The Economic Impact of the US-Iran Conflict

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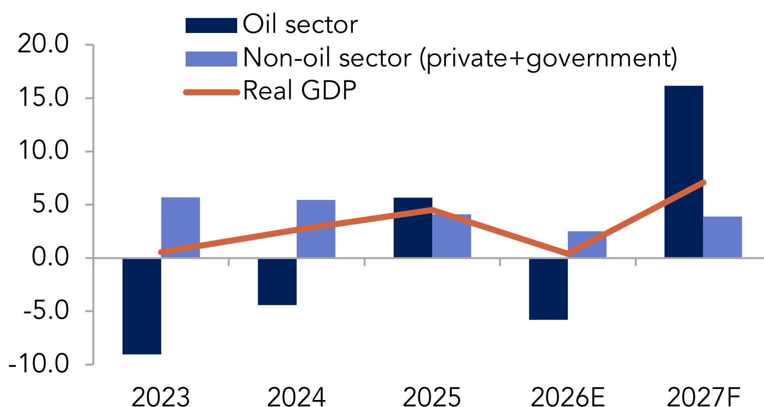
Challenges and opportunities

- The conflict will weigh on both oil and non-oil GDP in 2026, but early signs point to a degree of resilience and growth will rebound in 2027 (Figure 1).
- Oil GDP will decline by around 6% due to lower average oil production this year. This assumes that oil output will recover to 10mbpd by September 2026.
- In 2027, we expect oil production will increase from end-2026 levels and average around 10.3mbpd. This would represent growth of 16% over the projected 2026 average.
- For the non-oil economy (excluding government activities), we expect growth to slow to 2.7% in real terms, versus our pre-conflict forecast for non-oil growth of 4.3%.
- Conflict-related disruptions to some economic activity and supply chains are impacting a range of sectors including transport and non-oil manufacturing.
- For 2027, we expect a rebound in non-oil GDP growth close to 5%, due to base effects and as various sectors continue to add capacity and develop.
- The uncertainty over the resolution of the conflict continues to present downside risks to the economic outlook.
- The conflict also presents opportunities, for example, to boost the resilience of supply chains across transport and logistics, and further localisation of manufacturing, including for defense.
- Other forecast revisions are small, including for inflation, the budget and government debt.

Fig 1: Real GDP change (% yoy)



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Oil output fell from 10.1mbpd in January to a low of 6mbpd in early April.

Assuming partial normalization of the Strait of Hormuz, oil output will recover fairly quickly.

Non-oil growth will slow mainly due to the disruptions to transport and supply chains.

Headline forecast revisions

The conflict will weigh on both oil and non-oil GDP in 2026, but early signs point to a degree of resilience and growth will rebound in 2027. Accordingly, we are revising our previous 2026 projections down and our 2027 projections up. We now forecast real GDP growth dipping to 0.4% in 2026 and zipping back to 7.1% in 2027.

Oil GDP growth: -6% in 2026, +16% in 2027

We expect oil GDP to decline by around 6% due to lower average oil production this year.

Oil output fell from 10.1mbpd in January to a low of around 6mbpd in early April. Oil production averaged 8.6mbpd in January-April, down from an average of 9.5mbpd in 2025. Saudi oil production would likely recover reasonably quickly to 10mbpd assuming the Strait of Hormuz blockades ease in H2-26. Our baseline assumption has Saudi oil production returning to 10mbpd in September.

Saudi Arabia's total oil exports can return to pre-conflict levels without a full normalization of flows through the Strait of Hormuz. The Kingdom has the option to maintain its utilization of the East-West pipeline at higher levels than before the conflict. Before the conflict Saudi exported around 6.5mbpd of oil through the Strait of Hormuz and less than 2mbpd from Yanbu through the Red Sea. In April-May Yanbu exports have risen to just under 4.5mbpd on average. If this is maintained then exports via the Strait of Hormuz do not necessarily need to fully bounce back (Figure 2).

The maximum capacity of the East-West pipeline is 7mbpd, while the export capacity at Yanbu is around 5mbpd. Saudi Aramco has suggested it will boost Yanbu's export capacity. Expansion of the East-West pipeline (and perhaps other pipelines) could also be possible along with further storage.

In 2027, we expect oil production will increase from end-2026 levels and average around 10.3mbpd. This would represent growth of 16% over the projected 2026 average (Figure 3).

