MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

Steering Through Uncertainty: Strengthening Resilience in Challenging Times

REGIONAL ECONOMIC OUTLOOK
OCTOBER 2026



Giovanni Melina

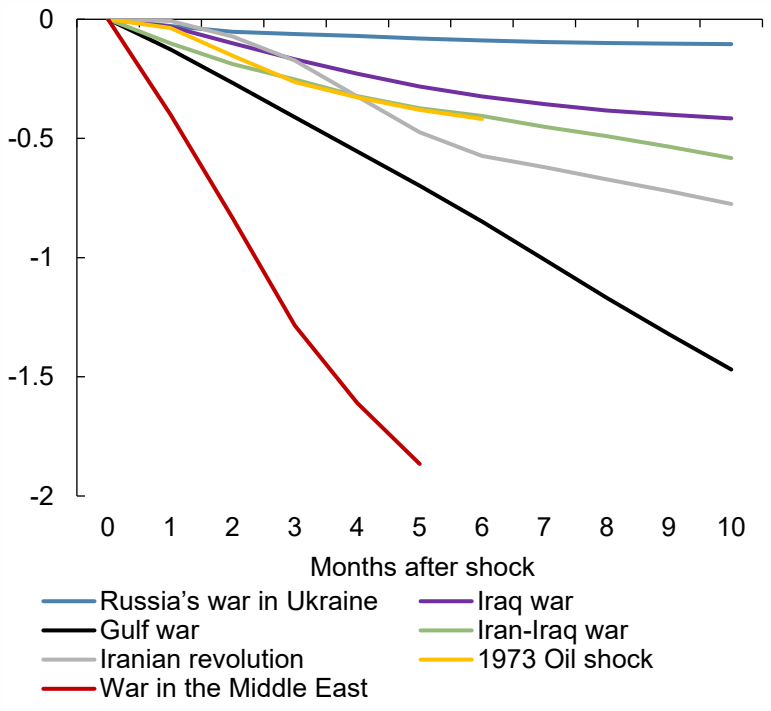
MIDDLE EAST AND CENTRAL ASIA DEPARTMENT, IMF

Recent Developments, Outlook & Policies

The war in the Middle East disrupted global oil supply, but mitigating factors cushioned the price shock

While the disruption to global oil supply far exceeds those in previous shocks…

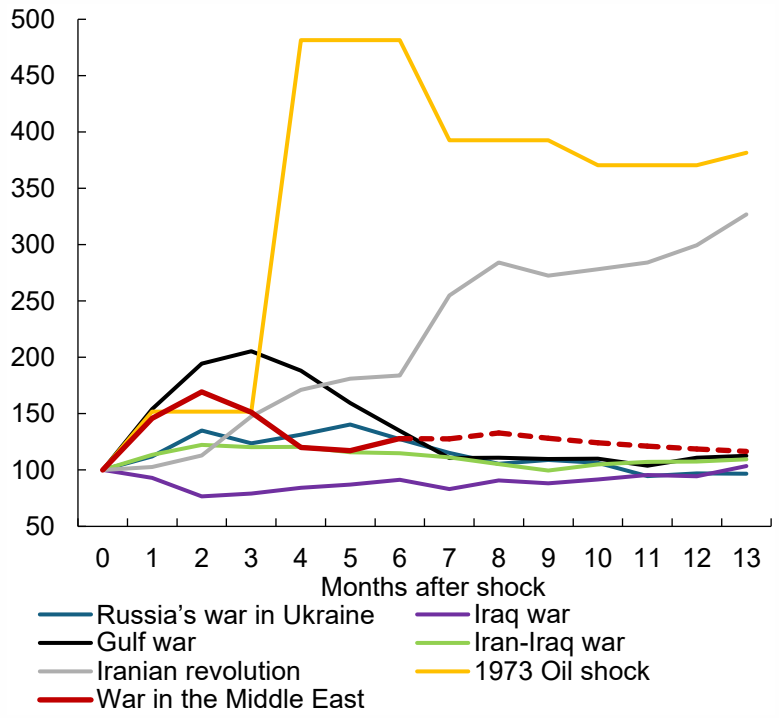
Cumulative oil supply shortfalls
(Billion barrels)



Sources: IEA; Kpler; and IMF staff calculations.

…the increase in oil prices has been smaller than in the past…

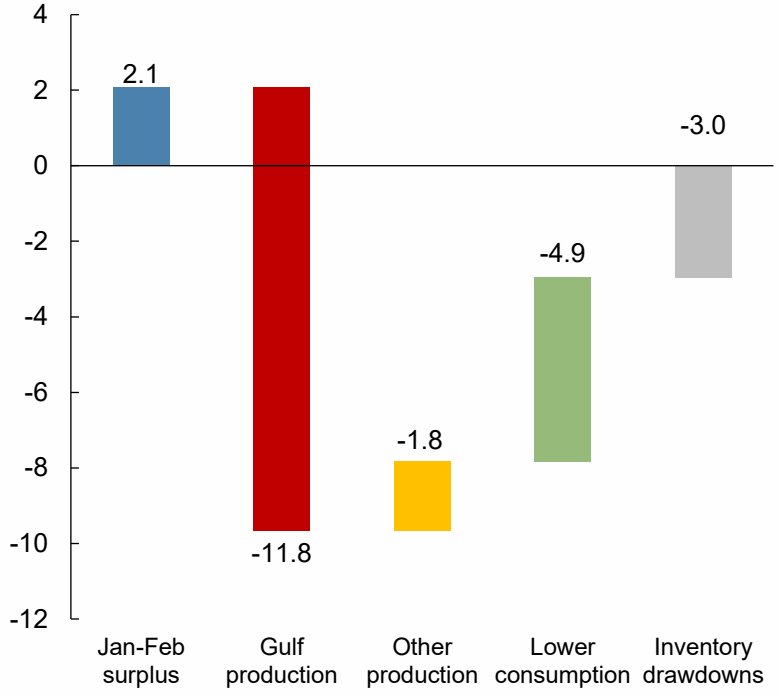
Cumulative change in Brent prices
(Month before shock = 100)



Sources: IEA; Kpler; and IMF staff calculations.

…thanks to a series of offsetting factors

Gulf supply shortfall and market buffers
(Million barrels per day, March-July vs. January-February)

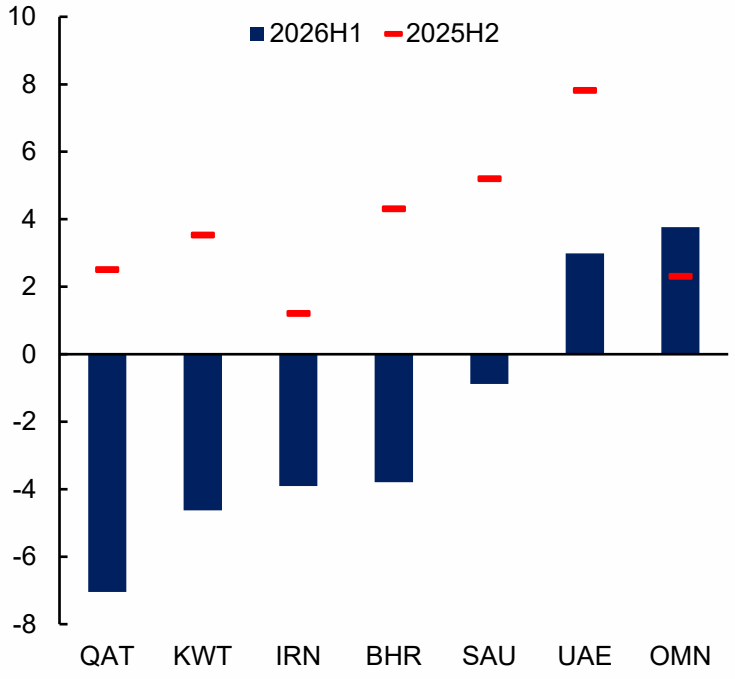


Sources: IEA; Kpler; and IMF staff calculations.

Oil exporters affected by the conflict experienced a decline in economic activity, driven by disruptions in both oil and non-oil sectors

GDP has contracted in H1:2026 in most oil exporters

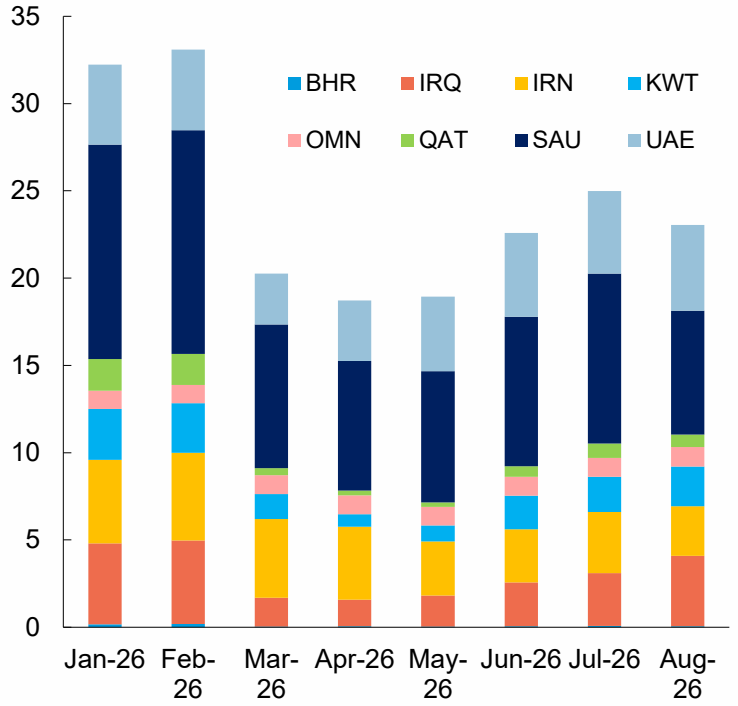
Oil Exporters: Real GDP Growth*
(Year-over-year percent change)



Sources: Haver Analytics; and IMF staff calculations.
Note: *For BHR, IRN, KAZ, and QAT, data is as of 2026Q1.

Oil production in Gulf exporters was 30 percent lower than pre-conflict in August…

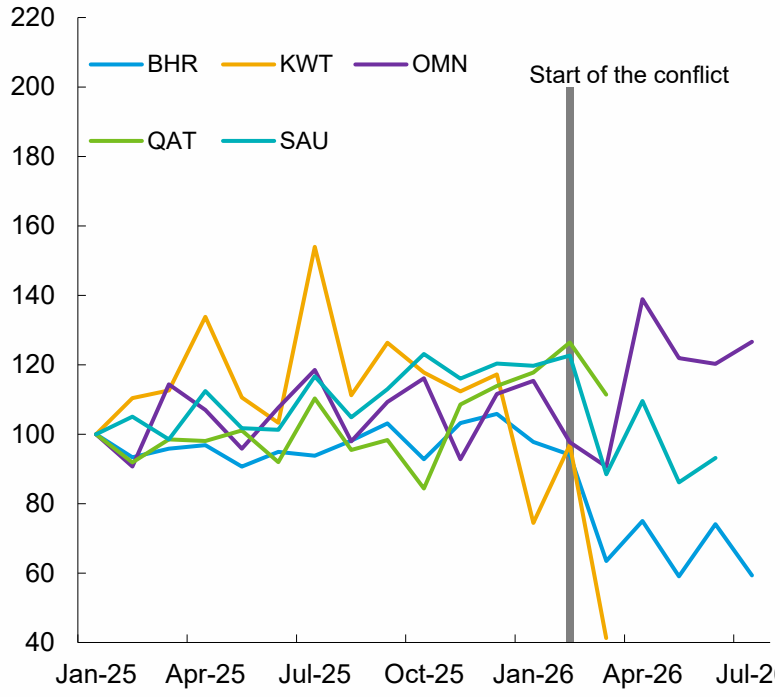
Primary Oil Production
(Million barrels per day)



Sources: International Energy Agency; and IMF staff calculations.

