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REGIONAL ECONOMIC OUTLOOK

MIDDLE EAST AND CENTRAL ASIA

Charting a Path through the Haze

2025
MAY

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The Middle East and Central Asia Regional Economic Outlook is prepared each spring and fall by the IMF's Middle East and Central Asia Department (MCD). The report's analysis and projections form integral elements of the department's surveillance of economic developments and policies in member countries. It draws primarily on information gathered by MCD staff through consultations with member countries.

The analysis in this Regional Economic Outlook was coordinated under the general supervision of Jihad Azour (MCD Director). The project was directed by Vivek Arora (Deputy Director, MCD), Roberto Cardarelli (Chief, MCD Regional Analytics and Strategy Division), and John Bluedorn and Cesar Serra (Deputy Chiefs, MCD Regional Analytics and Strategy Division).

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Country Groupings

Middle East and Central Asia: Regional Groupings

Middle East and Central Asia			Other Regional Groupings	
Caucasus and Central Asia (CCA)	**Middle East and North Africa (MENA)**	**Other**	**Arab World**	**North Africa**
Armenia	Algeria	Afghanistan	Algeria	Algeria
Azerbaijan	Bahrain	Pakistan	Bahrain	Djibouti
Georgia	Djibouti		Djibouti	Egypt
Kazakhstan	Egypt		Egypt	Libya
Kyrgyz Republic	Iran		Iraq	Mauritania
Tajikistan	Iraq		Jordan	Morocco
Turkmenistan	Jordan		Kuwait	Sudan
Uzbekistan	Kuwait		Lebanon	Tunisia
	Lebanon		Libya	
	Libya		Mauritania	
	Mauritania		Morocco	
	Morocco		Oman	
	Oman		Qatar	
	Qatar		Saudi Arabia	
	Saudi Arabia		Somalia	
	Somalia		Sudan	
	Sudan		Syrian Arab Republic	
	Syrian Arab Republic		Tunisia	
	Tunisia		United Arab Emirates	
	United Arab Emirates		West Bank and Gaza	
	West Bank and Gaza		Yemen	
	Yemen			

MENA, Afghanistan, and Pakistan: Analytical Groupings[1]

Oil Exporters		Oil Importers		Fragile and Conflict-Affected States (FCS)	
Gulf Cooperation Council (GCC)	**Other**	**Emerging Market and Middle-Income Economies (EM&MIs)**	**Low-Income Countries (LICs)**	**All FCS**	**Conflict-Affected States**
Bahrain	Algeria	Egypt	Afghanistan	Afghanistan	Afghanistan
Kuwait	Iran	Jordan	Djibouti	Iraq	Iraq
Oman	Iraq	Lebanon	Mauritania	Lebanon	Lebanon
Qatar	Libya	Morocco	Somalia	Libya	Somalia
Saudi Arabia		Pakistan	Sudan	Somalia	Sudan
United Arab Emirates		Tunisia	Syrian Arab Republic	Sudan	Syrian Arab Republic
		West Bank and Gaza	Yemen	Syrian Arab Republic	West Bank and Gaza
				West Bank and Gaza	Yemen
				Yemen	

Caucasus and Central Asia: Analytical Groupings

Oil Exporters	Oil Importers	
	Emerging Market and Middle-Income Economies (EM&MIs)	**Low-Income Countries (LICs)**
Azerbaijan	Armenia	Kyrgyz Republic
Kazakhstan	Georgia	Tajikistan
Turkmenistan		Uzbekistan

[1] The Middle East and Central Asia region is divided into two main nonoverlapping groups, based on export earnings, namely (1) oil exporters; and (2) oil importers. The oil importers group comprises (1) emerging market and middle-income countries (EM&MIs) and (2) low-income countries (LICs) based on the income level. Additional analytical and regional groups might be used to provide a more granular breakdown for analysis and continuity.

Assumptions and Conventions

Several assumptions have been adopted for the projections presented in the *May 2025 Regional Economic Outlook: Middle East and Central Asia*. It is assumed that the established policies of national authorities will be maintained, the price of oil[2] will average $66.94 a barrel in 2025 and $62.38 a barrel in 2026, and the three-month nominal yield on US Treasury bills will average 4.2 percent in 2025 and 3.5 percent in 2026. These are working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would, in any event, be involved in the projections. The 2025–30 data in the figures and tables are projections. Unless otherwise noted, these projections are based on statistical information available through early April 2025.

This publication uses the following conventions:

- Minor discrepancies between sums of constituent figures and totals are because of rounding.
- An en dash (–) between years or months (for example, 2024–25 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2023/24) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY 2024).
- "Billion" means a thousand million; "trillion" means a thousand billion.
- "Basis points (bps)" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

The term "oil" includes gas, which is also an important resource in several countries.

As used in this publication, the term "country" does not, in all cases, refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

The boundaries, colors, denominations, and any other information shown on the maps do not imply, on the part of the IMF, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

Middle East and Central Asia: Country Abbreviations

AFG	Afghanistan	IRN	Iran	MRT	Mauritania	SYR	Syrian Arab Republic
ALG	Algeria	IRQ	Iraq	MAR	Morocco	TJK	Tajikistan
ARM	Armenia	JOR	Jordan	OMN	Oman	TUN	Tunisia
AZE	Azerbaijan	KAZ	Kazakhstan	PAK	Pakistan	TKM	Turkmenistan
BHR	Bahrain	KWT	Kuwait	QAT	Qatar	UAE	United Arab Emirates
DJI	Djibouti	KGZ	Kyrgyz Republic	SAU	Saudi Arabia	UZB	Uzbekistan
EGY	Egypt	LBN	Lebanon	SOM	Somalia	WBG	West Bank and Gaza
GEO	Georgia	LBY	Libya	SDN	Sudan	YEM	Yemen

[2] Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil.

Executive Summary

The global economy's recovery from the multiple negative shocks of recent years appears increasingly fragile and vulnerable to new risks. Increased geopolitical fragmentation, rising trade tensions, and weaker international cooperation are generating extraordinary uncertainty that is weighing on global economic prospects, with expectations of weaker growth and wider economic imbalances than foreseen at the time of the October 2024 Regional Economic Outlook: *Middle East and Central Asia*. The spike in global economic uncertainty in the first months of 2025 is starting to affect the economies of the Middle East and North Africa (MENA) and Caucasus and Central Asia (CCA) regions through subdued energy prices and tighter external financial conditions. Global factors play a key role in affecting domestic uncertainty for these economies (Chapter 2), amplifying important regional sources of uncertainty, including ongoing conflicts, pockets of political instability, and vulnerability to severe changes in climate conditions.

In the MENA region, growth is estimated to have slowed in 2024. In oil-importing economies, conflicts weighed on some countries. Oil-exporting economies successfully navigated a complex and uncertain economic landscape, aided by ongoing diversification efforts, despite reduced oil activity because of extended OPEC+ voluntary production cuts. Growth is still projected to increase in 2025 and 2026, but at a considerably slower pace than anticipated last October as spillovers from escalating global trade tensions and heightened uncertainty add to a more gradual resumption of oil production (after the extension of OPEC+ voluntary production cuts and tighter sanctions on the Islamic Republic of Iran), lingering effects of conflicts in the region, and slower-than-expected progress in implementing structural reforms in some economies. Inflation is projected to continue to decline gradually over the medium term, remaining elevated only in a few cases.

Economies in the CCA region experienced robust output growth in 2024, exceeding the October 2024 REO projections, mainly because of stronger and longer-than-anticipated positive spillovers on domestic demand from Russia's war in Ukraine. These effects are expected to normalize over the next few years and, together with plateauing hydrocarbon production growth and smaller fiscal stimulus, are expected to lead to a slowdown in CCA economic growth. Inflation has been trending down for most economies and is projected to generally remain within established targets over the medium term.

The risks to the outlook remain to the downside. The main downside risks are a resurgence of conflicts and persistently heightened global uncertainty, particularly related to changes in tariffs and potential trade dislocations that could stifle domestic and external demand and further tighten financial conditions and weaken the oil sector. Our analysis shows that spikes in uncertainty triggered by global shocks are associated with large and persistent output losses in both the MENA and CCA regions (Chapter 2). If the sharp rise in uncertainty since early 2025 continues, it could lead output to fall about 4.5 percent below its original trend after two years for the average economy in the MENA and CCA. There are also some upside risks: a swift and sustainable resolution of conflicts in the region and more effective implementation of structural reforms could lead to a greater-than-projected improvement of economic prospects in the near and medium terms.

Amid such exceptionally high uncertainty, policymakers face the difficult task of mitigating short-term risks while rebuilding economic buffers and simultaneously pursuing medium-term growth prospects. Strengthening fiscal sustainability and safeguarding price stability become even more important amid potential new adverse shocks to growth and financial conditions. Emphasizing macro-stability will require avoiding costly and difficult-to-reverse fiscal support to sectors or firms adversely affected by new protectionist measures. A more appropriate response would involve accelerating structural reforms to strengthen international competitiveness and attract foreign direct investment in non-extractive industries. Diversifying away from traditional trade partners and commodities while deepening cross-regional integration will strengthen resilience to external shocks. Strengthening

governance and institutional frameworks will enhance the capacity to respond effectively to increased uncertainty. While governance reforms are essential for laying the groundwork for reconstruction and stabilization in conflict-affected economies, new forms of international cooperation involving regional stakeholders will be vital to secure the extensive financing needed for reconstruction and humanitarian support amid dwindling external financing, including international aid.

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

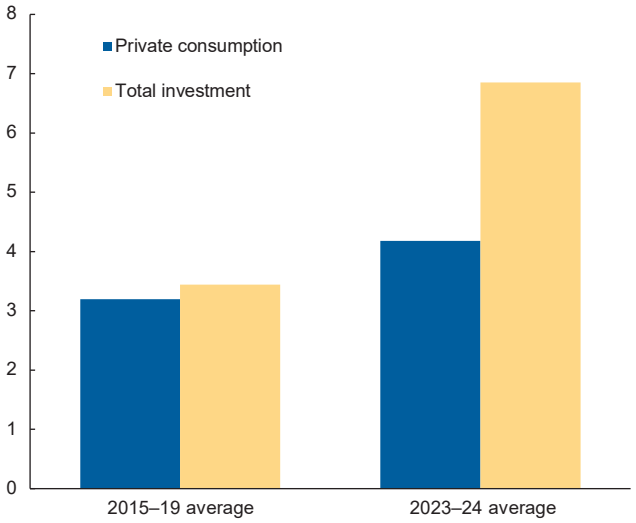
Recent growth trends indicate a divergence between oil-exporting and oil-importing economies in the Middle East and North Africa (MENA) region and Pakistan. In 2024, most oil exporters successfully navigated a complex and uncertain economic landscape, aided by ongoing diversification efforts, despite 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.

