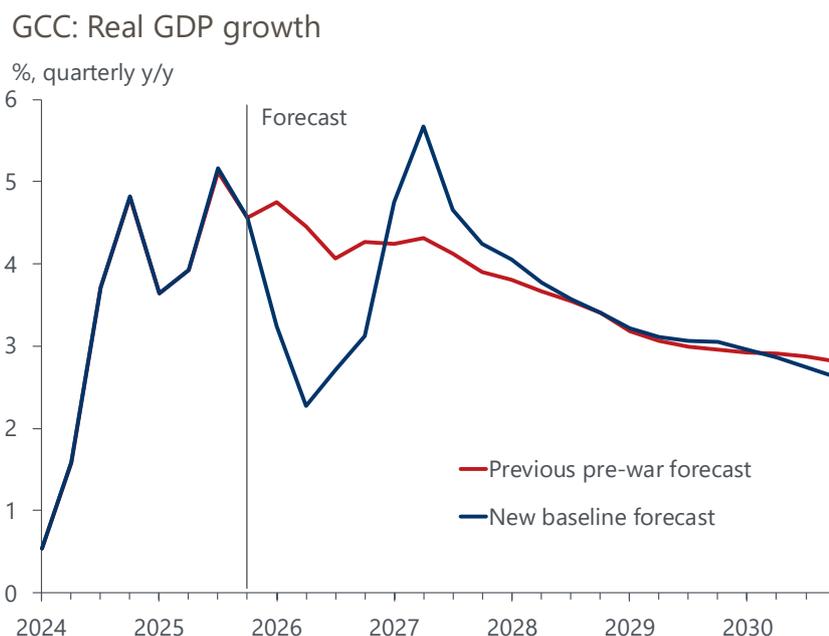


Research Briefing | MENA

Impact of the Iran war on GCC economies

- In response to the US-Iran war, we've downgraded our forecast for GCC real GDP growth by 1.8ppts to 2.6% for 2026 due to lower oil production exports, tourism, and domestic demand.
- The UAE and Qatar drag growth down the most due to their inability to reroute hydrocarbon exports, leading to reduced flows and production.
- We anticipate trade and domestic activity will gradually recover starting in H2 2026. With stronger catch-up growth expected next year, we have raised our 2027 forecast by 1ppt.
- The war will damage tourism – a major non-energy contributor to regional growth – substantially this year. The sector's recovery will hinge on post-conflict security levels.
- Our CPI inflation forecasts are slightly higher this year, but lower next year. Disruption to the Strait of Hormuz will impact not only exports but also imports of goods, leading to some shortages and higher costs associated with rerouting.
- We've downgraded household consumption growth across the region as a combination of work from home orders and reduced consumer confidence will reduce spending. The luxury goods sector and services will likely be the biggest losers.
- The impact on public finances isn't homogenous. Countries such as Oman and Saudi Arabia, that can still export, will reap the benefits of higher oil prices, while those facing blockages will lose out. Spending is expected to rise to support the population and replenish defence capabilities.
- Financial conditions have tightened as investors seek compensation for the rise in geopolitical risk. This may deter some private foreign direct investment in the short term, but the region's structural investment case is strong enough to warrant a swift recovery.

Chart 1: Iran war will hit GCC growth in 2026, with some recovery in 2027



Sources: Oxford Economics, Haver Analytics

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In addition to precious oil and gas reserves, stability has been one of the most important commodities that GCC states have enjoyed in an otherwise volatile region. The US-Israel war with Iran has triggered Iranian retaliation against otherwise neutral neighbours, not only disrupting trade, travel, and daily life, but also threatening the region's hard-earned safe-haven status.

As the war enters its second week, we've published analysis considering the [impact on the global economy](#) and concluded that the impact is likely to be minimal if the war is short and come through spillover effects from higher oil and gas prices. However, we expect the GCC region will suffer a greater economic shock in the near-term, followed by a protracted recovery with possible long-term consequences.

The severity and duration of disruption from the war is highly uncertain. Making reasonable assumptions enables us to model the economic impact using Oxford Economics Global Economic Model (GEM). We assume open warfare subsides after two weeks, with low-level disruption persisting for two months. This entails an initial phase of restrictions on airspace and minimal traffic in the crucial Strait of Hormuz, followed by a gradual return to normalcy and eventual catch-up growth.

