

# Impact of Iran war on global economy intensifies daily

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23 March 2026

As the US war on Iran nears the completion of its first month and deepens by the day, its effects on the global economy are intensifying.

In the recent period central banks and governments have sought to overcome major economic storms by throwing money at the problems, amounting to trillions of dollars. This has led to an unprecedented growth of debt while at the same time lifting the wealth of the financial oligarchs to unprecedented heights.

But in the growing crisis set off by the war, that “solution” is not possible. As is being increasingly pointed out, central banks may be able to print money, but they cannot print molecules. Printing money will not miraculously end the lack of oil.

The rapidly worsening situation was underscored yesterday by the director of the International Energy Agency, Fatih Birol, in remarks to a conference in Canberra, Australia.

He said the impact of the crisis was worse than the combined effects of two oil shocks of the 1970s—that which flowed from the quadrupling of prices in 1973–74 and the turbulence which followed the Iranian revolution in 1979. Even if military action halted immediately, the market would not recover quickly, he said.

That assessment has also been made by energy analysts at Goldman Sachs who have significantly increased their forecasts of higher prices, warning they could even reach the record set in 2008 of \$147 per barrel.

The shutdown of the Strait of Hormuz has also sent the price of liquified natural gas (LNG) soaring as supplies are increasingly constricted.

The *Financial Times* (FT) reported at the weekend that countries around the world are “facing a cliff edge” as the flow of LNG from the regions comes to an

end when a “handful of tankers from the region reach their destinations.”

After that there will be nothing from the Gulf state of Qatar, the supplier of a fifth of the world’s LNG, which stopped exports shortly after the war began.

Countries throughout the Asian region are the most heavily impacted so far because of their reliance on oil and LNG which comes through the Strait. Only one LNG cargo ship from the Gulf is still expected to arrive in Asia.

Thailand has to import 90 percent of its crude, half of which comes via the Strait. Some 30 percent of its LNG comes from the Middle East.

The situation in Pakistan is even more severe. Some 99 percent of its LNG imports came from Qatar last year. It has not received any supplies since the third day of the war.

India, which at present is considered the world’s fastest growing major economy and the world’s fifth largest after Japan, is also being hit on both the supply and financial fronts. Half of its energy imports come from the Gulf states. There are already widespread shortages of gas used for cooking.

The Gulf region is not only the country’s largest trading partner. India’s international financial position is being impacted because of remittances sent home by workers amounting to more than \$50 billion a year.

According to Priyanka Kishore of the research consultancy Asia Decoded, whose remarks were cited in the FT, the Indian currency, the rupee, “is among the most exposed EM [emerging market] currencies to the Iran war.”

“Also at risk is the sizable flow of remittances from the Middle East, which plays an important role in containing the current account deficit in the face of a widening trade gap.”

From the beginning of the war, the Indian central bank has been using its foreign exchange reserves to try to prevent a fall in the value of the rupee which has dropped against the US dollar and has been hitting record lows. The fear is that a collapse in the currency's value will push up interest rates and hit the financial system.

In the words of analysts at one Mumbai-based financial services firm, an extended war will likely “trigger stress across all financial markets in India.” Before the war the governor of the Reserve Bank of India, Sanjay Malhotra, described the Indian economy as being in a “sweet spot,” with strong growth and low inflation. It now threatened to rapidly turn sour.

The war is not only causing disruption to oil and gas supplies, but a range of other commodities is also being hit. These include the supply of urea, a source of nitrogen-based fertilisers vital for agriculture around the world and sulphur also vital for the production of fertilisers.

There have been warnings that if the disruption caused by the war continues the situation will be much worse than 2022 in the wake of the Russian invasion of Ukraine.

Helium, a by-product of natural gas processing, for which Qatar provides around a third of the global supply, is also being impacted. It is a vital raw material in the production of computer chips.

In a comment this week FT columnist Tej Parikh pointed to the potential effect of the war on the artificial intelligence (AI) boom which for the past three years “has propped up global trade and investment and pushed stock markets from the US to Asia to record highs.”

“Investors have committed trillions of dollars to the technology, one of the most power-hungry inventions ever, on the assumption of ample energy supplies and a slick chip production line that can cross more than 70 borders before reaching the final consumer. But the Iran war is exposing the fragilities in the AI supply chain.”

Both South Korea and Taiwan, which are centres of global chip production, rely heavily on oil to supply energy, most of which comes through the Strait of Hormuz.

Parikh laid out a scenario in which apart from the effect of higher petrol and diesel prices, which are

already raising all transport costs, the continuation of the war had the potential to hit the AI boom and set off financial turbulence in the US.

“If the conflict lingers,” he wrote, “chip prices will steepen as manufacturers ration and compete for tighter supplies. Eventually, production would seize up. In the US, elevated energy costs would make present and future data centres less viable. High tech valuations will unwind, and debt borrowed against AI assets would be at risk.”

No one can predict the exact course of economic and financial events arising from the war and its continuation but after more than three weeks the direction is clear.

As the well-known economic and financial analyst Mohamed El-Erian noted in an X post: “Consensus is shifting, and rightly so. This third week of the war has fuelled a shift from a short-term energy disruption to long-term structural damage. With that, the broader fallout... poses an increasing threat to global economic wellbeing and financial stability.”

Signs of the latter are emerging most sharply in the UK where there was what has been described as a “rout” in the market for 10-year governments, or gilts as they are known, has developed over the past several days.

The yield or interest rate on the 10-year gilt rose yesterday by 0.11 percentage points—a significant move where “normal” movements are fraction of that—to 5.1 percent, the highest level since 2008. One of the main reasons for the rise is that the previous expectation the Bank of England would cut interest rates has been shattered and replaced by the belief that, with inflation on the rise, the central bank will lift them, possibly four times this year.

This shift has the potential for significant financial turbulence as investors and speculators who have made massive bets, with large amounts of borrowed money, are caught out and are forced to exit their positions by selling financial assets.



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