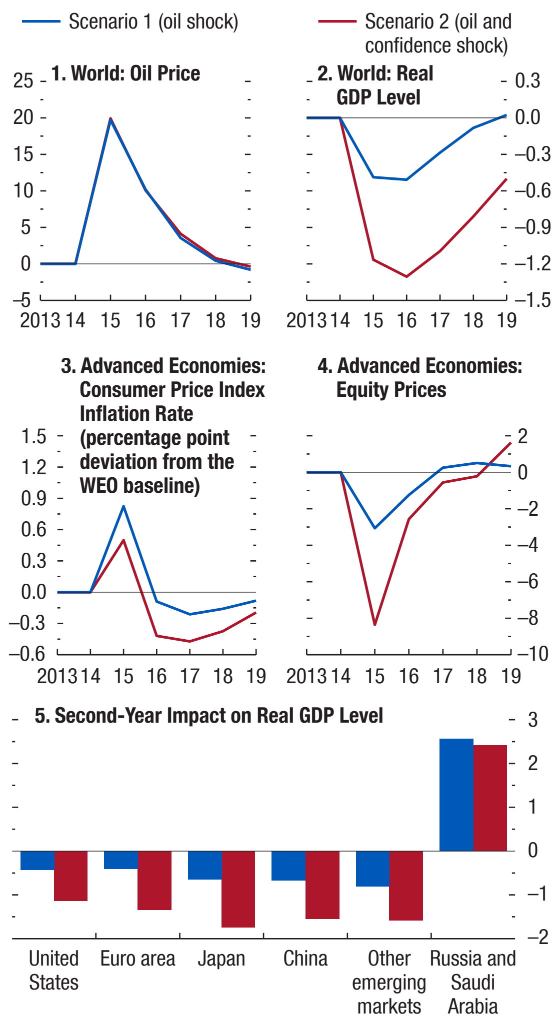
Figure 1.13. Iraq Oil Shock

(Percent deviation from the WEO baseline, unless indicated otherwise)

The IMF's G20 Model (G20MOD) is used here to explore the macroeconomic impact of a potential significant global oil supply disruption due to conflict escalation in Iraq. In the first scenario (blue lines and bars), the rise in oil prices is the only drag on the global economy, whereas in the second (red lines and bars), the disruption also undermines confidence. Iraq's oil exports drop by 50 percent from the current level (roughly 1½ percent of current global oil consumption), with only half of the decline offset by higher oil production from current spare capacity. This leads to an oil price spike of 20 percent, partly on account of sharply higher precautionary demand for oil inventories. The oil price starts falling after the first year, but only gradually, largely because the supply disruption is assumed to take longer to unwind than expected initially.



Source: IMF, G20MOD simulations.