Eurasian Development Bank

MACROECONOMIC OUTLOOK

2026–2028

JUNE 2026

MACROECONOMIC OUTLOOK

KEY FINDINGS
JUNE 2026

2026

Growth rates in most of the region's economies will remain high

6.0% 1.3% 5.5% 10.2% 1.0% 8.3% 7.9%

GDP growth in 2026

Inflation is declining in RB, RK, RF, RU; rising in RA, KR, RT

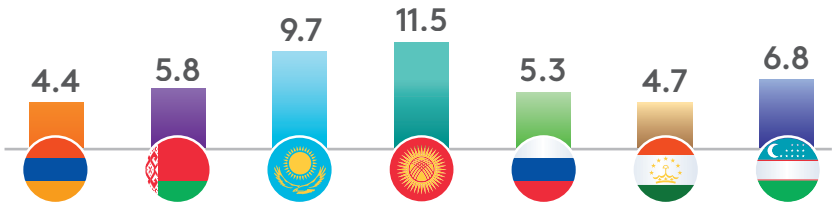
6.1% Aggregate inflation in the region at the end of 2026

Continued key rate cuts by the Central Bank of the Russian Federation and the start of base rate cuts by the National Bank of Kazakhstan

12% Key rate in Russia at the end of 2026

16% Base rate in Kazakhstan at the end of 2026

Inflation (at the end of the year, %)



Exchange rate to U.S. dollar (the year's average)

2027

We forecast an increase in the region's GDP growth rate

5.7% 1.6% 5.5% 8.3% 1.5% 7.7% 6.9%

GDP growth in 2027

Inflation's gradual convergence to targets in the absence of new shocks

5.3% Aggregate inflation in the region at the end of 2027

Continued interest rate cuts

≈10% Key rate in Russia at the end of 2027

≈12% Base rate in Kazakhstan at the end of 2027

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Authors

Evgeny Vinokurov, Chief Economist of the EDB, vinokurov_ey@eabr.org

Alexey Kuznetsov, Head of the Research Department kuznetsov_as@eabr.org

Artur Sharafutdinov, Head of the Centre for Macroeconomic Analysis, Research Department, sharafutdinov_ar@eabr.org

Aigul Berdigulova, Senior Analyst, Centre for Macroeconomic Analysis, Research Department, berdigulova_ar@eabr.org

Konstantin Fedorov, Senior Analyst, Centre for Macroeconomic Analysis, Research Department, fedorov_ks@eabr.org

Anton Dolgovechny, Senior Analyst, Centre for Macroeconomic Analysis, Research Department, dolgovechny_ap@eabr.org

The document includes a detailed description of current domestic and external macroeconomic conditions, as well as a coordinated forecast. The analysis takes into account the existing interrelationships between the economies of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan and their main trading partners. The forecast of macroeconomic indicators was prepared by the EDB using an integrated model system based on a multi-country structural dynamic general equilibrium macroeconomic model. More detailed information on this system is presented in a joint report by the EDB and the EEC (EDB, 2016).

Keywords: economic growth, forecast, GDP, inflation, exchange rate, demand, monetary policy, budget, interest rate, investment.

JEL: E17, F15, F31, H62, O11.

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SUMMARY

The global economic landscape changed dramatically in March 2026. The escalation of the conflict in the Persian Gulf led to rising oil prices, a slowdown in global growth and heightened inflationary risks. The decline in economic activity is most pronounced in Europe and, to a lesser extent, in the USA. Asia's leading economies — India, China and Japan — are maintaining more resilient momentum.

In the baseline scenario, we forecast a slowdown in global economic growth to 2.5% in 2026, following 2.9% in 2025. US GDP is forecast to grow by 1.7%, following 2.1% a year earlier. Eurozone growth could fall to 0.9% after 1.4% in 2025. **The Chinese economy will continue to grow at a rapid pace.** In the first quarter of 2026, GDP growth accelerated to 5.0% year-on-year; the forecast for 2026 is 4.6%.

Inflation has accelerated significantly against the backdrop of the energy crisis. In the USA, consumer price inflation could reach 3.6% by the end of 2026, and 3.0% in the eurozone. The Fed is likely to maintain a longer pause in the process of monetary policy easing. The ECB may raise rates to limit the inflationary expectations.

The EDB region's aggregate GDP could reach over $3.5 trillion in 2026.

In 2026, the economy of the EDB's region of operations will continue to grow steadily, by 2%. The impact of the Gulf conflict on EDB member countries will vary depending on whether they are net exporters or importers of energy resources.

Growth rates in most of the region's economies will remain high in 2026 thanks to strong investment activity. We forecast GDP growth in 2026 of 6.0% for Armenia, 5.5% for Kazakhstan, 10.2% for the Kyrgyz Republic, 8.3% for Tajikistan and 7.9% for Uzbekistan. The Russian economy will grow by 1.0%, and that of Belarus by 1.3%.

The Central Asian economy could exceed $600 billion as early as 2026.

We forecast an increase in the region's GDP growth rate to 2.4% in 2027. This will be driven primarily by an acceleration in economic activity in Russia and Belarus. Other countries in the region will maintain their current growth rates.

Inflation trends in 2026 will be mixed. We expect it to fall in Belarus, Kazakhstan, Russia, and Uzbekistan. Inflation will rise in Armenia, Kyrgyz Republic and Tajikistan. **Across the region as a whole, price growth will slow to 6.1% YoY in 2026,** following 6.5% YoY in 2025, barring any further shocks. We forecast inflation in the region to slow to 5.3% YoY in 2027.

