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Evaluating India's Macroeconomic Resilience Amid Global Geopolitical Crises

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Abstract
Due to war between the countries, has led to serious disruptions in the energy markets of the world and poses problems for the Indian economy. As one of the biggest oil importers in the world, India has around 85-90% of its total oil needs met by imports from countries in the Middle East. In this paper, I try to examine the effect of the geopolitical crisis on India's macroeconomic stability by studying various transmission channels through which the impact could be passed like the effect of energy prices, interruptions in trade, budgetary considerations and depreciation of currency. A comparative analysis is carried out between pre-war period, war period and post-truce periods. It has been found that due to the geopolitical conflict, India's GDP growth prospects have fallen from 7.4% (in FY26) to 6.4% (in FY27), its inflation prospects have risen to 5.1% and its BOP deficit has increased.

Key Word*: Indian Economy, Oil Price Shock, Strait of Hormuz, Current Account Deficit, Inflation, Energy Security, Geopolitical Risk*

I. INTRODUCTION

India's reliance on energy imports from the Middle East makes the nation very sensitive to regional disputes [1][6]. India relies on 85% of its crude oil imports, with the Strait of Hormuz being the main entry point for imports of LPG and crude from key countries like Saudi Arabia, Iraq, Kuwait, UAE, and Qatar [1][6]. Disruptions in the shipping lanes as a result of the dispute left India with no other option but to source their crude from far-flung areas, thus incurring increased costs of transportation and insurance [1][6]. Brent crude oil prices rose from around $70 per barrel in February to around $120 per barrel at the peak of the dispute [1][6].

As per the April 2026 issue of RBI Bulletin, additional risks include further escalation, prolongation, and geographically broader spread of the conflict as significant downside risks to the economic prospects both globally and domestically [1]. The RBI has cautioned about the spillovers into India via various channels including increased fuel prices, input cost pressures, disruption in trade flow, and financial market spillovers [1].

The signing of a peace pact between US and Iran along with the signing of a 14-point Memorandum of Understanding on June 19, 2026, has created a sense of hope for economic relief [2][5][7]. The MOU contains clauses pertaining to re-opening of Strait of Hormuz in 30 days' time, waiver in exporting of Iranian oil, and relaxing the banking norms [2][5][7]. But experts have pointed out that the MOU may be more of

a "relief valve, not peace" as war risk insurance premium is likely to continue at high levels along with the overall nuclear negotiations framework [2][7].

II. LITERATURE SURVEY

The impact of geopolitical disputes on energy importing countries' economies has been well examined in scholarly literature [1][6]. The transmission mechanism of oil price shocks has revealed that there are different routes by which changes in energy prices can influence the economy, namely direct impact on import costs and terms of trade, indirect impact via inflation and the response of monetary policy, and second round impact via weakening consumer and business spending [1][6]. For oil-importing developing countries, the transmission mechanism works more strongly because of the oil intensity of GDP and lack of monetary policy flexibility [1][6].

Energy security in India studies have revealed how vulnerable India is to threats coming from the Middle East region [1][4][6]. Oil import dependency of India increased from around 70% in 2000 to more than 85% currently due to decreasing indigenous production as well as increasing consumption because of its economic growth [4][6]. Although there were attempts at diversification through strategic petroleum reserves, domestic refining capabilities, and agreements with other regions except the Middle East, vulnerability to Hormuz disruption still exists structurally [1][4][6].

Before the US sanctions against Iran in 2019, Iran was India's third largest supplier of crude oil and contributed around 10-11.5% of total imported oil [5][10]. As a result of those sanctions, Indian refiners had to stop importing oil from Iran, which resulted in the decrease in Iran's contribution to India's import basket [5][10]. Importing oil temporarily during the 2026 war period was an illustration of such a trade-off [5][10].

There is ample research that captures how economically integrated South Asia and the Middle East are through their economic relationship [5][6]. The Gulf Cooperation Council countries form India's biggest trade bloc, with India's bilateral trade with GCC countries amounting to over $178 billion per year [5][6]. The war disruption of this economic relationship points out the weakness of such trade supply chains which are maritime and pass-through areas which experience war [5][6].

