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Major Country Risk Developments May 2026



Overview

The closure of the Strait of Hormuz (the Strait) has left the Gulf Cooperation Council (GCC) states struggling to realign export and import supply routes. Their key focus is on upstream and downstream hydrocarbon exports. The impact is being felt across other exports, such as aluminum and imports of basic necessities. All six Gulf countries are reliant on imports of food, as well as pharmaceutical products and a variety of other goods. Overall, the war is sending shockwaves through the global economy, as roughly 20% of the world's oil previously flowed from Persian Gulf producers to global markets.

In response to Iran's blockade of the Strait, the U.S.

blocked ships from going to or from Iranian ports. The surge in oil prices has been quickly reflected at gas stations and in the price of diesel and jet fuels. The duration of the conflict and of the Strait's closure will dictate how far the GCC's trade architecture is permanently changed. A drawn-out period of instability would pose a serious threat to the UAE's model, with Oman and Saudi Arabia potentially supplanting it as key regional anchors for trade.

Consensus forecasts indicate oil could trade at \$120 a barrel on average in 2026. A lack of further peace talks between the U.S. and Iran have left shipments from the Gulf in limbo for longer, and pushed the price of

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crude to its highest level since the start of a ceasefire in April. Leading banks have raised their forecasts for oil prices going higher- if exports do not return to normal levels until the end of July. Additionally, if there is a persistent reduction of Gulf production capacity of 2.5 million barrels per day, then oil could exceed \$120 per barrel in the fourth quarter.

Industry indicators suggest there will be longer-term “scarring” of Gulf production capacity of around 500,000 barrels per day. Global stock markets have rallied despite the recent rise in oil prices, with the S&P 500 and Nasdaq Composite closing at record highs due to strengthening corporate earnings. However, analysts warn that the economic fallout from higher energy prices will be greater than the headline price of oil suggests, due to the risks of product shortages and the unprecedented scale of the current oil shock. The risks to current forecasts are skewed to the upside, as the Middle East situation remains unstable with growing uncertainty.

Policymakers and executives expect energy prices will stay higher for longer without a clear timeline for the end of Middle East conflict. We will be watching closely for knock on effects. We will pay close attention to indirect effects: how higher energy prices are contributing to cost-push inflation in production, input costs, transportation, and services.

United Arab Emirates (UAE)

The UAE said it will leave OPEC after almost 60 years. This will deal a blow to the oil cartel and its de facto leader, Saudi Arabia. The move by the Gulf state, the third-largest producer, underlines its long-running frustrations with the group of oil exporters over productions quotas and its simmering tensions with Saudi Arabia.

This is happening as the world is grappling with its biggest energy crisis in decades, triggered by the U.S.-Is-

raeli war against Iran and the closure of the Strait. The UAE was producing 3.4 million barrels of oil per day before the war. For several years, it has expressed frustration with OPEC, annoyed by the cartel’s production quotas, which prevented it from exporting greater quantities of oil.



According to Rystad Energy, the OPEC cartel will be structurally weaker without the UAE as Saudi Arabia is the only remaining member with any spare production capacity. Consequently, oil markets could become more volatile as OPEC’s capacity to smooth supply imbalances diminish.

The consensus is that the Iran war has accelerated dynamics that existed beforehand, including reassessing UAE’s membership in OPEC and its broader relationships. The UAE has long held the view that it should export at maximum levels to monetize the commodity to finance the country’s next stage of development and prepare for post-oil order. However, OPEC with Saudi as its leader, imposed production quotas in a bid to prop up prices, thereby restricting the UAE’s output.

Relations between Saudi Arabia deteriorated markedly when tensions burst open last December, and again in January a dispute over their roles and support for rival factions in Yemen. The rift appeared to ease as Gulf states unified in their shock and anger at Iran’s aggres-



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sion against Arab neighbors in the war. The tensions have resurfaced as the war exacerbated UAE's frustrations with some multilateral and regional institutions. Most important, the UAE bore the brunt of Iran's retaliatory attacks, with the Islamic republic firing more than 2,000 missiles and drones at it. The UAE has openly criticized what it considers the weak response of Arab and Moslem states and said it would double down on its partnerships with the U.S. and Israel.

