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Middle East and North Africa: Conflict Compounding Economic Challenges[1]

The conflict in Gaza and Israel is yet another shock to the Middle East and North Africa (MENA) region. It is causing immense human suffering and exacerbating an already challenging environment for neighboring economies and beyond. This Update covers economies in the MENA region and does not discuss developments in Israel. Overall, the major factors weighing on regional growth in MENA are (i) the impact of the conflict; (ii) oil production cuts (even as robust non-oil sector activity continues to support growth in several oil exporters); and (iii) continued necessary tight policy settings in several economies. Social unrest has also picked up. Projected growth in the MENA region this year is downgraded by 0.5 percentage point to 2.9 percent (relative to the October 2023 *Regional Economic Outlook: Middle East and Central Asia),* from already weak growth of 2.0 percent in 2023. Primarily driven by the ongoing conflict in Sudan, average growth across low-income countries (LICs) in MENA is forecast to remain negative this year, continuing the estimated sharp decline in 2023. Disinflation is expected to continue in most MENA economies, although price pressures have proven persistent in some cases because of country-specific factors.

The outlook for the MENA region is highly uncertain, and downside risks are resurgent. An escalation or spread of the conflict beyond Gaza and Israel, as well as an intensification of the disruptions in the Red Sea, could have a severe economic impact, including on trade and tourism.

The appropriate policy response will depend on countries' exposure to the conflict, preexisting vulnerabilities, and policy space. Crisis management and precautionary policies will be critical where the impact is acute, or risks are elevated. Elsewhere, countries will need to continue to fortify buffers. 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 remain critical to boosting growth and strengthening resilience in both the near and longer terms.

Globally, Moderating Inflation and Steady Growth Open Path to Soft Landing

Globally, the recovery from multiyear shocks—the COVID-19 pandemic, Russia's invasion of Ukraine, and the cost-of-living crisis—is proving surprisingly resilient. Economic growth was stronger than expected in the second half of 2023 in the United States, China, and several major emerging market and developing economies (January 2024 *World Economic Outlook Update*). At the same time, inflation has fallen from its 2022 peak faster than expected, reflecting the role of favorable supply-side developments and of the actions of central banks in anchoring inflation expectations, and global financial conditions have loosened.

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Against this background, global growth in 2024 is projected to remain unchanged from 2023 at 3.1 percent and rise modestly to 3.2 percent in 2025. The forecast for 2024 is higher by 0.2 percentage point compared to the October 2023 *World Economic Outlook*. Nevertheless, this forecast remains below the historical (2000–19) average of 3.8 percent, as elevated central bank policy rates to fight inflation and the withdrawal of fiscal support to address high debt levels weigh on economic activity. Global headline inflation is expected to decline to 5.5 percent in 2024 and 4.4 percent in 2025. This forecast reflects a downward revision of 0.3 percentage point and 0.2 percentage point, respectively, and is the first cumulative two-year markdown in three years (since the January 2021 *World Economic Outlook Update*).

These projections assume that interest rates in major economies and fuel and nonfuel commodity prices will decline in 2024 and 2025. Annual average oil prices are projected to moderate by 2.3 percent in 2024 to about $79 per barrel, while nonfuel commodity prices are expected to fall by 0.9 percent, on average.

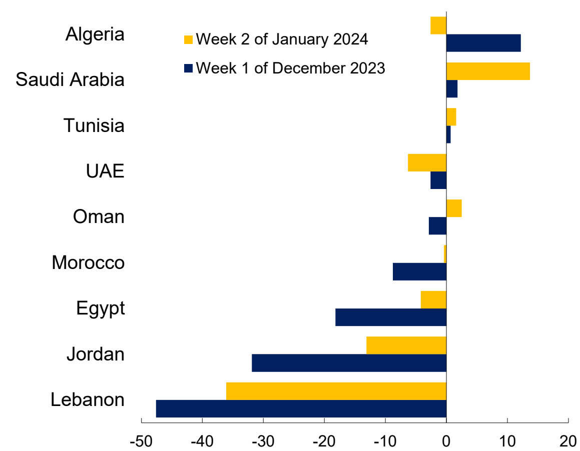
In the Middle East and North Africa, Existing Challenges are Compounded by Conflict

Economies in the MENA region endured a multitude of challenges in 2023. The October 2023 *Regional Economic Outlook: Middle East and Central Asia* projected slowing growth, driven by lower oil production, tight policy settings in many MENA emerging market and middle-income economies (EM&MIs), and the conflict in Sudan. In addition, natural disasters, such as floods in Libya and the earthquake in Morocco had devastating human and physical impacts. The conflict in Gaza and Israel, which began in early October 2023, is yet another blow to economies contending with existing challenges and heightened uncertainty.

Since the beginning of the conflict, a severe humanitarian crisis has unfolded in Gaza, where more than 24,000 people have lost their lives within the first 100 days of the conflict—of which more than two-thirds were women and children, and almost 1.9 million people (nearly 85 percent of the population) have been internally displaced.[2] Food and water insecurity is widespread, and essential infrastructure has been destroyed. Poverty rates have likely increased—from levels that were estimated at above 50 percent even before the current conflict (IMF 2023). Moreover, international assistance to support the humanitarian response to the conflict remains limited. In the West Bank, restrictions on the movement of people, goods, capital, and access to resources (especially land) have been tightened, with a severe deterioration of both security and economic conditions.

