

# International Journal of Social Sciences

# The Economic Implications of the Iran–Israel Conflict and Consequences for the Global Economy

by

Emmanuel Ating Onwioduokit & Christopher Nyong Ekong Department of Economics, University of Uyo Nigeria

#### Abstract

This study presents a comprehensive multi-horizon analysis of the macroeconomic consequences of recent geopolitical tensions—particularly the Iran–Israel conflict—on the global economy, with focused assessments for developed countries, developing nations, Africa, and Nigeria. The projections are structured into short-term, medium-term, and long-term horizons, integrating macroeconomic indicators, trade dynamics, fiscal stress, and structural transformation. In the short term, the global economy is expected to experience a sharp surge in inflation, a spike in oil prices, and heightened financial market volatility, accompanied by a contraction in global output. For developing countries, currency depreciation and rising import costs drive inflationary pressures, deteriorating current account balances. Sub-Saharan Africa and Nigeria are particularly vulnerable, with inflation surging to 30–35% in Nigeria, alongside naira depreciation and a real income decline. Medium-term outcomes reflect subdued GDP growth, declining OECD investment, worsening fiscal balances, and elevated debt service burdens (up to 50% of revenue in developing countries, over 80% in Nigeria). These pressures increase the risk of social unrest and erode policy buffers. Longterm projections suggest opportunities for structural recovery through supply chain reconfiguration, clean energy adoption, and defense-sector investment, with potential GDP growth of 3–4% in Africa and Nigeria. However, this path remains conditional on sustained reforms—particularly in exchange rate management, fiscal transparency, and industrial policy. The paper concludes by outlining policy imperatives cantered on coordinated monetary-fiscal policy, social protection, debt restructuring, investment in energy and food security, and strengthened governance. Ultimately, timely, inclusive, and resilience-focused strategies are essential for cushioning immediate shocks while enabling sustainable, longterm economic transformation, especially across Africa and Nigeria.

**Key words:** Iran–Israel Conflict, Energy Security, Financial Volatility, Global Inflation, Geopolitical Risk **JEL Codes:** F51, Q43, E44, O19

1

## 1. Introduction

The Middle East remains a persistent epicentre of geopolitical instability, owing to its vast hydrocarbon reserves, strategic maritime corridors, and complex sociopolitical landscape. The region holds approximately 30% of global oil exports and hosts critical chokepoints—such as the Strait of Hormuz and the Suez Canal—through which a significant proportion of global trade transits (Kemp, 2023). This confluence of economic centrality and entrenched political fragmentation has historically rendered the region highly susceptible to conflict with wide-reaching global consequences.

In mid-2025, this structural fragility was starkly illustrated by the outbreak of a large-scale military confrontation between Iran and Israel. What began as a series of retaliatory exchanges rapidly escalated into full-spectrum warfare, encompassing ballistic missile strikes, cyberattacks on financial and energy infrastructure, and the mobilization of regional proxy actors including Hezbollah and Iranian-backed militias in Syria and Iraq (Byman, 2025). The geographic and strategic expansion of the conflict triggered a cascade of disruptions that transcended the immediate theatre of war.

Among the most immediate consequences was the sharp surge in crude oil prices, which exceeded \$140 per barrel amid fears of supply disruptions in the Persian Gulf. Given the Strait of Hormuz's role in global oil transit, Iran's threats and missile attacks significantly undermined energy market stability. Projections by the International Energy Agency (2025) suggested Brent crude may surpass \$157 per barrel, reflecting both actual disruptions and speculative trading responses. These price shocks have disproportionately affected energy-importing economies—such as the European Union, China, and India—through inflationary pressures, deteriorating trade balances, and increased fiscal strain.

The financial sector has not been insulated from these effects. Global equity markets registered steep losses, the volatility index (VIX) surged by over 40%, and investor sentiment shifted markedly toward safe-haven assets like gold and U.S. Treasury bonds (IMF, 2025). Concurrently, emerging market economies experienced capital outflows, currency depreciations, and elevated debt servicing costs due to a strengthening U.S. dollar. Middle Eastern stock markets, in particular, witnessed severe contractions, reflecting both economic uncertainty and investor flight. Trade disruptions further compounded the crisis. Security risks in the Red Sea and Persian Gulf regions have led to rerouting of major shipping lanes, notably away from the Suez Canal. This has lengthened delivery times, raised freight and insurance costs, and intensified supply chain bottlenecks across sectors such as manufacturing and agriculture (UNCTAD, 2025). Developing countries with high dependence on imported fuel and food—such as Nigeria and Egypt are especially vulnerable, facing elevated inflation and increased risk of social unrest. These developments underscore the extent to which regional geopolitical conflicts can act as systemic shocks to the global economy. The Iran-Israel conflict has exposed critical vulnerabilities in global energy security, financial stability, and trade resilience. As policymakers and multilateral institutions seek to contain the fallout, the crisis has revived urgent debates on the future of globalization, the robustness of energy supply chains, and the adequacy of existing economic safety nets.

A growing body of empirical research has consistently underscored the wideranging economic consequences of geopolitical tensions, particularly those originating in the Middle East—a region that remains pivotal to global energy security and trade flows. Numerous studies have focused on the transmission mechanisms through which conflicts in this volatile region affect macroeconomic variables such as oil prices, inflation, exchange rates, trade volumes, and investment patterns globally. Kilian (2008) provides one of the foundational empirical analyses linking geopolitical crises to oil supply shocks, emphasizing their inflationary implications across global economies. Utilizing structural vector autoregressive (SVAR) models, Kilian illustrates how oil price surges, induced by conflict-driven supply disruptions, lead to increased production costs and reduced consumer spending in oil-importing countries. The study notably finds that geopolitical tensions amplify the supply component of oil price shocks more significantly than speculative or demand-side factors. This has crucial implications for both developed and developing economies whose inflation and output are sensitive to oil price dynamics.

