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The Impact of Middle East War on Fuel Prices

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THE IMPACT OF MIDDLE EAST WAR ON FUEL PRICES

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Prepared by the IENE Research Team

IENE Briefing Notes

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Introduction

The current war in the Middle East has once again highlighted the region's central role in the global energy system and its influence on fuel prices. As a major hub for oil production and export, any escalation in conflict raises immediate concerns about supply stability. Even when physical disruptions are limited, uncertainty alone can unsettle markets, prompting precautionary behavior among producers, traders, and governments. This environment of instability makes fuel prices highly sensitive to ongoing developments in the region.

In the short term, fuel prices tend to rise as fears of supply interruptions grow. Key risks include damage to energy infrastructure, reduced production capacity, and potential disruptions to critical shipping routes that facilitate global oil trade. Additionally, geopolitical tensions may lead to sanctions or strategic production decisions that further constrain supply. Financial markets also react quickly, with speculative trading amplifying price movements as investors attempt to anticipate future shortages or shifts in demand.

The broader economic consequences of rising fuel prices are far-reaching. Higher energy costs increase the price of transportation, manufacturing, and essential goods, contributing to inflationary pressures worldwide. For households, this translates into higher living expenses, while businesses face tighter margins and uncertainty in planning. Governments may respond with policy measures such as subsidies, tax adjustments, or efforts to diversify energy sources, underscoring the ongoing challenge of managing economic stability amid geopolitical conflict.

1. Impact on Global Oil Market

Energy prices rose sharply following the outbreak of war in the Middle East, triggering one of the largest energy supply shocks in history. The average price of Brent crude oil climbed above \$100 per barrel in March and stayed elevated through April, according to the World Bank (1). During the same period, European natural gas prices surged by around 70% before easing slightly in April and May, while coal prices also increased significantly due to expectations of higher demand for power generation.

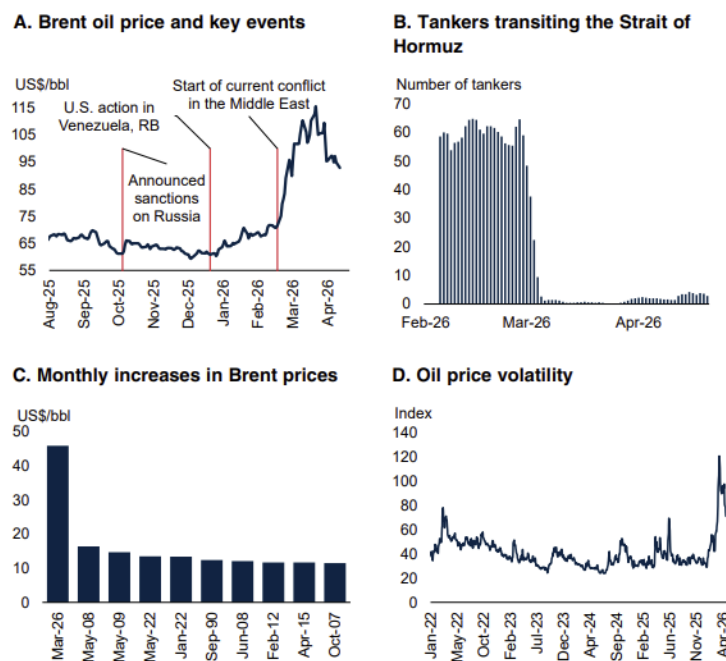
Looking ahead, the World Bank projects that its energy price index will increase by 24% in 2026, marking the first annual rise since 2022, before declining by 17% in 2027. These projections are based on the assumption that the most severe disruptions will ease by May, with energy exports through the Strait of Hormuz gradually returning to near pre-war levels by October, and only limited longer-term effects on trade and production capacity.

According to the World Bank, Brent crude oil is expected to average \$86 per barrel in 2026, up from \$69 in 2025, before falling back to around \$70 in 2027. Independent analysts place the anticipated average price even higher; above \$90 per barrel for Brent futures in 2026. Spot prices are already fluctuating well above futures prices between \$120-\$140 per barrel. US natural gas prices are forecast to rise by 8% in 2026 and continue increasing in 2027, while European gas prices could jump by 25% this year before declining the following year. Coal prices are anticipated to follow a similar trend. However, these forecasts carry

uncertainty, with potential upward risks stemming from prolonged conflict-related disruptions, and downward risks linked to faster recovery in supply, weaker global economic growth, or a greater-than-expected expansion of renewable energy sources.