Figure 1. Hotel Occupancy

(Percent difference in the change in hotel occupancy rate)



Sources: Smith Travel Research; and IMF staff calculations.
Note: The occupancy rate is calculated as occupied rooms as a percent of available rooms. The percent difference is calculated as the change in the hotel occupancy rate between pre-conflict (the first week of October 2023) and (i) the first week of December 2023 (ii) and the second week of January 2024, versus the same period in 2022. UAE=United Arab Emirates.

The conflict has adversely impacted tourism in neighboring economies. Although hotel and flight indicators for the region had returned to 2019 levels before October, trends in hotel room occupancy rates following the onset of the conflict worsened sharply in Lebanon and Jordan, relative to the corresponding period in the previous year (Figure 1). Since tourism is a lifeline in many MENA economies—accounting for between 2 and 20 percent of GDP and between 5 and 50 percent of goods and services exports before the pandemic—it is also an important shock transmitter, and such adverse developments will inevitably dampen growth (see the October 2020 *Regional Economic Outlook: Middle East and Central Asia*).

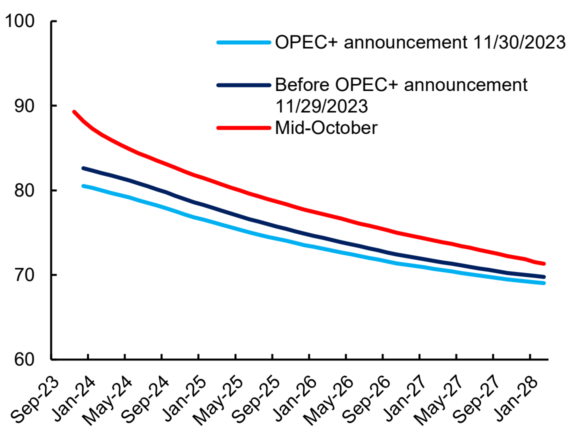
[2] Per data as of January 15, 2024 from the United Nations Office for the Coordination of Humanitarian Affairs.

Despite some initial pickup in volatility amid the onset of the conflict, energy and financial markets have remained broadly stable.

- Increased volatility associated with the conflict prompted a short-lived increase in oil prices. Nonetheless, prices quickly returned to below pre-conflict levels. Moreover, the late 2023 announcement of renewed voluntary oil production cuts by OPEC+ also had a minimal impact on oil prices (Figure 2).
- Financial markets have remained broadly stable, even though market participants initially priced in heightened geopolitical risk in the MENA region. Despite widening at the conflict's start, sovereign spreads have generally narrowed and are tighter compared to levels in early October before the conflict. After an initial acceleration in international portfolio outflows, net outflows from debt and equity funds in the region have reverted to pre-conflict levels (Figure 3).

Figure 2. Brent Futures Curves

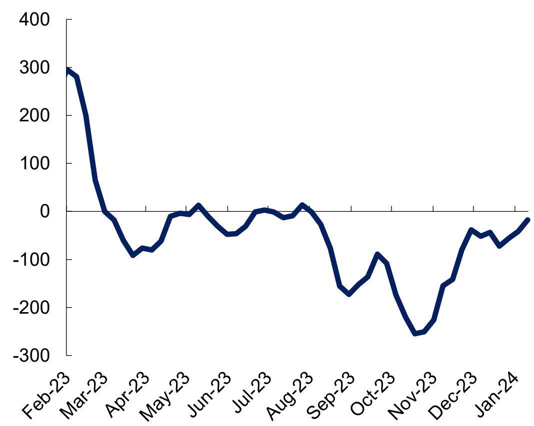
(US dollar per barrel)



Sources: Bloomberg L.P.; ICE Futures Europe; and IMF staff calculations.

Figure 3. Net Equity and Debt Portfolio Flows

(Million $; 4-week moving average)

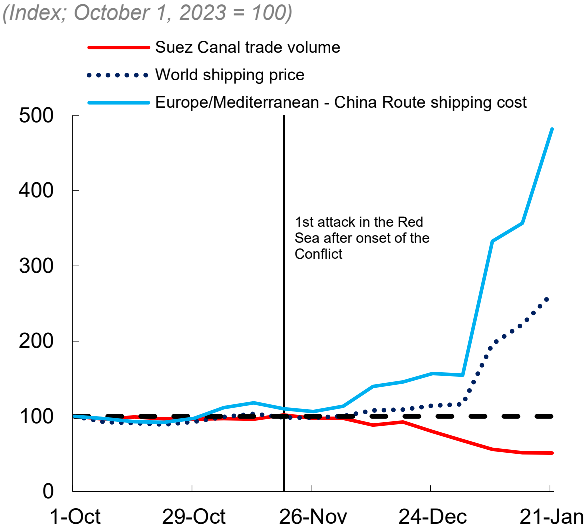


Sources: Haver Analytics; EPFR; and IMF staff calculations.
Note: Data cover Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, and Tunisia.

