E/ESCWA/UNDP/2023/Policy brief.2

Expected socioeconomic impacts of the Gaza war on neighbouring countries in the Arab region

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1 Observed impacts in the region to date

In November 2023, the United Nations Development Programme (UNDP) and the Economic and Social Commission for Western Asia (ESCWA) conducted an early assessment of the then expected economic and human impact of the war on the State of Palestine. The present policy brief complements that assessment and greatly benefits from inputs from the United Nations Regional Development Coordination Office and country-level Resident Coordinator Offices.[1] It examines the likely effects of the Gaza war on neighbours of the State of Palestine, focusing primarily on Egypt, Jordan and Lebanon for various reasons, including their proximity, exposure and data availability. If these effects materialize, they will add to pre-existing vulnerabilities in these countries, which have yet to fully recover from the effects of recent shocks.

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In the West Bank, the situation has also worsened

The analysis included in this policy brief was finalized by 16 December 2023.

A. Impact of the Gaza war on people's lives

The Gaza war has entered its third month in December 2023. The Hamas attack in Israel on 7 October 2023 resulted in about 1,200 deaths and 240 hostages.[2] Since then, the total number of fatalities in Gaza had reached 18,787 by 14 December 2023, including 5,153 women and 7,729 children,[3] 135 UNRWA staff members, at least 300 health workers and 89 journalists.[4] This translates into an average of about 272 Gazans killed daily since the start of the war. Moreover, many people, expected to be mostly children and women, are reported missing, assumed trapped under the rubble.[5] By 14 December 2023, the number of injured had reached 50,589,[6] corresponding to a daily average of 738. As at 16 December 2023, the number of internally displaced persons (IDPs)[7] stood at 1.9 million (about 85 per cent of the population), with increasing movement of unaccompanied children and separated families. The number of IDPs will increase further if the hostilities continue, considering the evacuation orders issued after 1 December 2023 for a large area east of Khan Younis.[8]

At least 60 per cent of Gaza's housing units are reportedly destroyed or damaged, in addition to 352 educational and 20 water and sanitation facilities.[9] Only 14 of 36 hospitals remain partially functional.[10]

Food security concerns are high, especially in the north where there is also no access to clean water. In total, 4,336 trucks with humanitarian aid,[11] excluding fuel, have entered Gaza since 21 October 2023, compared with a daily average of 500 trucks of commercial and humanitarian commodities before the war started.[12] As a result, the Palestinian Central Bureau of Statistics (PCBS) reported that the price of food and beverages had increased by an average of 10 per cent in October 2023, including mineral water by 100 per cent, wheat flour by 65 per cent and vegetables by 32 per cent across the State of Palestine.[13]

In addition to food and water, there is a critical shortage of medicine and medical supplies, putting more than a thousand patients at high risk of kidney failure, and leaving over 2,000[14] cancer patients without proper health care.[15] Since the start of the war, 180 women are giving birth daily in dangerous conditions. Moreover, an estimated 15 per cent of new births have had complications, requiring basic or comprehensive obstetric care.[16]

Since 11 October 2023, Gaza has been experiencing an electricity blackout, after the Israeli authorities cut off the power supply. The only power plant in Gaza has stopped working owing to a lack of fuel,[17] which, while allowed to enter Gaza in small quantities since 18 November 2023, is being severely rationed. A shutdown of telecommunication and internet services started on 14 December 2023, constraining the information obtained on the humanitarian situation.[18]

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A brief humanitarian pause agreed by Israel and Hamas entered into force on 24 November 2023, and was extended for seven days before a resumption of hostilities on 1 December 2023. The humanitarian pause included the gradual exchange of hostages and detainees, and allowed the scale-up of aid deliveries into Gaza. However, as stressed by the Secretary-General of the United Nations on 29 November 2023, the level of aid remains completely inadequate to meet people's needs.[19]

In the West Bank, the situation has also worsened. The current year has been the deadliest for Palestinians in the West Bank since the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) began recording casualties in 2005, with the past two-month toll representing more than half of all Palestinians killed in the West Bank since the beginning of 2023. Since 7 October 2023, reportedly 278 Palestinians, including 70 children, have been killed by Israeli forces or settlers, and 3,607 have been injured.[20] Moreover, at least 1,950 people[21] have been displaced as a result of settler violence, access restrictions, and demolitions, among other factors.

The socioeconomic consequences for the occupied Palestinian territory are severe. According to ESCWA and UNDP estimates,[22] after two months of war, the economic loss in the State of Palestine is estimated to have reached about 8.4 per cent of gross domestic product (GDP) or $1.7 billion. This may increase to about 12.2 per cent of GDP, or $2.5 billion, by the end of the third month. Moreover, preliminary estimates by PCBS indicate that the production of the economic sector in the West Bank in October 2023 lost about 37 per cent of its production compared with the usual monthly production, with an estimated loss of about $500 million per month, whereas Gaza lost 84 per cent of its usual monthly production, equivalent to $200 million, which will in turn negatively affect general revenues in the occupied Palestinian territory.[23]

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B. Observed regional implications

The current Gaza war is unprecedented in terms of the scale of death and damage, and risks having significant regional ramifications. Its economic fallout and its spillover effects cannot be viewed independently from the cumulative impact of the Arab-Israeli conflict. In addition to its negative effects on development in the occupied Palestinian territory and Israel, this conflict has been a major source of instability and war in the region for decades, with direct development effects on some countries, such as Egypt, Jordan, Lebanon and the Syrian Arab Republic, which have incurred direct costs from warfare, displacement of Palestinians or political instability. Other countries have been indirectly but significantly affected by the high-risk environment discouraging foreign direct investment, disproportionate military expenditures at the expense of social and economic development, and disruption of trade routes and of regional integration.

Since 8 October 2023, the exchange of fire on the southern border of Lebanon between Israel and armed groups has been escalating. As of 12 December 2023,[24] 99 people had been killed in

Lebanon and 463 had been wounded.[25] By the same date, 64,053 people had been displaced (52 per cent females and 37 per cent children).[26] By 5 December 2023, 24 public schools were reported to have been closed,[27] impacting 4,753 children. Public infrastructure[28] and agricultural land was also reportedly damaged by airstrikes.[29]

The Gaza war and the ongoing conflict in the south of Lebanon are affecting the country's already challenging socioeconomic conditions. Lebanon is currently in its fifth year of deep economic crisis, compounded by political deadlock and the repercussion of the COVID-19 pandemic, the Beirut Port explosion in August 2020 and the protracted Syrian crisis. Real GDP has been contracting for five years in a row (2018–2022). Inflation averaged 171 per cent in 2022, and the current account deficit grew to 20.6 per cent of GDP in the same year.[30] By February 2023, the Lebanese pound had lost more than 98 per cent of its pre-crisis value, the banking sector remains insolvent and private sector activity is still contracting. Before the current Gaza war, the World Bank projected that real GDP for Lebanon would grow by 0.5 per cent in 2023, and inflation would remain high at 165 per cent.[31] According to latest data from the International Labour Organization (ILO), unemployment had reached 29.6 per cent in January 2022, with female unemployment at 32.7 per cent and youth unemployment at 47.8 per cent.[32] The economic crisis had already lowered labour force participation among Lebanese and Palestinian women, and pushed more Syrian women in Lebanon into low-paid and exploitative jobs.[33] Moreover, Lebanon has defaulted on its sovereign debt. Despite a tentative agreement with the International Monetary Fund (IMF) for a bailout in April 2022, the deal has not been finalized since necessary reforms have not been sufficiently implemented.

Based on available official data (from 2011), 27.4 per cent of the Lebanese population live under the national poverty line. Recent simulations by ESCWA show a significant increase in poverty from 25 per cent in 2019 to about 74 per cent in 2021, owing to triple-digit inflation. According to a preliminary analysis of data from the 2022–2023 Lebanon Household Survey by the World Bank, three of every five households described themselves as poor or very poor.[34] Triple-digit inflation continues to tax the poor. For women, economic deprivation intertwines with higher vulnerability, poverty and food insecurity, and an increase in gender-based violence.[35]

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Tourism receipts and remittances supported growth in domestic consumption in 2022, which, coupled with signs of stabilization in private sector activity, mainly drove improvements in the performance of the economy as compared with the previous year.[36] However, by October 2023, the World Food Program (WFP) had reported that 3.1 million people in Lebanon, including Lebanese and Syrians, needed food assistance, and 1.4 million were experiencing acute food insecurity.[37] The response measures related to those displaced and impacted by the hostilities in the south are currently being managed with existing funds through reprogramming by partners. It is therefore vital that additional assistance is made available to support affected communities and individuals, without impacting ongoing programming.[38] In addition, social tensions were already high in the country before the Gaza war, with a risk of further escalation, as protests related to the Gaza war, but also to the deteriorating economic conditions, are taking place. The economic impact of the conflict on a number of sectors, such as tourism, agriculture and foreign direct investment, is likely to exacerbate the already precarious conditions in Lebanon.

