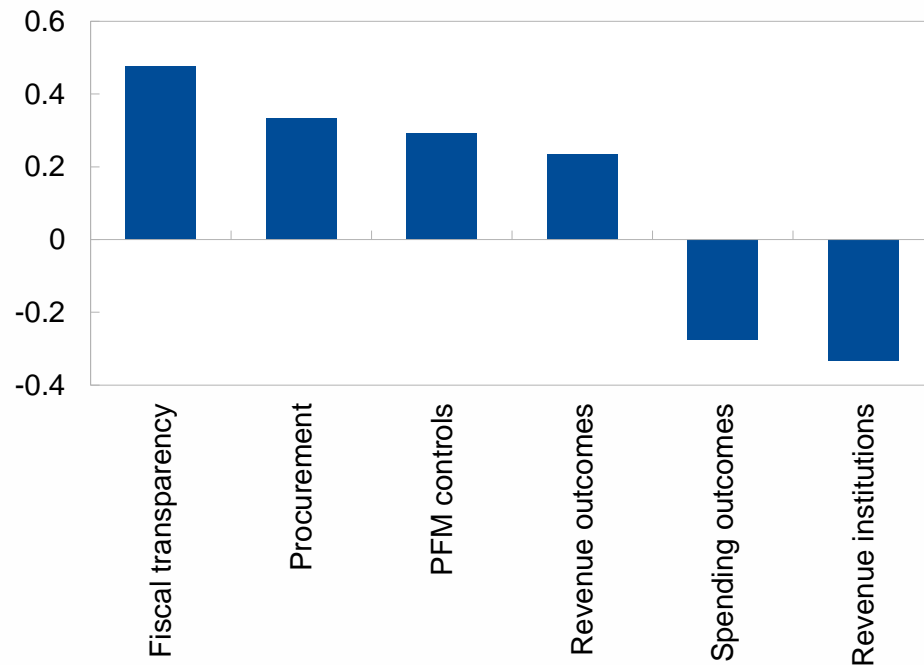
1/ The chart shows average change in governance vulnerabilities between 2018 and 2024. Positive value indicates improvement and negative refers to deterioration.

Fiscal governance has improved in MENA, but further efforts are needed

PFM, procurement, and fiscal transparency have been strengthened, while more work is needed to improve spending efficiency and revenue administration.

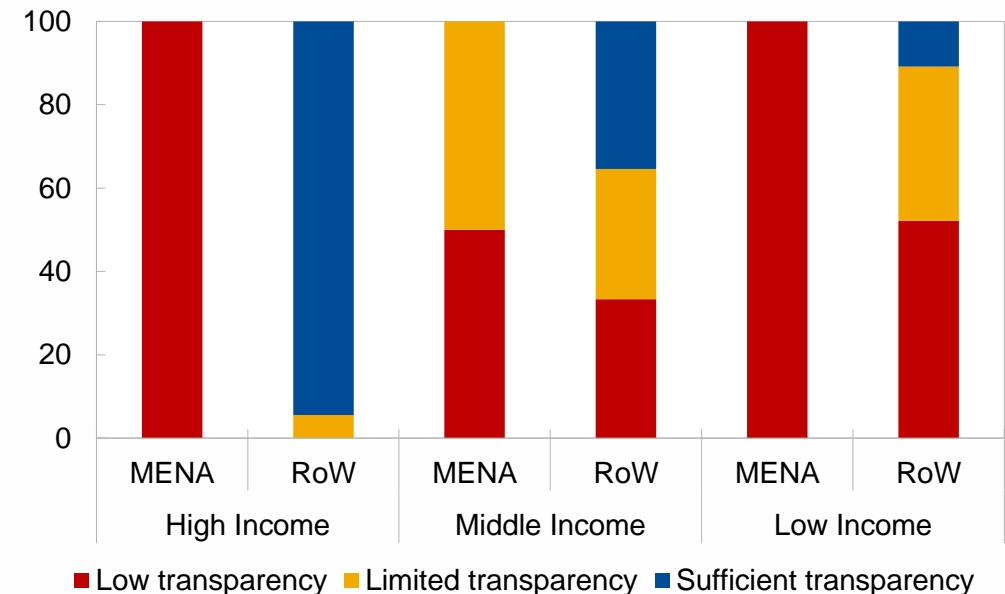
Despite progress, global comparators outperform MENA countries in fiscal transparency.

