



The Edge Economic Update

Conflict, Energy Shock, and the New Middle East Economic Outlook

Insights from the World Bank's April 2026 Economic Update

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Executive Summary

The April 2026 World Bank update ([Download Link](#)) presents a region hit by a severe conflict shock centered around the Gulf, with effects extending far beyond the immediate battlefield. The closure of the Strait of Hormuz, widespread damage to energy and civilian infrastructure, surging oil and gas prices, and a sharp rise in uncertainty have materially weakened the 2026 outlook for the Middle East, North Africa, Afghanistan, and Pakistan. Excluding Iran, MENAAP growth is now projected to slow from 4.0% in 2025 to 1.8% in 2026, while GCC growth is expected to drop from 4.4% to 1.3%.

Global transmission has been immediate. Between March 2 and March 22, average ship crossings through the Strait of Hormuz fell to 5 per day from 96 a year earlier, a 95% decline. Brent crude, which closed at US\$72.5 per barrel on February 27, rose almost 40% within a week and exceeded US\$112 per barrel by March 27, leaving it close to 60% above its pre conflict level. European natural gas prices rose from around US\$11/MMBtu to over US\$18/MMBtu, almost a 70% increase.

Within the region, the most direct economic damage falls on Iran, Iraq, Lebanon, and the GCC. Iraq, Kuwait, and Qatar face especially severe output disruption because of their dependence on hydrocarbon exports routed through Hormuz. The World Bank now forecasts 2026 contractions of 8.6% for Iraq, 6.4% for Kuwait, and 5.7% for Qatar, while Saudi Arabia slows but remains positive at 3.1%.

The report also makes clear that the conflict is not only a short term macro shock. It deepens structural weaknesses that predated the crisis, including low productivity, narrow export structures, weak private sector dynamism, and heavy dependence on oil and gas. That is why the second half of the World Bank report shifts to industrial policy, arguing that well designed, selective, and disciplined industrial policy can support diversification and long run resilience, but only when matched to institutional capacity and embedded in sound macroeconomic management. Industrial policy announcements in MENAAP have increased more than threefold over the past decade.



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The Global Shockwave

The conflict has become a global supply shock rather than a localized regional event. The Strait of Hormuz handles roughly 20% of global oil consumption and about 20% of global LNG trade, making its effective closure one of the most consequential disruptions to global energy flows in decades. The shipping collapse alone signals the scale of the shock, with traffic through the strait nearly stopping in March 2026.

Oil markets reacted immediately. Brent crude rose from US\$72.5/bbl on February 27 to above US\$112/bbl by March 27. Two reference points matter. Prices rose almost 40% within a week of the conflict's outbreak, and by March 27 they were close to 60% above pre conflict levels. At the same time, short dated oil futures rose far more sharply than longer dated contracts, while December delivery oil futures moved to around US\$84 to US\$85/bbl, indicating that markets still expected partial normalization over time.

Gas markets moved in parallel. European natural gas rose by almost 70%, and tanker shipping costs roughly doubled in the month after the conflict began. The report also highlights second round effects through fertilizer markets. The region accounted for about 35% of global urea nitrogen exports in 2024, and urea prices rose by around 50% between February 27 and March 27. That raises the risk that today's energy shock becomes tomorrow's food inflation shock.

Middle East Regional Impact

The World Bank does not present a single formal numerical aggregate for a standalone Middle East bloc in the way it does for MENAAP excluding Iran, MENA excluding Iran, or the GCC. Still, analytically, the Middle East is clearly the core transmission zone of the crisis. Iran and Lebanon entered the conflict from positions of deep economic fragility. Iran was already under stress from sanctions, shortages, and inflation, while Lebanon remained structurally weak after the sovereign, banking, and currency crisis that began in 2020. The conflict has sharply intensified those vulnerabilities.

Human displacement has been massive. The United Nations High Commissioner for Refugees estimated that up to 3.2 million people were internally displaced in Iran during the first two weeks of the conflict. In Lebanon, more than 1.2 million people, nearly one fifth of the population, had been displaced by March 27. These figures underscore that the economic outlook cannot be separated from the humanitarian dimension.

For the Gulf and Iraq, the core issue is the collapse in hydrocarbon export logistics and the interruption of production itself. The World Bank notes that more than half of Gulf crude production normally transits Hormuz. Iraq, Kuwait, Bahrain, and Qatar are particularly exposed because they lack meaningful alternative routes. Saudi Arabia and the UAE have some rerouting capacity, but even there the shock is severe. Projected oil output declines

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from February to March 2026 were estimated at 67% for Iraq and 79% for Qatar, with smaller but still material declines for Saudi Arabia and the UAE.

