



Comprehensive Analysis Of The Effects Of The Israel–Iran War On The Indian Economy

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Abstract

The geopolitical conflict between Israel and Iran has evolved into a major global crisis with significant implications for international trade, energy markets, and economic stability. As a rapidly developing country with heavy dependence on Middle Eastern energy supplies and trade routes, India is particularly vulnerable to the ripple effects of this conflict. This research paper examines the harmful effects and broader impacts of the Israel–Iran war on the Indian economy and the everyday lives of Indian citizens. The study analyzes major channels through which the conflict affects India, including rising oil prices, disruptions in maritime trade routes, inflationary pressures, stock market volatility, remittances from Indian workers in the Gulf region, and supply-chain disturbances. Furthermore, the paper highlights how the war affects key economic sectors such as agriculture, aviation, fertilizers, and consumer markets. By evaluating these dimensions, the research demonstrates that geopolitical conflicts in the Middle East can significantly influence India's macroeconomic stability and the socio-economic well-being of its population. The paper concludes by discussing possible policy responses that the Indian government could adopt to mitigate these risks and strengthen economic resilience against external geopolitical shocks.

1. Introduction

International conflicts often have consequences that extend far beyond the borders of the countries directly involved. The war between Israel and Iran represents one of the most significant geopolitical crises in recent years. Both countries play crucial roles in Middle Eastern geopolitics and global energy markets. Iran is a major oil producer and occupies a strategic geographic location near the Strait of Hormuz, one of the most critical shipping routes for global oil transportation. Any military confrontation in this region therefore has global economic implications.

India, as the world's third-largest oil importer, is particularly vulnerable to such geopolitical tensions. The country imports nearly 80–85 percent of its crude oil requirements from international markets, much of it from the Middle East. Consequently, any disruption in oil production or shipping routes in this region directly affects India's economic stability. Madras Courier

The Israel–Iran conflict has already begun to affect global markets by increasing oil prices, disrupting maritime trade routes, and creating uncertainty in financial markets. For India, these developments translate into rising fuel prices, inflationary pressures, and challenges to economic growth. Furthermore, millions of Indian workers live in Gulf countries and send remittances back to India. Any instability in the region

could disrupt these remittances, affecting household incomes and India's foreign exchange reserves. [The Times of India](#)

Apart from economic concerns, the conflict also affects the everyday lives of Indian citizens. Rising energy prices increase transportation and food costs, which can reduce purchasing power and increase economic hardship for lower-income groups. Supply chain disruptions also lead to shortages of essential commodities such as LPG, fertilizers, and imported goods.

This research paper aims to analyze the harmful effects of the Israel–Iran war on India from multiple perspectives. It evaluates the economic consequences, sector-specific impacts, and social implications for Indian citizens. By examining these aspects, the paper highlights the interconnected nature of global geopolitics and domestic economic stability.

2. Background of the Israel–Iran Conflict

The conflict between Israel and Iran is rooted in political, ideological, and strategic rivalries that have developed over several decades. After the Iranian Revolution in 1979, Iran adopted a strong anti-Israel stance and opposed Israel's policies in the Middle East. Over time, tensions escalated due to issues such as Iran's nuclear program, regional power struggles, and proxy conflicts involving groups supported by Iran.

Israel has repeatedly expressed concerns about Iran's nuclear ambitions, arguing that a nuclear-armed Iran would threaten regional stability and Israel's security. As a result, Israel has conducted military operations and intelligence activities aimed at limiting Iran's nuclear capabilities. Iran, on the other hand, views Israel as a hostile state backed by Western powers and has responded by strengthening its military alliances and regional influence.

In recent years, tensions between the two countries have escalated into direct military confrontations, including missile attacks, cyber warfare, and strikes on strategic infrastructure. The conflict has also involved other global powers such as the United States, further intensifying the geopolitical situation in the Middle East.

One of the most critical aspects of this conflict is its location near major energy transportation routes. The Strait of Hormuz, located near Iran, is responsible for transporting approximately one-fifth of the world's oil supply. Any disruption in this route can cause global oil prices to rise sharply and create uncertainty in international markets. [AP News](#)

Recent escalations have led to attacks on energy facilities and shipping vessels in the region. Such incidents have disrupted oil production and increased global energy prices, creating economic challenges for countries that rely heavily on imported energy. [The Guardian](#)

Because India depends heavily on Middle Eastern oil and trade routes, the consequences of this conflict are particularly significant for the country's economic and strategic interests.

3. Impact on the Indian Economy

The Israel–Iran war has created multiple economic challenges for India, affecting energy prices, trade, currency stability, and economic growth. One of the most significant impacts is the increase in crude oil prices. Since India imports the majority of its oil, any increase in global oil prices directly raises the country's import bill and widens the trade deficit. Higher oil prices also increase the cost of transportation, manufacturing, and electricity production, which in turn leads to inflation across the economy.

