



# Economic Cost of U.S.-Iran Conflict



## INTRODUCTION

A violent confrontation in February 2026 marked the start of the current conflict between Iran and the United States. Together, Israeli and U.S. forces attacked several Iranian facilities, including military, nuclear, and civilian targets. In response, Iran attacked U.S. bases in the Gulf, straining ties with its neighbors. In addition, Iran also interrupted traffic through the Strait of Hormuz, which is a key choke point as nearly 20% of the global trade travels through this strait. A precarious ceasefire between Iran and the United States took place on April 16.

The protracted conflict between the United States and Iran has already caused significant economic losses for both nations, the region, and the world markets. Hundreds of billions of dollars are thought to have already been spent on the war, both directly and indirectly, in terms of military spending, oil interruption, inflation, trade closure, and financial instability. However, the exact cost of the conflict is also highly variable. This brief report entails an assessment of what war has economically done to the U.S., Iran, Pakistan, and the world in general till May 2026.

## FOR THE UNITED STATES

There are more estimates of a realistic assessment of the cost of war for the United States. The United States has suffered from the escalation of the war since early 2026, both in terms of military and economy. The experts at the Harvard Kennedy School estimate that the war initially hit the United States with the cost of military operations, naval deployments, logistics, air defence systems, and arms spending at around ***\$2 billion a day in the first few days, amounting to about \$11.3 billion in the first 6 days***. The war could potentially cost as much as between ***\$630 billion \$1 trillion in the United States***, if it continues long enough. The American Enterprise Institute estimated that in the first five weeks alone, it costed ***between \$22 billion to \$31 billion*** in military expenditure.

Economic costs have been even greater, considering the inflation and energy shocks. Increased gas prices, food inflation, transportation costs, and shrinking purchasing power by consumers could cut US exports by ***approximately \$631 billion***, according to a report by Al Jazeera. The war also incurred a considerable impact on the United States' economy in terms of rising inflation. The war is likely to add ***0.6 percentage points*** to the US headline inflation rate and ***0.2 percentage points*** to the core inflation rate in 2026, according to the Centre for Economic Policy Research.

# THE COST OF WAR FOR THE UNITED STATES



Escalating conflict. Massive costs. Lasting impact.



## MILITARY COSTS: A HEAVY DAILY BURDEN

### ESTIMATED DAILY COST

**\$2 BILLION PER DAY**



Covers military operations, naval deployments, logistics, air defence systems, and arms spending.

### POTENTIAL TOTAL COST IF THE WAR CONTINUES

**\$630 – \$1 BILLION TRILLION**



Total potential cost to the United States.

### EARLY STAGES COST (FIRST 5 WEEKS)

**\$22 – \$31 BILLION**



Military expenditure in the first five weeks alone.



**Sources:** Harvard Kennedy School, American Enterprise Institute



## ECONOMIC DAMAGE: BEYOND THE BATTLEFIELD

### FINANCIAL HIT TO THE U.S. EXPORT

**\$631 BILLION**

War-driven inflation, energy shocks, higher transport costs, and weaker purchasing power could cut U.S. exports by approximately \$631 billion.

**Source:** Al Jazeera

### ECONOMIC PRESSURES DRIVING HIGHER COSTS

- Higher gas prices
- Food inflation
- Rising transportation costs
- Shrinking purchasing power for consumers

### IMPACT ON INFLATION WAR LIKELY TO ADD

**0.6 PERCENTAGE POINTS** to the U.S. headline inflation rate in 2026.



**Source:** Centre for Economic Policy Research



## THE BOTTOM LINE

The war is costing the United States dearly—**hundreds of billions** in military spending and **even greater economic damage** through inflation, higher prices, and weakened global competitiveness.