As shown in Figure 1, Brent oil prices increased substantially following the outbreak of the war in the Middle East, as oil tanker traffic through the Strait of Hormuz came to a near standstill. In March, Brent crude jumped \$46/bbl, the largest monthly increase ever recorded, while implied volatility exceeded levels observed during Russia’s invasion of Ukraine in 2022. In April, both the Brent price and its implied volatility have receded somewhat, while remaining markedly elevated compared with levels prior to the conflict. But since May 7, Brent oil has been steadily trading above \$100 per barrel, raising fears of much higher levels for the rest of the year as the market is responding more to market fundamentals than political talk.

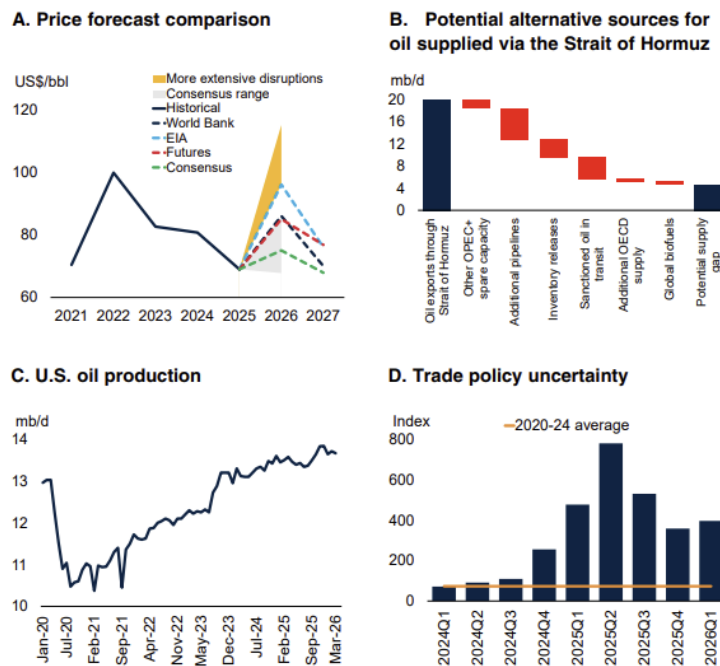
Figure 1: Oil Markets: Global Price and Market Developments



Sources: Bloomberg and World Bank

As already mentioned, the average Brent oil price is expected to rise to \$86/bbl in 2026, according to the World Bank’s estimates. The main upside risk to this forecast is more extensive conflict-related disruptions to oil production and trade in the Middle East than assumed in the baseline. Any impediments to regional pipeline flows could be especially consequential. Depending on the extent of additional disruptions, the 2026 average Brent oil price could rise to between \$95/bbl and \$115/bbl in 2026. Downside risks to the forecast include greater oil production than anticipated, potentially due to US shale output or a swift resolution of the disruptions in the Middle East. Further downside surprises in global economic growth could curb oil demand and prices, as could a faster-than-expected EV adoption.

Figure 2: Oil Markets: Outlook and Risks



Sources: Bloomberg and World Bank

Impact on Retail Fuel Prices in SE Europe

Retail fuel prices vary substantially across the EU-27, mainly due to differences in national taxation rates. As shown in Figure 3, the price of Eurosuper 95 in Greece stood at €2.073 per liter on April 6, 2026 – substantially higher than the EU-27 average at €1.878,73/lt and the country’s highest price in April. The price of Eurosuper 95 in Romania stood at €1.797,40/lt on April 6, substantially lower than the EU-27 average, but it was the country’s highest price in April. Similarly, the price of Eurosuper 95 in Bulgaria stood at €1.478,40/lt on April 20 – significantly lower than the EU-27 average at €1.827,45/lt, but again the country’s highest price in April.

