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GEOPOLITICAL INTELLIGENCE

GEOECONOMIC ANALYSIS

Beyond Oil:

Mapping the financial fallout of the Iran War.

AUTHOR

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AT A GLANCE

Key findings

$120bn

lost on the Abu Dhabi and Dubai exchanges in the month after the war began

+106%

increase in Qatar's budget deficit between the first and second quarters of 2026

−22%

international tourist arrivals to the Middle East in the first half of 2026

3.5–5.5 mb/d

combined Hormuz bypass pipeline capacity of Saudi Arabia and the UAE

1. **Exposure is shaped by more than oil.** It depends on the interaction of four factors: export routes that bypass Hormuz, fiscal and sovereign buffers, the structure of the banking system and the concentration of confidence-sensitive sectors.
2. **Hormuz divides the Gulf.** Only Saudi Arabia and the UAE operate crude-oil pipelines that bypass the Strait; Qatar, Bahrain and Kuwait might not be able to bypass the blockade, and Oman's ports lie outside the Strait.
3. **The shock travels through six channels:** energy and exports, trade and logistics, investment confidence, inflation and financing, credit quality, and fiscal pressure.
4. **The impact is uneven.** Sovereign wealth funds cushion the UAE and Saudi Arabia, while Qatar's deficit more than doubled and Bahrain is more fragile.
5. **Banks are the last link in the chain.** S&P anticipates a 20-basis-point rise in the cost of risk for GCC banks in 2026, with non-performing loans relatively stable at 2.6% in March.
6. **The outlook remains open.** Three scenarios (escalation against economic and digital infrastructure, partial resumption of strikes, or a ceasefire that holds) would redistribute exposure across the GCC states.

Sources for every figure are given in the body of the paper and in the reference list.

On February 28, 2026, a joint military operation launched by Israel and the United States of America marked the beginning of the Iran War [1]. In response, Iran launched a general bombing campaign against Israel and targeted American military bases and interests throughout the Middle East. It then imposed a gradual blockade of the Strait of Hormuz, drastically affecting the global flow of hydrocarbons. Analysis of the conflict has focused largely on the price of crude oil. Yet the IMF's assessment suggests the economic effects are broader and uneven, with "glaring differences across countries"[2]. Beyond oil, the Iran War has impacted the economies of the region and tested the Gulf states' economic model. This article examines the different stress transmission channels through which the 2026 Iran War has spread from geopolitical clashes to various economic and financial sectors in the Gulf Cooperation Council (GCC) beyond the traditional war-induced oil challenges. The question is no longer simply whether the conflict will increase oil prices, but rather, how did the geopolitical disruption propagate through the interconnected financial system and regional economic landscape?

We argue that exposure to the conflict is determined less by hydrocarbon dependence alone than by the interaction of four factors: export routes that bypass Hormuz, the strength of fiscal and sovereign buffers, the structure of the banking system and the concentration of confidence-sensitive sectors such as tourism and logistics.

1. From February 2026 to now, where does the Iran War stand?

In the context of the Iranian nuclear programme, Israel and the United States decided to jointly attack Iran on February 28, 2026. As in the conflict in June 2025, Israel announced that its objective was to destroy Iran's nuclear facilities and its capacity to build nuclear weapons and delivery systems. However, this time, Israel announced another war goal: it aims at changing the current Iranian regime and installing a western aligned power in the country. This directly illustrated in the decapitation of the Iranian regime in the first days of the war [3]. Iran immediately launched retaliatory strikes on Israel and on American bases and interests in the Gulf. On March 1, 2026, Iran began to blockade the Strait of Hormuz, which resulted in an increase in oil prices. In addition to its direct attacks on Israel, Iran decided to regionalise the conflict by targeting key American infrastructure in the region and mobilising some of its proxy militias in the Middle East. On March 23, 2026, Israel expanded its strikes to Lebanon [4], citing the threat posed by the Iranian-aligned Hezbollah. As the conflict entered its second month of fighting, it seemed clear that the end of hostilities was not near. In fact, Iranian resilience appeared to withstand the American and Israeli strikes while inflicting casualties and material damage on both belligerents and on the Gulf states.

On April 10, 2026 talks started in Pakistan.[5] While the belligerents set out their demands, the actual military situation did not allow either side to impose its position. Meanwhile, other countries in the region suffered material damage, and oil prices surged, affecting the international economy. In response, Donald Trump announced his own blockade of Hormuz on April 12, 2026 [6]. On June 17, 2026 , under Pakistani mediation, an MoU between the USA and Iran halted the large-scale fighting, although the belligerents have since then exchanged strikes over alleged violations of the agreement.[7] As of this paper's cut-off date (November 5th 2026), the risk of fighting to resume after Trump lost the majority to Democrats in the Congress in the 3rd November mid-term election [8] is assessed as high. This would lead to more Iranian strikes in the region. As most US military bases have already been hit, a widening of targets set to economic American assets (banks and corporations, more oil and gas infrastructures, AI data centers or internet sub-

marine cables), deepening financial and economic disruption in the Middle East. In this context, it has become crucial for financial institutions and companies to understand where exposure is concentrated in the region and how quickly it could spread.

