

REGIONAL ECONOMIC UPDATE



European Bank
for Reconstruction and Development

MARCH
2026



Regional Economic Prospects in the EBRD Regions



European Bank
for Reconstruction and Development

Potential economic impact of the conflict in the Middle East

March 2026

The conflict in the Middle East has impacted the EBRD regions through higher prices of energy and fertiliser as well as disruptions to trade and tourism flows and tighter financing conditions. The price of natural gas in Europe more than doubled by 20 March as liquified natural gas (LNG) production in Qatar was halted and production facilities sustained substantial damage. The oil price surpassed US\$ 100 per barrel on 9 March 2026 as around 14 per cent of world production could be off the market if the Strait of Hormuz remains effectively closed. In response, the International Energy Agency pledged a large release of oil reserves.

So far, the price of oil has remained far below the levels of 2011-14 and earlier historical peaks and gas prices are short of the peak levels of 2022. However, oil demand in the short run is inelastic and prices might reach US\$ 180 per barrel if Gulf oil remains largely off-market. In the long term, as high prices destroy demand and encourage supply elsewhere, oil prices could moderate back to around US\$ 100.

Upward pressures on the prices of oil and gas benefit commodity exporters while weighing on commodity importers. As energy importers far outnumber energy exporters, global growth may be reduced by at least 0.4 percentage points and inflation may rise by more than 1.5 percentage points if oil remains above US\$ 100 per barrel for a prolonged period and major disruptions to supply chains involving chemicals and metals persist. The growth forecast for the EBRD regions is likely to be revised down by up to 0.4 percentage points when EBRD releases the next forecasts in June if energy prices remain high.

Gas storage in the EU is significantly lower than it was this time of the year in previous years, around the levels last seen in February 2022 before Russian gas supplies were cut off. As a result, gas prices may remain elevated for a while even if the conflict ends swiftly, as European and Asian buyers scramble to refill storage while LNG production takes weeks to restart.

Prices of fertiliser may also rise considerably. Around 25-35 per cent of global trade in the raw materials for fertilisers passes through the Strait of Hormuz. Around 31 per cent of Kenya's total fertiliser imports and around 13 per cent of Türkiye's are from the GCC. Higher fertiliser prices tend to translate into higher prices of food staples.

If trade to / from the GCC continues to be disrupted, temporary shortages and upward price pressures for aluminium, sulphur, helium (for semi-conductors), petrochemicals, plastics and other goods may intensify in the short term, propagating through supply chains and adding to global inflationary pressures.

Trade of economies in the EBRD regions with Iran is limited (and concentrated in the Caucasus) but trade with economies in the Gulf Cooperation Council (GCC) is significant for many economies. While Iraq's trade in general relies strongly on the Strait of Hormuz, including trade in food staples, Iraq's wheat reserves appear to be ample.

Jordan is highly dependent on tourism and tourist arrivals are likely to be negatively impacted while Lebanon is directly affected by the war. Remittances from GCC countries are significant for Lebanon, Egypt and Jordan.

Bond yields have risen in the southern and eastern Mediterranean and Türkiye. Capital outflows from Egypt and Türkiye have been manageable although these may intensify.

The overall economic impact of the war will be determined by the duration of the conflict and the extent of the damage to energy infrastructure. The impact will likely linger beyond the end to hostilities. The direct negative effects on GDP growth via energy costs, the price of fertilisers and food staples, disruptions to supply chains, tourism and remittances from the GCC will be compounded by higher inflation, greater pressures on government budgets and tighter financing conditions in response to rising inflation. Spillovers from advanced Europe, in particular Germany, a key trading partner for many economies in the EBRD regions, will further amplify negative growth impacts as most economies in advanced Europe are negatively affected by higher energy prices.

The economic impact will also be shaped by individual economies' ability to cushion the terms-of-trade shocks based on their existing fiscal and external buffers.

On balance, based on direct disruptions from the conflict, energy imports, fertiliser and food import needs, remittances from the GCC, and fiscal capacity to cushion increases in the prices of energy and food, Lebanon, Jordan, Iraq, Egypt, Ukraine, Mongolia, Senegal, Tunisia, Moldova, Kenya, Türkiye and North Macedonia are among the most affected economies in the EBRD regions (see Table 1).

In the longer term, the conflict may result in increased emphasis on energy security. Rising geopolitical fragmentation and recent conflicts have exposed the fragility of energy markets. The geopolitical distance of international trade has been shrinking particularly fast for energy and critical raw materials, implying much less trade in energy between geopolitically distant economies.

Commodity exporters, on the other hand, benefit from high energy prices. In Russia, which continues its war of aggression against Ukraine, every US\$ 10 per barrel increase in the oil price is estimated to be associated with a windfall in revenues from the sale of oil and related commodities such as gas and fertilisers equivalent to 1.5 percentage points of 2025 GDP.

Table 1. Economies in the EBRD regions that are most impacted by the war in the Middle East

	Exposure through military impact, trade and remittances							Capacity to absorb shocks		Total effect (index)
	Mil. impact, disrupted trade/tourism	Oil trade, % GDP	Gas trade, % GDP	Fertiliser trade, % GDP	Food trade, % GDP	Trade with Iran/GCC, % GDP	Remittances from GCC, % of GDP	Government interest bill, % GDP	External debt, % GDP	
Lebanon	Yes	-14.0	-0.6	0.1	-8.5	11.3	8.3	0.6	335.6	63.4
Jordan	Yes	-4.8	-0.6	2.5	-6.3	15.8	4.1	5.6	88.0	32.5
Iraq	Yes	38.7						1.5	6.3	31.8
Egypt		-1.3	-1.5	0.5	-2.4	5.3	5.5	14.8	40.1	22.7
Ukraine	Partial	-3.6	-0.3	-0.6	9.1	0.8		5.0	101.4	19.5
Mongolia		-7.4	-0.1	-0.3	-2.1	0.3		1.7	159.8	9.5
Senegal		-3.5	-0.5	-0.1	-2.6	2.7		4.9	143.7	9.0
Tunisia		-3.0	-3.1	0.3	0.0	1.2		3.1	78.8	9.0
Moldova		-4.4	-2.5	-0.5	1.2	0.4		1.4	57.6	8.8
Kenya		-2.6	-0.3	-0.3	0.8	4.4		5.4	35.6	8.5
Türkiye	Partial	-0.5	-0.1	-0.1	0.8	2.3		2.8	37.9	8.5
North Macedonia		-4.5	-1.2	-0.2	-3.6	0.6		2.0	75.7	7.9
Armenia		-1.8	-2.1	-0.1	-1.8	23.5		3.4	63.2	7.4
Kyrgyz Republic		-4.4	-0.7	-0.2	-5.8	1.3		1.1	66.9	6.5
Georgia		-3.6	-1.3	0.3	-1.3	2.3		1.8	73.6	6.4
Montenegro		-3.7	-0.1	-0.1	-10.8	0.1		2.1	105.7	6.0
Ghana		-1.2	-0.2	-0.3	0.8	3.5		4.2	45.5	5.9
Serbia		-2.3	-1.2	-0.1	1.3	0.4		2.1	57.7	5.8
Hungary		-1.1	-1.1	-0.1	1.6	0.4		3.5	142.9	5.8
Tajikistan	Partial	-0.5	-0.7	-0.5	-8.7	1.9		0.6	49.1	5.3

Source: CEIC, Central Bank of Jordan, Eurostat for EU economies, national authorities, World Bank and EBRD calculations.

Note: The index takes into account the military impact, direct disruptions to trade and tourism, oil imports, gas imports, fertiliser imports, remittances from the GCC economies as well as the fiscal capacity of governments to absorb shocks from higher energy and food prices (measured by the inverse of the ratio of interest payments to GDP). Data for Turkmenistan are not available. Data for Iraq are partially available. World Bank external debt stocks for non-EU economies, CEIC for EU economies.

Escalating conflict in the Middle East

In late February 2026, Israel and the United States launched major air and missile strikes on Iran. Iran retaliated with missiles and drones against Israel as well as against US and allied targets across numerous Gulf states and Cyprus. The conflict has also escalated to Lebanon.

