

Tinderbox in the Middle East

The Israel and Iran clash and its impact on the global economy

equilibrium

Economies
at a Glance
June 2025

1

The Israel-Iran conflict, ignited by Israel's surprise airstrikes on **13 June 2025**, targeting Iran's nuclear and military facilities, thrust the region into a volatile crisis. Iran's retaliatory missile and drone strikes intensified fears of a broader war, that threatened significant global economic consequences, before a fragile ceasefire was reached.

2

Investors have been concerned over a potential shutdown of the Strait of Hormuz, a critical chokepoint for between **20% and 30%** of the world's seaborne oil, risking price spikes that could drive up inflation and hinder global growth. War risk insurance premiums had doubled, raising shipping costs and prompting some shipowners to avoid the Strait.

3

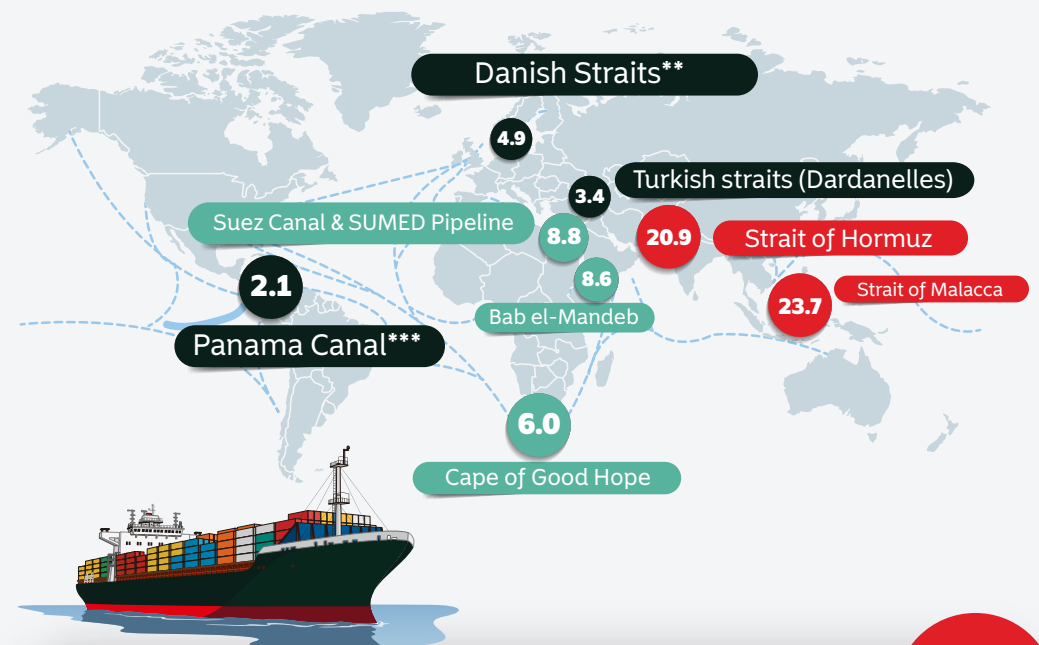
Both nations face economic strain, with Israel's defense spending soaring and Iran's oil exports plummeting. High levels of inflation (**above 30% since 2018**), low growth (gross domestic product closing in on US\$400 billion) and a depreciating Iranian rial flag an economy in crisis, worsened by budget deficits, a lack of investment and sanctions.

4

Public sentiment in the United States shows **strong opposition** to involvement, yet diplomatic and military stakes remain high.

Global oil shipments depend on major chokepoints

Volume of crude oil and petroleum liquids transported through world chokepoints in 2023 (million barrels per day)