The heightened security situation in the Red Sea has raised concerns about the conflict's impact on trade and shipping costs**.** Several major shipping companies have announced they are diverting cargo through alternative shipping routes, with potential implications for global supply chains and commodity trade. In this respect, during the first half of 2023, trade going through the Suez Canal, connecting the Red Sea to the Mediterranean Sea, represented about 12 percent of global trade, including 30 percent of global container traffic, 10-15 percent of global seaborn cargo, and 8 percent of global liquified natural gas shipments. However, as of January 21, 2024, the 10-day cumulative shipping volume through the Suez Canal had dropped close to 50 percent relative to the previous year. In addition, freight costs for routes between Europe/Mediterranean Sea and China have surged by more than 400 percent since mid-November, likely reflecting a combination of increased insurance costs amid elevated security risks and higher transportation costs associated with longer shipping routes (Figure 4).

Figure 4. Impact of Red Sea Disruptions on Shipping Prices and Volumes

(Index; October 1, 2023 = 100)



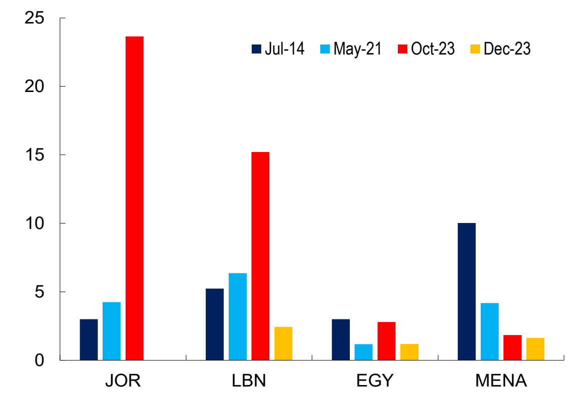
Sources: Bloomberg Finance L.P; PortWatch; and IMF staff calculations.
Note: Onset of the conflict refers to the start of the conflict in Gaza and Israel in October 2023. Shipping costs for the Europe/Mediterranean to China route are the average cost for shipments between ports in Europe and the Mediterranean and China and East Asia.

News reports also point to an increased prevalence of protests in some neighboring countries following the onset of the conflict (Jordan, Lebanon). That said, protests have been mostly peaceful, including in other MENA economies, and social unrest does not appear to have broadened beyond the immediate neighbors and has recently eased (Figure 5).

Meanwhile, the broad-based regional decline in inflation is a positive development. Inflation continues to ease in most MENA economies, including as monetary policy has remained tight, roughly in line with global developments. Specifically, estimates of natural policy interest rates suggest that the monetary policy stance was tight in many MENA economies in 2023. Moreover, month-on-month inflation—an indicator of inflationary momentum—is steadily declining (Figure 6), and core inflation has approached pre-pandemic historical averages for some oil exporters. Still, inflation is proving persistent in some economies, largely because of country-specific factors, including those related to foreign exchange shortages (Egypt) and monetary financing and cost-push pressures (Sudan). While inflation remains elevated in Lebanon, inflationary pressures have been moderating since mid-2023, supported by the end of monetary financing, which forced a balanced budget, and a stable exchange rate.

Even with the adverse shock from the conflict, non-oil growth momentum remains strong in Gulf Cooperation Council (GCC) economies. Notably, structural reforms by GCC members are supporting economic diversification while increased domestic demand and capital inflows are also contributing to growth. Moreover, despite a moderation in oil prices, slower global trade, and a boost to imports from rebounding domestic demand, current account surpluses remained at comfortable levels in 2023 after reaching historical highs in 2022. Fiscal balances also stayed healthy, supported by still-elevated oil prices and fiscal reforms (including expenditure restraint and continued efforts to bolster non-oil revenue).

Figure 5. Indicator of Social Unrest for Selected Episodes of Conflict

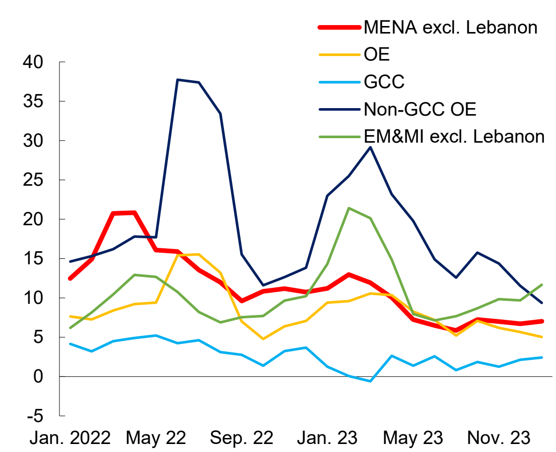


Source: Factiva; and IMF staff calculations.

Note: Bars reflect peak levels of unrest during episodes of heightened conflict between Israel and Hamas. 2014: unrest in MENA reflects Arab Spring events. 2021: a major outbreak of violence between Israel and Hamas commenced on May 10 and ended on May 21. 2023: conflict in Gaza and Israel. The social unrest index measures the daily number of news articles with specific social unrest-related keywords, relative to the total number of articles in a particular period. It is based on the methodology in Barrett and others 2020. The scale is normalized as follows: 0 = no unrest; 100 = maximum level of unrest in a given country during the past 20 years. MENA = Middle East and North Africa.

