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Economic Implications of US Israel–Iran Conflict for the Global and Indian Economy

Transmission Channels, Macroeconomic Impacts, and Policy Responses

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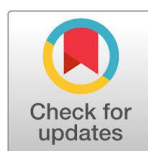
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Abstract: The military confrontation involving the United States, Israel, and Iran that began on 28 February 2026 constitutes one of the largest geopolitical shocks to the global economy since the 1973 oil embargo. The coordinated strikes and Iran's subsequent effective closure of the Strait of Hormuz removed a substantial share of global seaborne crude oil, LNG and fertiliser-input trade from the market, pushed Brent crude prices above US\$110–126 per barrel at peak, and disrupted shipping-insurance markets worldwide. This paper synthesises the rapidly emerging institutional, academic and market literature on the conflict's economic consequences and examines, through secondary macroeconomic data, its specific transmission into the Indian economy. International Monetary Fund and World Bank projections indicate global GDP growth reduced to the range of 2.5–3.0 percent in 2026 (from pre-conflict baselines near 3.4–3.5 percent), with global inflation rising to approximately 4.7 percent. India, as the world's third-largest oil importer with approximately 85–90 percent crude-oil import dependence and heavy reliance on Gulf corridors (40 percent of crude, 60 percent of LNG, 90 percent of LPG), faces an estimated USD 14.4–22 billion net-to-gross incremental fossil-fuel import cost for March–August 2026, record rupee depreciation, current-account pressure, forex-reserve drawdown, and GDP growth moderation of 0.3–1.3 percentage points. At the same time, remittance inflows from the nine million Indian workers in GCC countries and a large services-export base provided partial buffers largely absent during the 1990–91 balance-of-payments crisis. Drawing on the foundational oil-shock literature (Hamilton, 1983; Mork, 1989) and India-specific empirical work (Bhattacharya & Bhattacharya, 2001; Sreenu, 2018; Deheri & Ramachandran, 2023), the paper situates the 2026 episode within a comparative historical frame and evaluates the Reserve Bank of India's policy response across monetary, exchange-rate and trade-policy channels. It concludes with recommendations on energy-source diversification, strategic-reserve sizing, exchange-rate management and fiscal buffers, while explicitly noting the methodological limits of assessing an unresolved and still-evolving conflict.

Keywords: 2026 Iran war; Strait of Hormuz; oil price shock; Indian economy; exchange rate; current account deficit; geopolitical risk; energy security; fertiliser markets; remittances

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1. Introduction

Geopolitical conflict in the Middle East has historically transmitted itself to the rest of the world economy through a small number of well-understood channels: the price of crude oil, the cost and availability of shipping through maritime chokepoints, investor risk appetite, and the price of safe-haven assets such as gold. The military operation launched by the United States and Israel against Iran on 28 February 2026—which resulted in the reported death of Supreme Leader Ali Khamenei and a subsequent leadership transition in Tehran—set all of these channels in motion simultaneously and at a scale not observed since the 1970s energy crises (Britannica, 2026; Congressional Research Service [CRS], 2026). Iran’s response, which included the effective closure of the Strait of Hormuz, removed a corridor through which approximately one-fifth of the world’s seaborne crude oil, a substantial share of LNG trade, and significant volumes of fertiliser inputs normally pass (Council on Foreign Relations [CFR], 2026). The economic consequences have been global in scope yet highly uneven in distribution. Energy-exporting economies outside the immediate conflict zone and certain advanced economies with domestic hydrocarbon production have experienced relative resilience or even terms-of-trade gains. Energy-importing emerging markets, particularly in Asia, have absorbed the bulk of the price and volume shocks. India occupies a particularly exposed position: it imports roughly 85–90 percent of its crude oil requirement, historically sourced a large share from the Gulf, maintains significant labour and remittance linkages with the Gulf Cooperation Council (GCC) states that host approximately nine million Indian workers, and relies on imported LNG for a substantial share of domestic urea production. Within weeks of the outbreak of hostilities, the Indian rupee touched record lows against the US dollar, the Reserve Bank of India (RBI) drew down tens of billions of dollars from its foreign exchange reserves to manage currency volatility, and multiple forecasting agencies cut their projections for India’s GDP growth. At the same time, India’s position going into the crisis was structurally different from that of 1990–91, the last occasion on which a Gulf conflict produced a genuine balance-of-payments emergency: substantially larger foreign exchange reserves, a much larger services export base, and a very large stock of Gulf-based remittance-sending migrants.