The financial market implications of Middle Eastern conflicts have also been well-examined. Berument, Ceylan, and Dogan (2010), using a multifactor model, empirically assessed the sensitivity of national stock markets to conflict events in the Middle East. They found that regional instability significantly undermines investor confidence, heightens risk aversion, and often results in capital flight—particularly from emerging markets. Their analysis showed that equity markets in oil-importing countries tend to experience negative returns during periods of high geopolitical risk, while oil-exporting nations exhibit mixed responses depending on market expectations, fiscal capacity, and monetary policy credibility.

The World Bank (2023), in its Global Economic Prospects report, modelled various scenarios related to the Iran–Israel conflict and projected its potential economic repercussions. Under a high-conflict scenario, the report estimates that global oil prices could spike beyond \$120 per barrel, with corresponding disruptions to energy supply chains and inflationary pressure in both advanced and developing economies. The report also warns of intensified fiscal pressure on energy-importing countries, potential balance of payments crises, and increased social unrest due to rising food and fuel prices. Importantly, the report highlights how countries with weak institutional frameworks and high debt exposure—such as many in Sub-Saharan Africa—are likely to be disproportionately affected.

In the specific context of Nigeria, a heavily oil-dependent economy, geopolitical tensions in the Middle East carry both fiscal opportunities and macroeconomic vulnerabilities. Eboh *et al.* (2021) underscore Nigeria's structural dependence on oil exports, noting that over 90% of foreign exchange earnings and about 60% of government revenue stem from crude oil. While geopolitical conflicts that raise global oil prices may temporarily boost Nigeria's export receipts and improve fiscal balances, they also introduce significant downside risks. These include imported inflation due to higher refined petroleum product prices, exchange rate volatility stemming from speculative capital flows, and increased debt servicing costs due to tightening global financial conditions. The study recommends that Nigeria diversify its revenue base and enhance

fiscal buffers to absorb such external shocks more effectively. Furthermore, emerging scholarship is beginning to factor in non-traditional dimensions of conflict such as cyberwarfare, disinformation campaigns, and hybrid threats. Chen *et al.* (2021) argue that the scope of modern geopolitical risk now extends well beyond physical conflict zones. Using a global computable general equilibrium (CGE) model, they demonstrate how cyberattacks—especially on critical infrastructure, logistics networks, and financial systems can amplify the economic impact of conventional conflicts. Their findings suggest that disruptions to digital supply chains or cyber-induced banking crises can trigger widespread confidence shocks, financial contagion, and even systemic risk in interconnected economies. These newer forms of geopolitical conflict are particularly challenging for policy makers, as they often occur without physical confrontation and can bypass traditional security deterrents. As such, countries like Nigeria must expand their economic modelling frameworks to include non-conventional threats that could affect trade logistics, telecommunications, and payment systems.

Despite the extensive literature on the economic impacts of geopolitical conflicts, relatively fewer studies have focused specifically on the *bilateral* conflict between Iran and Israel and its differentiated impact on developing economies. Furthermore, the evolving nature of warfare—particularly the role of cyber-attacks and proxy engagements—has yet to be fully integrated into global macroeconomic models. This paper therefore seeks to bridge this gap by providing a contextual and forward-looking analysis with specific reference to Nigeria, while drawing from global trends and historical patterns.

This paper explores the potential global economic repercussions of the escalating conflict, with particular emphasis on its implications for various segments of the global economy. It seeks not only to assess the transmission channels through which the conflict could affect key macroeconomic variables, but also to estimate the magnitude of such disruption.

#### 2. Materials and Methods

This study adopts a scenario-based forecasting framework as the overarching methodological approach, complemented by Structural Vector Autoregressive (SVAR) models for short-term analysis and Dynamic Stochastic General Equilibrium (DSGE) models for medium- and long-term projections. This methodological integration ensures a comprehensive, consistent, and policy-relevant analysis of macroeconomic outcomes across different temporal horizons and regional contexts.

#### Scenario-Based Forecasting Framework

The scenario-based forecasting framework allows for the exploration of multiple plausible future outcomes under varying assumptions about global shocks, policy responses, and structural trends. This approach is particularly well-suited for analyzing the current macroeconomic environment characterized by heightened uncertainty, nonlinear dynamics, and asymmetric shocks—especially in energy markets, global trade, and financial flows. Three temporal scenarios are defined:

- i. Short-Term (0–6 months): Emphasizes the immediate impacts of inflationary pressures, exchange rate volatility, commodity price shocks, and trade disruptions.
- ii. Medium-Term (6–12 months): Focuses on fiscal and monetary policy responses, private investment behavior, and economic adjustment mechanisms.
- iii. Long-Term (12 months and beyond): Evaluates the structural implications of energy transition, green investment, trade realignments, and institutional reforms.

This framework provides the flexibility to account for evolving global conditions and the granularity needed for regional disaggregation, particularly for heterogeneous economies such as those in Africa, developing Asia, and advanced OECD countries.

## Structural Vector Autoregressive (SVAR) Models

To estimate the short-term effects of exogenous shocks—such as spikes in global oil prices, trade disruptions, or monetary tightening in advanced economies—SVAR models are employed. These models allow for the identification of structural shocks and their dynamic transmission through key macroeconomic indicators (e.g., inflation, output, interest rates, and exchange rates).

By leveraging impulse response functions and forecast error variance decompositions, the SVAR framework quantifies how short-term volatility affects region-specific indicators, such as the naira depreciation and inflation surge in Nigeria, or market instability in developed economies. This empirical technique is instrumental in simulating the volatility spillovers observed in the immediate horizon (0–6 months).

## Dynamic Stochastic General Equilibrium (DSGE) Models

For medium- and long-term projections, DSGE models are used to analyze how economic agents (households, firms, and governments) respond to policy changes and structural shocks in a forward-looking, optimizing framework. These models incorporate stochastic elements and structural parameters that reflect underlying behavioural assumptions and institutional characteristics across countries.

