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The Iran Conflict : Global Geopolitical Economic and strategic Implications with special Reference to India

Global Geopolitical Impact:

The West Asian conflict has the potential to significantly alter geopolitical equilibrium in more ways than one.

First, it intensifies military deployments in the Gulf region. The United States will look to strengthen its naval presence to safeguard oil shipments and reassure allies, while regional actors too increase defence preparedness.

Second, the Gulf Cooperation Council (GCC) nations could possibly strengthen security ties with Western powers, while Iran veers towards strategic partnerships with China and Russia. This polarization could weaken regional stability.

Third, the risk of a broader regional war could grow manifold over time, if not immediately. If the war gets prolonged it could potentially draw multiple countries into its fold, disrupting global trade routes and supply chains.

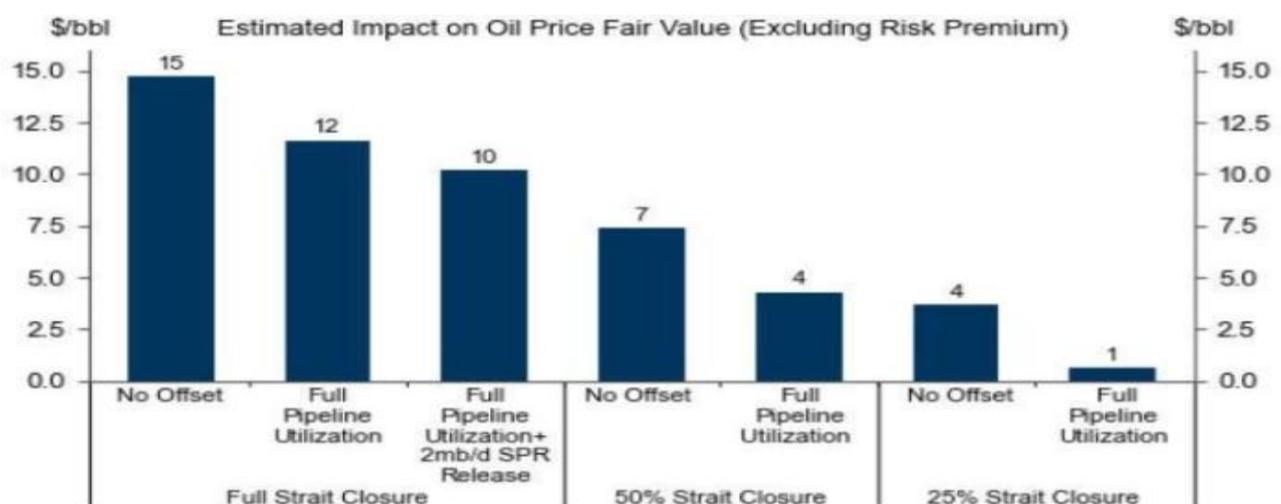
Economic and Financial Market Implications:

The conflict created immediate volatility in global financial markets. Equity markets reacted negatively to uncertainty, particularly in energy-importing nations. Investors shifted capital toward safe-haven assets.

Dollar index which tracks the value of Dollar against six major currencies strengthened due to higher dollar demand attributable to rising energy prices. Strong dollar also explains the reduction in gold and silver prices, being dollar denominated commodities. A strong dollar has mitigated the uncertainty induced safe haven price surge of gold and silver to a certain extent.

Crude oil prices experienced sharp fluctuations due to fears of supply disruptions. Even minor incidents in the Gulf region trigger speculative price spikes, reflecting the sensitivity of energy markets to geopolitical risks. Increased oil prices pose upside risks to inflation in economies dependent on energy imports.

The \$20-25 per barrel increase in crude following the war indicates the 'geo political risk premium' of crude



Source: Bloomberg report

Countries Facing Major Impact:

Almost a fifth of global crude supplies pass through the Strait of Hormuz. However, the impact of closure of key trade routes extends beyond oil and impacts prices of natural gas, fertilisers, edible oils etc. India imports 85% of its crude and 90% of LNG requirements from the Gulf and Middle East, causing the region to be of high strategic significance to India.

The region contributes 16% to our merchandise exports which could face potential setbacks in the event of a prolonged conflagration.

