

2. Fragile Foundations: The Lasting Economic Scars of Conflict¹

The conflict in Gaza and Israel is another reminder of the recurring challenges related to conflicts in the Middle East and Central Asia (ME&CA). Conflicts cause immense human suffering across the ME&CA regions, with thousands of lives lost during the last decade and many more facing fragility and food insecurity. This chapter analyzes the economic effects of conflicts and their most salient channels, comparing ME&CA economies with those elsewhere over 1989 to 2022. The main findings point to marked adverse effects on near- and long-term economic performance, as well as higher inflation and lower consumption, investment, exports, and fiscal revenues. Moreover, these effects can become entrenched by damaging institutions and contributing to the fragility of conflict-affected economies. The negative economic impact of conflicts in ME&CA tends to be larger and more persistent than in the rest of the world. Specifically, after a severe conflict in an ME&CA country, per capita output is still about 10 percent lower on average after a decade. In other regions, this decline is less than 3 percent on average and recouped within five years. This likely reflects a mix of factors, including the average higher intensity of conflicts in the region, the adverse marginal effect of conflicts increasing with intensity, and the prevalence of exacerbating preexisting conditions, such as lower average institutional quality. Conflicts also tend to have greater negative impacts on bordering countries, with an immediate drop in output per capita of about 1.5 percent and a further drop of about 6 percent about a decade later (although estimated with a higher level of uncertainty).² Furthermore, when conflicts in bordering countries are nonstate-based, the adverse impact on output per capita is higher, at 10 percent seven years after the conflict onset.

2.1. Frequent and Intense Conflicts, with Devastating Human Toll

Since the early 1990s, ME&CA economies have been more frequently affected by violent conflicts (hereafter conflicts) than those in other regions, apart from sub-Saharan Africa. Conflicts—defined as episodes of organized and lethal violence between state or nonstate actors or against civilians—have risen sharply over the last decade, highlighting the relatively high prevalence of conflicts in the region (Figure 2.1, panel 1).³ Within ME&CA, conflicts have been particularly prevalent in the geographic area encompassing the Middle East and North Africa, Afghanistan, and Pakistan (MENAP). The number of conflicts in MENAP nearly doubled in the mid-2010s, a rise surpassed only by sub-Saharan Africa. Moreover, conflicts in MENAP tend to last longer than those in other regions (Figure 2.1, panel 2).

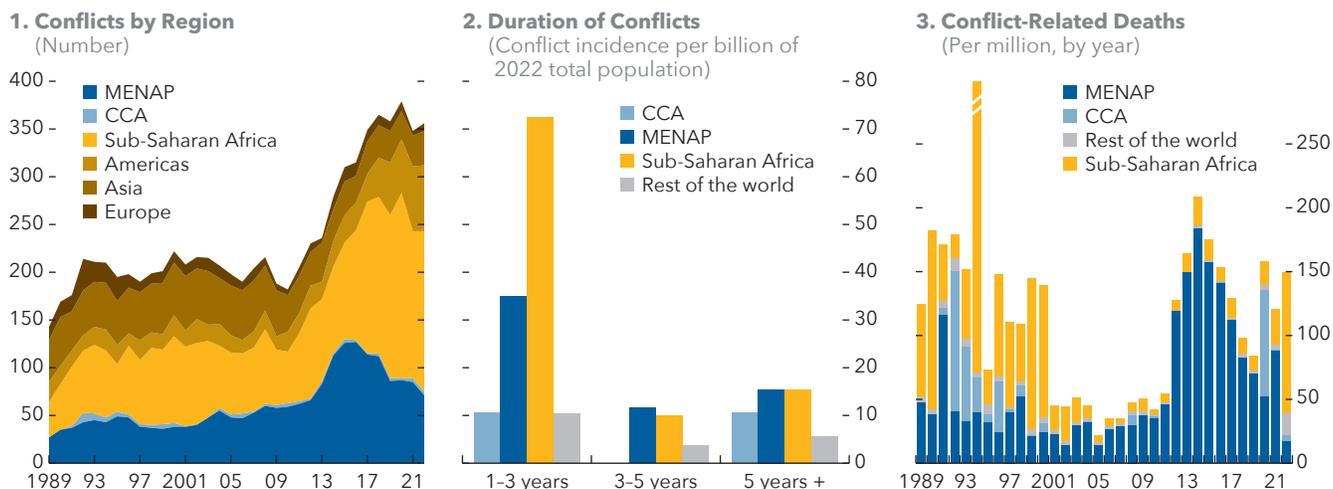
Over the past decade, the nature of conflicts in ME&CA has changed. Civil wars and interstate conflicts (state-based conflicts) have become more frequent.⁴ In MENAP, large-scale, nonstate-based conflicts (clashes between two nongovernmental armed groups) were the primary drivers of conflicts during the 2010s, accounting for

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² The terms impact and effect are used in the chapter for improved readability. Nevertheless, the estimated effects are associational and not necessarily causal.

