THE IRAN WAR AND THE RUSSIAN ECONOMY

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Executive summary

- This report examines how the war in Iran is likely to affect the Russian economy through global commodity markets, trade flows, disruption to shipping, inflation, and global growth.

- Russia entered the war in Iran from a position of increasing economic strain. By early 2026, the Russian economy was still growing following an expansion of 1% in 2025. However, growth was heavily dependent on defense spending and on commodity exports staying above a certain threshold. As a result, Russia had become increasingly vulnerable to a period of low commodity prices that could threaten its fiscal stability and macroeconomic balance.

- In this context, the outbreak of war in the Middle East and the associated rise in oil, gas, fertilizer, and food prices provided an external economic shock that improved Russia's fiscal and external position. Because Russia exports all of these commodities, the country has benefited from higher export revenues and improved terms of trade. Russia has also benefited from its position as a non-Gulf supplier, since disruption to Gulf exports increases the relative importance of Russian supplies in global markets, especially to Asian countries.

- The report presents three scenarios to assess how the war may affect the Russian economy in the future.

- In the first scenario, a short war ending in a decisive Iranian defeat produces a temporary spike in commodity prices that provides Russia with a short-term fiscal and export revenue windfall but does not fundamentally change its economic trajectory.

- In the second scenario, a more protracted war combined with closure or severe restriction of passages through the Strait of Hormuz produces a major and sustained energy shock that generates very large export revenues for Russia in the short term but also increases the risk of global recession, which would eventually reduce demand for Russian exports.

- In the third scenario, a prolonged regional conflict disrupts Gulf energy production and shipping without fully closing the Strait of Hormuz. This scenario produces sustained high commodity prices without a severe global recession and is therefore likely to be the most economically favorable outcome for Russia.

- The main conclusion of the report is that the Iran war is likely to improve Russia's economic position in the short term, primarily through higher hydrocarbon, fertilizer, and grain prices. The medium-term impact depends on whether the conflict causes a global economic slowdown. Russia benefits most from a prolonged period of elevated commodity prices combined with continued global growth, and benefits least from either a short-lived price spike or a severe global recession.

- The key variable determining the economic outcome is the extent and duration of disruption to energy and fertilizer markets, particularly through the Strait of Hormuz.

- Overall, the war in Iran has the potential to significantly improve Russia's fiscal and external position and to extend the financial sustainability of Russia's wartime economic model. However, these benefits are contingent on global economic conditions. The war therefore represents both an opportunity and a risk for the Russian economy, with the final outcome depending on the duration of the conflict, the scale of energy market disruption, and the response of the global economy.

Key words: Iran; war; economy; energy; commodities

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Introduction

The outbreak of war in Iran in March 2026 represents a major geopolitical and economic shock with significant implications for global energy, commodity, and financial markets. While the conflict is geographically concentrated in the Middle East, its economic effects are global because the region plays a central role in the production and transportation of oil, gas, petrochemicals, and fertilizers.

The most important transmission mechanism from the war to the global economy is therefore through commodity prices, the disruption to shipping routes, rising insurance costs, and global inflation. For Russia, these transmission channels are particularly important because the Russian economy remains heavily dependent on exports of hydrocarbons, fertilizers, and agricultural commodities.

This report examines how the war in Iran is likely to affect the Russian economy. The central argument is that the war should be understood as a global commodity and macroeconomic shock that will affect Russia indirectly through changes in oil prices, gas and LNG markets, fertilizer markets, food prices, shipping and insurance costs, and global economic growth.

Because Russia is a major exporter of oil, fertilizers, and grain, higher global prices in these sectors tend to improve Russia's fiscal and external position. However, higher energy prices also increase global inflation and reduce global growth, which can eventually reduce demand for Russian exports. The overall economic impact on Russia therefore depends on the balance between higher prices and weaker global demand.

The timing of the war is particularly important. Russia entered the conflict period in a position of increasing economic strain. Although the wartime economy remained resilient and continued to grow, this growth was increasingly dependent on defense spending and commodity exports. Inflation remained elevated, interest rates were high, labor shortages were severe, and the federal budget was under pressure due to high military spending and weaker energy revenues compared to earlier wartime peaks. As a result, the Russian economy had become increasingly sensitive to external commodity price movements. Under these conditions, a large and, from Russia's perspective, positive, external commodity shockhas a significant impact on Russia's fiscal stability and macroeconomic outlook.

The report is structured as follows. The first section examines the condition of the Russian economy on the eve of the Iran war and shows that the economy was stable but increasingly strained, with rising fiscal pressure, high inflation, labor shortages, and slowing civilian-sector growth. The second section examines the economic effects of the war so far, focusing on the rise in the prices of commodities exported by Russia, including oil, gas, fertilizers, and grain, as well as the effects of higher shipping and insurance costs and the risk of weaker global growth. The third section presents three scenarios that examine how the war may affect the Russian economy under different assumptions about the duration of the conflict and the disruption to global energy markets, particularly the Strait of Hormuz. The final section concludes by assessing how the war is likely to affect Russia's fiscal position, external balance, and broader wartime economic model.