Another important impact is the pressure on the Indian rupee. When oil prices rise, India needs more foreign currency to pay for its imports. This increases demand for the US dollar and weakens the rupee,

making imports even more expensive. Currency depreciation can also increase the cost of servicing external debt and create additional financial stress for businesses and the government. [India Briefing](#)

The conflict has also caused volatility in Indian financial markets. Investors tend to withdraw funds from emerging markets during periods of geopolitical uncertainty, leading to declines in stock market indices and loss of investor confidence. Reports indicate that tensions related to the Middle East conflict triggered significant losses in the Indian stock market, wiping out billions of dollars in investor wealth within a short period. [The Times of India](#)

Additionally, increased shipping insurance costs and disrupted trade routes have raised transportation expenses for Indian exporters and importers. Freight rates and war-risk premiums for shipping have increased, making international trade more expensive and less predictable. [India Briefing](#)

Overall, the Israel–Iran war poses a serious threat to India’s economic stability by increasing inflation, weakening the currency, disrupting trade, and creating uncertainty in financial markets.

4. Sector-Wise Impact on Indian Industries

The impact of the Israel–Iran war is not limited to macroeconomic indicators; it also affects specific sectors of the Indian economy. Among the most affected sectors are energy, aviation, agriculture, fertilizers, and jewelry industries.

Energy Sector

The energy sector is the most directly affected by the conflict. Rising crude oil prices significantly increase the cost of fuel imports. Brent crude prices have surged above \$100 per barrel during the conflict, placing pressure on energy-importing nations like India. [The Guardian](#)

India also imports large quantities of liquefied petroleum gas (LPG) and liquefied natural gas (LNG) from the Middle East. Disruptions in shipping routes through the Strait of Hormuz have already caused supply shortages and forced the government to prioritize household LPG supplies over industrial usage. [Reuters](#)

Aviation Sector

The aviation industry is highly sensitive to fuel prices. Aviation turbine fuel is derived from crude oil, and rising oil prices significantly increase airline operating costs. This can lead to higher airfares, reduced passenger demand, and financial losses for airlines.

Agricultural Sector

The agricultural sector is also affected due to disruptions in fertilizer imports. India imports large quantities of fertilizers and petrochemical products from the Middle East. Any disruption in supply chains can lead to higher fertilizer prices, which in turn increase agricultural production costs.

Jewelry and Diamond Industry

India is one of the world’s largest consumers of gold and diamonds, many of which are imported through Middle Eastern trade networks. The conflict can disrupt supply chains and increase commodity prices, negatively affecting jewelry manufacturers and exporters. [The Times of India](#)

Export Sector

Several Indian exports, including rice and oil meal, depend on trade routes passing through the Middle East. War-related shipping disruptions have already slowed Indian rice exports due to rising freight and insurance costs. [Reuters](#)

These sector-specific impacts highlight the widespread economic consequences of geopolitical conflicts.

5. Impact on the Lives of Indian Citizens

The effects of the Israel–Iran war are not limited to government policies or corporate sectors; they also significantly influence the daily lives of Indian citizens. One of the most immediate effects is the increase in fuel prices. When crude oil prices rise globally, the cost of petrol, diesel, and cooking gas increases in India. This raises transportation costs and increases the prices of goods and services.

For households, the rising cost of LPG cylinders can significantly affect monthly budgets, especially for low-income families. In some cases, supply shortages have forced households and small businesses to reduce gas consumption or switch to alternative cooking methods. [Reuters](#)

Another important impact concerns employment and remittances. Millions of Indians work in Gulf countries such as Saudi Arabia, the United Arab Emirates, and Qatar. These workers send billions of dollars back to India each year in the form of remittances. If the conflict spreads across the region or affects economic activity in Gulf countries, job opportunities for Indian workers could decline, reducing remittance inflows and affecting millions of families in India. [The Times of India](#)

Additionally, inflation resulting from higher fuel and transportation costs affects the prices of essential goods such as food, vegetables, and household items. This reduces the purchasing power of Indian consumers and increases economic inequality.

Thus, while the conflict occurs thousands of kilometers away, its economic consequences are felt directly in the everyday lives of Indian citizens.



6. Conclusion

The Israel–Iran war represents a major geopolitical crisis with far-reaching economic and social consequences. For India, the conflict highlights the country's vulnerability to external shocks due to its heavy dependence on imported energy and international trade routes.

The research demonstrates that the war affects India through multiple channels. Rising oil prices increase the country's import bill and create inflationary pressures. Disruptions in maritime trade routes raise shipping costs and affect exports. Financial markets experience volatility due to global uncertainty, while the Indian rupee faces depreciation pressures.

Furthermore, several sectors of the Indian economy—including energy, aviation, agriculture, and jewelry—are directly affected by the conflict. Supply chain disruptions and rising production costs can slow economic growth and reduce industrial profitability.

Most importantly, the conflict has significant implications for the everyday lives of Indian citizens. Rising fuel and commodity prices increase household expenses, while potential disruptions in Gulf economies could affect remittances from Indian workers abroad.

To mitigate these risks, India must diversify its energy sources, expand strategic petroleum reserves, strengthen trade partnerships, and invest in renewable energy. Such measures can reduce the country's dependence on volatile geopolitical regions and improve economic resilience.

In conclusion, the Israel–Iran war illustrates how global geopolitical conflicts can have profound economic and social impacts on countries that are geographically distant from the battlefield. For India, strengthening economic resilience and energy security will be essential to protect its economy and citizens from future geopolitical shocks.

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