

Global Economics Comment: Global Economic Impacts of the War in Iran

- In this *Global Economics Comment* we evaluate the impact of the war in Iran on global growth, inflation, and policy rates.
- The main economic impact for most countries is that the recent rise in oil prices to around \$80/bbl will boost inflation and slow growth. Applying our standard rules of thumb with our commodities team's updated forecast implies a 0.2pp boost to global inflation (with core inflation impacts <0.1pp) and 0.1pp drag on global growth. Effects could be larger if the Strait of Hormuz closes for an extended period. If oil prices temporarily rise to \$100/bbl, we estimate that global headline inflation could rise by 0.7pp and global growth could slow by 0.4pp.
- We see additional downside growth risks from changes in financial conditions, which have tightened by 31bp since last Friday according to our global FCI. We also see upside inflation risks from potential disruptions to LNG supply and heightened inflation expectation sensitivity.
- Global central banks have historically not responded to oil price shocks, on average, but have modestly tightened rates when inflation is high and/or oil price shocks are large. These predictions are confirmed by a simple Taylor Rule, which suggest that the global monetary policy outlook will be mostly unaffected under our baseline forecasts, but could turn more hawkish—likely via a delay in EM cuts—if oil prices temporarily rise to \$100/bbl or if higher costs pass through to prices at a higher-than-normal rate.

Joseph Briggs
+1(212)902-2163 |
joseph.briggs@gs.com
Goldman Sachs & Co. LLC

Megan Peters
+44(20)7051-2058 |
megan.l.peters@gs.com
Goldman Sachs International

Sarah Dong
+1(212)357-9741 | sarah.dong@gs.com
Goldman Sachs & Co. LLC

Global Economic Impacts of the War in Iran

In this *Global Economics Comment*, we update [our standard framework](#) to examine the impacts of the war in Iran on global growth, inflation, and policy rates.

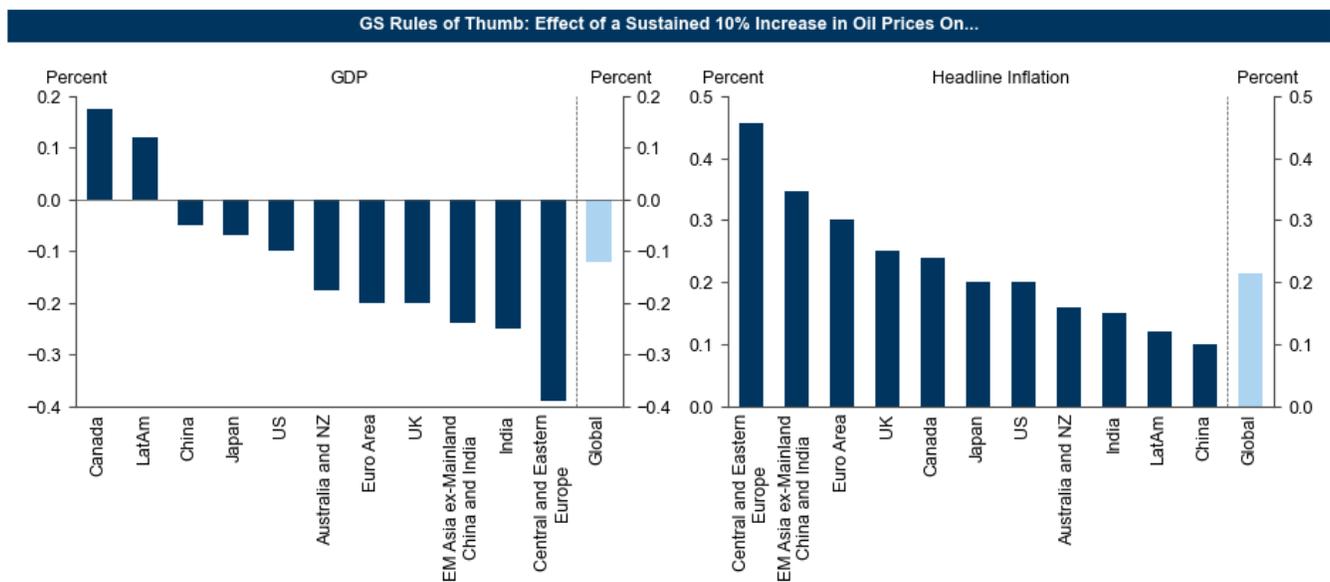
The main economic risk to most major economies from the war in Iran is that a rise in energy prices boost inflation and slow growth. Oil prices have risen to around \$80/bbl, a 14% increase since late February. Our commodities team estimates that this price incorporates an expectation of an additional 5–6 weeks of a full Strait of Hormuz closure with pipeline redirection. Their [recent forecast upgrade](#) assumes oil prices rise a bit further before moderating to \$76/bbl on average in 2026Q2 and \$65/bbl in 2026Q4 on the back of a fading risk premium and normalization in a market that is structurally oversupplied.

