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An Analytical Study of Global Inflation Trends During the Period (2020–2025)

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Abstract :

Over the past few years, the global economy has been subjected to external shocks, starting with the COVID-19 pandemic followed by the Russian-Ukrainian war. These shocks initially led to a decline in prices, followed by a sudden and significant rise in inflation, bringing the global inflation rate to its highest levels since the 1990s. Although it declined in 2024, the year 2025 witnessed some geopolitical risks, beginning with the trade war and then the Zionist aggression against Iran. In light of the uncertainty resulting from these geopolitical risks, global inflation may rise to unexpected levels.

This study attempts to analyze the causes and drivers of the rise in global inflation following COVID-19 and the Russian-Ukrainian war, and to propose possible scenarios of the implications of geopolitical risks that may materialize and significantly impact global inflation.

The study concludes that negative supply shocks caused by the pandemic, followed by aggregate demand shocks resulting from stimulus policies, led to a widening of supply-demand imbalances, which in turn drove inflation higher. The Russian-Ukrainian war caused a surge in commodity prices and supply disruptions, worsening global inflation. A trade war could raise living costs and disrupt global supply chains. In the event of a renewed war on Iran, this may result in a severe shortage of supplies and record spikes in energy prices, which would further increase global inflation rates.

Keywords:global inflation; COVID-19 pandemic; Russia-Ukraine war; supply chains; trade tensions; war on Iran

Jel Classification Codes : E31; E43; E58; F42; F60; F62; L18

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1. Introduction.

One of the main economic problems the global economy has faced in recent years is the accelerating pace of inflation that began in mid-2020 and affected the majority of countries. Global inflation rose to its highest level since the mid-1990s, peaking at 11,6% in 2022. This phenomenon was not limited to developed countries but also included emerging and developing countries. In the United States, the inflation rate reached 8,3 %; in the Eurozone, it was 10%, while emerging and developing economies recorded inflation at 10,1%.

In fact, inflation is not a new phenomenon. Inflationary movements have become increasingly synchronized internationally for several decades. Studies distinguish between four distinct time periods of global inflation movements. The first period (1970–1985): The world experienced high inflation when increasing pressure was exerted on the US dollar due to significant monetary expansion in the late 1960s, driven by gold convertibility, which caused inflationary pressures on the economy. These pressures extended to the rest of the world through the US balance of payments deficit. Then, global consumer price inflation expanded, exacerbated by the 1973 oil price hikes and the oil embargo imposed by the Organization of Arab Petroleum Exporting Countries (OAPEC), peaking in 1974—known as the first oil shock—followed by the second shock in 1979 due to the Iranian revolution. Developed economies responded to the price shocks by tightening monetary policy, which reduced consumer price inflation in advanced economies from double-digit levels in 1984 to below 1% by 1986.(CBSL, 2021, p. 211)

The second period (1986–2000): Global inflation continued its downward trend in the early phase. However, inflation rose noticeably in the early 1990s due to the Gulf War and its impact on oil prices, which in turn affected production and transportation costs, leading to higher prices for goods and services.

The third period (2000–2019): Global inflation experienced a form of stability in the early 2000s, then began to rise as global energy and food prices spiked, particularly between 2007 and 2008. This was mainly due to rapid growth in emerging and developing economies, which mostly relied on resource-intensive economic growth. Strong demand continuously pushed up energy and food prices, while supply performance lagged, with production and distribution capacities slow to respond to rapidly increasing demand. Food prices contributed to prevailing inflation, alongside demand from emerging economies and other factors. This trend continued until the global financial crisis of 2008–2009, which caused prices to collapse and pushed the global economy into recession. During the 2009–2019 decade, inflation remained low, with the global annual inflation average reaching 2.6% by 2017(CBSL, 2021, p. 212)

The fourth period (2020–2025)—the focus of this study: During this period, the world faced external shocks starting with the COVID-19 pandemic, followed by the Russia-Ukraine crisis. These shocks led to a sharp decline in global GDP and an initial drop in prices, followed by a sudden and significant increase in inflation. Global inflation reached its highest levels in 2021 and 2022. Although inflation declined from its peak in 2023, it did not return to pre-pandemic levels in most economies until early 2024 and continued to decrease throughout 2024, thanks to the response of central banks worldwide.

In the early months of 2025, the world witnessed some geopolitical risks, beginning with a trade war in which the United States imposed tariffs on nearly all countries, which was met with countermeasures from trading partners, especially China. Then, in June of the same year, Zionist aggression against Iran took place. Although a ceasefire agreement is still in effect at the time of writing this article, it is likely that war will resume in the coming periods, particularly since the Zionist entity has historically been known to violate all agreements and treaties. In light of the uncertainty arising from these geopolitical risks, it is possible that inflationary pressures may be reignited in some countries, causing global inflation to rise again.

In light of this background, this article does not aim to explain global inflation over the past decades but rather presents a detailed analysis of the trends, characteristics, and main drivers of global inflation during the period 2020–2024, as well as an analysis of the potential impact of recent geopolitical risks on global inflation.

1.1. Research Problem: Based on the above premise, this study seeks to answer the following questions:

- What are the underlying reasons behind the rise of global inflation following the COVID-19 pandemic?
- How did the Russia-Ukraine war contribute to the increase in global inflation levels?
- What measures have been taken to confront inflationary pressures?
- How can trade tensions contribute to the return of inflationary pressures?
- How will the "war on Iran"—if resumed—affect global inflation?

