

# Key Messages

## April 2024 Regional Economic Outlook: Middle East & Central Asia

### *An Uneven Recovery amid High Uncertainty*

The resilience in the global economy means a break from consecutive external shocks for the Middle East and North Africa (MENA) and Caucasus and Central Asia (CCA) regions. Inflationary pressures have eased in most countries thanks to lower global commodity prices and countries' vigilant policy responses. Overall, GDP growth for the Middle East and Central Asia (ME&CA) is projected to strengthen to 2.8% in 2024 (up from 2% in 2023) and 4.2% in 2025.

However, uncertainty and risks have become increasingly prevalent amid ongoing conflicts, shipping disruptions, and lower oil production. In turn, an uneven recovery is emerging, with growth this year at varying speeds across ME&CA.

#### **MENA: No break from challenges**

- New regional challenges (conflict in **Gaza and Israel** and **Red Sea disruptions**) and oil production cuts are affecting the 2024 outlook, adding to existing vulnerabilities (high debt levels, elevated borrowing costs).
- The conflict in Gaza and Israel has caused immense human suffering, and negatively impacted the directly affected economies. While the regional economic impact has been contained so far, the conflict has heightened uncertainty and risks in MENA, particularly as conflicts often result in lasting economic scarring (see Chapter 2).
- Growth is projected to remain subdued in 2024, improving moderately to **2.7%** (from 1.9% in 2023) but has been revised down from October 2023 projections (a revision of  $-0.7$  pp) as conflicts (Sudan, West Bank and Gaza) and oil production cuts (Gulf Cooperation Council, GCC) weigh on activity. Assuming these factors ease in 2025, growth is forecast to strengthen to **4.2%**.
- Uncertainty is high and medium-term growth is forecast to remain below prepandemic historical averages.

#### *Variations within MENA:*

- Oil exporters: growth at 2.9% in 2024; up from 1.9% in 2023. Voluntary oil production cuts will put a damper on growth in some economies (GCC) while nonhydrocarbon growth remains resilient; higher-than-projected oil production will boost growth for others (non-GCC).
- Emerging market and middle-income economies: growth at 2.8% in 2024; down from 3.1% in 2023. Conflict and tight policies to address vulnerabilities are constraining growth.
- Low-income countries: growth at  $-1.4%$  in 2024;  $-9.6%$  in 2023. Another contraction amid conflict but stronger growth in 2025 (4.4%).
- Conflicts continue in several MENA economies, providing stark reminders of their devastating human toll and long-term economic scarring.

#### **CCA: Continued resilience**

- Growth momentum remains robust despite diminishing real and financial inflows related to the war in Ukraine. Hydrocarbon importers are generally growing faster than exporters due to stronger domestic demand.
- Growth is projected to slow to **3.9%** in 2024 ( $-0.3$  pp from October) (from 4.9% in 2023) before accelerating to **4.8%** in 2025 ( $+0.4$  pp). Revisions mainly reflect lower growth in Kazakhstan

(Tengiz oil field production increases pushed from 2024 to 2025). Over the medium term, oil importers (robust domestic demand) are projected to generally fare better than oil exporters (plateauing hydrocarbon production).

### **Inflation is receding in line with global trends, but continued vigilance is essential.**

*MENA: Inflation approaching historical averages in many MENA economies—with about one-third now close or even below average—and monetary tightening cycles appear to have ended.*

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

*CCA: Majority of CCA countries below or close to historical averages/inflation targets, providing room for some countries to begin or continue monetary easing.*

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

### **Nonetheless, vulnerabilities remain high.**

- *Risks in the MENA region* have intensified with the conflict in **Gaza and Israel** and **Red Sea** shipping disruptions.
- *Inflation:* Some ME&CA countries could face persistent inflation and financial stress; geoeconomic conditions could worsen.
- *Global risks:* An abrupt global slowdown could materialize (including China's recovery faltering); and recurrent climate shocks could persist.
- *Market access:* Some countries' still-constrained access to international markets means that financing needs will likely be covered mostly through domestic bank financing, exacerbating sovereign-bank linkages and hampering private credit provision.

### **Policy priorities** are as follows:

- Policymakers face the difficult task of safeguarding macroeconomic stability and debt sustainability while navigating geopolitical challenges and improving medium-term growth prospects.
- Monetary policy should remain vigilant (price stability) while ensuring central bank independence. Where inflation is at or below target (some CCA countries), gradual monetary easing can be considered.
- Fiscal policy should be tailored to individual country needs to strengthen fiscal positions, build buffers, and reduce vulnerabilities. Countries need to preserve fiscal safeguards while ensuring intergenerational equity and sustainability (hydrocarbon exporters). Also, where debt is high, countries need to implement proactive debt management strategies (highly indebted countries).
- Enact structural reforms to bolster fundamentals, strengthen institutions (see REO October 2023).
- Leverage new trade opportunities (reduce barriers, diversify products and markets, improve infrastructure) and strengthen trade resilience to shocks (supply chain management and diversification of trade routes) (see Chapter 3).

### **Additional Key Numbers:**

- 0.2%** Downward revision in **2024 GDP growth forecast for the MENA region** since January 2024 REO update.
- \$261.3 billion** Projected **public sector gross financing needs** in MENA emerging markets and Pakistan in 2024 (115% of fiscal revenues, +5.6 pp from our October 2023 projections)
- 10%** **Reduction in per capita output** a decade after a severe conflict in a ME&CA country. In other regions, this decline is less than 3 percent on average and recouped within 5 years (see Chapter 2).
- \$40 billion** **IMF financing to ME&CA countries since 2020**; \$16 billion since January 2023, including **Jordan** (Extended Fund Facility); **Mauritania** (Extended Credit Facility and Extended Fund Facility; Resilience and Sustainability Facility); **Morocco** (Flexible Credit Line; Resilience and Sustainability Facility); **Somalia** (Extended Credit Facility following the Completion Point under the enhanced Heavily Indebted Poor Countries Initiative); and **Egypt** (approval of first and second reviews under the Extended Fund Facility, which included an augmentation of IMF support from \$3 billion to about \$8 billion).
- 350** Number of **technical assistance and capacity development projects** in 30 ME&CA countries