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Conflict and its shockwaves: escalation of a crisis in the Arab region

A scenario-based assessment

E/ESCWA/CL3.SEP/2026/Policy brief.1

Key findings

1

The economic cost of the current war is rising rapidly. In the first two weeks, the conflict already caused about $63 billion in economic losses across the Arab region, while broader financial disruptions across energy markets, maritime trade, aviation and financial systems continue.

2

A prolonged conflict could cost the Arab region up to $150 billion. If the war lasts for one month, regional losses could reach nearly $150 billion (3.7 per cent of gross domestic product). The major economic and financial losses stem from the Gulf Cooperation Council (GCC) subregion, while energy-importing economies face rising inflation, higher fuel import bills and mounting fiscal pressures.

3

Critical global trade routes are already severely disrupted. Shipping through the Strait of Hormuz has fallen by up to 96–97 per cent, with disrupted cargo flows worth about $2.4 billion per day. Even the short disruptions of the past two weeks have cost around $30 billion in trade losses, underscoring the global importance of the region's maritime corridors.

4

Structural vulnerabilities amplify the shock and deepen humanitarian pressures. Many Arab economies entered the crisis with high debt and limited fiscal space. Even before this war, 210 million people (43 per cent of the region's population) lived in conflict-affected settings, including 82 million needing humanitarian assistance. These risks and vulnerabilities are likely to intensify.

5

Lebanon faces the most severe economic and humanitarian consequences. The recent escalation that erupted on 2 March 2026 took the violence to a more intense level. If escalating strikes continue, economic losses could rise sharply as attacks increasingly disrupt infrastructure, trade and essential services. These shocks hit an economy that had already contracted by nearly 40 per cent since 2019. Furthermore, by 11 March 2026, the strikes had claimed 634 lives and displaced over 816,000 people in need of assistance.

Introduction

Escalating war and its shockwaves, including the war affecting Lebanon, represent a major geopolitical shock with significant socioeconomic implications for the Arab region. The current conflict risks disrupting energy markets, maritime trade routes, aviation networks, supply chains and financial flows, and heightening humanitarian pressures. Given the region's central role in global energy production and transport corridors, instability can rapidly transmit through global markets while affecting livelihoods and economic activity.

The present brief provides a scenario-based assessment of the potential impacts of the war on Arab economies, examining how different durations and intensities of hostilities could affect energy, trade, logistics systems, financial markets and regional economic stability.

1. Pre-existing structural vulnerabilities shaping the impact of war

The socioeconomic impact of conflict in the Arab region is amplified by pre-existing structural vulnerabilities across the region, including in GCC countries and major economies such as Egypt. The region occupies a strategic position in global energy markets and international transport networks, making it particularly sensitive to geopolitical disruptions affecting maritime trade routes and energy flows.

The GCC subregion hosts some of the world's largest oil and gas exporters and contains critical maritime chokepoints linking Asian, European and African markets. The Strait of Hormuz alone handles around 20 million barrels of oil per day, representing roughly one quarter of global seaborne oil trade. Together with the Red Sea corridor, these routes form essential arteries for global energy and goods trade. Disruptions to these corridors can rapidly increase shipping costs, insurance premiums and supply-chain risks, while generating inflationary pressures and fiscal challenges across many Arab economies.

At the same time, many Arab countries face limited fiscal space, high public debt and rising external financing pressures, particularly among energy-importing economies such as Egypt and several middle-income countries. These macroeconomic constraints reduce Governments' capacity to absorb prolonged geopolitical disruptions while maintaining social spending and economic stability.

Humanitarian and social vulnerabilities are also significant. Prior to the current escalation, conflict-affected Arab countries were home to approximately 210 million people, representing about 43 per cent of the region's population.[1] Among them, 82 million required humanitarian assistance.[2] Moreover, the region hosted 31.1 million internally displaced persons (IDPs), accounting for roughly 40 per cent of the global IDP population,[3] and 6.2 million refugees, about 20 per cent of the global refugee population.[4] Humanitarian needs have also risen steadily, increasing from 59 million people in need in 2018 to 82 million in 2026.[5]

Humanitarian response efforts depend heavily on a relatively concentrated donor base. In 2025, humanitarian assistance from GCC countries reached approximately $4.44 billion, with Qatar, Saudi Arabia and the United Arab Emirates making most contributions. Overall, GCC donors provided about 43 per cent of total humanitarian aid received by Arab conflict-affected countries.[6]

Socioeconomic vulnerabilities have intensified in several crisis-affected countries. Poverty has risen sharply in Lebanon and the State of Palestine, while Somalia, the Sudan and Yemen continue to face chronically high poverty levels.

Regional unemployment remained above 11 per cent in 2024, among the highest globally, with high youth unemployment particularly among women and persons with disabilities.

Against this backdrop, the current escalation presents risks that extend beyond immediate economic disruptions. Rising living costs, weaker job creation and increasing pressure on already strained social protection systems could deepen poverty and inequality while exacerbating an already chronic humanitarian crisis. These pressures may also undermine food and water security and risk reversing progress toward the Sustainable Development Goals across the Arab region.

2. Scenarios of escalation and transmission channels

The assessment of the economic costs of the war uses a scenario-based approach that reflects the duration and intensity of the escalation. Preliminary analysis captures estimates of the impacts observed during the first two weeks of the conflict, while scenario A considers the effects if the war extends to one month. Scenario B represents a more severe escalation in which the war persists for a year or longer, and generates systemic and potentially catastrophic economic and humanitarian consequences. These scenarios reflect progressively intensifying conflict dynamics and transmission channels, which amplify economic impacts as the duration of the conflict increases.

Three main types of shocks are considered in this scenario-based analysis. **Financial shocks** emerge through rising geopolitical risk, commodity price volatility and financial market reactions. **Operational shocks** affect aviation routes, maritime transport and logistics systems. **Systemic shocks** occur when disruptions affect critical global systems, such as strategic maritime corridors and energy supply chains. The scenarios therefore move gradually from localized operational disruptions towards broader regional economic stress and, in the most extreme case, systemic disruption.

