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The International Monetary Fund (IMF), in its October 2026 Regional Economic Outlook for the Middle East and Central Asia, highlights the substantial economic challenges facing the Middle East and North Africa (MENA) as the regional conflict continues to disrupt economic activity. The escalation of the war has affected energy production, shipping, trade, tourism, and confidence, creating a shock that has been felt very differently across countries. While economies directly exposed to the conflict have experienced severe pressure, others have shown considerable adaptability. However, the IMF stresses that the financial and economic buffers supporting this resilience are gradually being depleted, increasing the region's vulnerability to further disruptions.

The impact has been particularly pronounced among oil-exporting economies directly affected by interruptions to energy production and transport. Falling output, shipping disruptions, and refining constraints have reduced economic activity and pushed fuel prices higher. Even so, the consequences have been partly cushioned by surpluses accumulated before the conflict, continued production by exporters outside the Gulf, alternative transport routes, changes in demand, and the drawdown of inventories. Higher oil prices have also provided some relief to exporters' fiscal and external balances. These protections are temporary, however; inventories are lower and spare production capacity is tighter, meaning another disruption could cause sharper price increases and more serious economic damage.

The IMF projects that growth in the broader Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region will fall from 3.3% in 2025 to -1.3% in 2026, nearly 3 percentage points below its

April projection, before rebounding to 6.6% in 2027. For MENA specifically, the accompanying growth table points to a deeper contraction of 2.0% in 2026 followed by a 7.0% expansion in 2027, compared with growth of 3.3% in 2025. The disparity between economies is striking: MENAP oil exporters are projected to contract by 5.1% in 2026 and rebound by 8.0% in 2027, while oil importers are expected to expand by 4.2% and 4.4%, respectively. Within the Gulf Cooperation Council (GCC), growth is projected at -4.8% in 2026 and 9.1% in 2027. These figures underscore how strongly the regional outlook is shaped by the disruption of oil production and its expected normalization. The IMF's baseline assumes that the conflict abates in early 2027 and trade gradually returns to normal during that year. The subsequent V-shaped rebound would restore a substantial amount of lost activity, but affected oil exporters' output is still expected to remain below the levels projected before the conflict over the medium term. It is interesting to note, that no growth figures were provided for Lebanon beyond 2025 at 4%.

Middle East, North Africa, Afghanistan, and Pakistan: Real GDP Growth

(year-over-year percent change)

	2025	PROJECTIONS		
		2026	2027	2031
MENAP Total¹	3.3	-1.3	6.6	3.7
MENAP Oil Exporters	3.0	-5.1	8.0	3.1
Gulf Cooperation Council (GCC)	4.5	-4.8	9.1	3.4
Bahrain	3.5	-11.3	13.9	3.1
Kuwait	2.7	-16.7	17.1	2.2
Oman	2.4	4.1	2.2	2.6
Qatar	1.8	-15.6	18.8	3.3
Saudi Arabia	4.6	-3.3	7.9	3.6
United Arab Emirates	6.2	-3.9	7.7	3.5
MENAP Non-GCC Oil Exporters	1.0	-5.5	6.5	2.6
Algeria	3.9	3.8	3.2	3.0
Iran	-0.9	-7.6	3.6	2.0
Iraq	-0.4	-16.0	19.0	3.5
Libya	15.9	3.3	2.9	2.1
MENAP Oil Importers¹	3.7	4.2	4.4	4.5
Emerging Market and Middle-Income Economies	3.9	4.2	4.2	4.5
Egypt	4.4	5.1	4.7	4.8
Jordan	2.8	2.7	3.1	3.0
Lebanon	4.0	-	-	-
Morocco	4.9	4.5	4.2	4.0
Pakistan	3.2	3.6	3.5	4.5
Tunisia	2.7	2.4	2.0	1.5
West Bank and Gaza	4.3	-	-	-
Low-Income Countries¹	1.3	4.8	9.6	6.2
Afghanistan	1.5	-	-	-
Djibouti	4.9	5.6	5.0	5.5
Mauritania	3.6	4.4	4.4	3.0
Somalia	3.1	2.3	2.7	4.0
Sudan	0.0	7.0	15.0	8.0
Syrian Arab Republic	-	-	-	-
Yemen	-0.5	-1.5	0.0	2.5
Middle East and North Africa (MENA)¹	3.3	-2.0	7.0	3.6

Source: IMF, October 2026 Regional Economic Outlook.