…and non-oil activity has also been affected

Non-Oil Exports
(Index, 2025 Jan=100)

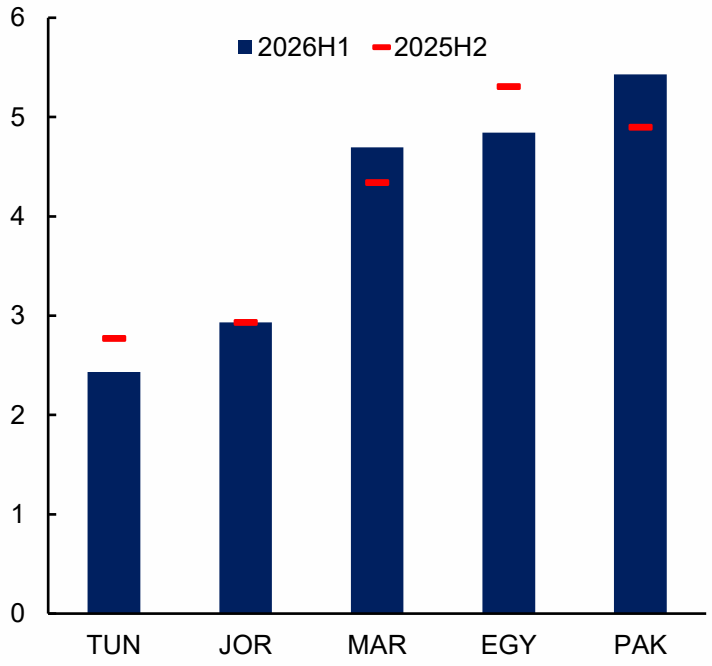


Sources: Haver Analytics; and IMF staff calculations.

By contrast, oil importers have remained resilient, supported by stable remittances and tourism revenues…

Oil importers were generally resilient in H1:2026

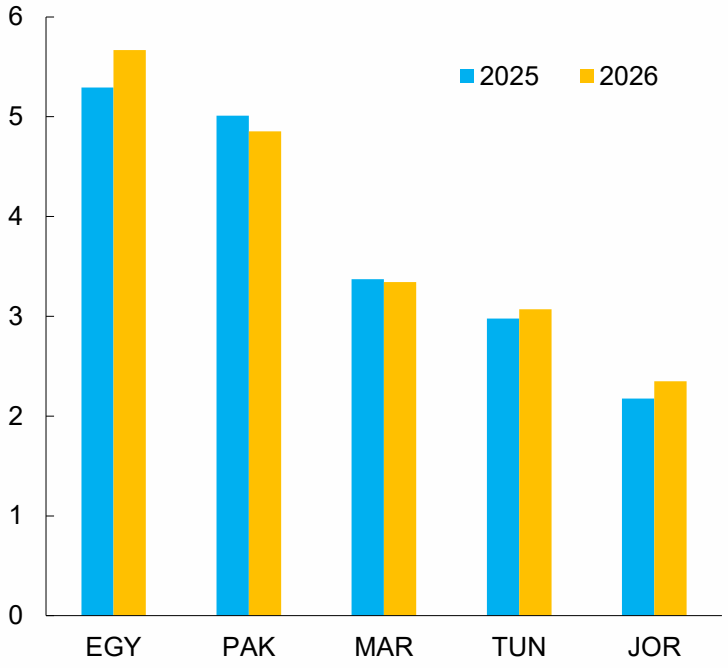
Oil Importers: Real GDP Growth*
(Year-over-year percent change)



Sources: Haver Analytics; and IMF staff calculations.
Note: *For JOR and PAK data are as of 2026Q1.

Remittances were largely unaffected by the conflict

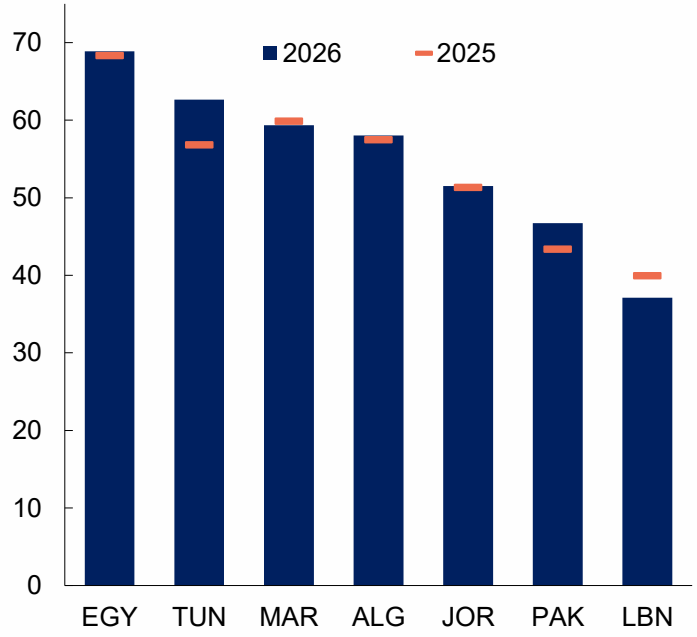
Net Remittances
(Year to date, share of GDP)



Sources: Haver Analytics; IMF, REO; and IMF staff calculations.
Note: For TJK, data is as of 2026Q1, while the remaining countries correspond to 2026Q2.

Tourism activity also remained largely unaffected

Hotel Occupancy Rates
(percent, first 37 weeks moving averages)

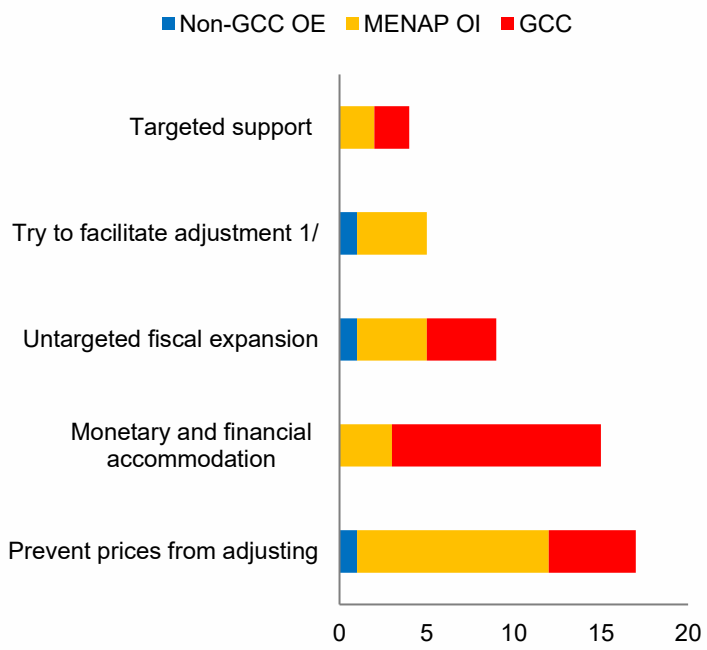


Sources: Costar; and IMF staff calculations.

...as well as new policy measures that have mitigated the pass-through of the terms-of-trade shock to prices

New measures were mainly of fiscal nature to limit the impact of higher commodity prices

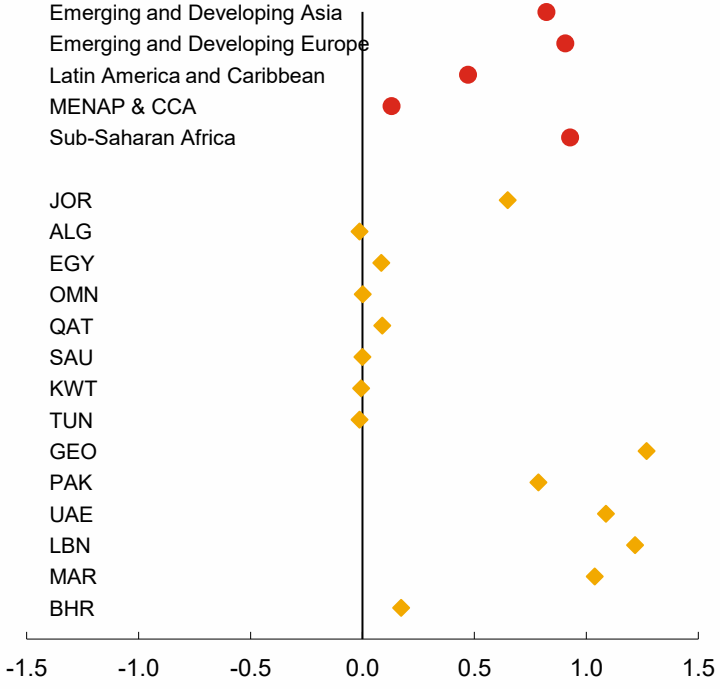
New Policy Measures
(Number of tracked measures)



Sources: IMF, Global Policy Tracker; and IMF staff calculations.
1/ Measures to support adjustment through energy-savings, higher domestic energy prices, and energy-sector financing initiatives.

The pass-through from energy prices has been generally smaller than other EMDEs…

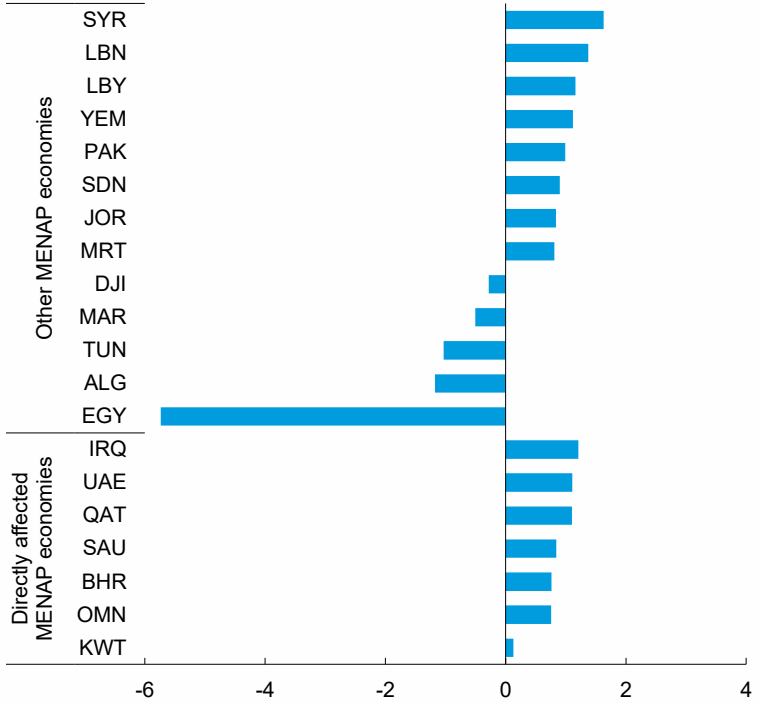
Diesel: Pass-through of Global Prices to Domestic Retail Prices
(By region and country, Feb.23 – September 14)



Sources: Global Petrol Prices; US Energy Information Administration; and IMF staff calculations.
Note: * Median pass-through is calculated for Diesel prices as the ratio between the difference in domestic prices (pump) and the difference in international prices (spot prices).

…also thanks to generally appreciating exchange rates

Nominal Effective Exchange Rate
(Percent change, February-August 2026)

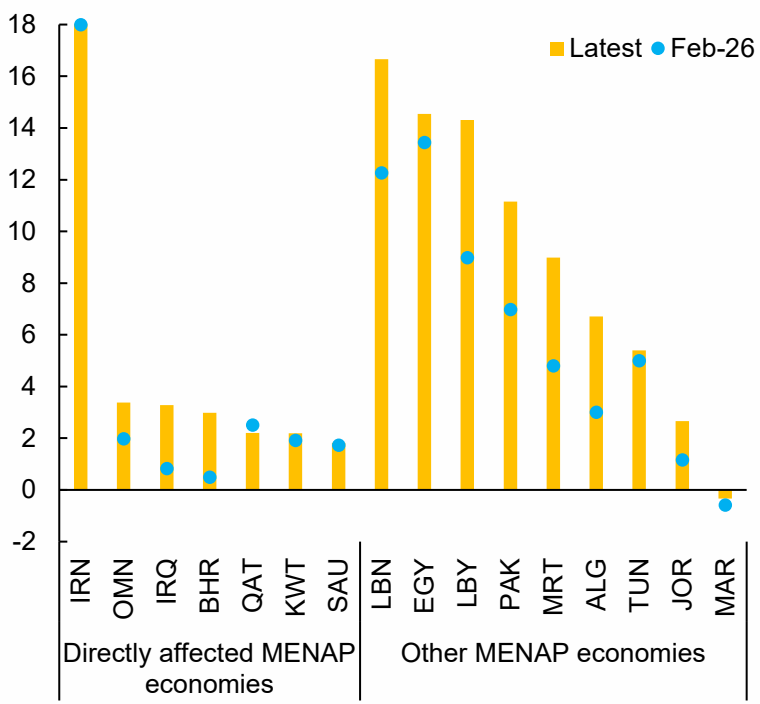


Sources: IMF, EER database; and IMF staff calculations.