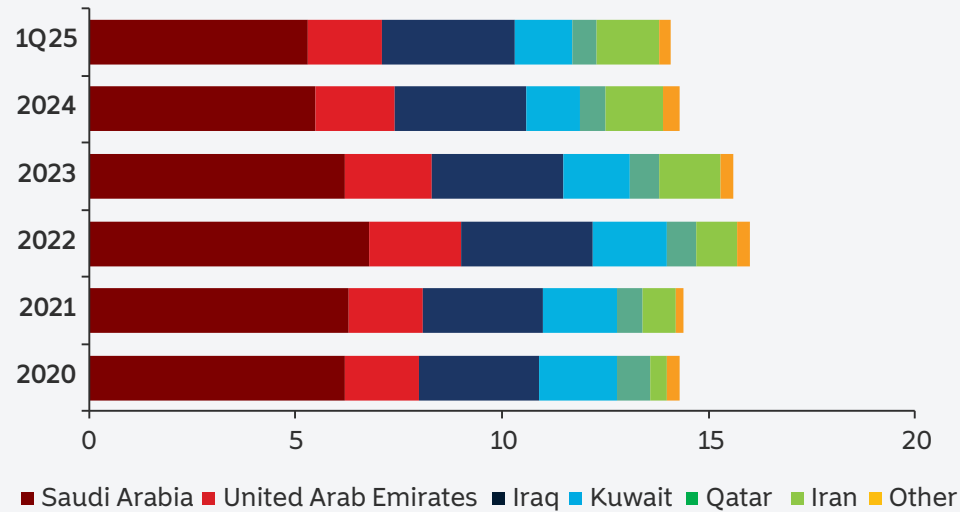


- Up to 30% of global seaborne oil trade transits through the Strait of Hormuz
- Alternative routes to bypass the Strait include Saudi Arabia's Petrolina, the United Arab Emirates Habshan-Fujairah Pipeline, Iraq's Basra-to-Ceyhan Pipeline and Oman's export terminals, but disadvantages include time, costs and capacity shortfalls.

- A fifth of liquefied natural gas (LNG) supplies flow through the Strait of Hormuz
- 12% is destined for Europe and 82% goes to Asia
- Qatar leads in LNG exports

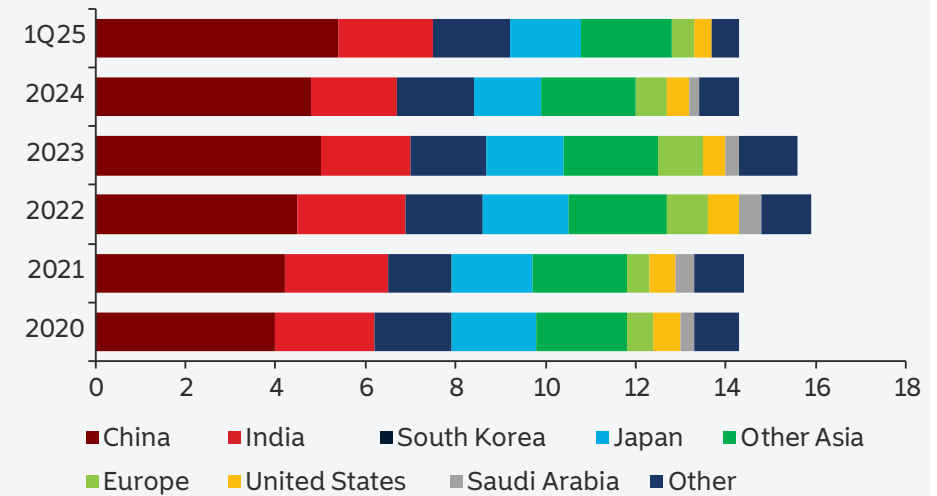
Closing the Strait of Hormuz would hurt the Gulf countries, whose economies rely heavily on energy exports

Volume of crude oil and petroleum products transported through the Strait of Hormuz (by **country of origin** in millions of barrels per day)



Nearly 85% of crude oil (and LNG) that moved through the Strait of Hormuz went to Asian markets in 2024

Volume of crude oil and condensate transported through the Strait of Hormuz (by **destination** in millions of barrels per day)



Tehran faces choices that range from limited negotiation and strategic restraint to escalation and eventual collapse

Renewed and intensified conflict (worst case)

Iran closes the Strait of Hormuz and renews strikes on United States and Israeli targets → regional infrastructure attacked to inflict economic pain via higher oil prices → shortages and manufacturing halts → global supply chains under pressure, threatening global trade volumes → tourism and capital investment decreases in the Middle East

Temporarily higher oil prices (market estimates range between US\$120 - US\$130/bbl) → shaves off 0.3 percentage points from global growth base case estimates) → generates inflationary pressures and weakens consumer sentiment → oil-importing countries bear the brunt → monetary policy pauses for an extended period → demand for safe-haven assets increase as volatility grips financial markets

Fragile ceasefire (base case)

Overall de-escalatory trajectory, but fragile ceasefire breached at times (symbolic) → direct conflict subsides but tensions linger → Iran does not attempt to close the Strait of Hormuz → no further attacks to United States' infrastructure → United States refrains from further direct involvement → slow diplomatic efforts (lasting resolution not evident)

Relatively unchanged assumptions on global growth → minor localised supply disruptions, but major shipping routes remain secure → minimal sustained impact on inflation as oil prices recover but risks to insurance premiums and the cost of rerouting are risks → monetary policy stance remains cautious but unlikely to be derailed → dollar stays on a path of modest depreciation

Prolonged ceasefire upheld (best case)

