Preliminary Impact Brief

MILITARY ESCALATION IN THE MIDDLE EAST:

ECONOMIC AND HUMAN DEVELOPMENT IMPACTS IN THE ISLAMIC REPUBLIC OF IRAN

31 MARCH 2026

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Executive Summary

The military escalation in the Middle East poses significant risks to the Islamic Republic of Iran's (hereinafter referred to as 'Iran') economy and human development trajectory. The conflict has disrupted energy infrastructure and maritime trade routes, including traffic through the Strait of Hormuz, where commercial shipping has reportedly declined to near-halt conditions. Global oil prices increased by over 30 percent in the early phase of the escalation, contributing to inflationary pressures and rising import costs. These shocks are unfolding in an economy already affected by macroeconomic volatility, declining purchasing power, and the effects of sanctions. Iran's GDP per capita has fallen from over USD 8,000 in 2012 to about USD 5,000 in 2024, reflecting a prolonged erosion of living standards.

First, the conflict is expected to trigger a sharp economic contraction. UNDP simulations suggest that real GDP growth could decline by between 8.8 and 10.4 percentage points, relative to a no-war baseline scenario, reflecting disruptions to energy infrastructure, trade flows, and domestic economic activity. Such a contraction would significantly weaken household incomes and increase economic uncertainty in the near term.

Second, poverty is likely to increase significantly, forcing millions more into a state of deprivation. In 2023, approximately 36.3 percent of Iran's population (around 32.7 million people) were living below the upper-middle-income international poverty line of $8.30 per day (2021 PPP). UNDP simulations suggest that an additional 3.5 to 4.1 million people could fall below this threshold due to the conflict, potentially raising the poverty rate to as high as 41 percent. At the extreme poverty threshold of $3 per day, the number of people living in extreme poverty, estimated at around 2.3 million in 2023, could increase by a further 257,000 to 304,000.

Third, the conflict risks reversing recent gains in human development. Iran's Human Development Index (0.799 in 2023) could decline by 0.47–0.56 percentage points, equivalent to a loss of roughly one to one and a half years of human development progress, reflecting the combined effects of declining national income, disruptions to schooling, and conflict-related increases in mortality and morbidity.

The impacts may be particularly severe for households and workers in vulnerable situations. Around 39 percent of the working population in Iran works in the informal sector, making livelihoods highly sensitive to disruptions in economic activity. Iran's health system, where spending is about 6 percent of GDP and physician density is 1.8 per 1,000 people, may face additional strain as rising casualties and disruptions to essential services increase demand for care. Rising food prices, with food inflation reaching about 57.9 percent in 2025, further heighten risks to household welfare, particularly for poorer households that spend a large share of their income on food.

These pressures are intensifying the human consequences of the military escalation. Strikes across provinces have reportedly killed at least 1,900 people, including women and children, and damaged homes, schools, health facilities, and essential services, while displacement and localized environmental damage are further undermining human wellbeing. With renewed disruptions to supply chains, access to essential goods, and household purchasing power are likely to leave families with fewer options to cope. Together, these intersecting shocks are expected to exacerbate the systemic vulnerabilities facing millions of people.

Information on the military escalation is evolving rapidly, and many casualty and incident figures remain difficult to verify independently in real time. This note therefore draws on the best available information at the time of at the time of writing (March 30th), while recognizing that reported figures and assessments may change as additional evidence emerges. At the same time, civilians, and civilian infrastructure must be respected and protected at all times in accordance with international humanitarian law.

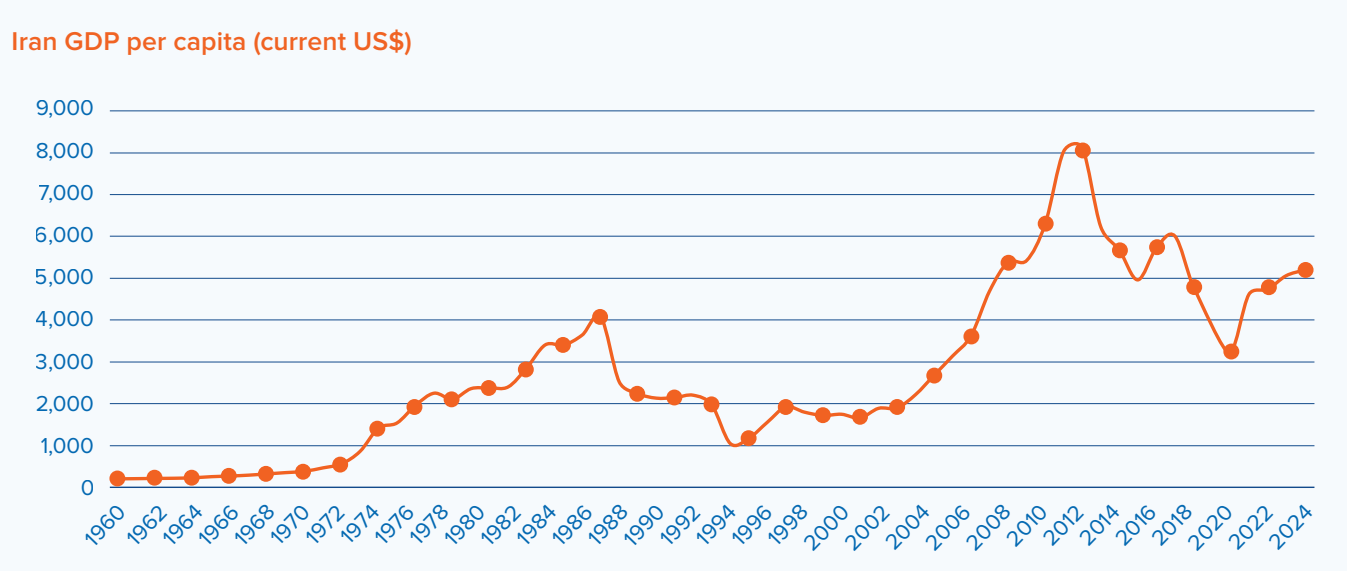
1. Context and Baseline Conditions

Since the military escalation in the Middle East, there have been reports of impacts on energy-producing infrastructure, including oil and natural gas facilities, while commercial vessels in the region have also come under threat. The escalation has restricted traffic through the Strait of Hormuz. Reports indicate that commercial shipping through this critical energy transit route has declined to near-halt conditions, constraining a corridor through which approximately one-fifth of global oil supply normally flows.[1]

