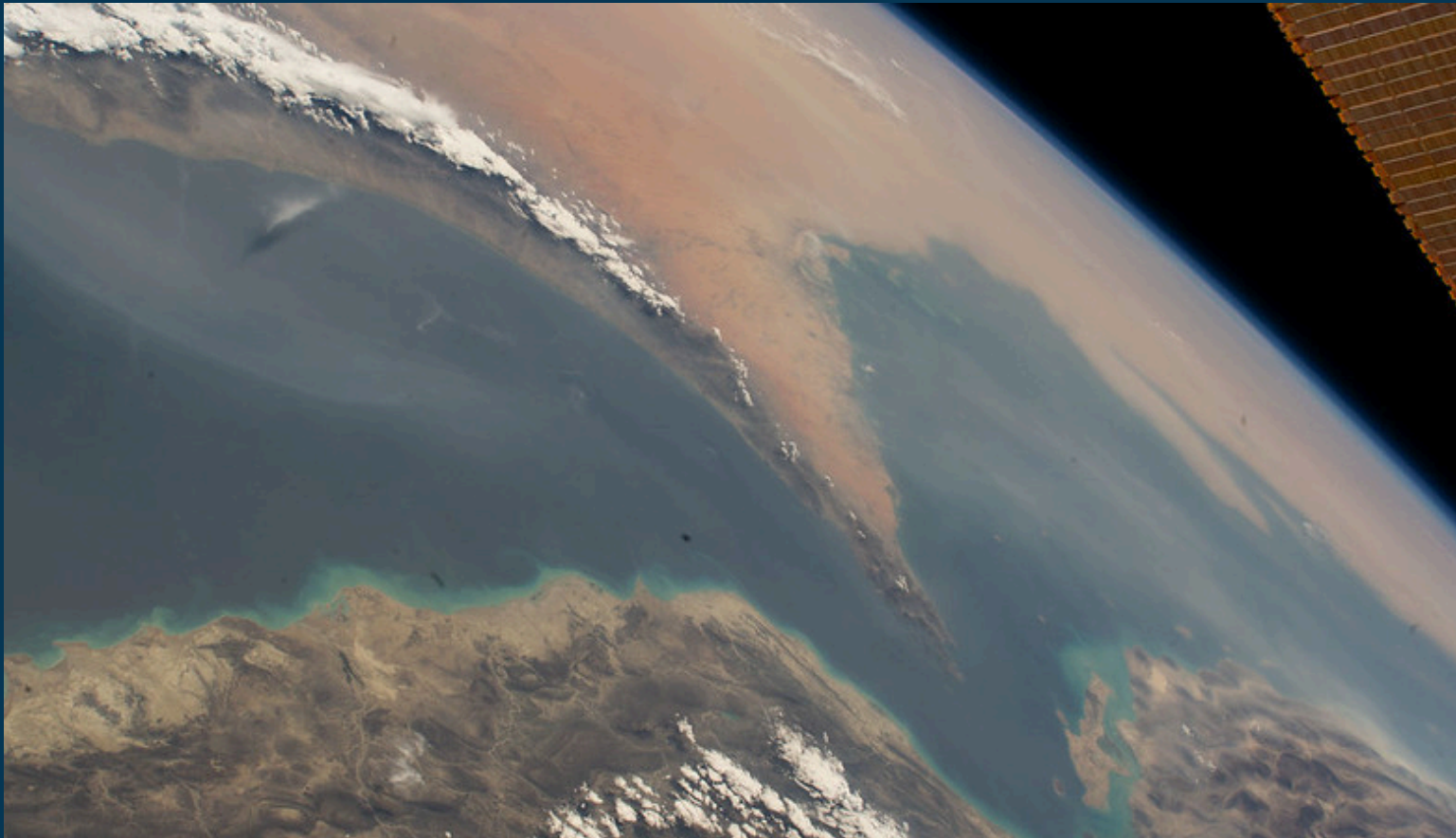


# BACK TO THE FUTURE? WAR, A SHOCK TO COMMODITIES, AND THE MIDDLE EAST AND NORTH AFRICA

REPORT  
JUNE 2026

Colin Powers



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# Executive Summary

The American-Israeli war on Iran has brought great peril to the world. The worst is being suffered by civilian populations inside Iran and Lebanon, where lives have been thrown upside down by bombardment, displacement, and infrastructure destruction. But in provoking shortages and price spikes for key commodities, the war's impacts extend far beyond active military theaters. At the time of writing, the likes of energy rationing, spiking inflation, fiscal distress, and even famine haunt presents and futures in many parts of the globe.

This report addresses the social and economic fallout that the war on Iran is spreading across the Middle East and North Africa (MENA). Focused on energy importing countries in particular, we first work to explain the MENA region's vulnerability to commodity shocks. From this foundation, we proceed to estimate how the war stands to impact macroeconomic and developmental performance. Thereafter, we turn to social conditions, probing the distributive effects that the war is poised to precipitate.

Our research yields many findings. Concerning the causes behind MENA economies' vulnerabilities to the commodity shock, we pinpoint two primary variables. The first is the constitution of contemporary growth models: Due dependence on relatively high levels of export income and carbon churn, respectively, many regional economies swing with exogenous developments to a comparatively high degree. The second variable is positioning within the global financial system. By virtue of this positioning, MENA countries are likely to experience disproportionately large reductions in investment as a result of shifts in conditions inside global capital markets. Depending on policy decisions taken at the Federal Reserve, they may also experience heightening debt distress and strains on national currencies.

On the macroeconomic outlook, we project that output losses this year will be larger for the region than what is currently forecasted by the International Monetary Fund (IMF) and United Nations Development Programme (UNDP). The divergence stems from the IMF and UNDP's calculations being unduly optimistic on commodity prices. Across more distal horizons, we see prolonged stagnation as a real possibility, especially if monetary conditions tighten.

As for potential distributive consequences, our analysis suggests that the war is likely to increase inequality and immiseration. By way of job and real income losses, middle and lower classes across the region will likely bear the brunt of the damages suffered in the months to come. Contrarily, wealthier social categories are already seeing their fortunes augmented through capital gains and increasing interest income—and this should be expected to continue going forward.

# Introduction

The oil shocks of 1973 and 1979 structure the course of recent history in the Middle East and North Africa (MENA). Arriving just as the golden decades of the postwar era were coming undone, these events expedited social, political, and economic transformations. In the most immediate sense, they split the region into oil-importing losers and oil-exporting winners, with the countries of the Gulf Cooperation Council (GCC) establishing a wholly superordinate position within the circuitry of capital accumulation. But with cross-border movements of capital and labor also came the decoupling of class systems from national borders. In many parts, the state form, its economic function and social character most of all, was forever changed, too: Advanced under the sovereign debt and balance of payment crises that Paul Volcker's monetary tightening and collapsing oil prices jointly provoked, neoliberalism began a halting though unceasing march forward as of the early 1980s. By the next decade, inequality had spiked and mass joblessness consolidated into a structural property of many countries' political economy.

It is hardly an exaggeration, then, to say that the contemporary MENA region was *made* by the oil shocks that the 1973 Arab-Israeli War and Iran's Islamic revolution set into motion. All of which begs asking: What might the commodity shock brought on by the American-Israeli war on Iran, which commenced at the end of February 2026, now do to the region?

Writing *in medias res*, we cannot yet know the exact magnitude and duration of the shock in question. But it is already clear that the disruption to the production and circulation of petroleum products is unprecedented in scale. Over the past few months, a larger share of crude oil has been removed from international markets than during any previous supply squeeze—and by a sizable margin. Moreover, due to the Gulf's standing as a trade hub and giant of both fuel refining and petrochemical processing, it is not only crude that is being impacted. This spring, the world faces significant shortages in everything from fertilizers to hydrogen to jet fuel to the helium that cools down MRI magnets and feeds the manufacturing of semiconductors. At the time of writing, the prospect of famine hitting much of the globe very much hangs in the balance, as does a worldwide economic depression.

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To project how things may play out for MENA's energy importers, one may be tempted to look back to those shocks of the 1970s: If history rarely repeats itself, it frequently does rhyme. But while the past can offer some grounding, there is reason to think that today's dynamics actually point in a quite different (and even scarier) direction.

Firstly, contrary to the shocks of the last century, the one currently hitting the MENA does so at a moment when the region's states, societies, and economies are in a position of unambiguous weakness. In the leadup to the supply squeezes of the 1970s, much of the MENA had enjoyed decades of strong growth. Regardless of ideological orientation, governments of the day had managed to roll-out fairly inclusive social insurance regimes, too. And critically, the shocks of 1973 and 1979 also generated immense wealth for the oil and gas producers of the Gulf. In subsequently conveying a portion of the largesse across the region via aid, investment, and remittances, the petromonarchies of the GCC helped soften the blow of rising energy import bills through the mid-1980s.[1]

[1] See: Francesco Saverio Leopardi and Massimiliano Trentin, "The international 'debt crisis' of the 1980s in the Middle East and North Africa: a review, an outline", *Middle Eastern Studies* 58:5 (2022).