Country	Indicator	2024	2025	2026F	2027F	2028F
Republic of Armenia	GDP, %	5.9	7.2	6.0	5.7	5.3
	Inflation, % y/y	1.5	3.3	4.4	3.9	3.5
	Refinancing rate, %	8.0	7.0	7.2	7.5	6.5
	Dram to dollar exchange rate	392	387	376	384	392
Republic of Belarus	GDP, %	4.3	1.3	1.3	1.6	1.9
	Inflation, % y/y	5.2	6.8	5.8	5.5	5.0
	Refinancing rate, %	9.5	9.6	9.5	9.0	8.5
	Belarusian rouble to dollar exchange rate	3.25	3.01	3.00	3.10	3.30
Republic of Kazakhstan	GDP, %	5.0	6.5	5.5	5.5	5.5
	Inflation, % y/y	8.6	12.3	9.7	6.2	5.0
	Base rate, %	14.7	16.6	17.3	12.7	9.1
	Tenge to dollar exchange rate	469	521	490	505	525
Kyrgyz Republic	GDP, %	11.5	11.1	10.2	8.3	7.5
	Inflation, % y/y	6.3	9.4	11.5	9.2	7.0
	Base rate, %	10.5	9.3	11.8	12.0	12.0
	Exchange rate of the som against the dollar	87.1	87.4	88	89	90
Russian Federation	GDP, %	4.9	1.0	1.0	1.5	1.8
	Inflation, % y/y	9.5	5.6	5.3	4.9	4.4
	Key interest rate, %	17.5	19.2	13.6	10.5	9.5
	Russian rouble to dollar exchange rate	92.4	83.4	76	84	94
Republic of Tajikistan	GDP, %	8.4	8.4	8.3	7.7	7.1
	Inflation, % y/y	3.6	3.5	4.7	4.9	5.0
	Refinancing rate, %	9.3	8.2	7.2	7.5	8.0
	Somoni to dollar exchange rate	10.8	10.0	9.5	9.9	10.3
Republic of Uzbekistan	GDP, %	6.5	7.7	7.9	6.9	6.5
	Inflation, % y/y	9.8	7.3	6.8	5.7	5.2
	Base rate, %	13.8	13.9	13.7	12.4	11.2
	Soum to dollar exchange rate	12,652	12,577	12,200	12,900	14,100

← **Table 1. EDB Forecast. Key macroeconomic indicators for the Bank's member states (base scenario)** — year-on-year growth in %, unless otherwise stated

Note: here and in the other tables, 'F' denotes a forecast. GDP at constant prices. Inflation at the end of the period. Average annual rate. Average annual exchange rate of national currencies against the US dollar.
Source: national authorities of EDB member states, EDB analysts' calculations.

From the Chief Economist

CHANGING TRENDS: THE CRISIS IN ENERGY MARKETS AND ITS IMPACT ON THE REGION

Current situation

The global economic landscape changed dramatically in March this year. The escalation of the conflict in the Persian Gulf has led to a rise in oil and natural gas prices. It is difficult to predict how long this period of higher prices will last. However, it is already possible to assess the initial effects of the rise in energy prices and the likely trajectories of the global economy — in 2026 and in the medium term.

At the start of the second quarter of 2026, global GDP growth is showing signs of slowing. The global Purchasing Managers' Index (PMI) averaged 51.4 points in March–April — the lowest level since June last year. Following a sharp deterioration in March, global business activity recovered somewhat in April. However, the average PMI for March–April remains below the figures from the start of the year, indicating a weakening of momentum in the global economy following the energy shock. Output growth has slowed in both the manufacturing sector and the services sector.

The most notable slowdown is being recorded in sectors sensitive to energy prices and rising interest rates. These include property, construction, building materials manufacturing, tourism and transport.

Growth in producer prices, particularly input prices, is accelerating. The PMI Input Prices and PMI Output Prices indices have reached their highest levels since 2023. This points to heightened inflationary risks and risks of a deterioration in companies' financial health.

A slowdown in economic activity is occurring primarily in Europe and, to a lesser extent, in the US. Asia's leading economies — India, China and Japan — are maintaining more stable growth trajectories.

Differences in the resilience of growth are linked to three factors: the scale of fiscal support, the state of the economy prior to the energy shock, and the structure of energy balances. The significant role of coal in the energy mix of China and India partially reduces the electricity sector's sensitivity to shocks in the oil and gas market. However, these economies remain

vulnerable to rising oil prices through transport, logistics, import costs and the balance of payments.

In commodity markets, the key development has been the rise in energy prices. At their peaks in late April, the Brent had risen by approximately 94% compared with the start of 2026. Prices for natural gas, coal, fertilisers and agricultural products have also increased. In April 2026, the FAO Food Price Index rose to 130.7 points, marking the third consecutive month of growth. According to the World Bank's forecast, the fertiliser price index is set to rise by more than 30% in 2026.

Metal prices, by contrast, fell slightly. They came under pressure from concerns about weakening industrial demand amid a global economic slowdown, as well as expectations of higher interest rates. The situation in the commodities markets is discussed in more detail in Box 1.

The US economy continues to grow steadily. In the first quarter of 2026, GDP rose by 2.7% year-on-year — faster than the average for 2025. GDP is being supported by investment, exports, consumer spending and government expenditure. Meanwhile, the manufacturing sector is showing strong momentum in leading indicators: its PMI reached 54.5 in April — a four-year high.

Several factors are supporting US industry. These include increased military spending, a shift in demand towards domestic producers following the rise in import tariffs, and growing demand against a backdrop of rising inflationary expectations. The oil and gas sector, for which current market conditions are favourable, could provide further impetus.

The US services sector is showing more subdued growth. The PMI stood at 51.0 in April 2026, compared with an average of 53.5 for 2025. Activity is being constrained by the Fed's relatively tight policy and high economic uncertainty.

High energy prices are affecting the leading economies unevenly

The eurozone is performing the weakest among the world's major economies. In Q1 2026, GDP growth slowed to 0.8% YoY — down from 1.3% YoY in Q4 2025. The slowdown may continue in Q2.

Leading indicators suggest that the slowdown in activity in the eurozone will continue. In April, the composite PMI fell to 48.8 — its lowest level in over a year and a half. The services PMI stood at 47.6 — its lowest level in over five years.

