



THE EDGE ECONOMIC REPORTS

A Reversal of Fortunes

*Inside the World Bank's October Reading of the Hormuz Shock,
the 2027 Rebound and the Region's AI Opening*

October 2026



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Executive Summary

For half a century, when energy prices surged, the Gulf gained. The surge of 2026 is taxing it instead. That inversion is the central finding of the World Bank Group's October 2026 economic update for the Middle East, North Africa, Afghanistan and Pakistan region, published on 6 October under the title From Divide to Opportunity: AI, Jobs, and Growth, and it follows from a single mechanism: the binding constraint of this shock is volume, not price. The effective closure of the Strait of Hormuz, a corridor that normally carries around one fifth of globally traded oil and liquefied natural gas, cut Gulf oil production from about 26 million barrels per day before the conflict to about 16 million in March, so higher prices arrived precisely when several exporters had fewer barrels to sell. Regional output is now projected to contract by 2.1 percent in 2026 after growing 3.3 percent in 2025, with the Gulf Cooperation Council economies contracting 4.3 percent on average, 5.7 percentage points below the Bank's April vintage and 8.7 below January, a contraction the update compares to the pandemic year.

The losses track the Bank's own measure of exposure: each economy's reliance on the strait as its sole export corridor, interacting with infrastructure, production flexibility and the buffers each sovereign brought into the year. Economies with few near term alternatives to the strait carry the heaviest projections: Qatar at a contraction of 20.9 percent, its weakest performance in more than five decades, Kuwait at 14.6 percent, its weakest in more than three, Iraq at 12.4 percent and Bahrain at 2.9 percent. Economies with routes around the chokepoint were partly shielded: Saudi Arabia, which redirected crude to the Red Sea, is projected to contract 2.0 percent, the United Arab Emirates 1.6 percent, and Oman, whose ports face the open ocean, stands as the only Gulf economy projected to grow this year, at 3.1 percent. The same geography governs the recovery: on the Bank's central assumption that the conflict subsides by the end of 2026, the deepest cuts become the steepest rebounds, with Qatar projected to expand 26.7 percent in 2027, Kuwait 22.0 percent, Iraq 16.9 percent and the Gulf Cooperation Council as a group 10.3 percent. Those rates measure the restoration of production from a depressed base; as this report shows, they would return output only modestly above its 2025 level, not to the path the region expected before the war.

Two findings temper the damage. First, the region's developing oil importers are not merely surviving the shock, they are accelerating through it: growth in that group is projected to rise from 3.9 percent in 2025 to 4.3 percent in 2026, led by Egypt, whose fiscal year growth estimate of 5.1 percent carries the largest upgrade in the Bank's table, 0.8 percentage points above the April vintage. Second, financial markets have so far declined to amplify the shock. Sovereign spreads widened across most of the region in March and then narrowed, and by early September spreads in Egypt, Iraq, Jordan, Kuwait, Morocco, Oman, Pakistan, Saudi Arabia and Tunisia all sat below their levels of 27 February, the eve of the conflict. The update itself attaches two qualifications, and this report carries both: spreads in Bahrain, Qatar and the United Arab Emirates remained above their pre conflict levels, and narrower spreads need not mean cheaper borrowing when the global risk free rate is rising. The observation is about pricing, not proof: markets have treated the disruption, so far, as temporary rather than as an erosion of the capacity to pay.



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The update's second half looks past the war to the transformation the region cannot postpone: artificial intelligence. The Bank finds that AI in this region is more likely to augment workers than replace them, with fewer than 10 percent of jobs facing near term automation risk against 13 to 20 percent carrying significant augmentation potential. It also finds the promise unevenly distributed, and names Saudi Arabia and the United Arab Emirates as the region's only economies in the global top 25 for both AI model development and high performance computing capacity. Between promise and productivity stand three structural gaps, in localization, in usage and in foundational capital: Arabic is spoken by more than 500 million people yet accounts for about 0.7 percent of global web addresses in the dataset the Bank cites, and the region's private sector invests and trains at rates well below its emerging market peers.

The Edge reading is that the October update describes a severe but legible shock. The contraction is exceptional by historical standards, yet it is a quantity disruption with a mapped geography, a dated assumption set and an explicitly conditional recovery rather than, on the evidence to date, a balance sheet crisis, though the financial consequences differ materially across sovereigns and would intensify if the disruption persists; the market evidence is consistent with that distinction without proving it. The decisive variables for the next two quarters are physical and observable: tanker traffic through and around the strait, production utilization rates in the constrained producers, the condition of damaged export infrastructure, the food inflation gap inside the Gulf, and whether sovereign spreads hold their September levels. The decisive variables for the next decade are institutional: whether the Gulf's computing capacity, the middle income economies' talent and the region's shared languages are combined into one AI ecosystem or left as separate national projects. This report sets out both monitoring sets.

