

World economy: between noise and fury

More than a month after the start of the war in the Persian Gulf and pending the outcome of the truce, uncertainty continues to overshadow any assessment of the duration and extent of the instability currently dominating the behaviour of the global economy. With the price of oil fluctuating in the range of 95-110 dollars (45-55 euros for natural gas), now that Iran's ability to block the Strait of Hormuz and reduce the global oil supply by 10% in the short term has been confirmed, the inflationary channel has now been activated. Indeed, the initial impact on fuels has already been felt in the March inflation data (3.3% in Spain and 2.5% in the euro area). While we wait to see how the disturbance in energy prices will be transmitted to other products in the consumer basket over the coming quarters in order to assess the final impact on inflation, it will be necessary to consider the fiscal measures applied by each country to mitigate the impact of the supply shock, as in the case of Spain (see the Focus [«The crisis in Iran: how much could it affect the Spanish economy?»](#) in this same report). The good news is that medium-term inflation expectations continue to show significant stability on both sides of the Atlantic, which is helping to contain the impact of the disturbances through the financial channel.

The potential negative impact on growth through the trade channel will be asymmetric between different regions and countries, depending on their energy dependence on oil and gas from the Middle East, their energy efficiency, their sectoral structure, and their fiscal capacity to mitigate the impact of the supply shock. Major economies of Southeast Asia (such as India, the Philippines and Vietnam) will potentially be among the hardest hit, along with African countries where the agricultural sector plays a significant role, creating a high dependency on fertiliser prices and flows. In this context, and given that 80% of global trade uses maritime routes, the importance of something as fundamental as geography is once again highlighted, with choke points such as the Straits of Hormuz and Babel-Mandeb playing a key role. After all, control of such shipping channels can alter the supply of products that are essential to global value chains (see the Focus [«Goeconomic exposure and strategic relevance of the Middle East»](#) in this same report), making them of key strategic importance in the new global geopolitical framework, alongside other elements such as rare earths, payment systems and energy.

A special case is that of the US, given that, in principle, it would be less affected due to an improvement in its

real terms of trade as a result of higher oil and gas prices. Nevertheless, the macroeconomic situation shows weaknesses, such as inflation that is still negatively impacted by the inertia of the tariff hikes while the labour market is showing signs of cooling, due to both supply factors (immigration policy) and demand factors (effects of AI and over-hiring in the years following COVID). This combination will complicate the Fed's strategy in the coming quarters and, together with the deterioration of the institutional framework, would explain the somewhat diminished role of the dollar as a safe-haven asset on this occasion. In this context, the ECB's position is more comfortable given that, in addition to rates being in neutral territory, inflation was on target prior to the outbreak of the conflict and Europe's direct exposure to the region's energy flows is much lower than in the case of the war in Ukraine, when the continent had to reconfigure its supply chains within a very short time frame (see the Focus [«Energy tensions, inflation and monetary policy in the euro area»](#) in this same report). In this regard, the expectations that have been priced in by the markets – of three or even four interest rate hikes in Europe before the end of the year – seem to anticipate scenarios that are closer to the ECB's severe or stagflation scenario (inflation of 4.4% in 2026 and of 4.8% in 2027) than to its adverse or moderate supply shock scenario (3.5% and 2.1%, respectively). Moreover, there does not currently appear to be any widespread sense of urgency within the ECB's Governing Council to implement several interest rate hikes within the space of a few months.

The presence of so many open fronts at all levels limits visibility when it comes to making economic and financial projections, and there is a feeling that the biggest risk, if the two-week truce does not hold, is that physical deliveries of crude oil could be threatened, and this could trigger an increase in demand for precautionary reasons, driving the price to much higher levels than those seen so far. Moreover, with a geopolitical event like the current one, while it is possible to reverse course, it is more difficult to avoid the structural scars in the decisions of economic agents caused by the loss of confidence, particularly given that those caused by the tariff storm of recent months have not yet fully manifested. In any case, the time to evaluate those scars will come. Meanwhile, although the clock has stopped for 15 days, it remains pertinent to recall that if, to use cinematic language, comedy equals tragedy plus time; in economics, the time variable is also capable of transforming a supply shock into stagflation.

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