Middle East, North Africa, Afghanistan, and Pakistan Macroeconomic Outlook

The macro downgrade is large and concentrated. Excluding Iran, MENAAP is estimated to have grown 4.0% in 2025, but is now forecast to grow only 1.8% in 2026, a 2.4 percentage point downgrade from the January 2026 projections. For MENA excluding Iran, growth is forecast at 1.6% in 2026, versus 4.2% in 2025.

The regional slowdown is driven mainly by the hydrocarbon exporters at the center of the conflict. By contrast, growth forecasts for oil importers changed far less, even though those economies face serious second round effects from higher fuel costs, wider fiscal and current account pressures, weaker tourism, and softer remittances. Forecast uncertainty has widened dramatically. The average spread between the highest and lowest 2026 growth forecasts for conflict exposed economies rose from 2.7 percentage points pre conflict to 12.7 percentage points post conflict, exceeding 15 percentage points for Iraq and Qatar.

MENAAP and Subregional Snapshot

Economy group	2025 growth	2026 growth	Change vs January 2026
MENAAP excl. Iran	4.0%	1.8%	-2.4 pp
MENA excl. Iran	4.2%	1.6%	-2.7 pp
GCC	4.4%	1.3%	-3.1 pp
Developing oil exporters excl. Iran	3.1%	-1.0%	-5.7 pp
Developing oil importers	3.8%	3.7%	0.0 pp

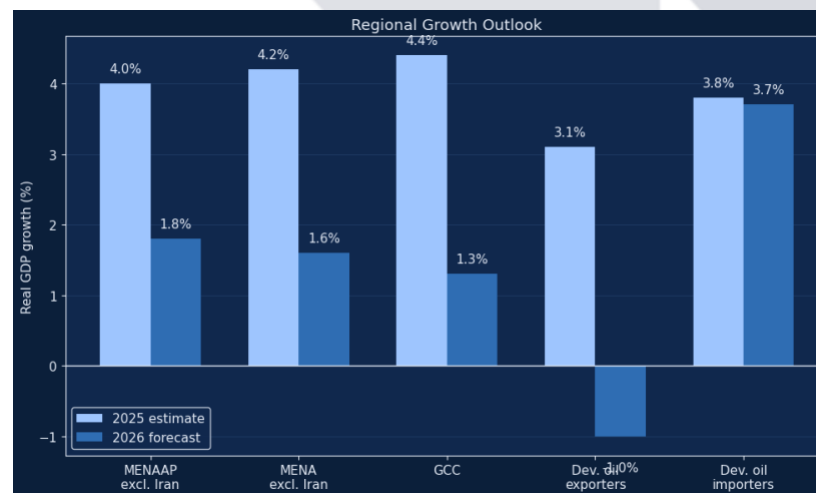


Illustration: Regional growth expectations have weakened sharply since the start of the conflict, with the steepest slowdown concentrated in the GCC and developing oil exporters. While oil importers remain in positive territory, the broader regional outlook has been materially downgraded for 2026.

GCC: Sharp Divergence Behind the Headline

The GCC headline masks strong divergence. The bloc as a whole slows from 4.4% in 2025 to 1.3% in 2026, but the country breakdown is uneven. Saudi Arabia remains in positive territory at 3.1%, the UAE slows to 2.4%, Bahrain to 1.3%, and Oman to 2.4%. Qatar and Kuwait swing into deep contraction.

GCC Growth Forecasts

Country	2025 growth	2026 growth	Revision vs January 2026
Saudi Arabia	4.5%	3.1%	-1.2 pp
UAE	5.6%	2.4%	-2.7 pp
Bahrain	3.2%	1.3%	-1.8 pp
Oman	2.6%	2.4%	-1.2 pp
Qatar	3.2%	-5.7%	-11.0 pp
Kuwait	2.6%	-6.4%	-9.0 pp

The resilience gap reflects infrastructure and diversification. Saudi Arabia and the UAE can reroute part of their exports outside the Gulf and have larger non oil sectors. Kuwait and Qatar are more exposed both geographically and structurally. Iraq is even more vulnerable, with 2026 growth forecast at -8.6% and a -15.1 percentage point downgrade from January.

At the same time, the GCC still enters this period with stronger macro buffers than most of the region. The bloc's current account surplus is projected to rise from 5.2% of GDP in 2025 to 7.5% in 2026, while the aggregate fiscal deficit narrows from 2.4% to 1.4%

of GDP. These buffers matter, especially because more than 70% of GCC food imports transit the Strait of Hormuz, leaving the region exposed to supply chain stress even where public finances remain comparatively strong.

