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The Union of Arab Banks' General Secretariat Research Department, in its August 2026 report *The Global Economic Impact of the Strait of Hormuz Conflict: Energy Shocks, Trade Disruptions, and the Path to Recovery*, examines how the disruption of one of the world's most important maritime energy corridors has transmitted through the global economy. Rather than treating the conflict as a temporary oil-market disturbance, the report traces its effects across energy and commodity prices, maritime transport, insurance, supply chains, inflation, monetary policy and ultimately economic growth. Its central argument is that the shock has been highly uneven: countries with strong domestic energy resources, technological capacity or fiscal buffers have been comparatively resilient, while energy-importing and lower-income economies have faced a much heavier burden. At the same time, the report stresses that the end of physical hostilities should not be confused with an immediate return to pre-war economic conditions. Shipping networks, insurance arrangements, inventories and prices require time to normalize, meaning that the economic consequences can persist well beyond the initial disruption.

The report begins from a deliberately conditional scenario. Its central projection assumes that a durable political settlement is reached in August 2026, allowing energy flows, shipping activity and financial conditions to improve progressively. It explicitly distinguishes this assumption from the actual political situation, noting that the projection should not be interpreted as a forecast of when the conflict will end. The conditional nature of the scenario is particularly important given the experience of the preceding months. Traffic through the Strait collapsed following the outbreak of conflict, while later developments produced only partial improvement. According to the report,

maritime traffic averaged roughly 100 vessels per day before the war, fell to as few as two vessels per day at the worst point in March, recovered to approximately 25 vessels per day in late June and early July, dropped again to around five in late July, and reached roughly 10 vessels per day in early August. Even as political conditions improved, therefore, physical trade remained far below its pre-war configuration.

The disruption was especially important because of the Strait of Hormuz's role in global energy trade. Before the conflict, roughly 20-21 million barrels per day of crude oil and petroleum products, equivalent to approximately one-fifth of global liquid fuel consumption, passed through the Strait. The effect on natural gas was similarly important because Qatar, one of the world's largest Liquefied Natural Gas (LNG) exporters, relies heavily on the route. The reduction in physical traffic was accompanied by congestion, vessel repositioning, longer journeys, contractual complications and inventory accumulation. The report consequently makes an important distinction between reopening the Strait and restoring normal logistics. A political settlement may permit vessels to return, but ships and cargoes must still be repositioned, accumulated congestion cleared and commercial confidence rebuilt. The Union of Arab Banks (UAB) therefore views normalization as a process measured in months rather than days.

Energy markets provide the clearest evidence of the scale of the initial shock. The report shows that Brent crude rose from around \$60 per barrel at the end of 2025 to \$71 on 25 February 2026, \$84 on 3 March, and \$102 on 13 March, before reaching around \$106 in early April. As physical supply conditions subsequently improved, Brent fell to around \$80 by 18 June, recovered to \$85 on 7 August and stood at approximately \$89 on 11 August. According to the report, Brent had briefly peaked above \$140 per barrel, its highest level since 2008, during the most intense phase of the disruption. By 7 August it had nevertheless declined substantially from its peak. The UAB interprets this pattern as evidence that the shock was driven not only by lost production but also by the inability to move existing supply through the Strait, together with inventories, expectations and a substantial geopolitical risk premium.

The report's central scenario therefore expects oil prices to continue normalizing as maritime flows recover. Based on its assumptions, the UAB projects an average Brent price of approximately \$89.27 per barrel in 2026, followed by \$78.70 in 2027. This compares with the 2026 Brent consensus forecast of \$85.22 and the futures curve of roughly \$64-\$74, which remained in backwardation

through the end of 2026. For 2027, the report uses an average of around \$75 per barrel following the expected expiration of the June memorandum. Importantly, the projected decline does not imply an immediate return to pre-war prices: insurance premiums, logistical costs and the residual geopolitical risk premium are expected to keep energy costs elevated even after physical flows improve.

