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The Edge Economic Update

Economic Impact of the Iran War on Arab Countries

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Executive Summary

This report provides a structured assessment of the macroeconomic impact of recent geopolitical tensions on Arab economies, with a focus on inflation dynamics, growth trajectories, and cross-country divergence. The central conclusion is clear: the current geopolitical shock is not a conventional oil cycle, but a multi-channel economic disruption affecting trade flows, energy supply chains, financial conditions, and investor confidence simultaneously. The transmission mechanisms include higher shipping and insurance costs, supply chain disruptions, capital outflows, and increased uncertainty across global markets. Even under a contained scenario, global conditions are tightening. Recent projections indicate global growth moderating to approximately 3.1% in 2026, while global inflation remains elevated near 4.4%, reflecting persistent supply-side pressures and geopolitical risk premiums.

Across the broader MENA region, growth is estimated to slow sharply, with regional expansion declining toward ~1.8% in 2026, representing a significant downgrade from earlier expectations. Within the Arab world, the impact is highly uneven, leading to clear divergence in both inflation and growth outcomes. On inflation, the data shows a wide dispersion. Egypt records the highest projected inflation at 13.2%, followed by Tunisia at 6.5% and Mauritania at 4.1%, reflecting strong exposure to currency pressures and imported inflation. In contrast, Gulf economies maintain relatively contained inflation, generally within the 2.3% to 2.8% range, supported by currency stability, fiscal buffers, and policy intervention. However, upward revisions across several economies, including Bahrain (+1.6pp), Qatar (+1.3pp), and Kuwait (+0.6pp), indicate increasing sensitivity to global inflationary pressures. On growth, divergence is even more pronounced. Morocco leads with projected growth of 4.9%, followed by Mauritania at 4.4% and Egypt at 4.2%, supported by domestic demand and sectoral diversification. Energy-linked economies such as Algeria (3.8%) and Oman (3.5%) also maintain moderate expansion. Meanwhile, Saudi Arabia and the UAE are projected at 3.1%, reflecting balanced contributions from oil and non-oil sectors. However, several economies face contractions. Qatar (-8.6%) and Iraq (-6.8%) show the sharpest declines, reflecting sector-specific disruptions and volatility in energy output. Kuwait (-0.6%) and Bahrain (-0.5%) also register mild contractions, highlighting structural constraints and exposure to external shocks. The scale of revisions is significant, with substantial downward revisions across several economies, underscoring the magnitude of the shock.

A key structural takeaway is that economic resilience is no longer defined solely by resource wealth, but by flexibility and adaptability. Economies with diversified growth drivers, stronger fiscal positions, and effective policy frameworks are better positioned to absorb shocks. In contrast, those with higher dependence on imports, limited buffers, or concentrated export structures face elevated risks of inflation persistence and growth disruption.

Overall, the current environment signals a structural shift toward a more complex regional landscape, where diversification, policy credibility, and external resilience are the primary determinants of economic stability and growth.

ECONOMIC IMPACT OF THE IRAN WAR ON ARAB COUNTRIES

Global Shock and Transmission Channels

For the global economy, the IMF's April 2026 WEO treats the war as a fresh interruption to what had been a steadier expansion. In the IMF baseline, global growth slows to 3.1% in 2026 and 3.2% in 2027, while global headline inflation rises temporarily in 2026 before declining again in 2027. The IMF's press briefing is especially useful for explaining the mechanism: the war works through higher commodity prices, the risk that firms and workers try to recoup losses through second-round inflation effects, and tighter financial conditions through lower asset prices, higher risk premia, capital flight, and dollar strength.