Average Change in Fiscal Governance Indicators (2018 – 2024)



Note: The chart shows average change in governance vulnerabilities between 2018 and 2024. Positive value indicates improvement and negative refers to deterioration.

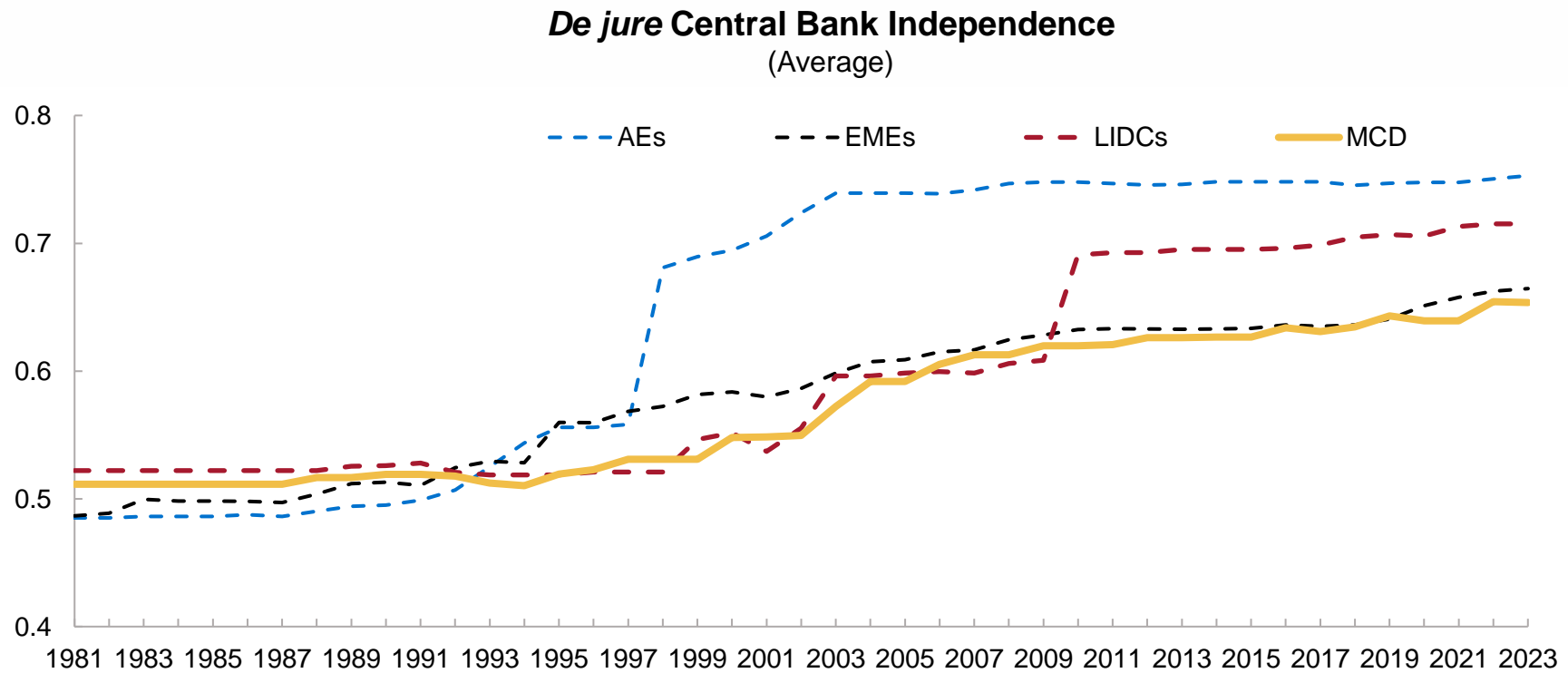
Fiscal Transparency (Percent)



Source: Open Budget Survey (2023) and IMF staff calculations.
 Note: Rest of the World (ROW) comparator refers to non-MENA countries that are in respective middle-income/high-income/low-income/FCS groups. MENA LICs also include Fragile and Conflict Affected States (FCS).