Natural gas presents a different and, in several regions, more difficult picture. Unlike oil, gas markets are constrained by pipeline networks, LNG infrastructure and limited short-run substitution. The report notes that Henry Hub prices increased only modestly in the United States, reflecting the country's substantial domestic production, whereas European and Asian gas markets faced much stronger pressure. Dutch TTF (Title Transfer Facility) prices reached €59.44/MWh on 31 March, around 90% above their January level, before declining to approximately €41.80/MWh on 11 August. Henry Hub, by comparison, stood at roughly \$2.90/MMBtu. The divergence illustrates one of the report's recurring themes: the same geopolitical shock produces very different economic consequences depending on countries' energy structures, import dependence and capacity to substitute supply.

The energy shock subsequently spread into broader commodity markets. According to the report's 2026 projections, crude-oil prices were around 31.8% above 2025 levels, fertilizers 26.0%, natural gas 22.0%, non-fuel commodities 18.6%, and food prices 8.0% higher. Fertilizers are particularly important because their production is highly dependent on natural gas and because higher fertilizer costs eventually feed into agricultural production and food prices. The report notes that fertilizer prices had already increased by approximately 45% between the end of February and the end of July, while the World Bank fertilizer-price index rose 18.3% between February and June. This transmission mechanism creates a delayed effect: the energy shock immediately raises production and transportation costs, but part of the food-price impact appears later, as farmers face higher input costs and subsequent planting cycles incorporate those increases. Gold also rose sharply amid uncertainty, reaching approximately \$5,455 per ounce on 10 July, which the report interprets as evidence of increased safe-haven demand.

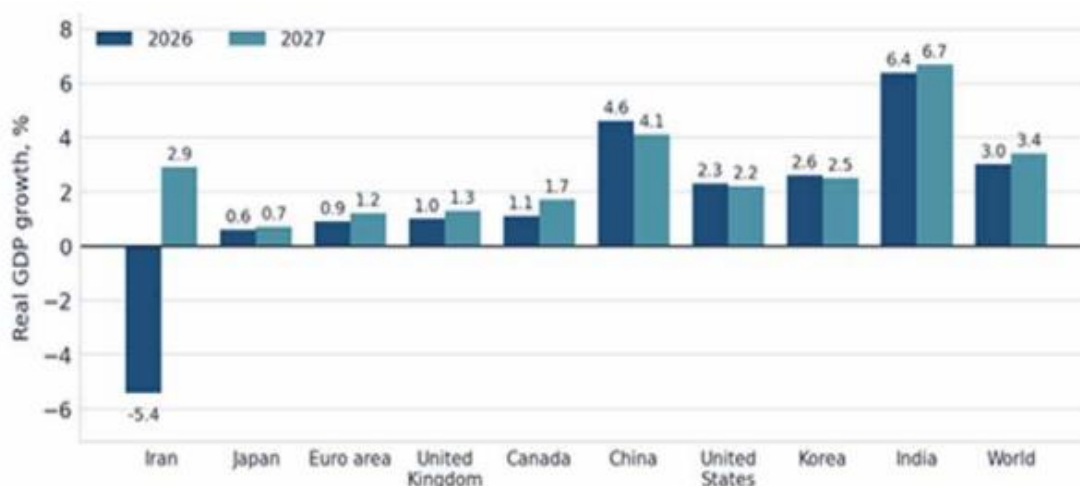
These commodity pressures feed directly into inflation. The UAB estimates that headline inflation in advanced economies rises from 2.5% in 2025 to 3.9% in 2026, before declining to 2.3% in 2027. Emerging and developing economies experience a larger increase, from 4.7% in 2025 to 5.8% in 2026, before easing to 4.4% in 2027. The shock is particularly severe in some emerging Asian

economies: the report notes inflation of around 40% in emerging Asia, compared with approximately 15% before the war, with the twelve-month rate to May around 30% above its level one year earlier. The inflationary consequences are therefore not confined to energy itself. Higher fuel prices raise transport, fertilizer and production costs, which then spread into food and other consumer prices and, potentially, wages.