Regional dashboard, October 2026, on our compilation from the World Bank update: MENAAP output projected at a contraction of 2.1 percent in 2026 after growth of 3.3 percent in 2025; excluding Iran, a contraction of 1.3 percent, rebounding to 7.8 percent in 2027; Gulf Cooperation Council at a contraction of 4.3 percent, rebounding to 10.3 percent; Qatar at a contraction of 20.9 percent and Kuwait at 14.6 percent, rebounding to 26.7 and 22.0 percent respectively; Saudi Arabia at a contraction of 2.0 percent and the United Arab Emirates at 1.6 percent, the mildest Gulf declines; Oman the only Gulf expansion at 3.1 percent; developing oil importers accelerating to 4.3 percent, with Egypt at 5.1 percent on its fiscal year; Gulf production about 16 million barrels per day at the March trough against 26 million before the conflict; tanker traffic from the Gulf near 300,000 metric tons per day in August against 1.5 to 2.0 million before the conflict; nine regional sovereigns inside their pre conflict spreads by early September, with three Gulf states still above them. Each figure is sourced in the body of this report.

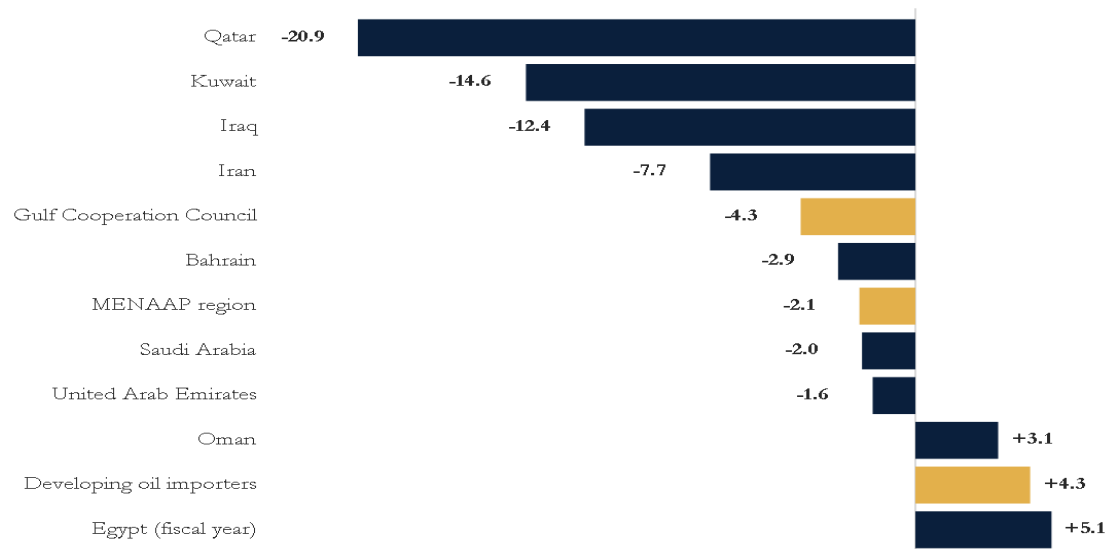
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A Shock Unlike Its Predecessors

The Bank's framing is explicit: this time is different, and the difference is the direction of the transfer. In 2022, after the invasion of Ukraine, higher oil prices lifted hydrocarbon revenues and growth across the Gulf while weakening the outlook for the region's importers. In 2026 the relationship has inverted. The closure of the Strait of Hormuz curtailed oil and gas production and shipments, so the price gains accrue to producers outside the region while the volume losses are concentrated inside it. Consensus forecasts traced the inversion in real time: after February, projections for the Gulf Cooperation Council and Iraq fell sharply while forecasts for the developing oil importers barely moved, the mirror image of the 2022 episode.

The global economy has absorbed the disruption far better than the region at its centre, though not without cost. The World Bank Group's projections of global growth were revised down from 2.6 percent in January to 2.5 percent in June, a revision the Bank itself describes as relatively contained for an energy supply shock of this size, while still contributing to a broader global slowdown. Five cushions did that work: the world entered 2026 with overproduction; some Gulf economies redirected their exports through alternative routes; producers outside the region increased output; inventories were drawn down; and oil demand, particularly in East Asia, declined. The contrast between the global and the regional experience is one of scale and concentration: a shock that reads globally as volatility reads regionally as a recession.

Real GDP growth forecasts for 2026, percent



Navy: economies. Gold: aggregates. Data: World Bank Group, MENAAP Economic Update, October 2026, Table 1.1.

Figure 1. The 2026 ledger in one picture: the corridor constrained producers carry the contraction while Oman, Egypt and the importers grow. Source: World Bank Group, MENAAP Economic Update, October 2026, Table 1.1.