There is steady progress in enhancing central bank independence across the MENA region

More countries have legally established central bank independence.

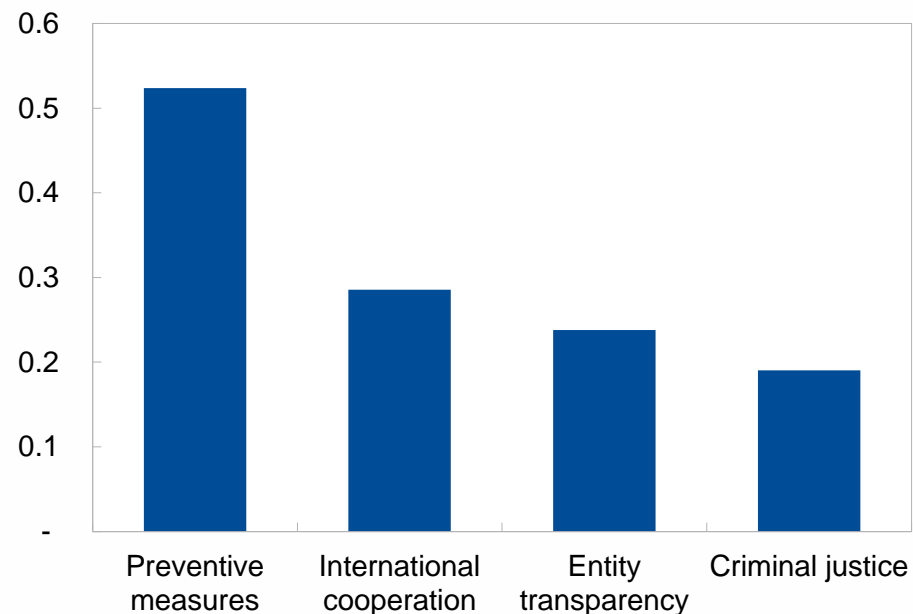


Sources: Romelli, D., 2024. "Trends in Central Bank Independence: A De Jure Perspective." BAFFI CAREFIN Centre Research Paper No. 217; IMF staff calculations.

Considerable progress in AML/CFT frameworks in MENA, recognizing the importance of financial integration with global financial markets

AML/CFT indicators have improved across the board.

Average Change in AML/CFT Indicators (2018 – 2024)



Note: The chart shows average change in governance vulnerabilities between 2018 and 2024. Positive value indicates improvement and negative refers to deterioration.

FATF ratings of MENA countries are largely on par with global comparators.

Compliance with FATF's AML/CFT Recommendations, 2020-2024

(Scale, 1 [non-compliant] to 4 [compliant])

	MENA High Income	ROW comparator	MENA Middle Income	ROW comparator
AML/CFT Policies & Coordination	3.2	3.1	2.8	2.9
Money Laundering & Confiscation	3.4	3.4	2.9	3.2
Terrorist Finacing & Finacing of Proliferation	3.0	3.3	2.9	3.1
Preventive Measures	3.4	3.8	2.9	3.6
Entity Transparency	2.9	2.7	2.2	2.4
Authorities & Institutional Measures	3.5	3.1	3.0	2.9
International Cooperation	3.2	3.4	2.8	3.2

Sources: FATF ratings, and IMF staff assessment.