Consumer demand in the eurozone is being negatively affected by rising energy prices. The economy's sensitivity to this factor stems from its high dependence on energy imports, rising costs for businesses and households, and disruptions to established energy supply chains.

The **eurozone's** manufacturing sector **appears more resilient than the services sector.** The manufacturing PMI stood at 52.2 in April, up from 52.0 in March, and remains in expansionary territory. This may be linked to increased military spending and a temporary rise in orders against a backdrop of accelerating inflation.

Asia's largest economies are maintaining higher and more stable growth rates. India's PMI rose to 58.2 in April 2026 from 57.0 in March. Strong performance was seen in both the manufacturing and services sectors. Three factors are underpinning **the resilience of the Indian economy**: expansion of production capacity, demographics and investment. Leading indicators **for Japan** also point to continued growth.

China continues to develop at a rapid pace. In Q1 2026, the country's GDP grew by 5.0% YoY, following 4.5% YoY in Q4 2025. This acceleration is driven by export growth (up 9.8% YoY as of April), a revival in industry and the development of high-tech manufacturing.

Manufacturing activity in China remains strong, though domestic demand remains uneven. The composite PMI stood at 53.1 in April 2026. This is the highest level since June 2023.

High oil and gas prices are already putting pressure on the global economy: *inflation has accelerated, and global GDP growth is showing signs of slowing. If the situation in the Middle East drags on and oil and LNG supplies from the Persian Gulf do not begin to recover, the consequences in the second half of 2026 could become more pronounced.*

Forecast

↓ Table 2. Forecast values of key external economic indicators (baseline scenario)

Indicator	2024	2025	2026F	2027F	2028F
Oil price ($/bbl, annual average)					
Brent	79.8	69	82	75	71
Urals	67.9	58	74	64	56
GDP growth (%)					
US	2.8	2.1	1.7	1.8	2.0
Eurozone	0.8	1.4	0.9	1.1	1.3
China	5.0	5.0	4.6	4.4	4.4
Inflation (% at year-end)					
US	2.9	2.7	3.6	2.8	2.6
Eurozone	2.4	2.0	3.0	2.6	2.2
Key interest rates (% average for the year)					
Fed	5.1	4.1	3.7	3.5	3.3
ECB	4.1	2.4	2.4	2.6	2.4

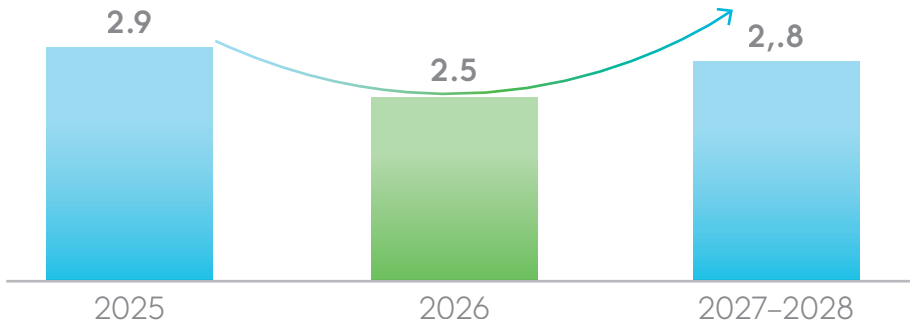
Source: 2024, 2025 — data from the IMF, the World Bank, the US Federal Reserve, and the ECB; 2026–2028 — forecasts by EDB analysts.

Commodity markets in the forecast period will depend primarily on geopolitics. In the baseline scenario, the risks of oil prices deviating from the forecast, both upwards and downwards, are considered balanced. The average price of Brent could reach $82 per barrel in 2026 due to a reduction in supply against the backdrop of the conflict in the Middle East (Table 2). The forecast of an average of $82 per barrel for 2026 assumes that, following a price spike in the second quarter, supplies will gradually recover and oil prices will fall significantly in the second half of the year.

We expect global GDP growth to slow to 2.5% in 2026 under the baseline scenario.

In 2027, oil prices will remain elevated. Even after hostilities cease, the consequences of the conflict in the Persian Gulf may continue to affect the market for about another year: capacity and transport infrastructure will need to be restored, and a risk premium will persist. Oil prices will be supported by the replenishment of commercial and strategic stocks. Consumers will want to hold reserves of oil and petroleum products at levels comparable to or exceeding those held prior to the escalation of the conflict. The average price of Brent could reach $75 per barrel in 2027 and $71 per barrel in 2028 (Table 2). The risk of a long-term decline in oil prices is discussed in Box 2.

↓ Figure 1. Average global GDP growth, %



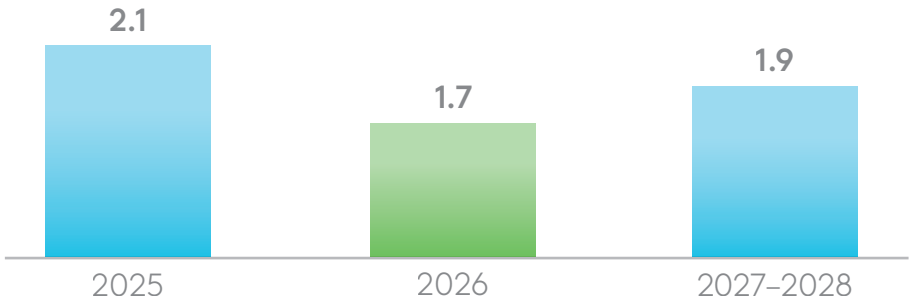
Source: national agencies, EDB analysts' calculations.

We view the rise in oil prices as a medium-term phenomenon. Beyond one year, the impact of the conflict is likely to diminish: Gulf exporters will be able to restore supplies, including by developing pipeline and port infrastructure outside the Gulf waters.