Figure 6. Headline Inflation

(Percent change, month-over-month, seasonally adjusted annualized rate, simple averages)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: EM&MI=emerging market and middle-income economies; GCC=Gulf Cooperation Council; MENA = Middle East and North Africa; OE=oil exporter.

New Headwinds Are Slowing the Recovery

Assuming that the conflict eases after the first quarter of 2024, growth in the MENA region is projected to improve moderately to 2.9 percent in 2024 (from 2.0 percent in 2023), a downgrade of 0.5 percentage point from the October 2023 *Regional Economic Outlook: Middle East and Central Asia*. This downgrade reflects mainly (i) the adverse implications of the conflict, which are compounding challenges for highly exposed economies, and (ii) additional voluntary oil production cuts. Moreover, these developments come on top of necessary tight policy settings in several economies, which are also weighing on growth. As the impact of these factors gradually fade and robust non-oil growth continues to support activity in oil exporters, growth in the MENA region is projected to strengthen to 4.2 percent in 2025.

At the same time, the outlook for the external position among MENA economies is deteriorating. Lower expected tourism and trade receipts are likely to weigh on current account balances. Meanwhile, oil production cuts provide a drag on the external position among oil exporters. Consequently, and driven in large part by the negative contribution from oil production cuts among GCC members, the aggregate current account balance of MENA economies in 2024 (a surplus of 3.9 percent of MENA GDP) is expected to shrink by about $25 billion (0.7 percentage point of MENA GDP), compared to the projections in the October 2023 *Regional Economic Outlook: Middle East and Central Asia*.

At the conflict's epicenter, the economic outlook has deteriorated sharply. In 2023, real GDP growth in West Bank and Gaza is estimated to have dropped to about –6 percent. This reflects a 9-percentage-point downgrade (from the October 2023 *Regional Economic Outlook: Middle East and Central Asia*), consistent with the fourth quarter recording of (i) an almost complete collapse of activity in Gaza and (ii) a deep contraction in the West Bank following the tightening of Israeli mobility restrictions and a deteriorating security situation. Meanwhile, inflation is estimated to have risen to above 15 percent on an annual basis at the end of December 2023, and the current account deficit is estimated to have remained sizable. In addition, the financial viability of the Palestinian Authority (PA) has been compromised by the economic contraction and the Government of Israel's decision to not transfer the full amount of monthly "clearance" revenues[3] to the PA as well as the PA's decision not to accept any partial transfer—undermining its ability to pay wages and social transfers, as well as security, education, and health services. Although the financial sector is sound, risks have risen, given its high exposure to the PA's finances, the destruction in Gaza, and the projected economic contraction. In 2024, under the assumption that the conflict gradually eases, positive growth is projected to resume from a very low base, and inflation is expected to gradually ease.

The conflict's immediate neighbors also face a challenging outlook:

- So far, Egypt's tourism sector has been less severely impacted than that of some other economies (Jordan, Lebanon). However, high-frequency tourism data show signs of a possible deterioration. In addition, with several shipping companies halting transit through the Red Sea, Egypt's foreign exchange flows may be adversely impacted, as Suez Canal revenues are an important source of foreign exchange for Egypt. Moreover, heightened uncertainty is expected to weigh on investor sentiment and net foreign direct investment inflows. Coupled with the sustained adverse impact of foreign exchange shortages on private sector activity, these factors are projected to negatively impact the external sector and economic growth. In turn, real GDP growth is projected to decline from 3.8 percent in 2023 to 3 percent in 2024 (a downward revision of 0.6 percentage point relative to the October 2023 *Regional Economic Outlook: Middle East and Central Asia*).
- Reflecting positive underlying fundamentals, the Jordanian economy is growing, albeit at a moderate pace. However, the conflict has had an adverse impact on tourism arrivals and consumer spending. Against this background, growth in 2023 and 2024 is projected to be held back at around 2.6 percent in both years, compared to earlier projections of closer to 3 percent growth in 2024. In addition to the conflict's adverse effects on tourism-related sectors, these projections also reflect lower investment and slowing regional import demand. As a result, the current account deficit is expected to narrow less than previously projected (to 6.3 percent of GDP), mainly due to lower travel receipts and higher energy imports.
- In Lebanon, the conflict is deepening complex challenges. Tourism, driven by the large diaspora, is expected to remain weak. Moreover, agricultural output—concentrated in the country's south, which is directly impacted by the conflict—is also being negatively affected. Consequently, real GDP growth is projected to have contracted further in 2023, before rebounding slightly in 2024, while the current account deficit is widening.

[3] Revenues on Palestinian economic activity and trade collected by Israel on behalf of the PA per the 1994 Paris Protocol.

Besides the conflict, several MENA EM&MIs are navigating a number of existing headwinds, including high deficits, exchange and interest rate pressures, and constrained access to external financing. For example, in Tunisia, fiscal financing needs are expected to remain large absent strong progress on reforms.