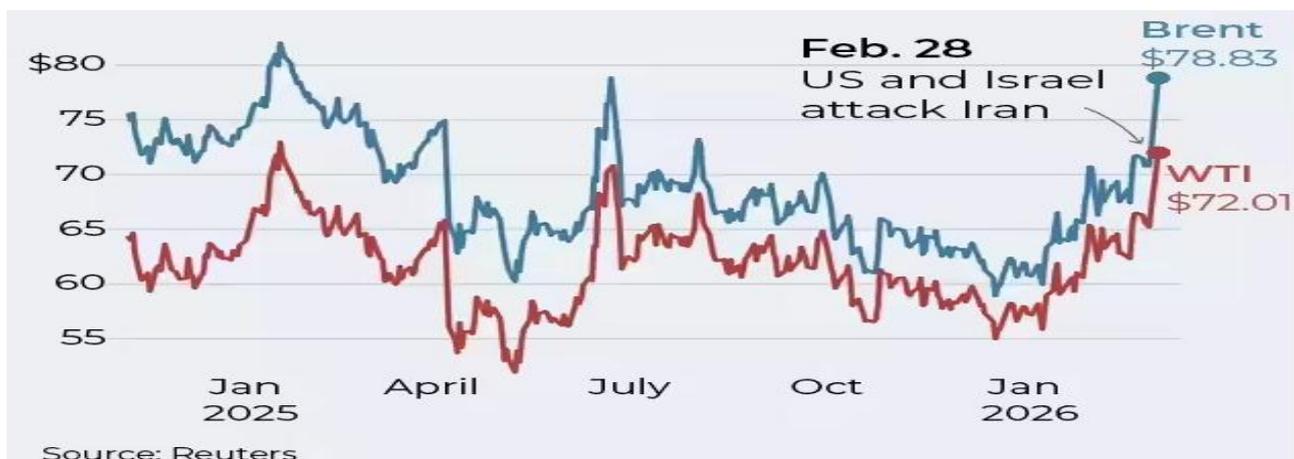
Oil Exports through the Strait of Hormuz (unit - mbpd)	
	2025
Saudi Arabia	5.3
Iraq	3.2
UAE	1.8
Iran	1.5
Kuwait	1.4
Qatar	0.6

Key Countries Dependent on Crude Oil Shipments through the Strait of Hormuz (unit-mbpd)	
	2025
China	5.4
India	2.1
South Korea	1.7
Japan	1.6
Europe	0.5
USA	0.4

The recent escalation in military tensions led to an immediate surge in global crude oil prices. As shown in the graph below, both Brent and WTI crude witnessed a sharp upward movement. Prices surged even before Iran announced closure of the Strait of Hormuz.

Increase in supplies by OPEC from April may fail to offer enough respite if the conflict prolongs and the Strait remains in a closure mode. Moreover, an extended war could derail global growth prospects, posing serious problems to export dependent China, that strives to compensate its sagging domestic consumption through export promotion. This will add to its excess capacity, increasing risks of deflation, some of which could be exported to its neighbours.

A weaker Yuan could weaken INR further in our efforts to stay competitive in exports, now that US tariff differentials across countries have abated.



Impact on India:

For India, the significance is even greater, as nearly 20 percent of its overall imports, 40-50 percent of crude and almost the whole of LPG imports transit through this route posing serious risks to energy security and trade stability if the stand-off prolongs.

The prospects of smoother trade linkages through the proposed India Middle East Economic Corridor (IMEC) faces indefinite delays and setbacks.

Moreover, India's wish to source more crude from Russia to offset rising energy costs could complicate the ongoing trade deal deliberations.

Impact of War on India's CPI Inflation:

If crude averages around USD 80 per barrel with Russian Urals constituting 21%, the overall CPI impact is estimated at about 18bps annually. Based on monthly per capita consumption expenditure of rural and urban households, petrol and diesel for transport has an estimated weight of 3% in the new series, which would be 2.37% for the inflation maths excluding 21% Russian Urals that are inelastic to Brent prices.

Increasing the Russian import share to 40% further reduces the inflationary impact to 14 bps due to lower effective import costs. However, if crude prices rise to USD 100 per barrel, the CPI impact increases to 76 bps and 58 bps corresponding to Russian oil shares of 21% and 40%.

A major assumption is that taxes remain specific at a fixed amount per litre which is unchanged. So, a 10% increase in crude prices, for instance, leads to only 5% change in pump prices of crude. There is also the indirect impact on higher transport costs for which a multiplier of 0.5 is assumed.

But if the oil marketing companies (OMCs) absorb the hike the inflation impact would be zero, which is a possibility as pump prices were not adjusted downwards when global oil prices stayed benign, giving them a buffer. However, if the conflict prolongs pass through is likely.

Retail inflation would also be impacted by hike in LNG/LPG prices, likely upsides to gold & silver prices as well as a depreciating rupee which pushes up landed costs. An RBI study estimates that every 5% INR depreciation increases CPI inflation by 25 bps.

Based on these scenarios, the impact on retail inflation can range between 38bps-100 bps. There could be second order effects on prices of fertiliser, edible oils etc which are not included.

Price hike with Russian Crude @21%

	Oil @77-80/bl	oil @100/bl
IMPACT OF WAR ON CPI INFLATION	10% increase	43% increase
Wt. of petrol & diesel Impacted	2.37%	2.37%
Pass through due to increase	0.24%	1.02%
As taxes are 50% actual impact	0.12%	0.51%
Indirect impact due to transport	0.06%	0.25%
Impact	0.18%	0.76%
wt. of fuel & light	1.03%	1.03%
Impact of a 10% increase	0.10%	0.10%
wt. of gold & silver	0.94	0.94
impact of 10% increase in price	0.09%	0.09%
Impact due to 1% INR fall	0.05%	0.05%
OVERALL IMPACT	0.42%	1.00%

