REGIONAL OVERVIEWS

Article completed on 13 July 2026

NORTH AFRICA / MIDDLE EAST: A SEVERE SHOCK WITH DISPARATE EFFECTS

The consequences of the conflict in the region are significant. Average economic growth is expected to fall to 0.5% this year, compared to 4% in 2025. The Gulf Cooperation Council (GCC) countries are bearing the brunt of the correction, as, for the first time since 2020, a GDP contraction (of approximately 1%) is expected in 2026, due to the sharp decline in oil and gas production during the conflict. Non-hydrocarbon activity is also decelerating, although it is not contracting in Saudi Arabia or the United Arab Emirates. For Kuwait and Qatar – the least diversified GCC economies and with no alternative to the Strait of Hormuz – the growth shock is much more severe. For these two countries, real GDP contraction is expected to reach 7% to 8% in 2026.

Provided the situation stabilises, GCC growth is expected to rebound to 4.6% in 2027, driven by the recovery of oil and gas production and a rebound in the non-hydrocarbon sector. Uncertainties remain very high. Nevertheless, several factors are contributing to the resilience of these countries: relatively high global energy prices, vast financial resources and moderate debt levels. Financial market reactions have remained contained so far, including for Bahrain, despite its deteriorated macroeconomic fundamentals. Subsidies and the reorganisation of logistical flows around Saudi Arabia have helped to contain the inflationary risk induced by the closure of the Strait of Hormuz. Although rising, average inflation in the Gulf countries is not expected to exceed 2.5% this year.

The development models of the Gulf countries, while not entirely called into question, will need to be adjusted. Substantial investments will be required over the medium term, within an oil environment that could become unfavourable again. Saudi Arabia will have to continue managing a delicate balance between fiscal stability and the pursuit of the « Vision 2030 » programme.

In North Africa, the energy shock should remain manageable, particularly in Morocco, thanks to robust macroeconomic fundamentals. Greater exchange rate flexibility has enabled Egypt to absorb the impact on foreign currency liquidity resulting from higher energy bills and portfolio investment outflows. The upturn in activity and the disinflationary trajectory remain intact. In Algeria, the surge in energy prices will aid an economy which has seen its fiscal and external deficits deteriorate dangerously in recent years. However, without a clearly established fiscal consolidation strategy, this respite will be short-lived.

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SUB-SAHARAN AFRICA: EXACERBATED FRAGILITIES

In 2026, regional economic growth is expected to slow to 4.1% (-0.4 pp compared to 2025), hindered by rising energy and fertiliser prices. Countries in Southern and Eastern Africa, which have nearly 50% of their oil and gas imports originating from the Middle East, have been impacted by temporary fuel shortages. To some extent, however, these countries have been able to diversify their oil supply sources through Nigeria, which is better positioned than in 2022 to benefit from higher oil prices (rebounding production and additional refining capacity).

Most countries have seen a rebound in inflation since March-April, with the exception of those that chose to subsidise fuel (WAEMU zone and Angola), but few central banks have tightened their monetary policy. In South Africa, the central bank raised its policy rate by 25bps in May, whereas cuts had been expected prior to the energy shock.

The shock is weakening the external accounts and public finances of many countries. With the exception of Angola and Nigeria, most countries in the region are net energy importers, and their energy trade deficits are considerable (up to 8% of GDP in Zambia). The external accounts of countries with raw material exports supported by favourable prices (gold, copper and other low-carbon transition metals) should remain resilient. For others, concerns persist. In Kenya, the risk of a sudden devaluation of the shilling has increased with the widening of twin deficits. Since the start of the conflict in Iran, the government has halved the VAT rate on fuels, while the fiscal deficit had already reached 5.8% of GDP over the first six months of the fiscal year. In Senegal, energy subsidies are expected to cause a fiscal slippage of approximately 2 pp of GDP for 2026. In Mozambique, the energy shock could be the trigger for restructuring Eurobond debt in the coming months.

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LATIN AMERICA: LESS EXPOSED TO THE ENERGY SHOCK

Average growth in the main Latin American economies is expected to slow moderately in 2026 and remain close to 2% for the full year (compared to 2.3% in 2025).

During the Q4 2025–Q1 2026 period, growth performances were very uneven. Argentina and Brazil posted a significant acceleration in activity. Conversely, growth slowed in Peru and slumped in Q1 2026 in Chile and Mexico. With the exception of Argentina and Peru, the region's economies entered the turbulence created by the oil shock from a less comfortable position than the economies of Asia and Central Europe (the output gap remained negative in Q1 in Brazil, Colombia and Mexico).

South American economies should, in theory, be less affected by the oil shock than other emerging zones. Firstly, the risk of supply disruption is low. Secondly, these economies are, to varying degrees, net exporters of raw materials. Prices for hydrocarbons, as well as other raw materials, will be higher in 2026 than in 2025, particularly for certain raw or processed metals (copper and aluminium). To a lesser extent, agricultural commodity prices have recovered since the end of 2025 (wheat).

The status of net commodity exporter is not protecting countries against accelerating inflation. In May, compared to February, the year-on-year change in consumer prices was higher by +1.6 percentage points (pp) in Chile and Peru, +0.9 pp in Brazil, +0.5 pp in Colombia, only 0.1 pp in Argentina and even -0.1 pp in Mexico. **Nevertheless, overall, the inflationary impact remained moderate through May.**

Current account deficits should narrow due to improved terms of trade, especially in Brazil and Colombia. In contrast, rising energy prices will increase pressure on public finances via higher subsidies in Brazil, Mexico and Colombia. However, this risk is expected to be mitigated by the expected increase in fiscal revenues from oil. For Argentina, Chile and Peru, the inflationary impact could lead to monetary tightening, which would increase the interest burden on public debt. However, the moderate fiscal deficits of these countries should enable them to absorb this additional cost. Furthermore, governments in the region should overcome any potential tightening of international financial conditions without any undue difficulty.