Initial assessment during the first two weeks of war

During the first two weeks of the war, the conflict generated financial and operational shocks across the region. Financial markets reacted through increased geopolitical risk, volatility in oil and gas prices, and widening sovereign spreads in several regional economies. Operational disruptions also emerged, including airspace restrictions, aviation rerouting, shipping delays and higher war-risk insurance premiums affecting regional transport and logistics networks. These disruptions have begun to affect sectors closely linked to regional connectivity, particularly aviation, tourism and logistics. While humanitarian pressures remained relatively limited during this initial period, demand for humanitarian assistance has begun to increase in affected areas.

Scenario A: Prolonged regional escalation – financial and operational shocks (1 month)

If the war persists for one month, disruptions lead to persistent volatility in energy prices, continued closure of the Strait of Hormuz, and disruptions to maritime routes in the Red Sea and Eastern Mediterranean. Under this scenario, higher transport and insurance costs weaken economic activity across several sectors and supply chains. Non-oil sectors in GCC economies slow due to regional instability, while import-dependent economies face persistent inflationary pressures, increasing fiscal stress and potential volatility in remittance inflows. Economic disruption spreads across multiple countries, reflecting the interconnected nature of regional trade, energy and financial systems. Reliance on humanitarian assistance increases, but its provision becomes increasingly more expensive, with possible delays in delivery.

Scenario B: Systemic regional shock – strategic trade and energy disruption (one year)

In this most severe scenario, the conflict extends beyond a month to one year, escalating major disruption in critical maritime and energy corridors, particularly the Strait of Hormuz and Red Sea shipping routes. Under this scenario, the shock becomes systemic, affecting global oil and gas supply chains and generating widespread supply-chain disruptions across trade routes linking Asia, Europe and the Middle East.

Humanitarian pressures could intensify across multiple countries. Declining fiscal resources and severe delivery constraints may weaken humanitarian operations, while protracted displacement and return migration could sharply increase the number of people dependent on assistance beyond the existing regional baseline. The resulting economic deterioration could heighten social tensions, strain host communities and increase pressure on Governments already facing limited fiscal space and constrained capacity to provide essential services. Although the probability of such a scenario remains relatively low, its potential impact underscores the importance of regional preparedness.

3. Assessing economic impacts across war scenarios

The estimates draw on daily data from five real-time sources to assess impacts across key affected sectors: **energy markets, maritime trade, aviation and financial markets**, complemented by a macroeconomic model impact assessment of economic output and inflationary pressures. The cost of economic output in Lebanon is also estimated, given the country's direct exposure to the escalation.

The economic estimates are preliminary and separated by duration of the war: initial assessment for the first two weeks, and for one month in scenario A. Scenario B is not costed as it represents an early and low-probability stage at which such costs cannot yet be reliably assessed.

A. Macroeconomic impact

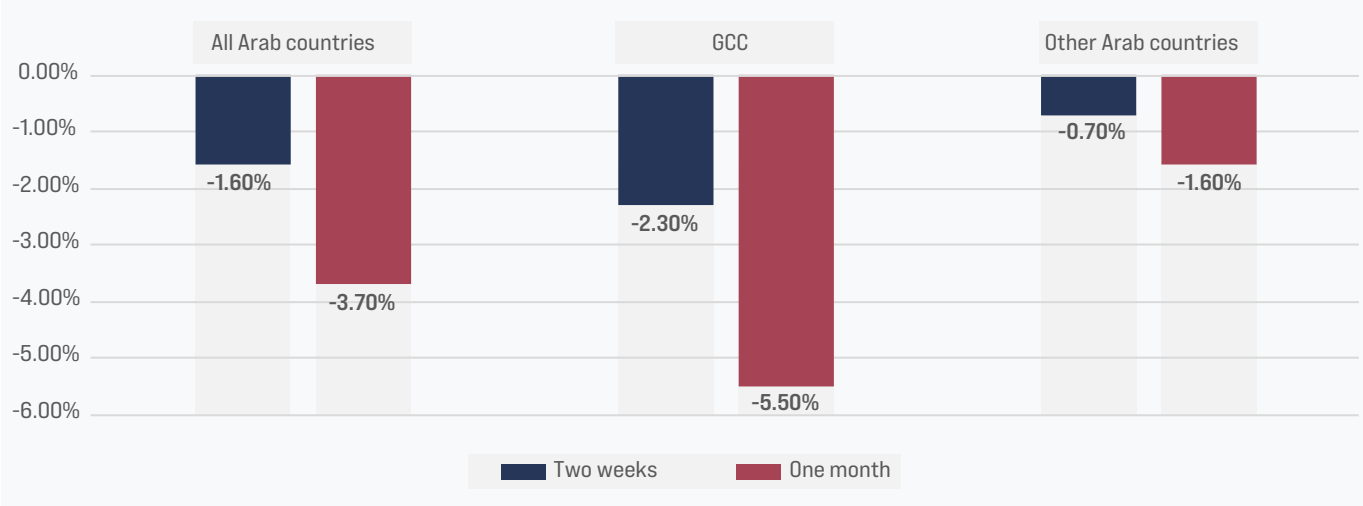
The macroeconomic impact of the war[7] is expected to intensify with the duration of the escalation. Simulations using a global computable general equilibrium (CGE) model suggest already noticeable losses during the two weeks since the war started. Though oil price rises benefit oil and gas exporters, economic activity weakens through reduced trade flows, lower tourism demand and declining investor confidence, particularly in sectors linked to regional connectivity such as aviation, logistics and financial services.

In the first two weeks of the war, gross domestic product (GDP) is projected to decline by 1.6 per cent, equivalent to approximately $63 billion in regional GDP compared with the level expected before the war. GCC economies experience a deeper contraction of about 2.3 per cent, while other Arab countries see a decline of around 0.7 per cent relative to the pre-war baseline.