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Key Regional Growth Forecasts

Economy or group	2025e	2026f	2027f	Change to 2026f since April
MENAAP region	3.3	-2.1	n.a.	n.a.
MENAAP excluding Iran	4.0	-1.3	7.8	-3.1
Gulf Cooperation Council	4.5	-4.3	10.3	-5.7
Qatar	1.8	-20.9	26.7	-15.2
Kuwait	2.7	-14.6	22.0	-8.2
Saudi Arabia	4.6	-2.0	7.9	-5.1
United Arab Emirates	6.2	-1.6	9.5	-4.0
Bahrain	3.5	-2.9	4.2	-4.1
Oman	2.4	3.1	3.4	+0.7
Iraq	-2.2	-12.4	16.9	-3.8
Developing oil importers	3.9	4.3	4.0	+0.6
Egypt (fiscal year)	4.4	5.1	4.3	+0.8
Jordan	2.8	2.7	2.9	0.0
Morocco	4.9	4.4	4.0	+0.2
Pakistan (fiscal year)	3.2	3.7	3.8	+0.7

Source: World Bank Group, MENAAP Economic Update, October 2026, Table 1.1, real GDP growth in percent; e denotes estimate, f denotes forecast; the change columns are revisions to growth forecasts in percentage points, not changes in output; the January and April reference vintages are those republished in Table 1.1 itself. Regional aggregates use real GDP weights. Egypt and Pakistan are on fiscal years beginning 1 July, so their 2026 values are estimates for years already largely complete; Pakistan's figures are at constant factor prices on the Bank's note. Lebanon, Syria, the West Bank and Gaza and Yemen are excluded from the aggregates for data limitations.

The Corridor Decides The Cost

The update's first chapter is, at its core, a study in logistics. Before the conflict the Strait of Hormuz carried around one fifth of globally traded oil and liquefied natural gas. Its effective closure in February cut Gulf oil production from roughly 26 million barrels per day to about 16 million within a month, through strikes, operational disruptions and, tellingly, the need to curtail production when storage filled and normal export routes became unavailable. By August crude supply had begun to recover but remained well below sustainable capacity in all but two Gulf producers. At that August reading, Saudi Arabia was producing about 6 million barrels per day against a capacity the update puts at roughly 12 million, a 50 percent utilization rate, while Kuwait, Iran, Iraq and Qatar operated at about 55 to 70 percent of estimated capacity.

The two exceptions prove the geography. Production in the United Arab Emirates ran slightly above its previously estimated sustainable capacity, which the Bank attributes both to export infrastructure outside the strait and to the production flexibility the country gained after withdrawing from OPEC Plus production arrangements in May 2026. Oman produced more than the International Energy Agency's estimate of its sustainable capacity. Countries able

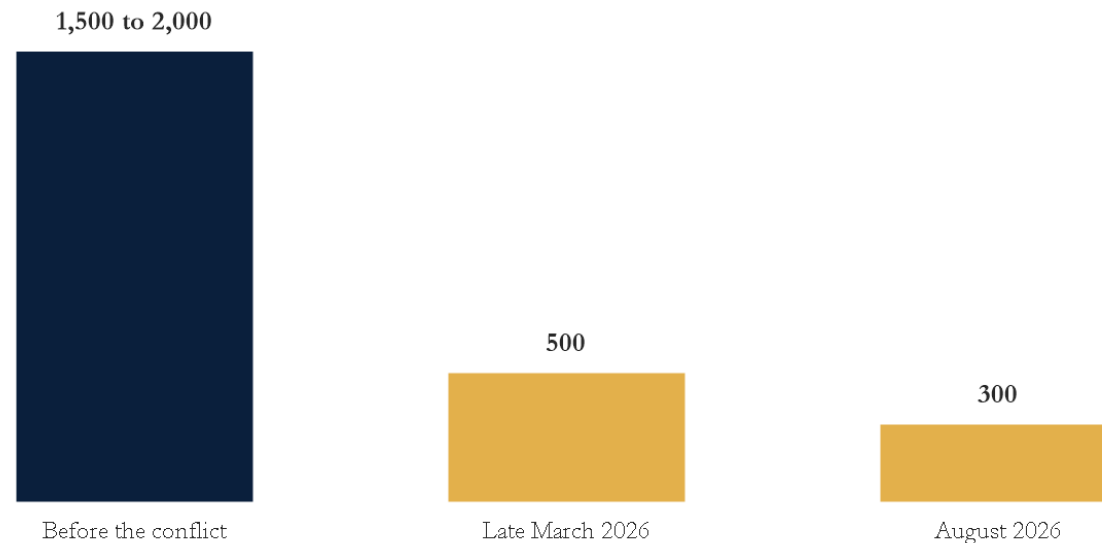


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to keep producing or to reach ports beyond the chokepoint, in the Bank's summary, experienced smaller supply losses, and that single sentence explains most of the dispersion in the forecast table above.