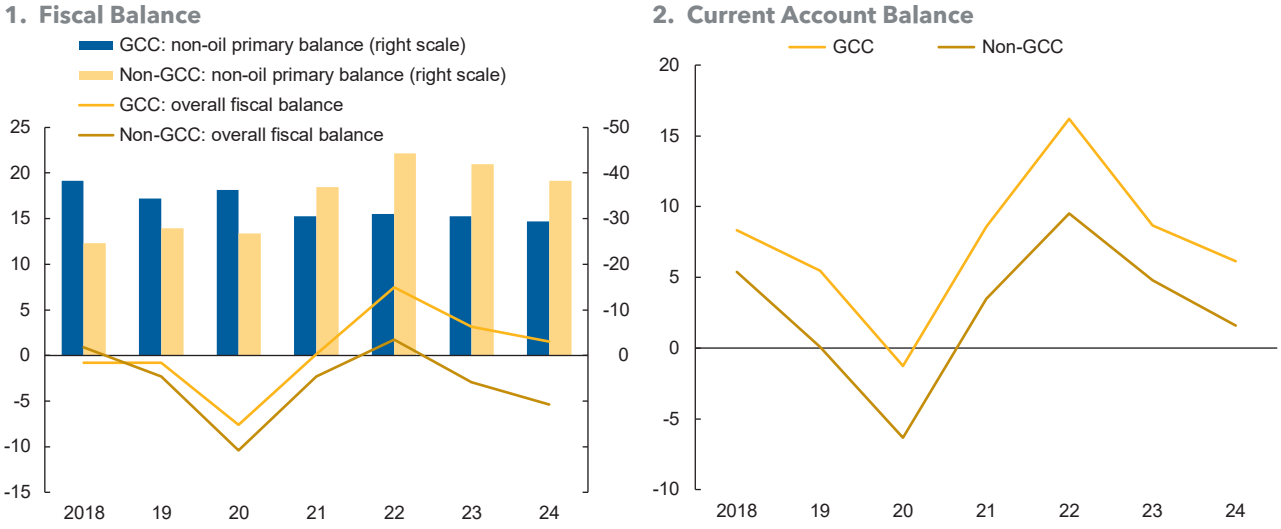
Despite a further decline in oil activity because of extended OPEC+ voluntary production cuts and sanctions on the Islamic Republic of Iran, half of the oil-exporting countries in the region saw higher growth in 2024, underpinned by robust non-oil economic activity. The impact of conflicts in the region, 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)



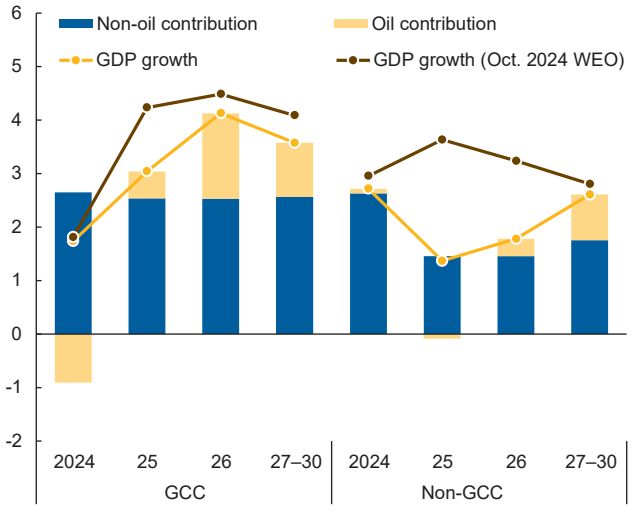
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

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.

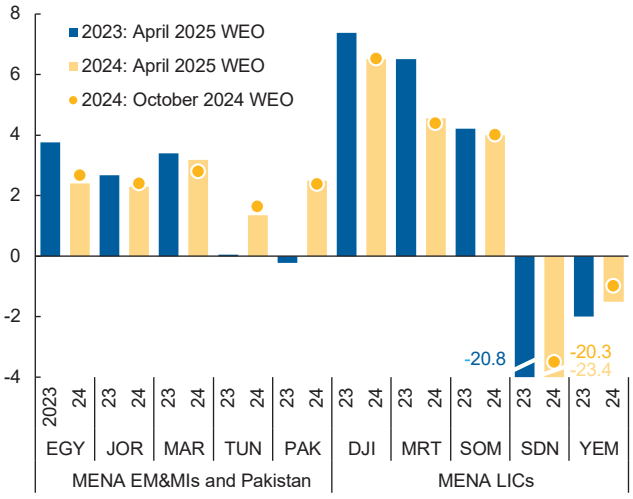
- *Non-GCC oil exporters*. Growth is expected to fall by more than 1 percentage point in 2025, marking a significant downward revision (more than 2 percentage points) compared to October, before a modest recovery in 2026. This downward revision for 2025 reflects a significant reduction to our oil production 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.

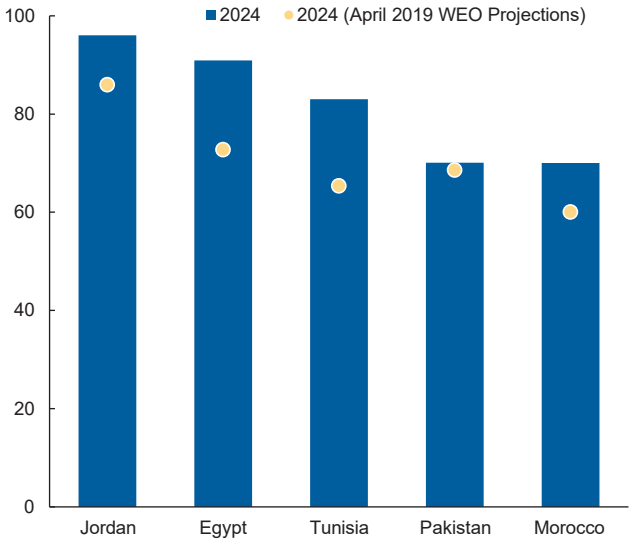
[3] Aryn Baker. "How Many People Have Died in Syria's Civil War?" *New York Times,* December 11, 2024. https://www.nytimes.com/2024/12/11/world/middleeast/syria-civil-war-death-toll.html.

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.

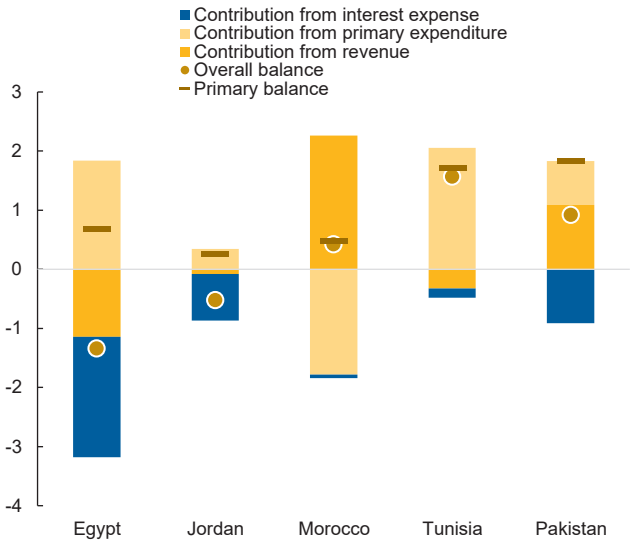
In Egypt, spillovers from the conflict in Gaza and Israel, along with rising borrowing costs, have complicated the overall fiscal consolidation efforts initiated since the pandemic. The larger fiscal deficit in 2024 reflected underperforming revenues because of declining Suez Canal tax receipts and a 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, 2024–23
(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.

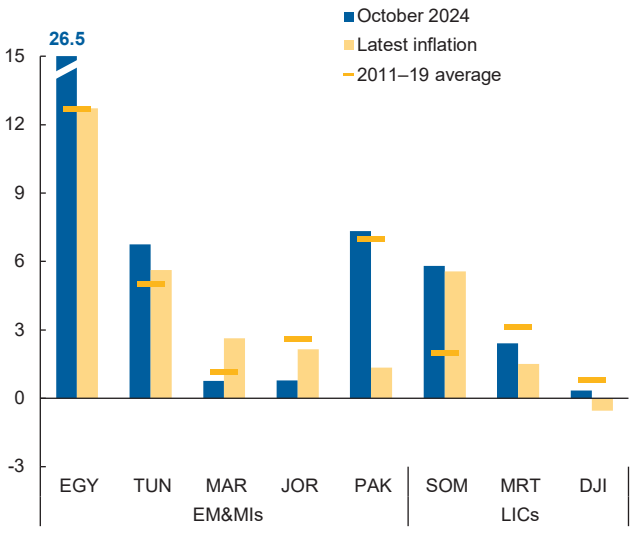
[4] Sudan entered the Heavily Indebted Poor Countries initiative process, but the process has stalled since then.

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.

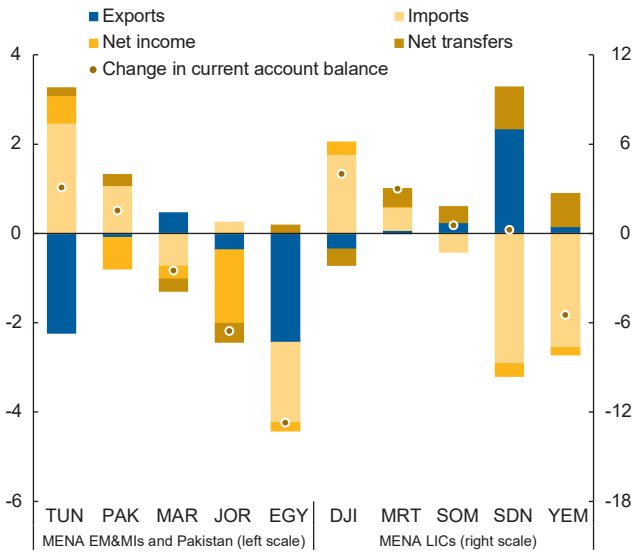
On the external front, stark differences emerged among MENA oil importers. Current account balances fell in economies directly affected by conflicts. For example, Yemen's current account deficit widened with higher essential imports and the continued suspension of oil exports amid the ongoing conflict, 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.

