

OCTOBER 2026

POLICY PAPER

THE MULTIPLE COSTS OF THE US-IRAN WAR

**From Hormuz to Europe and
South Asia: the widening
economic and political
geography of the conflict**

FERID BELHAJ

Wars are decided by those who hold military power, but their costs are increasingly borne by those who have little or no voice in the decisions that start them. The US–Iran war shows this imbalance very clearly. Its economic consequences have gone far beyond the battlefield and have disrupted energy markets, trade routes, food supplies, public finances and investment in the Gulf, Europe, Africa and Asia. The most striking feature of the conflict, however, is not only the size of the damage but its very unequal distribution. Major hydrocarbon exporters have suffered severe economic contractions in spite of higher oil prices. Poorer importing countries face growing fiscal pressure. The United States, relatively protected at the aggregate level, has passed a substantial part of the costs to its own consumers and to economies far beyond its borders. China, for its part, was able to draw on its strategic reserves, which shows that economic resilience does not necessarily follow from military superiority.

The most lasting consequences of the war may, in the end, be political rather than economic. The war has exposed the limits of American security guarantees, put in question the economic model of the Gulf, and further weakened confidence across the Atlantic. The central paradox is that military power can start and sustain a conflict without controlling its economic consequences, or deciding who finally pays for them. In an increasingly interconnected world, the capacity to wage war and the capacity to absorb its costs have become dangerously separated.

The war may end, infrastructure may be rebuilt and trade may recover. What will be much harder to restore is confidence in the political and security arrangements on which the global economy has long depended.

FERID BELHAJ

Wars are usually counted where they are fought. The munitions, the destroyed infrastructure and the lost output of the belligerents are added up, and the total is called the price. This is a habit, and not a good one, because the bill of a modern war is rarely sent to those who began it.

The war that started on February 28, 2026, when the United States and Israel opened their campaign against Iran, illustrates the point.[1] Almost eight months later, its economic map has little in common with its military map. The physical destruction is concentrated in Iran and the Gulf. The shock, however, has traveled much further: to the budgets of Arab oil importers, to the gas market in Europe, to consumer prices across Asia, to the markets for fertilizer and food, and to the external accounts of countries from Pakistan to Bangladesh.

A second cost is more difficult to find in statistical tables. Governments in the Gulf, which for a long time considered American protection as a given, now ask what this protection is really worth. In Europe, allies who received the economic consequences of a campaign they had not chosen ask about consultation and about the sharing of the burden. Confidence is an economic asset, and this war has been consuming it.

The International Monetary Fund (IMF), the World Bank and the International Energy Agency (IEA) now describe a shock that is unusually asymmetric. Some of the world's main hydrocarbon exporters have suffered the largest losses, not simply because oil prices rose, but because production facilities were damaged and barrels could not leave the Gulf with any reliability. Oil-importing countries have generally kept more of their growth, but their households and public finances face higher costs for fuel, food and financing. The United States, despite its greater energy independence, is not exempt. China's capacity to use its stocks and to reduce its purchases helped, at the beginning, to contain global demand, although these stocks are not inexhaustible and Chinese imports have since recovered somewhat.[2][3][4]

This is the argument of the paper. Decisions about war remain national, but their economic consequences are no longer national. When these consequences fall on partners who were neither consulted nor involved, the damage is not only economic.

THE CHOKEPOINT

Everything begins with the Strait of Hormuz. Before the war, about one fifth of the world's oil supply and more than a quarter of its liquefied natural gas passed through this narrow channel, together with one third of the global fertilizer trade.[5] When the fighting started, traffic almost stopped. S&P Global counted 91 ships crossing on February 28 and four on March 8; the number of tankers fell from 44 a day to one.[6] Gulf aviation was affected next. Dubai International Airport handled 31.5 million passengers in the first half of the year, which is 31.3% fewer than in the same period of 2025, while the prewar forecast was close to 100 million for the whole year.[7]

Shipping has recovered, but irregularly, and its vulnerability is the essential point. The IEA estimated that total oil flows through Hormuz returned to 10.9 million barrels a day in September, while exports by bypass routes rose to 5.6 million barrels a day. Gulf crude exports reached 13.9 million barrels a day, which is still only a little more than three quarters of the prewar volume according to the IEA's measure.[8] The recovery then received another blow.

On October 8, Reuters reported that crude shipments through the strait had fallen to about 10.1 million barrels a day, or 74% of the prewar level, as attacks started again.[9] The different tracking firms use different definitions and observation periods, and the apparent contradictions between their figures should not be taken for certainty.[10] The larger fact is not in dispute: insurance, escorts, longer routes and pipelines have replaced the simple expectation of uninterrupted passage. To move a barrel is one thing; to move it safely, predictably and at a reasonable cost is another.

For this reason a war centered on Iran quickly became something different: a shock to energy, transport and supply chains that reached most of the world economy.

A SHOCK UNLIKE THE OTHERS

The first full assessment of the IMF, in April, tried to measure the damage against what was then considered a reasonable baseline. It assumed that the disruption would fade by the middle of the year and that oil would average roughly US\$82 a barrel in 2026. On this assumption, it reduced growth for the Middle East, North Africa, Afghanistan and Pakistan to 1.4%, a downgrade of 2.3 percentage points compared with October 2025.[11] This estimate is now useful as a record of how quickly expectations changed, and not as a current forecast. The regional outlook of the IMF of October 22 projects instead that the group of the Middle East, North Africa and Pakistan will contract by 1.3% in 2026, with a conditional rebound of 6.6% in 2027. Even this rebound would leave output below the path expected before the war.[4]

The global picture is less catastrophic than the regional one. The June Global Economic Prospects of the World Bank put world growth at 2.5% for 2026, down from the earlier projection of 2.9%, and described a much worse adverse scenario.[12] In its World Economic Outlook of October 13, the IMF forecasts global growth of 3.1% in 2026 and 3.4% in 2027, with headline inflation of 4.7% this year and 4.1% next year.[2] These are forecasts of different institutions, and not successive readings of one series. The contrast nevertheless matters: world activity has shown resilience, while the losses have become strongly concentrated. Technology investment, domestic demand and adaptation have supported some economies, whereas energy-intensive importers and economies outside the technology supply chain have absorbed a very different shock. The economic story is not a global collapse, but an unequal and costly capacity to adjust.

