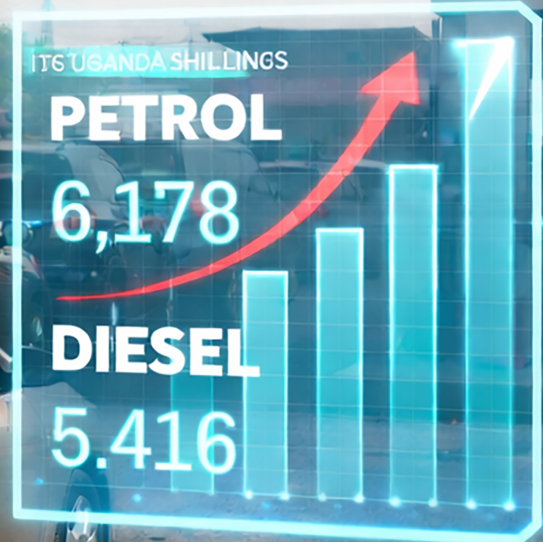


POLICY BRIEF

**Geopolitical Shockwaves
and Economic Transmission:
Implications of the United
States–Israel–Iran Conflict for
Uganda’s Economic Performance**

**Bob Twinomugisha
April 2026**





Executive Summary

The escalation of the United States–Israel–Iran conflict has triggered significant geopolitical shockwaves, disrupting the global energy markets, trade systems, financial market performance, and, hence, reversing earlier gains in global economic stability.

Heightened risks around key transit routes such as the Strait of Hormuz, through which a substantial share of global oil supply passes, have contributed to sharp increases in oil prices, rising shipping costs, and increased financial market volatility.

As a net importer of petroleum products and a trade-dependent economy, Uganda is particularly exposed to these developments. The shock is transmitted through four key channels: energy prices, trade and shipping disruptions, financial markets and capital flows, and remittances. Rising oil prices are increasing domestic fuel costs, driving inflation through higher transport and production expenses.

At the same time, higher import costs and supply chain disruptions are raising the cost of doing business, while capital outflows and increased demand for foreign exchange are exerting pressure on the exchange rate and external balances.

The analysis highlights structural vulnerabilities, including heavy dependence on imported fuel, exposure to external trade routes, and limited economic buffers. To address these risks, the brief proposes three targeted policy measures: a rule-based fuel price stabilisation and strategic buffer system with thresholds, prioritisation of foreign exchange for essential imports, and strengthening domestic production and import substitution.

These measures are designed to mitigate the transmission of external shocks, support macroeconomic stability, and strengthen economic resilience over the medium to long term.

1.0 Introduction



Global economic conditions were stabilizing before the escalation of the United States-Israel-Iran conflict, supported by moderating inflation, easing energy prices, and improved supply chain conditions. However, the escalation of hostilities between February and March 2026, triggered by US and Israeli military operations launched on 28 February 2026, has reversed this trend and introduced significant uncertainty into the global economic environment (IMF, 2026b; World Bank, 2026b).

The conflict has disrupted global energy markets and heightened risks around critical transit routes such as the Strait of Hormuz, a key global energy corridor (Naim, 2026). These developments have contributed to rising global oil prices, increased commodity prices, and heightened financial market volatility, alongside tighter global financial conditions as investors shift toward safe-haven assets (CIO, 2026).

Across Sub-Saharan Africa, the economic impact of the conflict is uneven, reflecting differences in countries' energy positions and external vulnerabilities. Oil-importing economies may face higher inflationary pressures driven by rising fuel prices and increased

import costs, while oil-exporting countries may experience short-term gains from higher export revenues, although these gains are moderated by global uncertainty and commodity price volatility (IMF, 2026b). The impact is uneven, with oil-importing countries facing greater macroeconomic strain.

Within the East African Community (EAC), shared structural characteristics such as dependence on imported fuel, exposure to external shocks, and relatively shallow financial markets may amplify the transmission of these global pressures. The region may experience rising inflation, exchange rate pressures, and an increased cost of living, highlighting the need for coordinated policy responses and strengthened regional resilience (AU, 2026).

