



MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

War in the Middle East: Economic Spillovers and Policy Challenges

IMF MIDDLE EAST CENTER FOR ECONOMICS AND FINANCE
(CEF)

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MENAP: Outlook, Risks, and Transmission Channels

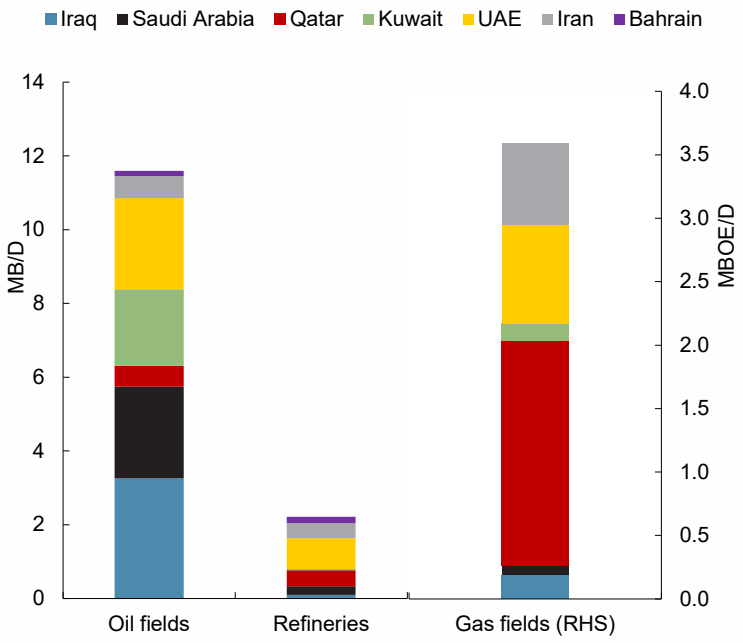
The war has delivered a severe shock to the region, disrupting energy markets, trade routes, and market confidence

The war has impacted energy infrastructure...

...tourism...

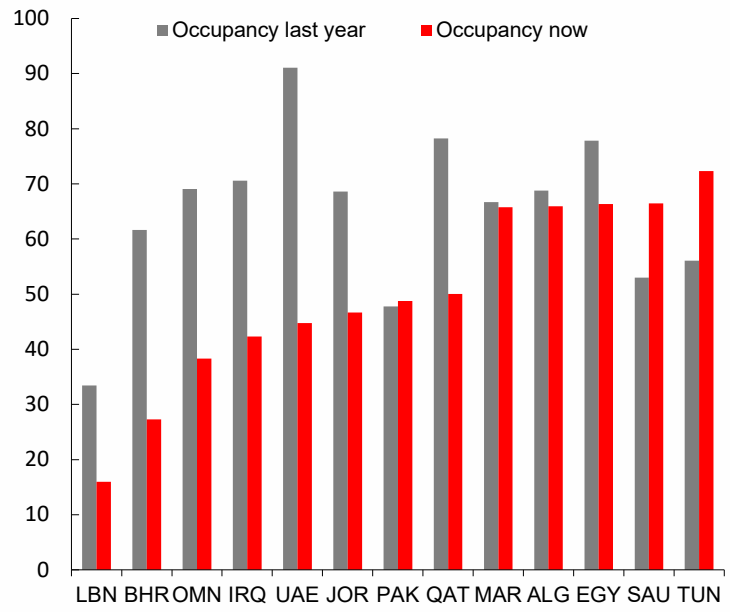
...and financial conditions

Hydrocarbon Production Capacity Interruption
(MB/D= Millions barrels per day, MBOE/D=Million barrels of oil equivalent per day)



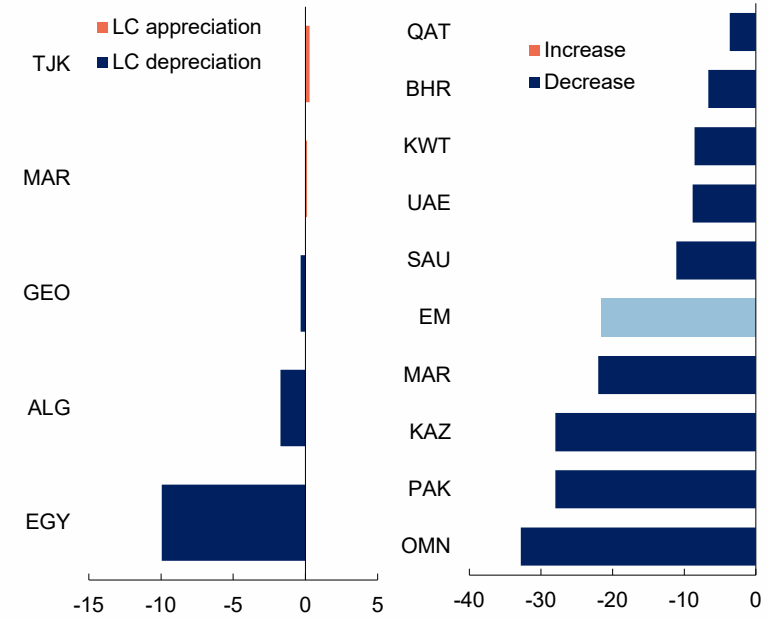
Sources: Rystad Energy; and IMF staff calculations.
Note: This is the energy production capacity that has been interrupted so far due to damage or preemptive closures of energy facilities. Data updated on April 8.

Hotel Occupancy Rates
(Percent, last week of April)



Source: CoStar.

Exchange Rates, LC versus USD; JP Morgan EMBIG Spreads
(Change since Feb 27, basis points)



Source: Bloomberg Finance L.P.
Note: Latest data as of May 8, 2026.