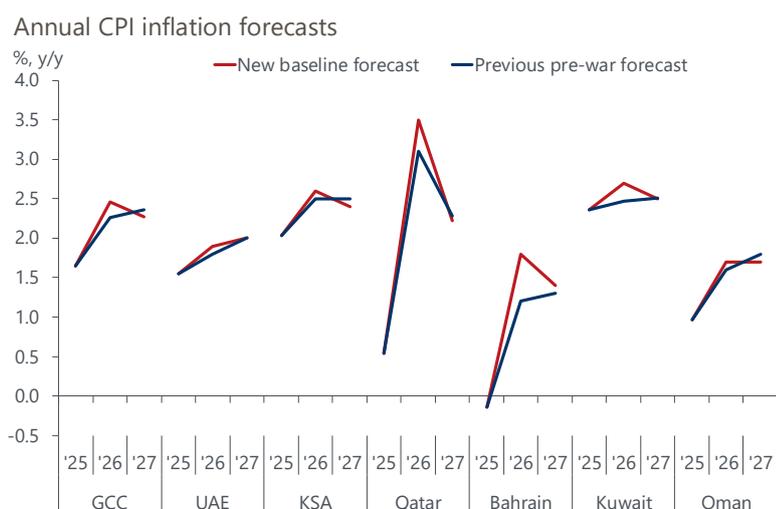
Headline economic impact

Our new forecast for the GCC region anticipates a significant hit to activity, particularly in H1 2026. Aggregate growth is forecast to trough at 2.3% y/y in Q2, 2.2ppts below our previous pre-war forecast. Economies begin to recover in H2 before catch-up growth starts in 2027 (**Chart 1**). For the year as a whole, we've downgraded GCC GDP growth by 1.8ppts, but increased growth in 2027 by 1ppt. More detailed information on each GCC member is included in **Annex 1**.

Please note that the forecasts outlined in this briefing only show the impact of events since the start of the conflict. Any revisions to historic data published after the last forecast update were incorporated before this analysis was carried out to isolate the impact of events.

We expect the conflict to impact inflation less severely than GDP growth, revising our forecast for GCC annual CPI inflation up by 0.2ppts to 2.5% for 2026 (**Chart 2**). Disruption in the Strait of Hormuz is likely to decrease goods imports, resulting in shortages and price hikes. Although general goods imports can be rerouted by land, the costs will be significantly higher. Most regional governments tend to regulate the prices of essential items like fuel, dairy, eggs, and meat. However, non-essential goods' prices are expected to increase due to cost pressures.

Chart 2: Blockages to imports are likely to lead to some shortages and higher inflation



Sources: Oxford Economics, Haver Analytics

Most of the inflation pressure is expected to be temporary, and our forecast is lower for 2027 as a result. However, there's a risk that concerns over security lead to a slowdown in net inward migration, which raises wage pressures and lowers potential growth. The lack of social safety net for many foreign workers can lead to loss of income when closures occur and activities are restricted.

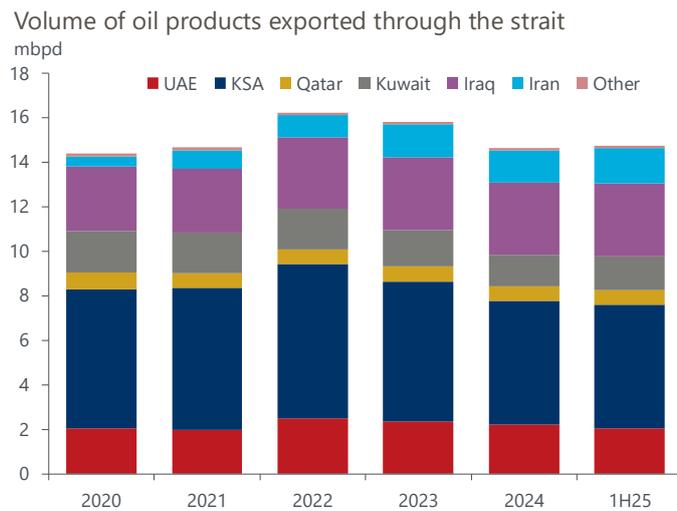
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Watch the flow – oil and gas exports are key for the region

Disruption to the exports of oil and gas will cause the largest immediate impact, as most economies rely on transport through the Strait of Hormuz for the majority of their exports. Around 14.7mbpd flows through the strait, accounting for 20% of global oil supply – mostly heading to Southeast Asia (**Chart 3**).

