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Keynote Speech

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بسم الله الرحمن الرحيم

Excellencies, Distinguished Participants,
Ladies and Gentlemen,

السلام عليكم ورحمة الله وبركاته

It is a great pleasure for me to address your august forum at its virtual Meeting today. At the outset, I would like 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 lead speaker.

[Slide 1]

Availing this opportunity, I would like to share with some of the main highlights of our recent research report on 'Socio-economic Impacts of COVID-19 Pandemic on OIC Member Countries: Prospects and Challenges".

As the title suggests, this report documents the economic and social impacts of the pandemic in OIC countries by looking into major developmental indicators. In this presentation, however, I will talk mainly about the economic impacts and policy responses in OIC countries. Those who are interested to read the full report can access it through the website of SESRIC.

The outbreak of the pandemic caused an unprecedented global health and humanitarian crisis with large-scale societal and economic disruptions across the world. In fact, the pandemic emerged at a time when the global economy was already in shambles due to lower demand and increasing trade tensions between major global economies. The conjunction of these factors caused a perfect storm drowning the global economy into one of the worst economic recessions in modern history.

[Slide 2]

The pandemic has two major effects on the economies: one is related to supply of goods and services due to value chain disruptions at both national and international levels, and the second is related to demand for goods and services due to loss of income and rising uncertainties.

According to the latest estimates of IMF, the global economy is expected to contract by 4.9% in this year, while developed economies bearing the real brunt of the pandemic with a staggering drop of 8% in their GDP growth. The contraction in developing economies is expected to be at a more moderate level of 3%.

Yet, the world economic growth is expected to stabilize next year with the hope that either a vaccine is made or herd immunity is achieved to get back to normalization.

[Slide 3]

Similar to the rest of the world, the COVID-19 pandemic constitutes an unprecedented challenge with severe economic and social consequences for many OIC member countries. The situation is particularly alarming given the continuous weakening of the economic performance of the OIC group in the last few years.

At the beginning of the pandemic, OIC economies were expected to contract by 2% in 2020 with a strong recovery to be followed in 2021. However, the latest estimates reveal that the economic contraction across the world is expected to be more severe than initially projected. Therefore, the fall in GDP in the OIC group is also expected to exceed the initial projected 2% contraction in this year.

[Slide 4]

The prolongation of economic risks and disruptions led by the pandemic has already fuelled the worldwide uncertainty that has been negatively affecting global industrial activity and trade in goods. In fact, international trade flows were already slowing amid persistent trade tensions among major economies.

Following the breakout of the pandemic, the estimates of global trade flows were significantly revised downward. According to the World Trade Organization, global trade flows are expected to decline by 13% to 32% in 2020, based on alternative scenarios.

With respect to the export flows from OIC countries, it is expected that the total exports could fall between 17% and 33%, depending on alternative scenarios. The fall in intra-OIC exports is expected to be comparatively lower between 4.9% and 14.9% due to different composition of export products in case of intra-regional and extra-regional trade of OIC member countries.

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[Slide 5]

Falling commodity prices and financial market turmoil due to growing uncertainties led to a significant fall in assets prices and stock markets. Capital outflows and currency depreciations constrain the ability of many developing countries to service their debts and take adequate supportive measures to stabilize the economy.

Due to ongoing uncertainty amid the pandemic, global investment flows are estimated to decline by around 40% in 2020. The OIC countries are also expected to be affected at around similar levels.

The FDI flows to OIC countries are estimated to fall below US$ 64 billion in 2020. This is a much stronger decline in investment flows as compared to the 2008-09 global financial crises, where OIC countries witnessed a drop in their FDI from US$ 173 billion in 2008 to US$ 132 billion in 2009.

In fact, FDI inflows to OIC countries were already following a declining trend over the last few years. Exacerbation of this situation due to economic policy uncertainty will make it difficult for many OIC countries that need external capital and technology to achieve better economic performance.