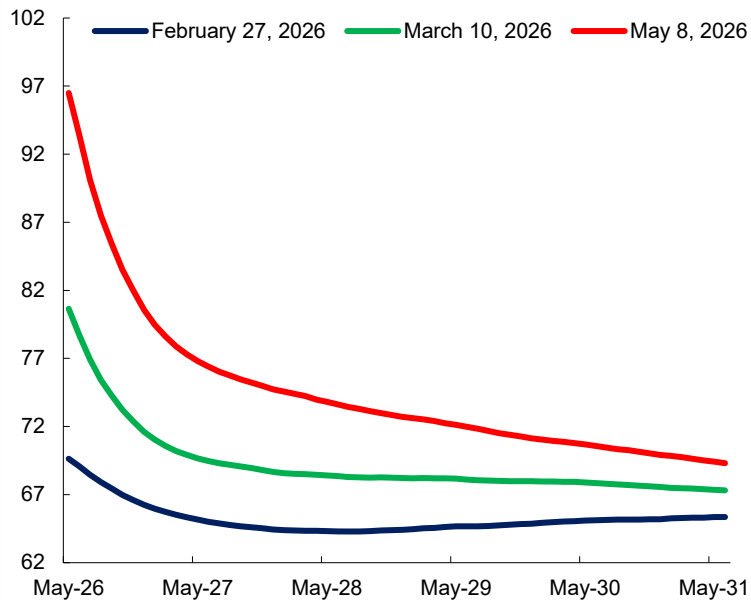
A reference scenario: even if disruptions abate by mid year, oil exporters affected by the war are expected to suffer lower growth

Oil futures suggest market expects prices at higher levels compared to pre-war

We project a sharp contraction in GDP growth this year...

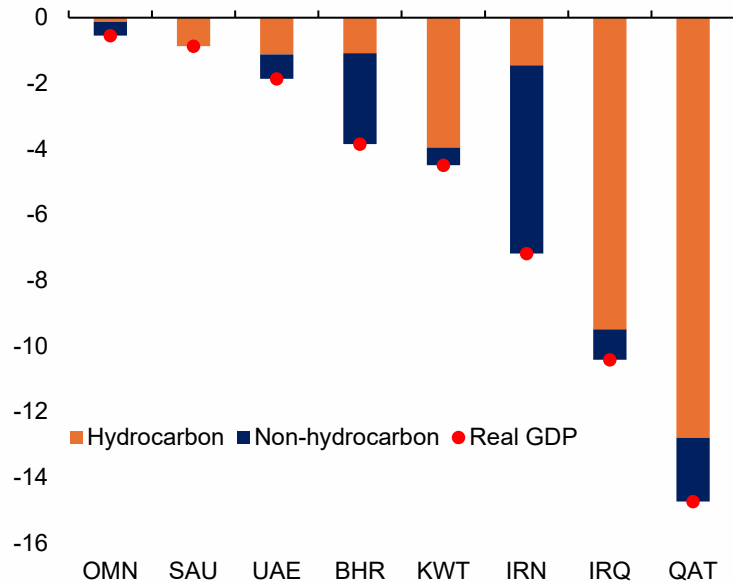
...with persistent effects over the medium term

Oil Prices: Futures Curves
(USD per barrel; average of WTI, Brent, Dubai futures price)



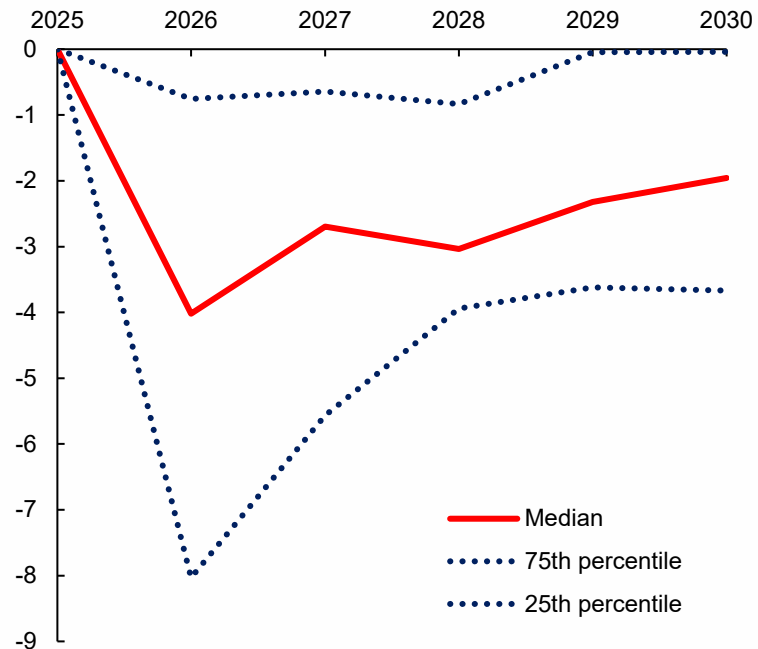
Source: Bloomberg Finance L.P.
Note: Latest data as of May 8, 2026.

2026 Growth Forecast Revisions
(Percentage point change compared to October 2025 REO, by contribution to overall growth)



Source: IMF, World Economic Outlook database; and IMF staff calculations.

Projected Conflict-Related Real GDP Losses
(April 2026 REO in percent of October 2025 REO)



Source: IMF, World Economic Outlook database; and IMF staff calculations.
1. Include GCC, Iran, Iraq, Lebanon, and Jordan. The median is calculated as the average of the 2 countries in the middle of the group.

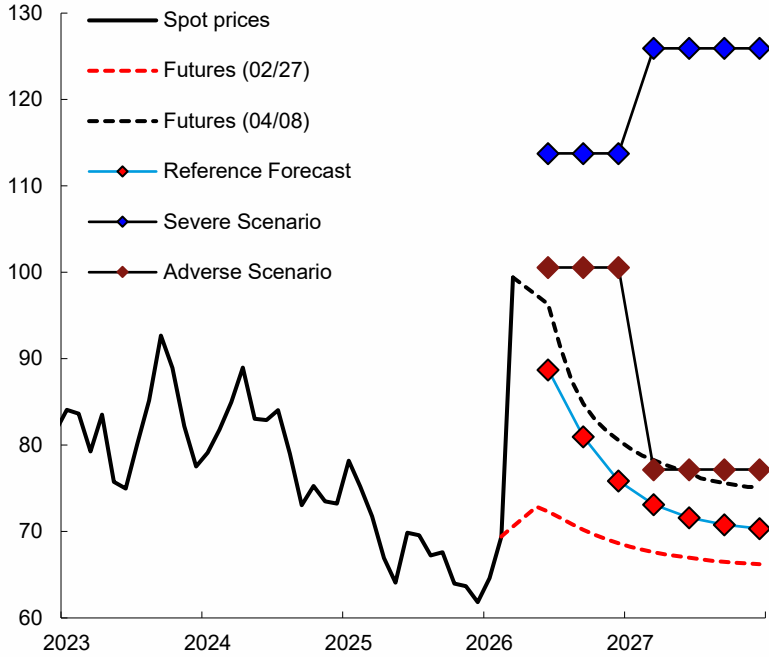
A more protracted and severe war poses upside risks on energy prices

A more prolonged and severe war will lead to higher oil prices...

