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REGIONAL ECONOMIC OUTLOOK

MIDDLE EAST AND CENTRAL ASIA

Navigating the Evolving Geoeconomic Landscape

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The analysis in this *Regional Economic Outlook* was coordinated under the general supervision of Jihad Azour (MCD Director). The project was directed by Taline Koranchelian (Deputy Director, MCD), Lone Christiansen (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 groupings, based on export earnings, namely (1) oil exporters; and (2) oil importers. The oil importers grouping comprises (1) emerging market and middle-income economies (EM&MI) and (2) low-income countries (LICs) based on the income level. Additional analytical and regional groupings 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 October 2024 *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 $81.29 a barrel in 2024 and $72.84 a barrel in 2025, and the three-month nominal yield on US Treasury bills will average 5.4 percent in 2024 and 3.9 percent in 2025. 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 2024 and 2025 data in the figures and tables are projections. Unless otherwise noted, these projections are based on statistical information available through late September 2024.

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, 2023–24 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 in several instances, as it 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

Eighty years after the landmark Bretton Woods conference catalyzed multilateral cooperation, the global economic landscape faces growing challenges, including related to the rise of geoeconomic fragmentation. In the Middle East and North Africa (MENA) and Caucasus and Central Asia (CCA) regions, changes to regional landscapes have prompted new trade patterns. At the same time, economies are navigating frequent shocks. Conflicts, including in Gaza, Lebanon, and Sudan, cause immense human suffering, economic damage, and heightened uncertainty. Climate-related disasters add to the challenges. For many MENA and CCA economies, near-term growth is projected to remain subdued, and the medium-term growth forecast has deteriorated during the past two decades (Chapter 2), partly reflecting still limited access to credit for the private sector, which is essential to boost investment (Chapter 3).

In MENA economies, growth is expected to remain sluggish in 2024 at 2.1 percent amid global geoeconomic fragmentation, conflicts, climate-related shocks, and country-specific factors. This is a downward revision of 0.6 percentage point since the April 2024 *Regional Economic Outlook* in light of prolonged voluntary oil production cuts and continued conflicts. A rebound is expected in 2025, with growth projected at 4 percent, conditional on the expiration of oil production cuts and headwinds subsiding, including from conflicts. MENA oil exporters have navigated the global landscape well, but the twin surpluses that helped cushion recent shocks have started to narrow amid ambitious investment strategies and falling oil revenues. MENA oil importers continue to grapple with vulnerabilities related to conflicts and high gross financing needs. Even as these issues gradually abate, uncertainty remains high and structural gaps will likely hold back productivity growth in many economies over the forecast horizon.

In CCA economies, growth is projected to remain robust and broad-based at 4.3 percent in 2024 and 4.5 percent in 2025. Notwithstanding the positive outlook, growth remains subject to high uncertainty, mainly because of the region's exposure to broader geoeconomic developments. Notably, there are tentative signs of a potential slowdown in some economies, as trade and other inflows—particularly remittances—related to Russia's war in Ukraine have started to moderate. Over the medium term, growth prospects for oil exporters in the CCA are weighed down by subdued oil production, whereas growth projections in oil importers are reliant on effective reform implementation.

Risks to the outlook for the MENA and CCA regions remain tilted to the downside. Adverse shocks could originate from within or close to the MENA and CCA regions. Notably, the continuation or further escalation of conflicts would result in even larger human tolls and further weigh on growth, as conflicts tend to have long-lasting adverse economic impacts. Other risks include insufficient reform implementation hindering growth and financial instability caused by an abrupt reversal of trade and financial flows associated with Russia's war in Ukraine.

In this context, adopting policies to bolster future growth prospects will be crucial. Lifting medium-term growth will require the acceleration of structural reforms, particularly in governance. Given labor market challenges, which are expected to intensify because of shifting demographics in the years ahead, decisive action is needed to enhance participation and job creation, including encouraging more female and youth employment, particularly in several economies in the MENA region (Chapter 2). At the same time, implementing reforms to promote private sector investment and deepening financial development would help boost relatively low levels of capital per worker across the MENA and CCA regions (Chapter 2). In this respect, financial sector policies that foster competition, reduce the dominance of state-owned banks, and encourage the broadening of the investor base can advance financial development and facilitate higher growth and inclusion (Chapter 3). Moreover, countries should maintain a strong focus on ensuring fiscal sustainability and rebuilding fiscal buffers. Policies that put debt on a durable decline are essential for highly indebted economies. Despite a decline in inflation and expectations for continued moderation, policymakers also must remain vigilant and maintain their focus on achieving inflation targets in accordance with their frameworks.

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1. Regional Developments and Economic Outlook: Navigating the Evolving Geoeconomic Landscape[1]

Eight decades after the landmark Bretton Woods conference catalyzed multilateral cooperation, the geoeconomic landscape is increasingly rocky. Global linkages are shifting amid a mix of economic interests and national security considerations. At the same time, many economies in the Middle East and North Africa (MENA) and Caucasus and Central Asia (CCA) regions are navigating frequent shocks, including from conflicts and climate-related disasters. Medium-term growth prospects also remain relatively weak. Coupled with risks that remain on the downside, policymakers will need to focus on bolstering growth and resilience while ensuring fiscal sustainability and maintaining low inflation. Beyond carefully calibrated monetary and fiscal policies, decisive reform efforts, particularly in governance and job creation, are essential to lift medium-term growth.

1.1. Global Backdrop: Uncertainty Seeping in as Policies Shift

Global growth is projected to continue at a similar pace in 2024 and 2025 (3.2 percent) and remain relatively flat through 2029 (3.1 percent), largely unchanged from the April 2024 *World Economic Outlook*.[2] Economic activity in the United States is revised upward to 2.8 percent in 2024, reflecting stronger outturns in consumption and residential investment. Meanwhile, China's growth slowdown is expected to be more gradual, with the economy now expected to grow at 4.8 percent this year (0.2 percentage point higher than the April forecast), because of renewed fiscal support and a rebound in exports. At the same time, the world is witnessing an escalation in geoeconomic fragmentation, with an increase in cross-border trade restrictions. In turn, although global trade to GDP is projected to remain broadly stable, trade is increasingly occurring within geopolitical blocs, rather than between them. Specifically, when comparing the period-average for 2017–22 to the first quarter of 2024, goods trade declined by approximately 2.5 percentage points more between geopolitically distant blocs than within blocks (see Chapter 1 of the October 2024 *World Economic Outlook*; Gopinath 2024).

Global inflation continues to gradually decline toward targets, with global headline inflation projected to moderate to 5.8 percent in 2024 and 4.3 percent in 2025 (from 6.7 percent in 2023). However, disinflation is expected to be faster in advanced economies and to stall in emerging markets and developing economies. Nonetheless, with inflation in many major economies approaching central bank targets and governments striving to manage debt dynamics, the policy mix is expected to shift from monetary to fiscal tightening. Notably, the US Federal Funds rate is projected to reach its long-term equilibrium of 2.9 percent in the second quarter of 2026, almost a year before what was expected in April. Alongside, and in part as OPEC+, voluntary production cuts have been extended, average petroleum price assumptions have been revised since April and are now projected to gradually moderate from $81.3 on average in 2024 (above the 2023 average price) to $67 in 2029. Meanwhile, food commodity prices have eased somewhat faster than previously projected, and the continued moderation should help alleviate pressures on consumer food prices worldwide.

[1] This chapter is prepared by Faris Abdurrachman, Vizhdan Boranova, Bronwen J. Brown, Hasan Dudu, Colombe Ladreit, Borislava Mircheva (lead), Salem Nechi, Thomas Piontek (lead), Bilal Tabti, and Qirui Zhang.

[2] The projection horizon in the *World Economic Outlook and Regional Economic Outlook* spans through 2029.

1.2. MENA Region and Pakistan: Stronger Growth but Lingering Vulnerabilities

Economies in the MENA region and Pakistan face a fragile recovery amid global geoeconomic fragmentation, conflicts, climate-related shocks, and country-specific challenges. Thus, average growth in the MENA region is projected to remain sluggish at 2.1 percent in 2024, before accelerating to 4 percent next year, tempered from the April MENA forecasts of 2.7 and 4.2 percent, respectively. However, experiences vary markedly across the region. MENA oil exporters[3] have generally navigated the global landscape well, even as geopolitical tensions continue to provide headwinds to the broader region. Still, the twin surpluses that have helped cushion shocks have started to narrow, as ambitious investment strategies are implemented to diversify the economy and voluntary oil production cuts weigh on growth and revenues. MENA oil importers are facing subdued near-term growth before a gradual recovery, as vulnerabilities related to conflicts and uncertainty remain and necessary tight policy settings to bring down debt levels weigh on economic activity. Over the medium term, growth in the MENA region is projected to stabilize at about 3.6 percent, held back by persistent structural gaps.

MENA Oil Exporters

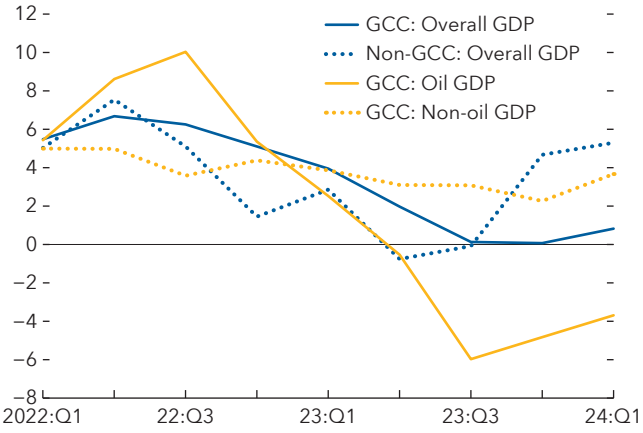
Recent Developments: Narrowing Twin Surpluses

MENA oil exporters have adeptly navigated the challenging and uncertain global economic landscape. The impact of conflicts in the broader MENA region on oil exporters has remained generally contained amid limited economic ties with the immediately affected countries and because the use of alternative trade routes has partially offset declining cargo trade volumes. Nonetheless, OPEC+ voluntary oil product cuts have held back oil production and related economic activity.

Despite ongoing challenges from geoeconomic fragmentation, economies within the Gulf Cooperation Council (GCC) have remained committed to economic reforms. In turn, decisive policy implementation has boosted investment and labor force participation, and economic activity in the non-oil sector has helped counterbalance a contraction of the oil sector for most GCC economies (Figure 1.1; Box 1.1). Outside the GCC, oil exporters have seen relatively stable growth, with some countries having benefited from elevated oil prices and robust production (Islamic Republic of Iran, Libya) and higher natural gas prices (Algeria).[4] In Iraq, strong non-oil activity, propelled by fiscal stimulus and robust agricultural performance, has supported economic growth.

However, reduced oil revenues from lower oil production, combined with spending pressures, has weighed on the fiscal and external balances of many MENA oil exporters. As a result, these countries saw a narrowing of the overall fiscal

Figure 1.1. MENA Oil Exporters: Real GDP Growth
(Year-over-year percent change, simple averages)

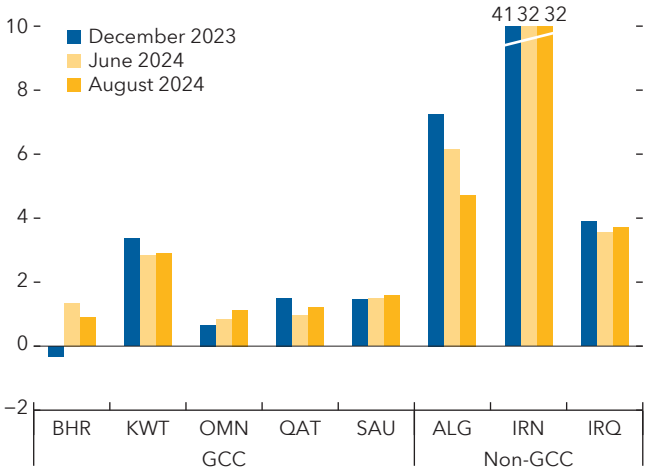


Sources: Haver Analytics; and IMF staff calculations.
Note: GCC 2024:Q1 consists of data for Kuwait, Oman, and Saudi Arabia. Non-GCC is the average of the Islamic Republic of Iran and Iraq. GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

[3] Throughout the October 2024 *Regional Economic Outlook: Middle East and Central Asia*, the term "oil" often includes natural gas, which is also an important resource in several countries.

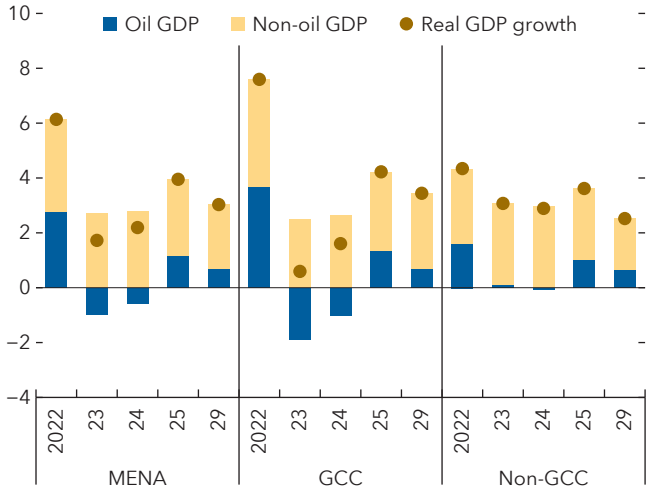
[4] In Lybia, a standoff over the leadership of the central bank led to the shutdown of some oil fields and the suspension of oil exports in late August and September. A recent agreement to end the standoff paved the way for the resumption of oil production and exports.

Figure 1.2. Oil Exporters: Consumer Price Inflation
(Year-over-year percent change)



Sources: Haver Analytics; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. GCC = Gulf Cooperation Council.

Figure 1.3. MENA Oil Exporters: Oil and Non-Oil Contributions to Real GDP Growth
(Percent)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Data for 2024, 2025, and 2029 are projections. GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

balance in 2023, which reached an average of 1.5 percent of GDP (−0.4 percentage point revision from April). Similarly, current account surpluses narrowed to 7.2 percent of GDP in 2023 (−0.2 percentage point revision from April).

Meanwhile, price pressures remained low in most MENA oil exporters during 2024, with nearly all GCC countries experiencing inflation rates under or near 2 percent. Beyond the GCC, Algeria saw a decrease in inflation, attributed to a strong dinar and reduced fresh food and import prices, whereas inflation in the Islamic Republic of Iran remained elevated (Figure 1.2).

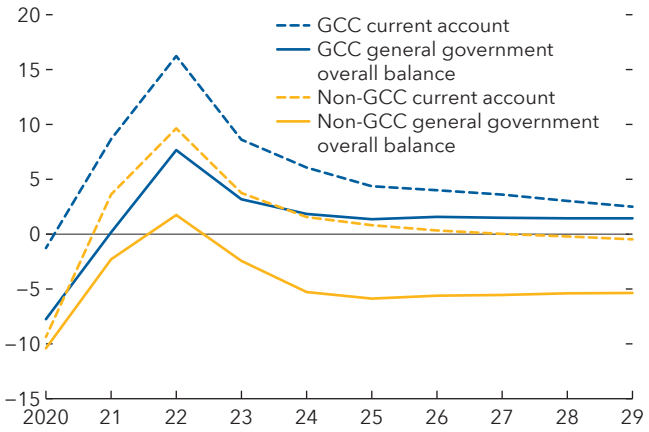
Outlook: On a Path to Resilience

Looking ahead, growth among MENA oil exporters is projected to strengthen to 2.3 percent this year (up from 1.7 percent in 2023) and further to 4 percent in 2025. However, the near-term outlook for 2024 and 2025 has been revised downward by 0.6 and 0.4 percentage points, respectively, from the April forecast, mainly reflecting the extension of voluntary oil production cuts (most GCC countries, Algeria, Iraq). Moreover, growth is forecast to moderate to 3 percent over the medium term, as the non-oil sector only gradually generates momentum. Overall, the non-oil sector is forecast to underpin growth in both the short and medium terms (Figure 1.3). Among GCC economies, for instance, non-oil growth is projected to remain strong, at 3.7 and 4 percent in 2024 and 2025, respectively, in part supported by ongoing diversification efforts. Nonetheless, economic diversification reforms will take time to yield results, and while the interconnection between oil and non-oil sectors has decreased, the oil sector is forecast to maintain a significant role over the forecast horizon.

Meanwhile, most MENA oil exporters are expected to maintain generally low and stable rates of inflation. In GCC countries, headline inflation is projected to hover at about 2 percent in 2025 and over the medium term.

With oil production experiencing a downturn this year and oil prices expected to decline gradually in the years ahead, current account balances for oil-exporting countries are expected to deteriorate over the medium term. Notably, the current account surplus for the GCC as a whole is projected to narrow to about 2.5 percent of GDP over the medium term (down from above 6.1 percent in 2024), a reduction of more than $63 billion compared

Figure 1.4. MENA Oil Exporters: Current Account and Fiscal Balances
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: The years 2024 and onwards denote projections. GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

to the 2024 estimate (Figure 1.4). Moreover, sizable investment-related imports are expected to contribute to a current account deficit in Saudi Arabia in 2025—a deficit that is projected to widen over time—and the double-digit surpluses in Kuwait and Qatar are forecast to narrow markedly in the years ahead.

Meanwhile, investment spending, along with declining oil revenues in some cases, is expected to gradually worsen overall fiscal positions in some economies over the forecast horizon despite narrowing primary non-oil deficits. Notably, Saudi Arabia and Kuwait are projected to continue public investments, and Bahrain is facing a structural decline in oil revenues. Still, efforts to enhance revenue streams are underway, which are expected to help narrow primary non-oil deficits. Notably, after adopting or committing to adopt a value-added tax, some GCC countries are now in the process of introducing a corporate income tax, in part amid implementation of the global minimum corporate income tax. In addition, Oman is in the final legislative stages of adopting a personal income tax on high-income earners. Overall, fiscal balances in GCC countries are generally expected to remain in surplus (except Bahrain and Saudi Arabia), whereas some non-GCC countries are projected to continue grappling with sizable fiscal deficits, exacerbated by falling revenues and, in some cases, increased recurrent government expenditures in the form of higher wages and transfers (Algeria, Iraq). Meanwhile, moderate public debt and adequate reserve positions in most MENA oil exporters are expected to continue to provide comfortable buffers for those economies.

MENA Oil Importers

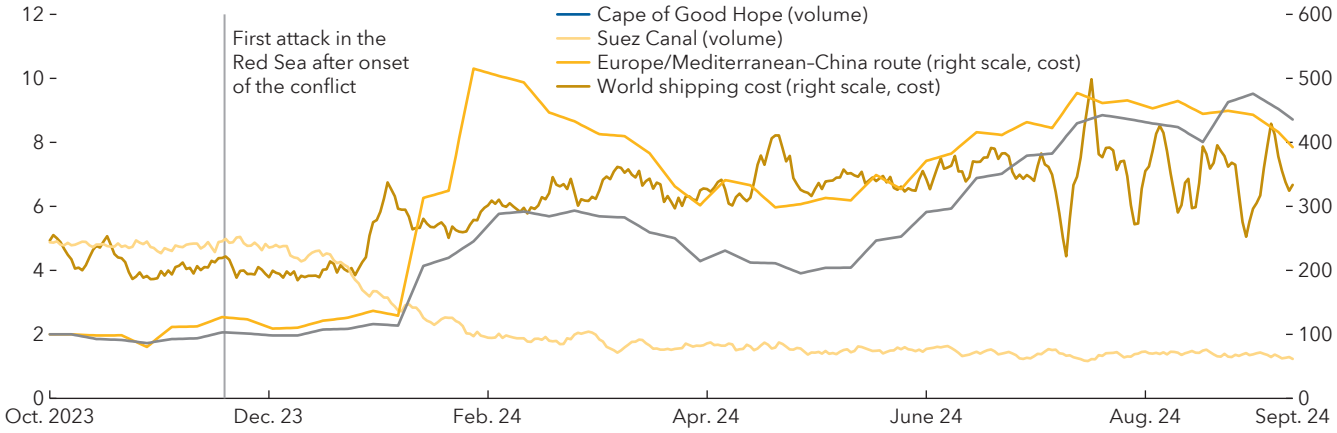
Recent Developments: Multiple Factors Weighing on Growth

Growth among several MENA oil importers continued to be held back by conflict, uncertainty, and country-specific challenges. Stronger growth in some economies in the first quarter of 2024 reflected improvements in agriculture following infrastructure investment (Mauritania), greater security and favorable weather conditions (Somalia), and economic recovery after extensive flooding and an increase in manufacturing, particularly related to apparel and pharmaceutical products (Pakistan). However, in Egypt, weak confidence and foreign exchange shortages constrained economic activity in the first half of fiscal year 2023/24, with the conflict in Gaza and Israel and the disruptions in the Red Sea exacerbating uncertainty. Overall, real GDP growth among several economies remained subdued, and growth in the first quarter of 2024 averaged just 1.8 percent for the group of emerging market and middle-income economies (EM&MIs) for which data are available.[5]

A year after the onset of the conflict in Gaza and Israel, humanitarian and trade-related challenges also persist. By the end of September 2024, the conflict had resulted in more than 40,000 fatalities and displaced over 1.9 million people (UNOCHA 2024a, 2024b). The conflict escalated in Lebanon in late September, and by October 6 the number of casualties recorded since October 2023 reached over 2,000. Furthermore, neighboring countries have continued experiencing trade disruptions. As of mid-September 2024 the volume of container shipping through the Suez Canal was more than 70 percent below pre-conflict levels as trade continued to be diverted

[5] Based on the average for Egypt, Jordan, Tunisia, and Morocco.

Figure 1.5. Red Sea Shipping Volume and Cost, 2023–24
(Millions of metric tons, seven-day moving average; index, October 1, 2023 = 100)



Sources: Bloomberg Finance L.P.; PortWatch; and IMF staff calculations.

around the Cape of Good Hope and shipping costs remained elevated (Figure 1.5).[6] By contrast, tourism activity appears highly dependent on country-specific factors. Although tourism-related sectors in Lebanon have continued to struggle tourism has shown resilience in Egypt and Jordan, buoyed by regional visitors, which helped hotel occupancy rates rebound to pre-conflict levels.

Conflicts are also present elsewhere in the MENA region.[7] These cause immense human suffering and compromise the provision of basic services and damage infrastructure. In Sudan, as of August 2024 and after 500 days of war, more than 10 million people have been displaced and famine and disease are widespread (UNHCR 2024; UNOCHA, n.d.).

