THE IMPACT OF THE MIDDLE EAST CRISIS ON THE GLOBAL ECONOMY. THE IMPACT ON THE ROMANIAN ECONOMY

Ph.D. Associate Professor, Catalin ANDRUS
"Alexandru Ioan Cuza" Police Academy, Romania
E-mail: catalin.andrus@cnai.ro
Ph.D. Lecturer Lucian IVAN
"Vasile Goldiş" West University of Arad, Baia Mare Branch, Romania
E-mail: ivan.lucian2@gmail.com

Abstract: *The conflict in the Middle East has triggered a major energy crisis affecting supply chains and causing a sharp rise in product prices, a development that has led to a downward revision of global economic growth forecasts. Thus, the closure or control of the Strait of Hormuz by the Islamic Republic of Iran has blocked approximately 20% of the global supply of oil and liquefied natural gas (LNG), and, in this context, the price of a barrel of Brent crude has exceeded the 100 USD mark. At the same time, natural gas prices in Europe have risen by over 80%, forcing the EU to rely heavily on LNG imports from the US, which could cover 65–80% of its needs by 2030, even though it is the most expensive supplier. Against this backdrop, global growth is forecast to slow from 3.4% to 3.1%, with the possibility of falling to 2% if the conflict drags on until 2027. Furthermore, rising energy prices have fuelled global inflation, forcing central banks to maintain or raise interest rates. Countries dependent on energy imports, particularly developing economies and those in Central and Eastern Europe, are the most exposed to these global market shocks. In conclusion, the coming period is likely to be marked by a stagnation of the global economy, combined with high inflation, which poses extreme risks to the global economy. For Romania, this crisis unfortunately exacerbates the systemic problems facing the Romanian economy, namely an excessive budget deficit, a sharp decline in consumption, high taxation, the lack of coherent and effective economic policies, a marked decline in the population's standard of living and the proliferation of tax evasion – all of which are likely to seriously undermine the credibility of Romanian industry at an international level in terms of economic resilience and the ability to overcome this crisis.*

Keywords: *crises, economy, oil, natural gas, resilience.*
JEL Classification: *F5.*

1. Introduction

A geopolitical crisis can lead to multiple economic and social crises, affecting the economic stability of a region or at the state level. One such example is the geopolitical crisis in the Middle East, triggered by the military conflict between the US/Israel and the Islamic Republic of Iran, which has led to an economic crisis of global proportions due to the disruption of energy supplies and, consequently, the disruption of supply chains for certain hydrocarbon-based products (e.g. chemical fertilisers).

The impact of the war in the Middle East, particularly the escalation of the military conflict between the US and Israel and the Islamic Republic of Iran, on the global economy is marked by a slowdown in global economic growth and a sharp rise in inflation. Against this backdrop, the International Monetary Fund has revised its global growth forecast for 2026 to 3.1%, warning of the risk of recession should military hostilities drag on. (Gerald, 2026)

The main global economic effects of the war in the Middle East were a significant rise in the price of Brent crude oil, which exceeded the $100/barrel threshold at the height of the conflict, whilst natural gas and chemical fertilisers saw major price rises (over 50% for natural gas). Another negative effect was the blocking or restriction of energy resource traffic (oil and natural gas) through the Strait of Hormuz, accounting for 20% of global supply. At the same time, maritime and air transport are facing diverted routes, higher insurance costs and major delays in supply chains.

The conflict in the Middle East poses risks to the global economy; global inflation is estimated to rise to 4.4% in 2026, and central banks may be forced to keep interest rates high for longer, reversing previous trends towards monetary easing. Global stock markets have fallen, whilst safe-haven assets, such as gold, rose initially and subsequently fell. At the same time, financial conditions have tightened, increasing the burden on emerging economies.