Inflation has risen, and as most central banks hold steady, real policy rates have generally eased

Inflation has increased in most countries

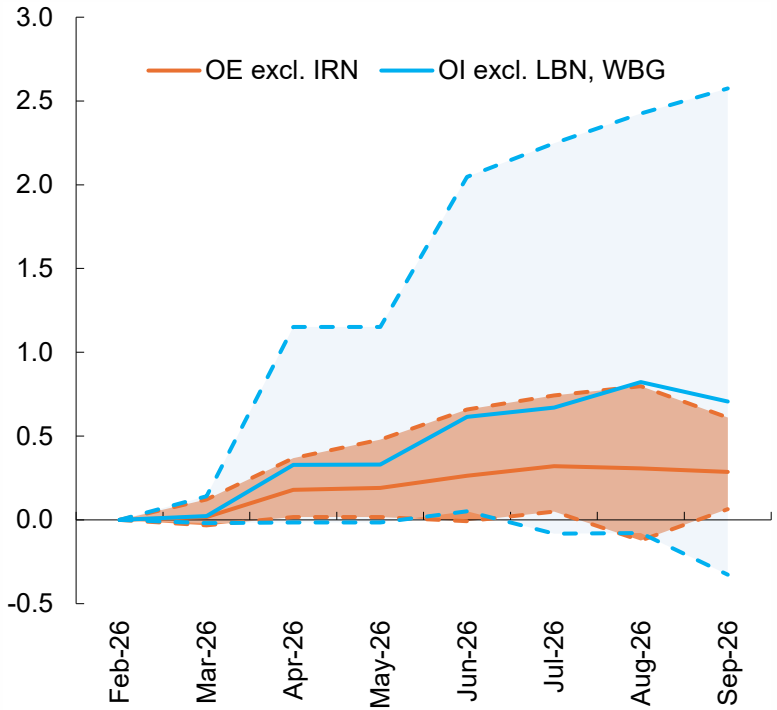
Headline Inflation
(Year-on-year, percent)



Sources: Haver Analytics; IMF, Regional Economic Outlook database; and IMF staff calculations. For BHR, SAU, SDN, LBN, LBY, MAR & TJK, latest inflation data is from July 2026.

Inflation expectations have moved upward, especially in some oil importers…

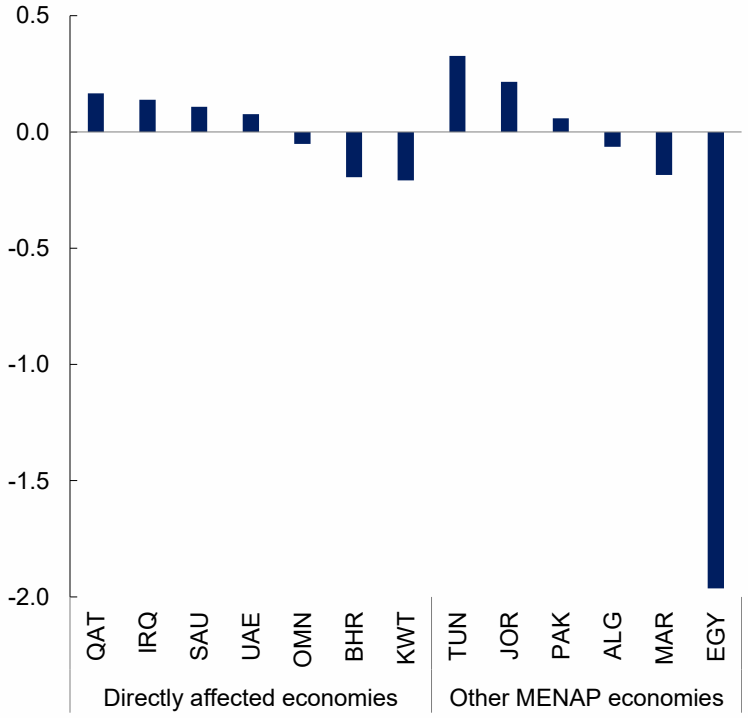
1-Year Ahead Inflation Expectations
(Percentage points, difference versus Febr.2026, simple averages)



Sources: Haver Analytics; Focus Economics; and IMF staff calculations.
Note: Dashed lines indicate respective minimum and maximum values.

…and real ex-ante policy interest rates have fallen in several countries

Real ex ante policy interest rates
(Percentage points change, Sep. vs Feb. 2026)



Sources: Haver Analytics; Focus Economics; and IMF staff calculations.

Heterogeneous outlook ahead: a V-shaped recovery for GCC; a growth acceleration for MENAP oil importers; higher 2026 inflation in most economies; and slower post-2027 disinflation

GCC: A sharp V-shaped recession and recovery

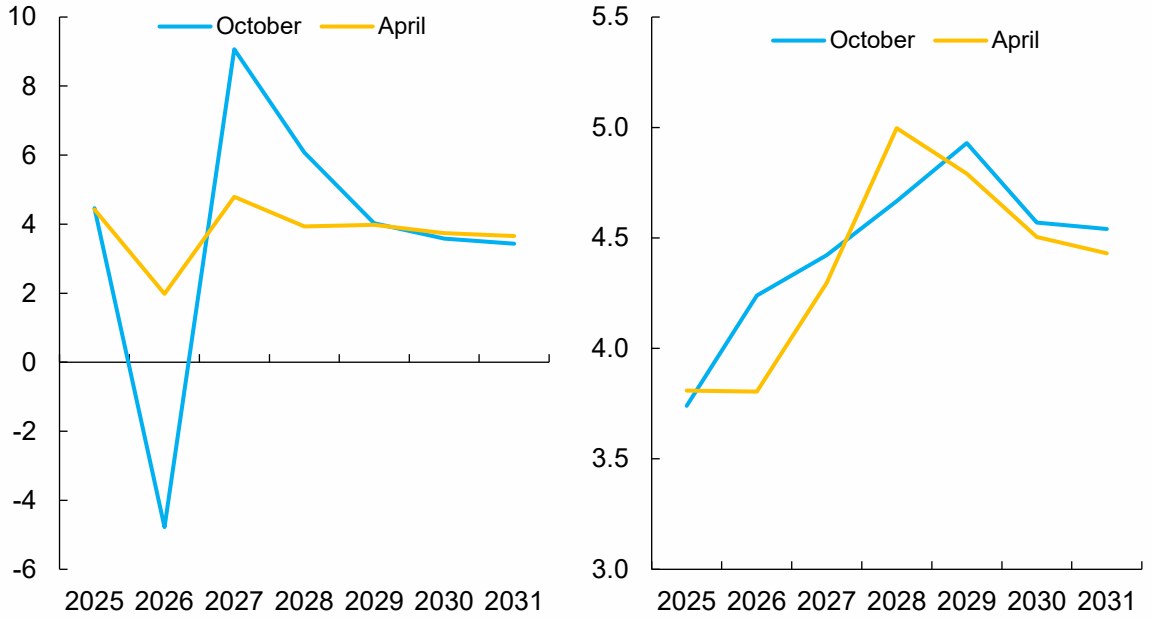
MENAP OIs: stronger acceleration in 2026, mainly due to Egypt

GCC: inflation is higher in 2026-27, goes back to 2 percent by 2028

MENAP OIs: slower disinflation after the 2026 increase

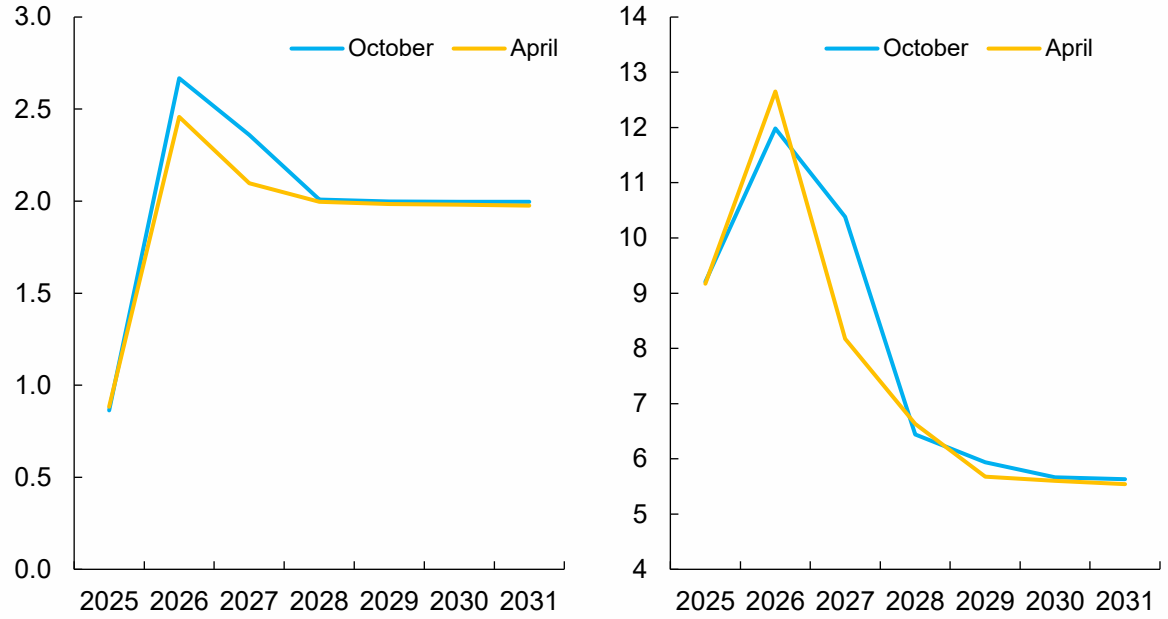
GDP Growth

(Year-over-year percent change)



Inflation

(Year-over-year percent change; end of period)

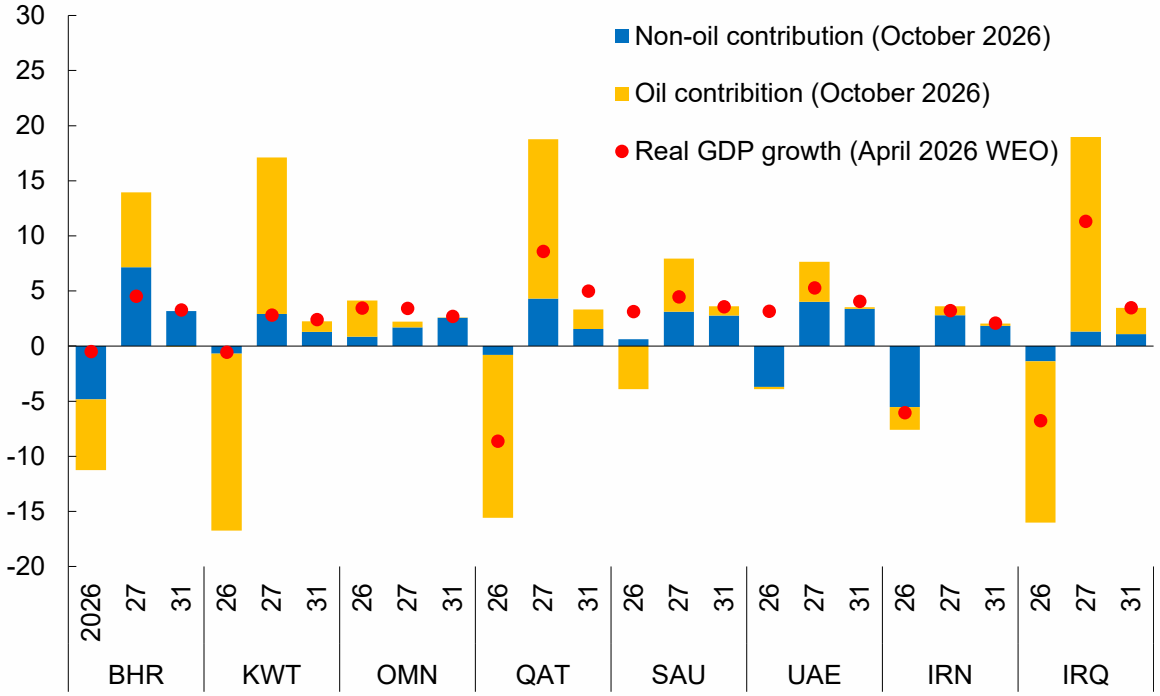


Sources: IMF, World Economic Outlook; and IMF staff calculations.