In the baseline scenario, global economic growth will slow. Average global GDP growth may fall to 2.5% in 2026, following 2.9% in 2025, and recover to 2.8% in 2027–2028.

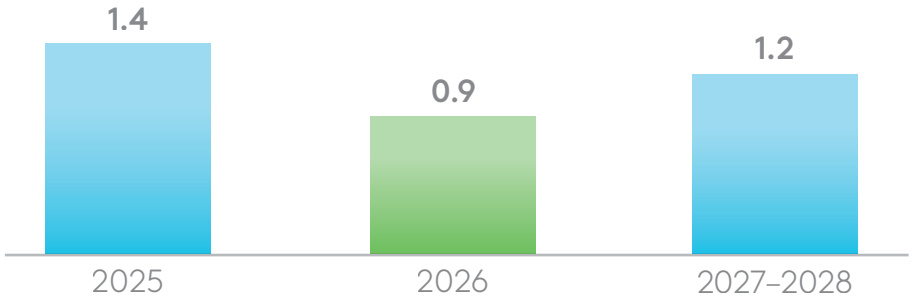
The oil shock will spread to other commodity markets. Higher costs will lead to rising fertiliser and food prices in 2026–2028. Gold prices will remain high due to economic and inflationary risks. In the short term, metals will face pressure from the risk of slowing industrial demand and higher interest rates. In the medium term, demand from the power sector, grid infrastructure and low-carbon technologies could provide support.

↓ Figure 2. Average US GDP growth, %



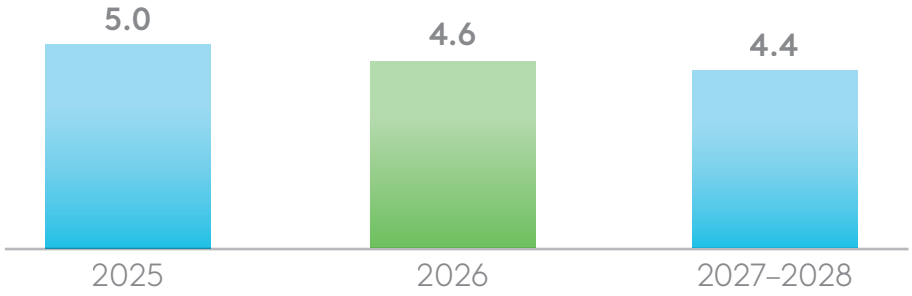
Source: national agencies, EDB analysts' calculations.

↓ Figure 3. Average GDP growth in the eurozone, %



Source: national authorities, EDB analysts' calculations.

↓ Figure 4. Average GDP growth in China, %



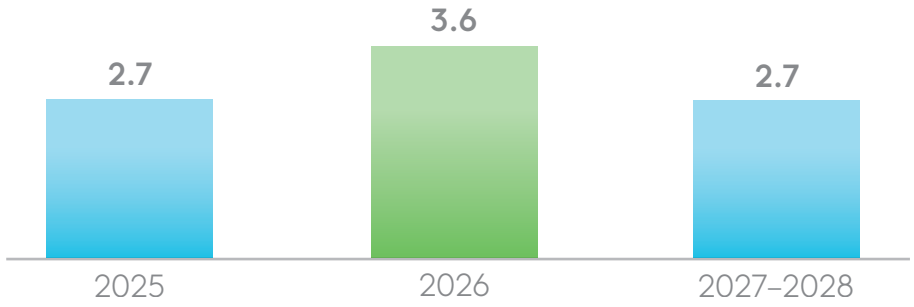
Source: national agencies, EDB analysts' calculations.

We forecast that US GDP growth will slow to 1.7% in 2026 from 2.1% in 2025. Thereafter, economic growth will accelerate to 1.8% and 2.0% in 2027 and 2028, respectively (Table 2). Economic momentum will be supported by fiscal spending and investment inflows into the oil and gas sector. Tariff policy may temporarily support domestic demand for US-made goods, but at the same time it increases costs and inflationary risks.

The eurozone remains particularly vulnerable to an energy shock due to its high dependence on energy imports, weak domestic demand dynamics and limited scope to offset rising costs. GDP growth may fall to 0.9% in 2026 after 1.4% in 2025, then recover to 1.1% in 2027 and 1.3% in 2028. Pressure will come from high energy prices and US tariffs. Increased government spending will only partially offset the impact of these adverse factors.

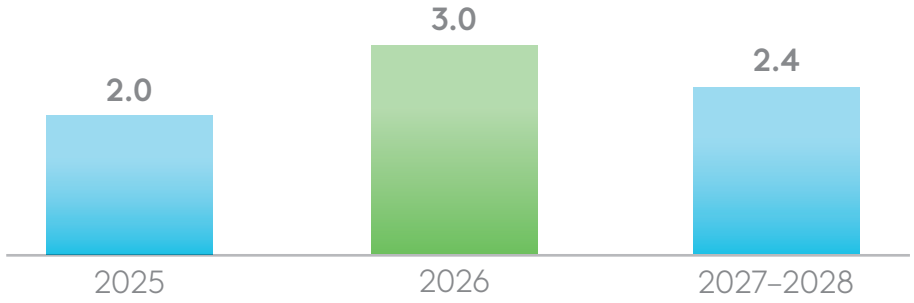
We forecast China's economic growth at 4.6% in 2026, following 5.0% in 2025 (Table 2). Economic momentum will be supported by fiscal policy measures, growth in investment linked to the development of artificial intelligence, and an expansion in electronics exports. An additional factor could be increased external demand for green technology products against a backdrop of high global energy prices.

↓ Figure 5. Inflation in the US, % YoY



Source: national agencies, EDB analysts' calculations.

↓ Figure 6. Inflation in the eurozone, % YoY



Source: national authorities, EDB analysts' calculations.