*Note: All figures are estimates and subject to change based on the duration and escalation of the conflict.*

## FOR IRAN


The estimates of war cost on Iran are still murky, and there is a need for a realistic damage assessment. The war has cost the Iran a huge loss, with estimates ranging from *\$270 billion to \$300 billion*. Iran is forced to pay high prices for massive damages to military facilities, manufacturing of drones, transportation systems, and industrial facilities. Internet shutdowns and internal security measures have also paralyzed the economy in several sectors, such as banking, telecommunications, e-commerce, information technology (IT), among others. According to a study by Cornell, the leading internet prefixes of Iran were cut off for most of the war, resulting in a major economic disruption. Iranian government spokeswoman Fatemeh Mohajerani said in an interview that Iran has suffered about \$270 billion from the war by mid-April. However, more recent estimates have not been revealed yet. Various factors, including currency instability, high inflation rates, weak foreign investment, and sanctions, have increased the economic hit on Iran. The facilities and routes for oil exports in Iran are badly affected. It will force the Iranian economy to be on a tight budget in future because the export revenues are critically important for the government's income, and foreign currency reserves have been hit by the decline in exports.

# THE PRICE OF WAR FOR IRAN

Massive losses. Paralyzed sectors.  
A nation under economic strain.

**ESTIMATED COST OF WAR FOR IRAN**

**\$270-\$300 BILLION**



The war has costed Iran an estimated \$270 to \$300 billion.

## WHERE THE LOSSES HIT THE HARDEST



### MILITARY FACILITIES

Extensive damage to defense infrastructure and critical sites.



### DRONE MANUFACTURING

Setbacks to production capabilities and supply chains.



### TRANSPORTATION SYSTEMS

Disruptions and damages to key transport networks.



### INDUSTRIAL FACILITIES

Severe impact on industrial plants and manufacturing units.



### ADDITIONAL INVESTMENT REQUIRED

Billions more needed as Iran rebuilds to resume military production.

## ECONOMY PARALYZED

Internet shutdowns and internal security measures have crippled key sectors.



BANKING



TELECOM



E-COMMERCE



INFORMATION TECHNOLOGY (IT)



& OTHERS

## INTERNET SHUTDOWN: A MAJOR ECONOMIC BLOW



According to a Cornell study, Iran's leading internet prefixes were cut off for most of the war, causing major economic disruption across multiple sectors.

## FACTORS DEEPENING IRAN'S ECONOMIC HIT



Currency instability



High inflation rates



Weak foreign investment



Sanctions

“ Iran has suffered about **\$270 BILLION** from the war by mid-April.

— Fatemeh Mohajerani  
Iran Government Spokeswoman



ESTIMATES ARE STILL MURKY

More recent estimates have not been revealed yet.

## OIL EXPORTS UNDER FIRE, ECONOMY UNDER PRESSURE



FACILITIES & ROUTES FOR OIL EXPORTS BADLY AFFECTED



DECLINE IN EXPORTS HITS FOREIGN CURRENCY RESERVES



EXPORT REVENUES ARE CRUCIALLY IMPORTANT FOR GOVERNMENT INCOME



FORCED TIGHT BUDGET CONSTRAINTS AND FISCAL PRESSURE



OVERALL ECONOMIC STABILITY SEVERELY UNDERMINED

⚠ The full scale of the damage may be even greater as the true economic impact continues to unfold.

## GLOBAL CORPORATE AND TRADE LOSSES

The war is greatly impacting the global markets as well. A huge disruption of the world's supply chain, shipping, aviation, and manufacturing has been caused due to the war. Currently, global companies have lost at least **\$25 billion** of direct damage due to the increased shipping premiums, higher energy prices, delayed supply chains, and reduced industrial output, Reuters reported. As reported by Vox, the airline industry alone has estimated losses of **\$15 billion** due to rescheduled flights, airspace closures, and higher fuel prices. Furthermore, international trade via the shipping routes of the Gulf has also risen as shipping companies now have to find alternative routes and offer extra war-risk insurance. The volatility has significantly affected economies in Asia, such as Pakistan, Bangladesh, South Korea, Japan, and China, which have a high energy import dependence on the Gulf region.

