War impact and its dimensions

Flow of Discussion …

- *War impact on gold and DXY pre and post war?*
- *How war impacted various sectors*
- *Indian banks fund based exposure to Middle east and GCC*
- *Bank credit to the sectors impacted by the war*
- *Impact on NRI deposits*
- *Conclusions*

India's Capital Flow

India's Capital Flow		
Period	CapA/c ($Bn)	BoP ($Bn)
Oct - Dec 2025	-10	-24.41
Jul - Sep 2025	2.14	-10.92
Apr - Jun 2025	7.9	4.51
Jan - March 2025	-5.6	8.79

- **Balance of Payment expected to estimate under stress**

Dollar index and gold price movements during war

War period	DXY 6M avg Pre-war	DXY war phase	DXY 6M avg post war	Gold 6M avg pre war	Gold- war phase	6M avg post war	comments
Gulf War (Aug 90-Jan 91)	92.4	84.1	90.2	379.2	381.1	361.2	Despite DXY weakness during war gold didn't rise much. But post war gold fell responding to dollar strength
Afghanistan (Oct-Dec 2001)	116.9	115.1	114.9	271.0	278.5	300.8	Gold gained due to dollar weakness. DXY weakened due to financing the war from budget and Fed rate cuts
Iraq War (Mar-May 2003)	104.3	97.4	94.6	333.5	342.3	370.3	DXY weakened due to war finance from budget and Fed rate cut stance: Gold spiked as a natural consequence
Iran-US-Israel ongoing	100.3	99.3	?	4662.3	5153	?	Gold has strengthened but compared to Feb avg not much change in gold prices

- *During the Gulf war DXY strengthened post the war period but during the Afghan war and Iraq wars DXY weakened as the period was accompanied by aggressive rate cuts by the US Fed.*
- *DXY and gold might behave differently this time. Higher inflation in US due to crude could strengthen DXY and may not give much upside to gold*

Gold Prices Are Not Rising Despite the US-Iran War compared to Feb 2026

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- Gold prices didn’t increase since Feb despite war due to DXY strength
- For gold to strengthen either DXY should weaken or Fed rate cut should resume

Source : Investment.com

Economic Research Vertical

Sensitivity of Sectors & Industries In India …

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Sector/Industry	Impact Type	Sub-sectors impacted	Magnitude/Examples (2026 Context)
Energy & utilities	Direct & Severe	OMCs, city gas distribution, power generation,	Closure of strait of Hormuz to impact supply. Energy dependent sectors would be hit
Agriculture & chemicals	Indirect/ High	Fertilizers, pharmaceuticals, organic chemicals, agriculture	Choking of fertilizer supply could hit agri output
Transport & logistics	Direct/ Moderate	Aviation, shipping, logistics	Aviation sector to be hit due to high fuel cost and closure of routes
Auto components	Indirect/ High	Automotives, CNG vehicles	Supply chain issues and gas supply shortage will impact
Manufacturing	Indirect/ Moderate	Ceramics & tiles, petrochemicals & plastics	Sectors dependent on gas and other inputs could be impacted
FMCG & Consumer Goods	Indirect/ Moderate	Consumer goods, consumer electronics, white goods, kitchen appliances	Packaging costs for FMCG will rise. White goods to become costlier
Textiles	Indirect/ Moderate	Modern fabrics, polyester	Polyester fabrics need extracts from gases
Industrial heavyweights	Indirect/ Moderate	Steel, cement, aluminum	Steel, cement industries require gas/coal supplies
Hospitality & eateries	Indirect/ Low-Moderate	Restaurants, quick commerce, hotels, gig workers	Shortage of LNG and LPG to impact adversely
Defense & Upstream Energy	Positive/ Direct	Defence manufacturing	Positive impact

Indian banking system credit exposure to sectors impacted directly/indirectly due to the crisis

War period	Exposure Rs. Lakh Cr	y-o-y growth, %	Share in total bank credit %
Agriculture	25.1	11.4	12.3
Tourism, Hotels & restaurants	0.97	19.2	0.50
Aviation	0.50	10.7	0.26
Shipping	0.10	44.5	0.05
Textiles	2.94	10.0	1.44
Petroleum/coal/nuclear fuels	1.77	14.5	0.87
Chemicals and chemical products	3.05	15.1	1.5
Rubber/plastics	1.1	10.0	0.54
Cement. cement pdcts	0.65	6.6	0.32
Metals/metal pdcts	4.94	13.8	2.41
TOTAL	**41.2**	**15.6**	**20.1**