Jordan, given its geographical proximity to the conflict and its existing ties with Israel, may be facing socioeconomic, diplomatic and security challenges because of the current Gaza war. Israel currently is the main supplier of natural gas to Jordan, following a $15 billion deal signed in 2014.[39] The two countries had plans to sign a tripartite water-to-energy deal along with the United Arab Emirates in 2023.[40] These plans have reportedly been halted following the war in Gaza,[41] and Jordan is looking for alternative sources of energy in case the supply is disrupted.[42] Diplomatic relations have also been affected.[43,44] since the start of the current Gaza war, Jordan has seen sit-ins and peaceful marches in various locations across the country. There are also boycott campaigns against several international brands that are supporting or investing in Israel, or that have financial ties with the Israeli Government, thus affecting retail activity.[45] Furthermore, growing negative sentiments and fears over war escalation may be affecting overall economic activity.

The impact of the Gaza war is adding to many economic pressures in Jordan, including low growth, high unemployment and informality, water scarcity, and calls for economic, political and public administration reform, especially following the COVID-19 pandemic and the global impact of the war in Ukraine.[46] GDP growth in Jordan was 2.6 per cent in the second quarter

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of 2023, and the unemployment rate for Jordanians reached 22.3 per cent, with female unemployment at 31.7 per cent and youth unemployment exceeding 40 per cent.[47] The debt-to-GDP ratio was 88.7 per cent in 2022.[48] Global economic factors, including rising interest rates due in part to the currency's peg to the dollar, in addition to uncertainties in global energy and food prices, have been impacting the Jordanian economy, reducing purchasing power, increasing the cost of living for vulnerable households and affecting key economic sectors.[49]

While no official poverty rate has been released since 2018, it is likely that the COVID-19 pandemic and the global food crisis owing to the war in Ukraine have adversely affected the poverty level, with the poorest and most vulnerable households affected the most. Furthermore, recent cutbacks to humanitarian assistance for Syrian refugees are expected to have adverse welfare consequences, as these households are likely to be poor and dependent on cash-assistance to supplement their livelihoods.[50] ESCWA estimates that the pandemic increased national poverty from 19.6 per cent in 2019 to 23.2 and 22.2 per cent in 2020 and 2021, respectively.[51] Based on an analysis of poverty data using international poverty lines, the proportion of the total population living under the lower-middle income country (LMIC) poverty line of $3.65PPP/day and the upper-middle-income country (UMIC) poverty line of $6.85PPP/day had declined until 2012 (the year after the start of the Syrian conflict), but increased after that from 0.4 per cent in 2012 to 1.5 per cent in 2019 for the LMIC poverty line, and from 7.8 to 18 per cent for the UMIC poverty line over the same period. While no data on feminization of poverty exist, food insecurity is more likely among female-headed households.[52]

The Gaza war has notably compounded the challenges facing Jordan, home to over 2.3 million registered Palestinian refugees, approximately 40 per cent of all registered Palestinian refugees,[53] as well as over 650,000 Syrian refugees.[54] The country's fiscal position and economic stability are further threatened by external factors, such as likely drops in tourism and foreign investment owing to the Gaza war.

The war is already impacting Egypt, partly through its eastern borders, given its geographic location and its existing relations with Israel. Egypt has been importing natural gas from Israel since 2020, following a decrease in its production and power outages, and plans were announced in August 2023 to increase imports for the next 11 years.[55] As a result of the Gaza war, supply was briefly halted at the end of October 2023 due to a suspension in production, and then resumed at reduced volumes.[56] The boycott campaign in Jordan has also reached Egypt, in addition to many other Arab countries like Kuwait and Morocco. From the humanitarian perspective, the North Sinai governorate has activated its preparedness operation for any potential crisis.[57]

The Egyptian economy is strained, largely owing to global shocks exacerbated by challenging local conditions. For example, Egypt has been significantly affected by the war in Ukraine, given its reliance on food imports from both Ukraine and the Russian Federation.[58] Inflation has surged, recording a historic high of 38 per cent in September 2023 (and 36 per cent in October 2023).[59] The currency official exchange rate has lost almost half of its value since March 2022,[60] and almost 70 per cent on the black market.[61] Large capital outflows, amounting to $20 billion, have also resulted from the war in Ukraine, as investor confidence significantly declined.[62] Egypt is also dealing with challenges on its southern border, as more than 190,000 registered refugees have entered the country since April 2023, fleeing from the Sudan crisis.[63] Following the IMF approval of $3 billion for Egypt under the Extended Fund Facility in December 2022, there have been some early indications of a potential increase of the loan programme owing to economic challenges because of the

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Gaza war.[64] Just prior to the conflict, Moody's downgraded Egyptian debt to junk status, reflecting ongoing economic struggles and a heavy debt burden of around $160 billion.

Poverty using the various international poverty lines shows an increasing trend from 2015 to 2018, but declined thereafter. A similar trend is also observed using national poverty lines. Inflation eroded purchasing power and led to an increase in poverty between 2015 and 2017.[65] Available data (2019/2020) indicates that 29.7 per cent of the population live under the national poverty line. The pandemic is estimated to have increased poverty to 31.9 per cent in 2020, but this rate dropped to 29.3 per cent in 2021.[66] However, accelerating inflation in 2022 and 2023 is expected to have increased poverty rates.[67] A study using repeated cross-sectional data spanning the period 1999–2013 found that female-headed households with children were poorer than male-headed households in Egypt, especially in urban areas.[68]

In the Syrian Arab Republic, the Damascus and Aleppo international airports have been targeted since the Gaza war started, in addition to clashes in the west of the country. As a result, flights are being diverted to Latakia creating financial burden to travellers and thus likely reducing incoming diaspora.[69] Although the Syrian Arab Republic is no longer subject to large-scale conflict, it still figures among the top countries in terms of violent deaths, according to the World Bank.[70] Macroeconomic conditions have deteriorated since the start of the war in Ukraine, fuelling inflation and contributing to a projected GDP decline of 3.2 per cent in 2023. This was exacerbated by the large earthquake in February 2023, which caused an estimated damage of between $8.7 billion and $11.4 billion.[71]

No official poverty estimate is available, but after more than 12 years of internal conflict, about 69.2 per cent of the total population in 2023 require humanitarian assistance.[72] According to data from the World Bank, extreme poverty, which had been declining during the decades before the start of the Syrian crisis, started to increase sharply: poverty is estimated to have reached 68.8 per cent in 2019.[73] The proportion of the population living below the LMIC international poverty line of $3.65ppp per day in 2019 was 88.9 per cent, reflecting a sizable proportion of people vulnerable to extreme poverty by then (about 20 per cent). Given the two significant shocks that occurred after 2019 (COVID-19 and the war in Ukraine), poverty is expected to have risen even further. Around 3.7 million children and 2.1 million women need nutritional assistance, with cases of chronic and acute malnutrition rising.[74]

Since 2019, the Lebanese financial crisis, the coming into effect of the CAESAR Act, the COVID-19 pandemic and fallout from the war in Ukraine have further impacted the Syrian national currency. Currently, the market exchange rate stands at 14,000 Syrian pounds to the dollar. A wider regional conflagration over Gaza will likely cause a further depreciation of the currency, which may prompt the Syrian Government to further cut subsidies (on bread and oil products, mostly imported items) and tighten import restrictions.

Given the above context and the spillover effects on neighbouring countries, various institutes have already issued estimates based on several possible scenarios to try to quantify the regional economic impact of the Gaza war. S&P Global Ratings focused on the tourism sector and outlined three scenarios, whereby the loss from tourism receipts is 10, 30 and 70 per cent, respectively. The estimated GDP loss in 2023, compared with 2022, ranges from 0.3 to 1.8 per cent in Egypt, from 1.2 to 8.5 per cent in Jordan and from 3.3 to 22.9 per cent in Lebanon.[75] Fitch Solution has used two scenarios to estimate the impact of the conflict on Lebanon. In its baseline scenario, where conflict is largely contained in Gaza and there is no escalation beyond the south of Lebanon, the 2023 GDP growth forecast would be reduced from 1.7 to 0.7 per cent. In the second scenario, where a large-scale attack is launched from Lebanon across the border, Fitch forecasted a depreciation of the currency beyond 150,000 Lebanese pounds to the dollar, a suspension of all flights, constrained access to remittance inflows, and higher import costs, among other impacts. According to a study by the Institute of International Finance, if the fighting remains confined to Gaza, real GDP for Lebanon is expected to contract by 0.5 per cent in 2023 and 1 per cent in 2024. Assuming a regional conflict and more severe conflict in Lebanon, the country's GDP would contract by over 15 per cent in the fourth quarter of 2023, by 4 per cent for 2023 and by 26.2 per cent in 2024. In early November 2023, Oxford Economics issued a policy brief estimating the impact of the war on the global economy under two Middle East escalation scenarios. Under the moderate scenario, some energy supply disruption is expected, increasing oil prices to $120 per barrel. Under the severe scenario, energy disruptions would double, stock would drop by 12 per cent, and prices would increase to $150 per barrel.[76] On 30 October 2023, the World Bank assessed three risk scenarios to showcase the potential implications of the war on energy supply, given different levels of disruption. Under a small disruption scenario, oil prices would increase by 3 to 13 per cent above baselines ($90). Under the medium disruption scenario, the increase is expected to reach 21 to 35 per cent, and under the large disruption scenario from 56 to 75 per cent.[77] Some of the estimates produced tend to be in the upper bound, as they assume either drastic drops in the contribution of tourism to the economy or increases in oil prices. In chapter 2, simulations will be run to revisit these results, since the impact of the Gaza war is likely to evolve quickly.