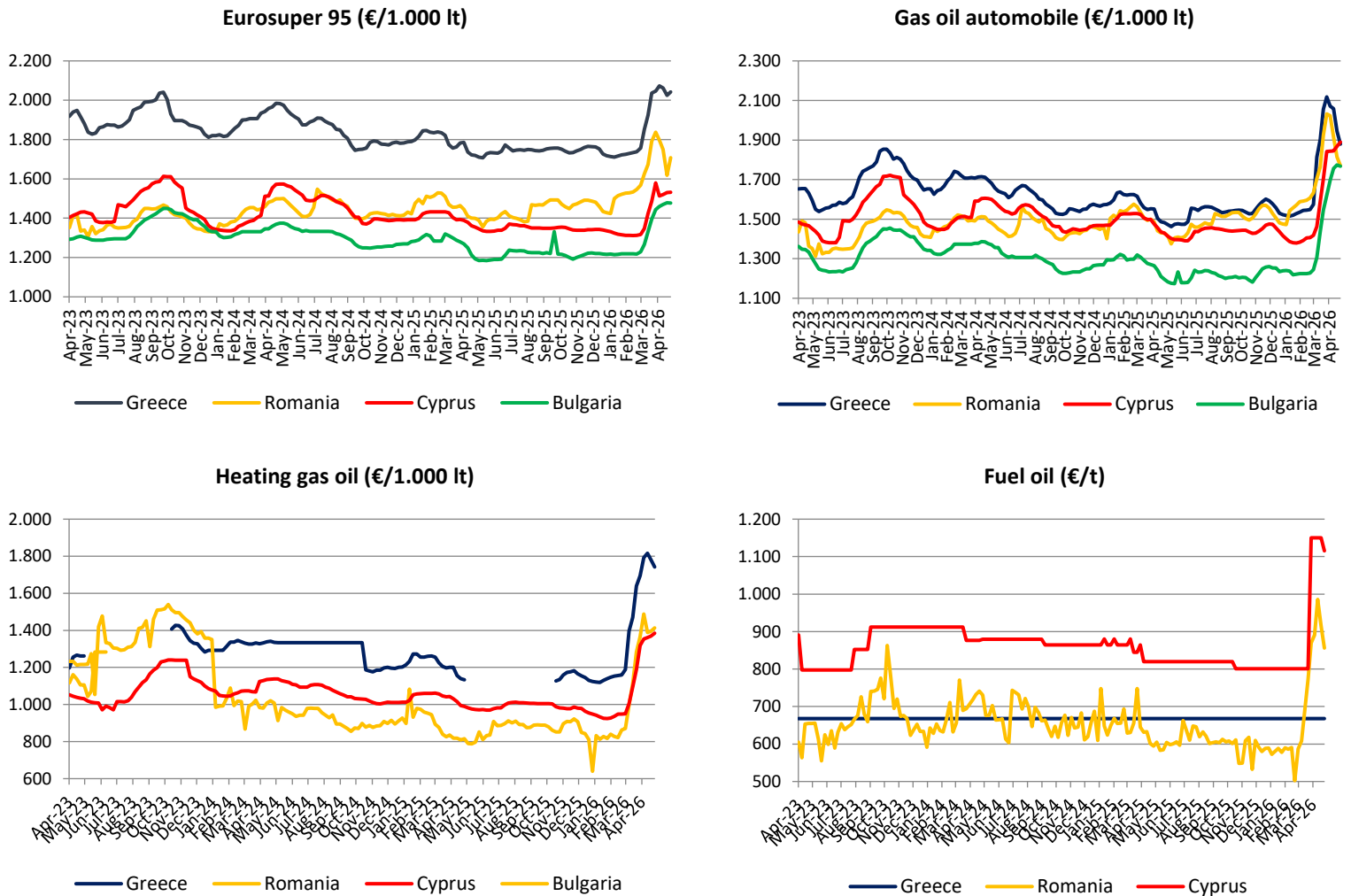
Table - Fuel Prices in Selected Countries on May 4, 2026

Country	Unleaded 95 RON (€/lt)	Gas Oil Automobile (€/lt)	Heating Gas Oil (€/lt)
Bulgaria	1,481	1,757	-
Croatia	1,700	1,879	1,400
Cyprus	1,542	1,890	1,384
Greece	2,082	1,881	-
Hungary	1,651	1,727	1,727
Italy	1,789	2,046	1,909
Romania	1,737	1,865	1,396
Slovakia	1,777	1,849	-
Slovenia	1,620	1,742	1,429
Spain	1,528	1,735	1,258

Source: ec.europa.eu

In terms of gas oil automobile, the price in Greece stood at €2.072,00/lit on April 6, 2026, lower than the EU-27 average at €2.112,27/lit and the country's highest price in April. Romania's gas oil automobile price was at €2.022,30/lit on April 6, lower than the EU-27 average, but it was the country's highest price in April. Moreover, the price of gas oil automobile in Bulgaria stood at €1.773,90/lit on April 20, significantly lower than the EU-27 average at €2.007,93/lit, but it was again the country's highest price in April.