The core conclusion of the report is that the war in Iran is likely to have a significant but ambiguous effect on the Russian economy. In the short term, higher commodity prices are likely to improve Russia's fiscal and external position. In the medium term, however, the impact will depend on whether the conflict leads to a prolonged period of elevated commodity prices or a broader global economic slowdown. The war therefore represents both an economic opportunity and an economic risk for Russia. The outcome will depend primarily on the duration of the conflict, the extent of disruption to energy and fertilizer markets, and the response of the global economy.

1. The Russian economy on the eve of the Iran war

By the end of February 2026, the Russian economy was showing clear signs of mounting strain after three years of war and sanctions.[1] While headline GDP growth

[1] A. Kolyandr. 2026. 'Stormy Weather Pummels Russia's Economy". *CEPA*. 9 February, at: https://cepa.org/article/stormy-weather-pummels-russias-economy/

remained positive, with output expanding by 1% in 2025, this growth was increasingly narrow, driven primarily by defense spending, state-led industrial expansion, and energy export revenues remaining at a sufficiently high level to maintain macroeconomic stability. Beneath the surface, however, imbalances were widening, and the sustainability of the wartime economic model was becoming more vulnerable to the impact of energy sanctions and a decline in global commodity prices.

Table 1. Key economic indicators, 2021-2025 (% annual change)

	2021	2022	2023	2024	2025
GDP, %	5.9	-1.4	4.1	4.9	1
Industrial output, %	6.3	0.7	4.3	5.6	0.8
Fixed investment, %	8.6	6.7	9.8	7.4	0.5
Retail sales, %	7.8	-6.5	8	7.2	2.5
Inflation, %	6.7	13.8	5.9	8.5	8.7
Urals price, $/bbl (year end)	68.8	76	62.8	66	41.1

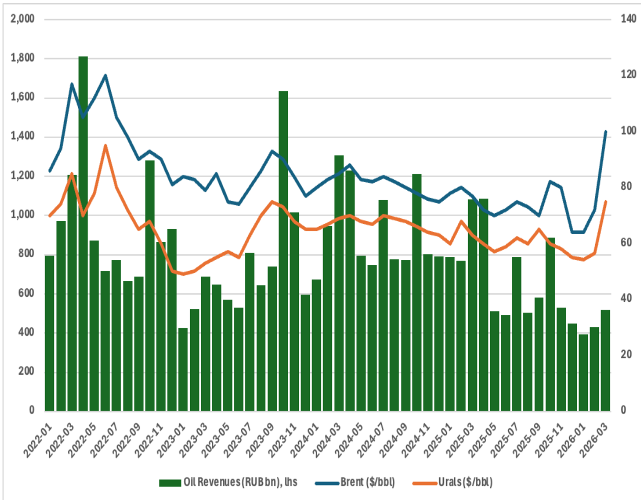
Source: BOFIT (2026)

As a result, Russia's growth outlook entering 2026 was modest, with major forecasters clustering around roughly 1% growth (and meaningful downside risk). A recent forecast from the Bank of Finland's Russia team forecast 2026 growth around 1%.[2] Similarly, a Reuters poll averaged 0.8% for 2026.[3]

A key feature of the Russian economy at this stage was the growing divergence between the military-industrial sector and the civilian economy.[4] Defense-related manufacturing continued to expand rapidly, supported by large and rising state procurement orders. However, civilian sectors faced slowing growth due to high interest rates, labor shortages, sanctions-related technology constraints, and weakening consumer purchasing power. As a result, the structure of growth was becoming increasingly unbalanced, with long-term implications for productivity, inflation, and fiscal stability.

The fiscal position was also becoming progressively more strained. Federal budget expenditures had risen sharply due to military spending, security spending, and social payments linked to the war effort. At the same time, oil and gas revenues—historically the main source of federal budget income—had declined from their peak levels in 2022–2024 (averaging over RUB10tn annually) to RUB8.5tn in 2025.[5] This was due to lower global prices and continued discounts on Russian crude caused by sanctions. Russia's budget deficit was widening and increasingly financed through domestic borrowing, which was pushing up borrowing costs and crowding out private investment.[6]

Figure 1. Oil revenues and the price of Urals and Brent oil, 2022-2026 (RUBbn; $/bbl)



Source: Ministry of Finance (2026)

[2] BOFIT. 2026. *BOFIT Forecast for Russia 2026–2028*, at: https://publications.bof.fi/bitstream/handle/10024/54418/brf0126.pdf

[3] Reuters. 2026. 'Analysts cut Russia's economic growth forecast for 2026.' *Reuters*. 31 March, at: https://www.reuters.com/business/analysts-cut-russias-economic-growth-forecast-2026-2026-03-31/

[4] A. Prokopenko. 2026. 'Russia's Economy has Entered the Death Zone.' *Economist*. 16 February, at: https://www.economist.com/by-invitation/2026/02/16/russias-economy-has-entered-the-death-zone

[5] V. Yermakov. 2026. 'The Inflection Point: Russia's oil and gas revenues in 2025.' *Oxford Energy Institute*. February, at: https://www.oxfordenergy.org/wpcms/wp-content/uploads/2026/02/Comment-Russian-Oil-and-Gas-2025.pdf

[6] S. Aleksashenko. 2025. 'Russia faces economic slowdown amid rising fiscal pressures.' *NEST Centre*. 26 November, at: https://nestcentre.org/russia-faces-economic-slowdown-amid-rising-fiscal-pressures/

This fiscal pressure was occurring in the context of tight monetary policy. Inflation remained elevated due to a combination of factors: labor shortages, strong wage growth in the defense sector, supply constraints, and high government spending. In response, the Central Bank of Russia maintained high interest rates to contain inflationary pressure and stabilize the ruble.[7] However, high interest rates were suppressing civilian investment and credit growth, particularly in non-defense sectors such as construction, retail, and small and medium-sized enterprises. The result was a two-speed economy: rapid expansion in defense-related sectors and stagnation or contraction in interest-sensitive civilian sectors.

