

# The economic impact of the Iran war



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in 2025, the price increased to over 80 USD per barrel in the first week of the conflict. At the beginning of the second week, prices sometimes surpassed the 100 USD per barrel mark. A 10 percent increase in the oil price temporarily increases inflation by 0.4 percentage points, and by 0.2 percentage points annually over three years. Based on the prices that were called in the second week, the oil price is already 30 percent above the highest price in 2025.

Therefore it is not unrealistic that inflation may increase by one percentage point if the war drags on. Added to the above would be higher gas prices, which would add another 0.1 percent a year to inflation. It is also important to note that the Gulf states are an important hub for international supply chains. Freight traffic through the Dubai airport has already decreased significantly. If production in China is restrained due to a lack of energy supplies, it would put further pressure on supply chains. And it would also contribute to increasing inflation.

For developed countries: Every 10 USD increase in the oil price costs about 0.1 percentage points of growth. When prices are above 100 USD, this means 0.4 percentage points - enough to squash a delicate recovery supported by the private sector. The GDP growth rate of 1 percent that forecasters expect for Germany already includes 0.3 points for the calendar effect and a similar statistical effect due to additional government spending.

Examining the latest developments in a longer time context allows us to put some concerns into perspective. The all-time high for Brent crude oil was 147.50 USD per barrel in 2008. The current oil price is a long way from this number. Gas reached a high point in August 2022 at EUR 316 per MWh, and futures are currently at EUR 60 per MWh for one month. Therefore there is no reason to panic.

Most of all, the current situation should not be viewed as a reason for government subsidies, even if gasoline or diesel prices surpass EUR 2 per liter at the pump. The mistake made by the previous government, namely its attempt to curb increased gasoline and diesel prices with a fuel rebate, should not be repeated by the current government. Similarly, no subsidies are needed for the energy-intensive economy, even if higher gas prices should start to affect electricity prices. Regulatory price caps such as those demanded by unions and the economists associated with them are a far-fetched idea. Rather, the European Central Bank must ensure that the observed price effects do not lead to another jump in inflation. In any case, it is not expected that key policy rates will be lowered.

As so often, one is well advised to maintain a pragmatic and calm attitude in such a highly volatile global situation.

A handwritten signature in black ink, appearing to read 'Lars P. Feld', written in a cursive style.

**Prof. Dr. Dr. h.c. Lars P. Feld**

Ten days after the start of the Iran war, we are starting to see how this might affect the global economy. The original feeling of optimism in the market - namely that (according to President Trump) the war will end in four weeks - has been replaced by a more realistic assessment that it will take more than a month until things start to settle down again. However, if a conflict in this global region drags on for several months, it will cause much more disruption in the global economic structure.

Every day, approximately 20 percent of global crude oil consumption and about a fifth of the global trade with liquefied natural gas (LNG) flows through the Strait of Hormuz, which connects the Persian Gulf with the Gulf of Oman. Most of the buyers for these volumes are located in Asia; China in particular uses imports from Iran and the Gulf states to cover its requirements. Germany and other European countries mostly import from other countries, especially the US. At the same time, the German economy is not shielded from price trends in global energy markets, although supply security is less of an issue.

Price developments are already very dynamic. While the price for a barrel of crude oil (Brent) ranged from 60 to 75 USD per barrel