

# Impact of the Iran–Israel Conflict on the Indian Economy: A Commerce Perspective

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## Abstract

Global economic stability is greatly impacted by geopolitical conflicts, especially for developing nations that rely largely on foreign trade and energy imports. The confrontation between Iran and Israel has caused trade lines to be disrupted, oil markets to become more volatile, and financial systems to become more unpredictable. Such geopolitical tensions pose serious economic dangers to India, one of the biggest importers of petroleum and a significant trading partner with West Asian states. This study looks at how the Iran-Israel war has affected the Indian economy from a business standpoint, concentrating on supply chains, trade, energy security, inflation, and financial markets. The study makes use of secondary data from international organizations, financial institutions, and government publications. The results indicate that the main channels are inflationary pressures, currency depreciation, rising oil prices, and interruptions in marine trade routes. The results indicate that the main ways that the conflict impacts the Indian economy are through rising oil prices, disruptions in marine trade routes, currency depreciation, and inflationary pressures. The study comes to the conclusion that increasing trade resilience, fortifying strategic reserves, and diversifying energy imports are crucial tactics to reduce geopolitical risks.

**Keywords:** Iran–Israel Conflict, Indian Economy, Geopolitical Risk, Oil Price Volatility, International Trade, Inflation, Energy Security, Financial Markets.

## 1. Introduction

Global geopolitics has always played a crucial role in shaping economic dynamics. Conflicts in strategic regions can influence international trade, energy markets, financial stability, and economic growth. The ongoing Iran–Israel conflict is one such geopolitical crisis that has disrupted global markets and created economic uncertainty worldwide. India maintains deep economic connections with West Asia through energy imports, trade relations, remittances, and logistics networks. The Middle East remains India's largest trading region, with trade exceeding \$178 billion annually. India is also one of the world's largest importers of crude oil, importing nearly 85–90% of its energy requirements from abroad.

Therefore, conflicts in the Middle East significantly influence India's economic stability.

The Iran–Israel conflict impacts India through several channels:

- Oil price volatility
- Trade disruptions
- Inflationary pressure
- Currency depreciation
- Financial market volatility
- Supply chain disruptions

Understanding these impacts is essential for policymakers, economists, and businesses to formulate strategies that minimize economic risks.

## 2. Objectives of the Study

The primary objectives of this research are:

1. To analyse the economic impact of the Iran–Israel conflict on India.
2. To examine the effects of oil price volatility on the Indian economy.
3. To study the impact of geopolitical tensions on India’s trade and logistics sector.
4. To evaluate the influence of the conflict on financial markets and currency stability.
5. To suggest policy measures to reduce economic vulnerability to geopolitical risks.

## 3. Research Methodology

### 3.1 Nature of Research

This study is descriptive and analytical in nature.

### 3.2 Data Sources

The research is based on secondary data, including:

- Government reports
- International Energy Agency (IEA)
- Reserve Bank of India (RBI)
- World Bank
- Economic surveys
- Financial news reports

### 3.3 Data Analysis Techniques

The study uses:

- Comparative analysis
- Trend analysis
- Sectoral analysis

## 4. Literature Review

Several studies have examined the relationship between geopolitical conflicts and economic performance. *Hamilton (2009)* found that oil price shocks caused by geopolitical conflicts significantly affect economic growth in oil-importing countries.

*Kilian (2014)* argued that fluctuations in oil prices caused by supply disruptions can lead to inflation and economic instability in emerging economies.

*Balcilar et al. (2018)* studied geopolitical risk and financial markets and concluded that geopolitical tensions increase volatility in stock markets and reduce investor confidence.

Similarly, *World Bank (2023)* reports indicate that geopolitical tensions in the Middle East often lead to disruptions in global energy supply chains and increased transportation costs.

These studies collectively suggest that geopolitical conflicts have both direct and indirect economic impacts on developing economies.

## 5. Iran–Israel Conflict: Background

The conflict between Iran and Israel escalated into direct military confrontation, affecting global energy

markets and international trade routes.

A key concern is the Strait of Hormuz, a critical maritime corridor through which nearly 20% of global oil supply passes. Disruptions in this region significantly impact global oil markets and energy security. Recent reports indicate that the conflict has caused one of the largest disruptions to global oil markets, reducing oil supply by millions of barrels per day. (*BUSINESS INSIDER*)

## 6. Channels of Impact on the Indian Economy

### 6.1 Impact on Oil Prices and Energy Security

The most immediate impact of the Iran–Israel conflict on India is through oil price fluctuations. India relies heavily on imported crude oil to meet its energy needs.

**Table 1: India’s Oil Import Dependency**

Indicator	Value
Share of imported crude oil	85–90%
Share of LNG imports	85%
Major supply region	Middle East

(Source: Energy market reports)

Any disruption in oil supply routes leads to a sharp increase in crude prices. Recent estimates suggest that every 10% increase in crude oil prices could reduce India’s GDP growth by 0.20–0.25 percentage points. (*The Economic Times*) Higher oil prices also increase India’s import bill and fiscal deficit.