2 Estimated regional socioeconomic impacts and spillovers

The Arab region has witnessed a series of conflicts that have had profound implications not only for the countries directly involved, but also for the region as a whole. The spillover effects of these conflicts, transmitted through a variety of socioeconomic channels, have affected neighbouring countries.

A. Learning from past conflicts: observed and potential regional spillovers of the war

There is a growing body of literature on the negative impact of conflict on progress towards the Sustainable Development Goals (SDGs).[78] Moreover, an IMF report highlighted that countries bordering high-intensity conflict zones in the Middle East and North Africa (MENA) experienced a decline in average annual GDP growth by 1.9 percentage points.[79] This resulted in a constrained fiscal space, limiting the capacity to invest in sustainable development initiatives.

The present section addresses current and potential regional spillovers, with a focus on analysing the multifaceted impacts of past conflicts in the region. Analysing the key transmission channels of regional spillovers from past Middle East conflicts can provide valuable lessons to inform more effective responses to this and future crises. The following is an analysis of the key transmission channels, which are summarized in the table.

Higher and more volatile oil and gas prices and supply disruptions: Arab countries that are key global suppliers of oil and gas experience the direct impact of regional conflicts through disruptions in supply chains and fluctuations in global oil and gas prices. The invasion of Iraq in 2003 led to Brent Crude prices dropping by 17 per cent within a month. However, the market recovered over the following year, stabilizing to pre-invasion prices.[80] In contrast, past Gaza military escalations and the Syrian conflict have had limited impacts on oil prices, likely due to the global oil market's evolving dynamics and the conflicts' perceived limited threat to oil production.

Israel, a significant player since 2020, has been exporting gas mainly to Egypt and Jordan under long-term deals, including a 15-year contract with Egypt, highlighting the close energy interdependence in the region. While oil and gas prices have decreased since the beginning of 2023, the current Gaza war could have a pronounced effect on these dynamics. Chevron halted production from the Israeli Tamar field in mid-October 2023 due to security concerns.[81] This field is not only vital for the domestic needs of Israel, but also for supplying gas to Egypt and its liquefied natural gas (LNG) export capabilities. Although gas exports from Israel to Egypt resumed in early November 2023, they are at reduced volumes. The Leviathan field, another significant source, continued operations but could not fully compensate for Tamar's absence.[82] Jordan imports a substantial part of its energy needs from Israel via the Egyptian Fajr gas pipeline. The gas is used for electricity generation, and gas interruptions could create an increased financial burden and pressure on the current account, given that Jordan would have to replace the gas with more expensive LNG or heavy fuel oil. Oil is imported from Saudi Arabia via tankers in the Red Sea. If the conflict results in shipping disruptions, it could lead to an energy crisis, since the infrastructure to import gas by land is not sufficient for Jordanian needs.[83] These events underscore the vulnerability of the region's energy sectors to conflict, and the associated risks for companies operating in this sector.

Inflationary pressures and protracted monetary tightening: conflicts in the Arab region can lead to a surge in energy and food prices, thereby exacerbating inflationary pressures by significantly impacting the cost of basic needs. This macroeconomic situation is further aggravated by exchange rate pressures, and the need for higher interest rates to combat inflation. The Syrian crisis may have exerted inflationary pressures on neighbouring economies, and also through the influx of refugees. In Jordan, Lebanon and certain areas of Turkey, this demographic surge has significantly increased demand, particularly for housing and consumer goods.[84] The resultant inflationary trend has implications for the broader economic stability of these countries, placing additional stress on both local and refugee populations who face an increased cost of living. This dynamic presents a challenge for economic policymakers in the region, who must balance inflation management with the need for supportive fiscal policies amid heightened macroeconomic pressures.

Central banks across the region are currently facing the difficult task of controlling inflation while also trying to bolster economic growth. Globally, oil supply shocks have a substantial impact, particularly on energy-importing countries. Based on IMF research, a 10 per cent increase in oil prices could decrease global growth by 0.15 percentage points, and raise global inflation by 0.4 percentage points.[85] The study also highlights significant variations across countries in how global oil price increases translate into domestic inflation. Egypt, Jordan and Saudi Arabia exhibit smaller pass-through effects, whereas Tunisia experiences relatively larger impacts. In the Arab region, such increases in energy prices complicate the role of central banks in managing inflation and ensuring economic stability amid high unemployment. Egypt witnessed its inflation rate soar to 38 per cent year-on-year in September 2023, and annual inflation remained high at 36.4 per cent in November 2023[86] (table in annex), accompanied by rapidly depleting currency reserves. Lebanon has been dealing with triple-digit inflation for the past three years, helping push its economy into a deep crisis. A prolonged period of monetary tightening, in response to inflationary pressures, places additional burdens on businesses and households. This scenario can result in decreased consumer spending and overall economic activity, further impeding regional growth. Inflation also places higher pressures on women, given their lower employment rates and wages.

Public debt and fiscal pressures: in the past, conflicts in the region have led to heightened fiscal pressures, primarily due to higher cost of debt service, increased military and security expenditures, and the economic response to slowdowns.[87] As a result, many countries face the risk of widening fiscal deficits and debt

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distress. For example, following the outbreak of the Syrian crisis, countries like Jordan and Lebanon have experienced significant increases in public debt owing to the costs associated with the crisis. This situation has exacerbated years of already widening fiscal deficits driven by energy subsidies and high wage bills, among other already existing challenges, leading to further widening fiscal deficits as these Governments allocate funds to cope with the crisis spillovers that, while necessary, divert economic resources from other critical development initiatives. Furthermore, the heightened security environment necessitates increased defence and security spending, compounding the fiscal pressures on these economies.

While there are no signals yet of sizeable budget reallocation towards defence and security and debt servicing, this will become more likely as the Gaza war protracts, triggering in turn future fiscal consolidation, which, if not properly designed and implemented, may have a disproportionately negative impact on women and vulnerable groups.[88] Moreover, foreign aid availability could be negatively impacted, given the potential resources reallocation to support Gaza.

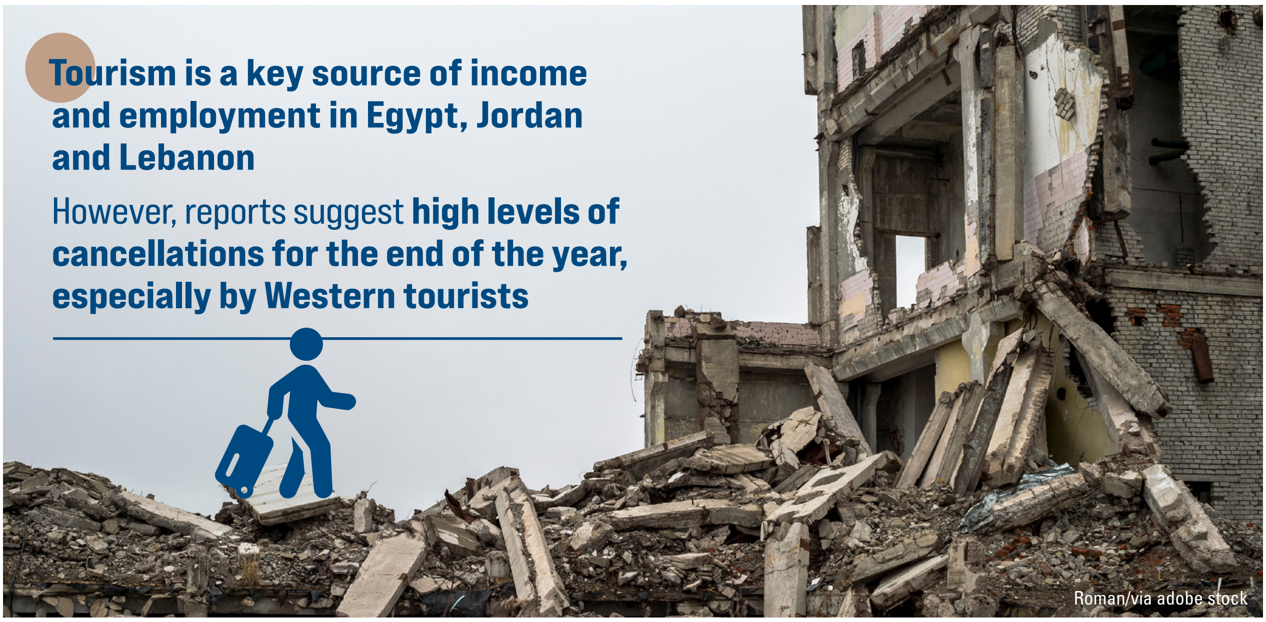
Currency devaluation: conflicts often trigger currency devaluation, reflecting economic uncertainties and diminishing investor confidence. This instability complicates international trade and debt servicing, contributes to inflationary pressures, and challenges economic recovery. In the past, exchange rates in Jordan and Lebanon experienced limited direct impact owing to their pegged exchange rate systems. The depletion of foreign reserves to support exchange rates during times of heightened geopolitical risks and the potential for inflationary spirals present considerable challenges to monetary authorities.