...which will deteriorate external and fiscal positions of MENAP oil importers ...

...while the impact on oil exporters will depend on what happens on energy exports

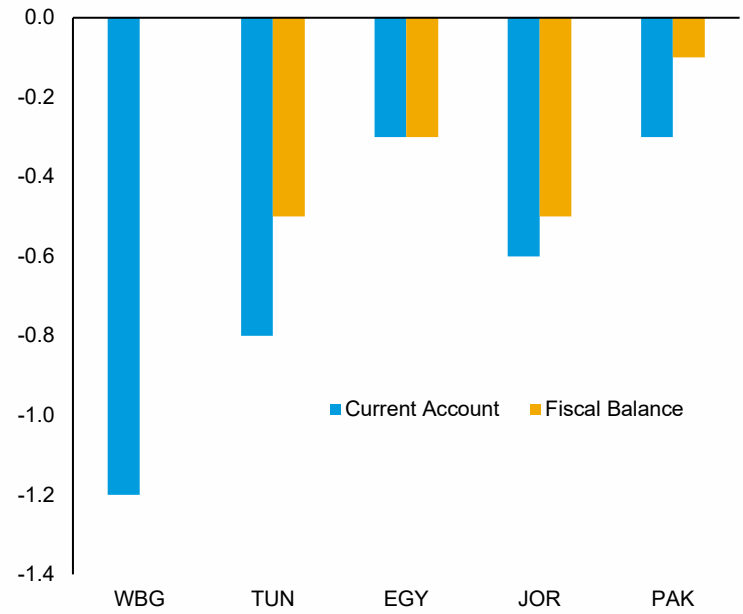
Oil Prices
(USD per barrel; Brent)



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

External and Fiscal Balances of selected MENAP Oil Importers

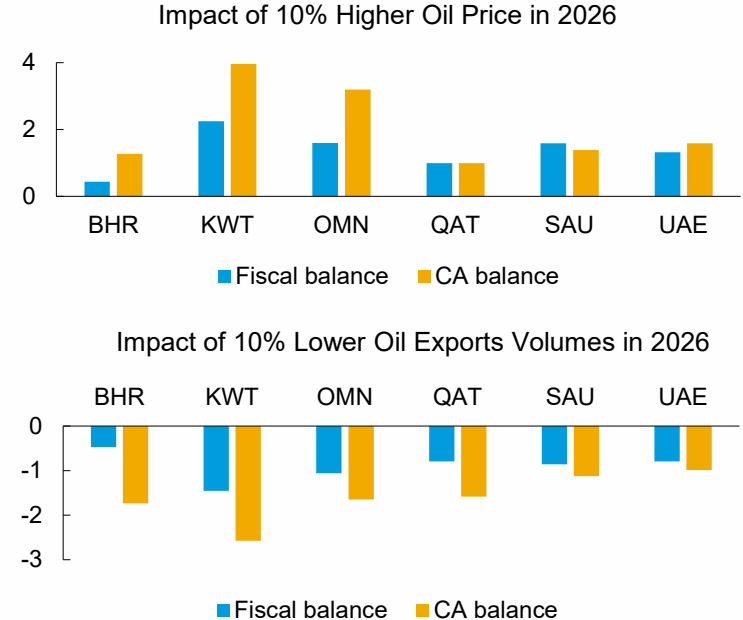
(impact of a 10 percent rise in oil prices, deviation from 2026 baseline, percentage points of GDP)



Source: IMF staff calculations.
Note: The chart shows the estimated impact on current account and fiscal balances of selected MENAP oil importers of a 10 percent increase of oil prices on average for a year.

External and Fiscal Balances of GCC countries

(percentage points of GDP, deviation from 2026 baseline)

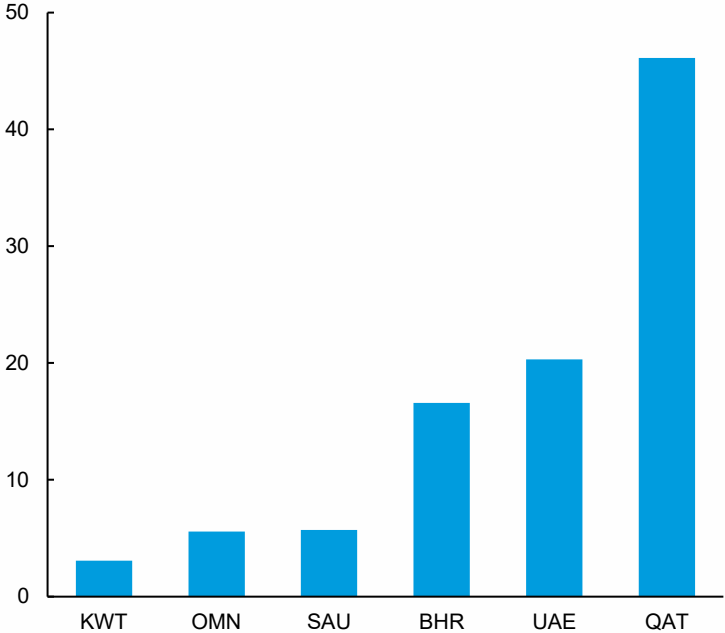


Sources: IMF staff calculations.

