1. Regional Developments and Economic Outlook: Charting a Path through the Haze[1]

1.1. Global Context: Extraordinarily Uncertain Times

Since the October 2024 *Regional Economic Outlook: Middle East and Central Asia,* the global economic landscape has changed and new shocks are threatening the global economy. The announcement and implementation of a series of new tariff measures by the United States in early April and countermeasures by trading partners, brought effective tariff rates to levels not seen in a century. The unpredictability with which these measures have been unfolding can severely impact economic activity, although their complexity and fluidity make it difficult to incorporate them into an internally consistent and timely set of projections.

Under the reference point that incorporates information as of April 4, projections for global economic growth in 2024 have been revised downward by 0.4 percentage point since October. Growth in the United States is expected to slow by 1 percentage point in 2025 compared with last year, as high uncertainty and trade tensions contribute to a softer demand outlook. Growth in the euro area is expected to fall more modestly in 2025 and pick-up somewhat in 2026, as projected fiscal easing in Germany partly offsets the negative impact of rising uncertainty, higher tariffs, and tighter financial conditions. In emerging markets and developing economies, growth is projected to slow by 0.5 percentage point this year relative to 2024 and hover just above 4 percent over the medium term, with a notable downward revision for China's near-term outlook amid higher tariffs. At the same time, progress on disinflation is expected to stall in many advanced economies. In this context, the US federal funds rate is now projected to reach its estimated long-term equilibrium of 2.9 percent in the first quarter of 2029—almost three years later than previously expected in October. Oil prices are expected to decline in 2025 to $66.9 per barrel, nearly $6 below the October projection, as the gradual phase-out of OPEC+ oil production cuts and strong supply growth from non-OPEC+ countries are expected to outpace subdued global oil demand growth amid expectations of weaker global economic prospects (Box 1.1).

These projections are subject to significant downside risks. A trade war and prolonged trade policy uncertainty, particularly related to multiple changes in tariffs, could further hinder near- and medium-term growth. If inflation persists in some countries or regains upward momentum because of new policies, central banks may maintain interest rates at higher levels than currently anticipated, resulting in capital outflows and tighter financial conditions, especially for emerging market and developing economies facing debt distress. The resilience shown by many large emerging market economies may prove temporary, as servicing high debt levels becomes more challenging in a deteriorating global environment.

1.2. MENA Region and Pakistan: A More Challenging Outlook

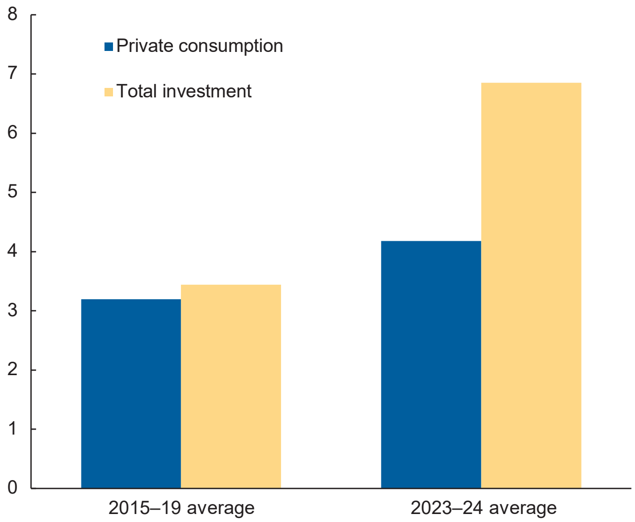
Recent growth trends indicate a divergence between oil-exporting and oil-importing economies in the Middle East and North Africa (MENA) region and Pakistan. In 2024, most oil exporters successfully navigated a complex and uncertain economic landscape, aided by ongoing diversification efforts, despite reduced oil activity because of extended OPEC+ voluntary production cuts. By contrast, the ongoing conflicts in the MENA region and their spillover effects have weighed on growth in several oil-importing economies. Looking ahead, economic activity in the MENA region and Pakistan is still projected to strengthen, but at a considerably slower pace than anticipated in October, reflecting spillovers from escalating global trade tensions and heightened uncertainty, which are adding to a more gradual resumption of oil production, a slower-than-anticipated resolution of conflicts in the region, and slower-than-expected progress of structural reforms, especially in Egypt.

[1] This chapter was prepared by Apostolos Apostolou, Vizhdan Boranova, Bronwen Brown, Steven Dang, Hasan Dudu, Eliakim Kakpo, Borislava Mircheva (co-lead), Karmen Naidoo, Salem Nechi, Thomas Piontek (co-lead), and Subi Suvetha Velkumar.

MENA Oil Exporters

Recent Developments: Robust Non-oil Activity Helped Offset Weak Oil Production

Figure 1.1. GCC: Real Private Consumption and Total Investment Growth
(Year-over-year percent change; weighted averages)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Total investment includes both public (including from sovereign wealth funds) and private investment. GCC = Gulf Cooperation Council.

Despite a further decline in oil activity because of extended OPEC+ voluntary production cuts and sanctions on the Islamic Republic of Iran, half of the oil-exporting countries in the region saw higher growth in 2024, underpinned by robust non-oil economic activity. The impact of conflicts in the region, including tensions in the Red Sea, was largely muted, allowing trade, investment, and tourism flows to remain mostly unaffected. Consequently, growth in MENA oil exporters was 2.2 percent in 2024 (a 0.1 percentage point downward revision from October), broadly unchanged from 2023 (2.1 percent).

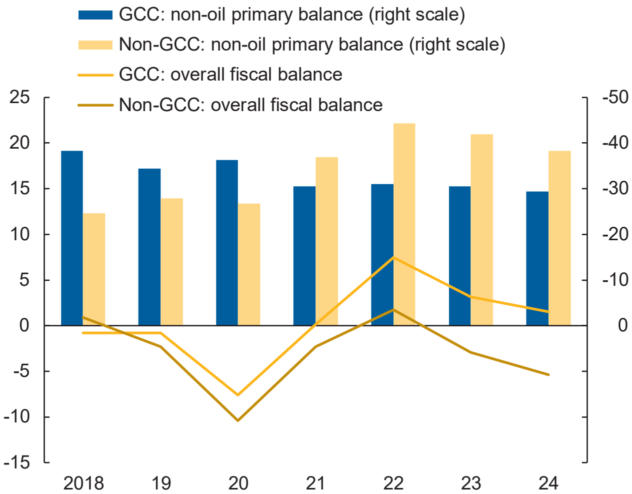
The strong non-oil growth rate in most oil exporters in 2024 (3.4 percent) was driven by different factors across economies. In most Gulf Cooperation Council (GCC) countries, favorable oil prices, domestic investment by the sovereign wealth fund (Saudi Arabia), and the implementation of ambitious diversification reforms contributed to increased private consumption and investment (Figure 1.1). Business environment reforms started to yield positive results, with inward foreign direct investment (FDI) increasing by nearly 2 percentage points of GDP during 2023–24 compared with prepandemic levels (Box 1.2). Outside the GCC, non-oil activity was boosted by fiscal stimulus in Algeria, while financing constraints led to a more moderate fiscal expansion than previously anticipated in Iraq.

MENA oil exporters capitalized on stronger economic activity and favorable energy prices to tighten their fiscal policy stance somewhat last year. Non-oil primary deficits improved by 2 percentage points of non-oil GDP in 2024 compared with the previous year, mainly because of lower investment and higher non-oil revenues (Figure 1.2, panel 1). Although GCC fiscal stances have improved relative to prepandemic levels, non-GCC economies (Algeria, Iraq, Libya) remain significantly above their prepandemic (non-oil) fiscal deficits because they have not fully unwound the measures implemented to support salaries, subsidies, and transfers over the past few years. Despite the small improvements in non-oil balances, lower oil revenues led to a deterioration in overall fiscal balances for oil exporters, worsening by 6.4 percentage points of GDP from their peaks in 2022 (Figure 1.2, panel 1). Regarding monetary policy, with inflation rates falling below 2 percent, most central banks in the GCC pivoted to cutting policy rates in line with the Federal Reserve's easing cycle, consistent with their pegs to the US dollar. In non-GCC economies, inflation moderated in Algeria, Iraq, and Libya because of lower food prices, but only Iraq cut its policy rate. Inflation in the Islamic Republic of Iran remained elevated because of a sharp depreciation of the rial and the reimposition of sanctions.

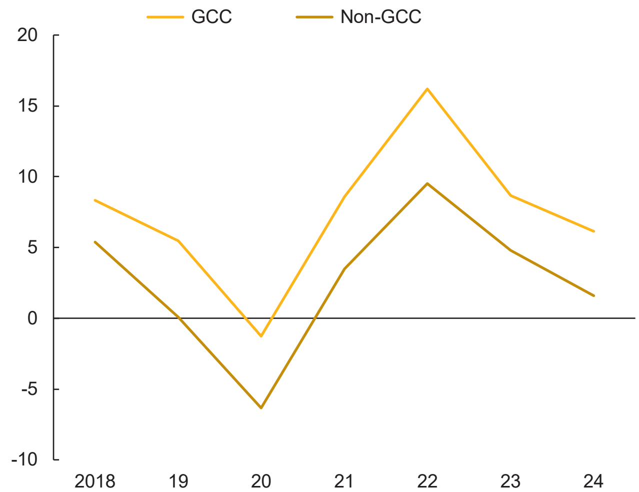
Stronger domestic demand and oil production cuts led to generally weaker external positions for MENA oil exporters in 2024. Current account surpluses are estimated to have declined by 10 percentage points of GDP from their peaks in 2022 for GCC countries and by about 8 percentage points of GDP for non-GCC economies (Figure 1.2, panel 2). External surpluses have been invested abroad and accumulated as international reserves, although the degree of accumulation varies among oil exporters. As part of their strategy to diversify funding sources and finance reform implementation (IMF 2024), GCC countries tapped international bond markets in 2024 (Bahrain, Qatar, Saudi Arabia, United Arab Emirates). As a result, most oil exporters maintained comfortable foreign reserve buffers.

Figure 1.2. MENA Oil Exporters: Fiscal and Current Account Balances
(Percent of GDP; percent of non-oil GDP for non-oil primary balance; weighted averages)

1. Fiscal Balance



2. Current Account Balance



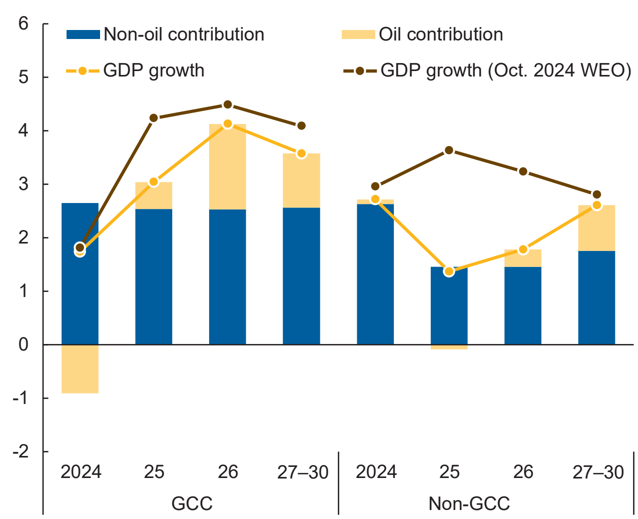
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

Outlook: Paths Are Diverging for Oil Exporters

The economic outlook is increasingly divergent between GCC and non-GCC oil exporters (Figure 1.3):

- *GCC*. Growth is projected to strengthen in 2025 and 2026, though by less than expected last October, because of the extension of OPEC+ voluntary oil production cuts through April 2025, their more gradual phase-out through end-2026, and lower non-oil growth. Non-oil growth is expected to be supported by ongoing infrastructure projects and diversification efforts, although it has been revised down compared to expectations in October, because of a recalibration of investment spending plans resulting from softer oil prices—further amplified by the decline in oil prices from the recent escalation of trade tensions—as well as the overall expected impact of heightened global uncertainty on consumer and business sentiment. The direct impact of changes in tariffs is generally limited because of the tariff exemption on energy exports and the limited non-oil exports to the United States (Box 1.3). Over the medium term, growth is set to be supported by natural gas expansion in Oman, Qatar, Saudi Arabia, and the United Arab Emirates (IMF 2024). Inflation is expected to remain anchored at about 2 percent, and fiscal policy to become less growth supportive as fiscal consolidation progresses. Non-oil fiscal balances are set to strengthen because of efforts to rationalize spending and increase non-oil revenues, including potentially through the introduction of a global minimum tax for multinational enterprises across the GCC and a personal income tax in Oman, along with tax administration reforms aimed at broadening the tax base in Oman, Saudi Arabia, and the United Arab Emirates. Despite the resumption of oil production,

Figure 1.3. MENA Oil Exporters: Real GDP Growth
(Year-over-year percent change; contributions in percentage points; weighted averages)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Projections from the Oct 2024 WEO are up to 2029. GCC = Gulf Cooperation Council; MENA = Middle East and North Africa; WEO = World Economic Outlook.

robust domestic demand and lower oil prices are expected to continue narrowing current account surpluses over the medium term. Still, the GCC's substantial external reserves, ongoing reform momentum, and strengthened policy frameworks provide significant buffers against global uncertainty.