2. From the geopolitical escalation to financial and economic stress.

The conflict has created regional political and security risk that has been transmitted directly to the economic and financial sectors of the Gulf region through six main transmission channels.

The first transmission channel is energy and export disruption. Despite the various national economic diversification plans, the GCC is still dependent on the oil and gas sector. Indeed, according to the World Bank in 2024, the hydrocarbon sector contributed to 20% of Saudi Arabia's GDP, 22.2% of the UAE's, 37.2% of Qatar's and to 43.4% of Kuwait's [9]. However, hydrocarbons account for an even larger share of state revenues: 88% of Kuwait's state revenues, 79% in Qatar, 69% in Oman, 67% in Bahrain, 60% in Saudi Arabia and 49% in the UAE. [10] The region not only depends on the revenue of oil and gas but also, as a hyper-globalised region, on global trade. The Iranian strikes directly targeted oil and gas infrastructures, which in many cases are integrated with import and export infrastructures, such as oil terminals and logistical ports being merged for cost efficiency. Furthermore, the blockade of the Strait of Hormuz placed additional stress on Gulf economies as the strategic node is the entry point of countless goods crucial to the wellbeing of the region. Qatar's Liquified Natural Gas (LNG) exports illustrate this exposure: Euronews linked the doubling of Qatar's second-quarter budget deficit to LNG disruption.[11]

The second channel is international trade and logistics. Several key infrastructures have been struck, such as King Khalid International Airport in Riyadh, hit by the Houthis on October 10, 2026 and a further attack on King Fahd International Airport in Dammam in the same month [12]. Because of the anti-air systems deployed in the Gulf to counter the many Iranian drones and missiles, national airspaces have been closed on several occasions. Civilian airlines have been obliged to use different routes, which negatively affected their operations and financial stability. Maritime logistics hubs were also directly targeted. In brief, the logistics and transportation sector is directly affected by the war, as airports, ports and logistics hubs constitute direct military targets.

The third channel is investment and market confidence. While the main belligerents were Israel, the USA and Iran, the uncertainty of military escalation in the Gulf directly affected confidence. Additionally, the reliance of GCC countries on American infrastructures for their national defence raised concerns among the general public. Reports of US shortages of key munitions such as Patriot missiles, highlighted by several American military sources, further reinforced uncertainty about the Gulf's defensive capacity should Iranian attacks intensify [13]. This confidence drop resulted in a loss of $120 billion in market value on the Abu Dhabi and Dubai stock exchanges in the month following the beginning of the war. [14]

The fourth channel is inflation and tighter financing conditions. At the microeconomic level, geopolitical uncertainty and a deterioration in consumer and business confidence across the GCC economies, has resulted in a lower household consumption, as households have become more cautious in their spending decisions and increasingly inclined to save. This led to lower GDP growth forecasts for the year 2026 with Oxford Economics downgrading UAE GDP growth by 1.8 points to 2.6% in 2026. [15] Additionally, the conflict reduced the region's tourism appeal, deepening the consumption drop in the region. Furthermore, the blockade of the Strait of Hormuz generated inflation in various sectors such as commodities. This is illustrated by

a 5% increase in global food prices over the two months following the start of the war. [16] Other economic indicators highlight rising inflation across the region: the IMF projects that regional inflation should increase from 0.9% in 2025, to 2.7% in 2026. [17]

Yet the GCC economies offer some resilience amid geopolitical uncertainties. Several existing instruments and new policies have been put in place to mitigate the economic and financial impact of the war. Monetarily, all GCC countries peg their national currencies to the US dollar except Kuwait, whose currency is pegged against a basket of currencies. This provides a certain degree of exchange-rate protection and helps limit national currency depreciation as economic activity slows down. However, this mechanism works only as long as the American economy is resilient: should the American dollar lose value, GCC countries would be automatically affected. In parallel, several funds were mobilised to contain the economic and financial spillover of the war. For example, the Bahraini government mobilised the unemployment insurance fund to finance approximately $250 millions of April salaries for Bahraini employees in the private sector, helping protect household income and support domestic consumption. [18] In Kuwait, the Central Bank relaxed selected liquidity requirements for banks and increased the permitted cumulative liquidity gaps, providing financial institutions with greater flexibility to manage potential funding pressures [19]. Across the GCC, governments have relied on strategic inventories and alternative sourcing arrangements to reduce the risk of shortages and limit panic buying. [20]

The fifth channel is credit quality. So far credit ratings have been maintained by major rating agencies such as Fitch and Moody's. Thanks to several strong sovereign wealth funds, GCC nations offer solid financial backing. Nevertheless, this situation varies by country. As the UAE and Saudi Arabia own the most prominent sovereign funds in the region, other countries such as Bahrain are more fragile. Additionally, a prolonged conflict might erode the region's capacity to withstand shocks and weigh on credit ratings, particularly in countries that have not created alternative routes to export hydrocarbons. [21] The ability of Iran to blockade Hormuz and Bab el-Mandab, through its Houthi allies, and to target pipelines and energy infrastructure therefore constitutes a critical financial risk for the region in the long run.