³ This chapter defines conflict as per the Uppsala Conflict Data Program's Georeferenced Events Database covering 1989–2022, which is the main data source. As such, conflicts are defined as incidents of organized and lethal violence between identifiable state or nonstate actors or against civilians. The data do not include criminal violence (such as homicides and gang violence) due to the challenge of attributing these incidents to specific identifiable and organized groups. See Uppsala Conflict Data Program (2022). Conflict-related deaths are aggregated by year and expressed per million residents to derive an intensity measure at yearly frequency. See Online Annex 2.1 for further details. As the conflict in Gaza and Israel began in October 2023, it is not included in the analysis.

⁴ The Uppsala Conflict Data Program data distinguish between conflicts based on the involved actors. We consider two conflict types: state-based (involves lethal violence between two organized groups where at least one party is the government) and nonstate-based (occurs between two organized groups, neither of which is a government).

Figure 2.1. Conflicts, 1989-2022

Sources: IMF, World Economic Outlook database; Uppsala Georeferenced Event Database (v23.1); and IMF staff calculations.

Note: A conflict event is defined as an incident where organized and lethal violence involving state- or nonstate-based actors or against civilians occurs that results in at least 25 battle-related deaths in a calendar year. Panel 2 covers 273 conflicts with a duration of one or more years, occurring between 1989 and 2022, and in over 67 countries. The y-axis shows the number of conflicts per billion of 2022 regional population (conflict incidence) over the sample. The total sample covers 1,421 conflicts in 125 countries. For panel 3, in 1994 the conflict in Rwanda drives the significant jump in the category sub-Saharan Africa data to over 1,000, and the conflict in Ethiopia drives the jump in 2022. CCA = Caucasus and Central Asia; MENAP = Middle East and North Africa, Afghanistan, and Pakistan.

nearly two-thirds of conflicts by 2014-15. However, the proportion of state-based conflicts has since risen to about half of all conflicts, alongside a significant rise in deaths. Additionally, substate actors have emerged in many places, establishing parallel governments and economic entities. In contrast, countries in the Caucasus and Central Asia (CCA) were affected mainly by state-based conflicts during the sample period (1989-2022). Overall, the experiences across countries have varied markedly. Some conflict-affected states (Afghanistan, Iraq, Somalia, Sudan, Syria) have endured some form of conflict for most of the sample period, while other ME&CA economies have experienced more variation in the frequency and duration of conflicts, with most resolving within three years.

The human cost of conflicts has been devastating. For example, during the 2010s, conflict intensity in MENAP reached historical regional highs, with close to 100 deaths per million people occurring in the years following 2010 and peaking in 2014 following the onset of the Arab Uprisings (Figure 2.1, panel 3). Moreover, by the end of 2022, conflicts in a handful of ME&CA economies were responsible for more than 40 percent of the world's forcibly displaced population (about 47 million people), resulting in a substantial brain drain. The repercussions of such displacement extend beyond worsened living conditions for the displaced. Large and unanticipated movements of people resulted in economic and social strains on neighboring and host countries, affecting the provision of public services, employment, and wage levels (Rother and others 2016). For instance, 70 percent of refugees were considered poor, a number that rose to 90 percent when applying the poverty definitions of individual countries, putting strains on public resources.⁵ Moreover, as legal and administrative barriers limit refugees' access to formal labor markets, it often pushes many into low-wage, unskilled jobs and informal employment.

Beyond the devastating human toll, conflicts in the region have also inflicted long-term societal impacts. Intense and protracted conflicts have disrupted human capital accumulation and social cohesion in many countries. Many conflict-affected economies have seen falling primary school enrollment rates, declining life expectancy,

⁵ These statistics are based on a sample from a study of Syrian refugees residing in Jordan and Lebanon who registered by 2014 (Verme and others 2016).

and rising rates of undernourishment (Box 2.1). These negative outcomes are exacerbated by disruptions to basic services and food supplies, as well as economic hardship—all of which disproportionately impact the most vulnerable populations. The extent of these effects varies widely across the region, with some countries experiencing significant reductions in educational and health indicators, particularly during high-intensity and prolonged conflicts with high extent of population displacement (which can lead to a drastic drop in primary school enrollment, even reaching 30 percentage points,⁶ and a severe fall in life expectancy by 10 percentage points in the second year of high-intensity conflicts). This evidence underscores the complex and lasting consequences of conflicts on human capital development and social cohesion.

Moreover, conflicts can cause substantial infrastructure damage, making postconflict reconstruction critical but costly. Conflicts typically result in the damage or destruction of physical assets and infrastructure, including residential and commercial buildings, roads, bridges, schools, and hospitals. Infrastructure for essential services like water, electricity, and sanitation is also often severely affected. For example, Rother and others (2016) indicate that the estimated cost of lost physical capital in Syria from the civil war is more than \$130 billion (or about 230 percent of prewar GDP). Similarly, Rother and others (2016) cite media reports suggesting that infrastructure losses in Yemen due to the fighting in early 2015 exceeded \$20 billion (or 50 percent of prewar GDP).

