

Executive Summary

Economic Developments and Outlook: *Resilience in the face of high global uncertainty and geopolitical tensions*

Economic performance in the Middle East and North Africa, Afghanistan, and Pakistan (MENAP) and the Caucasus and Central Asia (CCA) has remained generally robust in 2025 as both regions largely avoided the direct fallout from higher US tariffs and global trade disruptions, whereas recent regional geopolitical tensions had only a limited and short-term impact.

MENAP oil exporters have benefited from increased oil production as the unwinding of OPEC+ cuts accelerated. Meanwhile, MENAP oil importers saw gains from robust demand sustained by low energy prices, strong remittances, and buoyant tourism. Growth in the CCA region continued to exceed expectations, driven by solid domestic demand, credit expansion, and hydrocarbon exports.

Despite relatively tight monetary policy stances, financial market conditions remain supportive. Sovereign spreads have narrowed, nominal exchange rates depreciated, and several countries successfully accessed international financial markets.

Inflation trends diverged, easing across most MENAP economies thanks to falling food and energy prices but rising in many CCA countries because of strong demand and imported price pressures.

Looking ahead, GDP growth in the MENAP region is expected to strengthen gradually, supported by higher oil output, resilient local demand, and ongoing reforms. In CCA economies, growth is projected to slow to a more sustainable pace. Inflation is projected to ease in most countries, helped by lower projected energy prices and projected tightening of fiscal policy stances, on account of progress in mobilizing revenues and rationalizing spending, including through subsidy reforms.

Risks: *Not out of the woods yet*

Although MENAP and CCA economies have so far weathered high global uncertainty relatively well, delayed adverse effects cannot be ruled out.

Lower global demand remains a key risk, together with a tightening of global financial conditions. Fiscal concerns and stronger-than-projected inflationary pressures in key advanced economies could result in higher borrowing costs, affecting countries with greater government financing needs and banking sectors heavily exposed to government debt.

Both regions also remain vulnerable to renewed geopolitical tensions and increasing frequency and severity of climate-related shocks, which could both disrupt economic activity and undermine stability.

On the upside, a faster-than-expected resolution of conflicts and a more aggressive implementation of long-standing structural reforms could provide a meaningful boost to growth across both regions.

Policy Priorities: *Build buffers, strengthen policy frameworks, and accelerate structural reforms.*

The current growth momentum offers a valuable opportunity to bolster fiscal and external buffers, particularly in economies where these are limited.

In addition to prudent policies, strengthening economic resilience to negative shocks may require institutional adjustments, including enhancing both medium-term fiscal policy frameworks, to better anchor long-term fiscal sustainability, and monetary institutional frameworks, to improve policy effectiveness and predictability, which can help better anchor inflation expectations.

More broadly, structural reforms aimed at economic diversification and private sector development remain essential in all countries for seizing the opportunities presented by a changing global economic landscape and for lifting medium-term growth prospects.