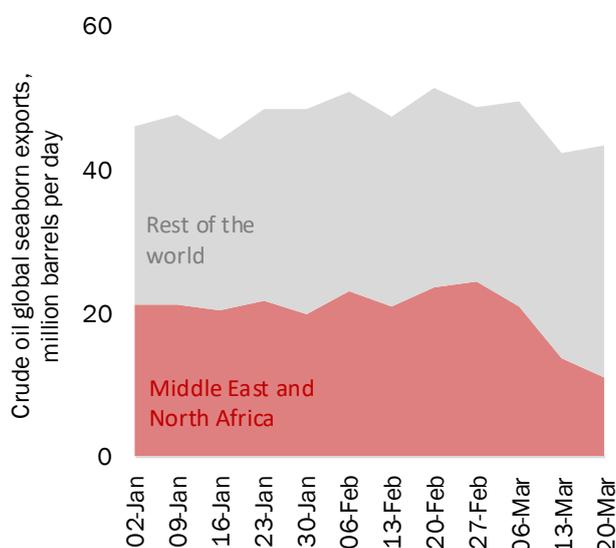
Higher energy prices

Energy prices have risen, reflecting damage to energy facilities and disruptions to shipping through the Strait of Hormuz. Qatar halted its production of liquified natural gas (LNG) on 2 March and production facilities subsequently came under attack and sustained substantial damage. Qatari LNG production was equivalent to almost 20 per cent of global supply, 8 per cent of EU LNG imports and 30 per cent of China’s imports in 2025. Operations at Saudi Arabia’s biggest domestic oil refinery (Saudi Aramco’s Ras Tanura) were also suspended. Two of Israel’s

largest offshore gas fields have been shut down and production has been reduced or halted at Iraq’s largest oil fields as well as oil and gas fields in Iraqi Kurdistan.

Shipping activity through the Strait of Hormuz has fallen sharply reflecting higher insurance costs and elevated security risks, even in the absence of a formal closure. It is the principal export corridor for Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates. Seaborne exports of oil from the Middle East and North Africa have fallen sharply, though seaborne exports of oil from the rest of the world appear to have adjusted upward somewhat (see Chart 1). Around 18 per cent of global oil production passes through the strait, inclusive of refined oil products (in particular destined for Asia). Only a quarter of those volumes could be rerouted in the short term through other ports on the Arabian peninsula.

Chart 1. Seaborne exports of crude oil from the Middle East and North Africa fell by around 10 mbd between February and mid-March 2026



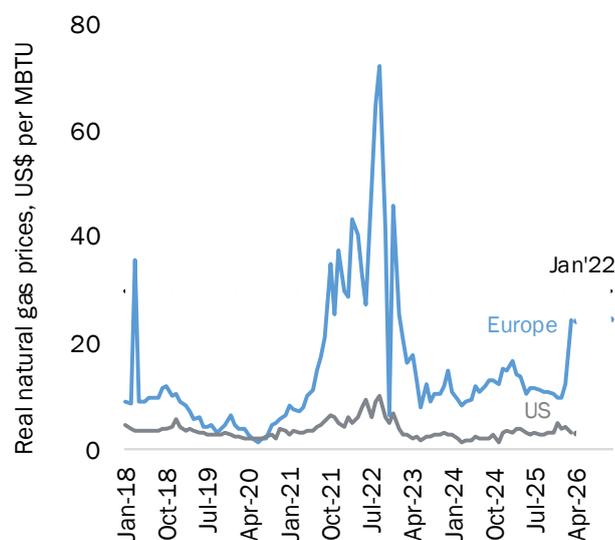
Source: Bloomberg and authors' calculations.

As a result, the gas price in Europe more than doubled by 19 March 2026, and the gap between the price of gas in the US and in Europe widened to a multiple of around 6 times. While LNG from the Gulf accounts for a relatively small share of global gas consumption, LNG plays an important role in connecting fragmented regional gas markets and thus setting the price of gas.

The Brent oil price surpassed US\$ 100 per barrel on 9 March 2026. In response, the International Energy Agency pledged a large release of oil reserves (400 million barrels). These reserves, however, could be supplied to the market at a rate equivalent to 1-3 per cent of global production per day, owing to logistical constraints. China is reported to have its own ample reserves.

On balance, oil and gas prices have remained below the recent peaks of mid-2022 (see Charts 2 and 3). Price increases were higher for selected oil products such as aviation fuel and diesel, in particular in Asia, owing to the shortage of refining capacity outside the GCC in the short term.

Chart 2. Gas prices up sharply but remain below their 2022 peaks adjusted for inflation



Source: Bloomberg, Refinitiv and authors' calculations. Note: Forecast based on futures prices as of March 20. Prices adjusted for US inflation.

Chart 3. Oil prices up sharply but remain below their 2022 peaks adjusted for inflation

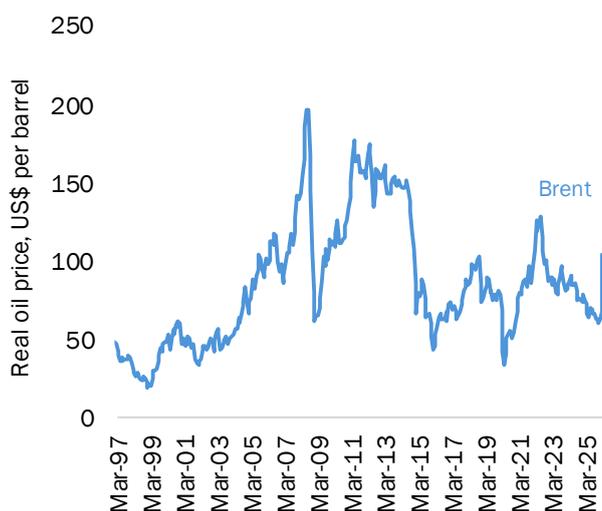


Source: Bloomberg, Refinitiv and authors' calculations. Note: Forecast based on futures prices as of March 20. Prices adjusted for US inflation.

The oil price has so far remained significantly below earlier historical peaks in real terms (see Chart 4). The high price of oil in 2011-14 reflected strong global demand coupled with supply

disruptions owing to sanctions on Iran and the Arab Spring. Over time, increased shale and deep-sea exploration eased supply constraints while demand growth slowed with a shift away from fossil fuels.

Chart 4. Oil price up sharply but well below earlier peaks, adjusted for inflation



Source: IMF and authors' calculations.

Note: Prices adjusted for US inflation.

A sustained closure of the Strait of Hormuz may put further upward pressures on energy prices, as in the short term the demand for oil is inelastic (see Chart 5). The market could clear at price levels of US\$ 180 per barrel, with many analysts predicting spikes in the range of US\$ 150-200 per barrel.

In the longer term (horizons of several years), high oil prices destroy demand as industrial users switch processes and look for energy efficient solutions while individual consumers cut back on holidays.¹ The market could clear at prices of around US\$ 100 per barrel, even if supply from the Gulf remains severely curtailed (see Chart 4).

¹ See also Helmi et al. (2024) and Javan and Zahran (2015) for evidence and discussion.