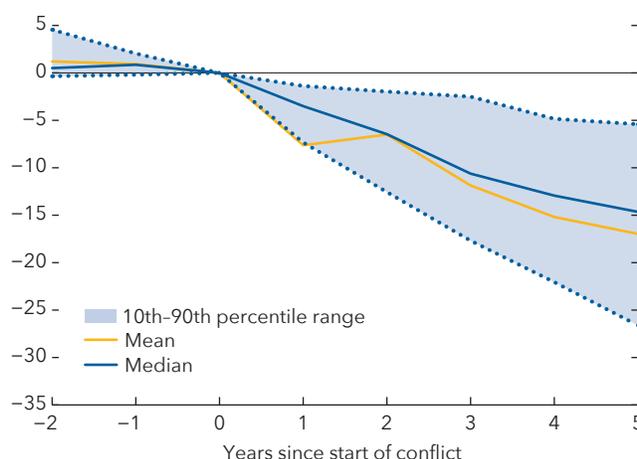
2.2. Persistently Lower Growth after Conflicts

On average, ME&CA economies have experienced markedly lower real GDP per capita than forecast before the onset of an acute and prolonged conflict. Although growth forecasts are inherently subject to uncertainty, observed data point to sizable economic losses. Compared to initial preconflict forecasts, actual real GDP per capita turned out nearly 5 percent lower (median) in the first year of an acute and prolonged conflict (Figure 2.2). As growth rates tended to remain stagnant or negative for an extended period after an acute and prolonged conflict episode started, the median difference in actual real GDP per capita versus preconflict forecasts widened to almost 15 percent after five years.

The empirical evidence suggests that the economic consequences of conflicts in ME&CA tend to be more severe and longer lasting than in other regions. Consistent with the forecast error analysis, dynamic responses—estimated using local projection methods—point to negative effects of conflicts on output that persist and build over time. Specifically, the onset of a high-intensity conflict is associated with a roughly 2 percent contraction in real GDP per capita during the first year, reaching a maximum drop exceeding -13 percent nine

Figure 2.2. ME&CA Region: The Effect of Acute and Prolonged Conflict Episodes on Real GDP per Capita

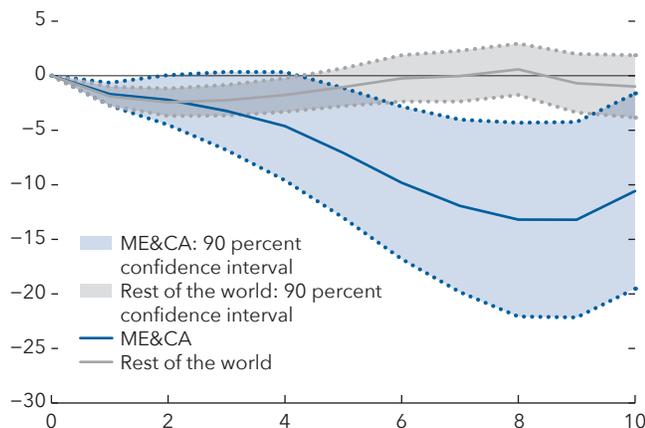
(Percent difference between actual and preconflict projection)



Sources: IMF, World Economic Outlook database; Uppsala Georeferenced Event Database (v23.1); and IMF staff calculations. Note: Acute and prolonged conflict is defined as a conflict episode preceded by two or three years of relative peace (zero or less than 25 deaths in aggregate), episodes with greater than 25 deaths per year (acute) per country after onset, and three or more consecutive years (prolonged) of active conflict. For the preconflict *World Economic Outlook* forecast, the fall vintage preceding the year of the onset of identified conflict episodes was used. ME&CA = Middle East and Central Asia.

⁶ For example, during the invasion of Kuwait from 1990 to 1991 and the Syrian Civil War between 2011 and 2013.

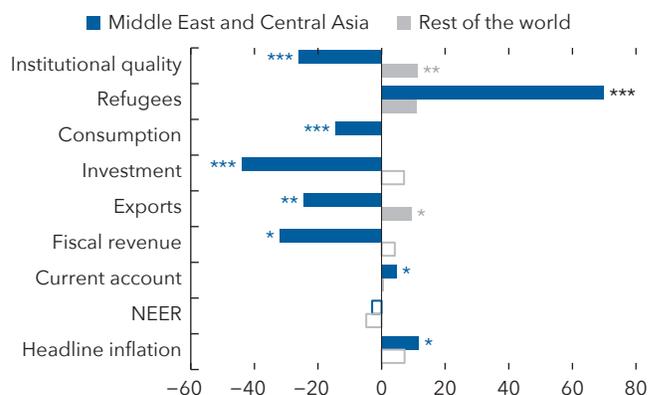
Figure 2.3. Impact of Conflict on Real GDP per Capita
(Percent)



Sources: IMF, World Economic Outlook database; Uppsala Georeferenced Event Database (v23.1); and IMF staff calculations. Note: The shock occurs in year 1 and corresponds to an increase in conflict intensity to the 75th percentile of the world distribution. ME&CA = Middle East and Central Asia.

Figure 2.4. Economic Disruptions: Additional Variables

(Percent difference between year 7 and the year before the conflict onset)



Sources: International Country Risk Guide; IMF, World Economic Outlook database; UN Refugee Agency, Global Trends Report 2022; Uppsala Georeferenced Event Database (v23.1); and IMF staff calculations.