Compounding these challenges, opportunities for employment remain insufficient in the MENA region. Youth unemployment increased steadily to 33 percent by 2023 after standing above 25 percent for the past two decades. This alarming rate highlights the region's difficulties in creating sufficient jobs for its young and vibrant population. In addition, the average female labor force participation rate among MENA oil importers stands at about 20 percent, significantly below rates in many economies elsewhere (averaging about 50 percent) and underscoring gender disparity in employment opportunities.[8]

MENA oil-importing economies also continue to face elevated debt burdens. Although several countries have embarked on fiscal consolidation, debt levels have remained broadly stable in recent years, as persistently high interest payments and currency adjustments have eroded efforts (Figure 1.6).

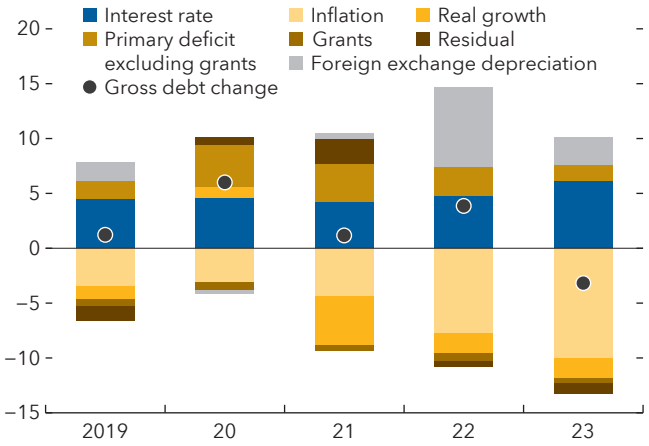
In addition to high financing needs, some EM&MIs and low-income countries (LICs) have struggled to secure external financing.

[6] In August, about 1.2 million metric tons of container shipping passed through the Suez Canal and Bab el-Mandeb Strait, down from 4.4 million metric tons in mid-November 2023.

[7] Beyond West Bank and Gaza and Lebanon, six economies in the region have faced conflicts since April 2024. These economies are Iraq, Pakistan, Somalia, Sudan, Syria, and Yemen (Armed Conflict Location and Event Data Project, https://acleddata.com). A country is considered to be in a conflict if at least 25 battle-related fatalities were recorded by the Armed Conflict Location & Event Data Project between May 1, 2024, and August 30, 2024 (data last updated October 7, 2024).

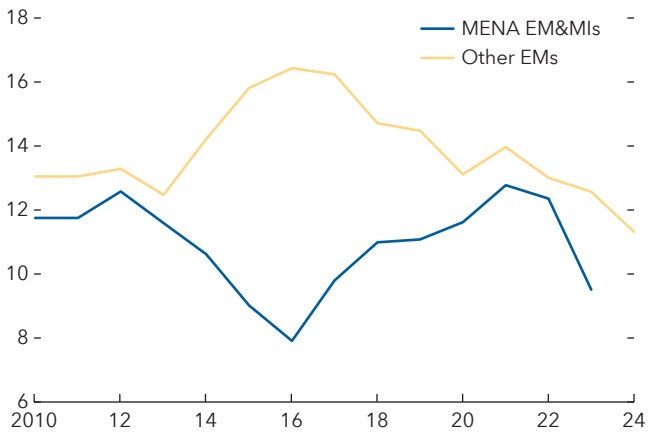
[8] Based on a sample of countries comprising Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Somalia, Sudan, Syria, Tunisia, West Bank and Gaza, and Yemen. International Labour Organization modeled estimates database, ILOSTAT, can be found at https://ilostat.ilo.org/data/.

Figure 1.6. MENA EM&MIs: Contributions to Changes in Gross Public Debt
(Percent of GDP, simple average)



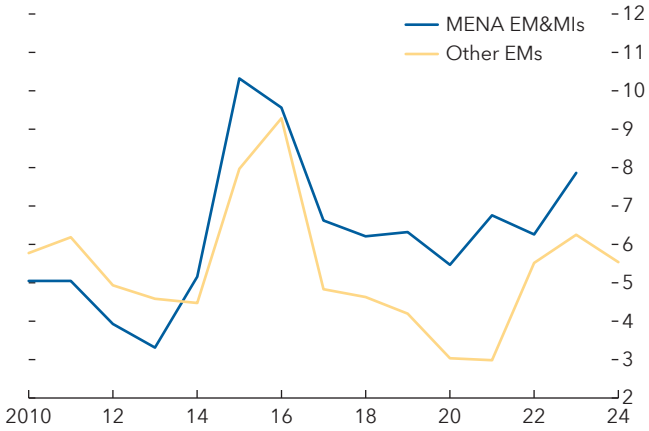
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Data for Egypt and Pakistan are based on the fiscal year (for example, 2019 data cover July 2019 to June 2020). EM&MIs = emerging market and middle-income economies; MENA = Middle East and North Africa.

Figure 1.7. MENA EM&MIs: Maturity of Eurobond Issuances
(Weighted average maturities in years; three-year rolling average)



Sources: Bond Radar; and IMF staff calculations.
Note: EMs = emerging market economies; EM&MIs = emerging market and middle-income economies; MENA = Middle East and North Africa.

Figure 1.8. MENA EM&MIs: Cost of Eurobond Issuances
(Weighted average coupon rate in percent; three-year rolling average)

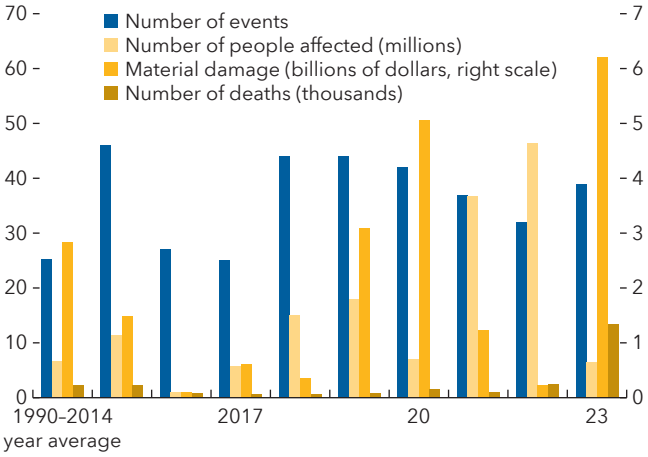


Sources: Bond Radar; and IMF staff calculations.
Note: EMs = emerging market economies; EM&MIs = emerging market and middle-income economies; MENA = Middle East and North Africa.

- For EM&MIs, tight external financing conditions have continued to constrain new debt issuance. EM&MIs have not issued eurobonds since the first half of 2023, in stark contrast to an average of $6 billion in annual issuance during 2021–23. Moreover, countries have faced shorter debt rollover periods and higher costs, as average new debt maturities have declined and coupon rates have risen more than in most other emerging market economies (Figures 1.7 and 1.8). Compounding these challenges, the financial systems in many EM&MIs rely heavily on banks and lack access to more diversified sources of funding amid underdeveloped capital markets (Chapter 3). Hence, difficulties in accessing markets-based financing both domestically and internationally mean that many of these countries have turned to borrowing from domestic banks, further intensifying the sovereign-bank nexus. Moreover, the shift toward debt with shorter maturities has heightened the risks associated with refinancing, leaving debt rollover needs vulnerable to fluctuations in investor sentiment.

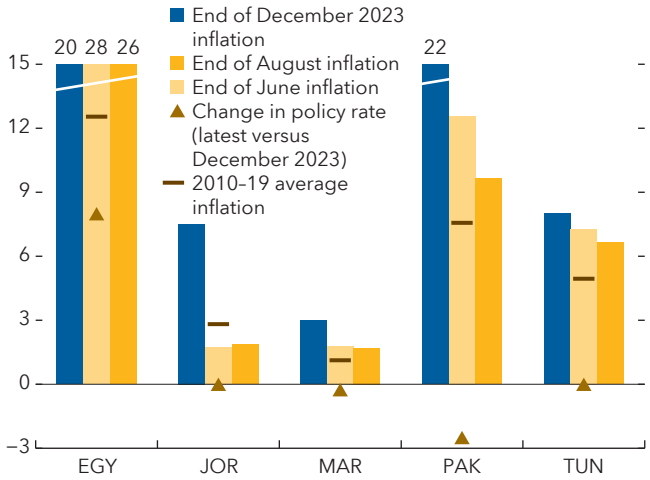
- LICs face the additional challenge of plateauing international aid. Although the financing needs of MENA LICs are smaller in absolute terms than those of EM&MIs, they are predominantly met through external sources, with a heavy reliance on grants reflecting significant borrowing constraints. However, as global demand for donor financing has increased over time, official donors have been increasingly constrained by national budgets and the dollar value of grants remained broadly unchanged in 2023.

Figure 1.9. MENA, Afghanistan, and Pakistan: Impact of Extreme Climate Events



Sources: EMDAT database; and IMF staff calculations.
Note: MENA = Middle East and North Africa.

Figure 1.10. MENA EM&MIs and Pakistan: Headline CPI and Change in Policy Rate
(Year-over-year percent change)



Sources: Haver Analytics; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. CPI = consumer price index; EM&MIs = emerging market and middle-income economies; MENA = Middle East and North Africa.

Moreover, the persistent effects of climate change are increasingly subjecting many economies in the MENA region, particularly LICs, to frequent and severe climate-related events such as heat waves, droughts, and floods. Examples include droughts in Morocco, severe storms in Libya, wildfires in Algeria, floods in Mauritania, Somalia, and Sudan, storms in Yemen, and heat waves and flooding in GCC countries. Consequently, there has been a significant rise in deaths and the number of people affected. During the first six months of 2024, the number of people affected by extreme climate hazards across the MENA region had almost reached the 1990–2014 annual average. In addition, material damages more than doubled in 2023 compared to the 1990–2014 average of $2.8 billion (Figure 1.9).

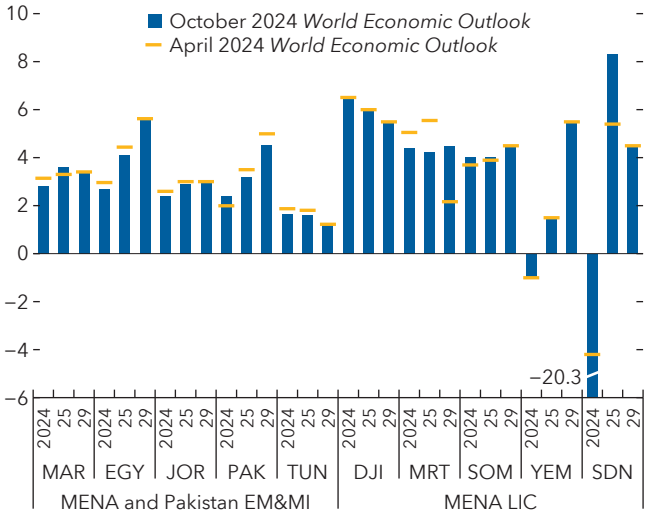
On the positive side, and in line with global trends, inflation has continued to decelerate in several economies, remaining elevated in only a few cases amid country-specific challenges. Inflation in Jordan and Morocco stood at below 2 percent as of August 2024, reflecting subdued economic activity (Jordan) and food price drops (Morocco) (Figure 1.10). In Egypt, after peaking at 38 percent in September 2023, annual urban headline inflation has trended downward (aside from a temporary spike in February, partly because of a substantial depreciation of the parallel exchange rate in January). In Pakistan, amid steady disinflation, the central bank cut the policy rate by 100 basis points in July. Among LICs, triple-digit inflation in Sudan and Yemen persists, driven by ongoing conflicts that have disrupted access to essential goods and prompted high food and fuel prices and currency depreciation.

Outlook: Stronger Growth if Fragilities Subside

For MENA EM&MIs and Pakistan, growth is projected to slow to 2.4 percent in 2024 before strengthening to 3.6 percent in 2025 (in line with April projections) and further improve modestly over the medium term as current headwinds gradually subside and reform implementation takes hold. Notably, an assumed easing of the conflict in Gaza and Israel next year and steady implementation of reforms are projected to help lift growth in Egypt to 4.1 percent in 2025 and above 5 percent over the medium term (Figure 1.11).[9] In addition, Jordan's growth is projected to gradually strengthen to 3 percent over the medium term, supported by improved consumer and

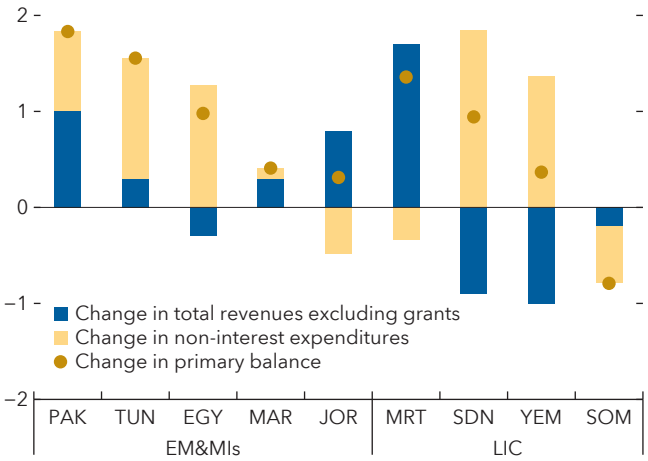
[9] For projection purposes, the forecast for Egypt assumes that the conflict in Gaza and Israel and Red Sea disruptions abate in the second half of Egypt's fiscal year 2024/25, which ends in June 2025.

Figure 1.11. 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; LIC = low-income country; MENA = Middle East and North Africa.

Figure 1.12. MENA Oil Importers and Pakistan: Change in Primary Balance, 2023–24
(Percentage points 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. Data for Egypt and Pakistan are based on the fiscal year (for example, 2024 data cover July 2024 to June 2025). EM&MIs = emerging market and middle-income economies; LIC = low-income country; MENA = Middle East and North Africa.

investor sentiment, trade, and tourism. Positive outlooks for Morocco and Pakistan are supported by the normalization of agricultural output and an improvement in the industrial and service sectors. Nonetheless, persistent structural challenges are expected to keep medium-term economic activity below historical averages in several economies (Chapter 2).

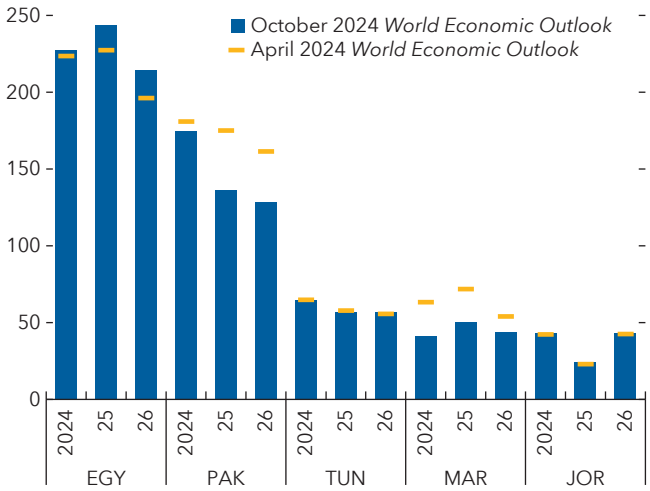
Among MENA LICs, the ongoing conflict in Sudan is driving a marked downward revision to growth forecasts. Economic activity in LICs is now projected to shrink by 8.3 percent on average in 2024 (a revision of −6.9 percentage points from our April projection). Yet, this projection masks resilient growth in some economies following favorable commodity price developments (Mauritania, Somalia), peace agreements, and improved security conditions (Somalia). Assuming the war in Sudan ends,[10] average growth in MENA LICs is set to improve to 5.5 percent in 2025. Further ahead, although offshore gas production (Mauritania) and investments and scaled-up structural reforms (Somalia) are projected to support activity, the completion of initial large investments (Djibouti, Mauritania) is resulting in some moderation in growth projections over the medium term.

Meanwhile, monetary policy is expected to help guide headline inflation toward historical averages. Headline inflation in Egypt is projected to near 16 percent by the end of fiscal year 2024/25, as base effects unwind and policy tightening takes hold, and further ease toward the target rate in the years ahead.[11] By contrast, Jordan and Morocco are expected to experience a modest increase in inflation to above 2 percent next year, driven by strengthening domestic demand (Jordan) and the phaseout of butane gas subsidies (Morocco). Nonetheless, inflation in these countries is expected to remain close to historical averages over the forecast horizon.

Amid continued efforts to bring down debt levels, primary deficits as a share of GDP are projected to improve steadily for most EM&MIs and LICs. These efforts have been supported by varying degrees of expenditure rationalization and revenue mobilization (Figure 1.12). For example, in 2024, Egypt and Jordan have made efforts to

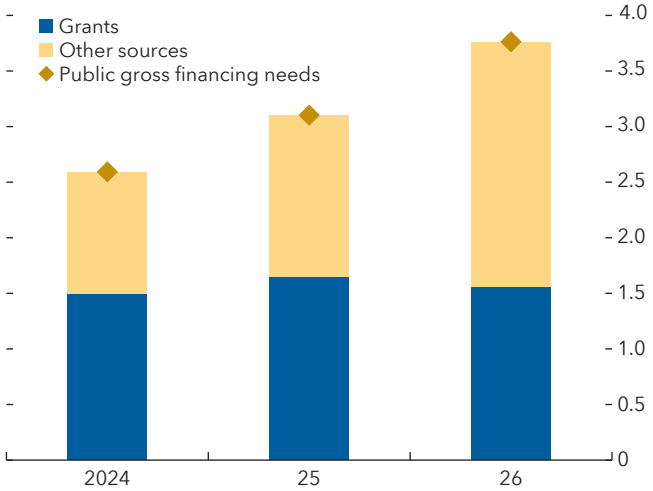
[10] For the purposes of making economic projections, the war in Sudan is assumed to conclude by the end of 2024.
[11] The Central Bank of Egypt has two inflation targets: 7 percent initially and then 5 percent in the medium term.

Figure 1.13. MENA EM&MIs and Pakistan: Public Gross Financing Needs
(Percent of fiscal revenue)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. Data for Egypt and Pakistan are based on the fiscal year (for example, 2024 data cover July 2023 to June 2024). EM&MIs = emerging market and middle-income economies; MENA = Middle East and North Africa.

Figure 1.14. MENA LICs: Public Gross Financing Needs and Sources
(Billions of dollars, total)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: LICs = low-income countries; MENA = Middle East and North Africa.

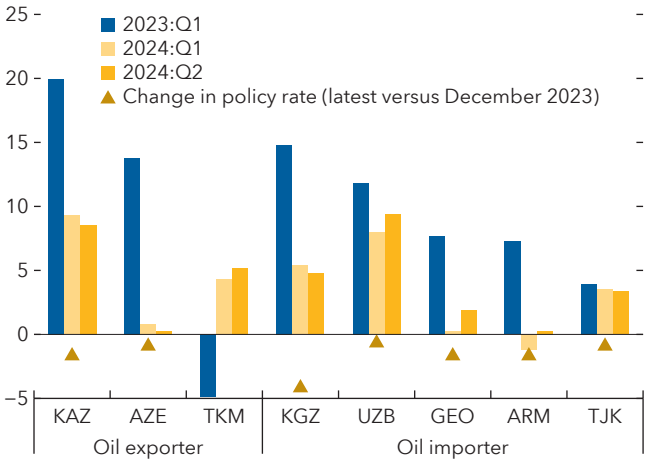
improve revenue collection (tax revenue and social contributions) and reduce subsidies. Moreover, in Egypt, ongoing consolidation efforts, coupled with plans to allocate a portion of the proceeds from the Ras el-Hekma land deal toward reducing government debt, are anticipated to lower public debt by about 6 percentage points of GDP in fiscal year 2024/25. Overall, sustained fiscal consolidations efforts are projected to help bring down the average public debt ratio for EM&MIs from 88.7 percent in 2024 to just above 70 percent over the medium term. Among LICs, decisive tax revenue mobilization efforts in Mauritania are supporting an overall improvement in the primary balance despite a drop in other revenues and an uptick in subsidies and transfers.

Financing needs are expected to remain sizable. Total gross public financing needs for MENA EM&MIs and Pakistan are projected to reach $268.2 billion in 2025 (the equivalent of above 100 percent of fiscal revenues), marking an increase from $260.6 billion in 2024 (Figure 1.13). In turn, financing needs are likely to be met by $235.9 billion in domestic and $32.3 billion in external debt issuance in 2025, indicating a continued high dependence on domestic financing. Nonetheless, structural reforms and official financing are projected to help increase gross foreign reserves in some countries (Egypt, Jordan, Morocco, Pakistan). Meanwhile, grant inflows to LICs are expected plateau over 2024-2026 (Figure 1.14). As such, LICs will likely need to further rely on alternative financing sources, including borrowing on concessional terms.

1.3. Caucasus and Central Asia: Robust Growth but Uncertain Outlook

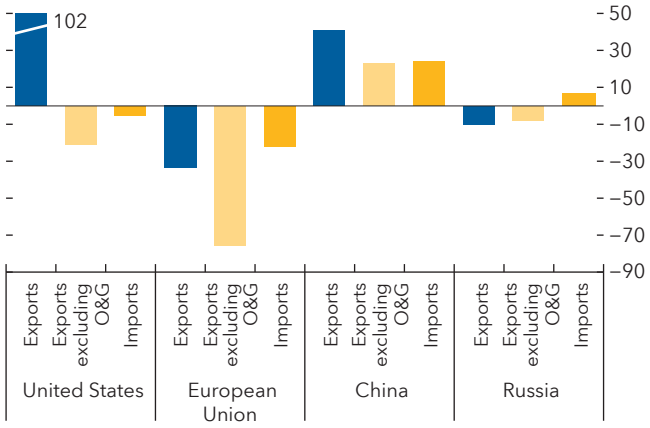
Economic growth in the CCA remains robust and broad-based. However, the region is highly exposed to geoeconomic developments, and the positive outlook is subject to uncertainty amid tentative signs that trade and other inflows related to Russia's war in Ukraine are moderating. Although reform implementation is projected to support growth in some economies, particularly oil importers, subdued hydrocarbon production over the medium term is expected to result in more moderate growth among oil and gas exporters.

Figure 1.15. CCA: Consumer Price Inflation
(Year-over-year, percent change)



Sources: Haver Analytics; and IMF staff calculations.
Note: Consumer price index inflation data are seasonally adjusted except for Turkmenistan. Data labels in the figure use International Organization for Standardization (ISO) country codes. CCA = Caucasus and Central Asia.