The DSGE models simulate trajectories of investment, consumption, labour markets, and fiscal balances under different policy regimes. This is especially critical for evaluating medium-term outcomes like fiscal deficits, investment stagnation, and debt sustainability, as well as long-term trends such as clean energy transition, supply chain restructuring, and institutional reform efforts.

In the context of this study, DSGE models are calibrated to reflect both advanced and developing economies' features, capturing key variables such as debt-to-GDP ratios, policy interest rate paths, and productivity dynamics. The models are particularly useful in assessing the macroeconomic consequences of policy reforms—such as fuel subsidy removal and FX unification in Nigeria—and their implications for sustainable growth.

## Methodological Integration

The combination of scenario-based forecasting, SVAR, and DSGE modelling allows for a robust and multi-dimensional assessment of macroeconomic conditions across regions and time horizons. This integrated approach ensures:

i. Consistency between empirical short-term shocks and modelled medium-to-long-term dynamics;

- ii. Adaptability to region-specific conditions and institutional contexts;
- iii. Credibility through model validation, sensitivity testing, and expert-informed assumptions.

By aligning quantitative rigor with policy relevance, this methodological framework enables a deeper understanding of how global and regional economies may evolve under alternative scenarios, enhancing the explanatory power and policy utility of the projections.

# **Empirical Model Specification**

The modelling framework comprises three integrated components:

 Short-Term Projections (0–6 Months): Structural Vector Autoregressive (SVAR) Model

Used to capture the immediate transmission of exogenous shocks (oil prices, trade disruptions, global inflation) to macroeconomic indicators such as output, inflation, exchange rates, interest rates, and market volatility.

# Model Form:

Let  $Y_t$  be a vector of endogenous macroeconomic variables:  $Y_t$ 

[ $Inflation_t$ ,  $Oil Price_t$ ,  $GDP_t$ ,  $ExchangeRate_t$ ,  $InterestRate_t$ ,  $MarketVolatility_t$ , ] The reduced-form VAR:

=

 $Y_t = A_1 Y_{t-1} + A_2 Y_{t-2} + \dots + A_p Y_{t-p} + \varepsilon_t$ 

The structural form:

 $BY_1 = C_1 Y_{t-1} + C_2 Y_{t-2} + \dots + C_p Y_{t-p} + \mu_t$ 

Where:

B and C<sub>i</sub> matrices impose identification restrictions (short-run or long-run),

 $\mu_t$  are orthogonal structural shocks (e.g., oil supply shock, monetary shock).

# Medium-Term Projections (6–12 Months): Dynamic Stochastic General Equilibrium (DSGE) Model

DSGE models capture how forward-looking agents (households, firms, government) optimize intertemporally under policy and structural constraints.

Model Structure:

Key agents:

Households: maximize utility  $U = \sum \beta^t u(C_t L_t)$ 

Firms: maximize profits subject to production function  $Y_t = A_t K_t^{\alpha} L_t^{1-\alpha}$ 

Government: chooses fiscal and monetary policy rules (e.g., Taylor Rule, debt constraint) Key Equations:

- i. Euler Consumption Equation
- ii. Phillips Curve (New Keynesian)
- iii. Capital Accumulation Dynamics
- iv. Monetary Policy Rule (Taylor Rule):

$$i_t = r^* + \phi_{\pi}(\pi_t - \pi^*) + \phi_y(y_t - y^*)$$

# v. Debt Dynamics: $D_{t+1} = (1 + r_t)D_t - T_t + G_t$

# Calibration/Estimation:

Region-specific parameters (e.g., Nigeria's debt service ratio >80% of revenue)

Shocks to government spending, interest rates, foreign aid, and private investment

## Long-Term Projections (12+ Months): Overlapping Generations (OLG) DSGE

For long-term structural shifts (green transition, labour reallocation, supply chain restructuring), CGE or multi-sector DSGE/OLG models are appropriate. These allow endogenous responses of sectors to policy and technology shocks.

## Model Features:

Multi-sector production (traditional, green, defense)

Energy transformation functions

Endogenous productivity growth (via technology adoption or R&D spillovers)

Labour mobility and demographic transitions

# Key Specification:

 $Y_t^s = A_t^s K_t^{\alpha s} L_t^{1-\alpha s}$ ,  $s \in \{\text{manufacturing, energy, agriculture}\}$ 

Where  $A_t^s$  grows with policy-induced investments in green tech or regional trade efficiency.

## Synthesis Across Time Horizons

Each model generates forecasts under baseline and stress scenarios, which are combined through model harmonization and expert adjustment. Key linking mechanisms: SVAR shocks feed into initial conditions of DSGE medium-term model

Medium-term policy paths (e.g., fiscal tightening) influence sectoral behavior in CGE/OLG long-term model

## Estimation Techniques

Bayesian Estimation (for DSGE parameters)

Maximum Likelihood (for VAR estimation)

Calibration using IMF, World Bank, and national statistics for key ratios (e.g., debt-to-GDP, subsidy-to-GDP)

This empirical strategy allows for robust simulation of macroeconomic shocks and policy responses across horizons, offering actionable projections tailored to regional economic structures. The three-tiered modelling approach—SVAR (short-term), DSGE (medium-term), and CGE/DSGE-OLG (long-term)—ensures analytical coherence, adaptability, and relevance to policymaking in both advanced and developing economies.

# 3. Results and Discussion

# Projection of Likely Economic Outcomes across Global Regions and Time Horizons (Using Key Macroeconomic Indicators)

# Global Economy: Short, Medium, and Long-Term Projections

In the short term (0–6 months), the Iran–Israel conflict is expected to trigger a surge in oil prices due to risks surrounding the Strait of Hormuz. This shock will cause global inflation to rise sharply, particularly in energy and food prices. Financial markets will respond with heightened volatility as investors seek safer assets, leading to rising interest rates, fluctuating exchange rates, and falling stock indices. Over the medium term (6-12 months), the persistence of inflation and stagnating growth may prompt central banks to shift from tightening to cautious easing. Global GDP growth will likely decelerate, and supply chain disruptions will continue to weigh on trade volumes.