In the broader region, currency fluctuations lead to reduced regional purchasing power and increased import costs. The Egyptian pound (EGP) is already at a record low in the parallel market. As at end-November, it traded at over EGP 50 against the dollar in the parallel market. The Egyptian pound has experienced three significant devaluations, declining in value from about EGP 15.8/$1 in early March 2022.[89] This decline reflects the economic vulnerabilities, concerns about the Egyptian policy framework, and geopolitical risks heightened by the last round of conflicts, including Ukraine, the Sudan and Gaza. Meanwhile, the Lebanese pound (LBP), which has depreciated by 98 per cent against the dollar in the parallel market since 2019, has shown stability, maintaining a rate of around LBP 90,000 against the dollar as at end-November. Jordan, on the other hand, despite maintaining a strong exchange rate anchor through its peg to the dollar, may experience reduced net capital inflows, which could result in slower reserve accumulation.

Disruption to tourism and other economic activities: tourism contributes to GDP and employment through various channels, such as hotels, travel agents, airlines and other passenger transport services, and the activities of restaurants and leisure industries. It also

has an indirect effect through investment, the supply chain, and induced income impacts. Tourism is a key source of income and employment in Egypt, Jordan and Lebanon. For Egypt, the World Travel and Tourism Council (WTTC) estimates that its total contribution to GDP amounted to 7.7 per cent in 2022, or EGP 612.6 billion. They estimate that travel and tourism generated 2.37 million jobs in 2022 (8.5 per cent of total employment) both in terms of direct and indirect employment. Tourism is much larger as a share of the Jordanian economy, accounting for 15.2 per cent of GDP in 2022 (5.1 billion Jordanian dinars) and 259,000 jobs. In Lebanon, where the economy has been suffering from severe crises since 2019, tourism is estimated to represent about 13.7 per cent of GDP in 2023, having dropped from 18.9 per cent in 2019, and amounted to 360,000 jobs constituting 19.8 per cent of total jobs (from 20.8 per cent in 2019). Employment in tourism in the region is dominated by men, and women's share is low in contrast to other regions and compared with their employment in the economy as a whole.[90] Similar to the current Gaza war, past conflicts have led to a marked decline in tourist arrivals to the region owing to perceived security risks. The Iraq invasion and the Syrian crisis, in particular, led to noticeable decreases in tourism.

The region had just gone through a prolonged period of decline in tourism due to the pandemic and its long-lasting impact on travel, and 2023 was hoped to be the year of recovery. This upcoming holiday season would have constituted a sizeable portion of annual tourist arrivals. However, tourism is already taking a large hit in Lebanon, with major airlines suspending flights to the country, or reducing the number of planes operating and flight schedules.[91] Restaurant activity had dropped by 80 per cent in November 2023, as reported by the Lebanese Restaurant Syndicates, and hotel occupancy was reduced from 25 per cent before the Gaza war to 0–7 per cent.[92] Many countries have already warned their citizens either to avoid traveling to Lebanon or to leave the country immediately. In Jordan, the Minister of Tourism has announced that visitors started to decline in November after 2023 had been an exceptional year for the industry.[93] The President of the Jordan Society of Tourism and Travel Agents also reported that all joint programmes with the West Bank and approximately 80 per cent of tour packages with other countries had been cancelled, with most people not even looking for a future possible date.[94] In Egypt, October 2023 reportedly saw an increase of 8 per cent in tourist arrivals compared with October 2022. Arrivals in first three weeks of November 2023 were also 5–10 per cent higher year-on-year, as announced by the Minister of Tourism.[95] However, reports suggest high levels of cancellations for the end of the year, especially by Western tourists, with these cancellations potentially spilling over to next year depending on how the Gaza war evolves.[96] In Egypt and Jordan, these effects will also be exacerbated by the fact that they received sizeable inbound tourism directly from Israel at 7 per cent (fourth largest in 2022) for Egypt and 8 per cent (second largest in 2022) for Jordan, according to WTTC.[97] However, while large shares of total spending in the Jordanian tourism sector is foreign, a significant portion relies on domestic tourism in Egypt and Lebanon (47 and 51



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per cent, respectively), the demand of which tends to be more rigid and hence less amenable to sudden stops. Tourism in the Syrian Arab Republic, although negligible and restricted to religious tourism, has slowed due to the Gaza war. The closure of the two main airports in the Syrian Arab Republic and the reduction of flights coming into Beirut airport could see less tourists, including Syrian expats, visiting the country. However, the number of Syrian expats and visitors coming overland through Jordan (especially from Gulf Cooperation Council countries) may not face a significant drop for the time being.

Agriculture in the south of Lebanon and Nabatiyeh is an important source of livelihood, constituting around 21.5 per cent of cultivated areas in Lebanon.[98] The Ministry of Agriculture reported that by 16 November 2023, 351 fires had destroyed 47,000 olive trees.[99] Farmers are reporting harm to their crops from white phosphorus contamination and from damage to irrigation systems.[100]

Trade diversion and increased transport and logistics costs: within the Arab region, conflict-induced trade diversion and increased transport and logistics costs pose significant challenges. As trade firms tend to be risk averse, trade often diminishes when conflict becomes possible, and conflict in one country can affect potential foreign investment in other countries. As a result, conflicts in the region likely reduce the positive impact of trade on growth.[101] Key trade routes, particularly the Suez Canal and the Strait of Hormuz, are vital shipping choke points. Any disruption in these areas can have wide-reaching implications for both regional and global trade. A prolonged conflict spreading beyond Israel and Gaza could risk the safety and functionality of the Suez Canal, which is a crucial source of revenue for the Egyptian budget, and any disruption could have substantial fiscal implications. Recall the 2021 incident when a container ship ran aground in the Suez Canal, blocking passage for weeks and causing shipping costs to rise by 4–5 per cent as it forced many vessels to reroute via the Cape of Good Hope, a longer alternative that increased travel distances by 4,000 to 6,000 nautical miles. This detour also exerted upward pressure on container transportation costs, equivalent to a 10 per cent increase in the cost per container for Europe.[102]

Although the passage through these strategic waterways has not been disrupted by the Gaza war, there have been increasing signals of potentially imminent disruptions through the Red Sea.[103] However, the risks associated with this instability could deter shipping companies

Key trade routes, particularly the Suez Canal and the Strait of Hormuz, are vital shipping choke points. Any disruption in these areas can have wide-reaching implications for both regional and global trade

from utilizing these critical routes, and there are already reports of higher shipment costs as a result of higher insurance premiums and freight costs.[104] These were particularly affected by the seizure of an Israeli cargo ship by the Houthis in the Red Sea in November 2023. From October 2023 onwards, there has been anecdotal evidence of a rise in global insurance premiums for transport in the Persian Gulf. There are also expectations for increasing Aqaba port's traffic, as traffic diverts from Haifa owing to the Gaza war and increased costs. This in turn may increase inflationary pressures on imported goods.[105] Trade with Iraq is also being impacted by the war, with a sit-in by members of Iraqi armed factions affiliated with the Popular Mobilization Commission entering a second month at the Trebil crossing between Iraq and Jordan, affecting commercial movement.[106] Egypt and Israel had also been working on strengthening their economic ties. In 2022, Egypt announced plans to increase trade with Israel from $330 million to $700 million within three years (excluding natural gas and tourism).[107] Lastly, potential obstacles against regional landmark projects like the Israel-Jordan-United Arab Emirates water/energy collaboration, and the India-Middle East-Europe economic corridor, are possible depending on the duration, scale and intensity of the Gaza war.

Regional banking: the outbreak of hostilities in any country can affect banking systems in other regional economies in the following ways: directly, either via cross-border exposure or through branch or subsidiary exposure;

exposure of bank customers in the home countries to counterparts directly impacted by a conflict; or the macro impact of war on the economies of the region. The 15-year Lebanese civil war had a limited impact on regional banks for most of the war. The major hit taken by banks (local and regional) was due to the devaluation of the currency, which eroded bank capital. When the conflict started in 2011, the Syrian Arab Republic had 14 private regional banks, which were encouraged by their parent regulators to gradually write down their investments in the country over time. Consequently, the general impact of the Syrian war on banks, while significant, was softened by this gradual approach to absorbing its effects. More recently, the continued depreciation of the national currency and loss of control over parts of its territory have caused significant erosion of capital. In addition, sanctions have created significant strain on the banking system. Iraq had a state-owned banking system over the period between its two latest wars, so no regional banks were exposed directly. The heavy sanctions on Iraq during that period further limited regional exposure. Trade with Iraq was weak and cash-based, so limited counterpart exposure existed at the outbreak of hostilities in 2003. The financial sectors of Lebanon and the Syrian Arab Republic were already in distress before 7 October 2023. In Lebanon, the banking sector remains in a critical condition. The country's protracted economic crisis, political stalemate and loss of faith in the financial system are hindering efforts to recover from the multi-level crisis since the dramatic currency devaluation in 2019. While the banks were allowed to remain in operation, their assets and equity have dropped significantly below their customer deposits. According to S&P Global,[108] to return to solvency (with a minimum capital adequacy ratio of 8.5 per cent), Lebanese banks need recapitalization with the equivalent of a minimum of 19 per cent of GDP, and a haircut of 18 per cent on foreign currency deposits, assuming no further devaluations. There is currently no agreement on the best way to address the Lebanese banking crisis, and the Central Bank is struggling to regain its leadership role to manage the recovery effort. The financial sector reform was a core component of the staff-level agreement reached with IMF in April 2022, but most of these reforms are still pending, which delays restoring confidence in the banking sector.