Exports fell harder than production. The update's tanker series, which measures cargo tonnage of tanker traffic from the Gulf countries, dropped from roughly 1.5 to 2.0 million metric tons per day before the conflict to about 500,000 in late March, recovered only gradually, and then slipped again in August to around 300,000 metric tons per day. Saudi Arabia accounted for most of the initial recovery, while movements from Bahrain, Kuwait, Iraq, Qatar and the United Arab Emirates remained limited. Alternative routes reduced the losses for those with access to them, and left the others waiting on the strait itself.

Tanker traffic from the Gulf, thousand metric tons per day



Cargo tonnage of tanker traffic from Gulf countries, as the update presents it (figure 1.10); the pre-conflict bar sits at the midpoint of the stated range.

Figure 2. Exports fell harder than production and had not recovered by August. Source: World Bank Group, MENAAP Economic Update, October 2026, figure 1.10; tanker cargo tonnage from Gulf countries, with the pre conflict bar at the midpoint of the stated range.



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The Gulf Ledger: Exposure, Shields And The Oman Exception

The Bank's country numbers reward reading as one ledger. On the exposed side, Qatar's projected contraction of 20.9 percent is its weakest performance in more than five decades, Kuwait's 14.6 percent its weakest in more than three, and Iraq's 12.4 percent its weakest in more than two; Bahrain is projected to contract 2.9 percent. These are volume effects on hydrocarbon economies whose export path runs through a single corridor, exceptional by historical standards in the update's own words, and they are paired in the same table with their recoveries: 26.7 percent for Qatar, 22.0 percent for Kuwait, 16.9 percent for Iraq and 4.2 percent for Bahrain in 2027, as production is restored from a depressed base.

Qatar's recovery carries one structural complication the headline numbers conceal. The Bank's Qatar profile reports physical damage at Ras Laffan that forced a near complete halt in liquefied natural gas production in the first quarter, with export capacity estimated to have fallen by approximately 17 percent, some damaged facilities expected to take years to restore fully, and the North Field East expansion postponed to 2027. Reopening the corridor is therefore necessary but not sufficient for Qatar: the 2027 rebound also rides on repaired liquefaction trains and the postponed expansion, which is precisely why the volume framing of this report matters more there than anywhere else. The same profile records the other side of the ledger: substantial fiscal buffers, sovereign wealth assets and timely policy responses that, in the Bank's words, provide resilience.

Kuwait's year divides into a severe external account and a deep balance sheet. The Bank's Kuwait profile records a first quarter contraction of 4.6 percent, with hydrocarbon output down 12.5 percent, partly offset by a non oil economy that kept growing at 1.9 percent, and damage to Kuwait International Airport, the Mina Al Ahmadi and Mina Abdullah refineries and parts of the power, desalination and port infrastructure. The fiscal counterpart is reported plainly: a deficit of 13.9 percent of GDP in fiscal year 2025/26 on a 30 percent drop in oil revenues, widening to around 18 percent in 2026/27 before narrowing to 5.9 percent by 2028/29 as conditions normalize, financed by a September decree authorizing borrowing from the Future Generations Fund for the first time since 1990 and by debt issuance under the 2025 public debt law. The balance sheet context is the point: public debt has risen fivefold from a very low base to reach about 17 percent of GDP in June, projected near 28 percent by the end of 2028, levels most sovereigns would call enviable, the current account remains in surplus in every year of the projection, 23 percent of GDP in 2025, 13.5 percent in 2026 and around 22.4 percent on average in 2027 and 2028, and inflation held at 2.2 percent through the first half. Kuwait is financing a war year out of accumulated strength, and its projected 22.0 percent rebound in 2027 is the table's second largest.

On the shielded side, Saudi Arabia's projected decline of 2.0 percent, against the 50 percent August utilization reading, measures the value of the Red Sea redirection; the kingdom's 2027 projection is 7.9 percent. The United Arab Emirates, projected at a decline of 1.6 percent this year and growth of 9.5 percent next, entered the shock with the region's fastest major economy, 6.2 percent growth in 2025, and with the infrastructure and the OPEC Plus flexibility noted above. Oman sits alone on the growth side of the 2026 ledger at 3.1 percent, its open ocean ports converting a regional catastrophe into relative advantage, though relative is the operative word: the update's regionwide findings on tourism, aviation, logistics and import costs apply to Oman as well, and its resilience is comparative, not immunity. Its 2027 projection is 3.4 percent.



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One qualification belongs to any reading of the Gulf as a bloc: the buffers differ in depth. The Bank's country profiles range from sovereigns with very large external asset positions and minimal debt to more leveraged balance sheets with high financing needs, and the same volume shock lands differently on each. The aggregate numbers in Table 1.1 average across that spectrum; the monitoring set at the end of this report deliberately does not.