As a net importer of petroleum products and a trade-dependent economy, Uganda is particularly exposed to these developments. The effects of the conflict may be transmitted through fuel prices, import costs, exchange rates, and capital flows (Bank of Uganda, 2026). This policy brief, grounded in geopolitical shockwaves, economic transmission, and associated risks, examines the channels, impacts, and policy responses required to safeguard Uganda's macroeconomic stability and strengthen economic resilience.

2.0 Global Economic Conditions Before and During the Conflict



2.1 Before the Conflict (Baseline Conditions)

Before the escalation of the United States–Israel–Iran conflict, global economic growth was broadly stable, averaging 3.3 percent annually over the past two years and projected to remain at that level in 2026 (IMF, 2026b). Inflationary pressures were moderating across major economies, supported by declining energy prices, with global crude oil prices averaging USD 67.43 per barrel in 2025 (World Bank, 2026b). Global consumer price inflation declined from 5.8 percent in 2024 to 4.1 percent in 2025, driven by lower commodity prices, improved supply chains, and moderating demand following earlier monetary tightening. It was projected to ease further to 3.8 percent in 2026 and 3.4 percent in 2027 (IMF, 2026b).

However, the United States–Israel–Iran conflict presents a significant upside risk to this outlook, potentially disrupting the anticipated disinflation path if the conflict persists. Before the conflict, global monetary tightening had begun to ease, with major central banks slowing the pace of the policy interest rate increases, thereby improving financial conditions and investor sentiment. As reported in the latest IMF World Economic Outlook 2026, these developments supported relatively stable capital flows into emerging and frontier markets, including Uganda.

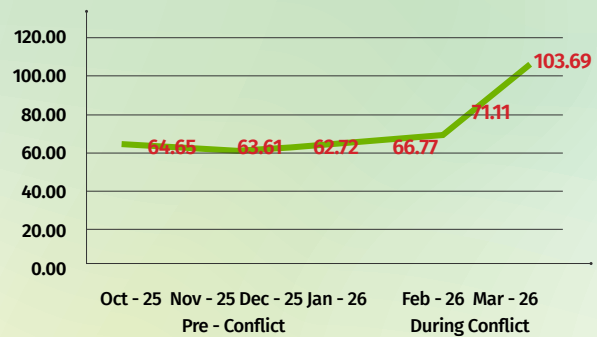
2.2 During the Conflict (Shock Phase)

The escalation of the United States–Israel–Iran conflict has disrupted the previously stable global economic outlook. Oil prices have risen sharply amid supply uncertainties, particularly due to disruptions in key transit routes such as the Strait of Hormuz (Kumar, 2026), a critical global energy chokepoint through which approximately 20 percent of global oil supply passes.



According to the World Bank's latest Commodity Markets Outlook report of March 2026, Brent crude oil prices rose from US\$66.77 per barrel in January 2026 to US\$71.11 in February 2026, before surging to US\$103.69 in March 2026, the highest level since July 2022 (See Figure 2). At the same time, global financial markets have become more volatile, as heightened risk aversion has driven a shift toward safe-haven assets such as the US dollar, US Treasury securities, and gold (UBI, 2026). This has contributed to a strengthening of the US dollar, tighter global financial conditions, and increased pressure on capital flows to emerging and frontier markets (IMF, 2026b; World Bank, 2026b).