However, neither the Lebanese nor the Syrian banking sectors have direct links to the Palestinian banking system. Therefore, at this

Goran/via adobe stock

> The region suffers from high levels of **informal employment 71%** overall and as high as **87.8%** among young people

level of hostilities, the impact on the two markets is still limited. That being said, a prolonged conflict that extends into southern Lebanon could have a devastating impact. As for the Syrian Arab Republic, the impact is limited since the banks are already isolated. Three Jordanian banks in the Syrian Arab Republic have potential exposure to the State of Palestine and could be affected, but they are relatively large and are under no obligation to support their Syrian subsidiaries (all of which are reportedly written down on the parents' respective books). Jordan has the closest links to the State of Palestine, and the five Jordanian banks operating there have a total asset base of 5.8 billion Jordanian dinars in the State of Palestine ($8.17 equivalent), accounting for 9 per cent of the total assets of Jordanian banks, and for over 11 per cent of the total assets of the five banks.[109] However, these banks are reportedly well capitalized, large and diversified. Direct exposure for Egypt is limited to one bank with branches in Palestine (in both the West Bank and Gaza), with total assets of around $250 million. Economic activities between Gaza and Egypt have been almost completely suspended since Egypt closed the Rafah border crossing.

Labour market disruptions: the Arab region already had high unemployment levels (11.6 per cent in 2023),[110] especially for young people (26.2 per cent) and women (21.1 per cent), compared with global averages. The region also suffers from high levels of informality (71 per cent overall for the countries for which data is available, and as high as 87.8 per cent among young people), and weak formal private sectors that have not been able to create enough decent jobs over the last several decades. The impact of past conflicts in the region on labour markets has depended on the nature and length of the conflict, and is more likely to be materialize through spillover effects on key economic sectors in neighbouring countries. The aftermath of the Iraqi and Syrian crises led to considerable disruption in labour markets, primarily due to mass internal displacement and the influx of refugees. This influx often pushed refugees and IDPs into informal or precarious jobs, exacerbated by the limited issuance of work permits in host countries. This created a dual system where refugee workers, compelled to accept low-paying informal jobs, lessened the appeal of domestic workers to employers. The Syrian crisis had an especially large impact on labour markets in Jordan and Lebanon, given the large numbers of refugees in those countries. Studies on Jordan suggest a mixed effect, with a decline in Jordanian labour force participation in favour of migrant and refugee workers post-2011. This trend notably affected unskilled Jordanian men from lower wealth quintiles, leading to increased irregular employment and non-employment.[111] However, other studies have found that Syrian refugees competed more with other migrant workers than with Jordanians.[112] On the other hand, the rise in the refugee population prompted heightened demand for public services like health care and education, positively influencing the employment rate of Jordanian women, who are concentrated in these sectors.[113] In Lebanon, the influx may have resulted in a rise in informal employment, lowered wages and reduced participation rates, notably among women and young people.[114]

The ongoing Gaza war is expected to intensify difficulties in neighbouring labour markets, and will likely exacerbate the vulnerability of the most marginalized workers. Early reports from Lebanon point to risks of salary reduction and worker dismissals.[115] However, the above-mentioned impacts from past wars may not fully materialize from the current war, since both Palestinians and neighbouring Arab countries have so far ruled out the risk of another round of displacement.

Overall impact on GDP and poverty: given the regional spillover effects mentioned above, wars can have a negative impact on GDP and poverty in neighbouring countries and beyond. A World Bank report found that as a result of the Syrian crisis average annual GDP rates between 2011 and 2018 were reduced by 1.2 percentage points in Iraq, 1.6 percentage points in Jordan and 1.7 percentage points in Lebanon. However, it is not easy to establish a causality nexus in these analyses. In the case of Lebanon, slow growth and stagnation in that period was related to structural problems faced by the domestic economy and exacerbated by the crisis.

The report also found that the conflict pushed up poverty rates by 4 percentage points in Jordan, 6 percentage points in Iraq and 7.1 percentage points in Lebanon.[116] Apart from the potential increase in the rate of poverty owing to the anticipated spillover effects on GDP growth, sizeable informal employment among refugees is believed to have caused a drop in both wage levels and the labour force participation of locals, particularly women and young people, in host communities in Lebanon.[117] According to a report on Lebanon by the World Bank, an additional 170,000 people were pushed into poverty due to the Syrian crisis, and those who were already poor moved deeper into poverty.[118]

The impact on multidimensional poverty depends on the extent to which the Gaza war affects multidimensional poverty indicators, and service delivery systems in neighbouring countries. This mainly happens in situations involving cross-border population movements, which result in increased pressure on available services, such as health, education and housing.

The extent of the impact also depends on population groups involved. For example, impact on education depends on the share of the school-age population out of the total refugee population. The impact also depends on the degree of response to the crisis. For example, an increase in demand for schooling can be met by increased funding by the host Government or by other development partners. Some evidence suggests that the arrival of Syrian refugees in Jordan did not have a significant effect on the educational attainment and learning outcomes of Jordanian students.[119] The same report also shows that the availability of funds has shielded Lebanese host communities from the deterioration of education outcomes owing to the influx of Syrian refugees. By the same token, impact on health and on water and sanitation outcomes on one country owing to conflict in other countries is mainly due to increased service demand owing to refugee arrivals.

The impact of the Gaza war on multidimensional poverty in neighbouring countries could occur mainly through education and health outcomes. In the low intensity scenario, no refugees to the countries under analyses are expected, and therefore impacts on multidimensional poverty in those countries may be limited.[120]

Regional spillovers of specific conflicts in the Middle East into neighbouring countries

Roman/via adobe stock

Conflict/ indicator	Iraq invasion of 2003	Gaza war of 2008–2009	Syrian crisis (2011-present)	Gaza war of 2014
Oil prices	Brent crude one month impact: 17 per cent decline. Brent crude 12-month impact: roughly the same as the pre-invasion price	Limited	Limited	Limited
Inflation	Limited	Limited	Increase in rents and prices in Jordan, Lebanon and parts of Turkey owing to refugee influx	Limited
Public debt and fiscal pressures	Limited	Limited	Increased public debt and infrastructure strain in Jordan and Lebanon	Limited
Exchange rate and external sector	Limited	Limited	Limited direct impact on the exchange rate due to pegged exchange rates in Jordan and Lebanon, but sizable impact on reserves and the external sector	Limited
Tourism and trade	Sizable	Short term impact on neighbouring countries, especially Egypt, Jordan and Lebanon	Sizeable	Short term impact on neighbouring countries, especially Egypt, Jordan and Lebanon
Banking sector	Some reduction in foreign bank lending in the region owing to geopolitical risks	Limited	Some reduction in foreign bank lending in the region due to geopolitical risks	Limited
Poverty, labour markets, and the overall economy	Some disruptions in labour markets due to refugees	Limited	GDP growth in Iraq, Jordan and Lebanon decreased by 1.2, 1.6 and 1.7 percentage points, respectively, and poverty rates rose by 4 per cent in Jordan, 7.1 per cent in Lebanon and 6 per cent in Iraq	Limited
Security	Cross-border terrorism, intensification of separatism, and sectarian discord among neighbours of Iraq	Mainly short-term impact	Significant displacement leading to socioeconomic strains, and cross-border terrorism risks	Mainly short-term impact

B. Preliminary estimates of the socioeconomic impact of the Gaza war

The economic impact of the war will depend on its duration and intensity. The intensity of the conflict affects not just direct costs in terms of military spending and damages, but also indirect costs like loss of trade and investment, and the long-term impact on human capital.

The present paper's main scenario focuses on the conflict remaining primarily contained to Israel and the State of Palestine. In this scenario, neighbouring countries may experience some direct impact, mainly through loss of tourism, disruptions in trade, exchange rate pressures and inflation, and increased security concerns, which can have broader implications. The impact on tourism would likely be more notable for Egypt, Jordan and Lebanon. Overall, if the conflict remains limited to Gaza, the direct impact on the global economy is likely to remain muted.