Labor shortages were another major constraint on economic growth. Mobilization, defense-sector recruitment, and emigration had significantly reduced the available workforce. This created upward pressure on wages, particularly in manufacturing and construction, which in turn contributed to inflation. Labor scarcity also limited the ability of civilian sectors to expand production, even where demand existed. Over time, this created a structural inflation problem: wages were rising because labor was scarce, but productivity was not rising at the same rate because investment and technology imports were constrained.

The external sector remained the central pillar of macroeconomic stability, but it showed increasing signs of vulnerability. Russia continued to generate large export revenues from oil, petroleum products, gas, fertilizers, and agricultural commodities. However, the structure of exports had shifted significantly since 2022. Europe had largely been replaced by Asia—particularly China and India—as the main buyers of Russian oil.[8] This shift increased Russia's dependence on a smaller number of large buyers, which strengthened those buyers' bargaining power and contributed to persistent discounts on Russian crude relative to global benchmarks such as Brent.

Shipping, insurance, and sanctions enforcement risks also continued to affect Russian exports. The oil price cap regime and maritime sanctions forced Russia to rely on a so-called "shadow fleet" and alternative insurance arrangements, which increased transportation costs and reduced net export revenues.[9] As a result, even when global oil prices were relatively high, the price received by Russian exporters remained significantly lower than benchmark prices. This meant that the Russian fiscal position had become increasingly sensitive not just to global oil prices, but to the size of the Brent–Urals discount and to logistics costs associated with sanctions evasion.

By early 2026, there were also signs that oil export volumes were becoming harder to maintain. Reports indicated that some major buyers, particularly India, were negotiating more aggressively on price and freight terms, while sanctions enforcement and shipping constraints periodically disrupted export flows. This reinforced the broader trend: Russia was still able to sell large volumes of oil, but doing so was becoming more complex, more expensive, and more dependent on a small number of buyers and logistical networks.

Inflation and exchange-rate pressures were also emerging as macroeconomic concerns. The combination of high government spending, labor shortages, and supply constraints created persistent inflationary pressure. The Central Bank was therefore forced to keep interest rates high, which stabilized the ruble but at the cost of slowing broader economic activity. This policy mix—high fiscal spending and tight monetary policy—is sustainable in the short term but creates structural imbalances over time, particularly if fiscal deficits continue to widen.

In this context, the Russian economy at the end of February 2026 can be described as a strained wartime economy: still growing, still financially stable in the short term, but increasingly dependent on external commodity prices and increasingly constrained by labor shortages,

[7] CBR. 2026. 'Rezyume obsuzhdeniya klyuchevoy stavk.' Central Bank of Russia. 26 February, at: https://www.cbr.ru/dkp/mp_dec/decision_key_rate/summary_key_rate_26022026/?utm_source=chatgpt.com

[8] S. Vakulenko. 2026. *A Tight Spot: Challenges Facing the Russian Oil Sector Through 2035.* Carnegie Russia and Eurasia Centre, at: https://carnegieendowment.org/russia-eurasia/research/2026/03/russia-oil-situation-assessment

[9] Directorate-General for Financial Stability, Financial Services and Capital Markets Union. 2026. New dynamic mechanism to lower price cap for Russian crude oil to $44,10 per barrel. 15 January, at: https://finance.ec.europa.eu/news/new-dynamic-mechanism-lower-price-cap-russian-crude-oil-4410-barrel-2026-01-15_en

inflation, and fiscal pressure. The system remained resilient, but the margin of safety was narrowing.

This pre-war situation is crucial for understanding the economic impact of the Iran war. Russia did not enter this new geopolitical shock from a position of macroeconomic comfort. Rather, it entered at a moment when the fiscal position was tightening, inflation was elevated, interest rates were high, and oil and gas revenues had softened compared to earlier wartime peaks. Under these conditions, a large external commodity price shock—particularly one that raises oil, fertilizer, and grain prices—has the potential to significantly improve Russia's short-term fiscal and external position.

In other words, by late February 2026, the Russian economy was increasingly sensitive to global commodity prices. This meant that the outbreak of war in the Middle East in March 2026, and the associated surge in oil, gas, fertilizer, and agricultural prices, had the potential to alter Russia's economic trajectory in ways that would not have been the case had the shock occurred earlier in the war, when Russia's fiscal and external positions were stronger.

Under these conditions, higher global commodity prices represented not merely an economic benefit, but potentially a significant macroeconomic relief mechanism for the Russian state. The extent to which this relief proves temporary or sustained will depend on how long the war continues and how it reshapes global energy, fertilizer, and food market.