The circumstances of our day could be no more different. The Iran war shock has arrived at a time when most of the MENA's energy importers are already struggling with crises of debt distress, disinvestment, and stagnation. It has come at a moment when millions are short on employment, income, and social protection. And saliently, this time around, much of the Gulf is being deprived of the windfall gains available on the markets for petroleum products. Qatar, Bahrain, and Kuwait are staring down large economic retractions. Iraq is in grave trouble, too. Saudi Arabia and the UAE are certainly weathering things better, but they will also see lesser output growth than was expected at the turn of the year. Amidst uncertainty and hard times at home, it is therefore difficult to imagine the GCC will mobilize aid or investment of significance for regional peers in the months ahead.

Secondly, today's commodity shock reverberates with production bases in the MENA region having grown far more carbon-dependent than was the case during the post-war boom. As such, the effects of rising oil, gas, and fuel prices will likely be even more pernicious for economic performance than was the case during the 1970s. Last though not least, this time around, MENA economies are also substantially more exposed to cross-border trade and international capital markets: Having globalized to a significant degree over the past four decades, the region's vulnerabilities to changes in the operations of global capitalism are commensurately larger. In view of the magnitude of the shock itself, this bodes ill.

What, then, might the road ahead look like for the MENA, and where do the most dangerous potholes lie? By probing the vulnerabilities of MENA economies and tracking the channels and mechanisms through which the oil shock of 2026 is conveying, this report will furnish tentative answers.

Our analysis is structured as follows. Section One, immediately following this introduction, will more deeply consider the carbon intensity and external orientation of contemporary MENA growth models, surveying how this came about and how it is poised to mediate the impact of the present crisis. In Section Two, attention will be turned to vulnerabilities incurred through MENA's positioning within global monetary and financial systems. In Section Three, we will switch the lens inward to consider the distributive effects which the current commodity shock is set to generate for MENA's energy importers. As ever, economic crises create winners and losers. The data suggests that distinct fractions of capital are likely to survive the current crisis best, while workers and all but the top 10% of income earners will suffer most acutely. In the Conclusion, finally, we will offer a brief synthesis of our findings and posit a handful of policy recommendations for policymakers and the stewards of international financial institutions.

# Section I: Growth Model Vulnerabilities

While economies across the world are being impacted by the commodity shock emanating from the Strait of Hormuz, the MENA region stands to take disproportionately large hits. The reason for this is not only proximity to the conflict. It also lies in the constitution of regional growth models. Here, two intertwined factors most pertain: the carbon intensity of economic output and the external-orientation of national economies.

Over the course of a number of decades, MENA policymakers have, with few exceptions, hitched growth to sectors and industries that use relatively high levels of energy relative to the economic value generated.[2] Construction and real estate development is central to this story. Despite operating at high ecological expense, these industries have been elevated as key internal drivers of economic expansion from Morocco in the west to Iraq in the east. On the export side of things, meanwhile, production has come to predominately concentrate in mining and processing—where phosphates, potash and derivative products feature heavily—alongside energy-intensive, low sophistication manufactures like textiles, cement, and steel.

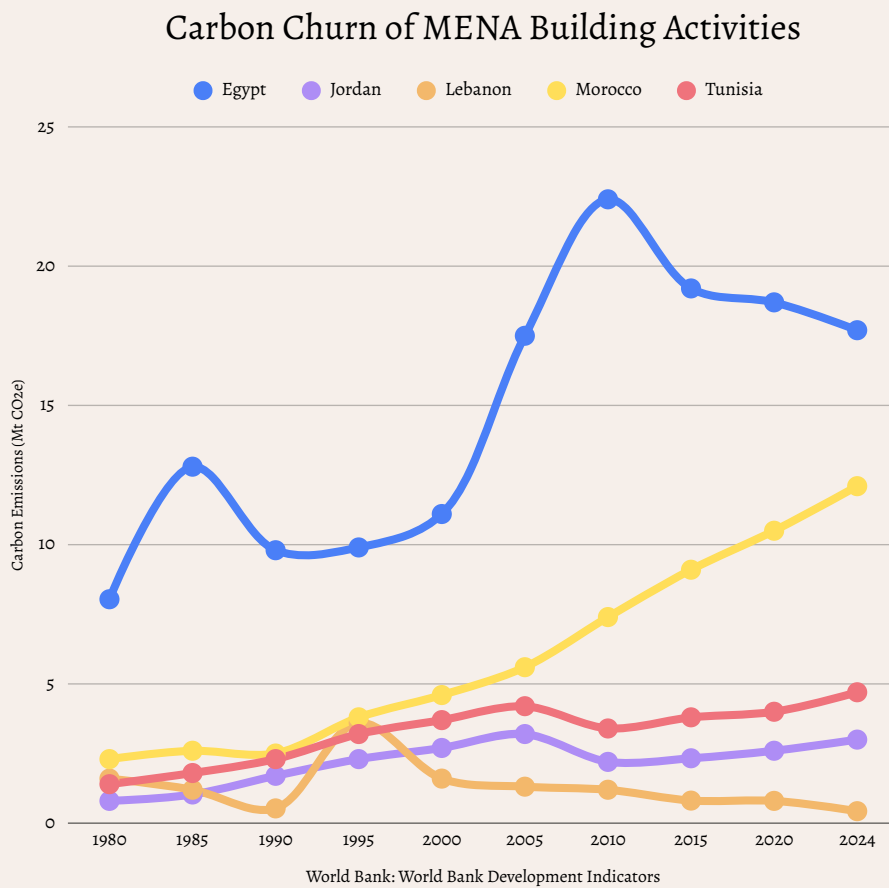
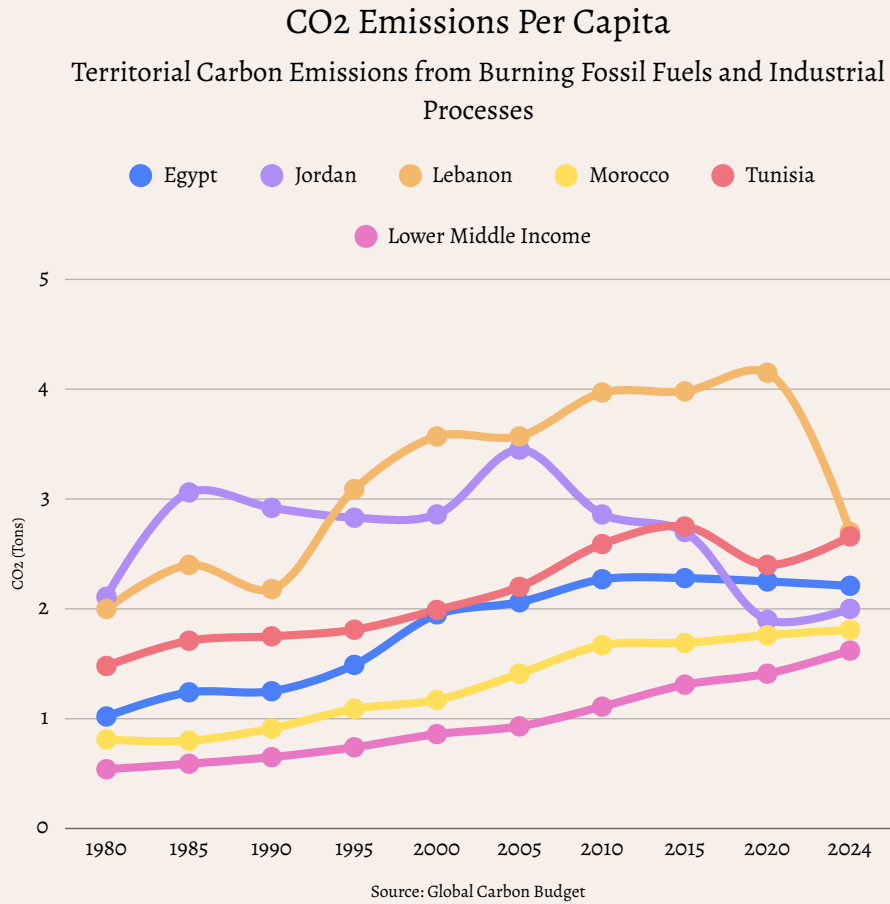
Tethering domestic demand growth to activities in the built environment has long been problematic. Developmentally speaking, it weighs heavily on the region's inability to spur on productivity gains. At our present juncture, however, it also threatens to throw a spanner in the macroeconomic works.

## War, Building and Trade

To appreciate the scale of danger, one should first consider two metrics: (i) longitudinal shifts in the production-based carbon footprints of MENA's energy importers (changes closely proxied by countries' territorial emissions across time) and (ii) CO<sub>2</sub> emissions from building activities.

As these indicators clarify, in relative terms, carbon churn and the laying of cement and rebar in particular have become essential to many MENA economies' growth prospects. All things being even, the rising cost of carbon thereby implies comparatively large downward pressures on growth.

■ For a comprehensive look at these developments, see: Osama Diab, "The monetary dimension of ecological damage in the global south", Third World Quarterly (2026)



Figures reported in recent months lend credence to such prognostications. Concerning the industries of the built environment, in Egypt, gas prices for cement producers as well as iron and steel makers were increased in May by just short of 20%, or approximately \$2 per million British thermal units (mmBtu).[3] Pass-through effects on construction activity could emerge as early as summer. Sliding since the start of the year, cement sales and construction activity in Morocco have fallen deeply since the war.[4] As of early spring, shortages in key building materials had emerged in Jordan, too, and are poised to worsen as long as freight, insurance and energy costs remain elevated.[5] Even in Saudi Arabia, where Aramco is enjoying bumper profits, a massive spike in bankruptcies is being observed in the construction sector, giving clear indication to the secular conditions affecting the region.[6] In view of the data, deriving growth from activities in the built environment does not look especially viable.