Figure 2: Brent Crude Oil Prices Before and During the US–Israel–Iran Conflict (October 2025 to March 2026)



Source: Computation based on World Bank Commodity Market Outlook data, March 2026

3.0 Transmission Channels of the US–Israel–Iran Shock to Uganda's Economy

3.1 Energy Prices: The Primary Transmission Channel

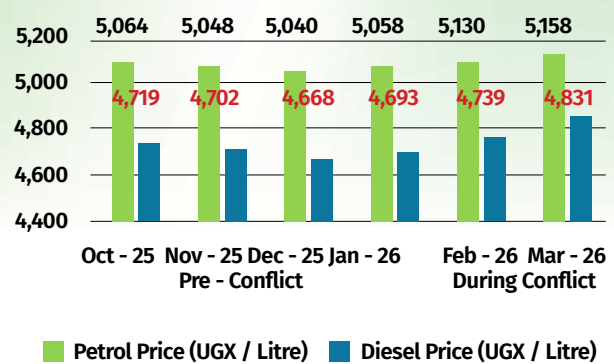
Uganda's economy is highly exposed to global oil price shocks as a net importer of petroleum products, with nearly 100 percent of its refined fuel requirements sourced from international markets; therefore, disruptions in global supply, particularly from the Middle East, translate directly and rapidly into higher domestic fuel prices (World Bank, 2026b).

The escalation of the conflict heightens the risk of supply interruptions through critical transit routes such as the Strait of Hormuz, resulting in higher global oil prices and immediate pass-through effects to Uganda's energy market (IMF, 2026b). Fuel price increases act as the primary transmission channel, driving economy-wide cost pressures across transport, production, and distribution systems.

Notably, Uganda's petrol price rose by 1.4 percent, from UGX 5,058 per litre in January 2026 to UGX 5,130 per litre in February 2026, before increasing further by 0.5 percent to UGX 5,158 per litre in March 2026. Similarly, diesel prices rose by 1 percent, from UGX 4,693 per litre in January 2026 to UGX 4,739 per litre in February 2026 and increased further by 1.9 percent to UGX 4,831 per litre in March 2026.

Looking ahead, fuel prices are expected to rise further and cross key psychological thresholds, with diesel expected to exceed UGX 5,000 per litre and petrol projected to surpass UGX 5,200 per litre. Uganda has experienced a similar pattern before; during the Russia–Ukraine war, global fuel prices surged, pushing domestic pump prices above UGX 6,000 per litre at their peak litre (UBOS, 2026b).

Figure 3: Uganda National Average Retail Prices of Petrol and Diesel (UGX per litre), October 2025 – March 2026



Source: Author's compilation based on data from Uganda Bureau of Statistics CPI data (2025–2026).

3.2 Trade and Shipping Disruptions: A Key Transmission Channel

The escalation of the United States–Israel–Iran conflict has significantly heightened risks to global shipping and trade routes, particularly through critical chokepoints such as the Strait of Hormuz, which carries approximately 20 percent of global oil supply, making it one of the most strategically important energy corridors in the world (Brown, 2026; Naim, 2026). The Strait, bordering Iran and Oman, remains a vital conduit for global energy and commodity flows. Recent hostilities, including threats to maritime transit and attacks on vessels, have disrupted shipping flows and reduced traffic through the corridor, forcing some vessels to reroute to longer and more costly alternative paths.

These risks are further compounded by potential disruptions in the Red Sea, where Iran-aligned Houthi militants have previously targeted commercial shipping, raising the likelihood of a dual chokepoint shock (ING, 2026).

As a result, global freight charges and marine insurance premiums are rising, while supply chain delays intensify. Consequently, higher transport and insurance costs are raising import prices, increasing the cost of doing business, and amplifying inflationary pressures.

3.3 Financial Markets and Capital Flows

The escalation of the United States–Israel conflict with Iran is expected to heighten global risk aversion, prompting investors to reallocate capital from emerging and frontier markets toward safe-haven assets such as U.S. Treasuries and gold. Recent developments indicate that the conflict has already increased volatility in global financial markets, with capital shifting toward advanced economies and safer assets (World Bank, 2026b).

For Uganda, this financial transmission channel may manifest through capital outflows, particularly from government securities, as offshore investors reduce exposure to higher-risk markets. As investors sell these securities, their market prices decline (Mukasa, 2026). In addition, reduced capital inflows combined with rising demand for foreign exchange to finance higher import bills are exerting pressure on the Ugandan shilling (Twinomugisha, 2025).