The above sectors account for a fifth of total bank credit as on January 2026

Indian banks fund based exposure to Middle East

War period	Estimated fund based exposure ($bn)
UAE	7.0
Qatar	2.25
Oman	0.8
Saudi Arabia	1.5
Bahrain	0.6
Kuwait	0.4
Other Middle east	1.2
Total fund based	13.75

The fund-based exposure of Indian banking system to middle east is 0.4% of the banking system balance sheet size

Trends in Remittances from Gulf Countries…

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Indicator / Factor	Data / Statistics	Transmission Mechanism	Effect on Remittances
Indian workers in Gulf	**10 million Indians** live in GCC countries	Employment base for remittances	Any disruption affects income flows
Total remittances to India	**$135.5 billion (FY 2025)**	Major foreign exchange source	Shock to remittances affects external balance
GCC share in remittances	**38 % ($51 billion)**	Gulf is the largest regional source	War risk can reduce inflows
UAE	**19-20 % ($26 billion)**	Construction, hospitality, services sectors employ Indian workers	Job disruptions reduce remittance capacity
Saudi Arabia	**6-7% ($9 billion)**	Oil sector and construction jobs	Oil revenue volatility affects employment
Kuwait	**3-4 % ($5 billion)**	Infrastructure and service sector jobs	Economic slowdown affects earnings

State Vulnerability Ranking (Remittance Exposure From Gulf Counties)

Rank	State	Reason
1	Kerala (35-40%)	Highest dependence on Gulf migrants
2	Tamil Nadu (10-12%)	Large migrant workforce in Gulf construction
3	Telangana (8-10%)	Rising migration and remittance inflows
4	Karnataka (5-7%)	Mixed migration sources
5	Andhra Pradesh (7-8%)	Moderate Gulf worker base
6	Punjab (3-4%)	Remittances mainly from Western countries

How does war impact Non resident deposits-A historical perspective

War period	remittance 6M pre war	remittance during war	remitance 6M post war	NRI deposits 6M pre war	Avg NRI sits during war	NRI deposits 6M psot war	comments
Gulf war (Aug 90-Jan 91)	$2.4 bn	2.1 Bn	$2.9Bn	$1.25Bn	-$877Mn	-$380MN	NRI deposits negative due to perceived sovereign default risk of India due to the BoP crisis
Iraq war (March-May 2001)	$8.2Bn	$10.8Bn	$10.8Bn	$1.5Bn	$1.7bn	$2.3Bn	NRI deposits increased during and post war period
Iran-Israel war	$14bn	---	--	$74.6Bn	-	-	NRI deposits likely to increase unless a prolonged war leads to people leaving GCC countries

- *NRI deposits are not likely to decline unless war prolongs and there is mass evacuation or Indians are forced to return*

US-Iran War's Impact on NRI Deposits in India....

Sensitivity of Different NRI Deposit Types

Deposit Type	Share in Total NRI Deposits	War Sensitivity	Reason
NRE (Rupee deposits)	Largest (60%),	Moderate	Benefit if rupee weakens
FCNR(B) (Foreign currency deposits)	20%	High	Linked to global interest rates
NRO deposits	Smaller share	Low	Mainly domestic income accounts

Scenario Analysis: War Impact on NRI Deposits

Scenario	Oil Price Range	Expected NRI Deposit Impact
Limited conflict	\$80–90/barrel	Minimal impact; rupee depreciation may even increase NRE deposits
Prolonged Gulf instability	\$90–110/barrel	Remittances and savings decline → slower deposit growth
Severe regional conflict	>\$110/barrel	Worker return migration → fall in NRI deposits likely

Key Takeaway of the Study :

- DXY may not weaken much during the current war and gold may remain stagnant.
- Remittances and NRI deposits are not likely to be impacted unless there is mass return .
- In terms of exposure to GCC & Middle east its 0.4% of banking system balance sheet.
- Exposure to war impacted sectors is 20%of overall bank credit
- GDP growth will decline up to 50 bps if war persists .

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Economic Research Vertical

Samir kumar (Senior Manager)

Madhavankutty G (Chief Economist)

For Suggestions and views please contact, Economic Research Vertical

080-2222 3169 (Chief Economist)
080-2227 3275 (Section)

chiefeconomist@canarabank.com
hoersection@canarabank.com