Against this backdrop, the International Monetary Fund has drawn up three scenarios for local GDP growth forecasts based on estimated oil prices, namely: baseline (limited conflict), 3.1% growth at a price of approximately 82 USD/barrel; adverse (prolonged conflict), 2.5% at a price of around 100 USD per barrel; and severe (extended/deep conflict), 2% at a price well above 100 USD per barrel. (MacLellan, 2026)

According to the United Nations Development Programme, the economic effects of the war in the Islamic Republic of Iran could push over 30 million people into poverty. Even if the conflict were to end tomorrow, the impact is already widespread and difficult to reverse. The lack of chemical fertilisers is affecting agriculture right at the start of the planting season. Organisations such as the World Bank and the International Monetary Fund have warned that food prices will rise in the coming months and that there are serious risks of food insecurity, particularly in vulnerable countries. (TVR Info, 2026)

2. Analysis of the risks caused by the conflict in the Middle East at a global level

The World Bank has warned that the war in the Middle East has caused the most severe global energy shock since 2022, with direct effects on inflation, economic growth and food security. In the baseline scenario, if disruptions in the Strait of Hormuz gradually ease by autumn 2026, energy prices will rise by 24% in 2026, the largest increase in the last four years. In this context, blockades in the Persian Gulf region led to the largest loss of oil supply in history in March 2026, estimated at approximately 10 million barrels per day.

Since the outbreak of the wider conflict in the Middle East in early 2026, global energy markets have experienced extreme volatility, marked by sharp price rises and major supply disruptions. Consequently, the price of Brent crude has risen by approximately 50%, whilst the US WTI benchmark has risen by around 41% since the start of the military conflict between the US/Israel and the Islamic Republic of Iran. The price of a barrel of Brent reached a peak of around 120 USD per barrel, compared with a level of around 73 USD per barrel before the outbreak of the war. Assuming a partial normalisation, the World Bank estimates an average Brent price of 86 USD per barrel in 2026, whilst in an adverse scenario, with a prolonged conflict and major damage to energy infrastructure, the price could rise to 95–115 USD per barrel.

Exaggerated responses of oil prices to geopolitical supply shocks suggest additional levels of precautionary behaviour in oil markets, which may take different forms over time. Firstly, at the onset of a significant geopolitical oil shock, increased uncertainty regarding future supply and global economic conditions may drive up risk premiums, reflecting both efforts to secure physical stocks and speculative market reactions. Secondly, experience of geopolitical disruptions leads to greater stockpiling in the medium term, as a form of self-insurance. Oil supply shocks caused by conflicts have significant and persistent spillover effects on other commodity markets — particularly on natural gas and fertilisers. Overall, oil supply disruptions caused by geopolitical factors tend to be particularly destabilising for commodity markets, with likely consequences for inflation, economic growth and poverty.

These findings highlight the importance of policy measures designed to mitigate exposure to such shocks.

The greatest risk is the blockage or disruption of oil and gas shipments through the Strait of Hormuz, through which approximately 20% of the world's oil transits. This could lead to a sharp rise in energy prices, reigniting inflation and threatening the global economy with stagflation.

The conflict in the Middle East has also led to attacks and disruptions to oil and gas production and infrastructure, including in countries not directly involved in the military conflict (e.g. the United Arab Emirates, Saudi Arabia) but which hold significant oil and natural gas reserves that were previously exported globally.

The risks of a further escalation of hostilities in the Middle East or of prolonged disruptions to regional oil flows represent the most significant threat to oil prices. Key factors include In the coming months, emergency oil reserves, newly accessible oil in transit and other sources such as biofuels could substantially mitigate a total halt to exports through the Strait of Hormuz. In the event of more widespread conflict-related disruptions, several factors could delay or prevent the restoration of pre-conflict oil flows. New restrictions on pipeline exports in the Middle East could emerge, or some potential alternative sources of oil could face substantial obstacles to increasing production. Medium-term damage to regional production and exports Capacity could also increase, meaning that global oil production capacity could be up to 4% lower. Furthermore, unforeseen logistical or operational obstacles regarding the reversal of shutdowns or the resumption of maritime transport could slow the recovery of supply. Under these circumstances, the price of Brent crude could average between 95 USD/barrel and $115/barrel in 2026, approximately 10–35% higher than the baseline of 86 USD/barrel, but approximately 60–90% above the January 2026 forecast. The lower end of this range could reflect delays in the recovery of shipping volumes, without any significant additional damage to oil infrastructure. The upper end would arise in the event of both further damage to oil infrastructure and delays in resolving trade barriers.