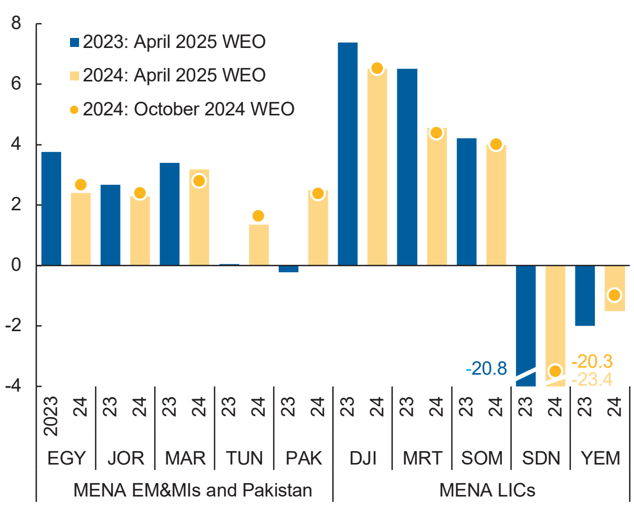
- *Non-GCC oil exporters*. Growth is expected to fall by more than 1 percentage point in 2025, marking a significant downward revision (more than 2 percentage points) compared to October, before a modest recovery in 2026. This downward revision for 2025 reflects a significant reduction to our oil production projections because of the extension of voluntary oil production cuts (Iraq), the tightening of sanctions on the Islamic Republic of Iran (which also affect Iraq's gas imports and electricity production), and lower non-oil growth from suppressed public investment due to the decline of oil prices (Algeria, Iraq). Non-oil growth will also be affected by efforts to unwind the expansionary fiscal policies implemented during 2021 and 2022 and to rein in rising public debt over the medium term (Algeria, Iraq). Inflation is expected to moderate gradually but remain elevated in the Islamic Republic of Iran. Current account surpluses are projected to narrow over the next few years because of subdued oil growth and declining oil prices.

MENA Oil Importers and Pakistan

Recent Developments: Conflicts Are Dampening Growth

The ongoing conflicts in the MENA region have inflicted profound humanitarian costs and left deep economic scars. In Sudan, the conflict that began in April 2023 has led to the internal displacement of about 9 million people, with close to 4 million fleeing to neighboring countries.[2] In Gaza, by the end of 2024 and after 15 months of war, more than 48,000 fatalities had been recorded, nearly 90 percent of the population was displaced, and more than two-thirds of structures were either damaged or destroyed (OCHA 2025a). In Lebanon, about 4,300 people had been killed and almost 100,000 displaced as of February 2025 (OCHA 2025b), down from a peak of more than 1 million at the height of the conflict. In Syria, more than 600,000 civilians have been killed since the onset of the revolution in March 2011, 16.7 million people—about 70 percent of its population—need humanitarian assistance, and 7.2 million people are internally displaced (SOHR 2024; OCHA 2025c).[3] Food insecurity is compounding the situation, though some limited relief has come through official development assistance (Box 1.4).

Figure 1.4. MENA Oil Importers and Pakistan: Real GDP Growth
(Year-over-year percent change)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. EM&MI = emerging market and middle-income economy; MENA = Middle East and North Africa; LIC=low-income country.

The economic impact of the conflicts has been severe for many MENA oil importers. For the economies affected directly—Lebanon, Sudan, West Bank and Gaza, and Yemen—the economic contraction is estimated (with limited data) at nearly 40 percent in Sudan, 30 percent in West Bank and Gaza, 8 percent in Lebanon, and 3 percent in Yemen between 2022 and 2024. In Syria, the economic contraction is estimated at nearly 60 percent since the start of the civil war in 2011. Spillover effects from these conflicts have affected some countries in the region adversely. Egypt and Jordan's growth slowed compared with 2023 (Figure 1.4). In Egypt, disruptions in the Suez Canal led to a sharp contraction in fiscal revenues and restricted trade, while foreign exchange shortages and contractionary monetary policy weakened confidence

[2] Data are from United Nations High Commissioner for Refugees (UNHCR), Operational Data Portal: Sudan Situation, accessed March 3, 2025, https://data.unhcr.org/en/situations/sudansituation.

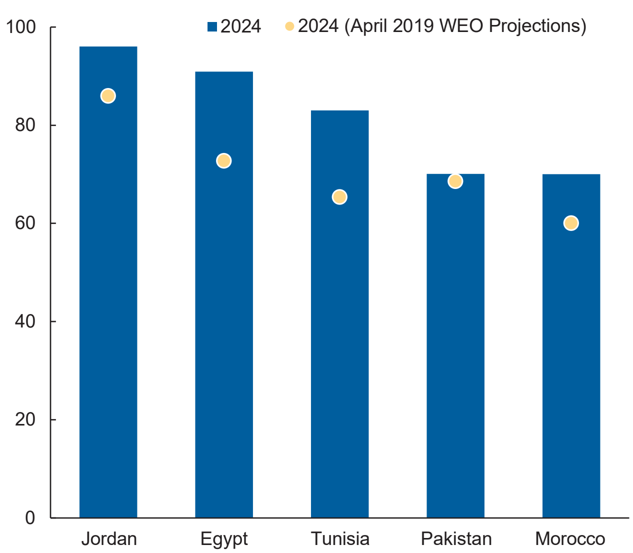
[3] Aryn Baker. "How Many People Have Died in Syria's Civil War?" *New York Times*, December 11, 2024. https://www.nytimes.com/2024/12/11/world/middleeast/syria-civil-war-death-toll.html.

and constrained investment. In Jordan, the conflict affected tourism receipts negatively, with domestic consumption and investment also affected by heightened uncertainty. Only a few oil importers managed to avoid adverse impacts, mostly because of their geographical distance from the conflicts and low trade integration with conflict-affected economies. Morocco experienced robust domestic demand, as private consumption rebounded thanks to lower inflation and fiscal support, while the initiation of multiple infrastructure projects boosted investment. Tunisia benefited from sustained tourism inflows and remittances, Pakistan recorded stronger agricultural production and an economic recovery following the floods in 2023, and Mauritania's non-extractive sectors performed robustly.

Fiscal positions have remained largely in deficit for oil importers directly affected by the conflicts. In 2024, fiscal revenues in Sudan, West Bank and Gaza, and Yemen continued their deep losses (with a cumulative average decline of 7 percentage points of GDP since 2022), squeezing expenditures. Sudan and Yemen remain in debt distress, with debt at unsustainable levels or in arrears.[4] Lebanon recorded a fiscal surplus in 2024 following years of deep economic crisis, supported by enhanced revenue mobilization, even amid increased expenditure pressures during the second half of the year.

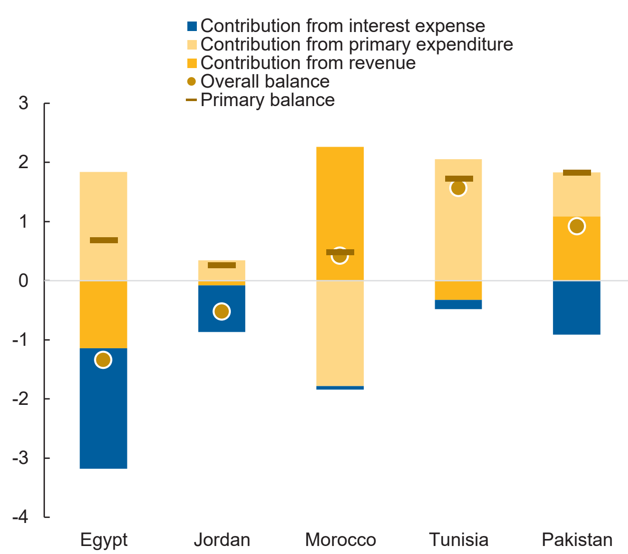
In Egypt, spillovers from the conflict in Gaza and Israel, along with rising borrowing costs, have complicated the overall fiscal consolidation efforts initiated since the pandemic. The larger fiscal deficit in 2024 reflected underperforming revenues because of declining Suez Canal tax receipts and a higher debt service burden, with interest expenses exceeding 9 percent of GDP—about 2 percentage points higher than in 2023. These challenges have undermined fiscal consolidation efforts, even as tight spending controls led to a higher primary fiscal surplus in 2024 (though lower than expected in October). Similarly, progress with fiscal consolidation in Jordan also slowed in 2024 because of the conflict, with lower fiscal revenues from weaker domestic demand and a sharper-than-expected drop in the prices of key export commodities, along with higher interest expenses. Public debt levels in both countries have reached historically high levels in recent years, currently averaging about 90 percent of GDP, exceeding prepandemic projections by between 10 and 20 percentage points (Figure 1.5).

Figure 1.5. MENA EM&MIs and Pakistan: General Government Debt, 2024
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Pakistan prepandemic projection was adjusted to factor in a GDP rebasing in 2022. EM&MI = emerging market and middle-income economy; MENA = Middle East and North Africa; WEO = World Economic Outlook.

Figure 1.6. MENA EM&MIs and Pakistan: Changes in Overall and Primary Balance, and Contributions, 2023–24
(Percent of GDP; contributions in percentage points)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Overall and primary balances and total revenues exclude grants. EM&MI = emerging market and middle-income economy.

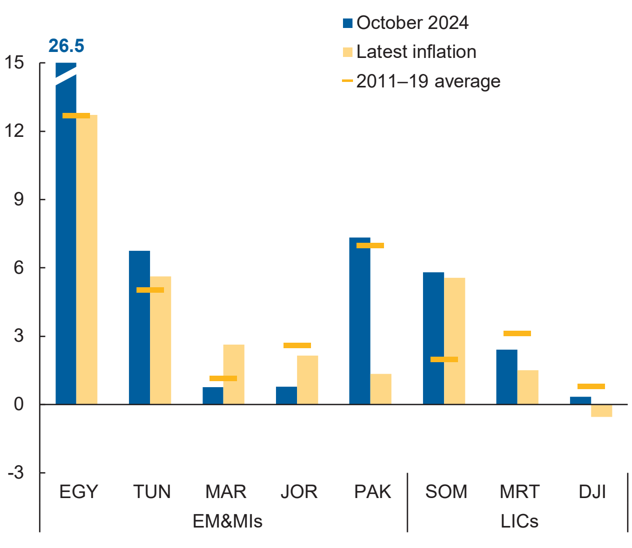
[4] Sudan entered the Heavily Indebted Poor Countries initiative process, but the process has stalled since then.

