

# A twelve-day Middle East conflict and its impact on oil prices

■ *Dr. T. K. Jayaraman*

**T**he recent twelve-day conflict between Iran and Israel (June 11–23) was initially expected to be yet another short-lived regional flare-up. However, it quickly escalated into a potential global crisis when the United States (US) intervened on June 22 by bombing Iranian nuclear sites. In response, Iran launched missile attacks on US airbases in Qatar, dramatically changing the dynamics of the conflict.

As tensions peaked, calls for a ceasefire emerged from several Islamic nations in the region, including Qatar. These nations also backed Iran's next strategic move: closing the Strait of Hormuz to halt crude oil shipments. Iran's parliament had just approved this measure. A ceasefire is currently in place as of this writing.

Whether or not the US decision to intervene was politically appropriate will remain a matter of debate. It has also raised constitutional concerns, with some legal scholars arguing that the President lacked authority to initiate military action without prior congressional approval.

## Economic Impact of the Conflict

This article focuses on assessing the economic impact of the conflict, particularly the disruption to global crude oil, refined petroleum products, and LNG supplies. Countries without substantial domestic mineral or oil resources—especially those reliant on the Organization of the Petroleum Exporting Countries (OPEC)—face heightened risks.

India, for instance, imports 80% to 90% of its total crude oil and LNG requirements. Of these imports, nearly 47% come from Saudi Arabia and the United Arab Emirates, with much of it passing through the Strait of Hormuz. Of the 5.5 million barrels of oil consumed daily in India, approximately 1.5 million barrels transit this vital waterway. The Strait of Hormuz, only 23 kilometers wide at its narrowest point, also facilitates energy exports to other Asian nations, including China and those in the Pacific region.

China is Iran's top crude oil importer, accounting for \$4.59 billion (35%) of Iran's total \$13.26 billion in crude exports. India follows with a 7.68% share. In 2024, roughly 84% of crude oil and 83% of LNG shipments through the Strait of Hormuz were destined for Asian markets, underlining the strait's strategic importance to OPEC exports.

India enjoys a special trade relationship with Iran, with

transactions often settled in Indian rupees, bypassing the US dollar. Iran is a major importer of Indian basmati rice (valued at around ₹3,000 crore annually), spices, tropical vegetables, and seasonal fruits.

## Fear of Inflation

Crude oil prices surged to a five-month high once the Iran-Israel conflict began on June 12 (see Table 1). Stock markets were jittery. Just days earlier, on June 6, the Reserve Bank of India (RBI) had reduced the policy rate by 50 basis points—from 6.5% to 6%—shifting its stance from “accommodative” to “neutral” and indicating no further rate cuts in FY 2025–26.

The RBI Governor had urged long-term investors to focus on domestic productive investments and encouraged consumers to purchase domestically manufactured semi-durable goods. The Middle East crisis threatened to disrupt this cautious optimism.

Reassuringly, Oil Minister Hardeep Singh Puri stated that India was prepared to source crude from outside the Persian Gulf and, if necessary, curb its own refined product exports should the Strait of Hormuz be closed. Chief Economic Adviser Dr. V. Anantha Nageswaran, while acknowledging the risks of rising inflation due to the crisis, expressed confidence that India could weather the storm. He cited “cooling inflation, ample liquidity, and low interest rates” as factors supporting India's economic resilience. Fortunately, the ceasefire was enacted on June 23—just one day after his remarks.

## Economic Projections and Market Response

Empirical data from past conflicts indicates that sudden disruptions of this nature, pushed the prices in the past above \$100 per barrel. This time it did not happen that way. The US of today is different. It did not scramble to add to inventories. Professor Ajit Ranade, writing in his Billion Press syndicated column, calls the US of today is real “Oil Sheik”. Its inventories are more than full!