This paper has four objectives. First, it reviews the theoretical and empirical literature on oil price shocks and macroeconomic performance, with particular attention to India-specific studies, and synthesises the emerging institutional assessments of the 2026 conflict. Second, it maps the principal transmission channels—energy-price spikes, fertiliser and shipping-cost increases, fiscal burdens, and remittance risks. Third, it compiles and organises the secondary macroeconomic data on the conflict’s transmission into the global and Indian economies. Fourth, it situates the 2026 episode within a comparative historical frame and draws out policy implications for energy security and macroeconomic management. Given that the conflict remains unresolved and that hostilities have resumed intermittently even after formal ceasefire announcements, the paper is explicitly framed as a literature review and secondary-data synthesis rather than an original econometric estimation.

2. Literature Review

2.1 Theoretical Foundations: Oil Price Shocks and the Macroeconomy

The proposition that oil price increases precede and help to explain economic slowdowns was established in the seminal work of Hamilton (1983), who found that nearly every US recession in the post-war period had been preceded by a sharp increase in oil prices. Subsequent work by Hamilton (1996) refined this relationship by showing that it is the net increase in oil prices relative to their recent range, rather than the level of the price itself, that carries predictive power. Mork (1989) extended Hamilton’s framework to show that the relationship between oil prices and output is asymmetric: price increases depress output more than price decreases stimulate it. Darby (1982) and Bernanke, Gertler, and Watson (1997) further argued that part of the output loss associated with oil shocks is not a direct supply-side effect but a consequence of the monetary policy tightening that typically follows an inflationary oil shock. More recent work by Kilian and Vigfusson (2011) refined the testing of this asymmetry using slope-based and impulse-response methods, providing the methodological basis for a number of subsequent country-specific studies, including those on India discussed below.

2.2 Oil Shocks and the Indian Economy: Empirical Evidence

A substantial body of India-specific empirical literature has developed around the transmission of oil price shocks into domestic macroeconomic variables. Bhattacharya and Bhattacharya (2001) provided one of the earliest systematic assessments of the pass-through of oil price increases into Indian inflation and output, finding meaningful but administratively dampened effects given India’s historically regulated fuel-pricing regime. Cunado and Perez de Gracia (2005) situated India within a broader panel of Asian economies and found that oil price shocks generate measurable effects on both output and inflation, though the magnitude varies with the structure of energy subsidies and the exchange-rate regime. Sreenu (2018), using a combination of GARCH and vector autoregression (VAR) techniques over the 2010–2018 period, confirmed that crude oil is pro-cyclical with Indian output and traced transmission through the wholesale price index, industrial production, monetary policy, and the external balance. Most recently, Deheri and Ramachandran (2023), applying the slope and impulse-response asymmetry tests developed by Kilian and Vigfusson (2011), found that Indian industrial output and CPI inflation respond asymmetrically to oil price shocks, with price increases generating disproportionately larger effects than equivalent price decreases—a finding directly relevant to interpreting the sharp, front-loaded oil price spike associated with the 2026 Iran war.

2.3 Emerging Literature on the 2026 Iran War

Because the conflict examined in this paper is only months old at the time of writing, the available literature is dominated by institutional and preprint sources rather than peer-reviewed journal articles—a limitation this paper treats transparently.

The evidence base comprises flagship publications of the International Monetary Fund (IMF) and World Bank, scenario modelling by the Peterson Institute for International Economics (PIIE), empirical cost estimates by the Centre for Research on Energy and Clean Air (CREA), central-bank statements from the Reserve Bank of India (RBI), and complementary analyses from BloombergNEF, OMFIF, Vision of Humanity (Global Peace Index), IFPRI, UNDP, and leading financial institutions.