1.2. Study Methodology: The descriptive and analytical method was used by relying on a set of references related to the subject of the study, as well as reports issued by international bodies and organizations in order to describe and analyze the drivers of global inflation during the period 2020–2025.

2.Conceptual Framework:

2.1.Definition of Inflation:

In economics, inflation is an increase in the general level of prices for goods and services in an economy over a period of time. The term "inflation" formerly referred to an increase in the money supply (monetary inflation); however, economic debates about the relationship between the money supply and price levels have led to it being mainly used today to describe price inflation. (Schwartz & Tessema , 2013)

When inflation occurs, individuals can purchase fewer goods and services with the same amount of money. Thus, inflation can also be considered a general decrease in the real value of money(Labonte & Weinstock, 2022, p. 2), i.e., a loss in the purchasing power of money. When the general price level rises, each unit of currency buys fewer goods and services.

2.2. Causes of Inflation:

There are several potential causes of inflation in the economy. Inflation may be driven by aggregate demand or supply—or both. The following is the distinction between supply and demand causes of rising inflation :(Labonte & Weinstock, 2022, pp. 6-8) ؛(Sheikh Taha, 2021, pp. 11-14)

a. Demand-pull inflation:

Inflation in this case results from an increase in aggregate demand (total spending) in the economy while supply (production) remains at the same level, making the productive sector unable to meet the increase in total demand. This causes a disruption in overall balance, reflected in a rising price level, thus increasing the inflation rate. Factors that can contribute to an increase in aggregate demand include: natural fluctuations in the business cycle, consumer and investor sentiment, and fiscal and monetary policy. For example, expansionary fiscal policies involve increasing the budget deficit by reducing taxes or increasing government spending or transfers to individuals. These policies increase aggregate spending in the economy by boosting consumer demand and government purchases.

b. Cost-push inflation:

Inflation in this case is caused by an increase in the production cost of any input involved in producing goods (raw materials, wages, capital, etc.) without a proportional decline in aggregate

demand. Higher production costs lead producers to raise prices to cover the increase, which means higher inflation. A common example of cost-push inflation is the shock of commodity prices, which sharply reduce the supply of a particular good (some goods are production inputs such as oil and petroleum derivatives), raising its price. As the price of a key input rises, the prices of final goods and services also rise, leading to inflation.

c. Inflation expectations:

Inflation expectations can exacerbate inflationary pressures and become self-fulfilling. When individuals expect prices to rise, they typically act based on that belief. For example, if consumers expect future price increases, they may decide to spend more today before the purchasing power of money declines. If expectations change across the economy, this may increase spending levels, and thus aggregate demand, which—other factors being equal—will lead to demand-pull inflation. Similarly, workers may demand wage increases to compensate for future inflation, which may lead to cost-push inflation, especially if wage growth exceeds the rate of inflation.

2.3.Effects of Inflation:

Inflation can have negative effects on the economy, including: (Sheikh Taha, 2021)؛ (Labonte & Weinstock, 2022) ؛(Poplawski, 2023)

• When the inflation rate rises, holding money becomes more costly. Individuals and businesses then try to hold smaller cash balances. For example, individuals tend to spend their incomes on present consumption and purchase of durable goods, real estate, and foreign currencies for fear of future price increases, weakening the process of saving.

• Inflation reduces the real value of income and the real rate of return on investments, both of which can distort incentives for individuals to work and for companies to grow their capital.

• Inflation directs capital toward economic activities that do not benefit economic advancement in its early stages, due to rising prices and profits in the sectors producing consumer goods, at the expense of productive and investment activities, which are the basis of achieving economic growth.

• Inflation affects the redistribution of income or wealth. According to the Bank for International Settlements, redistribution is likely from low-income households to high-income households, as the latter are more able to protect themselves from inflation.

According to the bank's logic, low-income households hold their savings largely in cash (which earns no return and thus loses value as inflation rises) or in bank accounts (which usually earn no or low returns unlikely to keep pace with inflation), while high-income households benefit from a wider range of investment options, whose value typically rises with inflation.

Additionally, home food constitutes a larger share of spending in low-income households. Therefore, if inflation in home food prices is above average, inflation will negatively affect low-income households more than high-income households who consume a different basket of goods.

• Inflation affects public debt. If part of the debt is inflation-linked, inflation will automatically increase borrowing costs. If the debt is denominated in foreign currency, inflation will reduce the local currency's value, potentially increasing repayment burdens when expressed in the local currency. If the debt carries a variable interest rate, inflation will lead to tighter monetary policy, hence higher short-term reference interest rates. If the debt includes a larger share of short-term bonds that need to be rolled over, investors will demand higher interest rates on newly issued bonds.

• Inflation negatively affects the balance of payments, especially in countries with high inflation rates, as rising domestic prices reduce the competitiveness of these countries' exports, leading to decreased exports and thus a deficit in their balance of payments.

2.4.Global Inflation:

Inflation may be specific to a country or region, but a rise in the general price level in many countries at the same time can turn inflation into a global phenomenon. Therefore, global inflation refers to the overall increase in the average price level of goods and services in several countries or across the world.

