ESCWA's War Impact Assessment:
Key Findings and Insights from the Arab Region

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The war that erupted in the region on **28 February 2026** has had severe economic and humanitarian repercussions across the Arab world. To assess these impacts, the United Nations Economic and Social Commission for Western Asia (ESCWA) released a report titled *"Conflict and its Shockwaves: Escalation of a Crisis in the Arab Region – A Scenario-Based Assessment."* This analysis provides a summary of the report's key findings and offers additional commentary.

Initial Assessment: First Two Weeks of the War

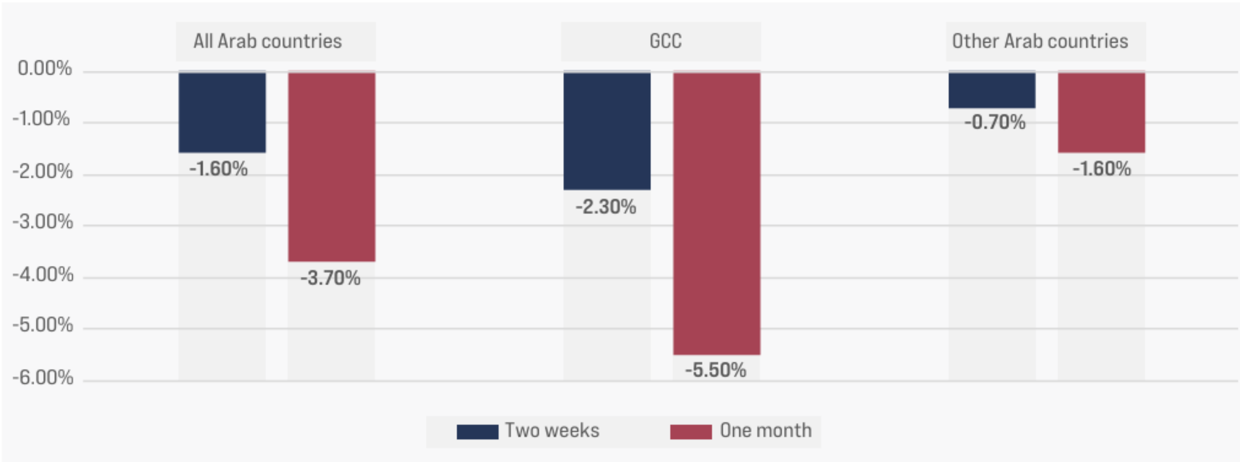
Within the first two weeks, the conflict resulted in **$63 billion in economic losses** across the Arab region, equivalent to a **1.6% contraction in GDP** relative to pre-war projections. These losses reflect widespread disruptions to energy markets, maritime trade, aviation, and financial systems. The **GCC countries experienced the sharpest impact**, with GDP losses of about **2.3%**, while the rest of the Arab region recorded a more moderate decline of around **0.7%** from the baseline scenario.

Prolonged Regional Escalation Scenario (One Month)

If the war extends to one month, the Arab region is projected to lose **3.7% of GDP**—about **$146 billion**—relative to pre-war expectations. The deepest contraction appears in the energy-exporting GCC countries, where GDP is expected to fall by **5.5%**, while other Arab countries face losses of roughly **$33 billion**, or **1.6%** of their combined GDP, mainly due to higher inflation, more expensive fuel import costs, and increased fiscal pressures.

Inflation pressures have risen to five times their pre-war levels, though the impact varies across countries. Lebanon is among the hardest hit, given its heavy reliance on imported food and energy and its limited monetary policy buffers. At an oil price of **$100 per barrel**, the resulting shock amounts to roughly **18% of Lebanon's government budget**, underscoring the severe fiscal strain faced by oil-importing countries with constrained fiscal space.

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.

Energy Market Disruptions

Energy markets have been the fastest affected, with Brent rising from $72.48 on 27 February to $102.28 per barrel on 13 March. Natural gas markets saw even sharper volatility, as European LNG prices surged 80% following disruptions at Qatar's Ras Laffan and Mesaieed facilities, which supply nearly a fifth of global gas.

The main vulnerability stems from **transport disruption rather than production loss**, especially through the **Strait of Hormuz**, which handles **a quarter of global seaborne oil trade** but can only be partially bypassed by Saudi and Emirati pipelines with limited capacity. Even without damage to infrastructure, shipping delays and higher insurance premiums can amplify global price swings. While higher prices may offer temporary fiscal gains for oil exporters, these benefits can be eroded by logistical delays and rising security costs, whereas oil-importing Arab economies face mounting fiscal and external pressures due to more expensive energy imports and subsidies.

Maritime Trade

The conflict has caused a major disruption to **maritime trade** through the Strait of Hormuz. Shipping activity collapsed in early March 2026, with **daily vessel arrivals at Gulf ports dropping by about 96-97%** compared to pre-conflict levels to **five vessels daily**. Trade volumes declined even more dramatically, with the flow of goods through the Strait falling by roughly **98%** from typical levels in 2025, to **0.06 million tons daily**.