Markets Have Not Amplified The Shock

The update devotes a section to a finding the headlines have largely missed, under a heading that states it plainly: financial markets in MENAAP have not amplified the shock. Sovereign bond spreads widened across most economies in March, as they do in every crisis, and then narrowed. By early September, spreads in Egypt, Iraq, Jordan, Kuwait, Morocco, Oman, Pakistan, Saudi Arabia and Tunisia were below their levels of 27 February, with the largest declines in Egypt, Iraq, Pakistan and Tunisia. The pattern, in the Bank's words, suggests that investors did not interpret the initial shock as a long lasting deterioration in sovereign creditworthiness.

The update then attaches two qualifications, and they belong in any honest reading. First, the improvement is not regionwide: spreads in Bahrain, Qatar and the United Arab Emirates remained above their pre conflict levels in early September. Second, narrower spreads need not mean lower borrowing costs, because sovereign yields equal the risk free benchmark plus the spread, and tighter global conditions that lift US Treasury yields can raise the cost of external borrowing even as regional spreads compress.

The Edge still reads this as the most consequential chart in the report, for what it shows and for what it does not. Nine sovereigns trading inside their pre war spreads, despite exceptionally severe projected contractions in several Gulf economies, is evidence that markets have, so far, treated the disruption as a temporary quantity shock rather than as an erosion of the capacity to pay. It is pricing, not proof: spreads move with global rates, liquidity and risk appetite as much as with fundamentals, and they guarantee neither the rebound nor the absence of credit risk if the disruption runs long. That is exactly why the spread board earns its place in the monitoring set below, as a running referendum to be checked against fiscal outturns, not as a verdict already delivered.

The Importers' Quiet Resilience

The region's developing oil importers are projected to grow 4.3 percent in 2026, up from 3.9 percent in 2025, and to hold 4.0 percent in 2027. In a year when the regional aggregate contracts, that group is accelerating, and the forecast changes since April are positive, a rarity in this vintage: plus 0.6 percentage points for the group.

The acceleration is not uniform, and the differences matter. Egypt leads the upgrade column: its fiscal year growth estimate of 5.1 percent is 0.8 percentage points above the Bank's April figure, the largest upward revision in the table, and its spread decline since late February is among the region's largest, a



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pairing consistent with the stabilisation this house documented in Egypt's Debt Equation in September. Morocco, at 4.4 percent, and Tunisia are supported by what the update describes as rapidly expanding artificial intelligence related exports, a detail that connects the report's two halves. Jordan holds steady at 2.7 percent, and Pakistan's fiscal year estimate of 3.7 percent carries a 0.7 point upgrade while remaining the group's most exposed member to imported commodity prices. The caveats are shared: higher food prices and narrower fiscal space are mounting pressures, and higher global interest rates narrow the financing room of governments and firms alike.

Inflation Travels Through The Food Channel

The shock's price effects inside the region are arriving disproportionately through food. In several oil importing economies, rising transport and shipping costs are feeding into food inflation. Inside the Gulf, the update documents unusually large gaps between food and headline inflation, reflecting disruptions to supply chains and trade routes, and gives its own readings: in June, food inflation exceeded 12 percent year on year in Qatar while headline inflation remained just above 2 percent, and in Bahrain and Oman food inflation surpassed 7 percent against headline rates around 3 percent. Those figures are the update's own; where national statistical series differ in definition or month, the originator series governs at republication (the Bank's own Bahrain profile, for instance, prints 5.8 percent for the narrower food and non alcoholic beverages series in the same month).

The distributional arithmetic is the point. Households at the bottom of the income distribution spend the largest share of their income on necessities, so a food led inflation carries a heavier social weight per headline point than a broad one, and the update finds that higher food prices have reduced purchasing power most among poorer households. For the Gulf states the gap is primarily a logistics and policy question, and the capacity to absorb it varies across sovereigns; for the region's fragile economies it compounds an already acute food security problem.

Poverty And The Fragile Rim

The update restates a regional distinction without softening it: MENAAP is the only region in the world where poverty remains above its pre pandemic level and continues to rise while it declines elsewhere. The region holds 14 percent of the world's extreme poor on the update's count, a share exceeded only by Sub Saharan Africa, and Pakistan accounts for nearly half of the regional total. Poverty reduction stalled around 2019 and reversed after the pandemic.

The conflict lands hardest where buffers were already gone. Afghanistan, Lebanon, Syria, the West Bank and Gaza and Yemen entered the shock with depleted reserves, large displaced populations and collapsing humanitarian financing. Lebanon's economy, which grew 4.2 percent in 2025, is projected to contract 6.4 percent in 2026. The Bank's structural warning belongs in every reading of the rebound numbers: the effects of the conflict are likely to outlast the oil shock, and the long term consequences will be most taxing where they compound existing fragility.



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The 2027 Rebound And What It Assumes

The projection's architecture is dated and explicit. The baseline assumes the conflict continues through the end of 2026 without sustained further escalation, with traffic through the strait impaired, some energy infrastructure operating below capacity and elevated uncertainty weighing on trade, tourism and investment; conditions are then assumed to normalize gradually from early 2027 as production recovers and shipping routes reopen. Under those assumptions, regional growth excluding Iran rebounds to 7.8 percent in 2027, the Gulf Cooperation Council to 10.3 percent, and the corridor constrained producers to the steepest rates in the Bank's table.