In contrast, regional oil-importing economies have generally proved more resilient, despite higher energy costs and continuing uncertainty. Strong remittances, tourism receipts, supportive financial conditions, and prompt government responses have helped sustain spending and limit the pass-through of rising commodity prices to consumers. The IMF expects growth in these economies to strengthen across 2026 and 2027 as domestic demand remains firm and inflation eases when the terms of trade shock fades. Yet this resilience is not guaranteed, government support consumes resources, and narrowing policy buffers could leave importers more exposed if the conflict or international price pressures persist.

Inflation is another key concern. The IMF expects inflation across MENAP to rise moderately in 2026 before easing gradually thereafter, although the effect differs by country. Subsidies, price controls, and fixed exchange rate arrangements have helped shield consumers in parts of the region from rising international energy and commodity prices, but these measures impose costs on public finances. As a result, policies that contain prices in the short term may reduce governments' capacity to respond to future shocks. Maintaining price stability is therefore important not only for household purchasing power and demand but also for preserving confidence and macroeconomic stability.

External balances are also coming under pressure. The IMF projects that the GCC's current account surplus will narrow from 5.0% of GDP in 2025 to 1.3% in 2026. Although higher energy prices partly support export earnings and government revenues, they do not fully compensate for production and shipping disruptions. The decline illustrates how a reduction in export volumes can outweigh the benefit of higher prices and leave even major energy producers with smaller external cushions.

These developments were also discussed by Jihad Azour, Director of the IMF's Middle East and Central Asia Department, in his introductory remarks at the IMF Annual Meetings in Dubai on October 22, 2026. Azour described the conflict as a highly uneven economic shock and emphasized that the region's outlook depends critically on the speed at which energy production and trade normalize and on countries' ability to maintain macroeconomic stability. He noted that alternative routes, existing surpluses, demand adjustments, and inventory drawdowns had prevented a larger initial disruption, while warning that such buffers were finite. His remarks reinforce the report's central message: the projected rebound relies on improving security and trade conditions and should not be mistaken for the disappearance of the conflict's longer-term economic costs.

The risks surrounding this outlook remain firmly on the downside. A longer conflict, renewed attacks on energy facilities, damage to critical infrastructure, or further interruptions to shipping could push fuel prices higher and deepen contractions in directly affected exporters, while adding to inflation and pressure on fiscal and external balances across the region. Tighter global financial conditions could also weaken demand, raise borrowing costs, increase pressure on currencies, and worsen vulnerabilities in countries with substantial sovereign financing needs or dependence on external capital. The IMF additionally identifies a possible reassessment of anticipated productivity gains from artificial intelligence as a source of global financial volatility that could translate into tighter financing conditions.

Low income and fragile economies face especially difficult circumstances. Their dependence on imported food, already elevated financing needs, limited fiscal flexibility, and declining official development assistance leave them less able to absorb another rise in prices or a loss of funding. For such countries, additional shocks could have particularly damaging consequences for household purchasing power and public finances, making targeted support more important even as governments have fewer resources available to provide it.

To address these challenges, the IMF urges policymakers to protect price stability while maintaining sustainable public finances. Monetary policy should be the first line of defense where inflation pressures materialize, with liquidity management and prudent fiscal policy complementing that response. The Fund discourages broad based fiscal easing and generalized subsidies in countries with limited fiscal space because they can increase debt and drain resources without supporting activity in a lasting way. Instead, assistance should be temporary and targeted toward the most vulnerable households and firms; Azour specifically highlighted budget-neutral cash transfers as an alternative to costly, broad subsidies.

Beyond immediate stabilization, the IMF stresses the importance of rebuilding policy buffers through stronger domestic revenue collection, more efficient public spending, adequate reserves, and credible fiscal and monetary frameworks. Independent central banks and effective institutions can strengthen confidence and leave governments better prepared for future shocks. Structural reforms are equally important – diversifying production and trade, deepening regional economic integration,

improving competitiveness, creating jobs, and making better use of technologies such as artificial intelligence can support productivity and reduce reliance on vulnerable sectors over time.

Finally, the IMF reaffirmed its commitment to supporting economic stability and institutional development across the region. During his remarks, Azour highlighted the Fund's broader engagement in the Middle East and Central Asia, noting that approximately \$48 billion in financing has been approved since 2020, alongside 437 technical assistance and capacity development projects across 31 countries during fiscal year 2026. Overall, the IMF's October 2026 outlook underscores the uneven economic impact of the regional conflict, with prospects for a sustained recovery largely dependent on the normalization of energy production and trade, improved geopolitical stability, and the implementation of sound economic policies.

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