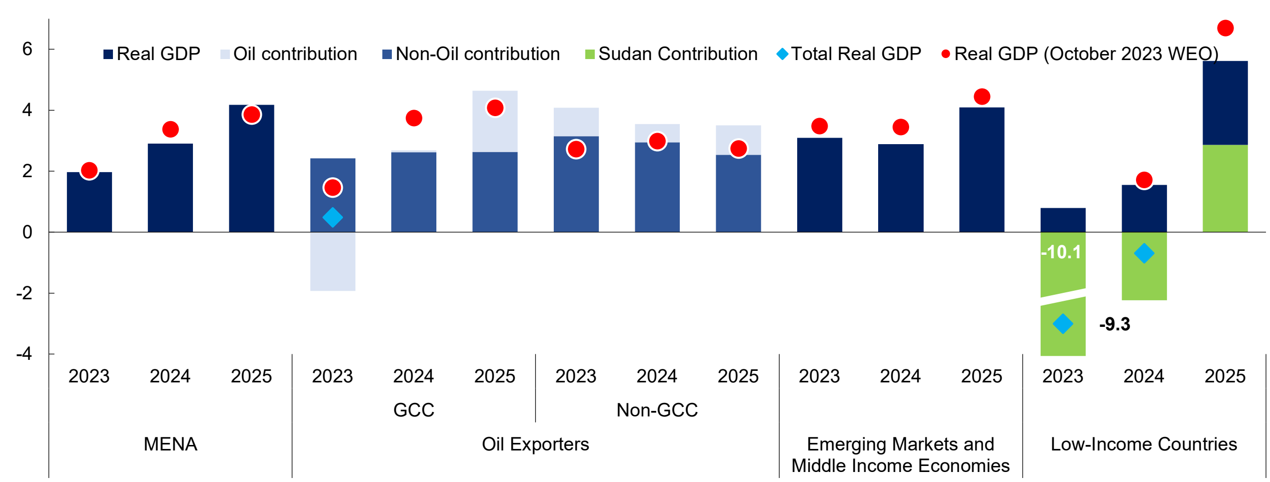
The exception is Morocco, where growth is expected to have accelerated to about 3 percent in 2023—reflecting strong tourism revenues and a rebound in domestic demand—and inflation continued its gradual descent. This momentum is projected to continue in 2024 under the assumption of a regular agriculture season.

Growth prospects for this year in low-income countries (LICs) are not encouraging. A lack of foreign exchange availability, high inflation, and weak agricultural output has constrained growth in some economies (Sudan, Yemen). Notably, the conflict in Sudan has intensified the humanitarian crisis, and economic activity has come to a halt in large swathes of the country, contributing to continued negative growth, on average, among LICs in 2024 after a sharp contraction in 2023.[4] In Djibouti, the recovery is dependent on trade with Ethiopia, and the economy is highly exposed to the attacks in the Red Sea, particularly because port activity is a main driver of economic activity. Mauritania's outlook is strong, supported by higher-than-expected gold production.

Non-oil growth remains robust in most oil exporters, but additional voluntary oil production cuts are putting a damper on overall growth. Reform momentum has allowed some oil exporters, especially GCC countries, to continue diversifying their non-oil sectors. Yet, overall GCC growth has been revised down markedly to 0.5 percent in 2023 (1 percentage point lower than in the October 2023 *Regional Economic Outlook: Middle East and Central Asia*), reflecting oil production cuts, before moderately rebounding to 2.7 percent in 2024 as the drag from oil production cuts gradually fades (Figure 7). In particular, growth in Saudi Arabia—an economy that accounts for about 55 percent of the most recent OPEC+ voluntary cuts—has been revised down to -1.1 and 2.7 percent for 2023 and 2024, respectively. In contrast, growth has been revised up for some non-GCC oil exporters, including the Islamic Republic of Iran and Libya, mainly reflecting higher-than-projected oil production.

Figure 7. Real GDP Growth Projections

(Percent change, year-over-year)



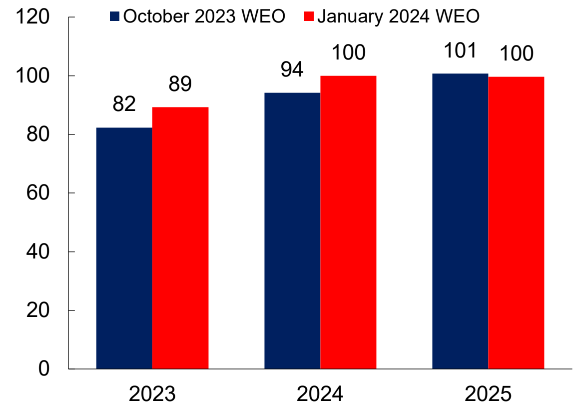
Sources: IMF, January 2024 *World Economic Outlook*; and IMF staff calculations.
Note: Real GDP dark blue bars for MENA LICs exclude Sudan. GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

In line with global trends, inflation is expected to continue moderating in most MENA countries. Specifically, inflation in MENA is expected to moderate to 14.4 percent this year, 0.6 percentage point lower than the

[4] Projections for Sudan are premised on the war ending in mid-2024 and on reengagement with the international community.

projection in the October 2023 *Regional Economic Outlook: Middle East and Central Asia*. Across MENA oil exporters, headline inflation is forecast to average 8.7 percent in 2024 and 7.9 percent in 2025. This forecast reflects a projected decline in inflation to below 3 percent across GCC countries, even as price pressures persist in some non-GCC countries (Algeria, Islamic Republic of Iran). Meanwhile, inflation is set to remain elevated across EM&MIs at 25.6 percent in 2024 and across LICs at 69.9 percent (especially in Egypt, Sudan, and Yemen), driven by country-specific factors. In turn, food insecurity remains prevalent in several LICs (Djibouti, Mauritania, Somalia, Sudan, and Yemen).