In this context, the cloudy outlook for exports becomes even more worrisome. As intimated, partially explaining the region's poor prospects is the manner with which national economies have been reoriented toward external markets. This transition has been in motion for more than fifty years, prompted at the outset by a coalescence of causes: To name but a few, the exhaustion of import substituting industrialization and food sovereignty efforts in the 1970s, the debt and balance of payment crises of the 1980s, and, downstream of the latter, the consolidation of disciplinary policy regimes by multilateral creditors such as the International Monetary Fund and World Bank.[7] By virtue of creditor demands, domestic consumption has been purposefully suppressed to varying degrees for generations. From an aggregate demand perspective, this has meant that growth relies heavily on the mobilization of investment and export income.

Export-led growth has always faced structural restraints imposed by evolutions in global capitalism. Overcapacity in global manufacturing, brutal competition at the lower end of global value chains, and China's emergence as a world-spanning industrial superpower all reduced the gains that could be had over the past half-century. But also salient to our present concerns were contingent choices adopted as policymakers tried to generate income through trade. With industrial policy options hemmed in by shortages in capital and global regulations on trade and intellectual property, a generation of neoliberal reformers saw national export baskets concentrate in energy-intensive products like fertilizers, cement, and textiles. The same officials frequently struggled to diversify markets as well. In North Africa especially, export flows predominantly targeted Europe.

Even prior to the supply shock introduced by the US-Israeli war on Iran, the problems inherent to growth models tied to exports and relatively high levels of carbon burning were making themselves felt. The European Union's introduction of the Carbon Border Adjustment Mechanism (CBAM)—a measure phased in at the start of 2023 and fully in effect as of January 1, 2026—presented perhaps the largest hindrance. In applying a levy on the greenhouse gas content of imported cement, iron, steel, aluminum, fertilizers, electricity, and hydrogen, the CBAM directly reduced the competitiveness of MENA's carbon-intensive products. But the spike in oil and gas prices introduced at the end of February 2026 stands to have an even larger impact.

■ [3] Ayodeji Adebayega, "Egypt raises gas prices for industries as energy crisis deepens and IMF reforms bite", *Business Insider Africa* (May 4, 2026).  
[4] Staff writer, "Construction activity slows in Morocco as cement sales decline", *Aljazeera Post* (March 26, 2026).  
[5] Ilham Darwazeh, "Jordan's construction industry reacts to disruptions in global supply chains", *Jordan Times* (March 29, 2026).  
[6] Megha Merani, "Construction and retail strains propels Saudi bankruptcies", *Arab Gulf Business Insight* (April 30, 2026).  
[7] For a survey of this history, see: Omar Dahi and Firat Demir, "The Middle East and North Africa", in A.K. Dutt and J. Ross (eds.) *International Handbook of Development Economics Vol.2* (Edward Elgar: 2008).

Long-term effects, of course, cannot yet be ascertained. Troubling signs are nevertheless observable. Fuel costs are up for Egyptian producers of fertilizers and petrochemicals, threatening medium-term commercial viability. As a result of gas shortages, the possibility that Egypt's urea producers will not be able to honor contracts to domestic and international buyers remains very real, too, even if current prices are creating windfall profits.[8] And after power tariffs were raised by 31% for all commercial users in April, Egyptian industry more generally faces trying conditions. Translated to the macro level, changes in price for energy inputs have contributed to a sizable decline in economic performance. Since the war commenced, new export orders have dropped by roughly the same margin as they did during the early days of SARS-CoV-2. Equally distressing, non-oil private sector activity is rapidly contracting.[9]

In Morocco, the spike in sulphur and ammonia prices brought on by the war has led the OCP Group to fast track maintenance work at several phosphate processing plants, thereby reducing second quarter fertilizer production by a sizable margin.[10] A huge hike in the post-February price of imported fertilizers, meanwhile—in the order of 40-60%—has limited the gains that the country's agricultural sector could extract from a healthy rain season.[11] To the east, Tunisia's Compagnie des Phosphates de Gafsa, already spiraling in financial crisis, is staring down more existential troubles. [12]

For one and all, then, the direction of travel points to deteriorations in trade performance and attendant falls in growth. Despite January and most of February preceding the war on Iran, Morocco's trade deficit swelled by 24% in the first quarter of 2026, pumped up by the import bill for petroleum products and equipment and machinery.[13] Due to a fall in external demand, Egyptian non-oil exports fell by 9% over the first three months of the year, while the country's trade balance fell deeper into deficit by way of heightened payments for energy imports. Over in Tunisia, healthy yields from autopart suppliers and the agricultural sector (olive oil producers most especially) kept the trade balance from falling into desperate straits. But even there, the deficit worsened year-on-year by approximately 230mn Tunisian Dinars during the first trimester.[14] Jordan's exports too evince a degree of robustness, buttressed by a large uptick in potash sales. Though with the sustained jump in prices for crude oil and fuels, the country's trade deficit still expanded by 26.3% year-on-year in February.[15] With global trade expected to decline by 1.75% year-on-year, one should not expect a reversal of course any time soon.[16]

## Remittances and Tourism Receipts the Key Channels to Watch

It bears mentioning that the broader liberalization of MENA countries' current accounts—a process initiated under the aforementioned structural transformation programs that came with IMF/World Bank lending arrangements—is also lending greater complexity to the outlook for macrostability. At the heart of things are remittances and tourism receipts.

[8] Elisavet Levogianni, "Potential gas cuts in Egypt raise concerns for urea production", Report: S&P Global (March 4, 2026).

[9] Staff Writer, "Egypt PMI drops to 46.6 in April", *Egypt Today* (May 6, 2026).

[10] Tom Hampson, "Morocco's OCP to cut production in 2Q", *Argus* (April 2, 2026).

[11] Amine Bouwafoud, "Agriculture: imported fertilizers surge 40-60%, squeezing farmers' margins", *Medias24* (May 8, 2026).

[12] On the CPG's financial problems, see: Atef Hannachi, "Le secteur du phosphate dans l'impasse", *Kapitalis* (April 1, 2026).

[13] Nadim Kawach, "Morocco's trade gap jumps 24% on high oil import bill", *Arab Gulf Business Insight* (May 6, 2026).

[14] Institut National de la Statistique, "Commerce extérieur aux prix courants, Avril 2026", *Rapport* (May 2026).

[15] Department of Statistics: Jordan, "National export data" (April 2026).

[16] Peter Foster, "Worst still ahead as oil price swings darken global trade outlook", *Financial Times* (May 5, 2026).

By virtue of sizable trade deficits, remittances and tourism income have become indispensable for the likes of Tunisia, Morocco, Egypt, Jordan, and Lebanon. Absent their arrival, balance of payments can descend rather swiftly into the danger zone. So far, the picture following the commencement of the war on Iran is mixed. Closer to the hostilities, the Central Bank of Jordan reported a 23% decline in March's tourism revenues as compared to 2025 and a 9.5% decline over the first four months of the year.[17] The fall was sufficient to prompt the Central Bank into mobilizing a USD 1bn stimulus package to support banking and tourism establishments.[18] Remittances have thus far held steady, up 12% in the first quarter. Inasmuch as the UAE is their primary point of origin, however, one should not dismiss the possibility of this changing.[19] Nor should the macroeconomic effects of such a contingency be minimized. Worker remittances from the Gulf represent roughly 5% of Jordanian GDP. As such, a sizable reduction would itself be sufficient to trigger a recession.[20]

In Lebanon, of course, one needn't deal in potentialities: economic devastation is already here. Ravaged by Israel's indiscriminate bombing, the country's tourism industry has predictably tanked. [21] Making matters worse, Gulf-originating remittances dropped by 5% in March, with annual declines expected to hit 10-15%.[22] As remittances have represented roughly a third of GDP in recent years, this all points to a large and punishing economic contraction.

North Africa's distance from the conflict is allowing for much healthier performances with tourism and remittances. On tourism, Egypt enjoyed a 15.6% uptick in arrivals in the first quarter and a commensurate rise in revenues[23], Morocco recorded a 24% increase in tourism revenues during the same period (hitting USD 3.1bn)[24], while in Tunisia, a modest increase of 4% year-on-year pushed the industry's inflows to nearly USD 700mn during the first four months of the year.[25] As for remittances, in Egypt, data from February (the last reported) points to sizable growth.[26] Tunisia's Central Bank reported an increase in receipts of approximately 6% for the first four months of the year[27], and in Morocco, the Foreign Exchange Office has recorded an 11.7% year-on-year increase. [28] To date, then, both hard currency sources have capably served as ballasts of macrostability amidst an unfolding regional crisis. Nevertheless, in North Africa, too, one should not discount the volatility inherent to these flows. For Tunisia and Morocco, things will ultimately hinge upon Europe: Recession there would reduce the volume of cash conveying through both channels. For Egypt, enduring troubles in the Gulf—and in its construction sector most of all—would spell ill for remittances just as tourism will remain vulnerable to any uptick in political instability.