The effects are not limited to oil alone. Natural gas and chemical fertilisers are the second major transmission channel. Natural gas prices have risen sharply in Europe and Asia, and chemical fertiliser prices are forecast to rise by 31% by 2026, including an increase of around 60% for urea. Consequently, the pressure will be passed on to agricultural costs and, with a time lag, to food prices. The World Bank warns that, if the disruptions persist, a further 45 million people could face food insecurity by 2026.

Meanwhile, Houthi attacks on commercial vessels in the Red Sea have forced the rerouting of shipments, increasing insurance costs and delivery times, which is affecting global trade, particularly between Asia and Europe, and severely disrupting global supply chains. Alternative routes, such as the Strait of Malacca, are also under scrutiny due to the risk of further disruptions to global supply chains.

Risks to commodity price forecasts are clearly skewed towards higher prices. Firstly, the severity of the military conflict and the duration of disruptions to commodity supplies from the Middle East could be greater than initially estimated. In addition, policy distortions and other shocks, such as extreme weather conditions, labour unrest and conflicts, could further constrain the supply of base metals. There are also notable risks that could cause commodity prices to fall below forecasts. Global oil reserves were ample prior to the recent outbreak of the conflict. If shipping from the Middle East resumes fully, a substantial oil surplus in 2027 could cause prices to fall below expectations. Finally, global economic growth could be weaker than assumed, limiting demand for commodities.

Short-term disruptions to production and trade in commodities in the Middle East could be considerably more severe or prolonged than assumed in the baseline price forecast. There may not be a significant and sustainable reopening of the Strait of Hormuz until after the second quarter of 2026, due to either renewed conflict, logistical challenges, or both. Challenges related to maritime transport could further slow the resumption of export volumes from the Gulf region until the end of 2026 or early 2027. A resurgence of hostilities could cause further damage to key oil and gas facilities, so that global oil supply capacity could fall by up to 4% in the medium term compared with pre-war expectations. Under these more adverse circumstances, the average price of Brent crude in 2026 could range between 95 USD/barrel and 115 USD/barrel. The lower end of this range could include significant delays in the recovery of shipping volumes, without further material damage to oil infrastructure. The extreme scenario would occur in the event of further damage to oil infrastructure and delays in resolving trade barriers.

The ongoing military conflict in the Middle East is testing the resilience of the international order and may lead to a realignment of alliances. Escalating tensions may put pressure on the major powers and cause divisions within the UN.

Furthermore, the conflict in the Middle East increases the risk of terrorist attacks in Europe and may trigger a new refugee crisis, putting pressure on neighbouring states and the EU. Thus, there is a possibility that terrorist cells affiliated with Iranian-sponsored terrorist groups lying 'dormant' in Europe may attempt to carry out terrorist attacks within the European Union. This state of risk to the population has negative effects, including from an economic perspective.

3. The impact of the Middle East crisis on Romania

For emerging economies, including Romania, the main implication is a new wave of inflation driven by energy, fuel, transport and industrial inputs. The World Bank estimates that average inflation in emerging economies will rise to 5.1% in 2026, compared to the 4.1% anticipated prior to the conflict in the Middle East, and economic growth will slow to 3.6%.

The National Bank of Romania has already signalled that the war in the Middle East and the current global energy crisis will push inflation above the forecast trajectory, through rising fuel prices and increased production costs for companies. To counteract these effects, the Government has declared a state of crisis in the crude oil and petroleum products market, capping the mark-up on petrol and diesel to prevent speculation and uncontrolled price rises. Although there is pressure, government authorities have stated that they are not facing a fuel supply crisis.

For Romania, the following three immediate implications are anticipated:

- additional pressure on inflation in the second and third quarters, particularly through fuel, energy and processed food;
- a deterioration in purchasing power and pressure on financing costs, at a time that is already sensitive for fiscal consolidation;
- the need to accelerate energy security measures: stockpiling, logistical diversification, absorption of PNRR funds in the energy sector and reducing exposure to external shocks.

In fact, Romania is facing a convergence of crises, the impact of which on the Romanian economy is significant, creating a complex period marked by structural challenges and a slowdown in economic growth. The combined effects of these crises, including energy instability, geopolitical tensions and financial problems, are having a negative impact on economic performance.

