



Shared Prosperity Dignified Life



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

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

Summary



1

Introduction

The war in Gaza has entered its third month. After a short humanitarian pause between 24 November and 1 December 2023, military operations have resumed with significant intensity. In November 2023, the Economic and Social Commission for Western Asia (ESCWA) and the United Nations Development Programme (UNDP) conducted an early assessment of the then expected economic and human impact of the war on the State of Palestine alone.¹ The present policy brief complements that assessment² by examining the likely effects of the Gaza war on the immediate neighbours of the State of Palestine, namely, Egypt, Jordan and Lebanon.³ If these effects materialize, they will add to pre-existing vulnerabilities in these countries, which have yet to fully recover from the effects of past shocks.

The war in Gaza has entered its third month

The spillover effects on immediate neighbours of the State of Palestine, namely, Egypt, Jordan and Lebanon, could be significant

The estimates are tentative at this stage, because there are several unknowns regarding the future course of the Gaza war in terms of its intensity and duration. Moreover, the transmission channels are more than any model can accurately accommodate in a comprehensive way. In addition, different models utilize different specifications and assumptions, and results may vary across them. Lastly, up-to-date data are lacking. The following estimates synthesize the results from alternative simulations developed by ESCWA and UNDP.

The estimates suggest that so far, regional effects of the Gaza war have largely been

contained, but are significant enough during such a short period of time to provide grounds for concern. Unless the war ends soon, the spillover effects on immediate neighbours of the State of Palestine could be significant; all three countries have limited policy space to address them arising from pre-existing structural gaps and more recent impacts (including the pandemic and the war in Ukraine); and the Gaza war could have long lasting effects. The impact on the three countries could become more severe, especially if the war involves other countries in the region.

2

Likely transmission channels of the impact and the situation in neighbouring countries

Neighbouring countries to the State of Palestine could be affected through a variety of channels,

though not all of them are relevant to each country or have the same intensity (table).

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

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 and Lebanon	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 sizeable impact on reserves and the external sector due to influx of refugees	Limited
Tourism and trade	Sizeable	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 risk	Limited

Poverty, labour markets and the overall economy	Some disruptions in labour markets	Limited	The gross domestic product (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

Such channels include higher and more volatile oil and gas prices and energy supply disruptions; public debt and fiscal pressures; inflationary pressures and protracted monetary tightening; currency depreciation/devaluation; effects on banks; trade diversion; increased transport/logistics costs; sectoral effects, including on tourism and agriculture; higher displacement rates and numbers of refugees; labour market disruptions; higher security provisions; and an overall decline in GDP, lower aggregate demand (including investment and consumer spending) and increases in poverty.

In addition, the impact of war can worsen pre-existing vulnerabilities, and it can also have longer-term implications arising from the higher-risk environment that has emerged and its effect on domestic and foreign direct investment and on political and social stability.

Most importantly, the impact of war on human development cannot be overstated.

The Gaza war is already affecting Egypt, given its geographic location and its existing economic relations with Israel. As a result of the war, gas supply to Egypt was briefly halted at the end of October 2023 due to a suspension of production, and then resumed at reduced volumes. In addition, like in the two other neighbours of the State of Palestine, tourism has declined, the economy is already strained, and the social sectors are under significant stress. The inflation rate is persistently high, the currency is depreciating, Egyptian debt has been downgraded, and investor confidence has significantly declined followed by large capital outflows. Egypt had already been affected significantly by the outbreak of the war in Ukraine, given its reliance on food



imports from both the Russian Federation and Ukraine. On the social front, inflation has been eroding household purchasing power, and poverty remains high. Furthermore, Egypt was already dealing with challenges on its southern border after thousands of refugees fled the Sudan war.