Figure 8. EM&MI Public Gross Financing Needs
(Percent of fiscal revenue, simple average)



Sources: IMF, January 2024 *World Economic Outlook*; and IMF staff calculations.
Note: EM&MI = emerging market and middle-income economies in the Middle East and North Africa; WEO = *World Economic Outlook*.

In addition to the adverse impact of the conflict, elevated public sector gross financing needs are expected to remain a significant challenge for most EM&MIs. Total financing needs over 2024 are projected at $186 billion (up from $156 billion in 2023), an increase of about 6 percentage points of fiscal revenues compared to projections in the October 2023 *Regional Economic Outlook: Middle East and Central Asia* and mostly attributable to Egypt and Tunisia (Figure 8). These still-high financing needs for EM&MIs are expected to be covered mainly through domestic bank financing and, as such, will likely intensify sovereign-bank linkages. Meanwhile, external financing would contribute only a small portion, as limited market access for highly indebted countries remains a constraint.

While stronger revenues have helped to narrow primary deficits in EM&MIs and LICs, spending rationalization plans have faced implementation challenges. In turn, and reflecting low growth, debt levels in these economies have remained elevated and are forecast to decline only modestly over the next two years.

Increased Downside Risks

Uncertainty and downside risks for the region's economies have risen significantly since October, with the duration of the conflict and scope for escalation still uncertain. Even if the conflict remains contained to Gaza and Israel, the situation remains fluid and highly uncertain. The drone attacks in the Red Sea in December 2023 highlight the unpredictability. With an escalation of the conflict, a more severe or persistent negative impact on tourism could materialize. Higher energy and borrowing costs from an unexpected tightening of regional financing conditions could also hold back growth. On the fiscal side, expenditures could rise amid needs to support vulnerable households and displaced families and to bolster security, particularly for economies in close proximity to the conflict.

A protracted conflict with no clear solution would weigh heavily on the region. An escalation or spread of the conflict would exacerbate uncertainty and intensify the impact through various transmission channels, including tourism, foreign direct investment, and energy and financial markets. Risks include several developments:

- Financial markets could tighten, and sovereign borrowing costs increase. Risk premiums and external funding conditions could worsen, with greater net portfolio outflows and a more substantial economic impact on highly indebted countries. Further reliance on domestic financing would exacerbate the sovereign-bank nexus. Foreign direct investment flows could suffer, as elevated uncertainty reduces the appetite for medium-term investment opportunities.

- Shipping and regional trade could experience adverse impacts. Shipping companies are already diverting away from Middle East transit routes in response to drone attacks in the Red Sea and the Gulf of Aden, and insurance rates have risen. Egypt is particularly exposed, as the country generates about 2.2 percent of GDP in annual balance-of-payment receipts and 1.2 percent of GDP in fiscal revenue from Suez Canal dues (based on FY 2022/23). If the conflict intensifies, risks to other trade routes could rise, particularly the Eastern Mediterranean Sea and other trade distribution channels (air traffic). Sanctions or other trade restrictions could also be tightened, disrupting global trade flows and supply chains. Moreover, freight costs could rise further if tensions persist and shipping companies shift a larger part of their trade toward longer alternative routes, elevating fuel and operational costs.
- Oil prices could rise. The MENA region produces about 35 percent of world oil exports and 14 percent of gas exports. A large and sustained spike in energy costs, stemming for example from shipping disruptions, would imply an adverse supply shock to the global economy and could jeopardize the global disinflation process. However, such oil price increases may be mitigated by regional oil producers tapping into spare capacity (amounting to nearly 85 percent of global spare capacity),[5] and by other countries that could release strategic oil stock to offset the shortfall. At the same time, higher oil prices would support growth in oil exporters.
- Political tensions and social unrest could rise, including amid elevated unemployment rates. In addition to the adverse impact on output, growing tensions and unrest could increase pressure on fiscal balances amid the need to address underlying social discontent (such as through energy subsidies). Social unrest could also prompt authorities to delay structural reform implementation, thus reducing medium-term growth prospects.
- The conflict could trigger large refugee flows, with spillovers to the broader region, Europe, and beyond. This scenario would entail additional near-term fiscal costs for host countries and could create social tensions, especially if the local refugee population grows markedly. Given their proximity, countries neighboring the conflict are more exposed to potential refugee flows.