For the region itself, the picture is considerably darker. The update of the World Bank of October 6 projects that output in the Middle East, North Africa, Afghanistan and Pakistan will contract by 2.1% in 2026, after growing by 3.3% in 2025; inside this group, the Gulf Cooperation Council (GCC) is projected to contract by 4.3%. Developing oil importers, on the contrary, are projected to grow by 4.3%, compared with 3.9% in 2025.[3] The October country forecasts of the IMF are even harsher for several oil exporters: contractions of 16.7% in Kuwait, 16.0% in Iraq, 15.6% in Qatar and 11.3% in Bahrain, and contractions of 3.9% in the UAE and 3.3% in Saudi Arabia; Oman is forecast to grow by 4.1%.[13] The regional aggregates are not interchangeable, because country coverage and weights differ. Both institutions, however, identify the same reversal: the major exporters, and not the importers, have borne the largest loss of production.

The explanation lies in the nature of this shock. In earlier Gulf crises, higher oil prices brought producers an immediate gain in the terms of trade; 2022 was the most recent example. This time, the physical interruption of Hormuz limited volumes directly. At the height of the initial disruption, the IMF estimated that strikes and precautionary shutdowns had removed some 13 million barrels

a day of oil and gas output.[14] The October report of the IEA now projects that global oil supply will average 100.7 million barrels a day in 2026, a fall of 5.8 million barrels a day compared with 2025, even though supply in September recovered to 102.3 million barrels a day.[8] In Qatar, Iranian strikes on March 18 and 19 damaged two of the 14 liquefaction trains, which represent 12.8 million metric tons of LNG capacity per year, or about 17% of national export capacity. The chief executive of QatarEnergy refined the repair estimate in September to roughly three years; a separate expansion train is expected to start production in 2027.[15][16] An oil price of US\$100 or more brings no windfall on barrels that cannot be exported. This is an oil shock in which the leading exporters have lost on several fronts at the same time: output, infrastructure, shipping, aviation and confidence.

The non-oil economy has also been affected, and precisely through the sectors that a decade of diversification was meant to develop: aviation, logistics, tourism and services.[17] There is an irony here. Diversification was supposed to protect the Gulf from oil. Yet an economy built on the role of a connecting hub for the world depends on regional calm as much as an oil economy depends on the price of crude. For this reason, bypass pipelines, storage and ports outside Hormuz now appear less as costly surplus capacity and more as a form of macroeconomic insurance. The East-West pipeline of Saudi Arabia helped to redirect exports, but the attacks against it in September also showed the vulnerability of the alternative routes themselves.[8] No amount of physical redundancy can fully replace a secure regional environment.

THE END OF AN ASSUMPTION

The infrastructure is only one half of the question. For decades, the economic model of the Gulf has rested on a political premise: American military predominance would provide enough security to make the region a safe place for capital, multinational firms and long-term investment.[18] This premise was never written down. No Gulf state has ever had anything comparable to the guarantee of Article 5 of the North Atlantic Treaty; there was only a long accumulation of cooperation, bases and habits, from which everyone concluded that Washington would, in the last resort, support stability.

The war has shown how ambiguous this arrangement always was. The decision to strike Iran was taken in Washington and in Israel; the governments that would absorb the retaliation did not take part in it. American bases, which were supposed to deter, became targets. Iranian missiles and drones then reached energy installations and commercial centers in countries that had not chosen to enter the war. Anwar Gargash, adviser to the president of the UAE, has said that the decision of Tehran to attack states that had not attacked it was neither impulsive nor taken lightly.[19]

From the perspective of a Gulf capital, the question is uncomfortable. Does the American umbrella protect against regional conflict, or does hosting it expose the country to conflicts decided elsewhere? Both can be true. American forces remain indispensable for the defense of the Gulf, and no serious person in the region proposes otherwise. But military superiority does not automatically become political reassurance. On September 7, at the Hili Forum in Abu Dhabi, the spokesman of the Qatari foreign ministry, Majed Al Ansari, said that a strategic alliance with the United States was important but not sufficient, and that the Gulf could not depend only on its partners for its security. Gargash, at the same forum, added that the Gulf states had failed to transform their shared concerns into a coordinated strategy.[20]

This should not be read as the end of the American role. It may be the end of treating this role as something that can be taken for granted, and the difference has an economic price. If Gulf governments decide that the present arrangements are inadequate, they will spend more on their own forces, on air and missile defense, and on other partners. It can be said that a large part of this spending was overdue. But it also has an opportunity cost, since money committed to security is not available for infrastructure, schools or the energy transition. The Gulf risks paying for its security twice: once through the relationship with Washington that it already has, and a second time for the additional cover that it now considers necessary because of the limits of this relationship.

The real achievement of the Gulf was to convince the world that a predictable and secure home for capital existed in a very unpredictable region. A damaged plant can be rebuilt. A reputation is harder to restore. Investors will return when the shooting stops, but they will have repriced political risk, insurance and the reliability of whoever guarantees security; some will ask for higher returns, others will simply spread their money more widely. None of this can be summed in dollars. And, unlike a bridge, confidence cannot be rebuilt with public expenditure.

THE VIEW FROM THE PERIPHERY

Outside the Gulf, the story is different. Oil importers such as Egypt, Jordan, Morocco, Pakistan and Tunisia have generally maintained their output better than the producers. The October forecast of the World Bank puts the growth of developing oil importers in its regional group at 4.3% in 2026, against 3.9% in 2025.[3] The October country projections of the IMF show the diversity clearly: 5.1% growth for Egypt, 4.5% for Morocco, 3.6% for Pakistan, 2.7% for Jordan and 2.4% for Tunisia. [13] These numbers should not be understood as an absence of war costs. The earlier sensitivity analysis of the Fund estimated that a 10% increase in oil prices could reduce output by about half a percentage point and add roughly one percentage point to inflation in an average emerging-market oil importer of the region.[21] Import bills, subsidies and external financing remain painful even in economies whose GDP has not contracted.