Escalation of the war to one month (scenario A) significantly weakens economic growth, resulting in a loss of 3.7 per cent of GDP for the Arab region (equivalent of $146 billion) compared with the pre-war baseline GDP. The sharpest GDP contraction is in the GCC economies at about 5.5 per cent, while other Arab countries experience a decline of around $33 billion, equivalent to 1.6 per cent of their GDP.[8]

Inflationary pressures increase unevenly across the region, rising up to five times higher than the baseline estimate of 2026. Consumer price inflation increases more strongly in middle-income economies, particularly Egypt and Lebanon, where consumption

Figure 1. Losses to GDP (two weeks) and scenario projection (one month) in Arab subregions (Percentage changes compared with the pre-war baseline GDP)



Source: ESCWA estimates based on global CGE model.

baskets are highly dependent on imported food and energy and monetary policy buffers are more limited.

Rising energy prices place growing fiscal and external pressures on Mashreq and Maghreb countries. Many countries attempt to cushion households from higher living costs through fuel subsidies, electricity tariff controls and food support programmes. While these measures help protect vulnerable households, they increase public expenditures and widen fiscal deficits. For energy-importing economies, higher oil prices also raise import bills and weaken current account balances.

At $100 per barrel of oil, the additional annual oil import cost amounts to about $6.8 billion for three countries (Egypt, Lebanon and Tunisia), compared with levels assumed in their national budgets for 2026. This shock is equivalent to about 5 per cent of government budgets in Egypt and Tunisia, and about 18 per cent in Lebanon, reflecting the significant fiscal burden for oil-importing economies with limited fiscal space.

The war has also created significant direct exposure for several GCC countries through missile and drone attacks targeting strategic infrastructure and population centres, prompting an intensified regional air-defence response. The scale of these defensive operations reflects a substantial and immediate financial and operational burden associated with missile interception, air-defence deployment and heightened security measures.

B. Energy market disruptions

Energy markets represent the most immediate and globally visible transmission channel of the conflict. Following the escalation, global oil markets reacted sharply. Brent crude prices surged from $72.48 per barrel on 27 February 2026 to $102.28 by 13 March 2026, representing a 41.1 per cent increase within 13 days of war. Moreover, risks to production and export infrastructure heightened in the GCC subregion.

Natural gas markets experienced even greater volatility. The North-West European liquefied natural gas (LNG) benchmark rose from approximately $28.80/MMBtu to $50.95/MMBtu, representing an 80 per cent increase following disruptions to Qatari LNG production at Ras Laffan and Mesaieed, which together account for roughly 19 per cent of global gas supply.

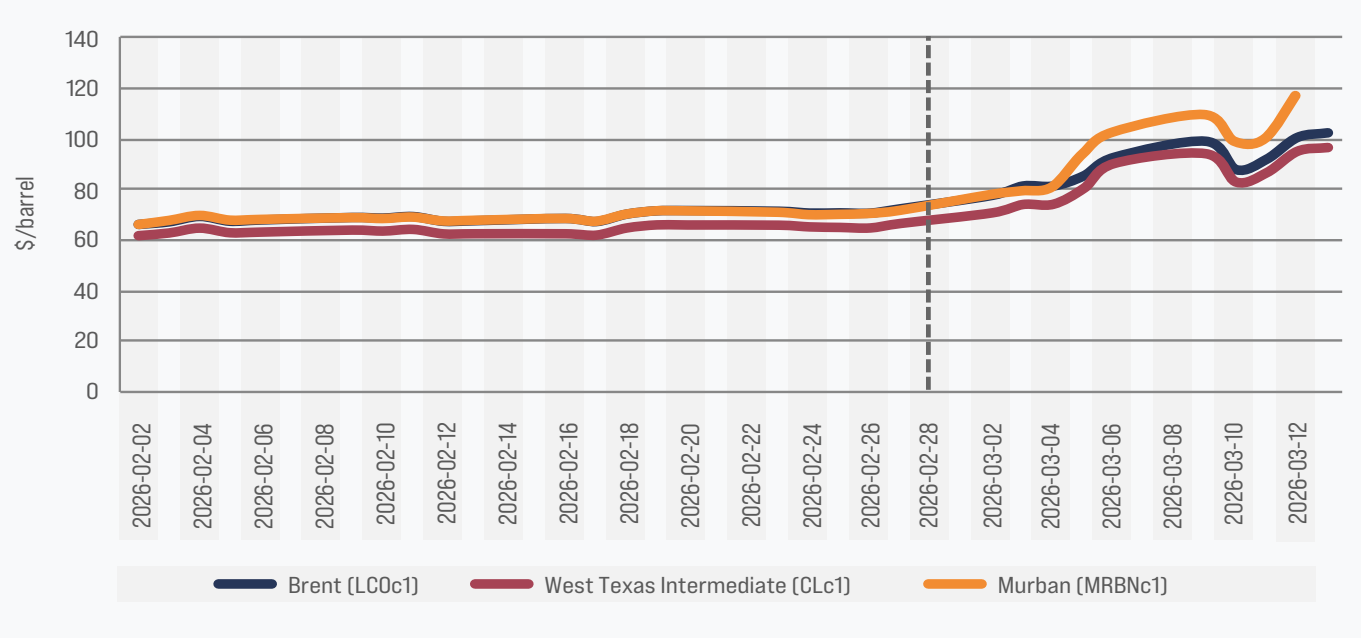
The primary risk currently arises from transport disruption rather than production loss. The Strait of Hormuz handles approximately 20 million barrels of oil per day, representing nearly 25 per cent of global seaborne oil trade,[9] as well as a large share of global gas exports. Only Saudi Arabia and the United Arab

Emirates possess pipeline infrastructure capable of partially bypassing the Strait, with combined capacity estimated at 3.5–5.5 million barrels per day, far below total export volumes.