There is a wide range of factors responsible for global inflation, including:(Jongrim , Kose , & Ohnsorge, 2019, p. 3)

a. Common shocks:

The synchronization of inflation across countries may be driven by common shocks that spread evenly (or at least simultaneously) across countries, or by country-specific shocks that spread from one country or a group of countries to others. Commodity price shocks, internationally correlated productivity shocks, other cost shocks, and real demand shocks that cause global recessions or expansions can all affect national inflation rates broadly and often in the same direction, creating inflation synchronization. Similarly, a recession in a relatively large economy can have larger spillover effects on activity and inflation among its close trading partners than elsewhere.

b. Monetary policies:

Several studies have highlighted the role of coordinated or interlinked monetary policies as a key driver of shared inflation movements, especially among advanced economies. Even in the absence of deliberate policy coordination, similar monetary policy frameworks can lead to similar policy responses to global shocks. Thus, this policy synchronization translates into inflation synchronization.

c. Globalization:

Structural changes can also explain inflation synchronization. Over the past five decades, the degree of global integration in trade and financial markets has grown rapidly. These structural changes have often amplified the spillover effects of shocks across countries, leading in turn to more synchronized inflation movements. Strong trade linkages increase an economy's exposure to external shocks. As a result, domestic inflation has become more sensitive to global shocks. Furthermore, rapidly expanding global supply chains allow global supply and demand shocks, as well as commodity price volatility, to amplify and deepen the impact of global forces on domestic inflation, resulting in a joint movement in inflation rates across different countries around the world**.**

3. Analysis of Global Inflation Trends during the Period (2020–2024):

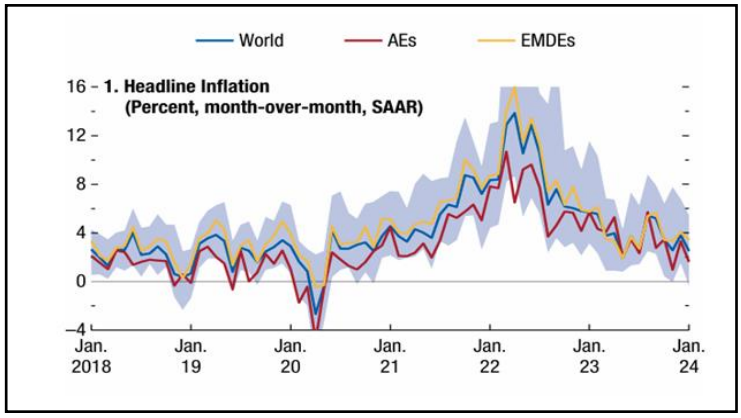
During the first three years of the study period, inflation rose simultaneously and unexpectedly around the world to unprecedented levels not seen in four decades. This inflation shock came as a surprise, as central banks, international institutions, and experts did not expect such a rise in inflation. Below is a detailed analysis of global inflation trends and its main drivers:

3.1. COVID-19 Pandemic and the Beginning of Global Inflation (2020–January 2022):

The COVID-19 crisis began as a health crisis, with the first cases of coronavirus infection appearing in Wuhan, China, in December 2019. Within a few days, new cases emerged in some G7 countries. As of January 31, 2020, each of the G7 countries had at least one case, and its spread rapidly continued around the world, leading to its declaration as a global pandemic by the World Health Organization in March 2020. With no treatment or vaccine for the virus, governments across the globe were forced to implement strict restrictions and measures on economic activity (the Great Lockdown) to limit the spread of the virus and save lives. This led to a multi-level shock to the global economy(Djaafer, 2022, p. 338)

In the first half of 2020, while the pandemic was spreading across the world and uncertainty was at its peak, economic activity declined sharply, and global inflation slowed. The slowdown in inflation was more pronounced in both advanced and emerging and developing countries, as illustrated in Figure 1.

Figure 1. Global Inflation



Source:(IMF, 2024, p. 2)

The virus outbreak led to a significant drop in demand for some goods, which had a major impact on companies and their suppliers. For example, the automotive, timber, and housing industries were affected due to lack of demand (Raj & others, 2022) According to a study by(Ha & Others, 2023)in the early stages of the pandemic, nearly 60% of the global inflation decline was explained by global demand shocks, as global demand for consumption and investment collapsed between March and May amid lockdowns and uncertainty regarding policies and growth prospects.

By summer 2020, global inflation began to rise and continued to rise rapidly in 2021, reaching a rate of 8% in January 2022—as shown in Figure 1—during a period when social distancing measures were gradually lifted and economic indicators began approaching pre-crisis levels. The increase in inflation during this period was due to a set of factors:

a.The imbalance between aggregate demand and aggregate supply that developed on a global scale:

The strict measures and restrictions imposed by most countries on economic activity to contain the virus and save their citizens' lives pushed the global economy into its worst recession since the Great Depression of 1929, surpassing the 2008–2009 recession. To confront this crisis and reduce the depth of the recession, governments around the world adopted various and unprecedented exceptional measures at the level of public financial policy in order to support private consumption, provide supplementary funding for health services, support the debt service of the companies most affected by the lockdown conditions, offer tax exemptions, and provide benefits to individuals who became unemployed. The total value of the financial incentives provided in the largest G20 economies (excluding supplementary spending on health services and state-funded loan guarantees) exceeded $8.4 trillion, more than 10% of global GDP for 2020. In some countries, budget support exceeded 14% of GDP. In comparison, during the global financial crisis of 2008, the size of the discretionary fiscal stimulus (i.e., the bulk of active financial support) provided in the G20 countries over three years—from 2009 to 2011—was about 4% of global GDP for 2009(Goryunov & Others, 2023, p. 226)