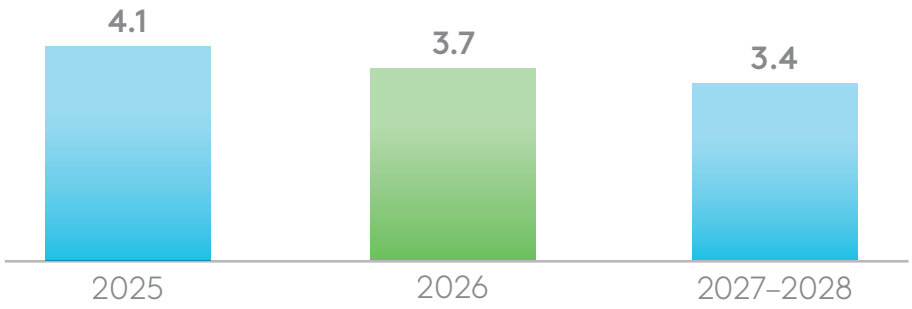
In the US, consumer price inflation reached 3.8% YoY in April 2026 — a three-year high — following 2.4% YoY in January and February. Core inflation remains consistently above target: at the end of April 2026, it stood at 2.8% YoY. We estimate that inflation could reach 3.6% by the end of 2026 (Table 2).

In the eurozone, inflation accelerated to 3.0% YoY in April 2026. In the second half of 2025, the rate was close to the 2% target. Core inflation stood at 2.2% YoY, down from 2.3% at the end of 2025, reflecting weak economic activity.

For the eurozone, the key risks relate to rising global energy and food prices. In our view, inflation may remain at 3.0% by the end of 2026 (Table 2).

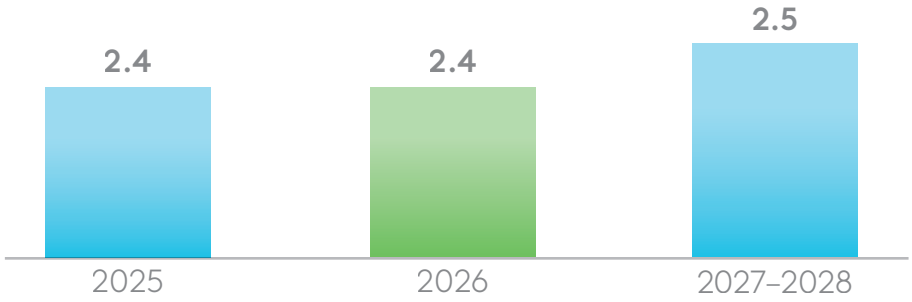
The impact of the oil shock will persist to some extent until the end of the forecast period. Higher inflation expectations and rising costs, including those resulting from trade tariffs, will hinder the slowdown in inflation. By the end of 2028, inflation may fall to 2.6% in the US and 2.2% in the euro area, but will remain above target (Table 2).

↓ Figure 7. Average Fed policy rate, %



Source: national authorities, EDB analysts' calculations.

↓ Figure 8. Average ECB key interest rate, %



Source: national authorities, EDB analysts' calculations.

The Fed is likely to maintain a cautious stance. A rate cut is only possible if there is confirmation of a sustained slowdown in inflation. Consequently, monetary conditions in the US will remain relatively tight for most of the forecast period. The average rate is expected to be 3.7% in 2026, 3.5% in 2027 and 3.3% in 2028. We expect the rate to be around 3.5% at the end of 2027 and around 3.25% at the end of 2028.

The ECB may move to raise rates if rising energy prices begin to entrench themselves in inflation expectations and core inflation. We expect the European regulator's refinancing rate to reach around 2.5% by the end of 2026 and average 2.6% in 2027 (Table 2).

Impact on countries in the EDB's region of operations

EDB member countries will experience the consequences of the conflict in the Persian Gulf in different ways. The impact will be determined by two key factors: the countries' status as net exporters or net importers of energy resources, and the extent of their dependence on changes in the cost of international logistics and global food price dynamics.

For Russia and Kazakhstan, rising energy prices will, in the short term**, support export earnings and budget revenues.** Higher oil and gas prices will ensure **stronger exchange rates** for the rouble and the tenge in 2026. At the same time, the effect on exporting countries will not be straightforward. A possible strengthening of national currencies will curb import inflation, but may reduce the tenge or rouble equivalent of part of export revenues. Additional risks are linked to logistical and production constraints, and for Russia to the sanctions regime on oil exports.

The outlook for supplies of certain commodities is improving, particularly for fertilisers. For Belarus, for instance, rising global demand for fertilisers could create additional opportunities to expand exports of potash and nitrogen fertilisers. For metals, the effect will be more mixed: short-term pressure may come from weak industrial demand, while the development of energy and grid infrastructure could provide medium-term support.

The Bank's other countries of operation, being net importers of energy resources, will face primarily inflationary risks. This will be linked to higher oil and food prices. The result may be the persistence of heightened inflationary risks.

Box 1. Economic consequences of the conflict in the Middle East

The conflict in the Middle East and the closure of the Strait of Hormuz have caused a severe disruption to energy supply chains. Around 25% of global oil trade and around 20% of LNG pass through the strait. According to IEA estimates, recent events have led to the largest disruption to oil supplies in the history of the global market.