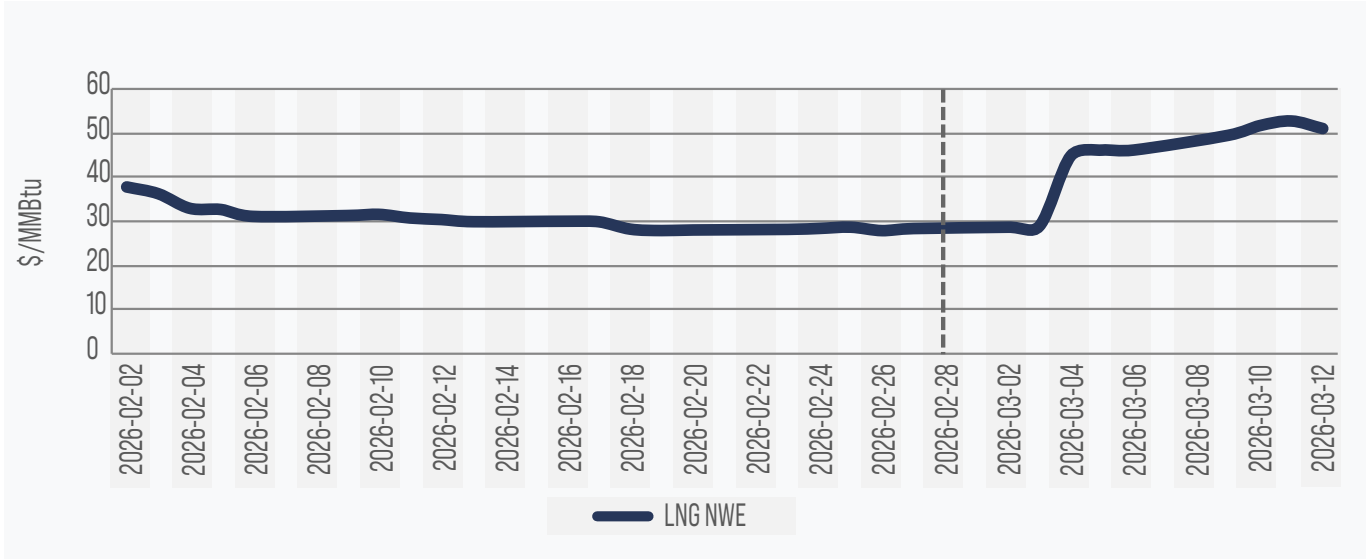
As a result, disruptions to maritime traffic, even without direct damage to energy infrastructure, can delay energy exports and increase global price volatility. **For net oil-exporting economies,** higher oil prices may generate temporary fiscal windfalls. However, these gains could be offset by delayed shipments, higher insurance costs and increased security expenditures. **For Arab net oil-importing economies,** rising global energy prices may increase fiscal and external vulnerabilities by raising import bills and subsidy costs.

Figure 2. Energy futures pre and post strikes

A. Crude oil futures (Daily close)



B. European LNG (North-west Europe)



Source: LSEG Terminal, Daily closing prices.

Note: Vertical dashed line: 28 February 2026 strikes.

C. Maritime trade disruption

The conflict has also generated severe disruptions to maritime trade flows through the Strait of Hormuz. Daily vessel arrivals at Gulf ports declined from 95–137 vessels per day before the strikes to around 5 vessels per day by early March 2026, representing a decline of approximately 96–97 per cent in shipping activity.

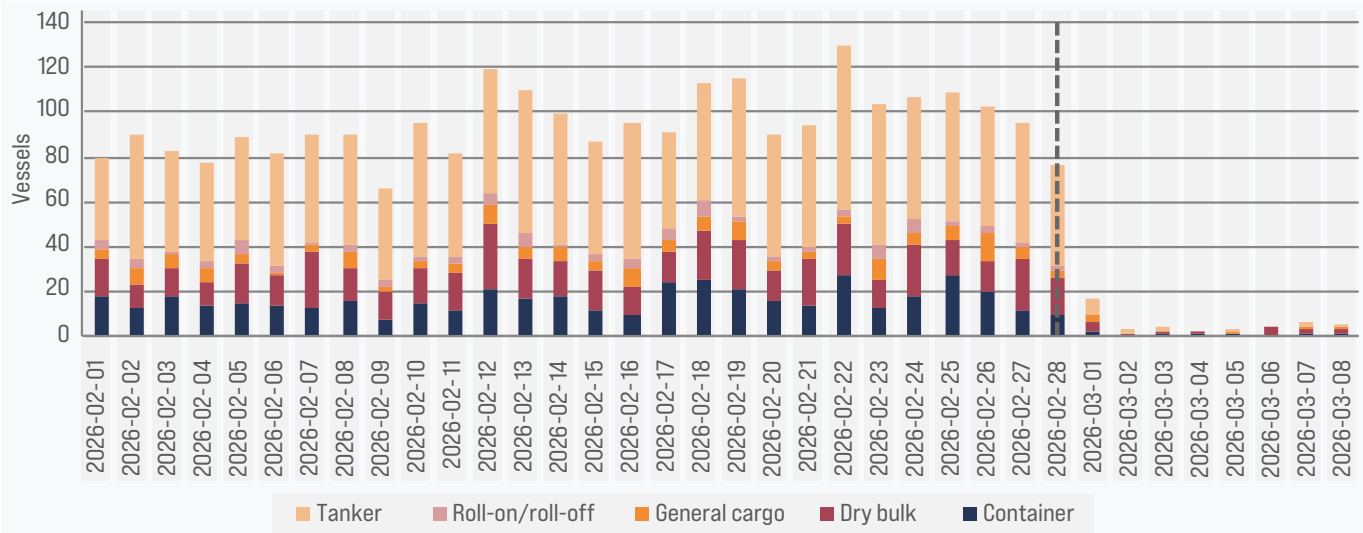
Trade volume through the Strait has also declined sharply. The seven-day moving average of trade flows fell from 3.57 million deadweight tons per day in 2025 to approximately 0.06 million tons, representing a 98 per cent reduction in maritime trade throughput.