Jordan, given its geographical proximity to the conflict and its existing economic ties with Israel, is facing socioeconomic, diplomatic and security challenges because of the Gaza war. Israel is the main supplier of natural gas to Jordan. Frequent and sizeable demonstrations are taking place across the country coupled with civilian boycott campaigns against brands with a connection to Israel, which could have an impact on retail activity and jobs. Tourism, a major component of GDP, has already taken a big hit, and prospects for its revival before mid-2024 are uncertain. The Government has little fiscal space to introduce countercyclical policies, if there is a significant reduction in economic activity or a need to increase security

spending. In the meantime, servicing the high debt level is crowding out public expenditures that could have been used for infrastructure investment or social protection. Unemployment is high and fairly stable at high rates. Although increases in energy and food prices, and inflation in general, have been contained, the purchasing power of vulnerable households has not increased over time. Furthermore, recent cutbacks to humanitarian assistance for Syrian refugees are likely to have adverse fiscal and welfare consequences.

In Lebanon, as a result of the Gaza war, there have already been almost one hundred of deaths and tens of thousands of displaced people, as a direct consequence of increased tensions on its southern border. Schools have closed, public infrastructure has been damaged and tourism has plummeted. These already dire socioeconomic conditions are expected to worsen including a continuing decline in GDP, uncontrollable inflation, high unemployment and poverty, and millions in need of assistance.

3

Possible scenarios on the impact of the Gaza war

The following estimates of the impact of the Gaza war are based on a several assumptions nested in various models. Firstly, as the war is already in its third month, and has resumed with significant intensity after the short humanitarian pause and partial release of Israeli hostages/Palestinians prisoners, the simulations refer to likely impacts during the first three months and after a hypothesized six-month war. Secondly, the war is assumed to be contained within Israel and the occupied Palestinian territory, the latter including rising incidences in the West Bank. Thirdly, Israeli trade relations with Egypt and Jordan will be maintained. Fourthly, the tourism sector will suffer from a sizeable hit during the assumed duration of the war. Fifthly, there will be no change in the price of oil and gas. Sixthly, the impact on the global economy is likely to remain muted.

Based on past estimates of the spillover effects of previous wars in the region (for example, Iraq, Gaza and the Syrian Arab Republic), reduced tourism is one of the main transmission channels of the impact of wars on the economy,

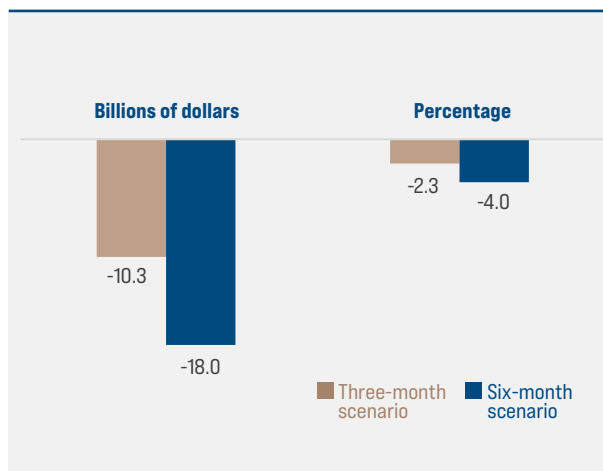
as tourist receipts are a significant component of GDP and affect many other productive activities, including trade.⁴ Although there is no precise information on the immediate impact on tourism, the ongoing war in Gaza has resulted in reduced international tourism to the three countries in the last quarter of 2023. This is expected to be followed by subdued tourist arrivals, and only a gradual recovery thereafter.

Under the three-month war scenario, the drop in tourism owing to the slowdown in economic activity could lead to a combined GDP loss in the three countries of 1.3 per cent of total GDP in 2023 from its baseline (equivalent to \$5.7 billion). If the war continues for six months, the GDP loss could reach 2.1 per cent from its baseline (\$9.5 billion).