The Bank attaches two honest qualifications, and The Edge would underline both. First, the rebound largely reflects the restoration of hydrocarbon production from a depressed base, not stronger productivity: it is arithmetic, not transformation. Second, the recovery is not guaranteed, and will require sustained policy effort; damaged infrastructure, postponed investment and depleted fiscal buffers could continue to weigh on growth after the shock fades. The Bank's prescription is to protect vulnerable households, restore productive capacity and invest in more resilient energy and transport infrastructure, so that a temporary shock does not leave permanent losses in human capital and living standards.

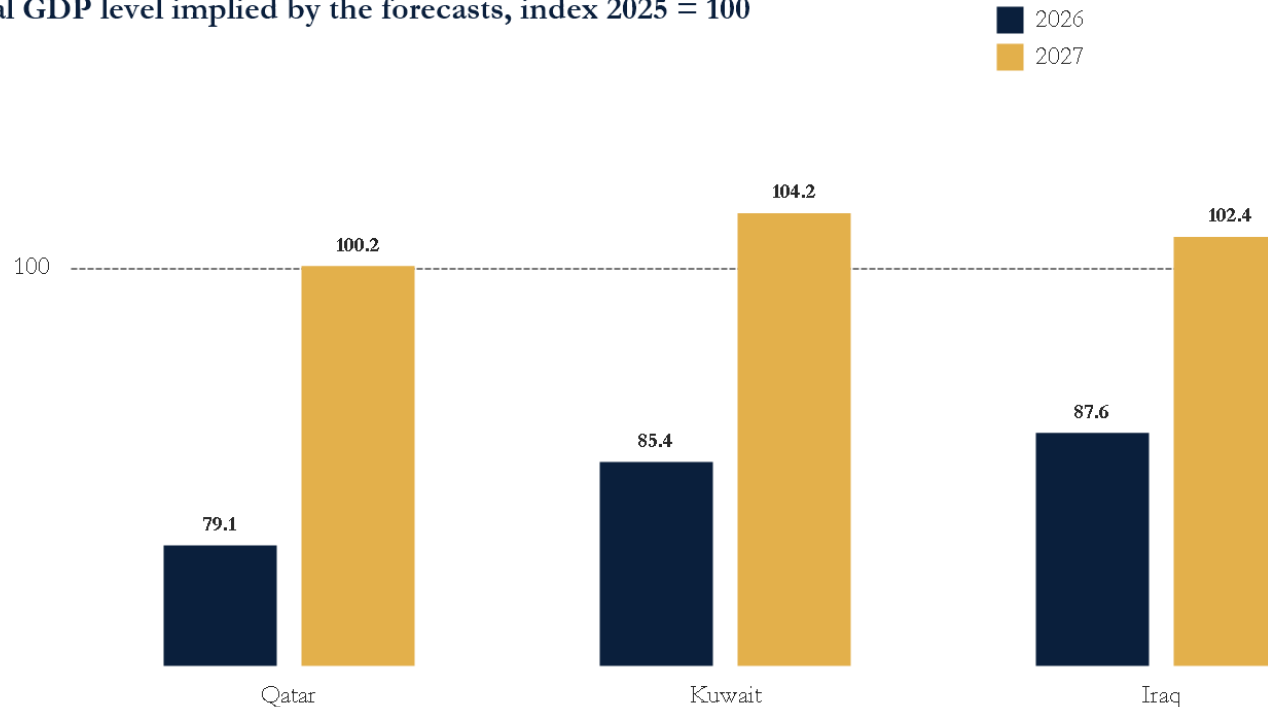
Recovery In Rates Versus Recovery In Levels

The 2027 growth rates are so large that they invite a misreading, and one piece of arithmetic corrects it. Compounding the Bank's rounded forecasts from a 2025 base of 100, on The Edge's calculation, Qatar's output index falls to about 79.1 in 2026 and returns only to about 100.2 in 2027: a 26.7 percent expansion that lifts the economy roughly back to where it stood two years earlier. Kuwait's index falls to 85.4 and recovers to about 104.2; Iraq's to 87.6 and then 102.4; the Gulf Cooperation Council's to 95.7 and then 105.6. These are our computations from the rounded growth rates in Table 1.1, not separate World Bank level forecasts, and they carry the obvious caveat of rounding.

The reading follows directly. The spectacular 2027 column measures the speed of refilling a hole, not the height of a new structure, and even where output regains its 2025 level it remains below the path the region expected before the war, with the investment and income of the lost year gone. That is the precise sense in which the Bank's own caution should be read: the rebound restores volumes, and what it does not restore, deferred investment, damaged infrastructure and spent buffers, is the agenda of the recovery itself.