In more extreme, but low-probability, risk scenarios, additional country-specific factors could also come into play. These scenarios include tighter sanctions on the Islamic Republic of Iran, blockades of key regional oil and gas shipping routes (for example, the Strait of Hormuz),[6] and attacks on major oil and gas infrastructure. In such cases, oil and gas prices could rise sharply. However, spare oil capacity or the release of strategic oil stock could help mitigate the impact. Demand and supply factors would ultimately prevail over risk-premium price increases.

The Policy Response

Amid greater-than-usual uncertainty, the appropriate policy responses will depend on the extent of exposure to the conflict, preexisting vulnerabilities, and policy space. Where the impact is acute or risks are elevated, it is even more important to let the exchange rate be the automatic stabilizer and help absorb the shock. Monetary policy should maintain focus on ensuring price stability in accordance with central bank mandates. Crisis management measures, such as central bank emergency liquidity support, may be needed in the event of systemic financial stress. Fiscal policy should be tailored to country needs to accommodate additional spending pressures while maintaining debt sustainability. In this regard—and especially if fiscal budgetary room is inadequate and public debt is high—expenditure rationalization and revenue-led fiscal consolidation may need to be considered. Financing needs are also likely to grow for several countries amid increased demand for security and social spending and heightened uncertainty. The IMF remains a strong partner to the region and stands ready to step up its support.

[5] Data as of October 2023 from Bloomberg and Rystad.

[6] Despite increased rhetoric about closing the Strait of Hormuz during past conflicts, such threats have never materialized.

Countries bracing for a potential shock should not lose sight of the reform agenda, especially considering existing structural challenges. In addition, monetary and financial sector policies should remain prudent and calibrated to country-specific needs with a view to strengthen resilience.

- Monetary policy should remain focused on ensuring price stability. In countries with a flexible exchange rate, monetary policy should remain tight if inflationary pressures persist. Where inflation has returned to or is near targets, monetary easing may be cautiously considered where needed. If inflation in MENA economies declines faster than expected, central banks may be able to ease monetary policy sooner. Countries with a fixed exchange rate should make monetary policy decisions in accordance with their frameworks.
- Fiscal policy should be tailored to country needs and available fiscal space. All countries should ensure that social protection systems and spending are ringfenced and targeted to reach the most vulnerable. MENA EM&MIs that need to strengthen fiscal balances and bring down public-sector debt levels should continue consolidating their public finances, including by containing current spending and mobilizing additional revenue. MENA commodity exporters should avoid procyclical spending and pursue a fiscal policy consistent with ensuring intergenerational equity and sustainability.
- Precautionary macroprudential policies and medium-term reforms can be critical for ensuring financial stability. For example, reforms to deepen the financial sector would strengthen liquidity conditions and help spur investment and growth. Some GCC countries have established new frameworks or agencies to regulate and closely monitor the real estate sector and associated risks and have implemented measures to strengthen the anti–money laundering/combating the financing of terrorism frameworks. All MENA countries would benefit from stepping up efforts to foster a more diversified investor base and improve the management of state-owned banks.
- Structural reforms are essential to lift longer-term growth prospects and can also help support near-term economic activity. As discussed in the October 2023 *Regional Economic Outlook: Middle East and Central Asia*, strengthening governance can be particularly valuable in many MENA economies and would be instrumental in fostering an economic environment that promotes private investment. Strong institutions contribute to investor confidence.

International coordination and cooperation are critical for addressing ongoing, long-term common challenges, including climate change, not least amid times of geopolitical tensions. In this respect, the landmark agreement at the United Nations COP28 meetings in the United Arab Emirates (UAE) to transition away from fossil fuels in a just, orderly, and equitable manner is encouraging. Notably, the agreement includes the first significant pledges to loss and damage funding, amounting to $792 million. On mitigation strategies, commitments were made to double energy efficiency and triple the amount of renewable capacity. Further progress was also made on bolstering climate finance with $3.5 billion added to the Green Climate Fund and $30 billion from the UAE (in partnership with BlackRock, TPG, and Brookfield) for a climate investment fund.

The IMF is committed to supporting the region. The IMF stands ready to provide policy advice, technical assistance, and financing to MENA countries to help cushion against shocks and ease any necessary adjustment. Since early 2020 and through mid-January 2024, the IMF has provided more than $27 billion in financing to the MENA region. In Egypt, staff continues to engage with the authorities on the policy and financing package that could support moving forward with the program reviews of the Extended Fund Facility. In Jordan, after discussions that started in mid-2023, a new four-year Extended Fund Facility arrangement was approved in January 2024, unlocking $1.2 billion. In Lebanon, the delivery of intensive technical assistance continues. More broadly, since the beginning of 2023, IMF programs were approved for Mauritania (Extended Credit Facility and Extended Fund Facility; Resilience and Sustainability Facility) and Morocco (Flexible Credit Line; Resilience and Sustainability Facility). In December 2023, Somalia obtained $4.5 billion in debt relief upon reaching the Completion Point under the enhanced Heavily Indebted Poor Countries Initiative, and a new arrangement under the Extended Credit Facility was approved. The IMF also continues to engage through its Resident Representative offices and has 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.