The effects of the overlapping crises (energy, inflationary and geopolitical) are significantly amplified by domestic political instability, which in 2026 became a major risk factor for Romania's macroeconomic stability.

Governmental instability and protracted political crises have direct and immediate effects, namely:

- **Erosion of investor confidence:** Uncertainty regarding the direction of fiscal and legislative policies leads to the postponement of foreign direct investment (FDI). Foreign investors are highly sensitive to political stability, and in the event of a political crisis, they refrain from making significant investments in the Romanian economy. (Gologan, 2026)
- **Rising cost of government borrowing:** The country's credit rating is under pressure, with a risk of downgrade to 'junk' status (not recommended for investment), which increases the interest rates paid by Romania to finance the deficit. Should the economic and political crises persist, the interest rates at which Romania borrows from international financial markets will rise, leading to higher borrowing costs. In this context, the Romanian Government has decided to borrow from the public by issuing Fidelis government bonds, with a view to avoiding the high costs on the domestic and international financial markets. Currently, Romania's public debt has risen from 48.9% of GDP in 2023 to 54.8% in 2024, and has now exceeded 60% of GDP. As for the yield on 10-year bonds on the secondary bond market, it was estimated at 6.3% for Romania. The secondary bond market influences the cost of borrowing for governments, and Romania's position is weakened by the current economic crisis. (Rethink Romania, 2026)
- **Administrative bottlenecks:** Political crises often delay the adoption of the budget and the implementation of the reforms needed to attract funds from the National Recovery and Resilience Plan (NRRP). If the political crisis drags on, it will no longer be possible to implement the reforms Romania has committed to and, consequently, the conditions for absorbing funds from the PNRR will no longer be met. The loss of significant funds from the PNRR will lead to a reduction in investment in strategic sectors with social and economic implications. (Vertik Group, 2025)
- **Low predictability:** Sudden tax changes, introduced under political pressure or to cover deficits, affect companies' long-term planning. The latest measures introduced by the Romanian Government in 2025–2026 regarding tax and tariff increases have adversely affected companies, which have had to radically revise their business plans to cope with the increases imposed by the government authorities. (Cerna, 2026)

At the same time, Romania is at a critical juncture in its fiscal consolidation, with worrying indicators for 2026:

- **Budget deficit:** Although austerity measures have been taken (tax increases, cuts to allowances), the deficit target for the end of 2026 remains high, at around 6.2% of GDP. Thus, the austerity measures have failed to achieve their main objective, leaving the economy vulnerable and affecting the standard of living of the population. Another major problem is inflation, which is forecast to exceed 10% in 2026, driven in part by rising energy prices that will be passed on to consumers, further dampening consumption and pushing inflation even higher. According to information provided by the Romanian Government, the budget deficit is projected to fall to 5.1% of GDP, but this figure is considered overly optimistic, given the overlapping crises facing the Romanian economy. (Cicovschi, 2026)

- **Public debt:** It is expected to reach 57% of GDP, putting pressure on the sustainability of public finances in the medium term. The rise in public debt is mainly due to the fact that in 2026 the bill for public borrowing is approximately €30 billion.
- **Austerity:** The reduction in public and private consumption, caused by tax increases and the freezing of certain incomes, is holding back economic growth, forecast at just 1–1.1% for 2026. The reduction in public and private consumption is directly affecting the Romanian economy, with the possibility of entering stagflation (economic recession and high inflation).

External conflicts continue to destabilise the domestic market:

- **Energy:** The crisis in the Middle East is keeping fossil fuel prices high, fuelling inflation.
- **Persistent inflation:** The National Bank of Romania (BNR) anticipates a fall in inflation to 3.7% only by the end of 2026, with a high risk of estimates being exceeded in the first half of the year.
- **Hidden recession:** Falling purchasing power and a slowdown in industrial activity suggest a period of economic stagnation or a 'hidden recession'.

The economic crisis in Romania is compounded by other crises caused both by the conflict in the Middle East and by political crises stemming from governmental instability. These overlapping crises may lead to social crises, with direct effects on public order and safety. In this context, it is necessary for the state to intervene urgently to revitalise the Romanian economy, in the sense that fiscal and economic measures must be adopted to stimulate consumption and provide the business environment with certain incentives that will enable economic development through sustainable measures in the medium and long term.

