

Middle East conflict raises challenges for GCC countries | Credendo

Event

On 28 February, the USA and Israel launched the large-scale military campaign “Operation Epic Fury” against Iran. While Iran has retaliated against Israel, its attacks are also targeting Gulf countries, particularly the UAE. Unlike last June’s attack on Qatar, recent strikes have not been limited to US military assets in the region but have also been extended to civilian and commercial infrastructure. Hotels, airports, ports, energy facilities and other civilian and commercial infrastructure such as data centres have been struck by drone and missile attacks. The conflict is already having significant consequences, resulting in human casualties, infrastructure damage and disruption across key sectors, most notably transport and hydrocarbon markets, while its severity and duration remain uncertain.

Impact

The countries in the region, including the Gulf Cooperation Council (GCC) countries Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE are already feeling significant repercussions of the ongoing conflict. The most immediate economic impact has been on hydrocarbon markets. The region’s oil exporters are facing mounting pressures amid the de facto blockade of the strategic Strait of Hormuz, through which approximately 20–30% of global oil and 20% of LNG transit, and on which many GCC countries rely almost exclusively for maritime traffic. Moreover, heightened security risks have also led to shutdowns of some energy facilities in several countries, most notably Saudi Arabia and Qatar. Should the conflict persist, further shutdowns are likely amid elevated security risks and storage constraints, thereby deepening the economic impact across the region.

Beyond the energy sector, GCC countries face other crucial vulnerabilities. These include food security risks due to dependence on the Strait of Hormuz, exposure of critical infrastructure on the Gulf coast (ports, airports, desalination plants) and country-specific vulnerabilities (risk of energy shortages and social unrest). In addition, there is a risk of potential environmental and water contamination from attacks against Iran’s nuclear facilities, oil facilities and tankers. These vulnerabilities are particularly pronounced in Bahrain, Kuwait and Qatar as they only face the Gulf coast. Nevertheless, most GCC countries benefit from large macroeconomic buffers thanks to strong liquidity positions and large external assets that should help mitigate shocks in the short term.

The overall magnitude of the impact, nonetheless, will largely depend on the conflict duration and the extent of damage to strategic infrastructure. Key economic risks could materialise from a prolonged disruption of the Strait of Hormuz and severe damage to energy facilities. More broadly, a sustained conflict could also impact security and stability perceptions over GCC countries in the long term, with potential implications for economic diversification strategies centred on tourism, logistic and transport hubs, financial centres and ambitions of becoming AI powerhouses.

Considering the significant pressures already caused by the conflict, especially as the vital energy sector is affected, Credendo has decided to downgrade the short-term political risk and business environment risk classifications of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE. Looking ahead, Credendo maintains a negative outlook for the GCC countries in view of the uncertainties surrounding the duration and intensity of the conflict, as well as the risk of further escalation.

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