By contrast, fiscal positions continued to improve in oil importers not affected by ongoing conflicts (Mauritania, Morocco, Pakistan, Somalia, Tunisia; Figure 1.6). The primary balance in these economies increased by 1.4 percent of GDP on average in 2024 compared with 2023, supported by successful efforts to boost tax revenues through tax policy and administration reforms, and efforts to rationalize spending, including reductions to subsidies (Morocco, Pakistan). In Pakistan, higher interest expenses—which rose by about 0.9 percent of GDP compared with the previous year—muted the consolidation effort.

Inflation declined across most MENA oil importers, mainly because of lower food inflation. However, supply shocks related to conflicts and foreign exchange disruptions kept inflation levels above historical averages in some economies (Somalia, Sudan, West Bank and Gaza, Yemen; Figure 1.7). In Lebanon, the large reduction in inflation in 2024 was mainly because of the continuation of tight monetary policy, a stable exchange rate, a high degree of de facto dollarization, and lower food prices, although those gains were somewhat offset by conflict-related supply constraints later in the year. Lower inflationary pressures prompted some countries to loosen monetary policy—since October, Pakistan cut its policy rate by 550 basis points and Morocco and Tunisia by 50 basis points.

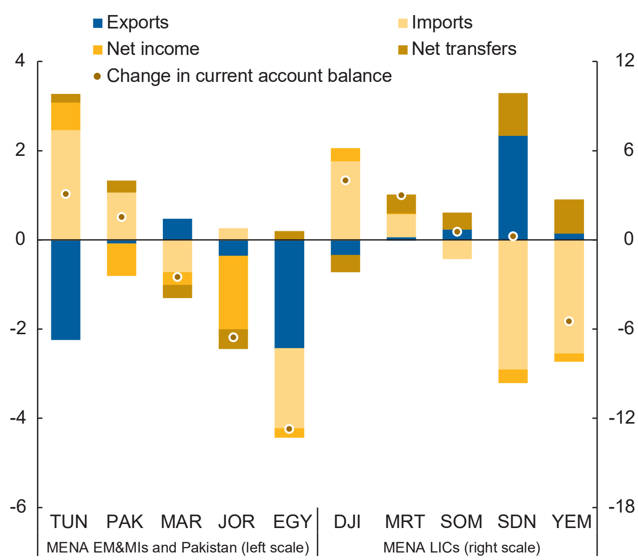
On the external front, stark differences emerged among MENA oil importers. Current account balances fell in economies directly affected by conflicts. For example, Yemen's current account deficit widened with higher essential imports and the continued suspension of oil exports amid the ongoing conflict, while Sudan's deficit was limited by binding funding constraints and resilient gold exports. Egypt and Jordan saw rises in their current account deficits, reflecting the conflicts' spillover impacts on their trade balances. Among oil importers not directly affected by conflict, Morocco's current account also deteriorated, with stronger domestic demand fueling import growth (Figure 1.8). By contrast, the current account balances of other economies increased in 2024, supported by a combination of factors: lower imports and stronger remittance inflows (Pakistan, Tunisia); higher transshipment services (Djibouti) and gold prices (Mauritania); and rising remittances and grants (Somalia). Substantial FDI helped finance external deficits in some countries, such as the Ras El-Hekma property development deal in Egypt and manufacturing-related FDI in

Figure 1.7. MENA Oil Importers and Pakistan: Headline Inflation
(Year-over-year percent change, period average)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. Data for EM&MIs are as of February 2025, and LICs as of December 2024. EM&MI = emerging market and middle-income economy; LIC = low-income country; MENA = Middle East and North Africa.

Figure 1.8. MENA EM&MIs, LICs, and Pakistan: Drivers of Changes in Current Account Balance, 2023–24
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. EM&MI = emerging market and middle-income economy; LIC = low-income country; MENA = Middle East and North Africa.

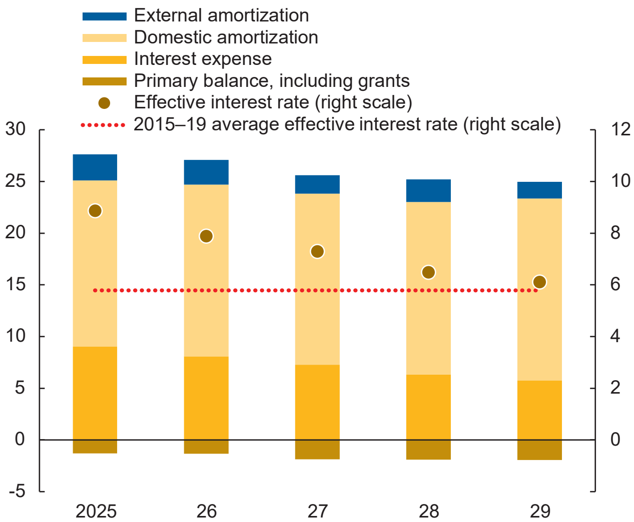
Morocco (Box 1.2). While no countries tapped international markets last year, Egypt and Morocco issued foreign currency denominated sovereign bonds in the first quarter of 2025 (for $2 billion and $2.2 billion, respectively). Overall, reserve coverage—measured in months of prospective imports—is expected to remain adequate and above prepandemic levels for most economies while below adequacy levels for a few (Djibouti, Sudan, Yemen).

Outlook: A Growth Rebound amid Continued Headwinds from Conflicts

Growth in MENA oil importers is projected to increase to 3.4 percent in 2025, with a gradual strengthening expected over the medium term. Rising global trade tensions and high global economic uncertainty are adding to the lingering impacts of conflicts to weaken growth prospects compared to last October, although higher tariffs are generally expected to have a limited direct effect (Box 1.3).

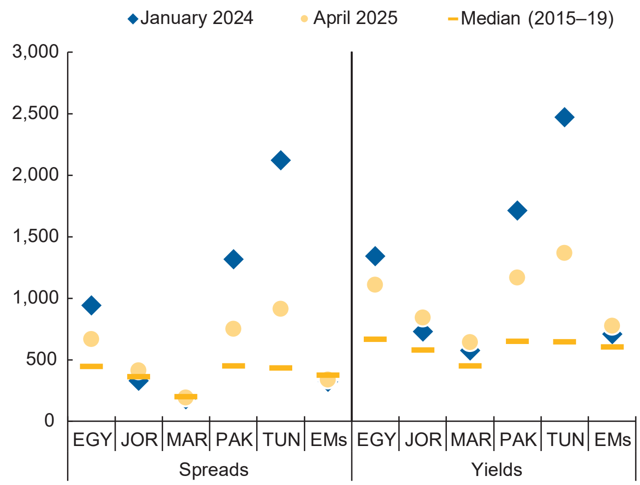
- Growth rates in economies directly affected by conflicts in the region (Lebanon, Sudan, West Bank and Gaza, Yemen) are projected to improve in 2025, even if remaining negative in some cases (Sudan, Yemen). This anticipated improvement is primarily attributed to a base effect, reflecting a smaller negative impact of the conflict on output levels compared to 2024, rather than an assumption of a gradual resolution of the conflict. In Yemen, for example, projections now assume that the conflict will continue in 2025 and 2026, with growth expected to remain unchanged at –1.5 percent this year and flat in 2026. Over the medium term, resolving the conflict should facilitate a resumption of Yemen's oil exports and improve the current account balance, whereas substantial reconstruction needs in Sudan are expected to weaken its external balance over the medium term. Nonetheless, official reserves in both countries are projected to remain below adequacy metrics throughout the projection period.
- In economies experiencing spillovers from conflict (Egypt, Jordan), economic activity is expected to pick up but remain modest in 2025. Slower-than-expected progress on structural reforms in Egypt and residual spillover effects from the lingering conflict (Egypt, Jordan) will continue to weigh on growth, with Jordan also affected by reduced foreign assistance going forward and heightened trade uncertainty due to its exposure of exports to the US market. Over the medium term, an improvement in the regional security situation is projected to lead to a gradual recovery in exports, Suez Canal activity, and tourism inflows, resulting in a narrower current account deficit, especially in Egypt.
- Growth in some economies not affected by ongoing conflicts is expected to increase in 2025, driven by stronger investment (Morocco) and robust external demand (Tunisia). Growth for Pakistan is expected to remain broadly unchanged in FY 2025, reflecting a 0.6 percentage point downward revision from October because of weaker activity during the first half of FY 2025 and heightened trade uncertainty more than offsetting the positive impact of recent and further expected monetary easing over the second half of this year. In other countries not affected by conflict, robust growth is projected over the medium term. Djibouti is projected to maintain growth above 5 percent, fueled by port-related activities, while Mauritania is expected to benefit from an uptick in gas, gold, and iron ore production. In Somalia, growth is expected to increase as structural reforms pay off and access to financing improves. Nonetheless, declining grants and remittances are expected to weaken external balances. Growth projections for some economies have been revised downward slightly from the October forecast, reflecting an anticipated slowdown in external demand stemming from downward revisions for the global economy.
- Inflation is projected to continue easing in 2025 and beyond, in line with global trends. This decline is attributed to favorable base effects (Egypt, Pakistan), reduced commodity and food price pressures (Morocco), and the lagged impact of tighter monetary policy (Egypt). Among the economies affected by conflict directly, inflation is projected to remain elevated (Sudan, Yemen) because of continued supply constraints.
- Fiscal consolidation is expected to continue at a gradual pace, reflecting ongoing efforts to reduce public debt. However, for many MENA EM&MIs and Pakistan, borrowing costs are expected to remain elevated, with effective interest rates projected to remain above prepandemic averages (Figure 1.9). Although sovereign spreads on external debt have tightened across EM&MIs—albeit widening substantially for highly-indebted economies amid rising global trade policy uncertainty—maturing debt would likely need to be refinanced at higher yields (Egypt, Jordan, Pakistan, Tunisia) (Figure 1.10). In this context, total gross public financing needs for MENA EM&MIs and Pakistan are projected to rise to $263 billion in 2025 (from $249 billion in 2024) and then to $303 billion by 2029 ($38 billion above expectations in October). This situation heightens debt sustainability risks, leaving these economies vulnerable to shifts in investor sentiment and rising global uncertainty (Chapter 2). For MENA

Figure 1.9. MENA EM&MIs and Pakistan: Gross Public Financing Needs
(Percent of GDP; interest rates in percent)



Sources: IMF, Regional Economic Outlook database; and IMF staff calculations.
Note: Effective interest rate is defined as interest payments divided by debt stock at the end of the previous period. EM&MI = emerging market and middle-income economy; MENA = Middle East and North Africa.

Figure 1.10. MENA EM&MIs and Pakistan: Sovereign External Debt Spreads and Yields
(Basis points)



Sources: Bloomberg Finance L.P; and IMF staff calculations.
Note: Government bond yields and spreads are from JPMorgan Global Bond Index—Emerging Markets. Data labels in the figure use International Organization for Standardization (ISO) country codes. EM = emerging market; EM&MI = emerging market and middle-income economy; MENA = Middle East and North Africa.

low-income countries (LICs), important revenue mobilization efforts—including tax policy reform in Mauritania and enhanced customs automation and tax administration in Somalia—are expected to partly offset the impacts of lower foreign aid and contain primary fiscal deficits over the medium term. However, gross financing needs for LICs are projected to rise sharply from $2.8 billion in 2025 to $5.7 billion by 2029, driven primarily by high reconstruction needs in Sudan that will require substantial foreign assistance.

1.3. Caucasus and Central Asia: Growth Momentum Faces Vulnerabilities

Economies in the Caucasus and Central Asia (CCA) experienced stronger-than-projected growth in 2024, driven by stronger-than-expected domestic demand and infrastructure investment. However, growth in the region is projected to slow, owing to waning spillovers from the war in Ukraine and plateauing hydrocarbon production growth. Inflation has been trending downward for most economies and is projected to remain generally within established targets over the medium term.