4. Conclusions

In conclusion, the military conflict in the Middle East is no longer merely a regional geopolitical risk, but a global economic shock with direct implications for inflation, growth and social stability. The crisis in the Middle East has compounded other economic and financial crises, generating a state of stagflation across the European Union characterised by rising inflation alongside a slowdown in economic growth.

The International Monetary Fund and the World Bank warn that the war in the Middle East will lead to higher inflation and a slowdown in global economic growth, directly affecting the Romanian economy. In this context, there is a risk that the recession will be prolonged due to these factors. A specific vulnerability identified is the dependence on import routes from the Middle East for certain raw materials needed for the production of medicines, with risks of supply disruptions.

This trend at European level is also having repercussions in Romania, where an unfortunate overlap of crises is evident, in the sense that the energy crisis generated by the war in the Middle East has compounded the economic crisis caused, primarily by the decline in public and private consumption against the backdrop of the austerity measures taken by the Romanian Government to reduce the budget deficit. Romania is considered to be better positioned than in the past, but insufficiently prepared for a protracted conflict that could generate multiple overlapping crises (energy, economic, security, political, social, etc.).

In this fluid and unpredictable geopolitical context, it is necessary for Romania to implement active measures for economic recovery, including through tax cuts to allow for an increase in household incomes and, consequently, a rise in consumption that will lead to the recovery of Romanian companies. Another very important aspect is keeping oil and natural gas prices at an acceptable level so that the economy can remain competitive in foreign markets.

The overall conclusion is that Romania is not at the centre of the military conflict in the Middle East, but is highly exposed to its economic and logistical consequences, a situation that requires prudent resource management and close monitoring of supply chains.

References

1. Cerna, S., 2026. *Romania's economic problems in 2026.* [online] Available at: <https://www.juridice.ro/813385/probleme-economice-ale-romaniei-in-2026.html> [Accessed 11 May 2026].
2. Cichovschi, A., 2026. *The budget is based on targets that are difficult to achieve. Economists are forecasting a recession and inflation of over* 10%. [online] Available at: <https://adevarul.ro/economie/bugetul-se-bazeaza-pe-tinte-greu-de-atins-2514371.html> [Accessed 11 May 2026].
3. Gerald, R., 2026. *IMF downgrades global growth, and other finance news to know.* [online] Available at: <https://www.weforum.org/stories/2026/04/imf-downgrades-global-growth-and-other-finance-news-to-know/> [Accessed 21 April 2026].
4. Gologan, A., 2026. *The economic impact will be felt as the political crisis drags on. Economist: Deteriorating partner confidence affects Romania.* [online] Available at: <https://www.digi24.ro/digieconomic/macro/impactul-economic-se-va-resimti-odata-cu-prelungirea-crizei-politice-economist-deteriorarea-increderii-partenerilor-afecteaza-romania-98905> [Accessed 11 May 2026].
5. MacLellan, K., 2026. IMF downgrades global growth outlook as Iran war hits prices – as it happened. [online] Available at: <https://www.reuters.com/world/imf-world-bank-meetings-global-growth-downgrade-expected-iran-war-hits-prices-2026-04-14/> [Accessed 21 April 2026].
6. Rethink Romania, 2026. *The costs of the political crisis.* [online] Available at: <https://rethinkromania.ro/costurile-crizei-politice/> [Accessed 11 May 2026].
7. TVR Info, 2026. *Effects of the war in the Middle East: over 30 million people at risk of poverty. Impact on the most vulnerable populations.* [online] Available at: <https://tvrinfo.ro/efecte-ale-razboiului-din-orientul-mijlociu-peste-30-de-milioane-de-oameni-in-risc-de-saracie-impact-asupra-celor-mai-vulnerabile-populatii/#:~:text=Estimates%20show%20that%20the%20war%20has%20already%20inflicted,a%20major%20blow%2C%20especially%20%C3%AEntr%2Dun%20context> [Accessed 27 April 2026].
8. Vertik Group, 2025. *The political crisis – Impact on the business environment in Romania.* [online] Available at: <https://vertikgroup.eu/criza-politica-impactul-asupra-mediului-de-afaceri-din-romania/> [Accessed 11 May 2026].