These disruptions have significantly affected global energy markets. Oil prices increased by over 30 percent in the early phase of the escalation[2], with further volatility likely, should disruptions persist.[3] Higher oil prices and shipping costs are expected to transmit inflationary pressures globally, particularly affecting fuel-importing economies and raising the cost of traded goods. Beyond the economic effects, the human toll of the conflict continues to rise, underscoring that the most immediate welfare loss remains that of human life. Available reports suggest that over 1,900 people have been killed and more than 24,500 injured in Iran[4], although figures remain subject to rapid change and limited independent verification.

These developments occur against the backdrop of a fragile Iranian economy shaped by macroeconomic volatility, structural constraints, and decades of sanctions. As illustrated in figure 1 below, Iran's GDP per capita (current USD) has exhibited long-term volatility since 1960, with repeated downturns associated with sanctions episodes and external shocks. After peaking at above USD 8,000 in 2012, GDP per capita fell sharply following renewed sanctions and[5] remained around USD 5,000 by 2024, reflecting a prolonged erosion of purchasing power and living standards.

FIGURE 1: IRAN GDP PER CAPITA – 1960-2024



Source: World Bank World Development Indicators

Macroeconomic pressures have intensified in recent years. Inflation has remained persistently high, averaging above 40 percent over the past several years and projected to rise to 55 percent in 2026 before easing to around 50 percent in 2027.[6] The Iranian rial has also experienced significant depreciation, reaching roughly 1.45 million rials per US dollar by late 2025, further increasing the domestic cost of imports and essential goods.[7]

1 Economist Intelligence Unit: Global | EIU
2 Federal Reserve Bank of St Louis: Crude Oil Prices: Brent - Europe (DCOILBRENTEU) | FRED | St. Louis Fed; Yahoo Finance: Brent Crude Oil Last Day Financ (BZ=F) Stock Price, News, Quote & History - Yahoo Finance
3 Federal Reserve Bank of St Louis: Crude Oil Prices: Brent - Europe (DCOILBRENTEU) | FRED | St. Louis Fed
4 Al Jazeera Live Tracker: US-Israel attacks on Iran: Death toll and injuries live tracker | Conflict News | Al Jazeera. Accessed 30 March, 2026.
5 World Bank Data: GDP per capita (current US$) - Iran, Islamic Rep. | Data
6 Economist Intelligence Unit Data: Explore data | EIU
7 Economist Intelligence Unit Data: Explore data | EIU

Recent economic performance has also weakened. GDP growth slowed to 3.1 percent in 2024/25.[8] Oil GDP growth fell to 4.6 percent, down from 18.8 percent the previous year, while non-oil activity expanded by roughly 3 percent, led mainly by wholesale and retail services.[9] Labor market outcomes remain weak: on average only 38 percent of Iranians aged 15 and above are employed, and female employment remains particularly low at around[10] 12 percent of women aged 15 and above.[11] Poverty was estimated at 36 percent in 2023/24, based on both. government defined poverty lines[12] and the World Bank upper-middle-income international poverty line of US$8.30 per person per day (2021 PPP).[13]

Looking ahead, the military escalation significantly worsens Iran's near-term macroeconomic outlook. UNDP model simulations, assuming a 28-day shock transmitted through trade disruption, productivity losses, and capital destruction, suggest that real GDP growth could contract by 8.8 to 10.4 percentage points (as shown in table 1), relative to a no-war baseline scenario, reflecting disruptions to energy production, trade and domestic economic activity.

TABLE 1: SIMULATED IMPACTS FOR IRAN: VARIATION RELATIVE TO NO-WAR SCENARIO (%)

Scenario	Low scenario: Trade cost x 10	Trade cost x 20	Trade cost x 50	Trade cost x 100	High scenario: Trade cost x 100 + TFP shock
Scenario Meaning	Manageable but widespread frictions	Sustained disruptions, higher costs	Major bottlenecks, strong spillovers	Near breakdown of trade routes	Near breakdown of trade routes and conflict-induced halt in hydrocarbon production
GDP	-8.8	-9.0	-9.3	-9.7	-10.4
Years of HD progress lost or delayed	-1.3	-1.3	-1.4	-1.4	-1.5
Population Pushed in Poverty, $3.0 (2021 PPP)	257,574	263,428	272,209	283,917	304,406
Population Pushed in Poverty, $8.3 (2021 PPP)	3,497,473	3,576,961	3,696,193	3,855,167	4,133,378

Source: UNDP estimations
Note: A set of five simulation scenarios representing different levels of conflict intensity. In these simulations, trade costs were progressively increased from 10 to 100 times their baseline values during the conflict period. In addition, a high scenario was simulated featuring a complete energy sector shutdown, modeled as a temporary Total Factor Productivity (TFP) shock. This captures a significantly large impact in the extraction sector, driven by operational disruptions, reduced efficiency, energy market volatility, and uncertainty. All results are reported as percentage deviations from a no-war baseline scenario for 2026.