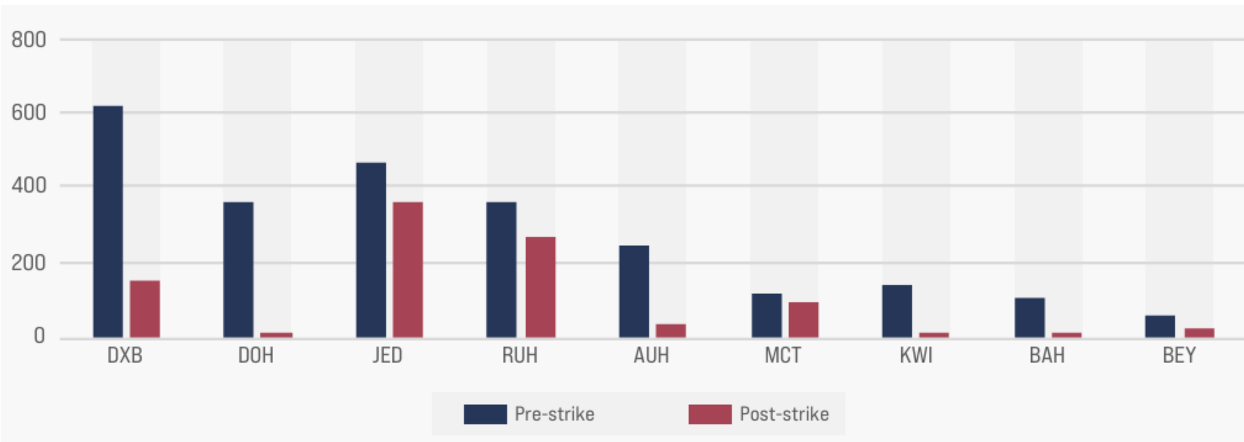
Using average values for oil, gas, and containerized goods and bulk commodities, the daily economic cost of this disruption is estimated at around **$2.4 billion**. As a result, trade losses are estimated at approximately **$30 billion** in the first two weeks of the war and could reach **$55–60 billion** if the conflict extends to one month.

Transport and Aviation

Transport and logistics have been among the sectors most immediately affected by the conflict. Airspace closures and heightened security risks led to the cancellation of **18,441 flights** across **nine key regional airports** between 28 February and 12 March 2026, with **Dubai International Airport among the hardest hit**.

Based on airline revenue estimates, flight cancellations during the first 12 days resulted in losses of around **$1.9 billion**, or about **$102,000 per cancelled flight**. If disruptions continue, total airline losses could reach around **$2.2 billion** within two weeks and **$3.6 billion** over one month.

Figure 2: Number of Flights Pre-strike averages versus post-strike average



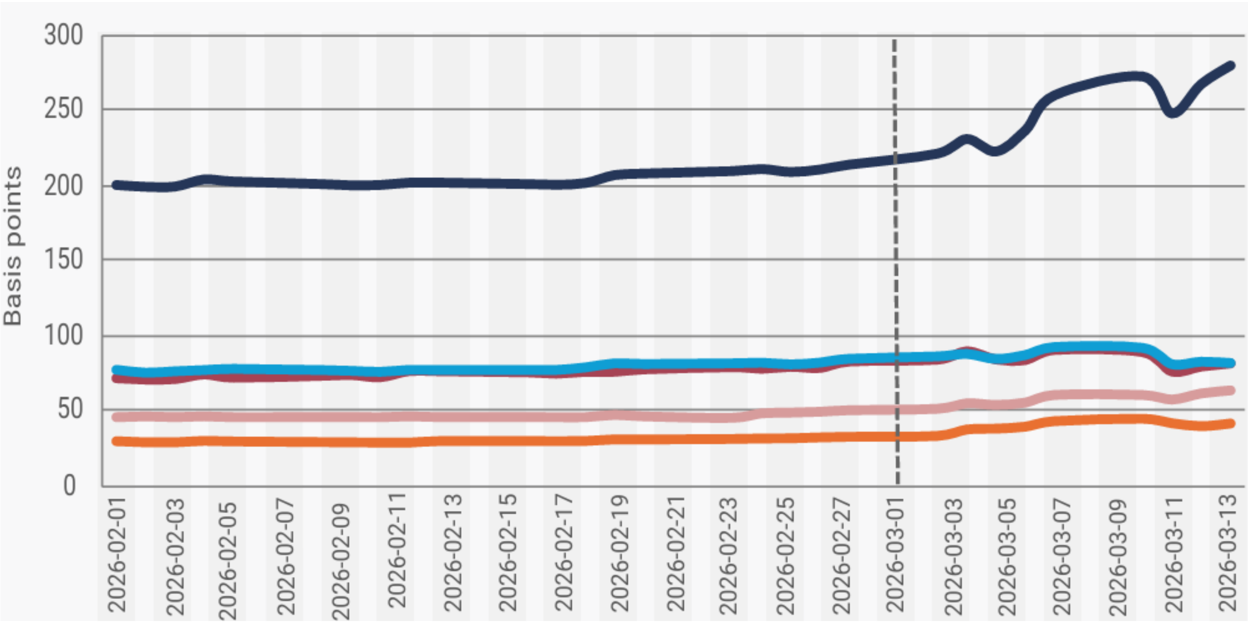
Source: Flightradar24, data through 8 March 2026.
Note: Data for nine airports, namely Dubai, Doha, Abu Dhabi, Kuwait, Bahrain, Riyadh, Jeddah, Muscat and Beirut.