Figure 1.16. CCA: Growth in Exports and Imports, 2023–2024:Q1
(Year-over-year percent change)



Sources: Comtrade; and IMF staff calculations.
Note: Excluding trade of jewelry and pearls (HS71), which impacts Armenia's imports from Russia but is expected to be transitory. Comtrade data is available for Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, and Uzbekistan. As of October 8, March 2024 figures were unavailable for Kazakhstan, and 2023:Q1 figures exclude March 2023 for Kazakhstan to ensure comparability. CCA = Caucasus and Central Asia; O&G = oil and gas.

CCA Oil Exporters

Recent Developments: Non-Oil Sectors Have Bolstered Growth

Amid a global downturn in oil and gas prices, robust non-oil sector activity has provided the main impetus to growth among the CCA's oil-exporting economies. Specifically, strong domestic demand, characterized by still-elevated consumer lending and strong credit growth to businesses (Azerbaijan, Kazakhstan), has been met by robust economic activity in construction and service sectors. In Azerbaijan, increased public and private investments also supported an acceleration of growth in the first quarter of 2024.

At the same time, headline and core inflation have continued to slow. In Azerbaijan, price pressures eased sharply in early 2024 as the effects of imported inflation subsided, prompting a 75 basis-point reduction in the policy interest rate (Figure 1.15). In Kazakhstan, inflation pressures proved persistent in mid-2024, including because of increasing domestic utility tariffs and exchange rate depreciation, and the central bank signaled that the policy interest rate may not be reduced further before the end of 2024. Meanwhile, looser monetary and fiscal policies in Turkmenistan, including an increase in public wages and pensions by 10 percent annually, have led to a pick-up in inflation.

However, the broadly favorable trade flows and terms-of-trade shock that the region experienced in 2022 are weakening. For example, trade between CCA oil exporters and Russia appears to be slowing, with first quarter exports to Russia declining by more than 20 percent in Kazakhstan and 10 percent in Azerbaijan (Figure 1.16). Similarly, the early months of 2024 saw a contraction in overall imports and exports, albeit to a lesser magnitude. In turn, external positions have worsened, compounded by falling global oil and gas prices.

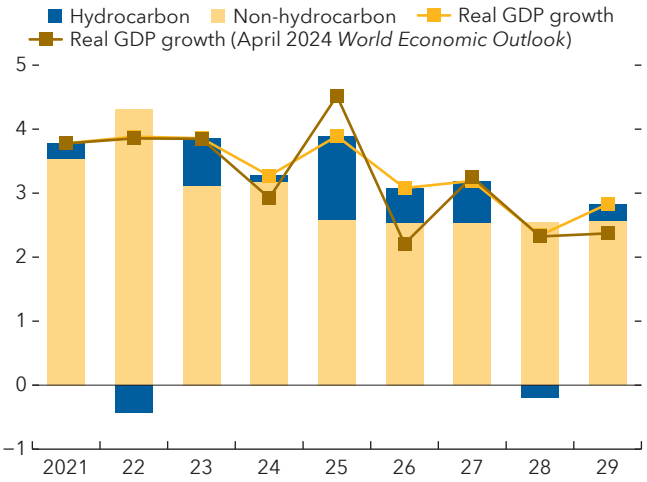
Furthermore, fiscal balances have been affected by a combination of lower oil and gas revenues and higher spending pressures. Notably, investment (Azerbaijan) and increased public sector wages and pensions (Turkmenistan) have contributed to a deterioration in primary fiscal balances. Meanwhile, in Kazakhstan, fiscal

underperformance has been driven by lower-than-expected non-oil revenue. Nonetheless, public sector debt has remained low in these countries at around or below 20 percent of GDP at the end of 2023.

Outlook: Cooling Growth

Growth among CCA oil exporters is projected to slow to 3.3 percent this year (from 3.9 percent in 2023) as oil growth in Kazakhstan comes to a halt. Still, this forecast reflects a 0.4 percentage point increase from April, driven by robust non-oil activity and expanded public investment in Kazakhstan and Azerbaijan. For 2025, a temporary increase in GDP growth to 3.9 percent is expected, largely dependent on the Tengiz oil field expansion in Kazakhstan (Figure 1.17). Further ahead, overall growth for oil exporters is projected to slow to just below 3 percent over the medium term. Notably, hydrocarbon production is forecast to stabilize, including amid capacity constraints (absent substantial investments) in Azerbaijan and Turkmenistan, and nonhydrocarbon growth is projected to remain subdued given the need for further reforms to bolster private sector development and diversification.

Figure 1.17. CCA Oil Exporters: Contributions to Real GDP Growth
(Year-over-year, percent change; contributions in percentage points)



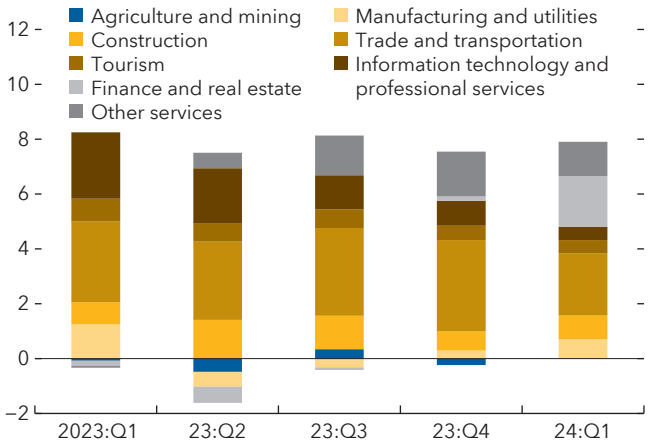
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia.

External balances across oil exporters are expected to narrow amid falling energy commodity prices, with the average current account maintaining a surplus of 0.8 percent of GDP this year before shifting into a deficit over the medium term. Nonetheless, this forecast is an upward revision of 1.5 percentage point of GDP from April, reflecting higher oil revenues and lower repatriation of dividends in Kazakhstan. Looking ahead, current account balances are projected to worsen across all oil and gas exporters because of lower hydrocarbon prices (Azerbaijan, Turkmenistan), an overvalued currency (Turkmenistan), and imports of manufactured goods outpacing oil exports (Kazakhstan).

At the same time, fiscal challenges are set to become more pronounced amid diminished hydrocarbon revenues. Notably, primary balances are projected to weaken in Azerbaijan and Kazakhstan. Although both countries are implementing measures to mitigate the effects of lower hydrocarbon revenues (for example, by reducing tax exemptions [Azerbaijan and Kazakhstan] and increasing corporate tax rates [Kazakhstan]), these measures are insufficient to prevent rising public debt levels (Kazakhstan). Still, public sector debt levels are projected to remain contained at or below 27 percent of GDP over the forecast horizon.

In line with global trends, overall headline inflation among the CCA's oil-exporting countries is projected to ease to 7 percent in 2024 and further toward 5.2 percent over the medium term. However, markedly different inflation paths also reflect variations in monetary policy actions. For example, still-tight policy settings in Kazakhstan should support the continued disinflation process, while loose policy settings in Turkmenistan are expected to keep inflation elevated over the medium term.

Figure 1.18. CCA Oil Importers: Sectoral Contributions to Real GVA Growth
(Growth in percent change, year-over-year, contributions in percentage points)



Sources: Haver Analytics; and IMF staff calculations.
Note: Haver Analytics sectoral data are available for Armenia, Georgia, and the Kyrgyz Republic. CCA = Caucasus and Central Asia; GVA = gross value added.

CCA Oil Importers

Recent Developments: Robust Growth but Early Signs of Slowing

Among CCA oil importers, economic growth remains broad-based and robust, but there are early signs of slowing growth momentum. The first quarter of 2024 saw growth strengthen to about 8 percent relative to the same period the previous year, fueled by strong activity in the construction sector (Kyrgyz Republic, Tajikistan, Uzbekistan), transportation and trade (Armenia, Georgia, Kyrgyz Republic, Uzbekistan), and other services (Armenia, Georgia, Uzbekistan) (Figure 1.18).

However, while remittance inflows remain historically high in Tajikistan, they have returned to or are near pre-war trends in Armenia and Georgia. In addition, the labor market in Armenia is cooling, and credit growth in Uzbekistan has started to slow.

The early months of 2024 also saw a continued slowdown in headline inflation across most of the region's oil importers. Weaker external pressures from commodity prices (all countries), currency appreciation (Armenia, Georgia, Kyrgyz Republic), and slower wage growth (Armenia) supported this trend (Figure 1.15). Notably, Armenia experienced deflation early in the year. Consequently, some central banks (Armenia, Georgia, Kyrgyz Republic) lowered their policy interest rates. Nonetheless, domestic demand pressures have kept core inflation somewhat elevated in the Kyrgyz Republic.

A moderation in external flows, combined with strong domestic demand, resulted in weaker external balances in early 2024. Notably, exports to Russia have recently come down relative to the high levels seen in recent years (except in Uzbekistan, where textile exports to Russia have seen an increase) (Figure 1.16). Moreover, remittances declined during the first half of 2024 in Armenia and Georgia. In addition, strong domestic demand is driving an increase in imports (Armenia, Kyrgyz Republic, Uzbekistan).

Revenue overperformance (Georgia) and spending under-execution (Armenia, Kyrgyz Republic) helped keep primary fiscal deficits small across most CCA oil importers in 2023.

CCA economies are also highly exposed to climate-related disasters, particularly those related to rising temperatures and fluctuations in rainfall. For example, average annual temperatures across the CCA region have risen by more than 1°C from their 1990–2010 average, and precipitation patterns have become more volatile. As a result, more people are being affected by extreme climate events, especially floods (Figure 1.19).

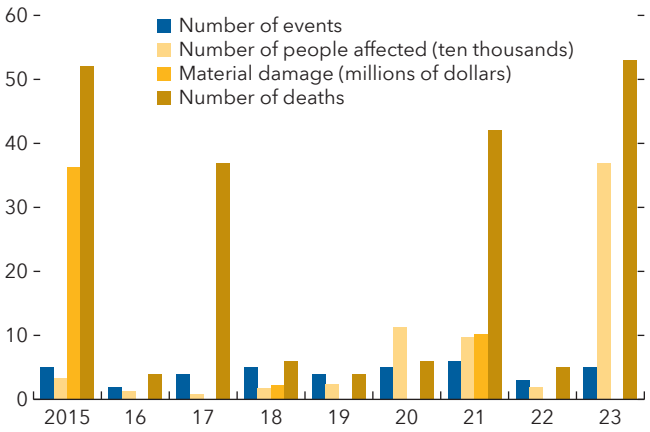
Outlook: Continued Strong Growth Hinges on Policy Action

Economic growth in CCA oil-importing countries is projected to remain strong despite a slight moderation of GDP growth to 6.1 percent in 2024 (from 6.8 percent in 2023) and 5.5 percent in 2025. As positive trade and financial spillovers from Russia's war in Ukraine continue to wane, average growth is expected to stabilize above 5 percent over the medium term. However, this is contingent on the implementation of structural reforms aimed at enhancing the business environment, fostering competition, improving public sector governance, and, in many countries, reducing and refocusing the role of the state in the economy (Gigineishvili and others 2023).

In addition, increasing labor force participation (Armenia, Georgia) and investing in infrastructure to reduce trade costs (Georgia) are essential for strong growth.

In terms of inflation, Armenia and Georgia are projected to maintain relatively low headline inflation rates over the forecast horizon. Meanwhile, inflation in the Kyrgyz Republic is expected to remain stable at the lower band of the Central Bank's target over the medium-term, whereas inflation in Uzbekistan is expected to rise in 2024 following a large increase in administrated energy prices in early May before gradually falling toward the inflation target, helped by tight monetary policy and fiscal consolidation.

Figure 1.19. CCA: Impact of Extreme Climate Events
(Units shown in legend)



Sources: EMDAT database; and IMF staff calculations.
Note: CCA = Caucasus and Central Asia.

Although primary fiscal deficits are expected to narrow on average to 2.1 percent of GDP in 2024, with a further reduction to about 1.6 percent of GDP in subsequent years, this forecast masks marked divergence across countries. In Armenia, the Kyrgyz Republic, and Tajikistan fiscal deficits are projected to widen because of higher capital expenditure, the cost of integrating ethnic Armenians (Armenia), and moderating revenue (Kyrgyz Republic). Conversely, Uzbekistan's phaseout of energy subsidies is helping to strengthen buffers. Over the medium term, fiscal primary deficits are projected to persist across most oil-importing countries, albeit while allowing for low and stable levels of public sector debt.

Current account deficits are expected to remain sizable over the forecast period, at about 5 percent of GDP on average. In Armenia, Georgia, and Tajikistan current account deficits will widen over the medium term, reflecting slowing inflows from Russia and falling re-exports to Russia (Armenia, Georgia), coupled with strong domestic demand, which will widen trade deficits. By contrast, in Uzbekistan, fiscal consolidation and higher mining exports are expected to help strengthen the trade balance.

1.4. Risks Skewed to the Downside

Risks to the outlook for the MENA and CCA regions remain tilted to the downside. In addition to global uncertainties, the MENA and CCA regions are also contending with adverse regional risks.

Uncertainty remains high for the MENA and CCA regions. On the one hand, the materialization of global upside risks would help ease challenges for the MENA and CCA regions. For example, easing trade tensions, stronger recovery in investment in advanced economies, or a stronger reform momentum would stimulate global demand and trade and help lift growth. On the other hand, should adverse global risks come into play, the ramifications for the MENA and CCA regions could be substantial. The most vulnerable economies within these regions would likely bear the brunt of the impact, given their limited ability to absorb and respond to shocks.

- The threat of increased geoeconomic fragmentation could materialize through a higher tendency among countries to adopt inward-looking policies, scale back international cooperation, and engage in broader conflicts. For the MENA and CCA regions, this could lead to changes in trade links, reduced capital flows, and a potential decline in aid flows that would disproportionately impact LICs (see Chapter 3 of the April

2024 *Regional Economic Outlook: Middle East and Central Asia*). In addition, industrial policies that have spillovers beyond national borders heighten the risk of countermeasures by other countries, undermining the principles of multilateral cooperation that are essential for regional economic stability and growth.

- Although policy rates are projected to normalize, still-tight monetary policy could nonetheless lead to a faster-than-anticipated deceleration of near-term growth and rising unemployment. Spillovers from such a scenario would negatively impact growth in the MENA and CCA regions and add to uncertainty ahead. In addition, if underlying inflation proves more persistent than expected, central banks may be forced to adjust the path of monetary policy normalization, leading to market repricing and a resurgence of financial market turbulence.
- Commodity price volatility could increase. Conflicts, export restrictions, OPEC+ oil production decisions, or the transition to green energy could spur fluctuations in commodity supply and demand dynamics, resulting in recurrent commodity price volatility and exerting external and fiscal strains on both commodity exporters and importers, as well as impact inflation. Volatility in the price of key staples would pose a particular challenge for countries grappling with food insecurity. Social and economic instability could also emerge.
- Renewed climate shocks such as droughts and floods would have a material impact. Adverse climate events would affect water security, infrastructure, agricultural yields, and food prices across the MENA and CCA regions.

Adverse shocks could also originate from within or close to the MENA and CCA regions:

- Ongoing conflicts could persist or expand to other areas. The conflict in Gaza and Israel could escalate further and spread to the wider region. Conflicts elsewhere, including in Sudan, may also persist. Such developments would prompt a devastating increase in displacement and human suffering. Economies directly involved in conflicts, as well as their neighbors, would likely also suffer lasting economic losses (April 2024 *Regional Economic Outlook: Middle East and Central Asia).* An escalation of Russia's war in Ukraine or a faltering of Russia's growth prospects could impact CCA economies through disruptions to trade flows and remittances.
- Insufficient reform implementation could hold back growth. Economies embarking on crucial but challenging structural reforms could face rising social discontent, political resistance, and stagnating policy execution. Limited progress on implementing reforms would weigh on medium-term growth prospects, complicate bringing down debt ratios, and undermine the region's resilience to shocks given long-standing structural gaps (October 2023 *Regional Economic Outlook: Middle East and Central Asia).*
- An abrupt reversal of trade and financial flows stemming from an escalation of Russia's war in Ukraine or increased sanctions, including secondary sanctions, could present significant risks to CCA economies, particularly financial stability risks. Although several CCA oil-importing countries have implemented or strengthened macroprudential measures to address financial stability risks amid elevated lending to households and firms, sudden reversals in flows could cause disruptions (for example, through disorderly depreciation or increased nonperforming loans).

1.5 Policy Prioritization Essential amid Shifting Headwinds

Amid heightened uncertainty and lackluster medium-term growth forecasts, it is crucial for policies to help improve prospects for future growth and rebuild fiscal buffers to bolster resilience. To this effect, the acceleration of structural reforms, particularly in governance, remains key. For highly indebted economies, including some MENA EM&MIs, a durable decline in debt levels is essential and would over time also facilitate access to lower cost financing and help open fiscal space for much needed development and social spending. Although inflation has receded in many economies, vigilance in maintaining price stability remains vital as it creates a predictable environment conducive to investment and sustainable economic growth.

Reforms and Climate Policy: Boost Growth Prospects and Resilience

Implementing structural reforms is crucial for boosting productivity and enhancing medium-term growth prospects. Policy efforts should include reforms targeted at labor markets and human capital development, as well as efforts to improve the institutional and regulatory environment. Addressing the impacts of climate change is also crucial.

A number of structural policies are essential for achieving stronger and more inclusive growth:

- Strengthening governance would be particularly valuable. The October 2023 *Regional Economic Outlook: Middle East and Central Asia* highlighted how governance reforms—such as enhancing the rule of law and government effectiveness—are crucial in fostering an economic environment that encourages private investment and helps boost growth. Moreover, prioritizing governance reforms before other reforms can magnify their overall growth dividends, and the strategic packaging of reforms—for example, by combining external sector and credit market reforms—can amplify positive output effects.
- Policy action is needed to address labor market challenges, increase relatively low levels of capital per worker, and boost total factor productivity (TFP). Specifically, policies designed to enhance participation and job creation, particularly for women and youth, and promote competition and openness in markets would be essential and would help secure stronger and more sustainable growth. Supporting macroeconomic stability and taking steps to increase levels of digitalization, enhance trade complexity, and reduce the state footprint would help reinforce these efforts (Chapter 2).
- Reducing long-standing trade barriers can help economies harness the benefits from trade amid increasing geoeconomic fragmentation and global uncertainty. Diversifying products and markets would help enhance economic resilience. Making investments in infrastructure to leverage new trade corridors would also be beneficial. Financial reforms play a crucial role in making economic growth more inclusive and sustainable, and countries stand to gain from facilitating competition within the financial sector. Essential reforms include strengthening macroeconomic and policy frameworks and reducing the role of the state in banking systems (Chapter 3). In turn, this approach would help support private sector investment. For those non-GCC MENA and CCA countries with highly bank-centric financial systems, developing financial markets to diversify sources of funding would be particularly beneficial.

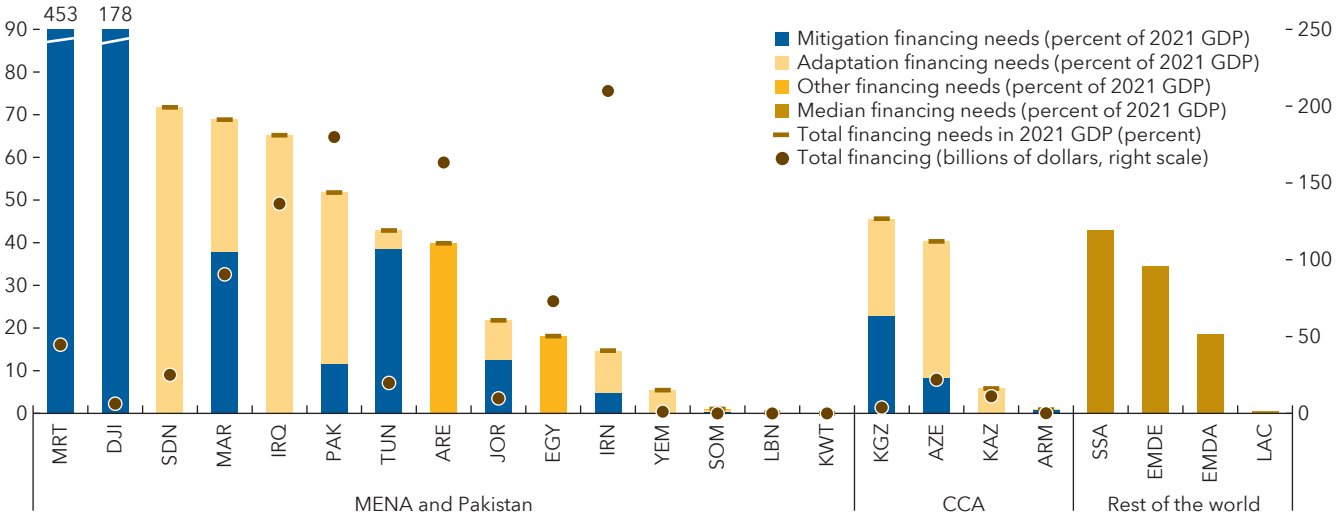
Given their vulnerability to the impacts of climate change and transition risks, countries in the MENA and CCA regions should continue efforts to build economies that are both greener and more resilient. Beyond mitigation efforts by commodity-exporting countries, especially through economic diversification, there is a pressing need for climate adaptation measures in all countries. Investing in water infrastructure and adopting cost-recovery pricing for water use would be helpful in this regard.[12] However, financing needs for climate-related initiatives are sizable (Figure 1.20). Moreover, they will remain high in the years ahead—for example, investment needs for the green transition and adaptation are estimated at more than $120 billion for MENA LICs through 2035. In this respect, financial institutions can help play a pivotal role in fostering a green economy through the implementation of "green inclusive" finance (Radzewicz-Bak and others 2024). Engaging with global green finance networks can further aid in sharing knowledge and best practices.

Fiscal Policy: Rebuild Buffers

Across the MENA and CCA regions, ensuring fiscal sustainability is a priority, particularly considering headwinds from conflicts in the region, still-tight financing conditions for several economies, and risks posed by shifting trade patterns. In this respect, strengthening fiscal risk management by implementing or bolstering medium-term fiscal frameworks is vital for increasing transparency and credibility. At the same time, it is crucial to safeguard social protection systems and ensure access to education and health care, and focusing essential spending on the most vulnerable would not only promote inclusion but also help preserve fiscal sustainability.

