

# How Iran-Israel Conflict Impacts Indian Economy, Inflation & Trade

June 15, 2025 • vajiramandravi.com



**VAJIRAM & RAVI**  
Institute for IAS Examination

## Iran-Israel Conflict Impact on India



### Iran-Israel Conflict Impact on India Latest News

- Just as global trade was stabilizing with shipping returning to the Red Sea, the Iran-Israel conflict has reignited fears of oil price surges and trade disruptions.
- The Sensex dropped 573 points amid global market jitters. Experts caution that Iran could block the Strait of Hormuz — a vital route for 20-25% of global oil and key LNG exports from Qatar and the UAE, both crucial to India's energy needs.

### Impact of Iran-Israel Crisis on Indian Economy

- The escalating Israel-Iran conflict adds another layer of uncertainty, potentially affecting India's economic outlook in the coming months.

### Growth and Inflation at Risk

- The escalating Iran-Israel conflict may create macroeconomic challenges for India, particularly due to its heavy reliance on oil imports.
- A \$10/bbl increase could lower India's real GDP growth by 0.3 percentage points and raise consumer inflation by 0.4 points.
- This threatens to reverse India's recent inflation relief — retail inflation had eased to a 75-month low of 2.82% in May 2025, prompting a 50 basis point repo rate cut by the RBI.
- As oil prices climb, Indian refiners require more dollars to purchase crude, increasing dollar demand, weakening the rupee, and inflating import costs — creating a feedback loop that worsens India's current account deficit.

## **Energy Supply Disruption Concerns Grow**

- Although energy infrastructure has not yet been directly targeted, risks remain high.
  - Iran reported no immediate damage to its refineries, which have a capacity of 2.8 million barrels/day.
- Still, its crude exports may drop below 1.5 million b/d this month, as per S&P Global, adding further uncertainty to global energy markets.

## **Broader Energy Price Spike Beyond Crude Oil**

- The ongoing Middle East conflict has triggered a surge not only in crude oil prices but also in other critical energy imports for India — including LPG, natural gas, petrochemicals, and fertilisers.
- Any disruption could significantly impact India's rural economy and food inflation due to increased fertiliser costs.

## **Rural and Agricultural Impact**

- Higher fertiliser and LPG prices threaten to burden rural households and reduce farm productivity.
- This could reverse recent gains in food price stability and drive overall inflation upward.

## **Manufacturing and Industrial Sectors Face Margin Pressures**

- Key sectors like aviation, chemicals, paints, tyres, cement, and logistics — all heavily reliant on petroleum-based inputs — are likely to see reduced profit margins due to rising raw material costs.
- Crisil Ratings warns that the impact may differ across sectors depending on their oil dependency.

## **Sectoral Divide: Winners and Losers**

- While upstream oil companies may benefit from higher crude prices, downstream refiners could see their margins squeezed.
- Industries indirectly linked to crude oil — including packaging, plastic products, paints, and specialty chemicals — may pass on the cost to consumers or absorb it, affecting demand or profits respectively.

## **Rising Costs for MSMEs and Consumers**

- If tensions escalate, transport fares and logistics costs may rise, hitting grocery supply chains and increasing costs for MSMEs.
- These businesses may struggle with higher input costs and stagnant demand, leading to tighter margins.

## **Gold Prices Soar Amid Uncertainty**

- Gold futures in India crossed ₹1 lakh per 10 grams, driven by a weak rupee and investor flight to safe assets.
- Retail jewellery demand remains subdued due to high prices, though investment demand is expected to stay strong.

## **Red Sea Relief Short-Lived as Conflict Escalates**

- In May, exporters were optimistic as conditions in the Red Sea improved and normal shipping resumed.
- However, with that confrontation now a reality, traders' fears have materialised.
- For India — which imports over 80% of its crude — this poses significant macroeconomic risks.

## **Freight Rates and Insurance Costs Set to Surge**

- With vessels likely reverting to the longer Cape of Good Hope route, shipping costs are expected to stay high.
- The detour adds 10–14 days per voyage, straining vessel availability and driving up freight rates and insurance premiums.

## **LNG Shipping Severely Impacted**

- LNG flows through the Suez Canal plummeted from 34.94 million tonnes in 2022 to just 4.15 million tonnes in 2024.
- Meanwhile, LNG volumes via the Cape route surged over five-fold — from 11.76 million tonnes in 2022 to 59.37 million tonnes in 2024.
- This shift underscores the growing logistical burden and potential energy supply risks for countries like India.

**Source:** IE | ET

---

Source: <https://vajiramandravi.com/current-affairs/how-iran-israel-conflict-impacts-indian-economy-inflation-trade/>

© Vajiram & Ravi. For personal use only.