This creates a difficult monetary-policy environment. Central banks must decide how far to accommodate a supply driven increase in prices without allowing inflation expectations to become entrenched. The report notes that the US Federal Reserve held its target range at 3.50%-3.75% on 29 July, while the Bank of England maintained Bank Rate at 3.75%, following six cuts since August 2025. According to the UAB, central banks are likely initially to “look through” part of the energy shock because monetary policy cannot directly produce oil or gas. However, persistent second-round effects would require a tighter response¹. Consequently, the report expects monetary normalization to occur more slowly than the normalization of physical energy flows. Even after oil prices decline, households and firms may continue to face elevated food, transportation and other costs, while earlier energy price increases remain embedded in the price level.

The growth consequences reflect this combination of higher prices, weaker purchasing power and disrupted trade. Drawing on the IMF’s July 2026 World Economic Outlook Update, the report projects global growth of approximately 3.0% in 2026 and 2.9% in 2027. The United States is projected to grow by 2.3% in both 2026 and 2027, the euro area by 0.9% and 1.2%, Japan by 0.6% and 0.7%, Canada by 1.1% and 1.7%, and China by 4.6% and 4.1%, respectively. India remains one of the fastest growing major economies, at around 6.4% in both years. World trade growth is projected to fall from 5.0% in 2025 to 3.5% in 2026, before recovering to 4.3% in 2027. The report emphasizes that the projected slowdown in global GDP and trade growth reflects a temporary deviation from the pre-war economic trajectory rather than a permanent contraction in global activity.

¹ In support of this view, the Fed increased its rate by 25 bp to 3.75%-4%.



Source: IMF, World Economic Outlook Update, July 2026, Table 1 and Annex Table 1.

Nevertheless, the aggregate growth figures conceal major distributional differences. Iran is identified as the largest direct “loser” because the conflict combines destruction of physical assets with disruption to energy exports, trade and domestic activity. The World Bank is cited as projecting an Iranian GDP contraction of approximately 5.4% in 2026, followed by a further 2.7% decline in 2027. Low income energy importers are another particularly vulnerable group because energy and food represent large shares of household expenditure while governments often have limited fiscal capacity to cushion the shock. By contrast, energy exporters can benefit from higher prices, while economies with substantial domestic energy supplies or strong technology sectors have greater buffers. The United States benefits from domestic oil and gas production and its technology sector, while countries such as China, India and several Asian economies benefit to varying degrees from their participation in global technology value chains.