The World Bank's regional update adds a practical supply-chain fact that should sit near the top of any reader-facing report: the effective blockade of the Strait of Hormuz has affected roughly 20% of global oil consumption and LNG trade flows. Oxford Economics complements that by estimating that, despite rerouting, only about 7 million barrels per day of the 18 million barrels per day that normally transit Hormuz are being redirected through pipelines such as Yanbu and Fujairah, leaving a large net disruption to world energy logistics. Oxford also flags that the damage is not limited to oil and gas; Gulf supply shocks spill into sulphur, helium, polyethylene, raw aluminium, urea, and ammonia, with especially heavy effects on transport, chemicals, refining, metals, and power generation.

For Arab countries, the key transmission channels can be summarised in five lines. First, there is the direct energy route shock: producers relying on Hormuz face volume risks even when prices rise. Second, there is the logistics shock: higher insurance, airspace restrictions, and rerouting hit re-exports, shipping, aviation, and tourism. Third, there is the imported inflation shock: food, fuel, and fertilizer price increases are especially painful for import-dependent economies. Fourth, there is the financial shock: weaker confidence, portfolio outflows, and higher risk premia tighten conditions. Fifth, there is the fiscal shock: governments face pressure to subsidize households, absorb higher defense costs, or both, often with already-thin buffers.

Regional Overview and Loss Estimates

At regional level, the war is redrawing the Arab growth map. The World Bank's April 2026 MENAAP update says that, excluding Iran, regional growth falls from 4.0% in 2025 to 1.8% in 2026, with the conflict affecting GCC countries directly and exposing countries such as Egypt and Jordan through broader economic and social spillovers. The Bank's framing is important for publication use because it captures both types of exposure: countries can be hit because they are inside the energy corridor, or because they are outside it but dependent on it.

UNDP and ESCWA provide the clearest load-bearing estimate for the wider Arab world: the war could cost Arab economies roughly US$200 billion, with regional GDP potentially shrinking by 3.7% to 6.0%, implying output losses in the range of roughly US$120 billion to US$194 billion depending on duration and severity. That estimate should be used carefully. It is scenario-based, not a settled outturn, and it is best presented as a loss range rather than a point forecast. Still, it is the strongest official multilateral benchmark for the scale of the regional shock.

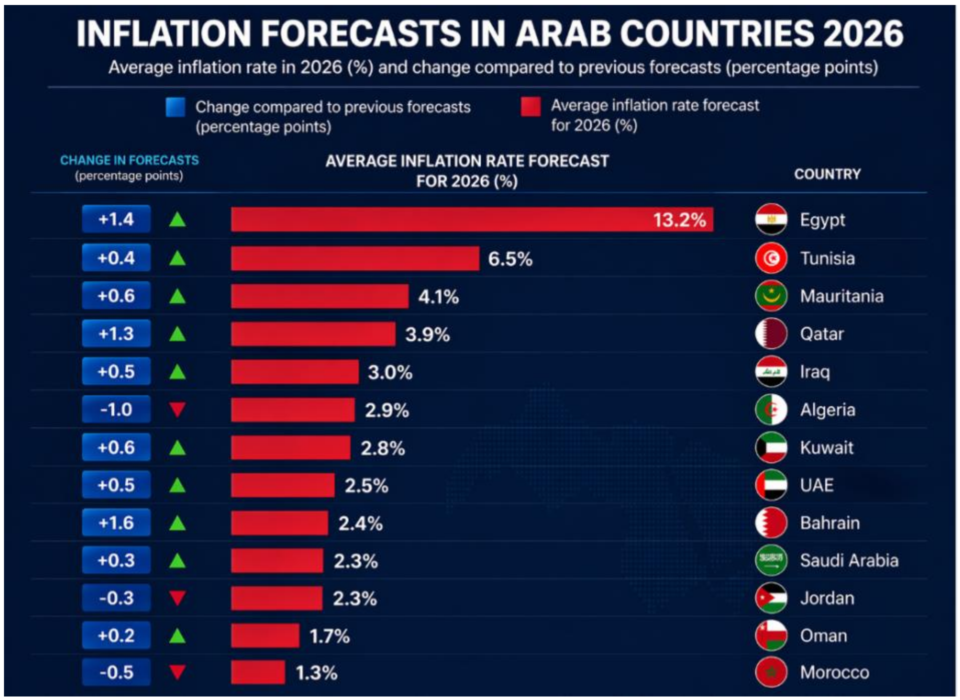
Macroeconomic Outlook Across Arab Economies (2026)