With enough time, Saudi Arabia, the largest oil exporter, could redirect most of its 5mbpd-6mbpd through the East-West pipeline and the Red Sea channel. But it would require an expansion of the pipeline's capacity to do so and there are logistical constraints, such as storage and shipping capacity, that would limit how much can be rerouted. The UAE, the second biggest exporter, has the option to utilise the Habshan-Fujairah pipeline. However, reports indicate that the pipeline can only handle an additional 0.4mbpd, leaving 1.7mbpd stranded.

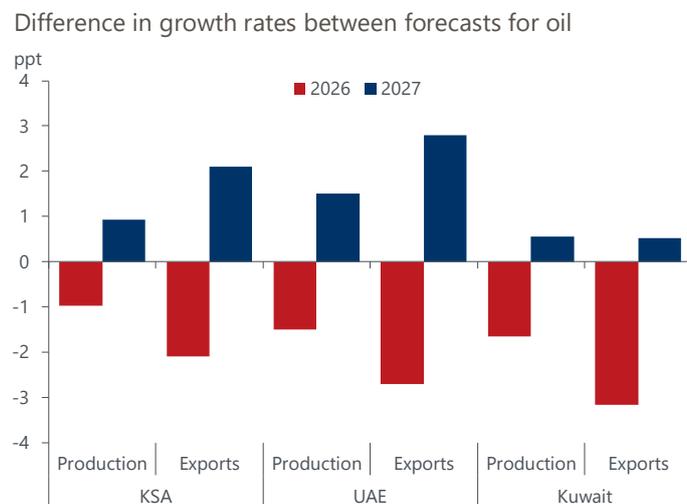
Chart 3: Flows of oil through the Strait of Hormuz by country



Sources: Oxford Economics, EIA

Bahrain, Kuwait, and Qatar have no feasible way to bypass the strait. The disruption to traffic halts their oil and LNG exports, significantly impacting their economies. Subject to storage constraints, oil producers can maintain production and increase inventories for future exports. We've reduced our oil export growth more than production growth (**Chart 4**). The longer the conflict persists, the higher the chance of reaching storage capacity and halting production.

Chart 4: Oil exports to be more negatively impacted than production



Source: Oxford Economics

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We assume global oil supply is disrupted by an average of 4mbpd over the next quarter and expect Brent to average \$79 per barrel in Q2, \$15 above our February baseline, before supply resumes by quarter-end.

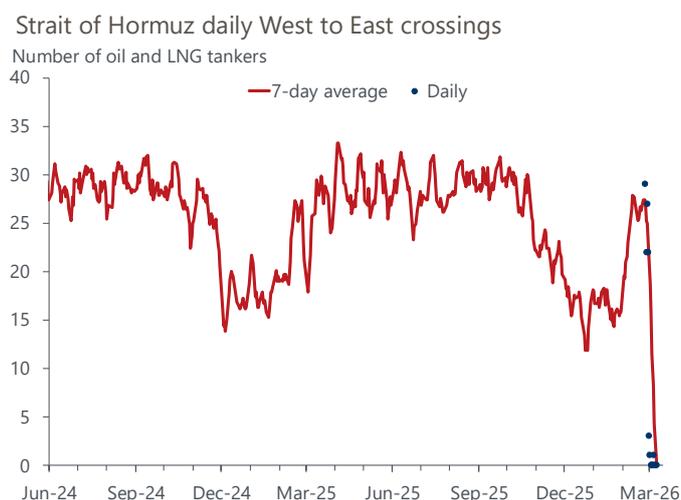
Regarding LNG, processing and storage are significantly more costly. We anticipated a production halt, which has since been announced by Qatar Energy. As the world's second-largest LNG exporter, this won't only significantly impact regional gas markets, it will also lead to a substantial decrease in output from its hydrocarbon sectors.

