Recent developments: The conflict in the Middle East has had severe direct effects on the Middle East, North Africa, Afghanistan, and Pakistan (MNA) region. In addition to humanitarian losses, these impacts include a slump in economic activity and increased inflationary pressures due to higher energy prices and shipping costs. While ceasefire agreements have at times eased fears of further escalation, uncertainty associated with the conflict remains high.

Among hydrocarbon exporters, the conflict has exacerbated already-weakened economic activity in the Islamic Republic of Iran, following intensified sanctions and heightened social unrest. Limited ship transit through the Strait of Hormuz and the destruction of energy-related infrastructure have significantly disrupted oil and natural gas production in other hydrocarbon exporters, including Iraq and Gulf Cooperation Council countries. In some economies, financial conditions have remained tight, alongside soft non-hydrocarbon activity.

The conflict has also had repercussions for hydrocarbon importers, with higher energy and input costs and transportation disruptions weighing on activity. In some economies, worsened security conditions have led to currency depreciations, capital outflows, and reduced tourist arrivals. To combat supply shortages and price hikes, several economies have implemented energy-saving measures and increased subsidies.

Geopolitical tensions have been heightened across economies in fragile and conflict-affected situations (FCS), including Afghanistan, Lebanon, and the Republic of Yemen. In West Bank and Gaza, the October 2025 ceasefire opened a fragile window for stabilization of the economy, following unprecedented losses, with Gaza facing near total destruction of physical infrastructure and significant recovery needs. Economic activity remains markedly below pre-October 2023 levels amid severe labor market dislocation.

Outlook: With forecasts for the Islamic Republic of Iran excluded because of exceptionally high uncertainty, growth in MNA is expected to weaken to 1.6 percent in 2026, from 4 percent in 2025, reflecting the adverse effects of the regional conflict. This represents a 2.7-percentage-point downgrade from the January projection. Assuming disruptions from the conflict taper off by the end of this year, growth in the region is projected to recover to an average of 4.5 percent over 2027–28. However, the outlook is subject to significant uncertainty.

Growth in hydrocarbon exporters in the Middle East is set to slow to 0.3 percent in 2026, with the projection downgraded by 4.3 percentage points since January. This reflects significant declines in hydrocarbon production, alongside disruptions to trade, foreign investment, and services activity, including tourism and aviation. Inflation is forecast to pick up, partly due to higher food import prices, with a rise in shipping costs. Hydrocarbon prices will also be higher, but the materialization of such benefits—particularly on the fiscal front—faces heightened uncertainty due to increasing spending pressures in several economies, especially on defense.

Across these economies, the effects of the conflict are expected to vary depending on the extent of damage, the degree of exposure to hostilities, and the strength of policy buffers.

The sharp slowdowns projected for Iraq, Kuwait, and Qatar will be associated with worsening fiscal and current account balances stemming from declines in hydrocarbon revenues and, in some cases, increases in military spending. In contrast, the deceleration in growth is expected to be moderate in Oman, which is less exposed to the conflict primarily because its major ports are located outside the Strait of Hormuz. The weakening of growth is anticipated to be less pronounced in Saudi Arabia, mainly reflecting the ability to reroute oil exports through the East-West pipeline.

The strengthening of growth in hydrocarbon exporters in the Middle East over 2027–28 will be supported by a recovery in hydrocarbon output, including infrastructure investment, alongside the steady expansion of non-hydrocarbon activity. As trade activity returns with lower cost pressures, inflation is projected to recede. Current account surpluses are forecast to shrink, with declines in energy prices. In contrast, the expected improvement in fiscal balances reflects an increase in hydrocarbon production and revenues outpacing expenditure growth.

Forecasts for 2026 have been upgraded since January for hydrocarbon exporters not directly involved in the conflict—namely, Algeria and Libya—primarily because of higher energy prices. A rise in hydrocarbon prices will improve fiscal and external balances in 2026, before they worsen amid the price decline over 2027–28.