USA

U.S. economic growth picked up in the first quarter of 2026 - as businesses invested heavily in artificial intelligence (AI), rebounding from a fourth quarter dented by a government shutdown. At the same time, the economy did not expand as fast as expected, weighed down by softer consumer spending growth. The first quarter saw a strong increase in business spending on categories tied closely to AI, like equipment and intellectual property products, underscoring just how much AI has become an engine for the nation's economy.

Overall business investment increased at a 10.4% annual rate in the quarter, the strongest growth in nearly three years. Consumer spending, the economy's main engine, rose at a 1.6% pace in the first quarter, slower than the 1.9% pace in the fourth quarter of last year. Americans shelled out more on services like health-care, but their spending on goods declined slightly. Some analysts still saw spending as solid, considering the shock at the fuel pumps since the Iran war, and particularly bad winter weather. Also, the personal-consumption expenditures price index climbed to 4.5% in the first quarter, compared with an increase of 2.9% the prior quarter.

The U.S. and Iran remain in a standoff over the blockades and stalled ships in the Strait. Gasoline prices in the U.S. have surged to new highs for 2026, reaching an average of \$4.23 per gallon nationwide, according to AAA. This marks the highest level since the war with

Iran began and reflects a jump of over 40% since late February.

The U.S. Administration has warned that the country should prepare for a prolonged blockade to pressure Iran's economy, aiming to restrict Iranian oil shipments. The number of ships passing through the strait has dropped sharply, from about 130 a day before the conflict to 20-25 each week.

Since the war in Iran began, prices for liquefied natural gas (LNG) shipped to Europe and Asia have climbed to as much as six times the price of natural gas in the U.S. In the months before the war, they were less than four times as high.

The U.S. is building several export terminals where natural gas is chilled to minus 260 degrees Fahrenheit, turning it into liquid that can be loaded onto oceangoing tankers. These projects, most of them in Texas and Louisiana, cost billions of dollars and take several years to complete.

Natural gas supplies roughly 25% of global energy according to the International Energy Agency (IEA). Demand was climbing worldwide alongside the use of electricity, driven in part by data centers used for the development of AI. Some countries are also using natural gas, which is mostly composed of methane, to replace coal and provide power when there is insufficient solar or wind energy.

Importing LNG is expensive even in good times. Countries must build terminals to turn it back into gas and pipelines to get it from coasts to power plants, homes and factories. Now, the war is making reliance on fuel much more expensive.

The war caused Qatar to stop making LNG at its Ras Laffan plant, one of the most important energy assets in the region. Missiles later damaged 17% of the plant's capacity. Gas executives are optimistic that new capacity under construction will eventually ease the strain.



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But analysts caution that an extended closure of the strait — through which 20% of all LNG passes — and yearslong repairs to Ras Laffan could keep gas prices high for a long time.

In addition, the damage to Qatar’s gas export operations could delay the growth of LNG supply that was expected before the war, by at least two years, according to the IEA.



North America has been driving global growth in LNG, providing three-quarters of the increase in supply last year. Australia is another big exporter. Energy companies have been on the hunt for more gas reserves around the world. U.S. terminals exported almost 18 billion cubic feet a day in March, close to the record set in December. The terminals cannot easily export much more without deferring regular maintenance and more quickly starting new projects.

U.S. exports are projected to increase 18% this year and 10% in 2027. Five new LNG terminals plan to start operations by the end of next year. Industry executives contend that U.S. investment in natural gas has positioned the country for a long period of low domestic prices even as exports rise. Some projections indicate that U.S. natural gas prices could remain in the range of \$3 to \$4 per million British thermal units for decades.

The rise in prices at the pump is adding to seasonal increases usually seen when refineries undergo spring maintenance and the driving season begins. Many gas

stations have reportedly tried to keep prices at \$4 per gallon by reducing their own profit margins. However, that does not appear to be working.

The Federal Reserve kept interest rates on hold at its April meeting [the final meeting of chairman Powell’s term], as surging energy prices opened the biggest divide on the central bank’s board in more than 30 years. Inflation remains elevated, in part reflecting the recent increase in global energy prices, according to the Federal Open Market Committee, as it voted to keep in place the benchmark federal funds rate in a 3.5-3.75% range for the third meeting in a row. Three regional Fed presidents said that while they backed the decision to keep rates on hold, they did not support a line in the statement that signals the U.S. central bank has a bias towards lowering borrowing costs at future policy votes.