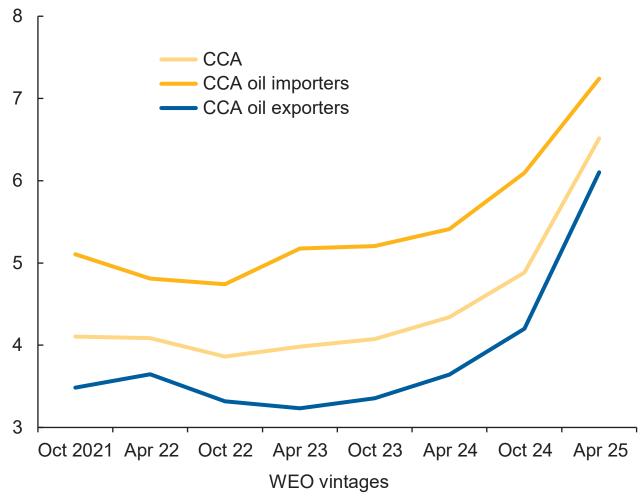
Recent Developments: Growth Has Continued to Outperform Expectations

Growth in 2024 increased to 5.4 percent from 5 percent in 2023, with oil exporters and importers seeing upgrades of about 1 percentage point each relative to the October forecasts (Figure 1.11). This positive momentum was supported by stronger-than-expected domestic demand, driven by stronger and longer-lasting positive spillovers from the war in Ukraine and, in some cases, by fiscal expansion (Kazakhstan). Private consumption, in particular, exceeded expectations, supported by rising real wages (Georgia, Kyrgyz Republic, Tajikistan, Uzbekistan), accelerating credit expansion, and resilient net remittances (Figures 1.12, 1.13). Investment, especially in infrastructure, energy, and mining, also played a key role in sustaining the growth momentum. While oil exporters saw sharper-than-expected contractions in oil production—primarily because of unplanned maintenance in oil fields in Kazakhstan in the second half of 2024—their growth was bolstered by an increase in non-oil activity, which was 2.3 percentage points stronger than projected in October. This improvement was evident across various sectors, including construction, transport, mining, and services, all of which generally showed steady gains.

Inflation has generally declined, but differences in levels remain significant. In Armenia, Georgia, the Kyrgyz Republic, and Tajikistan, lower commodity prices and tight monetary policies helped reduce and stabilize inflation at or below target levels. However, some economies continued to experience above-target inflation rates. Inflation in Turkmenistan rose to 4.8 percent because of external price pressures. Higher administered energy prices in Uzbekistan and expansionary fiscal policies in Kazakhstan contributed to near double-digit inflation rates. Consequently, Kazakhstan's central bank has raised its policy rate by 225 basis points since November, while Uzbekistan's monetary policy stance has remained restrictive.

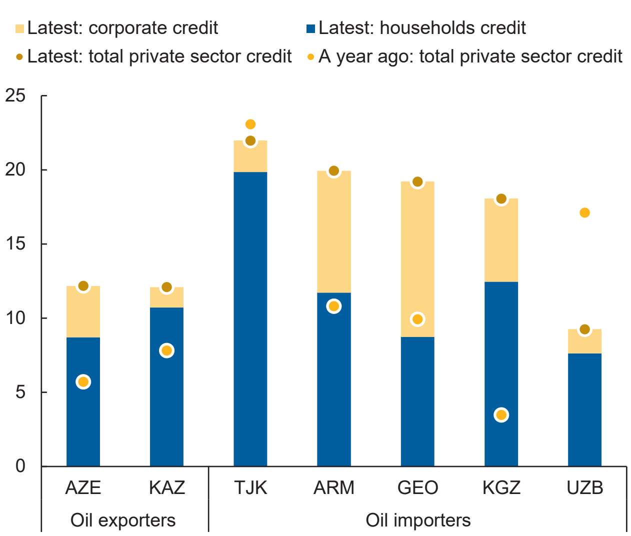
Fiscal positions in the region diverged between oil importers and oil exporters. Oil importers continued their fiscal adjustment after the pandemic, narrowing their primary deficits to 1.5 percent of GDP on average in 2024, down from 2.6 percent in 2023, marking a cumulative adjustment of nearly 3 percentage points of GDP since 2020. Supported by robust growth and sustained fiscal consolidation, public debt-to-GDP ratios continued to decline, falling by more than 9 percentage points on average from about 45 percent in 2020. The primary driver of this fiscal adjustment was spending compression amid persistent inefficiencies in public spending. Tax revenues, especially from value-added tax (Armenia, Uzbekistan), fell short of expectations, exacerbated by low tax compliance and a proliferation of

Figure 1.11. CCA: Evolution of 2024 Growth Projection
(Year-over-year percent change; weighted averages; non-oil GDP growth for oil exporters)



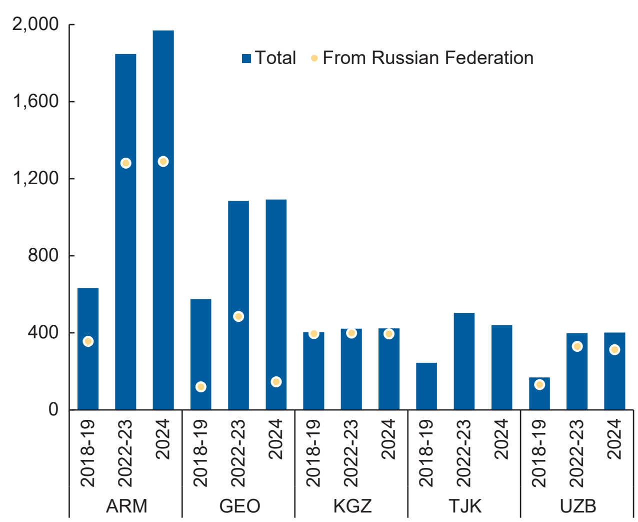
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia; WEO = World Economic Outlook.

Figure 1.12. CCA: Private Sector Credit Growth and Contributions, Latest Period Available
(Percentage points; 12-month moving averages)



Sources: IMF, International Finance Statistics database; Haver Analytics; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. Latest data for Georgia and Kazakhstan are as of February 2025; for Armenia, Azerbaijan, and Uzbekistan as of January 2025; for Tajikistan and Kyrgyz Republic as of September 2024.

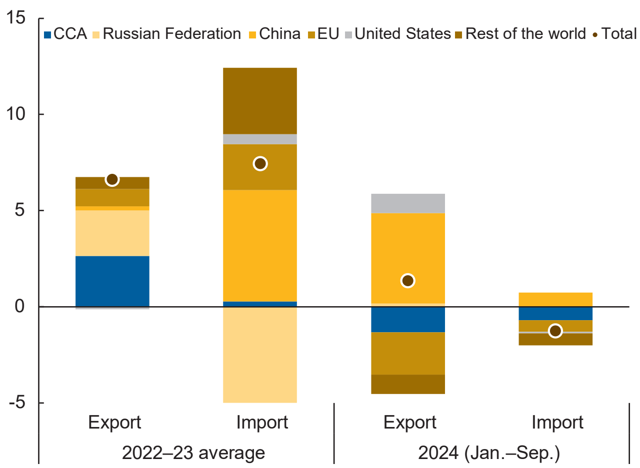
Figure 1.13. CCA: Inward Remittances
(US$ per capita)



Sources: Haver Analytics; national authorities; IMF, Balance of Payments database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. Data are not available for inward remittances from the Russian Federation to Tajikistan.
CCA = Caucasus and Central Asia.

Figure 1.14. CCA: Non-oil Export and Import Growth by Trading Partner

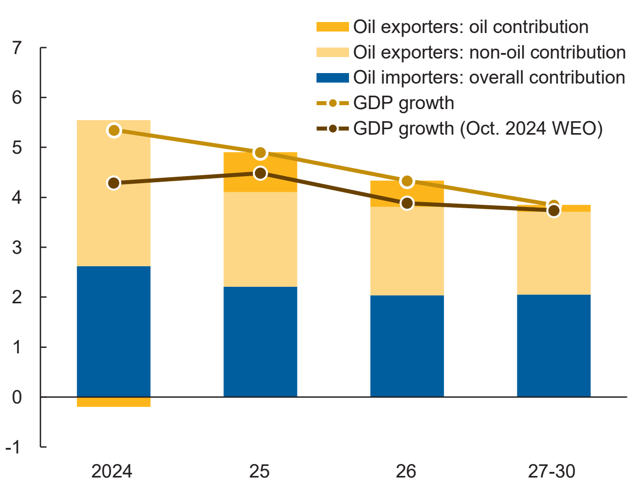
(Year-over-year, percent change; contributions in percentage points)



Sources: UN, COMTRADE database; and IMF staff calculations.
Note: The Kyrgyz Republic, Tajikistan, and Turkmenistan are not included because of data issues. Trade of precious metals, energy, and vehicles are excluded. CCA = Caucasus and Central Asia; EU = European Union.

Figure 1.15. CCA: Real GDP Growth and Contributions

(Year-over-year percent change; contributions in percentage points; weighted averages)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Projections from the Oct 2024 WEO are up to 2029. CCA = Caucasus and Central Asia. WEO = World Economic Outlook.

tax incentives (Uzbekistan), especially in the rapidly growing services sector. By contrast, among oil exporters, Kazakhstan loosened its fiscal positions in 2024, but public debt levels for this group of countries remained low, averaging about 20 percent of GDP.

External balances for oil importers strengthened in 2024, driven by continued export growth (though at a slower pace than in the previous two years amid shifting trading partners) along with decelerating imports and robust net remittance inflows (Figure 1.14). By contrast, current account balances for oil exporters remained broadly unchanged, with lower surpluses in Azerbaijan and Turkmenistan offset by a smaller deficit in Kazakhstan, reflecting lower imports from Russia. These developments, together with higher gold prices (Kyrgyz Republic, Tajikistan, Uzbekistan), have led to improved reserve coverage for most CCA economies, which remained at adequate levels.

Outlook: Momentum is Set to Slow

Growth in the CCA region is projected to slow somewhat but remain robust in 2025 at 4.9 percent, driven primarily by fiscal policy easing (Armenia, oil exporters), along with strong performances in key industries (construction, transport, and services) and the development of Kazakhstan's Tengiz oil field. This projection is 0.4 percentage point higher than the October forecast, reflecting a moderating but stronger-than-expected momentum of financial inflows from Russia as well as from trade diversion associated with the war in Ukraine. However, growth is expected to slow to 4.3 percent in 2026 and then to 3.8 percent over the medium term (Figure 1.15). This slowdown is attributed to the plateauing of hydrocarbon production, an expected pause in policy easing, and moderating spillovers from the war in Ukraine.

Sustained fiscal spending on defense, infrastructure, and social initiatives is expected to weaken fiscal balances in 2025. However, fiscal consolidation is expected to resume in 2026, driven by reforms to broaden tax bases and bolster revenue collection. Coupled with stronger growth, these factors are expected to keep public debt levels relatively stable over the medium term, remaining below 27 percent of GDP for oil exporters and about 35 percent of GDP for oil importers.

Inflation is projected to edge up slightly in 2025. Sustained fiscal spending in Kazakhstan and continued upward adjustments to energy tariffs in Uzbekistan will keep inflation above target levels over the near term, although inflation is still expected to revert to a downward trajectory over the medium term. A planned 10 percent annual increase in public sector wages and pensions, a positive nonhydrocarbon output gap, and loose monetary policy conditions are also expected to keep inflation in Turkmenistan persistently high. Inflation is expected to remain within target limits in other CCA countries, where commodity price effects and policies restraining domestic demand are projected to keep inflationary pressures low.

Current account deficits for oil importers are expected to stabilize over the medium term along with tapering trade and remittance flows and tightening fiscal balances. For oil exporters, current account surpluses are projected to continue narrowing and could even shift to deficits as hydrocarbon production plateaus (Azerbaijan, Turkmenistan). Reserve coverage is expected to decline gradually but remain adequate for most countries.

1.4. Risks: Tilted to the Downside

The balance of risks for economies in the MENA and CCA regions is skewed to the downside, reflecting potential spillovers from elevated global economic policy and trade uncertainty, particularly related to changes in US tariffs, retaliatory actions of trading partners, and potential trade dislocations, along with adverse regional risks. Meanwhile, upside risks include early and durable resolution of conflicts in the region and more effective implementation of structural reforms that could attract more FDI flows and stronger international financial support for reconstruction efforts in countries affected by conflicts.