Figure 3 - Oil Products Prices: Greece, Romania, Bulgaria and Cyprus



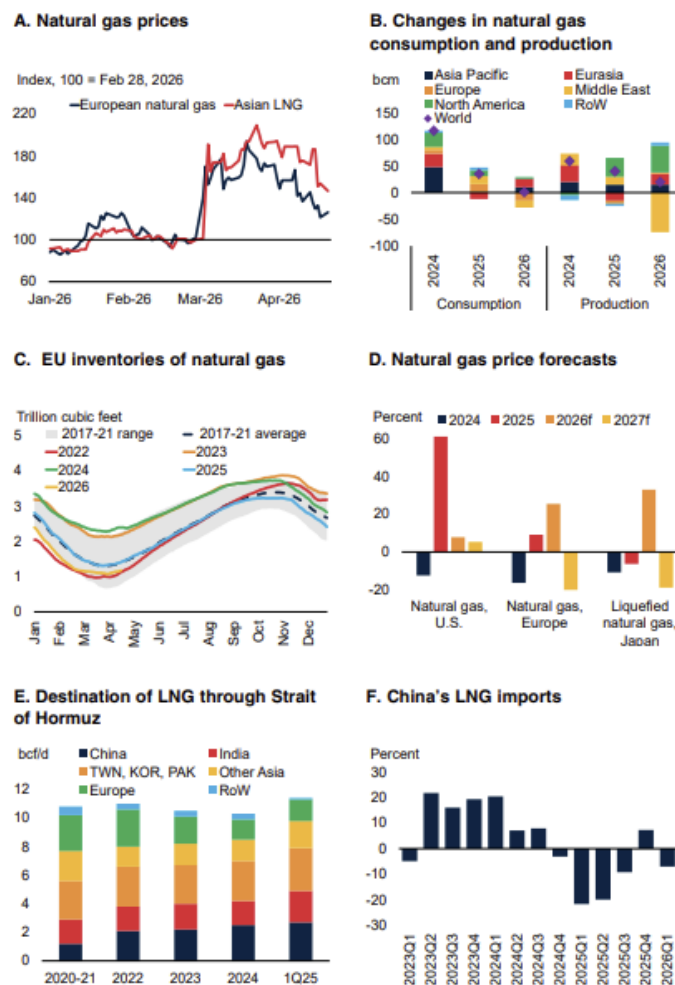
Source: ec.europa.eu

2. Impact on Global Gas Market

European natural gas and Asian LNG prices surged due to the closure of the Strait of Hormuz, a key route through which about one-fifth of global LNG supplies normally pass, along with lasting damage to Qatar’s LNG infrastructure. In March, the Asian LNG benchmark jumped by roughly 94% over the month, leading to reduced demand in price-sensitive South Asian countries. At the same time, European gas prices rose by about 59%. Although prices eased somewhat in April—falling by around 15% in the first half of the month—they remained elevated, as analysed by the World Bank.

Despite Europe importing only a limited share of LNG from the Middle East, increased competition from Asian buyers drove European prices higher, closely tracking movements in Asian markets. In contrast, US natural gas prices declined during March and April, largely due to strong domestic production, high inventory levels, and limited export capacity, which insulated the market from global disruptions. Even before the conflict began, natural gas prices had been rising due to unusually cold weather in both Europe and the United States, which boosted demand and disrupted LNG exports from US terminals.

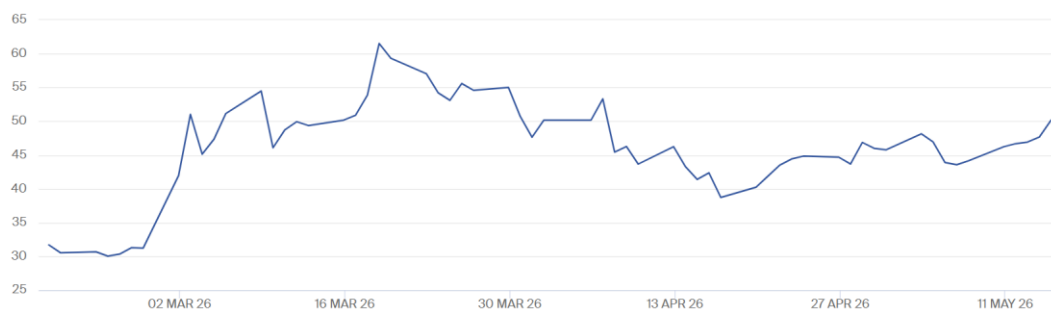
Figure 4: Gas Markets: Global Price and Market Developments