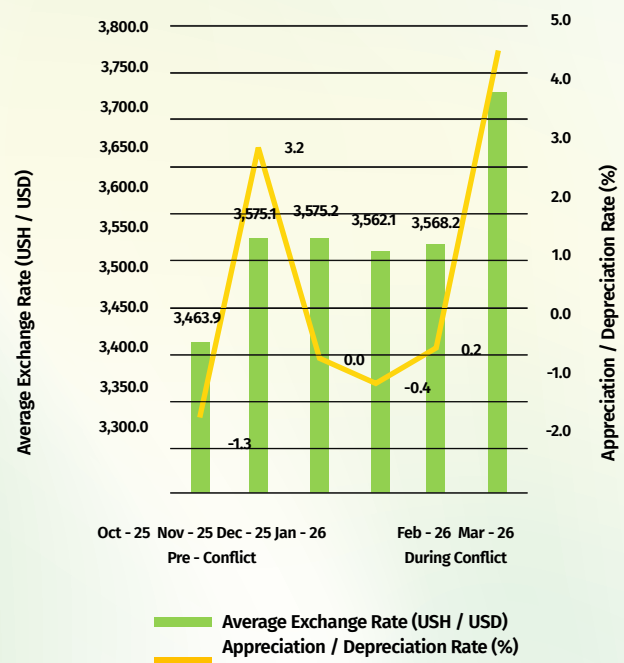
These developments heighten risks to external stability and may require policy action to stabilize financial markets and sustain investor confidence.

Recent exchange rate developments provide clear evidence of these pressures. Before the escalation of the United States–Israel–Iran conflict (October 2025 to January 2026), the Ugandan shilling remained relatively stable with moderate fluctuations.

The exchange rate depreciated from UGX 3,463.9 per USD in October 2025 to UGX 3,575.1 in November 2025 (3.2 percent), before stabilizing in December (0.0 percent change). In January 2026, the shilling recorded a slight appreciation of 0.4 percent, averaging UGX 3,562.1 per USD. This period reflects relatively balanced foreign exchange conditions and a more stable global financial environment.

However, following the escalation of the conflict in February 2026, exchange rate pressures intensified. In February 2026, the shilling depreciated slightly by 0.2 percent, averaging UGX 3,568.2 per USD, indicating the early effects of rising global uncertainty. This pressure increased sharply in March 2026, when the shilling depreciated by 4.5 percent to UGX 3,730.5 per USD.

Figure 4: Uganda's Exchange rate movement (Ush/USD), October 2025 to March 2026



Data Source: Bank of Uganda's Macroeconomic Indicators, March 2026

The sharp depreciation observed during the conflict period reflects heightened global risk aversion, which strengthened the US dollar as investors shifted toward safe-haven assets. At the same time, domestic demand for foreign exchange increased, particularly from the energy, manufacturing, and telecommunications sectors, driven by rising import costs. In addition, reduced investor appetite for government securities contributed to capital outflows, further weakening the shilling.

3.4 Remittances and Labour Market Exposure in the Middle East

Remittances and labour market linkages represent an important transmission channel through which the conflict may affect Uganda's economy, given the significant presence of Ugandan workers in the Middle East. The region remains a key destination for migrant labour, making remittance inflows a critical source of household income and foreign exchange (DTDA, 2026; EPRC, 2020). The escalation of the US–Israel–Iran conflict poses risks to labour market stability in the region, potentially affecting employment conditions for Ugandan workers and, in turn, disrupting remittance inflows to the domestic economy.

Heightened geopolitical tension arising from the United States–Israel–Iran conflict is likely to dampen economic activity in host countries, particularly in labour-intensive sectors employing migrant workers. This increases the risk of job losses, income disruptions, and potential worker repatriation due to insecurity and weakening labour demand (Charles, 2026; Loft, 2026). Recent developments indicate that migrant workers in the Gulf are already facing significant vulnerabilities, including reduced earnings, heightened insecurity, and limited mobility amid the ongoing conflict.