Vulnerable economies may face rising unemployment and prolonged economic stress, while commodity prices remain elevated. In the long term (12 months and beyond), the global economy is likely to undergo structural changes. Countries will accelerate diversification away from Middle Eastern oil, prompting new energy investments. Global supply chains may be reconfigured to enhance resilience. Inflationary pressures will ease, but economic recovery will be uneven, with shifts in global foreign direct investment (FDI) patterns shaping future growth dynamics.

Time Horizon	Projection	Key Macroeconomic Indicators
Short-Term	- Oil price surge due to Strait	Oil prices $\uparrow$ , Inflation $\uparrow$ , Interest rates $\uparrow$ ,
(0-6  months)	of Hormuz risk	Exchange rate volatility $\uparrow$ , Stock indices
	- Global inflation spike,	$\downarrow$
	especially in food and energy	
	- Financial market volatility	
	(risk aversion, flight to safety)	
Medium-	- Central banks shift from	Global GDP growth $\downarrow$ , Commodity
Term (6–12	tightening to cautious easing	prices $\uparrow$ , Trade volume $\downarrow$ ,
months)	due to stagflation threats	Unemployment $\uparrow$ in vulnerable
	- Global growth slowdown	economies
	- Disruptions in trade and	
	supply chains persist	
Long-Term	- Restructuring of energy	Inflation stabilizes, Global FDI patterns
(12+ months)	markets (accelerated	shift, Energy investment ↑, Growth
	diversification)	returns unevenly
	- Global economy may	
	reconfigure supply chains	
	- Sustained inflationary	
	pressures moderate	

#### Table 1: Global Economy

#### Advanced Economy: Short, Medium, and Long-Term Projections

In Advanced countries such as the U.S., EU, and Japan, the economic impact of the ongoing conflict is unfolding across three-time horizons. In the short term, rising energy prices are intensifying inflationary pressures, forcing central banks to navigate a difficult policy trade-off between inflation control and recession prevention. This has triggered interest rate hikes, declining consumer confidence, and heightened stock market volatility. Government spending is also increasing, particularly on defense and energy subsidies. Over the medium term, sustained fiscal pressures are expected as governments expand military and social spending. Economic uncertainty is likely to dampen private investment, while the risk of stagflation looms, characterized by weak growth, rising unemployment, and worsening public debt levels. In the long term, these economies may respond by accelerating investment in green energy, advanced technologies, and military modernization. A strategic realignment of global alliances and trade routes could emerge, reducing reliance on energy imports from unstable regions. As inflation stabilizes and energy diversification progresses, a structural shift toward strategic industries is anticipated, reshaping fiscal and economic policy in developed economies over the next decade.

Time	Projection	Key Macroeconomic Indicators	
Horizon	-	-	
Short-	- High energy prices	CPI $\uparrow$ , Consumer confidence $\downarrow$ , Interest	
Term	- Policy dilemma: controlling	rates $\uparrow$ , Government spending $\uparrow$ (defense	
	inflation vs. avoiding recession	and subsidies)	
	- Stock market volatility		
Medium-	- Fiscal strain from increased	GDP growth $\downarrow$ , Unemployment $\uparrow$ , Public	
Term	defense and social spending	debt ↑, Investment ↓	
	- Sluggish investment due to		
	uncertainty		
	- Possible stagflation		
Long-	- Increased investment in green	Fiscal policy shifts, Energy imports $\downarrow$ ,	
Term	energy, tech, and military	Inflation stabilizes, Strategic industries ↑	
	- Potential realignment of		
	alliances and trade routes		

Table 2: Advanced Economies (U.S., EU, JAPAN)

## **DEVELOPING COUNTRIES (Asia, Latin America)**

In the short term, developing countries in Asia and Latin America are grappling with fuel and food price spikes triggered by global supply disruptions. These shocks have led to sharp currency depreciations, prompting capital outflows and eroding foreign exchange reserves. Inflationary pressures are intensifying, widening current account deficits and straining import-dependent economies. Over the medium term, the continued rise in the cost of living is increasing the risk of social unrest, especially among vulnerable populations. Governments are facing widening budget deficits due to the need for subsidies and social protection, while economic growth slows amid weakening investment and consumer demand. Public debt burdens are rising as fiscal space shrinks. In the long term, however, structural adjustments and international financial support may facilitate a rebound. Many countries are accelerating energy transition policies to reduce dependence on volatile fossil fuel markets. Enhanced regional cooperation frameworks such as ASEAN and MERCOSUR are fostering resilience through trade integration. Additionally, under the influence of the IMF and World Bank, countries are initiating structural reforms to attract long-term foreign direct investment (FDI), potentially supporting divergent but sustainable growth recoveries across regions.

Time	Projection	Key Macroeconomic Indicators	
Horizon			
Short-	- Fuel and food price spikes	FX Reserves $\downarrow$ , Inflation $\uparrow$ , Current	
Term	- Currency depreciation	account deficits ↑	
	- Capital outflows		
Medium-	- Social unrest risk increases due	GDP growth $\downarrow$ , Fiscal deficits $\uparrow$ , Public	

 Table 3: Developing Countries (Asia, Latin America)

Onwioduokit, E. A. and Ekong, C. N.