Sources: Bloomberg and Gas Infrastructure Europe

As shown in Figure 5, European natural gas futures leapt by about 100% at the onset of the conflict in the Middle East (March 19), halting €60/MWh at Netherlands' TTF. While the European gas prices have eased later, they still remain much higher, compared to the pre-war period. Global gas demand is expected to remain stable in 2026, as increases in Asia Pacific and Eurasia compensate for an expected fall in Europe and the Middle East. EU gas inventories in April 2026 were notably low, comparable to levels in 2022. Natural gas prices are expected to increase across markets in 2026. Upside risks to the price forecast include extended disruptions of LNG exports through the Strait of Hormuz and faster-than-expected growth in China's LNG import demand.

Figure 5: TTF Price Over the Last 3 Months



Source: ICE

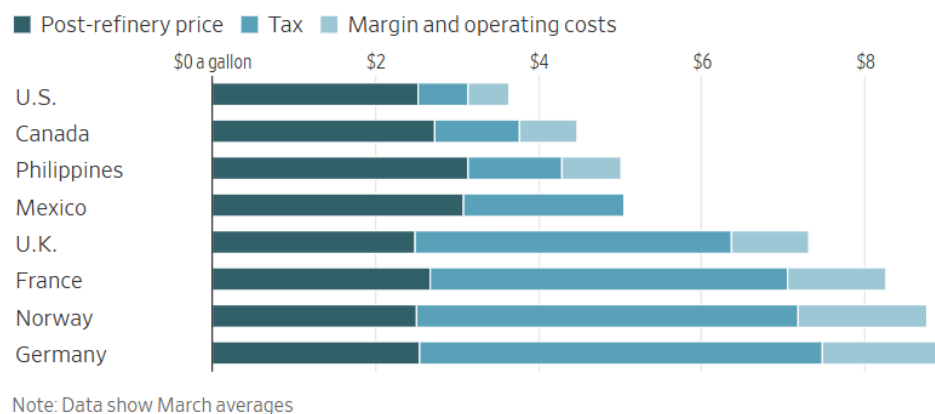
Based on World Bank's estimates, the European price is expected to surge by about 25% y-y in 2026, as LNG supply disruptions in the Middle East and medium-term damage to facilities in Qatar create strong global competition for LNG—which often sets the marginal price in Europe—to refill depleted inventories. The European price is projected to decline by 20% in 2027 as supply disruptions subside.

Impact on Gasoline Prices in the US

The conflict involving Iran has pushed US gasoline prices above \$4 per gallon, marking the highest national average in four years. Despite this increase, fuel prices in the US remain lower than in many other developed countries, including Germany and South Korea. One key reason is that the US is the world's largest oil producer, providing it with greater resilience against global supply disruptions compared to countries that rely more heavily on imports.

(2)

Americans are particularly sensitive to changes in fuel prices, as the average person drives about 13,000 miles annually, based on data provided by the US Department of Transportation (3). Even so, US consumers have historically paid less for gasoline than those in many other countries. A major factor behind this difference is taxation. Data from S&P Global Energy shows that fuel taxes in the United States are among the lowest worldwide. For instance, in March, the average gasoline price was \$3.64 per gallon, with only around 60 cents attributed to federal and state taxes, before rising to \$4 by the end of the month, as shown in Figure 6. (4)

Figure 6: Gas Prices Around the World, March 2026

Source: S&P Global Energy

In contrast, taxes make up a much larger share of fuel prices in other regions. Across much of Europe, taxes account for roughly 50% to 60% of the retail price of gasoline. In Germany, for example, drivers paid an average of \$8.75 per gallon in March, with more than half of that amount coming from value-added taxes and fuel duties. Similarly, in Mexico, gasoline averaged \$5.07 per gallon, with nearly \$2 consisting of taxes. While US fuel tax revenues are mainly used to fund road infrastructure, other countries often allocate these funds more broadly, including for public transportation and general government spending. Although some US states have introduced environmental fees and carbon-related policies, these measures remain less extensive than those implemented in Europe.