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To examine the implications for global growth and headline inflation, we rely on our country teams’ recently updated estimates of the elasticities from higher oil prices to GDP and consumer prices ([Exhibit 1](#); see our country teams’ recent publications for the [US](#), [Europe](#), [Asia](#), and [other EMs](#)).

On growth, these estimates indicate that higher oil prices weigh on real incomes and spending, although oil exporters such as Canada and some Latin American economies should benefit. And on headline inflation, these estimates—which are highest for EM economies in Central and Eastern Europe and Asia—account for both the direct effects from higher energy prices as well as the indirect effects from higher production costs. Effects on core inflation are much smaller, with our US team recently estimating that a 10% increase in oil prices raises core PCE inflation by 4bp and our European economics team estimating a 3–6bp impact on core HICP inflation.

Exhibit 1: Our Standard Rules of Thumb Suggest Higher Oil Prices Slow Growth Modestly and Raise Headline Inflation Moderately



Source: Goldman Sachs Global Investment Research

[Exhibit 2](#) applies these rules of thumb to two scenarios developed by our commodities team to gauge the risk to global growth and headline inflation:

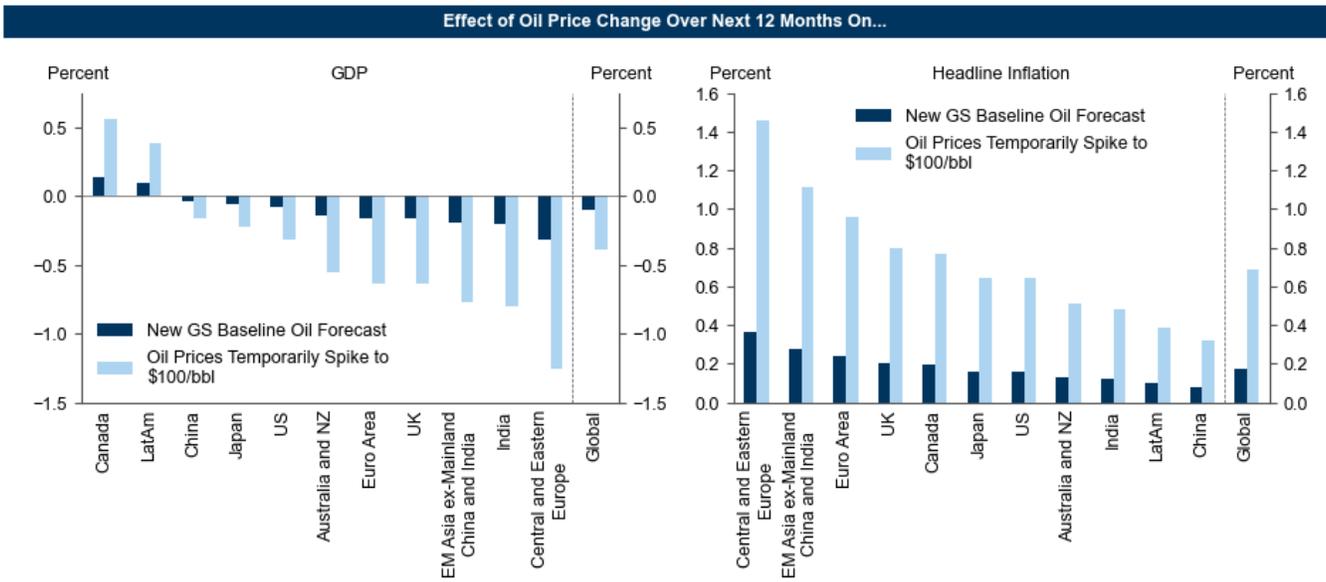
- **GS Baseline:** Strait of Hormuz volumes remain flat for 5 additional days before recovering over 28 days. Oil prices increase a bit further before moderating to \$76/bbl on average in 2026Q2 and \$65/bbl in 2026Q4.
- **Upside Scenario:** Strait of Hormuz volumes remain flat for 5 additional weeks. Oil prices rise to around \$100 before normalizing over the course of 2026.