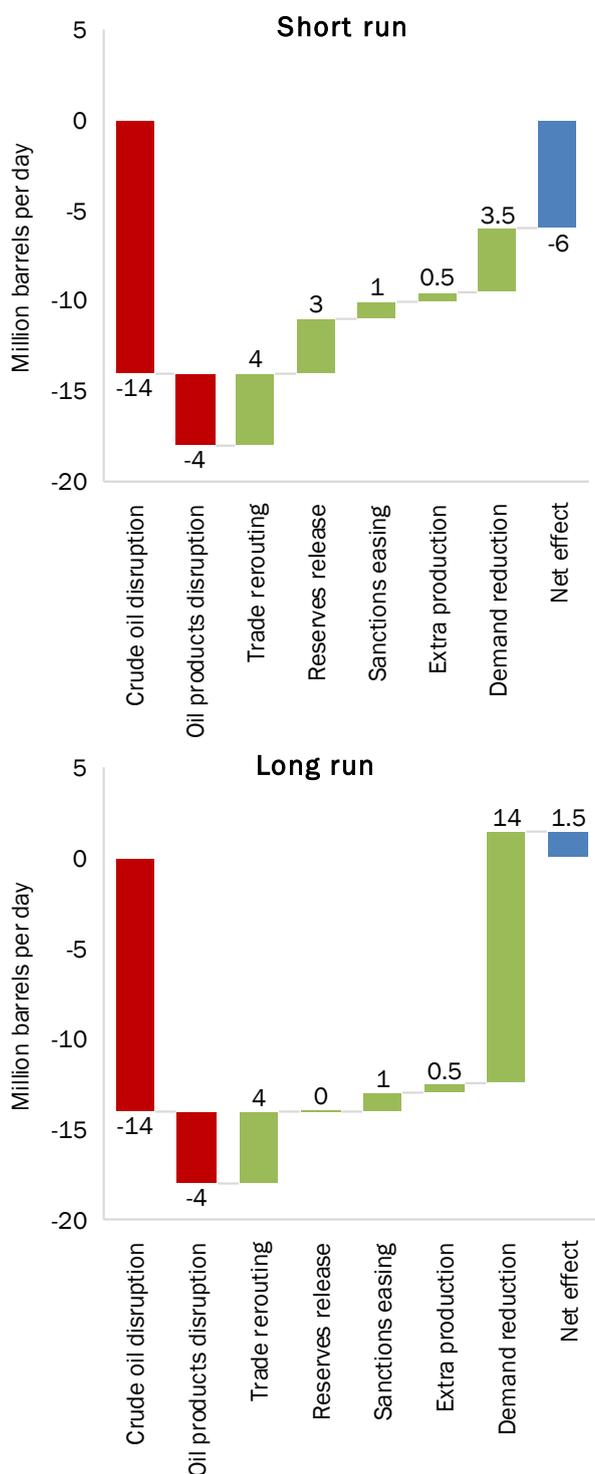
² See also Choi et al. (2017), Baba and Lee (2022) and Gagliardone and Gertler (2023) on the effects of energy price changes on inflation, wages and monetary policy. On the elasticity of global growth with respect to oil prices see also Iradian, Burgara and Xiaoqiao (2023) who find that a sustained 40 per cent increase

A sustained increase in the oil price to US\$ 100 per barrel is likely to suppress global growth by at least 0.4 percentage points and increase global inflation by more than 1.5 percentage points, based on various estimates of historical experiences with oil price shocks and taking into account disruptions to supply chains involving chemicals and metals.

The calculation of the average growth impact is based on typical estimates from studies of the elasticity of global growth with respect to the oil price. While estimates vary, a 10 per cent increase in the average oil price is typically found to be associated with a 0.1 percentage point decline in global growth.² Oil prices sustained above US\$ 100 per barrel would translate into an average annual oil price of above US\$ 94 in 2026 (impact over 10 months of the year). This, in turn, would be associated with a reduction in growth in excess of 0.4 percentage points relative to the counterfactual scenario with no energy price increases. A small reduction in growth would also be observed in 2027 on account of the effect in the first two months of the year. The inflationary impact is estimated in a similar way, additionally accounting for the effect of supply chain disruptions.

in real oil prices could reduce global growth by 0.4 percentage points of GDP; ECB (2016), in turn, find that a 10 per cent decline in oil prices could increase global GDP by 0.1-0.2 per cent. Elasticities are generally found to have declined over time reflecting the lower oil intensity of economies (Balke, Brown and Yucel 2008; Iradian, Burgara and Xiaoqiao 2023).

Chart 5. In the short term demand for oil is inelastic while in the long term high prices destroy demand



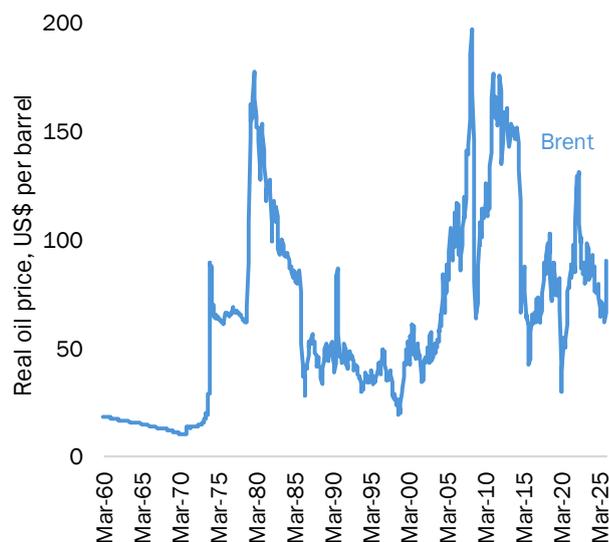
Source: Bloomberg, The Economist, IMF and authors' calculations.

Note: Calculations assume elasticities of demand of around -0.05 in the short term and -0.2 in the longer term.

Lower oil intensity of the global economy

Over the long term, adjusting for inflation, the oil price spikes of 2008 and 2011-12 exceeded those of the 1970s (see Chart 6).

Chart 6. After adjusting for inflation, the oil price spikes of 2008 and 2011-12 exceeded those of the 1970s

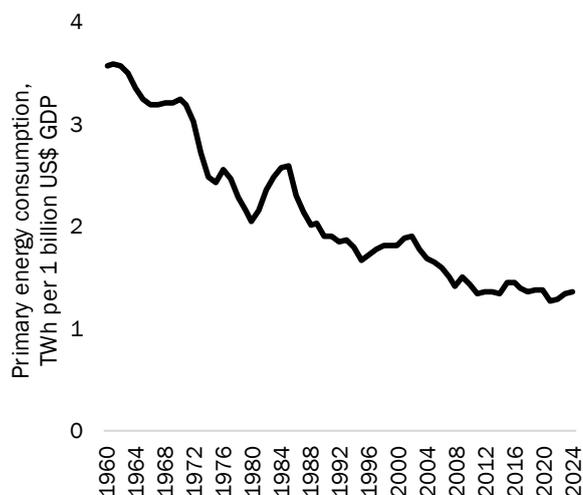


Source: World Bank Commodity Price Data, FRED, and authors' calculations.

Note: Prices adjusted for US inflation.

Yet the dependence of the global economy on hydrocarbons (measured as primary energy consumption per US\$ unit of GDP) has declined substantially since the 1970s (see Chart 7).

Chart 7. In the 1970s the global economy was much more dependent on hydrocarbons

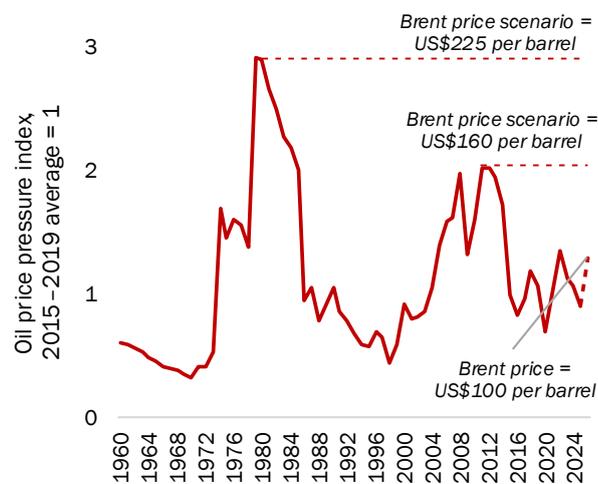


Source: Energy Institute – Statistical Review of World Energy (2025) (via Our World in Data), World Bank and authors’ calculations.

Note: Global GDP is expressed in constant dollars, obtained by adjusting GDP in current prices using US inflation.

As a result, oil price pressures—measured as the product of the oil price and oil dependency—were far greater in the 1970s than they are today (see Chart 8). They would be equivalent today if the price of oil reached US\$ 225 per barrel.

Chart 8. Oil price pressures were far greater in the 1970s



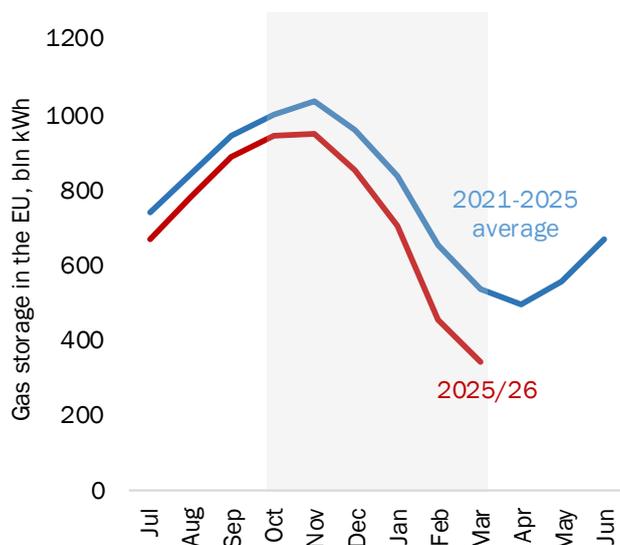
Source: Energy Institute – Statistical Review of World Energy (2025), World Bank, FRED, and authors’ calculations.