Here a war becomes a development problem. An importing government has no painless option: it can pass the price to households and accept inflation, or it can protect them with subsidies and move the cost to the budget. A country with fiscal room can manage either choice. A country with heavy debt and thin foreign-exchange reserves cannot, and every dollar spent on fuel support is a dollar not spent on clinics, schools or roads. The cost of the war then appears not only at the fuel pump, but also in public investment that never takes place.

Fertilizer may matter almost as much as oil. The April Commodity Markets Outlook of the World Bank projected that its fertilizer price index would increase by more than 30% in 2026 and urea prices by nearly 60%.[22] These remain annual forecasts, and not a measured increase since the beginning of the year. The latest monthly Pink Sheet available, published on October 6, reports that fertilizer prices rose by only 0.4% in September, while energy prices rose by 25.7% and food prices by 3.8% in the same month.[23] The distinction is important: a monthly pause is not evidence that the annual disruption has ended. Natural gas is the main feedstock of nitrogen fertilizer, so interruptions of Gulf supply can reach harvests and food prices with a delay. The Gulf supplies about one fifth of global exports of ammonia and nitrogen fertilizer and more than 40% of sulfur exports; in Yemen, Sudan and Somalia, food already represents an exceptionally large share of imports.[24] The burden is heaviest for poor households and for governments that must decide which essential imports to finance.

Remittances deserve more attention than they receive. The Gulf is one of the largest labor markets in the world for workers from poorer countries, and the money they send home pays for housing, food and schooling without passing through any government budget: it is a private form of social protection. If construction, tourism and logistics slow down in the Gulf, the loss reaches households far from the Middle East very quickly. The early evidence is mixed. Data reported by Bloomberg show a first rush of transfers, as workers sent their savings home, followed by signs of strain, with Philippine remittances growing at their slowest pace in almost four years.[25] This is one more reason why measuring the war only through oil prices underestimates its effect on development.

EUROPE'S DILEMMA

Europe is in a different position, but it shares the same exposure to imported energy. After 2022, governments worked to reduce their dependence on Russian gas through diversification, new liquefied natural gas (LNG) terminals and larger storage buffers. These measures reduced one vulnerability and at the same time made Europe more exposed to the world LNG market, where Hormuz is crucial. The April reference scenario of the IMF put the cumulative economic cost at around 0.5% of euro-area GDP over two years.[26] By October, the World Economic Outlook of the Fund projected euro-area growth of 1.1% in 2026, instead of the 0.9% shown in its July Article IV assessment;[27] but the October European regional outlook projected euro-area inflation of 3.1%, compared with 2.6% in its April forecast.[28] Eurostat later recorded year-on-year euro-area inflation of 3.8% in September, compared with 3.2% in August; this is the latest measured figure, and it is distinct from the annual forecast of the IMF.[29] Growth has therefore been more resilient than feared, but the inflationary and strategic burden has not disappeared. On October 26 the IEA warned that energy markets were unlikely to return to their prewar condition in 2027.[30]

The immediate effect is an energy bill; the next is inflation. Central banks then face a familiar and unpleasant choice between accommodating the shock and risking entrenched prices, or tightening and slowing growth further. All this occurs in economies that are already under strain from rising defense budgets, aging populations and weak productivity, and the energy shock competes for the same limited fiscal and political space.

Europe also pays a second price, in the currency of transatlantic trust. The campaign was decided in Washington and in Israel, without Europeans in the room. Yet European governments found themselves with the economic consequences, and then with American requests for help to restore freedom of navigation in Hormuz. For many of them, the difficulty was less the disagreement on objectives than the apparent assumption that allies would help to manage the aftermath of something in which they had no part in the decision.

None of this means that Europe is indifferent to the security of international waterways. The issue is confidence. Alliances rest on more than capabilities; they rest on predictability, on consultation and on a shared reading of risk. These have been weakened, and the European reluctance to commit forces to Hormuz is one symptom. The transatlantic alliance is not breaking apart because of Iran, and it would be inaccurate to say so. It would be an equal mistake to assume that working cooperation proves that trust is intact. Trust is an economic asset, and when it erodes, cooperation becomes more expensive.

ASIA'S EXPOSURE

In absolute volumes, Asia remains exceptionally exposed to oil and gas imported from abroad. The April assessment of the IMF put its consumption at roughly 38% of the world's oil and 24% of its gas, and its net imports of oil and gas at about 2.5% of regional GDP.[31] But the October outlook for Asia and the Pacific contains an important revision: growth in the region is now forecast at 4.8% in 2026, compared with 4.4% in April, before moderating to 4.4% in 2027.[32] This is not evidence that the energy shock has disappeared. The Fund attributes the resilience to adaptation, diversification and an unusually strong technology cycle. The gains are also uneven: producers of advanced technology have done better, while poorer economies, energy importers and Pacific islands face stronger pressures. In other words, the aggregate strength of the region makes the distribution of the costs of the war more important, and not less.

South Asia has also resisted better than expected. The October South Asia Economic Update of the World Bank projects growth of 6.9% in 2026 and 6.7% in 2027, supported by domestic demand, remittances and reforms.[33] It warns that persistently high energy prices and tighter financing remain risks. In India, Pakistan, Bangladesh and Sri Lanka, the channels differ but the mechanism is familiar: more expensive imported energy worsens the terms of trade, fertilizer costs put pressure on farmers and subsidy budgets, and inflation reduces purchasing power. Strong headline growth can exist together with real losses for those least able to bear them.

