Key Messages

May 2025 Regional Economic Outlook: Middle East & Central Asia

Chapter 1: Charting a Path through the Haze

Middle East and North Africa: *Weakening growth prospects amid rising global uncertainty*

- Rising trade tensions and exceptional global policy uncertainty are adding to the impact of conflicts and extended oil production cuts to **weaken growth prospects for the region**.
- In 2024, average growth in MENA **slowed to 1.8%** (from 2.1% in 2023), constrained by ongoing conflicts and extended voluntary oil production cuts.
- Growth is still expected to strengthen in 2025 and 2026, but at a **considerably slower pace** than anticipated in October.
- Higher tariffs are expected to have only small direct effects on MENA countries given the exemptions on hydrocarbon goods and the small share of nonhydrocarbon goods to the United States. However, the indirect impact could be more significant, as lower global demand will hinder remittances and tourism inflows, tighter financial conditions will raise financing pressures on countries with high debt, trade uncertainty will lower domestic confidence and investment, and lower oil prices will dampen activity in oil exporters, even though they may help oil importers.
- We have lowered growth projections for both years—from 4% to **2.6% for 2025** and from 4.2% to **3.4% for 2026**—to reflect spillovers from global trade tensions and high global uncertainty, a more gradual recovery in oil production, the lingering effects from conflicts in the region, and slower-than-expected progress on structural reforms in some countries.
- Inflation is projected to continue declining, remaining elevated only in a few cases.

MENA **oil exporters**

- Growth in MENA oil exporters was stable in 2024 at 2.2%, but with significant differences between GCC and non-GCC economies. In the GCC, robust non-oil activity linked to diversification efforts helped to offset the negative impact of extended OPEC+ production cuts, while a similar buffer was not at work in non-GCC oil exporters.
- Growth is projected at 2.3% in 2025 and 3.1% in 2026, but again with a significant split between GCC and non-GCC oil exporters. In the GCC, continued robust non-oil sector expansion is expected to boost growth. Conversely, non-GCC oil exporters face lower growth due to sanctions, lower oil prices, capacity constraints, and fiscal unwinding.
- Lower oil prices are expected to reduce fiscal and external buffers (with non-GCC countries' external position turning into a deficit).

MENA **oil importers**

- Growth in MENA oil importers slowed in 2024 (1.1% in 2024, from 2.1% in 2023), weighed down by the direct and indirect impacts of conflict.
- **Severe impact of conflict in 2024:** Economies directly impacted by conflict (Lebanon, Sudan, West Bank and Gaza, and Yemen) lost about 15% of cumulative GDP. Projected higher growth in 2025 is mainly due to a less negative impact of the conflict.
- Egypt and Jordan experienced spillover effects from the conflict in Gaza and Israel in 2024 in the form of trade and tourism disruptions. A modest recovery in growth is expected in 2025, though challenges persist as the conflict lingers.

    - A few other MENA economies were not affected by conflict and are expected to see growth rise going forward, driven by stronger demand and implementation of structural reforms.

Caucasus and Central Asia: *Stronger-than-expected economic activity set to slow going forward*

- Growth in 2024 rose to 5.4%, exceeding expectations (+1 pp from October), driven by stronger-than-expected spillovers from Russia's war in Ukraine and infrastructure investment. However, growth will slow in 2025 (4.9%, +0.4 pp) and over the medium term, on account of weaker global demand, a moderation of hydrocarbon production growth, and the gradual normalization of the spillovers associated with Russia's war in Ukraine.
- Still-strong domestic demand is expected to increase inflation in most economies in 2025, with inflation remaining above target in a few cases, before a gradual moderation starting from 2026.

Main Risks

- **Global uncertainty:** Heightened global uncertainty and trade disruptions could dampen external demand, erode investor confidence, and tighten financial conditions more than we have projected. If the sharp rise in uncertainty observed in early 2025 continues, it could lead output to fall by 4.5 percent below its original trend for the average economy in the MENA and CCA regions after two years (Chapter 2). Lower oil prices could provide some relief to oil importers, but further reduce fiscal and external buffers in a few oil exporters. Reduced official development assistance could worsen food insecurity and humanitarian conditions in fragile and conflict-affected states at a time when needs are high for post-conflict reconstruction.
- **Regional vulnerabilities**: An escalation of conflicts, the recurrence of extreme climate events, and slower-than-expected implementation of structural reforms all pose downside risks to growth prospects.