For each scenario we compare the implied average oil price over the next 12 months against a \$67/bbl benchmark (the average 2026 pre-war price level).

Under our baseline oil price forecast, we estimate that higher oil prices will lead to a modest drag on global GDP growth (-0.1pp) and boost to headline inflation (+0.2pp). In our upside oil price scenario, the implied growth drag would increase to -0.4pp while the boost to headline inflation would rise to +0.7pp. In both scenarios the impact on global

core inflation would be small (0.1pp or less) under our standard rules of thumb.

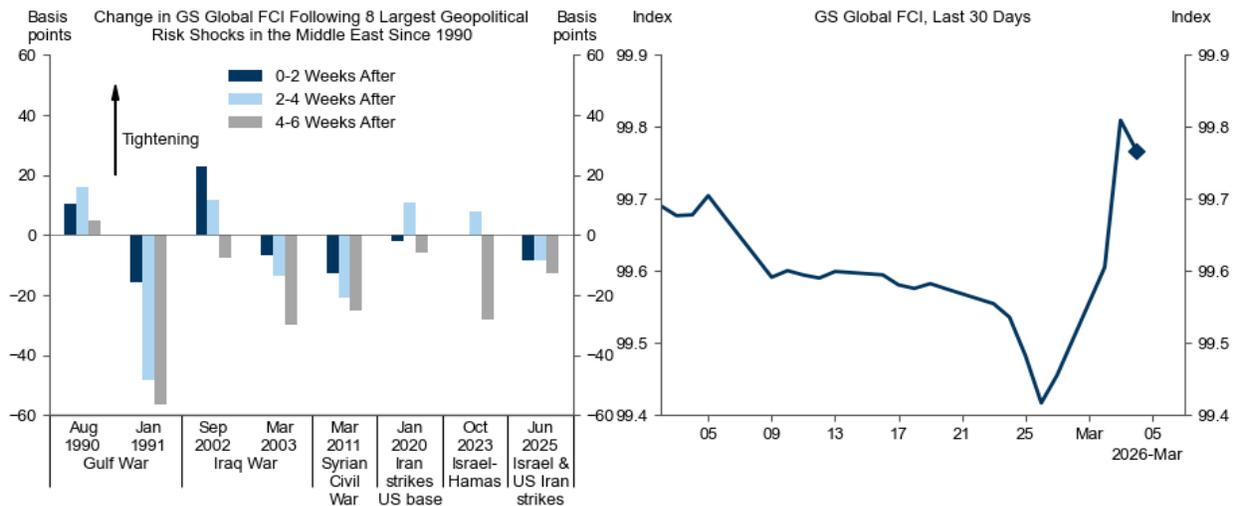
Exhibit 2: Moderate GDP and Headline Inflation Impacts If Prices Stay at Current Levels; Upside Risks if Increase Further



Source: Goldman Sachs Global Investment Research

We see additional downside growth risks from tighter financial conditions. While financial conditions have not systematically tightened in past Middle East conflicts, our global FCI has tightened by 31bp since Friday (Exhibit 3). If sustained, this tightening would incrementally lower global GDP growth by 0.3pp over the next year.

Exhibit 3: Financial Conditions Have Not Consistently Tightened in Response to Geopolitical Shocks, but Tightened by 31bp on Monday and Tuesday



Note: The 8 largest shocks are identified by the largest monthly moves in the GPR index. Shocks specific to the Middle East are identified via a narrative approach. The date of the shock is defined as the day of the largest intramonth move in the GPR index. The change in FCI is measured relative to the average FCI in the week before the shock.