The sixth channel is fiscal pressure. The Iran War induced serious revenue losses for the GCC states, while increasing their defence government spendings. The fiscal pressure is now noticeable and translates directly into policy: Saudi Arabia is now expanding borrowing to cover the defence cost and reallocating resources through drastic cuts in Vision 2030 projects. In Kuwait, the budget, which prior to the war was projected to show a deficit of 9.76 billion Kuwaiti dinars [22] is now deteriorating, highlighting the pre-existing fiscal issues. In Qatar, the deficit, which was 10.3 billion Qatari riyals (QAR) during the first quarter of 2026 jumped to QAR 21.2 billion in the second quarter of the year [23], which represents an increase of about 106%.

3. Exposure concentration points

The economic and financial disruption caused by the war is, and will be, distributed unevenly across the region, geographically and by sector. Such exposure will depend on the economic resilience of each country, its dependence on strategic maritime chokepoints, the financial cushion offered by sovereign wealth funds and the composition of the country's banking sector. Figure 1 maps this uneven exposure. For instance, S&P projects a 2% GDP contraction in 2026 for the region while Saudi Arabia, Oman and the UAE are expected to maintain positive growth, reflecting differences in economic structure and resilience. [24] Additionally, it is relevant to distinguish direct exposure, such as damaged infrastructures or material destructions, and indirect spillovers such as higher costs, weaker confidence and deteriorating borrower conditions. The finan-

cial capacity to absorb external shocks also differs considerably across the GCC: the IMF estimated that gross international investment assets ranged from approximately 90% of GDP in Bahrain to 760% in Kuwait in 2023, illustrating substantial differences in external financial buffers. [25]

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The Gulf's uneven exposure to the Iran War

Country	Hydrocarbons, % of state revenues	Hormuz bypass	External buffers	Fiscal / macro signal in 2026
Saudi Arabia	**60%**	Yes East-West Pipeline (Red Sea)	Major sovereign fund	Expanded borrowing Cuts to Vision 2030 projects Positive growth expected (S&P)
UAE	**49%**	Yes Habshan–Fujairah pipeline	Major sovereign fund	Growth forecast cut by 1.8 pts to 2.6% (Oxford Economics) $120bn lost on Abu Dhabi and Dubai exchanges in one month Positive growth expected (S&P)
Qatar	**79%**	No	n/a	Deficit up from QAR 10.3bn (Q1) to QAR 21.2bn (Q2) LNG disruption
Kuwait	**88%**	No	Gross international investment assets of 760% of GDP (2023)	Pre-war projected deficit of KD 9.76bn, now deepening Central bank liquidity relief for banks
Bahrain	**67%**	No	Gross international investment assets of about 90% of GDP (2023)	Unemployment fund used for about $250m of April salaries Seen as more fragile
Oman	**69%**	Yes Most of its coastline faces the Indian Ocean	n/a	Positive growth expected (S&P)

Hydrocarbons are shown as a share of state revenues. "n/a" indicates that the draft provides no figure. External buffer figures refer to 2023.

Table 1 The Gulf's uneven exposure to the Iran war: hydrocarbon dependence, Hormuz bypass options, external buffers and fiscal signals. Hydrocarbons are shown as a share of state revenues [10]. A Hormuz bypass means an export route avoiding the Strait; Oman is classed as having one because most of its coastline faces the Indian Ocean. External buffer figures are for 2023 [25]. Information current as of 10 November 2026. Source: Pax Orientalis; growth expectations from S&P [24] and Oxford Economics [15].