Note: The figure shows the impact seven years after the shock, which corresponds to an increase in conflict intensity to the 75th percentile of the world distribution. ***, **, and * indicate statistical significance at the 1, 5, and 10 percent level, respectively. Empty bars indicate a lack of significance at the 10 percent level. Local projection results are available in Online Annex 2.2. All results are percent differences except for the current account balance as percentage of GDP, for which it is the percentage point difference. NEER = nominal effective exchange rate.

years after the shock (Figure 2.3).⁷ No difference is observed in the loss of output per capita between state and nonstate conflicts, consistent with previous findings.⁸ The economic impact of conflicts in MENAP is also statistically similar to CCA countries—although slightly less persistent among the latter group (see Online Annex Figure 2.4.5). In contrast, while the impact on output per capita for the average economy in the rest of the world is about -2.5 percent during the first years (similar to estimates for the average ME&CA economy), this effect dissipates after the fifth year.⁹

The more pronounced impact of conflicts in ME&CA compared to the rest of the world partly reflects differences in the impact across multiple channels and factors. Figure 2.4 plots the estimated dynamic response by economic channel or factor seven years after the onset of a high-intensity conflict. On average, there are signs of persistent disruption from conflict across most channels for ME&CA economies, while for the rest of the world there are typically not. Moreover, five main findings emerge (Figure 2.4):

⁷ A high-intensity conflict is defined as occurring when the conflict intensity (annual conflict-related deaths per million) is at the 75th percentile of the distribution of conflict intensity over the estimation sample.

⁸ See the April 2019 *Regional Economic Outlook: Sub-Saharan Africa* and Fang and others (2020). Nonstate conflicts include civil conflicts. See Online Annex 2.3 for more details.

⁹ The dynamic responses are robust to a variety of checks, including (1) the addition of a contemporaneous measure of the conflict shock for each horizon, as suggested by Teulings and Zubanov (2013), thereby controlling for future shocks and anticipation effects generated by the start of a conflict; and (2) dropping countries that have historically been affected by conflicts over a long time horizon (Afghanistan, Iraq, Libya, Somalia, Syria, Sudan, West Bank and Gaza, Yemen). See Online Annex 2.5 for more details.

- Conflicts are associated with higher inflation and lower domestic demand. The output per capita decline is accompanied by an increase in inflation and drops in consumption, investment, exports, and fiscal revenues for economies in ME&CA.¹⁰ These outcomes likely stem from disruptions to the country's economic operations, heightened uncertainty, and a degradation of the state's operational capacity.

- The substantial and enduring economic cost of conflicts in ME&CA is associated with significant reductions in investment and a deterioration of institutional quality.¹¹ Specifically, these variables decline considerably more in ME&CA countries compared to the global average, with investment and institutional quality lower by 44 percent and 26 percent, respectively, seven years postshock. These declines are mainly driven by MENAP rather than by CCA countries, indicating more severe impacts in the former (Figure 2.5). Such declines typically signal poorer medium-term economic outlook through, for instance, forgone capital formation.

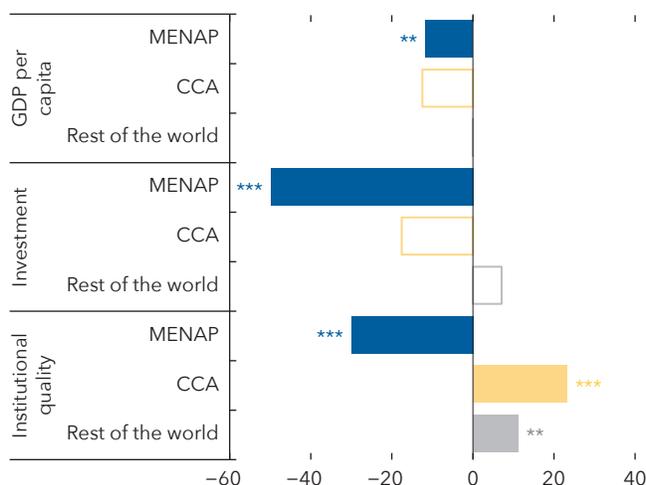
- Conflicts tend to coincide with improvements in the current account balance. These developments are not driven by import compression but an increase in the secondary income account (which points to more remittances during conflicts), together with increased foreign aid.¹² They are also associated with capital outflows, which may be symptomatic of heightened uncertainty and concern among foreign investors.¹³

- Conflicts in ME&CA do not appear to affect the nominal effective exchange rate. This seems to be driven by the prevalence of fixed exchange rate regimes in the region. The nominal effective exchange rate depreciates when analyzing only ME&CA economies with flexible exchange rates.¹⁴

- Conflicts are often associated with large increases in refugee flows. Figure 2.4 shows that seven years after a high-intensity conflict starts, the number of refugees from the conflict-affected economy is about 70 percent higher. Taken together with the findings described in Box 2.1, the implied fall in human capital and potential losses of prime-age workers would contribute to more persistent adverse economic effects, slow the pace of income convergence, and exacerbate poverty and inequality. Consequently, these factors can hinder

Figure 2.5. Economic Disruptions: Additional Variables

(Percent difference between year 7 and the year before the conflict onset)



Sources: International Country Risk Guide; IMF, World Economic Outlook database; Uppsala Georeferenced Event Database (v23.1); and IMF staff calculations.