We expect disruption to Qatari LNG exports to force Asian buyers to compete aggressively with Europe for cargoes, hindering [Europe's ability to refill gas storage ahead of winter](#), elongating the impact. We see this lifting TTF and JKM to approximately \$14/MMBtu, around 30% above our February baseline. [More analysis is available on our energy outlook here.](#)

Offers of support to help traffic resume

In recent days, Iranian attacks on vessels along with a 12-fold rise in the cost of insuring ships sailing through the strait has prompted most ships to either dock or drop their anchors and wait. The number of tankers (predominantly carrying oil and gas) travelling West to East through the strait has fallen from 25 per day (seven-day moving average) from before the start of the conflict to five in total since the start of March. No tankers have passed through in the past three days, effectively closing the strait (**Chart 5**).

Chart 5: The Strait of Hormuz is effectively closed for now



Sources: Oxford Economics, Bloomberg

US President Donald Trump has announced that the US Development Finance Corporation [would provide insurance and guarantees](#) "at a very reasonable price . . . for the Financial Security of ALL Maritime Trade, especially energy, travelling through the Gulf". The US has also indicated that it could potentially also escort vessels through the strait. These supports would likely help lift traffic through the strait, but our current assumption of a recovery in shipping flows relies on the most serious threats to vessels abating. [More analysis on our shipping outlook is available here.](#)

Travel and tourism effects

The travel and tourism sector is vital for GCC governments in their efforts to diversify their growth and revenues away from hydrocarbons. The conflict has had a significant and immediate impact on travel, as airspace closures have interrupted transiting flights and local arrivals and departures. Many tourists and commuters are stranded in the region and beyond due to tens of thousands of cancelled flights.

The airspace above Bahrain, Kuwait, and Qatar remain closed (**Chart 6**). While the UAE has technically had a narrow passage open, it's only just restarted a small number of flights. Saudi Arabia and Oman have been largely unaffected and have consequently benefited from travellers rerouting to reach the region.

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Chart 6: Most of the airspace across the GCC remains closed or heavily restricted



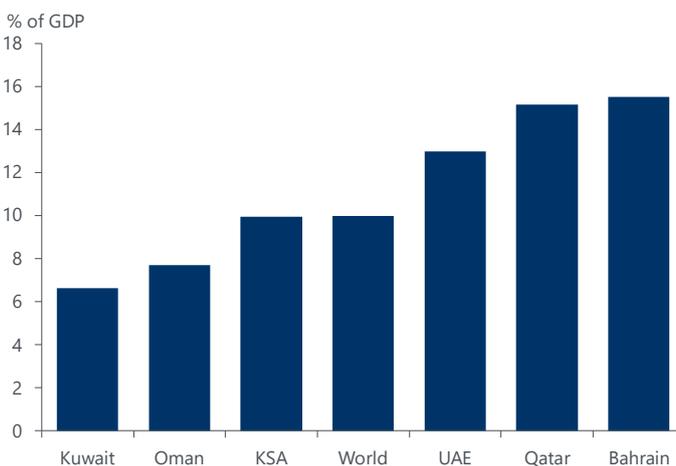
Source: Flightdar24, snapshot taken at 12:00 GMT on March 9, 2026.

Heavy investment in hotels, infrastructure, experiences, travel connectivity, and safety have all helped the travel and tourism sector to significantly contribute to GCC economic activity. Our work with the [World Travel and Tourism Council \(WTTC\)](#) details not only the direct contribution from the sector – estimated at 3.6% of GDP for the wider Middle East – but also a further 6.4% of GDP worth of indirect spillover benefits, totalling 10% of GDP.

In the GCC, Bahrain, Qatar, and the UAE have the greatest exposure to travel and tourism, all with contributions of over 12% of GDP in 2024, exceeding the global average of 9.6% (**Chart 7**). Kuwait, Oman, and Saudi Arabia, while having smaller total contributions, share ambitions to develop their sectors further.

Chart 7: Travel & tourism have grown to be significant contributors for the GCC economies

Total contribution from travel & tourism, 2024



Sources: WTTC Economic Impact Research 2025, Oxford Economics

In the near-term, we anticipate a significant decline in the sector's activity, followed by a protracted recovery. The speed of the recovery will depend on both the actual and perceived level of security achieved once the conflict is resolved. However, it may take a season or two before we see confidence fully restored.

Our [Tourism team estimates](#) that the GCC will see an 11% decline in passenger arrivals in 2026, which represents a 19ppt downgrade compared to our pre-war baseline forecast.