Significant variation in growth and medium-term scarring among conflict affected MENAP oil exporters

Directly affected countries without alternative trade routes most severely hit...

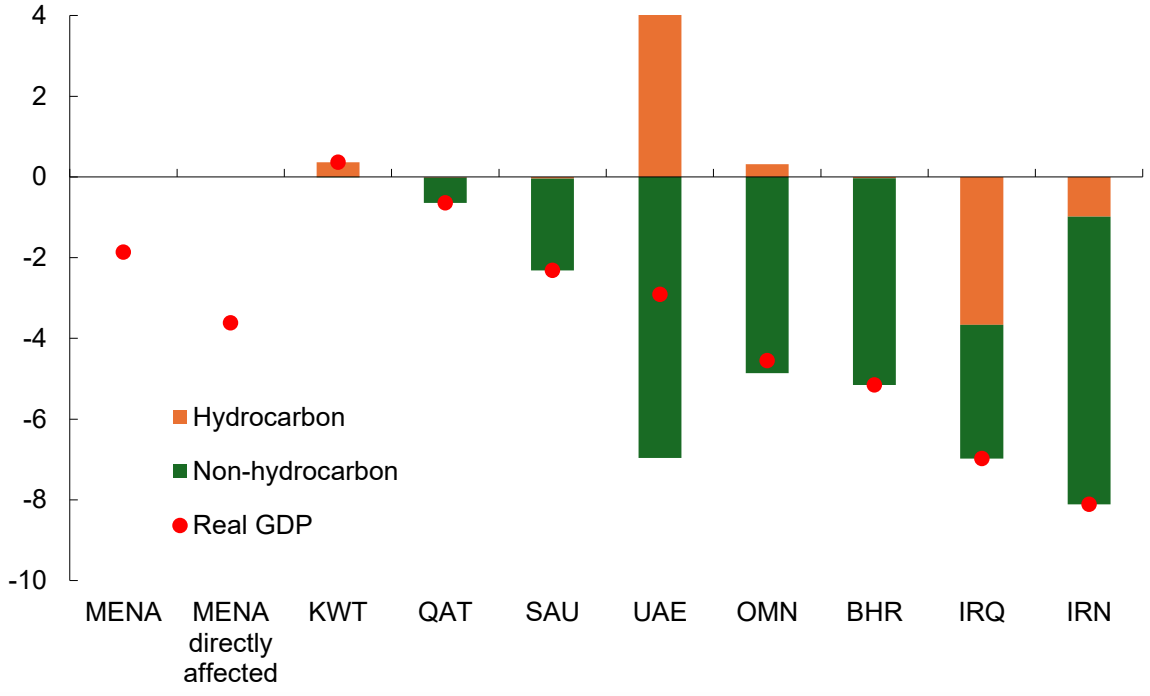
MENAP OE directly affected by the conflict: Real GDP Growth
(Year-over-year percent change)



Sources: IMF, World Economic Outlook; and IMF staff calculations.

…leaving large permanent output losses in some places

2026-30 Cumulative Growth Forecast Revisions
(Percentage point change relative to the January 2026 WEO)



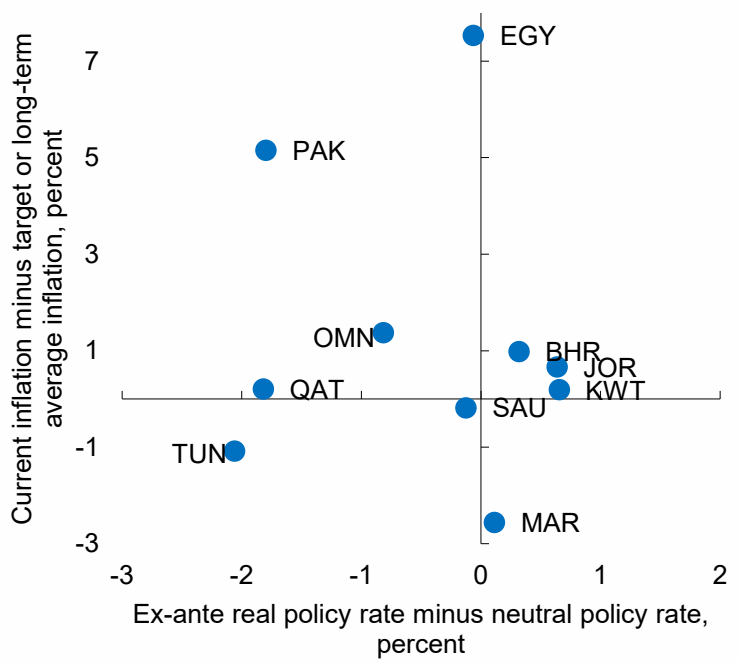
Sources: IMF, World Economic Outlook; and IMF staff calculations.
Notes: The chart shows revisions to cumulative real GDP growth forecasts for 2026-30 between the January 2026 and October 2026 WEO vintages.

Should inflationary risks materialize, monetary policy must lead the response

A few countries have above-target inflation *and* a loose monetary policy stance

Monetary Policy Stance

(difference between latest ex-ante real policy rates and estimated neutral policy rate)

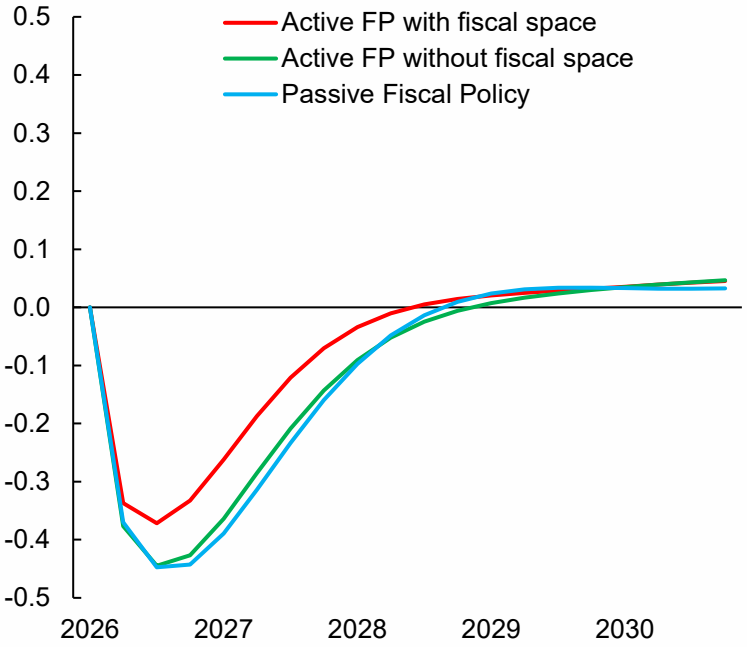


Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Ex-ante real policy rate is equal to the difference between nominal policy rate and end of period inflation rate in 2027. For countries with peg to the USD a 2 percent inflation target is assumed. Neutral policy rates are estimated by staff as in Chapter2, MCD REO, April 2023. *Monetary Policy :Where MENA and CCA Stands?*

In countries without fiscal space and facing supply shocks, countercyclical fiscal policy may be counterproductive

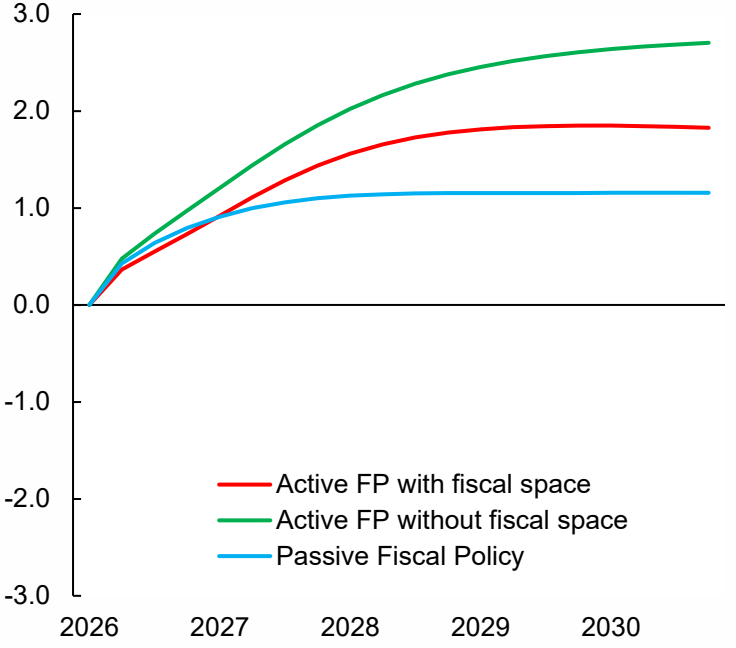
Non-Oil Output Gap

(Deviation from Pre-Conflict Baseline in Percentage Points)



Government Debt in Percent of GDP

(Deviation from Pre-Conflict Baseline in Percentage Points)

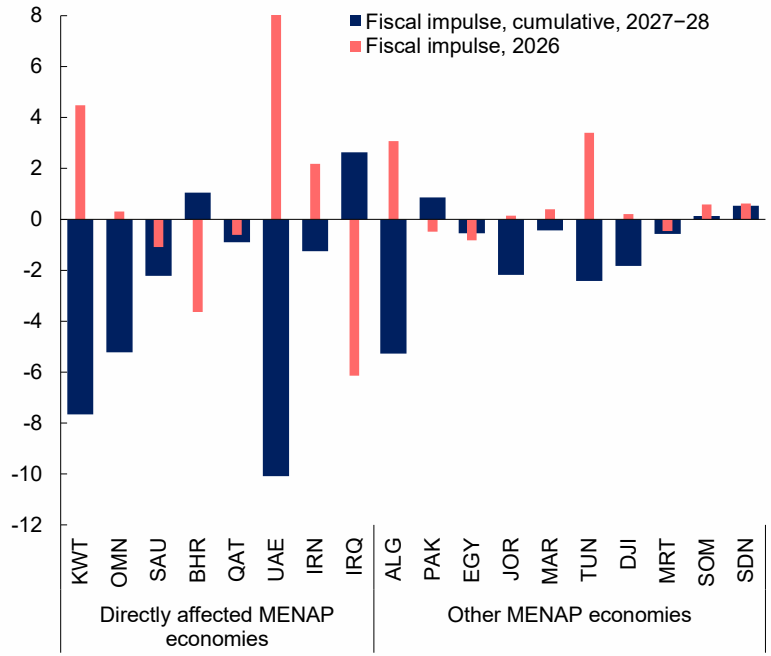


Sources: MCD-DSGE Model simulation results.
Note: FP in the chart legend refers to Fiscal Policy.