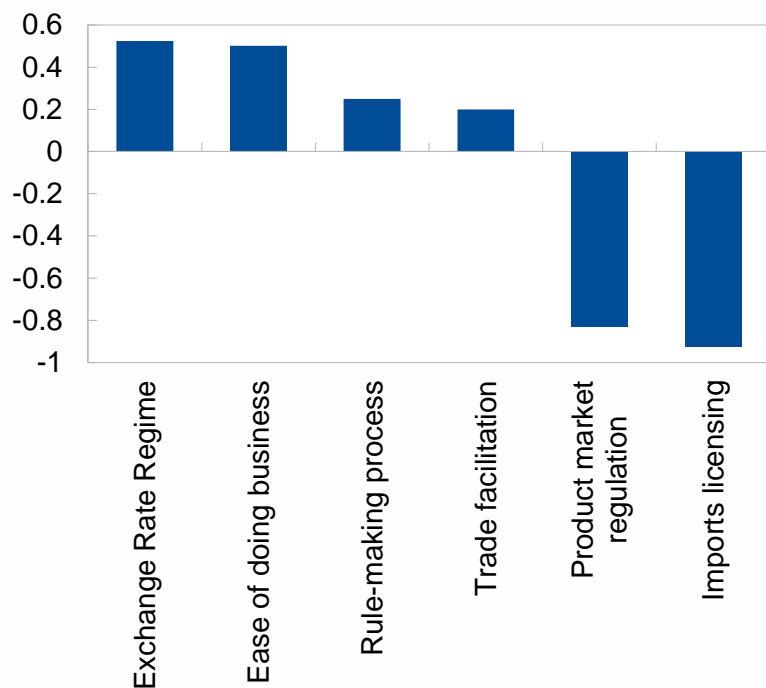
Note: Rest of the World (ROW) comparator refers to non-MENA countries that are in respective middle-income and high-income groups.

FATF assessments do not cover most LIC/FCS countries.

Strengthening the rule of law and regulatory frameworks is critical for stronger private-sector-led development in MENA

While the business environment has improved...

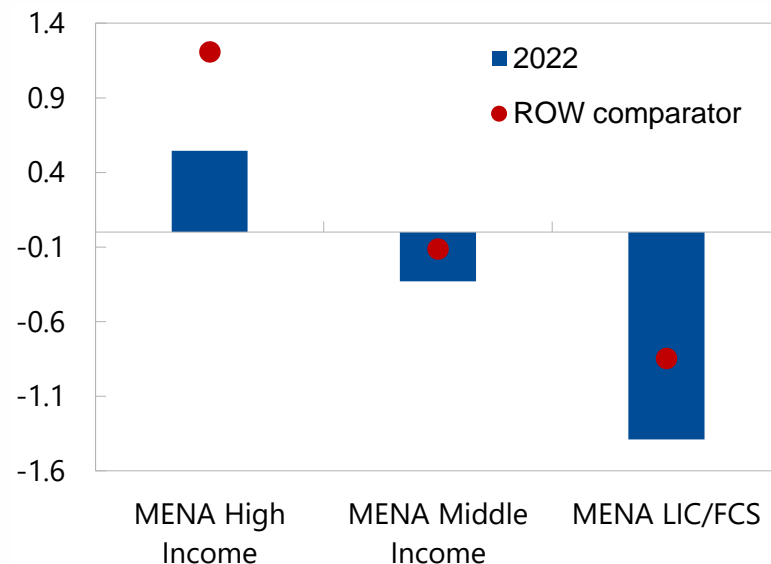
Average Change in Regulatory Framework Score (2018 – 2024)



Note: The chart shows average change in governance vulnerabilities between 2018 and 2024. Positive value indicates improvement and negative refers to deterioration.

...MENA countries, on average, lag behind global comparators in the of rule of law...