2. The war: Economic effects so far

The outbreak of war in Iran in March 2026 triggered an immediate shock across global commodity markets, particularly oil, gas, fertilizers, and agricultural commodities. Because Russia is one of the world's largest exporters of energy, fertilizers, and grain, the primary economic transmission mechanism has been through prices rather than trade disruption. In the short term, the war has therefore functioned as a positive external price shock for the Russian economy, improving export revenues, fiscal receipts, and the current account position.

2.1 Oil markets

The most immediate and important effect of the war was a sharp increase in global oil prices. The conflict disrupted Iranian exports, threatened Gulf production facilities, and raised the risk of shipping disruption through the Strait of Hormuz, through which roughly one-fifth of global oil trade (~20–21 mb/d) passes.[10] As a result, Brent prices rose sharply during March, and the price of Russian Urals crude rose in parallel, despite the continued presence of a sanctions-related discount.

Higher oil prices have a direct and significant effect on Russian fiscal revenues because oil taxes remain a core source of federal budget income. According to reporting in the international press, the rise in oil prices led Russia to increase export volumes and take advantage of higher global prices, with oil revenues rising significantly compared to earlier in the year.[11] Higher prices also reduce pressure on the federal budget deficit and support the ruble through increased foreign exchange earnings, although a strong ruble tends to offset these benefits because it *dampens* local currency-denominated tax revenues.

An additional important development has been the reported relaxation or uneven enforcement of some sanctions-related constraints due to global supply concerns. When global oil markets tighten sharply, the priority of many consuming countries shifts toward securing supply rather than enforcing price caps. This creates opportunities for Russia to sell more oil at higher prices and sometimes above the formal price cap level,

[10] IEA. 2026. *Straight of Hormuz: Fact Sheet.* Paris: IEA, at: https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz?utm_source=chatgpt.com

[11] A. Stognei. 2026. 'Russia rakes in $150mn a day in extra revenue from surging oil prices.' *Financial Times.* 12 March, at: https://www.ft.com/content/dd973148-b6a1-4096-97da-3090a058fe08?syn-25a6b1a6=1 ; J. Lee. 2026. 'Russia Boosts Its Oil Revenues to Four-Year High as Prices Surge.' *Bloomberg.* 24 March, at: https://www.bloomberg.com/news/articles/2026-03-24/moscow-boosts-oil-exports-amid-iran-war-price-surge ; and S. Vakulenko. 2026. 'What the Russian Energy Sector Stands to Gain From War in the Middle East.' *Carnegie Russia and Eurasia Centre.* 24 March, at: https://carnegieendowment.org/russia-eurasia/politika/2026/03/russia-oil-iran-war-consequences

particularly to Asian buyers.[12] In effect, geopolitical risk in the Middle East has increased the strategic value of Russian oil as an alternative supply source.

The key point is that Russia benefits from higher benchmark prices even if the Brent–Urals discount remains, because the absolute price Russia receives is still significantly higher.

2.2 Gas and LNG markets

The war has also affected global gas markets, particularly through disruption to liquified natural gas (LNG) exports from Qatar and the broader Gulf region.[13] Exporting c.81 million tons (m/t) in 2025, Qatar is the world's second largest LNG exporters (after the United States at over 100m/t), and any disruption to its exports tightens global gas markets and raises LNG spot prices. This has indirect benefits for Russia.

Although Russia has lost most of its pipeline gas exports to Europe, it remains a major gas supplier to Asia and continues to export LNG (33-35m/t in 2025). Higher global gas prices improve Russia's export revenues and strengthen its competitive position in Asian markets. In addition, if LNG markets tighten significantly, some countries may seek alternative pipeline gas supplies where available, which can improve Russia's bargaining position in ongoing gas negotiations with Asian buyers.

Thus, while Russia is no longer a major supplier to Europe, tightening global gas markets still benefit Russia through price effects and Asian market dynamics.

2.3 Fertilizers and chemicals

One of the most important but often overlooked transmission channels of the economic consequences of the war is fertilizers. Fertilizer production is highly dependent on natural gas, and the Middle East is an important producer of ammonia and other nitrogen-based fertilizers. The war has disrupted fertilizer production and trade routes, causing global fertilizer prices to rise sharply.[14]

Russia is one of the world's largest exporters of fertilizers, including nitrogen, potash, and phosphate products.[15] Higher fertilizer prices therefore translate directly into higher Russian export revenues. In addition, fertilizer price increases feed into global agricultural prices, creating a second-round effect that will benefits Russian grain exporters. Given that Russia is the world's largest grain exporter (USD15-17bn in 2025), it will likely enjoy a significant boost to its export earnings if prices rise.

This is an important dynamic: Russia benefits not only from higher energy prices, but also from higher fertilizer prices and the resulting increase in global food prices.

2.4 Agriculture and food

The combination of higher energy prices and higher fertilizer prices has pushed global grain prices upward. Russia is the world's largest wheat exporter (its most important grain), a major exporter of other grains (e.g., barley and corn), and a major exporter of other agricultural commodities.[16] Higher global food prices therefore increase Russian export revenues and improve the agricultural trade balance. To date, food prices have only risen modestly since the war began. However, a prolonged war in which regional fertilizer exports are

[12] O. Walker et al. 2026. "Desperate' Asia turns to Russian oil amid Iran energy shock.' *Financial Times*. 1 April, at: https://www.ft.com/content/c6d988ed-de4f-49d9-97c9-bfebc51be3e2?syn-25a6b1a6=1

[13] The IEA notes that ~93% of Qatar's LNG exports and ~96% of the UAE's LNG exports transit the Strait, representing approximately 19% of global LNG trade.