The IMF's July 2026 World Economic Outlook Update revised global growth for 2026 downward to 3.0 percent (from a pre-conflict path near 3.4–3.5 percent) and raised the global inflation projection to 4.7 percent. The World Bank's June 2026 Global Economic Prospects projected 2.5 percent global growth under its baseline and as low as 1.3 percent under a severe, prolonged disruption scenario. McKibbin, Noland and Shuetrim (PIIE Working Paper 26-10) modelled oil prices at approximately USD 120 per barrel for one- and three-year horizons, finding GDP losses concentrated in energy-importing Asian economies, including India, of 2.8–3.2 percent relative to baseline in the more severe case. CREA's August 2026 analysis estimated a global incremental fossil-fuel import cost of roughly USD 330 billion for March–August 2026, of which India accounted for USD 22 billion gross and USD 14.4 billion net (0.38 percent of GDP). Vision of Humanity's Global Peace Index scenarios place potential global GDP losses in the range of USD 1.3–3.5 trillion depending on conflict duration and geographic spread. On India specifically, the Institute of South Asian Studies produced policy briefs by Palit (2025, 2026) tracking the conflict's energy-security and inflationary implications, while financial-sector commentary has tracked the rupee, current account, and remittance channels in near-real time.

3. Background: The 2026 Iran War

The defining structural feature of the conflict, from an economic standpoint, is that it has not followed the pattern of earlier Gulf crises—a sharp shock followed by a durable ceasefire and price normalisation. Instead, ceasefires have repeatedly broken down, extending the period over which energy markets, shipping routes, and investor sentiment have remained in a state of elevated risk. Table 1 summarises the key events.

Table 1. Timeline of Key Events in the 2026 Iran War

Date	Event	Source
28 Feb 2026	US and Israeli strikes launched against Iran (“Operation Epic Fury”); Supreme Leader Ali Khamenei and senior officials killed; nuclear and military infrastructure targeted.	Britannica; CRS
Late Feb–Mar 2026	Iran effectively closes the Strait of Hormuz and strikes Gulf energy infrastructure, US bases, and US-allied states; over 660 recorded attack events across the Gulf. Refining capacity reduced by 20%.	ACLED; market data
8 Mar 2026	Mojtaba Khamenei named as successor Supreme Leader amid leadership transition.	CRS
7–8 Apr 2026	United States and Iran agree an initial ceasefire, later extended to include Israel, after more than five weeks of fighting.	Britannica
14 Jun 2026	Mediators announce a Memorandum of Understanding intended to formally end the conflict within 60 days.	Britannica
Jul 2026	Ceasefire breaks down after Iran strikes three commercial vessels that bypassed its pre-approved shipping route; hostilities resume intermittently.	Britannica
Aug 2026	Freight and war-risk insurance costs on Gulf–India routes remain sharply elevated; core disputes over Iran's nuclear programme, Hormuz access, and sanctions relief remain unresolved. Oil prices re-cross US\$90/bbl.	CFR; OilPrice.com

Source: Compiled by the author from Britannica (2026), CRS (2026), ACLED (2026), CFR (2026) and market reports.

4. Data and Methodology

This paper adopts a narrative-review and secondary-data synthesis design rather than an original econometric estimation. The conflict under study remains active and unresolved, ceasefires have repeatedly broken down, and no stable, extended post-shock data series yet exists on which techniques such as vector error correction modelling (VECM), panel cointegration, or autoregressive distributed lag (ARDL) estimation—the standard toolkit of the India oil-shock literature—could be reliably applied. Attempting such estimation prematurely would risk producing spuriously precise results built on a non-stationary and still-evolving shock window.

The paper instead follows a two-stage method. First, a structured review was conducted of (a) the foundational and India-specific peer-reviewed literature on oil price shocks, and (b) the emerging institutional, preprint, and financial-sector literature specific to the 2026 conflict, identified through the IMF, World Bank, RBI, Petroleum Planning and Analysis Cell, CREA, PIIE, Institute of South Asian Studies, CFR, ACLED, credit rating agencies, and major financial-data providers. Second, secondary macroeconomic indicators reported by these sources—crude oil prices, the INR/USD exchange rate, India's foreign exchange reserves, GDP growth forecasts, inflation forecasts, equity indices, freight rates, fertiliser prices, and remittance exposure—were compiled and organised into the comparative tables presented below, to construct a consolidated empirical picture that does not currently exist in a single published source.

5. Transmission Channels

The conflict has produced a classic adverse supply shock operating through multiple, mutually reinforcing channels.