[12] Detailed analysis and policy suggestions on adaptation investments can be found in Duenwald and others (2022) and Radzewicz-Bak and others (2024).

Figure 1.20. MENA: Current Financing Needs for Climate Policy
(Percent of 2021 GDP; billions of dollars)



Sources: UN Framework Convention on Climate Change; and IMF staff calculations.
Note: Afghanistan's financing needs are in percent of 2020 GDP because of the unavailability of the 2021 GDP data. The United Arab Emirates has a 2050 Energy strategy that specifies AED 600 billion investment needs for energy transition. West Bank and Gaza is not included in the figure as IMF staff is not able to corroborate the estimates. Figures for aggregate regions show the financing need of the median country in each region. Other financing needs covers activities such as research, developing climate data/information, and so on, that are not directly linked to mitigation or adaptation activities. Total financing shows cumulative investments needs until the target years in countries' Nationally Determined Contributions which are either 2030 or 2035. Mitigation investment needs for Djibouti and Mauritania include the expansion of power grids to increase access to electricity, especially in rural areas. Data labels in the figure use International Organization for Standardization (ISO) country codes. CCA = Caucasus and Central Asia; EMDA = emerging and developing Asia; EMDE = emerging and developing Europe; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SSA = sub-Saharan Africa.

In particular, scaling back regressive and inefficient subsidies and avoiding generalized wage increases and transfers would help redirect resources toward more targeted social protection programs. For some economies, expanding the tax base to increase the revenue stream could provide the funds needed to meet social and developmental needs.

Given the significant variations in public sector debt levels across countries, tailored fiscal policy is essential:

- For countries facing high debt levels and financing needs, especially MENA EM&MIs, a concerted effort toward continuing fiscal consolidation is crucial to bring down debt burdens decisively. To this end, containing current spending on subsidies, mobilizing additional revenue, and phasing out tax exemptions would be critical. Over time, strengthening fiscal positions would also facilitate access to lower-cost financing. In addition, authorities should consider ways to mitigate fiscal risks from state-owned enterprises.
- MENA LICs should focus on ensuring fiscal sustainability while addressing food insecurity. Where financing constraints prevent the provision of basic services or progress toward the Sustainable Development Goals, particularly in fragile and conflict-affected states, strong efforts are needed to mobilize domestic fiscal revenues. Amid persistent climate hazards and food insecurity, spending aimed at supporting livelihoods should target the most pressing social needs (such as acute food insecurity). Assistance from the international community is essential in this regard to help mitigate ongoing humanitarian crises.
- In the current environment of oil price volatility and reduced oil production, MENA oil exporters should focus on fostering resilience and sustainability while ensuring intergenerational equity. To this effect, reforms to provide an enabling environment for the private sector would support non-oil growth and longer-term economic resilience. For the GCC, continuing to diversify revenue sources and implement tax reforms

(through the introduction and expansion of value-added, personal income, and corporate income taxes) remain key priorities. In addition, facilitating the green transition is crucial to global climate change efforts. Where relevant, eliminating inefficient energy subsidies would align with these objectives.

- Amid slowing medium-term growth and weakening revenues, CCA countries should conserve fiscal buffers and debt sustainability, including through gradual fiscal consolidation. Moreover, in the current environment of robust growth, fiscal consolidation is needed to support disinflation. Strengthening fiscal institutions and improving public financial management and public investment management processes would support these efforts. Moreover, enhancing the transparency of state-owned enterprises and public sector statistics, more generally, would help reduce fiscal risks and support access to external financing. In addition, oil exporters should support climate mitigation efforts by reforming subsidies to reflect the true cost of natural resources and carbon emissions.

Monetary and Financial Policies: Lock in Low Inflation and Safeguard Financial Stability

Maintaining price stability should remain the cornerstone of monetary policy, accompanied by clear communication of policy objectives and transparency in monetary policy operations. In countries with a fixed exchange rate (such as GCC, Jordan), any policy interest rate change should be made in accordance with their policy frameworks. Elsewhere, for countries grappling with persistently elevated inflation (Egypt, Kazakhstan, Pakistan, Tunisia, Uzbekistan), monetary policy should remain tight. Where inflation indicators signal a lasting return to price stability (such as in several CCA countries), a cautious approach to monetary easing could be considered. More broadly, the pace of adjustment in the monetary policy stance should remain data dependent and vigilant to changes in underlying inflation pressures.

Monetary policy implementation should be accompanied with prudent fiscal policy. As such, in countries where monetary and fiscal policy are not well coordinated or where fiscal policy overshadows monetary policy decisions, addressing fiscal imbalances alongside an independent central bank is essential for enhancing the effectiveness of monetary policy tools in controlling inflation.

In addition, developing and strengthening regulatory, supervisory, and macroprudential frameworks remains a priority for financial sectors in the region. These frameworks provide essential guardrails to safeguard financial stability and include implementing adequate and comprehensive regulatory standards and conducting appropriately resourced and intensive supervisory oversight. On macroprudential tools, ramping up the use of broad-based tools, such as the countercyclical capital buffer, would help to prevent a sharp credit contraction during downturns, and using borrower-based tools, such as caps on debt-service-to-income ratios and loan-to-value ratios, would help guard against rapid credit growth and asset quality deterioration (see Chapter 3 of the October 2023 *Regional Economic Outlook: Middle East and Central Asia*).

The IMF Remains Committed to Providing Support

Since early 2020, the IMF has approved over $47.7 billion in financing to countries across MENA, Pakistan, and the CCA. Notably, since the start of 2024, more than $13.4 billion in new funding has been approved for programs in Egypt (augmentation under the Extended Fund Facility), Jordan (Extended Fund Facility), and Pakistan (Extended Fund Facility). In addition, a nonfinancial policy coordination instrument was approved for Tajikistan to support the authorities' structural reform program. The IMF has also carried out about 361 technical assistance and capacity development projects in 31 countries, totaling $32.6 million during fiscal year 2023/24.[13] Moreover, it maintains a significant regional footprint through its resident representative offices, technical assistance centers, and the new regional office in Riyadh, Saudi Arabia, all of which help strengthen the IMF's partnership with countries across these regions.

[13] The fiscal year 2024 runs from May 1, 2023, to April 30, 2024.

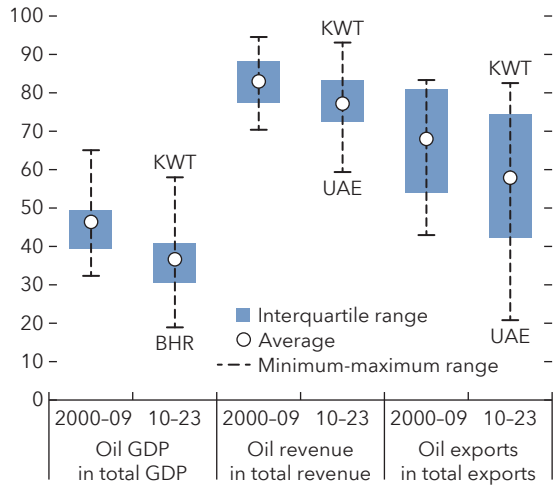
Box 1.1. Gulf Cooperation Council: Economic Diversification

Over the past two decades, oil exporters in the Gulf Cooperation Council (GCC) have actively implemented reforms to diversify their economies.[1] Reform efforts have encompassed investing in nonhydrocarbon sectors, strategically utilizing sovereign wealth funds,[2] fostering entrepreneurship, enhancing human capital, and committing resources to renewable energy and digitalization.

Although the importance of the oil sector as a share of GDP has moderated, it remains sizable in most GCC economies—and higher than in other oil-dependent economies. Since 2000, the share of oil in the GCC's GDP has diminished from 50 percent to approximately 33 percent in 2023—while the average for other oil-dependent economies stood at about 26 percent in 2023. Nonetheless, for Kuwait, Qatar, and Saudi Arabia, oil and related goods constituted roughly 90 percent of total goods and commodity exports as of 2023. For most GCC economies, oil activities also help generate about 70 percent of total fiscal revenue (Box Figure 1.1.1), and economic activity in several sectors, especially chemicals and petrochemicals, remains closely linked to activities in the oil sector (Box Figure 1.1.2).

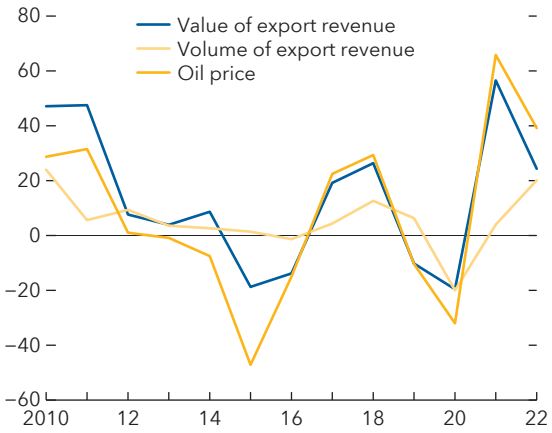
The growth in non-oil sectors has been notable along with diversification efforts—though it remains partially dependent on oil-related activity and the size of these sectors remains small. Notably, financial services, manufacturing, trade, and tourism sectors have made significant contributions to non-oil growth (Box Figure 1.1.3). High technology exports have also seen a sizable increase, rising from 1.5 percent of

Box Figure 1.1.1. GCC: Oil Shares
(Percent of total)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. GCC = Gulf Cooperation Council.

Box Figure 1.1.2. GCC: Chemical Industry Export Revenue and Oil Price
(Year-over-year percent change)



Sources: Gulf Petrochemicals and Chemicals Association (2024); IMF, World Economic Outlook database; and IMF staff calculations.
Note: GCC = Gulf Cooperation Council.

The author of this box is Vizhdan Boranova.

[1] Saudi Vision 2030, Qatar National Vision 2030, Oman Vision 2040, Bahrain Economic Vision 2030, UAE Vision 2031, and Kuwait Vision 2035.

[2] Sovereign wealth funds are investment vehicles owned by the state, designed to manage and invest surplus revenues, mainly derived from the export of oil and gas. The role of sovereign wealth funds varies significantly across GCC economies. Sizable GCC sovereign wealth funds include the following: Public Investment Fund (Saudi Arabia); Abu Dhabi Investment Authority, Mubadala Investment Company, Investment Corporation of Dubai, Emirates Investment Authority (the United Arab Emirates); Kuwait Investment Authority (Kuwait); Qatar Investment Authority (Qatar); Oman Investment Authority (Oman); and Mumtalakat Holding Company (Bahrain).

Box 1.1. *(Continued)*

total manufacturing exports in 2015–19 to an average of 4 percent in 2020–22. However, construction, transport, and information technology sectors—despite being high-priority sectors that have received substantial public investment—remain relatively small in terms of contributions to growth, collectively accounting for slightly over 12 percent of overall GDP. Moreover, the surge in several sectors can be partly attributed to an increase in available project financing, which, in turn, has been spurred by record-high revenues from energy exports (Korniyenko and Xin, forthcoming).

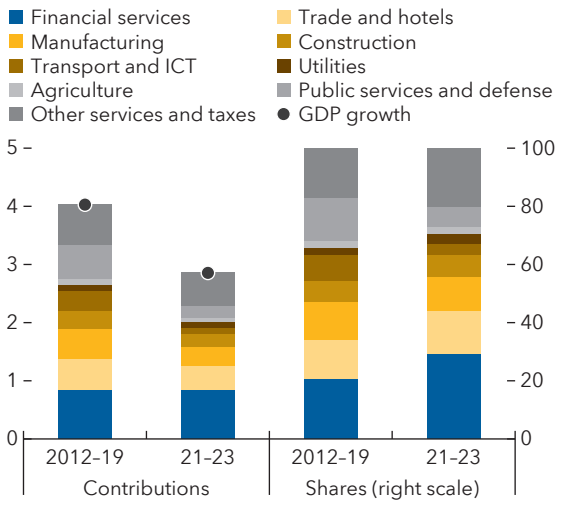
Public sector investment has been an important driver of diversification across GCC members. Specifically, average public capital expenditure has risen steadily over the past two decades—by 3.9 percent annually on average since 2010—as regional governments accelerated the pace at which they execute their long-term diversification plans. In addition, sovereign wealth funds have supported domestic investments. Moreover, the significant uptick in GCC cross-border investment in recent years, particularly in the services sector, has been a major contributor to nonhydrocarbon growth (Box Figure 1.1.4; Korniyenko and Xin, forthcoming).

Countries in the GCC have also taken several steps to attract investments and lift growth. These include:

- Enhancements to business environments to bolster GCC members' roles as global trade hubs and attractive investment destinations. For example, some GCC countries have revised their investment and bankruptcy codes. They have also signed free trade agreements and increased investments in high-growth, high-value added, and knowledge-intensive sectors. Investments in infrastructure development have also been sizable.
- Efforts to strengthen the labor market. To support the development of a skilled and diverse labor force, several GCC countries have initiated or are considering reforms to boost female labor force participation, bolster private sector employment, and enhance labor market flexibility by lifting restrictions (see also Chapter 2).

Box Figure 1.1.3. GCC: Real Oil GDP Growth Contributions and Shares

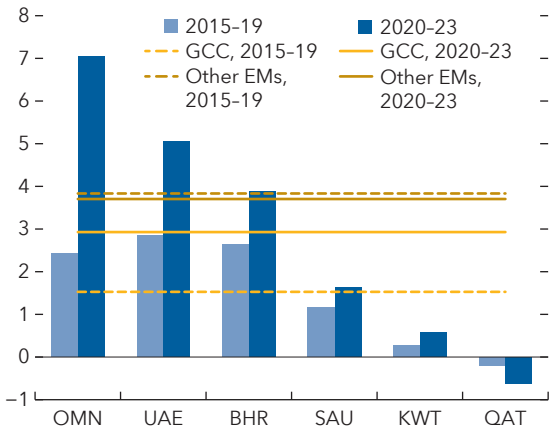
(Year-over-year percent change for growth; percentage points for contributions; percent of total for shares)



Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: GCC = Gulf Cooperation Council; ICT = information and communication technologies.

Box Figure 1.1.4. GCC: Foreign Direct Investment, Net Inflows

(Percent of GDP)



Sources: IMF, World Economic Outlook database; World Bank, World Development Indicators; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. EMs = emerging markets; GCC = Gulf Cooperation Council.

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2. Reversing the Trend: Enhancing Medium-Term Growth Prospects[1]

Medium-term growth prospects for countries in the Middle East and North Africa (MENA)[2] and Caucasus and Central Asia (CCA) regions have been gradually deteriorating over the past 15 years, and realized growth has repeatedly fallen short of expectations. Although living standards have improved, they have stagnated relative to advanced economies and fallen behind trends seen among emerging markets and developing economies elsewhere. Growth decompositions reveal that increases in employment per capita has been a key contributor to per capita output growth across the MENA and CCA regions, but its role has diminished over time. By contrast, growth in other regions has largely relied on contributions from capital deepening and Total Factor Productivity (TFP). Policy action is needed to resume income convergence and foster stronger and more sustainable growth. Changing demographics will require policies designed to enhance participation and job creation, including for women and youth, especially in the MENA region. Increasing relatively low levels of capital per worker could also yield significant growth dividends and would require deepening financial development and reforms to promote private sector investment. Meanwhile, policies to boost TFP will need to be tailored to country-specific needs. On average, the most important policy actions include those that help support macroeconomic stability, increase levels of digitalization, enhance trade complexity, and reduce the state footprint. Such efforts are also critical in light of the adverse impacts of conflicts and climate-related disasters on TFP.

2.1 Deteriorating Growth Prospects

Recent trends indicate a concerning decline in growth prospects around the world, primarily because of a slowdown in TFP growth (April 2024 *World Economic Outlook*). Medium-term growth expectations for the MENA and CCA regions have also deteriorated over the past two decades (Figure 2.1, panel 1). This deterioration has been broad-based across countries, although GCC countries exhibit more volatility than elsewhere, mainly because of global oil price fluctuations. In addition to forecasts becoming progressively more pessimistic, actual economic growth has consistently fallen short of expectations, particularly since the global financial crisis (Figure 2.1, panel 2).

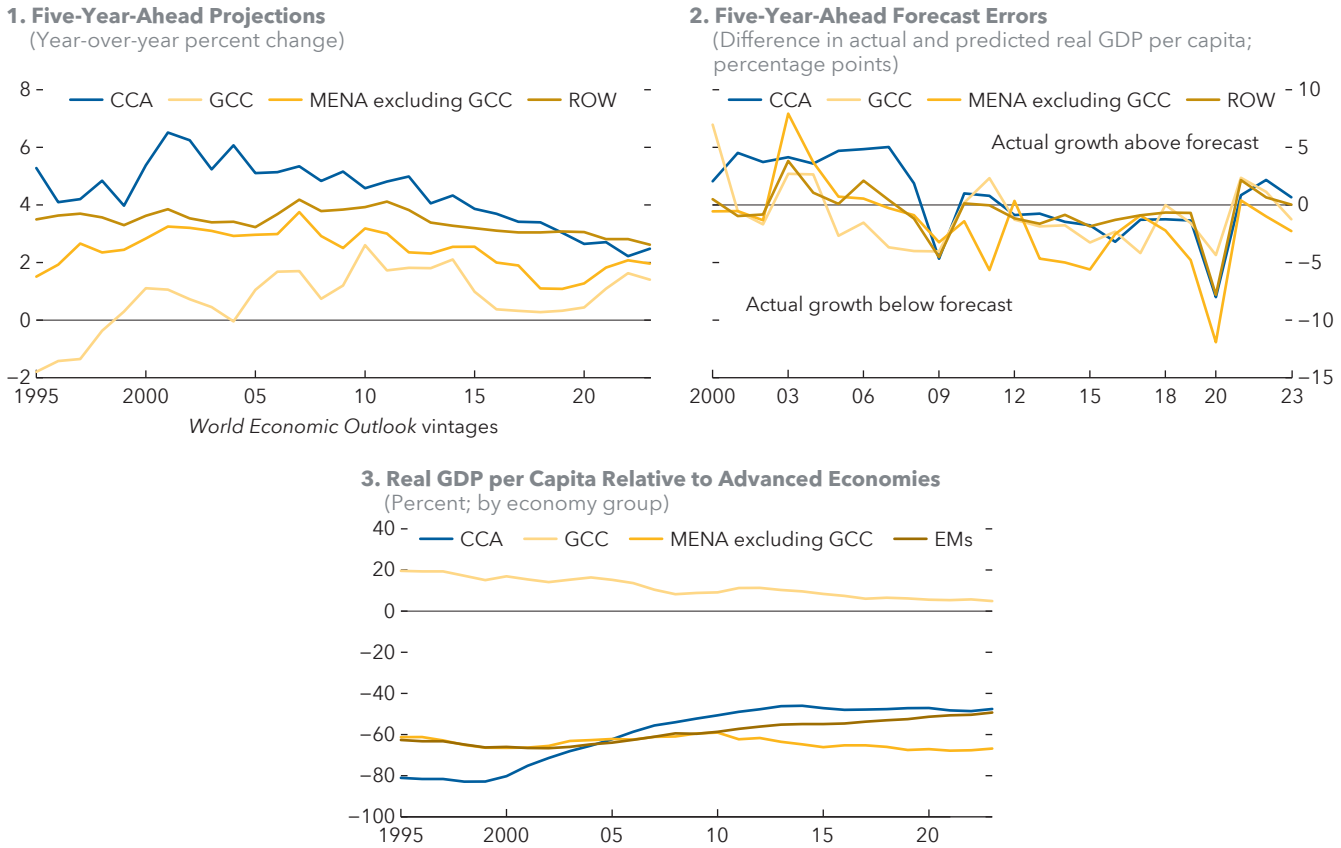
Starting in the early 2000s and consistent with global trends, economies across the MENA and CCA regions generally experienced an upswing in growth, which lasted until the onset of the global financial crisis when a noticeable slowdown set in.[3] Even though living standards have continued to improve since then, the gap in income per capita between MENA and CCA economies on the one hand and advanced economies on the other has either remained static (CCA) or widened (MENA, excluding the GCC). Moreover, growth in income per capita has not kept pace with those in emerging market economies elsewhere (Figure 2.1, panel 3). For GCC economies, although income per capita levels have generally been above those of the average advanced economy, relative average income per capita in the GCC has been gradually declining over time and is now close to that of advanced economies.

[1] This chapter was prepared by Faris Abdurrachman, Nordine Abidi, Razan Al Humaidi, Vizhdan Boranova, Bronwen J. Brown, Steven Dang, Yuan Monica Gao Rollinson, Troy Matheson (co-lead), Borislava Mircheva (co-lead), and Nora Neuteboom.

[2] For analytical purposes, Middle East and North Africa (MENA) includes Pakistan in this chapter. In addition, the Gulf Cooperation Council (GCC) economies and MENA excluding the GCC are studied as separate country groupings.

[3] The global financial crisis had lasting scarring effects that significantly lowered medium-term growth by reducing investment in innovation and technology, restricting credit access for small and medium-sized enterprises, and causing a misallocation of resources, all of which hindered productivity gains (Fernald 2015; IMF 2015). In addition, the crisis led to a deterioration in human capital amid prolonged unemployment, further exacerbating the decline in total factor productivity (TFP) (Ball 2014)

Figure 2.1. Real GDP per Capita Growth Projections, Forecast Errors, and Income Convergence



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Panel 1 illustrates five-year-ahead growth projections published in fall vintages of the *World Economic Outlook* from 1995 to 2023. Panel 2 shows the difference between realized growth of a given year (between 2000 and 2023) and projected growth in the *World Economic Outlook* published five years earlier. Countries are weighted using purchasing power in international dollar weights. EMs and the rest of the world exclude CCA and MENA countries (and Pakistan). CCA = Caucasus and Central Asia; EMs = emerging markets; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa (including Pakistan); ROW = rest of the world.