Iran entered the crisis from a relatively narrow position within the upper-middle-income country category, with income levels only marginally above the World Bank threshold. Emerging macroeconomic pressures, including contracting output and persistently high inflation, were already eroding real incomes prior to the escalation. Even in the absence of additional shocks, income levels were likely to decline toward the lower bound of the UMIC range. The additional impact of the current crisis, as reflected in UNDP simulations, is expected to intensify this downward trajectory, and raise the likelihood that Iran could transition into lower-middle-income country status in the near-term.

Although public debt remains relatively low at around 14 percent of GDP, the government faces limited fiscal space, restricted access to international finance, and high inflation.[14] Hence in the medium term, growth prospects are expected to remain constrained.

8 Central Bank of Iran (CBI). Link: https://nournews.ir/en/news/233684/Iran%E2%80%99s-economy-grew-by-31-in-year-to-late-March-CBI
9 World Bank: Islamic Republic of Iran | World Bank Group. Link: https://www.worldbank.org/ext/en/country/iran
10 World Bank Data: Employment to population ratio, 15+, total (%) (modeled ILO estimate) - Iran, Islamic Rep. Link: https://data.worldbank.org/indicator/SL.EMP.TOTL.SP.ZS?locations=IR
11 World Bank WDI, Employment to population ratio, 15+, Female (%). Link: https://data.worldbank.org/indicator/SL.EMP.TOTL.SP.FE.ZS?locations=IR
12 The New Background of the Poverty Rate, Donya-e Eqtesad, October 22, 2025 (30 Mehr 1404), news no. 4222479. Link: https://donya-e-eqtesad.com/%D8%A8%D8%AE%D8%B4-%D8%B3%DB%8C%D8%A7%D8%B3%D8%AA-%DA%AF%D8%B0%D8%A7%D8%B1%D-B%8C-100/4222479-%D9%BE%D8%B4%D8%AA-%D8%B5%D8%AD%D9%86%D9%87-%D8%AC%D8%AF%DB%8C%D8%AF-%D9%86%D8%B1%D8%AE-%D9%81%D9%82%D8%B1
13 World Bank Poverty and Inequality Indicators, Iran. Link: https://pip.worldbank.org/poverty-calculator
14 Economist Intelligence Unit Data: Explore data | EIU

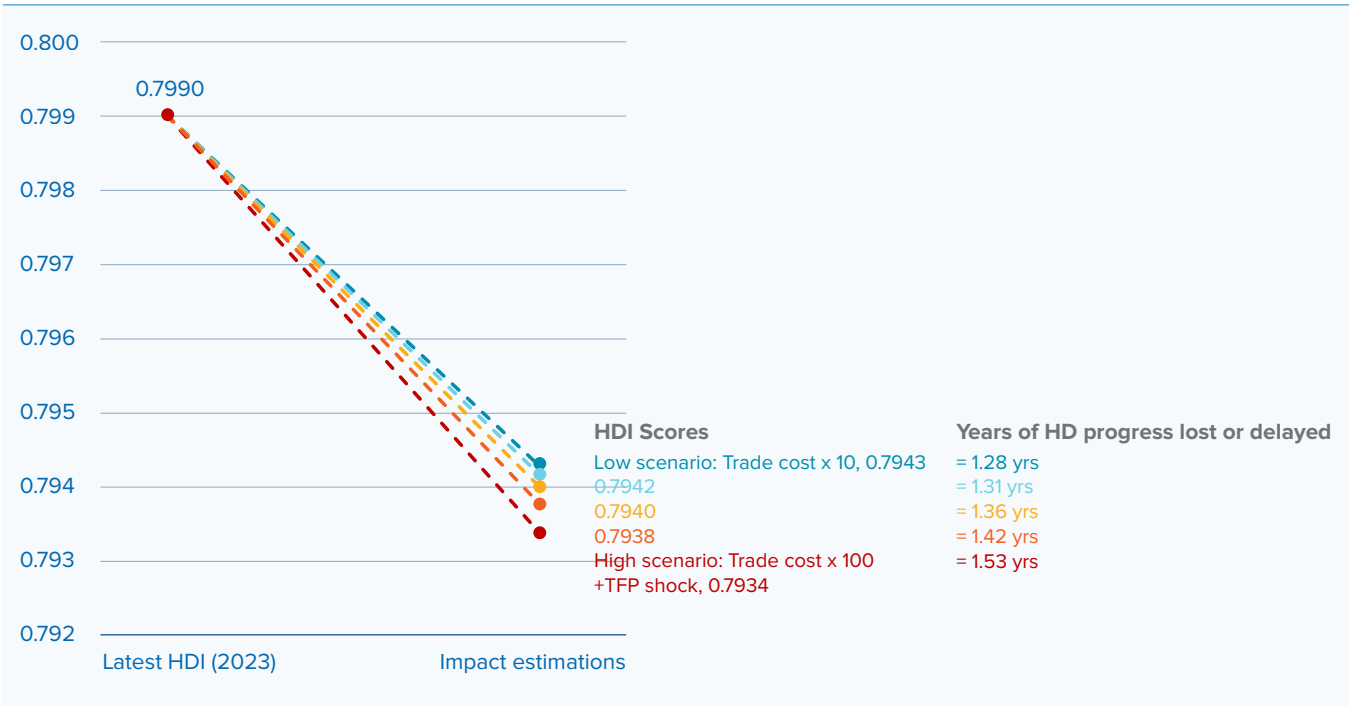
2. Social and Human Development Impacts

Beyond its macroeconomic effects, the conflict is also generating significant social and human development impacts through its effects on poverty, livelihoods, health, education, and overall wellbeing.