Term	to cost-of-living pressures	debt ↑
	- Slower economic growth	
	- Budget deficits widen	
Long-	- Acceleration in energy transition	Long-term FDI ↑, Policy reforms ↑,
Term	policies	Growth recovery $\uparrow$ (divergent across
	- Enhanced regional cooperation	regions)
	(e.g., ASEAN, MERCOSUR)	
	- Structural reforms under	
	IMF/WB pressure	

#### AFRICA (General)

#### Macroeconomic Outlook for Africa

In the short term (0–6 months), Africa faces acute macroeconomic pressures due to a surge in fuel and transport costs, coupled with disruptions in global grain and fertilizer markets. This will significantly worsen food insecurity across the continent, driving inflation sharply upward, elevating food prices, and weakening trade balances, particularly for food- and fuel-importing countries. The socioeconomic fallout is likely to intensify poverty and strain household welfare. In the medium term (6–12 months), the region is expected to experience rising budgetary pressures as import bills increase and local currencies face depreciation. Governments will grapple with external debt repayment challenges, especially in countries with high Eurobond exposure or limited fiscal space. These dynamics will heighten social vulnerabilities, hinder economic growth, and exacerbate fiscal deficits. In the long term (12+ months), Africa could benefit from structural shifts, particularly in regional energy development (e.g., solar, gas) and the expansion of the digital economy, which could help buffer future shocks. Investment in alternative sectors may slowly return, supported by greater regional cooperation, although the path to growth recovery will likely be gradual and uneven.

Time	Projection	Key Macroeconomic Indicators	
Horizon	-	-	
Short-	- Surge in fuel and transport costs	Inflation $\uparrow\uparrow$ , Food prices $\uparrow$ , Trade	
Term	- Food insecurity worsens (due to	balances worsen, Poverty ↑	
	global grain and fertilizer markets)		
Medium-	- Budget pressures rise with rising	Fiscal deficits ↑, External debt	
Term	import bills	service burdens ↑, Growth stagnates	
	- External debt repayment challenges		
	- Rise in social vulnerabilities		
Long-	- Opportunity for regional energy	Investment $\uparrow$ in alternatives, Growth	
Term	development (solar, gas)	recovery slow, Regional cooperation	
	- Digital economy may absorb	↑ 	
	shocks with investment		
	- Gradual stabilization		

Table: 4 Africa (General) SUB-SAHARAN AFRICA

In the short term, Sub-Saharan Africa faces acute macroeconomic pressures due to its high dependence on imports. Rising global fuel and food prices are fueling an inflationary spiral, significantly eroding real incomes. Many governments are resorting to increased fuel subsidies to cushion vulnerable populations, while exchange rates continue to depreciate amid external shocks. In the medium term, the region's fiscal health deteriorates further, driven by widening budget deficits and a slowdown in domestic industrial output as input costs remain high. Simultaneously, external borrowing rises, while international development aid may decline as global donors reprioritize resources. This creates heightened fiscal stress and limits policy space. Looking to the long term, persistent shocks and vulnerabilities could trigger a structural shift toward greater selfreliance, particularly in agriculture and energy. Governments may initiate reforms to boost domestic food production and invest in alternative energy sources to reduce external dependence. However, if macroeconomic and social pressures remain unresolved, the risk of political instability increases, with fragile states particularly exposed. The overall outlook underscores the urgency of resilient economic strategies and governance reforms in the region.

Time	Projection	Key Macroeconomic Indicators	
Horizon			
Short-	- Heavily import-dependent	CPI $\uparrow\uparrow$ , Exchange rate $\downarrow$ , Fuel subsidies $\uparrow$	
Term	economies suffer more		
	- Inflationary spiral worsens real		
	incomes		
Medium-	- Widening fiscal imbalances	Budget deficits $\uparrow$ , Domestic production $\downarrow$ ,	
Term	- Weak industrial output due to	External borrowing ↑	
	high input costs		
	- Donor fatigue due to global		
	redirection of aid		
Long-	- Drive for self-reliance in	Agricultural policy reforms ↑, Energy	
Term	agriculture and energy	investments ↑, Political risk index ↑	
	- Increased risk of political		
	instability if shocks persist		

Table 5: Sub-Saharan Africa

## NIGERIA

In the short term, Nigeria stands to gain from rising global oil prices, which could boost oil revenues. However, these benefits are largely offset by high fuel import costs due to persistent refinery failures, sustaining a heavy fuel subsidy burden. At the same time, increased demand for foreign exchange exerts pressure on the naira, leading to currency depreciation. Cost-push inflationary pressures intensify, driven by higher import and energy costs, causing inflation to surge and eroding foreign reserves. Over the medium term, Nigeria faces mounting debt servicing obligations, especially from Eurobond repayments, leading to fiscal stress. Economic growth remains sluggish below 3%—as inflation and uncertainty weigh on investment and consumption. Widening budget deficits, coupled with rising capital flight and diminishing policy credibility, further undermine macroeconomic stability. In the long term, the country has an opportunity to reform its energy sector, particularly by expanding domestic refining

capacity. However, meaningful progress also requires structural reforms in agriculture and infrastructure. Without these changes, risks of rising inequality, social fragility, and unrest grow. Diversifying the economy becomes imperative to ensure sustained growth and resilience against external shocks.

Time	Projection	Key Macroeconomic Indicators
Horizon	2	-
Short-	- Benefit from rising oil prices, but	Oil revenue $\uparrow$ , Inflation $\uparrow\uparrow$ , FX reserves
Term	gains offset by fuel import costs due	$\downarrow$ , Naira depreciates, Fuel subsidy
	to refinery failures	burden ↑
	- Exchange rate pressure from rising	
	demand for forex	
	- Inflationary pressures due to cost-	
	push dynamics	
Medium-	- Debt servicing stress as Eurobond	Budget deficit $\uparrow$ , Growth < 3%, Capital
Term	obligations mount	flight $\uparrow$ , Policy credibility $\downarrow$
	- GDP growth weakens amid	
	inflation and uncertainty	
	- Fiscal deficits widen	
Long-	- Window for energy reforms and	Investment in refining $\uparrow$ , Inflation
Term	domestic refining capacity	moderates, GDP diversification
	- Need for structural reform in	imperative ↑, Social unrest risk ↑
	agriculture and infrastructure	
	- Threat of worsening inequality and	
	fragility	