2.2 Main Contributors to Growth Differ from the Rest of the World

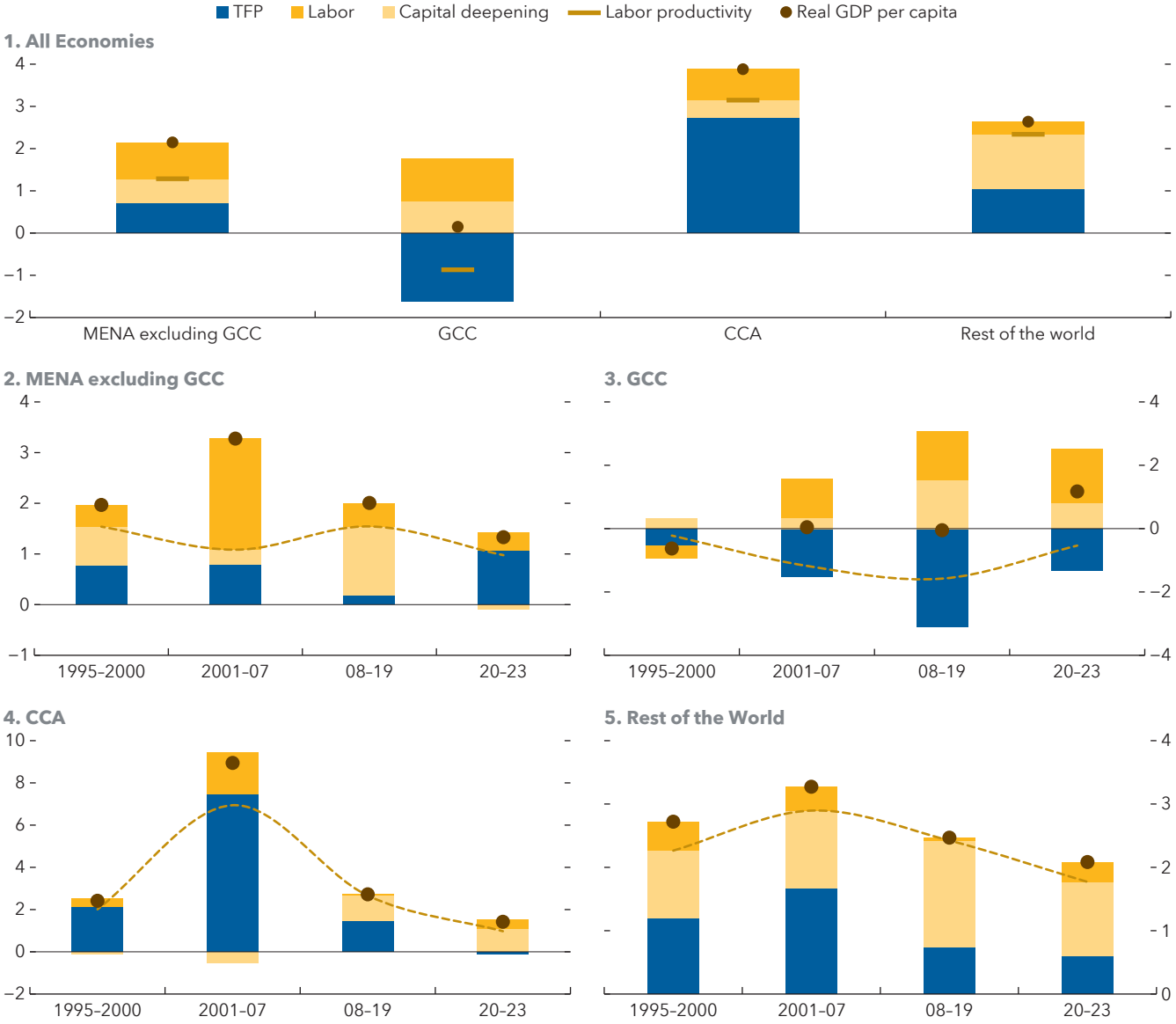
A growth accounting approach helps to unpack the growth experience. This approach reveals that employment per capita has been a key contributor to growth of GDP per capita across the MENA and CCA regions, but its role has diminished over time and unemployment rates have remained persistently high.[4] In contrast, growth in other regions has largely relied on contributions from capital deepening and TFP (Figure 2.2, panel 1).[5] That said, the relative importance of growth in employment, capital, and TFP has varied over time and country groups.

- *Employment.* Unlike in the rest of the world, employment per capita has been a larger contributor to growth than capital deepening across the MENA and CCA regions on average. However, outside GCC economies, its contribution has dropped markedly since the global financial crisis. In MENA excluding the GCC, employment's

[4] Many countries in the MENA and Caucasus and Central Asia (CCA) regions have a long history of high unemployment rates and relatively low labor force participation rates. In this context, it is important to note that growth in employment per capita can still occur even if unemployment and participation rates are unchanged, provided the working-age population grows more rapidly than the overall population (see Online Annex 2).

[5] The analysis assumes a simple, constant coefficient Cobb–Douglas production function for each group of economies. It breaks down real per capita output growth into three main components: capital deepening (growth in capital per employed worker), growth in employment per capita, and growth in TFP. In this model, growth in real output per capita equals the capital compensation share multiplied by capital deepening plus growth in employment per capita plus growth in TFP.

Figure 2.2. Contributions to Real GDP per Capita Growth, 1995–2023
(Percent)



Sources: International Labour Organization; Penn World Table version 10.01; United Nations, World Population Prospects; and IMF staff calculations.
Note: Countries are weighted using purchasing power in international dollar weights. Contribution figures were obtained through a growth decomposition exercise of real GDP per capita assuming a standard Cobb–Douglas production function. Labor productivity is real GDP per employed worker. Contributions of capital deepening and employment per capita reflect the shares of the respective factor inputs in output and their growth rates. Per capita growth decomposition sample for the world comprises 140 economies. CCA includes data for Armenia, Kazakhstan, and the Kyrgyz Republic; GCC includes data for Bahrain, Kuwait, Oman, Saudi Arabia, and the United Arab Emirates; MENA includes data for Algeria, Bahrain, Djibouti, Egypt, the Islamic Republic of Iran, Jordan, Kuwait, Mauritania, Morocco, Oman, Pakistan, Saudi Arabia, Tunisia, the United Arab Emirates, and Yemen. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa (including Pakistan); TFP = total factor productivity.

contribution to growth dropped from about 2.2 percentage points during 2001–07 to 0.5 percentage point in the years after the global financial crisis (2008–19) (Figure 2.2, panel 2). The CCA region observed a similar trend, with employment's contribution to growth declining from 2 percentage points during 2001–07 to almost zero in the later period (Figure 2.2, panel 4).

- *Capital*. There was a notable pickup in contributions from capital deepening observed from 2008 to 2019, surpassing the contribution of employment and similarly to trends elsewhere (Figure 2.2, panels 2 and 4). This likely reflects the prolonged period of low global interest rates following the global financial crisis and continuing during the COVID-19 pandemic. Nonetheless, capital's contribution to growth has been smaller in the MENA and CCA regions compared with the rest of the world on average (Figure 2.2, panel 1).
- *TFP*. TFP's contribution to growth exhibits more heterogeneity across time and economy groups.
  - In MENA excluding the GCC, TFP's contribution was small from 1995 to 2007 (about 0.8 percentage point) and in the years following the global financial crisis up until before the COVID-19 pandemic (Figure 2.2, panel 2). Subsequently, TFP significantly contributed to growth during 2020–23, but primarily because of developments in the Islamic Republic of Iran (Figure 2.2, panel 2).[6]
  - In GCC economies, TFP's contributions have been notably large and negative (Figure 2.2, panel 3). In addition to the need for structural reforms, this is possibly related to developments in the hydrocarbon sector, where periods of lower oil prices or voluntary production cuts led to declining output with little or no impact on production capacity.[7]
  - In the CCA region, TFP's contribution to growth declined as the economic benefits from structural reforms following independence in the early 1990s began to wane. Notably, contributions decreased from 7.5 percent over 2001–07 to about 1.5 percent during 2008–19. Moreover, the contribution of TFP to growth was negligible from the onset of the COVID-19 pandemic until 2023.

These factors are discussed in more detail in sections 2.3 through 2.5.

2.3 Fading Employment Contributions to Growth

The decline in the contribution of employment to growth in GDP per capita in many economies largely reflects a slowdown in the growth of working-age population shares, which have not been fully offset by increases in labor force participation and the employed share of the labor force.[8] Notably, in line with global trends, growth in the size of the working-age population relative to the total population has typically slowed, albeit to varying degrees (Figure 2.3). In MENA (excluding the GCC), the employed share of the labor force has risen in recent years. However, these improvements have been insufficient to counteract declines in the growth of the working-age population share, resulting in an overall decline in employment per capita's contribution to growth over time. In contrast, GCC countries have seen strong gains in labor force participation, whereas the working-age population share's contribution has remained broadly stable, leading to a rise in employment per capita's contribution to growth.[9] By contrast, across CCA economies, labor force participation rates have dropped significantly.

Potential Growth Gains if Gaps Are Closed

In GCC and CCA economies, progress has been made in increasing female labor force participation and reducing youth unemployment. Yet, significant challenges remain in MENA countries outside the GCC. Although participation by women in the labor force has increased in recent decades (with the CCA being an exception, given the already high participation of women in the labor force), the rates of nonparticipation by women in MENA (excluding the GCC) remain above the average for the rest of the world (Figure 2.4, panel 1). Moreover, this is associated with

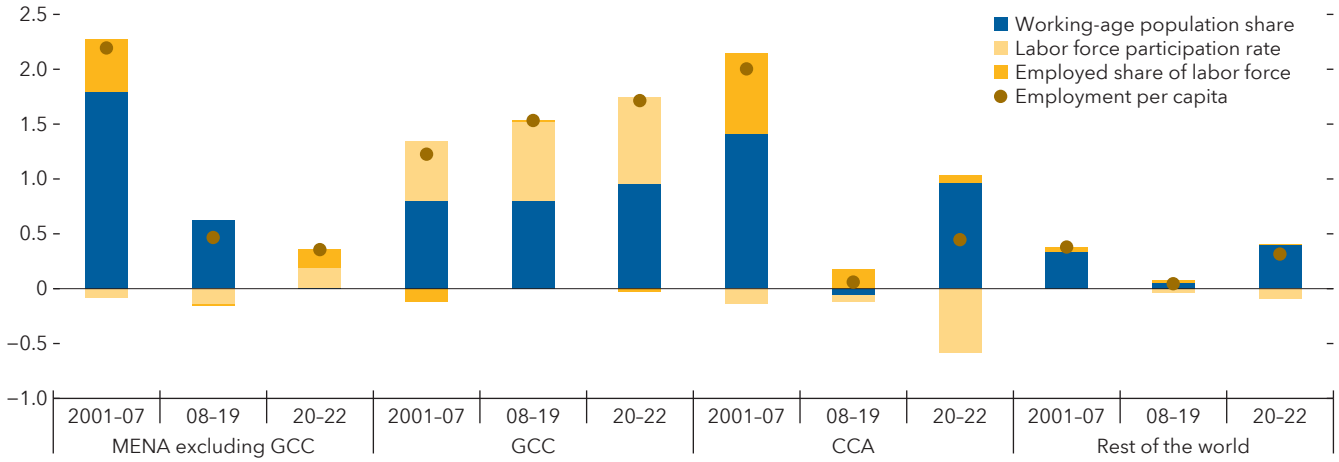
[6] For MENA (excluding the GCC), the observed increase in TFP growth over 2020–23 is primarily driven by the Islamic Republic of Iran, where data is highly volatile because of the impact of external sanctions.

[7] Employment and capital stock data are not available separately for the hydrocarbon and nonhydrocarbon sectors of the economy to undertake a more detailed assessment of their relative roles.

[8] The working-age population is defined as the size of population between the ages of 15 and 64 years.

[9] Although not studied in this chapter, it is important to recognize that foreign workers are key to the workforce in the GCC.

Figure 2.3. Employment per Capita: Contributions to Growth, 2001–22
(Year-over-year percent change; contributions in percentage points)



Sources: International Labour Organization; United Nations, World Population Prospects; and IMF staff calculations.
Note: The employed share of labor force is defined as 100 percent minus the unemployment rate. Countries weighted using purchasing power in international dollars. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa (including Pakistan).

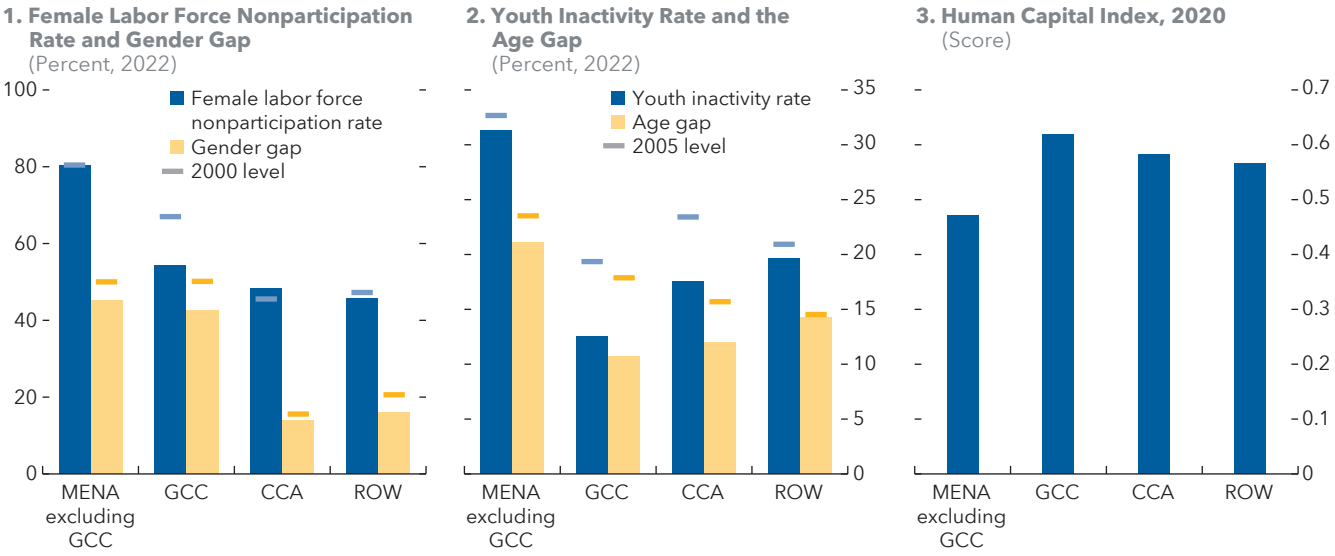
a sizable participation gender gap in the workforce in these countries compared to other regions. Among GCC economies, even though the rate of nonparticipation by women has shrunk over the past two decades as economies have actively implemented reforms to diversify their economies, it remains above levels seen elsewhere.[10]

Youth inactivity is another dimension that holds significant opportunities for improvement in the MENA region. Excluding the GCC countries (where the youth inactivity rate is slightly above 10 percent), over 30 percent of young people in the MENA region are neither working nor engaged in education or training, well above the average in the rest of the world of under 20 percent (Figure 2.4, panel 2). Several factors drive these high youth inactivity rates, including a mismatch between education systems and labor market needs, rigid labor markets with strong protection for existing workers and few incentives to hire young workers, and economic structures with wealth concentrated in specific sectors (such as commodities) that do not create broad-based employment opportunities (ILO 2015). Although youth inactivity rates have fallen over time and the gaps with adults (the age gaps) have narrowed, these gaps remain notably large in MENA countries outside the GCC, where overall unemployment rates are also high.

Increasing female labor force participation and youth employment to levels seen in the rest of the world could lead to significant gains in employment and economic output. Based on a growth decomposition from a Cobb–Douglas production function and assuming all other factors of production remain unchanged, a 1-percentage-point increase in female labor force participation rates could yield about 1 percentage point higher output per capita on average in MENA (excluding the GCC) and about 0.4 percentage point higher in the GCC. Similarly, output per capita in MENA (excluding the GCC) would be about 0.2 percentage point higher for every 1 percentage point reduction in youth unemployment rates toward average levels seen in other parts of the world (see Online Annex 2).

[10] See Bahrain Economic Vision 2030, Kuwait Vision 2035, Oman Vision 2040, Qatar National Vision 2030, Saudi Vision 2030, and UAE Vision 2031.

Figure 2.4. Labor Market: Selected Demographic Indicators



Sources: International Labour Organization; World Bank, World Development Indicators; and IMF staff calculations.
Note: The gender gap is the difference in male and female labor force nonparticipation rates. The youth inactivity rate is defined as the share of the population aged 15–24 years not in employment, education, or training. The age gap is the difference between the youth inactivity rate and the unemployment rate for adults over 25 years. The Human Capital Index is an international metric that benchmarks key components of human capital, including health and education, across countries. The index measures the level of human capital that a child could expect to attain by the age of 18. The index ranges between 0 and 1, with 1 meaning the maximum possible level is reached. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa (including Pakistan); ROW = rest of the world.

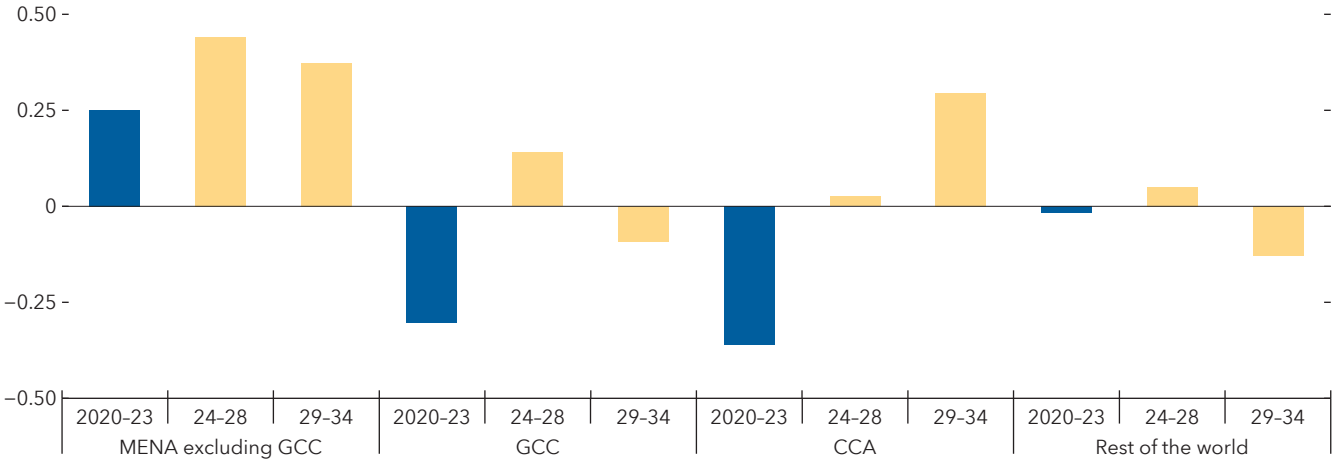
Some economies also lag global averages in terms of human capital. On a positive note, in the CCA and GCC regions, human capital development, which helps boost worker employability and adaptability, has surpassed the global average. However, the MENA region (excluding the GCC) continues to lag the average in the rest of the world, underscoring the importance of prioritizing investment in human capital (Figure 2.4, panel 3).[11]

Making the Most of Demographic Changes

Looking forward, demographic shifts are poised to reshape workforce dynamics and influence the drivers of employment growth. The United Nations predicts that, over the next five years, economies in the MENA and CCA regions will benefit from a faster increase in the share of working-age people in their total populations, also when compared to the rest of the world (Figure 2.5). To fully reap the benefits of these demographic shifts, labor markets will need to become more flexible and capable of generating sufficient jobs to absorb the influx of new workers (by improving labor force participation rates and the share of those employed). Further ahead, especially in the latter half of the decade, as demographic conditions in MENA economies become less favorable, especially in the GCC, it will become even more important to increase labor force participation and reduce unemployment rates, particularly for women and the youth, to sustain growth in employment per capita.

[11] The gap in human capital is evident across various dimensions, including educational attainment, skill levels, and health outcomes. For example, according to UN Educational, Scientific and Cultural Organization, the secondary school enrollment rate in the MENA region was about 75 percent in 2020, below the global average of 84 percent.

Figure 2.5. Working-Age Population Shares: Actual and Projected Growth, 2020–34
(Average year-over-year percent change)



Sources: United Nations, World Population Prospects; and IMF staff calculations.
Note: Figures for the period 2020–23 are based on official statistics from national statistical offices (blue bars); figures for the periods 2024–28 and 2029–34 (yellow bars) are based on population projections provided by the United Nations. Countries are weighted by population. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa (including Pakistan).

2.4 Subdued Capital Deepening

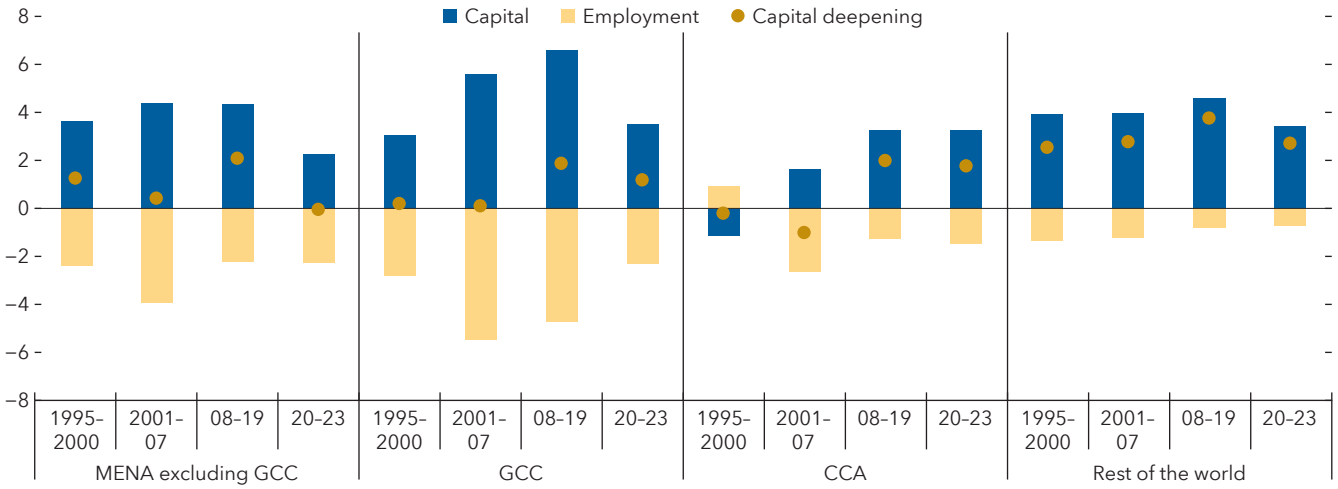
The less significant contribution of capital deepening to growth in the MENA and CCA regions relative to the rest of the world could be partly because of the sizable role that governments play in most financial sectors, crowding out private sector investment (see Chapter 3). Although the average rates of investment and capital accumulation have generally kept pace with global trends (except in the CCA), relatively strong employment growth rates (despite high unemployment rates) have led to disappointing growth in capital–labor ratios, thus limiting their contributions to labor productivity (Figure 2.6).