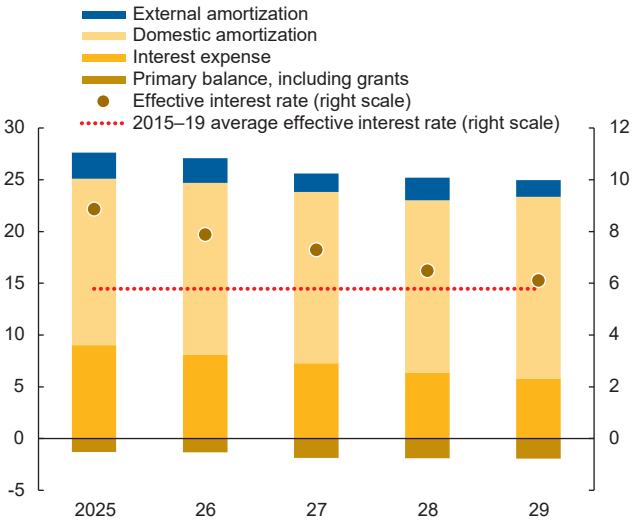
Morocco (Box 1.2). While no countries tapped international markets last year, Egypt and Morocco issued foreign currency denominated sovereign bonds in the first quarter of 2025 (for $2 billion and $2.2 billion, respectively). Overall, reserve coverage—measured in months of prospective imports—is expected 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).

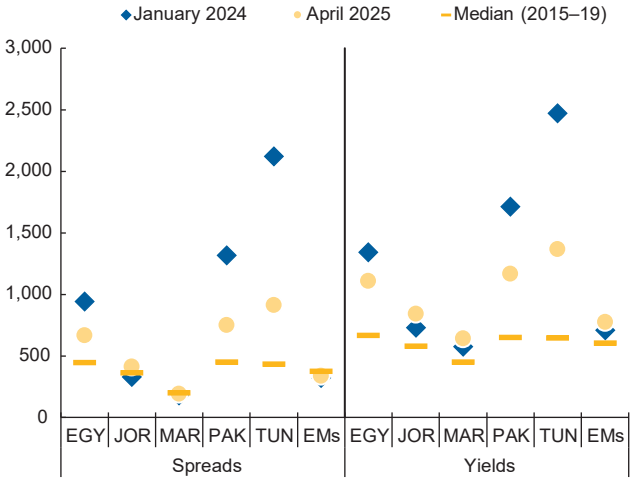
- Growth rates in economies directly affected by conflicts in the region (Lebanon, Sudan, West Bank and Gaza, Yemen) are projected to improve in 2025, even if remaining negative in some cases (Sudan, Yemen). This anticipated improvement is primarily attributed to a base effect, reflecting a smaller negative 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

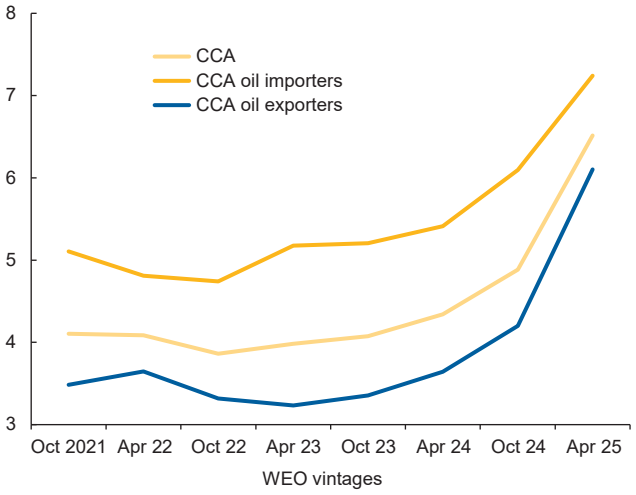
Economies in the Caucasus and Central Asia (CCA) experienced stronger-than-projected growth in 2024, driven by stronger-than-expected domestic demand and infrastructure investment. However, growth in the region is projected to slow, owing to waning spillovers from the war in Ukraine and plateauing hydrocarbon 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.

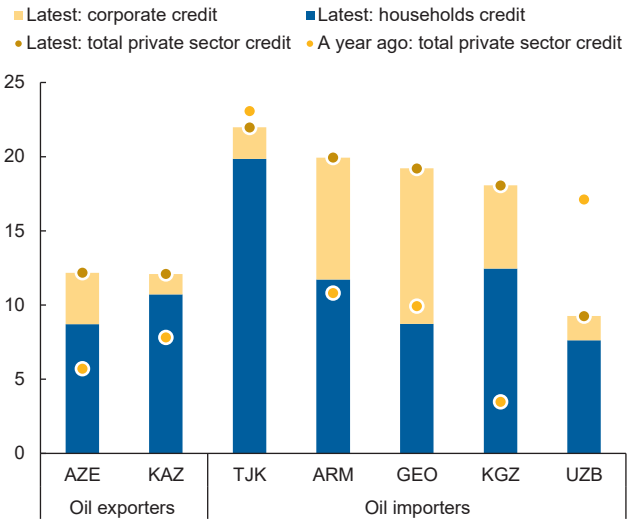
Figure 1.11. CCA: Evolution of 2024 Growth Projection
(Year-over-year percent change; weighted averages; non-oil GDP growth for oil exporters)



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

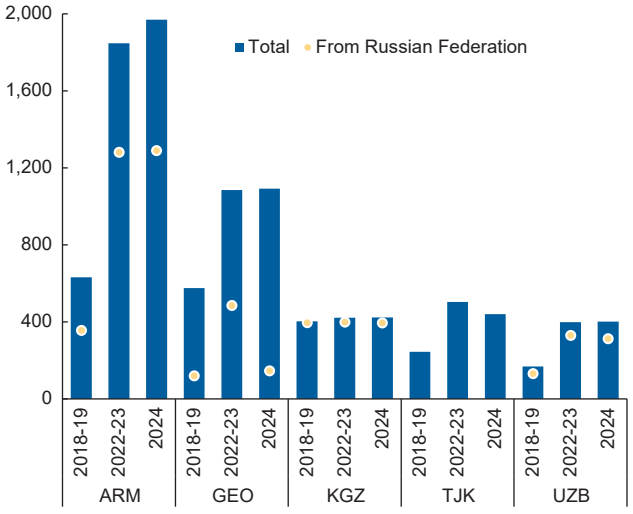
Fiscal positions in the region diverged between oil importers and oil exporters. Oil importers continued their fiscal adjustment after the pandemic, narrowing their primary deficits to 1.5 percent of GDP on average in 2024, down from 2.6 percent in 2023, marking a cumulative adjustment of nearly 3 percentage 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 1.12. CCA: Private Sector Credit Growth and Contributions, Latest Period Available
(Percentage points; 12-month moving averages)



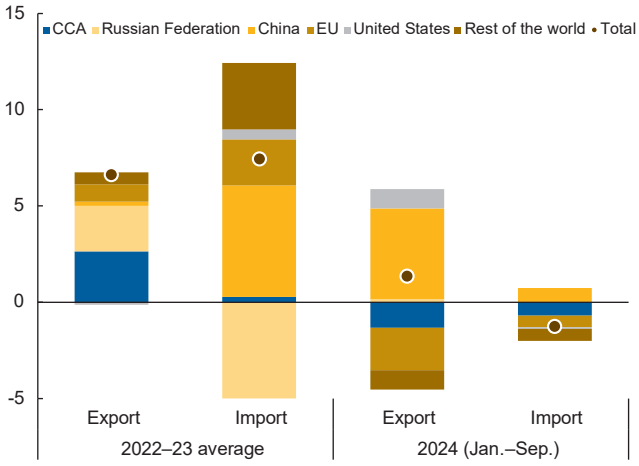
Sources: IMF, International Finance Statistics database; Haver Analytics; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. Latest data for Georgia and Kazakhstan are as of February 2025; for Armenia, Azerbaijan, and Uzbekistan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

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



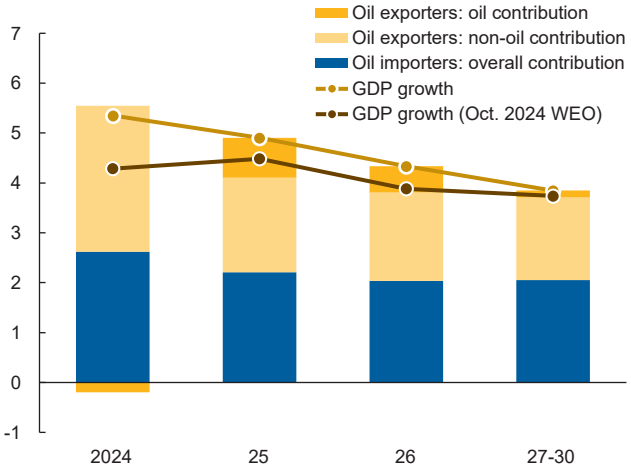
Sources: Haver Analytics; national authorities; IMF, Balance of Payments database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. Data are not available for inward remittances from the Russian Federation to Tajikistan.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

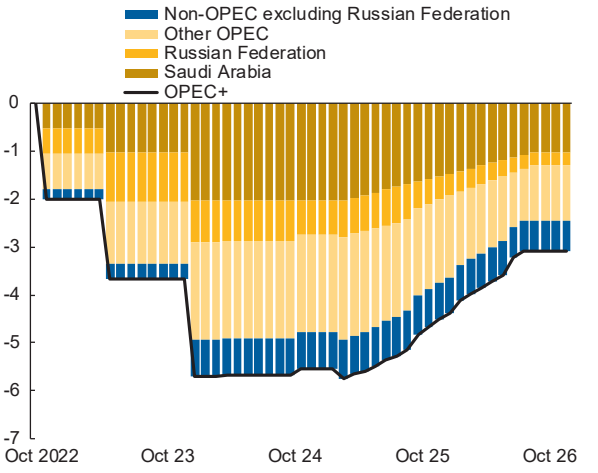
The IMF has continued to support the region through policy advice, lending, and capacity development. Since early 2020, the IMF has approved more than $49 billion in financing to countries across the MENA region, Pakistan, and the CCA, of which about $14.8 billion has been approved since early 2024 for 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).[5]

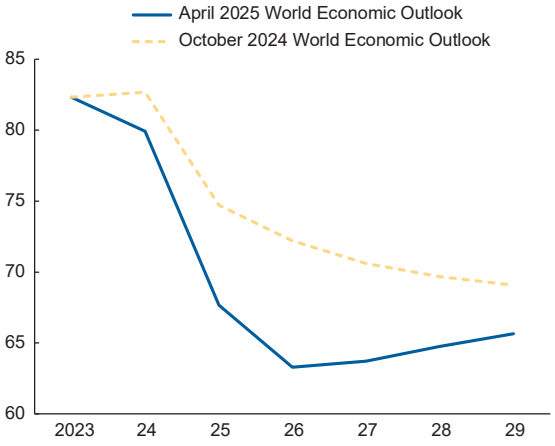
As a result, oil production in the MENA region is projected to reach 25.5 million b/d in 2025 and 26.7 million b/d in 2026. This production corresponds to a 200,000 b/d year-on-year increase in 2025 and 1.2 million b/d year-on-year increase in 2026, which is 1.3 million and 200,000 b/d less, respectively,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