Among hydrocarbon importers, growth is also set to slow in 2026, reflecting higher hydrocarbon prices, disruptions to shipping and tourism, and weaker remittances. Primary surpluses are anticipated to shrink in 2026, partly reflecting increases in subsidies and other social protection measures in several economies. In Djibouti, amid limited access to external financing, revenues are projected to moderate with lower donor grants. Higher import prices and lower remittance inflows are expected to contribute to widening current account deficits in 2026, although higher fertilizer prices are likely to provide a partial offset for Jordan and Morocco through stronger export revenues.

Growth in hydrocarbon importers is forecast to recover in 2027–28, supported by lower energy prices and recoveries in shipping, tourism, and remittances. Waning inflationary pressures will lead to monetary policy easing, which should support activity. Primary surpluses are projected to widen with fiscal consolidation efforts, notably in the Arab Republic of Egypt, Pakistan, and Tunisia. However, job creation will likely remain subdued over the forecast horizon, partly reflecting weak labor market conditions and structural rigidities, with limited female labor force participation.

The outlook for FCS economies in the region remains subdued and highly uncertain. The conflict is projected to weigh on activity, particularly exports and tourism, and worsen food insecurity in Lebanon and the Syrian Arab Republic. A recovery in West Bank and Gaza will depend on the continuation of the ceasefire, while growth in Afghanistan hinges on improved absorption of returnees into the labor market. In the Republic of Yemen, growth is forecast to remain subdued, reflecting persistent domestic unrest, institutional fragmentation, and the impacts of the conflict in the Middle East, including higher energy and food prices and worsened food insecurity.

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Middle East, North Africa, Afghanistan, and Pakistan Economy Forecasts
(Annual percent change unless indicated otherwise)

	2023	2024	2025e	2026f	2027f	2028f
GDP at market prices (average 2010–19 US$)						
Calendar year basis						
Algeria	4.1	3.7	3.8	3.7	3.1	3.1
Bahrain	3.9	2.9	3.5	1.3	2.8	3.1
Djibouti	6.8	7.0	6.5	5.9	6.3	6.5
Iraq [a]	0.5	-1.5	-2.2	-8.9	12.2	3.5
Jordan	3.1	2.6	2.8	2.7	2.9	3.0
Kuwait	-1.6	-1.5	2.6	-6.4	13.5	2.8
Lebanon [b]	-0.5	-5.2	4.2	..	..	..
Libya	10.2	1.9	13.4	4.5	4.0	6.0
Morocco	3.7	3.8	4.7	4.2	4.0	4.3
Oman	1.2	1.7	2.6	2.4	3.0	3.4
Qatar	1.2	3.0	3.0	-5.7	5.7	6.4
Saudi Arabia	0.5	2.6	4.5	3.1	4.9	3.7
Syrian Arab Republic [b c]	0.3	0.9	2.0	..	..	..
Tunisia	0.2	1.6	2.5	2.5	2.3	2.3
United Arab Emirates	4.3	6.6	6.2	2.4	4.1	4.2
West Bank and Gaza	-1.0	-22.9	4.1	4.5	11.3	9.1
Yemen, Rep. [b]	-2.0	-1.5	-1.5	-0.5	1.6	..

Fiscal year basis [d]	2023/24	2024/25	2025/26e	2026/27f	2027/28f	2028/29f
Afghanistan	2.3	1.9	4.8	4.0	3.9	3.8
Iran, Islamic Rep. [b]	5.3	3.7	-2.8	..	..	..

	2022/23	2023/24	2024/25	2025/26e	2026/27f	2027/28f
Egypt, Arab Rep.	3.8	2.4	4.4	4.6	4.0	4.6
Pakistan [a]	-0.2	2.6	3.1	3.0	3.2	3.7

Source: World Bank.
Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing global circumstances. Consequently, projections presented here may differ from those in other World Bank documents, even if basic assessments of economies' prospects do not significantly differ at any given moment in time.
a. Data are reported on a factor cost basis.
b. Forecasts for the Islamic Republic of Iran (beyond FY2025/26), Lebanon (beyond 2025), the Syrian Arab Republic (beyond 2025), and the Republic of Yemen (beyond 2027) are excluded because of a high degree of uncertainty.
c. Growth estimate for 2025 ranges between 2.0 and 4.0 percent.
d. Please see regional annex for details on fiscal year reporting.