Downside risks underscore the need to preserve or rebuild fiscal buffers

A generally more restrictive fiscal stance after 2026, except in some countries…

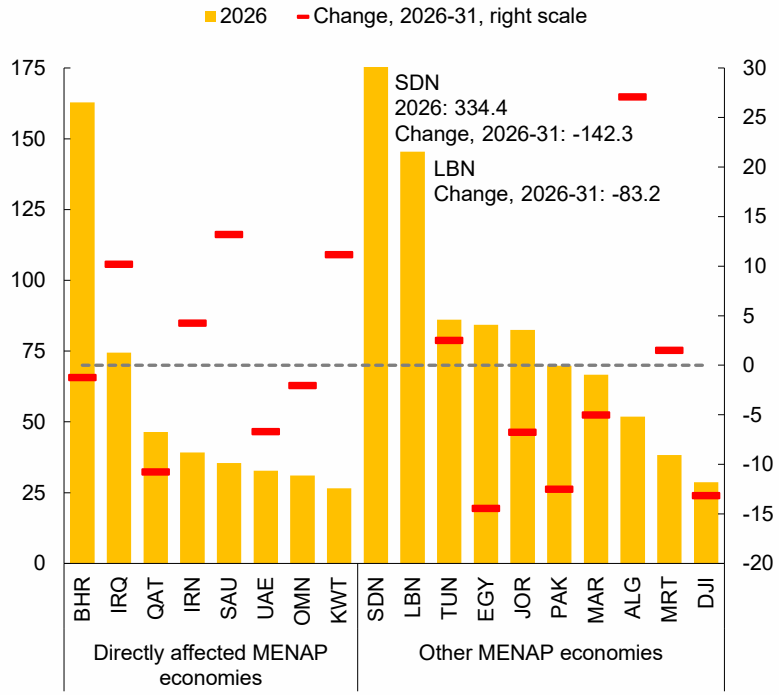
Fiscal Impulse
(Changes in fiscal balances, inverted sign, percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations. Note: The fiscal impulse is calculated as the annual change of the primary fiscal balance, with an inverted sign (a negative fiscal impulse implying a tighter fiscal policy stance). The definition of the primary fiscal balance varies by country: for oil exporters, it refers to the annual non-oil primary fiscal balance expressed as a percentage of non-oil GDP; for oil importers, it refers to the cyclically adjusted primary fiscal balance as a percentage of GDP (or simply the primary fiscal balance in cases where the cyclically adjusted balance is unavailable). For Uzbekistan mineral revenues were excluded.

…but government debt projected to remain high in several countries…

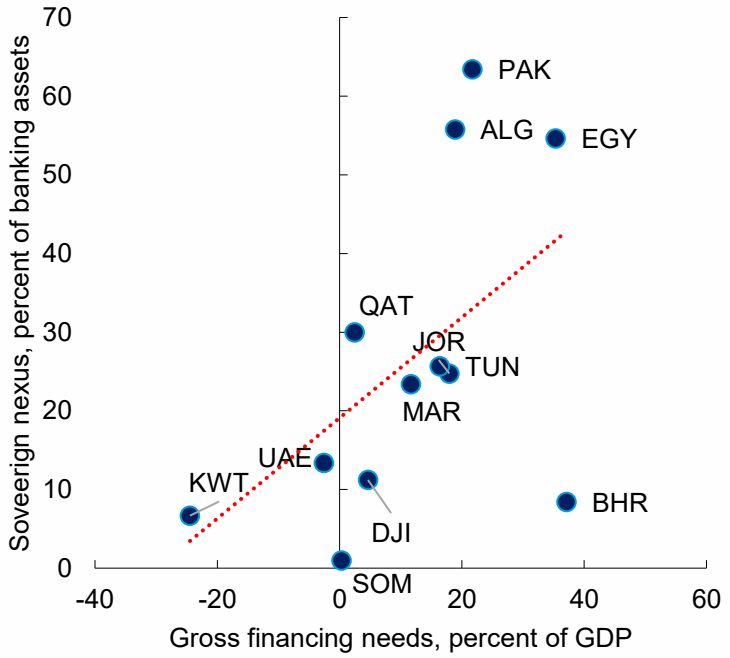
Gross General Government Debt
(Percent of GDP)



Sources: IMF, World Economic Outlook; and IMF staff calculations.

...with a strong bank-sovereign nexus in some of them.

Gross Financing Needs and Bank Exposures to Sovereign Debt 2025
(Percent)



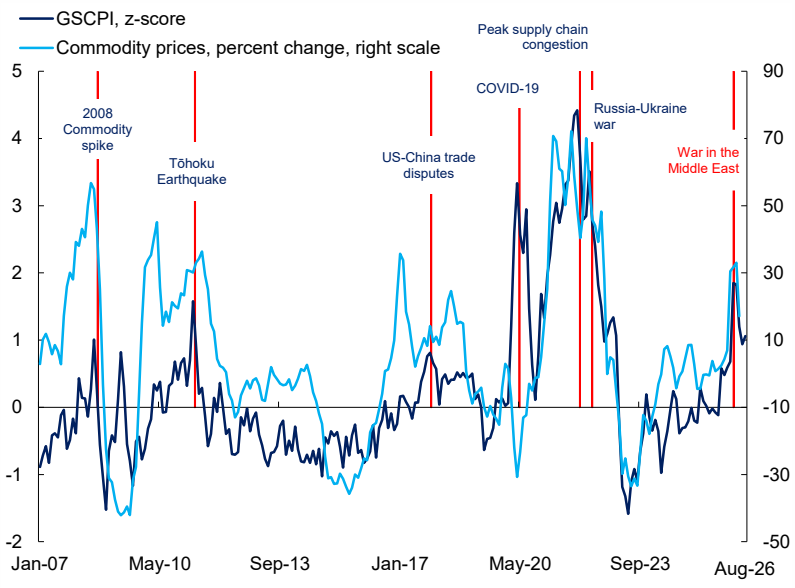
Sources: IMF, REO; IMF Monetary and Financial Statistics (MFS); Haver Analytics; and IMF staff calculations.

Inflation Dynamics: How Policy Frameworks and Structural Characteristics Shape the Transmission of Global Supply Shocks

The war has triggered one of the largest global supply shocks and is pushing inflation higher, as have previous supply shock episodes

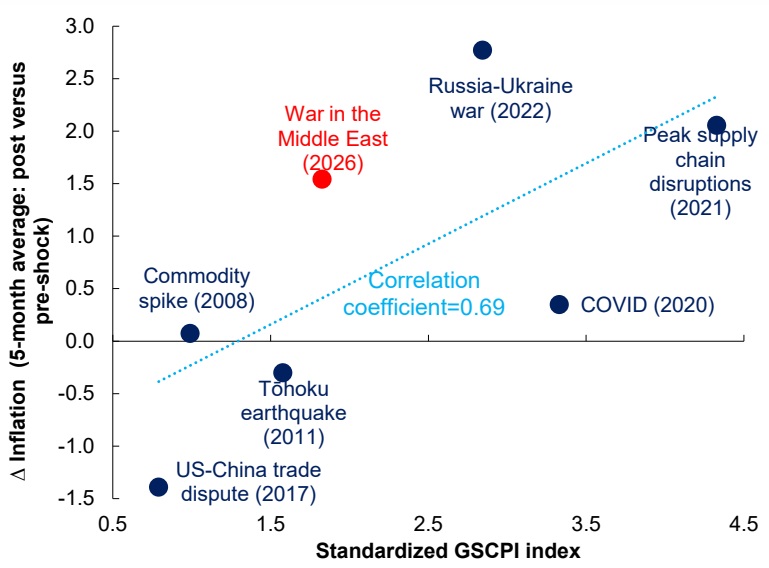
The GSCPI captures global supply-chain pressures and co-moves with commodity price changes

Global Supply Chain Pressure Index and Commodity Prices



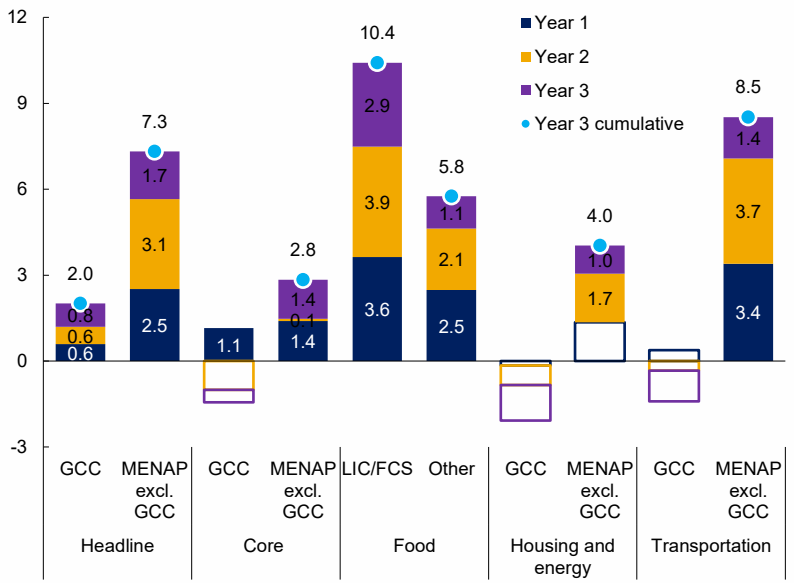
The impact of the war is significant relative to past shocks

Inflation Impact of Global Supply Chain Shocks
(change in percentage points)



Second round effects are limited in the GCC compared to the rest of MENAP

Supply Shock Impact on CPI, Food CPI, and Energy CPI
(Percent)

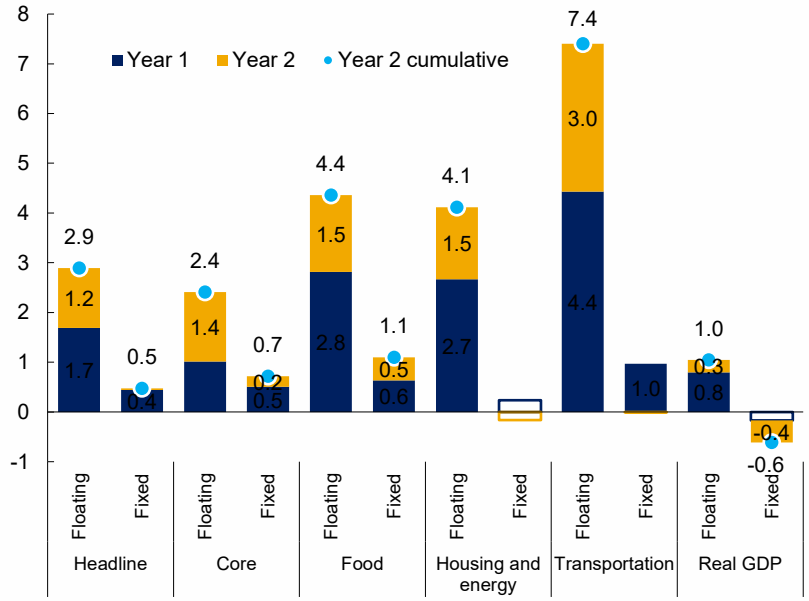


Sources: Federal Reserve Bank of New York, IMF, WEO database, and IMF staff calculations.
Note: The GSCPI is a composite indicator developed by the Federal Reserve Bank of New York to capture the intensity of global supply chain disruptions in real time. It aggregates a range of high-frequency measures of transportation and production bottlenecks—including shipping costs, air freight rates, delivery times from global manufacturing PMIs, and other logistics indicators.