Of course, the geopolitical situation remains highly uncertain. If the Strait of Hormuz remains closed then Saudi oil production will also remain constrained. This would weigh even further on oil GDP, but would also be associated with a further rise in oil prices which would support the government budget.

Non-oil GDP growth: 2.7% in 2026, close to 5% in 2027

For the non-oil economy (excluding government activities), we expect growth to slow to around 2.7% in real terms, from 4.9% in 2025. This compares with our pre-conflict forecast for non-oil growth to slow to 4.3% in 2026, following several years of above-trend expansion. For 2027, we expect a rebound in growth close to 5% (Figure 4).

Gastat's Q1 2026 GDP flash estimates showed non-oil growth decelerated to 2.8%, from 4.3% in H2 2025, with the conflict denting some economic activity since end-February.

Fig. 2: Saudi oil export volumes and crude price (mbpd and $pb)

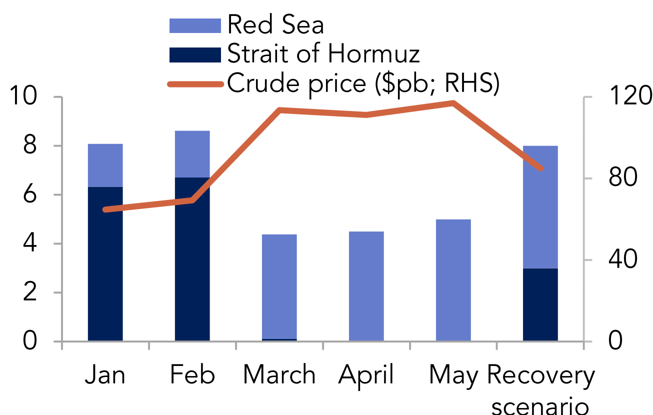
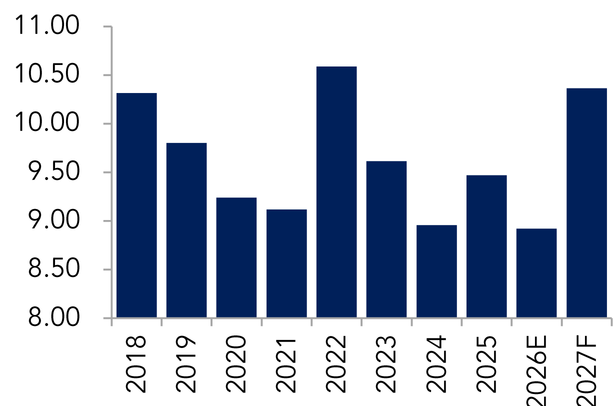


Fig. 3: Annual average oil production (mbpd))



Inflation will move higher, but in a limited fashion.

And interest rate cuts are off the table for now.

The budget deficit will be narrow after Q1-26 due to higher oil revenue.

In March, the Non-oil Purchasing Managers' Index (PMI) survey declined sharply, as firms reported slower demand for new orders and a decline in exports as a result of the conflict and the closure of the Strait of Hormuz. In April, the non-oil PMI index recovered a bit, as firms increased output in response to a pick up in new business volumes and an uplift in activity expectations for the year ahead. However, input costs rose at a fast rate. Despite these pressures, surveyed businesses noted that job creation was sustained through both March and April (Figure 5).

Other forecast revisions: inflation, interest rates and the budget

Inflation: We expect that higher import costs, including related to food, will push up consumer price inflation, but in a limited fashion and from low levels. Consumer price inflation averaged 1.8% year on year in Q1-26, down from 2% on average in 2025. The trend down in rental price inflation, which is a significant weight in the overall consumer price index, has been a key driver of lower inflation.

We have revised our forecast for average CPI to 2.2% in 2026, up from 1.7% in our previous forecast. There is upside risk to inflation the longer the conflict lasts.

Interest rates: The conflict is proving more inflationary elsewhere in the world, most immediately through higher energy prices. Inflation in the US hit 3.8% year on year in April, up from 3.3% in March. This is complicating the US Federal Reserve's calculus on interest rate policy, especially as the labor market is holding up. Market expectations regarding the US Fed Funds rate have changed sharply since the start of the conflict, shifting from two cuts in 2026 to no cuts (Figure 6).

Similarly, at the start of the year we assumed 50bps of cuts to SAMA's policy interest rates in 2026. This would have helped bring down SAIBOR rates. However, given the lower probability of US rate cuts, it is now more likely that policy rates in Saudi will remain stable this year.