Separately, U.S. car manufacturers have warned of \$5 billion commodities shock due to Iran war. The sector faces rising prices for supplies including aluminum, plastics, and paint. General Motors (GM), the owner of Chevrolet and Cadillac brands, estimates that commodity inflation — including logistics and higher DRam memory chip costs — could reduce its adjusted operating profit by up to \$2 billion this year, compared with its earlier forecast of up to \$1.5 billion.

The Big Three U.S. carmakers, GM, Ford and Jeep-owner Stellantis, all flagged commodities inflation as they reported first-quarter earnings, pledging to compensate with greater cost discipline. They could be forced to cut vehicle discounts and raise prices if the conflict drags on for more than six months given their slim margins, according to analysts.

Stellantis, which owns Fiat, Peugeot and Chrysler, said it was mostly hedged against the commodity price increases during the first quarter but projected the impact could reach roughly \$1.2 billion in 2026. The estimated \$5 billion in additional costs to U.S. automakers-from



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commodity inflation means that its impact will be equivalent to the \$6 billion hit they expected from higher U.S. tariffs. Since the war with Iran disrupted global shipping by blocking the Strait, carmakers have been insulated from the immediate impact by fixed-price contracts with suppliers. However, if the conflict lasts another two months, more suppliers are expected to push for new terms, with those higher prices coming through in about six months.



The biggest pain point for the automotive industry has been aluminum, whose price on the London Metal Exchange has risen as much as 16% since the outbreak of the war. The metal is widely used in vehicles from body panels, engines and doors. Estimates are that the rise in aluminum prices could add between \$500 and \$1,500 to the cost of a vehicle, if no hedges were applied. Even before the Iran conflict, there were instances of global industry shortages.

Ford reported significant disruption to production of its top-selling F-Series pick-up trucks before the war, after a pair of fires at an aluminum plant operated by its supplier Novelis. Ford has been forced to source aluminum from overseas while Novelis recovers, adding \$1 billion of costs — including the hit from 50% tariffs on the metal. Those tariffs are distinct from the “liberation day” levies struck down by the U.S. Supreme Court, on which carmakers can now seek refunds.

The U.S. threatened separate tariffs on European-made cars imported into the U.S. The rise in oil and gas prices and shortages of naphtha, a material derived from crude oil and used to produce plastics, will also put pressure on various car components from interiors and coatings to rubber tires. The expectation at Mercedes is for raw material costs to increase further in 2026, higher than what was anticipated at the beginning of the year. If the war were to continue for a longer period, Mercedes has not ruled out the possibility of bottlenecks in individual commodities.

Carmakers have also cited higher costs for DRam chips, as memory chip companies shift production away from the less advanced semiconductors used in cars towards chips for AI data centers. Carmakers will have to decide when to pass these costs on to consumers. The first to raise prices risks sacrificing sales. Consumers are already stretched given elevated vehicle costs following the pandemic, limiting the scope for price hikes.

Some countries targeted for tariffs responded. China inflicted the most pain, cutting-off American soybean imports and sharply reducing its purchases of U.S. cotton. In 2025, U.S. exports of soybeans to China fell from 5.9 million tons to zero. An analysis suggests that U.S. agriculture was hit harder by retaliatory tariffs than any other U.S. industry. Levies on exports raise their effective prices for overseas buyers, making U.S. producers less competitive. By mid-2025, electronics and chemicals makers' prices had risen by 3%, while agricultural prices were up by 10%.

The U.S. trade war has been bad for farmers and now the war with Iran is adding to their woes. Every U.S. industry that makes things - from chemicals to cars to crops - suffered to some extent when the U.S. slapped tariffs on other countries in 2025 and some of those countries retaliated. With the conflict in Iran unresolved and the Strait still blocked, those same businesses face higher costs. The farming sector has probably suffered the most.



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Farmers were already grappling with record costs before the Iran war. In just five years, land prices rose by 6%, seed prices rose 18%, labor costs increased by 50% and interest expenses by 73%. When the U.S. announced sweeping tariffs in June 2025, farmers' already fragile budgets became harder to balance. As the price of steel and aluminum soared, so did the cost of machinery such as tractors and sprayers. In its February 2026 earnings call, John Deere, the world's largest maker of farm equipment, said it absorbed \$600 million in tariff-related costs in 2025 and expected that to double in 2026. Now, farmers report that they need four times as many acres of any crop to make the same profit as they did in 2024.