Flexible rates and lower fuel subsidies increase pass-through and higher debt can further push up inflation

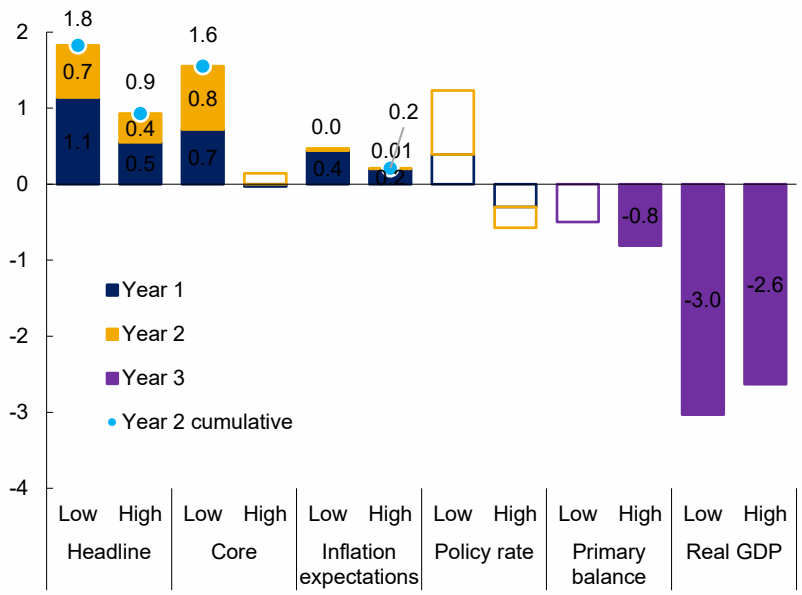
Inflation pass-through is higher, but output losses are lower, under flexible exchange rate regimes

Impact of Supply Shocks on by Exchange Rate Regime
(Percent)



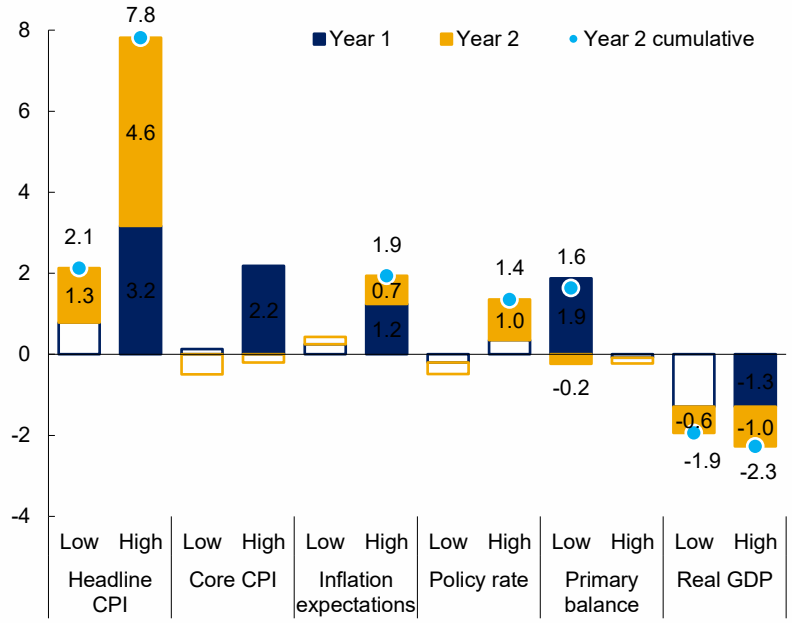
Higher fuel subsidies dampen inflation at a fiscal cost

Impact of Supply Shocks by Fuel Subsidies
(Percent)



High debt amplifies inflation, monetary tightening, and output losses

Impact of Supply Shocks by Public Debt Level
(Percent)



Sources: Consensus Economics; Federal Reserve Bank of New York; Focus Economics; Haver Analytics; IMF, CPI database; IMF, International Finance Statistics database; IMF, Exchange Rate database; IMF, World Economic Outlook database; IMF, Regional Economic Outlook database; Romelli (2024); and IMF staff calculations.
Note: The results are based on a local projections approach, with a 1 standard deviation GSCPI shock. The impacts on inflation expectations and policy rate are measured in percentage points. Beyond the baseline controls, all specifications control for exchange rate regime and credit market depth. Output gap is not controlled for in the real GDP specification. Hollow bars indicate the results are not significant at the 90 percent level. Year 2 cumulative impact shown when statistically significant.

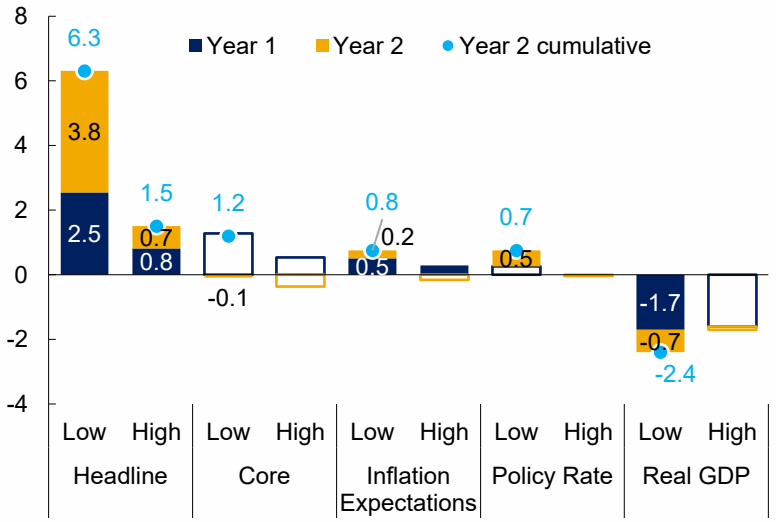
Stronger fundamentals and institutions are likely to reduce the risk of pass-through of future supply shocks to headline inflation

Stronger central bank independence…

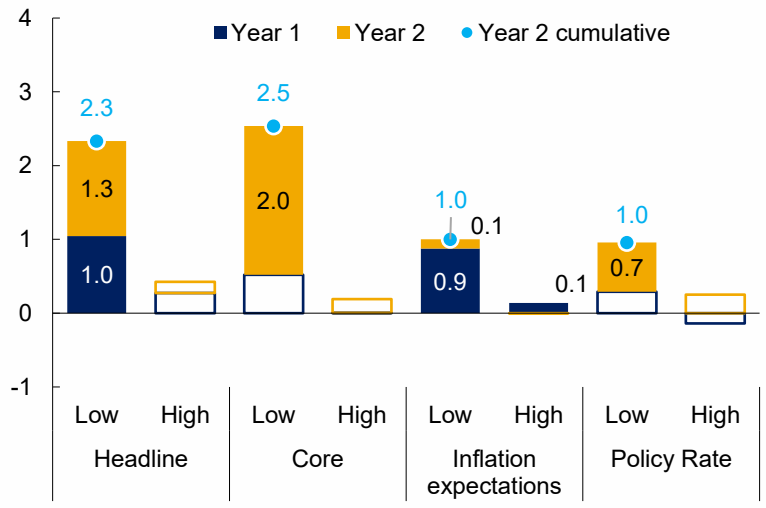
…and deeper credit markets reduce pass-through of supply shocks to inflation

Overall, subsidies, CBI, FX regime, and debt are key determinants of pass-through

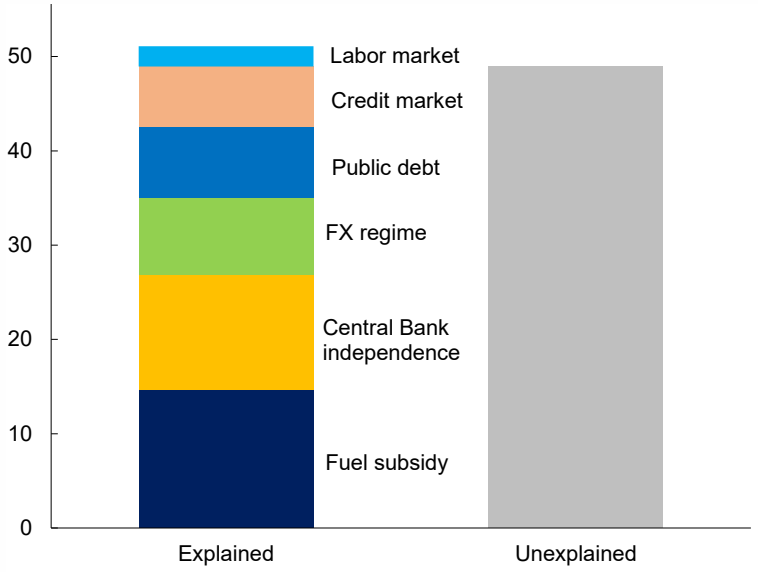
Impact of Global Supply Shocks by Central Bank Independence
(Percent)



Inflation Impact of Global Supply Shocks by Credit Market Depth
(Percent)



Decomposition of Inflation Pass-through
(Percent)



Sources: Consensus Economics; Federal Reserve Bank of New York; Focus Economics; Haver Analytics; IMF, CPI database; IMF, International Finance Statistics database; IMF, Exchange Rate database; IMF, World Economic Outlook database; IMF, Regional Economic Outlook database; Romelli (2024); and IMF staff calculations.
Note: The results are based on a local projections approach, with a 1 standard deviation GSCPI shock. The impacts on inflation expectations and policy rate are measured in percentage points. Beyond the baseline controls, all specifications control for exchange rate regime and credit market depth. Output gap is not controlled for in the real GDP specification. Hollow bars indicate the results are not significant at the 90 percent level. Year 2 cumulative impact shown when statistically significant.

Trade Diversification in Turbulent Times: Implications for Economic Growth and Resilience in MENAP

Despite some progress, MENAP exports remain concentrated and highly exposed to maritime chokepoint

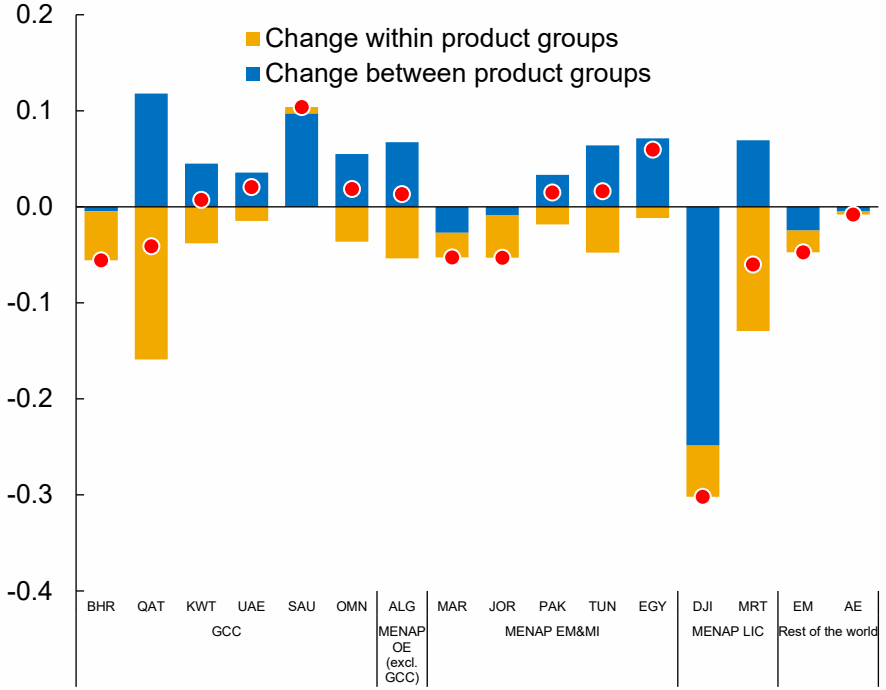
Many MENAP oil importers have boosted their export diversification in recent decades…

…but MENAP still remains less diversified than the average EMDE elsewhere,

…and MENAP is highly exposed to maritime chokepoint disruptions.

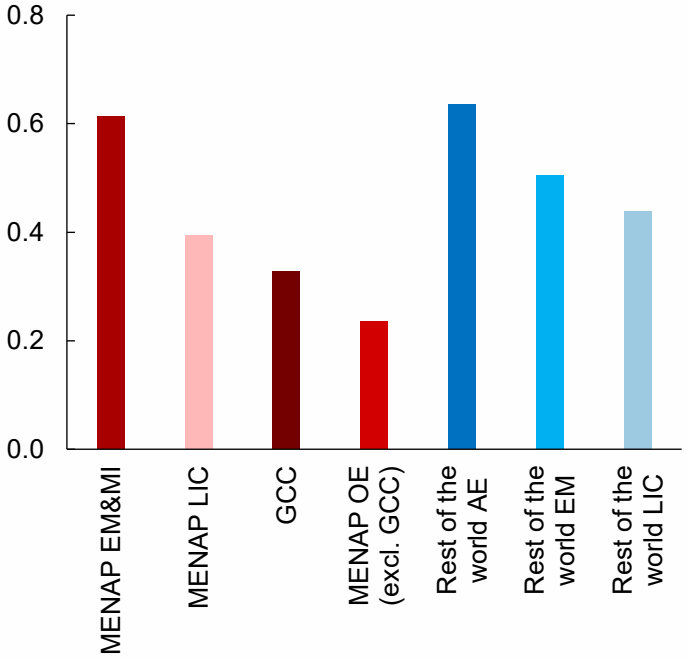
Changes in Export Product Diversification Index

(2002-04 versus 2022-24)



Sources: CEPII BACI database; and IMF staff calculations.
Note: Diversification measured by the normalized Theil index, such that it ranges from 0 to 1, with higher values indicating greater diversification along the indicated dimensions.

