

March 03, 2026

India's Resilience Amid Evolving Geopolitical Scenario

What's the Point?

- **Reduced Oil intensity:** Oil imports as a share of GDP have declined sharply (from ~8.5% in 2012 to ~4.8% in 2025)
- **Impact on Inflation:** Inflation sensitivity to Crude Oil could be manageable (~20 bps for 10% rise in Crude Oil price)
- **Strong Fundamentals:** Robust GDP growth, strong domestic demand, benign inflation, comfortable forex reserves, prevailing Fiscal discipline and manageable Current Account dynamics enhance resilience.
- **Constructive Equity View:** Valuations in several segments had already moderated over the past few months. Any further market correction, driven by external events rather than domestic fundamentals, could present accumulation opportunities for long-term investors.

On 28th February 2026, the United States and Israel conducted coordinated strikes on targets inside Iran, prompting retaliatory missile attacks on US assets in the region. This escalation has heightened geopolitical uncertainty in an already sensitive environment. Given the Middle East's critical role in global energy supply, any further deterioration places immediate focus on crude oil prices and energy security. The broader implication is increased volatility across global financial markets, warranting assessment of potential impact on India.

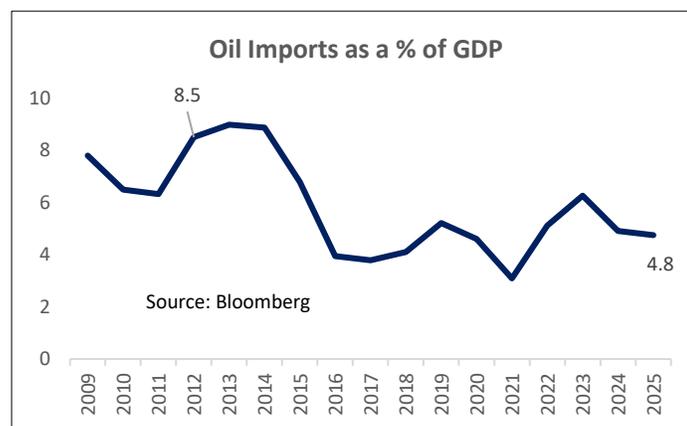
Impact on Oil Prices

Middle East flashpoints typically generate a risk premium in crude markets, due to concerns around supply disruptions through the **Strait of Hormuz, a key route for ~20% of global oil flows**. **The direction of oil prices will depend on duration of the conflict, extent of disruption to physical flows and signals from major producers** on spare capacity. Past episodes indicate that price spikes fade if physical flows remain largely uninterrupted and major producers signal spare capacity readiness.

India's reduced Oil dependency over the years

- Crude oil remains an important macro variable for India; however, structural improvements over the past decade have significantly reduced the economy's sensitivity to oil price shocks. **Oil imports as a share of GDP have declined from ~8.5% to ~4.8%**, reflecting faster overall economic growth, improved energy efficiency and the gradual shift toward cleaner fuels and alternative energy sources.

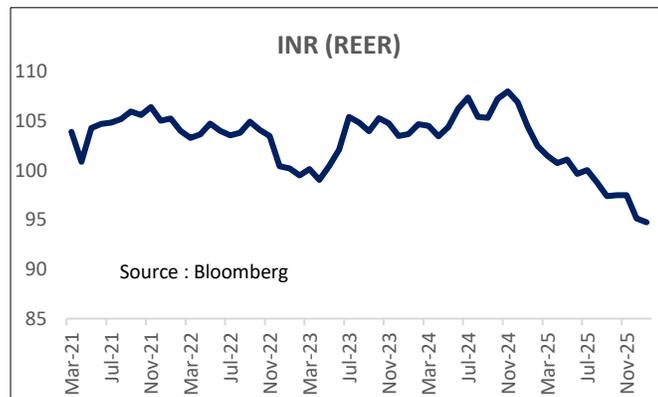
- While the economy is not insulated from global crude fluctuations, the impact on headline inflation and external metrics is now more contained than in earlier cycles. **RBI estimates suggest that a 10% rise in global crude prices increases headline inflation by approximately 20 basis points** on an annualised basis, indicating a more manageable impact compared to historical experience.



Indian Economy resilient to withstand temporary fluctuations

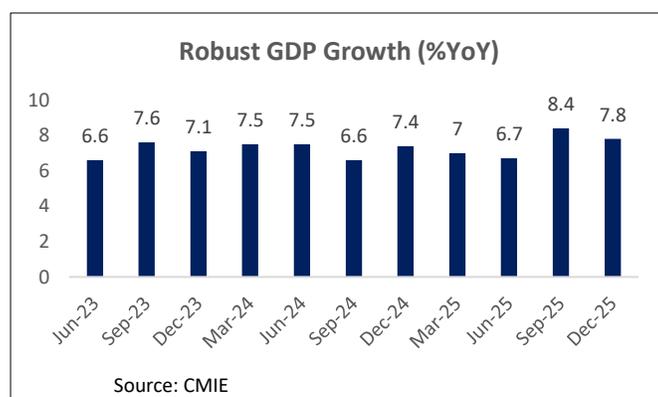
- India's **external dynamics today are far more robust compared to previous cycles**. A strong services export surplus, lower dependency on Oil and diversified trade partnerships provide a natural buffer to the current account. **US\$10/barrel increase in Crude Oil widens Current Account Deficit (CAD)^ by ~35 bps**.

- While there could be potential impact on INR in the short-run, **Foreign exchange reserves remain comfortable (more than \$700 Bn)**, enabling orderly currency management. Importantly, India's Real Effective Exchange Rate (REER) stands at **~94 (base 100)**, indicating that the **INR remains competitively valued** relative to trading partners. This enhances export competitiveness and cushions external pressures
- While Middle East Countries are key trading partners for India, **Merchandise Exports to Middle East accounts for only 2% of India's GDP**.



India's Growth Story Intact: New GDP series reveals

- As per the new GDP series with 2022-23 as the base year, **India's real GDP growth remained robust at 7.8% YoY in the Dec-2025 quarter**. The growth in December quarter was driven by strong domestic demand owing to festive season, GST rate cut and supportive monetary policy.
- India is entering FY27 with improving growth fundamentals, supported by potentially lower US tariffs, cyclical policy support (supportive monetary policy and positive fiscal impulse in the recent union budget) and focus on structural reform.



Conclusion

In the **near term, geopolitical developments may contribute to episodic volatility**, influencing risk appetite and global flows. Such phases are typically sentiment-driven and may lead to short-term price corrections across emerging markets, including India. However, historical experience suggests that **domestic-oriented economies with strong internal demand tend to demonstrate relative resilience during external shocks**.

Importantly, **valuations in several segments had already moderated over the past few months**, creating a more balanced risk-reward profile. **Any further market correction**, if driven by external events rather than domestic fundamentals, **could present accumulation opportunities for long-term investors**. Over a medium- to long-term horizon, India's growth trajectory and structural reforms remain key support factors for equities.

Sources: RBI, ^ Jefferies, Bloomberg, CMIE and other publicly available information.

Disclaimer: Views expressed herein are based on information available in publicly accessible media, involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied herein. The information herein is for general purposes only. Stocks/Sectors/Views referred are illustrative and should not be construed as an investment advice or a research report or a recommendation by HDFC Mutual Fund ("the Fund") / HDFC Asset Management Company Limited (HDFC AMC) to buy or sell the stock or any other security. HDFC AMC is not indicating or guaranteeing returns on any investments. Past performance may or may not be sustained in the future and is not a guarantee of any future returns. The recipient(s), before taking any decision, should make their own investigation and seek appropriate professional advice.

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.