The GCC economies would also be affected through the negative impact of the war on nonhydrocarbon activities

Tourism sector is an important source of demand in GCC

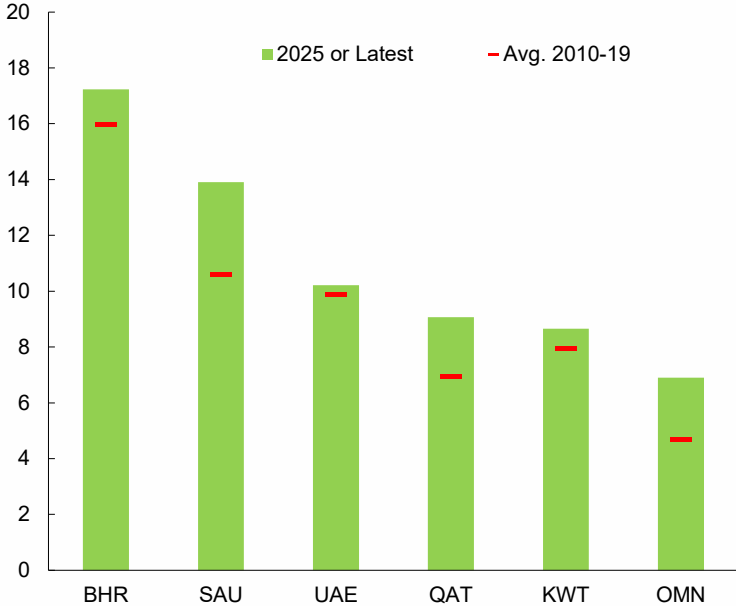
Pre-War Annual Tourism Expenditure
(Percent of domestic household expenditure, average 2021-2024)



Sources: Haver Analytics; and IMF staff calculations. Average of available data 2021-2024.

Financial services represent a relatively high and rising share of value added

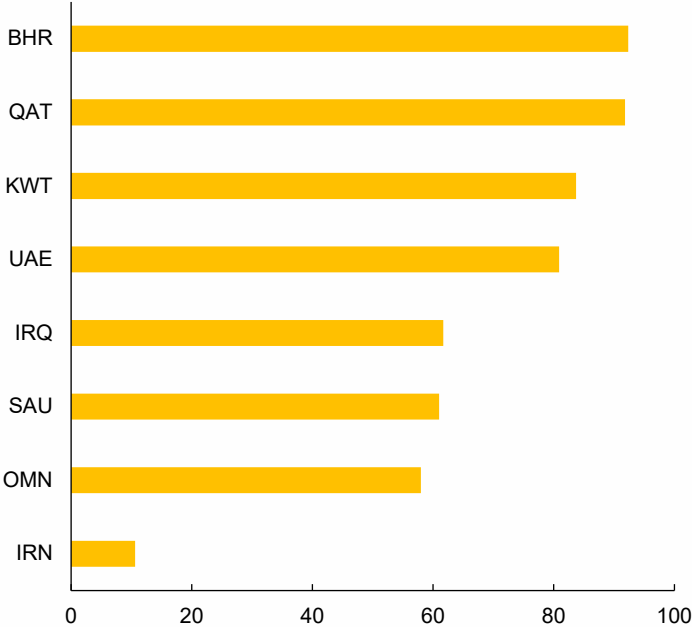
Financial Services
(Percent of total value added)



Sources: Haver Analytics; and IMF staff calculations. Note: Averages are computed over different sample periods due to data availability: Qatar starts in 2011, the UAE in 2012, and all other GCC countries in 2010.

GCCs are heavily reliant on imported food

Food Imports
(Percent of consumption, 2023)

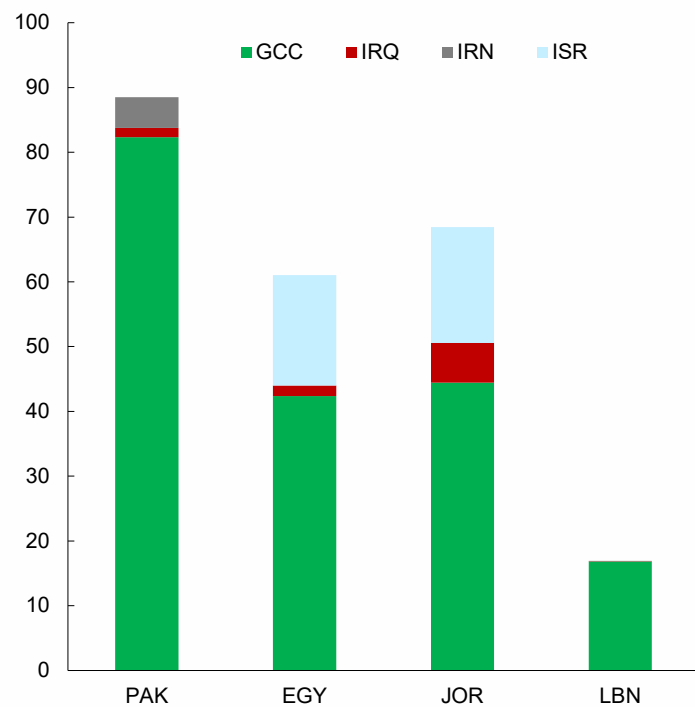


Sources: FAO; and IMF staff calculations. Note: The chart shows (food consumption – food production)/food consumption.

Large reliance on the GCC for energy, remittances, and financial flows is a key source of transmission to MENAP economies

A few MENAP oil importers depends on Gulf countries for their energy imports...

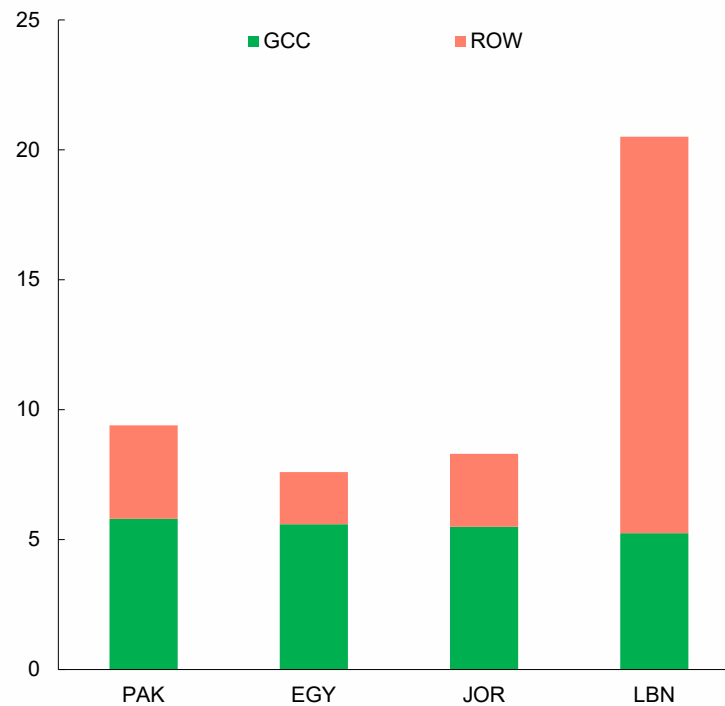
Selected MENAP Oil Importers: Imports of Oil and Gas from Countries Affected by the War
(Percent of total oil and gas imports, 2024)



Sources: CEPII, BACI database; and IMF staff calculations.
Note: Data for Jordan is from 2023.