5.1 Energy Markets

Brent crude oil rose from a pre-conflict range of approximately USD 70–72 per barrel to peaks near USD 120–126 in March–April 2026—a rise of more than 55 percent within one month. After a temporary easing following the June memorandum of understanding, prices stabilised in the mid-to-high USD 80s and crossed USD 90 again in late August amid renewed strikes. LNG and refined-product prices rose between 70 and 146 percent at their peaks. Middle Eastern refining capacity was reduced by roughly 20 percent, while Russian refining output also declined, compounding diesel and gasoline tightness. Structural-break analysis suggests a permanent post-ceasefire risk premium of approximately USD 24 per barrel relative to pre-war levels.

5.2 Shipping, Insurance and Logistics

War-risk insurance premia surged and a substantial share of tanker traffic diverted to the longer Cape of Good Hope route, raising freight costs and delivery times. At peak disruption, tanker traffic through the Strait of Hormuz fell by more than 90 percent. On the key Gulf–India route, very large crude carrier (VLCC) freight costs rose from approximately USD 0.85 per barrel pre-war to USD 4.34 per barrel by August 2026—an increase of more than 400 percent.

5.3 Fertilisers and Agriculture

Historically, approximately 34 percent of global urea trade and 23 percent of ammonia trade passed through the Strait of Hormuz. The World Bank fertiliser price index rose more than 12 percent in the first quarter of 2026 and was projected to increase by more than 30 percent for the full year. India, which sources about 40 percent of its urea imports from the Gulf and relies on imported LNG for domestic urea production, faces both price and volume risks to agricultural input costs. IFPRI modelling indicates farm-income losses ranging from 2.6 percent under a short-conflict reference case to as high as 27 percent under a severe, prolonged disruption scenario.

5.4 Fiscal, Monetary and Confidence Channels

Governments expanded fossil-fuel subsidies; global fossil-fuel subsidy outlays are projected to reach USD 1.1 trillion in 2026, up from approximately USD 700 billion in 2025. Defence budgets also accelerated in Europe and Asia. Financial markets priced higher sovereign yields in exposed economies, while equity markets in energy-importing Asia underperformed relative to AI-driven advanced-economy indices.

5.5 Remittances and Labour Markets

The GCC hosts roughly nine million Indian workers who generate approximately 38 percent of India's total remittance inflows (around USD 50 billion annually, part of a broader flow exceeding USD 100 billion). Early data indicated resilience and even temporary spikes in transfers, but prolonged Gulf economic disruption or large-scale return migration would constitute a second-round risk for household incomes and the current account. Combined with India's large and growing services export base (exceeding USD 420 billion annually), this represents a structural difference from India's external position in 1990–91.

6. Global Economic Impacts

The magnitude of the shock remains below the most extreme early forecasts of oil above USD 150, yet the sustained elevation of prices and the associated fiscal and monetary responses have already left measurable scars. Table 2 summarises selected global growth and inflation forecasts; Table 3 presents CREA estimates of incremental fossil-fuel import costs; and Table 4 traces the Brent crude price path.

Table 2. Selected Global Growth and Inflation Forecasts for 2026

Institution / Date	Global GDP Growth 2026	Global Inflation 2026	Key Assumption
IMF July 2026 WEO Update	3.0%	4.7%	Hormuz disruption eases later in year
World Bank June 2026 GEP	2.5% (downside 1.3%)	Elevated	Prolonged energy shock

Pre-conflict baseline (approx.)	3.4–3.5%	4.1%	No major Middle East conflict
PIIE adverse (oil \$120)	Country losses 1–3+%	Higher	1–3 year elevated prices
Vision of Humanity Scenario 2	–0.6% of world GDP (\$1.3 tn)	—	Most likely near-term
Vision of Humanity Scenario 3	Up to –\$3.5 tn	—	Extended closure + regional spread

Sources: IMF (2026); World Bank (2026); McKibbin et al. (2026); Vision of Humanity (2026).

Table 3. Incremental Fossil-Fuel Import Costs, March–August 2026 (CREA Estimates)

Region / Country	Gross Additional Cost (USD bn)	Share of Global / Notes
European Union	78	Highest absolute cost
China	35	Largest Asian importer
India	22 (gross) / 14.4 (net)	0.38% of GDP; second-highest importer
United States	16.5	Partially offset by domestic production
Global total (selected)	330	Crude oil dominant (\$164 bn)
Middle East (net)	Gain 61	Exporter terms-of-trade benefit
North America (net)	Gain 47	Exporter benefit

Source: Centre for Research on Energy and Clean Air (CREA), August 2026. Net figures subtract additional export earnings.

