



MIDDLE EAST CRISIS: ECONOMIC IMPACT ANALYSIS

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Analysis Update on the Middle East Crisis: 2024 Developments

The Middle East crisis continues to evolve, with recent developments in 2024 reshaping the region's political, military, and humanitarian landscape. Key conflicts, long-standing rivalries, and emerging dynamics influence the geopolitical environment, making the situation more complex than ever. This update outlines the major recent shifts in the Israeli-Palestinian conflict, Iran's role, Saudi Arabia's regional diplomacy, and broader security concerns.

1. Israeli-Palestinian Conflict: Escalation of Violence

In 2024, violence between Israel and Palestinian groups, particularly Hamas and Islamic Jihad, has escalated significantly, leading to a renewed humanitarian crisis in Gaza and the West Bank. In October 2023, a surprise attack by Hamas on Israeli civilians sparked a major military response from Israel, leading to heavy bombardments in Gaza and significant casualties on both sides. The conflict has drawn global attention, particularly with calls for ceasefires from the international community. However, peace remains elusive, and diplomatic efforts are stalled due to deeply entrenched positions on both sides.

The recent death of Yahya Sinwar, the leader of Hamas, has sparked renewed hopes for a potential turning point in the Israeli-Palestinian conflict. Sinwar was widely regarded as the architect of the devastating October 7, 2023 attack on southern Israel, which ignited a year-long war that inflicted immense suffering on the Gaza Strip and resulted in the tragic loss of tens of thousands of Palestinian lives. With Sinwar's demise, Israel achieved a significant victory in the conflict, and some observers expressed optimism that this could pave the way for an end to the hostilities. However, the Israeli government, under Prime Minister Benjamin Netanyahu, has maintained its refusal to negotiate with Hamas, which it considers a terrorist organisation. Meanwhile, the Palestinian leadership remains deeply divided, hindering efforts to establish a unified approach to peace.

2. Iran's Expanding Influence and Nuclear Standoff

Iran continues to be a dominant player in the Middle East, using both direct and proxy influence to project power across the region. In 2024, Iran's nuclear programme has again become a focal point, with reports suggesting that Tehran has moved closer to enriching weapons-grade uranium. Negotiations to revive the Joint Comprehensive Plan of Action (JCPOA), commonly known as the Iran Nuclear Deal, have reached a deadlock, leaving the region on edge.

Iran's alliances with Hezbollah in Lebanon, the Houthis in Yemen, and various Shia militias in Iraq and Syria enable it to assert influence, countering the influence of Saudi Arabia and Israel. These proxy networks allow Iran to pressure its rivals without direct military confrontation, but they also contribute to instability across the region.

In response, Israel and the United States have ramped up diplomatic pressure, even hinting at the possibility of military strikes if Iran crosses key nuclear thresholds. Meanwhile, Saudi Arabia and the Gulf states, wary of Iran's expanding footprint, are cautiously pursuing security agreements with the U.S. and Israel while maintaining a careful balance with Tehran.

3. Saudi Arabia's Diplomatic Push: Normalisation and Power Plays

In a surprising diplomatic shift, Saudi Arabia has accelerated efforts toward regional normalisation, particularly with Israel. These efforts are part of Saudi Crown Prince Mohammed bin Salman's broader strategy to position Saudi Arabia as a regional economic and diplomatic power, diversifying the kingdom's alliances and reducing its reliance on oil revenues.

The talks between Israel and Saudi Arabia, brokered by the U.S., have focused on normalising relations in exchange for significant security guarantees and U.S. arms deals. However, the ongoing violence in Gaza has delayed progress, with Saudi Arabia facing immense domestic and regional pressure to support Palestinian rights. Despite this, Saudi-Israeli relations are evolving in ways that could transform regional geopolitics in the coming years.

Simultaneously, Saudi Arabia is attempting to end its involvement in the Yemen war, where it has been leading a coalition against Iranian-backed Houthi rebels since 2015. Although a tentative ceasefire has reduced hostilities, the political future of Yemen remains uncertain. Riyadh is also investing heavily in its Vision 2030 initiative, which seeks to modernise its economy and reduce dependence on oil, making diplomacy a critical tool for Saudi Arabia's future.

4. Turkey's Role in Shifting Alliances

Turkey, under President Recep Tayyip Erdoğan, continues to assert itself as a key regional player. In 2024, Erdoğan's government maintained its military presence in northern Syria while balancing relationships with NATO allies, Russia, and Iran. Turkey has engaged in a delicate diplomatic game, seeking to expand its influence in the eastern Mediterranean and Iraq while managing domestic challenges, including economic instability and the Kurdish issue.