However, should the conflict escalate to involve militants in Iraq, Lebanon, the Syrian Arab Republic and Yemen on a larger scale, the region could face heightened violence and instability. The ramifications of this second scenario are significant, because of the strategic importance of the Middle East in global energy supply. A broader regional conflict could push oil prices higher, contributing to increased global inflation and interest rates, potentially creating a drag on global growth. Such a scenario would likely have severe consequences for Lebanon and the Syrian Arab Republic, exacerbating existing economic challenges, including currency devaluation and inflation. Jordan, while not directly involved, could face increased fiscal pressures due to heightened security needs and refugee support. For Egypt, the main risks are the Suez Canal's security, potential disruptions in trade and tourism, further currency depreciation and rising costs of government borrowing. The broader region could experience increased inflation, heightened security concerns, a potential surge in humanitarian crises, and capital flight. However, this scenario has not been modelled as it is unlikely at the present time.[121]

Should the conflict escalate, the region could face **heightened energy prices and overall inflation**

1. Preliminary results of the computable general equilibrium model

It is anticipated that the impact of the Gaza war on regional tourism will persist into 2024, even if the war ends in 2023. Although there is no clear information on tourism trends, considering anecdotal evidence on the contribution of this industry to the economies of Egypt, Jordan and Lebanon in particular, and the effects of past crises on this sector in these countries,[122] the results reveal that the shock would lead to a significant reduction in tourism income in the last months of 2023, with a gradual recovery post-war.

Based on the above assumptions, it is estimated that, on average, tourism revenues may decline by approximately 5 per cent in 2023 and 6 per cent in 2024 in Egypt, by 9 per cent in both 2023 and 2024 in Jordan, and by 12 per cent in 2023 and 14 per cent in 2024 in Lebanon, relative to the 2023 no-war scenario. The spillover impact of a drop in tourism revenues, and a decrease in regional trade owing to a decline in economic activity in regional economies, are also taken into account.

Initial estimates of the economic impact of the Gaza war on neighbouring countries have been produced using global general equilibrium (CGE) models. As already mentioned, two scenarios of the conflict have been considered, with the channels of transmission of the war in mind. The first scenario assumes a three-month duration of the war at the current intensity and geographical scope; the second assumes a six-month duration also at the current intensity and geographical scope. Various additional assumptions are included in the scenarios, including no impact on oil and gas prices, a drop in tourism, total factor productivity (TFP), and fixed capital. The tourism shock incorporates the above assumption. The GTAP model is used to estimate the overall impact of the Gaza war in the short term, which tends to generate a higher range of estimates without considering potential policy responses.

Overall, **as the war hits the three-month mark, GDP in the countries most directly impacted is generally expected to drop relative to the**

baseline (no-war scenario). However, if the war extends to a second quarter (first quarter of 2024), the estimated economic loss is more likely to rise and to bring the neighbouring countries' per capita growth into the negative territory.[123] Overall, the aggregated estimated loss for the three concerned countries ranges from about $10.3 billion for a three-month war scenario to about $18 billion in the six-month scenario.

While these results are only initial and should be read as purely indicative, GDP loss is expected to be caused primarily by a decline in tourism and a rising overall uncertainty, which in turn negatively affects trade, investment, and productivity. The greater overall insecurity associated with rising trade costs also affects production costs.[124] In Lebanon, where exports are already at a low level, concerns about potential attacks on airports and seaports further compound the challenges faced by the country's trade infrastructure.

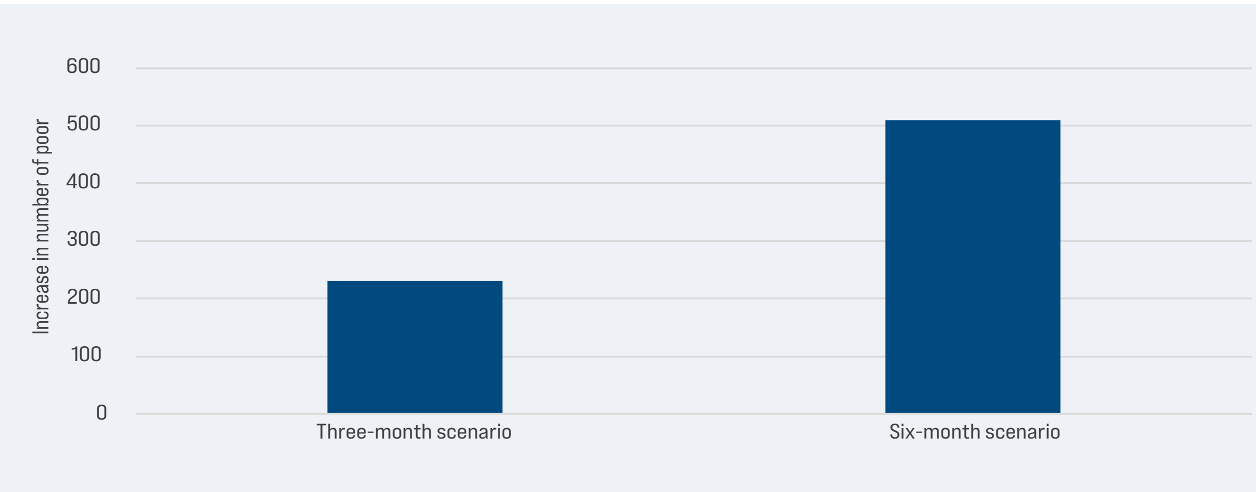
2. Macroeconomic accounting estimates

In addition, a sensitivity analysis was conducted using static macroeconomic accounting estimations, considering that these estimations may better capture more recent economic structures.[125] This approach follows the same assumptions and scenarios listed earlier. Under the three-month war scenario, the decline in tourism revenues and trade with regional countries indicates that the estimated total cost in terms of annual GDP (weighted average of the neighbouring countries) may be about 1.3 per cent, reaching around $5.7 billion just in these countries. If the war and regional tensions continue for six months, the estimated total cost in terms of regional GDP would be about 2.1 per cent, and the aggregate cost of the war for these countries is estimated to increase to about $9.5 billion. However, there are significant compounding risks. If the war exceeds three months and tensions increase, overall short- and medium-term costs will likely exceed these estimates, and the assumption of gradual normalization may no longer hold.

3. Initial poverty estimates

Initial estimates of the war's impact on poverty were conducted using the real GDP growth rate estimations from macroeconomic accounting. Poverty impact was estimated using the fixed World Bank LMIC and UMIC poverty lines. Results show that around 230,000 are expected to fall into poverty in Egypt, Jordan and Lebanon if the war ends after the assumed duration, compared with the 2023 baseline. The results also suggest that, when compared with the baseline, the war may result in more than half a million people falling into poverty if the war continues for six months (figure 1).[126]

Figure 1. Estimated potential increase in the number of poor (Thousands)



Source: Author calculations using the ESCWA Money Metric Poverty Assist Tool (MPAT).
Note: The poverty impact was estimated using the fixed World Bank MIC poverty lines for LMICs ($3.65 per day) for Egypt, and for UMICs ($6.85 per day) for Lebanon and Jordan, both in 2017 PPPs.

Estimated potential impact on human development in selected countries

The present section focuses on the potential impact of the war on the Human Development Index (HDI), the best known and most widely used composite measure of national human development achievement.[127] Existing literature indicates that conflict can extend its impact beyond borders, affecting economic growth and various human development variables in neighbouring countries.[128,129] For example, Sesay's empirical study in 2004, encompassing 72 developing countries, suggests that the presence of conflict in a neighbouring country has a detrimental effect on key indicators of HDI, such as literacy rates, life expectancy, and GDP per capita.[130]

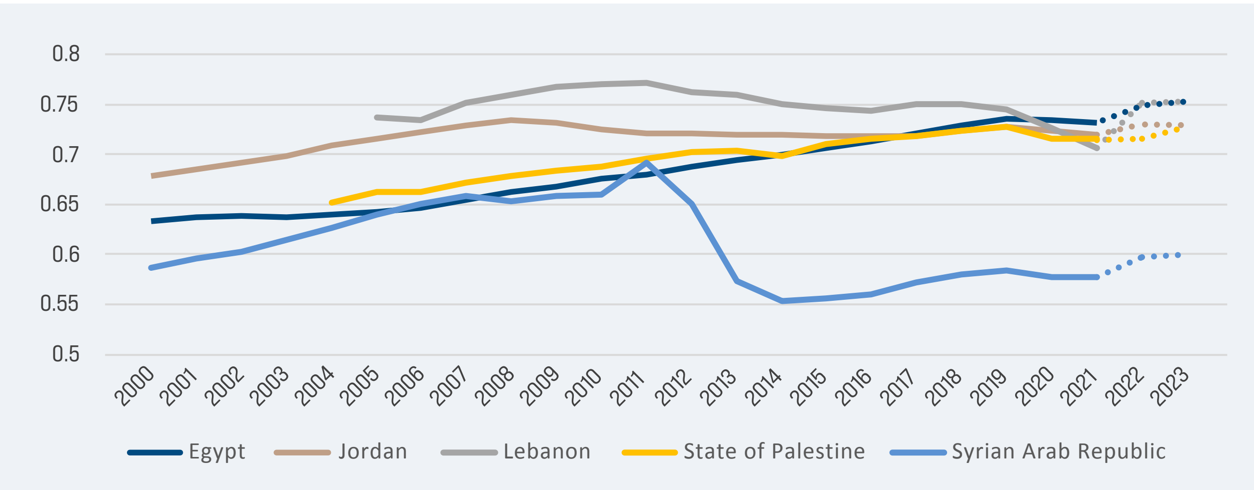
To estimate the HDI impact of the Gaza war, the present paper focuses on four neighbouring countries, namely Egypt, Jordan, Lebanon and the Syrian Arab Republic. HDI evolution before the Gaza war was stationary, with a decrease during 2020 and 2021 caused by the COVID-19 pandemic (figure 2). HDI values for 2021 varied across the selected countries, ranging from 0.577 in the Syrian Arab Republic to 0.731 in Egypt, with intermediate values of 0.706 in Lebanon, 0.715 in the occupied Palestinian territory and 0.720 in Jordan.