[14] J. Blas. 2026. 'Are We Headed for Another Food Price Crisis?' B*loomberg*. 1 April, at: https://www.bloomberg.com/opinion/articles/2026-04-01/iran-war-are-we-headed-for-another-food-price-crisis?utm_source=website&utm_medium=share&utm_campaign=twitter

[15] Interfax. 2026. 'Russia may increase fertilizer exports to at least 46 mln tonnes in 2026 compared to 45 mln tonnes in 2025 - industry association head.' *Interfax*. 6 February, at: https://interfax.com/newsroom/top-stories/115999/ and Reuters. 2026. 'Russia stops ammonium nitrate exports for one month amid global supply crunch.' *Reuters*. 26 March, at: https://www.reuters.com/business/russia-imposes-restrictions-some-nitrogen-fertiliser-exports-2026-03-24/

[16] L. Lucarelli and M. Tothova. 2026. *Changes in the Global Grain Change*. Rome: Food and Agricultural Organization, at: https://openknowledge.fao.org/server/api/core/bitstreams/6f2aaf59-4986-4660-b878-836367c2b89d/content

severely restricted, would likely to cause prices to rise much higher in the future.[17]

However, higher global food prices also have domestic effects. Russia must balance export revenues against domestic food inflation, which is politically sensitive. In previous food price spikes, the Russian government has imposed export quotas or export taxes to stabilize domestic prices. It has already done so for gasoline exports.[18] If global food prices continue to rise, similar measures may be introduced again, which would offset some of the export revenue gains.

2.5 Shipping, insurance, and logistics

The war has significantly increased shipping costs and marine insurance premiums, particularly for vessels operating near the Strait of Hormuz.[19] This has raised global freight rates and increased the cost of transporting oil, LNG, and bulk commodities worldwide.

Russia is not directly dependent on the Strait of Hormuz for its exports, which gives it a relative advantage compared to Gulf producers. However, Russia still faces higher shipping costs due to tanker shortages, longer routes, and higher insurance premiums.[20] These costs reduce net export revenues but do not offset the overall price increase effect. Moreover, because of sanctions, Russia provides a much higher share of these services to its own exporters than it did before 2022, meaning that some of the 'costs' also accrue to Russian entities.

An important relative effect emerges here: if Gulf exports are disrupted while Russian exports continue, Russia's relative importance as a supplier increases, strengthening its market position.

2.6 Global macroeconomic effects

The oil price shock has contributed to rising global inflation and increased the risk of slower global growth. Higher energy prices act as a tax on energy-importing economies, reducing consumer demand and industrial activity. The IMF and other international institutions have warned that a prolonged Middle East conflict could weaken global growth and increase inflation simultaneously.[21]

For Russia, this creates a mixed effect. In the short term, higher prices increase export revenues. In the medium term, weaker global growth reduces demand for oil, metals, and other exports. The overall effect therefore depends heavily on how long high prices persist and whether they trigger a broader global slowdown.

2.7 Russia's policy response and export strategy

Russia has responded to higher prices by increasing export volumes where possible and redirecting trade flows to markets where prices are highest. Reports indicate that Russian oil companies increased shipments following the price rise, and the government adjusted tax formulas to capture higher revenues from the price increase.[22]

Russia has also benefited from its existing trade reorientation toward Asia. Because Europe is no longer a major buyer of Russian oil, Russia is less exposed to Middle Eastern supply shocks in European markets and instead competes primarily in Asian markets, where higher global prices benefit all suppliers.

[17] Blas. 2026. *op. cit.*
[18] Reuters. 2026. 'Russia bans producers from exporting gasoline until end-July.' *Reuters*. 2 April, at: https://www.reuters.com/business/energy/russia-bans-producers-exporting-gasoline-until-end-july-2026-04-02/
[19] UK P&I Club. 2026. 'Circular 04/26: War Notice of Cancellation - Iran & Persian/Arabian Gulf.' At: https://www.ukpandi.com/news-and-resources/circulars/article/circular-04/26-war-notice-of-cancellation-iran-persian/arabian-gulf/?utm_source=chatgpt.com
[20] https://www.reuters.com/business/energy/rosnefts-2025-net-income-down-73-says-high-oil-prices-offset-by-costs-2026-03-31/
[21] Reuters. 2026. 'IMF's Georgieva warns Middle East conflict could push global inflation higher.' *Reuters*. 9 March, at: https://www.reuters.com/world/middle-east/imfs-georgieva-warns-middle-east-conflict-could-push-global-inflation-higher-2026-03-09/
[22] D. Korsunskaya and E. Fabrichnaya. 2026. 'Exclusive: Russia delays change to fiscal fund after Iran war energy price surge.' *Reuters*. 24 March, at: https://www.reuters.com/business/russia-delays-change-fiscal-fund-after-iran-war-energy-price-surge-2026-03-23/

In effect, Russia has been able to monetize the geopolitical shock by increasing export revenues across multiple commodity sectors.

