

January 2024 Regional Economic Outlook Update
“Middle East and North Africa: Conflict Compounding Economic Challenges”

Press Remarks by

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January 31, 2024

The conflict in Gaza and Israel has sent shockwaves across the Middle East and North Africa. We are saddened by the loss of lives.

In addition to its devastating impact, the conflict is having adverse economic consequences on the broader MENA region. It erupted at a time when growth was already slowing in the region and compounded existing challenges. In particular, debt levels remain high, and inflation has not yet been sufficiently brought down in many economies. Today we are releasing a special update to the Regional Economic Outlook to reflect these and other developments in the Middle East and North Africa.

CONTEXT

The 2024 growth projection for the MENA region is revised downward by 0.5 percentage point from our October forecasts. We now project GDP to grow by **2.9 percent** in 2024 from already weak growth of 2.0 percent in 2023.

Various factors are weighing on activity.

- First, **the conflict in Gaza and Israel**. The IMF estimates that growth in West Bank and Gaza contracted to about –6 percent in 2023, a downgrade of 9

percentage points from October's projections. Neighboring countries—Egypt, Lebanon, and Jordan—also face a challenging outlook. In addition, the heightened security situation in the Red Sea has raised new concerns about the conflict's impact on trade and shipping costs.

- Second, **oil production cuts by several oil exporters**. These are weighing on overall GDP growth (especially in the GCC), even as non-hydrocarbon activity remains robust; and
- Third, **tight policy settings**. Restrictive macro policies remain essential to bring down high debt and elevated inflation in certain countries.

An encouraging development is that **inflation has continued to decline** in most MENA economies in line with global trends, except in some parts of the region due to country-specific challenges.

RISKS

Since last October, **uncertainty and downside risks for the region's economies have increased sharply**, with the duration of the conflict and scope for escalation still uncertain.

The **heightened security situation in the Red Sea** highlights the ongoing unpredictability and could entail a significant hit to shipping, regional trade, and possibly undersea internet cables.

Should the conflict escalate, a more severe or persistent **negative impact on tourism** could materialize.

Higher energy bills and borrowing costs from an unexpected tightening of regional financing conditions could also hold back growth.

And **fiscal spending** could rise to support vulnerable households and displaced families as well as to bolster security, particularly for economies close to the conflict.

POLICY RESPONSE

The appropriate policy response will depend on countries' exposure to the conflict, existing vulnerabilities, and policy space.

Where the impact of the conflict is acute or risks are elevated, crisis management and precautionary policies will be critical.

Elsewhere, countries will need to continue to fortify safeguards. Monetary policy will need to remain focused on price stability, and fiscal policy should be tailored to country needs and available fiscal space. Structural reforms to boost growth and strengthen resilience in both the near and longer terms remain critical.

WHAT IS THE IMF DOING TO HELP?

The IMF is ready and committed to supporting the region. We are already providing policy advice, technical assistance, and financing to MENA countries to help buffer against shocks and ease any necessary adjustment.

- Approved **\$27 billion** in financing to the MENA region since early 2020.
- In **Jordan**, a new four-year Extended Fund Facility was recently approved, unlocking \$1.2bn.

- **More broadly**, since the start of 2023, the IMF approved programs for **Egypt**, **Mauritania**, and **Morocco**. And **Somalia** successfully reached the Completion Point under the HIPC initiative.
- The IMF has also increased its **local presence in the region** by reopening its Middle East Regional Technical Assistance Center and setting up a new regional office in Riyadh, Saudi Arabia, which will further strengthen the IMF's engagement and partnership with the region.

QUESTIONS