Shockwaves from the Middle East: An Analysis of Oil Price Shocks and Macroeconomic Stability in India

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Abstract

The escalation of the Iran–Israel conflict has generated significant uncertainty in global energy markets, posing serious challenges for import-dependent economies such as India.

This study examines the macroeconomic impact of the Iran–Israel conflict on the Indian economy, with a particular focus on energy security, inflation, exchange rate dynamics, and supply chain disruptions. The study analyses the relationship between crude oil price fluctuations and key economic indicators for the period 2025-2026. The findings reveal that crude oil prices act as a critical transmission mechanism through which geopolitical shocks influence domestic economic conditions.

The results indicate a significant positive relationship between crude oil prices and inflation, supporting the cost-push inflation theory. Additionally, a negative relationship is observed between crude oil prices and the value of the Indian rupee, consistent with the Balance of Payments framework. The study also highlights the broader implications of rising oil prices on energy security and supply chain efficiency.

The findings underscore the vulnerability of energy-importing economies to geopolitical risks and emphasize the need for policy interventions aimed at enhancing energy security, stabilizing macroeconomic conditions, and improving supply chain resilience. The study contributes to existing literature by providing a comprehensive analysis of the transmission mechanisms linking geopolitical conflict to domestic economic outcomes in an emerging market context

Index Terms

Geopolitical Conflict, Crude Oil Prices, Inflation, Exchange Rate, Energy Security, Supply Chain Disruptions, Indian Economy