Bangladesh shows what this means in practice. On May 15, the World Bank approved an additional US\$350 million to help the country continue to buy liquefied natural gas.[34] Six weeks later, it approved a further US\$1.1 billion of emergency support for fertilizer and fuel, linking the request explicitly to war-driven prices. Bangladesh imports more than 85% of its fertilizer, and its Aman and Boro rice seasons account for about 90% of national rice production.[35] When a development bank has to find more than one billion dollars to protect fertilizer imports in a country thousands of kilometers from Iran, it is clear that the limits of the war are no longer military ones.

Sri Lanka is a smaller example of the same phenomenon. Having only just come out of a sovereign debt default, it raised fuel prices by about 35% in March, saw inflation rise from 1.6% in February to 5.5% in May, and its central bank increased rates by a full percentage point.[36] A country that had barely absorbed one external shock received another.

This is how the geography of the war becomes more unequal as one moves away from the battlefield. A wealthy European state may feel it as somewhat higher inflation and a difficult decision on interest rates. A poor country with thin reserves may feel the same shock as an inability to pay for enough fuel or fertilizer. The price on the screen is the same; its meaning is not.

THE ROLE OF CHINA

The role of China is important, but the evidence now requires a more precise formulation than the claim that Beijing alone kept world oil prices down.[37] Before the war, China imported around 11 million barrels of crude a day and had built very large inventories.[38] In May, some trackers recorded a sharp reduction in imports, which relieved the pressure on a market suddenly short of supply.[39][40] The latest evidence shows a more complex adjustment. The analysis by Reuters of customs and refinery data on October 21 estimates that Chinese crude imports recovered to 9.03 million barrels a day in September, while refinery runs reached 13.99 million barrels a day. The

implied stock draw for the month was about 530,000 barrels a day, compared with an estimated 640,000 in August. At the end of September, onshore stocks were estimated at around 1.192 billion barrels.[41] These are estimates derived from imperfect data, but they show that the capacity of China to substitute inventories for purchases has been substantial, though not unlimited.

The October report of the IEA found that China accounted for 78% of the September decline in non-OECD crude inventories.[8] This is a reminder both of the strategic preparation of China and of the limits of the strategy. Refineries can adjust their runs, postpone purchases or draw on commercial stockpiles; none of these measures creates new oil. The effect on prices cannot be attributed to a single government. It reflects weaker world demand, changing Chinese buying patterns, disrupted Gulf exports, alternative sources of supply, inventories and extraordinarily expensive shipping. The decisions of Beijing were taken in its own interest: to avoid the worst peaks of the price cycle while keeping the capacity to return to the market when conditions permit.[41]

Iran itself illustrates the other side of this Chinese adjustment. China bought about 1.4 million barrels a day of Iranian crude in 2025, which represented a large part of the seaborne export market of Iran.[42] Early in the war, shipments and purchases fell sharply.[43] By October, however, the main fact was no longer only lower Chinese demand. A Vortexa assessment reported by Reuters on October 13 found Iranian seaborne crude exports at zero since the second week of September, with 83 million barrels on tankers and about 43 million barrels trapped west of Hormuz, according to its tracking methodology.[44] The analyst also noted that Russian crude had replaced some Iranian barrels in Chinese purchases. It would be misleading to describe this only as a deliberate Chinese boycott. The American naval blockade and the danger of transit have physically cut a large part of the trade.[45] For Iran, the loss of its largest customer is an economic blow at exactly the moment when the war has increased the need for cash.

Stocks give time; they do not replace supply. Nor should it be assumed that the stock draw of China has reduced the oil price by any precisely measurable number of dollars. The better conclusion is a strategic one: the country best placed to manage the initial import shock was not necessarily the one with the greatest military power, but the one that had built inventories and preserved the option to change its import profile. With Chinese imports recovering somewhat, and with global observed oil stocks 509 million barrels below their end-February level at the end of September, even this advantage has limits.[8][41] The lesson for other countries is not to imitate China at any cost, but to understand the economic value of options before a crisis forces them to be used.

THE COST TO AMERICA

The United States started this war, and the account of its own economic damage is more complicated than critics or defenders admit. At the level of national output, America is comparatively protected: it is a net exporter of oil and gas, and higher prices can improve its terms of trade.[46] The October World Economic Outlook of the IMF still projects US growth of 2.3% in 2026, and euro-area growth of 1.1%.[13] American exporters of crude and LNG have profited from the disruption of global supply, although refinery margins and the benefits among producers vary.[47] The country that went to war is among the few that can count part of the energy-price shock as an economic gain. This is true only at the aggregate level.

Americans do not live in the aggregate. The national average for regular gasoline was about US\$2.98 a gallon before the hostilities began in February;[48] on October 26, AAA reported

approximately US\$4.29 for regular gasoline and US\$6.35 for diesel.[49][50] Diesel had reached a record of US\$6.53 on September 22, according to AAA, and it remains especially important because it moves freight and agricultural production.[49] The Bureau of Labor Statistics reported that consumer prices rose by 3.7% over the twelve months to September, after a monthly increase of 0.6%; gasoline alone rose by 9.1% during September.[51] Higher fuel and transport costs do not fall evenly. They affect commuting households, small businesses and people whose wages are least able to adjust. The political economy of the war is visible at the pump.

Monetary policy has also been drawn into the account. On September 16, the Federal Reserve raised its policy-rate target by a quarter of a point, to a range of 3.75–4.00%, in a unanimous 12–0 decision.[52][53] Its next decision is due only on October 28 and therefore cannot be treated here as already taken. The Fed describes activity as solid but inflation as elevated. It cannot repair a destroyed gas plant, reopen Hormuz or reverse an increase in freight insurance. It can, however, try to prevent a supply shock from becoming persistent inflation. The difficulty is that tightening restrains demand in the whole economy, and not only among those who have benefited from higher energy prices.