The macroeconomic outlook across Arab economies in 2026 reflects a complex interaction between rising price pressures and shifting growth dynamics. External shocks are being transmitted unevenly across the region through multiple channels, including energy markets, trade disruptions, currency movements, and financial conditions.

As a result, economic performance is becoming increasingly differentiated, with inflation trends acting as the first transmission layer of shock, while growth outcomes reflect the broader structural capacity of economies to absorb and adapt. Together, these indicators highlight a regional landscape defined not by uniform slowdown, but by divergence in resilience, policy effectiveness, and economic structure.

Inflation Dynamics and Price Pressures

The inflation outlook across Arab economies in 2026 reveals a fragmented and asymmetric transmission of external shocks, driven primarily by energy price volatility, exchange rate movements, and supply chain disruptions. The dispersion in inflation outcomes underscores the structural differences between economies in terms of import dependence, monetary frameworks, and policy capacity.



Source: IMF WEO April 2026

Egypt records the highest projected inflation at 13.2%, significantly exceeding regional peers. This reflects a combination of currency depreciation, elevated import costs, and persistent domestic price pressures, particularly in food and energy. Tunisia follows at 6.5%, where inflation remains elevated due to fiscal constraints, external financing pressures, and continued exposure to imported inflation.

In contrast, Gulf Cooperation Council (GCC) economies maintain relatively contained inflation, generally ranging between 2.3% and 2.8%. This stability is underpinned by currency pegs to the US dollar, strong fiscal buffers, and targeted policy interventions, including subsidies and price stabilization measures. However, upward revisions across several GCC economies—notably Bahrain (+1.6 percentage points), Qatar (+1.3), and Kuwait (+0.6)—highlight increasing sensitivity to global inflationary trends and supply-side pressures.

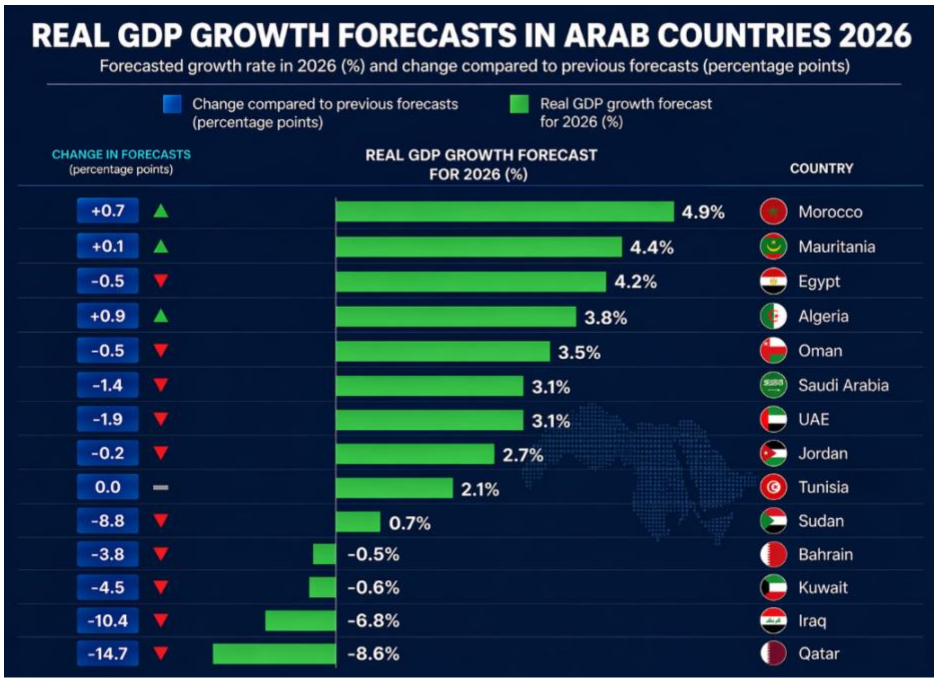
Among oil-exporting economies outside the GCC, Algeria (2.9%) and Iraq (3.0%) benefit from improved hydrocarbon revenues, which help mitigate imported inflation and support domestic spending. Nevertheless, these economies remain exposed to volatility in global energy markets and structural inefficiencies.