Rule of Law (-2.5 [weak] to 2.5 [strong], Average)

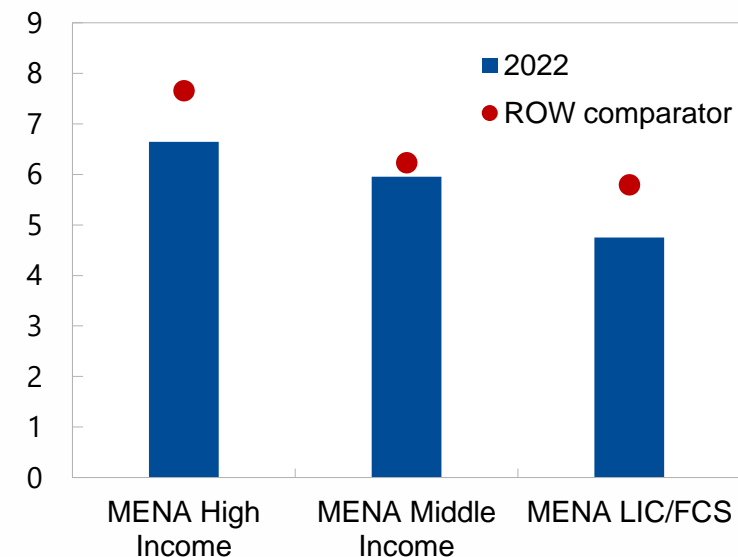


Sources: World Bank, World Governance Indicators; and IMF staff calculations.

Note: Rest of the World (ROW) comparator refers to non-MENA countries that are in respective middle-income/high-income/low-income/FCS groups. MENA LICs also include Fragile and Conflict Affected States (FCS).

...and in regulatory performance.

Regulations (Scale, 0 [worst] to 10 [best], Average)



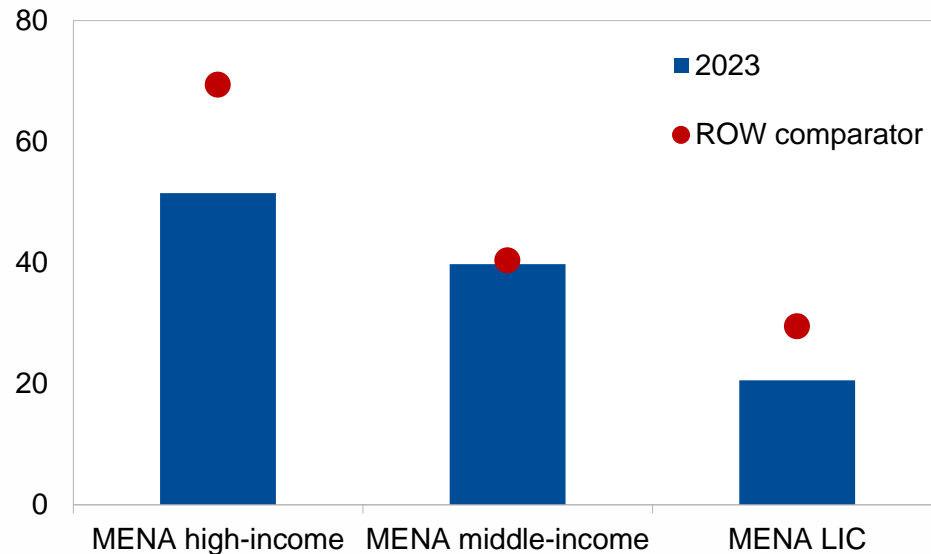
Sources: Fraser Institute, Economic Freedom Data; and IMF staff calculations.

Note: "Regulations" is a composite indicator, comprising credit market regulations, labor market regulations, business regulations, and freedom to enter markets and compete.

MENA countries need to redouble anti-corruption efforts

Corruption perceptions show improvement in MENA but only middle-income countries are at par with peers.