Monetary authorities also supported fiscal stimulus. The economic crisis forced central banks in various countries to adopt significantly expansionary monetary policies by reducing benchmark interest rates and providing additional liquidity to the financial system through asset purchase operations. Asset purchases increased significantly, contributing greatly to the nominal growth of the money supply. In the U.S., for example, over two years during which the federal funds rate

remained at its lowest level (from March 2020 to March 2022), the money supply in the United States increased by 40%(Goryunov & Others, 2023, p. 226). During the same period, these purchases led to a significant and rapid expansion of the Federal Reserve's balance sheet, which grew to $8.96 trillion in March 2022—when it ended its monthly bond purchases—an increase of about $4.7 trillion since March 2020, as illustrated in Figure 2.

Figure 2.Total value of US Federal Reserve assets



Source:(FRED, 2025)

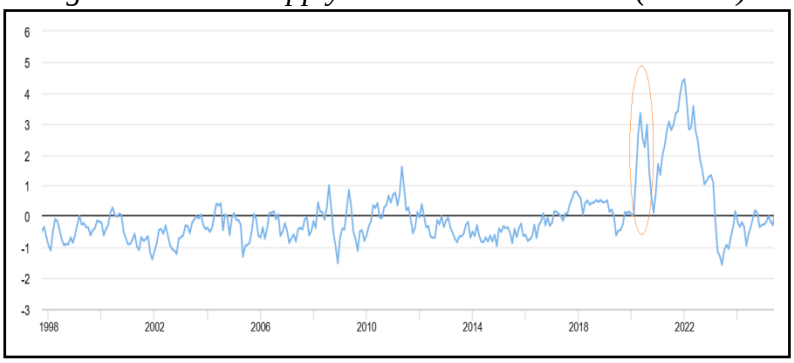
The combined effect of fiscal and monetary policy measures was to secure households and businesses, allowing many households to accumulate savings, which significantly increased. (The increase in uncertainty also contributed to increased precautionary household savings.) As economies recovered from the deep 2020 recession and vaccination programs were implemented along with the lifting of lockdowns and reopening of economies, aggregate demand began returning to previous levels, driven by the release of savings accumulated during the pandemic. Indeed, there was an unprecedented surge in demand for products whose demand had declined at the beginning of the pandemic, such as cars and homes. New home sales reached their highest level in 14 years, and car sales reached their highest level in 15 years—on a global level(Panwar, Pinkse, & De Marchi, 2022)Thus, global demand accelerated while the supply response was slower, as the global economy's production capacity could not keep up with the sudden growth in demand. Most producers were not prepared to produce at the required level to meet the new demand. Worse still, producers were unable to maintain normal production levels (Panwar, Pinkse, & De Marchi, 2022)due to a direct decline in labor supply caused by worker illness, along with some institutions reorganizing production to increase physical distancing between workers—all of which reduced production capacity.

b. Supply Chain Disruptions:

In the modern world, many major companies have outsourced their production abroad, making global supply chains a key feature of the global economy. Companies source inputs from all over the world—even simple products include a large number of suppliers globally. Thus, pre-production, production, and post-production activities are part of cross-border networks. Despite the economic benefits of global supply chains, they increase commercial interdependence, making them vulnerable to external shocks and disruptions—such as during the COVID-19 pandemic, which created a domino effect of global supply chain disruptions. Factory shutdowns in China in early 2020 and lockdowns in exporting countries caused a supply shock from the perspective of importing countries that suffered shortages in intermediate inputs previously supplied by those factories. This shock was worsened by disrupted logistics and delivery processes. For example, the pandemic caused temporary port closures and shortages of labor and equipment, resulting in ship congestion and underutilized containers (a typical cargo ship contains between 10,000 and 15,000 containers; large ships can hold up to 24,000 container)(Panwar, Pinkse, & De Marchi, 2022) .The container shortage led to increased shipping costs, higher congestion levels, and unprecedented delays in delivering raw materials and semi-finished goods to companies. Thus, the COVID-19

pandemic caused one of the largest disruptions and pressures on global supply chains in decades, as shown by the Global Supply Chain Pressure Index (GSCPI) published by the U.S. Federal Reserve. See Figure 3.

Figure 3.Global Supply Chain Pressure Index (GSCPI)



Source: (Fed, 2025)

Figure 3 shows that the index rose (i.e., pressure on supply chains) in 2008 and 2009 due to the 2008 global financial crisis. In 2011, it rose even higher due to the 2011 earthquake disaster, which resulted in a tsunami that destroyed the Fukushima nuclear reactor in Japan. Since the affected areas were a hub for automobile manufacturing, global auto production supply chains were affected. The index then declined during the years 2012–2016 but rose again during 2017–2018 due to the trade war between China and the U.S. However, when China imposed lockdowns at the start of the pandemic, the index spiked to its highest level since 1998, increasing sharply in 2020–2021 due to new COVID-19 waves.