2.8 Interim assessment: Net effect so far

The economic effects of the war on Russia so far can be summarized as follows:

Positive effects:

- Higher oil prices have led to higher export and fiscal revenues.
- Higher gas and LNG prices have led to improved gas export revenues.
- Higher fertilizer prices have increased fertilizer export revenues.
- Higher grain prices have increased agricultural export revenues.
- Russia's relative advantage as a non-Gulf supplier has grown.

Negative effects:

- Higher shipping and insurance costs, which affect Russian energy exports.
- Rising domestic inflation risk.
- Increased global recession risk.
- Continued dependence on discounted oil sales, even though this has narrowed.

In short, the war has produced a net positive external shock for the Russian economy, primarily through higher commodity prices. However, this positive effect is likely to diminish if high energy prices begin to slow global growth significantly.

2.9 Outlook: If the war continues or Hormuz remains effectively closed

If the war continues or the Strait of Hormuz is closed or severely restricted, several market effects are likely:

- Oil prices would rise further and remain elevated.
- LNG markets would tighten significantly.
- Fertilizer prices would rise further due to gas price increases and supply disruption.
- Grain prices would rise due to higher fertilizer and shipping costs.
- Shipping and insurance costs would rise further.
- Global growth would likely slow significantly.

Under such conditions, Russia would likely experience a large short-term revenue windfall, particularly in oil, fertilizers, and agriculture. This would likely be comparable in scale, if not higher, than the positive terms of trade shock it enjoyed in 2022. However, the medium-term effect would depend on whether the global economy enters a recession.

3. Scenarios

Scenario 1: Short war (decisive Iranian defeat or capitulation)

In this scenario, the war ends relatively quickly following a decisive military setback for Iran. The immediate market shock is severe but short-lived. Oil prices spike sharply, LNG markets tighten, fertilizer prices rise, and shipping costs jump as traders scramble to replace disrupted Gulf supplies.

But the conflict does not last long enough to produce a prolonged global supply crisis. The Strait of Hormuz may be briefly disrupted, but shipping resumes within weeks rather than months. The result for Russia is a temporary commodity windfall rather than a fundamental change in its economic trajectory. Recent reports suggest that the conflict has already shown how quickly prices can react to perceived disruption in Hormuz and Gulf energy infrastructure, even before a prolonged closure takes hold. An end to the war could see prices drop sharply to pre-war levels.

For Russia, the first effect is positive. Higher benchmark oil prices raise the price of Urals even if the discount to Brent remains. This matters because Russia entered the war in a position of growing fiscal strain, with the budget increasingly vulnerable to lower energy revenues and with high interest rates, inflation, and slowing civilian growth already weighing on the economy.

A short war therefore offers Russia an important but temporary reprieve. Higher oil prices would improve export earnings, support the ruble (although the impact here is ambiguous due to the dampening effect it would have on federal government ruble tax receipts), and narrow the federal deficit. The same would be true, though to a lesser extent, in fertilizers and grain, where higher input costs and supply uncertainty would lift global prices and improve Russian export receipts.

However, the temporary nature of the shock is central. If Iran is decisively defeated or compelled to capitulate, markets will quickly begin to price in normalization. The risk premium embedded in oil prices would fade. LNG prices would retreat as emergency demand subsides and traders gain confidence that Gulf exports can resume. Fertilizer prices would also ease as gas prices fall back and trade routes stabilize. Medium-term food prices would be only modestly affected.

In this scenario, Russia captures a short burst of higher revenues, but not a lasting change in market conditions. The fiscal relief would be real, but it would not solve the underlying weaknesses of the Russian wartime economy: labor shortages, high inflation, elevated interest rates, a narrowing civilian sector, and dependence on commodity rents.

There is also a geopolitical downside for Russia in this scenario. A defeated or neutralized Iran would likely emerge as a much weaker regional actor, reducing the strategic value of Russia's relationship with Tehran. It could also create conditions for more orderly Gulf energy exports and stronger Western influence over regional shipping lanes. That would reduce the relative advantage Russia gains from being a non-Gulf supplier during the crisis.

If market stability returns quickly, the world's large importers would have less incentive to tolerate Russian sales above sanctions thresholds or to look the other way on enforcement. In other words, the emergency flexibility that often appears during acute supply shocks could disappear just as quickly.

A short war could even produce a medium-term downside for Russia if it accelerates the restoration of alternative supplies. If Gulf production resumes, if Qatari LNG capacity comes back faster than feared, and if post-war diplomacy stabilizes shipping routes, then the global energy market may move from extreme scarcity back toward relative balance.

In a short-war scenario markets would assume that at least some of the disruptions caused to date are repairable over time and not the basis for a prolonged structural shortage. Russia would then once again face the familiar problem of selling discounted crude into competitive Asian markets without the cushion of crisis-level benchmark prices.

The impact on Russian macroeconomic policy under this scenario would be modestly positive but limited. The government would likely use the revenue windfall to stabilize the budget, rebuild buffers, and ease some short-term pressure on borrowing. Indeed, President Putin recently stated this was the official position.[23] But none of this would remove the economy's structural imbalances. If anything, it could postpone difficult adjustments by giving the Kremlin a little more time and money.