MENA: Selected Economic Indicators, 2000–25

(Percent of GDP, unless otherwise indicated)

	Average				Projections	
	2000–20	2021	2022	2023	2024	2025
MENA[1]						
Real GDP (percent change, year-over-year)	3.9	4.1	5.6	2.0	2.9	4.2
of which non-oil growth	4.8	4.4	4.5	3.2	3.5	3.8
Current Account Balance	6.3	4.2	10.3	5.3	3.9	3.5
Overall Fiscal Balance	1.2	–1.7	3.6	0.1	–1.3	–1.1
Inflation (percent change, year-over-year)	7.4	14.0	14.4	16.5	14.4	11.6
Oil exporters						
Real GDP (percent change, year-over-year)	3.9	4.4	6.0	2.0	3.1	4.1
of which non-oil growth	5.0	4.8	4.4	3.8	3.9	3.7
Current Account Balance	9.0	7.1	14.6	7.4	5.8	5.1
Overall Fiscal Balance	2.8	–0.3	6.0	1.4	0.3	0.2
Inflation (percent change, year-over-year)	6.8	11.3	13.0	12.0	8.7	7.9
Gulf Cooperation Council						
Real GDP (percent change, year-over-year)	3.8	3.8	7.8	0.5	2.7	4.6
of which non-oil growth	5.4	5.6	5.5	3.8	3.9	4.0
Current Account Balance	12.1	8.9	16.1	9.0	7.4	6.9
Overall Fiscal Balance	5.4	0.7	7.9	3.7	3.2	3.3
Inflation (percent change, year-over-year)	2.2	2.2	3.3	2.5	2.3	2.0
Non-GCC oil exporters						
Real GDP (percent change, year-over-year)	4.0	5.3	3.6	4.1	3.5	3.5
of which non-oil growth	4.6	3.8	3.0	3.9	3.8	3.3
Current Account Balance	3.9	2.7	10.6	3.9	2.5	1.4
Overall Fiscal Balance	–1.3	–2.8	1.1	–3.9	–5.8	–6.1
Inflation (percent change, year-over-year)	12.7	24.3	27.5	25.7	17.6	16.0
Oil importers[1]						
Real GDP (percent change, year-over-year)	3.7	3.3	4.4	1.8	2.5	4.3
Current Account Balance	–4.0	–5.1	–5.4	–3.5	–4.7	–3.9
Overall Fiscal Balance	–5.6	–6.0	–5.3	–5.1	–8.1	–7.3
Inflation (percent change, year-over-year)	8.8	20.6	17.9	28.2	29.6	21.3
Emerging market and middle-income countries[1]						
Real GDP (percent change, year-over-year)	4.0	3.7	5.1	3.1	2.9	4.1
Current Account Balance	–4.0	–4.8	–4.7	–2.8	–4.3	–3.4
Overall Fiscal Balance	–5.9	–6.6	–5.7	–5.4	–8.9	–8.1
Inflation (percent change, year-over-year)	7.1	7.0	11.1	22.6	25.6	19.8
Low-income developing countries						
Real GDP (percent change, year-over-year)	1.9	0.5	–0.4	–9.3	–0.7	5.6
Current Account Balance	–3.9	–8.1	–11.9	–9.7	–8.8	–8.0
Overall Fiscal Balance	–3.1	–0.3	–2.2	–2.6	–1.6	–1.3
Inflation (percent change, year-over-year)	20.4	171.7	80.7	85.8	69.9	35.0

Sources: National authorities; and IMF staff calculations and projections.

[1]2011–25 data exclude Syrian Arab Republic.

Notes: Data refer to the fiscal year for the Islamic Republic of Iran (March 21/March 20) and Egypt (July/June).

MENA: Algeria, Bahrain, Djibouti, Egypt, Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, West Bank and Gaza, and Yemen.

Oil exporters: Algeria, Bahrain, Islamic Republic of Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

Non-GCC oil exporters: Algeria, Islamic Republic of Iran, Iraq, and Libya.

Oil importers: Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Somalia, Sudan, Syrian Arab Republic, Tunisia, West Bank and Gaza, and Yemen.

Emerging market and middle-income countries: Egypt, Jordan, Lebanon, Morocco, Syrian Arab Republic, Tunisia, and West Bank and Gaza.

Low-income developing countries: Djibouti, Mauritania, Somalia, Sudan, and Yemen.

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Appendix 1. Country Groupings

Middle East and North Africa (MENA) includes Algeria, Bahrain, Djibouti, Egypt, the Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates, West Bank and Gaza, and Yemen.

MENA oil exporters (OE) include Algeria, Bahrain, the Islamic Republic of Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

MENA oil importers (OI) include Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Somalia, Sudan, the Syrian Arab Republic, Tunisia, West Bank and Gaza, and Yemen.

MENA emerging market and middle-income economies (EM&MIs) include Egypt, Jordan, Lebanon, Morocco, the Syrian Arab Republic, Tunisia, and West Bank and Gaza.

The Gulf Cooperation Council (GCC) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Non-GCC oil-exporting countries include Algeria, the Islamic Republic of Iran, Iraq, and Libya.

Low income developing countries include Djibouti, Mauritania, Somalia, Sudan, and Yemen.