The war in Iran is compounding the strain, just as spring planting season begins. Unlike other industries, which can rely on cheap U.S. natural gas and electricity, farmers depend on diesel fuel, the price of which has jumped by 40% since the end of February, to \$5.40 per gallon. For row-crop farmers burning tens of thousands of gallons a year, a \$1 increase per gallon quickly eats into already thin margins. The conflict has delivered a second, more damaging blow. One-third of the world's fertilizer supply passes through the Strait of Hormuz; its closure has sent prices soaring. Cotton and pecan farmers say chemicals account for around 30% of input costs. Some farmers plan on cutting back fertilizer use by 15%, but they fear that it could hurt crop yields. Taking away the fertilizer from a crop is like taking oxygen from a human.

Even if the growing season goes well, farmers face challenges on the other side of the ledger. Crop prices have barely budged in years. In 2025, farm bankruptcies rose by 46%. Bankers in farm states expect farm borrowers to lose money this year. While many are hoping for profitability, they are fighting for survival. To break even for many would be considered a win.

While only 6% of rural Americans work in the fields, across much of the South and Midwest, farmers under-

pin a web of local businesses, from ethanol plants and meatpackers to banks, law firms and car dealerships. When farmers suffer, so does Main Street. A recent poll suggests money worries have become commonplace: 27% of rural respondents said it would be "impossible" to cover an unexpected \$1,000 bill.

Worst case oil industry analysis projects that, in a month, oil markets will be a "tipping point" where prices begin to rise significantly. Traders have warned that as the blockades in the Strait reduce global stockpiles below critical levels, prices will inevitably rise. The U.S. naval blockade is a stranglehold on Iran's ability to export its oil or import most goods that keep the economy running. Markets have priced in the chances of a longer conflict, as the U.S. warned that the blockade of the Strait could continue for months. Traders and analysts expect that global stocks of crude, gasoline, diesel and jet fuel will hit critically low levels by the end of May, at which point prices will begin to escalate.

Gunvor, a large oil trader, warned that there will be pain as some countries find it impossible to pay for fuel imports. It goes beyond gasoline at the pumps to include the possibility of industry closers that would slow economic growth. The consensus is that if the war continues until the end of June, oil stocks would be exhausted thereby removing buffers. The futures price of Brent, the international benchmark, could climb to \$150 to \$200 a barrel in that scenario. Brent shot to a four-year high above \$126 a barrel at the beginning of May, amid highly volatile trading, as contracts linked to June deliveries expired. The price moved back below \$110, based on the July futures contracts.

Most market participants expected a shorter war when the conflict erupted. Forecasters have since readjusted expectations. Higher prices would force industries to either pay or shut down. A loss of economic momentum now depends on how quickly energy flows resume freely through the Strait. So far, price increases in energy markets have been relatively contained because



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there were significant reserves of crude when the war began.

Higher energy prices have pushed some Asian countries to cut back on their consumption, and refineries have prioritized the most needed fuels. These buffers worked during the first two months. Refineries were able to switch the products that they were making because of the time of year but have now maxed out their jet fuel and diesel production. The latest weekly data from the Energy Information Administration (EIA) showed a significant fall in stock levels, even as the U.S. Strategic Petroleum Reserve released 1 million barrels of oil per day into the system. According to the EIA, U.S. gasoline stocks fell to 222 million barrels on April 24, their lowest for this time of year in more than a decade. The data is ominous as the U.S. summer driving season approaches. So far, the U.S. has been working off strategic petroleum releases. We are now moving into the potential danger zone - the peak summer demand season.



Higher prices at the pump and rising airfares due to the war, matters to many potential car buyers, travelers and consumers. Industry executives are attempting to tamp down concerns about consumer wariness and credit-worthiness. U.S. commuters are also changing their travel habits. Since the Iran war more people are taking public transportation [trains, buses, etc.] to work,

school, and for personal travel, as regular gasoline hits \$4.40 per gallon. As the war in the Middle East remain at an impasse, data from municipal, regional and private transport hubs show a jump of between 4%-11% in public transportation ridership in March and April. Interests in electric vehicles (EVs), hybrids and solar energy have also grown.

US, Mexico, Canada Agreement (USMCA)

Trump administration economic advisors were informed that foreign automakers may not be able to build and sell inexpensive cars in the U.S. market if a renewed USMCA does not significantly reduce tariff charges for vehicles and parts built in Canada and Mexico. Even automobiles with final assembly within the boundaries of the U.S. could face the ax if the prices to import the parts don't see a reduction over coming months.