The broader global economy would also fare better in this scenario. Because the shock is temporary, the risk of a deep recession in Europe or Asia remains contained. That is important for Russia, since its export model depends not only on high prices but also on continued demand from China, India, and other buyers. A short war therefore offers Russia the best version of a temporary shock: prices rise enough to support revenues, but not for long enough to destroy demand.

Put simply, a short war ending in decisive Iranian defeat would be a short-run positive shock for Russia but only a temporary one. It would provide fiscal and external relief at a moment of economic strain, but it would not fundamentally alter Russia's medium-term outlook. Once prices normalize, the Russian economy would again confront the same structural constraints that were visible before the war. Consequently, the gains would be real, but transient.

[23] Kommersant. 2026. 'Putin predostereg ot «popytok proyest'» lishniye dokhody ot rosta tsen na neft' i gaz.' [Putin warned against "attempts to squander" excess revenue from rising oil and gas prices]. *Kommersant*. 26 March, at: https://www.kommersant.ru/doc/8535697

Scenario 2: Long war with no decisive victor (Strait of Hormuz closed or severely restricted)

This is the most disruptive scenario for the global economy and the most ambiguous for Russia. In this case, the war drags on without a decisive military outcome, while the Strait of Hormuz remains closed or at least severely restricted for a prolonged period. In such a scenario, the global economy would face a sustained supply shock across oil, gas, petrochemicals, fertilizers, and food.

For Russia, the immediate upside would be enormous. Oil prices would remain elevated for an extended period, possibly well above recent pre-war levels. Even if the Brent-Urals spread widened somewhat because buyers exploited Russia's dependence on a narrower customer base, the absolute price received by Russia would still be much higher than before the war. Fiscal receipts from oil would surge. The current account would improve. The budget deficit would narrow or even temporarily reverse if the price increase were large enough and sustained over a period of several months or longer. The Kremlin would enjoy more room to fund military spending, industrial support, and social payments.

Gas and LNG markets would also tighten sharply. Although Russia no longer dominates European gas markets, it would still benefit through higher gas and LNG prices in Asia (and Europe, at least until 2027) and through a more generally constrained global market. Fertilizers would likely be one of the strongest positive channels. Higher gas prices and disrupted Middle Eastern output would lift global fertilizer prices, which in turn would support Russian export revenues and contribute to higher grain prices globally.

At first glance, this looks overwhelmingly favorable for Russia. But the medium-term effects are more complicated. A sustained closure of Hormuz would not simply raise prices; it would act as a powerful negative shock to global growth. The IMF has already expressed concerns that the war is already dimming the outlook for many economies, with food and fertilizer costs rising and energy disruption on a scale that the IEA described as unprecedented.[24] A long war with a closed strait would therefore raise the probability of recession in Europe, weaker growth in Asia, and tighter financial conditions globally.

That matters because Russia needs buyers as well as high prices. China and India may continue purchasing Russian oil, but if their growth slows under the weight of high energy costs and imported inflation, their demand growth will weaken. A severe global slowdown would eventually reduce consumption of oil, metals, and manufactured goods. The result is a classic timing problem. In the early phase, Russia gains strongly from price effects. Over time, those gains are likely to be eroded by demand destruction.

There are also logistical and inflationary costs for Russia. Even though Russian exports do not transit Hormuz, a global shipping crisis would raise tanker rates, insurance premiums, and trade finance costs. Russia already relies on costly maritime workarounds, shadow shipping, and alternative payment systems. A broader maritime risk shock would make those arrangements more expensive. It would also raise the cost of Russia's own imports, including many intermediate goods that arrive indirectly via third countries. This would feed domestic inflation, complicating monetary policy and potentially forcing the Central Bank to maintain tight conditions for longer.

Another issue is sanctions politics. A prolonged global energy crisis could cut in two directions. On one hand, consuming countries may quietly accept more Russian supply in order to contain prices. On the other hand, a major maritime and sanctions crisis could prompt tighter scrutiny of shipping, insurance, and payment systems. The balance is uncertain. But in a world of a prolonged energy emergency, the politics of sanctions enforcement become less predictable.

The most likely net result is that this scenario produces the largest gross gains for Russia but also the largest long-term risks. It extends the life of Russia's wartime economic model by delivering more commodity revenue. At the same time, it increases inflation, shipping costs, and the risk that global recession eventually weakens the very demand on which those revenues depend. For that reason, this scenario is not unambiguously positive for Russia. Moscow would gain most at the start of the crisis, but not necessarily at its end.

[24] Reuters. 2026. *op. cit.*

Scenario 3: Regional escalation without full Hormuz closure

The third scenario is a broader regional war that damages Gulf energy infrastructure, disrupts shipping, and keeps markets on edge, but does not produce a complete or sustained closure of the Strait of Hormuz. This is probably the most economically plausible scenario because it combines persistent disruption with some continued flow of oil and gas. In this scenario, supply is constrained enough to keep prices high, but not so constrained that the global economy tips rapidly into a full recession.