Note: The figure shows the impact seven years after the shock, which corresponds to an increase in conflict intensity to the 75th percentile of the world distribution. ***, **, and * indicate statistical significance at the 1, 5, and 10 percent level, respectively. Empty bars indicate a lack of significance at the 10 percent level. Local projection results are available in Online Annex 2.4. All results are percent differences. CCA = Caucasus and Central Asia; MENAP = Middle East and North Africa, Afghanistan, and Pakistan.

¹⁰ This is consistent with findings from the earlier literature (April 2019 *Regional Economic Outlook: Sub-Saharan Africa*; Fang and others 2020; Novta and Pugacheva 2021). The impact on fiscal revenues is negative and associated with decreases in social spending.

¹¹ Institutional quality is proxied by an indicator for the control of corruption (International Country Risk Guide). The results are qualitatively similar when looking at alternative proxy variables of institutional quality (including from the Worldwide Governance Indicators) such as measures of law and order, political stability, voice and accountability, government effectiveness, regulatory quality, and rule of law—see Online Annex Figures 2.2.11–2.2.16 for further details.

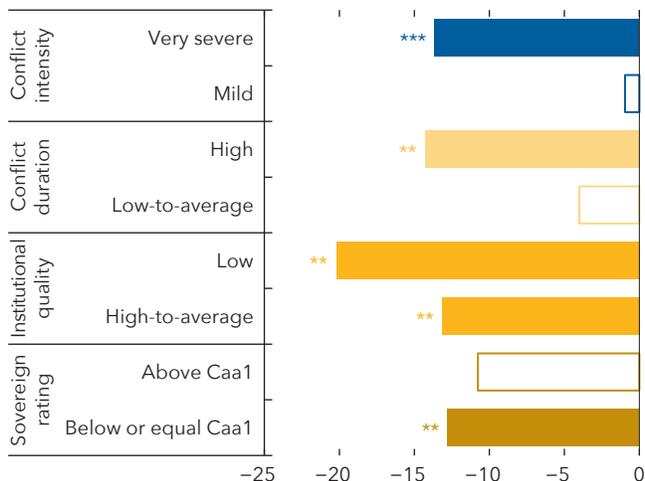
¹² While imports decrease following the onset of a conflict, they decline less than exports. We do not show the impact on imports due to space constraints.

¹³ See also Online Annex Figure 2.2.17, showing an increase in the secondary income balance in ME&CA countries following the onset of a conflict and consistent with increases in remittances and aid flows.

¹⁴ See Online Annex Figure 2.2.10. The exchange rate regime classification comes from Ilzetzki, Reinhart, and Rogoff (2019), with a flexible exchange rate regime coded by a score of 3 and above according to their coarse methodology.

Figure 2.6. Differential Impact on Real GDP per Capita According to Conflict Characteristics and Preexisting Economic Conditions

(Percent difference between year 7 and the year before the conflict onset)



Sources: Bloomberg Finance L.P.; International Country Risk Guide; IMF, World Economic Outlook database; Uppsala Georeferenced Event Database (v23.1); and IMF staff calculations.

Note: The figure shows the impact seven years after the shock and corresponds to an increase in conflict intensity to the 75th percentile of the world distribution, except for the conflict intensity case which uses a categorical variable (see Online Annex 2.4). ***, **, and * indicate statistical significance at the 1, 5, and 10 percent level, respectively. Empty bars indicate a lack of significance at the 10 percent level. Local projection results are available in Online Annex 2.4. We use sovereign ratings from Moody's and choose the threshold of Caa1 to ensure a sufficient sample size.

lead to larger drops in institutional quality compared to state-based conflicts (see Online Annex 2.3).

- ME&CA countries with lower sovereign debt ratings tend to experience more pronounced output drops.¹⁹ Lower ratings could be associated with more persistent effects due to more constrained access to financing options essential for reconstruction efforts. With access to finance constrained, many of these countries may have to seek alternatives such as foreign aid or official financing, including through IMF-supported programs.

2.3. Adverse Spillovers to Other Countries from Conflicts

Conflicts may not only impact the countries directly involved but could also have spillover effects on other countries, with the impact varying depending on the channel of exposure. For instance, some countries could benefit from the emergence of new trade routes, stemming from trade divergence following the onset of a

development efforts, widen the income gap, and increase economic and social disparities within and across countries.

What might account for the large and persistently more negative effects of conflicts in ME&CA? Part of the reason appears to be that the adverse marginal effects of conflict increase with the conflict intensity and duration. Combined with the greater incidence, higher typical intensity, and longer duration of conflicts in ME&CA, this translates into larger and more persistent impacts than seen elsewhere on average. When differentiating between mild and very severe conflicts, the analysis indicates that the latter accounts for the larger and more persistent reduction of output per capita estimated for ME&CA economies relative to other regions (Figure 2.6).¹⁵ The same applies for longer duration conflicts.¹⁶ Furthermore, there is evidence that preexisting country characteristics influence the economy's response to conflict.¹⁷

- ME&CA countries with lower institutional quality before a conflict tend to suffer larger output losses than other countries, exacerbating the likelihood of perpetuating negative feedback loops.¹⁸ In addition, state and nonstate conflicts have a different associated effect on institutional quality. Specifically, nonstate conflicts tend to

¹⁵ This is also in line with the greater incidence of more economically disruptive conflicts in MENAP compared to the CCA, as conflicts in the former are more likely to be severe. See Online Annex 2.4.