[5] 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

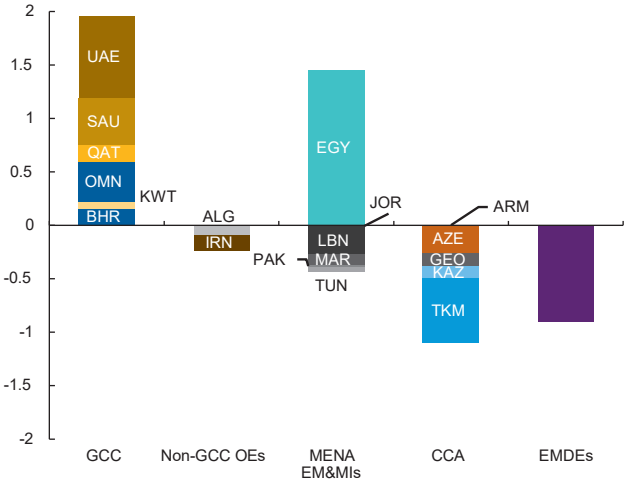
Sustained inward foreign direct investment (FDI) is crucial for economic development, diversification, and global value chain integration. However, FDI flows have declined globally since the COVID-19 pandemic, with flows to emerging market and developing economies falling most dramatically. Increasingly, 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:

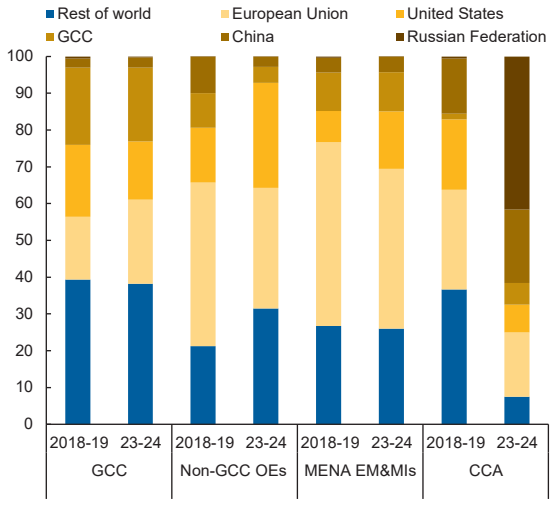
- All Gulf Cooperation Council (GCC) economies have attracted substantial FDI inflows since the pandemic, with aggregate FDI rising by nearly 2 percentage points of GDP (Box Figure 1.2.1, panel 1). Amid ambitious diversification plans in GCC countries, sectors including manufacturing, transport and storage, 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)



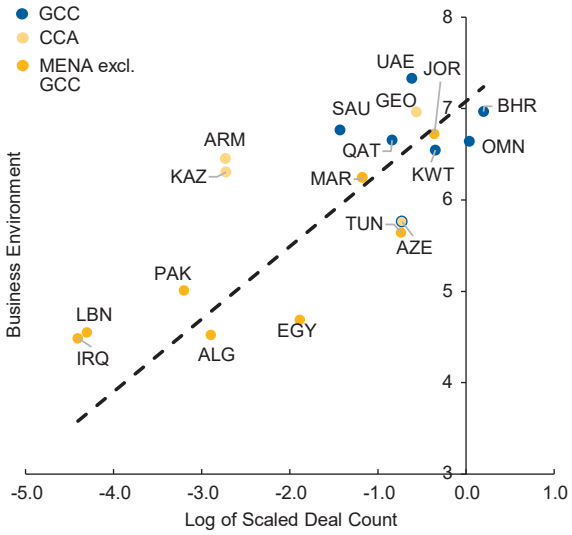
Sources: IMF, World Economic Outlook database, Orbis Crossborder Investment; and IMF staff calculations.
Notes: Figure 1 reports GDP-weighted contributions to the change in FDI inflows. In Figure 2, the total number of deals are scaled by real GDP for each country before aggregating at the regional level. 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

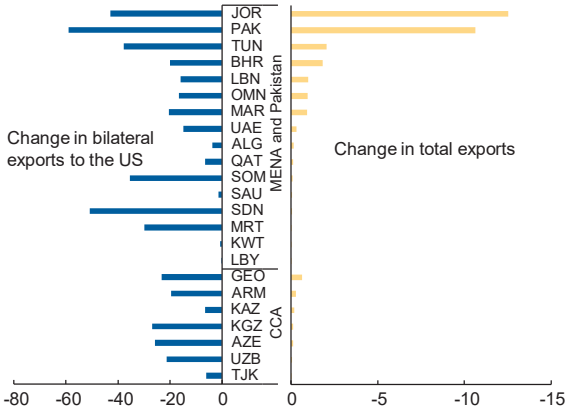
Recent changes in US trade policy have led to adjustments in US import tariffs. While the higher tariffs announced on April 2 were paused on April 9 for most countries (including those in the region), a baseline increase of 10 percent continued to apply, and countries that imposed retaliatory tariffs 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.

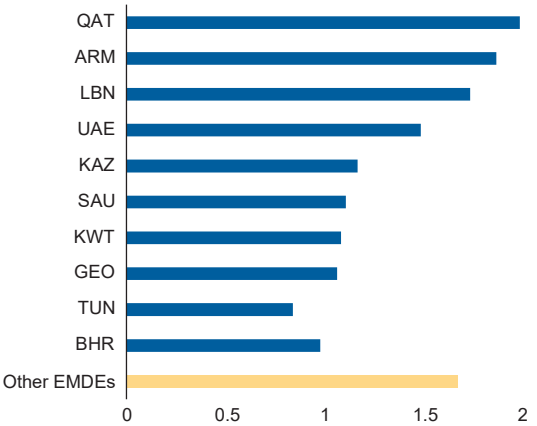
As a result, although the changes in exports to the United States in response to the announced April 2 tariffs may be sizable for some countries, the direct (partial equilibrium) impact on total exports is contained (Box Figure 1.3.1). For most economies in the MENA and CCA regions the impact is less 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.

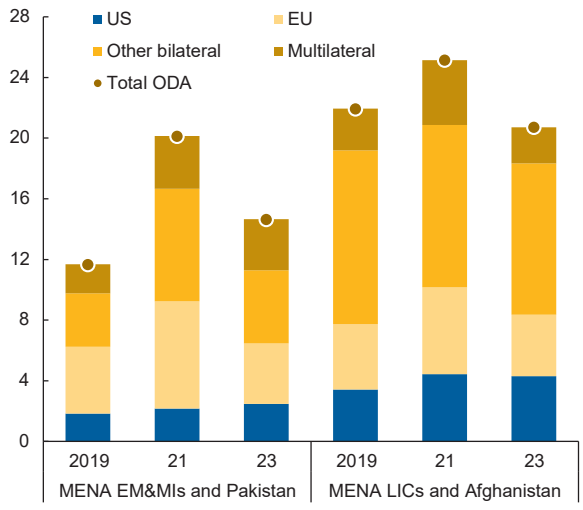
Box 1.4. Middle East and North Africa Region: Official Development Assistance and Food Insecurity

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

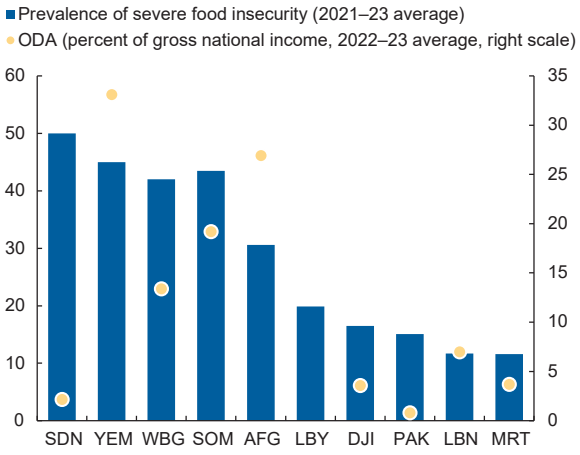
(Billions of dollars)



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.

The authors of this box are Faris Abdurrachman and Serpil Bouza, with contributions from Laura Jaramillo, Nora Neuteboom, Alexander Tieman, and the IMF country teams for Afghanistan, Iraq, and Lebanon.

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Table 1.1. Selected Economic Indicators, 2022–26

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

				Projections	
	2022	2023	2024	2025	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.

2. Riding the Waves: Building Resilience in an Era of High Uncertainty[1]

Global uncertainty has been on an upward trend over the past few decades, with recent developments sparking a new surge. This chapter presents the first empirical analysis of the drivers and economic impacts of uncertainty in the Middle East and North Africa (MENA) and Caucasus and Central Asia (CCA) regions.[2] The analysis finds that global and regional factors account for much of the spikes in uncertainty, particularly in the CCA region and among Gulf Cooperation Council (GCC) countries. Country-specific factors—conflicts, political instability, climate issues, and disease outbreaks—are also associated with higher uncertainty. The analysis also highlights the adverse economic impacts of uncertainty. Persistent spikes in global uncertainty are estimated to have a large negative impact on real output, with average output losses accumulating to about 2.5 percent after two years. Moreover, the adverse economic impacts of uncertainty shocks are larger in the MENA and CCA regions compared with the rest of the world. This partly reflects higher average preexisting macroeconomic vulnerabilities, including high public debt and weak institutions, that amplify these adverse impacts. These findings underscore the importance of enhancing policy buffers and implementing structural reforms—such as strengthening governance and institutions and macroeconomic frameworks—to bolster economic resilience and mitigate the impacts of high uncertainty.

2.1. Introduction

Over the past 25 years, global uncertainty—the degree to which knowledge or understanding about the current or future state of the world is incomplete—has generally been on the rise, as indicated by various metrics (Figure 2.1).[3] This chapter's analysis uses the World Uncertainty Index (WUI), an indicator of economic uncertainty proposed by Ahir, Bloom, and Furceri (2022), one of the most widely used empirical measures of uncertainty with broad country coverage.[4] Over the last 25 years, this index has undergone a number of sharp spikes, including the September 11, 2001, attacks in the United States; the European sovereign debt crisis; the COVID-19 pandemic; and Russia's war in Ukraine (Figure 2.2). In 2025, the WUI has risen again, approaching levels seen at the onset of the COVID-19 pandemic.

This chapter examines the evolution of uncertainty in the countries of the MENA and CCA regions, focusing on the key factors contributing to uncertainty and its economic impacts. It begins by analyzing how uncertainty has evolved across the countries in these regions and decomposes the extent to which this variation has reflected global, regional, and country-specific (idiosyncratic) factors. Next, the analysis assesses the determinants of country-specific factors, asking the question: what country-level features or shocks are associated with increases in uncertainty? Then, it explores the financial and economic impacts of uncertainty, including how preexisting macroeconomic vulnerabilities can either exacerbate or mitigate these effects. Finally, drawing on the findings, this chapter offers policy recommendations to help guide economic policy amid the high levels of uncertainty.