2.1 Human Development Index Impacts

Iran's most recent human development index estimate was 0.799 in 2023 placing the country in the high human development category. Notwithstanding significant fluctuations in per capita income, HDI steadily increased from the 1990s up until the present.[15] This progress, despite the sanctions environment, was driven in large part by continued expansion in education, health, and social services over the period.[16,17] In the post-COVID era and ahead of the conflict, human development continued to improve in Iran as gains in GNI, driven by a post-COVID rebound in services and consumption, higher oil revenues, exchange rate-induced competitiveness, and gradual economic adaptation to sanctions, supported incomes despite underlying structural constraints.[18] UNDP simulations indicate that Iran's HDI could decline by 0.47-0.56 percentage points (see figure 2) resulting in the equivalent of a year to a year and a half loss of human development progress. This outcome reflects the dramatic decline in aggregate output and the associated significant decrease in gross national income, together with conflict-related disruptions to schooling and conflict-induced increases in mortality and morbidity. In addition, the conflict has the potential to have longer term implications for health through indirect damage to health systems and population wellbeing.

FIGURE 2: ESTIMATED IMPACT ON HDI



Source: UNDP estimation

15 UNDP: Human Development Index | Human Development Reports

16 Iran's high human development success despite sanctions, Press TV, May 10, 2025. Link: https://www.presstv.ir/Detail/2025/05/10/747679/Iran-s-high-human-development-success-despite-sanctions-?ht-comment-id=24991957

17 The Paradox of Development in Iran, Foreign Policy Association, accessed March 30, 2026. Link: https://fpa.org/the-paradox-of-development-in-the-islamic-republic-of-iran/

18 World Bank: Iran Economic Monitor - Adapting to the New Normal : A Protracted Pandemic and Ongoing Sanctions; Islamic Republic of Iran | World Bank Group

Though not directly measured in the general HDI measure, it is quite clear that the conflict is also accelerating environmental degradation, as fires, debris, and damaged industrial sites release toxins into air, soil, and water, undermining ecosystems that communities rely on for food security, livelihoods, and long-term resilience.

The impact of the conflict on these important social sectors and the concomitant implication for human welfare is further discussed in sections 2.5 and 2.6.

2.2 Poverty Impacts

Iran's population is just over 90 million[19] with about 2.3 million[20] (2.6 percent of the population) estimated to be extremely poor as of 2023 down from 2.5 million extreme poor in the aftermath of the COVID-19 global pandemic. Conflict often has profound and devastating effects on the lower end of the income distribution, exacerbating poverty and widening inequality. Capital destruction can undermine livelihoods and employment, while rising inflation -- already elevated in Iran and further intensified by energy price increases and exchange rate depreciation – erodes purchasing power for poorer households. Displacement further limits earning opportunities and increases vulnerability. The escalation has already triggered large-scale displacement, with an estimated 1.9 to 3.2 million people (600,000 to one million households) displaced across affected areas, according to UNHCR.[21] Overall, around 60 million people are estimated to be directly affected, with widespread disruptions to essential services, including health, education, water and sanitation, and food supply.[22]

UNDP simulations show that the number of people living under $3 per day could ratchet up by 257,574 all the way up to 304,406 depending on the size of the conflict related shock (see figure 3-panel a). This 0.33 percent point increase in the proportion of people living in extreme poverty reflects only one dimension of poverty. As an upper-middle-income country, Iran is likely to experience a larger increase in the number of people falling into vulnerability or near-poverty.

Figure 3, panel B employs the $8.30 per day international poverty line (2021 PPP), a more appropriate measure for Iran given its upper-middle-income country status and a measure that tends to mirror the government defined poverty line.[23] Based on this threshold, approximately 32.7 million (36.3 percent of the population) people were estimated to be living in poverty in 2023, compared with around 35 million in the previous year, reflecting some improvement prior to the recent military escalation.[24] UNDP simulations suggest that the number of people living below $8.30 per day could increase by between 3.5 and 4.1 million, depending on the magnitude of the conflict-related shock. This represents a substantial deterioration in welfare, equivalent to 3.9 to 4.6 percent of Iran's population falling into poverty, potentially raising the overall poverty rate to as high as 41 percent. As events continue to unfold and more information becomes available on the location of affected populations, patterns of displacement, and the extent of capital destruction, a clearer picture will emerge regarding the pathways through which livelihoods, income opportunities, and local economic activity may recover.

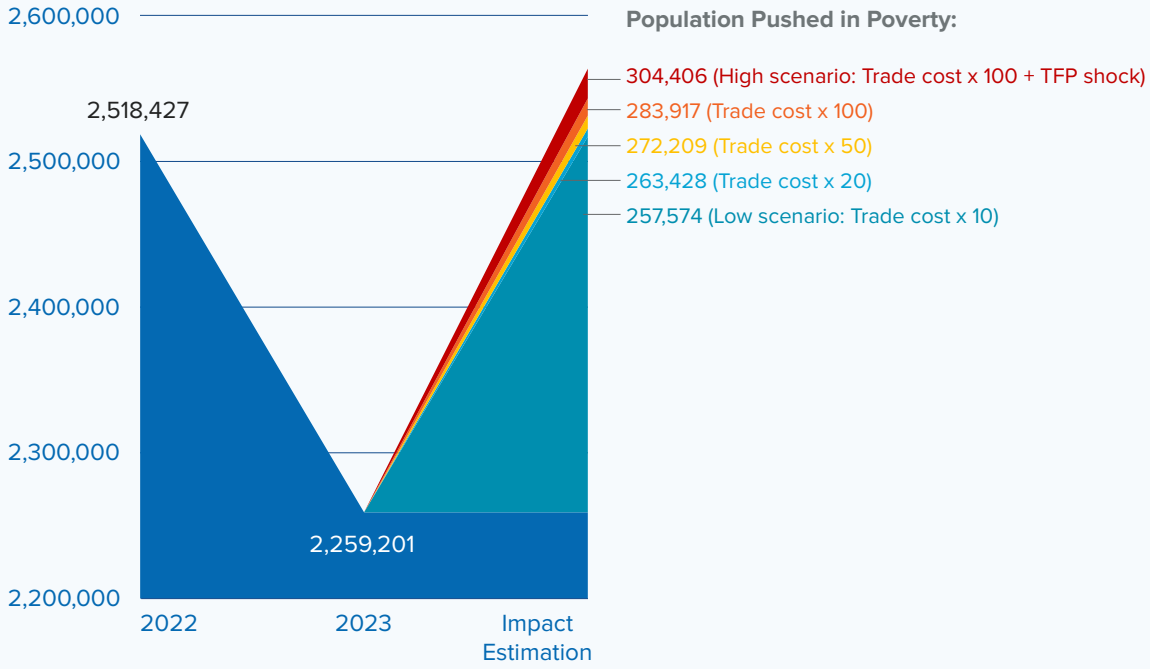
At the same time, displacement and damage to housing and basic services (which are already occurring) are likely to increase urban poverty and push people in vulnerable situations ("near-poor" households) into poverty. Rising food and energy prices are regressive and may deepen poverty even where headcount changes appear modest, with disproportionate impacts on informal workers, female-headed households, refugees, and rural communities.