For Russia, this is likely the most favorable balance of outcomes. Oil prices stay elevated for longer, giving Russia a durable increase in export and fiscal revenues. Yet because some Gulf supply still reaches market, the shock does not become quite as catastrophic for global growth as in the full-Hormuz-closure scenario. This means Russia can enjoy higher prices without suffering the same degree of demand destruction. For a commodity exporter, that combination is close to ideal.

Gas and LNG markets would remain tight under this scenario as well. Damage to Qatari facilities and persistent shipping risk would keep LNG prices elevated, especially in Asia. Russia's gas position remains constrained by limited capacity and supply infrastructure, as well as sanctions, but it would still benefit from the broader uplift in prices and from tighter Asian gas markets. Fertilizers would continue to offer an additional source of upside, as higher gas prices and regional disruption support ammonia and nitrogen markets. That in turn would keep agricultural prices high, reinforcing gains for Russian grain exporters.

This scenario also offers Russia a relative market advantage. If Gulf suppliers face higher freight rates, insurance costs, and periodic operational disruption, while Russia continues exporting through alternative routes, Russian barrels become more valuable to buyers seeking reliability. The same logic applies in fertilizers and some bulk commodities. Russia's role as a non-Gulf supplier becomes more important, not because it is sanction-free, but because it is physically less exposed to the main conflict zone.

The domestic macroeconomic implications would also be more manageable than in Scenario 2. Higher export revenues would support the budget and the ruble (although the latter would mean the fiscal gains would not be as high as Moscow might hope). Inflationary pressure would still rise through import costs and domestic food prices, but the global slowdown would likely be less severe than under a full Hormuz closure. That reduces the risk that China, India, and other major buyers sharply cut demand. Indeed, China might even finally approve construction of the long-delayed Power of Siberia-2 gas pipeline. In effect, Russia would receive many of the benefits of a global commodity shock without paying the full macroeconomic price of a deep global contraction.

Nevertheless, there are still important risks. Prolonged regional instability could accelerate investment in energy diversification, the accumulation of strategic reserves, and non-Russian supply alternatives over time. It could also push Western governments toward ad hoc interventions in shipping, price management, or sanctions enforcement. But these are slower-moving effects. In the nearer term, Russia would likely experience this scenario as a sustained commodity windfall.

This scenario also aligns most closely with the structure of the Russian wartime economy as it existed before the Iran conflict. Russia did not need a complete energy catastrophe to benefit. It needed somewhat higher oil prices, firmer external earnings, and relief from fiscal pressure. A regional war without full Hormuz closure provides exactly that. It improves the price environment enough to stabilize the budget and prolong the wartime economic model, while avoiding the worst-case collapse in global demand that would eventually undermine export volumes.

The strategic implication is clear. Russia benefits most not from total chaos, but from prolonged instability short of systemic breakdown. A catastrophic energy shock is too damaging to the global economy to remain wholly favorable. A short war is too brief to change Russia's trajectory. A messy, extended regional conflict that keeps prices elevated but trade partially functioning is therefore the scenario in which Russia is most likely to come out in a stronger position economically.

The key conclusion, then, is that this third scenario is probably the most favorable for Russia. It combines durable support for oil, fertilizer, and grain prices with a lower risk of outright global recession. It gives the

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Kremlin time, revenue, and macroeconomic breathing room without destroying the external demand on which those gains depend. If the conflict evolves in this direction, the Iran war may significantly extend the financial sustainability of Russia's wider wartime economy.

4. Conclusion

Several clear conclusions emerge from the scenario analysis:

First, in the short term, the Iran war is economically beneficial for Russia because it raises the prices of the commodities Russia exports.

Second, the longer the war lasts, the more the balance shifts from a pure price benefit toward a combination of price benefits and demand risks.

Third, Russia benefits most from sustained high commodity prices combined with continued global growth, and benefits least from either a short-lived price spike or a global recession.

Fourth, the key variable is not simply whether the war continues, but whether the conflict leads to prolonged disruption of energy and fertilizer markets without triggering a collapse in global demand.

Fifth, the Strait of Hormuz is the single most important economic variable in the conflict. A full closure would produce the largest price shock but also the largest global economic damage. Partial disruption would likely produce the most favorable outcome for Russia.

The scenario analysis shows that the duration and severity of the conflict are critical. A short war produces a temporary revenue windfall but does not fundamentally change Russia's economic trajectory. Once prices fall back, Russia again faces the same structural constraints that were visible before the war: labor shortages, high inflation, fiscal pressure, and dependence on discounted commodity exports. A long war with a full closure of the Strait of Hormuz produces the largest immediate gains for Russia but also creates the greatest long-term risks. Sustained high energy prices would likely push the global economy toward recession, reducing demand in the very markets—China, India, and other Asian economies—that now absorb most Russian exports. Over time, demand destruction would erode the benefits of higher prices.

The most favorable scenario for Russia—the 'sweet spot'— is therefore not a short war and not a catastrophic global energy crisis, but a prolonged period of regional instability that keeps commodity prices elevated without causing a deep global recession. In such a scenario, Russia benefits from higher oil, fertilizer, and grain prices, while global demand remains sufficiently strong to sustain export volumes. This combination would improve Russia's fiscal position and prolong the sustainability of the wartime economic model. It would also give the Russian government more time to manage the structural imbalances that had begun to emerge in the domestic economy before the Iran war began.

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