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Consumer spending to rebound quickly, but not fully

Work-from-home orders and general caution are likely to reduce discretionary household spending. Reduced consumer confidence is expected to increase precautionary savings in the near term and to a lesser extent even after the conflict. Accidental savings, due to reduced movement, are expected to be quickly spent when normality returns. Some demand destruction may occur with higher inflation, but given our small inflation revisions, this will be less significant than the recovery in consumer sentiment.

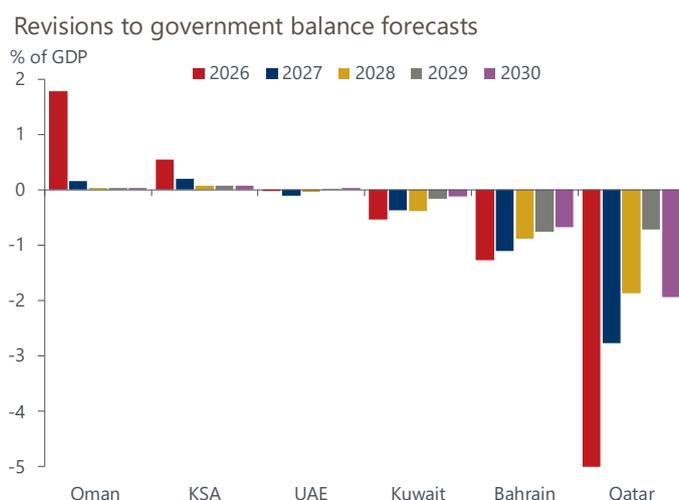
In our forecast changes, we revised down real household consumption growth by 1.5ppts for 2026 to 2.6%, and up by 1.3ppts for 2027 to 5.3%.

Consequences for public finances

Higher oil prices would lead to upgrades in both government revenues and general government balances for our forecasts. However, the complication of reduced and delayed energy exports muddies the water. Oman and Saudi Arabia, which we expect will maintain high levels of production and delay exports to later in the year, are forecast to see a boost to their public finances.

Our forecast for Oman's 2026 budget balance is revised up by 1.8ppts, while the forecast for Saudi Arabia is now 0.5ppts higher (**Chart 8**). At the other end of the spectrum, Bahrain, and Qatar see the biggest downgrades, owing to their loss in ability to export, and for Qatar due to it also being forced to reduce LNG production. Note, even with the significant downgrades to Qatar's budget balance, it continues to run a sizeable surplus overall.

Chart 8: Higher energy prices will boost government revenues for those that can export



Source: Oxford Economics

Government spending is forecast to increase for most countries this year and next. Some support will be offered to help populations and the need to replenish defence capabilities.

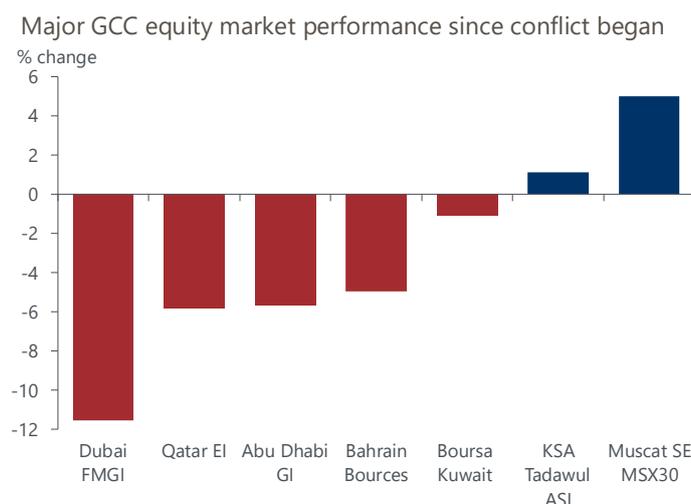
What to watch for: financial conditions to tighten

In terms of the reaction in government bond markets, financial conditions have tightened at the margin, with slightly higher premiums demanded by investors. Bahrain, the most indebted of the GCC members, has seen a notable increase in its CDS spreads.

More broadly, equities have generally fallen, although the impact isn't uniform (**Chart 9**). The worst performer is the Dubai Financial Markets General Index, which finished March 9 down 11.5% compared to its close before the conflict. The Qatar Exchange Index has fallen 5.8% and the Abu Dhabi General Index has lost 5.7%. In contrast, Saudi Arabia's Tadawul ASI and Oman's Muscat exchange have rebounded back to positive territory in response to the less negative outlook for the two countries.