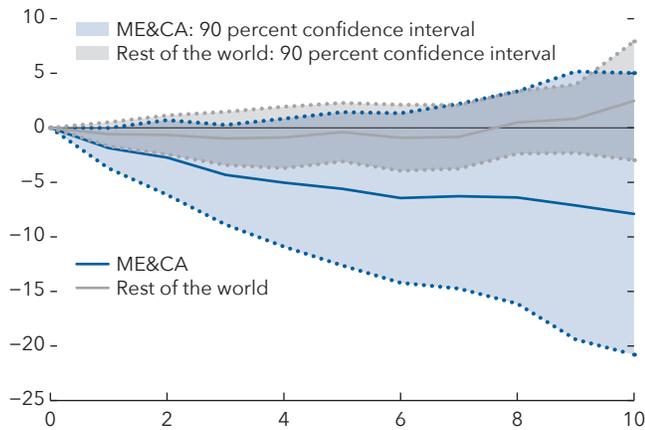
¹⁶ Conflicts of very severe intensity are conflicts where the deaths-to-population ratio is in the top quartile of the world distribution, while conflict of mild intensity are conflicts where the deaths-to-population ratio is in the last quartile of the world distribution. See Online Annex 2.4 for more details. High duration is defined by a dummy if the duration is in the top quartile of the world distribution.

¹⁷ Both results are partly driven by the fact that very severe intensity conflicts are more likely to take place in countries with low institutional quality or low sovereign debt rating, therefore highlighting potential endogeneity.

¹⁸ Low institutional quality is defined by a dummy if the control of corruption as measured by the International Country Risk Guide is in the lowest quartile of the world distribution.

¹⁹ This is based on Moody's sovereign debt ratings. The threshold of Caa1 is used to compare ME&CA countries with a low sovereign rating (below or equal to Caa1) to other ME&CA countries (with a sovereign rating above Caa1). This threshold was chosen instead of "investment grade" to ensure sufficient sample size in each bucket.

Figure 2.7. Impact of Conflict on Bordering Economies' GDP per Capita
(Percent)



Sources: CEPII database; IMF, World Economic Outlook database; Uppsala Georeferenced Event Database (v23.1); and IMF staff calculations.

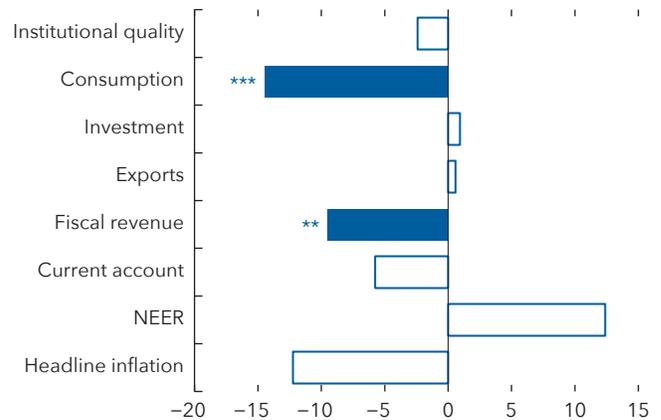
Note: The impact estimates approximately correspond to the deaths per million associated with the 75th percentile of the world distribution for the own country analysis (see Online Annex 2.6 for details on the mapping). ME&CA = Middle East and Central Asia.

conflict, while others might suffer from a rise in uncertainty and increased fiscal pressures from refugee flows. When considering the impact of conflicts on bordering countries in our sample, ME&CA economies appear to experience a more adverse and prolonged impact compared to other regions (Figure 2.7).²⁰ For the group of ME&CA economies, conflicts in bordering countries are associated, on average, with an immediate drop in output per capita in neighbors of about 1.5 percent and a further drop of about 6 percent in output per capita about nine years after the initial conflict shock, albeit statistically insignificant. A similar pattern holds when considering spillovers via trade relationships (bilateral agreements or flows).²¹ Zooming in to only the group of countries in the Middle East and North Africa, the spillover effect is large and statistically significant, with a decrease of about 10 percent five years after the conflict.

The characteristics of conflicts elsewhere and the recipient country's characteristics also influence the spillovers. When conflicts in bordering countries are nonstate-based, the adverse impact on output per capita is even larger and statistically significant, at 10 percent seven years after the conflict spillover shock. The impact of conflict spillover shocks is also more pronounced in countries with relatively lower institutional quality.²² Countries with weaker institutions are estimated to have about 10 percent lower output per capita four years after a conflict spillover shock in bordering countries.²³

Adverse economic effects from conflicts in bordering countries are also evident for other variables. Conflicts are associated with notable deteriorations in average domestic consumption and fiscal revenues (and an associated significant increase in public debt) of the bordering ME&CA countries (Figure 2.8). Although less statistically

Figure 2.8. Impact of Conflict on Bordering Economies' Macroeconomic Indicators
(Percent difference between year 7 and the year before the conflict onset)



Sources: CEPII database; International Country Risk Guide; IMF, World Economic Outlook database; Uppsala Georeferenced Event Database (v23.1); and IMF staff calculations.