Several global risks stemming from elevated policy uncertainty could affect the MENA and CCA regions (Chapter 2). A notable concern is the potential for an escalation of trade tensions worldwide. While the direct impact of US trade policy changes to MENA and CCA economies is estimated to be generally limited, spillovers stemming from rising trade tensions—resulting in supply chain and FDI disruptions, tighter financial conditions, a further strengthening of the US dollar, and a deeper global growth slowdown—could weigh significantly on growth prospects for economies in the two regions (Box 1.3). In this scenario, renewed inflationary pressures would result in a higher-for-longer interest rate environment, exceeding current expectations, which would exacerbate fiscal, financial, and external risks, especially for MENA EM&MIs and Pakistan. Higher interest rates and a stronger US dollar could increase the already high gross public financing needs in several economies in the MENA region, raising concerns about debt sustainability and the stability of their banking systems. This environment could trigger capital outflows, raise risk premia, and necessitate abrupt cuts to fiscal expenditures. Consequently, growth could suffer in both the near and medium terms, especially in highly indebted countries. Beyond risks from economic policy shifts, escalating geopolitical tensions could lead to renewed volatility in commodity prices, creating external and fiscal pressures for both commodity exporters and importers.

- For the MENA and CCA regions, a risk remains that necessary reforms may stagnate amid a less favorable external environment, potentially leading to deteriorating medium-term growth prospects. This risk is pronounced for economies undertaking ambitious structural reforms and climate change policies, which could exacerbate unemployment and social discontent. Large-scale development agendas in MENA oil exporters may not achieve the necessary diversification and productivity gains required for achieving higher, sustainable, private-led non-oil growth. The escalation of conflicts in the Middle East or Ukraine poses additional risks, because it could disrupt trade, tourism, supply chains, and remittances, FDI, financial flows, and payment systems, and lead to increased refugee flows. For CCA economies, strong economic ties with Russia present additional vulnerabilities: a deeper slowdown in Russia could have a negative effect on the CCA outlook. For the MENA region's fragile and conflict-affected states, reductions in official development assistance could have serious economic and humanitarian implications, especially for countries already grappling with severe food insecurity (Box 1.4).
- On the upside, some countries in the Middle East and Central Asia could benefit from trade diversion from the imposition of new tariffs (April 2024 *Regional Economic Outlook: Middle East and Central Asia*). Economic activity could rebound faster than projected if incoming governments take action to build confidence through collaborative efforts and structural reforms alleviate uncertainty and support investment and medium-term growth. Durable ceasefires in Gaza, Lebanon, and Syria could lead to meaningful governance changes and reforms, fostering regional and international cooperation on reconstruction efforts (Box 1.5). An extended period of a weaker US dollar could reduce the debt burden for countries with higher US debt and encourage global allocation and capital flows into the region.

The impact of a peace agreement between Russia and Ukraine on the CCA region's economic landscape remains highly uncertain, considering the uncertainty surrounding the specifics of this agreement, its geopolitical repercussions, and potential complex spillover channels. At a global level, lifting sanctions on Russia could improve overall sentiment toward the CCA region, reducing risk premia and lowering external borrowing costs. However, the effects on individual countries are more nuanced. Trade patterns and supply chains established since the war began could shift, diverting transit flows at least in part from the region. Similarly, Russian migrants returning home could affect key sectors, consumption growth, and labor markets in some CCA economies. Capital inflows and remittances could slow, while volatility surrounding oil and gold prices could create fiscal revenue pressures in some economies, potentially weakening external balances in others. Nevertheless, new trade patterns and opportunities for migrant workers from the CCA region could arise, potentially providing a boost to some countries.

1.5. Policy Priorities amid Elevated Uncertainty

In the context of higher global uncertainty and rising trade tensions, policy priorities should focus on rebuilding fiscal and external buffers to safeguard against worst-case scenarios. Enhancing macroeconomic frameworks and institutions would improve the credibility and predictability of economic policies and help reduce the negative impact of global uncertainty on domestic sentiment and aggregate demand. Finally, accelerating structural reforms would reduce the macroeconomic and structural imbalances that make the region relatively more exposed to uncertainty shocks (Chapter 2).

Fiscal Policy

Elevated global policy uncertainty places an even higher premium on fiscal consolidation efforts within credible medium-term fiscal frameworks to rebuild or strengthen margins of maneuver against future shocks. Given the significant diversity among economies in the MENA and CCA regions, the pathways to fiscal consolidation should be tailored carefully to address each country's specific needs.

- With interest rates expected to remain elevated for a longer period, countries facing high debt levels and financing needs—especially Egypt, Jordan, Pakistan, and Tunisia—will need to accelerate fiscal consolidation. This can be achieved by containing spending on subsidies and mobilizing additional revenue, including through phasing out tax exemptions and stronger tax administration. Policymakers should mitigate risks such as contingent liabilities arising from large state-owned enterprises (Egypt, Pakistan) and public–private partnerships (Morocco).
- MENA LICs face the delicate trade-off of safeguarding fiscal sustainability while supporting large development needs and addressing food insecurity in the context of reduced foreign financial aid. For countries without fiscal space, this would require renewed efforts to mobilize domestic fiscal revenues as well as secure assistance from the international community, particularly nontraditional donors. For countries with some fiscal space, policy should remain flexible to respond to the risks of food insecurity with well-targeted contingency plans.
- Elevated uncertainty about oil prices makes it even more important for MENA oil exporters to focus on preserving fiscal buffers while ensuring an equitable redistribution of their natural resource wealth across current and future generations. Policy efforts should target the development and diversification of non-oil revenue sources and the elimination of energy subsidies where applicable. Furthermore, reducing the vulnerability of public finances to sharp fluctuations in oil prices would require efforts to develop a sovereign asset and liability management framework.
- CCA countries should maintain a prudent fiscal stance amid slowing medium-term growth and weakening revenues to conserve fiscal buffers, reduce vulnerabilities, and support reforms that boost productivity. Strengthening fiscal institutions by improving macro-fiscal capacity, addressing fiscal risks, improving medium-term fiscal planning, adopting robust fiscal rules, and reducing the government footprint in the economy would help ensure fiscal policy effectiveness and sustainability.

Monetary and Financial Policies

Monetary policy should prioritize maintaining price stability, ensuring that policy objectives are communicated clearly and that operations remain transparent and data-driven. The pace of policy adjustment should remain vigilant to changes in underlying inflation and account for trade-offs between price and financial stability. Accumulating international reserves deploying tools as described in the IMF's Integrated Policy Framework could provide an extra buffer against external shocks.

- For countries experiencing persistent inflationary pressures (Egypt, Kazakhstan, Tunisia, Turkmenistan, Uzbekistan), a restrictive stance should be maintained until evidence is clear that underlying inflation and inflation expectations are close to target levels.
- Conversely, if inflation indicators show a consistent trajectory toward target or historical averages, and real policy rates are above estimated neutral levels, a less restrictive monetary policy stance may be appropriate (Pakistan) and preparations to adopt inflation-targeting frameworks could continue (Egypt, Morocco).
- In countries with fixed exchange rates (GCC economies, Jordan), any changes to policy interest rates should align with established policy frameworks, while closely monitoring potential financial stability risks associated with changes in interest rates and global financial conditions. In countries with flexible exchange rates, the exchange rate could help cushion the adjustment to shocks.
- In some CCA economies facing relatively high levels of dollarization, building and maintaining the stock of international reserve buffers will help guard against abrupt exchange rate movements.

A stable financial regulatory framework is crucial for mitigating policy uncertainty. Supervisors, regulators, and financial institutions must be vigilant to the risks posed by potential increases in policy uncertainty and geopolitical tensions and should devote resources to identifying and managing these risks. Improved understanding and monitoring how geopolitical risks interact with traditional risks—such as credit, interest rate, market, liquidity, and operational risks—can help prevent a destabilizing fallout from geopolitical events (April 2023 *Global Financial Stability Report*). Policymakers should also establish and deploy adequate macroprudential policies to address financial stability risks arising from elevated macrofinancial vulnerabilities amid high macroeconomic uncertainty, which can exacerbate the adverse effects of macrofinancial vulnerabilities, such as excessive private sector leverage on the real economy (October 2024 *Global Financial Stability Report*).

Structural Policies

In an environment characterized by elevated uncertainty, structural reforms are crucial for lifting medium-term growth prospects.

- Pursuing trade diversification could reduce exposure to uncertainty shocks. Bolstering cross-regional connections—for example, between GCC and CCA economies and between GCC and African economies—could improve risk-sharing opportunities. Harnessing the gains from trade amid increasing geoeconomic fragmentation and high trade uncertainty will require reducing long-standing trade barriers and strengthening regulatory frameworks. Investing in critical infrastructure to leverage trade corridors and build trade connectivity would also be beneficial (October 2024 *Regional Economic Outlook: Middle East and Central Asia*).
- Strengthening fiscal and monetary institutional frameworks can enhance policy credibility and predictability, clearly signaling a commitment to macroeconomic sustainability (Chapter 2).
- Enhancing governance and institutions can be especially beneficial for all economies in the MENA and CCA regions. Strengthening the rule of law is essential for creating a more predictable economic environment that improves international competitiveness, encourages private sector investment, facilitates FDI, and ultimately boosts productivity (October 2024 *Regional Economic Outlook: Middle East and Central Asia*).
- Policy action is needed to enhance labor market participation and job creation—especially for women and youth—and promote market competition and openness. Measures to increase digitalization and reduce the state footprint would also help secure stronger and more sustainable growth (October 2024 *Regional Economic Outlook: Middle East and Central Asia*).

- Accumulating human capital and investing in skills that are increasingly demanded in rapidly changing labor markets is crucial across all MENA and CCA economies to ensure sustained productivity growth over the medium and long terms.
- Improving food security remains a priority for LICs and fragile states in the MENA region amid uncertainties regarding aid flows. Support from the international community is essential to meet the most pressing social needs and alleviate ongoing humanitarian crises. Resolving ongoing conflicts is a prerequisite for improving living standards and supporting growth.

IMF Commitment to the MENA and CCA Regions Is Strong

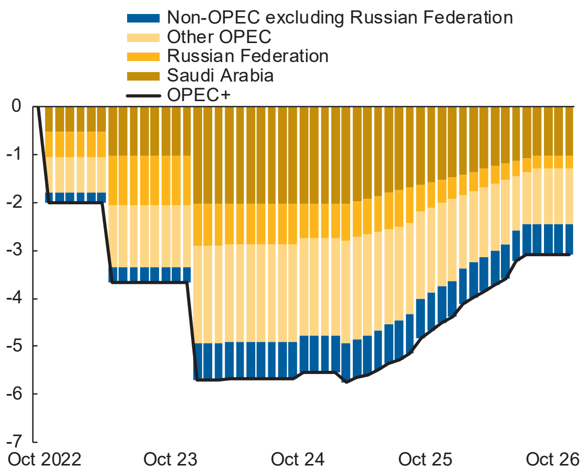
The IMF has continued to support the region through policy advice, lending, and capacity development. Since early 2020, the IMF has approved more than $49 billion in financing to countries across the MENA region, Pakistan, and the CCA, of which about $14.8 billion has been approved since early 2024 for programs in Egypt (an augmentation under the Extended Fund Facility and an arrangement under the Resilience and Sustainability Facility), Jordan (Extended Fund Facility), and Pakistan (Extended Fund Facility). A nonfinancial policy coordination instrument was approved for Tajikistan to support the authorities' structural reform program, while the non-disbursing Stand-By Arrangement with Armenia continues to support the authorities' proactive policy management to preserve macroeconomic stability and advance structural reforms. The IMF has also implemented more than 360 technical assistance and capacity development projects across 31 countries, totaling $32.6 million during fiscal year 2023/24. Moreover, the IMF maintains a significant regional presence through its resident representative offices, technical assistance centers, and the newly established regional office in Riyadh, Saudi Arabia. The IMF—along with the World Bank and regional partners—has established an informal coordination group to support recovery in the Middle East's conflict-affected states, including in areas such as capacity building, policy guidance, and financial assistance.