Table 4. Approximate Brent Crude Oil Price Path, 2026

Period	Brent (USD/bbl)	Notes
Pre-28 February 2026	70–72	Baseline; India's crude basket at multi-month low
27 Feb 2026 (eve of war)	72.48	Immediate pre-strike baseline
Early March peak phase	100–120+	Hormuz closure; production cuts
Late April peak	120–126	Maximum observed; 55.3% one-month rise from pre-war
Post-June MOU easing	78	Temporary reopening expectations
July–mid-August average	mid-80s to low-90s	Partial flows, intermittent risk
Late August 2026 (renewed strikes)	90	Fresh escalation
Year-to-date average (approx.)	90–93	Well above 2025 average (70)

Sources: Market data compiled from Bloomberg, Reuters, Oil Price Live, ISAS Brief 1331 (Palit, 2026), Osei-Dwomoh et al. (2026) and institutional reports.

7. Impact on the Indian Economy

India's structural exposure is multi-dimensional: high oil-import dependence (85–90 percent of consumption), historical reliance on Gulf crude (previously 40–55 percent of imports transiting Hormuz), significant LPG and LNG imports, fertiliser import dependence, and a large diaspora in the GCC. These channels have transmitted the conflict into higher import bills, inflationary pressure, rupee weakness, equity-market underperformance, and moderated growth forecasts.

7.1 Energy Dependence and the Import Bill

Table 5 summarises India's energy dependence on Middle Eastern/Gulf supply corridors. India's crude oil import bill rose by roughly 60 percent year-on-year in the April–June 2026 quarter, and remained about 41 percent higher year-on-year in July 2026 after a brief mid-year easing was reversed by renewed escalation. Compounding the effect of higher benchmark prices, VLCC freight costs on the Ras Tanura–India route rose by more than 400 percent.

Table 5. India's Energy Dependence on Middle Eastern / Gulf Supply Corridors

Energy Source	Share via Middle East / Gulf
Crude oil (from the Middle East)	40–55% (historically via Hormuz)
LNG (from the Middle East)	50–60%
LPG (from the Middle East)	60–90%
Crude oil (all sources, total import dependence)	85–90%
Urea imports from Gulf	40% of urea imports

Source: OilPrice.com (2026a); Anand Rathi (2026); Government of India; ORF estimates; CREA (2026).

7.2 Exchange Rate and Foreign Exchange Reserves

The rupee came under sustained pressure as the combination of a higher oil import bill, portfolio outflows, and broader risk aversion increased demand for dollars. The currency moved from ₹85.53 per dollar at the start of FY2025-26 to a series of record lows exceeding ₹95 during the most acute phases of the conflict, before partially stabilising as ceasefire announcements took effect. The RBI drew down a meaningful share of its foreign exchange reserves—from a record \$728.5 billion in late February 2026 to \$690.7 billion by early May, a decline of roughly \$38 billion in about ten weeks—deploying \$12–15 billion across spot, forward, and offshore (NDF) markets to limit currency volatility.

Table 6. INR/USD Exchange Rate and Forex Reserves, 2026

Date / Indicator	Value	Notes
31 Mar 2025 (FY start)	₹85.53 / US\$	Start of FY2025-26 baseline
23 Mar 2026	₹94.71 / US\$	–10.7% from FY start; intermediate crisis low
Record low (2026)	₹95.55+ / US\$	Oil above \$105/bbl; heavy FPI outflows
8 Apr 2026	₹92.60 / US\$	Partial easing after RBI's first FY27 policy decision
Late Feb 2026 (reserves peak)	\$728.5 billion	Record high pre-war
Early May 2026 (reserves)	\$690.7 billion	–5.2% (–\$38 billion) in 10 weeks
RBI FX intervention	\$12–15 billion deployed	Spot, forward, and NDF markets

Sources: Spherical Insights (2026); Trading Economics (2026b); Anand Rathi (2026).