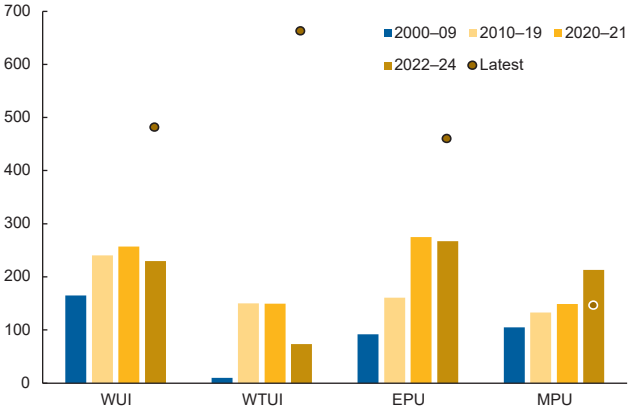
[1] This chapter was prepared by Faris Abdurrachman, Botir Baltabaev, Serpil Bouza (co-lead), Bronwen Brown, Steven Dang, Colombe Ladreit, Troy Matheson (co-lead), Bilal Tabti, and Qirui Zhang.

[2] For analytical purposes in this chapter, the geographic grouping of the Middle East and North Africa (MENA) region includes Pakistan.

[3] In economics, a distinction is often made between two concepts of uncertainty: risk, in which it is possible to quantify the degree or level of variation in possible outcomes (the underlying probability distribution is known); and Knightian uncertainty, in which it is not possible to quantify that variation (the underlying probability distribution is unknown; see Knight [1921]). The World Uncertainty Index (WUI) used in this chapter simply captures perceptions of uncertainty as reflected in expert reports; it does not rely on the exact definition of uncertainty in the reports. For more details on additional uncertainty measures, see the Online Annex.

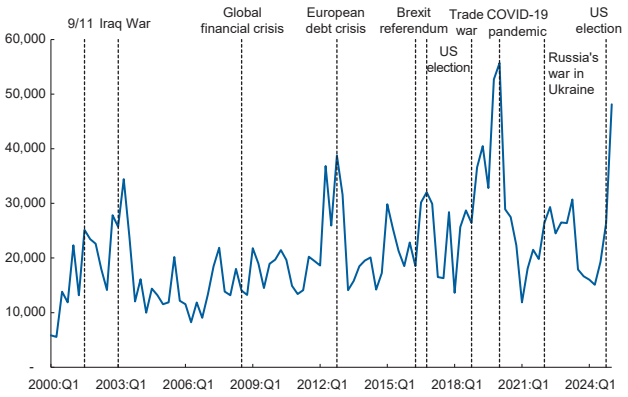
[4] Based on a text analysis of country-specific Economist Intelligence Unit reports, the WUI is constructed as a count of the appearances of the term "uncertainty" and related phrases, scaled by the total word count of each report (by country and time period). The WUI at the global level is derived from the weighted average of these country-level uncertainty indicators. The WUI tends to move in concert with other uncertainty indicators.

Figure 2.1. Measures of Global Economic Uncertainty
(Index)



Sources: Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI); Husted, Rogers, and Sun 2017; US Monetary Policy Uncertainty (MPU) Index; Davis 2016; Global Economic Policy Uncertainty (EPU) Index; and IMF staff calculations.
Note: The quarterly WUI at global level is a US dollar GDP-weighted average of 143 country-level indices and ends in the first quarter of 2025. The latest available observations for the WUI, WTUI, EPU, and MPU are for first quarter of 2025, first quarter of 2025, January 2025, and second quarter of 2024, respectively. EPU and MPU are constructed using a method similar to WUI and are based on the search results of major US newspapers. EPU = Economic Policy Uncertainty; MPU = Monetary Policy Uncertainty; WTUI = World Trade Uncertainty Index; WUI = World Uncertainty Index.

Figure 2.2. World Uncertainty Index
(Index)



Sources: Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI); and IMF staff calculations.
Note: The quarterly WUI at global level is a US dollar GDP-weighted average of 143 country-level indices and ends in the first quarter of 2025.

2.2. Significant Common Drivers of Uncertainty

Over the last two decades, uncertainty (as captured by the WUI) has varied significantly in the MENA and CCA regions. The weighted averages of country-level uncertainty in the MENA region (excluding the GCC), GCC, and the CCA region have closely tracked a series of global events as well as events that are particularly relevant for each region (Figure 2.3, panels 2–4).

- *MENA region (excluding the GCC)*. Uncertainty has experienced large spikes, especially when Israel withdrew from Gaza in the mid-2000s and during the social turmoil after the Arab Uprising.
- *GCC*. Uncertainty has been relatively volatile, with sharp increases during pivotal moments for the region, such as the oil-price collapse after the Great Recession, Saudi Arabia's rejection of a temporary seat on the United Nations Security Council, and the United States' withdrawal from the Iran nuclear deal (the Joint Comprehensive Plan of Action).
- *CCA*. Uncertainty has surged during important regional events, including Russia's wars in Georgia and Ukraine and Russian ruble–related currency devaluations.

A formal statistical decomposition can be used to measure the extent to which changes in uncertainty in the MENA and CCA regions over the past two decades have been driven by three factors: global factors (common to all countries), regional factors (common to all countries in each region after taking global factors into account), and country-specific/domestic factors (what is unique to each country after taking global and regional factors into account).[5]

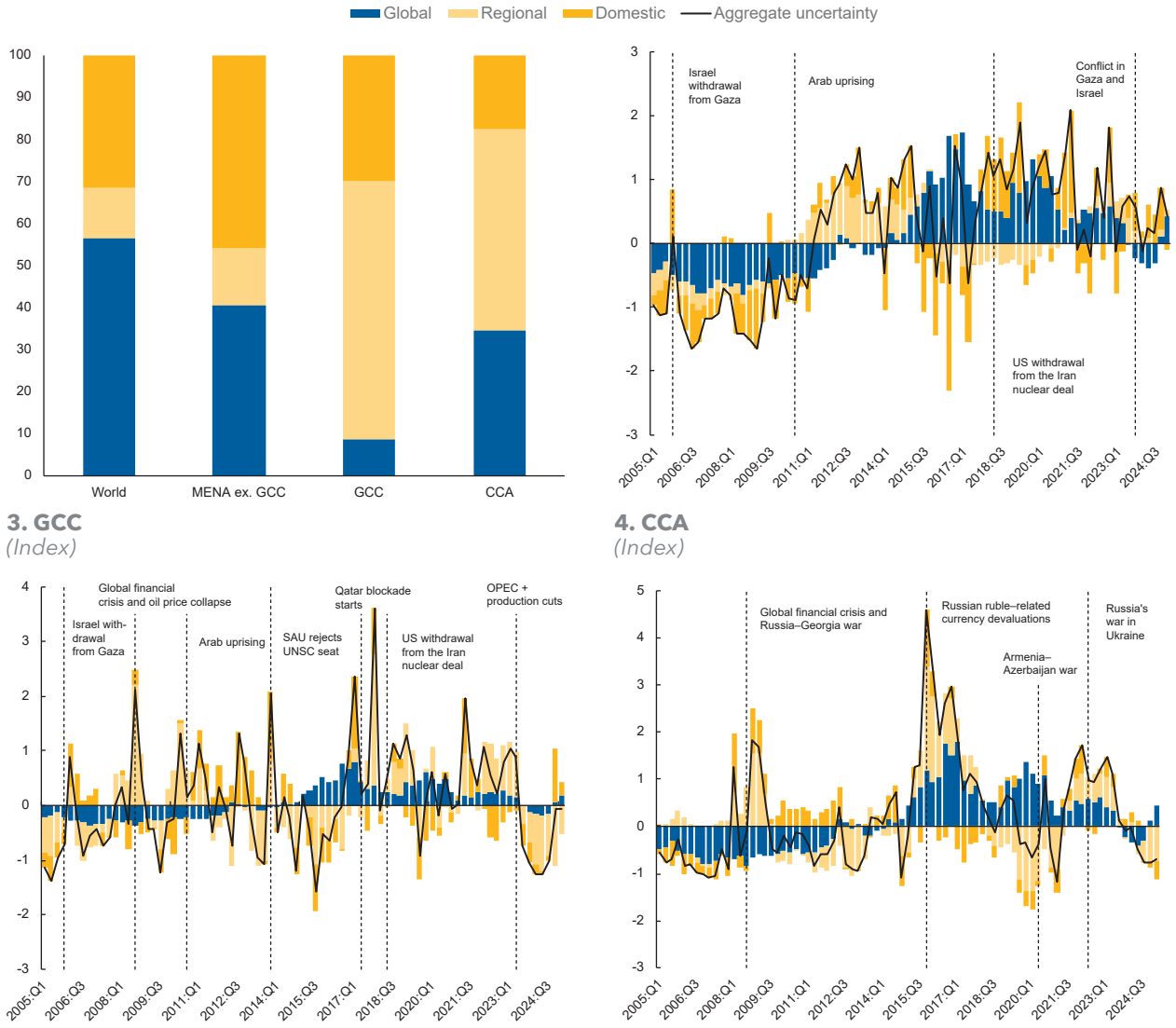
[5] See the Online Annex for a detailed description of the methodology behind the dynamic factor decompositions of the WUIs which attributes the variation of uncertainty across the three statistical factors outlined here—global, regional, and country-specific.

The analysis shows that changes in uncertainty have been highly synchronized across countries in the MENA and CCA regions, although this synchronization is somewhat less pronounced than the average for all the countries in our sample. On average, global factors account for more than half of the variation of uncertainty across all countries in our worldwide sample, while regional factors account for 10 percent (Figure 2.3, panel 1). By contrast, global factors explain about 35 percent of the variation of uncertainty across countries in the MENA (excluding GCC countries) and CCA regions. Regional factors explain about 30 percent of the average variation, with country-specific factors explaining the remainder. In GCC countries, global factors appear to be less important in explaining the variation of uncertainty, accounting for only about 10 percent of the total variation. Regional factors

Figure 2.3. Drivers of Uncertainty

1. Contributors to the Overall Variation of Uncertainty
(Percent)

2. MENA Region, Excluding GCC Countries
(Index)



3. GCC
(Index)

4. CCA
(Index)

Sources: Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI) database; and IMF staff calculations.
Note: The charts display decompositions of aggregate (US dollar GDP-weighted) uncertainty indexes by region, derived from a dynamic factor model. The aggregate indexes are scaled to have a mean of zero and a standard deviation of one over the indicated period. The model assumes that uncertainty in each country is driven by three types of shocks: global (common to all countries), regional (common to all countries in each region after taking account of global shocks), and domestic (country-specific). The model is estimated using quarterly uncertainty indexes from the WUI database covering 143 countries across seven regions. The sample spans from the first quarter of 2000 to the first quarter of 2025. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa (and Pakistan); SAU = Saudi Arabia; UNSC = United Nations Security Council; WUI = World Uncertainty Index.