Consequently, a reduction in remittance inflows would directly affect household welfare by lowering disposable incomes and consumption, especially among remittance-dependent households. At the macroeconomic level, reduced foreign exchange inflows may intensify pressure on the exchange rate and weaken external balances (Twinomugisha, 2025).



4.0 Sectoral Impacts of the US–Israel Conflict with Iran on Uganda’s Economy



The escalation of the US–Israel–Iran conflict with Iran is generating broad-based impacts across key sectors of Uganda’s economy through higher energy prices, supply chain disruptions, and financial market pressures. The transport and logistics sector is the most immediately affected due to its direct dependence on fuel. Rising global oil prices translate into higher domestic fuel costs, increasing transport fares and distribution expenses, while disruptions in global shipping routes delay the movement of goods (World Bank, 2026b). This is contributing to economy-wide increases in the prices of goods and services.

The manufacturing sector faces rising input costs driven by higher energy prices and increased costs of imported raw materials and intermediate goods. These pressures are compressing profit margins, reducing

competitiveness, and slowing industrial production, particularly for import-dependent enterprises (Afreximbank, 2026).

In agriculture, higher costs of fertilizers, agrochemicals, and transport are raising production costs and food prices, with direct implications for food security and household welfare (World Bank, 2026a).

The financial sector is experiencing increased risks arising from exchange rate volatility and capital flow pressures, contributing to market uncertainty and tighter credit conditions (IMF, 2026a).

At the household level, increases in fuel and transport costs may exert upward pressure on food prices, potentially increasing the cost of living, reducing real incomes, and heightening vulnerability, particularly among low- and middle-income groups (UBOS, 2026b).



5.0 Economic Implications of the Conflict for Uganda

The escalation of the US–Israel–Iran conflict may have significant implications for Uganda’s economy through energy prices, external balances, and financial markets. It may drive inflation, exchange rate volatility, and tighter financial conditions, while increasing costs, reducing purchasing power, and constraining economic activity for households and businesses.

5.1 Macroeconomic Implications of the Conflict for Uganda

The escalation of the US–Israel war with Iran is transmitting significant macroeconomic pressures to Uganda through energy prices, external balances, and financial conditions. Inflationary pressures are rising as higher global oil prices pass through to domestic fuel costs. This is already feeding into transport and food prices, generating second-round effects that are amplifying overall inflation (UBOS, 2026b). The result is increased pressure on price stability and a decline in real household incomes.

The Ugandan shilling is under depreciation pressure due to increased demand for foreign exchange to finance higher import bills, particularly for fuel. Concurrently, reduced capital inflows are constraining foreign exchange supply, contributing to exchange rate volatility and balance of payments pressures (Bank of Uganda, 2026).

Energy price developments already signal emerging inflationary pressures. For instance, according to the Uganda Bureau of Statistics Consumer Price Index Report (2026), Energy, Fuel and Utilities (EFU) inflation increased from 1.7 percent in January to 2.7 percent in February 2026. In response, monetary policy tightening may lead to higher domestic interest rates, potentially increasing the cost of borrowing and constraining private sector credit and investment.

On the fiscal side, higher debt servicing costs and increased demand for government intervention may place pressure on fiscal space, potentially limiting the capacity for public investment and development spending (IMF, 2026).

5.2 Household and Business Impacts

The transmission of global shocks arising from the escalation of the United States-Israel-Iran conflict may generate significant microeconomic and social pressures on Uganda's domestic economy. These pressures are transmitted through higher global energy prices, trade disruptions, and financial market uncertainty (IMF, 2026b; World Bank, 2026b).