**Table** shows a modest price, just around \$10 (approximately ₹870) per barrel, increase during the conflict. Since a barrel contains 42 gallons, each \$1 increase typically raises gasoline prices by 2.4 cents per gallon. A study by Clear View Energy Partners estimates that in markets without fuel subsidies, a \$10 per barrel hike could lead to a 7-cent (₹6) per litre increase in petrol prices. In worst-case scenarios, such as a

**TABLE :** Inflation and Benchmark Brent oil price

Year	CPI Inflation (%)	\$/barrel
2020	6.17	72.39
2021	5.51	72.11
2022	6.65	77.67
2023	5.36	86.88
2024	4.67	83.98
2025 Jan	4.26	72.93
Feb	3.61	69.00
Mar	3.34	64.49
April	3.16	60.84
May	2.82	62.86
June	TBA	TBA
June 2	NA	64.63
4	NA	64.86
6	NA	66.47
9	NA	67.04
10	NA	66.87
12	NA	69.36
13	NA	74.23
14	NA	73.23
15	NA	76.45
16	NA	76.47
18	NA	76.70
20	NA	77.01
23	NA	71.48
24	NA	67.14
25	NA	66.68
26	NA	67.73
27	NA	67.08

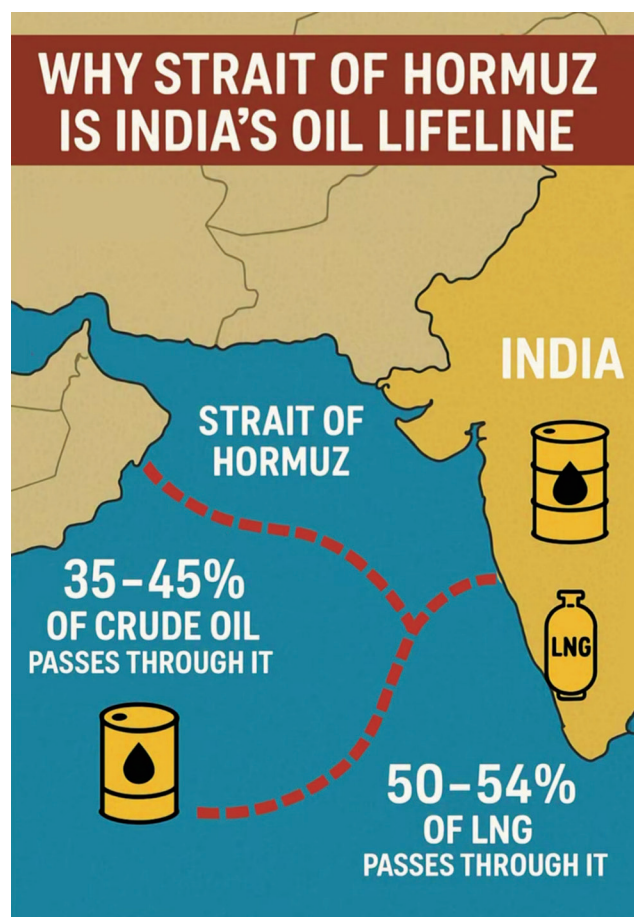
Notes: Prices shown in **red color** the spike immediately after conflict began on June 12.

Source: RBI, yahoo.finance

full blockade of the Strait of Hormuz, prices could rise an additional 27 cents (₹23) per litre.

Currently, with petrol prices unchanged, retail inflation at 2.82%, and a favourable monsoon outlook, domestic demand—accounting for 66% of total aggregate demand—remains strong. External shocks appear limited for now.

In FY 2024–25, India's crude oil imports rose to 242.4 million tonnes—a 4.2% increase from the previous year's 232.7 million tonnes. A study by Union Bank of India found that a \$10 rise in crude oil prices could increase the current account deficit by \$15 billion. If this cost is passed on to consumers, retail inflation will inevitably rise. For now, the government has held pump prices steady, providing relief to consumers.



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The stock market felt the brunt. Share prices of companies heavily dependent on oil and gas inputs—like Reliance, GAIL, BPCL, HPCL, and Mahanagar Gas—declined. Conversely, oil producers such as ONGC and Oil India saw gains.

### Conclusion

Fortunately, the worst-case scenario did not materialize. Had oil prices risen further, it could have led to a depletion of India’s foreign exchange reserves, a depreciated rupee, and slower economic growth. An empirical study indicates that a \$10 rise in crude oil prices can reduce India’s GDP growth by 0.3% and raise inflation by 0.4%. ■



— Dr. T. K. Jayaraman is a former Senior Economist with the Asian Development Bank, Manila, and a retired IAS officer from the Gujarat cadre. He was a recipient of Fulbright and East-West Center grants for his doctoral studies at the University of Hawaii.