## The Outlook for Growth

Downstream effects on growth are certain to be pronounced for all MENA's energy importers. In April, the International Monetary Fund's *World Economic Outlook* dropped its growth projection for the MENA region as a whole from 3.2% to just 1.1%.[29] Considering the sanguine assumptions that went into the Fund's calculations—the IMF's economists posit an average oil price of \$82.22 a barrel for the year, a figure which would require a relatively swift and tidy resolution to the conflict and one that is roughly 10% below Goldman Sach's (still) conservative estimate of \$90—even the paltry figure of 1.1% strikes as unduly optimistic.

- [17] Staff writer, "Tourism revenue down 9.5% in the first four months of the year", *Jordan Times* (May 11, 2026).
- Nadim Kawach, "Jordan reports fall in tourist income as war impact bites", *Arab Gulf Business Insight* (April 22, 2026).
- [18] Nadim Kawach, "Jordan unveils \$1bn stimulus for banks and tourism", *Arab Gulf Business Insight* (April 7, 2026).
- [19] Pramod Kumar, "UAE tops Jordan's \$1bn expat remittance inflows", *Arab Gulf Business Insight* (May 14, 2026).
- [20] Jad Chaaban, "How the US-led war in the region created an Arab poverty crisis", *The New Arab* (May 6, 2026).
- [21] Staff Writer, "Lebanon's tourism industry is holding the line with a narrow window to rescue the season", *Enterprise: MENA+ Edition* (May 4, 2026).
- [22] Staff writer, "War hits Lebanon dollar lifeline, remittances fall sharply", *Asharq al-Awsat* (April 2, 2026).
- [23] Staff Writer, "Egypt's inbound tourism climbs 15.6% in Q1 2026: Minister", *Daily News Egypt* (May 23, 2026).
- [24] Adil Faouzi, "Morocco's tourism revenues hit MAD 31 billion in Q1 2026, up 24%", *Morocco World News* (April 30, 2026).
- [25] Mohsen Tiss, "Tunisia: tourism revenues exceed 2 billion dinars by end of April 2026", *Tunisie Numerique* (May 7, 2026).
- [26] Staff Writer, "Remittances from Egyptians abroad surge 28% in 8 months of FY2025/2026", *Egypt Today* (April 30, 2026).
- [27] Staff Writer, "Expatriate remittances up 5.6%-BCT", *Agence Tunis Afrique Press* (April 25, 2026).
- [28] Staff Writer, "Moroccan expatriates remittances rise to 29.7 billion dirhams by March 2026", *Yabiladi* (May 5, 2026).
- [29] *International Monetary Fund, World Economic Outlook, April 2026: Global Economy in the Shadow of War, Report* (April 2026).

The IMF's estimates do evince considerable intraregional variance: For instance, the economies of Iraq and Qatar are projected to contract to the tune of 6.8 and 8.6% while Algeria, Libya and Oman are expected to ride spiking commodities prices to unexpected boons. By the Fund's count, most other regional economies will slow a touch while largely keep the pace with preexisting trend lines. The big picture, then, shows a region-wide flirtation with recession, rising volatility, and major tail risks in the event the war continues into early summer. Due to the horrors of the Israeli assault, note that the Institute of International Finance estimates the Lebanese economy will contract by between 12-16%.<sup>[30]</sup>

Economists at the UNDP likewise see ominous clouds threatening the MENA region's present and future. Though they too have discounted the prospect of protracted conflict—the most extreme scenario in their modeling is based on six weeks of major disruptions to oil and gas production, a duration of time already surpassed—UNDP numbers reveal an annual aggregate economic loss for the region ranging from \$120-194 billion.<sup>[31]</sup> Beyond the Gulf, their forecast identifies Jordan and Lebanon as facing the largest hits to growth.

Projections coming out of the World Bank similarly emphasize the dangers afoot. In April, the World Bank's economists not only shaved projected real GDP growth for Tunisia, Morocco, Jordan, Iraq, and Palestine—they substantially reduced the region's long-term capacity to generate levels of income per capita growth sufficient to close the gap with the global frontier.<sup>[32]</sup>

Based on the evidence here assembled and the stuttering of negotiations between Iran and the United States at the end of May, it is our position that the figures reference should be viewed as the very best case scenario for the region. With the exception of Algeria, Libya, and Oman, a more probable outcome is that the economic slowdown experienced by the region—its energy importers most of all—winds up considerably larger than what the IMF, UNDP, or World Bank has calculated. Should negotiations fail to bring the conflict to an end by July, moreover, things could grow truly dire. Thereafter, the oil reserve stocks that China, the United States and Europe have thus far used to stabilize global supplies will be too low to make much of a difference. Should such an eventuality be reached, intense demand destruction will be required, with dire consequence for the MENA region.

<sup>[30]</sup> Azza Hajj Hassan, "Lebanon's economy may never recover from the 2026 war", *Al Modon* (April 13, 2026).

<sup>[31]</sup> United Nations Development Programme, "Military escalation in the Middle East: reversals in global development, policy response options", *Policy Brief* (April 2026).

<sup>[32]</sup> World Bank, *Middle East, North Africa, Afghanistan & Pakistan Economic Update*

# ■ Section II: Shock Conveyance Through the Financial Channel

In charting how the war on Iran stands to impact the economic fortunes of the MENA region, its energy importers most of all, attention need also be paid to the domain of finance. Herein, there are a number of crisis transmission mechanisms to monitor. Firstly, war-triggered declines in Gulf-originating foreign direct investment (FDI) should be expected. Depending on scale, these declines may compress rates of fixed capital formation to sizable degrees. Secondly, interest rate hikes in the United States, if ultimately enacted, stand to worsen things further, whether by spurring capital flight, pushing up borrowing costs for sovereigns and private enterprises, or threatening financial systems and national currencies. Thirdly, for those who have courted more speculative capital inflows—Egypt first and foremost—abrupt movements in capital markets could take a proper wrecking ball to macrostability.

## Deepening of Disinvestment Trends

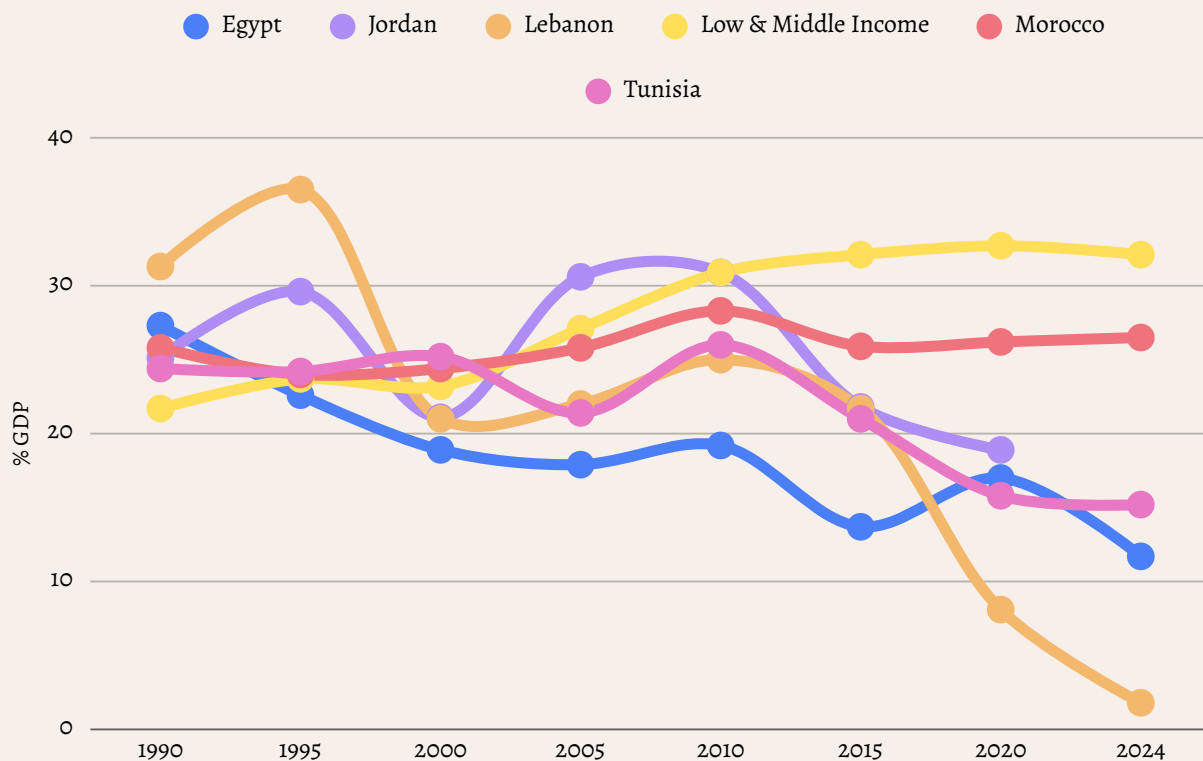
Over the course of the last thirty years, fixed capital formation rates for many MENA economies have become relatively dependent on Gulf-originating investment flows.[33] More recently, state-owned vehicles from Saudi Arabia, the UAE, and Qatar have taken on an outsized role in steering the flows in question.

The developmental utility of the Gulf's investments has generally been limited. Whether of a greenfield nature or bound for mergers and acquisitions, GCC financing predominantly concentrates in energy and financial assets alongside receiving countries' built environments. As such, it has tended to generate few jobs or productivity gains. At the same time, though, Gulf monies have served to stabilize balance of payments. Nowhere is this more apparent than in Abdel Fateh el-Sisi's Egypt. These investments have also helped keep fixed capital formation rates, weighed down since the neoliberal restructurings of the 1980s, from falling to truly catastrophic levels.