The first salvos have been fired in the upcoming review of the three-party free trade agreement (formerly NAFTA, now USMCA) which allowed trade between the U.S, Mexico and Canada to be conducted at minimal tariff rates. The Agreement, which is due for review July 1, 2026, face hurdles. The U.S. has hinted that it may not want the Agreement renewed. Foreign auto manufactures warned that without the Agreement they will not be able to make certain less expensive models available in the U.S. market. That's because while many of those models are assembled in the U.S., they depend on parts and components from other countries including Mexico and Canada. Without very low or duty-free access to such inputs, automakers argue they cannot produce such vehicles and sell them at a profit in the U.S.

Foreign automakers are pleading with the U.S. administration to renew the USMCA and undergird commitment to a regional trade pact. Executives from Hyun-



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dai, Nissan, and Toyota have informed the U.S. that the financial viability of selling low-cost vehicles in the U.S. is directly tied to the preservation of the regional trade pact with low tariffs. Renewing the USMCA and killing import tariffs on Mexican and Canadian goods would be the bare minimum required to keep even a few cheap cars alive. Apparently, the 3 countries could agree to an annual review process for the USMCA, instead of six-year agreements, as have been the custom. This would be a less secure but a far better alternative than abandoning the USMCA altogether.

The position taken by foreign automakers will not be an isolated case. Other sectors will be looking at the potential effects on their businesses should the USMCA not be renewed. It would force new bilateral agreements between each country. Such negotiations could be drawn-out and become contentious.

In addition to the inevitable price volatility that would ensue, companies, consumers and workers in the U.S, Mexico and Canada - will be negatively impacted if the USMCA did not renew. Supply chains would likely be disrupted as other U.S. trade partners, global companies- do business and interact daily via the USMCA. Those players are watching, waiting and contemplating the potential fallout; and how trade between the U.S., Mexico and Canada would change. Businesses would be forced to adjust after 40 years during which North America traded goods, jobs, raw materials, parts, components and technology via the trade pact, now known as the USMCA. The trade pact conveyed numerous shared benefits to consumers and businesses -in the three participating countries.

Canada

Canada remains an attractive business destination, performing strongly in categories like policy toward private enterprise, foreign trade and investment, financing and infrastructure. The country maintains open and transparent policies toward private enterprise and

attracts foreign investors owing to its resource wealth and its highly educated workforce. Despite rising trade tensions with the U.S., market opportunities remain strong, especially in the critical minerals and technology sectors. Taxes remain low by global standards.

Oil major Shell has agreed to buy Canadian shale producer ARC Resources for \$16.4 billion, in a deal that represents Shell's biggest acquisition since it bought BG Group a decade ago. Shell will pay \$13.6 billion in shares and assume \$2.8 billion in debt for ARC which is based in Calgary, Alberta, produces natural gas in Alberta and British Columbia. Some of that gas is exported as LNG from a terminal on the coast of British Columbia.



ARC, which produces mainly gas and condensate, could make Canada an LNG "heartland" for Shell. The purchase marks a return to North American shale for Shell, which sold its U.S. shale business in Texas's Permian Basin to ConocoPhillips in 2021 for \$9.5 billion. The deal also marks another step in Shell's push to cement its position as one of the largest players in LNG, a move that was first supercharged by its purchase of BG Group for \$53 billion.

ARC reserves could be used to feed LNG Canada, a \$40 billion liquefied natural gas plant on Canada's west coast in which Shell holds a 40% stake. Shell is the own-



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er or is “involved” with more than 30% of global LNG capacity and is the world’s largest trader of the fuel.

Canada’s oil industry is enjoying a bumper year with producers expected to earn a \$66 billion windfall this year if prices stay around \$100 per barrel, according to research by data provider Enverus. The oil and gas sector in Canada is also benefiting from a more positive relationship with Prime Minister Mark Carney, who adopted a more pragmatic approach to fossil fuels than his predecessor, Justin Trudeau. Carney has announced plans to boost fossil fuel exports to insulate the country’s economy from a bruising trade war with the U.S. and has supported efforts to build new pipelines to enable producers to transport more fuel to Asia.

Canada’s energy minister asserts that the world faces the biggest disruption in energy supplies in history and that Canadian producers are in an ideal position to meet customer need for alternative supplies.