... as well as remittances...

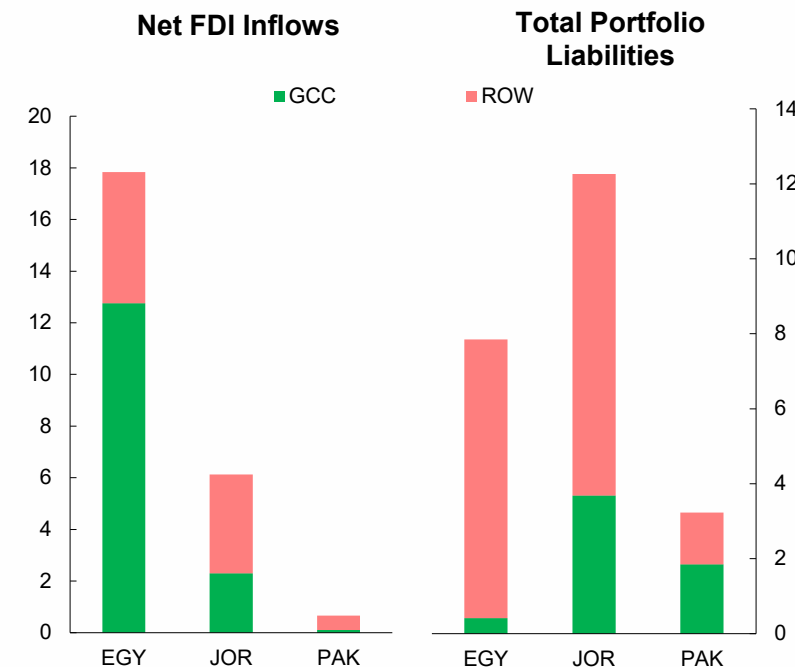
Selected MENAP Oil Importers: Remittances
(Percent of GDP, 2024)



Source: The KNOMAD/World Bank Bilateral Remittance Matrix, World Bank; and IMF staff calculations.

...and financial flows

Selected MENAP Oil Importers: Direct and Portfolio Investment
(Percent of GDP, 2024)



Sources : IMF, Portfolio Investment Positions by Counterpart Economy dataset; IMF, World Economic Outlook; Central Bank of Egypt; Central Bank of Jordan; State Bank of Pakistan; and IMF staff calculations. Note: Total Portfolio Liabilities refer to derived liabilities in 2024 as a percent of GDP. Net FDI Inflows refer to cumulative net FDI inflows between 2022 and 2024 as a percent of GDP in 2024. Net FDI inflows data for Egypt and Pakistan refer to Fiscal Years 2022/23, 2023/24 and 2024/25.

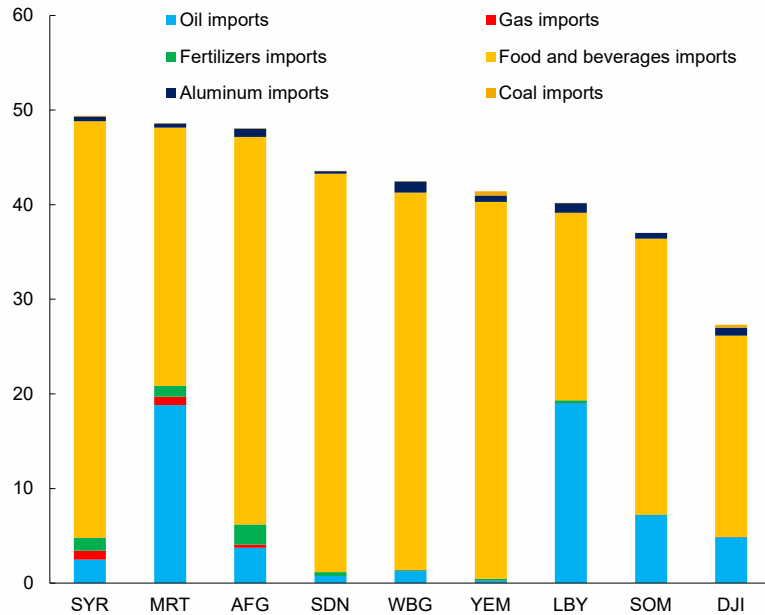
For MENAP LICs and FCS, a prolonged conflict would mean acute vulnerability to surges in energy, fertilizers, and food prices

Food and energy account for a lion's share of LICs and FCS total imports

Food items are a significant share of consumption baskets for these economies...

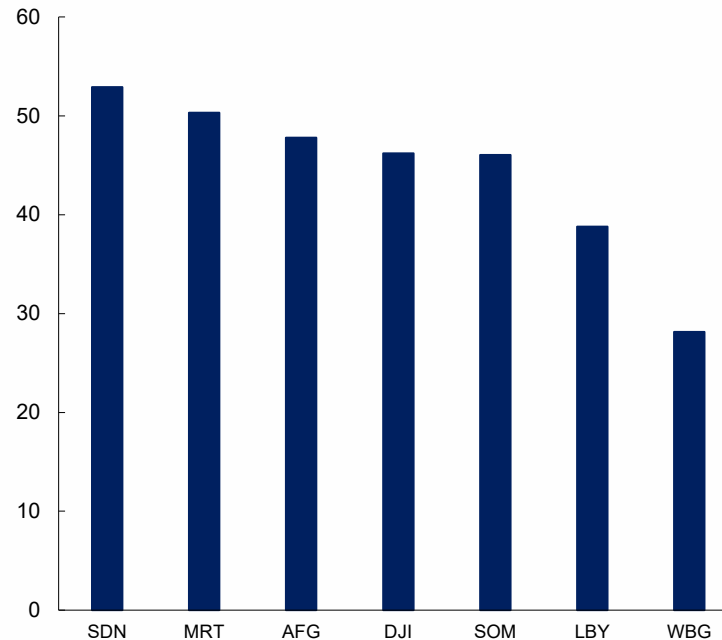
... and they already face challenges related to food security