19 UN Population Division Data Portal: https://population.un.org/dataportal/data
20 World Bank Poverty and Inequality Platform (PIP), Iran. Link: https://pip.worldbank.org/poverty-calculator
21 UNHCR Middle East Situation Report, 16 March 2026: Document - Middle East Situation - as of 16 March 2026; Reliefweb: Iran, MENA | Complex Emergency - Emergency Appeal Operational Strategy (MDRIR018) - Iran (Islamic Republic of) | ReliefWeb
22 UNHCR: https://www.unhcr.org/news/press-releases/unhcr-3-2-million-iranians-temporarily-displaced-iran-conflict-intensifies
23 Poverty and the Collapse of Human Dignity in Iran, Iran Human Rights Monitor, October 17, 2025.
24 World Bank Poverty and Inequality Indicators, Iran. Link: https://pip.worldbank.org/poverty-calculator

FIGURE 3: ESTIMATED IMPACT ON POVERTY

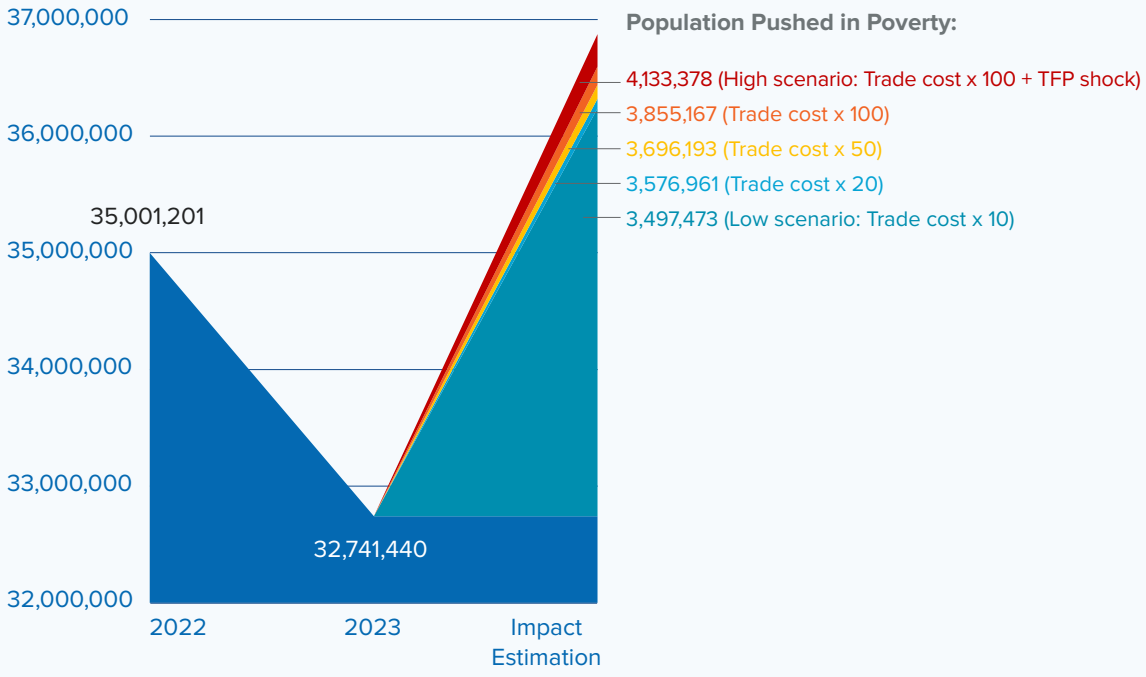
Panel A: International Extreme Poverty Line $3.0 (2021 PPP)

Population living below the poverty line



Panel B: International Poverty Line for Upper-Middle-Income Countries $8.3 (2021 PPP)

Population living below the poverty line



Source: UNDP estimation; World Bank Poverty and Inequality Platform (PIP)[25]

25 https://pip.worldbank.org/poverty-calculator

2.3 Employment and Livelihood Impacts

The military escalation is affecting employment and livelihoods in Iran through disruptions to economic activity, mobility, and supply chains. Humanitarian assessments indicate that livelihoods are at risk due to market instability, temporary business closures, reduced consumer activity, and uncertainty linked to the conflict, which may disrupt income-generating activities for households and small businesses.[26] Transport interruptions and mobility restrictions, including curfews, and supply chain and payment disruptions, may also affect sectors reliant on trade, services, and logistics, potentially reducing labor demand and disrupting daily income opportunities, particularly for informal workers.