7.3 Current Account, Inflation, and GDP Growth

A sustained rise in crude prices of US\$10 per barrel is estimated to widen India's current account deficit by 40–50 basis points, all else equal; with the deficit already projected near 0.7–1 percent of GDP for FY2026-27 before the conflict, the war materially worsened the external balance outlook (up to 1.3–2.2 percent of GDP under oil near \$100). On inflation, the RBI and private forecasters both raised their projections, citing imported energy costs and rupee depreciation as the principal channels. Sensitivity analysis by the State Bank of India indicates that a \$10/bbl oil rise subtracts 0.20–0.25 percentage points from GDP growth and adds 0.35–0.40 percentage points to inflation. RBI analysis finds a 10 percent oil-price rise associated with a 0.15 percentage-point growth reduction. IFPRI modelling of fertiliser-driven agricultural impacts shows GDP losses ranging from 0.32 percent (short conflict) to 2.38 percent (severe scenario).

Table 7. India GDP Growth Forecast Revisions and Oil-Price Sensitivity During the 2026 Conflict

Source	Revision / Estimate	Timing / Notes
RBI	FY2025-26: 7.6–7.7%; FY2026-27: 6.9% (Q2 cut to 6.7%)	Apr–Jun 2026 policy statements
IMF July 2026	2026: 6.4% (down 1.3 pp from pre-conflict)	WEO Update
Goldman Sachs	2026 estimate cut by 1.1 pp to 5.9%; CPI +70 bps	Mar 2026
Deloitte	FY growth revised to 6.5%–6.8% range	Jul 2026
SBI (\$10/bbl rise)	GDP –0.20 to –0.25 pp; Inflation +0.35 to +0.40 pp	Sensitivity analysis
SBI (oil \$100)	Growth 6.6%; Inflation 4.1%	Research notes
IFPRI Severe scenario	GDP –2.38%; Farm income –27%	Fertiliser & farm-income modelling
CREA (Mar–Aug cost)	USD 14.4 bn net / 22 bn gross (0.38% of GDP)	Incremental fossil-fuel import cost

Sources: RBI policy statements; Trading Economics (2026a, 2026c); Goldman Sachs Research; Deloitte Insights (2026); SBI research notes; IFPRI (2026); CREA (2026); IMF WEO Update July 2026.

7.4 Monetary and Fiscal Policy Response

The RBI's response combined interest-rate restraint with active balance-sheet and trade-policy measures rather than aggressive rate hikes, reflecting a judgement that the shock was better managed through reserve deployment and targeted measures than through a growth-damaging tightening cycle. Retail fuel prices were partially shielded through central excise duty cuts and temporary freezes or administered adjustments by oil marketing companies, limiting the immediate CPI impact relative to wholesale price spikes (WPI fuel and power components rose sharply). The fiscal cost of these measures, including foregone excise revenue and under-recoveries for public-sector oil companies, has been substantial.

Table 8. RBI and Government Policy Response, 2026

Measure	Detail	Purpose / Trade-off
Apr & Jun 2026 MPC	Repo rate held at 5.25%; neutral stance; inflation forecast raised	Avoid growth-damaging tightening
FX market operations	\$12–15 bn deployed across spot, forward, NDF	Manage rupee volatility
Excise duty cuts on fuel	Reductions in central excise on petrol and diesel	Contain CPI; large fiscal cost (foregone revenue)
Administered price freezes	Temporary freezes by oil marketing companies	Protect consumers; OMC under-recoveries

Import duties raised	Gold and select non-essential consumer goods	Conserve reserves; curb dollar outflow
Strategic reserve use	Draw-downs and subsequent replenishment planning	Bridge shortages; later replenishment at higher prices
Source diversification	Accelerated shift away from most disrupted routes	Reduce Hormuz dependence; higher freight/contract costs

Source: Compiled from *Trading Economics* (2026a, 2026c); Anand Rathi (2026); SBI research; government statements.

7.5 Financial Markets

Indian equity markets showed repeated bouts of sharp volatility that tracked the conflict's escalation and de-escalation cycles, with the India VIX spiking on several sessions. Energy-intensive and import-exposed sectors—aviation, oil marketing, and broad financials—bore the largest losses, while defensive sectors such as IT services, pharmaceuticals, and select PSU banks were comparatively insulated. Illustrative sessions include 27 March 2026 (Sensex -2.3% to 73,583 after Goldman Sachs cut India's growth estimate) and 8 June 2026 (Sensex -0.99% , India VIX $+8.1\%$ to 17.1).