Global supply chain disruptions had a seriously negative impact on overall supply, and as demand accelerated, the gap between aggregate demand and supply widened, exerting upward pressure on global inflation(Goryunov & Others, 2023, p. 229)

c. Rising Commodity Prices:

With economic activity rebounding after the 2020 shutdown, commodity prices in global markets rose. From February to August 2021, prices increased by 16.6%. This sharp rise was supported by strong recovery in commodity demand, loose financial conditions, and supply disruptions. For oil, prices rose by 13.9% during the same period due to the rapid economic recovery in advanced economies. Food prices also rose by 11.1% (IMF, 2021, pp. 31-32)Thus, rising food and fuel costs significantly contributed to the increase in global inflation. In OECD countries in 2020 and 2021, food and energy accounted for about one-third of the increase in the consumer price index. In developing countries, the food share in the consumer basket was higher, meaning that food contributed even more to the consumer price index increase in those countries.(Goryunov & Others, 2023, p. 229)

3.2. The Russia–Ukraine War and the Second Inflationary Wave (2022–2023):

The Russia–Ukraine war began in February 2022 and worsened global economic problems, including global inflation, which reached its highest levels in decades. The inflation rate peaked at 11.6% in Q2 2022(IMF, 2023, p. 4).In individual countries, inflation in the U.S. reached one of its highest levels in nearly forty years, with prices rising by 8.3% in August 2022 compared to the previous year. Inflation in the Eurozone reached 10%, while inflation in emerging and developing economies was 10.1%(IMF, 2022, p. 4).The main drivers behind this inflationary wave during this period were:

a. Worsening of global supply chain disruptions:

The Russia–Ukraine war intensified the ongoing global supply chain disruptions -see Figure 3-. Access to the sea in Ukraine became impossible due to Ukrainian and Russian military closures of the entrance. The areas surrounding the Black Sea and the Sea of Azov became extremely dangerous, with reports of missile attacks on commercial ships and detentions of crew members. Many companies in the supply sector stopped delivery services to and from Russia and Ukraine. Container shipping operations ceased, leaving many goods stuck in ports, which became congested, pushing up sea freight costs. Container ship charter rates reached record levels. Air transport also faced similar challenges. Ukrainian airspace was closed to civilian flights, and airlines avoided flying over Russian airspace, leading to soaring air freight prices and a significant reduction in goods transported by air(Brahimi , Ouadi , & Hamoudi , 2023, p. 15).

Mutant waves of the coronavirus in Q4 2022 caused temporary general lockdowns in Shanghai and many other Chinese cities, negatively affecting the country's production capacity, resulting in lower exports to foreign suppliers and logistical disruptions, keeping global supply pressures elevated. According to Figure 3, the GSCPI index reached record levels in 2022, surpassing 2020 and 2021 levels.

Moreover, the Zionist aggression on Gaza (the war on Gaza) in late 2023 caused tensions in the Red Sea -which accounts for about 15% of global trade and 30% of global container trade through the Suez Canal. The Red Sea is a critical route for global maritime trade-(IMF, 2024, p. 28)However, starting from November 2023, attacks launched by Yemeni brothers in support of our people in Gaza on ships passing through the Bab el-Mandeb Strait led to a sharp rise in marine insurance premiums, transportation and fuel costs, and container shipping costs. The cost of shipping a standard 40-foot container from China to the Mediterranean rose from one thousand dollars to more than four thousand dollars(IMF, 2024, p. 28).In addition, major shipping lines (such as the Middle East–Europe route) were disrupted.

All of this created new pressures on global supply chains, meaning a shortage of supplies, continued increases in shipping, transport, and insurance costs—which were ultimately passed on to the end consumer. Thus, supply chain disruptions were one of the main drivers of inflation in 2022.

b. Rising energy and food prices:

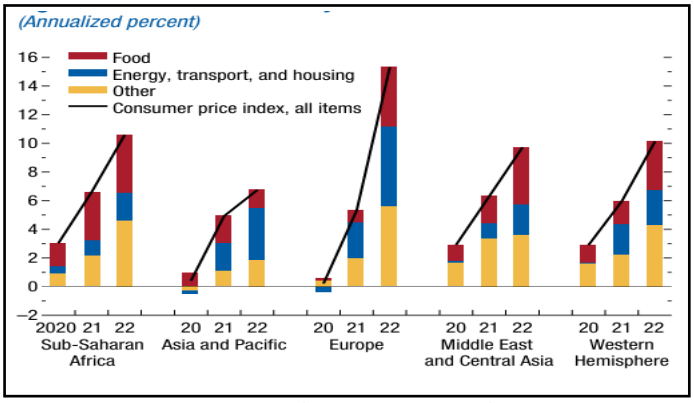
Russia and Ukraine are of significant importance in global food and energy markets. According to the International Energy Agency (IEA, 2022), Russia is the third-largest oil producer globally, the largest exporter of natural gas in the world, and the second-largest oil exporter. Additionally, Russia and Ukraine are among the world’s major agricultural commodity producers, both being net exporters of agricultural products and playing a key role in supplying global markets with food and fertilizers. Russian and Ukrainian food production and exports have seen notable growth over the past three decades due to intensive modernization and automation, making the region the world’s food basket. In 2021, Russia and Ukraine exported nearly 12% of globally traded food calories, making them key players in the global agri-food sector. They are major producers of essential agricultural commodities such as wheat, corn, and sunflower oil. Russia is also the largest fertilizer exporter in the world. Furthermore, Ukraine is one of the top three grain-exporting countries, leads the world in soybean and sunflower oil exports, and controls 52.2% of the global sunflower oil market.(Brahimi , Ouadi , & Hamoudi , 2023, pp. 11-12)