Note: The oil price pressure index is constructed as the product of the Brent oil price (adjusted for US inflation) and hydrocarbon intensity, where hydrocarbon intensity is defined as hydrocarbon energy consumption (TWh) divided by world GDP in constant US dollars.

Sustained upward pressures on gas prices

Gas storage in the EU is significantly below the levels recorded at this time of the year in previous years (see Chart 9), around the levels last seen in February 2022 on the eve of the Russian gas cut-off. As a result, elevated prices of gas may persist for a while even if the conflict ends swiftly as buyers in Asia and Europe scramble to refill gas storage while LNG production in Qatar would take weeks to partially restart.

Chart 9. Gas storage in the EU is low in March 2026

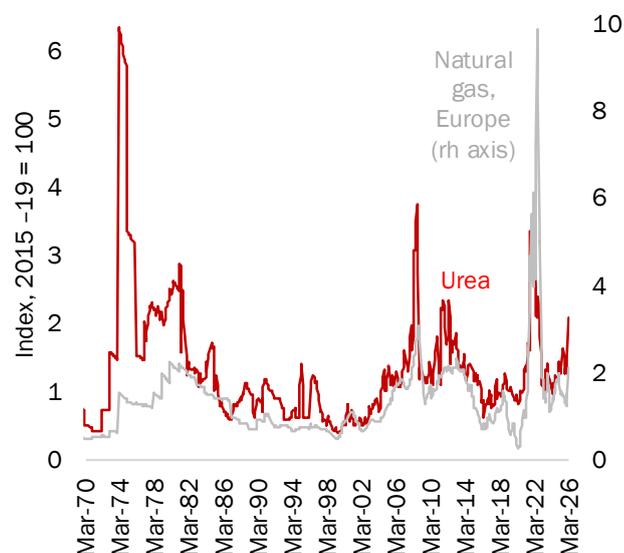


Source: Refinitiv and authors' calculations.
 Note: 2021-2025 average refers to the period from July 2021 to June 2025.

Knock-on impact on fertiliser markets

Gas is also a primary input in fertiliser production. In particular, the production of nitrogen-based fertilisers (which account for the bulk of fertilisers) is highly gas-intensive. Fertiliser prices have historically co-moved with gas prices (see Chart 10).

Chart 10. Fertiliser prices have historically co-moved with gas prices



Source: World Bank Commodity Price Data, Investing.com, Trading Economics, International Grains Council, FRED and authors' calculations.

Note: Prices adjusted for US inflation. The picture for DAP (diammonium phosphate, phosphorus-based) and MOP (muriate of potassium, potassium-based) is similar as the one for urea (nitrogen-based).

The Strait of Hormuz is also critical for sulphur, used in agriculture and industry. As around half of the global supply of sulphur passes through the Strait of Hormuz, sulphur prices have risen to record levels, surpassing the previous peak reached in 2022 in inflation-adjusted terms (see Chart 11).

In turn, higher fertiliser prices tend to translate into higher prices of food staples.

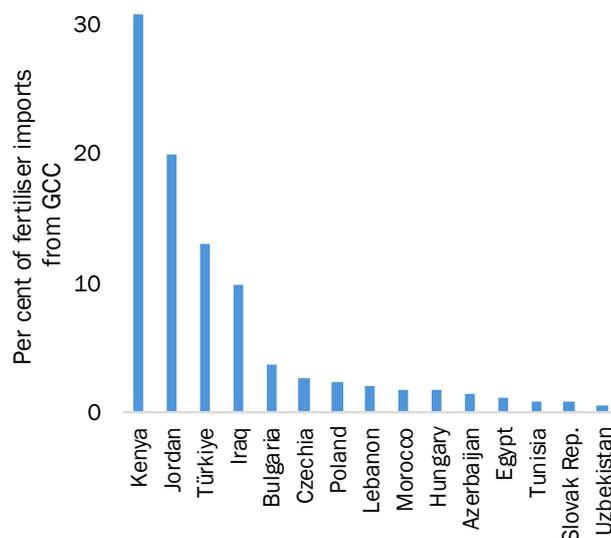
Chart 11. Sulphur prices have reached record levels



Source: Bloomberg and authors' calculations.
 Note: Prices adjusted for US inflation. ADNOC Sulphur refers to the price set by the Abu Dhabi National Oil Company, a large supplier of sulphur.

In the EBRD regions, Morocco, Egypt and Jordan are significant fertiliser exporters. Around 31 per cent of Kenya's total fertiliser imports and 13 per cent of Türkiye's are from the GCC (see Chart 12; Egypt and Jordan are both significant importers and exporters of different types of fertilisers).

Chart 12. Kenya, Jordan and Türkiye source large shares of their fertiliser imports from the GCC



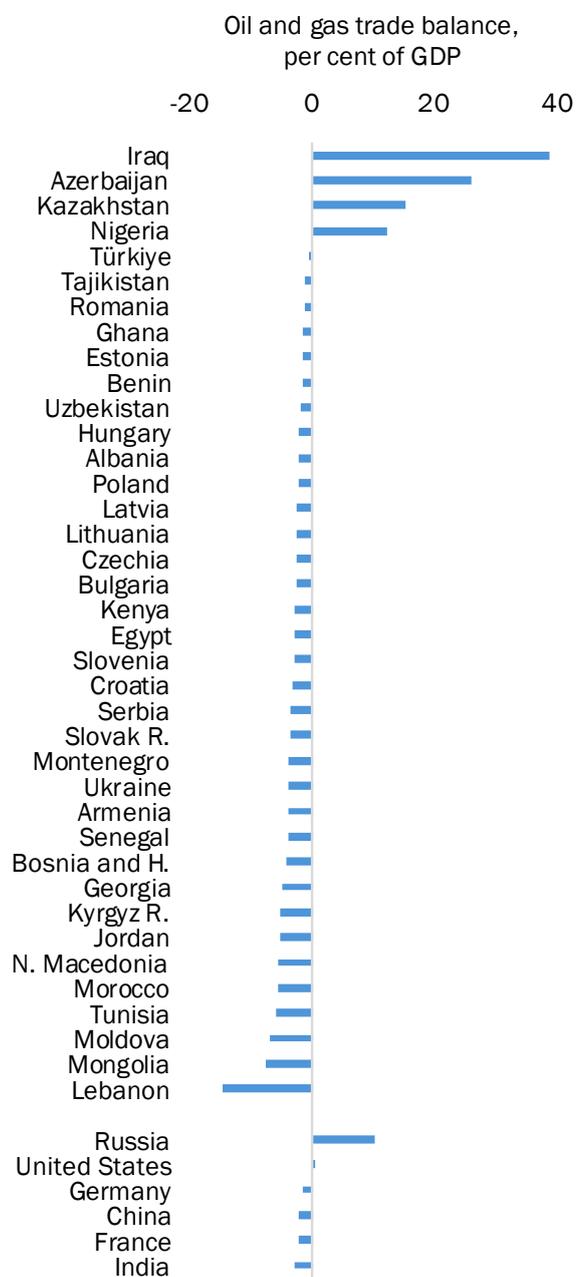
Source: UN COMTRADE and authors' calculations.
 Note: Latest available year. Economies with at least one per cent of fertiliser imports from these countries shown.

Economies dependent on oil and gas imports

Higher oil and gas prices would weigh on energy importers while benefiting energy exporters. Energy trade deficits (estimated at pre-conflict prices) were particularly large for Moldova, Jordan, Tunisia, Senegal, North Macedonia, Morocco and Egypt, at around 5 to 11 per cent of GDP (see Chart 13). Some of these economies, including Lebanon, Egypt, Senegal and Morocco, are also characterised by high oil intensity of their economies (in terms of barrels of oil consumed per US dollar of GDP; see Chart 14).