Livelihood pressures have been compounded by large-scale displacement, with initial estimates suggesting that about 3.2 million people had been displaced as of 12 March 2026.[27] Iran also hosts around 1.65 million refugees, mostly Afghans, whose livelihoods are particularly vulnerable.[28] About 24,600 people have returned to Afghanistan since 28 February 2026.[29]

Informal workers, an important component of the labor market in Iran, account for about 39 percent of the working population, with many workers engaged in small enterprises and self-employment activities that depend heavily on daily economic activity and local markets that are highly sensitive to disruptions in mobility and demand.[30] A significant share of employment in Iran is also concentrated in the services sector, which accounts for about half of total employment.[31] Many jobs are concentrated in small firms and self-employment activities that depend heavily on consumer demand and daily market transactions.[32] Disruptions to mobility, transport networks, and consumer activity during the conflict are affecting the operations of many small enterprises and self-employed workers whose livelihoods rely on continuous economic activity. Limited access to formal finance further constrains the ability of small enterprises to absorb economic shocks and sustain employment during periods of instability.[33]

Construction, agriculture, and informal economic activities have also been strained by damage to productive assets, with more than 6,800 commercial units reportedly damaged by 15 March.[34] Telecommunications disruptions have affected Iran's digital commerce market, on which an estimated 10 million people rely, while disruption to the Shetab interbank network has interrupted income flows for workers and businesses, including many women-run home-based enterprises.[35]

2.4 Food Security Impacts

Food security risks in Iran are rising as the conflict compounds already high food price inflation and declining purchasing power. According to the World Food Programme, food inflation in Iran reached about 57.9 percent year-on-year in September 2025, reflecting sharp increases in the cost of staple foods (see figure 4).[36] High food inflation significantly reduces real incomes and increases the likelihood that households in vulnerable situations reduce dietary quality or consumption.

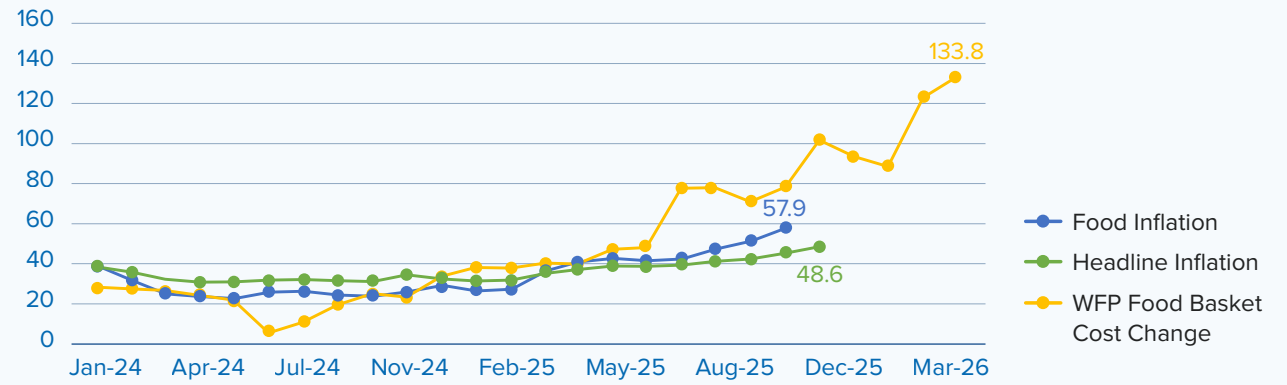
These price shocks are particularly concerning because poorer households spend a large share of their income on food. Households in the bottom consumption quintile spend around 45 percent of their total consumption on food, compared with about 26 percent for the richest quintile, making low-income households especially vulnerable to food price increases.[37] While the Government has introduced a recent scheme providing approximately $6.8 per person per month for essential food items, alongside an existing cash transfer of around $2–3 per person per month, the level of support remains modest relative to prevailing food price inflation and may be insufficient to offset rising costs.[38]

26 IFRC emergency update: https://reliefweb.int/report/iran-islamic-republic/iran-islamic-republic-complex-emergency-2026-dref-operation-mdrir018
27 UN Office for the Coordination of Humanitarian Affairs (OCHA), Islamic Republic of Iran: Humanitarian Update No. 01, 17 March 2026. https://reliefweb.int/attachments/980e5de8-cbcd-40ad-b4c2-e1521c1e6b9f/IranUpdate_Asof17March.pdf
28 Ibid.
29 Ibid.
30 Statistical Center of Iran (2021).
31 World Bank Open Data. https://data.worldbank.org/indicator/SL.SRV.EMPL.ZS?locations=IR
32 World Bank – *Iran Economic Monitor (Spring 2024)* https://documents1.worldbank.org/curated/en/099051007102421530/pdf/IDU-39800829-628d-4b5a-a9f9-728b946987e4.pdf
33 World Bank – *Iran Economic Monitor (Spring/Summer 2023)* https://openknowledge.worldbank.org/server/api/core/bitstreams/1c94cb80-5f40-408f-a5c7-c7cfd97dc438/content
34 UN Office for the Coordination of Humanitarian Affairs (OCHA), Islamic Republic of Iran: Humanitarian Update No. 01, 17 March 2026. https://reliefweb.int/attachments/980e5de8-cbcd-40ad-b4c2-e1521c1e6b9f/IranUpdate_Asof17March.pdf
35 Ibid.
36 World Food Programme. https://dataviz.vam.wfp.org/the-middle-east-and-northern-africa/iran-(islamic-republic-of)/economic/inflation
37 World Bank, Iran Poverty Diagnostic, 2023: https://openknowledge.worldbank.org/entities/publication/a184a627-677f-4d33-b032-244e394aff70
38 Information drawn from national sources.