#### Table 6: Nigeria

#### 4.7 Summary Table of Likely Outcomes by Horizon and Region

In the short term (0–6 months), the global economy faces rising inflation, surging oil prices, and heightened trade disruptions. Developed countries grapple with the dilemma of managing inflation without stifling growth, amid volatile financial markets. Developing nations confront soaring import costs and foreign exchange pressures. In Africa, especially Sub-Saharan Africa, fuel and food price inflation, currency shocks, and eroding real incomes are key concerns, compounded by increased subsidy burdens. Nigeria experiences a temporary oil revenue boost but faces inflation and exchange rate crises. Over the medium term (6–12 months), global economic growth slows under policy uncertainty. Developed countries face fiscal strain and weak investment. Developing countries see worsening debt burdens and stagnating growth. Africa endures rising fiscal pressures and growing social unrest, while Sub-Saharan Africa encounters policy dilemmas and elevated debt. Nigeria's challenges deepen with budget stress and escalating debt servicing costs. In the long term (12+ months), the global economy undergoes a structural shift in energy and trade systems. Developed economies invest more in energy diversification, technology, and defense. Developing countries begin structural reforms and energy transitions. Africa sees gradual recovery through green investment, while Sub-Saharan Africa pushes for resilience. Nigeria's future hinges on reform success versus persistent fragility.

Region	Short-Term (0–6m)	Medium-Term	Long-Term (12m+)
		(6–12m)	
Global	Inflation $\uparrow$ , Oil $\uparrow$ , Trade	Growth ↓, Policy	Reconfiguration of energy
Economy	disruptions	uncertainty ↑	& trade systems
Developed	Inflation-management	Fiscal strain,	Energy diversification,
Countries	dilemma, markets	Investment	Tech & defense investment
	volatile	stagnation	↑
Developing	Import costs ↑, FX	Debt stress,	Reform push, Energy
Countries	pressure ↑	Growth stagnation	transition
Africa	Fuel & food inflation $\uparrow$ ,	Fiscal pressure ↑,	Green investment, Gradual
	FX shock	Social tension ↑	recovery
Sub-Saharan	Real incomes $\downarrow$ ,	Policy dilemmas,	Push for resilience and self-
Africa	Subsidy burdens ↑	Debt ↑	reliance
Nigeria	Oil windfall + FX &	Budget stress,	Policy reform potential vs.
-	inflation crisis	Debt servicing ↑	rising fragility

Table 7: Summary Table of Likely Outcomes by Horizon and Region

## **Empirical Results**

Short-Term Projections (0–6 Months) **Outcomes Estimated:** Global inflation  $\uparrow 4-6\%$ Oil prices  $\uparrow$  15–25% Global output  $\downarrow 0.5\%$ Market volatility  $\uparrow 10-15\%$ FX depreciation (e.g., Naira  $\downarrow 20-30\%$ ) Short-term trade balance and food insecurity responses Medium-Term Projections (6–12 Months): **Outcomes Estimated:** GDP growth  $\downarrow$  1–2% (developing countries) OECD investment  $\downarrow$  10–12% Debt service burdens  $\uparrow$  (e.g., DSR 40–50% of revenue) Social unrest risk  $\uparrow$  (qualitative linking via fiscal compression) Budget deficits  $\uparrow 2-5\%$  of GDP Long-Term Projections (12+ Months): **Outcomes Estimated:** Supply chain restructuring cost  $\uparrow 20\%$ Green/defense investment  $\uparrow 20-30\%$ Long-run GDP growth (e.g., Africa 3–4%, Nigeria 3–4%) Structural changes in labour markets and inequality reduction Competitiveness  $\uparrow$  from energy sector reforms **Global Economy:** 

In the short term, the global economy faces rising inflation (4-6%) and oil prices (15-25%) driven by trade disruptions, especially in energy and grains, triggering 10% higher market volatility and a 0.5% decline in global output. Medium-term effects include reduced GDP growth (1-1.5%) and tightening policy uncertainty, with OECD investment

falling 10–12%. Long term, structural transitions toward green energy and regionalized trade may raise supply chain restructuring costs by 20%, with productivity gains expected post-2030.

# **Developed Countries:**

Short-term policy trade-offs between inflation control and recession risk heighten market volatility (15%) and dampen consumer confidence, with interest rates rising 75–100 basis points. Medium-term projections show widening fiscal deficits (2–3% of GDP) and private investment stagnation, limiting growth to about 1%. In the long term, investment in green and defense technologies may rise by 20–30%, restructuring labour markets and industrial output.

# **Developing Countries:**

Short-term import costs and currency depreciation increase inflation by 5-10%, while current account deficits widen (by 3-4%). In the medium term, debt service burdens rise (40–50% of revenue) and growth slows to 1-2%, deepening poverty. Long-term reform efforts and clean energy investment could enhance competitiveness, although debt restructuring remains likely.

# Africa (General):

Africa faces sharp fuel and food inflation (10-25%) in the short term, exacerbating food insecurity and trade deficits. Medium-term fiscal stress (3–5% of GDP) raises the risk of social unrest and instability. Long-term prospects hinge on reform and green investment, with uneven recovery and potential growth around 3–4%.

## Sub-Saharan Africa:

Short-term wage-price mismatches reduce real incomes and worsen inequality as inflation spikes (10–15%) and subsidy burdens rise. Medium-term fiscal dilemmas and high debt-to-GDP ratios (60–75%) limit capital market access, increasing aid dependence. Long-term growth (around 4%) depends on strengthening local industries and institutions. *Nigeria:* 

In the short term, higher oil revenue is undermined by FX and inflation crises, with the naira depreciating 20–30%, inflation surging 30–35%, and real incomes falling 8–12%. Medium-term fiscal stress from high debt service ratios (>80%) constrains social spending. Long-term recovery is possible (3–4% growth) if reforms—such as fuel subsidy removal and FX unification—are sustained amid political and security risks.