Meanwhile, Morocco (1.3%) and Oman (1.7%) record the lowest inflation rates in the region, reflecting relatively stable domestic demand, tighter monetary conditions, and more effective inflation containment frameworks. Morocco, in particular, benefits from a more diversified economic base, although it remains sensitive to external cost pressures.

Overall, the inflation landscape points to a clear structural divide between import-dependent economies facing persistent price pressures and resource-backed economies with greater policy flexibility. The prevalence of upward revisions across multiple countries suggests that inflation risks remain tilted to the upside, even in relatively stable macroeconomic environments.

Growth Trends and Output Performance

Growth projections for Arab economies in 2026 indicate an increasingly divergent economic trajectory, shaped by differences in diversification, fiscal capacity, and exposure to external shocks. While the region maintains an overall moderate growth profile, underlying performance varies significantly across countries.



Source: IMF WEO April 2026

Morocco leads regional growth at 4.9%, supported by agricultural recovery, infrastructure investment, and stronger integration with European supply chains. Mauritania (4.4%) and Egypt (4.2%) also maintain relatively strong growth, with Egypt benefiting from ongoing structural reforms, investment inflows, and large-scale development projects despite elevated inflationary pressures.

Energy-linked economies such as Algeria (3.8%) and Oman (3.5%) continue to benefit from hydrocarbon revenues, supporting fiscal expansion and domestic economic activity. In the GCC, Saudi Arabia and the UAE (both at 3.1%) reflect a more balanced growth model, where non-oil sector expansion increasingly offsets fluctuations in oil production and external demand conditions.

At the lower end of the spectrum, Jordan (2.7%) and Tunisia (2.1%) face constrained growth due to fiscal limitations, weaker external demand, and structural economic challenges.

More notably, several economies are projected to contract. Qatar (-8.6%) and Iraq (-6.8%) record the sharpest declines, largely driven by sector-specific disruptions, base effects, and volatility in energy output, rather than broad-based economic deterioration. Kuwait (-0.6%) and Bahrain (-0.5%) also show mild contractions, reflecting structural constraints, limited diversification, and heightened exposure to external shocks.

The magnitude of downward revisions across several economies highlights the scale of the external shock and the elevated uncertainty surrounding growth trajectories.

Overall, the growth outlook reinforces a key structural shift: economic resilience is increasingly determined by diversification, fiscal strength, and adaptability to external conditions, rather than reliance on a single sector. Economies with broader production bases and stronger domestic demand are better positioned to sustain growth, while more concentrated economies face greater volatility and downside risk.

Economic Impact of the Iran War on Arab Countries

Country Economic Outlook Brief

Growth performance, inflation trends, and macroeconomic resilience across Arab economies

Kuwait

Kuwait's growth outlook for 2026, at -0.6%, reflects a moderate cyclical contraction within an otherwise strong macro-financial position. The economy remains highly dependent on hydrocarbon exports, making it sensitive to disruptions in production and export logistics.

Inflation is projected at 2.8%, remaining contained due to subsidies and currency stability. Despite near-term growth pressure, Kuwait's external position remains exceptionally strong, supported by large current account surpluses and one of the world's largest sovereign wealth funds. The key structural constraint remains limited diversification and delayed fiscal reform, which continue to shape medium-term growth dynamics. From an investment perspective, Kuwait combines high financial strength with operational exposure, making it resilient but sensitive to external shocks.