The recent literature about the macroeconomic effects of the 2026 US-Iran war has quantified these effects [1][3][6][8]. Fitch ratings lowered India's FY27 growth outlook by 0.3 percent to 6.4 percent due to economic ramifications and increased energy prices as they affect consumer demand [3][8]. The RBI reduced its growth expectation to 6.6 percent for FY27 while increasing its inflation forecast to 5.1 percent [1].

III. PROPOSED METHODOLOGY

Analytical Framework

This research utilizes the mixed-methods approach based on the use of quantitative macroeconomic analysis alongside qualitative evaluation of geopolitical factors. The analytical framework consists of three time periods: pre-war situation (before February 2026), wartime (February-June 2026), and post-truce scenario

(after June 2026). This allows for comparative analysis of key macroeconomic variables in different geopolitical settings.

The analytical framework includes five key transmission mechanisms that mediate the impact on the Indian economy:

- **Price of Energy Channel:** Direct effect of the rise of oil and gas prices on the cost of imports, inflation, and terms of trade.
- **Trade Disruption Channel:** Effect on the level of exports and imports, costs of transportation.
- **Fiscal Channel:** Impact on the level of government revenues, expenses on subsidies, and target levels of fiscal deficit.
- **Monetary Channel:** Pressure on exchange rate, inflation expectation, monetary policies of the Central Bank.
- **Investment Channel:** Effect on capital flows, corporate sentiment and stock market indices.

Data Sources and Variables

The quantitative data has been collected from reliable and legitimate sources, such as Reserve Bank of India, Ministry of Petroleum and Natural Gas, Ministry of Commerce and Industry, Fitch Ratings, United Nations, and SBI Research. The important variables will include the following:

- Crude oil prices (both Brent and WTI) along with SBI research estimates ($10 per barrel increase widens CAD by 36 basis points)
- Oil import expenditure and balance of trade for India
- Wholesale Price Index (8.3% on Year-on-Year basis in April 2026) and inflation in CPI
- GDP growth (on quarterly and annual basis)
- Balance of payments and current account deficit
- Exchange rates (Indian Rupee per Dollar) with Fitch forecasts at an average of 97.50 in FY27
- Fiscal deficit as a percentage of GDP

Estimation Approach

A comparative analysis approach is adopted in the analysis, where actual results in the war period are compared with pre-war projections. Some estimates for parameters in consideration are as follows:

- **GDP Growth:** According to Fitch Ratings, there is an impact on FY27 GDP growth rate of 0.3 percentage points, falling from 6.7% to 6.4% due to the impact of the energy crisis on real income levels and reduction in consumption.
- **Inflation Rate:** The wholesale price inflation level in April 2026 was recorded at 8.3% on a year-on-year basis, whereas CPI inflation was at 3.5%. Fitch expects retail inflation to be at 5.3% by the end of 2026, because of base effects and increased energy prices.

- **Current Account:** According to SBI Research, for every increase in crude oil prices by $10/barrel, the current account deficit increases by 36 basis points in FY27.