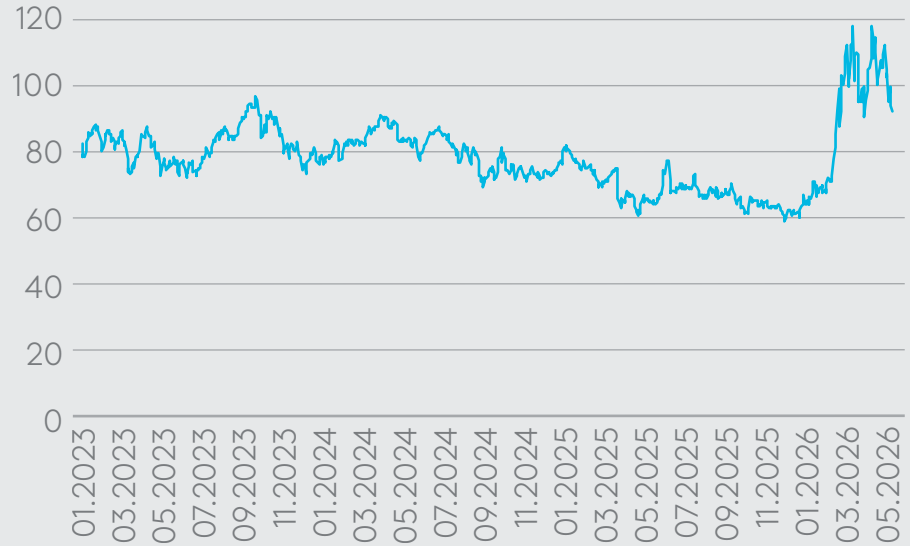
Global oil supply has fallen by more than 8–10 million barrels per day. More than 60 key energy facilities in the region have been damaged. The decline in production in the Gulf states has been partially offset by stockpiles, alternative routes and supplies from other regions. Consequently, the net reduction in global supply is estimated to be lower than the drop in regional production.

Gas infrastructure has also been severely affected. Among the affected facilities is the Ras Laffan complex in Qatar, which accounts for around 93% of LNG production in the Gulf. Approximately 80% of these supplies are destined for the Asia-Pacific region. It may take several years to repair the damaged infrastructure.

Against this backdrop, the price of Brent crude rose from around $70 per barrel in February to a peak of $115 per barrel in May. Alongside high volatility, prices remained above the $100 per barrel mark for most of the period from March to early May. At the same time, long-term oil price forecasts were also revised upwards.

Even if tensions ease, prices may not return to pre-crisis levels quickly if infrastructure constraints, higher insurance premiums and increased demand for oil persist, driven by the need to replenish stocks. Infrastructure damage has already been done. Many countries have faced shortages of refined petroleum products, diesel and jet fuel.

↓ **Figure 9. Brent crude oil prices (ICE), USD per barrel**

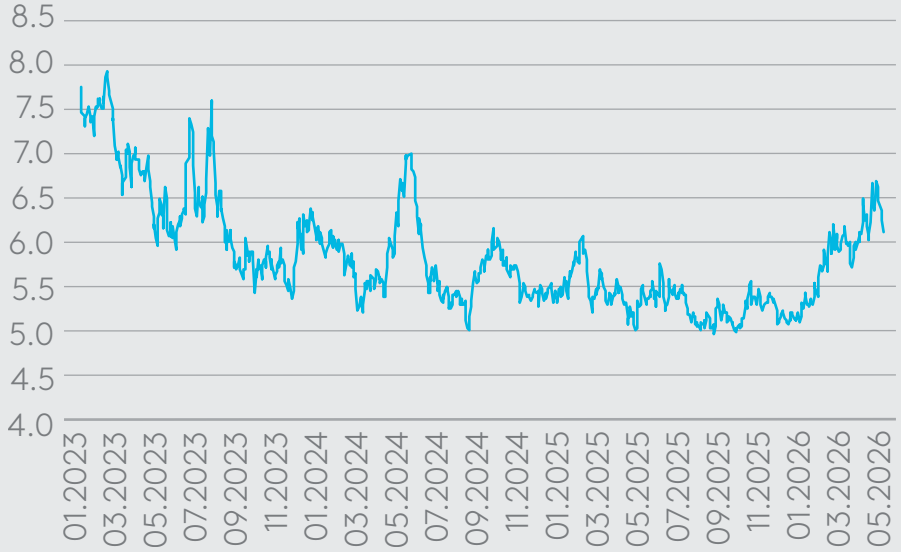


Source: Bloomberg.

LNG prices have also risen significantly. Spot prices in Asian markets have doubled. Europe finds itself in a energy crisis, with low gas stocks — around 30% by the end of winter 2025/2026 — and facing fierce competition for LNG from Asian buyers.

The shock was not limited to the energy market. The Strait of Hormuz handles around 20–30% of global trade in fertilisers — ammonia, urea, sulphur and phosphates.

↓ Figure 10. Wheat prices (CME), USD per bushel



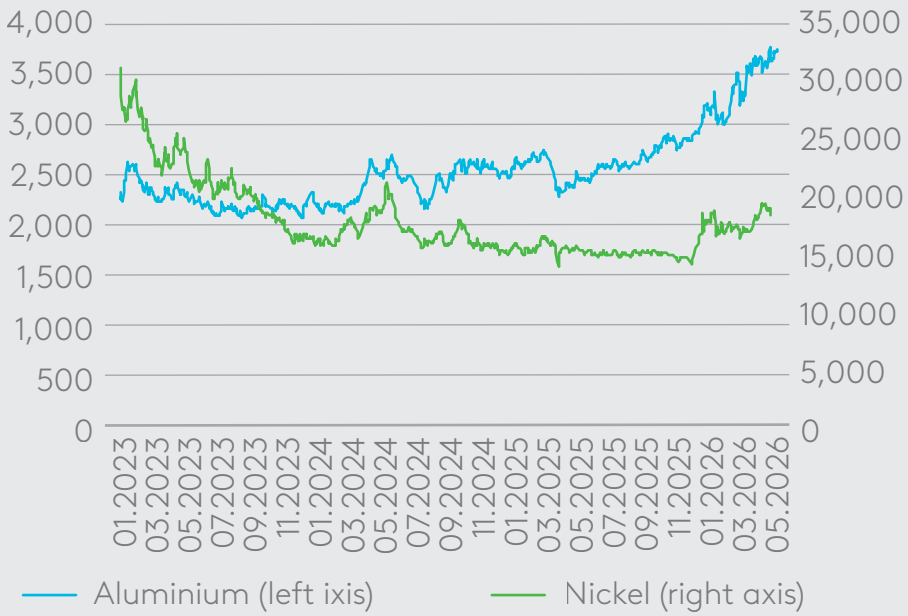
Source: Bloomberg.