Turkey's military operations against Kurdish forces in Syria and Iraq, which it views as an extension of the outlawed Kurdistan Workers' Party (PKK), have strained relations with the U.S., which continues to support Kurdish militias in the fight against remnants of ISIS. Nevertheless, Erdoğan's diplomatic flexibility, particularly in mediating between Russia and Ukraine, has given Turkey a unique role in international affairs, further complicating its relations with traditional allies in the West.

5. Humanitarian Crisis and Refugee Displacement

The humanitarian crises in the Middle East have worsened, particularly due to the escalation in Gaza, Syria's continued instability, and the unresolved civil war in Yemen. The conflict in Syria, although less intense than in previous years, continues to displace civilians, with millions of refugees still living in dire conditions in neighbouring countries like Jordan, Lebanon, and Turkey.

The blockade of Gaza, compounded by Israeli airstrikes, has left the territory in dire need of humanitarian aid, while international organisations struggle to provide sufficient relief. The UN has warned that the situation in Gaza could lead to a broader regional humanitarian disaster if immediate ceasefires and aid delivery are not facilitated.

In Yemen, although a ceasefire holds, the war's long-term effects, including widespread famine and disease, continue to plague the country. The Saudi-led coalition has faced criticism for exacerbating the humanitarian crisis, while Houthi forces remain entrenched in northern Yemen.

6. U.S. Strategy: Diminished Engagement or Pivot?

The Biden administration has taken a more cautious approach to the Middle East compared to previous U.S. governments, focusing more on diplomacy and reducing direct military involvement. The U.S. has been pushing for Israeli-Saudi normalisation, but domestic U.S. politics and the deteriorating situation in Gaza have complicated these efforts.

At the same time, Washington remains concerned about Iran's nuclear ambitions and continues to enforce sanctions while simultaneously pursuing diplomatic engagement. U.S. military presence in Iraq and Syria has been reduced, but the fight against ISIS remnants continues.

The U.S. has also faced challenges maintaining its traditional alliances in the region, particularly as Gulf states seek to diversify their partnerships with China and Russia. This shift reflects a broader trend of Middle Eastern nations seeking to balance their relationships with multiple global powers.

Economic Impact

This analysis will discuss the most recent economic trends in the Middle East, with a focus on key sectors, including oil production, trade, and the humanitarian burden, supported by data tables and figures to better understand the scale of these impacts.

7. Regional Economic Disruption: Overview

The conflicts in the Middle East have disrupted economic activity across multiple sectors, leading to slowdowns in growth, increased costs of living, and strained government budgets. The following factors have been particularly influential in 2024:

- **Oil Price Volatility:** Ongoing instability in key oil-producing countries such as Iraq, Iran, and Saudi Arabia has contributed to fluctuations in global oil prices.
- **Infrastructure Damage:** Decades of conflict, particularly in Syria, Yemen, and Gaza, have destroyed critical infrastructure, severely limiting economic productivity.
- **Humanitarian Costs:** The economic strain of supporting millions of displaced people and refugees has burdened neighbouring countries like Jordan, Lebanon, and Turkey.
- **Investment and Tourism Decline:** Heightened tensions, particularly due to violence in Gaza and fears of an expanding conflict, have reduced foreign direct investment (FDI) and tourism revenues.

Table 1: Estimated Economic Impact of Major Middle Eastern Conflicts (2024 Projections)