Note: The figure shows the impact seven years after the shock which approximately corresponds to the deaths per million associated with the 75th of the world distribution for the own country analysis. ***, **, and * indicate the statistical significance at the 1, 5, and 10 percent level, respectively. Empty bars indicate a lack of significance at the 10 percent level. The impact on the current account balance is in percentage point change. NEER = nominal effective exchange rate.

²⁰ See Online Annex 2.6 for details on the construction of the conflict spillover shock. It is effectively a weighted average of conflict shocks elsewhere, with the specific bilateral weights varying depending on the exposure channel considered. For comparability in the dynamic responses, the conflict spillover shock is mapped to a percentile of its distribution that roughly corresponds to the own-country high-intensity conflict shock impulse's conflict-related deaths per million. For the bordering countries conflict spillover shock, this is a move to its 79th percentile.

²¹ See Online Annex 2.6 for further details on the robustness of the findings to alternative spillover channels (weights).

²² To proxy for institutional quality, we use the law-and-order quality and political risk rating in the country, and the estimate reported in the text refers to this measure (International Country Risk Guide).

²³ See Online Annex 2.6 for further details on effect differences by conflict spillover and country characteristics.

significant, the results also show economically meaningful adverse impacts on institutional quality and the current account balance. Nearby conflicts also increase refugee inflows into their neighbors in the immediate aftermath, with an increase of about 48 percent for ME&CA economies (and higher than what we observe for the bordering countries' conflict spillover shock in the rest of the world).²⁴

2.4. Concluding Remarks

ME&CA is one of the most conflict-prone areas in the world. The duration and intensity of conflicts tend to be relatively high, resulting in significant long-term societal impacts. Moreover, the adverse impacts of conflicts on economic output and beyond for ME&CA economies are larger than those observed in the rest of the world. This disparity can be attributed not only to the severe intensity of conflicts and their nonlinear impacts, but also to preexisting conditions such as weaker institutions. Furthermore, conflicts in the region tend to produce more negative spillover effects for trading partner economies compared to other regions.

While this chapter focuses on the most salient channels through which conflicts can impact an economy, several other factors are likely also relevant. For example, conflicts may adversely impact financial stability when a prolonged conflict results in weaker financial sector performance and reduced ability by banks to sustain financial intermediation and payment systems, potentially leading to a greater risk of a systemic banking crisis. In addition, economies endowed with natural resources could face differing effects from a prolonged conflict (for example, depending on whether a substantial share of their natural resource revenue stream is lost). Moreover, higher oil prices (for example, from shipping or oil production disruptions) could imply an adverse supply shock to the global economy and jeopardize the global disinflation process. That said, recent history shows that oil price increases during conflicts in the Middle East do not persist. Oil price increases may be mitigated by regional oil producers tapping into spare capacity and other countries releasing strategic oil stocks to offset the shortfall.

Given the increased uncertainty associated with conflict, it is vital to make decisive progress to strengthen economic fundamentals and institutions. Notably, the findings underscore the importance of strengthening institutions to help alleviate the adverse impact of conflicts. Sound macroeconomic policies, including building fiscal space to respond to urgent humanitarian and social needs, are essential. Moreover, in the case of systemic financial stress, the availability of crisis management measures, such as central bank emergency liquidity support, would be important. Last but not least, international and regional financial assistance needs to be calibrated to country-specific circumstances of fragility and conflict. In this regard, the IMF stands ready to assist its member economies and is stepping up its engagements with the most vulnerable members, including through its Strategy for Fragile and Conflict-Affected States (IMF 2022).

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²⁴ See Online Annex 2.6 for the details on refugee inflows.

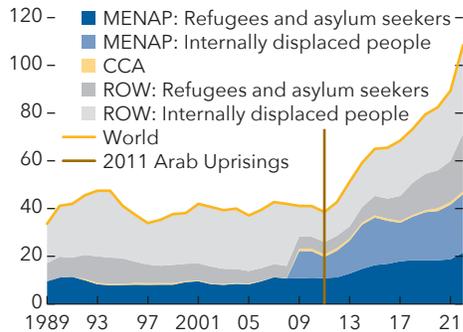
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Box 2.1. Long-Term Societal Effects of Conflict

High-intensity and prolonged conflicts, particularly those leading to large-scale forced displacement, can severely disrupt human capital accumulation and social cohesion in the affected countries.

Box Figure 2.1.1. Forcibly Displaced People by Origin Country, 1989-2022

(Millions)



Sources: Internal Displacement Monitoring Center; UN High Commissioner for Refugees (UNHCR), Global Trends Report 2022; and IMF staff calculations.

Note: Forcibly displaced people include refugees under UNHCR mandate, asylum seekers, internally displaced people of concern to UNHCR, and other people in need of international protection. CCA = Caucasus and Central Asia; MENAP = Middle East and North Africa, Afghanistan, and Pakistan; ROW = rest of the world.