Selected MENAP LICs and FCS: Imports of Key Commodities
(Percent of total goods imports, 2024)



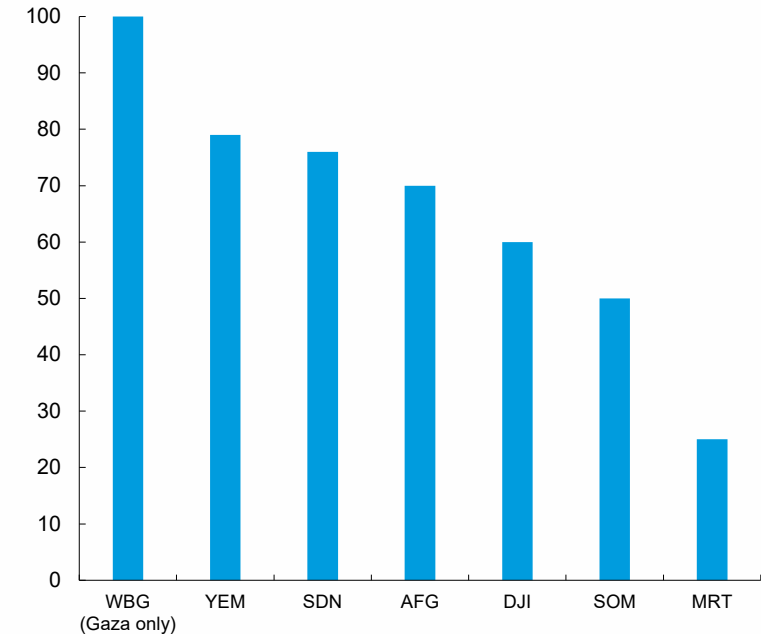
Sources: CEPII, BACI database; and IMF staff calculations.
Note: Djibouti's imports of fertilizers are excluded because they capture regional transit to Ethiopia. Yemen's imports reflect data for the overall territory of Yemen and exclude hydrocarbon imports due to data limitations.

Selected MENAP LICs and FCS: Food consumption
(Percent of consumption baskets, 2023)



Source: IMF Consumer Price Index (CPI) dataset.

Selected MENAP LICs and FCS: Population Under Food Insecurity
(Percent of total population, 2025)



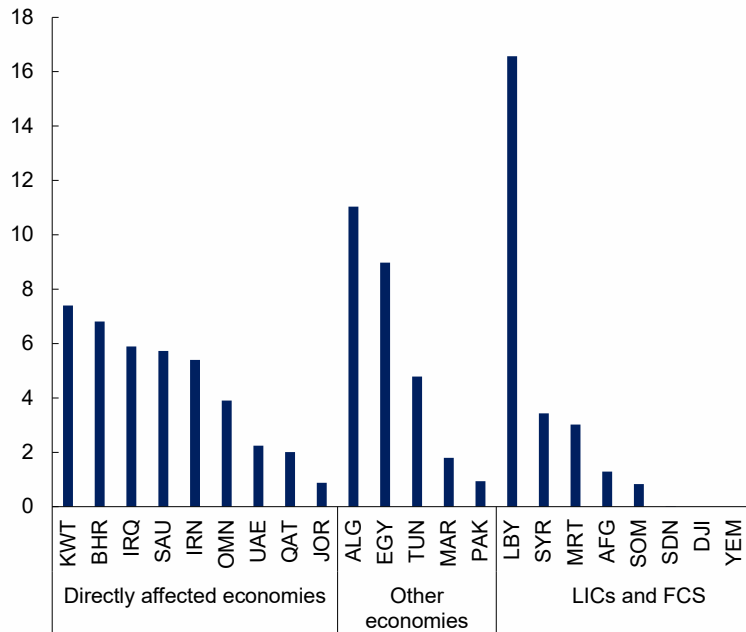
Sources: Global Food and Nutrition Security Dashboard; and IMF staff calculations. The Global Food and Nutrition Security Dashboard, led by the Global Alliance for Food Security (GAFS), identifies populations under food insecurity as made by people who lack regular access to sufficient, safe, and nutritious food required for normal growth, development, and an active, healthy life.

MENAP: Policy Challenges

A long and protracted war would pose new policy challenges to MENAP...

High energy subsidies could pose fiscal pressures

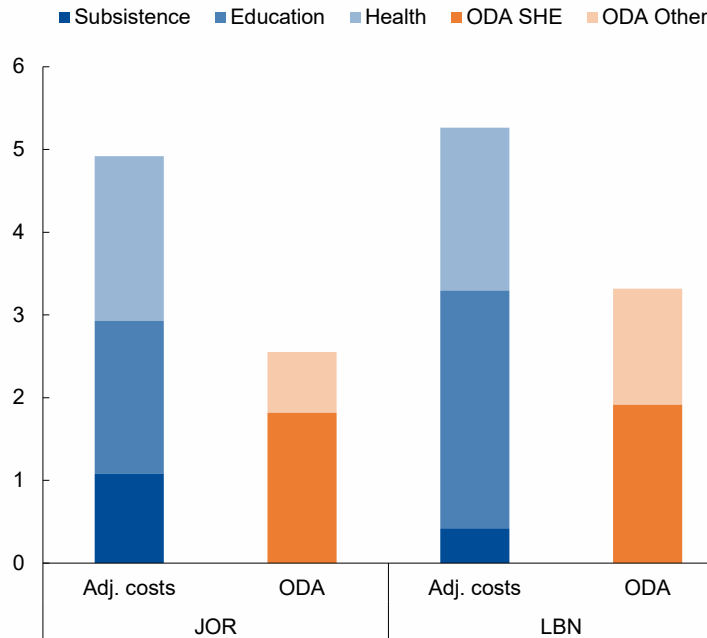
MENAP: Explicit Energy Subsidies
(Percent of GDP, 2024)



Sources: IMF Fossil Fuel Subsidies Data 2025 Update.
Note: Energy subsidies refer to explicit subsidies, i.e., undercharging for supply costs. They reflect both direct fiscal costs (in the budget) and indirect losses/reduced profits of energy SOEs. Fuel products include petroleum, natural gas, coal and electricity. 2023 desk estimate for Iran.