Significant Potential Growth Dividends

A higher level of capital per worker can boost labor productivity (output per worker). In this respect, a higher capital–labor ratio is associated with higher real GDP per capita. Moreover, a 1 percent increase in capital per worker is associated with roughly a two-thirds increase in output per capita on average in the MENA and CCA regions, with countries that have relatively capital-intensive economies, such as hydrocarbon producers in the GCC and Kazakhstan, seeing larger gains in output (Figure 2.7).

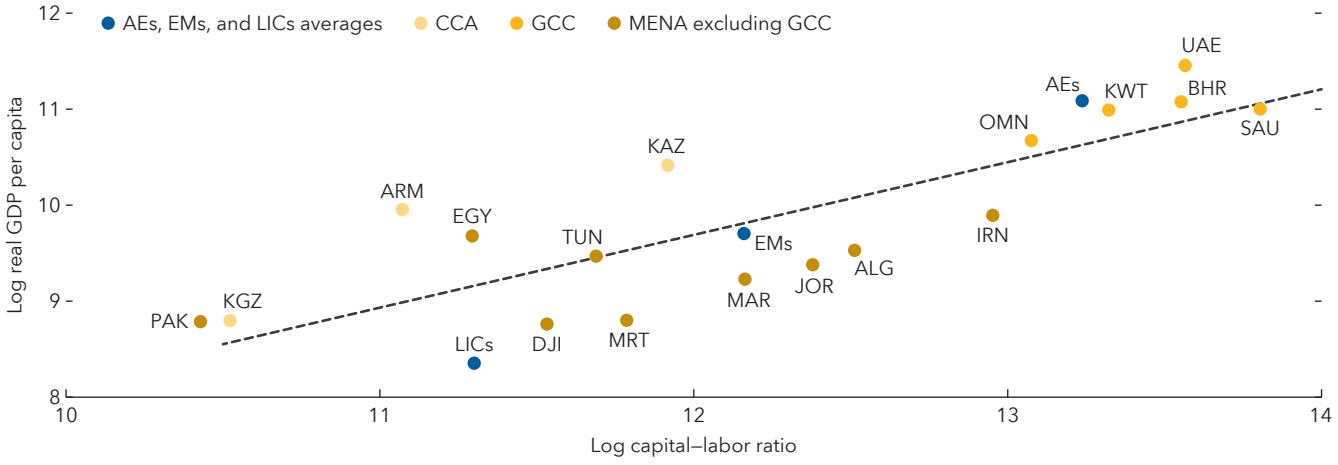
Economies in the MENA and CCA regions would need to achieve an annual increase of about 2 percent in capital deepening to close the gap in capital deepening observed since 1995 with the rest of the world. Assuming that all other factors of production remain unchanged, achieving this could yield an estimated annual increase in GDP per capita of more than 1.3 percentage points. However, the expected benefits vary by region, with GCC countries potentially seeing a 1.5-percentage-point increase, MENA countries (excluding the GCC) a 1.3-percentage-point increase, and CCA countries a 1.4-percentage-point increase (see Online Annex 2). To close this gap, reforms that promote private investment and diversification are essential, including measures to improve financial market functioning (see Chapter 3 for a more detailed analysis of the role of financial market deepening in the MENA and CCA regions).

Figure 2.6. Contributions to Capital Deepening, 1995–2023
(Average year-over-year percent change; contributions in percentage points)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Countries weighted using purchasing power in international dollar weights. Figures obtained through a decomposition exercise of capital deepening, where capital deepening is defined as the amount of capital utilized per employed worker. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa (including Pakistan).

Figure 2.7. Capital–Labor Ratio and Real GDP per Capita, 2023
(Natural logs)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Countries are weighted using purchasing power in international dollar weights. Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; CCA = Caucasus and Central Asia; EMs = emerging markets; GCC = Gulf Cooperation Council; LICs = low-income countries; MENA = Middle East and North Africa (including Pakistan).

2.5 Lackluster Total Factor Productivity Growth

As shown, weak TFP growth is a significant concern for many economies in the MENA and CCA regions. This section explores key factors that have been particularly relevant for TFP growth in these regions.[12] The historical analysis spans 2000–23 and includes 18 economies from the MENA and CCA regions (reflecting data availability).

The following factors are identified as structural drivers of TFP growth:

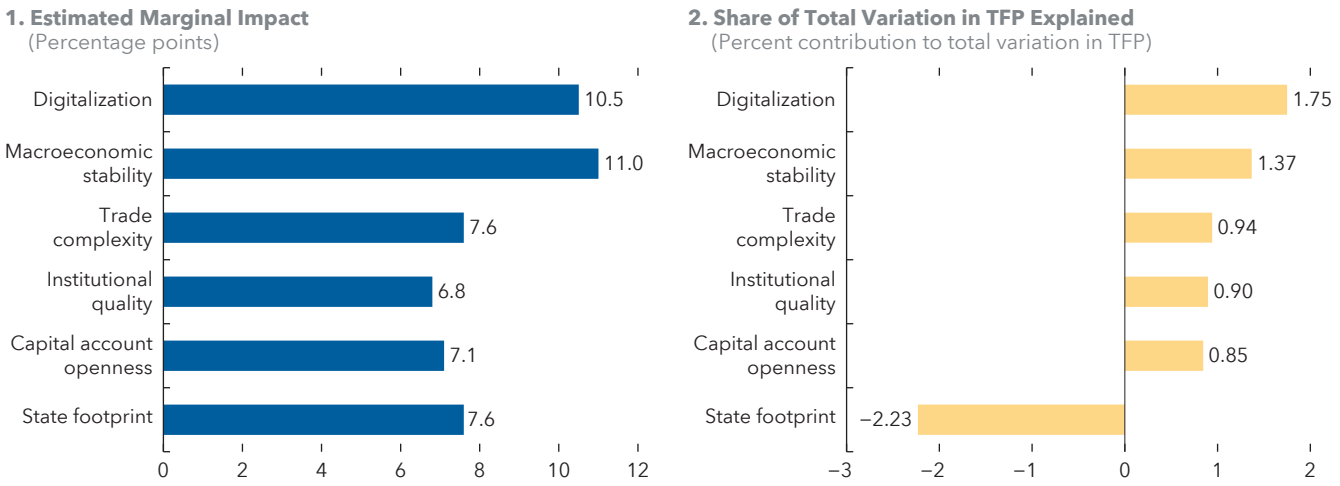
- *Macroeconomic stability*. This factor is captured in the analysis by the standard deviations in inflation and real GDP growth from their long-term averages (Fischer 1993; Barro 1995; Ramey and Ramey 1995).
- *Trade complexity*. Trade complexity is measured by the diversity and sophistication of exports (Grossman and Helpman 1991; Hausmann, Hwang, and Rodrik 2007).
- *Capital account openness*. The analysis uses the ratio of net FDI inflows to GDP to measure capital account openness. The measure evaluates the extent to which a country allows or attracts cross-border capital flows (Borensztein, De Gregorio, and Lee 1998; IMF 2018).
- *Digitalization*. Digitalization is measured using fixed broadband subscriptions and the ratio of high-technology exports to total manufactured exports. These indicators measure the extent of digital infrastructure and access (Brynjolfsson and Hitt 2000; Abidi, El Herradi, and Sakha 2022; Dabla-Norris and others 2023).
- *Labor and inclusion*. This factor is measured using the female labor force participation rate, which captures labor quantity and market reforms aimed at promoting inclusiveness (McGuckin and van Ark 2005; Klasen and Lamanna 2009).
- *Institutional quality*. This measure captures the quality of institutions and regulatory frameworks, reflecting governance and the rule of law (Hall and Jones 1999; Acemoglu, Johnson, and Robinson 2004; Acemoglu and Robinson 2015).
- *Financial integration*. This driver is measured by a financial market and institutions index, credits to the private sector, market capitalization, and rating of credit market regulations. It evaluates the development of financial markets and institutions (Levine 2005; Lane and Milesi-Ferretti 2017).
- *State footprint*. The analysis uses several indicators to measure state footprint, including a government effectiveness index, share of banking assets held by stated-owned enterprises, government consumption, rating of property rights protection, and rating of fiscal transfers. This driver measures the extent and effectiveness of government intervention (Barro 1991; Ghali 1999; Dar and Khalkhali 2002; Loko and Diouf 2009).

In the analysis, improvements to digitalization, macroeconomic stability, and trade complexity, and reductions to the state footprint stand out as strongly associated historically with higher TFP growth for MENA and CCA economies. Digitalization appears to have the strongest positive effect on TFP growth (Figure 2.8, panel 1). On average, countries with relatively high levels of digitalization experience TFP growth that is about 1.8 percentage points higher than those with lower levels. Yet, other factors are also important. Improved macroeconomic stability is associated with about 1.4 percentage points higher TFP growth. Moreover, countries that moved from low to high levels of trade complexity typically saw an increase in TFP growth of about 0.9 percentage point. In contrast, a larger state footprint was found to negatively impact TFP growth by more than 2 percentage points.[13]

[12] Variables underlying the factors (which are the first principal components of the related variables in a category) were selected based on data availability and their statistical distribution and correlation with TFP growth, helping to ensure their relevance and robustness. Each factor is then transformed into a high/low indicator (above or below the sample median). In the regression analysis, the estimated effect of a factor represents the TFP growth impact of moving from the low to the high group. See the Online Annex 2 for further details. While other categories, such as human capital quality and trade openness, are often cited in the literature, they are not the focus of this analysis.

[13] Although our analysis indicates a negative impact for the MENA and CCA regions, some studies suggest that a larger state footprint could positively affect productivity growth by fostering legal institutions, infrastructure, and market corrections (Ghali 1999). In contrast, other regional empirical evidence suggest that a larger government is not conducive to higher productivity growth or better economic performance (Loko and Diouf 2009; see also Barro (1991) and Dar and Khalkhali (2002)). Therefore, the results should be interpreted with caution as they depend on public sector efficiency, which could vary significantly by sample and subregion.

Figure 2.8. Drivers of TFP Growth, 2000–23



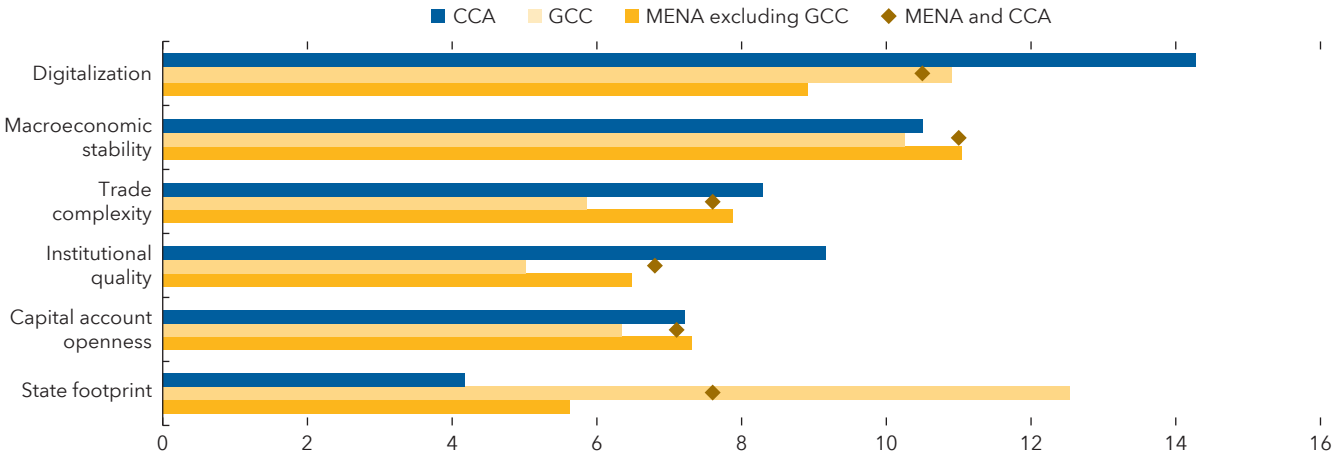
Source: IMF staff calculations.
Note: The bars in panel 1 represent the estimated beta coefficients of the drivers (βi). All estimates are significant at the 10 percent level. The bars in panel 2 show the contribution of each explanatory variable in percentage terms (following the methodology of Sterck (2019) based on data dispersion measured by mean absolute deviation). The contributions of the six key drivers listed do not add up to 100 percent in the chart, as contributions from insignificant explanatory variables (labor and inclusion; financial integration) and the residual term are not shown for brevity. See the Online Annex 2 for full results. TFP = total factor productivity.

Accounting also for the size of the variation in the underlying factors over the sample suggests that changes to macroeconomic stability and digitalization were, on average, the largest overall contributors to the variability of TFP growth. Notably, the average absolute deviation of macroeconomic stability is more than twice that of the state footprint for the MENA and CCA regions. As a result, macroeconomic stability accounts for a greater proportion of the total variation in realized TFP growth, despite its smaller estimated marginal effect. A similar finding applies to digitalization. In fact, each factor accounts for roughly 11 percent of the total variation in TFP growth. Moreover, the positive effects of improved trade complexity and the negative impact from an increase in the state footprint are also notable, with each contributing nearly 8 percent to the total variation in TFP growth observed in the estimation sample (Figure 2.8, panel 2).

However, the key factors contributing to variations in TFP growth have varied markedly across the MENA and the CCA regions, although macroeconomic stability and digitalization stand out as significant factors for both. For the MENA region (excluding the GCC), macroeconomic stability and digitalization contributed 11 and 9 percent, respectively, to the variation in TFP growth. At the same time, the contribution of changes to the state footprint was less than 6 percent. In contrast, for the GCC, the importance of the state footprint and digitalization stood out, contributing 13 and 11 percent, respectively.[14] In the CCA region, digitalization contributed about 14 percent to the variation of TFP growth, and macroeconomic stability contributed about 11 percent, with the importance of changes to the state footprint somewhat smaller, contributing about 4 percent (Figure 2.9). These findings underscore the critical role of digitalization and macroeconomic stability in explaining the variation in TFP growth across these regions, while also highlighting the significant impact of the state footprint on TFP growth variability.

[14] The large contribution of the state footprint is driven by heterogeneity across GCC economies.

Figure 2.9. Total Factor Productivity: Share of Total Variation in TFP Growth Explained by Region, 2000–23
(Percent contribution to total variation in TFP growth)



Source: IMF staff calculations.
Note: The bars represent the relative contributions of the drivers to the mean absolute variation of TFP growth within each subregion, following the methodology of Sterck (2019). The contributions of the six key drivers listed do not add up to 100 percent in the chart, as contributions from insignificant explanatory variables (labor and inclusion; financial integration) and the residual term are not shown for brevity. See Online Annex 2 for full results. CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa (including Pakistan).

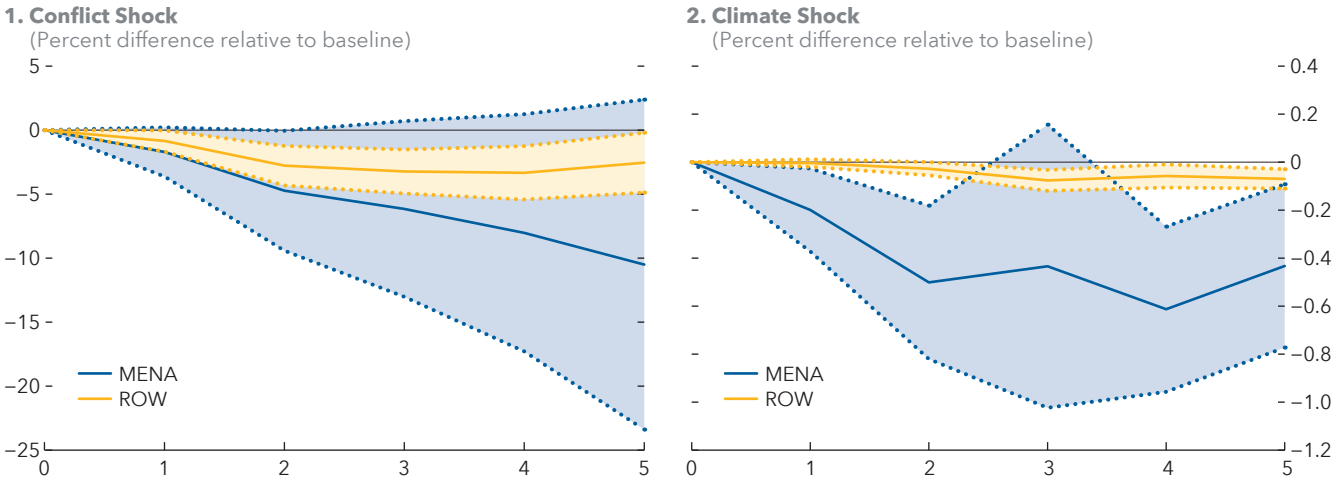
2.6 Adverse Shocks Dampen Total Factor Productivity Growth

Beyond the structural factors that have influenced TFP growth, the MENA and CCA regions have also been more affected by frequent adverse shocks stemming from conflict and climate change. Since the early 1990s, MENA and CCA economies have seen a greater incidence of high-intensity violent conflicts than elsewhere, with profound and enduring impacts on economic output (Chapter 2 of the April 2024 *Regional Economic Outlook: Middle East and Central Asia*). Moreover, these regions have also suffered from numerous severe climate-related disasters (such as heat waves, droughts, and floods), as the negative economic effects from climate change are becoming more evident (Chapter 1; Acevedo and others 2020).

An analysis using local linear projections demonstrates that conflicts have large and long-lasting negative impacts on productivity for the average economy in the MENA region, with the level of TFP nearly 10 percent lower for five years after a severe conflict shock (Figure 2.10, panel 1).[15] This evidence suggests that the negative and long-lived effects of high-intensity conflicts on economic output may be largely attributable to their cumulative negative impact on TFP. Similarly, the material damages arising from extreme climate events have, on average, been associated with persistently worse productivity outcomes for the average economy in the MENA region, with the level of TFP about 0.5 percent lower five years after a climate shock that caused damages of about 1 percent of GDP (Figure 2.10, panel 2).[16] These findings point to the profound economic challenges for the MENA region posed by conflicts and climate change.

[15] Owing to data coverage limitations, the empirical analysis of climate and conflict shock impacts on TFP does not include CCA economies.
[16] Material damages are defined as the US dollar amount as a share of nominal GDP and comprise damages from climate-related disasters as defined by the EM-DAT database

Figure 2.10. Total Factor Productivity: Impacts of Conflict and Climate Shocks



Source: IMF staff calculations.
Note: Dynamic responses estimated using local linear projections. Bands show the 90 percent confidence interval around the point estimates. The shocks occur in year 1. The conflict shock is equivalent to the occurrence of a severe conflict in the country (at the 75th percentile of the world distribution of conflict intensities). The climate shock is equivalent to 1 percent of GDP loss because of material damages arising from extreme climate events. MENA = Middle East and North Africa (including Pakistan); ROW = rest of the world.

2.7 Fostering Stronger and More Sustainable Growth

Similar to global trends, growth expectations and outturns for countries in the MENA and CCA regions have been declining over the recent decades. Moreover, while changes to demographic factors have been relatively more favorable than in the rest of the world, capital accumulation has been subdued, while contributions from TFP have varied markedly. To change the trend and lift economic growth, policymakers in the MENA and CCA regions should aim to leverage changing demographics to support job creation, raise the level of capital per worker, and undertake reforms to boost TFP growth. That said, the appropriate mix of policies would require careful calibration to country-specific circumstances amid differences in the factors that most constrain growth.

Given the gaps identified in this chapter, policies to boost employment and labor productivity are likely to be key and should target multiple dimensions:

- *Improving female employment*. Female labor force participation rates can be increased by enhancing the quality of education and training programs for women, ensuring access to childcare, and creating supportive institutions (Olivetti and Petrongolo 2017). Importantly, these will need to be complemented with measures to level the playing field, such as policies aimed to improve job opportunities for women (Klasen and Lamanna 2009), including incentives to hire and retain female workers, encourage part-time work (Goldin 2014), and active labor market measures targeting women. Additional policies could include tax incentives and subsidies to businesses that hire and retain female employees, especially in sectors where women are underrepresented, and implementing training and apprenticeship programs in collaboration with industries can help match women's skills with market demands (Gomes and Rijal 2024).
- *Increasing youth engagement*. Enhancing education and skill development to align more closely with the needs of the labor market is essential to get more young people into the workforce (Hanushek and Woessmann 2020). This could include partnerships with the private sector and on-the-job training. Improving access to finance for young entrepreneurs and supporting business incubators and accelerators that focus on entrepreneurship could also increase youth engagement (Beck and Demirguc-Kunt 2006; World Bank 2021).

- *Investing in education*. Policy should focus on improving educational outcomes, particularly in the fields of science, technology, and engineering and mathematics, while ensuring that skills taught match the future demands of the labor market (Hanushek and Woessmann 2015). Vocational training would also be key to better match skills to job requirements.

In addition, raising the ratio of capital to labor to at least the levels seen elsewhere will be needed to strengthen and sustain growth. This will require implementing reforms designed to reduce the role of the state in financial sectors and boost private investment. In this respect, enhancing the development of the financial sector would help expand access to finance and encourage investment by the private sector (see Chapter 3).

Lifting TFP growth can also play a key role. The historical analysis suggests that policies across multiple dimensions have helped lift TFP growth in the region, with countries benefiting most from strengthening macroeconomic stability, improving digitalization, and reducing the state footprint.[17] These are likely to remain key drivers of TFP growth. However, it is important to note that other factors that were not explored in the analysis could also boost TFP growth. Some of these, such as the adoption and automation of artificial intelligence, are without historical precedent. For example, artificial intelligence is expanding the set of tasks that can be automated, thereby raising labor productivity. Although the productivity gains from artificial intelligence have not been studied extensively, their potential for future gains could be considerable (OECD 2022). Furthermore, despite the well-established benefits of research and development in fostering innovation, the MENA and CCA regions lag in such activities, with research and development expenditure as a share of GDP below 2 percent on average, compared to about 3 percent in advanced economies. This indicates that there are likely opportunities for increasing research and development, which could in turn boost TFP.

Finally, analysis points to large negative impacts on TFP growth in the MENA region from conflict and climate shocks—both highly relevant challenges. Policies that strengthen macroeconomic fundamentals are vital for limiting the economic impacts of conflict, while climate change preparedness can be enhanced through adaptation and mitigation efforts (see Chapter 1).