Therefore, the most prominent outcome of the outbreak of the Russia–Ukraine war was the global rise in energy and food prices. On the energy front, crude oil prices rose by 3.5% between February and August 2022, peaking at $120 per barrel in March of the same year. As for natural gas, following Russia’s gradual shutdown of about 80% of pipeline gas supplies to Europe, prices sharply increased by 129.2% -between February and August-(IMF, 2022, p. 37)

Regarding food prices, the Russia–Ukraine war and Russia’s blockade of Ukrainian grain exports kept prices on an upward trajectory from April 2020 to May 2022.

Thus, energy and food prices rose simultaneously, amplifying their impact on inflation. The increases in energy and food prices transferred from global commodity markets to consumer prices, making them one of the main contributors to global inflation, especially in 2022-see Figure 4-.

Figure 4. Inflation Driven by Food and Fuel



Source :(IMF, 2022, p. 4)

Figure 4 shows the factors contributing to inflation by region, clearly indicating that in 2022, food and energy were the dominant inflation drivers in all regions, especially in Europe due to the severe energy crisis caused by the Russia–Ukraine war, which significantly raised the cost of living.

3.3. Decline in Global Inflation (Late 2023 and Early 2024):

Although inflation fell from its peak, it remained high and above the level recorded in 2021 until early 2024, when headline inflation approached pre-pandemic levels in most economies for the first time since the start of the global inflation surge.(IMF, 2024, p. 1) Contributing factors to this decline included:

a.Monetary tightening:

To address inflationary pressures, central banks shifted to monetary tightening in 2022. Although the tightening was synchronized, it was not implemented at the same time. Emerging market economies began the tightening cycle early, raising interest rates starting in Q4 2021. The European Central Bank raised interest rates for the first time from 0% to 0.5% in June 2022 when inflation hit 8.6%. By the end of 2022, monetary authorities in all advanced economies—except the Bank of Japan—had significantly raised interest rates. In the U.S.A, the Federal Reserve ended its monthly bond purchases (known as the quantitative easing program) and raised interest rates in March 2022, when inflation reached 8%(Goryunov & Others, 2023, p. 233)Interest rates were raised seven times during 2022, from 0.5% in March to 4.5% in December 2022, and four more times in 2023, reaching 5.5% in July 2023. Rates remained stable until September 18, 2024, when the Federal Reserve decided to begin cutting rates, bringing them down to 4.5% starting in December 2024 (investing, 2025)

b. Price containment policies:

In addition to monetary tightening, many countries resorted to other tools, including:

• Energy and consumption subsidies: Subsidies can help curb inflation caused by temporary cost-driven shocks. According to an IMF study (2023), energy subsidies played a significant role in stabilizing inflation in the Eurozone during the second inflationary wave.

• Reducing import taxes: Cutting import taxes lowers the prices of imported goods and increases domestic supply. Many countries, especially emerging economies, adopted this policy(IMF, 2024, p. 60)

• Price control policies: Historically, the U.S. implemented national price controls in 1971 during Nixon's administration in response to rising inflation. The Economic Stabilization Program (ESP) imposed comprehensive controls on the prices of goods, services, and wages. Initially, prices were effectively frozen and could not be adjusted. After 90 days, the policy was modified to allow companies to increase prices but without raising profit margins or wages beyond set standards. Recognizing the unsustainability of this policy in the long run, price controls were gradually lifted by presidential executive order starting in January 1973. Similar measures were taken during the recent inflation surge when President Biden signed the Inflation Reduction Act into law in August 2022. This law applies price controls by allowing Medicare to set effective caps on prescription drug prices. The House of Representatives also passed another bill to implement price controls in May 2022(Lee, 2022, pp. 2,5).

c. Easing of commodity shocks:

One of the key drivers behind the decline in global inflation during this period was the decrease in commodity prices (energy and food). Oil prices fell between September 2023 and August 2024 after breaking the $95 per barrel mark in late September, stabilizing between $75 and $90 per barrel from February to August 2024, with an average of $83 per barrel(IMF, 2024, p. 28)This was due to supply and demand forces. On the demand side, weak expectations for global demand growth (due to recession fears from monetary tightening in many major economies, especially the U.S.) put downward pressure on prices. On the supply side, increased production by non-OPEC countries and the release of large quantities of oil from strategic reserves by OECD countries contributed to price declines.

Global natural gas prices also fell due to abundant storage in European facilities, large supplies from Norway and North Africa, decreased gas demand due to: economic slowdown in China, an unusually mild winter, and substitution with other fuels like coal.