Data Visualization Methodology

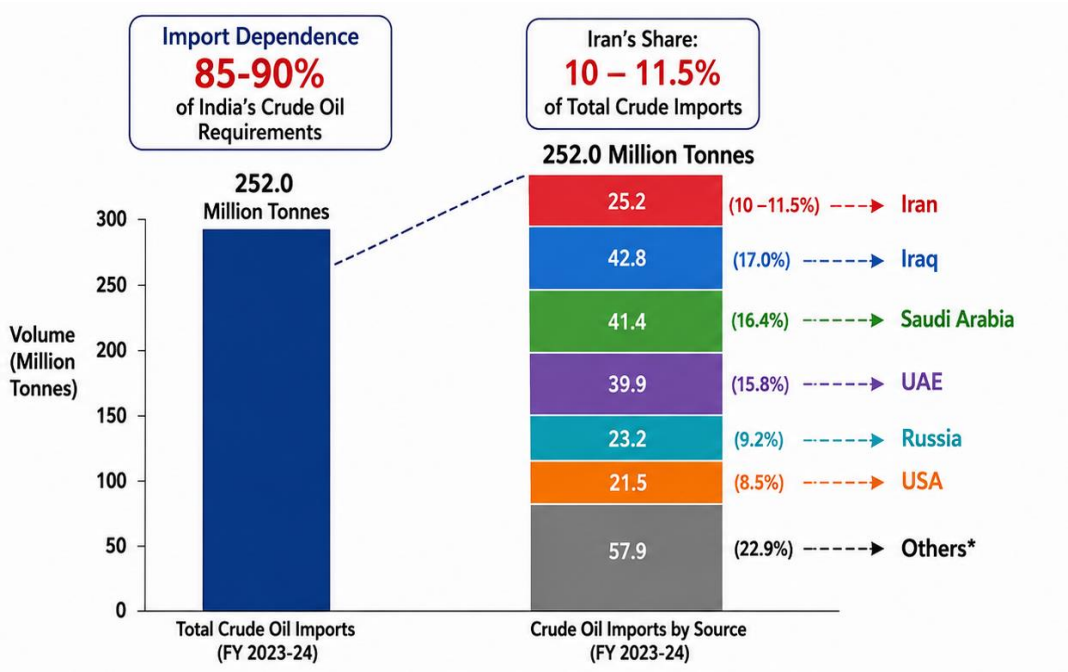

Figure 1: Oil Import Dependency and Source Countries in India

Chart showing the volume of crude oil imports into India (million tonnes). It depicts India's 85-90% oil dependency on foreign oil suppliers, historical Iran's share of approximately 10-11.5% in total imports of crude oil, and the strategy of diversification including imports from over 40 different countries.



Figure 2: Price Trajectory of Crude Oil and Impact Thresholds for India

Candlestick chart depicting price trajectory of Brent crude oil from $70/barrel before the war, rise to about $120/barrel during the war, and fall after truce to $80-85/barrel. It indicates the impact threshold for India at $80-85/barrel where its fiscal and external balances come under strain.

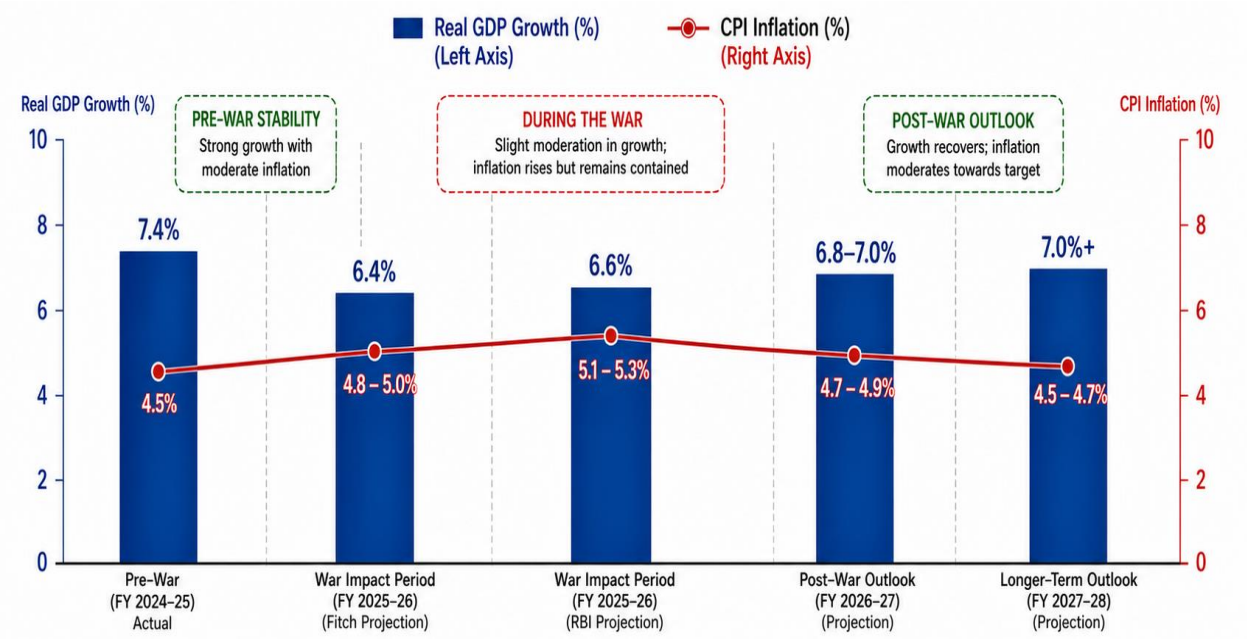

Figure 3: Macroeconomic Effects of US vs Iran War – GDP and Inflation

A dual axis graph depicting the GDP growth and inflation rate. This chart shows the stability prior to the war where growth is at 7.4%, growth projections during the war are 6.4% (Fitch) and 6.6% (RBI) growth with projected inflation of 5.1-5.3% by 2026 end of year.