Main Policy Recommendations

- Amid high global uncertainty, **policy priorities should focus on building fiscal and external buffers** to safeguard against worst-case scenarios.
    - ***Fiscal policy***: In countries without fiscal space, properly calibrated fiscal consolidation would reduce deficits and rebuild margins of maneuver against future shocks. If shocks materialize, countries should prioritize spending to provide well-targeted fiscal support.
    - ***Monetary and financial policies***: Countries facing inflation pressures should maintain a prudent monetary stance until inflation expectations are firmly anchored. Adequate levels of international reserves should be preserved/rebuilt, and where exchange rates are flexible, they should be allowed to act as shock absorbers. Financial stability risks should be mitigated with macroprudential tools and enhanced regulatory frameworks.
- **Strengthening fiscal and monetary institutional frameworks** can enhance policy credibility and predictability and, hence, the effectiveness of policy responses in the short run.
- **Pursuing trade diversification** and cross regional trade integration could reduce exposure to global and regional uncertainty shocks and improve opportunities for risk sharing.

- **Accelerating structural reforms** in governance, education, and digitalization would improve international competitiveness, attract FDIs and help develop vibrant private sector would reinforce long term growth potential and job creation
- **Seeking new forms of international cooperation and coordination**, including from nontraditional donors, would help countries facing large financing needs for reconstruction and humanitarian support amid dwindling external financing (including international aid).

IMF Support

- Over $49 billion in IMF financing to countries across the MENA region, Pakistan, and CCA since early 2020; over $14.8 billion since early 2024.
- Over 360 technical assistance and capacity development projects across 31 countries, totaling $32.6 million during FY 2023/24.

Chapter 2: Riding the Waves: Building Resilience in an Era of High Uncertainty

- **Global uncertainty on an upward trend over past couple decades:** Recent developments have sparked a new surge, with global uncertainty measures spiking near the highs last reached with the onset of the COVID-19 pandemic.
- **At the country level, global and regional factors account for much of the spikes in uncertainty.** Country-specific factors are also important drivers of domestic uncertainty in the MENA and CCA regions. These country-specific factors include political instability, conflict, climate, and disease outbreak shocks.
    - ***Key finding:*** Common regional factors are particularly important drivers of uncertainty in the CCA region and among Gulf Cooperation Council (GCC) countries.
    - ***Key finding:*** For the MENA region, conflict shocks play a significant role in the variation in domestic uncertainty.
- **Uncertainty has large and long-lived negative economic impacts:** By dampening consumption and investment, a persistent spike in uncertainty pushes economic activity below its pre-shock trend.
    - ***Key finding:*** For the average economy in the MENA and CCA regions, a typical **global uncertainty shock** leads to *real output losses* of about 2.5 percent two years after the shock. If the sharp rise in uncertainty in early 2025 were to persist, the real output loss could be as much as 4.5% after two years.
    - ***Key finding:*** For the average economy in the MENA and CCA regions, a typical **domestic uncertainty shock** leads to *real output losses* of about 0.7% two years after the shock, *about twice* the size of the negative impacts seen in the average economy elsewhere. This partly reflects higher average preexisting macroeconomic vulnerabilities, including high public debt and weak institutions, that amplify these negative impacts.
- **Policymakers can boost the resilience of the economy to uncertainty shocks by strengthening policy buffers and improving macroeconomic policy and institutional**

frameworks. Pre-existing macroeconomic vulnerabilities (including high debt and weak institutions) amplify the negative effects from uncertainty.

- Greater emphasis should be put on policies such as strengthening fiscal positions and accumulating international reserves to help offset future adverse shocks.
- Enhancing macroeconomic frameworks (fiscal and monetary) and strengthening governance and institutions to bolster policy credibility and predictability can boost trust and foster a more stable and predictable environment, alleviating the impact of uncertainty.
- To effectively dampen the effects of conflict, climate, and health shocks, countries should prioritize preparedness through enhanced security, implementation of climate adaptation and mitigation strategies, and strengthened health systems.