The budget: The budget deficit widened to SAR126b in Q1-26, as spending grew by 20% year on year, while revenue edged down. The conflict will have pushed spending higher than usual for Q1. Total revenue edged down, due to lower oil revenue, by 3%, while non-oil revenue was 2% higher.

For the full year 2026, we have slightly widened our budget deficit forecast to 5.5% of GDP from close to 5% of GDP previously. This leaves the deficit smaller than in 2025 and means the trajectory of government debt/GDP is similar to before the conflict.

Total budget revenue will be higher than expected before the conflict. Higher oil prices will more than offset lower oil production and exports. This will show up clearly in Q2-26 budget data which will reflect the impact of oil prices above $100pb. However, spending will also be higher than expected, with upward pressure on military spending (it was budgeted to decline in 2026) and other spending to support the economy.

We will cover the budget outlook in more depth in an upcoming report.

Fig. 4: Non-oil real GDP growth (%)

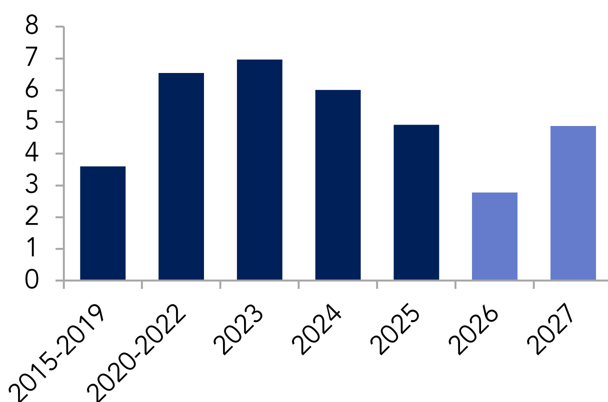
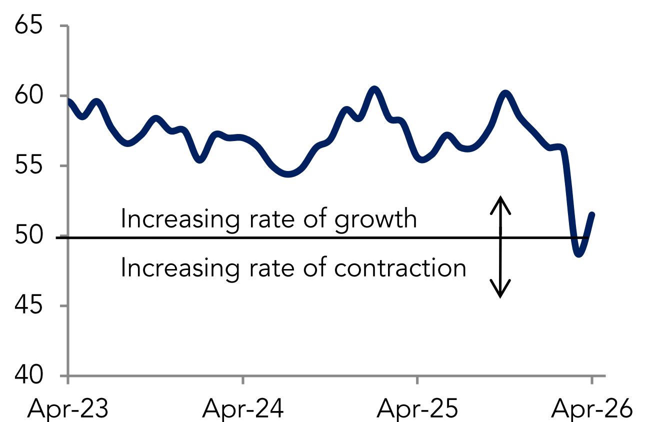


Fig. 5: Non-oil PMI (50 = threshold for expansion)



The impact on non-oil sectors

Sectors by % of non-oil GDP 2025	
21	Wholesale/retail/ hospitality
20	Non-oil manufacturing
13	Construction
12	Finance & business
10	Transport
9	Real estate
7	Community services
5	Agriculture
3	Utilities
1	Non-oil mining

Disruptions to activity and supply chains are impacting a number of sectors beyond the oil sector. At the same time, policy responses, especially in the area of transport and logistics, are helping the economy adapt. And so far, consumption and financial indicators—such as point of sales data, SAIBOR rates, sovereign credit default swaps, weekly money supply and stockmarket performance—are displaying a degree of resilience.

As of May 19, the stockmarket was up just over 2% since the start of the conflict (and 4.5% YTD), pushed up in part by the energy and petrochemicals sectors. In Q1-26, the combined profits of listed companies grew by 22% year on year or, 13% year on year excluding Aramco. The biggest contributors to overall combined profits were energy, banks, telecommunications and petrochemicals.

Looking across non-oil sectors as they are covered in GDP, **the transport, storage and communication** sector (10% of non-oil GDP) has felt the conflict most directly. There were initial disruptions to flight activity and cargo handling at seaports (Figure 7). A large chunk of containerized consumer and machinery imports tend to come via the Strait of Hormuz to the port at Dammam. In March Mawani reported a 40% decline in total cargo tonnage at seaports compared with the January-February average. In April there was a partial pick-up, with total tonnage 24% below the pre-conflict level, as shipping rerouted to the west coast. The data for May will show some further recovery.

New logistics routes are helping mitigate the initial hit to the sector.

The Kingdom quickly initiated new logistics routes across the seaports, Saudi Arabia Railways (SAR) and trucking in order to shift goods to the ports on the west coast for export and to rewire imports into the Kingdom through the west coast. The new routes also aim to help link up logistics with neighbouring countries.