There is also the Treasury. The latest detailed public estimate that could be verified puts the US military cost at US\$43.6 billion through early September, according to figures from US Central Command reported by the Washington Post and Bloomberg Government. Approximately US\$28 billion of this amount was attributed to the replacement of expended munitions, and the total excludes future operating costs and the repair of damaged overseas facilities.[54] The Congressional Budget Office had previously estimated about US\$38 billion through July and additional monthly costs of roughly US\$2–3 billion, depending on the intensity of operations.[55] These are expenditure estimates at different dates, and they should not be added together. They also exclude a less visible strategic cost: the depletion of expensive weapons stocks, the demands on American industrial capacity and the opportunities lost elsewhere.

The resulting distribution is surprisingly familiar. The American oil producer and the LNG exporter gain; the American commuter, the mortgage borrower and the taxpayer pay. The war that enriched the shale patch has also raised the price of the diesel that moves the goods of the country. This is the global pattern on a smaller scale, and it strengthens the argument of this paper: even for the state that decides, the economic consequences are not national in any simple sense. They fall on particular people in particular places, and the political reckoning, which for Washington arrives in November, does not wait for the strategic one.[56]

THE COST TO IRAN

Iran comes last in this account, not because its suffering matters less, but because assessments of the war too often begin and end with it. It would nevertheless be a serious distortion to treat Iran as a footnote to its own war. It is the one economy in this story where the destruction, the loss of income and the loss of a future are the same event.

Iran entered the war already weakened by high inflation, a depreciating currency and political unrest. In February, annual inflation exceeded 46%; the rial had lost most of its value since the nuclear agreement of 2015.[57] In April, the IMF projected a contraction of GDP of 6.1% for 2026, and its July data later suggested 5.4%.[58] Both have now been overtaken. The October 2026 World Economic Outlook country database of the IMF projects a contraction of 7.6% of Iran's real GDP

this year.[13] For prices also, the older country summary of the IMF is out of date: the latest October projections of the IMF put average consumer-price inflation at 78.6% in 2026, compared with 50.6% estimated for 2025. The database of the Federal Reserve linked to the IMF confirms this October series.[59][60] Even the newer forecast must be handled with caution. A large informal sector and severe interruptions in reporting make real-time measurement unusually uncertain.[61]

The physical losses are large, but they cannot be measured reliably to the last dollar. In April, Tehran claimed direct and indirect damages of US\$270 billion over the first forty days. A separate early assessment by the Foundation for Defense of Democracies, an organization openly critical of the Iranian government, suggested a central estimate of US\$144 billion within a very wide range of US\$50–300 billion.[62] Neither is an independently audited reconstruction bill, and the totals are not additive. Earlier technical assessments put the repairs of the energy sector alone in the tens of billions and warned that restoration could take years.[63] The March strikes on the Asaluyeh–South Pars complex hit a major center of Iranian petrochemical investment.[64] The human cost, including deaths, displacement, lost work and the depletion of household savings, is even harder to price.[65] There is no reliable and comprehensive account of casualties or reconstruction as of October that would justify pretending otherwise.

The second and more lasting blow has been commercial isolation by sea. The United States established a blockade of Iranian ports in April, eased it for part of June and reimposed it in July.[66] Kharg Island ordinarily handles the great majority of Iranian crude exports. Earlier shipping reports described tankers stranded and cargoes unable to cross the declared blockade line.[67][68] By October 5, according to Vortexa data published by Reuters on October 13, Iranian seaborne crude exports had remained at zero for several weeks; 43 million barrels were estimated to be trapped west of Hormuz.[44] The different trackers observe only the vessels and voyages that their methodology captures, but the collapse of exports is a better measure of immediate fiscal distress than the notional world oil price. For a state that depends on hydrocarbon receipts, a price spike offers little protection when the oil cannot be sold.

There is an irony here that goes to the center of the whole episode. During the first weeks, Iran profited from the disruption it had caused: with fewer competitors able to move cargoes through the strait, its exports held up through March and much of April while the price rose.[69] The chokepoint was a weapon as long as it was not also the lifeline of Iran itself. The blockade made it both.

For ordinary Iranians, the bill has arrived as higher prices, scarce goods and lost income. The central bank put year-on-year inflation at 83.1% in the month to June 21.[70] A street-market report of late August put the rial at around two million to the US dollar; this is a dated observation, and not a verified October rate.[71] The World Food Programme reported earlier that wheat-flour prices in May were 124% above their level of November 2025.[72] These indicators come from different dates and from imperfectly observed markets. They establish an extraordinary deterioration of living standards, but they do not justify the construction of a false single "current" inflation figure for October.

Recovery will be slow. Senior officials in Tehran have themselves warned that reconstruction may take more than a decade.[73] Sanctions will raise the cost of every imported turbine, Russia is in no position to supply reconstruction finance, and the Gulf neighbors that Iran has just attacked are hardly natural lenders.[64] The cost also does not stop at the borders of Iran. Iraq, which pays for Iranian gas with fuel oil, depends on it for 30% to 40% of its electricity, and American sanctions

pressure is now directed at Baghdad and Ankara to stop the payments.[68]

Iran is therefore not an exception to the argument of this paper, but its sharpest illustration. It is the one place where the military map and the economic map coincide, and even there the people who bear the cost are not those who took the decisions. Iranian households did not decide to close the strait, any more than they decided to be bombed or blockaded; they have lost their savings, their jobs and, for many, their homes. Their government can negotiate and reopen the strait; Iranian households have no comparable choice. This is the pattern of the war in its starkest form: power decides, and the bill is paid by those with the least say.

WHO ACTUALLY PAYS?

It is tempting, at this point, to add everything into a single figure in dollars. Such a total would be of limited use. The oil import bill of one country is the export revenue of another, a subsidy partly offsets a household loss already visible in inflation, and the counterfactual, a world economy without the war, cannot be observed.