Several institutions warn that if a prolonged conflict continues, it could have a significant effect on the world's economic growth. According to the World Trade Organization (WTO), the world economy will lose around **0.3 percent of its growth** if the present high prices of oil and natural gas remain. The International Monetary Fund (IMF) also warned that the war is driving up inflation, economic growth is slowing, interest rates are rising, and the volatility of financial markets and debt burden for developing countries are growing significantly. The effects are particularly significant for the world's emerging economies, which spend more of their national income on energy and food imports.

# THE GLOBAL ECONOMIC COST OF WAR



## GLOBAL CORPORATE LOSSES: A HEAVY BURDEN



**\$25  
BILLION+**

Currently, global companies have lost at least **\$25 billion** of direct damages due to the increased shipping premiums, higher energy prices, delayed supply chains, and reduced industrial output.



Shipping  
Premiums



Higher  
Energy  
Prices



Delayed



Reduced  
Industrial  
Output



Source: Reuters reported.



## AIRLINE INDUSTRY DAMAGE: GROUNDED GROWTH



**\$15  
BILLION**

As reported by Vox, the airline industry alone has estimated losses of **\$15 billion** due to rescheduled flights, airspace closures, and higher fuel prices.



Rescheduled  
Flights



Airspace  
Closures



Higher  
Fuel Prices



Source: Vox



## WORLD ECONOMY FORECAST: STALLED GROWTH



**WTO**  
ORGANIZATION

**0.3%**



According to the World Trade Organization (WTO), the world economy will lose around **0.3 percent** of its growth on the economy of its growth if the present high prices of oil and natural gas remain.

Source: World Trade Organization

## THE GLOBAL ECONOMIC BOTTOM LINE



Synthesize is balances otal: global economic **billion** cost of the conflict.

Source: Centre for Economic Policy, American Enterprise Institute

# OIL MARKET AND ENERGY LOSSES

The biggest economic hit is from the Strait of Hormuz, from where 20 percent of the global oil supplies pass. Ever since the war broke out,

INDICATOR	IMPACT / CHANGE
Brent Crude Oil Prices	Increased from about \$70 per barrel to more than \$118 per barrel in just a few weeks.
Global LNG Prices	Increased by approximately 60% due to sudden market shifts and supply uncertainties.
Oil Prices in Asia	Increased by 40%, creating cascading inflationary pressures across importing nations.
Global Oil Supply	Around 14 million barrels per day were temporarily removed from the markets across the world during the peak disruptions.

The International Energy Agency has termed the crisis as the “largest supply disruption in the history of the global oil market”.

## IMPACT ON PAKISTAN

Pakistan shares a border with Iran; therefore, the war is taking a toll on Pakistan as well. The current conflict between the United States and Iran is making Pakistan more susceptible to the economic consequences of the war, particularly rising oil prices, inflationary pressures, and external financing risks. Pakistan's economy is at risk because it relies on imports of energy from the Gulf. Recent estimates by the Pakistan Institute of Development Economics (PIDE) show that Pakistan's annual import bill *will rise by almost \$3.5-4.5 billion if global oil prices rise between \$120 per barrel to \$150 per barrel due to a three-month Hormuz closure.*

According to the State Bank of Pakistan, the Middle Eastern war is causing a negative impact on Pakistan's macroeconomic indicators, including disruption of the supply chain, high inflation, and pressure on foreign reserves. Oxford Economics also warned that the continued oil shocks from the Iran war could "wreck Pakistan's stabilization program, with the IMF", when the agency projected that the nation's foreign exchange reserves would be valued *at \$6.8 billion* by the end of 2026, which is a far cry from the pre-war expectation of *\$20.8 billion*. The inflation rate in Pakistan for the month of *May 2026* has been recorded at *11.7%*. Moreover, the war could impact remittance inflows from the Gulf countries, as Gulf has a huge number of Pakistani workers. Oil above *\$100 per barrel*, along with continued disruptions in the Strait of Hormuz, could lead to slower growth, additional currency depreciation, electricity price increases, and balance-of-payments issues for Pakistan in the coming months.

# WAR IN THE MIDDLE EAST, IMPACT AT HOME

## HOW THE IRAN-U.S. CONFLICT IS HURTING PAKISTAN'S ECONOMY

Pakistan shares a border with Iran. The ripples of war are hitting Pakistan hard.