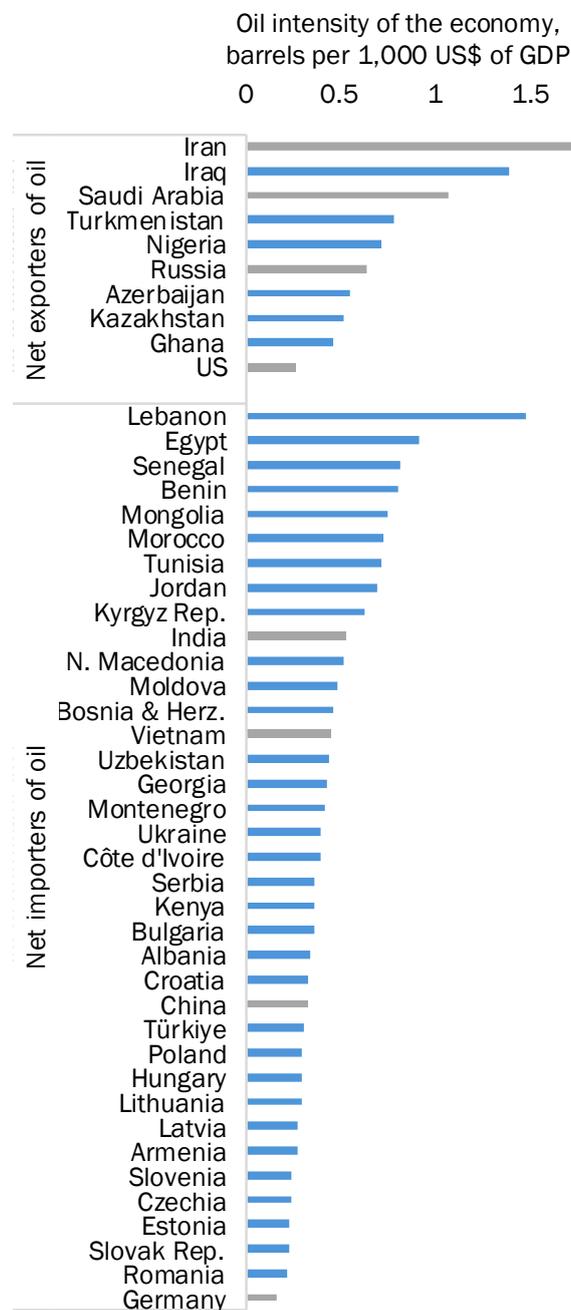
In turn, oil and gas trade surpluses reach 11 to 39 per cent of GDP in Azerbaijan, Iraq, Kazakhstan, Mongolia and Nigeria (see Chart 13, Iraq is currently unable to effectively export oil). In general, commodity exports are much more concentrated than commodity imports and the fortunes of exporting economies are closely correlated with the prices of the commodities they export. For importers, correlations between economic performance and energy prices are typically weaker.

Chart 13. Higher oil and gas prices would benefit energy exporters while weighing on energy importers



Source: UN COMTRADE, national authorities and authors' calculations.
 Note: The trade balance is calculated as the difference between exports and imports of HS 2709 (crude oil), 2710 (refined products) and 2711 (petroleum gases). 2025 or latest available year after 2021.

Chart 14. Lebanon, Egypt, Senegal and Morocco are also characterised by high oil intensity of their economies



Source: Energy Institute, US Energy Information Administration (EIA), Oil & Gas Journal (data compiled by Worldometer), IMF World Economic Outlook (October 2025) and authors' calculations.
 Note: Data refer to 2023-24.

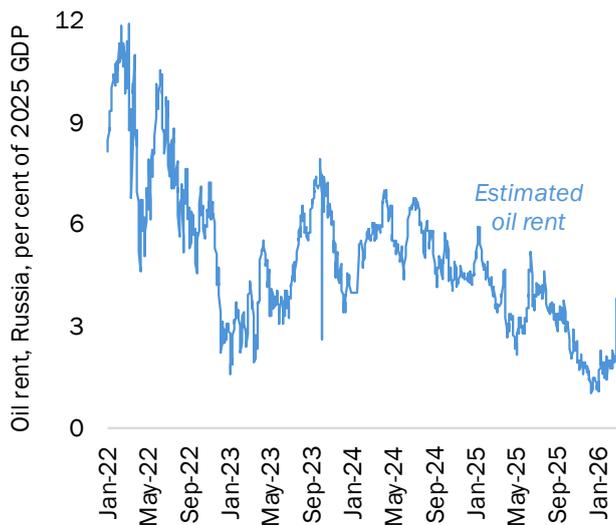
Russia's windfall

In Russia, at any given price of oil, every US\$ 10 per barrel increase in the oil price is estimated to be associated with a windfall in revenues from the sale of oil and related commodities such as gas and fertilisers equivalent to 1.5 percentage points of 2025 GDP (see Chart 15). Taking into account production costs and the price discount on Russian oil, the “rent” received by Russia (revenue net of cost) may have more than tripled since the start of the war in the Middle East.

The war has also enabled Russia to clear the backlog of oil at sea looking for buyers and reportedly sell this backlog, available for swift delivery, at a premium to the Brent oil price (the US temporarily eased sanctions on Russia's and Iran's oil at sea).

Strong demand may also marginally increase oil production in Russia although not beyond levels achieved recently (perhaps up to 10.5 mbd) as Russia faces physical production constraints that became more binding under sanctions.

Chart 15. In Russia, every US\$ 10 per barrel increase in the oil price is associated with a 1.5 percentage points of GDP windfall in revenues from the sale of oil and related commodities



Source: Bloomberg, Refinitiv and authors' calculations.

Note: The calculation assumes the base equivalent to potential oil production of 10.5 mbd (accounting for gas and derivative products such as chemicals and

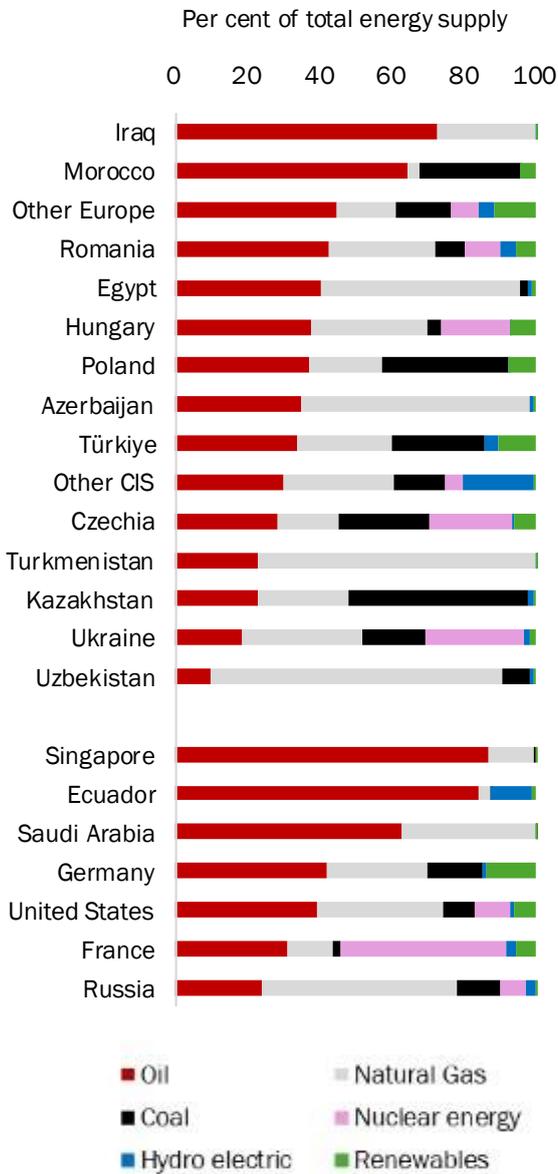
fertiliser) and average cost of extraction at US\$ 32 per barrel in 2026 prices.

Hydrocarbons and electricity prices

Oil and gas continue to account for a major share of total energy supply and electricity generation (see Charts 16 and 17).