Saudi Arabia

Saudi Arabia is projected to grow by 3.1% in 2026, reflecting continued strength in non-oil sectors alongside managed oil output dynamics. The economy is increasingly driven by investment, services, and large-scale development projects under Vision 2030.

Inflation remains low at 2.3%, supported by strong policy frameworks and monetary stability. The Kingdom benefits from substantial fiscal buffers and a relatively low debt burden, allowing it to sustain capital expenditure even under external uncertainty.

A key advantage lies in logistics and export flexibility, with infrastructure enabling partial rerouting of energy exports. This enhances resilience relative to regional peers. Overall, Saudi Arabia remains a regional anchor economy with strong medium-term growth fundamentals, despite short-term volatility.

United Arab Emirates

The UAE's growth of 3.1% in 2026 reflects the strength of its diversified, service-driven economic model, with key contributions from trade, tourism, aviation, and financial services.

Inflation is projected at 2.5%, remaining moderate despite global pressures. The UAE's external position remains robust, supported by strong current account surpluses, sovereign wealth assets, and high liquidity levels.

While the economy is exposed to global trade cycles and logistics disruptions, its policy agility, infrastructure, and global connectivity allow it to absorb shocks effectively. The UAE continues to position itself as a regional and global commercial hub, reinforcing its resilience and attractiveness for investment.

Oman

Oman is expected to grow by 3.5% in 2026, supported by stable hydrocarbon revenues and ongoing fiscal consolidation efforts.

Inflation is projected at 1.7%, among the lowest in the region, reflecting effective macroeconomic management. Oman's geographic advantage, with key ports located outside major chokepoints, enhances its logistics resilience.

Fiscal reforms have strengthened the country's balance sheet, improving investor confidence. While exposure to imported food prices remains a risk, Oman's macro trajectory points toward steady and sustainable improvement.

Qatar

Qatar's projected contraction of -8.6% in 2026 reflects short-term sectoral disruption and base effects within the hydrocarbon sector, rather than a deterioration in underlying fundamentals.

Inflation remains contained at 3.9%, indicating relatively stable domestic conditions. The economy benefits from substantial sovereign wealth assets, strong fiscal buffers, and low financing risk, which mitigate macroeconomic stress.

Given Qatar's position as a leading global LNG exporter, medium-term prospects remain strong, particularly as production normalizes and expansion projects continue.

Bahrain

Bahrain is projected to contract by -0.5% in 2026, reflecting short-term pressures within a structurally constrained fiscal environment.

Inflation remains moderate at 2.4%, although exposure to imported inflation and food costs remains elevated. The country's high public debt levels limit fiscal flexibility, increasing sensitivity to external shocks.

However, Bahrain benefits from strong regional integration within the GCC and a well-developed financial sector, which continue to provide stability and support recovery prospects.

Iraq

Iraq is projected to contract by -6.8% in 2026, reflecting high dependence on the oil sector and exposure to export route disruptions.

Inflation remains moderate at 3.0%, supported by hydrocarbon revenues. The economy is characterized by extreme concentration risk, with oil accounting for the majority of exports and fiscal revenues.

Despite short-term pressures, Iraq retains significant upside potential due to its resource base, though this is contingent on improving infrastructure, governance, and export diversification.

Egypt

Egypt is projected to grow by 4.2% in 2026, positioning it among the strongest growth performers in the region. Growth is supported by large-scale infrastructure investment, structural reforms, and a diversified economic base.

Inflation remains elevated at 13.2%, reflecting currency adjustments, imported inflation, and domestic price pressures. External accounts remain the primary transmission channel, including capital flows, tourism, and trade dynamics.

Despite these pressures, Egypt's economic scale, reform momentum, and policy adjustments support resilience. The combination of strong growth and ongoing reforms reinforces its position as a key regional economic engine with long-term potential.