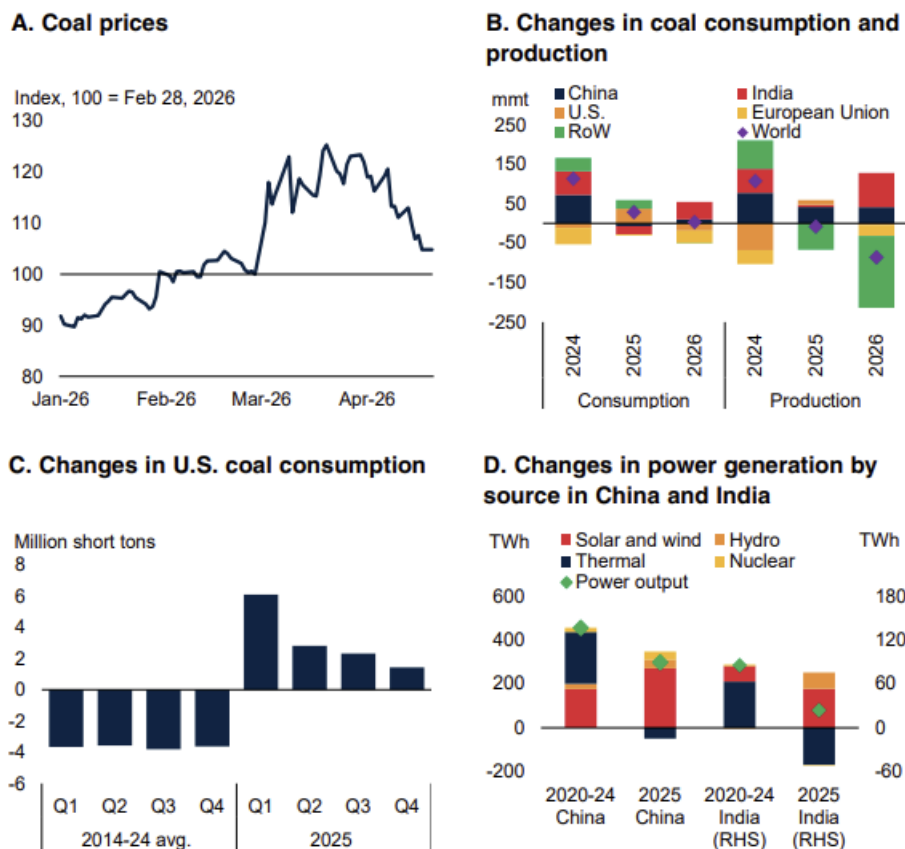
3. Impact on Global Coal Market

Based on data provided by the World Bank, the price of Australian thermal coal rose by around 20% in March 2026 compared to the previous month and stayed high into April. This increase was driven by disruptions to natural gas supplies from the Middle East, which pushed power producers in East Asia and Europe to rely more heavily on coal for electricity generation.

At the same time, shortages of diesel fuel caused by the Gulf conflict, along with sharply rising diesel prices, have increased production costs and, in some cases, limited output. Earlier in the year, particularly in January and February, coal prices remained relatively stable, reflecting weak global demand. This was partly due to lower export volumes from major suppliers such as Australia and especially Indonesia, where production caps were introduced to manage supply.

Based on World Bank's estimates, the Australian coal price is expected to rise by 20% y-y in 2026 to \$130/mt, before falling by 12% in 2027. This forecast assumes increased demand for thermal coal in 2026 due to Middle Eastern energy supply disruptions, with coal replacing natural gas in power plants, particularly in Asia Pacific and Europe.