The conflict could further intensify these pressures through disruptions to food imports and maritime trade. Much of Iran's grain imports pass through the Strait of Hormuz, a key global shipping route. Shipping disruptions around the strait are raising concerns about delays to grain shipments, even though Iran reportedly maintains strategic wheat reserves of about 4 million tonnes.[39] Prolonged disruption to shipping routes could therefore tighten domestic supply and increase food insecurity risks.

Evidence from research on food insecurity in Iran indicates gender and rural disparities in vulnerability. A systematic review of national studies estimates that food insecurity prevalence among women is about 51.3 percent, compared with 47.8 percent among men, suggesting higher exposure among women to inadequate access to food.[40] The review also finds that food insecurity is substantially higher in rural areas (around 66.1 percent) than in urban areas (about 47.1 percent). These findings suggest that rising food prices and supply disruptions could disproportionately affect women and rural households.

FIGURE 4: INFLATION TREND IN IRAN



Source: World Food Programme[41]

2.5 Health System and Public Health Impacts

The escalation of the conflict is increasing pressure on Iran's health system through rising casualties and disruptions to essential services. The World Health Organization (WHO) reports that the conflict has resulted in thousands of injuries and growing demand for trauma and emergency care, placing additional strain on hospitals and health workers.[42] Humanitarian updates indicate that airspace closures, transport interruptions, and heightened security measures are restricting mobility and may affect access to medical assistance and the delivery of health services.[43] Damage to energy and desalination infrastructure is also increasing environmental and water-related health risks for millions.[44]

Iran spends about 6 percent of GDP on health,[45] and has around 1.8 physicians per 1,000 people.[46] These indicators suggest that, while Iran has a relatively developed health care system for the region and has demonstrated resilience in responding to previous shocks, limited physician density may nonetheless constrain the system's ability to absorb sudden increases in demand for emergency and trauma care during conflict, potentially affecting access to essential health services. In addition, out-of-pocket payments account for roughly 43 percent of total health expenditure, meaning households bear a significant share of healthcare

39 Financial Times: https://www.ft.com/content/1ede5591-54f3-4589-8aec-109772635262
40 Arzhang et al. (2022), *Prevalence of household food insecurity among a healthy Iranian population: A systematic review and meta-analysis,* Frontiers in Nutrition. https://pmc.ncbi.nlm.nih.gov/articles/PMC9707736/
41 World Food Programme. https://dataviz.vam.wfp.org/the-middle-east-and-northern-africa/iran-(islamic-republic-of)/economic/inflation
42 WHO, *Health impacts of the escalation of conflict in the Middle East:* https://www.who.int/news-room/feature-stories/detail/health-impact-of-the-escalation-of-conflict-in-the-middle-east
43 IFRC / Relief Web. Iran, Islamic Republic of – Complex Emergency 2026 (DREF Operation MDRIR018) https://reliefweb.int/report/iran-islamic-republic/iran-islamic-republic-complex-emergency-2026-dref-operation-mdrir018
44 World Health Organization (WHO), Middle East Escalation of Conflict: Situation Report No. 2, 11–18 March 2026 (Cairo: WHO Regional Office for the Eastern Mediterranean, 19 March 2026)
45 World Bank. World Development Indicators database. https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?locations=IR
46 World Bank. World Development Database. https://data.worldbank.org/indicator/SH.MED.PHYS.ZS?locations=IR

costs.[47] Rising medical needs and potential disruptions to healthcare delivery during the conflict could therefore place additional financial pressure on households, increasing the risk of poverty and worsening human development outcomes.

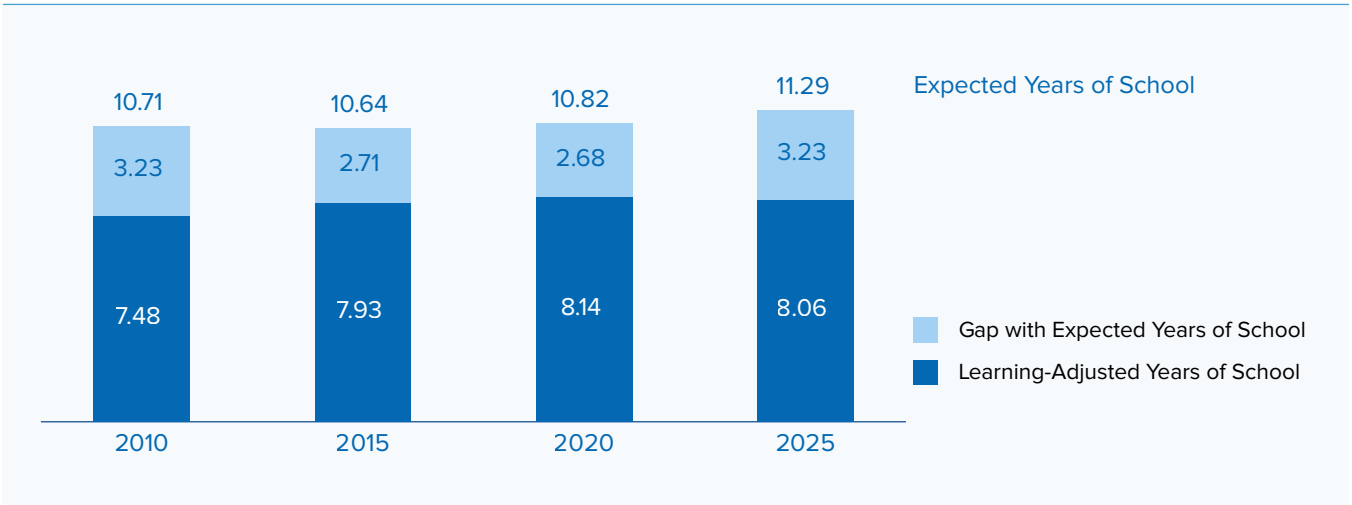
Disruptions to health services during the conflict may disproportionately affect people in vulnerable situations in Iran. Research on health equity in the country highlights persistent inequalities in health outcomes, healthcare utilization, and health financing associated with socioeconomic status and place of residence, indicating that disadvantaged populations may face greater barriers to care when health systems are under strain.[48]

2.6 Education and Human Capital Impacts

The military escalation is disrupting education in Iran through damage to school infrastructure, insecurity affecting students and teachers, and temporary school closures in affected areas. The UN Office for the Coordination of Humanitarian Affairs OCHA reported that over 60 schools had been damaged or destroyed, while over 200 children had been killed and many more injured.[49] These disruptions are likely to interrupt learning and increase absenteeism or delay school progression, particularly if insecurity persists.