It is more useful to ask who bears each layer of cost, and who can afford it. Iran bears the destruction and the collapse of its seaborne oil income. Gulf exporters bear lost output, higher security spending and expensive new export routes. Oil importers carry shocks to the terms of trade and to public finances, while their poorest households face the price of food and fuel. Europe pays in energy costs, inflation and weakened confidence; Americans pay at the pump and through the Treasury, even as some American producers gain. China has used its inventories to soften the import shock, but its reserves are also being drawn down.[8][41] Above all these sits the cost that is hardest to measure: the loss of confidence, and the investment, insurance and defense spending now required to manage uncertainty. No IMF table assigns a dollar value to faith in American security guarantees, but repriced insurance, revised security plans and delayed investment are the economic expression of this doubt.

The pattern is the one with which this paper began. The states able to start, escalate or sustain a war are not necessarily those that carry the heaviest burden in relation to their incomes. A poor importer of food and fuel has almost no voice in decisions about Iran and can still pay a very large price. Washington keeps an enormous military power, but its partners are less and less willing to assume that their interests will be reflected in its decisions. For the Gulf, this may mean complementary security arrangements; for Europe, a more determined search for strategic autonomy. Neither implies a rupture; both mean that the old arrangements will cost more to maintain. The distribution of power has hardly changed. The willingness to rely on it has.

None of this is entirely new: the oil shocks of the 1970s showed how a conflict in one region could transform inflation and growth in others.[74] What has changed is the density of the connections. Oil, gas, fertilizer, workers, remittances and food prices pass through closely linked systems, and security ties and diplomatic confidence form a second, less visible set. The war travels along both. For this reason, resilience, which was long considered a defensive virtue less attractive than efficiency, now appears differently. An alternative export terminal protects income; diversified suppliers and usable stocks give time. Targeted social protection shields vulnerable households without permanently subsidizing the consumption of everyone else. The October World Economic Outlook of the IMF suggests that temporary targeted transfers can be much less costly than economy-wide measures to suppress prices.[2] But resilience is also political. States need partnerships in

which they can believe and institutions that can act when the major powers disagree. The aim is not that every country should duplicate every capability, but that dangerous dependencies are reduced and cooperation is made credible.

Oil output can recover, and damaged facilities can be rebuilt. Confidence, once seriously doubted, returns much more slowly. Military power still decides who can wage war. It no longer decides who bears the bill, and this bill increasingly includes the trust that must be rebuilt before anything like normality returns.

Notes

1. Al Jazeera, "IMF cuts global growth forecast during Hormuz blockade," April 14, 2026, dating the start of US and Israeli strikes on Iran to February 28; World Bank, MENAAP Economic Update, October 2026.
2. IMF, World Economic Outlook, October 2026 (global growth of 3.1% in 2026 and 3.4% in 2027; headline inflation of 4.7% and 4.1%; temporary targeted transfers compared with economy-wide measures to suppress prices).
3. World Bank, MENAAP Economic Update and press release, October 6, 2026 (regional contraction of 2.1% in 2026 after growth of 3.3% in 2025; GCC contraction of 4.3%; growth of 4.3% for developing oil importers, up from 3.9%).
4. IMF, regional outlook for the Middle East, North Africa and Pakistan, October 22, 2026 (contraction of 1.3% in 2026; conditional rebound of 6.6% in 2027).
5. IMF, Press Briefing Transcript: Middle East and Central Asia Region, April 16, 2026: roughly one-fifth of global oil supply, above one-quarter of global LNG transit and one-third of global fertilizer trade pass through Hormuz. Prewar volume estimates vary by tracker; Kpler's baseline for crude and refined products is about 17 million barrels per day (Hellenic Shipping News, September 30, 2026).
6. S&P Global Commodity Insights, "Hormuz strait traffic tapers amid war as tankers await passage," March 9, 2026.
7. Semafor Gulf, "The Gulf faces uneven rebound from war downturn," August 27, 2026, reporting Dubai Airports figures.
8. IEA, Oil Market Report, October 2026 (Hormuz flows, bypass exports and Gulf crude exports in September; global supply in 2026; China's 78% share of the decline in non-OECD crude inventories; global observed stocks at the end of September; attacks on the East-West pipeline).
9. Reuters, October 8, 2026, on crude shipments through Hormuz (about 10.1 million barrels per day, or 74% of prewar levels).
10. Kpler data reported by Hellenic Shipping News (September 30, 2026): crude through Hormuz averaged 13.5 million barrels per day over seven days, matching Kpler's prewar baseline, while crude plus refined products stood at 14.2 million, about 80% of the prewar level; about 40% of Gulf crude now bypasses the strait by pipeline, against 17% before the war. Vortexa, cited by Bernama/dpa (September 29, 2026), put crude and condensate at about 80% of prewar flows, all oil products at 65–70%, and credited the expansion of a US Navy-protected shuttle fleet.