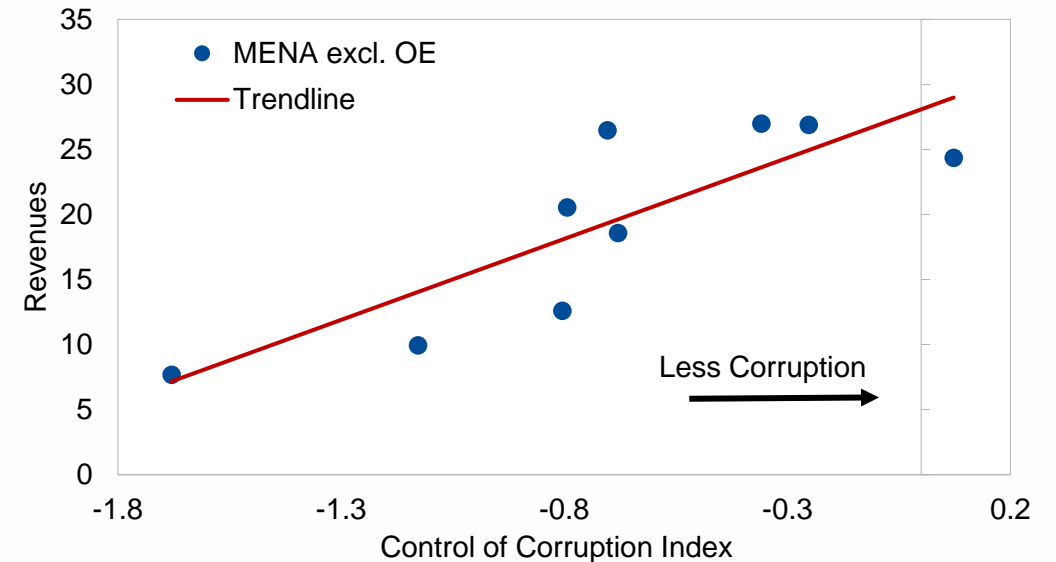
Corruption Perceptions
(Scale, 0 [highly corrupt] to 100 [very clean])



Sources: Transparency International Corruption Perception Index, and IMF staff calculations.
Note: Rest of the World (ROW) comparator refers to non-MENA countries that are in respective middle-income/high-income/low-income/FCS groups. MENA LICs also include Fragile and Conflict Affected States (FCS).

Progress in anti-corruption efforts could yield tangible macro benefits.

Government Revenues
(Percent of GDP)



Source: IMF World Economic Outlook; World Bank Worldwide Governance Indicators; and IMF staff calculations.
Note: Revenue data is the average of 2020-2022 (excluding oil exporters). Control of corruption shows 2022 data (on a scale of -2.5 [weak] to 2.5 [strong]).

Key Messages and the Way Forward

Main Takeaways

- **Good governance is critical for improving economic performance, particularly when fiscal and monetary policy space is limited.**
- **Notwithstanding some improvement in the region's governance indicators, challenges remain, especially in low-income and fragile states.**
 - **There have been broad-based improvements in fiscal governance, but further efforts are needed to close gaps vis-à-vis global comparators, including for MENA high-income countries.**
 - **Steady progress has been made in enhancing central bank independence, but challenges remain in implementation.**
 - **Sustained progress in strengthening AML/CFT frameworks will help deepen the region's integration with global financial markets.**
 - **Strengthening the rule of law and regulatory frameworks is critical for stronger private-sector-led development in MENA.**
 - **Redoubling anti-corruption efforts is crucial for strengthening trust in public institutions and building support for reforms.**