Figure 7: Coal Markets: Global Price and Market Developments



Sources: Bloomberg, IEA, EIA and World Bank

4. Energy Tax Reductions Expand Across 39 Countries Amid Rising Fuel Prices

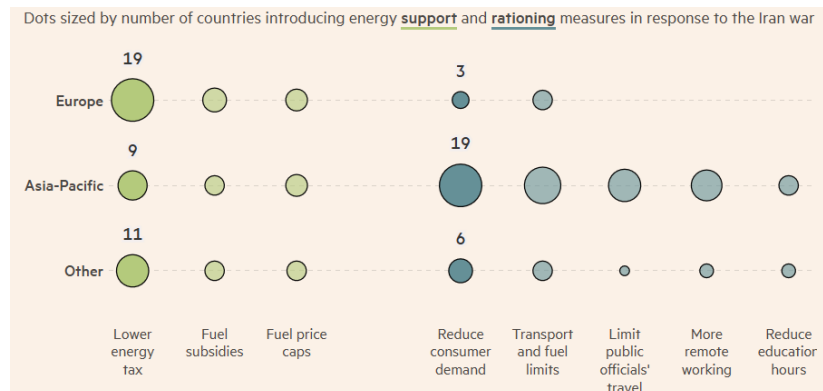
The number of countries reducing energy taxes in response to the war involving Iran has doubled over the past month, despite warnings from the IMF urging governments to maintain fiscal discipline, according to recent data. European countries have been at the forefront of this trend, contributing significantly to the increase in broad, untargeted energy support. According to FT analysis of the IEA’s policy tracker (5), 19 out of the 39 economies implementing tax cuts are in Europe, highlighting the region’s strong response to rising oil and gas prices.

These developments reinforce concerns raised by both the EU and the IMF about the importance of maintaining responsible fiscal policies. With public debt levels already high in many countries, the IMF has emphasized that support measures should remain targeted and temporary, ensuring that financial stability is not further strained while still addressing the impact of rising energy costs.

Governments are facing growing pressure to support households and businesses struggling with sharply rising energy costs following the outbreak of war involving the US and Israel on

February 28. The conflict has significantly disrupted global energy flows, particularly through the Strait of Hormuz, a critical route that accounts for roughly one-fifth of the world's seaborne oil and gas trade, where shipments have effectively stalled.

Figure 8: Europe Has Responded to the Iran War by Cutting Energy Taxes



Sources: IEA, Financial Times

In response, many governments have introduced measures such as price caps and tax reductions. However, experts argue that these policies may worsen the situation rather than resolve it. Ugnė Keliuskaitė, a research analyst at the Brussels-based think tank Bruegel, noted that such broad measures can increase market distortions and fail to adequately support the most vulnerable groups. She emphasized that untargeted interventions weaken price signals that would otherwise encourage reduced energy consumption and a transition to cleaner energy sources. Further analysis by Bruegel indicates that European governments have already allocated nearly €9.5 billion in fiscal measures to offset the impact of the conflict on energy bills. Notably, more than 80% of this support consists of broad, non-targeted actions—such as general cuts to energy excise duties or VAT—rather than policies aimed at specific groups or tied to particular conditions. (6)

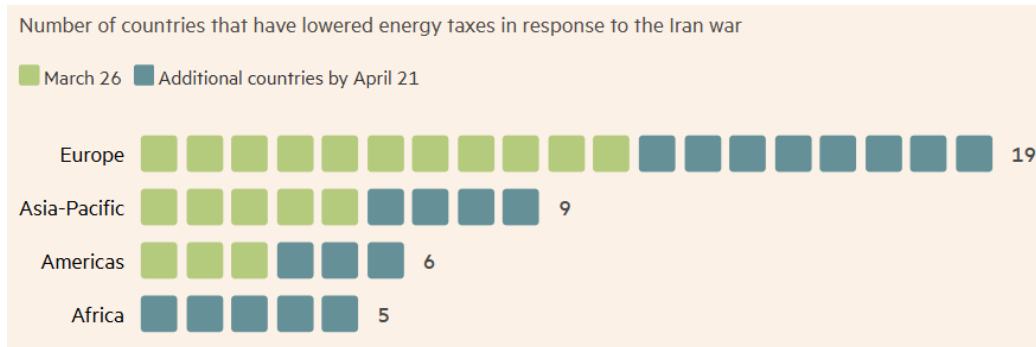
Several European countries have introduced significant fiscal measures to ease the burden of rising fuel costs. Germany has allocated €1.6 billion to reduce fuel duties, while Spain has committed €3.5 billion to cut energy VAT (7). Italy has also extended a temporary 20% reduction in fuel excise taxes, originally introduced in mid-March, at a cost of around €1 billion for 45 days. However, with the measure nearing its expiration, uncertainty remains over whether it will be prolonged, particularly as Italy faces pressure under EU fiscal rules. If not extended, consumers could experience a sharp increase in fuel prices.

In Greece, the “Fuel Pass” scheme (8) provides targeted subsidies to households for fuel purchases, alongside broader electricity bill subsidies to reduce the cost of power for most consumers. Similarly, other European countries implemented direct cash transfers or vouchers, such as energy cheques or rebates, to support households facing rising costs.