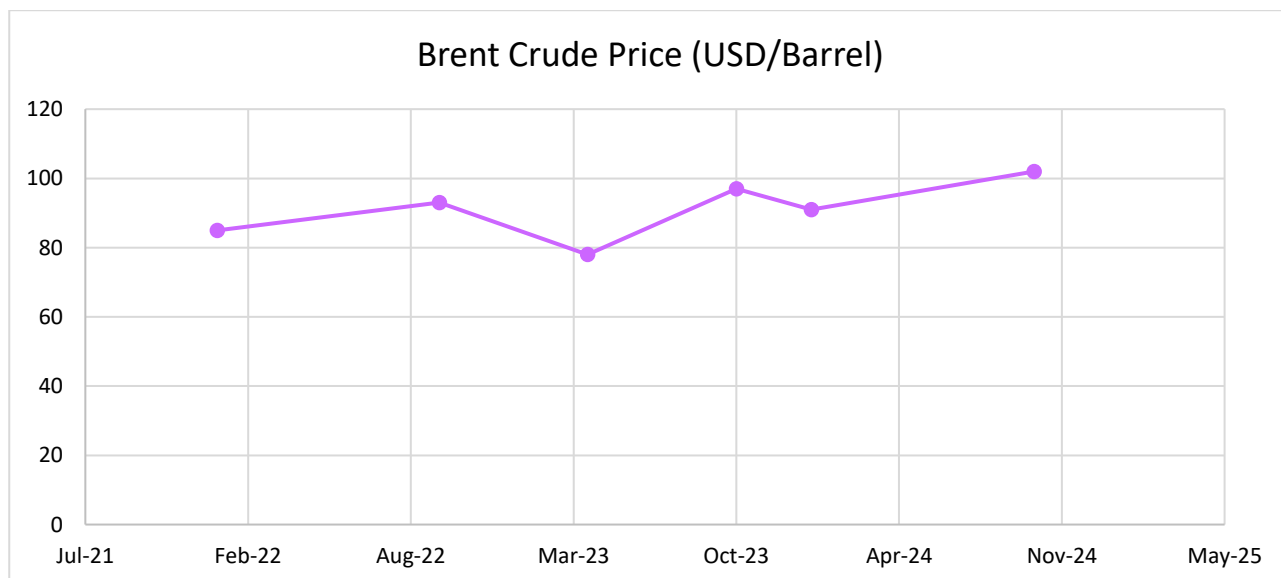
Country/Conflict	GDP Growth Forecast (%)	Conflict Costs (USD Billions)	Refugee Support Costs (USD Billions)	Infrastructure Damage (USD Billions)
Syria	-3.2	1.3	3.5	150
Yemen	-4.5	0.8	1.2	100
Gaza/Palestine	-9.5	2.0	0.8	15
Lebanon	-5.0	N/A	3.0	N/A
Iraq	2.1	3.0	1.0	30
Iran	2.4	N/A	N/A	N/A
Saudi Arabia	3.8	N/A	N/A	N/A

8. Oil Prices and Energy Markets

The Middle East remains the world's most important oil-producing region, with countries such as Saudi Arabia, Iraq, Iran, and the UAE playing critical roles in global energy markets. The region produces about **30% of global oil** and holds over **50% of proven oil reserves**. In 2024, geopolitical instability, combined with fluctuating global demand, has contributed to oil price volatility.

Graph 1: Crude Oil Price Trends (2022–2024)

(Graph shows fluctuations in Brent crude oil prices from January 2022 to October 2024, with spikes around major events, including the 2023 Hamas-Israel conflict and escalating U.S.-Iran tensions over nuclear issues.)



In 2024, the surge in oil prices following the outbreak of violence in Gaza, coupled with increased tensions between the U.S. and Iran over its nuclear programme, caused a spike in prices to over **\$100 per barrel** in October. However, Saudi Arabia's recent diplomatic efforts, including normalisation talks with Israel and enhanced production quotas, are helping stabilise prices to some extent.

9. Humanitarian and Refugee Crisis: Economic Strain on Neighbouring Countries

The protracted conflicts in Syria, Yemen, and Gaza have produced one of the world’s most significant refugee crises, straining the economies of neighbouring states. By 2024, there will be more than **15 million refugees** in the region, with Lebanon, Jordan, and Turkey bearing the brunt of hosting these displaced populations.

Table 2: Refugee Populations and Economic Strain on Host Countries (2024)

Country	Refugee Population	% of the National Population	Annual Refugee Support Costs (USD Billions)	Share of GDP (%)
Turkey	4.5 million	5.3%	6.5	1.1%
Lebanon	1.8 million	26%	3.0	6.5%
Jordan	1.3 million	13%	2.5	4.0%