Meanwhile U.S. EV exports to Canada have fallen and are likely to slide even more in 2026. Some of that is due to the Carney government’s scaling back of consumption incentives. Also, the U.S. auto industry has scaled down heavily its future EV expansion plans. Canada’s decision to open a quota for Chinese EVs reflects a willingness to shift toward more trade and investments with that country. The Canadian government is considering the likelihood of Chinese EV production in Canada, (like moves by European auto makers which are engaged in joint ventures with Chinese EV manufacturers). If the trend holds, it suggests the possibility of a North American supply chain that is creating distance between the U.S. and its USMCA partners.

Germany

The U.S. has ordered the withdrawal of 5,000 U.S. troops from Germany, escalating President Trump’s clash with Berlin and NATO allies over their reluctance to support the war in Iran. The Pentagon has previously

said that its longer-term goal is to have Europe take the lead on its own conventional defense and to gradually reduce American military presence on the continent.

Nonetheless, the timing of the administration’s announcement took European nations by surprise. The move follows the German Chancellor’s criticism of the U.S. handling of the war in Iran. A senior U.S. defense official said the comments were inappropriate and that the U.S. is rightly reacting.

The announcement also comes as the U.S. seeks to build an international coalition to reopen the Strait of Hormuz. The U.S. previously called on European countries to do more to facilitate the movement of ships through the narrow waterway, which Iran has blocked since the start of the war with attacks and demands.



There are more than 36,000 U.S. troops in Germany, which is the biggest American military hub in Europe. Bases in Germany have served as key logistics hubs and fueling stops, in the current U.S. military campaign in Iran. The U.S. expects the announced withdrawal to be completed over the next six to twelve months.

Meanwhile, Germany’s economy minister called for a rethink in the country’s opposition to nuclear power, warning that reliance on gas imports leaves Germany vulnerable to energy shocks. The call reflects a deepening debate over the legacy of the nuclear phaseout



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decided by previous German governments.

While policy was paired with an expansion of renewables, it increased German reliance on imported gas for baseload electricity. European gas prices have soared more than 60% since the start of the Iran war, thrusting the continent into its second energy price shock in five years. German electricity prices for May based on futures contracts are four times as high as those of France, Europe's largest nuclear power producer.

Alongside France, countries including Sweden and Poland are either investing in nuclear stations or extending reactors' lifespans because electricity is low carbon and reliable.

Germany's dependence on gas backfired after Russia's full-scale invasion of Ukraine in 2022 forced Berlin to abandon pipeline imports from Moscow. Germany had to turn to liquefied natural gas, mostly from the U.S., which now makes up 10% of its gas supply.

Persistently high energy costs have since weighed heavily on German industry, which also faces intensifying competition from Chinese companies at home and abroad. In the second half of 2025, gas prices for private households were 79% higher than in the same period in 2021, just before the start of the war in Ukraine, while electricity prices rose 23%, according to Germany's statistical office. The energy price shock from the Iran war will wipe out more than half of the growth that was previously forecast for 2026.

The European Union's (EU) energy security depends on a combination of energy produced within the region and energy imported from both the EU and non-EU members. Accordingly, the EU's overall energy mix comprises domestically produced energy together with energy imports. According to data from Europa, the EU produced 42% of its own energy while importing 58% of its total requirement. The main energy sources of the region include crude oil and petroleum

products (37.7%), natural gas (20.4%), renewable energy (19.5%), solid fuels (10.6%), and nuclear energy (11.8%).



According to the Center for Research on Energy and Clean Air, the EU has paid around €210 billion to Russia for oil and gas supplies. Russia was exporting 45% of oil and 27% of natural gas requirement of the EU before 2022, which fell to 19% for gas and 3% for oil. The EU pays around €1.35 billion euros to Russia for oil supplies despite months of contemplation, and agreements to impose bans on Russian energy.

Soaring oil prices from the Iran war pushed inflation higher in Europe in April, as growth continued to underperform in a worrying combination both for consumers and policymakers at the European Central Bank.

Annual inflation in the eurozone, (the 21 countries that use the euro currency) rose to 3% from 2.6% in March, fueled by a 10.9% increase in energy prices. Crude oil is trading around \$114 per barrel, up from \$73 before the outbreak of the war. Eurozone growth for the first three months of the year disappointed with a marginal increase in economic output of 0.1% over the quarter before. The outlook for the region was revised down, with only meager GDP growth projected over the next 12 months.