Box 1.1. OPEC+ Production Cuts: Navigating Economic Uncertainty

In early April 2025, OPEC+ started to gradually unwind the voluntary production cuts that were extended last December. Initiated in 2022, OPEC+'s voluntary production cuts were a collective decision to reduce output and stabilize oil prices amid concerns about declining market values. Following the December 2024 announcement, OPEC+'s production cuts amount to 5.86 million barrels per day (b/d), equivalent to about 6 percent of global oil supply. The cuts comprise three tranches: the first two totaling 3.66 million b/d and the third amounting to 2.2 million b/d. The first two tranches are now expected to continue through 2026 instead of concluding in 2025. The third tranche, which the October 2024 *Regional Economic Outlook: Middle East and Central* Asia assumed would begin phasing out in December 2024, actually started being unwound in April 2025 at a slower pace than initially announced and despite the April announcement of an unexpected addition of 270,000 b/d for May 2025 (Box Figure 1.1.1).[1]

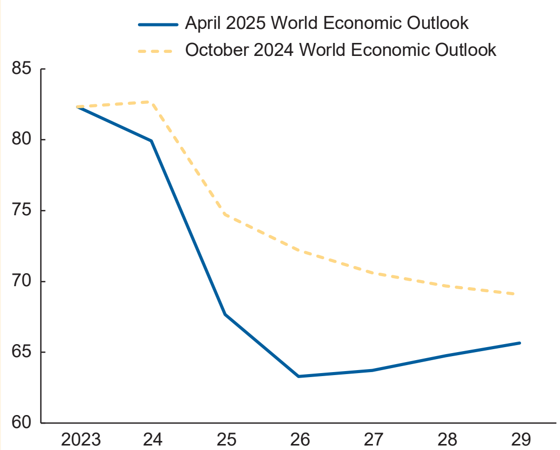
As a result, oil production in the MENA region is projected to reach 25.5 million b/d in 2025 and 26.7 million b/d in 2026. This production corresponds to a 200,000 b/d year-on-year increase in 2025 and 1.2 million b/d year-on-year increase in 2026, which is 1.3 million and 200,000 b/d less, respectively, compared to last October's projections.

Box Figure 1.1.1. OPEC + Members: Contribution to Voluntary Production Cuts
(In millions of barrels per day)



Sources: OPEC; and IMF staff calculations.
Note: OPEC = Organization of the Petroleum Exporting Countries.

Box Figure 1.1.2. Brent Oil Price
(US$ per barrel)



Sources: IMF, World Economic Outlook database.

Bearish trends are expected to exert downward pressure on oil prices in a moderately oversupplied market in 2025. Global demand is expected to be somewhat weaker than anticipated in October 2024, mainly because of increased policy uncertainty and escalating trade tensions amid weak fundamentals. As a result, Brent crude oil prices fell to approximately $65 per barrel in early April 2025, down from about $75 per barrel in late December 2024. In early April, futures prices for 2025 and 2026 were averaging $69 and $65, respectively, well below the $79 per barrel average for 2024 and the trajectory expected last October (Box Figure 1.1.2).

[1] In July 2024, the United Arab Emirates got a 300,000 b/d quota increase to gradually utilize its extra production capacity from January 2025. However, it was postponed by three months to April 2025, with a more gradual implementation.

Box 1.1. *(continued)*

The risks surrounding the oil market outlook appear to be broadly balanced. Economic uncertainties from escalating trade tensions, new tariffs, and further unpredictable developments in the agreed OPEC+ production schedule could weaken market fundamentals, posing downside risks to prices. Conversely, tensions in the Middle East, the "maximum pressure" campaign on the Islamic Republic of Iran, and the potential re-imposition of sanctions on Venezuela—including secondary tariffs targeting oil importers—may lead to fears of supply disruptions and upward price pressure. The updated OPEC+ compensation plan announced in March 2025 for seven countries producing above agreed output targets, including Iraq and Kazakhstan, could help reduce the oil supply glut.

The author of this box is Charlotte Sandoz, with research support from Jarin Nashin.

Box 1.2. Divergent Foreign Direct Investment Trends in the Middle East and Central Asia

Sustained inward foreign direct investment (FDI) is crucial for economic development, diversification, and global value chain integration. However, FDI flows have declined globally since the COVID-19 pandemic, with flows to emerging market and developing economies falling most dramatically. Increasingly, FDI is taking place between geopolitically aligned countries (April 2023 *World Economic Outlook*).[1]

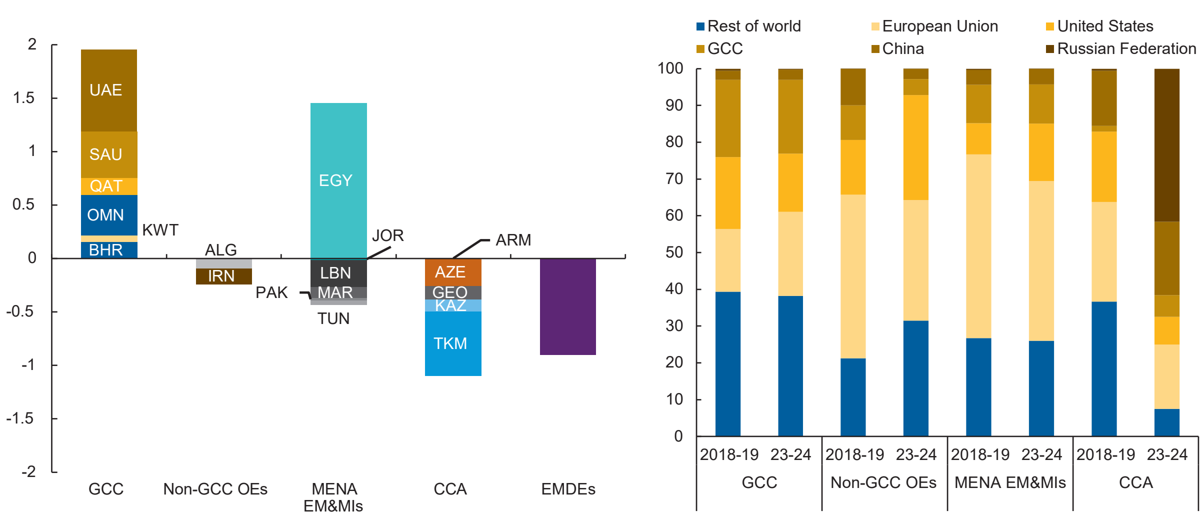
Divergent trends emerge when comparing FDI flows to the Middle East and North Africa (MENA) and Caucasus and Central Asia (CCA) regions:

- All Gulf Cooperation Council (GCC) economies have attracted substantial FDI inflows since the pandemic, with aggregate FDI rising by nearly 2 percentage points of GDP (Box Figure 1.2.1, panel 1). Amid ambitious diversification plans in GCC countries, sectors including manufacturing, transport and storage, and wholesale–retail trade have captured the largest inflows of FDI in recent years, representing more than 50 percent of total FDI deals.
- FDI inflows in other parts of the MENA region have slowed, similar to other emerging markets globally, with the few exceptions because of one-off deals like the landmark $35 billion Ras El-Hekma deal in Egypt. The composition of investors in the region has remained diversified and stable. A sizable share of FDI deals continues to come from the European Union and the United States. GCC investors, primarily Sovereign Wealth Funds, maintain a significant presence across the MENA region, while participation from Chinese investors remains relatively smaller.

Box Figure 1.2.1. MENA Region, Pakistan, and CCA: Foreign Direct Investment

1. Regional Composition of Aggregate FDI Inflows as Percent of GDP
(Percentage points change, 2023–24 versus 2018–19)

2. Share of Inward FDI Deals by Source
(Percent share of total number of deals, 2023–24 versus 2018–19)



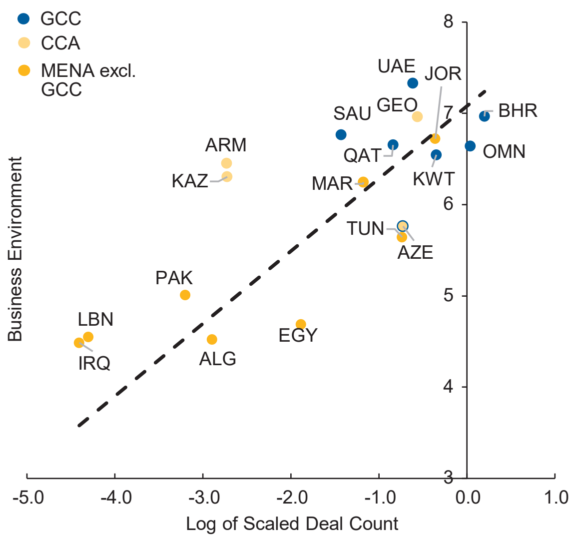
Sources: IMF, World Economic Outlook database, Orbis Crossborder Investment; and IMF staff calculations.
Notes: Figure 1 reports GDP-weighted contributions to the change in FDI inflows. In Figure 2, the total number of deals are scaled by real GDP for each country before aggregating at the regional level. Data labels use International Organization for Standardization (ISO) country codes. CCA = Caucasus and Central Asia; EMDE = emerging market and developing economy; FDI = foreign direct investment; GCC = Gulf Cooperation Council; MENA EM&MI = Middle East and North Africa emerging market and middle-income economy; OE = oil exporter.

The author of this box is Subi Suvetha Velkumar.

[1] Data on bilateral FDI deal flows are from Moody's Orbis Crossborder Investment database. These data include both greenfield projects and mergers and acquisitions, compiled mostly from publicly available sources. The Orbis database does not provide reliable data on the value of each deal. Thus, this analysis looks at deals that have been announced or completed (confirmed and assumed).

Box 1.2. *(continued)*

Box Figure 1.2.2. Number of FDI Deals and the Business Environment, 2021–22



Sources: Moody's, Orbis Crossborder Investment database; Fraser Institute; and IMF staff calculations.
Note: The number of deals for each country is scaled by real GDP. The business environment indicator is calculated as the simple average of two indicators from the Fraser Institute's Economic Freedom Index: (1) regulation and (2) legal system and property rights. Data labels in the figure use International Organization for Standardization (ISO) country codes. CCA = Caucasus and Central Asia; FDI = foreign direct investment; EM&MI = emerging market and middle-income country; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

- In the CCA region, the overall slowdown in FDI inflows has coincided with a notable rise in the share of Russian FDI (Box Figure 1.2.1, panel 2), likely influenced by trade diversion because of sanctions and shifting geopolitical alignments (April 2023 *Global Financial Stability Report;* UNCTAD 2024). Despite an overall decline, FDI inflows from Russia have risen in nearly all CCA countries during this period, except for the Kyrgyz Republic.

FDI inflows to the Middle East and Central Asia have held up relatively well. However, to mitigate the risks associated with rising global uncertainty, reforms to enhance the business environment—strengthening the rule of law, improving the regulatory framework and property rights—are critical. GCC countries stand out as a success story, having enacted business-friendly reforms and policy initiatives that attract and sustain FDI inflows (Box Figure 1.2.2).