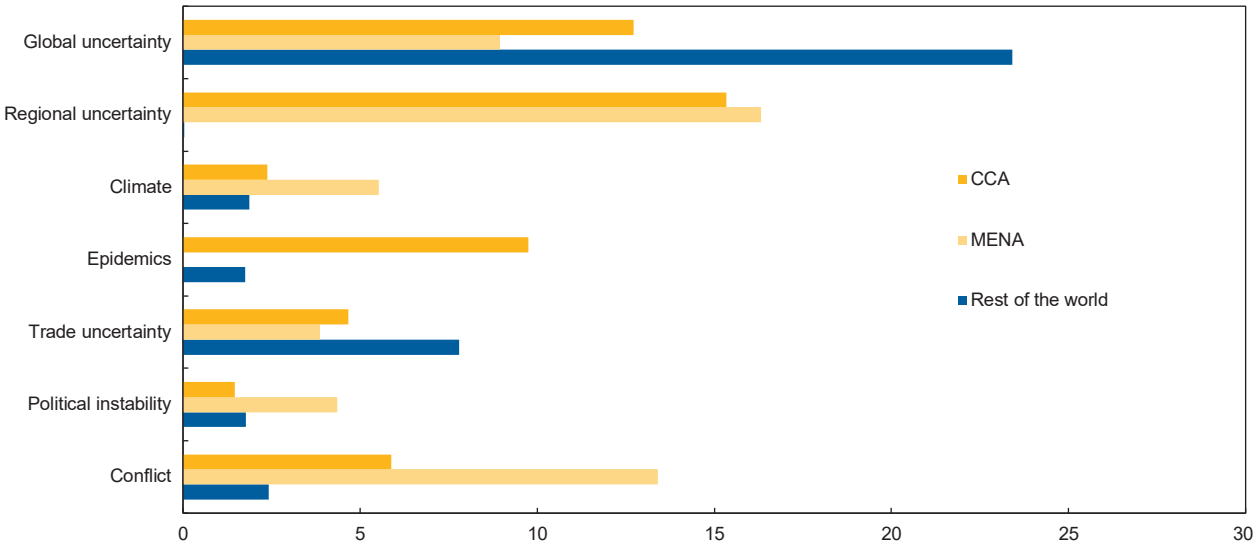
play a more important role in explaining uncertainty variations in the GCC and CCA regions (at 60 percent and 40 percent, respectively, of the overall variation, on average). Country-specific factors play a bigger role in economies in the MENA region (excluding the GCC). In the case of GCC countries, the dominant role played by the regional factor partially reflects their shared, relatively heavier economic reliance on oil compared with elsewhere.

2.3. Country-Specific Contributors to Uncertainty Differ Across Regions

This section explores the factors that explain country-specific variation in uncertainty in MENA and CCA regions and the rest of the world. Country-level uncertainty (WUI) is regressed against a series of country-specific variables likely to capture important determinants of uncertainty while controlling for global and regional statistical factors (identified in the previous section).[6] The findings suggest that a few key variables are associated with higher uncertainty and play important roles in explaining the variation of uncertainty across countries (Figure 2.4):

- *Climate (temperature anomalies).* Climate shocks explain about 6 percent of the variation in uncertainty in economies in the MENA region, more than in the CCA region and about twice as much as in the rest of the world, possibly reflecting exposure to higher temperatures in the MENA region than elsewhere.

Figure 2.4. MENA, CCA, and the Rest of the World: Contributors to Uncertainty
(Percent of variation explained)



Sources: Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI); Our World in Data; Center for Systemic Peace, Integrated Network for Societal Conflict Research; Torres Munguía and others 2022; Uppsala Conflict Data Program, Georeferenced Event dataset; and IMF staff calculations.
Note: Standard errors are clustered at the country-level. Relative contributions add up to less than 100 because the error term (unexplained component) contributes 48 percent to 61 percent of the total variation. Climate-driven uncertainty is captured by absolute deviations from the 1950–90 country average temperature. Epidemic-induced uncertainty is based on the count of infectious diseases outbreaks. Adverse political events include successful and attempted coups, auto-coups, assassinations or coerced resignations of the executive power, and eviction of leadership by rebel or foreign forces but does not include alleged coup plots or coup plots. Conflict is an indicator variable equal to 1 when the number of conflict-related deaths exceeds the 75th percentile worldwide. Trade uncertainty is measured by the country value of the World Trade Uncertainty Index. See Online Annex for additional details. CCA = Caucasus and Central Asia; MENA = Middle East and North Africa (and Pakistan).

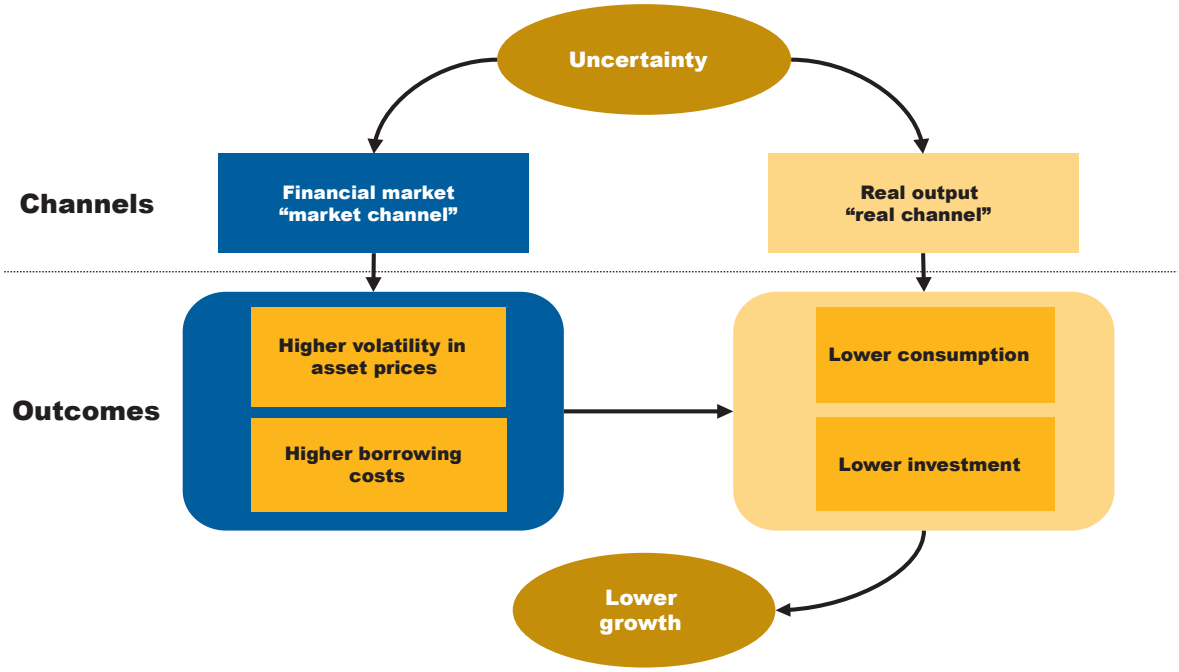
[6] The sample comprises 19 countries from the MENA region and 8 countries from the CCA region, including Afghanistan, Algeria, Armenia, Azerbaijan, Egypt, Georgia, the Islamic Republic of Iran, Iraq, Jordan, Kazakhstan, Kuwait, the Kyrgyz Republic, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Sudan, Tajikistan, Tunisia, Turkmenistan, the United Arab Emirates, Uzbekistan, and Yemen. The rest of the world sample includes 113 countries. The relative contributions are computed following Sterck (2019), using the sum of mean absolute deviations as a distance measure. Panel regressions span the 1996–2021 period, reflecting data availability. See the Online Annex for further details and regression results. Uncertainty levels are similar across the MENA and CCA regions and are lower in both regions than in the rest of the world, on average.

- *Epidemics (infectious disease outbreaks).* In economies in the CCA region, epidemics are particularly important contributors to uncertainty, explaining about 10 percent of the variation. This share is notably higher than those observed in economies in the MENA region and the rest of the world, where disease outbreaks tend to occur more frequently than in the CCA region.
- *Political instability.* Adverse political events, such as coups, account for about 4 percent of the variation in uncertainty in economies in the MENA region—twice as much as the contribution in the CCA region and the rest of the world.
- *Conflict.* Severe conflicts contribute more than 13 percent to the variation in uncertainty in the economies in the MENA region. By comparison, conflict is less important in the CCA (with an explained share of less than 6 percent) and in the rest of the world (less than 2 percent). Conflict intensity tends to be lower in these regions than in the MENA region.
- *Trade uncertainty.* Trade uncertainty explains less of the variation in uncertainty in the economies of both the MENA and CCA regions compared with the rest of the world, reflecting their lower trade integration relative to other regions. It accounts for 5 percent and 4 percent of the variation, respectively, compared with 8 percent in the rest of the world.

2.4. Adverse Economic Impacts of Uncertainty

Increases in uncertainty can affect the economy through two key channels (Figure 2.5). First, rises could trigger sudden shifts in financial market sentiment (*market channel*), increasing asset price volatility and borrowing costs through higher risk premiums. Second, they can undermine confidence and prompt consumers to save more (the precautionary motive), dampening consumption; and cause foreign and domestic investors to delay or even cancel investment plans *(real channel).*[7]

Figure 2.5. Uncertainty: Channels of Transmission



Source: IMF staff.

[7] For more insights into the implications of uncertainty on macrofinancial stability, see the October 2024 *Global Financial Stability Report*.

This section assesses the importance of these two channels in the MENA and CCA regions, as well as the rest of the world, distinguishing between domestic versus global uncertainty shocks:

- *Domestic uncertainty shocks* are captured by changes in the country-level WUI. The benchmark shock is a one standard deviation rise, equivalent to a country's uncertainty level jumping from the 10th to 60th percentile of the distribution of uncertainty across economies.
- *Global uncertainty shocks* are captured by changes in the GDP-weighted average WUI for the world. The benchmark shock is a one standard deviation rise, equivalent to a jump from the 10th to 50th percentile of the historical distribution of the global WUI indicator.