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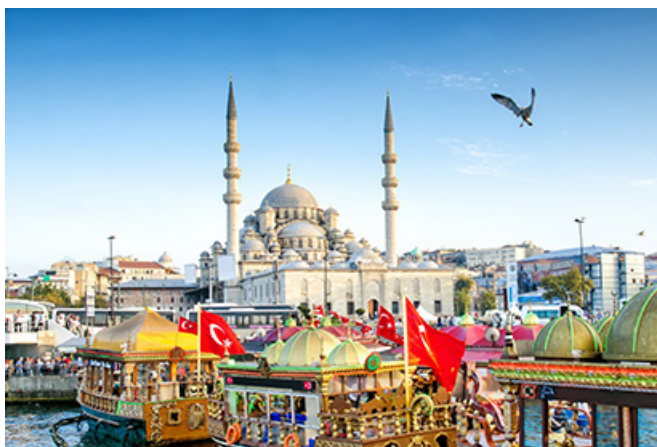


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Turkey

Turkey has tried its best to stay out of the U.S.-Iran war, studiously maintaining its neutrality. Turkey does not yet possess the economic or military muscle to shape events on its own terms. Its relationships with major players in the region are delicate at best. It is still in the early stages of a reset with the U.S., and its relations with Israel have soured in recent years.

Its 2019 purchase of the Russian S-400 missile defense system triggered U.S. sanctions and resulted in Turkey's exclusion from critical NATO programs. This has made it harder for Turkey to maintain some of its sophisticated military hardware. It has not activated the S-400 system and lacks the air defense capabilities to shield itself fully from Iranian ballistic missiles that began entering Turkish airspace in March. NATO interceptors, not Turkish weapons, took down Iranian missiles that targeted a NATO radar system and the Incirlik air base in Southern Turkey, where U.S. forces are stationed.



Nonetheless, Turkey has been eager to stay out of the fray. It has not supported the U.S.-Israeli campaign, as some Gulf Arab states have.

Turkey joined five GCC members, as well as Azerbaijan, Egypt, Jordan, Lebanon, Pakistan and Syria, in condemning Iranian strikes on the Gulf countries, Jor-

dan, Azerbaijan, Joran and Turkey. The joint statement warned of possible retaliation and stressed the need for Iran to refrain from any measures or threats aimed at closing or obstructing international navigation in the Strait of Hormuz. Although the likelihood of Turkey getting involved in the war can never be completely ruled out- any engagement would be limited.

Turkish authorities have taken measures to limit the market impact of the war. The central bank announced the suspension of one-week repo auctions and the launch of lira-settled forward foreign-exchange sales, while temporarily banning short-selling on Istanbul's stock exchange. The impact of the Iran war on Turkey will be mostly transmitted through energy prices, capital flows and shifts in risk perception, and will depend on how long the war lasts.

The Monetary Policy Committee (MPC) at the central bank left its main policy interest rate, the one-week repo lending rate, unchanged at 37% at its meeting in March. The bank is trying to minimize the impact of the Iran war on inflation, in part by supporting the Turkish lira. Estimates are that the central bank sold around US\$20 billion worth of foreign currency to meet demand from local savers and from non-resident investors pulling out of Turkey's share and bond markets. These measures have succeeded in holding the value of the lira steady at about TL44:US\$1.

Previously, the expectation was that the Turkish central bank's policy rate would decline to around 30% by end-2026, with inflation falling to 25%. That estimate is now revised to 33.5% interest rates, and 31% inflation reflecting the impact of the war.

GDP growth in 2025 was 3.6%, compared with 3.3% in 2024. Growth was forecast to be similar in 2026. That has been revised down to 2.9% due to the Iran war. However, a growth pick up in 2027 is possible amid policy loosening ahead of presidential and parliamentary elections (due in May 2028).



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Turkey's 2026 budget deficit forecast was revised from 3.4% of GDP to 3.6%, due to the impact of lower economic growth on tax revenue, as well as the costs of ad hoc measures to suppress price increases, and support vulnerable industries and households.

While Turkey has experienced Iranian drone attacks, the risk of being drawn more directly into the conflict remains low. Any future hits that directly affect Turkish or NATO-linked assets could change that. But, in the absence of persistent attacks on Turkey or a major shift in the geopolitical landscape, we expect President Erdogan to continue to avoid direct participation in the war.