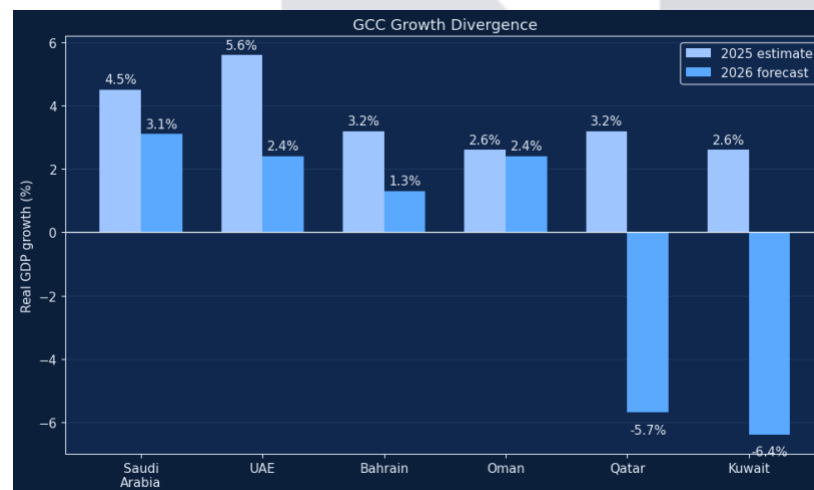


Illustration: The GCC slowdown is not uniform. Saudi Arabia and the UAE remain in positive growth territory due to stronger diversification and partial rerouting capacity, while Qatar and Kuwait face much sharper contractions because of their greater exposure to disrupted hydrocarbon export routes.

Egypt: More Resilient, But Not Immune

Egypt is not at the center of the conflict, but it remains highly exposed through energy prices, tourism, financial conditions, and external balances. The World Bank still expects Egypt to post 4.4% growth in FY2025 and 4.3% in FY2026, reflecting resilience in private consumption and investment, but the conflict slows the disinflation process and keeps the macro environment fragile.

Egypt Macro Snapshot

Indicator	FY2025	FY2026
Real GDP growth	4.4%	4.3%
Inflation	20.9%	13.6%
Current account balance	-4.2% of GDP	-4.2% of GDP
Fiscal balance	-7.1% of GDP	-7.6% of GDP

The external vulnerability is substantial. Oil and gas imports in Egypt account for close to 15% of the total merchandise import bill on a 2015 to 2024 average basis. That is below the roughly 25% exposure seen in Lebanon, Pakistan, and Yemen, but still materially above the global average. Higher fuel prices therefore translate quickly into current account and inflation pressure.

Tourism and markets have already reacted. Flight arrivals to Cairo were down by roughly 20% in the first weeks of the conflict. On the financial side, foreign investors had been net sellers in Egyptian equities before the conflict and intensified selling after it began. The Egyptian pound weakened by approximately 10% by March

27, although the spread between official and parallel market rates remained stable.

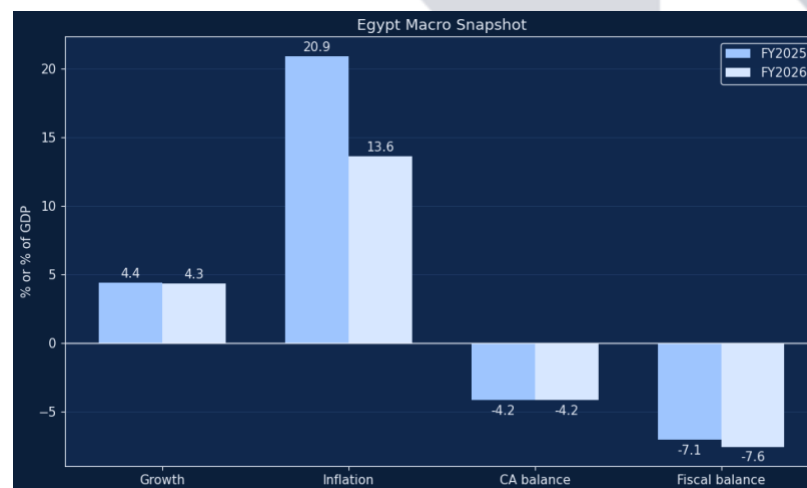


Illustration: Egypt's headline growth remains relatively resilient, but the macro picture is still strained. Inflation is easing, yet current account and fiscal deficits remain wide, underscoring the economy's exposure to imported energy costs, weaker tourism flows, and tighter regional financial conditions.