Source: Goldman Sachs Global Investment Research

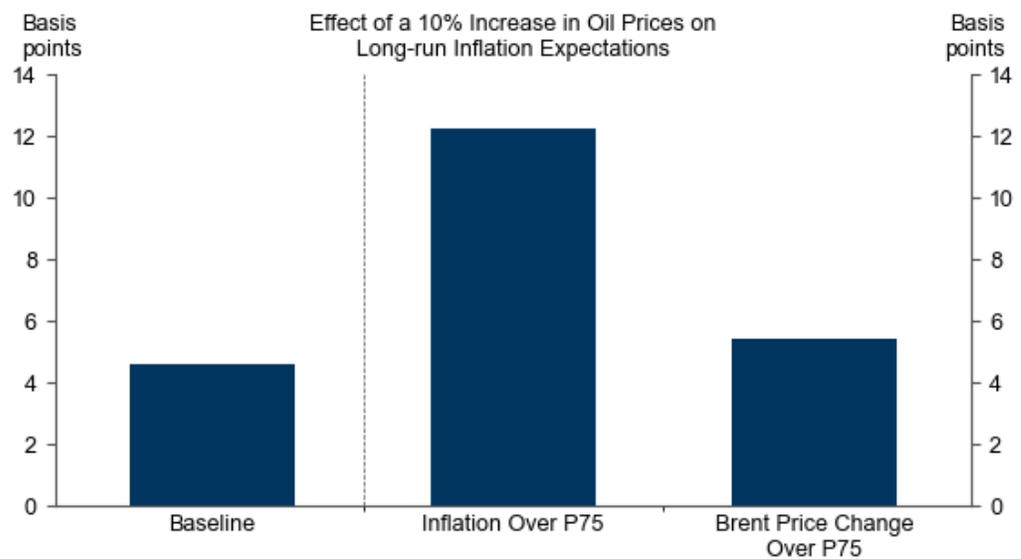
We also see incremental upside inflation risks from potential disruptions to LNG supply and heightened inflation expectation sensitivity.

The announced shut down of Qatar’s LNG production affects 19% of global LNG supply,

prompting our commodities team to raise their Apr26 TTF forecast to 55 EUR/MWh (\$19/mmBtu; vs. 36 EUR/MWh previously), although changes to the 2026 average forecast were more moderate (35 EUR/MWh, \$12.20/mmBtu; vs. 33 EUR/MWh, \$11.50/mmBtu previously) under their working assumption that supply is restored by the end of March. Higher gas prices will add incremental near-term inflation pressure in European and Asian economies (impacts on the US would likely remain limited given reliance on domestic supply). Inflation and growth impacts would be larger in a more sustained disruption, particularly if LNG prices rise to the \$25/mmBtu threshold that triggered large natural gas demand responses during the 2022 European energy crisis.

The broader concern is that rising energy prices could deanchor inflation expectations and, in turn, put upward pressure on inflation beyond the direct energy price impacts. Historically a 10% increase in oil prices has been associated with a 4bp increase in long-run inflation expectations, but effects are slightly larger when oil price shocks are large and much higher when inflation has been elevated ([Exhibit 4](#)). Given that the post-pandemic inflation surge remains top of mind for many consumers, inflation expectations are likely more sensitive than normal.

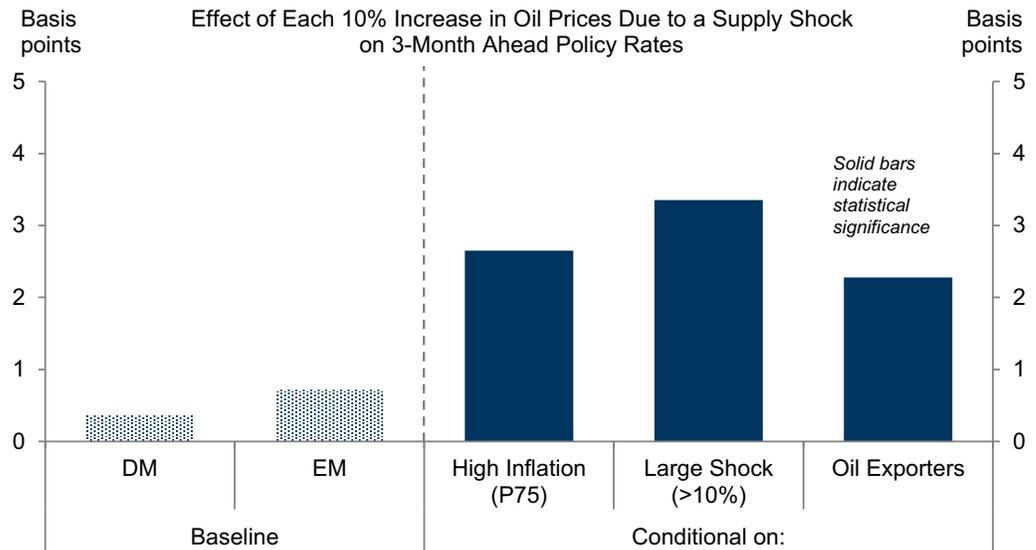
Exhibit 4: Inflation Expectations Are More Sensitive to Oil Prices When Inflation Has Been Elevated