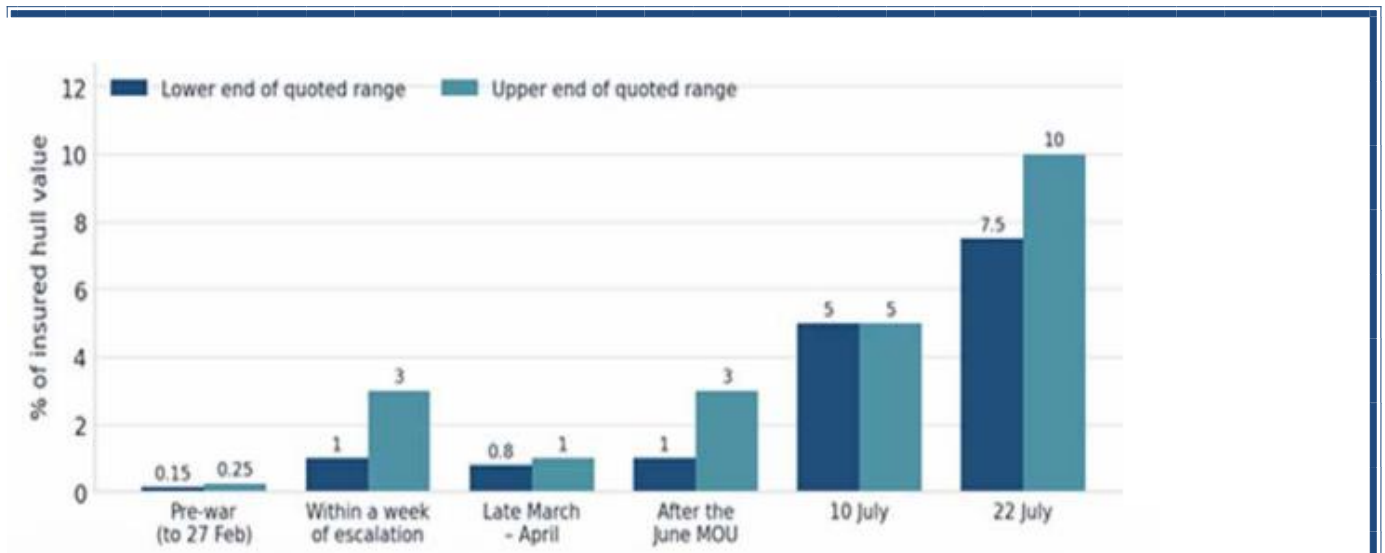
Group	Main exposure	Principal economic effect
Iran	Direct conflict and trade disruption	Severe output contraction and reconstruction burden
Low-income energy importers	Energy and food dependence	Disproportionate welfare and poverty effects
Japan	Imported oil and LNG	Higher energy prices and weak growth
Euro area	Imported energy and low baseline growth	Stagflationary pressure and delayed recovery
India	High oil-import dependence	Strong growth but significant inflation and external-balance exposure
Other vulnerable emerging markets	Energy imports and limited policy space	Inflation, currency and fiscal
Major energy exporters	Higher global energy prices	Terms-of-trade gains
Technology exporters	Strong technology demand	Partial offset to energy shock

Source: UAB

The report also highlights several country specific cases. Japan is structurally vulnerable because of its high dependence on imported energy and limited domestic resources, meaning that higher energy costs directly weaken household purchasing power and industrial competitiveness. The euro area faces a combination of relatively weak underlying growth and high energy exposure, although storage capacity and supply diversification provide some protection. India presents a more mixed picture: strong underlying growth and substantial domestic momentum provide resilience, but its high dependence on imported energy means that elevated oil prices can worsen the trade balance, raise transport and production costs and place pressure on inflation and the current account. These differences demonstrate why, in the UAB's assessment, aggregate global GDP alone understates the true distributional consequences of the shock.

Supply chains and freight markets represent another major transmission channel. The disruption increased the cost of transporting crude oil, LNG and other goods and forced vessels to consider longer alternative routes. Container shipping was affected both directly and indirectly as higher fuel, insurance and operating costs spread across global logistics. The report notes that freight costs on Gulf related routes rose sharply, with Jebel Ali related rates reaching approximately \$8,250-\$9,500 per forty-foot equivalent unit, while the Shanghai Containerized Freight Index increased by 13.1% during the week to 13 August. The Baltic Exchange's Middle East Gulf-to-UK VLCC route also reached exceptionally high levels during the disruption. These costs matter beyond shipping companies themselves because they are eventually incorporated into the delivered price of energy, intermediate inputs and consumer goods.

Marine insurance amplified these pressures. War risk insurance premiums did not fall mechanically as physical conditions improved because insurers price not only current incidents but also uncertainty surrounding renewed disruption. The report shows premiums increasing from roughly 0.15%-0.25% of insured hull value before the escalation, to around 1%-3% within a week, approximately 0.8%-2% in late March and April, around 1%-3% after the June memorandum, and as high as roughly 5% by 10 July. By 22 July, quoted premiums had risen to approximately 7.5% at the lower end and 10% at the upper end of the range. For a large tanker, this could translate into several million dollars of additional insurance expense for a single voyage. The report argues that this explains why maritime normalization can lag behind political settlement: insurers need evidence of sustained safety, not merely the announcement of a ceasefire or agreement.