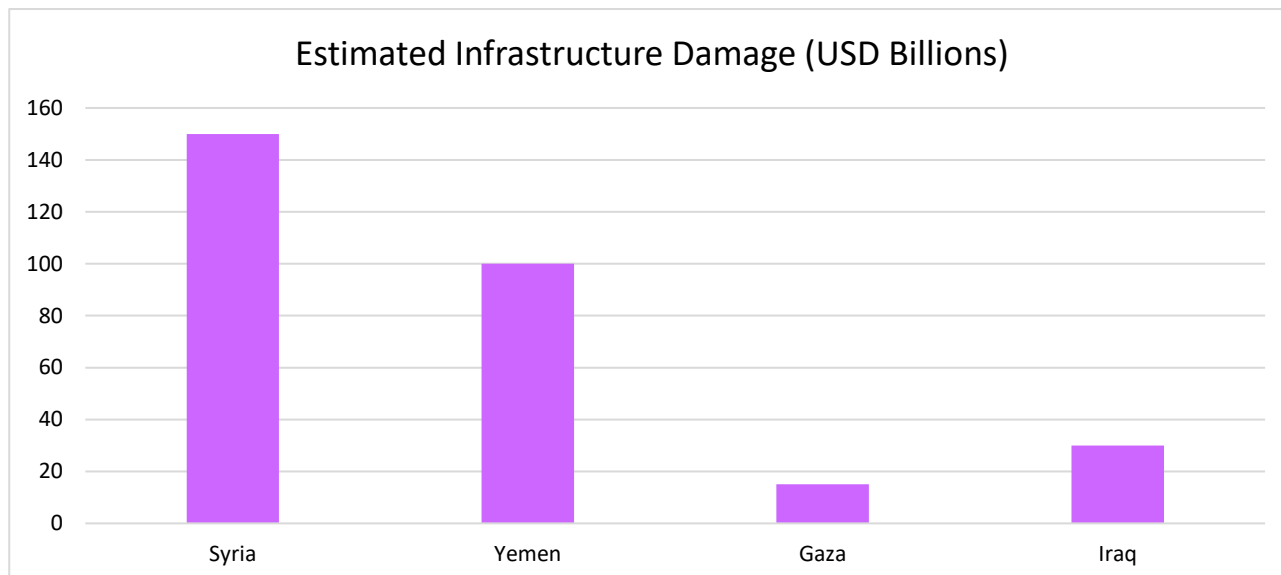
Lebanon, already facing an economic collapse, continues to be one of the most affected, with **26% of its population** consisting of refugees, primarily from Syria. Jordan, which has maintained relative political stability, has also seen a significant portion of its GDP devoted to supporting displaced populations, creating long-term economic challenges.

10. Reconstruction and Infrastructure Damage

The cost of rebuilding infrastructure damaged by ongoing conflict remains one of the most pressing economic challenges for countries like Syria, Yemen, and Gaza. Years of bombing, blockades, and internal strife have destroyed vital sectors, including transportation, healthcare, water systems, and electricity grids.

Graph 2: Estimated Infrastructure Damage in Major Conflict Zones (2024)

(Bar graph comparing the total cost of infrastructure damage in Syria, Yemen, Gaza, and Iraq since the beginning of their respective conflicts.)



Syria and Yemen in particular face daunting rebuilding tasks. The Syrian civil war has led to an estimated **\$150 billion** in infrastructure damage, while Yemen's devastation amounts to nearly **\$100 billion**. Rebuilding these countries will require massive international assistance, which remains uncertain due to donor fatigue and geopolitical complications.

11. Economic Prospects and Forecasts

The prolonged conflicts and geopolitical tensions in the Middle East are expected to continue suppressing economic growth in much of the region, despite some efforts at stabilisation. Countries like Saudi Arabia and the UAE, with their large oil revenues, are better positioned to weather the instability, but others, like Lebanon, Syria, and Yemen, are facing protracted economic crises.

Table 3: GDP Growth Forecasts (2024–2025)

Country	2024 GDP Growth Forecast (%)	2025 GDP Growth Forecast (%)
Saudi Arabia	3.8	4.1
UAE	4.2	4.5
Iraq	2.1	2.4
Lebanon	-5.0	-3.0
Syria	-3.2	-2.5
Yemen	-4.5	-4.0

While oil-rich Gulf states are set to see moderate growth, countries deeply affected by conflict—such as Lebanon, Syria, and Yemen—are unlikely to see meaningful recovery without significant political resolutions and external financial aid.

Conclusion

The economic impact of the Middle East crisis in 2024 is staggering, with conflicts severely affecting growth, disrupting energy markets, and burdening countries with massive infrastructure damage and refugee costs. Oil price volatility, refugee support, and reconstruction efforts will continue to dominate the region's economic challenges in the coming years. Without substantial diplomatic breakthroughs and international aid, the region's economic prospects will remain bleak, particularly for the most war-torn nations.

The Middle East remains in a state of flux in 2024, with crises in Gaza, Yemen, Syria, and Iraq showing no signs of resolution. Iran's expanding influence and nuclear ambitions continue to be a focal point for regional and global actors, while Saudi Arabia's diplomatic initiatives represent a potential shift in the region's geopolitical landscape. The U.S. continues to play a crucial role, albeit with a more restrained presence, while Turkey's balancing act highlights the complexity of alliances in the region. As violence and instability persist, the humanitarian toll continues to rise, with millions across the region bearing the brunt of these prolonged conflicts.



Contributors:

- **Bekithemba Ndimande | Rating Analyst | bekithemba@saratings.com |**
- **Lomanja Malaba | Rating Analyst | lomanja@saratings.com |**

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