Morocco

Morocco is projected to grow by 4.9% in 2026, the highest in the region, supported by agricultural recovery, industrial activity, and infrastructure investment.

Inflation remains low at 1.3%, reflecting effective policy management. However, the economy remains exposed to energy import costs, which can affect external balances.

Morocco's diversified economy and integration with European markets position it as a relative outperformer in North Africa, with balanced growth dynamics.

Algeria

Algeria's growth of 3.8% in 2026 is driven by strong hydrocarbon revenues and favorable external demand conditions.

Inflation is projected at 2.9%, indicating moderate price pressures. The country benefits from strong external balances and reserve accumulation, supported by energy exports.

However, structural reliance on hydrocarbons remains a key challenge, highlighting the need for continued diversification to sustain long-term growth.

Tunisia

Tunisia is projected to grow by 2.1% in 2026, reflecting structural constraints, limited fiscal space, and external financing pressures.

Inflation remains elevated at 6.5%, driven by imported costs and domestic imbalances. The economy remains vulnerable to external shocks, particularly energy price increases.

Reform progress and improved financing conditions remain critical to stabilizing the macroeconomic outlook.

Jordan

Jordan is projected to grow by 2.7% in 2026, reflecting stable but moderate economic performance.

Inflation remains contained at 2.3%, supported by prudent policy measures. While the economy is exposed to regional developments and external demand fluctuations, strong macroeconomic management and adequate reserves support stability.

Libya

Libya is projected to grow by approximately 4.5% in 2026, supported by hydrocarbon production and favorable price conditions.

Inflation remains moderate, while oil revenues support fiscal and external balances. However, political and institutional uncertainty remains the primary constraint on sustained economic performance.

Lebanon

Lebanon remains in a state of deep structural fragility, with limited growth visibility and persistent macroeconomic imbalances.

Inflation remains elevated due to currency depreciation and import dependence. External balances remain weak, and recovery prospects depend heavily on policy reform and external support.

Sudan

Sudan is projected to grow by 0.7% in 2026, reflecting extremely weak economic conditions.

Inflation remains exceptionally high at over 70%, highlighting severe macroeconomic instability. The economic environment remains highly constrained, with limited policy capacity and significant structural challenges.

Conclusion

The economic impact of the Iran war on Arab economies underscores a fundamental shift in the region's macroeconomic landscape. Rather than a uniform shock, the crisis is acting as a stress test that amplifies structural differences across economies, revealing clear distinctions in resilience, flexibility, and exposure to external risks.

The analysis shows that inflation and growth dynamics are diverging significantly across countries. Economies with strong fiscal buffers, diversified economic structures, and effective policy frameworks, particularly within the GCC, have demonstrated a greater capacity to absorb shocks while maintaining macroeconomic stability. At the same time, larger and more diversified economies such as Egypt continue to sustain growth momentum despite elevated inflation and external pressures.

In contrast, economies with higher dependence on single sectors, limited fiscal space, or heavy reliance on imports face more pronounced challenges. These include persistent inflationary pressures, weaker growth outcomes, and heightened sensitivity to external shocks transmitted through energy markets, trade flows, and financial conditions.

A key takeaway from the current environment is that economic resilience is increasingly defined by adaptability rather than resource endowment alone. The ability to manage external volatility, maintain policy credibility, and sustain investment in diversification will be critical in determining medium term economic performance.

Looking ahead, the regional outlook will remain closely tied to the evolution of geopolitical conditions and global market dynamics. However, the current period also presents an opportunity for economies to accelerate structural reforms, strengthen fiscal frameworks, and enhance economic diversification, thereby improving their capacity to navigate future shocks.

Overall, the Arab region is entering a phase of more differentiated economic trajectories, where resilience, policy effectiveness, and structural transformation will play a decisive role in shaping outcomes across countries.

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