IMPACT OF ISRAEL AND HAMAS CONFLICT ON INDIAN ECONOMY

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Abstract

India has robust trade relations with countries in West Asian countries. West Asia is of importance due to its location and its role in geopolitics. India has strong relations with Israel and Iran. The 2023 Israel-Hamas war, which commenced following a large-scale Hamas attack on Israeli territory on October 7, 2023, has claimed at least 24,000 people (22,800 Palestinians and 1,200 Israelis) lives by January 11. The continued conflict has resulted in disturbances in the global environment which was already impacted by the Russia-Ukraine war. This paper attempts to discuss the impact of on-going Israel-Hamas war on Indian economy.

Introduction

Globally India is the third-largest oil-consumer and importer. Since the Russia invaded Ukraine in 2022, India has been increasing its oil imports from Russia still a major proportion comes from West Asia. According to Reuters, 44% of Indian crude oil imports were from Western Asia between April and September 2023. In October2023, the World Bank's report on India forecasted India's growth rate for the year 2023-24 at strong 6.3%. The world economy already faced oil market shortfall as major oil producers Russia and Saudi Arabia during 2023 announced crude oil supply cut of 1.3 million barrels per day. For the financial year 2024-25, the Reserve Bank of India has fixed crude oil prices at $85 (€79) a barrel and an exchange rate of rupees 82.5 against the American dollar. Economists are predicting that Indian and world's crude oil supply could be at risk if the Israel-Hamas war spreads and there would be added supply blockages also. Higher oil prices would aggravate inflation and upset India's current account deficit (CAD). Government oil marketing companies are expected to take in the higher costs, with notional losses in selling fuel.

The present geopolitical conflict in the Middle East due to the continuing war between Israel and Palestinian terrorist group Hamas has brought fresh global challenges for the Indian economy. Since the war began in October, international crude oil prices have spiralled over 5%. India is looking at substitute sources of oil from countries like, Canada, Gabon, Brazil, Guyana and Colombia. During October, Major chunk of Indian oil imports came from Russia (35%), followed by Iraq (21%) and Saudi Arabia at (18%)

Israel-Hamas war impact on the global economy

The Israel-Hamas war may have an impact on the global oil supply which can in turn disrupts the oil prices. When oil prices rise, the global inflation increases due to the increased cost of production for different industries and energy costs for companies and households also spike. High energy prices and new inflationary trends could weaken the attempts of central banks to bring inflation under control. Due to this central banks across the globe will continue growing interest rates, which will decelerate the global economic growth. If oil prices stay high, India, China, USA and other major nations that import oil may see significant import inflation. The economic influence of global oil supply have important consequences for India as it's a major importer of crude oil as it imports Around 5.33 million bpd (Barrels per day). Analysts are of the opinion that India to see macroeconomic stability at this current moment, but is at threat to one key risk factor- supply interruption in crude oil because of intensification in the war, resulting in a spike in crude oil prices.

Israel-Hamas war impact on the Indian economy

1. Wider Current Account Deficit:

India, a net importer of crude oil which recognises as much as 85% of its energy needs through imports, may see a heavier import bill if international crude oil prices keep rising trade imbalance, as India must incur more costs for oil imports, thus straining the nation's current account balance. High crude oil prices harm India by undermining currency stability, potentially widening the government's fiscal deficit (the government may absorb higher prices by lowering excise duty), and negatively affecting the profit margins of industries like paint, tyres, chemicals, and aviation. The current account deficit (CAD) is a key indicator of a nation's balance of payments.

2. **Weaker Indian Rupee:**

The US dollar appreciates compared to other currencies due to high oil costs, which depresses the Indian rupee. Given that India pays in dollars for its oil imports, an increase in the price of oil imports may raise demand for dollars and depreciate the value of the rupee relative to the dollar.

3. **Inflation:**

An increase in the price of oil on a global scale could result in increased fuel costs, which could trigger inflationary pressures. The Reserve Bank of India (RBI) states that as prices continue to rise, fewer households and businesses would have disposable money to spend on non-energy items, which will result in a decline in aggregate demand. A shock to the news regarding the oil supply affects local consumer pricing. Unexpected shifts in oil prices can also affect how wages and prices are established in the economy by altering families' and businesses' expectations for inflation. As a result, domestic economic activity is negatively impacted by such shocks.

4. High fiscal deficit:

To protect customers from the full effects of rising oil costs, the government subsidises fuel prices. The government may have to boost subsidies or bear some of the price increase if crude oil prices stay higher for an extended period of time, which would increase the fiscal deficit. Crucial agricultural commodities like wheat and sunflower seeds were affected by the conflict between Russia and Ukraine, and the Israel-Palestine conflict may have an impact on the world's supply of crude oil, which could be expensive for Indian households.

5. Diaspora:

The Indian immigrant population in Israel and Iran, is comparatively small compared to the overall Indian immigrant population worldwide. Generally, Israel and Iran have not been a sought-after destination for Indians. The flow of remittances from Israel and Iran is minimal given the small size of the diaspora. Therefore this war may not much affect the Indian diaspora and the remittances to India.

6. Technology and Defence:

Israel is a global leader in many high-tech sectors, like semiconductors, and cyber capabilities. India's technology sector work together with Israeli companies and institutions. Israeli defence exports to India during 2011-2022 period are led by missiles, (including air defences), smart munitions, sensors, fire control systems and uncrewed aerial vehicles (UAVs), according to data from SIPRI's(Stockholm International Peace Research Institute's Arms Transfer Database) trade registry. Large ticket items include Barak air defences, SPICE-series of guided bombs and the Heron-TP UAVs. India was Israel's single largest customer, with sales peaking at $607 million in 2017. In 2022, India purchased defence products worth $247 million, which constituted about 30% of Israel's total defence exports for the year. There is no evidence the Israel-Hamas war has slowed down such collaborations. In November 2023, Elbit Systems entered into an agreement to subscribe to a 44% stake in an Adani Defence Systems subsidiary. In October, the brokerage house Nuvama published a report suggesting that the war may open up more business opportunities for some Indian companies with Israeli joint ventures.

Conclusion

India has deep trade relations in West Asia especially with Israel and Arabian Gulf (Iraq). Two thirds of Non- resident Indians (NRI) are concentrated in the Arabian Gulf countries but very small NRI`s in Isarel and Iran. The largest inward remittances to India are from Gulf countries accounting to 29% of the total remittances and next is USA accounting to 23.4% of total remittances. Energy imports of India are mainly from Iraq, Russia, Saudi Arabia, Qatar & UAE. Israel exports defence to India amounting to $10.1 Billion dollars in 2022-23. While economic ties between India and Israel are relatively minor compared to those with the Arabian Gulf and Iraq, the war could still effect Indian exports indirectly by affecting the operational costs of Indian businesses in West Asia, and by impacting investment currents. Additionally, the conflict's broader regional implications could affect the Indian immigrants in the Middle East, potentially impacting remittances and energy supplies from the Gulf region, which are vital for India's economy.

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