As for food prices, between February and September 2024, the IMF's food price index declined by 2.4%, continuing its previous downward trend, but at a slower pace compared to the same period the previous year (February–August 2023), when the decline was 6.7%(IMF, 2023, p. 35) ؛(IMF, 2024, p. 29).This was due to increased supply from intensified production in countries like India and European nations, and the return of Ukrainian products to the global market after the renewal of the Black Sea Corridor Initiative.

d. Recovery of global supply chains:

Another factor that may have contributed to the decline in inflation was the reduction in pressures and disruptions to supply chains -see Figure.3-, as Chinese authorities lifted strict lockdown policies and the World Health Organization declared that COVID-19 was no longer a global health emergency. Consequently, supply chains disrupted by the pandemic largely returned to normal, with shipping costs and delivery times returning to pre-pandemic levels(IMF, 2023, p. 2).

4. Main Risks Threatening a Rebound in Global Inflation:

Despite the decline in global inflation throughout 2024 and the first half of 2025—and the ability of many economies to achieve inflation rates close to central bank targets, such as the U.S. inflation rate approaching the 2% target at the beginning of 2025—there remains a set of risks associated with some negative international developments that could threaten a resurgence of inflation. Among the most notable of these risks:

4.1.Trade War:

The trade war began in 2018, when the first Trump administration initially imposed tariffs on a wide range of Chinese goods, starting at $50 billion and eventually reaching a total of $360 billion, China responded by imposing tariffs on American imports, escalating the conflict into a

full-blown trade war. With Trump's second term, the world faced a renewed wave of protectionism when President Trump pledged to impose higher tariffs and stricter import restrictions to reduce dependence on China and protect and develop industries in the United States. Upon taking office in January 2025, he announced a 20% tariff on China, 25% on Canada and Mexico, and 25% on imports of steel, aluminum, and automobiles. On April 2, 2025, the Trump administration officially unveiled a policy of reciprocal tariffs, signaling a shift toward broader and more aggressive protectionism. In response, China intensified its retaliatory stance, announcing a 34% tariff on selected American imports — a sharp escalation compared to its previously more restrained reactions. The United States responded on April 8 by imposing an additional 50% tariff on all Chinese imports, bringing the cumulative increase in tariffs on Chinese goods to 104%. On April 9, China responded by increasing its tariffs on American goods to 84%. President Trump announced another 41% tariff hike on China, bringing the rate to 145%. On April 11, China raised its retaliatory tariffs on American imports to 125%. This sequence of retaliatory actions underscores the growing risk of a full-scale trade war(Zhai, 2025, pp. 1-2),especially with the U.S. imposing tariffs on many other countries that sell products to the American market, some of which may resort to imposing their own tariffs.

Below, we illustrate how the trade war can contribute to rising global inflation levels:

a. The rise in tariffs is likely to affect inflation as companies pass on the high tariff costs to the final consumer in the form of higher prices. As prices rise, the cost of living increases, and workers demand higher wages. The higher wages cost companies more, which in turn pass those costs on to buyers through higher selling prices. This increases the direct cost of living for workers, who again demand higher wages, thus creating a continuous wage-price spiral.

b. Among the retaliatory responses during a trade war that exporting countries might employ is restricting exports of specific products or imposing additional export tariffs. If the restrictions or additional tariffs target a product for which the importing country struggles to find an alternative — such as raw materials or essential parts of the production process (intermediate goods) — the supply disruption can be extremely damaging. This increases production and import costs, complicates logistics, disrupts global supply chains, and consequently contributes to inflation.

4.2.The War on Iran:

This war began on June 13, 2025, when the Zionist entity launched attacks on strategic Iranian targets (military installations, nuclear sites, Iranian scientists...). On the same evening, Iran responded by targeting vital military facilities in Israel. On June 22, the United States joined the war on Iran by launching strikes on Iranian nuclear facilities in full coordination with the Israeli aggression. On June 24, twelve days after the mutual bombardment, a ceasefire agreement was reached. However, due to the prevailing geopolitical uncertainty in the region—especially given Israel's historical and ongoing violations of agreements—it is likely that the war will resume in the coming periods.

The resumption of this war with heightened escalation would represent a major threat to the recovery of the global economy and inflation around the world. The global oil market is the most prominent channel through which the war could impact global inflation. Historically, global oil prices have spiked whenever geopolitical tensions in the Middle East have escalated. Notable examples include the sharp price increases of the 1970s, when the 1973 October War and the 1979 Iranian Revolution triggered major oil price hikes, followed by years of high inflation and low growth. Given Iran's significant role in global oil supply - as one of the world's top 10 oil producers - a renewed war would strongly impact supply stability and thus drive prices upward. When oil prices rise, fuel and transportation costs increase, which in turn raises production costs. This cost increase eventually reaches consumers, especially in energy-intensive products like food, clothing, and chemicals.

Here are two scenarios of what might happen if the war resumes, and how it could affect global inflation:

a. Closure of the Strait of Hormuz:

The Strait of Hormuz is a major maritime passage in the Middle East. It is located in the eastern part of the Arabian Gulf and the northwestern part of the Gulf of Oman, bordered by Iran to the north and east, and Oman to the south. The strait is a key route for around 25% of global oil supplies - including exports from Saudi Arabia, the UAE, Kuwait, Qatar, Iraq, and Iran- (IEA, 2025)Additionally, about 20% of global LNG exports - mostly from Qatar - pass through the strait (Sutherland, 2025).