Israel-Iran ceasefire holds for an extended period as the aim to resolve underlying issues remains intact → direct military confrontation comes to an end → broader geopolitical calm ensues across the Middle East → international diplomacy prevents regional escalation

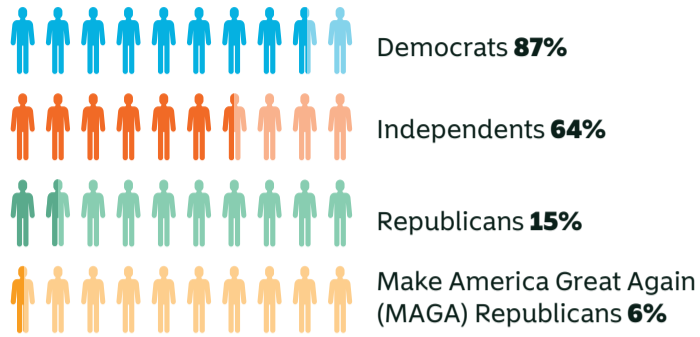
International oil prices drop below pre-conflict levels, boosting global growth as the threat of supply disruption diminishes → central banks pursue easier monetary policy → safe-haven flows reverse (dollar stays on a path of depreciation) and risk assets recover



The United States is divided on opinions regarding the war with Iran

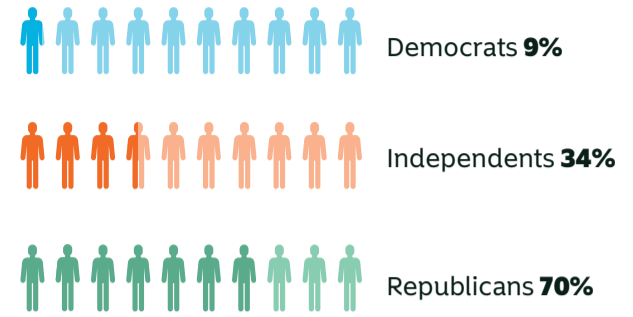
United States airstrikes on Iran's nuclear facilities by party

Disapproval



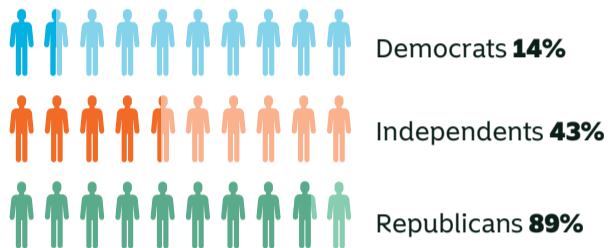
Does President Donald Trump need approval from Congress for military action against Iran?

Does not need approval

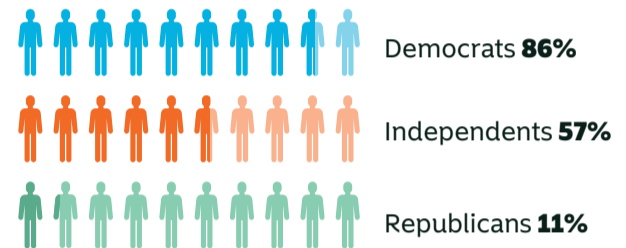


Confidence in Trump's administration's handling of Iran

A lot/some confidence



Not much/no confidence



Iran having a nuclear weapon would be a...

Very serious threat



Somewhat serious threat

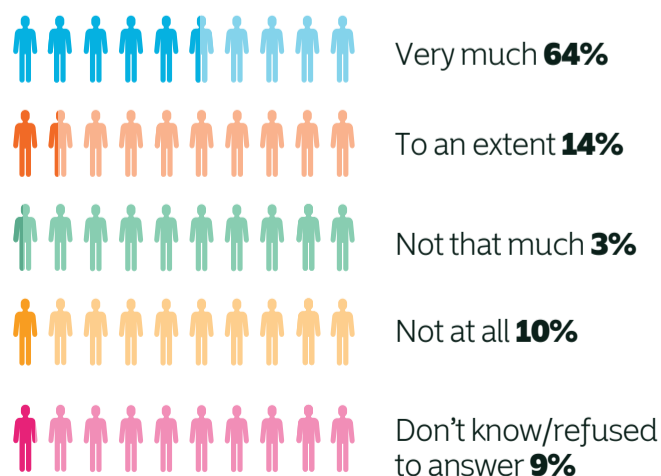


Not a serious threat



Prior to the escalation in conflict with Israel, many Iranians believed that their approach to foreign policy was contributing to Middle Eastern tensions

To what extent is Iran's foreign policy a cause of Iran's economic problems?



Iranians' preference for strong relationships with...