Based on average cargo values for crude oil, gas, containerized goods and bulk commodities, the implied economic value of disrupted trade is estimated at approximately $2.4 billion per day. For the first two weeks of the war and under an escalation scenario of one month, cumulative trade losses could reach:

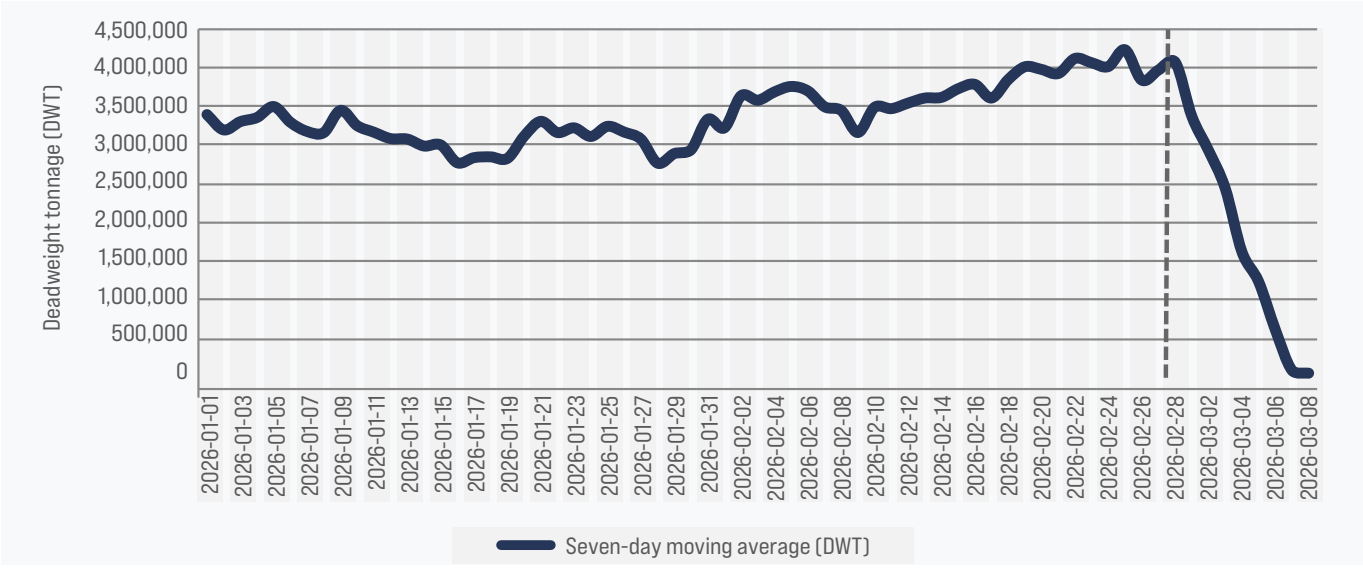
- **Around $30 billion in the first two weeks.**
- **Around $55–60 billion within one month.**

Figure 3. Maritime trade disruption

A. Daily vessel passage by type: Strait of Hormuz



B. Hormuz Strait trade volume (Seven-day moving average)



Source: International Monetary Fund, PortWatch.

Note: Vertical dashed line: 28 February 2026 strikes.

D. Aviation networks disruption

Transport and logistics networks represent one of the most immediate operational channels through which the conflict affects regional economies. Airspace closures and security risks forced airlines to suspend operations across major Gulf aviation hubs. Between 28 February and 12 March 2026, a total of 18,441 flights were cancelled across nine major regional airports, namely Dubai, Doha, Abu Dhabi, Kuwait, Bahrain, Riyadh, Jeddah, Muscat and Beirut.

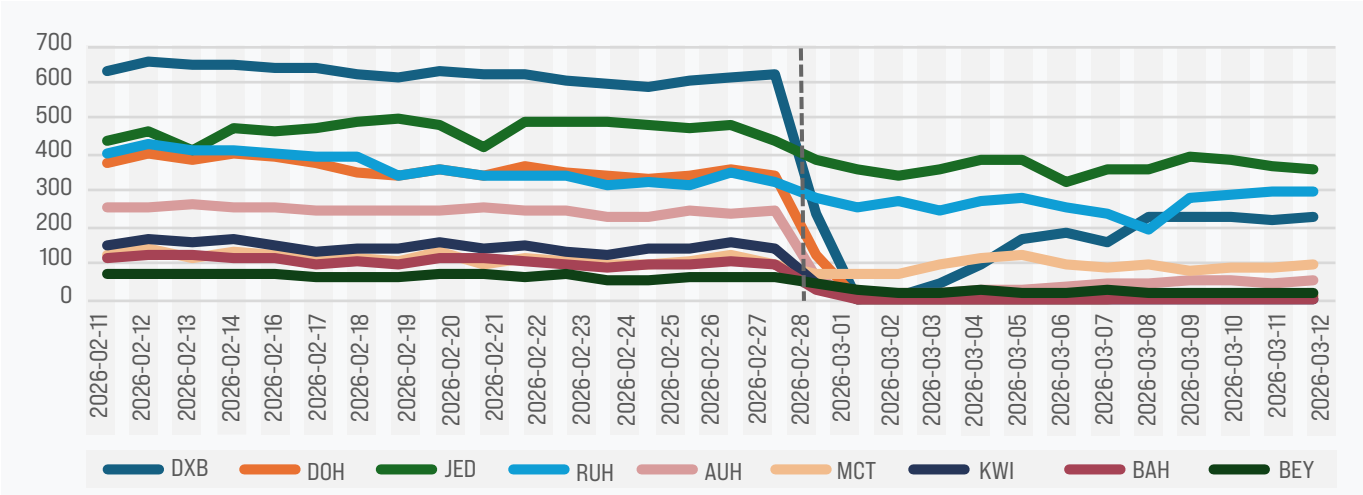
Dubai International Airport experienced one of the largest disruptions, with daily flights falling from approximately 626 per day before the conflict to zero on 1 March 2026, before gradually recovering to around 36 per cent of normal operations by 8 March 2026 and to 55 per cent by 12 March 2026. Doha airport experienced a complete shutdown for several days, while Kuwait and Bahrain airports suspended operations entirely during the early stages of the war.