■ [33] OECD, *Middle East and North Africa Investment Policy Perspectives, Report: OECD Publishing (2021)*.  
For a comprehensive review of this history, see: Adam Hanieh, *Money, Markets, and Monarchies: The Gulf Cooperation Council and the Political Economy of the Contemporary Middle East (Cambridge University Press: 2018)*.

## Fixed Capital Formation Across Time

### MENA's Disinvestment Crisis



Source: World Bank, World Development Indicators

Given the damage suffered since February and the heightening of macroeconomic risks introduced by the war on Iran, it stands to reason that policymakers and directors of sovereign wealth funds from across the GCC will need to make adjustments going forward. The most probable outcome is that they focus financial resources on the homefront to a greater extent than in recent years. Where they invest abroad, they are also likely to demand cut rate valuations in acquiring assets. For peers within the MENA, this offers little to be excited about. Universal declines in FDI receipts should be anticipated. In cases where pressures on the balance of payments grow too intense to bear, it is also plausible that valuable resources—corporate entities, land, mining rights—will be offloaded at submarket prices, a la Egypt of recent memory.

Such prognostications are lent credence by a handful of post-February datapoints. In April, Saudi Arabia's Public Investment Fund affirmed that it will be paring back external investments in the months and years ahead, a development of particular relevance for Egypt, Syria, and Morocco.[34] The UAE's outreach to the US Treasury Department concerning a dollar swap line, meanwhile, suggests that Abu Dhabi's sovereign wealth funds in particular may be short on liquidity and likewise less likely to back substantial new commitments in the region.[35] And with sovereign entities in Kuwait and Qatar also needing to free up cash to support defense, security, and war-disrupted annual budgets, there will likely be little relief available from other parts of the Gulf, too. With Gulf flows down, substantial overall reductions in investment should therefore be anticipated for most of MENA's energy importers. The partial exception is Morocco, whose World Cup preparations may keep fixed capital formation rates at a reasonable level.

[34] FT Reporters, "In charts: How the Iran war put billions of Gulf-backed dealmaking in doubt", *Financial Times* (April 26, 2026).

[35] Middle East Council on Global Affairs, "Gulf sovereign wealth funds and the cost of crisis resilience", *Situation Assessment* (May 2026).

## The Specter of Interest Rate Hikes

The second mechanism by which the war on Iran may impact investment is via prospective interest rate hikes in the United States.

These hikes concern the MENA region due to the structure of the global monetary and financial systems. At the most basic level, the former is a system organized around an international currency hierarchy. Atop this hierarchy sits the US dollar. The “key” currency for the world economy, the dollar derives its status by serving as the primary reserve asset and primary means of settlement for cross-border investment and trade transactions. (In the first and final instance, dollar primacy is backed up by the might of the US military.) Positioned immediately below the dollar on the currency hierarchy are currencies, with the exception of the Chinese renminbi, issued by the major American allies of the postwar era. These currencies retain their strength not only due to the size of the relevant national economies and the demand this creates in FX markets, but because the issuing monetary authorities have access to dollar swaplines with the Federal Reserve of the United States. In crisis moments, swaplines allow for monetary authorities to defend the value of their currency without limit. Governments lacking such recourse, contrarily, are largely left at the mercy of markets: With their currencies viewed neither as a meaningful store of value nor means of settlement internationally, the only option is to accumulate reserves (dollars and gold, predominantly) so as to be able to back their national currency amidst a market sell-off. But the developmental costs of reserve accumulation are substantial. Functionally speaking, the maneuver leaves tens of billions sitting idly, thereby depriving economies of financial resources that might otherwise be devoted to investment.

This all connects to interest rates because of how the workings of the global monetary system interact with the workings global financial system. Specifically, if the Federal Reserve increases interest rates, monetary authorities across the world must do so in kind or risk capital flight (and prospective currency depreciation): After all, should the return available on dollar savings’ instruments go up, capital will stream into the United States lest a reaction proportional to or in excess of the Fed’s rate hike be instituted by other countries’ monetary authorities. (For monetary authorities on the global periphery, a sizable premium above US interest rates typically needs to be offered. These premia are generally conceived as means of compensating investors for the higher levels of risk that come with doing business on the periphery. In actuality, they more constitute an expression of imperial tribute—a gift, in the form of higher investment returns, afforded to the metropole and its financiers.[36])

With Kevin Warsh now chairman of the Federal Reserve and the Trump White House virulently opposed to rate hikes, the United States will likely delay decisions on tightening monetary conditions for as long as possible. However, should inflation brought on by the commodity crisis pulsing out of Hormuz gain steam—an inevitability if the war extends into summer—a pivot from the Fed will be executed at some stage. In this scenario, monetary authorities in the MENA region will need to adjust their own rates accordingly, with one effect being to raise the price of credit for businesses and households. All things held even, consequences of pricier credit include depressing investment (and consumption). Like with an FDI slowdown, this will drive fixed capital formation rates lower, to corrosive short and medium-term effect.

■ [36] See: Costas Lapavistas, “A topography of the new dollar imperialism”, *New left Review* 157 (January/February 2026).

## Rising Indebtedness and Costlier Debt Servicing

Just as critically, rate hikes and a broader shift in global monetary conditions stand to push borrowers in the MENA region, sovereigns prominently included, deeper into debt distress.

Driven by persistent fiscal and current account deficits, the public indebtedness of many MENA economies has grown by leaps and bounds in recent decades. Servicing these debts has long constituted a social and developmental albatross. In Egypt, interest payments alone topped EGP 2tn during the first ten months of the fiscal year, a sum in excess of 14% GDP, while total debt service demanded 76% of government revenues.[37] To the east, interest payments in Jordan have been claiming north of 22% total revenues since 2024, while total public debt service has been eating up ~40% of revenues for many years running.[38]

But bad as things were prior to the war on Iran, they are now likely to get worse. Indeed, movements in secondary bond markets—which offer an indication of the interest rates governments will need to pay should they issue new debts—are increasingly unnerving. Starting in May, a sell-off began on US, European, and Japanese sovereign debt. The yield on 10-year US treasuries—the benchmark instrument for all government and corporate bonds—spiked to 4.7% while the yield on 30-year US treasuries hit levels not seen since the desperate days of fall 2007. (The yield on bonds moves inversely with the price of bonds, i.e. falling bond prices equate to higher bond yields). As intimated, the prices of bonds issued by the other major powers of the global north tanked in unison. Notably, though, prices on Gulf-issued obligations fell sharply, too: Saudi Arabia's 30-year treasuries are down nearly 5% for the year while the debts of Bahrain and the UAE are down more than 3%.

Predictably, the pass-through effects of the downturn in the global bond market have been especially detrimental for MENA's more troubled borrowers. While beating a recovery in recent weeks, Egypt's 30-year bonds have fallen 8.5% on the year.[39] And even the favored children of international creditors, Morocco included, are seeing faith in their debts slide.

In the face of these conditions, MENA's energy importers have tried their best to avoid issuing new Eurobonds. At the end of the day, though, old debts will need to be rolled over and demands for hard currency liquidity will make themselves felt. And when this happens, debt repayment obligations—and all they imply for a country's fiscal space—are going to get worse. In May, Morocco and Egypt sold Eurobonds that brought in EUR 2.25bn and USD 1bn, respectively, on which both countries will pay interest above 6.5%. Given the squeeze already hitting the state coffers—Morocco has spent USD 330mn per month in excess of what it budgeted to subsidize energy prices[40]; Egypt, having mobilized USD 2.6bn since March to stabilize key sectors, has already needed take on new borrowing from the Islamic Trade Finance Corporation[41]—such high interest rates are only intensifying the fiscal pressures looming. And the rate on debts issued later in the summer may only be higher.

## Egypt's Hot Money Risks

For Egypt, one must also be mindful of abrupt drawdowns in financial flows to the local treasuries market. Over the last decade, the country has developed a worrisome reliance on volatile portfolio investment, or what is generally referred to as hot money. As of January 2026, non-resident investments in local government securities totaled USD 38.1bn.

[37] Nora Abdelhamid, "Egypt debt servicing consumes around 76% of revenues in first 10 months of FY 25/26", *Ahram Online* (May 25, 2026)

[38] Ministry of Finance: Hashemite Kingdom of Jordan, "Jordan Debt Quarterly Report no.35" (2025).

[39] Matt Smith, "Mena bond yields surge in global debt sell-off", *Arab Gulf Business Insight* (May 21, 2026).

[40] Nadim Kawach, "Iran war costing Morocco \$330m a month in energy subsidies", *Arab Gulf Business Insight* (May 13, 2026).

[41] Ahmad Jamal, "Fallout from Iran war casts shadow over Egypt's new budget", *Asharq al-Awsat* (April 23, 2026).

Staff writer, "Egypt signs \$1.5 billion loan deal as it seeks to mitigate Iran war fallout", *The Arab Weekly* (May 14, 2026).

Certainly, the cost of attracting such speculative investment has always been pronounced: It goes a long way toward explaining the state's immense bill on annual interest payments. But the strategy adopted has exposed Egypt to heightened currency and financial risk, too. As established by the swift exits of USD 20bn and 21bn from the treasuries market following the outbreak of the coronavirus and Russo-Ukraine war, respectively, this capital tends to flee whenever market uncertainty ticks upward. And when it does, it leaves local balance sheets and the Egyptian pound in shambles.