Interruptions to schooling could also have longer-term implications for human capital formation. According to the World Bank Human Capital Project, children in Iran can expect about 11.29 years of schooling, but this corresponds to about 8.06 learning-adjusted years of schooling, reflecting the gap between time spent in school and actual learning outcomes (see figure 5).[50] Disruptions to schooling during the conflict could therefore worsen existing learning gaps, exacerbating learning losses and further reducing the effective accumulation of skills and knowledge needed for future productivity and workforce development.

FIGURE 5: GAP BETWEEN YEARS OF SCHOOLING AND LEARNING OUTCOMES



Source: World Bank Human Capital Data Portal[51][52]

47 World Bank. World Development Database. https://data.worldbank.org/indicator/SH.XPD.OOPC.CH.ZS?locations=IR

48 Vosoogh-Moghaddam et al., 2021, Health equity in Iran: A systematic review – https://pmc.ncbi.nlm.nih.gov/articles/PMC8271272/

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Conclusion

Overall, the analysis points to a clear pattern: the military escalation is not only generating immediate human suffering, but also interacting with pre-existing macroeconomic fragility, high inflation, and sanctions, resulting in potentially large and compounding human development losses. The simulations in this note, based on a 28-day shock scenario, already suggest a sharp contraction in growth, a substantial rise in poverty, and a measurable reversal in human development progress. These findings imply that, even if the conflict were to continue only for a few more weeks, the adverse effects on incomes, prices, livelihoods, and access to essential services would likely intensify, particularly for households and workers in vulnerable situations.

If the conflict were to continue for several more months, the effects described in this note would likely become broader, deeper, and more difficult to reverse. Prolonged disruption to trade, mobility, productive assets, schooling, health services, and local markets would increase the risk that temporary shocks harden into longer-term human development losses, including through deeper poverty, greater learning disruption, worsening health outcomes, and further erosion of household coping capacity.

In a scenario of prolonged military escalation, the human development "hole" to climb out of would become significantly larger, as recovery would require not only macroeconomic stabilization and the cessation of hostilities, but also the restoration of livelihoods, services, infrastructure, and household resilience. Put simply, while stabilization would create the conditions for recovery, the longer the conflict persists, the greater the cumulative losses and the harder it will be to restore human development gains.

Annex: Analytical Framework and Methodology

This analysis combines global computable general equilibrium (CGE) modelling with human development and poverty simulations to estimate the socio-economic impacts of the conflict. The economic simulations are based on the GTAP 12 global database and implemented through the MIRAGE global CGE model, which represents production, consumption, trade, and investment linkages across countries and sectors. The model simulates how economies respond to shocks in trade costs, productivity, and capital relative to a business-as-usual baseline. Detailed model documentation is available through the Global Trade Analysis Project (GTAP) and CEPII MIRAGE model documentation.

The conflict shock is introduced through three transmission channels: trade disruptions, productivity losses, and capital destruction. All shocks are calibrated to reflect a temporary 28-day disruption during the first simulation period.

Additional simulations progressively increase trade costs (10–100X baseline) to test sensitivity to deeper disruptions. The five scenarios represent an escalating progression of conflict impacts on international trade and production. Scenario 1 (low scenario) and 2 (Trade Cost Multiplier x10 to x20) simulate the initial frictions of maritime conflict, such as spiked shipping insurance premiums and precautionary commercial vessel rerouting. As tensions intensify, Scenarios 3 and 4 (Trade Cost Multiplier x50 to x100) model a de facto maritime blockade or the military closure of vital shipping chokepoints, effectively paralyzing international trade. Finally, Scenario 5 (High Scenario) (Trade Cost Multiplier x100 + TFP Shock) captures a severe compound crisis by combining this total shipping blockade with the physical destruction of domestic energy infrastructure, such as bombed oil fields or refineries, thereby severely crippling productive capacity. The projected GDP growth rate is in real term relative to the baseline scenario (business as usual).

The resulting GDP shocks are translated into impacts on human development and poverty. Changes in GDP are assumed to translate proportionally into GNI per capita, affecting the income component of the Human Development Index (HDI). Additional adjustments to life expectancy and expected years of schooling capture direct conflict impacts. Poverty effects are estimated using poverty–growth elasticities, applied to baseline poverty rates from the World Bank Poverty and Inequality Platform (PIP) to estimate the number of people pushed into poverty.

TABLE A-1: SIMULATION ASSUMPTIONS

Channel	Assumption	Description
Trade disruption	Trade costs double for affected countries	Higher trade margins reflecting transport, insurance, and logistics disruptions
Energy trade shock	Trade costs increase 100X in extraction sector	Captures severe disruption to oil and gas trade
Total factor productivity shock	Equivalent to a –0.5% annual productivity	Temporary efficiency losses scaled to the 28-day conflict
Productivity shock (extraction)	Equivalent to –100% annual productivity	Severe short-term disruption to energy extraction
Capital destruction	Iran -5%	This refers to infrastructure and productive assets

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