7.6 Remittances and the Gulf Labour Channel

Unlike the oil-price and exchange-rate channels, which unambiguously worked against India, the remittance channel has so far provided a partial offsetting buffer. An estimated nine million Indian workers are resident in GCC countries, generating over USD 100 billion in annual remittances (of which roughly USD 50 billion, or 38 percent of the total, is Gulf-linked). These flows have historically proven “sticky” relative to portfolio capital, continuing even through periods of regional instability. Combined with India's large services export base (exceeding USD 420 billion annually), this represents a structural difference from India's external position in 1990–91.

8. Discussion: Situating 2026 Within India's Oil-Shock History

The theoretical literature predicts that the size and persistence of an oil shock's macroeconomic effect depends on the shock's magnitude, its duration, and the policy space available to absorb it (Hamilton, 1983; Mork, 1989; Bernanke et al., 1997). Table 9 places the 2026 conflict against three prior Gulf-linked disruptions on exactly these terms. The comparison suggests that while the 2026 shock is, on several measures, larger and more multi-channel than any of its predecessors—combining an oil shock with simultaneous fertiliser, LNG, shipping-insurance, and financial-contagion channels—India's capacity to absorb it is also structurally greater than in 1990–91. Reserve levels, a diversified services export base, and a large, historically stable remittance inflow together function as automatic stabilisers that did not exist during the earlier crisis.

Table 9. Comparative Summary: The 2026 Iran War Against Prior Oil-Linked Shocks for India

Episode	India's External Position	Outcome / Resilience Factor
1990–91 Gulf Crisis	Forex reserves fell to roughly two weeks of import cover; gold reserves physically pledged to secure IMF support.	Acute balance-of-payments crisis; triggered the 1991 structural liberalisation of the Indian economy.
2008 GFC (oil spike)	Reserves comfortable but capital outflows and a demand-side global shock compounded the effect of high oil prices.	Coordinated global monetary easing; India relatively insulated by capital controls.
2011 Libya / Arab Spring	Reserves adequate; shock more contained and shorter in duration than 2026.	Moderate, temporary inflation and CAD pressure.
2026 Iran War	Reserves near record highs entering the crisis (\$728 bn); managed, targeted intervention rather than emergency borrowing.	Sizeable but so far absorbable strain; remittances and services exports provide a buffer 1991 did not have.

Source: Compiled by the author; historical comparison drawn in part from Crispidea (2026).

9. Scenarios and Residual Risks

Three broad scenarios structure the residual uncertainty. Under a reference case of gradual normalisation of Hormuz traffic and no major new infrastructure damage, global growth remains near the IMF's 3.0 percent projection and India's growth settles in the mid-6 percent range. An adverse case of six or more months of severe disruption, with oil averaging

near or above USD 100, would push global growth toward 2 percent or lower and Indian growth toward or below 6 percent, with larger fiscal and poverty costs. A severe case involving broader regional escalation, financial-market stress, and de-anchored inflation expectations could approach the World Bank's 1.3 percent global growth downside and produce multi-year scarring.

Table 10. Scenario Summary – Global and Indian Impacts

Scenario	Hormuz / Conflict Assumption	Global GDP 2026	India GDP Impact	Key Risk
Reference	Partial reopening, limited duration	3.0%	–0.3 to –0.8 pp	Manageable
Adverse	6+ months severe disruption	2.0–2.5%	–1.0 to –1.5 pp	Fiscal & inflation
Severe	Extended + financial stress	1.3% or lower	–2 pp or more	Poverty, CAD crisis

Synthesised from IMF, World Bank, PHIE, IFPRI and Vision of Humanity scenarios (2026).

Additional risks include second-round effects on Indian remittances if Gulf labour demand contracts, further fertiliser-driven food-price inflation, and the possibility that repeated fiscal interventions crowd out productive public investment. Conversely, accelerated renewable and electric-vehicle adoption could partially offset long-term fossil-fuel dependence.