The central bank has stopped cutting interest rates and is currently funding the market at 40% interest rates -three points above the official policy rate. The central bank kept its policy rate on hold in April. Industrialists, who have long been complaining about high interest rates and the lira, now face additional challenges with rising energy prices. The public is understandably upset about the rising cost of living. However, with presidential and parliamentary elections a way off, economic hardship can currently be blamed on the war, with no urgent need to address the short-term demands of the electorate.

Argentina

Surging energy prices have come at a good time for Argentina. As many countries face expensive energy imports and supply-chain snags due to the Iran war, high oil and gas export revenues are expected to be a windfall for Argentina.

Shale and tight oil production in Argentina's Vaca Muerta formation in the Neuquen Basin over the past decade has led to an energy boom. The Neuquen Basin has produced oil and gas for over a century, but chronic under-investment in conventional oil and gas fields drove down output during Argentina's 1998-2002 eco-

nomie depression. It was the discovery and exploitation of vast unconventional oil and gas resources- shale and tight gas located beneath impermeable subterranean rock – that unleashed an energy boom in the 2020's.



By 2013, the U.S. EIA estimated Argentina's recoverable wet shale reserves at 801.5-ton cubic feet, second only to China's. By September 2025, Argentina was producing a record 550,881 barrels of shale oil per day.

The development of Argentina's fossil fuel sector has been accelerated by political developments. President Milei has been eager to make fossil fuels a pillar of the country's growth strategy. Beyond weakening conservation laws, Milei's deregulatory agenda has eased rules around equipment imports and provided new tax incentives for the oil and gas industry. The plan included privatization of majority state-owned oil company YPF. Those plans remain temporarily shelved.

Fueled by the shale boom, Argentina became a net energy exporter in 2023 – for the first time since 2010. From 2021-2024, the country's trade balance shifted from importing 32 million barrels of oil equivalent annually to exporting 76 million barrels annually. Gasoducto Norte, a pipeline originally built to import gas north-to- south from Bolivia, was reversed in 2025 to



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sell Argentine gas south-to-north.

Investment in the sector have been strong and boosted further since the Iran war. In March, Argentina gas pipeline company TGS announced a further \$3 billion investment in LNG processing in Vaca Muerta. With two pipelines coming onstream this year, Argentina's energy industry is showing signs of future growth. While the country still lacks extensive gas transport infrastructure such as LNG export terminals, oil output and exports continue to soar.

Rising fuel exports are central to President Milei's plan to boost Argentina's foreign exchange reserves and resolve a chronic dollar shortage that has long underpinned the country's economic instability. Increasing dollar inflows would bolster the peso's strength. Since the Iran war began, these terms of trade gains have been reflected in the currency markets. The Argentine peso has moved little against the dollar since the beginning of the war on February 28. This is especially impressive as many currencies have fallen against a strengthening dollar.

In Chile, the largest importer of Argentine oil this is clearly reflected. In the first month of the war, the Argentine peso rallied 6.9% against the Chilean peso. Some argue the Argentine peso would have appreciated even more -except that the Argentine authorities are believed to be using any currency strength to replenish hard currency reserves.

Argentina's economy still faces considerable challenges. Interest rates remain high as the country's bonds are still junk rated. Argentina has experienced several ratings upgrades in recent years, but bonds remain seven notches below investment grade, limiting pension funds, insurers and investment funds from buying.

Rising dollar inflows from energy exports are a positive sign for Argentina's macroeconomy and will help the country to meet its IMF targets. It recorded a financial

surplus in 2025 for the second consecutive year, a trend that continued through the first three months of 2026.

As sectors such as manufacturing, retail and construction struggle under Milei's austerity and tight monetary policy, the Argentine energy sector, along with fast-rising mining and agricultural exports, have been a lifeline for the economy. JPMorgan calls Argentina's \$2.5 billion trade surplus last year "a clear sign of economic momentum". BBVA research predicts Argentina's economy will grow at 3% in 2026 with declining inflation.

Other recent data indicates that President Milei's long-standing battles to attract foreign direct investment is beginning to bear fruit. In March, Uber announced plans to invest \$500 million in Argentina, while Canadian mining company First Quantum Minerals announced over \$5 billion investment into the Taca Taca copper deposit in the country's north.

Following decades of economic woes, energy exports are not a panacea. But, compared to many upper-middle-income countries, Argentina appears to be weathering the global energy shocks well.

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