Iran has repeatedly threatened to close the Strait of Hormuz if attacked. Closing the strait, even temporarily, would have a significant impact on global oil and gas markets. Prices would spike to record levels - even if other producing countries, like the U.S., released large quantities from their oil reserves-. There would also be logistical shocks, even if importers found alternative sources. Shipping and insurance costs for oil and gas tankers would rise sharply, reflecting on energy prices. Shipping companies might hesitate to pass through hazardous areas, leading to supply delays and higher operating costs. A decline in natural gas production would also slow down fertilizer production(Sutherland, 2025), potentially causing food shortages and disruptions in food commodity markets.

Thus, closing the Strait of Hormuz could lead to energy supply shortages and continuous price hikes that would be passed on to the end consumer, causing oil-importing countries to experience rising inflation. According to the Head of Global Macro Research at Oxford Economics, based on a study using Oxford's Global Economic Model (GEM) to simulate negative oil supply scenarios: closing the Strait of Hormuz would push Brent crude prices to around $130 per barrel, and global and U.S. consumer price index (CPI) inflation would peak at around 6%. This spike would erode real incomes and reduce consumer spending. (bne, 2025)

b. Targeting Oil and Gas Facilities (Iranian and Israeli):

For Israel: Companies operating gas fields in Israel estimate that reserves contain about 1,027 billion cubic meters. Israel has three main gas fields: the largest, Leviathan, produces 12 bcm per year, exporting about 90% of it to Egypt and Jordan, and selling 10% domestically. The second-largest field is Tamar, discovered in 2009. The third, Karish, has proven reserves of 1.3 trillion cubic feet. In 2024, Leviathan produced 11.1 bcm, compared to 9.1 bcm from Tamar, and 4.6 bcm from Karish. Leviathan accounted for 78% of Israeli gas exports, while the rest came from Tamar, as all of Karish's gas is consumed domestically. (Watad, 2025)

If the war resumes and Iran decides to strike Israeli energy assets, including gas fields and critical infrastructure such as oil refineries, this would threaten Israeli energy security and halt gas exports to Egypt and Jordan. These countries would then be forced to seek new energy alternatives amid high energy prices and rising shipping and transportation costs, ultimately increasing inflation in those countries.

For Iran: It produces about 4.8 million barrels per day of crude oil, condensates, and natural gas liquids, with total oil exports at around 2.6 million barrels per day. Iran's exports of crude and condensates averaged about 1.7 million barrels per day so far this year, mostly heading to China. Iran is also a major exporter of oil products, with shipments of fuel oil, LPG, and naphtha averaging about 800,000 barrels per day since January (IEA, 2025) .Iran holds the world's second-largest proven natural gas reserves after Russia — approximately 1,200 trillion cubic feet, or about 34 trillion cubic meters, accounting for about 17–18% of total global reserves(Al-Shaghel, 2025).

If the war resumes and Israeli aggression targets Iranian energy facilities, leading to a halt in Iranian production, it would mean a severe shortage in supplies and a dramatic rise in oil and gas

prices. According to Oxford Economics' Head of Global Macro Research, using the GEM model and assuming other factors remain constant (e.g., Strait of Hormuz remains open), the shutdown of Iranian production would drive oil prices to about $90 per barrel, remaining at that level until the end of 2026. Global CPI inflation would rise from 3.5% in Q2 2025 to a peak of 4.5% in late 2025 and early 2026, and the U.S. would experience peak inflation close to 4.5% (bne, 2025).

In the event of such negative developments, inflationary pressures would resurge. Rising inflation could prevent central banks from cutting interest rates and might even force them to take harsher measures by raising rates and keeping them high for longer. This could trigger a negative shock to the global economy and push it toward recession.

5. Conclusion:

Over recent decades, the degree of global integration in financial markets and trade has increased, amplifying the indirect transmission of shocks across countries. Furthermore, the volatility of commodity prices and rapidly expanding global supply chains have become more vulnerable to disruptions and external shocks (ranging from wars and natural disasters to financial/economic turmoil, trade wars, and pandemics). As a result, inflation has become more synchronized and sensitive to global shocks.

This was evident in the aftermath of the COVID-19 pandemic and the Russia–Ukraine war. Initially, negative supply shocks to production factors, labor, and intermediate inputs from the pandemic triggered inflation. Global supply chains and production integration amplified this stage. Then, positive aggregate demand shocks resulting from stimulus policies widened supply-demand imbalances, further exacerbating inflation in 2021 and early 2022. The period of 2022–2023 was marked by the outbreak of the Russia–Ukraine war, which intensified inflation due to its impact on energy and food prices and the worsening of supply chain disruptions.

Since early 2024, global inflation has started to decline, attributed to falling energy prices, tighter monetary policy, and the recovery of supply chains. However, the landscape may change in the coming months due to emerging geopolitical risks. For example, intensifying protectionist policies through additional tariff impositions could lead to a substantial rise in import prices. Retaliatory measures in the form of restrictions on critical intermediate or primary goods could once again disrupt supply chains, significantly impacting global inflation.

In addition to these trade tension risks, renewed military escalation in the Iran–Israel conflict - possibly through attacks on energy infrastructure or the closure of the Strait of Hormuz- could drive energy prices back up and worsen supply disruptions, potentially causing a sharp rise in inflation.

If inflationary pressures resurface shortly after a major price surge, it could unanchor inflation expectations, leading to further inflation. This would prompt increased monetary tightening and could intensify the shocks, ultimately causing an economic recession accompanied by high inflation (stagflation).

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