Price hike with Russian Crude @40%

	Oil @80/bl	oil @100/bl
IMPACT OF WAR ON CPI INFLATION	10% increase	43% increase
Wt. of petrol & diesel Impacted	1.80%	1.80%
Pass through due to increase	0.18%	0.77%
As taxes are 50% actual impact	0.09%	0.39%
Indirect impact due to transport	0.05%	0.19%
Impact at 79% since Russian @21%	0.14%	0.58%
Wt. of fuel & light	1.03%	1.03%
Impact of a 10% increase	0.10%	0.10%
wt. of gold & silver	0.94	0.94
impact of 10% increase in price	0.09%	0.09%
Impact due to 1% INR fall	0.05%	0.05%
OVERALL IMPACT	0.38%	0.82%

Impact of War on India's Current Account Deficit (CAD):

The escalation in geopolitical tensions and the resulting surge in crude oil prices have significant implications for India's Current Account Deficit (CAD). Higher oil prices and a potential slowdown in exports due to global growth slowdown could widen the CAD.

India's annual oil import bill is estimated at around USD 160 billion, of which a fifth is sourced from Russia, with the rest linked to Brent crude prices. LNG imports which are also linked to crude price movements further add to the energy import burden. After accounting for higher freight and insurance costs due to war-related risks, import burden becomes even larger.

Although India benefits from refined petroleum exports, which partially offset the higher crude import cost, the net impact would be substantial.

Crude price escalation by 10% could widen the CAD by 25 bps. However, if the oil price increase is accompanied by a 10% fall in exports to GCC and Middle East countries, the CAD would widen by 44 bps.

Sustained geopolitical tensions and elevated crude prices could significantly pressure India's external balance. A widening CAD may lead to currency volatility and higher external financing needs.

A weaker rupee would act as a disincentive to foreign investors due to lower effective returns which could lead to an uncomfortable Balance of Payments situation, already weakened by muted net FDI flows.

Particulars	\$bn
India's exports to GCC + ME	80.0
Impact of a 10% fall in exports	8.00
Annual oil import bill	160.00
Of which Russian Urals @21%	33.60
Brent crude import bill (Excluding Russian)	126.40
LNG import bill (linked to crude)	20.00
Total oil+ LNG	146.40
Impact of a 10% increase	14.64
Add freight +insurance	2.00
Total impact	16.64
Refined petroleum exports	60.00
impact of 10% increase	6.00
NET IMPACT OF 10% CRUDE RISE	10.64
IMPACT OF CRUDE RISE & EXPORT FALL	18.64
GDP estimate for FY27	4200
CAD as % of GDP	0.44%
Only Impact of Crude Oil hike by 10%	0.25%

Impact of West Asia Tensions on India's Exports:

India's exports to key Middle Eastern economies—including the United Arab Emirates, Saudi Arabia, Turkey, Oman, Iraq, Israel, Kuwait, Qatar, Iran, Jordan, Bahrain, Yemen, and Lebanon—amounted to USD 72.18 billion in FY 2024-25. For the period April 2025 to January 2026, exports to these countries were USD 59.87 bn, accounting for 16.3% of total merchandise exports.

The concentration of exports in these economies reflects strong trade linkages in petroleum products, engineering goods, chemicals, food products, textiles, and gems and jewellery sectors. India is on the verge of a Free trade Agreement with the GCC economies and the current turmoil threatens to undo these efforts. Even exports to Europe could be impacted.

Multiple factors would be at play. First, weaker economic activity in Gulf Cooperation Council (GCC) countries may reduce demand for Indian goods. Second, disruptions in maritime routes could increase freight and insurance costs, thereby reducing export competitiveness. Third, payment delays or financial restrictions arising from sanctions or regional instability.

An export slowdown combined with rising oil imports would complicate exchange rate management. Therefore, geopolitical stability in West Asia is crucial for India's energy security and external sector stability.

India Exports	Value In \$ Bn (2024-2025)	Value In \$ Bn (Apr 2025-Jan 2026)
United Arab Emirates	37.10	32.82
Saudi Arabia	12.10	8.81
Turkey	5.54	3.67
Oman	3.96	3.52
Iraq	3.26	2.64
Israel	2.13	1.89
Kuwait	2.12	1.50
Qatar	1.75	1.44
Iran	1.25	1.02
Jordan	0.95	0.91
Bahrain	0.89	0.70
Yemen	0.84	0.68
Lebanon	0.28	0.28
Total export to these countries	72.18	59.87
% share in India Total Export		16.34
INDIA TOTAL EXPORT		366.32

Key takeaways

- Prolonged conflict could weaken the INR, widen CAD, increase inflation and harden bond yields
- Gold and silver retain its upside bias though a strong dollar slows the pace of rise.
- Exports of engineering goods, gems & jewellery, chemicals, food & petroleum products could be hit
- The India Middle East Economic Corridor (IMEC) which was expected to smoothen India-Middle East trade linkages, could face setbacks and delays.
- The region could continue to exhibit a certain degree of instability even if US & Israel enters into a truce with Iran.

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