Since the start of the war on Iran, roughly USD 10bn has fled from Egypt's local treasuries market. Should this figure approach USD 20bn or higher, the pound, already wobbling, may face another substantial depreciation, with broader effects for the country's financial system and balance of payments.

# ■ Section III: The Distributive Consequence of Crisis

If the previous two sections explain why the destructive forces unleashed by the current commodity shock will be felt so keenly in the MENA region, a subsequent question to answer concerns what comes next. As the myriad consequences of the oil supply squeeze ripple across the region, who stands to lose the most? Who stands to gain? How may this all impact national developmental trajectories and states' relations with the societies they govern?

## Slowing Growth Punishes Lower Earners

When it comes to the distributive effects of the commodity crisis, the first channel to consider is that of growth. The reason is that slowing rates of economic expansion stand to impact different classes and social groups differently.

Such biases have been affirmed throughout the history of oil crises. In each instance, they derive from the unevenness of employment and income effects. Pertaining to the former, the empirics show that oil supply shocks which manage to lift prices by a mere 10% tend to precipitate sharp and persistent job losses. The data likewise establishes that labor market conditions typically deteriorate to a higher degree in oil importing countries—and that male workers and those in oil-intensive industries such as mining and quarrying, construction, and transportation are most exposed to employment loss at the outset. Distressingly, the evidence shows that the damage incurred at these moments can be long-lasting, with job finding prospects weakened as far as five years out from what amounted to relatively meager jumps in oil prices.[42]

Researchers at the UNDP have attempted to map out what the oil shock introduced by the Iran war could mean for MENA employment. Their calculations are overly conservative, based as they are on assumptions that commodity markets will return to normal price ranges in short order. Nevertheless, even with such conservative assumptions, the UNDP's study projects job losses of 1.3 to 2 million for unskilled workers in the Gulf and jumps in unemployment rates of 2.5-3 percentage points in the Levant.[43] As the projections for the Gulf indicate, more vulnerable social categories of workers across the region do indeed stand to disproportionately lose work in the months ahead. Biases in the distribution of income losses follows from this fact.

■ [42] Diego Gomes, Lisa Kolovch, and Hannah Yi Wei, "Oil shocks and labor market developments", Working Paper 25:145: International Monetary Fund (April 2025).

[43] United Nations Development Programme, "Military escalation in the Middle East: economic and social implications for the Arab states region", Report (March 2026).

## Oil Shocks and Economic Growth: State of the Literature

Spurred by Hamilton's 1983 classic, recent years have seen the literature on the growth effects of oil shocks develop considerably. Lutz Kilian's 2009 article in the *American Economic Review* and Baumeister and Hamilton's intervention in 2019 helped to really get the ball rolling. Amongst other contributions, a novelty of Kilian's approach was in fleshing out distinctions in the consequence of demand and supply shocks and isolating the effects of speculation. Pertinent to our concerns, Kilian determined that in provoking increases to the real price of oil, unexpected supply shocks—as we are currently encountering—have more destructive macroeconomic effects in the United States than do demand shocks.[44] Baumeister and Hamilton built on this insight by leveraging structural vector autoregression modeling to probe oil shocks' global consequences. After an initial lag, their research establishes that supply shocks depress global economic activity more than do demand shocks, and do so across distal horizons.[45]

Swimming in the same direction as Baumeister and Hamilton, a team led by Paul Cashin at the IMF found that a supply-driven surge in oil prices reduced economic activity amongst energy importers as far as seven years out. And lest one was hoping for a regional exception to this tendency, Berument et al. and Abdelsalam, amongst many others, have affirmed that negative oil supply shocks significantly reduce economic activity for MENA's energy importers.[46] Saliently as well, Verduzco-Bustos and Zanetti have pinpointed that oil price shocks triggered by geopolitical crises can be especially devastating. By setting into motion a series of responses—prominently including a precautionary inventory cycle—they posit that geopolitically-driven price shocks may reduce global economic activity in the medium-term by as much as 3%.[47]

But biases in the distribution of income losses will not only be affected by the employment effects of weaker growth: MENA's lower classes are also likely to bear the brunt of the income losses incurred by those who *retain* their employment. This is attributable to sociological divergences in the sectoral concentration of employment. Relative to high income peers, low income individuals are more likely to work informally, where hours of employment can be cut at a whim, wage elasticity is higher, and where competition for work (and with it, wage compression) tends to intensify during recessions.[48] They are also more likely to be employed in trades related to construction, an industry poised to encounter particular difficulties in the months ahead. Furthermore, unlike the wealthy, those in the middle and bottom of the income distribution rarely have recourse to secondary income streams: Lacking the savings needed to benefit from interest bearing accounts or returns on financial assets, their incomes are largely dependent on wages. In the MENA as in a country like Germany[49], it is therefore the case that during oil shocks, lower decile earners absorb the largest losses of income in relative terms.

Viewed in full, then, the growth-derived consequences of the war on Iran are likely to include increasing inequality and deepening impoverishment. Concerning the latter, the UNDP estimates that poverty rates may leap by as much as 8-12% across Syria, Palestine, Jordan, and Lebanon. In Egypt, Sudan, and Yemen, hundreds of thousands are likely to succumb to pauperization as well.[50]

- [44] Lutz Kilian, "Not all oil price shocks are alike: disentangling demand and supply shocks in the crude oil market", *American Economic Review* (99:3): 2009.
- [45] Christiane Baumeister and James D. Hamilton, "Structural interpretation of vector autoregressions with incomplete identification: revisiting the role of oil supply and demand shocks", *American Economic Review* (109:5):2019.
- [46] Mamdouh Abdelmoula Mohamed Abdelsalam, "Oil price fluctuations and economic growth: the case of MENA countries", *Review of Economics and Political Science* 8:5 (2020).
- M. Hakan Berument, Nildag Basak Ceylan, and Nukhet Dogan, "The impact of oil price shocks on the economic growth of select MENA countries", *The Energy Journal* 1:7 (2010).
- [47] Guillermo Verduzco-Bustos and Francesco Zanetti, "Geopolitical oil price shocks: why these shocks hit harder", *VoxEU-CEPR* (April 26, 2026).
- [48] For a study documenting this tendency in Turkey, see: Badi Baltagi, Yusuf Baskaya, and Timur Hulagu, "How different are the wage curves for formal and informal workers? Evidence from Turkey", *Papers in Regional Science* 92:2 (2013).
- [49] Tobias Broer, John Kramer, and Kurt Mitman, "The distributional effects of oil shocks", *IMF Economic Review* 73 (2025).
- [50] United Nations Development Programme, "Military escalation in the Middle East: economic and social implications for the Arab states region", Report (March 2026).

## The Biased Consequences of Inflation

The supply shock to commodity markets is poised to further redistribute income and wealth through the channel of inflation.

Inflation spreads harm and gains unevenly for a number of reasons. As mentioned, earnings for lower income categories rely almost entirely on wages: Inasmuch as wages are sticky relative to the prices of goods and services—a fact of social life in the absence of strong, independent labor organizations—increases in the latter imply reductions in purchasing power for middle and lower class workers. Perhaps even more saliently, the same workers (and the households they support) typically allocate a relatively higher share of budgets to food, energy, and fuel. As price increases for those items stand to accelerate the quickest amidst supply shocks, downstream effects also point to rising Gini indices.

Polarizing things further, asset owners often see their wealth appreciate during inflationary waves: Holdings in property and equities may hold or grow their value and income derived from interest will generally tick up at these junctures, courtesy of hiked interest rates. Attesting to the latter's contemporary relevance, following the lead of the National Bank of Egypt and Banque Misr, most private sector banks in Egypt began raising the rates extended on high-yield deposit products like certificates of deposit (CDs) in early May.[51] Furthermore, where market concentration is high and competition weak, businesses (and those who own them) can often convert the inflation brought on by supply shocks into windfall profits. This is achieved by raising markups during the unsettling initial moments of the shock and then keeping them elevated even after commodity markets calm. The distributive effects of inflation are, of course, fundamentally contingent in nature: they depend on the policy response and as such, on the relative holdings of power within a given polity. Be that as it may, globally, the record shows that it is the earnings and wealth of the middle and lower classes which tend to be eroded most by inflation. These patterns are especially common when the inflationary wave is of the cost-push variety—a category inclusive of supply shocks like the one presently being observed—and where the organizing strength of labor is weak, as is the case virtually everywhere in the MENA region.[52] At the highest level of abstraction, cost-push inflation alters the functional distribution of income by shifting earnings' flows from wages to profits and rents, heightening inequality and immiserisation in the process.

MENA's own experiences with bouts of inflation in recent years evince distributive effects in line with the general pattern. In Jordan, the data points to the lower income deciles generally bearing the brunt of inflation, all the more so after subsidies on electricity have been steadily wound back.[53] Lebanon's encounter with hyperinflation across the past seven years famously wiped out the earnings and savings of middle and lower class people. Amidst inflationary spikes precipitated by Russia's invasion of Ukraine, the incomes of Tunisia and Egypt's poorest quintiles cratered to a larger degree than those higher up the income distribution.[54] And just as consequentially from the perspective of inequality, the same Russian invasion also facilitated the realization of super profits in certain sectors. The Central Bank of Egypt acknowledges that wholesalers and retailers in the food industry engaged in exploitative markup practices during the 2022-2024 period[55], a finding confirmed by Asmaa Abdel-Alim's analysis of the three of the largest publicly listed food companies in Egypt.[56] Laila el-Abd's reporting on housing rents in working class areas of Cairo likewise shows property owners taking advantage of the inflationary moment.[57]

[51] Staff writer, "Credit Agricole joins high-yield deposit war", *EnterpriseAM: Egypt Edition* (May 6, 2026).