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Real GDP level implied by the forecasts, index 2025 = 100



The Edge calculation from the rounded World Bank growth rates in Table 1.1; indices of real output, 2025 = 100.

Figure 3. The rebound refills the hole rather than building above it: output indices implied by the forecasts, 2025 = 100. The Edge calculation from the rounded World Bank growth rates in Table 1.1.

The Second Transformation: AI As Augmentation

The update's second chapter argues that the region is living through two transformations at once, and that the slower one will matter longer. Artificial intelligence, on the Bank's analysis, is already reshaping labor markets, firms and public services, and its primary effect in this region is likely to come through augmentation rather than displacement: fewer than 10 percent of jobs face near term automation risk, while between 13 and 20 percent carry significant augmentation potential, meaning that share of jobs could see productivity gains for workers and firms able to use the tools effectively. The press release renders the same finding as a headline: AI holds the potential of boosting the productivity of up to 20 percent of the region's jobs.



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The region is not running one AI transition at one speed. Saudi Arabia and the United Arab Emirates position themselves as producers of the technology itself. Middle income economies, the Bank names Egypt, Jordan, Morocco, Pakistan and Tunisia, combine technical talent and growing digital ecosystems with significant readiness gaps. Fragile economies could gain the most transformational uses, in public services and skill shortages, yet face constraints as basic as intermittent electricity and thin connectivity. Whether the divide narrows or widens, the update argues, depends on the health of the private sector, the quality of regulation and the capacity to close three structural gaps.

Three Gaps Between Promise And Productivity

The first gap is localization. The region's languages are largely missing from the data that trains the leading AI systems: Arabic is spoken by more than 500 million people yet accounts for only about 0.7 percent of global web addresses in the dataset the Bank cites, Persian holds a similarly small share, and Urdu stands at about 0.03 percent. Systems trained on that distribution underperform in the region's languages and contexts, and the fixed costs of correcting it exceed any single country's incentive, which is the economic case for pooling.

The second gap is usage, and it runs through the private sector. The Bank's firm level evidence is blunt: only 16 percent of firms in the region introduced a new product or service in the past three years against 29 percent in other emerging and developing economies, just 24 percent invested in physical capital against 37 percent, and fewer than one in five provide formal worker training against 30 percent. State owned enterprises account for an estimated 20 to 50 percent of value added across the region, suppressing the competition that forces adoption, and corruption and political instability are identified as major constraints by 41 percent of firms in the region's low income economies and 49 percent in its middle income economies, on the survey evidence the chapter reports. A private sector that underinvests in capital, people and products, the update concludes, is ill positioned to seize what AI offers.

The third gap is foundational capital, human and physical at once. The skills that complement AI, adaptive reasoning, problem solving and creative thinking, remain weak across the region: on the 2022 PISA assessment of creative thinking, students in the region's participating economies score well below the OECD benchmark of 32.7 points. And in some middle income and fragile economies, reliable electricity and broadband remain prerequisites not yet met. The Bank's conclusion is that adoption alone will not produce productivity; the complements decide.

The Gulf As Producer And The Case For A Regional AI Ecosystem

Against those gaps stands a regional asset the update treats as genuinely rare: Saudi Arabia and the United Arab Emirates are the region's only economies in the global top 25 for both AI model development and high performance computing capacity, data center investment is concentrated in the Gulf, and Saudi Arabia, Pakistan and the United Arab Emirates host the largest numbers of data centers in the region, though the region's global share remains small. The Gulf, in other words, has already paid much of the fixed cost of the compute layer that the rest of the region cannot.



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The update's proposal is a division of labor. The two AI leaders contribute infrastructure, model development experience and governance frameworks; middle income economies contribute talent, local data, sector knowledge and applications; and fragile economies adopt what the Bank calls Small AI, affordable, purpose built tools designed to run on basic mobile devices with low bandwidth and intermittent power, a crop disease diagnosis delivered through an offline application, clinical decision support on a basic smartphone. Small AI is presented not as a stopgap but as a deployable category suited to agriculture, health and education where frontier infrastructure does not yet exist.

Regional collaboration, the update argues, is one of the region's most important untapped opportunities: no single country needs to build every layer of the stack, and pooling data, expertise and investment in Arabic, Persian and Urdu language models would lower the fixed costs of localization for everyone. The Edge would add the strategic reading with its own qualification: an asset whose value travels by fiber rather than by tanker diversifies the region's exposure to its own geography, even though that value still rests on resilient power, connectivity, imported equipment and, above all, adoption. Diversification of risk is not elimination of it; it is still worth having.