Gas prices tend to be important determinants of electricity prices in many economies as gas-generated power is needed to ensure that supply and demand are balanced regardless of weather conditions. The price of gas sets the price of electricity whenever gas plants are at the margin. Zakeri et al. (2023) study the roles of fossil-fuelled versus low-carbon electricity generation on wholesale electricity prices in the EU-27, Norway and the UK during 2015-2021 and find that fossil fuel-based power plants set electricity prices in Europe about 58 per cent of the time (natural gas 39 per cent), despite generating only 34 per cent of electricity (natural gas 18 per cent) a year. Gas determined electricity prices for more than 80 per cent of the hours in 2021 in several countries such as Belgium, Greece, Italy, the Netherlands and the UK.

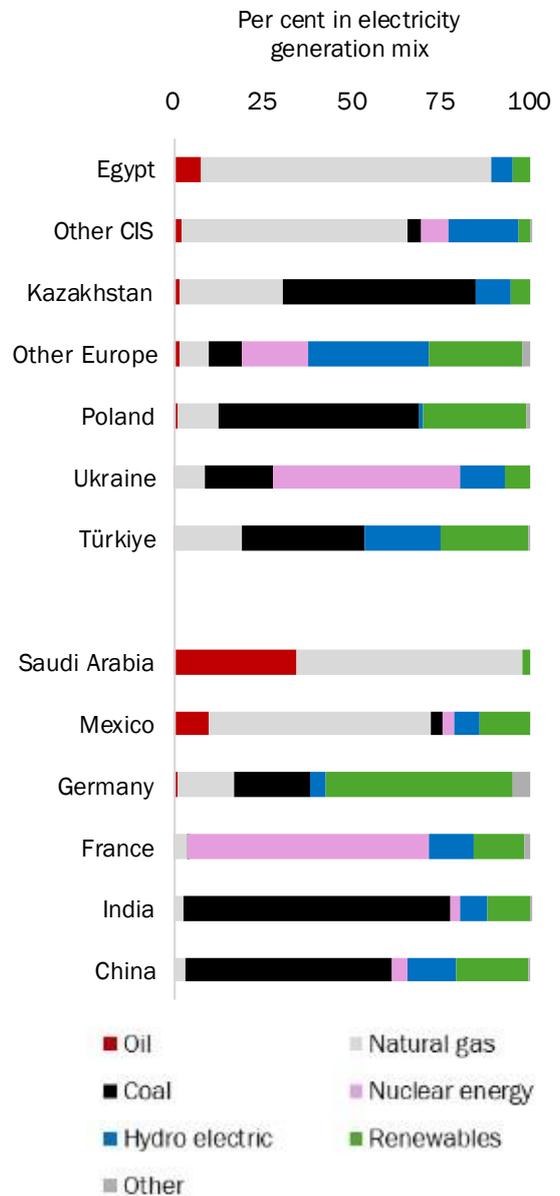
Chart 16. Morocco's energy mix is highly dependent on oil, Egypt's on oil and gas (including LNG)



Source: Statistical Review of World Energy (2025).
 Note: Data refer to 2024. 'Other Europe' includes Albania, Bosnia and Herzegovina, Croatia, Estonia, Kosovo, Latvia, Lithuania, Montenegro, North Macedonia, Serbia, the Slovak Republic and Slovenia in the EBRD regions as well as economies outside the EBRD regions such as Denmark and Ireland. 'Other CIS' includes Armenia, the Kyrgyz Republic, Moldova and Tajikistan, as well as Belarus. Gas includes LNG.

In terms of electricity mix, gas accounts for a significant share of electricity generation in Egypt (as well as in commodity exporters; see Chart 17).

Chart 17. Gas accounts for a significant share of electricity generation in Egypt



Source: Statistical Review of World Energy (2025).
 Note: Data refer to 2024. 'Other Europe' includes Albania, Bosnia and Herzegovina, Croatia, Czechia, Estonia, Kosovo, Latvia, Lithuania, Montenegro, North Macedonia, Romania, Serbia, the Slovak Republic and Slovenia in the EBRD regions as well as economies outside the EBRD regions such as Greece, Portugal and Switzerland. 'Other CIS' includes Armenia,

Azerbaijan, the Kyrgyz Republic, Moldova and Tajikistan, Turkmenistan and Uzbekistan, as well as Belarus. Gas includes LNG.

Trade links

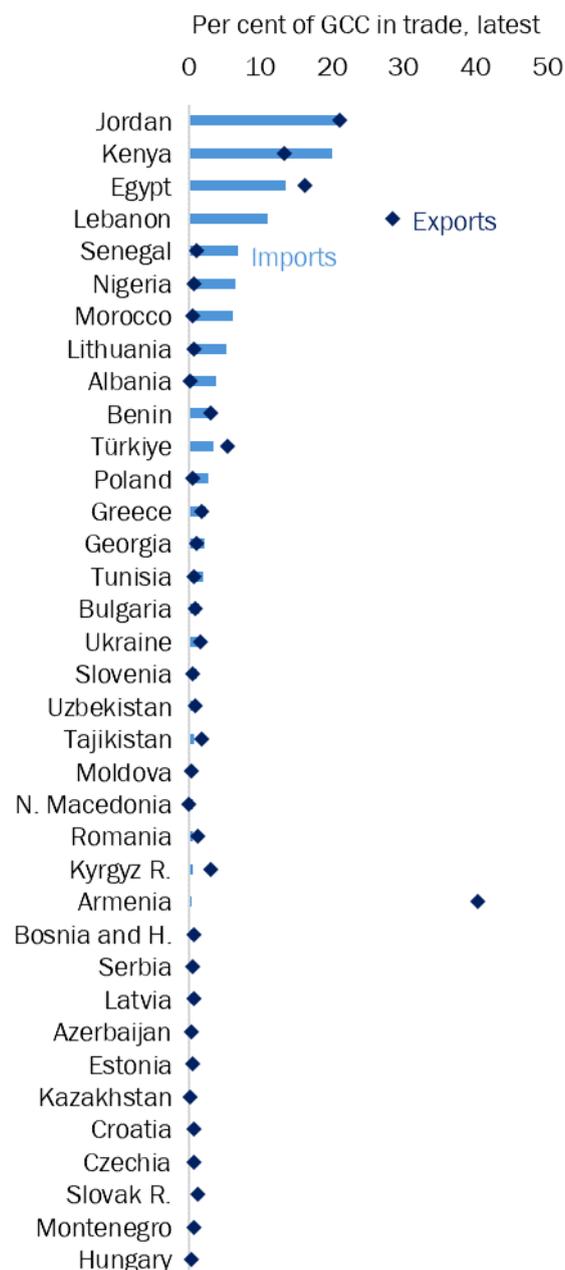
Trade with GCC economies is significant for many economies, including in the EBRD regions (see Chart 18). Globally, GCC economies are also important suppliers of sulphur, aluminium, plastics, chemicals, helium (used to produce semi-conductors) and a number of other goods (see Chart 19). Temporary shortages of these products and upward price pressures may intensify in the short term, propagating through supply chains and adding to global inflationary pressures. Where large-scale industrial production of metals or chemicals has to be stopped, it may take weeks to restart.

Iraq's trade across the board strongly relies on the Strait of Hormuz. For the time being, wheat reserves in Iraq appear to be ample.

GCC economies further account for over 10 per cent of total imports for Jordan, Kenya, Egypt and Lebanon and for over 40 and 29 per cent of the total exports of Armenia and Lebanon respectively.

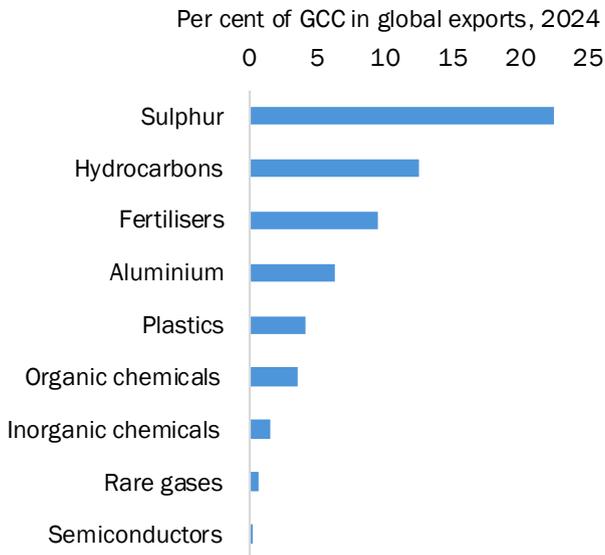
Direct trade links with Iran are limited for most economies in the EBRD regions (see Chart 20). They are highest for economies in the Caucasus as well as Tajikistan and Turkmenistan (where data are patchy). Iran accounts for 3.7 per cent of total imports of Armenia, 3 per cent for Azerbaijan and 1.7 per cent for Georgia. Iran's role as an export destination is most important for Türkiye, where it accounts for around 1.2 per cent of Türkiye's exports.