[52] See: Orsetta Causa, Emilia Soldani, Nhung Luu, Chiara Sorio, "A cost of living squeeze? Distributional implications of rising inflation", OECD Economics Department Working Paper no.1744 (2022).

[53] OECD, "Transition Report 2022-2023: Jordan", Report (2023).

[54] Fatma Marrakchi Charfi and Massimiliano Cali, "Winners and losers of price inflation in Tunisia", *Economic Research Forum Policy Brief* no.155 (July 2025).

Shireen Alazzawi and Vladimir Hlasny, "Distributional impacts of the Russia-Ukraine crisis: the case of Egypt", *Economic Research Forum* (2023).

[55] Central Bank of Egypt, "Monetary Policy Report: Q2-2025", Cairo (2025)

[56] Asmaa Abdel-Alim, "Food company revenues soar as bellies rumble", *Al Manassa* (May 17, 2025).

[57] Laila el-Abd, "Evicted by inflation: The rising cost of renting in Egypt's working class districts", *Al-Manassa* (November 12, 2025).

The magnitude of the inflationary pulse brought on by the war on Iran will ultimately hinge on how long the production and circulation of key commodities are disrupted. Already, though, the war is making itself felt across the region. Egyptian authorities reported a March leap in the consumer price index (CPI), which climbed from 11.5% (year-on-year) to 13.5%.<sup>[58]</sup> Notable for our concerns, food prices climbed at a faster clip than the rest of the consumer basket: The price of tomatoes nearly doubled in March (as compares to February), and the cost of many other fresh vegetables similarly skyrocketed. In Tunisia, though the CPI held steady, the National Institute of Statistics reported sizable upticks in the prices of key food stuffs, with the cost of fresh vegetables and fresh fruits increasing by 5.8% and 2.9%, respectively, as compared to February.<sup>[59]</sup> To Tunisia's west, Morocco's High Commission for Planning documented the same dynamics, with rising fertilizer and fuel costs pushing transportation, vegetable, and meat prices up 10%, 9.7%, and 2.24%, respectively, between February and March.<sup>[60]</sup> Over in the Levant, meanwhile, the numbers out of Lebanon showed the sharpest monthly boost to inflation since December of 2024, with March increases in transportation and fuel prices driving the annual CPI up by 4.91%.<sup>[61]</sup> Turning south to Gaza, the combined effects of siege and a commodity boom sufficed to bump up the CPI by 12.42% in March.<sup>[62]</sup> Iraqi households are facing the squeeze, too, with bills for fresh fruits, dairy, and eggs all climbing swiftly since the war.

Only bold fiscal interventions in favor of the lower income people can change what the current course of inflation plots for inequality in the region. But with debt distress limiting what can be done fiscally even where political will exists, inflation-powered increases to inequality strikes as something of an inevitability.

## Currency Devaluations Haunt

Nor is the picture brightened by the possibility of currency devaluations (or depreciations where currencies trade relatively freely) down the road.

The risk here likewise hinges on developments in the Strait of Hormuz. So long as war continues and oil prices remain elevated, demand for the dollar can be expected to strengthen and strains on the current accounts of energy importers will intensify. As discussed, in these conditions, the stability of many countries' balance of payments increasingly relies on a combination of tourism receipts, remittance flows, and discretionary injections of dollar liquidity, the latter arriving through aid transfers, credit lines from official lenders, or bond issuance on international capital markets. This is a worrisome scenario. And should it persist too long, many regional currencies—the Egyptian pound first and foremost, but the Tunisian and Jordanian Dinar, Lebanese Lira, Sudanese pound, and even the Moroccan Dirham—could shed considerable value.

The distributive effects of potential currency devaluations and/or depreciations would almost certainly be regressive. As a general matter, devaluations tend to reduce the labor share of income as workers rarely retain the capacity to set the real wage rate.<sup>[63]</sup> In the context of the MENA region, currency devaluations also tend to harm low-income workers the most. This is due to poorer households devoting a higher share of income for the purchase of tradable goods, the price of which is most immediately impacted by currency devaluations.

<sup>[58]</sup> Central Agency for Public Mobilization and Statistics, "Monthly Bulletin: Average consumer price of most important food commodities March 2026", Report (April 2026).

<sup>[59]</sup> Staff writer, "Le taux d'inflation se stabilise à 5%", La Presse (April 5, 2026).

<sup>[60]</sup> Staff writer, "Morocco navigates diffuse food inflation risk amid global supply chain pressures", North Africa Post (April 27, 2026).

<sup>[61]</sup> Staff writer, "Inflation in Lebanon reaches highest level in a year and a half amid war pressures", L'Orient le Jour (April 21, 2026).

<sup>[62]</sup> For a post-Kaleckian modeling of distributional conflicts introduced via currency devaluations, see: Juan Manuel Campana, "Currency devaluations, distribution conflict and inflation in a post-Kaleckian open economy model", Working Paper no. 240/2024: Institute for International Political Economy Berlin (2024).

<sup>[63]</sup> Alazawwi and Hlasny (2023).

The record of recent currency devaluations can clarify where all this may point. In Egypt and Lebanon, the slides of the pound and lira over the last decade have caused sizable declines in real earnings of wage workers. In Yemen, the collapse of the riyal post-2015 contributed to the halving of the average household's real income over the space of just two years.[64] In Tunisia, the currency's steady depreciation since 2010 has, via imported inflation, substantively and disproportionately reduced the purchasing power of middle and lower-income households.[65] Distressingly, this transpired *despite* the presence of a relatively strong trade union federation, whose bargaining power allows it to negotiate wage rates across most sectors of the economy: In the face of balance of payment strains and economic crisis, even the UGTT signed on to wage packages where pay is kept significantly below the (currency depreciation-driven) rate of inflation.[66]

Furthermore, beyond immediate effects on inequality and impoverishment, one should not discount the long-term developmental consequences of pending currency crises. Across emerging markets, these events have the effect of lowering industry's growth rate by 4.7%, with manufacturing sectors being set back the furthest.[67] Given how far the process of deindustrialization has already advanced in the MENA region—and given manufacturing's standing as the indispensable engine of productivity growth—the possibility of devaluations further curtailing industrial prospects should be regarded as a clear and present danger to the decades ahead.

## A Fiscal Squeeze and Primitive Accumulation

Potentially making matters worse for middle and lower-income earners—and better for the wealthy—will be the fiscal consequence of the current shock to commodity markets. In this regard, one should acknowledge that MENA's energy importers may evince considerable variance in outcome.[68] Nevertheless, for all, rising oil and gas bills are here and rising debt servicing expenses are on their way, too. This spells trouble.

Depending on the level of pre-crisis budget strain, policymakers will soon need to make hard choices on expenditure commitments. Given elevated import bills, subsidies attached to fuels, electricity, and even foodstuffs will offer an attractive place to make cuts. But so too will transfers to poorer households. Discretion, after all, is baked into the means-targeted social protection regimes that have been established in many countries over the past ten to fifteen years, and deficiencies in administrative capacity have long ensured that support reaches only a fraction of those entitled to it. Funding for transfer programs, moreover, is often tied to grants and loans from multilateral creditors. In this context, governments can quietly generate savings through a number of means: they can make but a small change to transfer eligibility terms, lean into administrative indifference, opt not to properly index transfers to inflation, or cite delays in aid or borrowing arrangements. In view of the social foundations of many MENA states, it would not surprise if they push through this open door in order to contain fiscal deficits. The consequences of doing so should not be diminished.

Thus far on subsidies, the government in Egypt, after rolling back much of its energy supports last year, has proceeded to hike gasoline prices significantly. In May, *de facto* subsidies on electricity previously extended to people living in unlicensed buildings and informal areas were also cut.[69]

[64] Save the Children, "The impact of the currency depreciation on the Yemeni population", *Advocacy Brief* (October 2018).

[65] Ameni Ben Sik Ali, "Understanding the devaluation of the dinar", *Report: Observatoire Tunisien de l'Economie* (August 2023).  
OECD, "Economic Surveys: Tunisia", *Report* (2022)

[66] Michael Young, "Getting the economy wrong", *Diwan: Carnegie Endowment for International Peace Middle East Center* (October 11, 2022).

[67] Carlos Madeira, "The impact of financial crises on industrial growth: lessons from the last 40 years", *Working Paper no. 1214: Bank for International Settlements* (2024).

[68] Indeed, even within the club of the debt distressed—Egypt and Tunisia—trajectories look to be diverging. Yields on Egypt's 10 year domestic treasuries dimmed over 10% during the war, signaling that higher interest rates will be attached to new debt issuance going forward. In Tunisia, contrarily, things look relatively more rosy: Access to hard currency loans from the central bank and the offloading of outstanding external debts in 2025 suggests increases in borrowing rates for the rest of the year.

