Key Messages

October 2024 Regional Economic Outlook: Middle East & Central Asia

Navigating the Geoeconomic Landscape

Economies in the Middle East and North Africa and the Caucasus and Central Asia continue to navigate heightened uncertainties and vulnerabilities amid conflicts and an increasingly fragmented global geoeconomic landscape. The damage caused by these conflicts will leave lasting scars at their epicenters for decades. Additionally, oil production cuts are contributing to sluggish near-term growth in many economies. Even if some of these adverse factors gradually wane, medium-term growth forecasts are increasingly muted. Thus, decisive reform implementation is essential to raise growth potential. Stronger, more resilient growth will not only help create jobs and enhance inclusion but also support bringing down elevated debt ratios and open space to fulfill development and social spending aspirations.

Middle East and North Africa: Vulnerabilities remain high

- Growth in 2024 is expected to remain lackluster at 2.1% (–0.6 pp from April), mostly due to the impact of ongoing conflicts and prolonged voluntary oil production cuts. Uncertainty about when these factors will ease is high. To the extent they gradually abate, growth is forecast to recover in 2025 and reach 4% (–0.2 pp from April).
- Inflation has eased in MENA in line with global trends but remains elevated in some economies (Egypt, Sudan, Iran) due to country-specific challenges. Excluding these economies, inflation is projected to ease to 3.3% in 2024 and 3% in 2025.

MENA oil exporters

- Near-term growth is projected to strengthen (from 2.3% in 2024 to 4% in 2025), conditional on the expiration of oil production cuts in line with recent announcements. Still, medium-term growth is projected to moderate, as economic diversification reforms will take time to yield results. Inflation is low in most economies.
- Buffers remain comfortable, though fiscal and external surpluses have started to narrow amid ambitious investment strategies and falling oil revenues.

MENA oil importers

- MENA oil importers and Pakistan continue to grapple with conflicts (Gaza, Sudan), uncertainty, and high gross financing needs. As these gradually abate and oil prices ease, near-term growth will recover from 1.5% in 2024 to 3.9% in 2025. Yet, structural gaps will hold back productivity growth in some economies over the forecast horizon.
- External financing conditions remain tight. For LICs, international aid is plateauing.

Caucasus and Central Asia: Uncertainty on the horizon

- Growth is projected to remain broad-based and robust at 4.3% in 2024 (+0.4 pp from April) and 4.5% (–0.3 pp) in 2025. However, some economies have started to see tentative signs of slower trade and other inflows (especially remittances) related to Russia's war in Ukraine.
- Medium-term growth prospects for CCA oil exporters are weighed down by subdued oil production; growth projections in oil importers are contingent on effective reform implementation.
- Inflation continues to ease, falling to 6.9% this year and further to about 5% over the medium term.

Downside risks continue to dominate the outlook.

Adverse global risks, including geoeconomic fragmentation, commodity price volatility, conflicts, export restrictions, and climate shocks, could have significant impact, particularly for vulnerable economies with a limited capacity for shock absorption. Adverse shocks could also originate from within the MENA and CCA regions. If ongoing conflicts persist or expand, they could have lasting economic losses to affected areas. Economies implementing crucial structural reforms could face rising social discontent and political resistance, hindering policy execution and constraining growth. An abrupt reversal of trade and financial flows related to Russia's war in Ukraine could present significant risks to CCA economies.

Amid high uncertainty, policy prioritization will be essential.

*Accelerate **structural reforms**.* Structural reforms, especially in governance, are necessary to lift medium-term growth prospects and enhance resilience. Boosting job creation and labor market participation (particularly for women and youth), investing in more capital per worker, and raising overall productivity through policies to enhance macroeconomic stability and increase digitalization are essential (Chapter 2). Reducing trade barriers to harness trade benefits, diversifying products and markets to enhance economic resilience, and investing in infrastructure for new trade corridors will also be critical. Policies that facilitate improved competition within the financial sector and reduce the state's role in banking systems can increase private sector credit (Chapter 3).

*Focus **fiscal policy** on rebuilding buffers to cushion future shocks.* In all economies, ensuring fiscal sustainability, rebuilding buffers, and safeguarding social protection systems is essential. For countries facing high debt levels and financing needs, especially some EM&MIs, a concerted effort toward continuing fiscal consolidation is crucial to bring down debt burdens decisively. LICs should focus on ensuring fiscal sustainability while addressing food insecurity. Oil exporters need to focus on safeguarding buffers and fostering resilience.

*Use **monetary policy** to lock in low inflation.* Price stability should be maintained as the cornerstone of monetary policy, supported by clear communication and transparency in operations, and the independence of monetary policy should be ensured.

Key Numbers

$268.2 billion Projected 2025 public sector gross financing needs in MENA emerging markets and Pakistan (close to 100% of fiscal revenues), up from $260.6 billion in 2024

$47.7 billion New IMF financing to ME&CA countries since 2020

$13.4 billion New IMF financing to ME&CA countries approved since January 2024, including for programs in Egypt (augmentation of $5 billion under the Extended Fund Facility), Jordan ($1.2 billion Extended Fund Facility), and Pakistan ($7.2 billion Extended Fund Facility)

361 Number of technical assistance and capacity development projects in 31 ME&CA countries (totaling $32.6 million during FY 2023/24)

Middle East and Central Asia: Real GDP Growth

(Year-over-year percent change)

	2021	2022	2023	2024	2025
Middle East and Central Asia	4.4	5.5	2.1	2.4	3.9
Oil Exporters	4.3	5.6	2.0	2.5	4.0
Oil Importers	4.4	5.4	2.1	2.4	3.9
Emerging Market and Middle-Income Economies	4.8	5.9	2.3	2.6	3.7
Low-Income Countries	2.6	2.8	1.1	1.1	5.5
CCA	5.2	5.2	4.9	4.3	4.5
Oil Exporters	3.8	3.9	3.9	3.3	3.9
Oil Importers	8.1	7.7	6.8	6.1	5.5
Emerging Market and Middle-Income Economies	8.7	11.6	7.8	6.9	5.5
Low-Income Countries	7.9	6.5	6.5	5.8	5.5
MENA	4.2	5.5	1.9	2.1	4.0
Oil Exporters	4.4	5.8	1.7	2.3	4.0
Oil Importers	3.7	4.8	2.2	1.5	3.9
Emerging Market and Middle-Income Economies	4.0	5.4	3.2	2.4	3.8
Low-Income Countries	0.5	–0.1	–8.6	–8.3	5.5
MENA, Afghanistan, Pakistan	4.2	5.5	1.6	2.1	3.9

Sources: National authorities; and IMF staff calculations and projections.
Note: Regional output growth aggregates are purchasing-power-parity-GDP-weighted averages.
MENA=Middle East and North Africa; CCA=Central Asia and the Caucus.