Budget update: Since the World Bank report's March 27, 2026 cutoff, Egypt has detailed its FY2026/2027 budget, covering July 1, 2026 to June 30, 2027. The new budget targets EGP 4.0 trillion in revenues and EGP 5.1 trillion in expenditures, implying a financing gap of about EGP 1.1 trillion, with revenue growth of 27.6% outpacing expenditure growth of 13.2%. This points to a controlled expansionary stance: the government is preserving support for health, education, social protection, and economic



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activity while targeting a 5% primary surplus, a reduction in the overall deficit to 4.9% of GDP, and lower public debt by June 2027. The policy signal is clear: Egypt is trying to balance social support and economic stability with gradual fiscal consolidation, but delivery will depend heavily on revenue realization and disciplined execution.

Food, Tourism, Remittances, and Financial Spillovers

The report is especially strong on the non oil transmission channels. First, food. MENAAP economies are highly dependent on cereal imports, and poorer households spend disproportionate shares of their budgets on food. Rising fertilizer and shipping costs therefore create a broad based inflation and welfare risk, especially in fragile and indebted importers.

Second, tourism. The immediate collapse in regional air traffic was steepest in the Gulf and near conflict hubs. Average arrivals to Abu Dhabi, Doha, and Dubai fell by more than 70% by March 25 relative to the week before the conflict, while Amman dropped by about half and Beirut by two thirds. Cairo and Karachi both saw declines of about 20%. Lebanon's tourism receipts had reached 28% of GDP and Jordan's 17% of GDP, making them especially exposed.

Third, remittances. Egypt, Jordan, Pakistan, and Yemen all rely heavily on income flows from workers in GCC countries. The normal positive correlation between higher oil prices and remittance inflows may not hold this time because the shock is tied to production disruption and infrastructure damage, not just higher revenues. A weaker GCC labor market would directly pressure lower income migrant households across the wider region.

Industrial Policy as the Long Term Response

The report's second chapter makes a strategic pivot from crisis management to structural transformation. Its core argument is that many MENAAP economies entered this shock with pre existing structural weaknesses, so medium term resilience requires more than stabilization. It requires diversification, stronger private sector capability, better institutions, and more disciplined industrial policy.

The World Bank defines industrial policy broadly as government action expected to increase strategic business activities. Under that framing, industrial policy includes tailored public inputs, market incentives, and some macroeconomic interventions. Industrial policy activity in MENAAP has increased more than threefold over the past decade, and its implementation is often less visible than in other regions because it frequently runs



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through state owned enterprises, sovereign wealth funds, and quasi public institutions, not just formal ministries.

National development plans across the region show strong policy convergence. Job creation appears in all 19 plans, unemployment is identified as a challenge in 15, and human capital development appears in 18. Sector targeting is also revealing. Tourism is targeted in 16 plans, agriculture in 14, chemicals in 8, and heavy manufacturing in 7.

The Gulf has the largest capacity to act. GCC countries rely more on subsidies and localization measures than other MENAAP groups, while oil importers and developing oil exporters rely more on import related policies. The scale of Gulf state led financial capacity is particularly striking. In the UAE, sovereign wealth fund assets are estimated at roughly 460% of GDP. In Saudi Arabia, the Public Investment Fund doubled assets under management between 2020 and 2024, while the share of domestic investments rose from 47% to 79%.

The report's conclusion is balanced. Industrial policy can help countries diversify, build capabilities, and support structural transformation, but it is not a substitute for macroeconomic stability, institutional quality, or private sector reform. It works best when it is selective, disciplined, matched to country capabilities, and subject to clear monitoring, evaluation, and sunset mechanisms.

Conclusion

The World Bank's April 2026 assessment makes three conclusions unavoidable. First, the Gulf centered conflict has become a genuine global macroeconomic shock through oil, gas, shipping, food, and financial channels. Second, the Middle East is absorbing the most immediate damage, with the heaviest macroeconomic losses concentrated in economies most dependent on hydrocarbon exports and Gulf logistics. Third, the crisis has reinforced the urgency of long delayed structural reform.

The region is now facing both a cyclical shock and a structural test. In the short term, the challenge is to manage inflation, trade disruption, fiscal strain, tourism weakness, and financial volatility. In the medium term, the challenge is larger: rebuilding resilience through diversification, stronger institutions, and better policy design. Peace remains the essential precondition for recovery, but policy quality will determine whether recovery, when it comes, is temporary stabilization or a true shift toward more resilient and sustainable growth.



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