### RISING OIL PRICES, RISING COSTS

Pakistan relies on energy imports from the Gulf.

PIDE estimates: If global oil prices rise between \$120 to \$150 per barrel due to a three-month Hormuz closure,



Pakistan's annual import bill will rise by **\$3.5-4.5 BILLION**



**THE STRAIT OF HORMUZ**

### THE WAR'S IMPACT ON PAKISTAN'S MACROECONOMY

#### SUPPLY CHAIN DISRUPTIONS



Disruptions in the Strait of Hormuz are delaying shipments and raising trade costs.

#### HIGHER INFLATION



Dearer imports fuel inflationary pressures, hurting businesses and households.

#### PRESSURE ON FOREIGN RESERVES



The State Bank of Pakistan warns of pressure on foreign reserves and overall macroeconomic stability.

#### IMPACT ON REMITTANCES



The war could affect Gulf economies and jobs, impacting remittance inflows from Pakistani workers.



#### OXFORD ECONOMICS WARNING

Continued oil shocks from the Iran war could "wreck Pakistan's stabilization programme with the IMF".

#### FOREIGN EXCHANGE RESERVES (END OF 2026)



#### INFLATION ON THE RISE

Pakistan Inflation Rate (April 2026)

**10.9%**



#### A COSTLY WAR FOR PAKISTAN



Oil above \$100 per barrel, and continued disruptions in the Strait of Hormuz, could lead to:



Slower Economic Growth



Additional Currency Depreciation



Higher Electricity Prices



Balance-of-Payments Pressures

#### WHAT PAKISTAN MUST DO



Diversify energy sources



Strengthen fiscal discipline



Boost exports & IT remittances



Protect vulnerable households

Peace in the region is essential for Pakistan's economic stability and a secure future.



**The war may be far, but the impact is close. Stability abroad, strength at home.**

Sources: Pakistan Institute of Development Economics (PIDE) | State Bank of Pakistan (SBP) | Oxford Economics

## WHAT'S AHEAD?

A renewed period of economic insecurity, growth slowdown, high inflation, and increasing geopolitical fragmentation will be the world's main worries if the US-Iran war worsens. Now the global economy finds itself in an alarming situation in which the threats of energy insecurity, choked trade lines, and escalating military tension are collectively generating 'stagflationary' pressures much like those of the oil crises in the 1970s. The International Monetary Fund (IMF) recently lowered its forecast for world growth to **3.1% from the earlier rate of 3.4%**. It also announced that a "long period of war in the Middle East" would mean a recession in the world economy. IMF Managing Director Kristalina Georgieva, in May 2026, alarmed that if disruptions persist in 2027, it could also result in far more dire consequences for the world economy, in terms of inflation, decline in trade, and financial instability. In such a scenario, global economic growth **could reduce by 2%**, with oil prices potentially rising **to \$125 per barrel**.

Oil prices are already in a stressed condition, with the International Energy Agency (IEA) issuing a warning that the world is about to enter a "red zone" in the energy market. Prior to the current crisis, about **20.3 million barrels** of petroleum used to pass through the Strait, which has seen major disruptions. Oil prices above \$100 a barrel could lead to global fuel, food, transportation, fertilizer, and electricity inflation, especially in developing countries that rely on imported fuels. There is increasing uncertainty in financial markets as some of the world's biggest companies are predicting that if this war prolongs it may result in higher interest rates. Businesses such as Nomura, Barclays, and Morgan Stanley are predicting inflationary pressures due to the war.

The geopolitical ramifications could be even more prominent. Countries are making efforts to boost strategic oil stocks, explore alternatives to the Gulf energy supply, and diversify energy supplies. They are also looking to invest in alternative energy sources to fossil fuels, including renewables and nuclear. This crisis might not turn out to be a temporary shock but instead a structural reconfiguration of the global economic order and a re-ordering of geopolitical conflict, energy security, and economic policy that will stay for years to come.