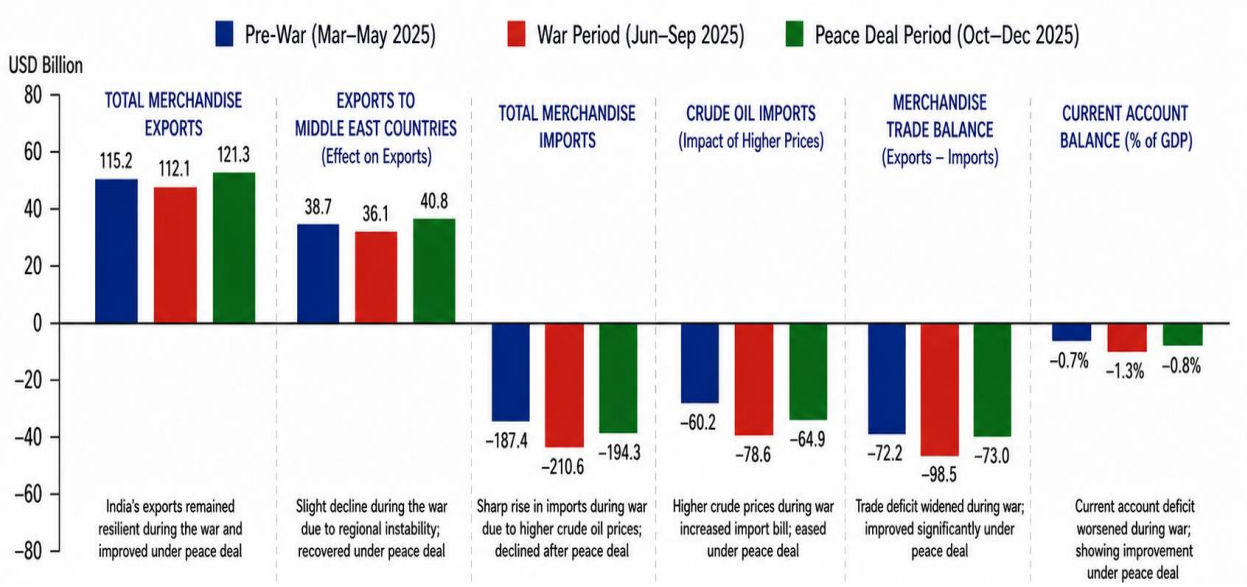

Figure 4: Balance of Payments and Trade Effect

Grouped bar graph demonstrating the effects on India's trade balance during the war period due to effect of exports to Middle East countries. The graph demonstrates the balance of payment issues during the war and improvement under the peace deal situation.

IV. ANALYSIS AND DISCUSSION

Energy Price Shock and Impacts on Import Bills

The outbreak of the war caused an instant and sharp rise in energy prices around the world, where Brent crude rose to about $120 per barrel after the February 28 attack, causing the closure of the Strait of Hormuz. Although the prices fell to about $85 per barrel after the announcement of the truce in June 2026, prices stayed about 30% higher overall.

Fitch Ratings adjusted its forecast for the average Brent crude oil prices for 2026 to about $87 per barrel, which is much higher compared to the $70 per barrel estimated in March. The rating agency pointed out that the disruption does not change the longer-term trend in the market, which will return to surplus in 2026.

India witnessed a significant rise in its oil import bills due to the conflict. The Indian government had to adopt emergency energy security measures such as better monitoring of LPG stocks, prioritizing natural gas production in the country and preventing fuel hoarding. Public fuel marketers were asked to better manage inventories and avoid panic purchases.