Financial Market Impact

Financial markets reacted swiftly to the conflict as investor confidence weakened and risk premiums increased. Equity markets recorded sharp declines, with combined market capitalization losses across the Abu Dhabi, Dubai, Qatar, and Kuwait exchanges reaching around **$157.5 billion** by early March 2026.

Sovereign financing conditions also deteriorated, as widening CDS spreads raised borrowing costs. Based on current CDS levels and sovereign debt stocks of around **$514 billion**, the additional annual interest burden across Bahrain, Oman, KSA, Kuwait and Qatar, is estimated at **$584 million**, representing a **3.2% increase** over projected 2026 interest payments.

Figure 3: Five-year sovereign CDS spreads



Bahrain: A Case of Heightened Vulnerability

It is interesting to note that Bahrain's CDS were the most affected amid already weak fiscal conditions. *Even before the war, the country faced a budget deficit exceeding 10% of GDP, public debt of around 146% of GDP (among the highest globally), and high debt-servicing costs that absorb nearly a third of government revenue.*

The economy is heavily reliant on oil and aluminium, which together generate over two-thirds of fiscal revenue, and both sectors have been disrupted by disrupted shipments and suspended exports. The critical vulnerability stems from the closure of the Strait of Hormuz, which effectively blocks Bahrain's ability to export oil and aluminium. Although Bahrain has only limited fiscal buffers—reflected in its lower credit rating—regional support mechanisms provide important mitigation. Fitch expects other GCC sovereigns to step in with financing and potential additional assistance, with the likelihood of support heightened by the systemic and exogenous nature of the shock, even as regional partners face pressures of their own.

Lebanon: Chronic Fragility Meets Renewed Conflict

Israeli strikes on Lebanon are already causing severe humanitarian and economic damage. By 11 March 2026, intensified airstrikes had killed at least **634 people** and displaced over **816,000**, with displacement expected to reach **one million**. Economic effects are emerging rapidly, especially in aviation, with traffic at Beirut airport down by **65% to 22 daily flights by 13 March** and hundreds of flights cancelled. At present, **Middle East Airlines (MEA), the national carrier, is the only airline in operation**.

Past experience suggests losses could escalate quickly: the previous conflict led to **$14 billion** in damages and a **7.1% GDP contraction in 2024**. Given Lebanon's prolonged economic collapse since 2019 and limited access to reconstruction financing, the country has very little capacity to absorb a prolonged escalation.

Conclusion

To conclude, the war in the Middle East has sent powerful shockwaves across the region, with its impact varying significantly from one country to another. As of the time of writing, the announcement of **a two-week ceasefire between the United States and Iran**—allowing for the reopening of the Strait of Hormuz—marks the first meaningful diplomatic breakthrough in a conflict that has triggered a global energy crisis. **A lasting settlement would mark an important positive development for the region. Normalization would be neither immediate nor guaranteed, as it remains dependent on sustained de-escalation, which may prove difficult amid <u>high risks of ceasefire breaches</u>.**

For the GCC, the conflict has tested the long-standing narrative of regional stability. While these economies retain strong fundamentals, **rebuilding investor confidence will require sustained stability and clear policy signals**.

Lebanon’s outlook is far more concerning. The ceasefire does not include Lebanon, and hostilities are continuing. Foreign reserves declined by **$343 million in March alone**, implying losses exceeding **$1 billion per quarter** if trends persist—potentially cutting reserves by $3.5 billion over the 10 months of war, which would leave reserves at roughly **$8.5 billion by year-end if the war persists**.

Such a trajectory would seriously threaten currency stability. While remittances—around half of which originate from the Gulf—may be partially protected, most sectors of the economy—particularly tourism—are expected to remain under significant strain.

Economic reforms have effectively been put on hold as attention shifts to urgent humanitarian needs, particularly support for internally displaced people. Fiscal revenues are also under pressure. Reflecting these strains, Lebanon’s **BLOM PMI fell to 47.6 in March**, its lowest level in 17 months, mirroring levels last seen in October 2024 at the onset of hostilities. As a forward-looking indicator, this decline signals a deteriorating economic outlook in the months ahead.

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