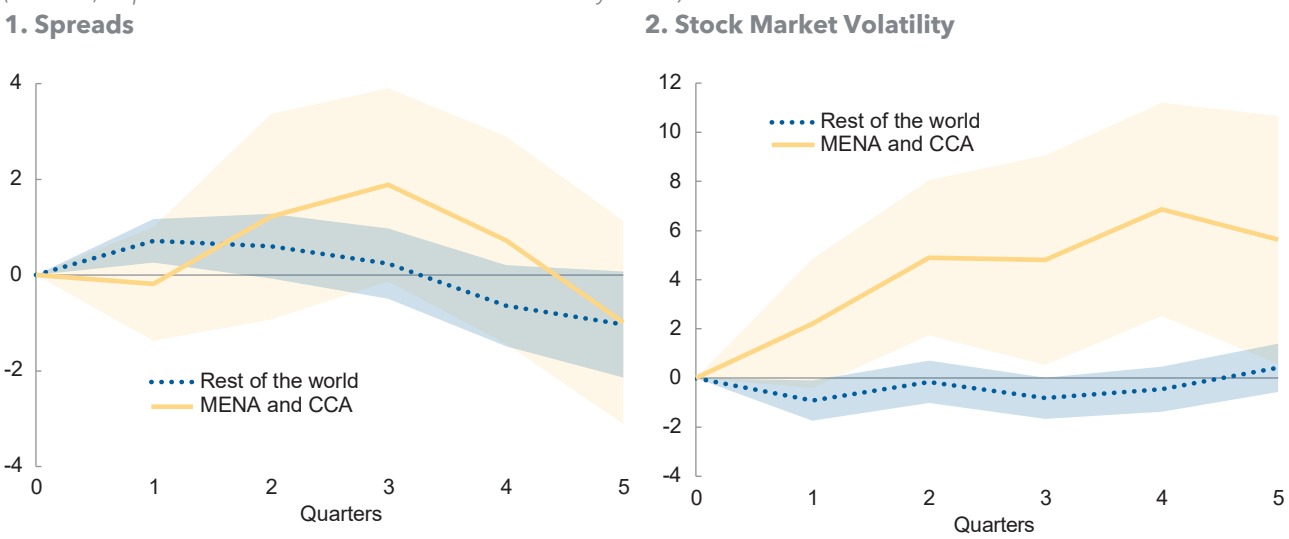
A local projections approach (Jordà 2005) is used to estimate the dynamic response of real and financial variables to these uncertainty shocks, controlling for potential confounding factors that could affect both uncertainty and macroeconomic outcomes.[8]

Domestic Uncertainty Shocks

Domestic uncertainty shocks are associated with temporary increases in sovereign spreads and stock market volatility above their baseline trends for economies in the MENA and CCA regions (Figure 2.6).[9] The magnitude of these effects is larger than those seen in the rest of the world, with peak average impacts of about 2 percent on spreads and about 7 percent for stock market volatility.[10] For stock market volatility, the large impact in the

Figure 2.6. MENA and CCA Regions: Impact of Domestic Uncertainty Shocks on Financial Market Indicators

(Percent, impact of a one standard deviation uncertainty shock)



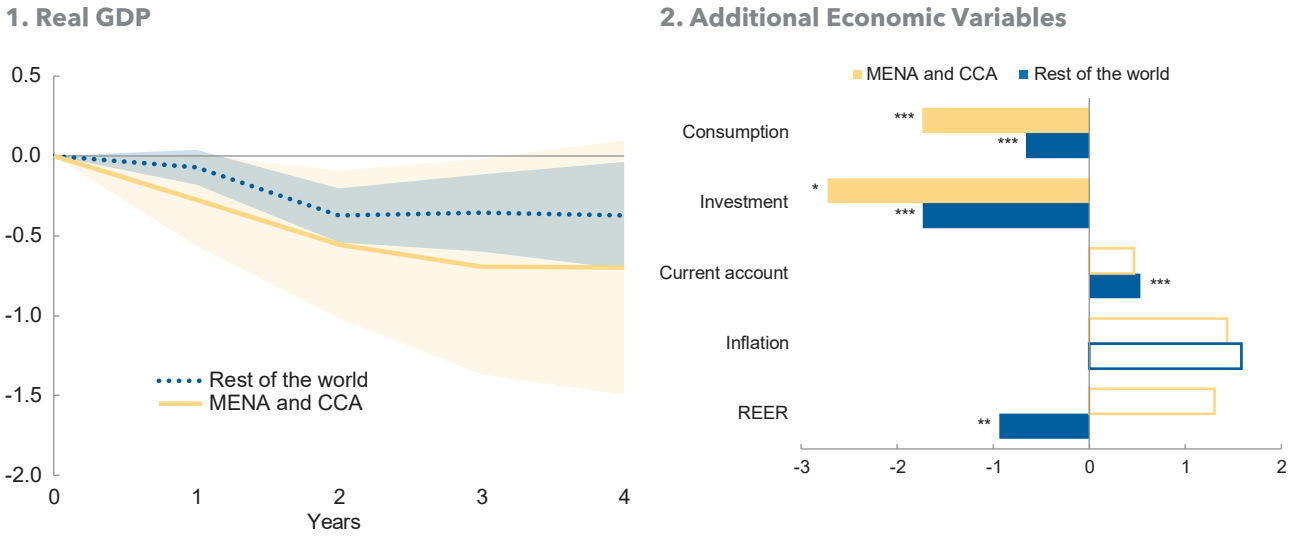
Sources: IMF, World Economic Outlook database; Ahir, Bloom and Furceri 2022; World Uncertainty Index (WUI) database; IMF, Sovereign Spread Monitor; Finaeon, GFDatabase; and IMF staff calculations.
Note: The impacts of uncertainty are assessed using a local projections approach. The shock happens in quarter 1 and corresponds to a one standard deviation increase in the country-level uncertainty indicator. Regressions include time and country (panel 1) or stock market (panel 2) fixed effects, three lags of the shock, and three lags of the dependent variable. Shaded areas represent the 90 percent confidence interval. Panel 1 shows the impact on spreads, defined as the quarterly average of daily sovereign spreads weighted across maturities. Panel 2 shows the impact on stock market volatility, defined as the standard deviation of weekly stock market prices over the quarter. "Rest of the world" excludes countries in the CCA and MENA regions (and Pakistan). CCA = Caucasus and Central Asia; MENA = Middle East and North Africa (and Pakistan).

[8] See the Online Annex for further details.

[9] The analysis of sovereign spreads focuses on 17 economies in the MENA and CCA regions and 70 countries in the rest of the world, while the stock market volatility analysis focuses on 17 economies in the MENA and CCA regions and 82 countries in the rest of the world, reflecting data availability. The impact of uncertainty on stock market volatility and performance in economies in the MENA region is also discussed in Chau, Deesomsak, and Wang (2014) and Faniband and Shamsher (2024), respectively.

[10] For spreads, this translates into a 7.6 basis point increase among countries in the MENA and CCA regions.

Figure 2.7. MENA and CCA Regions: Real Economy Impacts of Domestic Uncertainty Shocks
(Percent, impact of a one standard deviation uncertainty shock)



Sources: IMF, World Economic Outlook database; Ahir, Bloom and Furceri 2022; World Uncertainty Index (WUI) database; Torres Munguía and others 2022; Uppsala Georeferenced Event Database; Center for Research on the Epidemiology of Disasters, Emergency Events Database EM-DAT; World Bank, Worldwide Governance Indicators; and IMF staff calculations.
Note: The impacts of uncertainty are assessed using a local projections approach. The shock happens in year 1 and corresponds to a one standard deviation increase in the country-level uncertainty indicator. Regressions include time and country fixed effects, two lags of the shock, two lags of the dependent variable, and control for openness to trade, investment share, terms of trade shocks, trade partners' growth, control of corruption, conflict shocks, natural disasters, and epidemics. Shaded areas represent the 90 percent confidence interval. Panel 1 shows the real GDP impact. The results remain unchanged when looking at non-hydrocarbon real GDP for hydrocarbon exporters. Panel 2 shows the impact two years after the shock. All results are percent differences except for the current account balance as a percentage of GDP, for which it is the percentage point difference. "Rest of the world" excludes countries in the CCA and MENA regions (and Pakistan); Hollow bars indicate a lack of significance. CCA = Caucasus and Central Asia; MENA = Middle East and North Africa (and Pakistan); REER = real effective exchange rate. *$p < .10$; **$p < .05$; ***$p < .01$.

MENA and CCA regions could reflect their relatively low levels of financial development, which limit opportunities for diversification and international risk sharing (Chapter 3 of the October 2024 *Regional Economic Outlook: Middle East and Central Asia*).

The analysis also shows larger and longer-lasting effects on the real economy from domestic uncertainty shocks in the MENA and CCA regions, compared with elsewhere (Figure 2.7). In the MENA and CCA regions, domestic uncertainty shocks lead to an immediate decline in real GDP (output, Figure 2.7, panel 1), relative to its baseline trend, with maximum losses reaching about 0.7 percent after two years. This decline is about two times greater than the losses seen in the rest of the world for a comparably sized shock.[11]

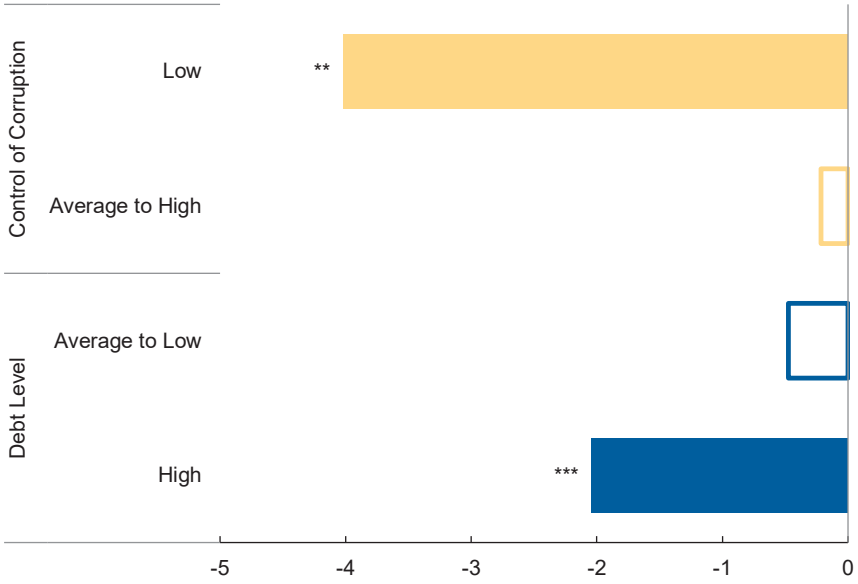
The response of output in the MENA and CCA regions is driven by significant declines in both consumption and investment, which are also more pronounced than those elsewhere (Figure 2.7, panel 2).[12] On the external side, current account balances tend to improve because of weaker domestic demand (and associated import compression). The real effective exchange rate appreciates, likely because of rising inflation and the prevalence of fixed exchange rate regimes in economies in the MENA and CCA regions, although the results are not statistically significant.[13]

[11] Similar patterns hold when looking only at economies in the MENA region.

[12] The impacts on the real economy are estimated at the annual frequency due to data limitations.