[69] Kamal Tabikhja, "Egypt leans on households to weather shocks from Iran war", *The National News* (May 15, 2026).

For now, prices on subsidized bread are being held, but one should bear in mind that those prices were quadrupled in June 2024. In Morocco, fuel prices were raised three times between the end of February and the middle of April. Authorities have pledged to retain subsidies for electricity, butane gas, and sugar. Should the war on Iran continue, however, it is an open question how long the line can be held. In Tunisia, policymakers are yet to raise fuel prices. Alas, the budget for 2026 allocated energy subsidies on the assumption that oil prices would be \$63.50 a barrel.[70] Cash presently not allotted in the financial law will therefore need to be found in the weeks ahead should governors hope to continue insulating domestic users from the rise in import prices. The picture developing, then, is one of gradual subsidy reductions.

On account of their branding importance and importance to multilateral financiers, cuts to cash transfers are less likely, but so are expansions to existing regimes. In conjunction with the public sector hiring freezes that fiscal distress is likely to dictate, the overall momentum therefore points toward more austerity and declining public service quality. Amidst such conditions, regressive consequences are overdetermined.

And the fiscal channel's potential impact on distribution does not end there. After all, just as lower income individuals and families are being squeezed, the wealthy could soon enjoy higher returns on their excess savings. For now, central bank committees in Jordan, Egypt, Morocco, and Tunisia are choosing to hold rates at pre-war levels. But as soon as the Fed moves or inflation really gets humming, they will almost certainly respond and in so doing, funnel more more resources to rentiers at home and abroad. Where state-owned commercial banks—or in Tunisia's case, the Banque Centrale de Tunisie—are significant buyers of government debt, the social consequences of higher rates will be lower. Even in these cases, though, the policy shift will ultimately further polarize the income and wealth distribution.

## Windfalls for the Few

Last to consider is the war on Iran's effects on asset markets, as this variable too may intensify income and wealth inequality across the MENA region. In fact, by boosting the valuations of particular equities, the shock introduced in February 2026 has already raised the fortunes of many of the region's richest persons.

In this regard, one should not regard the MENA as exceptional. Per the research of Semieniuk, Weber et al., it is known that the wealthiest 1% of Americans accumulated more than \$150 billion via windfall profits generated by the oil and gas industry during the commodity crisis of 2022.[71] Nevertheless, insofar as the MENA region was already one of the world's most unequal in terms of both income and wealth prior to the war on Iran, the social implications of the rich again getting richer stand to be especially pernicious.[72]

It is too early to chart the trajectory of asset prices with a high level of confidence. That said, some recently reported data points can help illuminate where capital gains are likely to accumulate. In Egypt, the EGX30—an index corresponding to the country's thirty largest publicly traded companies—enjoyed an April boom sufficient to wipe out March losses and push aggregate market capitalization to a new high.[73] With equity in Egypt's largest corporations controlled by a narrow constellation of nationals, foreign investors, and the state, this boom has been to the benefit of a precious few. Via their positions in the major real estate and tourism developers, the likes of Hisham

■ [70] Staff writer, "La guerre en Iran impactera les salaires et les recrutements", *Kapitalis* (March 27, 2026).

[71] Gregor Semieniuk, Isabella Weber, Iain Weaver, Evan Wasner, Benjamin Braun, Philip Holden, Pablo Salas, Jean-Francois Mercure, Neil Edwards, "Best of times, worst of times: record fossil-fuel profits, inflation and inequality", *Energy Research & Social Science* 127 (2025).

[72] Alexandros Kentikelenis, Sahar Mechmech, Amine Bouzaïene, Rowaida Moshrif, Nabil Abdo, "The Middle East and North Africa Gap: Prosperity for the Rich, Austerity for the Rest", *Report: Oxfam* (2023).

[73] The Egyptian Exchange, "EGX Monthly Report: 4/1/2026-4/30/2026", *Report* (May 2026).

Talaat Moustafa and the Sawiris and Mansour families are amongst those who have most cashed in. [74] Leaders of Egypt's petrochemical industry—where Gulf investors retain major equity stakes—are likewise enjoying the crisis. Thus far, firms like Abu Qir Fertilizer and MOPCO have expanded revenues by raising prices on urea, phosphate fertilizers, and potassium sulphate beyond what rising input costs justify. This has been rewarded by jumps in stock valuations of nearly 25%. [75]

Over in Jordan, publicly listed companies have steadily built on the record profits of 2025. The total market capitalization of firms traded on the Amman Stock Exchange leaped by nearly 6% in April, pushing the ASE Index roughly 10% above where it was at the war's beginning. Amongst the big winners is the Jordan Petroleum Refinery Corporation, in which the Jordanian state, pensioners, and the Islamic Development Bank hold the largest stakes. The Manseer Group, privately owned and controlled by founder Zaid Manseer, has likewise derived a revenue boom from the increase in oil prices, able to take advantage of its position as the leading fuel provider to service stations. The luminaries of Jordan's banking sector are making out healthily as well. This last social group is inclusive of major Gulf capitals alongside the eminences of the families Masri, Shoman, Muasher, Fakhouri.

Despite concerns over the country's chronically declining macroeconomic health, a bull market has come to a gallop at the Bourse de Tunis, too. The TunIndex hit an all-time high in April, up over 20% on the year and more than 10% since the commencement of hostilities in Iran. There, the best performers include Poulina Group Holding, a multisector conglomerate controlled by three of the country's grand families—the Ben Ayed, Bouzguenda, and Bouricha. And though out of step with the regional trend—the Bourse de Casablanca is down—in Morocco, too, firms like the Compagnie Minière de Touissit, in which a UAE investment house (the Ayrad Group Limited) is the lead investor, have seen huge gains in market capitalization.

And so, while workers and many businesses stand to be devastated by the commodities supply shock, a narrow fraction of capital across much of the MENA is indeed benefiting from the crisis-strewn environment. Their prospective gains will only further strain social conditions.

[74] Staff writer, "EGX30 erases March losses with 14.2% April surge", *Enterprise AM: Egypt* (May 6, 2026)

[75] Hager Attaya, "Fertilizers: An industry profiting under fire", *Al Manassa* (April 22, 2026).

# Conclusions

As this report goes to press, the trajectory of the US-Israeli war on Iran remains unclear. Diplomatic progress is proving hard to come by, regularly unwound by Israeli provocations in Lebanon and Trumpian volatility (see: May's attempt at linking a peace arrangement to a broader expansion of the Abraham Accords). The strategic incoherence of the aggressors' campaign is at this stage beyond dispute. Nevertheless, futility is yet to force a pivot toward reasonable compromise. If a full recommencement of hostilities is difficult to envisage, so too is a resolution to the conflict.

This being the case, it is unlikely that commodity markets will be settled any time soon. Absent a swift end to hostilities, in fact, it should be expected that the prices of petroleum and petroleum-derived products will head much higher. As mentioned, to date, the damage has been contained by the United States, Europe, and China drawing down reserve stocks. But this lever can only be pulled so many times before substantial shortages take hold.

For the energy importers of the MENA region as for much of the world, the set-up is anxiety-inducing. As hitherto detailed, many of the countries in question are staring down balance of payment troubles, economic slowdowns, and worsening inequality. Governments' freedom of action, moreover, is restrained by limited fiscal space, weak national currencies, and financial subordination. Amidst these conditions, the fates of tens of millions across the region are acutely exposed to decisions taken in Washington. How the White House and Pentagon decide to prosecute or end their war is most salient. But so too is how the International Monetary Fund (IMF) and World Bank choose to respond to countries in crisis.

To stave off calamitous outcomes, be it in the short or long-term, it will first be critical that multilateral lenders like the IMF and World Bank do not exploit the vulnerabilities of MENA governments so as to enforce policy change. If an obvious point, it bears emphasizing that neither these countries nor their leadership hold any responsibility for the crisis impacting them. That they should nevertheless accept the costs of macroeconomic adjustment is not only unjust: it would also guarantee that much of the region suffers yet another lost decade in terms of development. The social, political, and ecological consequences that such an eventuality might bring about are daunting. The IMF, World Bank, and partner institutions should therefore do everything in their power to avoid making things worse. Where they intervene, financial resources should be extended on a concessional and unconditioned basis to support policymakers as they navigate the challenges of rising import bills and fiscal distress.

For local officials, attention cannot solely be fixed on the technical management of the crisis: the structural frailties which make MENA countries so vulnerable at this juncture must also be addressed. This requires reckoning with everything from misguided growth models to the sociological character of the fiscal and monetary toolkits deployed in managing crises. It also requires expediting energy transitions as quickly as possible. Energy sovereignty, powered by renewable sources, may take decades to achieve, but it is the only way of insulating one's country from the devastating effects that oil crises precipitate.

The months ahead may very well set social and developmental trajectories for decades to come. Decisions, including efforts to coordinate with external partners, must be taken with this in mind. The best way to look after the region's future is to adopt an internationalist perspective in

solidarity with the needs and interests of the middle and lower classes, regardless of nation. A utopian vision, yes. But one that should be striven for all the same. In the face of the troubles haunting today and tomorrow, pooling resources, mobilizing mutual support, and acting to protect the vulnerable offers the best way of limiting suffering and creating the possibilities for a brighter future.

## Reference

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NASA Johnson, "The Strait of Hormuz connects the Gulf of Oman with the Persian Gulf" (August 2022)

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