The coincidence of the conflict with the start of the sowing season in the Northern Hemisphere has intensified pressure on the agricultural sector. Prices for nitrogen fertilisers have risen by 50%, to $690/tonne by the end of April. According to UN estimates, the overall increase in fertiliser prices could reach 35% by the end of 2026.

The risks of accelerating food inflation have risen significantly. Fertiliser shortages could affect the 2026 harvest. Countries where food accounts for around 60% of consumer spending will be particularly hard hit.

Disruptions to supply chains have created conditions for price rises in other commodities as well. Aluminium rose by around 16% at its peak. Indonesia, which accounts for around 50% of global nickel production, has faced a shortage of sulphur, which is necessary for ore processing.

↓ Figure 11. Aluminium and nickel prices (ICE), USD per tonne



Source: Bloomberg.

The petrochemical sector has also been affected. Around 12% of global ethylene production has been knocked out of global supply chains. Against this backdrop, polyethylene prices in Asia have risen by 40–50%.

The rise in the cost of petrochemical feedstocks could affect a wide range of goods. This applies not only to plastics, but also to industrial and consumer products, in which polymers account for a significant proportion of the cost.

↓ Figure 12. Polyethylene prices (1M, Dalian), USD per tonne

Source: Bloomberg.

The spread of inflationary pressures may occur through three channels.

1. **Energy shock.** Rising prices for oil, gas and petroleum products create the primary inflationary impulse. Higher fuel costs are passed on to prices via energy-intensive manufacturing, the electricity sector and agriculture. Depending on access to energy resources, the direct impact on the global economy is estimated at 0.7–1.5 percentage points of additional inflation.

2. **Logistics channel.** Tanker freight rates have tripled. Air freight rates on certain routes have risen two to threefold. Against this backdrop, global merchandise trade growth could slow to 1.9% in 2026, following 4.6% in 2025. Rising transport costs will increase the cost of imported goods.

Inflation expectations. Short-term expectations have risen in both the US and the eurozone. If households and businesses begin to factor sustained price growth into contracts and pricing decisions, inflation may become entrenched at a higher level.

If price rises become entrenched in inflation expectations and contracts, **central banks may need to adopt a tighter policy stance.** Some regulators may opt simply to keep rates at elevated levels for a longer period.

The full consequences of the energy shock will become clearer once logistics through the Strait of Hormuz have been restored. However, its impact is already significant for both world prices and the global economy.

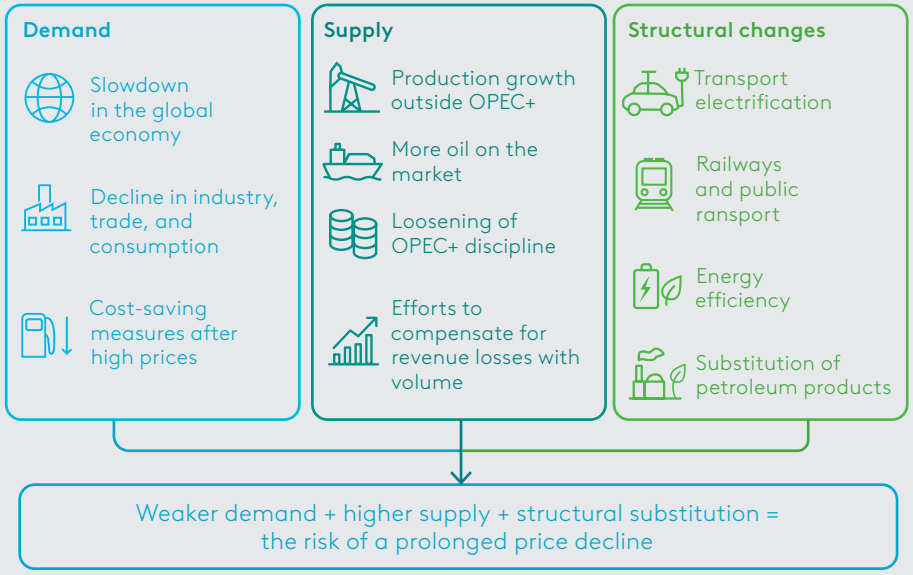
In a risk scenario**, oil prices remaining around $100/barrel until the end of 2026 could lead to a slowdown in global economic growth to below 2%**, which corresponds to a global recession. Such a scenario becomes possible if the closure of the Strait of Hormuz continues until September, and the restoration of supplies following its reopening is slow or incomplete.

Even if the strait reopens in September, oil prices may remain elevated until the end of the year. It may take up to three months for supplies to normalise due to accumulated logistical disruptions and a build-up of tankers. Additional risks are associated with a partial reopening of the strait, the continuation of restrictions on oil transport, and accumulated damage to oil infrastructure in the Gulf states.

Box 2. Risk scenario: a long-term decline in oil prices, starting in 2027–2028.

One of the significant risks facing the economies of the EDB's region of operations in the coming years relates to the oil market's potential shift from a supply shock to a long-term supply glut, a scenario not envisaged in the baseline forecast. Following a period of high oil prices, conditions for a lower price regime may emerge as a result of demand adjustment and increased supply by producers. Following the reopening of the Strait of Hormuz, the initial supply shock may gradually subside, while the resumption of supplies and a weakening of coordination among producers could heighten the risk of a long-term decline in oil prices (Figure 13).

↓ Figure 13. Channels through which high prices affect the long-term market balance



Source: EDB analysts' estimates.

The first channel is a decline in demand. High energy prices worsen the situation for households, industry, trade and transport. Consumers cut back on fuel expenditure, companies review their logistics, and oil-importing countries step up energy-saving measures. If the global economy slows down at the same time, the pressure on demand becomes more sustained: it is driven not only by the price factor, but also by a decline in business activity.