Box 1.3. Global Trade Policy Changes and Their Impacts on the Middle East and Central Asia

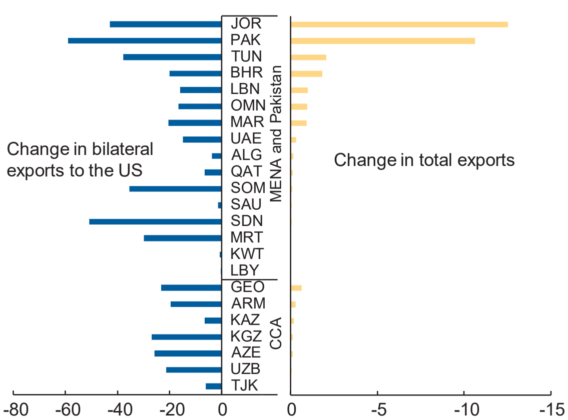
Recent changes in US trade policy have led to adjustments in US import tariffs. While the higher tariffs announced on April 2 were paused on April 9 for most countries (including those in the region), a baseline increase of 10 percent continued to apply, and countries that imposed retaliatory tariffs continued to face higher tariff rates. As a result, effective tariff rates have climbed to levels not seen in a century.

In the Middle East and North Africa (MENA) and Caucasus and Central Asia (CCA) regions, the announced April 2 tariffs were set high—between 20 and 40 percent—for countries such as Algeria, Iraq, Jordan, Kazakhstan, Libya, Pakistan, Syria, and Tunisia, while others were set at the baseline rate of 10 percent.

However, oil exporters benefit from an exemption on energy, resulting in a much lower effective tariff rate on their exports to the United States. Moreover, for most economies in the MENA and CCA regions, non-oil goods exports to the United States constitute a small share of their total non-oil goods exports. In most MENA economies, this share is less than 1 percent of GDP, (with Jordan and Bahrain having the largest shares at 5.6 and 3.3 percent of GDP, respectively), whereas for all CCA economies it is less than half-a-percent of GDP.

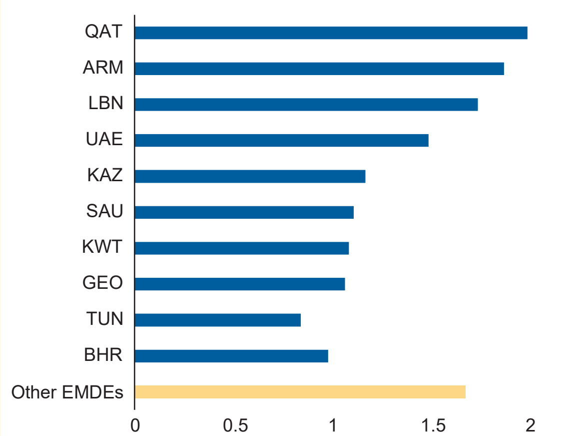
As a result, although the changes in exports to the United States in response to the announced April 2 tariffs may be sizable for some countries, the direct (partial equilibrium) impact on total exports is contained (Box Figure 1.3.1). For most economies in the MENA and CCA regions the impact is less than 1 percent, though pending further discussions and agreements, the effects on Pakistan and Jordan could be larger given their larger shares of exports to the United States in their total exports.

Box Figure 1.3.1. Estimated Short-run Direct Impact of Higher Tariffs on Exports
(Percent)



Source: IMF, World Economic Outlook database; and IMF staf calculations.
Note: The bars represent the direct (partial equilibrium) impact from the announced April 2 US tariffs. Data labels in the figure use International Organization for Standardization (ISO) country codes.

Box Figure 1.3.2. Middle East and Central Asia: Exposure to External Demand
(Elasticity of GDP growth to external demand, percent)



Source: IMF, World Economic Outlook database, and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. EMDE = emerging markets and developing economies.

The broader consequence of rising trade tensions could have a more profound impact on economies in the MENA and CCA regions. Increased protectionist measures and retaliatory actions may weigh heavily on global growth, cause persistent supply chain disruptions, constrain foreign direct investment, and further tighten financial conditions. A few economies in the regions have a relatively large elasticity

Box 1.3. *(continued)*

of GDP growth to external demand (which affect their goods exports, tourism receipts, and inward remittances).[1] For the 10 most exposed countries, a 1 percent decline in their trade partners' growth could translate to a GDP loss ranging from 1 to 1.8 percent (Box Figure 1.3.2). Oil exporters, which show large elasticities of growth to external demand, would be particularly vulnerable if low oil prices persist because of a global growth slowdown. Furthermore, renewed inflationary pressures could result in a higher-for-longer interest rate environment amid widening sovereign spreads in the region, particularly affecting several MENA emerging market and middle-income countries and Pakistan due to their elevated debt levels.

The authors of this box are Hasan Dudu and Karmen Naidoo.

[1] The growth elasticity to external demand is defined as the percentage change in GDP growth resulting from a 1 percent change in the export-weighted GDP growth of trading partners. The elasticities are estimated using regression analysis, where the real GDP growth rate is regressed on the export-weighted growth of trade partners for 27 countries in the Middle East and Central Asia for the period 2000–23. The analysis excludes Afghanistan, Libya, Syria, Turkmenistan, and West Bank and Gaza due to data limitations.

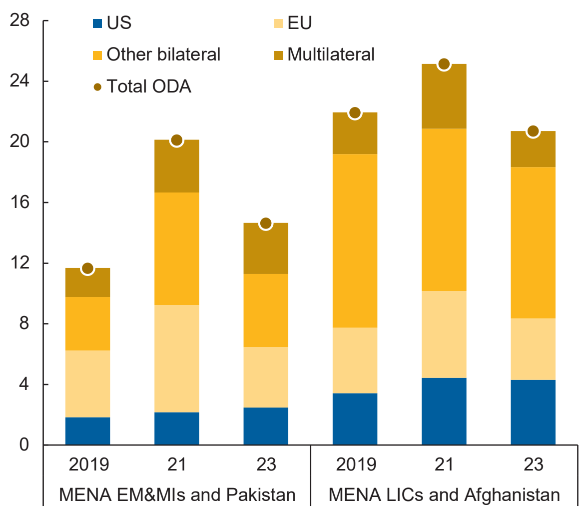
Box 1.4. Middle East and North Africa Region: Official Development Assistance and Food Insecurity

Total official development assistance (ODA) to the Middle East and North Africa (MENA) region has fallen back to pre-COVID-19 levels (Box Figure 1.4.1). Disbursements increased during 2019–21, peaking at about $26 billion for MENA region low-income economies and Afghanistan and $20 billion for MENA emerging market and middle-income economies and Pakistan. However, ODA flows then declined to about $21 billion and $15 billion in 2023, respectively, consisting almost entirely of grants.

ODA plays a crucial role in providing food aid and humanitarian assistance to fragile and conflict-affected states, where many populations are facing severe food insecurity (Box Figure 1.4.2). More than 40 percent of people in Afghanistan, Somalia, Sudan, Syria, and West Bank and Gaza, face severe food insecurity, while more than 30 percent of the population in Yemen is affected.[1] These countries are particularly reliant on ODA, especially Yemen (ODA inflows are equivalent to 33 percent of gross national income), Afghanistan (27 percent), and Somalia (19 percent). A decline in ODA to these vulnerable countries could have significant humanitarian repercussions, potentially exacerbating unrest and increasing the risk of famine.

Box Figure 1.4.1. MENA Region, Afghanistan and Pakistan: Official Development Assistance by Source

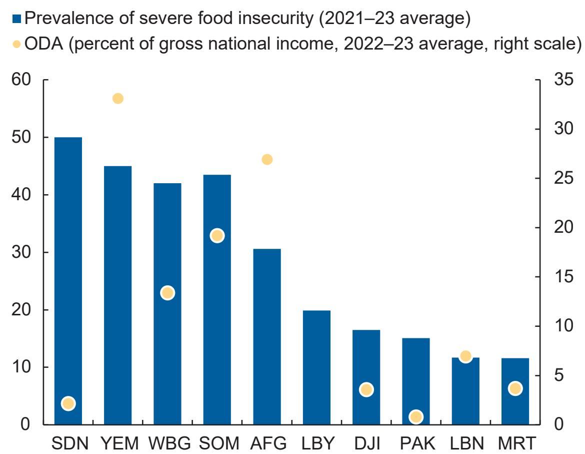
(Billions of dollars)



Sources: Organisation for Economic Co-operation and Development, Official Development Assistance database; and IMF staff calculations.
Note: EU includes bilateral flows from EU countries. EM&MI = emerging market and middle-income economy; EU = European Union; LIC = low-income country; MENA = Middle East and North Africa; ODA = official development assistance.

Box Figure 1.4.2. Top 10 Most Food Insecure Countries and ODA Dependence

(Percent of population, percent of gross national income)



Sources: Food and Agriculture Organization of the United Nations; Organisation for Economic Co-operation and Development; and IMF staff calculations.
Note: The estimate for Sudan (SDN) is from the World Food Programme's estimates on the percent of the population in acute hunger in 2024. The estimates for West Bank and Gaza (WBG) and Yemen (YEM) are from the Integrated Food Security Phase Classification initiative's estimates on the percent of the population facing acute food insecurity in 2024. Data labels in the figure use International Organization for Standardization (ISO) country codes. ODA = official development assistance.

The authors of this box are Eliakim Kakpo and Karmen Naidoo.

[1] For Syria, the World Food Programme estimates that 13 million Syrians face food insecurity (about 56 percent of the population in 2023). Data are not available on acute and severe food insecurity.

Box 1.5. Lessons from International Efforts in Post-conflict Economies

Several economies in the Middle East and North Africa (MENA) region have experienced intense and recurring conflicts, resulting in incalculable human suffering and economic devastation, most recently in Gaza, Lebanon, Sudan, and Syria. Urgent and coordinated support from the international community is paramount to address humanitarian needs with extreme poverty and food insecurity rising, affecting large segments of the population. Beyond the immediate crisis, the process of rebuilding and recovery after conflicts presents a complex challenge involving humanitarian, security, and economic dimensions. This multifaceted task requires coordinated efforts from both domestic and external stakeholders, including international institutions.

In the economic arena, efforts will require a comprehensive assessment of the economic damage, mobilization of financial assistance, and support for countries in the MENA region to prioritize and sequence structural reforms carefully based on their capacity (IMF 2022). The IMF has long-standing engagements with fragile and conflict-affected states and plays an important role by providing capacity development, policy advice, and financial assistance aimed at reestablishing macroeconomic stability. Experiences from the IMF's engagement with fragile states within the MENA region and Afghanistan—such as Afghanistan after 2001, Iraq after 2003, and Lebanon after 2006—underscores the importance of focusing on four key dimensions for effective post-conflict recovery:

- *Lay the groundwork as early as possible, focusing on establishing well-functioning economic institutions*. The early post-conflict period provides a unique opportunity to implement deep structural reforms, with capacity development playing a vital role. Therefore, the IMF focuses on institution building, data provision, governance, and key structural reforms. In both post-2001 Afghanistan and post-2003 Iraq, the IMF provided extensive policy advice and capacity development aimed at rehabilitating key economic institutions, such as the ministry of finance and the central bank. In Lebanon (after 2006), the IMF provided capacity development to improve public financial management, assess banking sector soundness, and improve government finance statistics. In all three post-conflict countries (Afghanistan, Iraq, and Lebanon), the IMF emphasized the need for sound and balanced fiscal policies and a strong monetary policy framework to support exchange rate stability and reduce inflation.
- *Achieve "quick wins" to maintain reform momentum*. Country authorities must be able to demonstrate tangible progress in the initial years to sustain reform momentum and build public support for deeper structural reforms. Prioritizing the establishment of functional payment systems, timely public sector salary payments, and basic public service provision is crucial. For example, in late 2002, Afghanistan launched a new currency with the help of extensive IMF capacity development, which stabilized inflation and the exchange rate.
- *Obtain strong backing from key sponsors among donors in the form of external financing and championing the case for reform*. In post-2001 Afghanistan, major Western countries made substantial contributions that funded critical infrastructure, supported new governmental institutions and governance reforms, and enhanced security. After the approval of an IMF Poverty Reduction and Growth Facility, in 2006 Paris Club creditors agreed to cancel or restructure a substantial portion of Afghanistan's external debt, which had reached 346 percent of GDP at the end of 2001. Afghanistan's participation in the Heavily Indebted Poor Countries initiative reduced its external debt to 7 percent of GDP by 2011. In Iraq, the United States played a major role in coordinating reconstruction efforts, and, in 2004, Iraq secured an 80 percent reduction of its external debt (336 percent of GDP at the end of 2003) through the Paris Club, conditional on the successful completion of its IMF-supported program. After the 2006 conflict, the international community, especially the United States and France, mobilized substantial support for humanitarian assistance and reconstruction in Lebanon. However, significant economic vulnerabilities remained unaddressed because of the lack of a comprehensive debt restructuring strategy and necessary structural reforms.