What The Edge Is Watching

The update's forecasts rest on observable physical and market variables, and each can be monitored at its source. First, tanker traffic from the Gulf, which stood near 300,000 metric tons per day in August against a pre conflict range of 1.5 to 2.0 million: a durable recovery toward the old range is the single clearest confirmation of the 2027 baseline. Second, production utilization in the constrained producers, led by Saudi Arabia's 50 percent at the August reading, together with the restoration timetable of Qatar's damaged liquefaction capacity. Third, the food to headline inflation gaps inside the Gulf, which measure whether the logistics disruption is healing or hardening. Fourth, sovereign spreads against their 27 February marks, on both sides of the ledger: whether the nine compressed sovereigns hold, and whether Bahrain, Qatar and the United Arab Emirates close their remaining gaps, read always against fiscal outturns rather than in isolation. Fifth, the fiscal data of the exposed producers, where revenue losses surface first. And sixth, the International Monetary Fund's World Economic Outlook of 13 October and the Fund's subsequent regional outlook, which will provide an independent vintage within days of this report; The Edge will read both at the source and note material divergences.

Outlook: Three Paths To 2027

What follows are The Edge's qualitative scenarios built on the Bank's single published baseline, not alternative World Bank forecasts. On the baseline, the conflict subsides by the end of 2026, the strait reopens progressively, and 2027 delivers the arithmetic rebound: 7.8 percent regional growth excluding Iran and 10.3 percent in the Gulf Cooperation Council, with the corridor constrained producers posting the steepest rates in the Bank's table against 2026's depressed base. The composition of that path matters as much as its size: it restores volumes and revenues, and it returns the region to its starting structure, which is why the update insists the recovery be used to build resilience rather than merely to refill buffers.



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The downside path is a conflict that does not subside on schedule, and it is not simply the same rebound postponed. Each quarter of extension converts temporary volume losses into progressively structural ones: investment deferred becomes capacity not built, damaged infrastructure ages from a repair backlog into a constraint, buffers spent are no longer available to finance the recovery itself, and the fragile economies' humanitarian conditions deepen. In that path the rebound, when it comes, starts lower and climbs more slowly, and the sovereign spread evidence becomes the indicator to watch most closely, because the temporary shock thesis is the first casualty of duration.

The upside path is earlier and cleaner de escalation, which would pull the recovery forward, spare some of the deferred investment and compress the output loss into a shorter window. The Edge notes that the dispersion between these paths is unusually wide by the standards of regional forecasting, which is itself information: positioning, whether fiscal, corporate or portfolio, should be built for the range, not the point estimate.

Conclusion

The October update is a disciplined document about an undisciplined year. Its core finding, a reversal of fortunes in which the Gulf bears the costs that previous price surges assigned to everyone else, is established with physical data rather than sentiment, and its forecast is explicit about its assumptions and honest about its mechanics: the 2026 contraction is geography and infrastructure, the 2027 rebound is arithmetic, and neither is destiny. The market evidence is encouraging without being conclusive: nine sovereigns trading inside their pre war spreads, despite exceptionally severe projected contractions in several Gulf economies, reflects three decades of balance sheet construction, and holding that confidence through the recovery is itself one of the tasks the recovery must finance.

The Edge view is therefore conditional in the same way the Bank's is, and watchful in the same places. The near term question is logistical and physical: whether the corridor reopens on the baseline schedule and how quickly damaged export capacity, above all Qatar's liquefaction trains, returns to service; it will be answered by tanker counts, utilization rates and restoration timetables, not by communiqués. The longer term question is whether the region treats the Gulf's computing capacity, the middle income economies' talent and a shared language spoken by half a billion people as one ecosystem or as a dozen rivalries. The distinction that organizes both questions is the one this report has pressed throughout: recovering what was lost is the work of 2027; building an economy less exposed to the next disruption is the work of the decade, and the window for the second is the first.

Methodology And Verification Note

Every figure in this report was read first hand at the World Bank Group's own publications on 11 October 2026: the October 2026 MENAAP Economic Update in full from the Bank's Open Knowledge Repository, including Table 1.1, the production, tanker, inflation and sovereign spread analysis of chapter 1 and the artificial intelligence analysis of chapter 2; the accompanying press release of 6 October 2026; and the Bank's October 2026 country profiles for Qatar, Kuwait and Bahrain. All forecasts are the World Bank Group's and are presented on the Bank's own vintage labels; percentage point revisions are changes in growth forecasts, not changes in output. Where this report computes output level indices or pairs figures across sections, the computation is The Edge's, is marked in the text, and uses the Bank's rounded published rates. Figures may be revised by the originator and should be verified against the sources below before republication. The International Monetary Fund's World Economic Outlook of 13 October 2026 will provide an independent vintage within days of this report; The Edge will read it at the source and will note material divergences in subsequent coverage.



A REVERSAL OF FORTUNES

Sources And References

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- [2] World Bank press release, 6 October 2026: Middle East Conflict Further Weakens Regional Outlook, with Gulf Oil Exporters Hit Hardest, including the statements of Ousmane Dione, World Bank Vice President for the region, and Roberta Gatti, World Bank Group Chief Economist for the region. World Bank Group.
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