### 6.2 Impact on Trade and Logistics

The Middle East is one of India’s largest trade partners.

**Table 2: India–Middle East Trade**

Indicator	Value
Total trade	\$178 billion
Share of India's exports to UAE	8.75%
Major exports	Petroleum products, food, textiles

(Source: Trade reports)

The conflict affects trade in several ways:

- Increased freight costs
- Higher insurance premiums
- Shipping delays

Shipping companies have raised war-risk insurance premiums due to geopolitical tensions.

These factors increase costs for Indian exporters and importers.

### 6.3 Impact on Inflation

Rising oil prices lead to cost-push inflation.

Fuel prices influence:

- transportation
- manufacturing
- agriculture

**Table 3: Inflation Impact Chain**

Factor	Effect
Rising oil prices	Higher transportation cost

Increased production cost	Higher product prices
Higher consumer prices	Inflation rise

(Source-The Economic Times)

In India, retail inflation rose to 3.21% in February 2026, and geopolitical tensions are expected to increase inflationary pressures.

#### 6.4 Impact on Currency and External Sector

The conflict also influences India's foreign exchange market. Oil price increases increase demand for US dollars, weakening the Indian rupee. Recently, the rupee touched a record low near ₹92 per US dollar due to rising oil prices linked to the conflict.

**Table 4: Currency Impact**

Factor	Impact
Rising oil imports	Higher dollar demand
Capital outflows	Currency depreciation
Weak rupee	Costlier imports

(Source-Report of Reuters. -2026).

A weaker currency increases the cost of imported goods and contributes to inflation.

#### 6.5 Impact on Indian Industries

Several industries are particularly vulnerable to oil price fluctuations.

**Table 5: Sector-wise Impact**

Sector	Impact
Aviation	Higher fuel costs
Logistics	Increased transportation cost
Chemical industry	Raw material cost increase
Plastic industry	Polymer price increase

(Source-Report of Times of India. -2026).

In Gujarat, polymer prices surged around 40% due to supply disruptions, affecting plastic manufacturing industries.

#### 6.6 Impact on Financial Markets

Geopolitical conflicts often trigger financial market volatility.

Indian stock markets have experienced declines following tensions in the Middle East.

Investors typically move toward safe assets such as gold during geopolitical crises.

Stock market declines can reduce investment confidence and economic growth.

#### 6.7 Impact on Remittances

The Gulf region hosts nearly 10 million Indian workers, who send billions of dollars to India every year.

**Table 6: Remittance Data**

Indicator	Value
Indian workers in Gulf	~10 million
Annual remittances	\$51 billion

(Source- Financial Times-2026)

If the conflict spreads across the region, employment opportunities may decline, reducing remittance inflows.

## 7. Government Response

The Indian government has taken several measures to mitigate economic risks.

These include:

- Diversifying energy imports
- Increasing domestic LPG production
- Strengthening strategic petroleum reserves

India has increased LPG imports from alternative suppliers such as the United States and Norway to reduce dependence on Gulf supplies.

## 8. Opportunities for India

Despite risks, the conflict also creates opportunities.

### Potential opportunities

1. Energy diversification
2. Growth in renewable energy
3. Strengthening domestic manufacturing
4. Strategic partnerships with new energy suppliers

These strategies could reduce India's long-term vulnerability to geopolitical shocks.

## 9. Findings of the Study

The study identifies the following key findings:

1. Oil price volatility is the most significant economic transmission channel.
2. Rising freight costs disrupt India's international trade.
3. Currency depreciation increases the cost of imports.
4. Inflationary pressures affect consumer purchasing power.
5. Industrial sectors dependent on petroleum products face higher production costs.

## 10. Policy Recommendations

To reduce economic vulnerability, India should adopt the following strategies:

### 1. Energy Diversification

India should increase imports from multiple countries to reduce dependence on the Middle East.

### 2. Renewable Energy Development

Investment in solar and wind energy can reduce fossil fuel dependence.

### 3. Strategic Petroleum Reserves

Expanding reserves will help manage temporary supply disruptions.

### 4. Trade Route Diversification

Develop alternative maritime trade routes.

### 5. Currency Risk Management

Strengthen foreign exchange reserves and financial stability.

## 11. Conclusion

The Iran–Israel conflict represents a major geopolitical challenge with significant implications for the global economy. India, due to its heavy dependence on imported energy and strong economic ties with the Middle East, is particularly vulnerable to these developments. The conflict affects India through several

economic channels, including rising oil prices, trade disruptions, currency volatility, inflationary pressures, and financial market instability. However, strategic policy measures such as energy diversification, renewable energy investments, and improved trade resilience can help mitigate these risks. In the long run, reducing dependence on fossil fuels and strengthening economic resilience will be essential for protecting India's economy from geopolitical shocks.

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