Using airport-specific revenue estimates based on airline financial data, the estimated airline revenue loss from cancelled flights during the first 12 days of the conflict is approximately $1.89 billion, equivalent to an average of around $102,000 per cancelled flight. If disruptions persist, cumulative losses could reach:

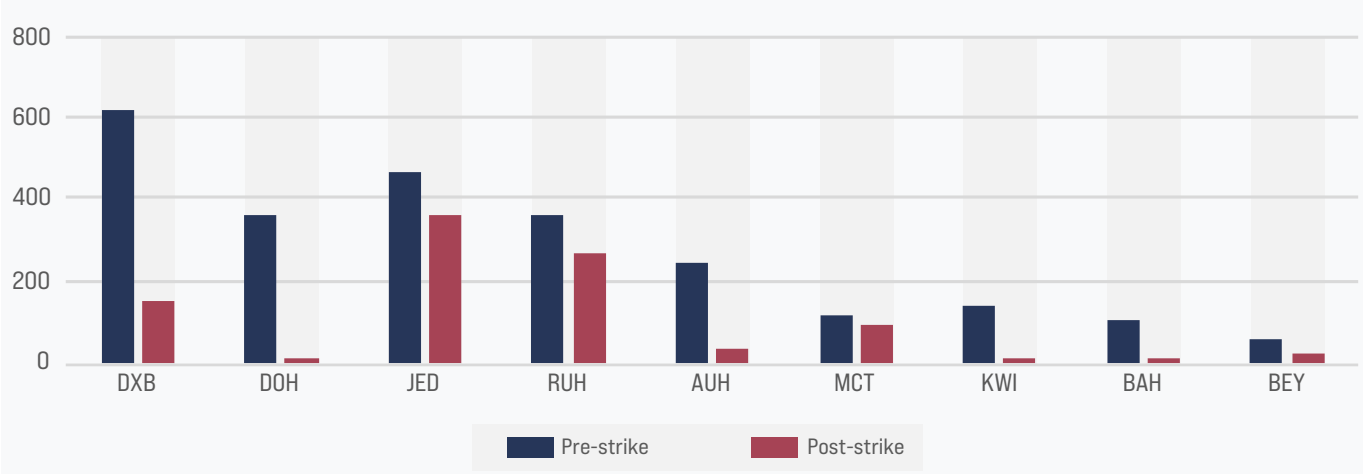
- **Around $2.2 billion in the first two weeks.**
- **Around $3.6 billion within one month.**

Figure 4. Aviation disruption across GCC and regional airports

A. Tracked flights from selected airports



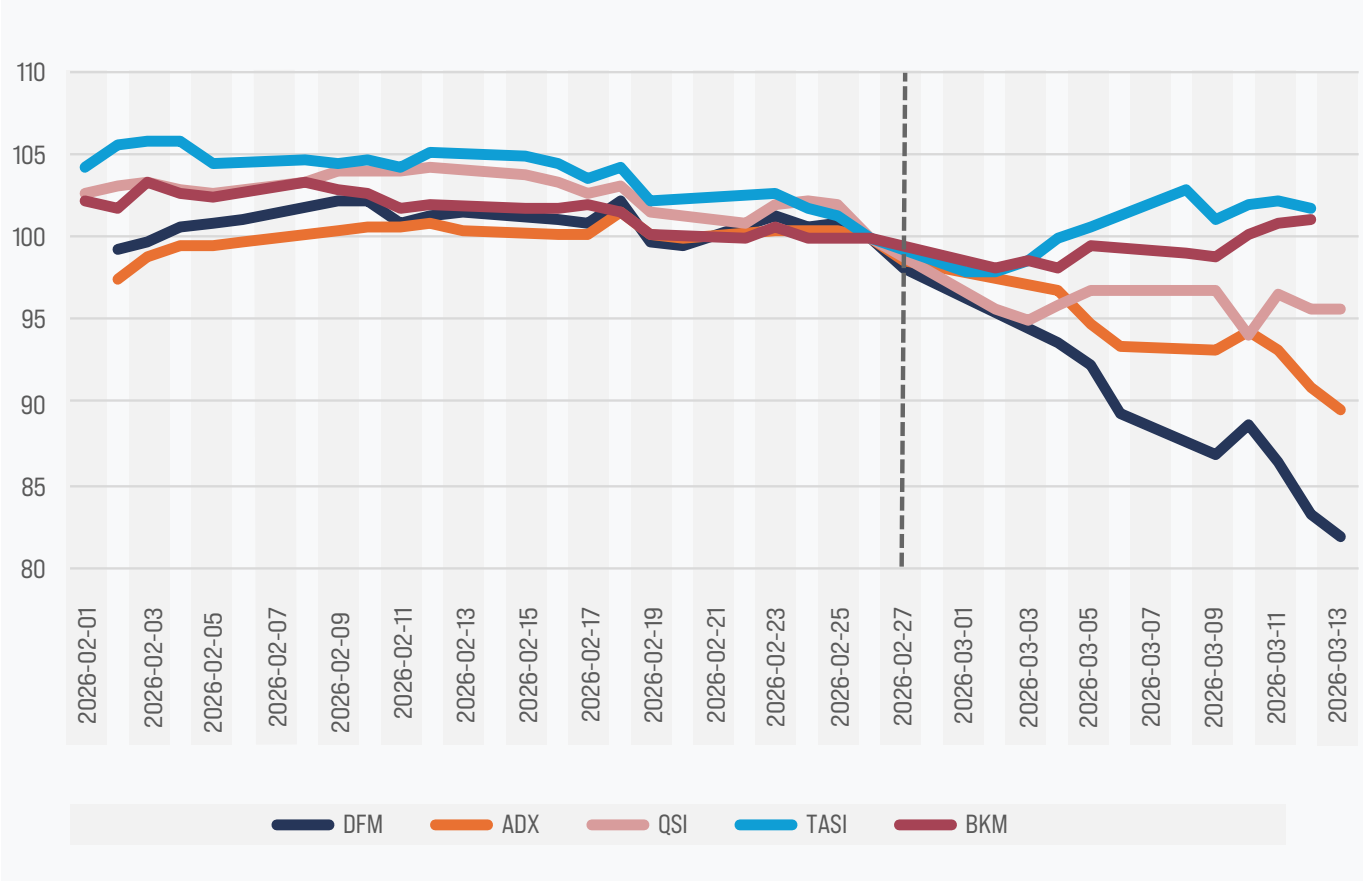
B. Pre-strike averages versus post-strike average