The second channel is the growth in supply. High prices increase the attractiveness of investment in production and encourage producers to ramp up physical supply volumes. This applies both to countries with spare capacity — primarily certain Gulf states and OPEC+ members — and to independent producers not bound by the alliance's quotas, including the US. As discipline within the group weakens, some countries may seek to offset the decline in revenue by increasing exports. In this context, the UAE's withdrawal from OPEC can be seen as a warning sign of a potential weakening of the previous coordination of supply.

The third channel is the structural transformation of energy consumption. High prices are accelerating the transition to more fuel-efficient vehicles, the electrification of transport, public transport, rail logistics and the partial substitution of petroleum products in industry. Consequently, part of the demand may not fully recover even after prices stabilise. This effect develops more slowly than the cyclical decline in demand, but it is precisely this that increases the risk of a more prolonged period of low prices.

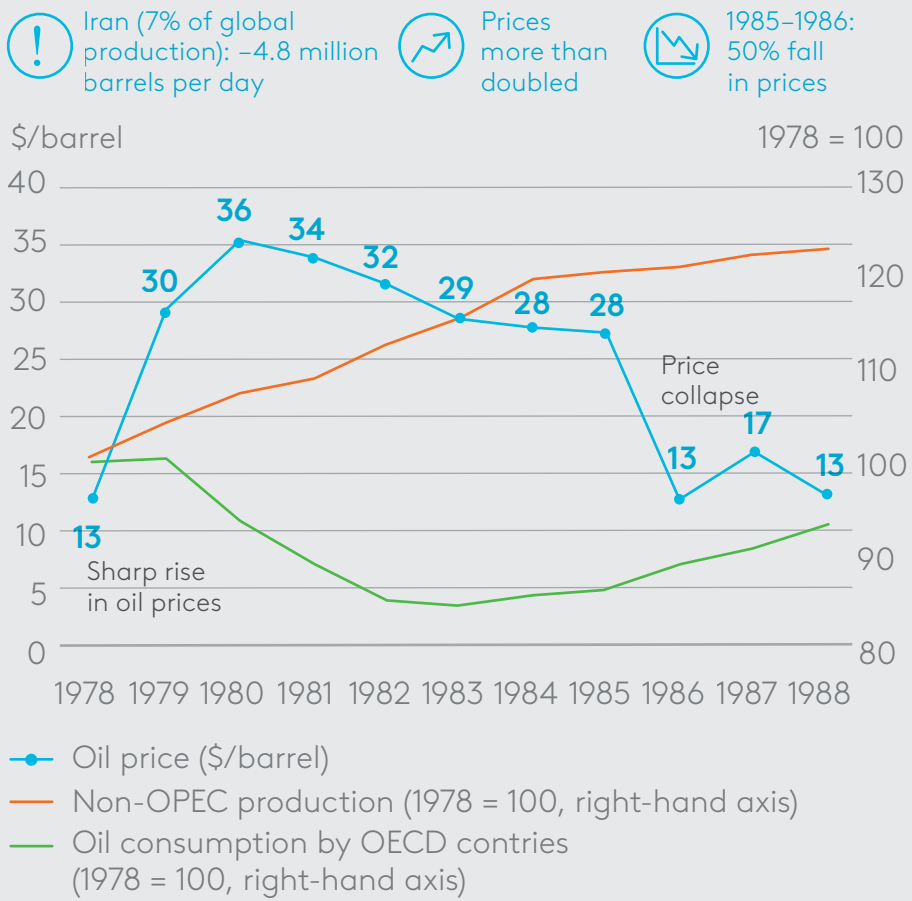
Historical experience from the late 1970s to the mid-1980s shows how a period of high prices can create the conditions for a future oil glut. One of the key triggers was the decline in Iranian production following the 1979 revolution, by approximately 4.8 million barrels per day, which accounted for around 7% of global production. Following the oil shock, prices almost tripled: from around $13 per barrel in 1978 to around $36 per barrel in 1980 (Figure 14).

High prices stimulated growth in supply from outside OPEC. Between 1980 and 1985, supplies from non-cartel countries continued to increase by approximately 1 million barrels per day per year, while the organisation's production fell sharply. Saudi Arabia cut production from around 9.9 million barrels per day in 1980 to 3.4 million barrels per day in 1985 in an attempt to support prices.

At the same time, in the first half of the 1980s, high prices triggered a shift in demand. Consumers and companies reduced their use of petroleum products, improved fuel efficiency and switched to alternative energy sources.

After 1986, OPEC countries abandoned their policy of limiting production. The supply of oil on the market rose sharply, and its price plummeted by more than 50%: from $28 per barrel to $13 per barrel. After that, **prices remained significantly below** early 1980s levels **for more than a decade**.

↓ Figure 14. The consequences of the 1980s oil shock for the oil market



Source: OPEC, IEA, IMF.

The current situation differs from that of the early 1980s. The average price of Brent in March–May 2026 was around $102 per barrel and remained within the range seen in recent years. In the early 1980s, the oil shock was significantly more severe: prices rose to roughly three times the 1978 level. However, the combination of high prices, OPEC production cuts and a possible weakening of coordination among producers maintains the risk of the market shifting to a supply surplus and a lower price regime.

For oil-exporting countries, including Kazakhstan and Russia, the key risk lies not only in the price decline itself, but also in the duration of the new price regime. A short-term correction may be partially mitigated by fiscal rules and reserves. However, if low prices persist for a prolonged period, the impact gradually shifts from foreign trade to the budget, the exchange rate, inflation, investment and economic growth. For both economies, a fall in oil prices means a deterioration in external conditions, pressure on export revenues, risks of national currency depreciation and accelerating inflation. That said, the shock may be more severe for Russia due to sanctions, price caps and the risk that the discount of Russian crude grades to Brent will persist. Kazakhstan has a significant reserve buffer: the National Fund's assets stood at around 24% of GDP at the end of the first quarter of 2026.