Figure 2 illustrates the evolution of HDI in neighbouring countries. A notable trend emerges when examining the period following the start of the conflict in the Syrian Arab Republic in 2011. While Egypt continues to experience an upward HDI trajectory, neighbouring countries such as Jordan and Lebanon, which were more intensely affected by the conflict through the influx of large numbers of refugees, have witnessed a decrease in their HDI over the five years following the onset of the Syrian crisis. In 2014, coinciding with the conflicts in the occupied Palestinian territory and Yemen and the plummet of oil prices, the data also show a decrease in HDI in all the selected countries except Egypt.

The following presents a baseline scenario (no war) and two alternative scenarios exploring the potential impact of the Gaza war on HDI in neighbouring countries. In the baseline (no war) scenario, HDI components were forecasted, namely life expectancy, expected years of schooling, mean years of schooling, and gross national income (GNI) per capita, using ARIMA models, which have demonstrated efficacy in projecting HDI in prior studies.[131,132] These models assume that HDI is influenced by its past values and moving average.[133] The projection was conducted using time series data spanning the period 2000–2019,[134] available from the Global Data Lab. The resulting projections were utilized to estimate HDI using the UNDP methodology.[135]

The following two scenarios are based on the outcomes broadly derived from the earlier simulations. Based on the findings from both the macroeconomic accounting and the CGE model discussed in the previous section, scenario 1 (spanning up to three months of war) posits on average no sizable declines in GNI per capita in 2023 in the neighbouring countries, with no decrease in the other HDI dimensions (expected years of schooling, average years of schooling, and life expectancy).

Figure 2. HDI evolution in Egypt, Jordan, Lebanon, the occupied Palestinian territory and the Syrian Arab Republic



Source: Data from the Subnational Human Development database of the Global Data Lab, version v7.0. Data for 2022 and 2023 are author forecasts using Autoregressive Integrated Moving Average (ARIMA) models. Data for the occupied Palestinian territory were available until 2022, so only 2023 data are forecasts.

In the second (upper bound) scenario (encompassing up to six months of war at the same intensity as the previous scenario), we assume a decline in GNI per capita with no average sizable decrease in the other HDI dimensions 2024.

The results of the simulation show that the variations under scenario 1 do not translate into a sizeable impact on the HDI of the neighbouring countries. However, scenario 2 brings to light the heterogeneous decline in HDI values across the potentially impacted countries, with a potential loss of at least three years.[136]

3 Conclusions and way forward

Clearly, conflicts in the Arab region have multifaceted economic impacts. They affect growth, poverty, income distribution, and human development indicators, and can threaten social and political stability and overall sustainable development.

The regional spillovers from past wars in the Middle East are transmitted through various channels, including trade disruptions, fluctuating oil prices, inflationary pressures, broader economic uncertainties, and refugee influxes.

The regional spillover effects underscore the interconnectedness of the region's economies, and the need for vigilant monitoring and proactive policy responses regarding the Gaza war. As the situation continues to evolve, so too must strategies to mitigate and eventually address the challenges both causing and being influenced by the war.

While the loss in human life in the Gaza war is extremely serious, its economic cost across the Middle East is quickly becoming apparent and estimated up to almost $25 billion, including the economic cost in the occupied Palestinian territory, depending on the assumptions used and based on the current regional low-intensity war scenario. These estimates could quickly worsen should the intensity and geographical scale of the war increase.

In the immediate and short term, the response measures related to the countries impacted by the hostilities are currently being managed with existing funds through reprogramming. It is therefore vital that additional assistance is made available to support affected communities and individuals, without impacting ongoing programming. After the war, fiscal consolidation is expected to be increasingly crucial to mitigate the economic impact.

However, if it is not properly designed and implemented, it may have a disproportionate negative impact on vulnerable groups, thereby reinforcing the cycle of people's grievance and distrust that has undermined the social contract across the region for decades.

The resilience of these economies hinges on the ability to manage such shocks. This requires regional solutions to create a vibrant private sector, adequate public service systems, and social spending that can help alleviate the impact on and accelerate recovery of disproportionately affected households, workers and economic sectors, while maintaining fiscal discipline and promoting inclusive and sustainable economic growth.

At the same time, international aid should not only include humanitarian assistance, which is crucial, but also policy advice and financial and technical assistance to help these countries holistically, and to sustainably navigate the complexities of regional spill-overs. As the international community grapples with these challenges, the lessons learned from past conflicts can inform more effective responses to this and future crises, that emphasize the importance of regional stability for collective economic health.

However, first and foremost, an immediate ceasefire is needed to save Gazan lives and reverse the destruction and despair that the Gaza war is inflicting on the region, including its dangerously escalating economic costs.

An immediate ceasefire is needed to reverse the destruction and despair that the Gaza war is inflicting on the region

Annex

Table 1. Select economic indicators: real sector

	Real GDP growth (Percent change, year over year)				Consumer price inflation (Percent change, year over year)			
	Average 2000–2019	2020	2021	2022	Average 2000–2019	2020	2021	2022
Arab world	**4.5**	**-4.3**	**3.8**	**6.0**	**4.8**	**6.1**	**9.1**	**8.9**
Oil exporters								
Algeria	3.3	-5.1	3.4	3.2	3.9	2.4	7.2	9.3
Bahrain	4.5	-4.6	2.6	4.9	1.8	-2.3	-0.6	3.6
Iraq	9.9	-12.1	1.6	7.0	9.5	0.6	6.0	5.0
Kuwait	3.6	-8.9	1.1	8.9	…	2.1	3.4	4.0
Libya	3.2	-29.5	28.3	-9.6	7.9	1.5	2.9	4.5
Oman	3.4	-3.4	3.1	4.3	2.1	-0.9	1.5	2.8
Qatar	9.0	-3.6	1.5	4.9	3.5	-2.5	2.3	5.0
Saudi Arabia	3.7	-4.3	3.9	8.7	1.8	3.4	3.1	2.5
United Arab Emirates	4.4	-5.0	4.4	7.9	3.2	-2.1	-0.1	4.8
Emerging market and middle-income countries								
Egypt	4.4	3.6	3.3	6.7	9.9	5.7	4.5	8.5
Jordan	4.5	-1.6	2.2	2.5	3.2	0.4	1.3	4.2
Lebanon	2.8	-25.9	-10.0	0.0	2.7	84.9	154.8	171.2
Morocco	4.1	-7.2	8.0	1.3	1.4	0.7	1.4	6.6
Syrian Arab Republic	…	…	…	…	…	…	…	…
Tunisia	3.1	-8.8	4.4	2.5	4.1	5.6	5.7	8.3
West Bank and Gaza	3.9	-11.3	7.0	3.9	2.8	-0.7	1.2	3.7
Low-income developing countries								
Djibouti	4.5	1.3	4.5	3.2	…	1.8	1.2	5.2
Somalia	…	-2.6	3.3	2.4	…	4.3	4.6	6.8
Sudan	2.6	-3.6	0.5	-2.5	21.2	163.3	359.1	138.8
Yemen	0.2	-8.5	-1.0	1.5	14.6	21.7	31.5	29.5

Source: IMF.

Table 2. Select economic indicators: fiscal sector

	General government fiscal balance (Percent of GDP)				Total government gross debt (Percent of GDP)			
	Average 2000–19	2020	2021	2022	Average 2000–19	2020	2021	2022
Arab world	**2.4**	**-8.6**	**-1.9**	**3.7**	**41.1**	**59.0**	**54.9**	**46.4**
Oil exporters								
Algeria	-0.5	-11.9	-7.2	-2.9	25.3	52.0	62.8	55.6
Bahrain	-4.7	-17.9	-11.0	-6.1	42.8	130.1	127.1	117.6
Iraq	-3.4	-12.9	-0.4	7.6	91.5	78.7	59.2	44.9
Kuwait	22.1	-11.7	-0.3	19.1	13.1	11.7	8.6	3.1
Libya	3.4	-22.3	14.8	23.2	...	...	...	...
Oman	2.4	-15.7	-3.1	7.4	16.0	67.9	61.3	40.0
Qatar	9.3	1.3	4.3	13.5	35.9	72.6	58.4	42.4
Saudi Arabia	3.1	-10.7	-2.3	2.5	31.1	31.0	28.8	23.8
United Arab Emirates	5.3	-2.5	4.0	9.9	13.0	41.1	35.9	31.1
Emerging market and middle-income countries								
Egypt	-7.4	-7.5	-7.0	-5.8	82.1	86.2	89.9	88.5
Jordan	-6.1	-8.6	-7.8	-7.3	75.1	88.2	92.1	94.1
Lebanon	-8.4	-3.5	0.6	-4.9	153.0	150.6	349.9	283.2
Morocco	-3.5	-7.1	-6.0	-5.2	54.7	72.2	69.5	71.5
Syrian Arab Republic	...	...	...	...	...	...	...	...
Tunisia	-3.3	-9.0	-7.6	-6.6	52.8	77.6	79.9	79.8
West Bank and Gaza	-3.9	-7.4	-5.2	-1.0	26.5	47.1	50.2	49.1
Low-income developing countries								
Djibouti	-3.7	-2.3	-2.7	-1.4	34.9	42.2	40.8	40.4
Somalia	...	0.3	-0.9	0.0	...	...	...	...
Sudan	-3.2	-5.9	-0.3	-2.5	106.3	275.2	187.9	186.2
Yemen	-4.1	-4.5	-0.9	-2.6	56.7	89.5	74.4	66.0

Source: IMF.