A new refugee crisis would also have fiscal costs

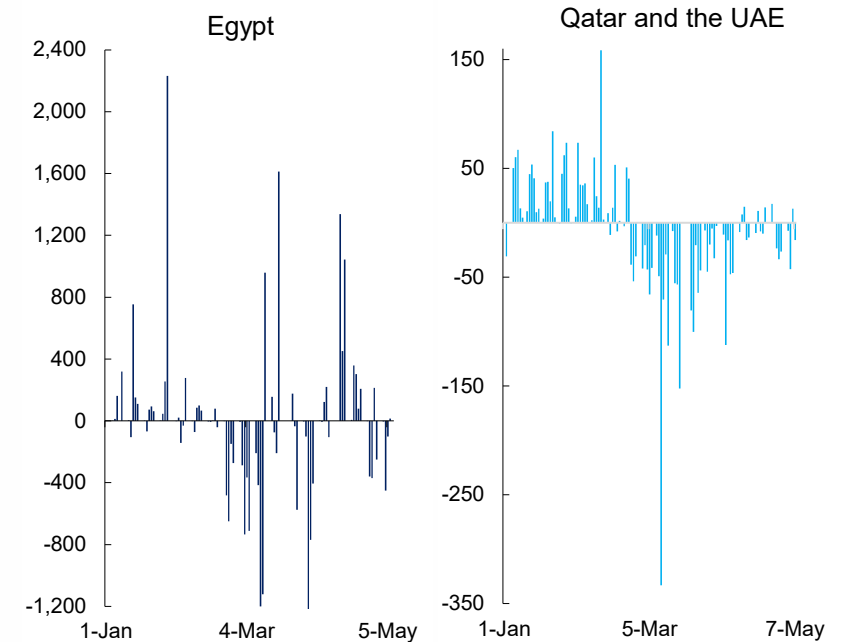
Potential Recurrent Cost of Hosting Refugees and Donor Support in Past Crises
(Percent of GDP, average 2010-21)



Sources: IMF staff calculations on IMF, OECD, UNHCR, UNRWA, World Bank, and World Health Organization data.
Note: Refugees include those under the mandate of UNRWA. ODA SHE includes the ODA for refugee situations more directly related to spending subsistence needs and health and education services; ODA Other comprises the remaining ODA. ODA = official development assistance; OECD = Organisation for Economic Co-operation and Development; UNHCR = United Nations High Commissioner for Refugees; UNRWA = United Nations Relief and Works Agency for Palestine Refugees in the Near East.

A more protracted war could fuel capital outflows

Portfolio Flows
(Millions of US\$)

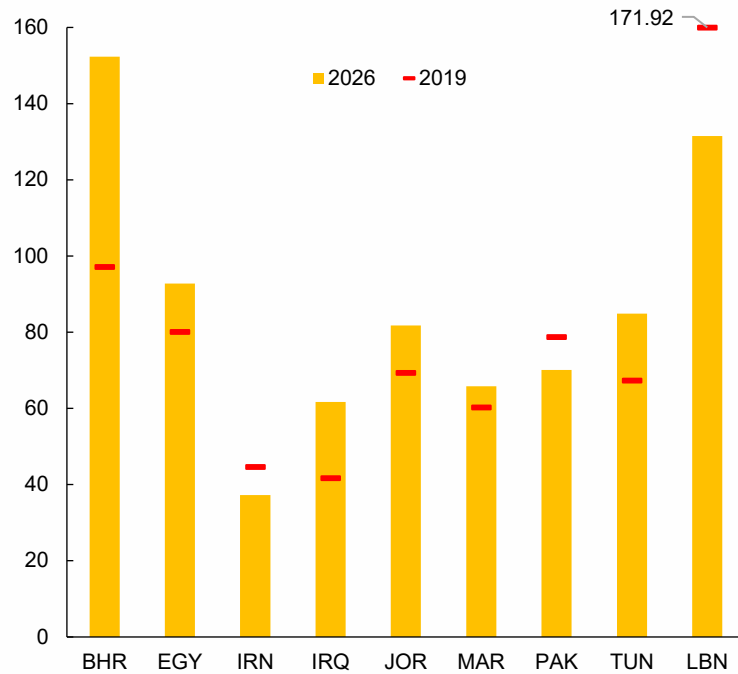


Source: Haver Analytics.
Note: Data for Egypt are as of May 6, 2026, and data for Qatar and UAE are as of May 7, 2026. Data for Qatar and the UAE are only for equity flows.

...at the time where policy space is narrower than before, making policy trade-offs harder

Many economies have higher debt than before the pandemic ...

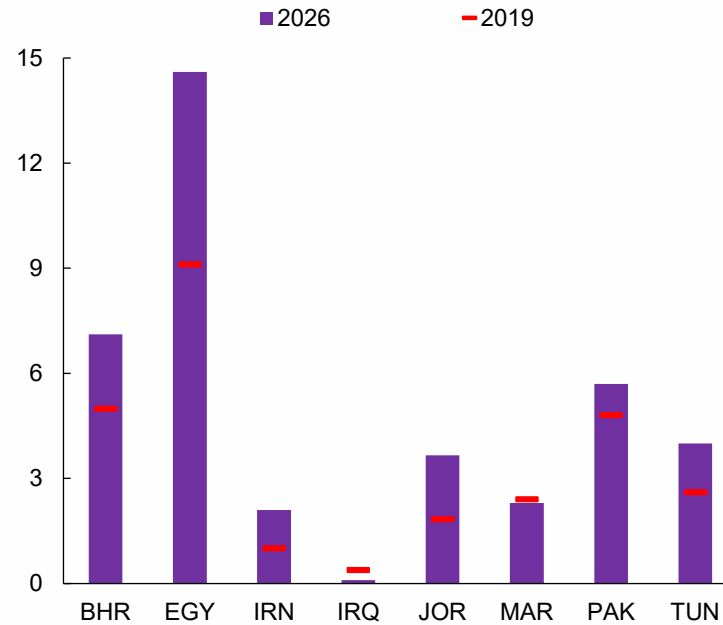
Gross Public Debt
(Percent of GDP)



Source: IMF, World Economic Outlook database.