For the energy sector, oil and gas prices are not the only element of exposure to consider. The very ability to produce, store and move oil and gas, under Iranian missile and drone attacks will become a crucial point. The ability of countries to provide sufficient military protection to prevent production disruption is likely to be unequal: as a working hypothesis, Saudi Arabia appears better protected than Oman: according to Al Jazeera, it possesses the largest air-defence network in the GCC, with THAAD and Patriot PAC-3 for long-range defence, plus medium- and short-range missiles, guns and a Silent Hunter laser for low-flying drones, while Oman lacks advanced long- and medium-range missile systems and relies more on short-range systems [26]. Moreover, alternative energy routes through the Red Sea coast and Suez Canal, for Saudi Arabia, and through the Fujairah port (bypassing the Strait of Hormuz) for the UAE will contribute to lower economic exposure. The Red Sea route is, however, itself exposed to Houthi attacks. Indeed, Saudi Arabia and the UAE are the only GCC countries with operational crude-oil pipelines capable of bypassing Hormuz (Oman's ports lie outside the Strait, see Table 1), with an estimated combined available export capacity of 3.5–5.5 million barrels per day through the East-West Pipeline and the Habshan-Fujairah pipeline. [27] Qatar, Bahrain and Kuwait, due to their geographical situation, might not be able to bypass the Iranian blockade.

For the tourism, hospitality and real estate sectors, the perception of safety will be a decisive factor. Any deterioration of the security situation will result in an immediate drop in tourist activities, hurting hotels, airlines and retail. The impact of regional insecurity on tourism is already measurable: international tourist arrivals to the Middle East declined by 22% in the first half of 2026 compared with the same period in 2025, according to UN Tourism, illustrating the sensitivity of travel demand to geopolitical instability. [28] UN Tourism also notes that air traffic disruption eased in May and June following de-escalation due to the announcement of a ceasefire, which suggests that demand responds quickly to the security situation. This impact is nonetheless likely to be concentrated on a few countries of the region, such as Qatar and the UAE, which traditionally attract most of the tourism market of the region. In parallel, if Houthi attacks on Saudi Arabia continue, it risks slowing down the flow of pilgrims going to Umrah and future Hajj seasons. We may therefore expect new policies to showcase state control of the situation and a commitment to protecting territories and populations. This might translate into tighter media control over the coverage of the conflict.

For the banking sector, consequences may arrive with a lag. Banks will absorb the cumulative economic impact on borrowers, and will consequently be affected as the final link in the chain. Although the risk of a liquidity crisis is low at this stage across the region, banks might face credit risks due to higher insolvency rates. The deterioration in borrower conditions is expected to feed progressively into banking-sector balance sheets, with S&P Global Ratings anticipating an average 20-basis-point increase in the cost of risk for GCC banks in 2026, even though the regional non-performing loan ratio remained relatively stable at 2.6% as of March 2026. [29] We can assume that this will slow economic activity and weigh on businesses' capacity to finance themselves.



Figure 1 The Gulf's uneven exposure to the Iran war: direct disruption, economic dependencies and financial spillovers. Illustrative exposure map; routes and infrastructure are shown for analytical context, and exposure does not imply confirmed disruption. Pipeline paths are schematic between documented endpoints. Information current as of 3 November 2026. Source: Pax Orientalis; base map Natural Earth (public domain); incidents from IMO via The National (2 November 2026), Bloomberg (7 April 2026) and Reuters (15 October 2026).

4. Conclusion

The Iran War has not only affected the global flow of energy, but has also highlighted fragilities in the GCC economic model. It has reinforced the urgency of economic diversification while exposing the vulnerability of international trade around the chokepoint of Hormuz. The geopolitical stress has been transmitted directly to the financial and economic sectors, mainly through inflation, a drop in confidence and investment, a disruption of economic production and logistics. For states, this implies new political and security alignments. For economic actors, close monitoring of the conflict, energy prices and other economic indicators such as inflation has become essential. The economic and financial impact of the war is uneven across the region, with some states being more fragile than others and some economic sectors being directly affected by the crisis. Understanding these nuances in geographic, macroeconomic and geoeconomic terms therefore appears essential for the resilience of the region.

The Iran War also demonstrated that wealth alone does not eliminate geographical weaknesses. The rapid growth and development of the GCC states did not mitigate the risks of geographical reality. Additionally, the war proved that economic diversification, although necessary and sought after by all GCC countries, can create new forms of vulnerability. The UAE's international integration, particularly in aviation, tourism, logistics and financial services, provides economic resilience under normal circumstances but also creates additional channels through which regional insecurity can affect the economy.

In conclusion, three possible scenarios can frame the outlook (by order of likelihood according to our analysis).

1. **Escalation against economic and digital infrastructure:** direct damage and higher insurance and financing costs, with the strongest effects on logistics hubs, banks and the least-buffered economies.

2. **Partial resumption of strikes:** renewed volatility on markets and in aviation, with pressure on credit ratings of the countries without Hormuz bypass routes.

3. **The ceasefire holds:** confidence and tourism recover gradually, but fiscal costs and defence spending persist, favouring the states with large buffers.

About Pax Orientalis

Pax Orientalis is an interdisciplinary think tank on the future of the Middle East, at the intersection of politics, business and academia. Its research is data-driven and rooted in the region, and it brings local expertise and a global outlook to governments, companies, international organisations and the media.

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