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[17] Chapter 3 of the October 2023 *Regional Economic Outlook: Middle East and Central Asia*, Budina and others (2023), and Gigineishvili and others (2023) also show that structural reforms are important to boost growth

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3. Strengthening Growth through Financial Development[1]

Countries in the MENA and CCA regions face the pressing yet challenging task of fostering private sector investment and diversification to strengthen and sustain growth. To this effect, diversifying economies and achieving economic transformation will require robust and dynamic financial sectors to ensure the availability of adequate funding for the private sector. However, financial development remains incomplete in many of these countries. Notably, in countries outside the Gulf Cooperation Council (GCC), financial markets are underdeveloped, and financial development has been hindered by a history of monetary instability and long-standing weaknesses in legal frameworks. Among GCC member economies, financial market efficiency has declined over the past decade. Across most countries in the MENA and CCA regions, the sizable role that governments play in the financial sector stands out as a key barrier to financial development, because of the prevalence of state-owned banks and the growing share of credit used to finance public sector debt. In this respect, reforms to facilitate competition in banking systems by reducing the role of the state, lowering barriers to entry, and relaxing capital account restrictions are estimated to raise real private sector credit by more than 5 percent and real GDP per capita by almost 2 percent after five years. In addition, reforms should seek to expand the role of financial markets by encouraging stronger participation of institutional investors, establishing robust government bond markets, and increasing financial integration by fostering nonresident participation. More broadly, strengthening macroeconomic and institutional frameworks is an essential precondition for advancing financial development and growth, and financial sector policies should aim to expand financing channels available to the private sector.

3.1 Financial Development Remains Incomplete

Over the past two decades, countries in the MENA and CCA regions have seen improvements in financial development.[2] These improvements have gone hand in hand with economic development and have played a crucial role in enhancing inclusive growth (Box 3.1). During the 1990s, there was a notable increase in the pace of financial reforms, broadly in line with progress seen in large emerging markets elsewhere (Figure 3.1, panel 1). However, progress on financial development has varied across regions, with the CCA seeing modest gains while MENA stagnated, particularly in the wake of the global financial crisis and Arab uprisings (Figure 3.1, panel 2).[3] Moreover, the pace of reform has slowed, and there remains room for improvement, including in liberalizing interest rates (Egypt, Morocco, Oman, Pakistan), expanding private sector ownership in the banking sector (Algeria, Egypt, GCC countries, Morocco, Tunisia), and developing capital markets.[4]

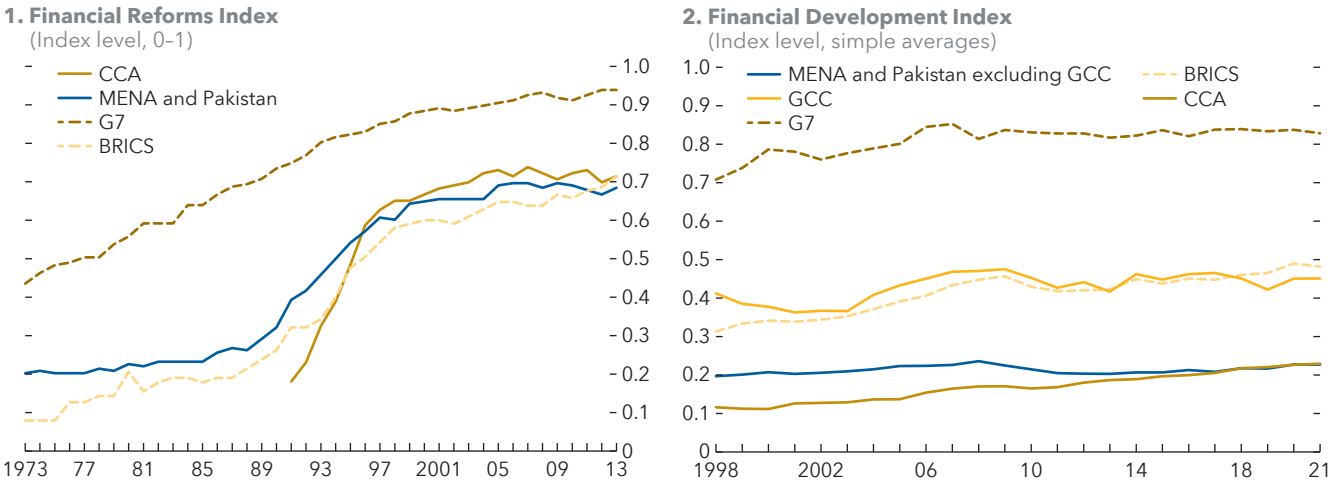
[1] This chapter was prepared by Will Abel, Apostolos Apostolou, Vizhdan Boranova, Seyed Vahid Hassani, Troy Matheson (co-lead), Hela Mrabet, Salem Nechi, Thomas Piontek (co-lead), Bilal Tabti, and Subi Suvetha Velkumar.

[2] For presentational purposes, references to the Middle East and North Africa (MENA) in the main text also include Pakistan.

[3] Details on the IMF's financial development indexes used in this chapter can be found at https://data.imf.org/?sk=f8032e80-b36c-43b1-ac26-493c5b1cd33b. Each country's overall financial development index comprises indexes relating to financial institutions and financial markets. Financial institutions include banks, insurance companies, pension funds, mutual funds, and other nonbank financial institutions. Financial markets include stock and bond markets. Each subcomponent is composed of three sub-indexes covering depth, access, and efficiency of institutions and markets.

[4] Based on Omori (2022), the updated database covers seven dimensions of financial reforms: credit controls and reserve requirements, interest rate liberalization, banking sector entry, privatization of banks, financial account liberalization, security markets, and banking sector supervision.

Figure 3.1. MENA and CCA: Financial Reforms and Development



Sources: Financial Reforms Database (Omori 2022); IMF, Financial Development Index; and IMF staff calculations.
Note: For panel 1, only two GCC countries (Saudi Arabia, United Arab Emirates) are covered in the Financial Reforms Database and included in the MENA and Pakistan aggregate. BRICS = Brazil, Russia, India, China, South Africa; CCA = Caucasus and Central Asia; G7 = Group of Seven; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

Looking across the MENA and CCA regions, key features that stand out are the strong presence of the state in banking systems and shallower capital markets compared to other parts of the world.[5] The MENA region also exhibits a strong sovereign-bank and sovereign-capital markets nexus, where the public sector accounts for a relatively large share of banking sector credit, which may crowd out lending to the private sector. State-owned enterprises also account for a sizable share of market capitalization and trading in capital markets. These features partly explain the regions' relatively high scores in the efficiency of their financial institutions and low scores in capital markets (Figure 3.2, panel 4). Notably, while high levels of bank profitability contribute to the strong efficiency scores for financial institutions, this could be partly because of higher lending spreads reflecting low levels of competition across the MENA and CCA regions (Figure 3.2, panel 1). In addition, low liquidity in debt and equity markets is likely because of a lack of listing diversification and underdeveloped institutional investors. These factors have limited participation to a concentrated set of investors.[6]

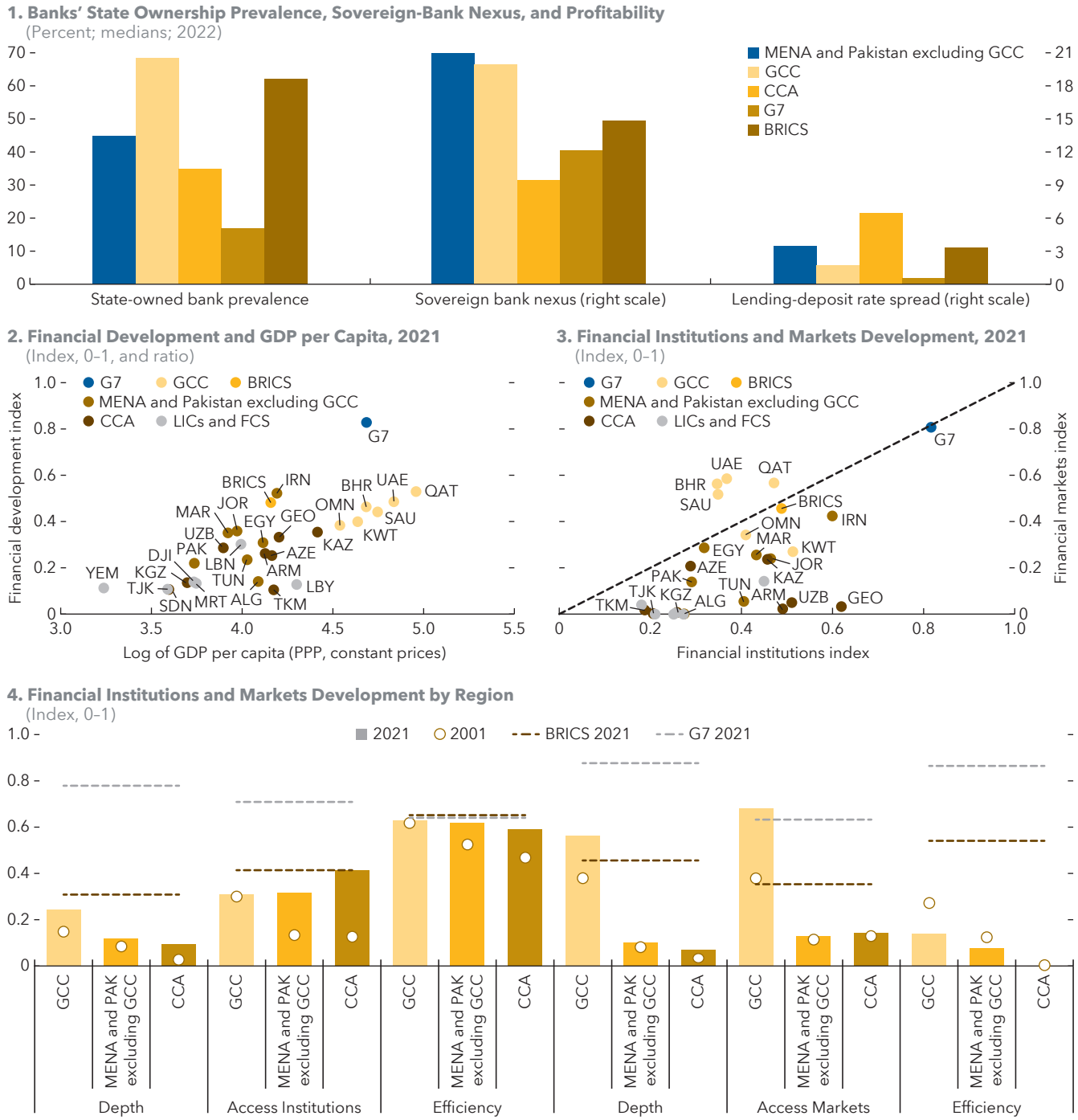
Some aspects of financial development show more heterogeneity across regions:

- Financial development in GCC countries compares favorably to most other countries in the MENA and CCA regions. However, when compared to economies with similar GDP per capita levels elsewhere in the world, GCC countries often lag, especially in financial institution development (Figure 3.2, panels 2 and 3). Moreover, although GCC countries exhibit strong financial market depth and access on average, their market efficiency has declined over the past decade as lower stock market turnover and elevated bid-ask spreads have hampered secondary equity market trading in some countries (Figure 3.2, panel 4). This lower market

[5] State-owned banks are particularly prevalent in MENA. State ownership is defined as a majority share (more than 50 percent) of assets held by shareholders classified as "government, including government agencies, municipalities, and Sovereign Wealth Funds" as documented by Fitch Ratings Pro dataset. Although banks owned by Sovereign Wealth Funds, particularly in the GCC, might operate with greater market-oriented principles and are subject to less political interference than those directly controlled by the central government, "the very nature of ownership structure differentiates these institutions from private companies, as they may not necessarily pursue the goal of profit maximization while the backing from government may give a unique position in the market" as noted in Box 3 of IMF (2024).

[6] For *financial institutions*, the *depth* indicators include the size of private sector credit, pension, and mutual fund assets in relation to GDP and life and nonlife insurance premiums in relation to GDP; *access* includes bank branches and ATMs per 1,000 adults; and *efficiency* includes net interest margin, spread between lending and deposit rates, non-interest income in relation to total income, overhead costs to total assets, and measures of profitability (return on assets and return on equity). For *financial markets*, the *depth* indicators include the size of the stock market, the volume of stocks traded, the size of international debt securities of government, financial, and nonfinancial corporations relative to GDP, *access* includes percent of market capitalization outside of 10 largest companies, and total number of debt issuers; and *efficiency* includes stock market turnover (stocks traded to capitalization).

Figure 3.2. Banking Sector Structure and Financial Development



Sources: Fitch Connect; IMF, Financial Development Index; IMF, World Economic Outlook database; World Bank, World Development Indicators; and IMF staff calculations.
Note: For panels 1 and 4, CCA and MENA (excluding GCC) include LICs and FCS. State-owned banks' prevalence is defined as assets held by state-owned banks as a share of total banking assets. Sovereign-bank nexus is defined as credit to the public sector (central and local governments as well as state-owned enterprises; claims on the central bank are excluded) as a share of total banking assets. The lending-deposit rate spread, used as a proxy for bank profitability, is defined as the five-year average spread between lending and deposit interest rates; for the G7, it is proxied as the spread between short-term interest rates and long-term bond yields. Data labels in the figure use International Organization for Standardization (ISO) country codes. BRICS = Brazil, Russia, India, China, South Africa; CCA = Caucasus and Central Asia; FCS = fragile and conflict-affected states; G7 = Group of Seven; GCC = Gulf Cooperation Council; LICs = low-income countries; MENA = Middle East and North Africa; PPP = purchasing power parity.

efficiency, coupled with slower progress on measures of financial institutions access, has driven a stagnation in financial development in GCC countries since the global financial crisis. Nevertheless, although not measured directly in the financial access indicators, technological advancements, including mobile payments, crowdfunding platforms, and fintech, have opened new avenues for lending and saving and boosted financial inclusion in GCC countries, particularly for women and youth.[7]

- In non-GCC MENA countries, financial systems remain heavily reliant on banks. Overall, the development of financial institutions in these countries is significantly ahead of market development, yet it remains below levels in large global emerging markets (Figure 3.2, panel 3). This aligns with the observation that relationship-based systems (that is, via financial intermediation through banks) tend to be more prevalent in the early stages of financial development.[8] Furthermore, the depth of financial institutions in non-GCC MENA countries is relatively low, with nonbank financial institutions (pension funds, insurance companies, and mutual funds) playing a relatively small role in the region's financial systems (Figure 3.2, panel 4).
- Banking sectors in CCA countries generally exhibit a lower prevalence of state ownership, though the state's influence appears to extend beyond the direct ownership of banks.[9] Moreover, bank profitability is generally higher (Figure 3.2, panel 1), and recently it has been supported by strong capital inflows from Russia.[10] Overall, the levels of financial institution development are much higher than levels of financial market development across all CCA countries, consistent with their financial systems being largely dominated by banks (Figure 3.2, panel 3). Furthermore, over the past two decades there has been a modest yet steady improvement in financial institution development, marked by the improved availability of banking services (Figure 3.2, panel 4). Although not directly reflected by the indicators discussed here, it is important to note that the CCA region also has relatively high levels of dollarization, which is likely holding back financial development (Chakir and others 2022).

3.2 Key Structural Factors Weigh on Financial Development

A few key barriers help explain the gaps in financial development across countries in the MENA and CCA regions over the past two decades. Past research and empirical evidence suggest that although certain factors such as macroeconomic stability and effective governance can support financial development, others, including a relatively large state footprint in the financial sector and heavy reliance on commodities, can hinder progress.[11] To this effect, many countries in the MENA and CCA regions fall short along one or more dimensions that facilitate financial development (Table 3.1).

- Across non-GCC MENA and CCA countries, a history of monetary instability, a marked state involvement in banking sectors, and relatively weak legal systems have been key obstacles to financial development. Moreover, the lack of robust property and creditor rights limits competition, curbs investor interest, and increases financing costs (Teodoru and Akepanidtaworn 2022; Gigineishvili and others 2023). At the same

[7] The recent expansion of fintech and mobile banking operators is changing the landscape of financial development (Sahay and others 2020). However, these are relatively new developments, and the absence of sufficiently long data and cross-country availability prevents its inclusion in the financial development index (Svirydzenka 2016).

[8] Bank-based systems can have a comparative advantage in reducing market friction associated with asymmetric information and immature legal systems (Rajan and Zingales 2001).

[9] For example, political influence on the behavior of private financial institutions could serve as an impediment to financial development in the region. Poghosyan (2022) finds that reducing the role of the state in CCA financial systems could yield greater efficiency of financial intermediation, which in turn would enhance financial development. Another aspect of the state footprint on the sector is the prevalence of directed and subsidized lending, as noted in Box 1 of IMF (2023a).

[10] See Chapter 3 of the October 2023 *Regional Economic Outlook: Middle East and Central Asia*.

[11] For MENA countries, Farazi, Feyen, and Rocha (2013) find that state-owned banks have lower profitability and larger nonperforming loans than private banks. Comparable results have been found for Pakistan (Bonaccorsi di Patti and Hardy 2005), Latin America (Micco, Panizza, and Yanez 2007), China (Berger, Hasan, and Zhou 2009) and South and South-East Asia (Williams and Nguyen 2005; Micco, Panizza, and Yanez 2007; Cornett and others 2010). See Online Annex 3 for a summary of the extensive literature related to financial development.

Table 3.1. Key Factors Underpinning Financial Development

(Colors represent a combination of the extent of deviation from the full sample medians [white] and the sign of the impact coefficient. Orange indicates a deviation from the sample median that is detrimental for financial development; teal shows the opposite.)

Groups	Monetary Stability	Rule of Law	Share of Credit to the Public Sector	Exposure of Economy to Natural Resources	Role of State-Owned Banking
CCA					
GCC					
MENA excluding GCC					
Advanced economy					
Emerging market					
Direction of significant impact on financial development	+	+	–	–	–

Sources: Fraser Human Freedom Index; IMF, International Financial Statistics database; World Bank, Development Indicators; and IMF staff calculations.

Note: The top five rows of the table show where regions stand along key factors affecting financial development. The bottom row shows the direction of impact, where significant, on financial development for each factor estimated using a panel regression with data covering 21 MENA and CCA countries and spanning 2004–21 (see Online Annex 3). CCA = Caucasus and Central Asia; GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

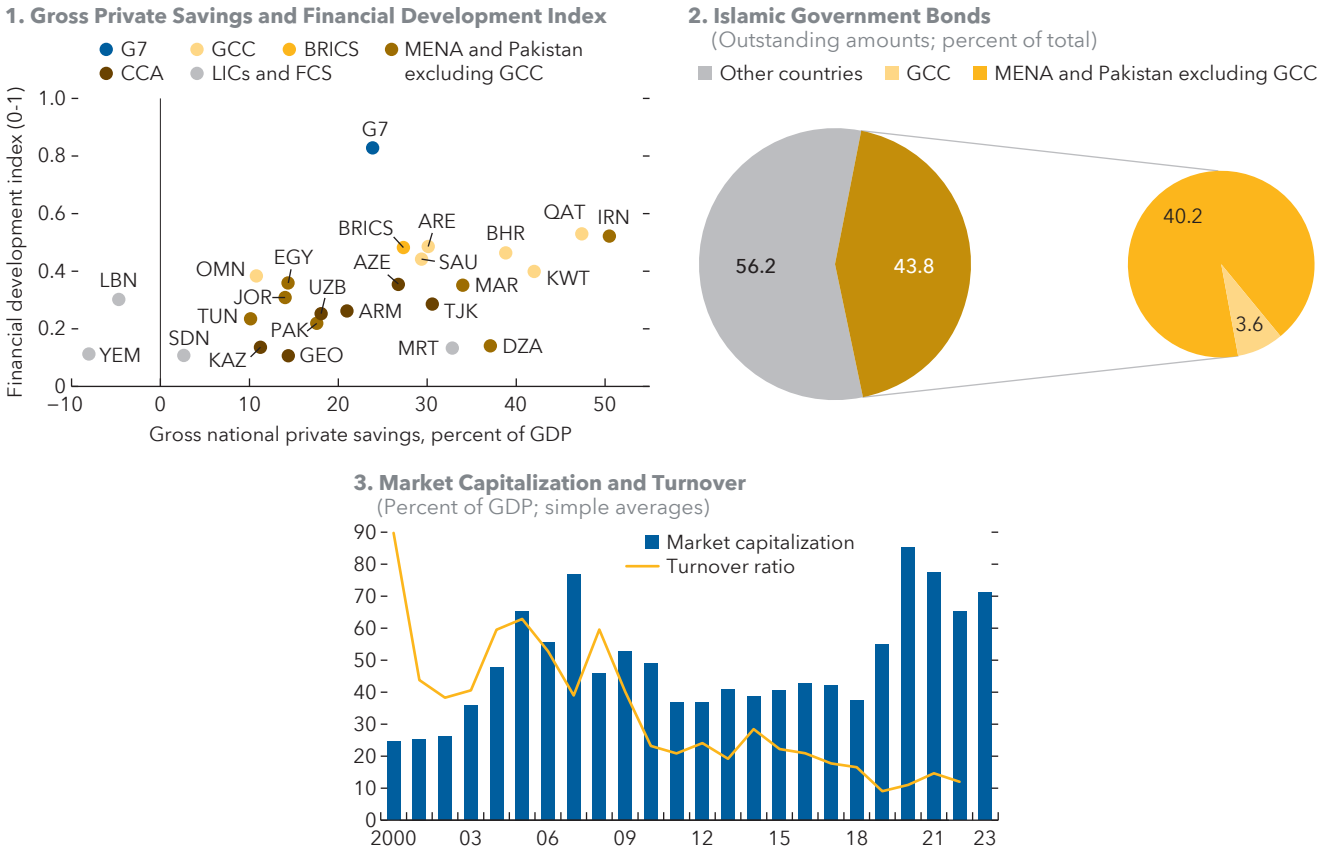
time, banking systems in many non-GCC MENA countries have relatively high levels of exposure to sovereign credit. This sovereign-bank nexus (where banks hold significant amounts of public sector debt) can crowd out credit to the private sector.

- In GCC countries, the public sector also strongly influences financial systems. A significant share of banking sector assets tends to be comprised of sovereign debt, although public sector debt remains relatively low in the region (except in Bahrain), and state-owned enterprises (including banks) generally have a significant presence in capital markets. In addition, a sizable share of GDP reliant on the oil sector could also undermine financial development in some countries, as profits are more likely to be invested abroad (Beck and Poelhekke 2023). Moreover, the heavy reliance on oil-related foreign exchange receipts could also increase liquidity volatility and raise risks in domestic banking sectors.