... with fiscal space further eroded by higher interest payments

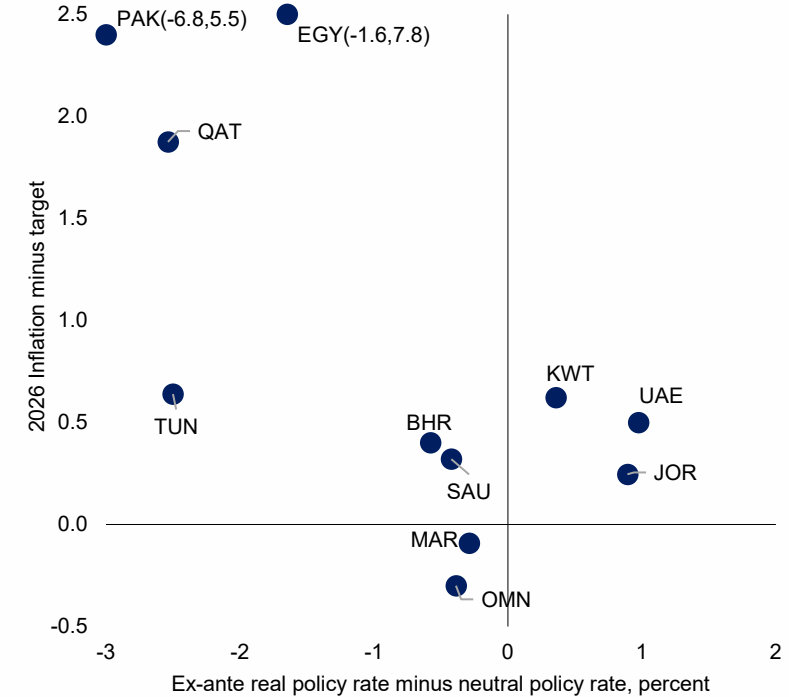
Interest Payments
(Percent of GDP)



Source: IMF, World Economic Outlook database.

High inflation and accommodative monetary policy stances in a few cases

Inflation and the Monetary Policy Stance



Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations. Note: Latest *ex ante* real policy rate by country is equal to the difference between the latest nominal policy rate and the end-of-period inflation projection for 2026. For countries pegged to the USD a 2 percent inflation target is assumed, and for countries without an explicit inflation target a 10-year average of inflation outturns is assumed. Neutral policy rates are estimated by staff as in April 2023 MCD REO Chapter 2.

Policy responses should be calibrated to the nature of the shock and each country's available buffers

Fiscal Policy

- Avoid generalized subsidies and price controls, and anchor policy in credible medium-term plans
- Countries **with fiscal buffers**, should use them only to minimize the risk of scarring, as well to provide well-targeted transfers.
- Countries **without buffers** should prioritize narrowly targeted and temporary measures.
- **OIs**: focus on temporary targeted support. **OEs**: save windfalls, rebuild buffers, and avoid procyclical spending

Monetary Policy

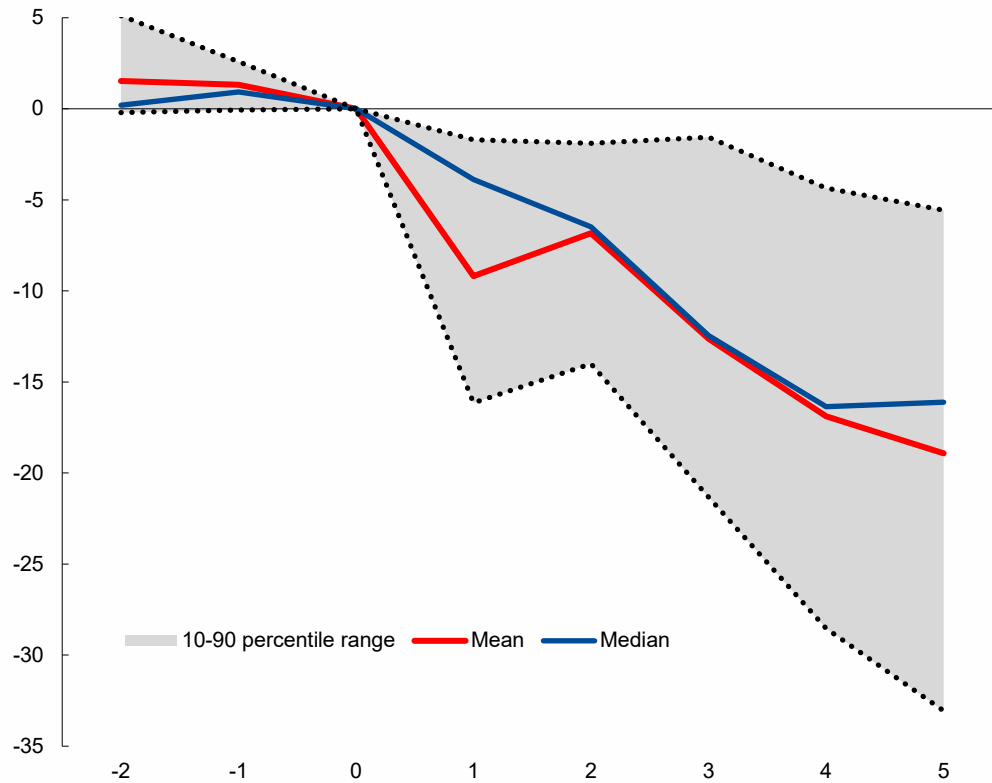
- Countries with high inflation and accommodative stances may need to raise interest rates to ensure price stability
- Clear communication around monetary policy setting is key
- Countries with **flexible exchange rates** should let them function as shock absorbers, while monitoring inflation risks from depreciation.
- Countries with **fixed exchange rate** regimes should set policy rates to maintain pegs while ensuring adequate reserves.

Financial Sector Policy

- May need to adjust by quickly identifying emerging risks and safeguarding financial stability
- Strengthen supervision and monitoring
- Preserve liquidity and crisis preparedness
- Limit balance-sheet and sovereign risks

The war shock may reverberate long after, raising fundamental questions about the region's long-term economic strategies...

Real GDP per Capita Impacts Seen After Intense and Prolonged Conflicts in MENAP Countries in the Past
(Percent difference between actual and pre-conflict forecast)



Sources: April 2024 MCD REO; and IMF staff calculations.

How might the war change MENAP economies' diversification strategies?

Does the war bolster the case for greater regional economic integration?

How might countries enhance energy and food security amid continuing geopolitical instability?

Thank you