

Video | 4 March 2026

The global economic implications of war in the Middle East

As developments in the US-Israeli war with Iran continue to unfold, questions are rising over their global economic impact. Currently, this hinges largely on the conflict's duration and Strait of Hormuz disruptions. Here are our latest views

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Venezuela, Greenland, tariffs, the Supreme Court, and now fresh instability in the Middle East. 2026 has been developing at warp speed so far, and it's hard to keep up. Still, in this fast-moving environment, questions are – understandably – arising over what the economic implications of the US-Israeli war with Iran will be. The honest answer would be a typical economist's response: it all depends. It all depends on how long the war will last, whether some semblance of political stability can emerge in Iran, and, most importantly, how long the Strait of Hormuz will be disrupted.

In our base case scenario, we assume that military action will last for around two weeks, followed by some calming of the combat and, consequently, also of the blockade of the Strait of Hormuz. Political instability in Iran would linger, but eventually the impact on the global economy and financial markets would be temporary and limited. This base case scenario is obviously only one of many possible outcomes and helped us develop the forecasts presented in this Monthly Update. Far more drastic outcomes could include longer-lasting military action, but also terroristic attacks on US or European targets on US or European soil. What, in my view, is remarkable from a geopolitical standpoint are reports of several countries appearing to have taken positions aligning them closer to the interests of the US and Israel – a situation that, should it stabilise in a way that consolidates US influence, could resemble something of a renewed Pax Americana.

Back to the economics of the current situation. Carrying some 20% of global oil and gas transportation, we all know how important the Strait of Hormuz is. The surge in oil prices has started to bring back memories of 2022 when oil prices went above 100 USD/b amid quickly accelerating inflation. A potentially stagflationary shock for the global economy, posing a new dilemma for central banks – and not only for those with a dual mandate.

However, for the time being, any new energy price crisis as a result of the war would be different from the 2022 crisis, particularly for the European economy. First of all, back in 2022, Europe had to abruptly decouple from an important energy supplier, Russia, and was actually facing both an energy price and supply crisis. This time around, it would mainly be an energy price crisis as Europe has diversified its energy suppliers. Still, a longer blockage of the Strait of Hormuz would put Europe's new trading relationships to the test.

What is also different this time around is that an energy price shock would hit a slowing labour market. In 2022, most labour markets were resilient and partially received additional boosts from pandemic fiscal support, which then quickly turned into fiscal support to reduce energy costs for households and companies. In short, the energy price shock shifted into an inflationary spiral more easily in 2022 as governments also added oil to the fire, creating a textbook price wage spiral. At the current juncture, European governments could be more reluctant to absorb higher energy costs due to highly stretched fiscal capacities.

In any case, the global economy is once again witnessing a crucial moment – one that not only has significant short-term implications, but also holds the potential to further aggravate ongoing seismic shifts in the wider geopolitical landscape.

Our key calls this month

- We're assuming that there are four weeks of disruption to oil and LNG flows – two weeks of full disruption and then two weeks of 50% disruption. We expect **Brent crude** to average 71 USD/bbl in and **TTF natural gas prices** at 31 EUR/MWh through the second quarter. The longer the disruption, the more upside to prices.
- We now expect **US** headline inflation to move back above 3% this year, squeezing consumer spending power. We're pushing back our call for the next Fed cut to September.
- Though a major net energy importer, we don't see current events derailing the **eurozone** recovery. Slightly lower growth and somewhat higher inflation will likely keep the ECB on hold for now.
- Unless energy prices rapidly fall back, we now expect the next **Bank of England** rate cut to come in April rather than this month. But with the jobs market under pressure, further easing remains likely.
- **Asia's** outlook is underpinned by strong growth in India, Singapore, and Australia, further supported by relief from the removal of IEEPA tariffs. But higher oil prices and a firmer US dollar pose meaningful downside risks, delaying the easing cycle and pushing rate cuts in Indonesia and India further into 2026.
- We continue to believe a June **Bank of Japan** rate hike remains a possibility.
- Sharply higher energy prices have seen the **dollar** rally broadly. European and Asian currencies in particular are likely to stay under pressure. We are raising our dollar forecasts for the first half of the year.

- For **market rates**, increased bouts of flight to safety risk pushing yields down and we don't rule out a break back below 4% on the US 10-year. Into the second quarter though, we anticipate this moving back up to the 4.3% area.

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