

The Middle East Crisis and Economic Outlook

The US-Iran war has disrupted global energy supplies and shipping through the Strait of Hormuz, a critical route connecting oil-producing countries to global markets. Energy markets have entered a period of heightened volatility, with implications reaching well beyond oil-producing economies. The International Energy Agency ([IEA](#))'s [September 2026](#) assessment shows that prolonged disruptions have already affected global oil supply, refining activity and trade flows.

The concern is no longer only how high oil prices can go, but how long they persist. Even if the Strait remains open, the shock has already changed the cost structure of energy trade. War risk insurance premiums, freight rates and rerouting costs have risen sharply and are unlikely to normalise quickly. Importers are paying a risk premium on top of the oil price itself, and that premium persists as long as uncertainty does.

This prolonged oil shock has already moved from an energy market problem to a broader macroeconomic one: higher inflation, weaker household purchasing power, rising agricultural and transport costs, wider external imbalances and pressure on fiscal accounts. [International Monetary Fund \(IMF\) estimates](#) suggest that for the average Middle East, North Africa, Afghanistan, and Pakistan ([MENAAP](#)) oil-importing economy, a 10% increase in annual oil prices can reduce output by around 0.5 percentage points and raise inflation by around 1 percentage point. For Pakistan, the same shock can also put pressure on the current account and fiscal balance.

Pakistan's structural dependence on imported energy makes the transmission mechanism particularly important. Oil accounts for roughly [one-fifth](#) of the country's import bill, and the effect goes beyond price: higher insurance, freight and risk premiums add to landed costs. Higher fuel costs have complicated efforts to sustain recovery while implementing reforms under the IMF programme. The IMF has identified volatile energy prices as a downside risk to Pakistan's inflation, growth and current account outlook. The fuel import bill has already risen significantly [from USD 300 million to USD 800 million](#).

A larger import bill, combined with possible pressure on remittances, will strain the current account and reserves, which will in turn put pressure on the rupee and on external financing. These pressures extend to public finances, demands for subsidies and support will rise while slower growth reduces revenue, and borrowing costs may increase. The debt servicing burden becomes heavier if the exchange rate weakens or risk premiums on sovereign borrowing rise. Meanwhile, uncertainty delays investment decisions and erodes business confidence, which complicates recovery under the IMF programme. The IMF has already flagged volatile energy prices as a downside risk to Pakistan's inflation, growth and current account.

Pakistan is already attempting to move from macroeconomic stabilisation towards stronger investment and sustainable growth. A temporary oil shock may be manageable

through adjustments in prices, imports, fiscal measures and external financing. However, if elevated oil prices persist for 12-24 months, the challenge becomes structural.

Against this backdrop, the proposed session will examine what a prolonged oil shock could mean for the global economy, specifically MENAAP region. Rather than focusing only on the immediate price increase, the discussion will explore the second- and third-round effects, from inflation and fiscal stress to investment, exchange rates, growth, trade and the longer-term transition towards energy security. Speakers will:

- Assess the global impact of a prolonged oil shock and analyse Pakistan's vulnerabilities in terms of oil imports, inflation, exchange rate, fiscal pressures, current account and growth.
- Explore the options and policy choices ahead, including energy diversification, targeted protection for vulnerable households and businesses, fiscal management and measures to strengthen Pakistan's resilience against future external energy shocks.
- Assess how bilateral partners can support in absorbing a prolonged oil shock, through concessional finance, energy cooperation, trade support and technical assistance, without adding to its long-term debt burden.

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