In addition to the impact of reduced tourism activities, there could also be effects arising from other changes in the economy, such as those affecting investment, productivity and trade. Taking such changes into account,⁵ figure 1 shows the simulated upper-bound adverse impact of the war on GDP. Under the three-month scenario, the

estimated total combined GDP loss across these three countries comes to an average of 2.3 per cent of GDP (equivalent to \$10.3 billion). Under the six-month scenario, the GDP loss could reach up to 4 per cent (equivalent to \$18 billion).⁶

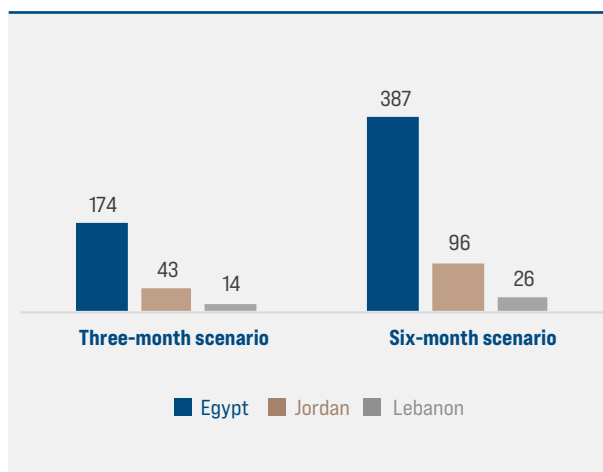
Figure 1: Combined GDP loss (Egypt, Jordan and Lebanon)



Source: ESCWA and UNDP preliminary estimates.

Note: These numbers correspond to upper-bound estimates.

Figure 2: Increase in the number of poor (Thousands)



Source: ESCWA and UNDP preliminary estimates, derived from macroeconomic accounting simulations.

The estimated GDP loss is expected to have an effect on poverty. Preliminary results suggest that around 230,000 people may fall into poverty in Egypt, Jordan and Lebanon under the three-month scenario compared with the 2023 baseline. If the war lasts for six months, this number may increase to over half a million people (figure 2). It is also possible that human development, as measured by the Human Development Index, could regress in these three countries, although at varying speed, particularly as a consequence of a 6-month war scenario.



4

Conclusion

The unprecedented loss of human life in Gaza and Israel thus far is already adding to economic losses in Egypt, Jordan and Lebanon, and its impact could quickly spread to social conditions. Future losses could be much higher owing to lower investment in both physical and human capital. Such impacts will further stress the already weak resilience systems in these countries.

A protracted war could have more severe effects on the three countries and beyond, in addition to its economic impact on Israel. According to some estimates, by the end of 2024, the cost to Israel could be 10 per cent of GDP (approximately \$50 billion), assuming that the war lasts between 8 and 12 months and is only limited to Gaza, without participation by

Iran, Lebanon and Yemen.⁷ The prolongation of the war may also risk the involvement of additional actors.

A comprehensive and coordinated approach is required, which includes both international support and regional cooperation. International support, including financial aid, policy advice and technical assistance, remains critical in helping affected countries to mitigate the initial impact of the war, and to avoid additional regional spillovers.

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



Aleksej/via adobe stock

Endnotes

- 1 The early estimates suggested that the gross domestic product (GDP) loss may have reached 8.4 per cent for the State of Palestine as a whole (or \$1.7 billion), thereby worsening pre-existing vulnerabilities among the 3 million people who were estimated to need assistance in 2022, with food insecurity in Gaza being more acute with 80 per cent of residents relying on assistance (Source: ESCWA and UNDP, [Gaza war: expected socioeconomic impacts on the State of Palestine](#), 2023).
- 2 The present policy brief does not include an updated assessment of the impact on Gaza, but the situation will be re-evaluated at a later date.
- 3 There are no official data for the Syrian Arab Republic.
- 4 For example, S&P Global Ratings estimated that GDP loss in the three economies arising from a reduction in tourism receipts of 10–70 per cent would range between 0.3 and 1.8 per cent in Egypt, 1.2 and 8.5 per cent in Jordan and 3.3 and 22.9 per cent in Lebanon (Source: S&P Global Rating, [MENA tourism likely to take a hit from Israel-Hamas war](#), 6 November 2023).
- 5 This was done using GTAP, a multi-region and multisector computable general equilibrium model.
- 6 The GDP estimate for 2023 for the three countries is \$470.2 billion (Egypt at \$398.4 billion; Jordan at \$50 billion; and Lebanon at \$21.8 billion) (Source: International Monetary Fund, [World Economic Outlook Database](#)).
- 7 The Business Standard, [War with Hamas to cost Israel above \\$50 billion](#), 5 November 2023.