At the household level, increases in fuel and transport costs may exert upward pressure on food prices, potentially raising the cost of living, eroding household purchasing power, and disproportionately affecting low- and middle-income groups (UBOS, 2026b). These risks are particularly pronounced given existing structural vulnerabilities.

As of March 2026, approximately 27 percent of Uganda's population, equivalent to about 12 million people, are living in multidimensional poverty, reflecting deprivations in income, education, health, and living standards (Uganda Bureau of Statistics, 2026). In this context, even moderate increases in living costs may heighten vulnerability and increase the risk of poverty, particularly among households with limited income buffers (UBOS, 2026a).

The informal sector, characterized by low resilience and limited access to finance, may face heightened exposure to cost shocks and demand constraints. At the same time, small and medium enterprises may experience rising input and operating costs, reduced profit margins, and tightening cash flows, which could constrain business sustainability and growth (UDB, 2025).



6.0 Conclusion and Policy Options



The escalation of the United States–Israel–Iran conflict presents immediate macroeconomic pressures and exposes deeper structural vulnerabilities in the economy. Although the shock originates outside the country, its effects are transmitted rapidly through higher global oil prices, rising import costs, exchange rate pressures, and tightening financial conditions. These developments are already increasing transport and production costs, raising prices of goods and services, and reducing household purchasing power. Businesses are also facing higher operating costs and tighter access to foreign exchange and finance. The policy options proposed are therefore aimed at managing how these shocks affect the domestic economy, protecting key sectors, and strengthening resilience.

In this context, the following policy measures are recommended:

Fuel Price Stabilisation and Strategic Commodity Buffer with Thresholds: A rule-based system should be established to manage how global oil price changes affect domestic fuel prices while maintaining reserves for fuel, fertilizers, and selected essential commodities. This system operates using defined price thresholds. When global oil prices fall below a lower threshold, a small levy is collected and saved into a stabilization buffer. When prices rise above an upper threshold, part of this buffer is used to reduce the increase in domestic fuel prices.

At the same time, reserves are maintained to cover a defined period of national consumption, based on minimum stock thresholds, and are released when predefined triggers such as supply disruptions, delayed imports, or sharp price increases occur. For

example, when global oil prices surge sharply, instead of fuel prices increasing fully and immediately, part of the increase is absorbed, allowing prices to adjust gradually. If supply delays occur or import volumes fall below normal levels, fuel stocks are released to maintain availability, while fertilizer reserves are deployed to ensure that farmers continue planting without interruption.

Targeted Foreign Exchange Access for Critical Imports:

During periods of foreign exchange pressure, access should be guided through the banking system to prioritize essential imports such as fuel, fertilizers, medicines, and key industrial inputs. In practice, this can be implemented using existing banking processes. Commercial banks should classify import requests into priority and non-priority categories based on central bank guidance. Priority transactions (such as fuel, medicines, and key raw materials) should be processed more promptly, while non-essential transactions may experience delays during periods of foreign exchange shortage.

The central bank can support this by using persuasion tools, guidance, and coordination with commercial banks to signal priority sectors, supported by regular monitoring and engagement, while relying on existing regulatory and supervisory frameworks. For instance, when a fuel importer submits documentation for a shipment, the bank processes this transaction with priority to ensure timely payment and delivery, preventing supply shortages.

Similarly, manufacturers importing raw materials are given timely access to avoid production stoppages, and fertilizer importers are prioritized to ensure agricultural cycles are not disrupted.

Strengthening Domestic Production and Import

Substitution: Domestic production capacity should be strengthened in agriculture, agro-processing, and light manufacturing by improving access to finance, supporting technology adoption, and enhancing standards and certification systems.

This can be implemented by expanding credit to producers, supporting investment in processing facilities, and improving quality standards to enable local products to compete effectively. For example, increasing local production of processed foods reduces reliance on imported finished goods, while investment in agro-processing ensures that raw agricultural output is converted into higher-value products domestically.

Similarly, supporting local manufacturing reduces dependence on imported goods that may be affected by global supply disruptions.

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