Box 1.5. *(continued)*

- *Maintain security*. Persistent insecurity and the resulting uncertainty can deter private sector investments and impede economic development and reconstruction efforts. Adequate funding for the security sector is vital; without it, achieving reconstruction and economic development becomes challenging. For example, the Afghan National Development Framework adopted in 2002 emphasized security, leading key donors to provide substantial support for training and equipping Afghan security forces. In Iraq, security challenges hindered fiscal sustainability, because the public sector remained the main source of employment. The security situation acted as a major deterrent for both foreign and local private investors seeking to expand their business activities, contributing to the limited success of non-oil reconstruction efforts (Matsunaga 2019). In post-2006 Lebanon, recurring security incidents and uncertainty had a negative impact on investor confidence, economic activity, and reform implementation.

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Table 1.1. Selected Economic Indicators, 2022–26

(Year-over-year percent change, unless otherwise indicated)

	2022	2023	2024	Projections 2025	Projections 2026
Middle East and North Africa (MENA) Region[1]					
Real GDP Growth	5.5	2.1	1.8	2.6	3.4
Current Account Balance (percent of GDP)	10.0	5.4	2.8	0.3	0.1
Overall Fiscal Balance (percent of GDP)	3.4	0.0	−1.6	−3.4	−3.2
Inflation (period average)	13.6	14.9	14.6	12.7	10.7
MENA Region Oil Exporters					
Real GDP Growth	5.8	2.1	2.2	2.3	3.1
Non-oil GDP Growth	4.6	4.6	3.4	2.7	2.8
Current Account Balance (percent of GDP)	14.2	7.5	4.7	1.7	1.3
Overall Fiscal Balance (percent of GDP)	5.8	1.3	−0.6	−2.4	−2.4
Inflation (period average)	12.6	11.2	8.6	10.6	10.3
Gulf Cooperation Council (GCC)					
Real GDP Growth	7.1	0.4	1.7	3.0	4.1
Non-oil GDP Growth	5.6	3.6	3.8	3.4	3.5
Current Account Balance (percent of GDP)	16.2	8.7	6.2	2.4	1.9
Overall Fiscal Balance (percent of GDP)	7.5	3.2	1.5	−0.2	−0.2
Inflation (period average)	3.3	2.2	1.6	1.9	1.9
MENA Region Non-GCC Oil Exporters					
Real GDP Growth	4.2	4.1	2.7	1.4	1.8
Non-oil GDP Growth	3.4	5.8	2.9	1.8	1.9
Current Account Balance (percent of GDP)	9.5	4.8	1.6	0.1	0.1
Overall Fiscal Balance (percent of GDP)	1.7	−2.9	−5.4	−7.4	−7.6
Inflation (period average)	25.1	22.8	17.4	21.9	21.4
MENA Region Oil Importers[1]					
Real GDP Growth	4.8	2.1	1.1	3.4	4.1
Current Account Balance (percent of GDP)	−5.8	−2.9	−5.2	−5.7	−4.8
Overall Fiscal Balance (percent of GDP)	−5.4	−5.2	−5.6	−7.6	−6.7
Inflation (period average)	15.9	23.5	28.8	17.5	11.7
MENA Region Emerging Market and Middle-Income Economies					
Real GDP Growth	5.4	3.3	2.0	3.6	4.0
Current Account Balance (percent of GDP)	−5.2	−2.5	−5.0	−5.7	−4.5
Overall Fiscal Balance (percent of GDP)	−5.7	−5.4	−6.0	−8.2	−7.1
Inflation (period average)	10.4	22.4	25.7	15.5	10.1
MENA Region Low-Income Countries[1]					
Real GDP Growth	−0.1	−9.7	−9.3	0.8	5.2
Current Account Balance (percent of GDP)	−11.2	−6.2	−6.9	−5.5	−7.3
Overall Fiscal Balance (percent of GDP)	−2.0	−3.5	−1.8	−2.4	−3.2
Inflation (period average)	77.0	35.9	71.0	43.5	31.5
MENA Region, Afghanistan, Pakistan[1,2]					
Real GDP Growth	5.5	1.8	1.9	2.6	3.4
Current Account Balance (percent of GDP)	8.7	4.8	2.5	0.2	0.0
Overall Fiscal Balance (percent of GDP)	2.4	−0.6	−2.1	−3.6	−3.4
Inflation (period average)	13.4	16.5	15.7	11.7	10.3
Caucus and Central Asia (CCA)					
Real GDP Growth	5.2	5.0	5.4	4.9	4.3
Current Account Balance (percent of GDP)	5.2	−2.3	−1.3	−2.0	−2.6
Overall Fiscal Balance (percent of GDP)	0.4	−0.7	−1.1	−2.6	−2.7
Inflation (period average)	13.1	9.8	6.7	8.1	7.4
CCA Oil Exporters					
Real GDP Growth	3.8	3.9	4.3	4.2	3.7
Non-oil GDP Growth	6.0	4.2	6.1	3.8	3.7
Current Account Balance (percent of GDP)	9.3	0.6	1.1	−0.6	−1.6
Overall Fiscal Balance (percent of GDP)	1.8	0.6	−0.4	−2.2	−2.5
Inflation (period average)	14.2	10.9	6.8	8.7	8.2
CCA Oil Importers					
Real GDP Growth	7.7	7.1	7.2	5.9	5.5
Current Account Balance (percent of GDP)	−4.7	−8.8	−6.4	−4.8	−4.8
Overall Fiscal Balance (percent of GDP)	−2.9	−3.5	−2.6	−3.3	−3.1
Inflation (period average)	11.0	7.6	6.6	7.0	5.9

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

Note: Data refer to the fiscal year for Afghanistan and Iran (March 21/March 20), and Egypt and Pakistan (July/June).

CCA = Caucus and Central Asia; GCC=Gulf Cooperation Council; MENA=Middle East and North Africa.

[1] Excluding Syria.

[2] Excluding Afghanistan in 2024-26.

Table 1.2. Real GDP Growth, 2024–26

(Year-over-year percent change)

	April 2025			October 2024			Revision since October 2024		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Middle East and North Africa Region[1]	**1.8**	**2.6**	**3.4**	**2.1**	**4.0**	**4.2**	**−0.3**	**−1.4**	**−0.8**
MENA Region Oil Exporters	**2.2**	**2.3**	**3.1**	**2.3**	**4.0**	**3.9**	**−0.1**	**−1.7**	**−0.8**
Gulf Cooperation Council (GCC)	**1.7**	**3.0**	**4.1**	**1.8**	**4.2**	**4.5**	**−0.1**	**−1.2**	**−0.4**
Bahrain	2.8	2.8	3.0	3.0	3.2	2.9	−0.2	−0.4	0.1
Kuwait	−2.8	1.9	3.1	−2.7	3.3	2.5	−0.1	−1.4	0.6
Oman	1.7	2.3	3.6	1.0	3.1	4.4	0.7	−0.8	−0.8
Qatar	2.4	2.4	5.6	1.5	1.9	5.8	0.9	0.5	−0.2
Saudi Arabia	1.3	3.0	3.7	1.5	4.6	4.4	−0.2	−1.6	−0.7
United Arab Emirates	3.8	4.0	5.0	4.0	5.1	5.1	−0.2	−1.1	−0.1
MENA Region Non-GCC Oil Exporters	**2.7**	**1.4**	**1.8**	**3.0**	**3.6**	**3.2**	**−0.3**	**−2.2**	**−1.4**
Algeria	3.5	3.5	3.0	3.8	3.0	2.5	−0.3	0.5	0.5
Iran	3.5	0.3	1.1	3.7	3.1	2.8	−0.2	−2.8	−1.7
Iraq	0.3	−1.5	1.4	0.1	4.1	5.2	0.2	−5.6	−3.8
Libya	−0.6	17.3	4.3	2.4	13.7	4.1	−3.0	3.6	0.2
MENA Region Oil Importers[1]	**1.1**	**3.4**	**4.1**	**1.5**	**3.9**	**4.9**	**−0.4**	**−0.5**	**−0.8**
MENA Region Emerging Market and Middle-Income Economies	**2.0**	**3.6**	**4.0**	**2.4**	**3.8**	**4.5**	**−0.4**	**−0.2**	**−0.5**
Egypt	2.4	3.8	4.3	2.7	4.1	5.1	−0.3	−0.3	−0.8
Jordan	2.5	2.6	2.9	2.4	2.9	3.0	0.1	−0.3	−0.1
Lebanon	−7.5	...	...	...	...	...	...	...	...
Morocco	3.2	3.9	3.7	2.8	3.6	3.4	0.4	0.3	0.3
Tunisia	1.4	1.4	1.4	1.6	1.6	1.5	−0.2	−0.2	−0.1
West Bank and Gaza	...	...	...	...	...	...	...	...	...
MENA Region Low-Income Countries[1]	**−9.3**	**0.8**	**5.2**	**−8.3**	**5.5**	**9.4**	**−1.0**	**−4.7**	**−4.2**
Djibouti	6.5	6.0	5.5	6.5	6.0	5.5	0.0	0.0	0.0
Mauritania	4.6	4.4	3.7	4.4	4.2	4.2	0.2	0.2	−0.5
Somalia	4.0	4.0	4.1	4.0	4.0	4.1	0.0	0.0	0.0
Sudan	−23.4	−0.4	8.8	−20.3	8.3	13.5	−3.1	−8.7	−4.7
Syria	...	...	...	...	...	...	...	...	...
Yemen	−1.5	−1.5	0.0	−1.0	1.5	7.0	−0.5	−3.0	−7.0
MENA Region, Afghanistan, Pakistan[1,2]	**1.9**	**2.6**	**3.4**	**2.1**	**3.9**	**4.2**	**−0.2**	**−1.3**	**−0.8**
Afghanistan	...	...	...	...	...	...	...	...	...
Pakistan	2.5	2.6	3.6	2.4	3.2	4.0	0.1	−0.6	−0.4
Caucus and Central Asia (CCA)	**5.4**	**4.9**	**4.3**	**4.3**	**4.5**	**3.9**	**1.1**	**0.4**	**0.4**
CCA Oil Exporters	**4.3**	**4.2**	**3.7**	**3.3**	**3.9**	**3.1**	**1.0**	**0.3**	**0.6**
Azerbaijan	4.1	3.5	2.5	3.2	2.5	2.4	0.9	1.0	0.1
Kazakhstan	4.8	4.9	4.3	3.5	4.6	3.5	1.3	0.3	0.8
Turkmenistan	2.3	2.3	2.3	2.3	2.3	2.3	0.0	0.0	0.0
CCA Oil Importers	**7.2**	**5.9**	**5.5**	**6.1**	**5.5**	**5.3**	**1.1**	**0.4**	**0.2**
Armenia	5.9	4.5	4.5	6.0	4.9	4.5	−0.1	−0.4	0.0
Georgia	9.4	6.0	5.0	7.6	6.0	5.0	1.8	0.0	0.0
Kyrgyz Republic	9.0	6.8	5.3	6.5	5.0	4.1	2.5	1.8	1.2
Tajikistan	8.4	6.7	5.0	6.8	4.5	4.5	1.6	2.2	0.5
Uzbekistan	6.5	5.9	5.8	5.6	5.7	5.7	0.9	0.2	0.1

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

Note: Data refer to the fiscal year for Afghanistan and Iran (March 21/March 20), and Egypt and Pakistan (July/June).

CCA = Caucus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

[1] Excluding Syria.

[2] Excluding Afghanistan.