SAR announced five new logistics corridors combining rail and road that link up eastern ports and cargo yards with ports on the west coast (via Riyadh Dry Port, Al Kharj and Hail), as well as from Hail to Al Qurayat and further north. Alongside this, the Kingdom and private operators are trying to maximise trucking routes. Saudia Cargo also announced sea-to-air freight routes to help ease bottlenecks.

And higher investment in the sector is likely in coming years.

This logistics activity is helping to mitigate the initial hit to the transport and logistics sector. However, limits on spare capacity at ports and with inland logistics, including trucking, make it hard to fully offset disruptions from the Strait of Hormuz given the size of trade flows that typically route via the east coast ports. Currently there are no direct rail links to the west coast which puts pressure on trucking. And clearly these workarounds are more costly and time consuming.

Nonetheless, when the Strait of Hormuz re-opens in some form, use of the west coast will likely remain higher than pre-conflict levels and extra capacity and connectivity will be developed. Indeed, over the coming years, we would expect increased investment and activity in this sector—railways, pipelines, roads and storage—as both Saudi Arabia and other regional countries looking to trade routes through the Kingdom seek to enhance the resilience of supply chains. For

Fig. 6: US interest rate expectations at different dates (%, Fed Funds rate)

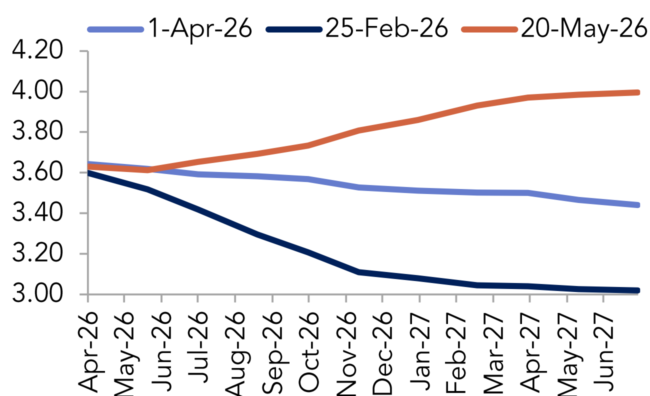
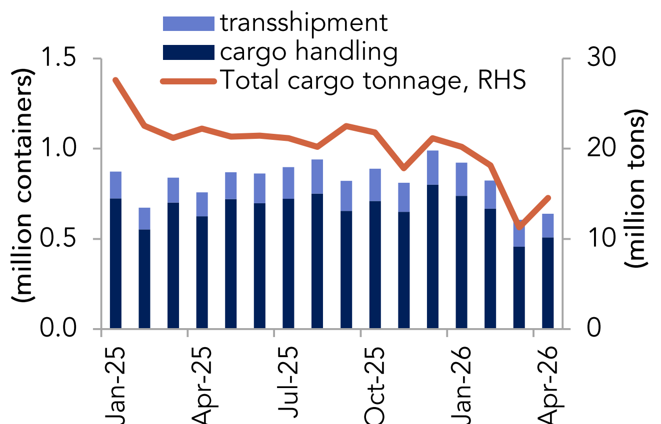


Fig. 7: Seaports activity (containers and cargo)



Lower inbound tourism is weighing on hospitality.

But domestic consumption has continued to grow so far.

Supply-chain disruptions have affected non-oil manufacturing to some extent.

example, new tenders were put out for the Saudi Landbridge rail project in 2025 and a design contract was awarded in April 2026. The project completion date is 2034.

Hospitality and tourism, which is partly captured in the **wholesale & retail trade, restaurants and hotels** GDP classification, has been affected by the lower international travel flow, but the current structure of the Kingdom's tourism sector which depends more on domestic tourism than international tourism has softened the impact.

In Q1-26 total tourism spending declined by 2% year on year due to a decline in inbound tourism, according to the Ministry of Tourism. Meanwhile, domestic tourism, which accounts for 75% of visitor numbers and almost 60% of total tourist spending, performed strongly (Figure 8).

More broadly, consumption indicators have been fairly resilient so far, with slower growth in March and a recovery in April. In March the consumer spending proxy (POS, e-commerce and ATM) was up 1.5% yoy, which is a slow growth rate, but partly explained by base effects. The narrower weekly POS figures suggest that consumption strengthened in April. Since the conflict began the weekly POS data show an increase in value close to 5% over the same period in 2025 in nominal terms (Figure 9).