Sources: Lloyd's Market Association via Xinhua; Marsh via S&P Global Platts; The National; IBTimes.

The UAB therefore proposes a sequenced recovery rather than an instantaneous one. Energy flows are expected to recover first, potentially reaching roughly 80%-90% of pre-war volumes by the fourth quarter of 2026, before returning more fully during 2027. Logistics recover second, as vessels are repositioned, congestion is cleared and commercial schedules are rebuilt. Insurance recovers third and most slowly, since underwriters require a sustained period without incidents before reducing war risk premiums materially. Prices recover last, because the disappearance of the original supply disruption does not remove accumulated costs from inventories, freight, insurance, fertilizers and food. According to the report, a full return to normal conditions is therefore more appropriately viewed as a 2027-2028 process, with 2028 representing the earliest reasonable point for complete normalization of the wider system.

The report identifies four major downside risks to this baseline. The first is the failure or breakdown of the assumed August settlement. Renewed conflict would prolong energy and shipping disruption, prevent inventories from normalizing, keep LNG and oil prices elevated and allow inflationary pressure to become more deeply entrenched. The second is that the Red Sea/Bab al-Mandeb route remains contested, forcing continued diversions around the Cape of Good Hope². This would preserve longer voyage times, higher fuel use and elevated insurance and freight costs even if the Strait of Hormuz itself becomes safer. The report stresses that this is especially important for container shipping because longer voyages effectively reduce usable global shipping capacity.

² By mid-September, the Red Sea/Bab al-Mandeb route has become even more contested.

The third risk is a weakening of the global AI and technology investment cycle. Technology, semiconductors, data centers and related infrastructure have provided an important source of investment and demand, helping to offset some of the negative effects of the energy shock. If persistent energy costs, higher financing expenses or profitability constraints caused firms to slow investment, the global economy could lose an important source of demand precisely while energy-intensive sectors remain under pressure. The fourth risk is intensifying fiscal and financial stress, particularly in economies that entered the conflict with high debt and limited policy space. Governments may face pressure to subsidize fuel and food or compensate households and firms, while higher interest rates increase debt servicing costs. For emerging markets with substantial foreign currency debt, currency depreciation can further increase the domestic burden of external liabilities. In this way, the UAB warns that a temporary commodity shock could develop into a broader financial stability problem.

Taken together, these risks are interconnected rather than independent. A renewed geopolitical disruption could raise oil and gas prices, intensify inflation, keep monetary policy tighter for longer, increase insurance and freight costs, weaken household purchasing power and discourage investment simultaneously. Fiscal support could cushion part of the immediate impact but at the cost of higher borrowing requirements, while tighter financial conditions could then further weaken investment. The report therefore cautions against mechanically extending the relatively resilient 2026 growth performance into later years. The global economy has demonstrated an ability to absorb the first phase of the shock, but that resilience depends partly on continued investment, stable financial conditions and the eventual restoration of energy and trade flows.

Overall, the UAB's analysis presents the Strait of Hormuz conflict as much more than a temporary interruption to oil supply. Its significance lies in the network of transmission channels connecting maritime security to energy prices, shipping capacity, insurance, fertilizers and food, household purchasing power, monetary policy, fiscal positions and global growth. The report's central scenario is relatively constructive: if a durable settlement allows flows to recover, energy markets should normalize first, followed by logistics, insurance and eventually broader prices. Yet the recovery remains uneven both across time and across economies. Energy exporters and technology intensive economies possess stronger buffers, whereas low income energy importers and countries with limited fiscal space face more persistent welfare losses. The article's broader conclusion is therefore that the end of the physical disruption is only the beginning of economic normalization. Restoring

vessels, supply chains and confidence is considerably slower than reopening a maritime route and the final economic consequences depend not only on how quickly trade resumes but on whether inflation, insurance costs, fiscal pressures and geopolitical risk can also return sustainably toward pre-war conditions.

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