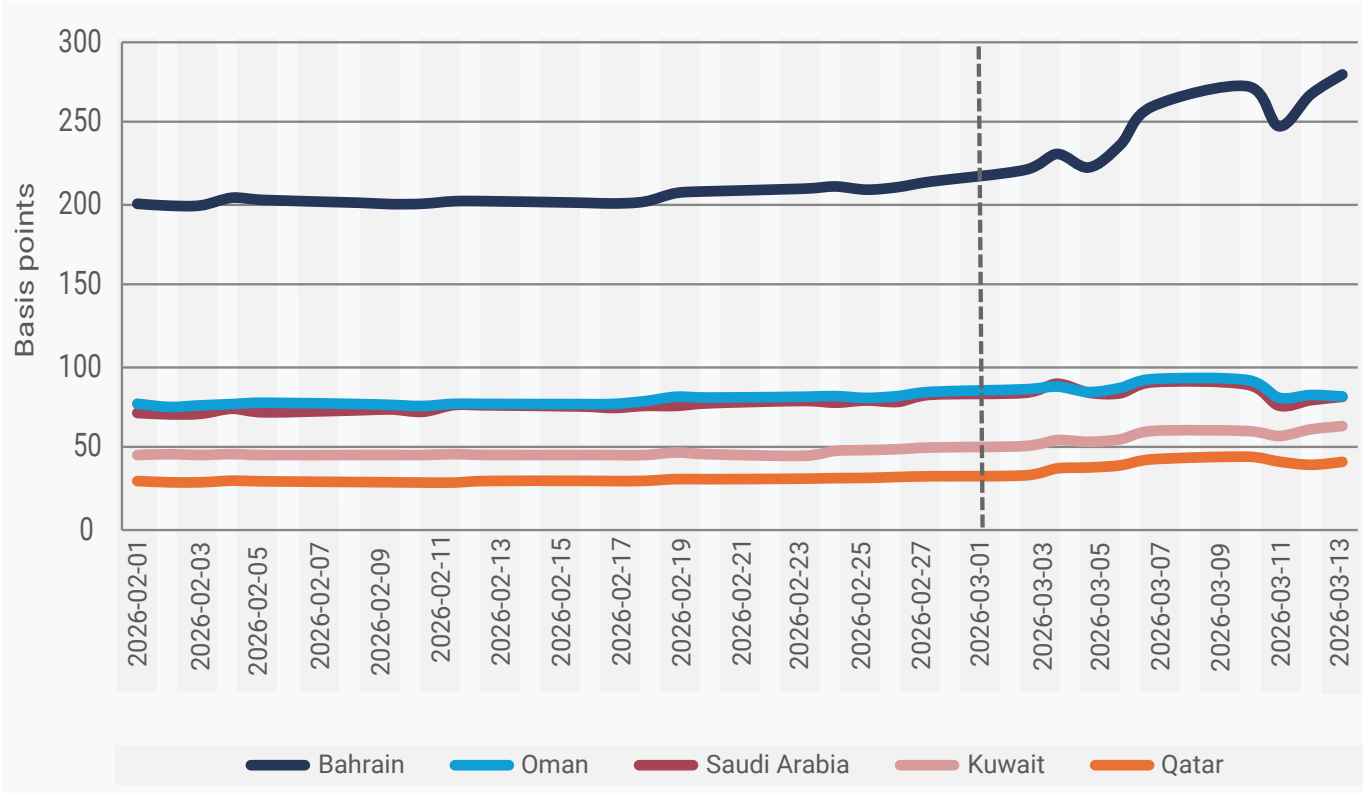
Source: Flightradar24, data through 8 March 2026.
Note: Data for nine airports, namely Dubai, Doha, Abu Dhabi, Kuwait, Bahrain, Riyadh, Jeddah, Muscat and Beirut.

Figure 5. Financial market impact

A. Gulf equity indices



B. Five-year sovereign CDS spreads



Source: London Stock Exchange Group (LSEG) financial data, 6–9 March 2026.

E. Financial market shocks

Financial markets respond rapidly to geopolitical shocks through changes in investor confidence and risk premiums. Equity markets experienced significant declines across several major exchanges. Combined market capitalization losses across four exchanges with sustained declines, namely Abu Dhabi, Dubai, Qatar and Kuwait, reached approximately $157.5 billion by early March 2026.

Sovereign borrowing costs have also increased as credit default swap (CDS) spreads widened across several Gulf countries. Based on current credit default swap levels and sovereign debt stocks of approximately $514 billion, the estimated additional borrowing cost across five sovereigns is approximately $584 million per year (an increase of 3.2 per cent over 2026 interest payment estimates).

Lebanon: estimated economic cost of the conflict

Israeli strikes on Lebanon are already generating significant socioeconomic impacts. Lebanon faces a catastrophic humanitarian crisis because of an intensifying war. Escalating airstrikes and widespread displacement had claimed 634 lives by 11 March 2026 and forced over 816,000 to flee their homes. Displacement is expected to affect 1 million people in the coming days, including an estimated 280,000 women of reproductive age; of these, more than 11,600 pregnant women are at risk owing to the disruption of essential maternal services, which has forced some women to give birth in unsafe conditions, including in public spaces.