In addition to tax cuts, some governments have implemented price controls. According to international policy tracking, five European countries have introduced caps on fuel prices or limits on retailer profit margins. Meanwhile, the European Commission has proposed longer-

term solutions aimed at reducing dependence on fossil fuels. These include plans to lower taxes on electricity compared to fossil fuels and to promote cleaner technologies such as electric vehicles and heat pumps. Officials have also cautioned against excessive spending on fossil fuel subsidies, emphasizing the importance of investing in sustainable energy transitions.

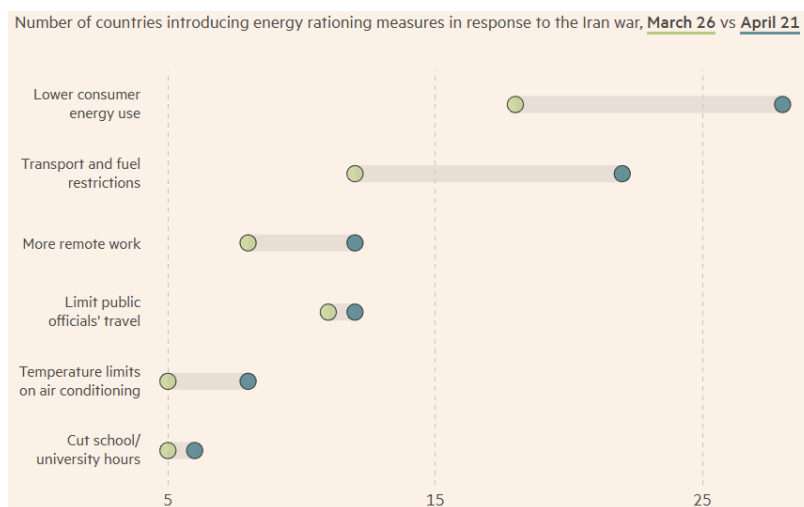
Figure 9: Governments are Cutting Energy Taxes in Growing Numbers



Sources: IEA, Financial Times

Despite these efforts, analysts argue that many government responses have been poorly targeted and may have unintended consequences. Broad tax cuts and subsidies can stimulate demand and push prices even higher, potentially offsetting their intended benefits. Some experts suggest that such measures weaken incentives for consumers to reduce energy use or shift toward cleaner alternatives. While countries like France and Portugal have implemented more targeted support—such as tax relief for specific sectors and increased funding for electrification—others, including Germany, have applied broad tax reductions without pairing them with green investments. Critics also point out that when multiple countries introduce subsidies simultaneously, the overall effect may be diminished, with rising global prices ultimately benefiting major oil-exporting nations.

Figure 10: Energy Rationing is on the Rise



Sources: IEA, Financial Times

5. Impact on Energy Bills

European households could face what experts describe as “devastating” additional energy costs of nearly €1,900 per year due to the ongoing war in the Middle East, according to a recent study (9). Since the US-Israeli assault on Iran on February 28, oil and gas prices have risen by more than 50%. The escalation has triggered attacks on key energy infrastructure across the region and led to the closure of the Strait of Hormuz, a vital global shipping route for energy supplies.

The European Trade Union Confederation (ETUC) has warned that a sustained 50% rise in energy costs this year would significantly increase household expenses across the EU. Under such conditions, the average annual energy bill would rise from €3,792 to €5,688, representing just over 12% of total household spending. ETUC General Secretary Esther Lynch said the findings highlight the severe impact of Europe’s dependence on volatile fossil fuel markets, arguing that this reliance is placing growing pressure on working families. (10)

Lynch also noted that high energy prices were already weakening Europe’s industrial base and pushing many households into financial hardship even before the current conflict. She called for the reintroduction of emergency measures used during the previous energy crisis, including windfall taxes on energy companies and a temporary suspension of EU fiscal rules, in order to protect jobs and incomes. Some EU member states, including Germany, Italy, Spain, Portugal, and Austria, have already urged the European Commission to consider a temporary solidarity levy on energy companies, similar to measures introduced after Russia’s invasion of Ukraine in 2022 (11). While the Commission has confirmed it is reviewing the proposal, it has indicated that suspending fiscal rules remains unlikely, stating that current economic conditions do not meet the threshold required for such action.

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