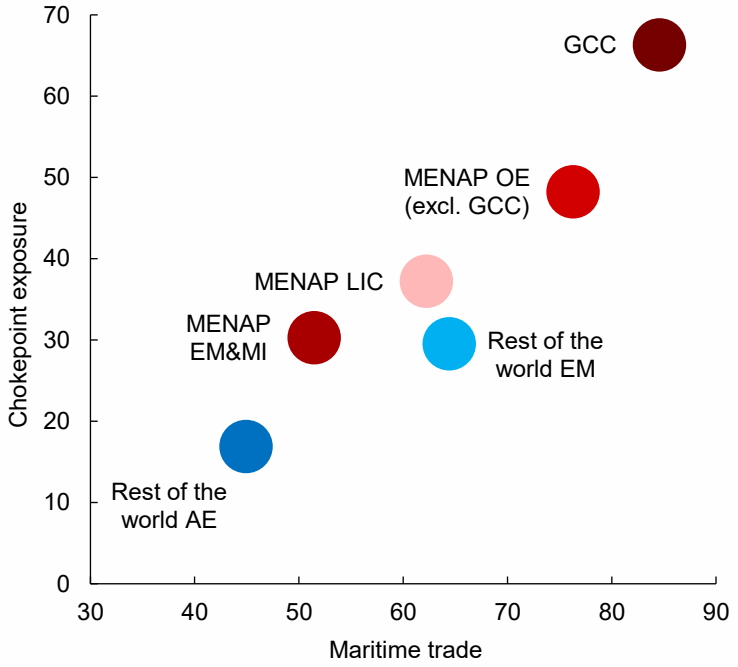
Export Product Diversification Index



Sources: CEPII BACI database; and IMF staff calculations.
Note: Diversification measured by the normalized Theil index, such that it ranges from 0 to 1, with higher values indicating greater diversification along the indicated dimensions.

Exposure to Maritime Trade & Chokepoints

(Percent of total value of good exports)

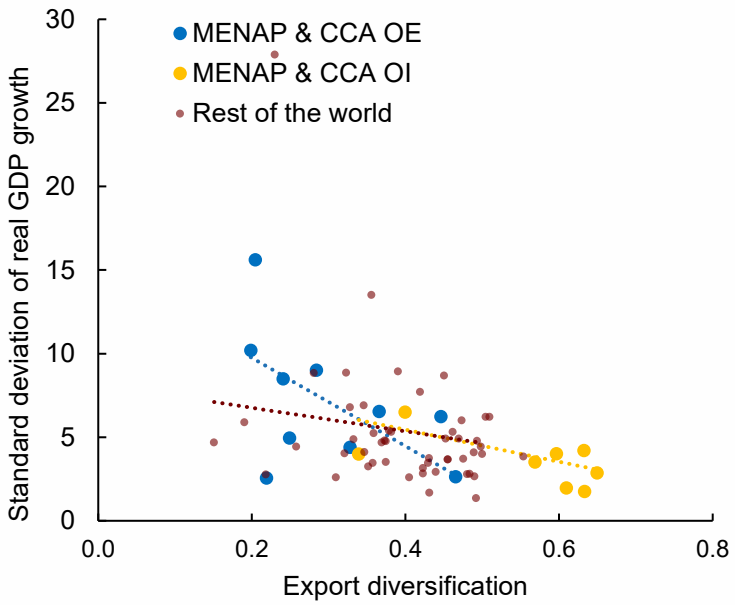


Source: Portwatch; Verschuur et al. (2025); REO and IMF staff calculation.

Trade diversification matters as it can boost resilience

Greater export product diversification is associated with lower output volatility,

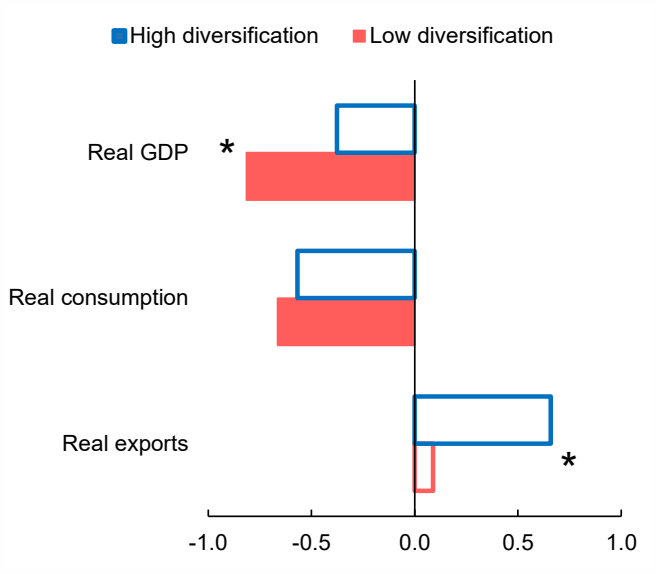
Output Volatility and Trade Diversification
(Percent)



Sources: CEPII BACI database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Export diversification = 1 – normalized Theil index, such that it ranges from 0 to 1, with higher values indicating greater export good diversification. Real GDP growth volatility is measured as the standard deviation of annual real GDP growth over 2002–24.

…with stronger resilience to adverse demand shocks,

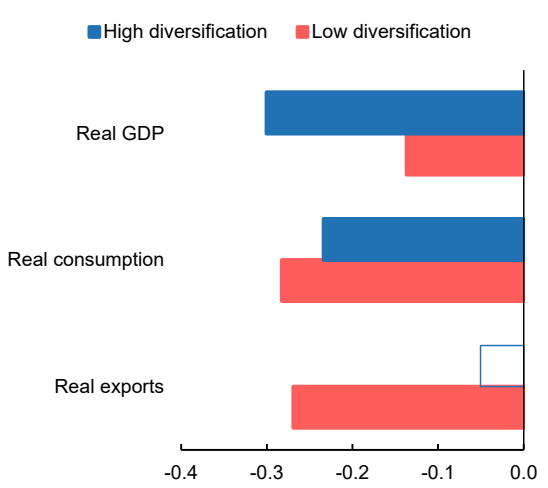
External Demand Shock
(Percentage points at two-year horizon)



Sources: CEPII, BACI database; IMF, GEE and WEO databases; and IMF staff calculations.
Note: High diversification refers to economies in the top quartile of the Export Product Diversification Index, while low diversification refers to all other economies. The external demand shock refers to the weighted growth of an economy's trading partners, with weights based on exports and scaled by the share of exports to GDP. An asterisk (*) indicates that the high- and low-diversification group estimates differ significantly at the 10 percent level or lower. Hollow bars indicate lack of significance of the group coefficient at the 10 percent level. Analysis based on local projections.

…and with somewhat stronger resilience to oil shocks.

Oil Price Shock
(Percentage points at two-year horizon)

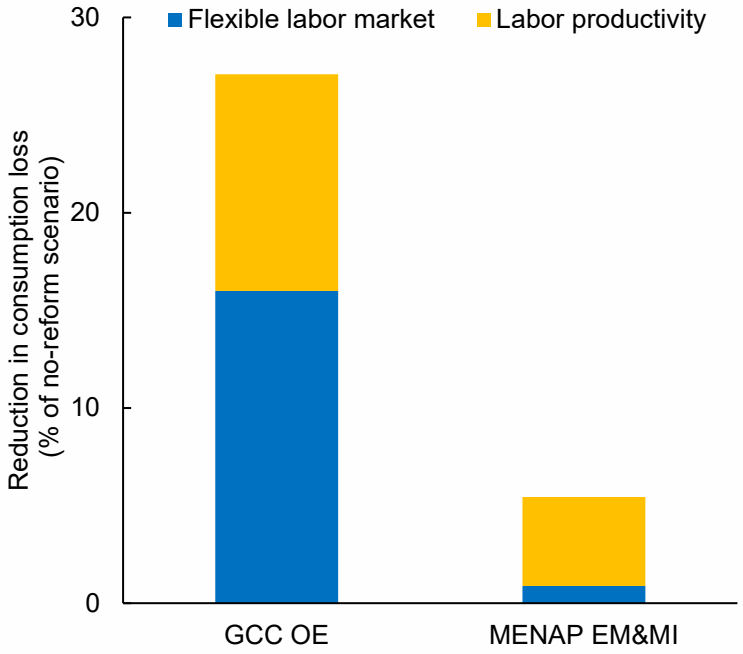


Sources: CEPII, BACI database; IMF, GEE and WEO databases; and IMF staff calculations.
Note: High diversification refers to economies in the top quartile of the Export Product Diversification Index, while low diversification refers to all other economies. The oil price shock refers to the standardized annual oil price change scaled by the net trade oil balance. Hollow bars indicate lack of significance of the group coefficient at the 10 percent level. Analysis based on local projections

Structural reforms are most effective at increasing diversification for greater resilience

Structural reforms reduce losses from Strait of Hormuz closure by diversifying trade.

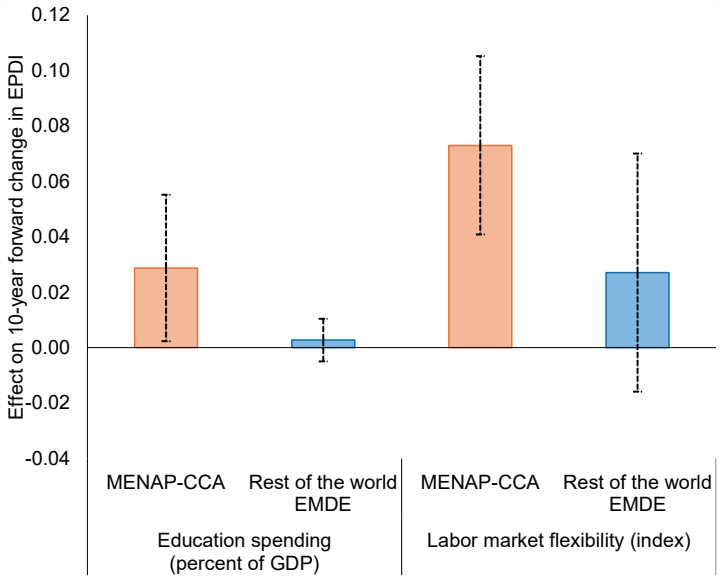
Strait of Hormuz Closure and Structural Reforms
(Percentage points)



Sources: CEPII BACI database; and IMF staff calculations.
Note: Analysis based on a general equilibrium trade model. Diversification = 1 – normalized Theil index, such that it ranges from 0 to 1, with higher values signifying greater diversification along the indicated dimensions.

Education spending and labor market flexibility are positively associated with export product diversification.

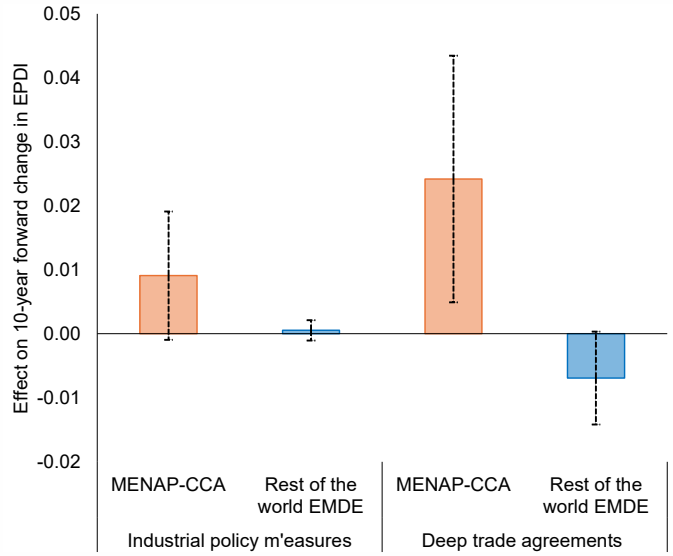
Labor Market Flexibility and Education Spending
(Index change)



Sources: Antoine, (forthcoming); Fraser Institute, Economic Freedom of the World; IMF, World Economic Outlook database; Industrial Policy Database; Infrastructure quality database; Juhász and others (2025); World Bank, Deep Trade Agreements Database; World Bank, World Development Indicators; World Bank, Worldwide Governance Indicators; and IMF staff calculations.
Note: Analysis based on cross-country panel regressions. Export diversification = 1 – normalized Theil, with higher values signifying greater diversification along the indicated dimensions.