Chart 18. Trade with GCC economies is significant for many economies in the EBRD regions



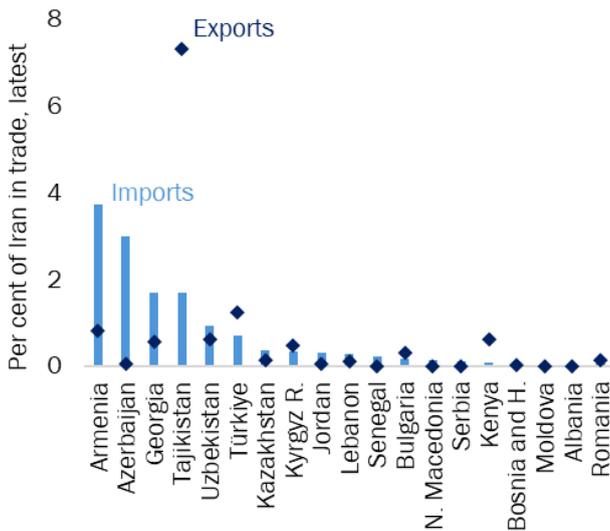
Source: UN COMTRADE and authors' calculations.

Chart 19. GCC economies are also important suppliers of sulphur, aluminium, plastics, chemicals and helium



Source: ITC, UN COMTRADE and authors' calculations.
 Note: Sulphur is used primarily to produce sulphuric acid, used, for instance, in the production of phosphate fertilisers, detergents, pigments, dyes, pharmaceutical ingredients, also used in making synthetic rubbers, processing of metals such as copper, nickel, zinc, uranium and rare earths. Helium is used in cryogenics, the cooling of superconducting magnets (e.g. in MRI scanners), in the production of semiconductors, for arc welding, growing crystals to make silicon wafers etc.

Chart 20. Trade with Iran is limited and concentrated in the Caucasus

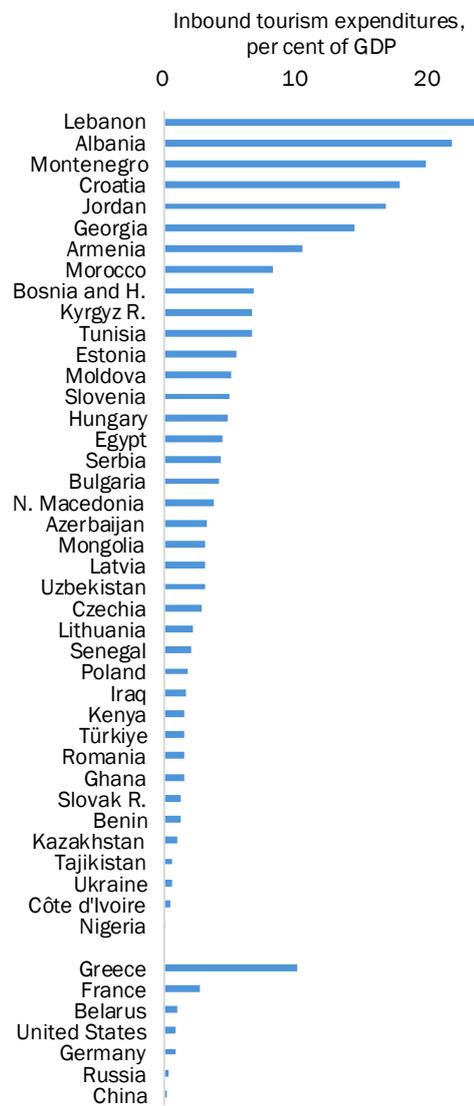


Source: UN COMTRADE and authors' calculations.

Tourism

Disruptions to tourism, reflecting the direct effects of the conflict as well as travel disruptions and increases in uncertainty would weigh on Jordan and add to the devastation in Lebanon given the high dependence of those economies on tourism receipts (see Chart 21). Inbound tourism expenditures accounted for 24 per cent of Lebanon's and 17 per cent of Jordan's GDP in 2023.

Chart 21. Disruptions to travel and tourism would weigh on Lebanon and Jordan

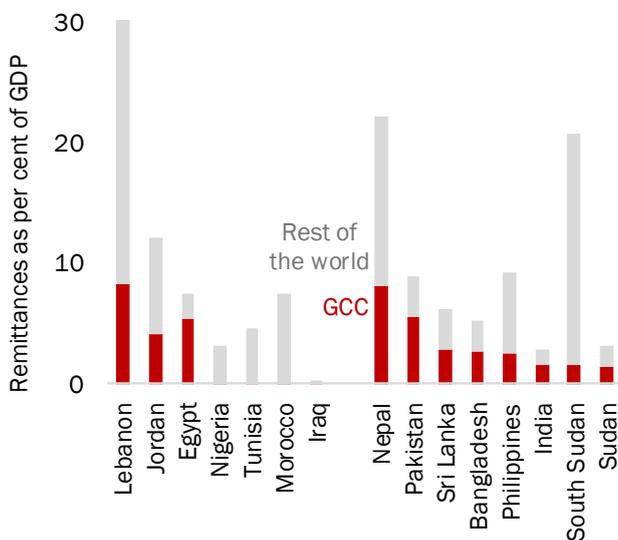


Source: UN Tourism, IMF World Economic Outlook (October 2025) and authors' calculations.
 Note: Based on inbound expenditures of all visitors. 2024 or most recent available.

Remittances

Remittances from GCC countries accounted for 4-8 per cent of GDP in Lebanon, Egypt and Jordan (data for Jordan refer to 2025, for other economies to 2021, the latest bilateral remittance flows available; see Chart 22). While remittance flows tend to remain stable in times of crises,³ disruptions to sending corridors could result in delayed receipt of funds while a prolonged conflict could reduce demand for foreign labour in the GCC economies.

Chart 22. Significant remittances from GCC to Lebanon, Egypt and Jordan



Source: Central Bank of Jordan, KNOMAD, World Bank (WB), IMF WEO (October 2025), and authors' calculations.

Note: Data refer to 2021; for Jordan to 2025.

The overall economic impact of the war will be determined by the duration of the conflict and the extent of the damage to energy infrastructure. The impact will likely linger beyond the end to hostilities. The direct negative effects on GDP growth via energy costs, the price of fertilisers and food staples, disruptions to supply chains, tourism and remittances from the GCC will be compounded by higher inflation, greater pressures on government budgets and tighter financing conditions in response to rising inflation.

³ See Koczan (2016) for a discussion.

Spillovers from advanced Europe, in particular Germany, a key trading partner for many economies in the EBRD regions, will further amplify negative growth impacts as most economies in advanced Europe are negatively affected by higher energy prices.

The economic impact will also be shaped by individual economies' ability to cushion the terms-of-trade shocks based on their existing fiscal and external buffers.

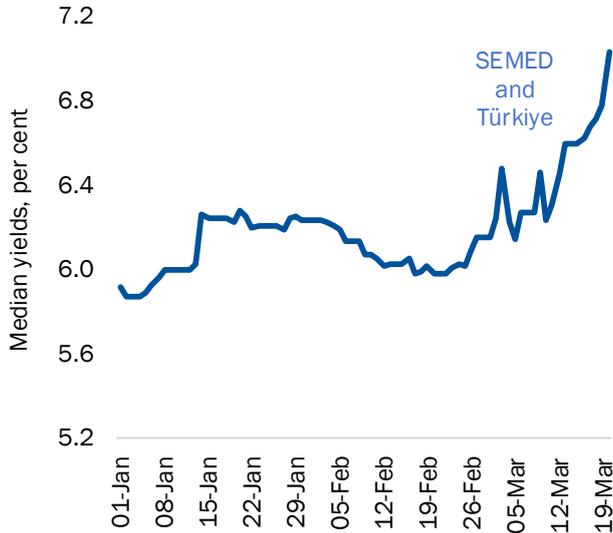
On balance, based on direct disruptions from the conflict, energy imports, fertiliser and food import needs, remittances from the GCC, and fiscal capacity to cushion rises in the prices of energy and food, Lebanon, Jordan, Iraq, Egypt, Ukraine, Mongolia, Senegal, Tunisia, Moldova, Kenya, Türkiye and North Macedonia are among the most affected economies in the EBRD regions (see Table 1). These calculations emphasise fiscal capacity of governments assuming that governments may be called up to cushion the impact of rising prices of energy and food. An alternative measure would also take into account indicators of external vulnerabilities such as the ratio of external debt to GDP or the size of international reserves in terms of months of imports. Those measures reflect the ability of the economy to absorb a terms-of-trade shock and, when incorporated, they produce similar rankings of economic vulnerabilities as those presented in Table 1.

