Press Remarks

April 2024 Regional Economic Outlook: Middle East & Central Asia

An Uneven Recovery amid High Uncertainty

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Good morning, and welcome to the Middle East and Central Asia press briefing.

Let me start by giving you a summary of where things stand before taking your questions. I will make a few brief remarks to highlight **four points** from our report on the economic outlook for the Middle East and Central Asia.

First - *An uneven recovery is expected among MENA and CCA economies amid high* uncertainty. While inflation is receding in line with global trends in most countries, growth prospects are diverging between and within regions:

MENA: The new regional challenges are marked by geopolitical tensions. The conflict in Gaza and Israel has caused immense human suffering. In addition, Red Sea shipping disruptions and oil production cuts have added to existing vulnerabilities related to high debt levels and elevated borrowing costs.

Accordingly, growth is projected to remain subdued, improving moderately to 2.7 percent in 2024 (from 1.9 percent in 2023). This reflects a 0.7 percentage point downgrade from October 2023 projections as conflicts (Sudan, Gaza) and oil production cuts (GCC) weigh on activity.

In 2025, growth is projected to strengthen to 4.2 percent as the impact of these temporary factors is assumed to fade gradually.

- Among Gulf Cooperation Council members, nonhydrocarbon activity is set to be the main contributor to growth as countries continue to pursue economic diversification plans.
- Meanwhile, MENA emerging market and middle-income countries face rising fiscal pressures, with elevated interest payments eroding efforts to strengthen fiscal positions.
- In addition, conflicts are also adversely impacting activity in some fragile and low-income countries, though the tide may start to turn for a few of them, with economic conditions projected to improve in 2025 as growth-dampening factors gradually wane.

However, the potential lasting economic effects of conflict are an additional challenge for the region. Our analysis shows that conflict not only causes lasting human and social costs but can also lead to large and persistent output losses with potential spillovers to other countries.

CCA - The **CCA** economies exhibit continued resilience. Despite some moderation, growth is projected to remain robust at 3.9 percent in 2024 before picking up to 4.8 percent in 2025, owing in part to loosening macro policies, strong domestic demand, and idiosyncratic factors, such as oil production increases.

Over the medium term, growth is expected to remain relatively stable among oil importers, supported by strong domestic demand, while plateauing hydrocarbon production is projected to weigh on growth in oil exporters.

In addition, trade diversion is reshaping trade in the CCA region. Following the onset of the war in Ukraine, countries in the CCA have seen a shift in the direction of their trade flows.

Second*, inflation is receding in line with global trends.*

In MENA, inflation is approaching historical averages in many economies—with about one-third now close to or even below average—and monetary tightening cycles appear to have ended in most economies.

- After peaking in 2023, average inflation is forecast to ease to 15.4% in 2024 and 12.4% in 2025.
- These numbers partly reflect high inflation in Egypt and Sudan; excluding these economies, inflation is projected to average 8.8% in 2024 and 7.8% in 2025.

In the CCA, the majority of countries inflation is below or close to targets, providing room for some countries to begin or continue monetary easing.

- Inflation is forecast to ease from 7.7% in 2024 to 7.1% in 2025.

Third, ***vulnerabilities remain high, in a context of higher-than-usual uncertainties and elevated set of downside risks.***

- For **MENA region**, the conflict in Gaza and Israel remains a key downside risk, including the peril of further escalation or a protracted conflict. The others challenges and risks for MENA economies are related to oil price volatility (oil exporters), tension on trade and transportation, high debt and financing needs (EM&MIs), and recurrent climate shocks (LICs).

- For **CCA** economies the main risks stem from a slowdown in trading partners and a worsening geoeconomic conditions related to the war in Ukraine.

Fourth – we need to balance policy priorities in uncertain times. Policymakers face the difficult task of safeguarding macroeconomic stability and debt sustainability while navigating geopolitical challenges and improving medium-term growth prospects.

- **Monetary policy should remain vigilant**, being cautious of premature or excessive easing. In addition, it is essential to strengthen monetary policy frameworks and increase the transparency while ensuring central bank independence.
- Given the differences in public sector debt levels, **where debt levels are elevated, fiscal policy and active debt management would need to help bring them down decisively**. That said, amid marked differences across countries, careful tailoring by country is essential.
- The heightened uncertainty should encourage countries accelerate reforms to **fortify their fundamentals, including by strengthening institutions**.
- In addition, potential opportunities from new trade corridors can be seized by reducing long-standing trade barriers, diversifying products and markets, and improving infrastructure.

The IMF continues to engage closely with MCD member countries to provide policy advice, technical support, and financing.

- Approved more than **$40 billion** in financing since the onset of the pandemic; **$16 billion** since the start of 2023, including to Egypt, Jordan, Mauritania, Morocco, and Somalia.
- We have also increased our policy traction with MECA countries outside programs and we are scaling-up the implementation of our FCS strategy.
- The IMF has also continued to support MCD membership with about **350 technical assistance and capacity development projects**. Our CD budget has increased in the last two years by 38% reaching **$44 million** in FY 2024.

Many thanks for your attention.