Table 3. Select economic indicators: external sector

	Current account balance (Percent of GDP)				Gross official reserves (In months of next year's imports)			
	Average 2000–2019	2020	2021	2022	Average 2000–2019	2020	2021	2022
Arab world	**7.4**	**-3.9**	**4.2**	**10.8**	**10.3**	**9.9**	**8.5**	**8.8**
Oil exporters								
Algeria	5.3	-12.8	-2.8	9.8	25.4	12.7	11.7	14.5
Bahrain	3.7	-9.4	6.6	15.4	2.2	1.0	1.7	1.9
Iraq	-0.6	-15.0	6.9	17.3	8.0	8.8	8.2	10.5
Kuwait	26.7	4.6	27.2	36.0	6.6	12.9	9.7	9.7
Libya	11.4	-8.5	-5.4	32.9	...	...	...	...
Oman	3.2	-16.2	-5.4	6.4	5.0	4.8	5.1	4.4
Qatar	16.9	-2.1	14.6	26.7	5.0	8.0	6.8	7.7
Saudi Arabia	12.3	-3.1	5.1	13.6	24.7	25.6	21.1	20.0
United Arab Emirates	9.5	6.0	11.5	11.7	2.9	4.0	4.0	4.1
Emerging market and middle-income countries								
Egypt	-1.0	-2.9	-4.4	-3.5	5.8	5.5	4.6	4.4
Jordan	-6.4	-5.7	-8.2	-8.8	6.9	8.7	7.6	7.6
Lebanon	-20.9	-15.7	-17.3	-28.8	10.6	12.1	6.8	5.2
Morocco	-3.0	-1.2	-2.3	-3.5	6.7	7.2	5.8	5.4
Syrian Arab Republic	...	...	...	...	...	...	...	...
Tunisia	-6.1	-5.9	-6.0	-8.6	3.5	4.5	3.6	3.2
West Bank and Gaza	-16.1	-12.3	-9.8	...	1.0	0.8	0.8	0.8
Low-income developing countries								
Djibouti	...	11.5	2.6	-4.8	...	1.6	1.3	1.2
Somalia	...	-4.5	-6.9	-8.2	...	...	...	...
Sudan	-8.9	-16.9	-7.5	-11.2	2.1	1.9	2.4	5.7
Yemen	-1.1	-17.0	-15.4	-17.8	6.3	0.8	1.3	1.0

Source: IMF.

Table 4. Select economic indicators: financial sector

	Capital adequacy ratios (Percent of risk-weighted assets)				Nonperforming loans (Percent of total gross loans; 90 DPD)			
		December 2021	December 2022	June 2023		December 2021	December 2022	June 2023
Arab world								
Oil exporters								
Algeria		...	...	...		...	...	...
Bahrain		18.7	19.5	19.3		3.2	3.0	3.1
Iraq		52.1	34.1	...		18.5	18.8	...
Kuwait		19.2	19.2	18.4		1.4	1.4	1.6
Libya		...	...	...		...	...	...
Oman		19.9	18.9	...		4.2	4.4	...
Qatar		19.2	19.3	...		2.4	3.6	...
Saudi Arabia		19.9	19.9	...		1.9	1.8	...
United Arab Emirates		17.1	17.4	...		7.3	6.6	...
Emerging market and middle-income countries								
Egypt		22.5	19.0	17.5		3.5	3.4	3.3
Jordan		18.0	17.3	...		5.0	4.5	...
Lebanon		...	...	...		...	...	...
Morocco		15.8	15.6	...		8.6	8.4	8.6
Syrian Arab Republic		...	...	...		...	...	...
Tunisia		13.4	...	...		...	...	...
West Bank and Gaza		14.4	14.6	14.6		4.2	4.0	4.1
Low-income developing countries								
Djibouti		11.3	...	...		6.7	...	...
Somalia		16.1	14.7	15.4		0.9	2.1	5.6
Sudan		7.1	...	...		0.3	...	...
Yemen		...	...	...		...	...	...

Source: IMF.

Table 5. monthly inflation in select countries over the past 24 months (Year-on-year percent change)

Date	Egypt	Jordan	Lebanon	West Bank and Gaza
November-2021	5.60	1.61	201.07	1.38
December-2021	5.90	2.40	224.39	1.30
January-2022	7.30	2.46	239.69	2.67
February-2022	8.80	1.95	214.59	2.97
March-2022	10.50	2.47	208.13	3.62
April-2022	13.10	3.59	206.24	3.78
May-2022	13.50	4.39	211.43	3.43
June-2022	13.20	5.17	210.08	4.47
July-2022	13.60	5.34	168.45	3.95
August-2022	14.60	5.36	161.89	3.15
September-2022	15.00	5.39	162.47	4.04
October-2022	16.20	5.23	158.46	4.40
November-2022	18.70	4.99	142.37	4.30
December-2022	21.30	4.36	121.99	4.09
January-2023	25.80	3.77	123.53	3.74
February-2023	31.90	4.25	189.67	4.04
March-2023	32.70	3.91	263.84	4.33
April-2023	30.60	2.93	268.78	3.86
May-2023	32.70	1.96	260.21	3.86
June-2023	35.70	1.17	253.55	3.11
July-2023	36.50	0.92	251.53	3.63
August-2023	37.40	0.88	229.85	4.90
September-2023	38.00	1.19	208.50	4.97
October-2023	35.80	1.36	215.43	7.21

Source: National statistical agencies.

Table 6. Select fiscal indicators

Subject descriptor	Units	2019	2020	2021	2022	2023	Estimates start after
Egypt							
General government revenue	Percent of GDP	19.3	18.2	18.6	18.9	18.1	2023
General government total expenditure	Percent of GDP	26.9	25.7	25.5	24.7	22.8	2023
General government structural balance	Percent of potential GDP	-7.3	-6.6	-7.1	-6.0	-4.6	2023
General government gross debt	Percent of GDP	80.1	86.2	89.9	88.5	92.7	2023

Government expenditure on education	Percent of GDP	-	-	-	-	-	
General government health expenditure	Percent of GDP	1.4	1.4	-	-	-	
Military expenditure	Percent of GDP	1.2	1.1	1.1	1.1	-	
Jordan							
General government revenue	Percent of GDP	24.3	22.7	25.4	26.6	26.9	2021
General government total expenditure	Percent of GDP	30.0	31.3	33.1	33.8	33.9	2021
General government structural balance	Percent of potential GDP	-3.6	-6.4	-5.0	-5.0	-4.4	2021
General government gross debt	Percent of GDP	78.0	88.2	92.1	94.1	93.8	2021
Government expenditure on education	Percent of GDP	3.0	-	3.2	3.2	-	
General government health expenditure	Percent of GDP	3.9	3.7	-	-	-	
Military expenditure	Percent of GDP	4.6	4.7	4.8	4.8	-	
Lebanon							
General government revenue	Percent of GDP	20.8	16.0	9.8	6.3	-	2021
General government total expenditure	Percent of GDP	31.2	19.6	9.1	11.3	-	2021
General government structural balance	Percent of potential GDP	-17.6	-5.4	0.4	-5.7	-	2021
General government gross debt	Percent of GDP	172.3	150.6	349.9	283.2	-	2021
Government expenditure on education	Percent of GDP	2.6	1.7	-	-	-	
General government health expenditure	Percent of GDP	3.5	2.6	-	-	-	
Military expenditure	Percent of GDP	4.2	3.0	3.4		-	
West Bank and Gaza							
General government revenue	Percent of GDP	23.1	25.3	25.2	28.2	28.1	2022
General government total expenditure	Percent of GDP	27.6	32.6	30.4	29.1	29.4	2022
General government structural balance	Percent of potential GDP	-	-	-	-	-	
General government gross debt	Percent of GDP	34.5	47.1	50.2	49.1	47.4	2022
Government expenditure on education	Percent of GDP	-	-	5.4	-	-	
General government health expenditure	Percent of GDP	-	-	-	-	-	
Military expenditure	Percent of GDP	-	-	-	-	-	

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