Growth and Inflation Dynamics

The energy shock has significantly impacted India's growth path. In its latest ratings, Fitch has revised its FY27 economic growth outlook to 6.4%, down by 0.3% points compared to its earlier March forecast. The slowdown is likely to show itself mostly in the second and third quarters of FY27 because rising prices will reduce real incomes and consumption. The RBI revised downwards its growth forecast for FY27 to 6.6%, but increased its inflation forecast to 5.1%.

Inflation trends have also been significantly affected. The wholesale price inflation has risen to 8.3% yearly in April 2026, while consumer price inflation has increased slightly to 3.5%. Fitch expects that by the end of calendar 2026, retail inflation will rise to 5.3%, which is due to some base effects, high energy prices and possible food price inflation caused by poor monsoon expectations and heatwave in certain regions.

The RBI faces a tricky situation. Although it left its policy rate at 5.25% in April, Fitch expects an increase in the interest rate to 5.5% in order to deal with rising price pressures caused by the negative supply shock. However, more restrictive monetary policy may slow down economic growth.

Trade Disruption and External Balances

The conflict has badly affected India's trade with the GCC countries. The Reserve Bank of India stated that long periods of disruptions will have spill-over effects in India through various means, such as disruptions in trade relations and financial market spill-overs.

India's balance of payments situation deteriorated considerably during the period of the conflict. The World Economic Situation and Prospects 2026 Mid-Year Update by the UN highlighted that the world economy is facing stress owing to the Middle East Crisis, which has resulted in slower growth rates and re-emerging inflationary pressures. There is a great deal of stress on India's balance of payments situation owing to increased import costs of crude oil and outflow of foreign investments.

The rupee has depreciated substantially during the war period and is at almost 97 against the US dollar. Nonetheless, there have been signs of recovery in the currency as there are expectations of a possible resolution to the crisis. Fitch has not predicted any additional depreciation of the rupee in the coming months and has projected an average rate of 97.50 in FY27.

Financial Constraints and Actions Taken by the Government

The war has put considerable fiscal pressure on the Indian government. In order to prevent an increase in the cost of petrol and diesel at the retail level, the government reduced excise duty on both fuels by Rs 10 per litre in March 2026. The retail prices of petrol and diesel were raised by approximately Rs 7.50 per litre after the state assembly elections, whereas the cost of CNG was increased by Rs 6 per kg and LPG cost was hiked by Rs 89 per 14.2-kg cylinder in two sittings.

It should be noted that the government is aware of the losses being incurred by the oil marketing companies in their day-to-day operations despite the hike in prices.

Moving ahead, the government would look into reviewing and phasing out emergency energy security measures when the situation becomes normal globally. An official of the government mentioned that the

measures were precautionary in nature and meant to ensure that there is no shortage of essential fuels amid high levels of geopolitics.

Energy Security and Strategic Adjustments

The ongoing crisis has sped up the process of diversification of energy security for India. India had been importing crude from over 40 countries with the non-Hormuz sources making up 70% of its imports of crude by the end of the conflict period. The return to Iranian oil imports in April 2026 after a gap of seven years was crucial in terms of supply; during this period India imported one million tons of crude from Iran.

US-Iran peace deal will give more strategic advantages. Deregulation of oil from Iran will be beneficial for India because of its geographical proximity and the fact that historically the credit period given by Iran is relatively higher compared to others (60-90 days as compared to 30 days). Furthermore, the agreement will boost India's strategic interest in Chabahar port where it has already made an investment of $370 million for the next ten years through a long-term arrangement at Shahid Beheshti Terminal.