11. IMF, World Economic Outlook, April 2026 (reference-scenario oil price of US\$82.22 a barrel in 2026); IMF, Press Briefing Transcript: Middle East and Central Asia Region, April 16, 2026 (MENAP growth of 1.4%, a 2.3 percentage point downgrade from October; normalization assumed by mid-2026).
12. World Bank, Global Economic Prospects, June 2026.
13. IMF, World Economic Outlook, October 2026, country database (real GDP growth projections for the Gulf states, Egypt, Morocco, Pakistan, Jordan, Tunisia, Iran, the United States and the euro area).
14. IMF, Press Briefing Transcript: Middle East and Central Asia Region, April 16, 2026: output losses of an estimated 13 million barrels per day; Saudi Arabia activated its East-West pipeline to divert flows.
15. QatarEnergy statement of March 19, 2026, reported by S&P Global Commodity Insights, "QatarEnergy expects 3–5 years to repair LNG facilities after strikes": LNG trains 4 and 6 (12.8 million metric tons a year) damaged, about 17% of Qatar's LNG export capacity.
16. QatarEnergy, estimate of the chief executive, September 2026, on the repair period of roughly three years and the 2027 start of a separate expansion train.
17. World Bank, MENAAP Economic Update, October 2026, on the concentration of costs in Gulf oil exporters; on aviation, logistics and tourism, IMF, Press Briefing Transcript: Middle East and Central Asia Region, April 16, 2026.
18. On the US role in Gulf security and its limits, see F. Gregory Gause III, *The International Relations of the Persian Gulf* (2010).
19. Euronews, "Qatar and UAE say Gulf cannot rely on US alone for region's security," September 8, 2026.
20. AFP, reported by the Oman Observer, September 8, 2026 (Al Ansari); Reuters, reported by ThePrint, September 7, 2026 (Gargash).
21. IMF, Regional Economic Outlook Update: Middle East and Central Asia, April 2026.
22. World Bank, Commodity Markets Outlook, April 2026, as reported by Anadolu Agency, April 28, 2026.
23. World Bank, Commodity Markets (Pink Sheet), monthly update of October 6, 2026.
24. IMF, Press Briefing Transcript: Middle East and Central Asia Region, April 16, 2026.
25. EnterpriseAM, "The Iran conflict has put the Gulf's USD 124 bn remittance machine under strain," June 23, 2026, citing Bloomberg.
26. IMF, Regional Economic Outlook: Europe, April 2026; IMF, European Department Press Briefing (Alfred Kammer), April 17, 2026.
27. IMF, Euro Area Policies: 2026 Article IV Consultation, IMF Country Report, July 2026.
28. IMF, Regional Economic Outlook: Europe, October 2026.
29. Eurostat, flash estimate of euro-area inflation, September 2026.
30. IEA, warning of October 26, 2026, on energy markets in 2027.
31. IMF, Regional Economic Outlook: Asia and Pacific, April 2026; IMF, Press Briefing Transcript: Asia-Pacific Department, April 16, 2026.

32. IMF, Regional Economic Outlook: Asia and Pacific, October 2026.
33. World Bank, South Asia Economic Update, October 6, 2026, as reported by Reuters (Qatar Tribune, October 8, 2026).
34. World Bank, "World Bank Support to Help Navigate Fuel Market Volatility in Bangladesh," factsheet, May 18, 2026 (approved May 15).
35. World Bank, "Bangladesh: World Bank Provides US\$1.1 Billion Emergency Support to Safeguard Food Security, Livelihoods," press release, June 26, 2026.
36. IMF, "IMF Staff Concludes Visit to Sri Lanka," press release, June 30, 2026 (inflation and the 100 basis point rate rise); Reuters, reported by MarketScreener, March 25, 2026 (fuel prices raised about 35% in March).
37. Axios, "The China surprise: How it has kept a lid on global oil prices," May 29, 2026.
38. [OilPrice.com](#), "China Draws Down Billion-Barrel Stockpile as Iran War Cuts Imports in Half," June 2, 2026, citing Kpler data reported by Reuters; the inventory estimate of 1 billion to 1.4 billion barrels is from The National, "Chart of the week: China's Iranian oil imports nearly halve since war," August 26, 2026.
39. CNBC, "China is helping to cushion global oil prices below US\$100 — but analysts warn it won't last," June 8, 2026 (J.P. Morgan's three-quarters share; Société Générale's warning; the 11.7 million to just under 9 million barrels figure). Trackers measure differently, which is why the size of the cut varies between sources.
40. Reuters, "China energy imports drop in April amid Iran war as fuel exports hit decade low," May 9, 2026: crude imports at their lowest since 2022; China imports roughly half its crude from the Middle East.
41. Reuters, analysis of Chinese customs and refinery data, October 21, 2026 (September imports, refinery runs, implied stock draws and onshore stocks).
42. Al Jazeera, "How China's 'teapot' refineries are cushioning it from Iran war oil crisis," April 3, 2026, citing Kpler.
43. The National, "US sanctions threaten China's Iranian oil lifeline as Hormuz blockade cuts imports 48%," August 25, 2026, citing Kpler data.
44. Vortexa assessment reported by Reuters, October 13, 2026 (Iranian seaborne crude exports at zero since the second week of September; barrels on tankers and trapped west of Hormuz; Russian crude replacing Iranian barrels in Chinese purchases).
45. Reuters, "Iranian oil offers to Chinese buyers fall as US blockade bites," reported by Hydrocarbon Processing, August 2026, citing Kpler.
46. EFG International, summary of the IMF's April 2026 World Economic Outlook (net-exporter terms-of-trade benefit for the United States); Reuters, reported by The News, July 9, 2026 (IMF leaves US growth at 2.3% and cuts euro-area growth to 0.9%).
47. Reuters, reported by HumanProgress, "US shale oil surge reinforces America's global energy leadership," May 2026 (crude exports and the prewar comparison); Ocean News & Technology, June 2026 (record LNG exports); BOE Report, August 4, 2026 (shale profits).
48. NBC News, "The U.S. economy before and after the Iran war, in five charts," September 2026 (fuel prices; the Congressional Budget Office estimate of at least 0.5 percentage points added to inflation).