10. Policy Implications

The evidence assembled in this paper points toward several policy priorities for India, distinct from the immediate crisis-management measures the RBI has already taken:

- Accelerate diversification of crude oil and LNG sourcing away from Hormuz-dependent Gulf suppliers toward the United States, Russia, Latin America, and other non-chokepoint-dependent sources.
- Build a strategic petroleum and LNG reserve buffer sized explicitly against chokepoint-closure scenarios, rather than only against price-volatility scenarios.
- Maintain and, where possible, expand reserve buffers and remittance- and services-export-linked external stabilisers, given their demonstrated role in differentiating the 2026 experience from 1990–91.
- Use calibrated, temporary fiscal tools—such as targeted excise or duty adjustments on fuel—rather than blanket subsidies, to manage the pass-through of oil price shocks to domestic inflation without reintroducing the fiscal distortions of the pre-1991 subsidy regime.
- Invest in high-frequency monitoring of shipping, freight, and insurance costs on Gulf trade routes specifically, since these proved to be a distinct and economically significant channel in 2026, separate from the oil price itself.
- Carefully target social protection and fertiliser support to mitigate distributional consequences for low-income and farming households without permanently expanding untargeted subsidies.
- Support systematic, ongoing data collection on this specific conflict so that, once a longer and more stable post-shock period is available, the India oil-shock econometric literature (VECM, ARDL, panel cointegration) can be extended to formally estimate the 2026 episode's structural parameters.

11. Limitations

This paper is a literature review and secondary-data synthesis, not an original empirical estimation, and that choice carries clear limitations. First, the conflict remains unresolved at the time of writing, with ceasefires repeatedly breaking down; any figures presented here are a snapshot of an evolving situation and may be superseded by subsequent developments. Second, much of the literature on the 2026 conflict specifically is drawn from preprints, think-tank briefs, and financial-sector commentary rather than peer-reviewed journal articles, reflecting the genuine state of the emerging evidence base; the paper has sought to flag this status explicitly wherever such sources are cited. Third, the secondary data compiled are drawn from multiple institutions using different methodologies, time windows, and baseline assumptions, and are not always directly comparable; the tables should be read as an organised compilation of the published record rather than as a harmonised, internally consistent dataset. Finally, because no extended post-shock time series yet exists, this paper does not attempt the kind of formal econometric estimation (VECM, ARDL, panel cointegration) that characterises the mature India oil-shock literature; this is identified as the natural next step for future research once a longer data window becomes available.

12. Conclusion

The 2026 US–Israel–Iran conflict has transmitted itself into the global and Indian economies through a familiar set of channels identified in the oil-shock literature since Hamilton (1983)—the oil price, the exchange rate, inflation, and monetary policy—but has done so with an unusual combination of scale, multi-channel breadth (including simultaneous

disruption to shipping, insurance, and fertiliser-input markets), and duration. Global growth has been marked down to the 2.5–3.0 percent range and the prior path of disinflation interrupted. Energy-importing emerging economies, of which India is a prominent example, have absorbed disproportionate costs through higher import bills (USD 14.4–22 billion incremental for India alone in March–August 2026), fiscal stabilisation outlays, and moderated growth.

India's macroeconomic response illustrates both continuity and change relative to earlier oil shocks: continuity, in that the basic transmission mechanisms described by Bhattacharya and Bhattacharya (2001), Sreenu (2018), and Deheri and Ramachandran (2023) remain visible in the 2026 data; and change, in that India's substantially larger reserve buffer, services export base, and remittance inflows have so far prevented the kind of acute balance-of-payments crisis experienced in 1990–91. Whether this resilience holds depends heavily on how the conflict evolves from here—a genuinely open question given the repeated breakdown of ceasefire arrangements through mid-2026.

Looking forward, three priorities stand out. First, diplomatic and security efforts to restore predictable transit through the Strait of Hormuz remain the highest-return intervention for global and Indian macroeconomic stability. Second, continued diversification of energy sources, expansion of strategic stocks, and acceleration of domestic clean-energy capacity will reduce future vulnerability. Third, carefully targeted social protection and fertiliser support can mitigate the distributional consequences for low-income and farming households without permanently expanding untargeted subsidies. The paper's central contribution is to consolidate, in one place, the dispersed evidence on this transmission as it has unfolded so far, and to set out the specific empirical questions—chokepoint-specific reserve planning, freight and insurance cost monitoring, and formal econometric estimation once sufficient data exists—that this still-unfolding episode leaves for future research.

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