Taking this together, we expect the **wholesale & retail trade, restaurants and hotels** sector (21% of non-oil GDP) to return weaker growth this year but for this slowdown to be relatively shallow.

It is worth noting that this sector has been the largest contributor to overall non-oil growth in recent years, both due to demand and supply factors. On the supply side, the significant increase in hospitality facilities has been an important driver of this. Supply will continue to increase this year and there will also be significant additions in terms of retail space, as a number of significant hospitality and retail projects underway are completed.

Non-oil manufacturing, the second largest sector with 20% of non-oil GDP, is being affected to some extent by supply-chain disruptions. For example, some petrochemical output based on the east coast has been reduced, either because of problems procuring all the required production inputs or because some products cannot be trucked to the west coast and so production has to slow or stop given the inability to export via the Strait of Hormuz.

It is a mixed picture, as petrochemical companies based on the west coast are facing fewer supply chain issues and at the same time receiving higher prices. These companies have posted strong results in Q1-26.

The petrochemicals sector comprises around 30% of non-oil manufacturing and so any declines in petrochemical output will weigh on total non-oil manufacturing. And, more broadly, supply-chain issues are also impacting some other manufacturing companies whether it be difficulties procuring inputs to the production process or because of the higher costs of inputs.

Higher cost of inputs is also a factor for the **construction** sector (13% of non-oil GDP). Gastat's Construction Cost Index (CCI) did not pick up that much in April,

Fig. 8: Tourism spending in Q1 2026 (SARb)

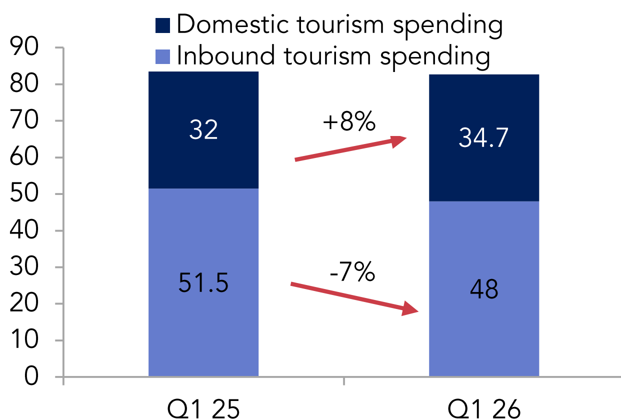
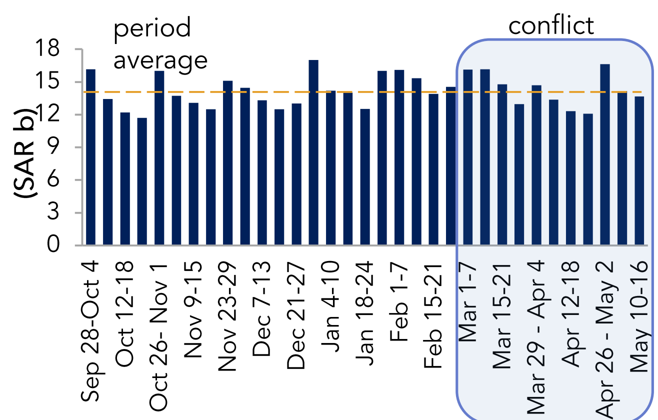


Fig. 9: Weekly Point of Sales transactions (SARb)



And will also weigh further on the construction sector.

although it did indicate higher costs for renting machinery and equipment. There may be more tangible upward pressure in the months ahead. Steel prices, for example, have been rising—markedly so in April.

Construction sector growth slowed in 2025, to 4%, due to a range of factors including softer dynamics in public sector project spending and in the real estate market. The **real estate** sector itself accounts for 9% of non-oil GDP. These factors remain in play in 2026, with new mortgages continuing to fall in Q1-26, declines in the value of real estate transactions, and project awards slowing further.

However, looking ahead, priority projects, such as Expo 2030, the FIFA World Cup and Diriyah, along with key transport, power and water infrastructure and housing projects will continue to support the construction sector in the coming years. And, the real estate sector will likely gain more momentum in 2027 as the regulatory reforms from last year start to stimulate more housing developments.

Nonetheless, there have been some significant project awards and tenders.

Although project awards have slowed in 2025 and into 2026, nonetheless, there have been some significant project awards and tenders in Saudi so far this year, including since the beginning of the conflict. New contract awards totaled $23.5b in January to mid-May, according to MEED projects, with the awards so far in Q2-26 higher than the awards in Q1-26.