By the end of 2022, the number of forcibly displaced people had surged to over 100 million worldwide, with the Middle East and Central Asia (ME&CA) accounting for over 40 percent (Box Figure 2.1.1). The aftermath of the 2011 Arab Uprisings led to a significant increase in forced displacement, with the region comprising slightly over 60 percent of the world's refugee population by 2014. Within ME&CA, only a few economies, including Afghanistan, Somalia, Sudan, Syria, West Bank and Gaza, and Yemen, make up the majority of the displaced population.

In addition, as skilled and educated individuals are more likely to leave to avoid violence, conflicts can also lead to a brain drain. This loss of talent in conflict countries could hinder postwar recovery and development.

Moreover, the cross-border flow of people has impacted recipient host economies. Notably, these economies have observed lower wages, increased demand for public services, and increased social spending (Rother and others 2016). As a considerable portion of the displaced population has remained within the region, this is adding to fiscal pressures in ME&CA.

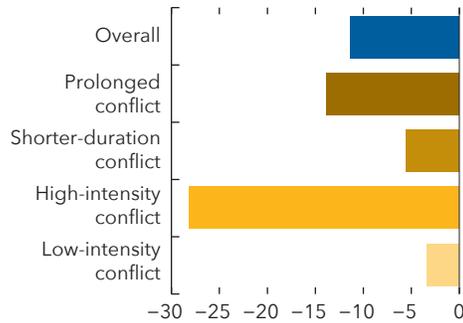
High-intensity and prolonged conflicts can have significant negative effects on educational attainment, skill development, and, consequently, future job prospects. Past conflicts in ME&CA have led to noticeably lower primary school enrollment rates. Compared to preconflict levels, these reductions are more severe during protracted conflicts—and even more so during high-intensity conflicts (Box Figure 2.1.2). The impact on primary school enrollment varies widely across ME&CA countries, yet the steepest cumulative decline in enrollment exceeded 30 percentage points by the conflict's second year. In general, the drop in school enrollments can be attributed to a combination of factors, including the destruction of school infrastructure, the use of schools as shelters for civilians, the displacement of communities, a shortage of qualified teachers, and heightened security concerns that deter student attendance. These factors collectively form barriers to education during wartime. The loss of family members and economic hardship can also result in more children entering the labor market, further diminishing their engagement in formal education.

Past armed conflicts in the region have also severely undermined health outcomes, leading to a decline in life expectancy (Box Figure 2.1.3). The reasons for this decline are multifaceted: directly through conflict-related fatalities and indirectly through the collapse of essential services like health care, water and sanitation systems, and food supply chains. This collapse has led to the spread of diseases, malnutrition, and even famine. The reduction in life expectancy was most acute in the early years of conflict. However,

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Box 2.1. (continued)

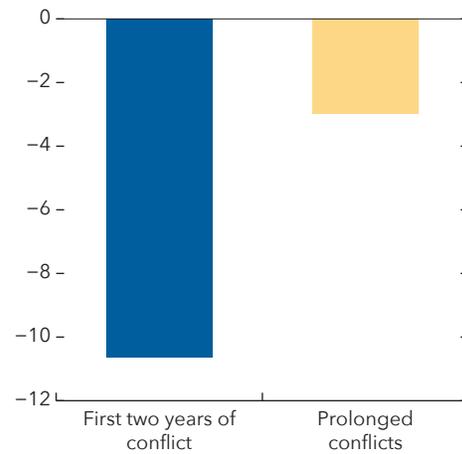
**Box Figure 2.1.2. ME&CA Region:
Primary School Enrollment in
Prolonged versus Shorter Duration
and High- versus Low-Intensity
Conflicts**
(Percentage points)



Sources: IMF, World Economic Outlook database; Uppsala Georeferenced Event Database (v23.1); World Bank, World Development Indicators; and IMF staff calculations.

Note: A prolonged conflict is defined as a conflict that lasts more than five years. ME&CA = Middle East and Central Asia.

**Box Figure 2.1.3. ME&CA Region:
Life Expectancy in Conflict Countries**
(Percentage points)



Sources: IMF, World Economic Outlook database; Uppsala Georeferenced Event Database (v23.1); World Bank, World Development Indicators; and IMF staff calculations.

Note: A prolonged conflict is defined as a conflict that lasts more than five years. ME&CA = Middle East and Central Asia.

in prolonged conflicts, the negative impact on life expectancy tended to lessen, possibly due to some conflicts becoming less intense and more localized or the mitigating effects of humanitarian assistance and international support, which helped to improve health and living conditions in affected countries.

Intense and prolonged conflicts can also exacerbate rates of undernourishment, further compromising human capital formation. Data from past conflicts in ME&CA economies show that undernourishment rates tend to stay high even after conflicts have ended. Although there is considerable variation among economies, the average increase in undernourishment in those affected by conflict was nearly 14 percentage points, in contrast to a decrease in undernourishment observed in nonconflict countries over the same period. Conflicts disrupt food supply chains and local distribution networks, leading to higher food prices and shortages. When combined with the effects of displacement and economic hardship, this results in higher undernourishment rates, with the most severe impacts often borne by the most vulnerable groups, including children and the elderly.