49. AAA, national gasoline and diesel price data, including the diesel record of September 22, 2026.
50. AAA, national averages for regular gasoline and diesel, October 26, 2026.
51. US Bureau of Labor Statistics, Consumer Price Index, September 2026 (12-month change of 3.7%; monthly change of 0.6%; gasoline index up 9.1%).
52. Fox Business, "Federal Reserve hikes interest rates for first time since 2023 amid stubborn inflation," September 16, 2026; Reuters, reported by Ground News, September 2026 (committee projections and the chairman's exchange with the president).
53. Federal Reserve, Federal Open Market Committee decision of September 16, 2026 (policy-rate range of 3.75–4.00%; vote of 12–0).
54. US Central Command figures, reported by the Washington Post and Bloomberg Government, September 2026; Bloomberg Government, "Pentagon Gives US\$43.6 Billion Iran Cost Estimate to Congress," September 18, 2026.
55. Congressional Budget Office estimates, as reported by Reuters (Profit, Pakistan Today, July 22, 2026), AFP (Ahram Online, June 25, 2026) and Arab News (July 22, 2026); base rebuilding excluded.
56. CNN, "With midterms approaching, Americans' confidence in the economy is in a tailspin," October 9, 2026.
57. Associated Press, "Rampant Inflation (46%), War Worries, Causing Stress Among Iranians," February 25, 2026 (inflation, the 2015 exchange rate and the bazaar protests).
58. Al Jazeera, "IMF cuts global growth forecast during Hormuz blockade," April 14, 2026 (Iran's forecast cut by 7.2 points to a contraction of 6.1%); IMF country page for Iran, reflecting the July 2026 World Economic Outlook Update (contraction of 5.4%; inflation of 68.9%).
59. IMF, World Economic Outlook, October 2026, country database (Iran: average consumer-price inflation of 78.6% in 2026 and 50.6% in 2025).
60. Federal Reserve database series drawing on the IMF's October 2026 projections for Iranian consumer-price inflation.
61. Foundation for Defense of Democracies, "Evaluating the Economic Damage to Iran From Operation Epic Fury: An Initial Estimate," April 23, 2026 (informal sector); CSIS, "Iran's Food Crisis," 2026 (the internet blackout).
62. Al Jazeera, "Iran says US\$270bn war loss must be compensated, as fresh talks with US loom," April 15, 2026 (an official Iranian claim); Foundation for Defense of Democracies, "Evaluating the Economic Damage to Iran," April 23, 2026 (a think tank critical of the Iranian government).
63. Financial News, "Damage to energy infrastructure from Iran war estimated at 86 trillion won... at least two years needed for recovery," April 16, 2026, citing Rystad Energy and the IEA.
64. Foundation for Defense of Democracies, "Iran's Economic Catastrophe," June 26, 2026 (South Pars, the US\$70 billion investment and the limits on Russian financing); Financial News, April 16, 2026 (Israel's strike on South Pars on March 18 and Iran's retaliation against Qatar).
65. dpa, reported by The Public, "During the war, Iran suffered significant damage to its military and civilian infrastructure" (health ministry figures); Al Jazeera, April 15, 2026 (government spokeswoman on compensation).

66. Hellenic Shipping News, "Iran's export floor disappears as crude falls to 210kbd," citing Vortexa (blockade from April 13, a period of easing, restrictions returning in July); Financial News, "Iran's Oil Dollars Run Dry as U.S. Maritime Blockade Deepens Economic Crisis," September 8, 2026 (the June memorandum and temporary reopening; citing the Wall Street Journal and Kpler).
67. Reuters, reported by Oman Observer, September 5, 2026 (Kharg handled 90% of Iranian crude exports); Semafor Gulf, "Iran's export lifeline runs dry as US defends blockade," August 12, 2026, citing Windward (no departures since July 31).
68. AJEL, "US blockade halts Iranian oil exports from Jask port," September 7, 2026, citing Kpler; on Iranian gas supplies to Iraq and Turkey and sanctions pressure on payment.
69. Al Jazeera, "How the US naval blockade has bled Iran of nearly US\$6bn in oil revenues," June 5, 2026.
70. Euronews, "Iran's inflation spiral deepens as rial slides and tensions rise," June 30, 2026, citing the Central Bank of Iran.
71. ARY News, "Iranian Rial plunges past 2 million per US Dollar: reports," August 31, 2026, citing Iran International.
72. CSIS, "Iran's Food Crisis," 2026, citing the World Food Programme.
73. CNBC, "These charts show how Iran's economy is in freefall," April 23, 2026.
74. James D. Hamilton, "Oil and the Macroeconomy since World War II," *Journal of Political Economy* 91, no. 2 (1983); Daniel Yergin, *The Prize* (1991).

ABOUT THE AUTHOR



FERID BELHAJ

Ferid Belhaj took up the position of World Bank Vice President for Middle East and North Africa on July 1, 2018. Prior to this, he served as the Chief of Staff of the President of the World Bank Group for 15 months. From 2012 to 2017, Mr. Belhaj was World Bank Director for the Middle East, in charge of work programs in Lebanon, Syria, Jordan, Iraq and Iran, based in Beirut, Lebanon. In this capacity, he led the Bank's engagement on the Syrian refugee crisis and its impact on the region, including the creation of new financing instruments to help countries hosting forcibly displaced people; the ramping up of the Bank drive towards the reconstruction and recovery of Iraq during and after the ISIS invasion and the scaling up of the Bank's commitments to Lebanon and Jordan.

Before taking up his Mashreq assignment, Mr. Belhaj served as World Bank Director for the Pacific Department (2009-2012), where he developed a regional strategy that scaled up Bank engagement in small and fragile states, and tripled lending operations of the International Development Agency, one of the five institutions under the umbrella of the World Bank Group that provides interest-free loans and grants for Low-Income Countries. From 2007 to 2010, Mr. Belhaj was the World Bank's Special Representative to the United Nations (UN) in New York, where he engaged with various UN agencies on a range of programs, mainly climate change, the Millennium Development Goals, fragile and post-conflict states and the global financial and food crises.

ABOUT THE POLICY CENTER FOR THE NEW SOUTH

The Policy Center for the New South (PCNS) is a Moroccan think tank aiming to contribute to the improvement of economic and social public policies that challenge Morocco and the rest of Africa as integral parts of the global South.

The PCNS pleads for an open, accountable, and enterprising "new South" that defines its own narratives and mental maps around the Mediterranean and South Atlantic basins, as part of a forward-looking relationship with the rest of the world. Through its analytical endeavours, the think tank aims to support the development of public policies in Africa and to give the floor to experts from the South. This stance is focused on dialogue and partnership and aims to cultivate African expertise and excellence needed for the accurate analysis of African and global challenges and the suggestion of appropriate solutions.

All opinions expressed in this publication are those of the author.

Policy Center for the New South

Rabat Campus of Mohammed VI Polytechnic University,
Rocade Rabat Salé - 11103
Email : contact@policycenter.ma
Phone : +212 (0) 537 54 04 04
Fax : +212 (0) 537 71 31 54

www.policycenter.ma