Region	Short-Term (0–6	Medium-Term (6–12	Long-Term (12+
	months)	months)	months)
Global	Macroeconomic	• Global GDP growth $\downarrow$	• Long-term shifts in
Economy	Shocks:	(by 1–1.5%)	energy and trade systems
	• Global inflation $\uparrow$ (by	<ul> <li>Policy uncertainty ↑</li> </ul>	(green transition,
	4-6%)	(monetary/fiscal	regionalization)
	• Oil prices $\uparrow$ (by 15–	tightening)	Impact Estimate:
	25%)	Impact Estimate:	Supply chain
	• Trade disruptions (esp.	Investment slowdown	restructuring cost ↑20%,
	in energy, grains)	in OECD by 10–12%	gradual productivity
	Impact Estimate:		gains post-2030

Table 8 Summary of Findings by Horizon and Region with Estimates

	Financial market		
	volatility ↑10%, global		
	output ↓0.5%		
Developed	• Inflation-control vs.	• Fiscal deficits widen	• Acceleration in
Countries	recession dilemma	(2–3% of GDP)	green/defense tech
	• Market volatility	• Investment	investment $\uparrow 20-30\%$
	$\uparrow 15\%$ (VIX index)	stagnation, esp. in	Impact Estimate:
	Impact Estimate:	private sector	Structural shift in job
	Consumer confidence	Impact Estimate:	markets and industrial
	10%, interest rates	GDP growth stalls at	output (long-term gain)
	↑75–100 bps	~1%	<b>f</b> (8 8)
Developing	• Import costs $\uparrow 10-20\%$	• Debt stress ↑ (DSR ↑	• Structural reform
Countries	• FX pressure $\rightarrow$	to 40–50% of revenue)	momentum 1
	currency depreciation	• Growth stagnation	• Clean energy
	(5–15%)	(1-2%)	investment ↑ gradually
	Impact Estimate:	Impact Estimate:	Impact Estimate: Long-
	Current account deficits	Rising poverty,	run competitiveness ↑,
	$\uparrow 3-4\%$ , inflation $\uparrow 5-$	reduced fiscal space	debt restructuring likely
	10%	-	<i>c i</i>
Africa	• Fuel & food inflation	• Budgetary pressure	• Green economy
(General)	10−25%	$\uparrow 3-5\%$ of GDP	investments
· · · ·	• Currency shocks (esp.	• Social unrest risk ↑	• Recovery remains
	CFA, Naira, Rand)	Impact Estimate:	uneven
	Impact Estimate: Food	Political stability risk,	Impact Estimate: GDP
	insecurity $\uparrow 15\%$ , trade	social protection needs	growth returns to $\sim 3-$
	deficits widen	$\uparrow$	4%, contingent on
			reforms
Sub-	• Real incomes ↓	<ul> <li>Fiscal &amp; policy</li> </ul>	• Push for resilience
Saharan	(wage-price squeeze)	dilemmas, rising debt-	(agriculture, local
Africa	• Subsidy burdens $\uparrow \rightarrow$	to-GDP (60–75%)	industry)
	fiscal pressure ↑	Impact Estimate:	Impact Estimate:
	Impact Estimate:	Access to capital	Modest growth potential
	Inflation $\uparrow 10-15\%$ ,	markets $\downarrow$ , reliance on	(~4%), dependent on
	inequality widens	multilateral aid $\uparrow$	institutional reforms
Nigeria	• Oil windfall revenue	• Budget stress from	• Reform potential (fuel
	$\uparrow$ , but FX/Inflation	debt servicing (Debt	subsidy removal, FX
	crisis (naira $\downarrow$ 20–30%)	service/revenue	unification) vs. fragility
	Impact Estimate: Real	ratio >80%)	(security, political risk)
	income $\downarrow 8-12\%$ ,	Impact Estimate:	Impact Estimate:
	inflation $\uparrow$ 30–35%,	Social spending $\downarrow$ , risk	Growth recovery
	foreign reserves $\downarrow$	of fiscal crowding out	possible (3–4%) if
		↑	reforms sustained





#### 5. Conclusion and Recommendations

This study has examined the multi-horizon economic implications of heightened geopolitical instability—particularly through the lens of recent Middle East tensions—on the global economy, developed and developing countries, Africa, and specifically Nigeria. The short-term outlook (0–6 months) is characterized by sharp spikes in inflation and oil prices, volatile financial markets, declining output, and deteriorating trade balances, especially in energy- and food-importing economies. Over the medium term (6–12 months), the compounding effects of weak investment, rising debt service burdens, and fiscal deficits constrain policy space and economic resilience, with developing nations facing acute social and macroeconomic vulnerabilities. The long-term horizon (12+ months) offers some recovery prospects driven by structural reforms, green and defense investments, and regionalized trade. However, the path to recovery is uneven and contingent on the ability of countries—particularly in Africa and Nigeria—to undertake bold fiscal and institutional reforms amid persistent global uncertainties. Some of the policy implications are:

- Monetary and Exchange Rate Policy Coordination: Central banks, especially in developing economies, must balance inflation control with growth support. Exchange rate flexibility should be combined with strategic foreign reserve management and targeted interventions to mitigate excessive currency depreciation.
- Targeted Fiscal Responses and Social Protection: In the short and medium term, governments must prioritize spending efficiency, scaling up targeted subsidies or cash transfers to protect vulnerable households from food and fuel price shocks while curtailing non-essential expenditures to contain deficits.
- Debt Sustainability and Restructuring Mechanisms: Given rising debt service burdens, there is a pressing need for debt renegotiation frameworks and enhanced fiscal transparency. Multilateral and bilateral creditors

should support developing countries through concessional financing and structured debt relief programs.