[13] For example, no economy in the MENA or CCA region adopted a free-floating exchange rate regime over the 1990–2019 period based on the classification of Ilzetzki, Reinhart, and Rogoff (2022).

Figure 2.8. MENA Region: Impact on Real GDP according to Preexisting Domestic Vulnerabilities
(Percent, impact of a one standard deviation uncertainty shock)



Sources: IMF, World Economic Outlook database; Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI) database; Torres Munguía and others 2022; Uppsala Georeferenced Event Database; Centre for Research on the Epidemiology of Disasters, Emergency Events Database EM-DAT; World Bank, Worldwide Governance Indicators; and IMF staff calculations.
Note: A local projections approach is used to assess the impacts of uncertainty. The shock happens in year 1 and corresponds to a one standard deviation increase in the country-level uncertainty indicator. The figure shows the differential impact two years after the shock according to the control of corruption or the debt level during the year preceding the shock. Regressions include time and country fixed effects, two lags of the shock, two lags of the dependent variable, and control for openness to trade, investment share, terms of trade shocks, trade partners' growth, control of corruption, conflict shocks, natural disasters, and epidemics. Control of corruption is considered low if it is in the bottom 15 percent of the world distribution. Debt is considered high if it is in the top 25 percent of the distribution of the country's corresponding economic grouping (low-income country, emerging market and developing economy, or advanced economy). Hollow bars indicate a lack of statistical significance at the 10 percent level. MENA = Middle East and North Africa (including Pakistan).
*p < .10; **p < .05; ***p < .01

Preexisting domestic macroeconomic vulnerabilities appear to amplify the negative impacts of domestic shocks on output (Figure 2.8).[14] High debt levels and low control of corruption are associated with higher output losses—estimated at about 2 percent and 4 percent two years after the shock, respectively—than estimated in the baseline specification (Figure 2.7, panel 1).[15]

Global Uncertainty Shocks

Global uncertainty shocks increase spreads by over 15 percent and stock market volatility by 10 percent (Figure 2.9, panels 1 and 2).[16] These impacts are several times greater than those from domestic shocks.[17]

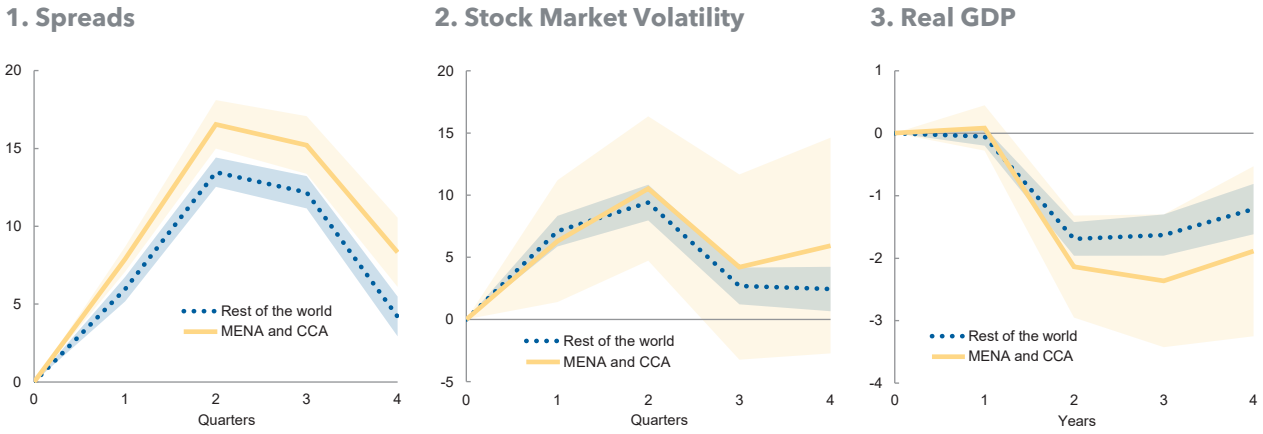
[14] This analysis focuses only on MENA region economies because of data limitations. MENA countries exhibit a higher debt burden (as a percentage of GDP) and lower control of corruption than countries outside MENA.

[15] Less control of corruption may, in part, proxy for lower institutional quality more generally. The additional interaction of less control of corruption or high debt levels with the regional aggregate renders the base regional aggregate not significant, highlighting the importance of fundamentals in the transmission of uncertainty shocks. See the Online Annex for more details.

[16] The increase in spreads is equivalent to about 38 basis points on average.

[17] Different specifications are used between Figure 2.6, panel 1, and Figure 2.9, panel 1. The regression results from Figure 2.9, panel 1, do not include time fixed effects due to collinearity with the global-level uncertainty index. However, the specification does include other important global controls (global oil prices and US policy rates as a proxy for global financial conditions), year and quarter fixed effects, and the domestic uncertainty index. Together, these controls help to mitigate endogeneity concerns. See the Online Annex for more details.

Figure 2.9. MENA and CCA Regions: Impacts of Global Uncertainty Shocks
(Percent, impact of a one standard deviation shock on uncertainty)



Sources: IMF, World Economic Outlook database; Ahir, Bloom, and Furceri 2022; World Uncertainty Index (WUI) database; Torres Munguía and others 2022; Uppsala Georeferenced Event Database; Centre for Research on the Epidemiology of Disasters, Emergency Events Database EM-DAT; World Bank, Worldwide Governance Indicators; Federal Reserve Bank of St. Louis, Federal Reserve Economic Data database; Finaeon, Inc., GFDatabase; IMF, Sovereign Spread Monitor; Stock Market Prices; and IMF staff calculations.
Note: A local projections approach is used to assess the impacts of uncertainty. The shock happens in quarter 1 or year 1 and corresponds to a one standard deviation increase in the GDP weighted World Uncertainty Index as measured by Ahir, Bloom, and Furceri (2022). Regressions in panels 1 and 2 include year, quarter, and country (panel 1) or stock market (panel 2) fixed effects, three lags of the shock, three lags of the dependent variable, and control for domestic uncertainty. Regressions in panel 3 include country fixed effects, two lags of the shock, two lags of the dependent variable, and control for domestic uncertainty, openness to trade, investment share, terms of trade shocks, trade partners' growth, control of corruption, conflict shocks, natural disasters, epidemics, Federal Reserve fund rates, and global oil prices. Shaded areas represent the 90 percent confidence interval. "Rest of the world" excludes countries in the CCA and MENA regions (and Pakistan); CCA = Caucasus and Central Asia; MENA = Middle East and North Africa (and Pakistan).

Moreover, global shocks are associated with large and persistent output losses, ranging from about 1.5 percent to 2.5 percent two years after the shock (Figure 2.9, panel 3).[18] Also, the impacts of global shocks appear to be more uniform across the MENA and CCA regions and the rest of the world, compared with the differential impacts of domestic shocks across regions shown earlier.[19]

What do these findings mean for the potential impact of the large and sharp rise in uncertainty in early 2025, equivalent to a shock of 1.9 standard deviations? If global uncertainty follows its historical dynamic pattern over the rest of the year, the rise in uncertainty could lead output to fall about 4.5 percent below its original trend after two years for the average economy in the MENA and CCA regions; output for the average economy in the rest of the world would fall by about 3 percent.[20]

2.5. Fostering Resilience amid High Uncertainty

What actions can policymakers in the MENA and CCA regions take to mitigate the adverse economic impacts of uncertainty shocks? The findings show that countries with weaker macroeconomic fundamentals—lower policy buffers (high debt) and weaker governance and institutions—tend to experience worse economic ramifications from uncertainty shocks. Global uncertainty shocks are also found to have more adverse economic impacts than domestic uncertainty shocks on average. To build resilience against uncertainty, policymakers should consider the following actions, tailored to country-specific circumstances as appropriate:

[18] Additional controls are used to account for global economic conditions. See the Online Annex for more details.

[19] Similar patterns hold when looking at global trade policy uncertainty, US monetary policy uncertainty and global economic policy uncertainty. See the results in the Online Annex.

[20] The analysis uses a simple autoregressive model to predict annual uncertainty in 2025, incorporating the latest monthly uncertainty measures and the estimated coefficients from Figure 2.9, panel 3.

- *Where policy buffers are low, the immediate priority should be to rebuild them*. In the presence of high uncertainty, greater emphasis should be put on policies that help insure against the materialization of worst-case scenarios in the future and to ensure that policymakers are well equipped to soften their economic and social impacts. This is even more important for countries facing macroeconomic imbalances (high debt, persistently high fiscal or current account deficits, low international reserves, elevated inflation), which may be perceived as less capable of responding to future shocks. Policymakers should aim to:
  - *Strengthen fiscal positions*. Where public debt is high or fiscal deficits are persistently high, fiscal consolidation should proceed at a pace and magnitude that strikes the right balance between achieving debt sustainability and supporting domestic demand.
  - *Accumulate international reserves*. The role of foreign exchange reserves as buffers against external shocks is well documented (IMF 2013). If foreign exchange volatility and capital outflows become disruptive, deploying tools as described in the IMF's Integrated Policy Framework may be considered.
- *Diversifying trade and financial relations through broader regional and cross-regional economic integration measures*. Reducing long-standing trade and financial barriers can help mitigate the impact of trade uncertainty and geopolitical fragmentation by fostering new and more diverse international economic relationships (Chapter 3 of the April 2024 *Regional Economic Outlook: Middle East and Central Asia*). Bolstering cross-regional connections—for example, between economies in the GCC and the CCA region, and between economies in the GCC and Africa—can also be a way to reduce exposure to regional uncertainty shocks by improving the opportunities for risk sharing.
- *Enhancing macroeconomic frameworks and strengthening governance and institutions to bolster policy credibility and predictability*. Stronger fiscal and monetary policy frameworks enhance the credibility and predictability of economic policy, by demonstrating a solid commitment to debt sustainability and price stability (October 2021 *Fiscal Monitor,* October 2024 *Global Financial Stability Report*). Supported by clear and consistent communication of policy objectives, strong frameworks can boost trust and help alleviate uncertainty for households and firms, aiding their economic decision-making. With greater policy credibility, the near-term space for targeted countercyclical policies is also larger if downside risks materialize (April 2025 *World Economic Outlook*). Similarly, improving governance and institutions, especially the rule of law, would mitigate uncertainty by fostering a more stable and predictable business environment. Stronger macroeconomic and institutional frameworks are also essential preconditions for advancing financial market development, which would help to support trade and financial diversification efforts (Chapter 3 of the October 2024 *Regional Economic Outlook: Middle East and Central Asia*).
- *Mitigating the effects of conflict, climate, and health shocks on domestic uncertainty*. To effectively dampen both the direct and indirect effects of these shocks, countries should prioritize preparedness through enhanced security, implementation of climate adaptation and mitigation strategies, and strengthened health systems.

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