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Chart 9: Equity market performance reflects varying economic impact



Sources: Oxford Economics, Bloomberg. Taken at close March 9, 2026.

Falling equity prices, especially for banks, may tighten financial conditions further due to the need to maintain adequate capital ratios. Funding has been an issue in Saudi Arabia recently amid strong credit growth and elevated government borrowing. A prolonged conflict may exacerbate the situation for Saudi banks, possibly requiring government intervention.

Another risk to the financial system arises from exposure to off-plan construction and real estate. Our baseline forecast anticipates only a mild slowdown in real estate activity. However, large price gains in recent years leave certain areas more vulnerable.

Dubai's residential market is particularly vulnerable due to its high dependence on demand from foreigners, and the tremendous amount of new supply due to be released to the market this year.

In a more negative scenario, there could be a much larger slump in Dubai's residential market prices, similar to that seen during the pandemic. This could then cause an increase in non-performing loans and force banks to realise losses, thereby tightening liquidity further, and reducing domestic demand.

Finally, security concerns may hinder government diversification from oil and gas. However, we think these events actually bolster the case for diversification, and will eventually lead to increased efforts and capital allocation towards these goals.

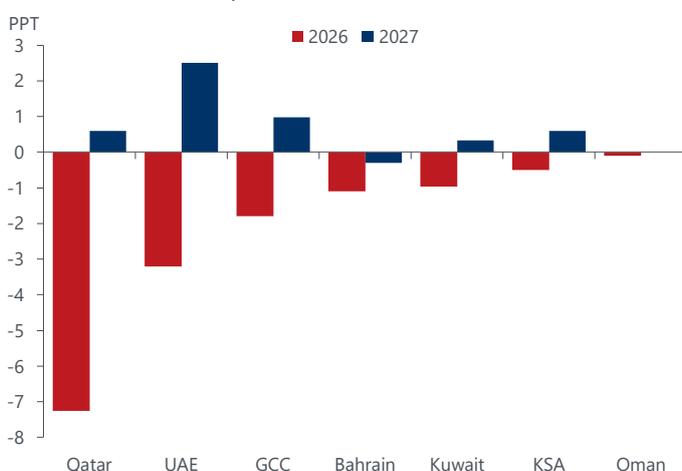
Annex 1: Impact on GDP growth by countries

Within the GCC group, **Qatar** experiences the most significant adverse impact as its GDP growth forecast is reduced by 7.25ppt in 2026 (**Chart 10**). A major reason for this substantial impact is Qatar's high reliance on gas exports, which are expensive to store and transport. Another contributing factor is the probable delay in the previously announced expansion of LNG production and exports from Qatar's North Field East facility. We initially anticipated this expansion to increase gas production by around 16%-18% this year, but we've now postponed this to 2027 in the new forecast.

The **UAE** is the second most negatively impact country, with its GDP growth forecast downgraded by 3.2ppts. The UAE's limited alternative options to shipping through the Strait of Hormuz should cause its oil exports to fall more than other GCC exporters. In addition, the relatively high importance of its tourism sector suggests it will likely be more impacted than others by risk aversion to travelling to the region.

Chart 10: Qatar and UAE's GDP growth are the hardest hit by the conflict

Difference between pre-war and new baseline forecasts



Source: Oxford Economics

Bahrain and **Kuwait** face similar challenges. Both are expected to experience dips in oil exports during the period of disruption, and both are likely to see their tourism industries hit. Their proximities and the more serious attacks that they've faced are also likely to lead to greater caution and lower consumer confidence compared to the other GCC members. We've downgraded Bahrain's GDP growth forecast by 1.1ppts and Kuwait's by 1ppt.

Saudi Arabia, though heavily reliant on oil exports, has more options to reroute supplies as discussed above. Minimal damage from the attacks allows workplaces and schools to operate normally, with open airspace. While some high-profile events may be cancelled, potentially impacting foreign direct investment, the Kingdom's sovereign wealth fund directs most capital expenditure, mitigating the reductions. Consequently, we lowered Saudi Arabia's 2026 GDP growth forecast only by 0.5ppts.

Lastly, **Oman** is likely to see the smallest negative impact from current events. Operating its exports from outside of the Strait means a low risk of disruption during the most intense period of fighting. Moreover, its airspace remains open, with Muscat doing a brisk trade in private chartered flights in and out of the region.