Comparative Analysis

Channel	**Pre-War Baseline**	**Wartime Impact**	**Post-Truce Outlook**
GDP Growth	7.4% (FY26 actual)	6.4% (Fitch FY27 projection)	6.7% projected for FY28
CPI Inflation	~3.5% (April 2026)	5.1% (RBI FY27 projection)	~5.3% by end-2026
Brent Crude Price	~$70/barrel	~$120/barrel (peak)	~$85/barrel
Current Account	0.6% of GDP (FY26)	Widened by 36bps per $10/bbl increase	Expected improvement

Channel	Pre-War Baseline	Wartime Impact	Post-Truce Outlook
INR/USD	~88	~97 (peak)	~97.50 average FY27
Wholesale Inflation	Contained	8.3% (April 2026)	Subject to energy price trajectory
Fiscal Deficit	4.3% target	Under pressure from subsidies and revenue loss	Subject to normalisation

Table 1: Comparative Impact Across Key Macroeconomic Channels

Scenario Parameter	Pre-War Baseline (FY26)	Wartime Shock (FY27 Projection)	Post-Truce Scenario
Oil Price (Brent avg.)	$70/bbl	$87/bbl	$80-85/bbl with potential oversupply
Growth Driver	Domestic demand, capex	Domestic demand but dampened by inflation	Consumer spending and investment recovery
Policy Response	RBI rate at 5.25%	Potential rate hike to 5.5%	Conditional on inflation trajectory
External Balance	CAD at 0.6% of GDP	Significant widening pressure	Relief from energy cost normalization
Strategic Position	Pre-conflict energy security	Emergency supply measures; diversification	Iranian crude access; Chabahar revival

Table 2: Comparative Assessment: Pre-War, Wartime, and Post-Truce Scenarios

Stock Market and Investment Impact

The first impact of the US-Iran War on the stock markets in India was drastic. In March itself, investors were reported to have incurred losses of around Rs 51 lakh crore owing to the war. Foreign Institutional Investors have been selling actively, putting pressure on both rupee and valuations of the market. The Sensex is down over 6% from the start of March, but it seems to be recovering due to expectations of a peace deal.

A peace deal can give rise to new portfolio inflows. As the rupee strengthens and Brent crude prices drop, it is believed that FII selling shall slow down. According to one investment strategy, the rupee may strengthen to 93 to a dollar, which can have an upside for FII flows and the stock market. But the looming threat of a bad monsoon cannot be ignored.

V. CONCLUSION

In this paper, the multi-faceted effect of the war on the Indian economy has been discussed, showing how vulnerable India is in terms of its energy security framework and the macroeconomic implications of such political disruptions. As is evident from the rise in energy prices and the 53% increase in the cost of importing oil for India during the course of the war, India has been shown to be very vulnerable due to its reliance on Middle Eastern oil resources.

The macroeconomic impacts have been many. GDP growth estimates have been lowered, with Fitch Ratings now projecting the growth rate to be 6.4% for FY27, which is 7.4% in FY26. The inflation rates have risen to 5.1%, owing to the transmission of high energy prices from the wholesale sector to the consumer. The current account deficit has also widened considerably, with the estimate by SBI Research being that a rise of $10/barrel increases the CAD by 36 basis points.

The June 2026 peace agreement could offer respite through many avenues. First, the opening of the Strait of Hormuz is expected to stabilize energy prices, lower shipping costs and reduce inflationary pressures. Second, the resumption of Iranian oil exportation and US sanctions waivers is bound to create additional supply options. Finally, the implementation of the Chabahar port strategy is likely to help realize India’s ambition to improve connectivity. Experts argue, however, that the agreement is only a temporary solution, which does not amount to durable peace. War-risk insurance premiums might remain elevated, while the 60-day deadline for nuclear negotiations will ensure further uncertainty.

Some of the main findings are as follows.

- First, India's energy security policy framework needs considerable improvement. The construction of strategic petroleum reserves and the strategy of diversification involving crude imports from over 40 countries are examples of such improvements.
- Second, supply diversification has to be carried out. The percentage of non-Hormuz supply has already reached 70%.
- Third, fiscal resources have to be preserved in order to finance the response to the crisis without causing macroeconomic problems.

It is worth mentioning the limitations of the given analysis. The confrontation is still ongoing, and economic results depend on how sustainable the current peace framework is and what path the negotiations about

nuclear weapons will take. Due to the delay in statistical information, it is impossible to have data on hand; hence, estimations should be made.

The given analysis takes into account only India-specific economic effects and ignores potential spillovers at the global level and second-round effects. Future studies might involve deeper analysis of specific industries that are affected by an energy shock, analysis of labor market effects, and impact on the energy transition path of India. Additionally, the pandemic-like effect of the energy shock calls for comparisons with past crises.

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