Financing conditions

Renewed inflationary pressures stemming from high energy prices and supply chain disruptions are likely to translate into tighter financing conditions globally. In addition, countries with greater economic exposure to the war may face an additional risk premium, similar to the risk premium paid by economies in central and south-eastern Europe in the aftermath of Russia's invasion of Ukraine in 2022. While sovereign bond yields have risen in the southern and eastern Mediterranean and Türkiye, by about 0.7

percentage points relative to the pre-war level (see Chart 23; spreads relative to Germany have also risen), capital outflows from these economies have been manageable.

Chart 23. Bond yields have risen in the southern and eastern Mediterranean and Türkiye



Source: Bloomberg and authors' calculations.

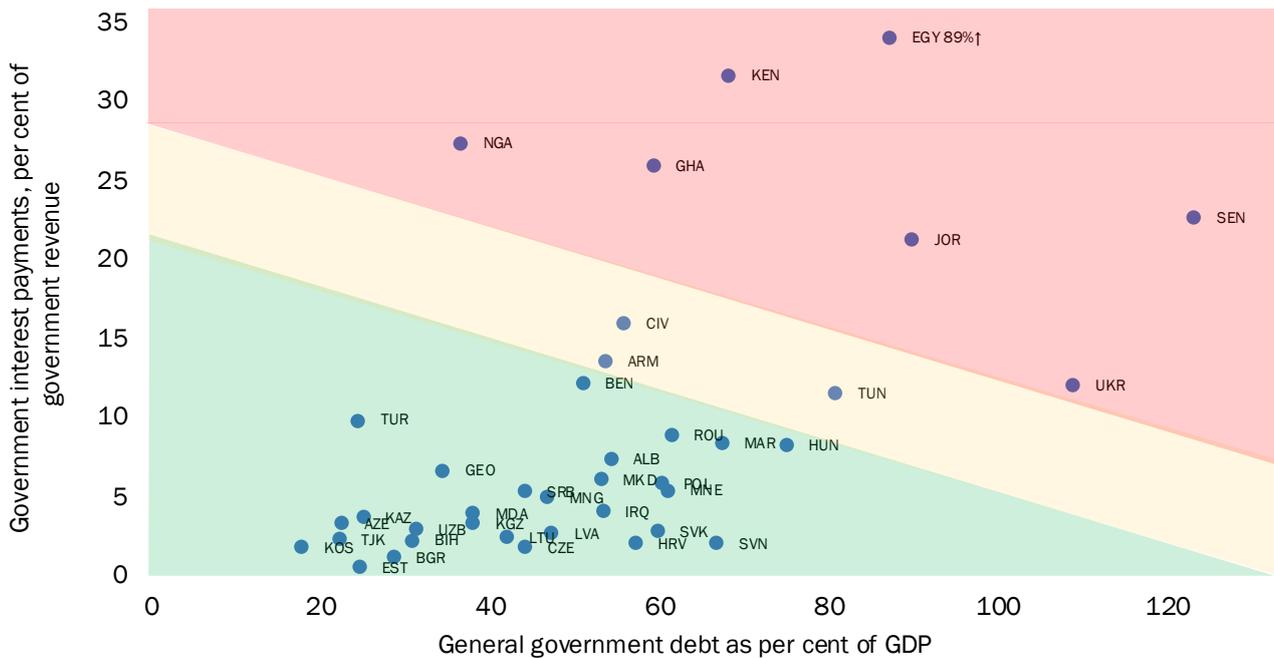
Note: Based on EUR- or USD-denominated bonds with maturities of five to ten years. As of 20 March.

The fallout from the conflict is adding to pre-existing fiscal pressures. Even before the conflict, a number of economies in the EBRD regions were facing both high ratios of government debt to GDP and high interest payments. For instance, government interest payments reached 89 per cent of government revenues in Egypt in 2025 and are estimated to account for over 30 per cent of revenues in Kenya, and over 20 per cent in Nigeria, Ghana, Senegal and Jordan (see Chart 24).

Greater emphasis on energy security in the longer term

In the longer term, the conflict in the Middle East may result in increased emphasis on energy security. Rising geopolitical fragmentation of trade and investment and recent conflicts have exposed the fragility of global energy markets.

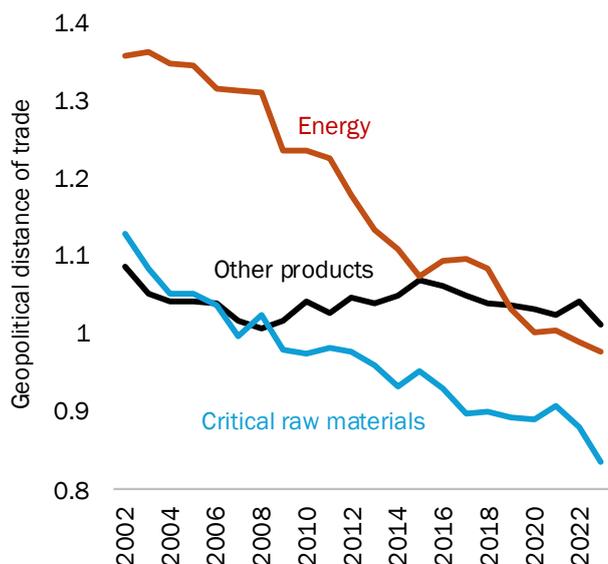
Chart 24. Even before the conflict, some economies in the EBRD regions were facing fiscal pressures



Source: IMF and authors' calculations. Note: Data refer to 2025 or latest available.

Already before the latest conflict, the geopolitical distance of international trade has been shrinking particularly fast for energy and critical raw materials, implying much less trade in energy between geopolitically distant economies (see Chart 25; the picture is similar when using alternative measures of geopolitical distance).

Chart 25. Energy is increasingly traded between countries with stronger geopolitical alignment



Source: BACI (2025 version), European Commission (2024), IEA (2023), Liu et al. (2025), Voeten (2009) and authors' calculations.

Note: The lines represent the geopolitical distance travelled by trade, measured as a weighted average of bilateral geopolitical distances (based on voting in the UN in 2021), where the weights are the value of bilateral trade in each year.

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About this report

This Regional Economic Update complements the Regional Economic Prospects report, which is published three times a year. The report is prepared by the Office of the Chief Economist and the Department for Policy Strategy and Delivery and contains a summary of regional economic developments and outlook, alongside the EBRD's growth forecasts for the economies where it invests. The report also touches on the economic developments in Belarus and Russia notwithstanding the fact that Belarus and Russia have had their access to Bank resources suspended under Article 8.3 of the Agreement Establishing the EBRD. All historical data are based on estimates by country statistical offices. Since 2022, Russia has stopped releasing detailed statistics on the government budget, external trade and current-account balance.

The estimates and projections are based on statistical information available through March 24, 2026.

For more comprehensive coverage of economic policies and structural changes, see the EBRD's country strategies and updates, as well as the Transition Report 2025-26, which are all available on the Bank's website at www.ebrd.com.

Acknowledgements

The report was edited by Zsoka Koczan (koczanz@ebrd.com) and Alexander Plekhanov (plekhana@ebrd.com), with contributions from Maxim Chupilkin and Oleg Konovalov and under the general guidance of Beata Javorcik, Chief Economist.

Colleagues in the Communications Department, Policy Strategy and Delivery Department, the Office of the Chief Economist and other departments of the EBRD provided valuable comments and suggestions.

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