Early economic impacts are already visible, particularly in the aviation sector: traffic at Beirut airport fell by about 65 per cent, from roughly 68 daily flights to 22 by 13 March, with 464 flights cancelled in 13 days. Historical experience suggests that the economic cost of conflict in Lebanon can escalate rapidly. The last war, which began in Gaza on 8 October 2023 and spread to Lebanon in 2024, generated an estimated $14 billion in total losses, including $6.8 billion in physical damage and $7.2 billion in economic losses. GDP contracted by 7.1 per cent in 2024.

The recent escalation that erupted on 2 March 2026 took the violence to a more intense level. If escalating strikes continue, economic losses could rise sharply as attacks increasingly disrupt infrastructure, trade and essential services. The country's capacity to absorb these shocks is extremely limited. Since 2019, the Lebanese economy has contracted by nearly 40 per cent, and the availability of large-scale reconstruction financing remains uncertain.

Source: Compiled by ESCWA based on World Bank Group, Lebanon: interim damage and loss assessment, 2024 and other sources.

4. Key implications for regional coordination and preparedness

Preventing escalation remains the most effective measure to limit economic and humanitarian costs. The magnitude of economic disruption depends heavily on the duration and geographic expansion of the conflict. Even short-lived escalation generates financial and operational shocks, while prolonged hostilities risk spreading disruptions across energy markets, trade routes and financial systems. De-escalation and diplomatic engagement remain central to preventing systemic regional and global impacts.

Protecting vulnerable populations is critical as inflationary pressures rise. Many Arab economies already face limited fiscal space, high public debt and rising poverty. Higher energy and transport costs can quickly translate into increased food prices, higher living costs and additional fiscal pressures, particularly in energy-importing economies. Strengthening targeted social protection and safeguarding access to essential services will be important to mitigate rising socioeconomic pressures.

Strengthening regional economic resilience and contingency planning is increasingly important. The conflict underscores the need for coordinated regional preparedness measures, including monitoring energy and financial market volatility, strengthening alternative logistics and trade routes, reinforcing fiscal and financial stabilization mechanisms, protecting water and food supply infrastructure, and building fiscal buffers for social protection. Enhanced regional coordination can help limit economic spillovers and humanitarian crisis, and support continuity of critical services and supply chains.

Sustaining humanitarian response capacity is essential in a region already facing major displacement pressures. With 82 million people already requiring humanitarian assistance across Arab conflict-affected countries, disruptions to logistics networks, financing and supply chains could quickly widen humanitarian needs. Maintaining humanitarian access, safeguarding aid delivery systems and mobilizing adequate financing remain critical to preventing further deterioration of humanitarian conditions.

Safeguarding critical trade and energy corridors is essential for regional and global economic stability. Disruptions to strategic maritime routes such as the Strait of Hormuz and the Red Sea highlight the vulnerability of critical trade chokepoints to geopolitical tensions. Ensuring the security and continuity of maritime transport, aviation routes and logistics networks is therefore essential to preventing disruptions from transmitting wider shocks to energy markets, supply chains and global trade.

Deepening Arab regional cooperation is essential for enhancing the resilience of Arab countries against the shocks of war. Deeper Arab regional cooperation and integration is essential to strengthening resilience to war and other interconnected shocks, including climate change, food and water insecurity, economic volatility, and other global megatrends. By building shared capacities and stronger economic ties, Arab countries can enhance collective resilience, support recovery, and advance towards a more stable regional future.

Ceasing hostilities immediately, upholding international law and resolving outstanding differences peacefully. All hostilities in the region must cease immediately. All parties must comply fully with international law, including international humanitarian law and the principles of distinction, proportionality and precaution, while ensuring the protection of civilians and civilian infrastructure. Consistent with article 2(3) and chapter VI of the Charter of the United Nations, outstanding disputes should be addressed through peaceful means, including dialogue, negotiation and mediation, rather than war or further escalation. Upholding international law and committing to the peaceful settlement of differences remain indispensable development.

Endnotes

1. https://data.worldbank.org/indicator/SP.POP.TOTL (accessed on 11 March 2026).

2. https://humanitarianaction.info/: data for the State of Palestine, Somalia, the Sudan, the Syrian Arab Republic and Yemen (accessed on 11 March 2026).

3. https://www.internal-displacement.org/database/displacement-data/ (accessed on 11 March 2026).

4. https://www.unhcr.org/refugee-statistics (accessed on 11 March 2026).

5. https://humanitarianaction.info/: data for the State of Palestine, Somalia, the Sudan, the Syrian Arab Republic and Yemen (accessed on 11 March 2026).

6. ESCWA calculations based on United Nations Office for the Coordination of Humanitarian Affairs (OCHA). Financial Tracking Service (FTS). Available at: https://fts.unocha.org/ (accessed 9 March 2026).

7. The assessment of GDP losses in the first two weeks assumes a war lasting two weeks and incorporates a reduction in oil production in affected countries of nearly 20 million barrels per day (distributed across countries based on the information available as at 9 March 2026). It also assumes an increase in maritime and air transport costs ranging between 10 and 160 per cent, depending on the country and sector, and a decline in tourist arrivals ranging from 10 to 95 per cent, based on the most recent data available as at 9 March 2026. The model estimates do not capture financial disruptions.
   Scenario A assumes a war lasting one month and introduces an additional shock in the form of a small destruction of capital in the maritime and air transport sector, estimated at 2 per cent for directly affected countries. owing to the absence of reliable country-specific data, it is not possible to further differentiate the extent of damage across individual economies; the purpose is to show how the conflict's impacts may extend and cover additional key economic dimensions at the regional level.

8. These estimates are based on initial conditions and may change as the war evolves. Trade disruptions and route diversions are still emerging. For example, the United States has issued a temporary waiver allowing purchase of Russian oil shipments already at sea, while shipping companies are considering alternative routes to avoid the Strait of Hormuz. Such adjustments could alter the scale and distribution of economic impacts.

9. www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz.

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