

The conflict in the Middle East: a massive blow to growth in the Gulf

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For the first time since 2009 (excluding COVID), the GDP of the Gulf Cooperation Council (GCC) is expected to contract this year (-0.8%), whereas pre-conflict forecasts had predicted growth of 4.7%. Far from benefiting from the sharp rise in energy prices triggered by the conflict, the scale of the downturn reflects the severity of a shock that is undermining many of the pillars of the Gulf economies. Nevertheless, the consequences are varying from one country to another, depending on the level of diversification and, above all, on the degree of vulnerability to disruptions in the Strait of Hormuz.

Gulf countries: severe growth impact, but uneven across economies

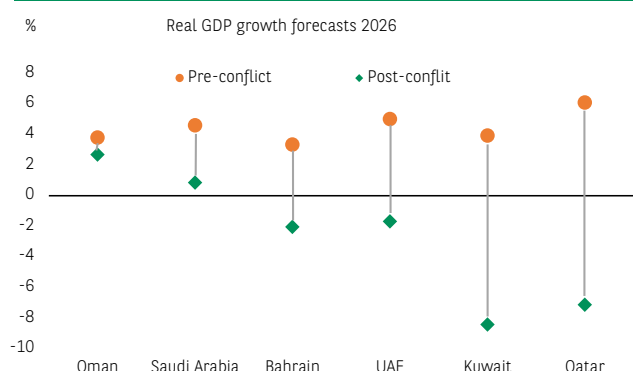


CHART 1

SOURCE: BNP PARIBAS

Hydrocarbon production declines drive most growth downgrades

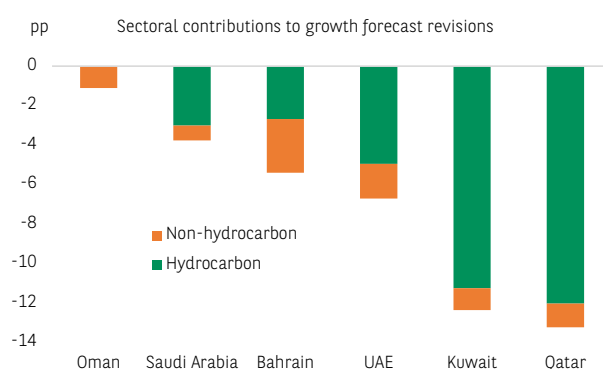


CHART 2

SOURCE: BNP PARIBAS

Saudi Arabia and Oman have been relatively unscathed, while the UAE, Kuwait and Qatar have been hit hard

Only two countries are not expected to experience a contraction in their GDP in 2026: Saudi Arabia and Oman. Having been largely spared from the attacks and possessing infrastructure outside the Strait of Hormuz, Oman is a special case. Its economy is expected to grow by around 3%, a rate close to the forecast at the start of the year. For Saudi Arabia, the downturn is larger. Initially forecast at 4.6%, growth is now projected at 0.8% in 2026 due to the fall in hydrocarbon-related GDP. Nevertheless, the impact is less severe than for other countries in the region thanks to the port of Yanbu on the Red Sea operating at full capacity. Excluding hydrocarbons, the strength of domestic demand is also helping the Saudi economy to hold up better, unlike the UAE, whose outward-oriented economic model is vulnerable to the deteriorating security situation. Despite the port of Fujairah, which is allowing trade to bypass the strait, a contraction in the UAE's real GDP of close to 2% is now anticipated, representing a shortfall of almost 7 percentage points compared with pre-conflict forecasts. For Kuwait and Qatar – the least diversified economies in the Gulf, with no alternative to the Strait of Hormuz – the impact on growth is even more severe, as their real GDP is expected to contract by 7 to 8%.

The macro-financial situation remains sound

Further revisions are possible, given the fragility of the negotiations between the United States and Iran. Nevertheless, the macro-financial situation of the Gulf states is not giving cause for major concern. In addition to the considerable foreign assets managed by the region's sovereign wealth funds (over USD 4 trillion, or 175% of the GCC's GDP), and government debt averaging just over 30% of GDP, relatively high global energy prices could help to absorb some of the losses incurred during a complete closure of the Strait. At an aggregate level, the GCC is therefore expected to record current account surpluses in 2026 (+2% of GDP, compared with +4.7% of GDP in 2025). Furthermore, the budget deficit is expected to remain below 2% of GDP. The reorganisation of logistics flows in the region and the control of fuel prices have also helped to contain the inflationary risk caused by the crisis. Although on the rise, average inflation in the Gulf countries is not expected to exceed 2.5% this year, compared with 1.7% in 2025.

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