



India and the World

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Diverse economic and diplomatic implications for India from the Iran War

The war in the Middle East continues to cast its shadow over India's domestic economy, internal politics, and external affairs. Concerns over energy and inputs for fertilisers, the cost of living, the volatility of markets and the safety of India's large overseas diaspora continue to receive attention in New Delhi. Even though a ceasefire agreement has been announced, uncertainty lingers about its implementation and robustness – as well as what follows the breakdown of negotiations in Pakistan's capital Islamabad.

The consequences of the war directly affect India's energy security. A disruption in the flow of oil and natural gas – both liquid natural gas (LNG) for transport and power generation, as well as liquid petroleum gas (LPG) for cooking – have serious welfare, political and macroeconomic consequences.

As India imports large quantities of its oil from the GCC region, global oil prices that stay around \$100 a barrel have already impacted the value of the Indian rupee (which is down around 2% against the USD since the start of the war and 10% on a yearly basis). Analysts argue it risks slowing growth, decreasing domestic consumption, and increasing inflation.

The Indian central bank has intervened to curb speculation in currency markets, but such action cannot be sustained over the long term – for example, if hostilities in the Gulf are resumed. While the economy was expected to grow by 7% during 2026-27, the war's already significant effects and uncertainty about the immediate future, have caused growth estimates to be revised downward. Independent analysts expect that growth might be up to a percentage point slower.

In an effort to mitigate the economic consequences of sharply rising oil prices, the United States granted India a 30-day waiver from sanctions to purchase Russian oil that is already on the high seas. Other countries in Asia, such as Vietnam and the Philippines, have also signalled their interest in increasing imports of Russian crude. The US waiver for the world's third-largest importer of crude oil temporarily dampens global demand while simultaneously extending the limited period in which Indian domestic oil consumption can remain unrestrained.

Nevertheless, if the exemption remains limited to a finite amount of Russian crude – or is allowed to expire, as currently seems probable – and Gulf supply remains constrained, the moderation on Indian fuel prices will likely be short-lived. A sustained period of elevated global oil prices has, in India's recent history, led to severe macroeconomic challenges and political instability.

The most acute energy-related economic concern during this crisis, however, revolves around the constrained gas supply. While crude oil can, to some degree, still be bought from producers in other parts of the world, the supply of LNG and LPG is concentrated to a handful of producers, making Gulf countries such as Qatar indispensable. India is particularly exposed, as it imports 60% of its LNG and 90% of its LPG needs from the region.

Consequently, the need to begin rationing the country's limited supply is becoming a very real fear. Even though New Delhi managed to secure the safe transit of some LPG tankers through the Strait of Hormuz, gas deficiencies could be widespread in a few weeks' time. There has already been public disaffection regarding higher prices, which contributed to recent labour unrest in the Delhi suburb of Noida.

Fertiliser supplies are another source of worry. Almost half of India's nitrogen fertiliser imports come from the Gulf region, and the sowing season is just around the corner. A shortage then, could have major implications for the agricultural sector, India's largest employer, as well as causing food prices to skyrocket. In the medium term, farmers and households would see higher cooking costs being accompanied by lower crop yields and higher grocery bills. To manage the situation, the Government of India has signalled changes to its spending priorities; it has proposed a \$6.2 billion "economic stabilisation fund" and is seeking approval for further spending on additional subsidies to support severely affected producers and households.

It remains to be seen how increased prices, decreased growth and disrupted flows of remittances from Indians in the GCC countries, will affect voting behaviour; as regional elections are held in several states over the month of April, including Kerala, West Bengal and Tamil Nadu.

While the economic fallout of the war is leading to economic setbacks in India, its political messaging and diplomatic activity must tread a fine balance. New Delhi must manage multiple priorities, energy security and long-term development among them. Although historically reliant on Iranian oil, India's purchases from Iran have fallen to near zero since the U.S. reimposed sanctions during Trump's first term. With Iran no longer a major energy supplier, India's immediate interests lean more toward safeguarding ties with the U.S., Israel, and the Arab Gulf – actors central to India's current economic ecosystem.

This shift reflects both a reassessment of energy relationships and a broader rethinking of long-term economic interests. New Delhi's shifting priorities became evident by the lack of a BRICS statement under India's current chairmanship. This despite Iran being a member of the grouping and requests from China to strengthen BRICS cooperation amid the conflict.

Additionally, India's long-term ambition to strengthen regional stability and deepen economic integration, especially through the roll out of the IMEC geoeconomic project, further makes maintaining good relations with the U.S., Israel and the GCC countries a priority. New Delhi will not be pleased, however, at the central position that Pakistan has come to occupy in attempts to manage the conflict, as the diplomatic isolation of Islamabad has long been a foreign-policy objective.

That said, it is difficult to say whether India and the UAE will regain trust in the I2U2-format they share with Israel and the U.S. to discuss regional issues, given the apparent lack of discussion or even prior notice about the bombing campaign launched on February 28.

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