[Slide 6]

Impacts of COVID-19 Pandemic on labour markets are also substantial. Though estimates remained highly uncertain due to the ongoing pandemic and change in assumptions, various projections indicate a substantial rise in global unemployment.

The ILO expects around 25 million increase in the number of unemployed people worldwide. If the unemployment increases at around the same rate in the group of OIC countries, this would generate an additional 6 to 8 million unemployed people and create huge policy challenges for OIC governments in tackling the socio-economic problems of affected populations during the post-pandemic period.

[Slide 7]

Moreover, disruption in global value chains further exacerbates the jobs crisis. According to the ILO, 292 million jobs in manufacturing supply chains are at high risk due to the pandemic-related drop in consumer demand, and a further 63 million jobs are at medium risk.

Taken together, more than one in two jobs in manufacturing supply chains, and more than one in seven of all jobs, are currently at medium or high risk, despite the easing of lockdown measures in many countries.

[Slide 8]

International tourism is one of the main economic activities and an important source of foreign exchange earnings, economic growth and employment in many countries. The tourism sector not only creates millions of jobs but also provides opportunities for some vulnerable groups like women, youth and rural communities in many developing and developed countries. Yet, it is one of the most severely affected sectors from the pandemic.

The UNWTO estimates international tourist arrivals to be decreased by 20% to 30% in this year.

The OIC countries are projected to host around 30 to 46 million less international tourists in 2020. This translates into a potential loss of tourism revenue within the range of 38 and 57 billion US$ in 2020, depending on alternative scenarios.

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[Slide 9]

Many OIC countries responded to the pandemic by implementing a wide range of fiscal and monetary policies. At the beginning of the crisis, 42 OIC countries introduced fiscal stimulus packages to sustain and encourage essential economic activities at the first stage and all economic activities in the second stage.

In terms of monetary policy interventions, 26 OIC countries cut interest rates as a reflection of direct expansionary monetary policy to cope with liquidity restrictions stemming from the pandemic. In addition, 19 OIC countries introduced a monetary stimulus package to support economic activities.

[Slide 10]

In terms of trade policy measures, governments enacted temporary trade measures that aim to restrict exports of vital medical supplies critical to tackle the COVID-19 or to liberalize their import by lowering import duties.

Until the end of August 170 restrictive trade policies were initiated worldwide, 115 of which were active, and 152 liberalizing trade policies, 135 of which were active.

In OIC countries, 31 of them initiated 58 restrictive measures, 43 of which were effective by the end of August, and 27 OIC countries introduced 38 trade-facilitating measures, 34 of which were still active by the end of August.

[Slide 11]

There are also a number of measures taken to support the financial sector in response to the pandemic. The main objectives of these policies are to stabilize financial markets, so that credit and liquidity can keep flowing to the most affected and vulnerable sectors—especially small and medium enterprises, as well as households.

Since the outbreak of the pandemic, OIC member countries have adopted 241 measures to support the financial sector. In line with the global trend, most of these measures were targeted to support the operation of banking sector and boost liquidity and flow of funds to ease the financial stress caused by the pandemic.

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[Slide 12]

To sum up, the impacts of the pandemic are not distributed evenly across OIC countries and are not easy to account for as the pandemic is still going on at varying intensities.

The OIC countries have so far implemented a diverse range of policies to counter the socio-economic impacts of the pandemic. Undoubtedly, it is a time to be proactive rather than reactive as the global nature of the pandemic dictates for collective national, regional, and international responses.

It is during these difficult times that the OIC member countries need to show more solidarity and formulate a joint Islamic action not only to slowdown and eradicate the spread of the pandemic but also to establish effective policies and measures to mitigate its post-effects.

Undoubtedly, by ensuring and strengthening intra-OIC, regional and international cooperation, OIC countries could restore confidence in their economies and thus make greater gains from international trade and investment opportunities.

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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 address the negative impacts of COVID-19 pandemic in our member countries.

I wish you a successful meeting and fruitful deliberations.

والسلام عليكم ورحمة الله وبركاته