Key Messages – The 3Ts

TRANSPARENT

Greater transparency and accountability is key to improving governance



TAILORED

Governance reforms need to be tailored to country circumstances



TIMING

Impact of reforms can be amplified by their timing and sequencing



The Way Forward

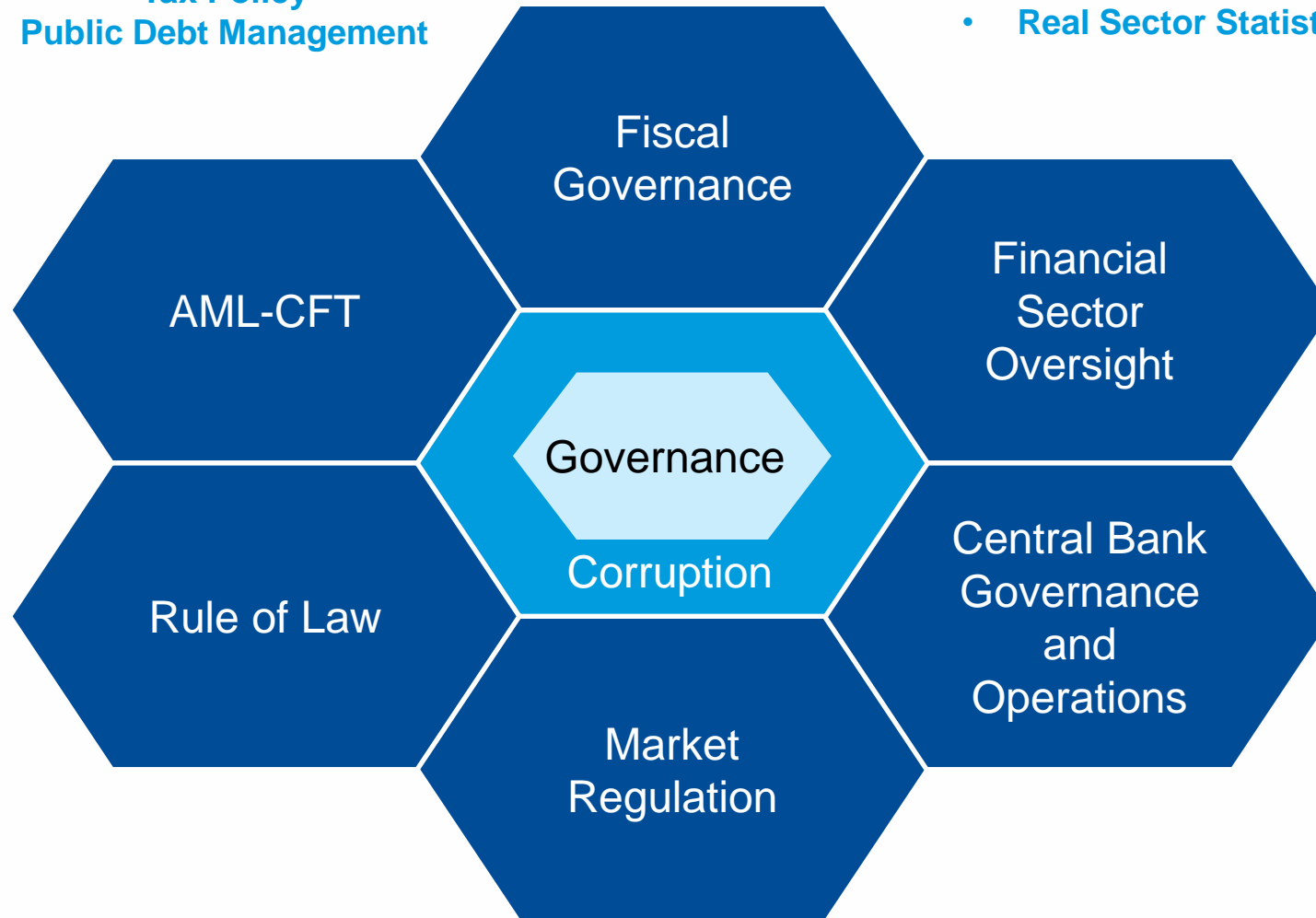
- **Improving governance is a long-term endeavor that requires:**
 - **strong leadership with a clear focus,**
 - **robust legal and institutional frameworks,**
 - **a dedicated and skilled civil service, and**
 - **broad-based public support.**
- **Effective prioritization is key to success and the IMF can offer granular advice, through surveillance, programs, diagnostics, and capacity development.**
- **Collaboration with specialized bodies (e.g., FATF) facilitates financial integration and reform traction.**

Governance is a Cross-Cutting Subject Linked to all METAC Work Areas

- Public Financial Management
 - Revenue Administration
 - Tax Policy
 - Public Debt Management

- Government Finance & Public Sector Debt Statistics
 - Real Sector Statistics

Anti-Money Laundering /
Combating the Financing of
Terrorism



Financial Supervision
and Regulation

Central Bank
Operations

Macroeconomic
Frameworks

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- Governance diagnostics
- Transparency and public accountability
- Legal and institutional frameworks

Thank you!

IMF



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