Mobilizing broader sources of savings can help unlock more financing options for private sector investment and further support financial development (Figure 3.3, panel 1). This requires emerging market economies tackling key impediments to capital market development to transition from bank-dominated financial systems toward more diversified financial systems. A critical step in this direction is establishing a local government bond market that provides a risk-free asset and a corresponding risk-free rate (Chami, Fullenkamp, and Sharma 2010). However, challenges such as irregular bond issuances, especially at longer maturities, the absence of secondary market trading, and impediments to nonresident participation have hampered the development of both local government and corporate bond markets in several MENA and CCA economies.[12] Although Islamic finance is a significant source of funding in some countries in the region, it is concentrated primarily in Islamic banking, with the issuance of sukuk (Islamic bonds) occurring sporadically (Figure 3.3, panel 2). On the positive side, equity financing has expanded over the past few years alongside growth in market capitalization and a pickup in initial

[12] In addition, institutional investors like insurance companies and pension funds can also play an important role in providing financial services for long-term savings and risk sharing and as steady investors in longer-term debt. Although assessing the involvement of these investors in the region is challenging because of limited data, there is likely significant scope for fostering and expanding these sectors (Poghosyan 2022).

Figure 3.3. MENA and CCA: Private Savings, Islamic Debt, and Equity Markets



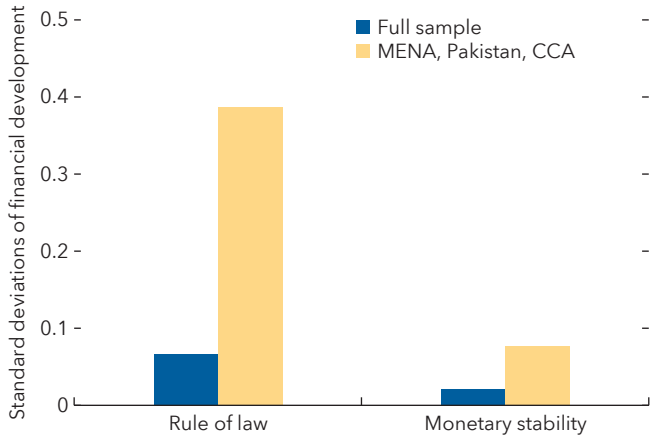
Sources: Bloomberg Finance L.P.; IMF, Financial Development Index; IMF, World Economic Outlook database; World Bank, World Development Indicators; and IMF staff calculations.
Note: Panel 3 includes available data for MENA and CCA countries. BRICS = Brazil, Russia, India, China, South Africa; CCA = Caucasus and Central Asia; FCS = fragile and conflict-affected states; G7 = Group of Seven; GCC = Gulf Cooperation Council; LICs = low-income countries; MENA = Middle East and North Africa.

public offerings, primarily in GCC countries. That said, investor participation has been held back by persistently low liquidity and trading, which has been focused primarily on shares of financial companies and state-owned enterprises (Figure 3.3, panel 3).

3.3 Reforms Can Spur Financial Development and Growth

Financial development in most MENA and CCA countries has been limited by past monetary instability, long-standing weaknesses in legal frameworks, and a large state footprint in financial sectors. Improving macroeconomic stability and the rule of law are well established as key priorities to increase growth for MENA and CCA countries (see Chapter 2 and October 2023 *Regional Economic Outlook: Middle East and Central Asia*). Empirical estimates suggest that improving macroeconomic and legal frameworks are also critical preconditions for advancing financial development, with gains potentially more pronounced in MENA and CCA countries than elsewhere in the world (Figure 3.4). Moreover, such gains could be further amplified by the implementation of a package of financial sector reforms aimed at alleviating other key hurdles to financial development.

Figure 3.4. Impact of Rule of Law and Monetary Stability on Financial Development
(Panel coefficient estimates)

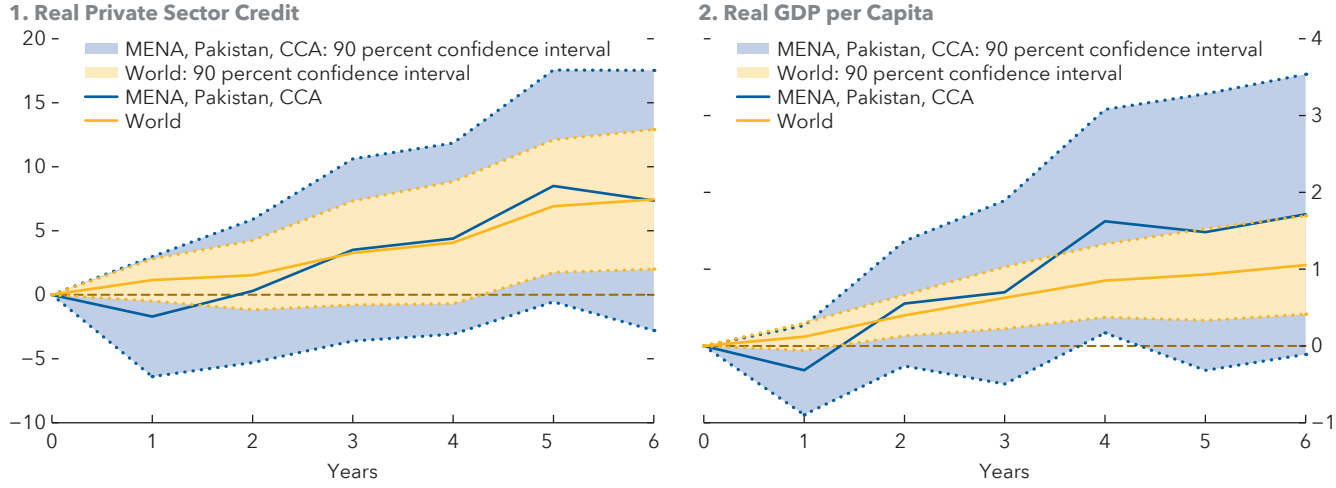


Sources: Economic Freedom Index; Fraser Institute; IMF, Financial Development Index; and World Bank, World Governance Indicators.
Note: Variables are standardized prior to estimation. All coefficient estimates are statistically significant at the 1 percent level. Rule of law is from the World Bank's World Governance Indicators and measures perceptions of an agent's confidence in the rules of society. Monetary stability is a combination of the Fraser Economic Freedom Indices measuring the level and volatility of inflation. See more details in Online Annex 3. CCA = Caucasus and Central Asia; MENA = Middle East and North Africa.

The financial sector reforms examined in this chapter are designed to reduce the state's dominance in the banking sector and encourage new entrants to foster competition, alongside the removal of remaining capital account restrictions to broaden the investor base.[13] The results show that these financial reforms are associated with a lasting impact on both private sector credit and output per capita in the MENA and CCA regions. Specifically, real private sector credit increases by more than 5 percent and GDP per capita increases by about 2 percent five years after reform implementation (Figure 3.5).

Examining individual reforms across the MENA and CCA regions, those aimed at reducing the state footprint and fostering competition are associated with the most significant positive impacts. Five years after implementation, these reforms boost real private sector credit by almost 10 percent and GDP per capita by close to 3 percent (Figure 3.6). Lifting capital account restrictions is also associated with notable

Figure 3.5. Impact of Financial Sector Reform Package
(Percent)



Sources: Banking Crisis database (Laeven and Valencia 2020); Brookings, External Wealth of Nations database (Lane and Milesi-Ferretti 2018); Financial Reforms Database (Omori 2022); IMF, International Financial Statistics database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: A local projections approach is used to assess the impact of financial reforms. It is assumed that a financial reform package is introduced in year 1. This reform package is defined as the sum of financial sector policy changes between two years along the following dimensions: (1) privatization of banks, (2) banking sector entry, and (3) financial account transactions, based on the Financial Reforms Database (see Online Annex 3). CCA = Caucasus and Central Asia; MENA = Middle East and North Africa.

[13] The empirical estimates are based on the local projection method developed by Jordà (2005) and a financial reform database updated by Omori (2022). Capital account restrictions are prevalent in many countries in the MENA (outside the GCC) and CCA regions (see IMF 2023b). Removing capital account restrictions would support the efficient allocation of capital and foster the entry of new market players.

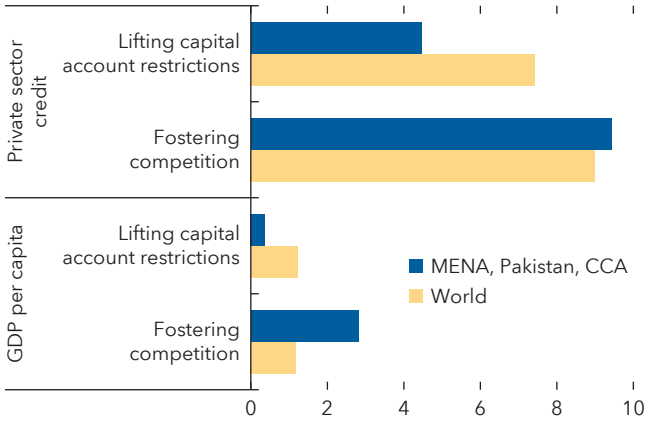
gains, with real private sector credit rising by almost 5 percent and GDP per capita by close to ½ percent.

3.4 Policies to Foster Sustainable Financial Development and Growth

Despite the expansion and diversification of financial systems in MENA and the CCA, there is still considerable scope for further improvement. A key policy objective should be to improve access to financing, particularly for underserved segments. Specific actions to enhance financial development include the following:

- Policymakers in the MENA and CCA regions are advised to address vulnerabilities associated with the sovereign-bank nexus while promoting higher private sector ownership in banking systems. Short-term measures could include (1) conducting bank stress tests to gauge nexus-related risks; (2) building buffers and providing clear and well-defined mandates to state-owned banks; and (3) tailoring supervisory tools such as stress tests to the specific risk profiles of banks to enhance resilience.[14] Medium-term strategies should focus on banking sector reforms that reduce barriers to entry, strengthen prudential norms, and promote financial technology and digitalization solutions to enhance financial inclusion for firms outside the conventional banking system (Vera-Martin and others 2019).
- In GCC countries, financial sector policies should remain focused on mitigating macrofinancial risks, for example related to increased participation by nonbank financial institutions and digitalization. Actions should also aim to further develop financial markets, particularly to improve market efficiency. Notably, efficiency could be enhanced by encouraging stronger participation by institutional investors, such as pension funds and insurance companies, and increasing financial integration by attracting a broader investor base and fostering nonresident participation. Furthermore, achieving a wider mix of investors can be bolstered by strengthening corporate governance, reducing restrictions on foreign ownership in capital markets, and enhancing investor protections. In turn, these reforms would facilitate more varied sources of project financing for diversification needs (Catalan, Impavido, and Musalem 2000). However, authorities will need to weigh the trade-offs related to the participation of nonresident investors, as they could be more sensitive to global market conditions and amplify local market volatility. Financial technology (fintech), including crowdfunding, peer-to-peer business lending, and invoice lending can complement these efforts (Lukonga 2018). GCC countries have advanced on many digitalization and fintech initiatives, including establishing regulatory sandboxes, licensing digital banks (Saudi Arabia and the United Arab Emirates), and creating FinTech Hubs. GCC countries are also actively exploring central bank digital currencies. However, a cautious approach is warranted, including a careful

Figure 3.6. Five-Year Impact of Specific Financial Sector Reforms
(Percent)



Sources: Banking Crisis database (Laeven and Valencia 2020); Brookings, External Wealth of Nations database (Lane and Milesi-Ferretti 2018); Financial Reforms Database (Omori 2022); IMF, International Financial Statistics database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: "Lifting capital account restrictions" is proxied by the annual change in the financial account transactions index, whereas "Fostering competition" is captured by the sum of changes between two years in the privatization and banking sector entry indices based on the Financial Reforms Database (see Online Annex 3). The five-year impact of financial sector reforms worldwide is statistically significant at the 10 percent level. For the MENA and CCA regions, the five-year impact of the reform package and competition reforms is significant at the 25 percent level. CCA = Caucasus and Central Asia; MENA = Middle East and North Africa.

[14] See Adams and others (2022) for more details on policy proposals related to state-owned banks.

cost-benefit analysis and the exploration of risks related to financial stability. Finally, country authorities should continue to apply a mix of activity- and entity-based regulation proportionate to the size, complexity, and risk profile of fintech firms.

- Non-GCC MENA and CCA countries would benefit from market development to diversify their investor bases and balance their financial system. These economies largely rely on bank-centric financial systems. Hence, key strategies include developing government bond markets, aligning capital market regulations with international standards, and modernizing capital market infrastructure (October 2018 *Global Financial Stability Report*). Establishing robust government bond markets is crucial for setting a benchmark for private sector borrowing rates, facilitating effective monetary policy, and aiding in liquidity management (IMF-World Bank 2021). Aligning capital market regulations with international standards and modernizing capital market infrastructure are vital steps to attract foreign investment and facilitate efficient trading liquidity. In addition, fostering the growth of nonbank financial institutions through enhanced regulation and supervision and strengthening risk management by developing credit registries are crucial for ensuring financial sector stability (April 2023 *Global Financial Stability Report*).
- Effective management of emerging risks and challenges is crucial to ensure financial stability amid ongoing financial development. For example, to harness the benefits of growing cross-border flows while mitigating associated risks, an appropriate mix of macrofinancial policies is critical and may include foreign exchange intervention, macroprudential measures, and capital flow measures (Garcia Pascual, Singh, and Surti 2021). Regulatory and supervisory frameworks will also require updates to align with the financial development goals set by authorities (Sinha 2012; Zhu, Zhang, and Zhang 2023). In this context, several key guardrails are essential, including: (1) conducting appropriately resourced and intensive supervisory oversight; (2) incentivizing stronger risk management, especially as participation by nonbank financial institutions increase; (3) implementing adequate and comprehensive prudential regulations (such as capital and liquidity management tools); and (4) closing data gaps to facilitate appropriate and timely risk assessment by market participants and supervisory authorities. Moreover, the application of macroprudential policy tools must evolve in tandem with financial development to counter potential systemic risks.

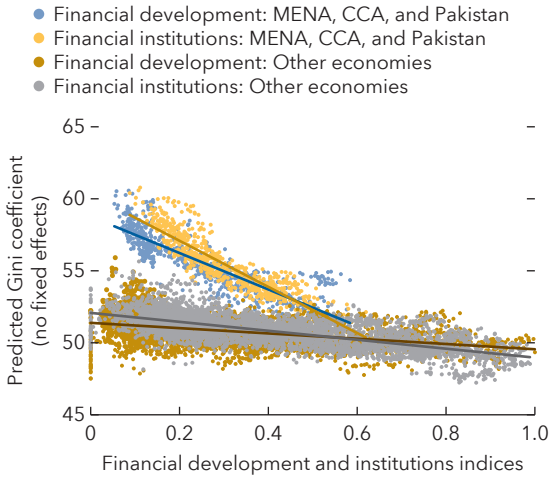
Box 3.1. Bridging the Gap: How Financial Development Mitigates Inequality[1]

Financial development has the potential to address the pronounced income and wealth gaps observed across MENA and CCA countries (Blancher and others 2019). Financial development plays a crucial role in promoting growth by enhancing resource allocation, increasing investment, and fostering innovation (Sahay and others 2015). In addition, financial development influences inequality in numerous ways, mainly by improving access to finance for a broader segment of the population. For instance, microfinance institutions in Egypt, Kazakhstan, and Morocco have helped people in underserved communities start businesses, thereby reducing poverty and inequality. Digital financial services (including mobile banking) in Azerbaijan, Egypt, Georgia, and Jordan have expanded access to finance, especially in rural areas.

The impact of financial development on inequality can work in two directions. On the one hand, it can reduce inequality by providing less affluent citizens with better access to banking services, credit, and investment opportunities, enabling them to start businesses, invest in education, and improve their livelihoods, thereby narrowing the income gap (a decrease in the Gini coefficient). On the other hand, it could increase inequality if the wealthy, who often have better access to these financial services and investment opportunities, benefit more, thus widening the income gap (an increase in the Gini coefficient).

Empirical results suggest that enhancing financial development, particularly in financial institutions, reduces income inequality in MENA and CCA countries. In particular, these countries experience a more rapid decrease in inequality with advancements in financial development compared to the rest of the world (Box Figure 3.1.1), as a more developed financial sector enhances lending capacity, disproportionately boosting the income of poor households and more effectively reducing poverty and inequality, in line with existing literature that shows that countries with higher inequality benefit more from financial development (Beck, Demirguc-Kunt, and Levine 2004). These findings underscore the importance of enhancing financial development in the MENA and CCA regions.

Box Figure 3.1.1. Inequality and Financial Development



Sources: IMF, Financial Development Index; IMF, World Economic Outlook database; World Inequality database; and IMF staff calculations.
Notes: CCA = Caucasus and Central Asia; MENA = Middle East and North Africa.

The authors of this box are Apostolos Apostolou, Seyed Vahid Hassani, Salem Nechi, and Bilal Tabti.

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MENA: Selected Economic Indicators, 2000–25
(Percent of GDP, unless otherwise indicated)

	Average 2000–20	2021	2022	2023	Projections 2024	2025
MENA[1]						
Real GDP (percent change, year over year)	3.9	4.2	5.5	1.9	2.1	4.0
Current Account Balance	6.2	4.2	10.1	5.1	2.5	1.5
Overall Fiscal Balance	1.0	–1.9	3.5	0.2	–1.7	–2.0
Inflation (percent change, year over year)	7.3	12.9	13.6	15.0	14.8	11.6
MENA Oil Exporters						
Real GDP (percent change, year over year)	3.9	4.4	5.8	1.7	2.3	4.0
of which nonhydrocarbon growth	5.0	4.6	4.6	3.7	3.8	3.8
Current Account Balance	8.9	7.2	14.3	7.2	4.7	3.2
Overall Fiscal Balance	2.7	–0.5	5.9	1.5	–0.4	–0.9
Inflation (percent change, year over year)	6.6	10.9	12.6	11.2	8.8	8.3
Gulf Cooperation Council (GCC)						
Real GDP (percent change, year over year)	4.0	4.2	7.2	0.4	1.8	4.2
of which nonhydrocarbon growth	5.5	5.4	5.6	3.6	3.7	4.0
Current Account Balance	12.4	8.7	16.2	8.6	6.1	4.4
Overall Fiscal Balance	5.5	0.2	7.7	3.2	1.8	1.4
Inflation (percent change, year over year)	2.2	2.2	3.3	2.2	1.8	1.9
MENA non-GCC Oil Exporters						
Real GDP (percent change, year over year)	3.8	4.6	4.2	3.3	3.0	3.6
of which nonhydrocarbon growth	4.3	3.7	3.3	3.8	3.8	3.5
Current Account Balance	3.2	3.6	9.6	3.8	1.6	0.8
Overall Fiscal Balance	–1.6	–2.3	1.7	–2.4	–5.3	–5.9
Inflation (percent change, year over year)	11.9	22.3	25.1	23.0	17.6	16.6
MENA Oil Importers[1]						
Real GDP (percent change, year over year)	3.8	3.7	4.8	2.2	1.5	3.9
Current Account Balance	–3.9	–5.3	–5.8	–3.1	–6.6	–6.3
Overall Fiscal Balance	–5.7	–6.0	–5.4	–5.2	–7.3	–6.8
Inflation (percent change, year over year)	8.9	17.2	15.9	23.6	29.3	19.2
MENA Emerging Market and Middle-Income Economies						
Real GDP (percent change, year over year)	4.1	4.0	5.4	3.2	2.4	3.8
Current Account Balance	–3.9	–4.8	–5.1	–2.5	–6.4	–5.7
Overall Fiscal Balance	–6.1	–6.7	–5.8	–5.4	–7.8	–7.3
Inflation (percent change, year over year)	7.2	6.3	10.4	22.4	26.0	16.5

	Average 2000–20	2021	2022	2023	Projections 2024	2025
MENA Low-Income Countries[1]						
Real GDP (percent change, year over year)	2.2	0.5	–0.1	–8.6	–8.3	5.5
Current Account Balance	–4.1	–9.2	–11.9	–7.8	–9.2	–11.5
Overall Fiscal Balance	–3.8	–0.3	–2.1	–3.5	–2.4	–2.9
Inflation (percent change, year over year)	19.8	161.2	77.0	36.5	73.6	53.1
MENA, Afghanistan, Pakistan[1]						
Real GDP (percent change, year over year)	4.0	4.2	5.5	1.6	2.1	3.9
Current Account Balance	5.6	3.7	8.8	4.6	2.2	1.3
Overall Fiscal Balance	0.6	–2.3	2.5	–0.5	–2.2	–2.4
Inflation (percent change, year over year)	7.3	12.3	13.4	16.5	15.9	11.4
CCA						
Real GDP (percent change, year over year)	6.1	5.2	5.2	4.9	4.3	4.5
Current Account Balance	–0.4	0.5	5.3	–2.1	–1.5	–2.0
Overall Fiscal Balance	1.4	–3.1	0.4	–0.6	–1.9	–1.8
Inflation (percent change, year over year)	8.4	9.6	13.1	9.8	6.9	6.9
CCA Oil Exporters						
Real GDP (percent change, year over year)	6.2	3.8	3.9	3.9	3.3	3.9
of which nonhydrocarbon growth	5.9	4.8	6.0	4.1	4.2	3.4
Current Account Balance	–0.1	3.1	9.4	0.8	0.8	–0.3
Overall Fiscal Balance	2.0	–2.3	1.8	0.6	–1.2	–1.2
Inflation (percent change, year over year)	7.6	9.3	14.2	11.0	7.0	6.8
CCA Oil Importers						
Real GDP (percent change, year over year)	6.1	8.1	7.7	6.8	6.1	5.5
Current Account Balance	–1.8	–5.7	–4.7	–8.7	–6.7	–5.7
Overall Fiscal Balance	–1.2	–5.0	–3.1	–3.5	–3.4	–3.0
Inflation (percent change, year over year)	9.9	10.3	11.0	7.6	6.9	7.1

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

[1] 2011–25 data exclude Syrian Arab Republic. Afghanistan is excluded from real GDP growth, overall fiscal balance, and inflation data for 2024–25, and current account balance data for 2021–25.

Note: Data refer to the fiscal year for the following countries: Afghanistan (March 21/March 20 until 2011, and December 21/December 20 thereafter), Islamic Republic of Iran (March 21/March 20), and Egypt and Pakistan (July/June).