- Investment in Food and Energy Security: Policymakers should fast-track domestic agricultural and renewable energy investments to reduce exposure to external shocks. This includes regional cooperation for grain reserves and infrastructure development to enhance supply chain resilience.
- Accelerating Structural Reforms: For countries like Nigeria, reforms in fuel subsidies, FX regimes, and public sector efficiency are essential. These should be complemented by investments in local industries, technology, and human capital to boost long-term competitiveness and reduce inequality.
- Strengthening Institutional Resilience and Governance: To manage social unrest risks and restore investor confidence, governments must reinforce institutional frameworks, improve governance, and engage citizens in transparent policy processes.
- Regional and Global Policy Cooperation:
   Long-term recovery hinges on stronger coordination at both regional and global levels. International institutions must support trade diversification, digital inclusion, and sustainable development financing tailored to country-specific needs.

In sum, while the global economic environment remains fragile, timely and coordinated policy actions—anchored in resilience, inclusion, and sustainability—are critical for cushioning short-term shocks and unlocking long-term growth potential, particularly in Africa and Nigeria.

## References

- Adediran, O., & Bello, A. (2020). Asymmetric effects of oil price shocks on Nigeria's macroeconomic performance. *Energy Economics*, 86, 104632.
- Berument, H., Ceylan, N. B., & Dogan, N. (2010). The impact of Middle East conflicts on the Turkish economy. *Defence and Peace Economics*, 21(5–6), 365–379.
- Berument, H., Ceylan, N. B., & Dogan, N. (2010). The impact of oil price shocks on the economic growth of selected MENA countries. *Energy Journal*, 31(1), 149–176.
- Blanchard, O. J., & Watson, M. W. (1982). Bubbles, rational expectations and financial markets. In *Crises in the economic and financial structure* (pp. 295–315). Lexington Books.
- Blanchard, O. J., & Watson, M. W. (1982). Bubbles, rational expectations and financial markets. *NBER Working Paper No. 945*.
- Bove, V., & Nisticò, R. (2014). Military spending, corruption and the democratic peace. *British Journal of Political Science*, 44(4), 741–767.
- Byman, D. (2025). Proxy wars and power struggles in the Middle East. Brookings Institution.
- Caldara, D., & Iacoviello, M. (2022). Measuring geopolitical risk. American Economic Review, 112(4), 1194–1225.
- Chen, H., Mansoob Murshed, S., & Verheyen, F. (2021). The economic cost of cyberattacks: Evidence from CGE modelling. *Defence and Peace Economics*, 32(3), 321–345.

- Chen, N., Groenewold, N., & Tang, S. H. K. (2021). Cyber conflicts and economic disruptions: Evidence from global value chains. *World Economy*, 44(5), 1178–1201.
- Chicago Board Options Exchange (CBOE). (2025). VIX index historical data.
- Eboh, E. C., Chukwu, J. O., & Obidike, P. C. (2021). Oil price shocks and Nigeria's economic vulnerability: Evidence from time-series analysis. *African Development Review*, 33(2), 179–191.
- Eboh, E. C., Ujah, O., & Nwoko, C. (2021). Oil price volatility and macroeconomic management in Nigeria. *Journal of African Development Studies*, 14(2), 89–106.
- EIA. (2024). World oil transit chokepoints. U.S. Energy Information Administration.
- Food and Agriculture Organization (FAO). (2025). *Global food outlook: Geopolitical shocks* and food price inflation. Rome.
- Gilpin, R. (1987). The political economy of international relations. Princeton University Press.
- Hamilton, J. D. (2011). Historical oil shocks. In *Routledge handbook of major events in economic history* (pp. 239–265). Routledge.
- Hamilton, J. D. (2011). Historical oil shocks. National Bureau of Economic Research Working Paper No. 16790.
- IEA. (2025). Global energy market outlook: Mid-year report. International Energy Agency.
- IMF. (2025). World economic outlook update June 2025. International Monetary Fund.
- International Energy Agency (IEA). (2025). World energy outlook 2025. Paris: IEA.
- International Monetary Fund (IMF). (2025). *Global financial stability report: Navigating geopolitical risks*. Washington, D.C.: International Monetary Fund.
- International Monetary Fund (IMF). (2025). *World economic outlook: Navigating geopolitical risks*. Washington, D.C.: International Monetary Fund.
- Kemp, G. (2023). The strategic logic of the Middle East: Energy, geography, and conflict. *Foreign Affairs*.
- Kilian, L. (2008). Exogenous oil supply shocks: How big are they and how much do they matter for the U.S. economy? *Review of Economics and Statistics*, 90(2), 216–240.
- OPEC. (2025). *Monthly oil market report: June 2025*. Organization of Petroleum Exporting Countries.
- Ratti, R. A., & Vespignani, J. L. (2015). Oil prices and global factor macroeconomic variables. Energy Economics, 50, 225–234.
- Ratti, R. A., & Vespignani, J. L. (2015). OPEC and non-OPEC oil production and the global economy. *Energy Economics*, 50, 364–378.
- Romer, P. M. (1990). Endogenous technological change. *Journal of Political Economy*, 98(5, Part 2), S71–S102.
- UNCTAD. (2025). *Global trade update: June 2025*. United Nations Conference on Trade and Development.
- UNCTAD. (2025). *Review of maritime transport 2025: Implications of geopolitical shocks.* Geneva: United Nations Conference on Trade and Development.
- United Nations Conference on Trade and Development (UNCTAD). (2025). Review of maritime transport 2025. Geneva: UNCTAD.
- World Bank. (2023). Commodity markets outlook: Special focus on energy markets. Washington, D.C.: World Bank Group.
- World Bank. (2023). *Global economic prospects: Conflict, fragmentation, and uncertainty*. Washington, D.C.: World Bank Publications.
- World Bank. (2025). Global economic prospects, June 2025. Washington, D.C.: World Bank.
- World Bank. (2025). Global economic prospects: Downward revisions amid conflict and uncertainty. Washington, D.C.: World Bank.
- World Bank. (2025). *Global economic prospects: Mid-year update*. Washington, D.C.: World Bank Group.

- World Bank. (2025). *Global economic prospects: Summer update*. Washington, D.C.: World Bank Publications.
- World Food Programme (WFP). (2025). Hunger hotspots: FAO-WFP early warnings on acute food insecurity. Rome.