Greater trade integration has also positive effects, in contrast to uncertain effects of industrial policy.

Industrial Policies and Trade Integration
(Index change)



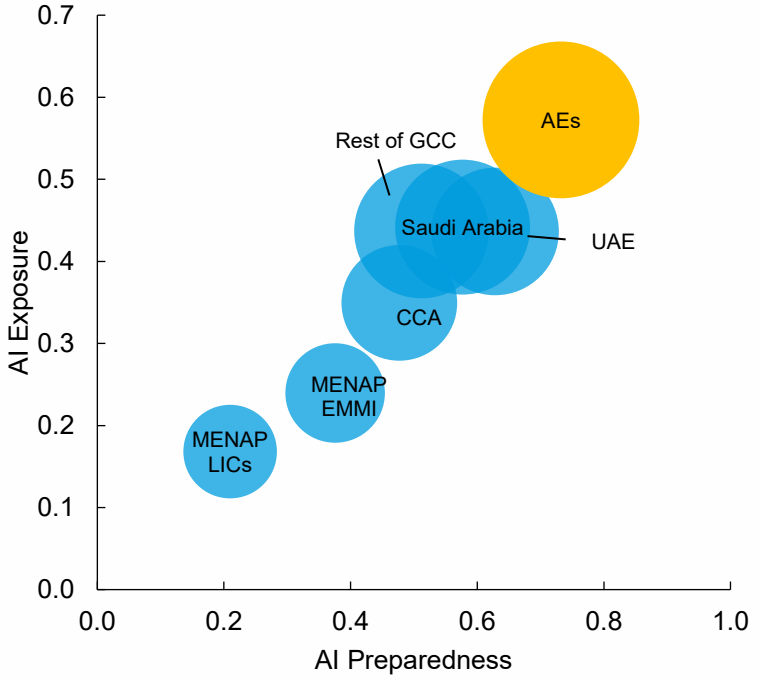
Sources: Antoine, (forthcoming); Fraser Institute, Economic Freedom of the World; IMF, World Economic Outlook database; Industrial Policy Database; Infrastructure quality database; Juhász and others (2025); World Bank, Deep Trade Agreements Database; World Bank, World Development Indicators; World Bank, Worldwide Governance Indicators; and IMF staff calculations.
Note: Analysis based on cross-country panel regressions. Export diversification = 1 – normalized Theil, with higher values signifying greater diversification along the indicated dimensions.

Harnessing Artificial Intelligence's Potential

AI presents an opportunity for MENA and CCA countries to boost productivity and accelerate economic transformation

Some subregions may benefit more, given their higher exposure and preparedness

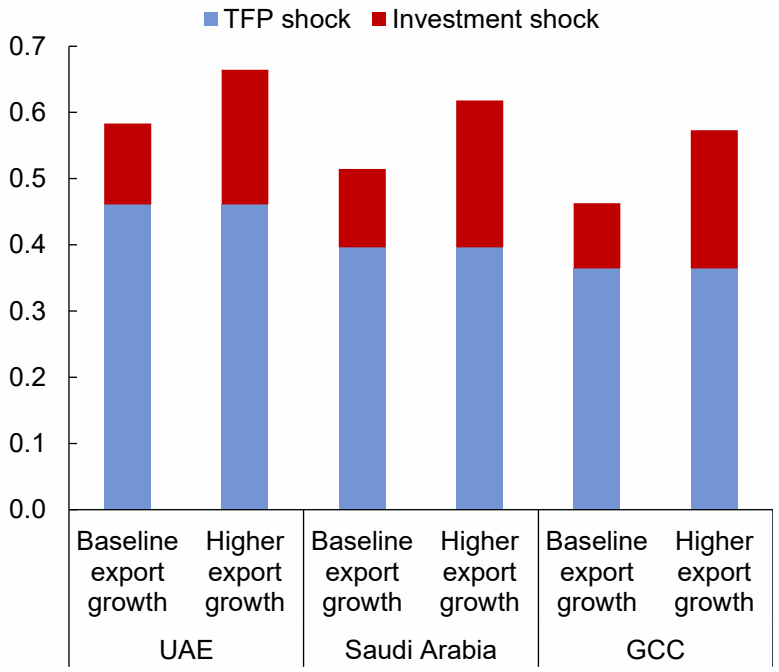
AI Exposure vs. AI Preparedness
(Share of employment, index, 0 to 1)



Sources: Cazzaniga and others (2024); and IMF staff calculations.
Note: Bubble size represents the share of GDP that is highly exposed to AI.

…with growth gains estimated at up to 0.6 pp annually

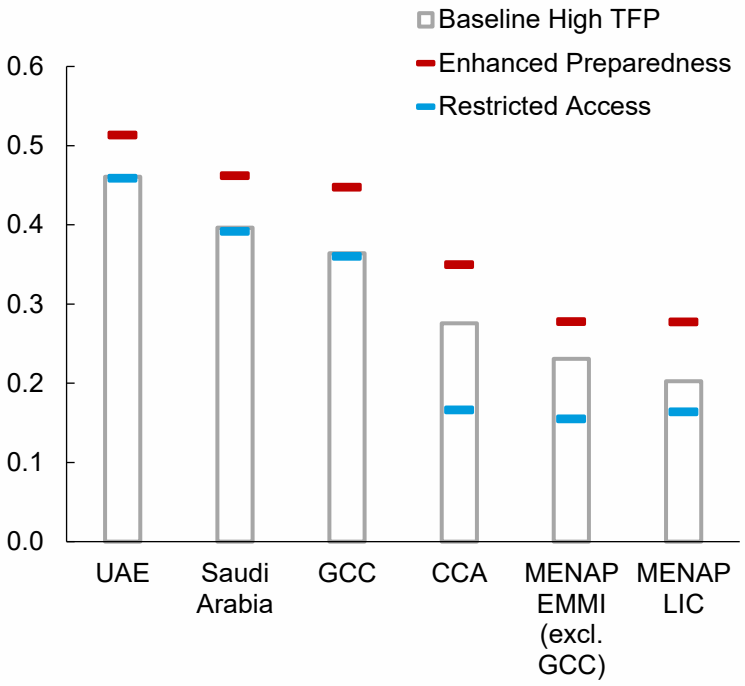
Investment Wave with Higher Export Growth
(Percentage point deviation from no shock scenario, 10 year average annual impact)



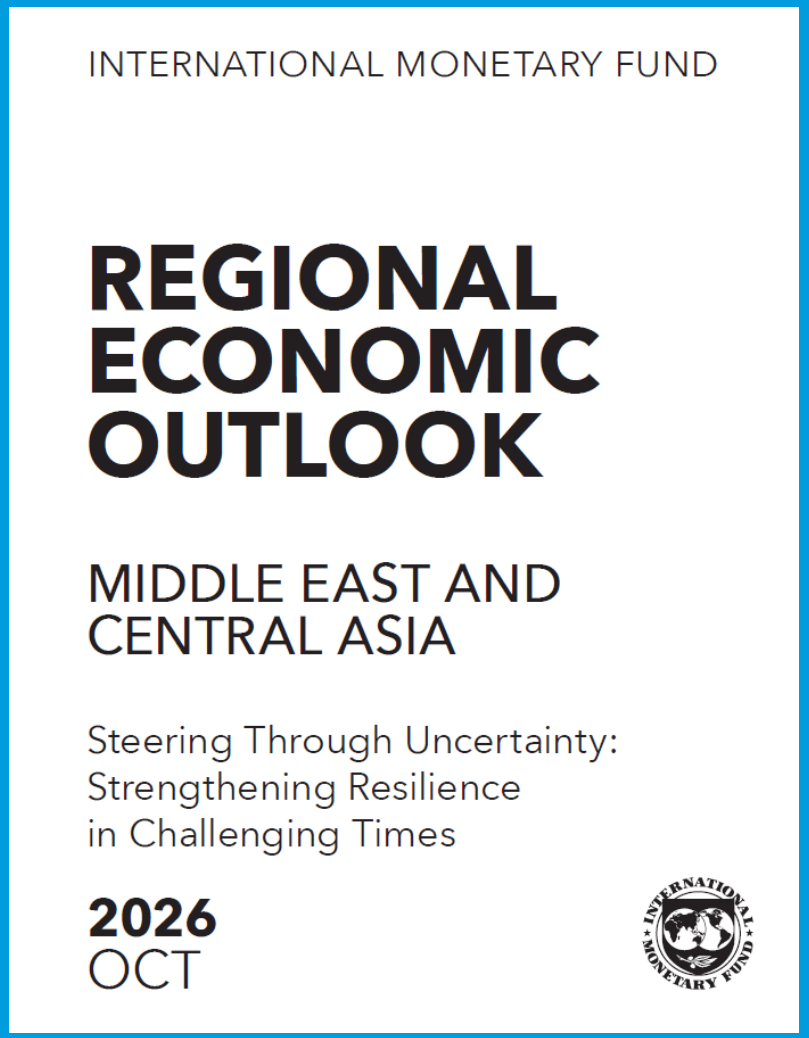
Sources: IMF GIMF, IMF staff calculations.

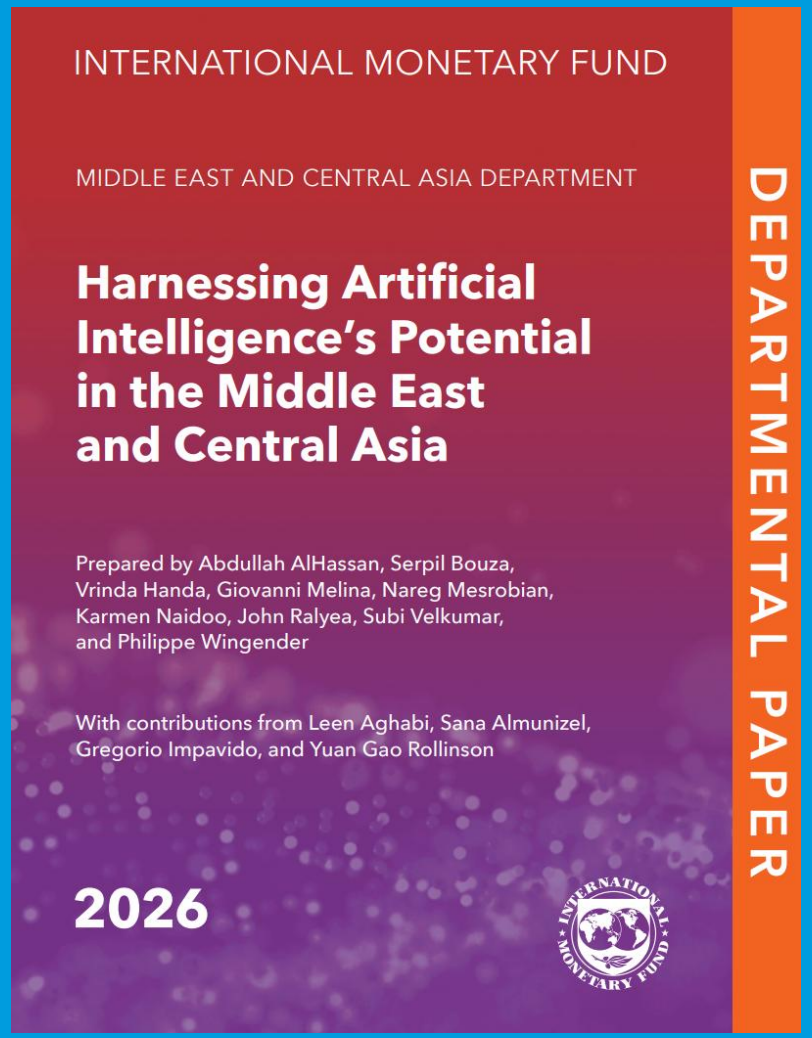
Closing the preparedness gap could yield meaningful growth gains

Enhanced Preparedness and Restricted Access: Impact on Real GDP
(Percentage point deviation from no shock scenario, 10-year average annual impact)



Sources: IMF GIMF, IMF staff calculations.





CEF-METAC Webinar on December 8