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Analysis of today
Assessment of tomorrow

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War cannot be the cure for economic fragility

Years ago, I wrote in an article: “War and suffering will never be absent from our lives, but social media will normalise them.” Today, this statement is even more meaningful.

We are witnessing ongoing conflicts such as Russia-Ukraine, Israel-Gaza, and Israel-Iran, with developments that have resulted in the deaths of hundreds of people daily, maybe thousands. But instead of focusing on lost lives, we’re now monitoring oil price movements and grim tactics on the international political stage.

As economists, of course, we are compelled to look at the economic side of the issue. All news agencies keep asking us the same predictable question:

“So, what are the main economic indicators that stand out amid all this chaos?”

There’s no escape, so we give the answer.

The most critical effect, of course, is the sudden rise in energy prices and the volatility in markets. Oil prices have remained high compared to last week; Brent crude has increased by about 10 dollars from last week’s levels and is trying to stabilise at this point. Countries importing oil are watching these developments with concern.

In addition, after the conflict started, gold prices, which had surged, dropped back to around 3,300 dollars, and stock markets seem to be giving signals of a recovery.

But the reality is that the conflicts are ongoing, and tensions are not easing at all. The fact that Iran’s conditional peace offer is just an excuse for markets to distract attention from the real conflict and geopolitical risks should not be overlooked.

Controlling inflation is becoming a battleground

There’s a famous saying: “You cannot win a war without infantry's feet on the ground.” The only exception to this is nuclear attack. But if mutual nuclear retaliation occurs—what we call “second strike capability”—we face a victory no one will celebrate.

Without a nuclear war, if the US gets involved in the conflict, we will face a serious recession. And honestly, I would prefer a recession a thousand times over.

Iran is not alone now; nuclear powers like Russia, Pakistan, and North Korea have openly declared their support. This further complicates the geopolitical balance. Economically, the oil and energy sectors are paying the highest price for these wars and conflicts.

For example, after soaring to around 140 dollars per barrel in recent years, Brent oil’s high prices have, in a way, exported inflation into the future. Many emerging countries have experienced serious budget shocks due to energy imports and are still trying to recover from these disruptions.

The renewed rise in oil and natural gas prices makes controlling inflation even more difficult. Consequently, keeping inflation and interest rates low becomes a significant battleground, heavily dependent on energy prices. In this context, it’s not wrong to say that the Fed will likely keep interest rates unchanged at its initial meeting.

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Furthermore, the economic policies of developed countries and major energy-exporting states are exacerbating these risks.

For example, in the US, energy companies and oil giants are adopting various strategies to withstand high energy prices. Last year, when oil prices exceeded 100 dollars per barrel, major producers and strategic reserves considered supplying or restricting supply multiple times to balance the market.

At the same time, countries investing heavily in energy infrastructure, like Finland, France, and Italy, are unprepared for the fluctuations in energy costs. This means every increase in energy prices threatens to either halt or slow down economic growth.

In this crisis environment, one of the fundamental truths emerges again: volatility in energy prices exposes the fragility of not only markets but also economic policies. These rising costs directly affect public finances as well.

Especially in developing countries, increased energy expenses destabilise budgets, strain public finances, and raise borrowing costs. Fighting inflation becomes more complex than ever, and central banks' interest rate policies are becoming increasingly difficult to manage.

War can never be a solution

Energy price movements also have a significant impact on risk perceptions in financial markets. Sudden spikes in energy prices put pressure on exchange rates in emerging markets—demand for reserve currencies like the dollar and euro increases, while local currencies rapidly depreciate. As a result, energy crises threaten overall economic stability, with adverse effects on growth and employment.

Another critical point is how this uncertainty in energy prices disrupts and reshapes global supply chains and production costs. Especially in manufacturing, rising raw material and energy costs reduce profitability and put competitiveness at risk.

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Many countries and companies are accelerating investments in energy efficiency and alternative sources. Investing in renewables like solar and wind is seen as a crucial step towards energy independence and price stability in the long run. I also want to remind you that Gulf countries have started working on a “life after oil” strategy.

In short, sharp rises in energy prices and geopolitically driven risks from conflicts will continue to significantly shake the global economy. Policymakers must develop controlled and sustainable strategies in this environment. Otherwise, high inflation, financial instability, and slower growth will become inevitable.

Looking ahead, energy and geopolitical risks will be among the biggest tests for economies. Maintaining strong economic fundamentals, reducing energy dependence, and being prepared for various crisis scenarios are essential for a country’s survival. These developments show us that energy security and price stability are closely linked not only to economics but also to national security and diplomacy.

For this reason, decision-makers, market players, and economists must act in harmony, maintain open consultation channels, and craft flexible, rational policies. Otherwise, the risk of a new financial crisis originating from the US or other major economies will be at the door. As I stated in a previous article, the solution to this problem can never be war.