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ASIA: THE REGION IS WELL-EQUIPPED TO FACE THE ENERGY CRISIS

In emerging Asia, a region highly exposed to the energy shock, economic growth is expected to average 5.0% in 2026, compared to 5.4% in 2025. The slowdown is expected to be fairly widespread, but moderate overall. Growth is expected to reach 4.6% in China (compared to 5% in 2025), 6.7% in India (for the 2026/2027 fiscal year, compared to 7.7% in 2025/2026) and 4.5% in the ASEAN-5 (compared to 5% in 2025).

Most countries have sufficiently solid fundamentals to cope with the consequences of the energy shock, although some currencies (notably in Indonesia and India) are under strong downward pressure. Furthermore, authorities have skilfully managed supply challenges, particularly in China. Most of all, activity in the most industrialised countries is largely supported by the booming global demand for AI-related goods, which is inflating the region's export revenues. Risks to our forecasts are skewed to the upside, despite accelerating inflation, rising interest rates and geopolitical uncertainty.

Except for Malaysia, Asian countries are large net importers of oil and gas. In 2025, their energy trade deficits reached between 1.4% of GDP in Indonesia and 5.9% of GDP in Thailand. However, governments have more headroom than in 2022 during the crisis linked to the war in Ukraine, as inflation is generally lower and fiscal deficits are better controlled. Furthermore, external accounts remain solid and current account deficits are modest. Even Vietnam, whose reserves represent less than three months of imports, has held up well against the shock.

The primary short-term risk is not the widening of the current account deficit, but the acceleration of capital outflows (already pronounced in India and Indonesia), especially if the Fed raises interest rates. Between the start of the war in Iran in late February and the end of June, Asian currencies overall experienced the most significant depreciations among emerging currencies, notably the Indonesian rupiah (-6.4% against the US dollar) and the Thai baht (-6.1%). These depreciations could accelerate in countries facing risks of fiscal slippage, particularly in India and Indonesia, where subsidies weigh on public finances. Conversely, the Chinese yuan continued to appreciate slightly (+1% against USD).

Energy price control policies have helped to limit inflation in India, Indonesia and, to a lesser extent, Malaysia, while prices rose more sharply in the Philippines and Vietnam. China has emerged from deflation thanks to higher prices at the pump and producer prices, but domestic demand is still sluggish, meaning that the resurgence of inflation could therefore prove temporary. In other Asian countries, inflationary risks will persist due to rising production costs and consistently high oil prices. While only the central banks of Indonesia and the Philippines have raised their rates so far, broader monetary tightening is possible by the end of 2026.

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CENTRAL EUROPE: THE REGION SHOWS RESILIENCE

Central European economies are expected to cope with the energy shock well once again. As they are less dependent on the Middle East for hydrocarbon imports, the region's countries – with the exception of Poland– are minimally exposed to supply disruption risks. Admittedly, rising fuel prices are affecting economic activity. However, at the same time, growth will be supported by European recovery and resilience funds, of which EUR 43.1 bn (2.1% of the 2025 regional GDP) remain to be paid. These funds notably finance public investment.

In 2026, regional GDP growth could reach 2.4% (after 2.5% in 2025), but it will remain uneven. Poland, Hungary and the Czech Republic should be among the top-performing economies in the region, while Slovakia and Romania are expected to lag behind. These two countries are engaged in a fiscal consolidation process. Additionally, Romania is currently facing a political crisis, which is weighing on economic activity.

Downward pressure on currencies and the rise in inflation have remained moderate and far less pronounced than in 2022. Furthermore, the recent slowdown in food prices, followed by a slowdown in pump prices, has contributed to falling inflation in almost all countries, except Romania. Inflation should remain close to central banks' target zones in 2026 (except in Romania and Slovakia). However, prolonged uncertainties related to the situation in the Strait of Hormuz could alter this scenario.

Monetary authorities have reacted differently (a policy rate cut of 25bps in Hungary, a policy rate hike of 25bps in the Czech Republic and the status quo in Poland and Romania). In the short term, central banks are expected to remain cautious and keep their rates unchanged.

The energy shock has had a limited impact on public finances. With less fiscal headroom than in 2022, support measures have been limited to capping prices at the pump and reducing excise duties and VAT on fuel. Furthermore, exceptional taxes temporarily imposed on oil companies (Romania and Poland) are mitigating the effect on public finances.

External accounts are solid and should absorb the shock without any major difficulties. Since the start of the war in Iran, Central European countries have accumulated foreign exchange reserves, which cover more than 7 months of imports on average. Moreover, the outlook for portfolio investments remains well-oriented with a positive yield differential relative to Germany, while FDI remains dynamic (EUR 41.7 bn in the first three months of the year, or +109% y/y).

With a current account surplus, Hungary and the Czech Republic are the least exposed to a balance-of-payments deterioration. Conversely, Romania appears most exposed, given the scale of its current account deficit. However, the situation remains manageable because its energy trade deficit is relatively low (lower than other countries in the region) and the shock's impact on the current account remains limited. Romania produces the bulk of its gas consumption, which reduces its energy dependency.

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