Source: Goldman Sachs Global Investment Research

To estimate the impact of oil price increases on policy rates, we leverage shocks from [Känzig \(2021\)](#), which uses OPEC announcements to construct exogenous shocks to oil supply and prices. Regressing these shocks on three-month ahead policy rates for a broad set of DM and EM economies implies that global central banks have generally not responded to oil price shocks (reflecting the offsetting negative growth and positive inflation impacts), but have modestly tightened policy relative to a no-shock counterfactual when inflation is high and/or oil price shocks are large.

Exhibit 5: Oil Shocks Have on Average Not Impacted Policy, but Have Led to Tighter Policy When Inflation is High or Shocks Are Large

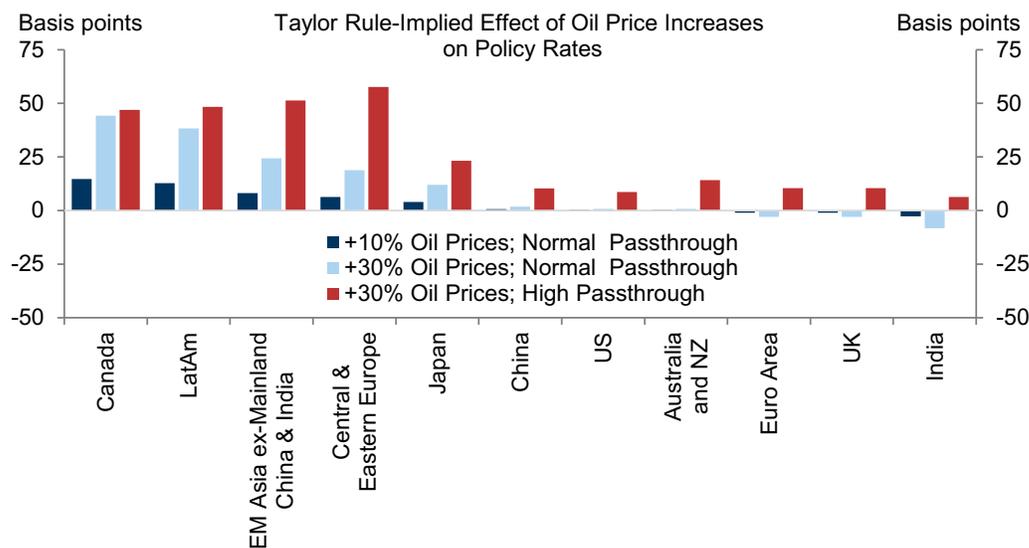


Source: Goldman Sachs Global Investment Research

These empirical predictions generally align with the policy rate implications of a simple Taylor Rule with coefficients of 0.5 on the output gap and 1.5 on inflation deviations from target ([Exhibit 6](#)). Under our baseline expectations that oil prices mostly move sideways from current levels, monetary policy would mostly be unaffected.

That said, our Taylor rule simulations also highlight hawkish risks—particularly in EM economies—if oil prices temporarily rise to \$100/bbl or costs pass through to prices at a higher-than-normal rate (modeled as a 50% increase in oil cost passthrough to consumer prices). To the extent that these hawkish risks materialize, we anticipate that they would mostly come from delays in cutting cycles rather than a more hawkish pivot to rate hikes (we recently delayed our [forecasts](#) for the next BOE cut to April and next Norges Bank cut to December).

Exhibit 6: Limited Policy Rate Impact in Most DMs; Hawkish EM Risks if Oil Prices Increase More or Passthrough Is Higher than Normal



Source: Goldman Sachs Global Investment Research

Joseph Briggs

Megan Peters

Sarah Dong

The Global Economics Team

Jan Hatzius
 +1(212)902-0394
 jan.hatzius@gs.com
 Goldman Sachs & Co. LLC

Joseph Briggs
 +1(212)902-2163
 joseph.briggs@gs.com
 Goldman Sachs & Co. LLC

Sarah Dong
 +1(212)357-9741
 sarah.dong@gs.com
 Goldman Sachs & Co. LLC

Megan Peters
 +44(20)7051-2058
 megan.l.peters@gs.com
 Goldman Sachs International

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