Contracts awarded since the conflict began include projects related to Rua Al Madinah, Diriyah, Humain's 6GW datacenter in Riyadh and contracts for water and power. Meanwhile, there are a number of large contracts under bid evaluation, including Riyadh Metro line 7. There will be still be a large pipeline of work for the construction sector.

Reforms and fundamentals support economic prospects

The longer the disruptions continue the more severe the economic challenges.

As outlined above, the conflict is presenting a number of economic challenges and opportunities. The uncertainty over the resolution of the conflict and the impasse over the Strait of Hormuz continue to present downside risks to the economic outlook.

However, this uncertainty also reinforces the potential opportunities: for example, boosting the resilience of supply chains, across transport infrastructure and logistics, and further localisation of manufacturing, including for defense. The conflict has also highlighted the importance of the Red Sea and should increase the opportunity set on the west coast.

At the same time, many of the key drivers of growth will remain the same. The non-oil economy is supported by structural developments across a number of sectors and ongoing reforms to improve the business environment. Allied to this are the fundamentals of market size, a growing working-age population, a strong sovereign credit rating and solid banking sector.

But, the conflict also presents opportunities, related to boosting and localizing supply chains.

Various sectors will continue to add capacity and develop, including non-oil manufacturing, transport and logistics, finance and insurance, tourism and entertainment as well as renewable energy and technology. We looked at these sectors in detail in our Saudi Economy report. The real estate sector will also likely gain more momentum in 2027. These developments add to non-oil economic activity and bring with them job creation.

Key data

	2020	2021	2022	2023	2024	2025	2026F	2027F
Nominal GDP								
(SAR b)	2,880	3,685	4,647	4,570	4,703	4,789	5,223	5,427
(USD b)	768	983	1,239	1,219	1,254	1,277	1,393	1,447
(% change)	-13.6	28.0	26.1	-1.7	2.9	1.8	9.1	3.9
Real GDP (% change)								
Oil	-6.9	1.2	15.0	-9.0	-4.4	5.7	-5.8	16.0
Non-oil activities	-3.0	10.2	12.4	7.0	6.0	4.9	2.7	4.9
Government activities	-0.6	1.1	4.6	1.1	3.3	0.9	1.5	1.1
Total	-3.8	6.5	12.0	0.5	2.6	4.5	0.4	7.1
Oil indicators (average)								
Brent (USD/b)	42	71	104	84	80	68	89	78
Production (m b/d)	9.2	9.1	10.6	9.6	9.0	9.5	8.9	10.3
Budgetary indicators (SAR b)								
Government revenue	782	965	1,268	1,212	1,259	1,112	1,211	1,199
Government expenditure	1,076	1,039	1,164	1,293	1,375	1,388	1,501	1,432
Budget balance	-294	-73	104	-81	-116	-277	-290	-233
(% GDP)	-10.2	-2.0	2.2	-1.8	-2.5	-5.8	-5.5	-4.3
Gross public debt	854	938	990	1,050	1,216	1,519	1,809	2,042
(% GDP)	29.6	25.5	21.3	23.0	25.9	31.7	34.6	37.6
Monetary indicators								
Inflation (% change, average)	3.1	3.2	2.5	2.5	1.5	2.0	2.2	1.8
SAMA Repo (%, year end)	1.00	1.00	5.00	6.00	5.00	4.25	4.25	4.25
External trade indicators (USD b)								
Oil export revenues	119	202	327	247	223	214	255	245
Total export revenues	172	275	410	319	304	308	356	355
Imports	123	135	169	183	206	221	235	249
Trade balance	48	140	241	136	98	87	121	106
Current account balance	-26	41	150	26	-16	-33	-1	-15
(% GDP)	-3.3	4.1	12.1	2.1	-1.3	-2.6	-0.1	-1.3
Official reserve assets	454	455	460	437	437	460	487	481
Social and demographic indicators								
Population (m)	31.6	30.8	32.2	33.7	35.3	36.3	37.1	37.8
Saudi Unemployment (15+, %)	12.6	11.5	8.2	7.8	7.0	7.2	7.2	6.9
GDP per capita (USD)	24,339	31,921	38,510	36,157	35,528	35,215	37,558	38,319

Sources: General Authority for Statistics, Saudi Central Bank and Ministry of Finance. Jadwa Investment forecasts for 2026 and 2027.

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