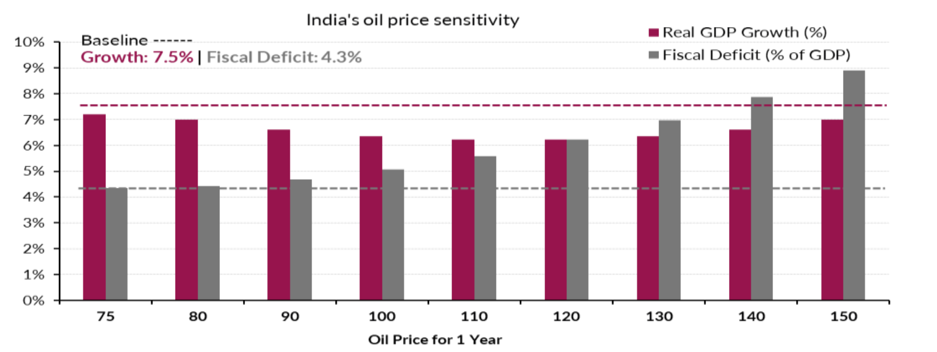
Economic Research | India

Is market volatility essential to reopen the Strait of Hormuz?

A closed Strait of Hormuz (SoH) blocks 7% of global energy supply. If sustained for a year, despite offsets from substitution and efficiency, global growth impact could be 4-5%. Supply shortages (disrupted value chains) and reflexivity from volatile financial markets are also factors. $100/bbl crude (and gas) for a year is likely to worsen terms of trade by US$80bn (2.1% of GDP): higher fiscal deficit may reduce some growth impact. A US$60bn BoP deterioration may need both a weaker INR and higher rates. While we don't expect the disruption to last beyond a few weeks, as Iran is relying on market volatility as its bargaining chip, higher volatility may be necessary to reopen the SoH.

13 Mar 2026
Growth

Exhibit 1: Terms of trade shock to be split between growth and fiscal slippage



Source: Axis Bank Research

7% of global energy supply disrupted; India impacted by price moves

The closing of the Strait of Hormuz (SoH) blocks 7% of global energy supply (Fig 2). If this supply remains inaccessible for a full year, even building in substitution and efficiency gains, we estimate it can drag down global growth by 4-5%. The impact on energy/supply chains of the period of disruption is likely to be non-linear (Fig 13). Higher prices would push out weaker economies/consumers; economies with net energy imports at high share of GDP would also be hurt, e.g., North Asia (Fig 3). While ~10% of India's energy flows are directly affected by SoH closure (Fig 4; a third of gas supply), substitution (e.g. gas to coal for power) and diversion (ability to buy at higher prices) mean the impact would be via higher prices.

With oil at $100, annualized terms of trade shock for India could be 2% of GDP

If oil stays above $100/barrel for a year, in addition to the global growth shock and financial market disruption, we estimate the direct terms of trade shock to be $80bn (2.1% of est. FY26GDP): 80% energy and 20% fertilizers, edible oil, etc. We expect this shock to be managed via growth and fiscal channels, with some non-linearity in fiscal intervention (Fig 1). Some buffer can also come from OMCs which benefited from subdued oil prices since 2023 (Fig 8). The BoP impact could be $60bn (higher CAD, FPI outflows offset by lower FDI repatriation and unchanged ECBs, Fig 9), necessitating a weaker INR (Fig 11).

We do not expect the war to last long; if it does, rates may have to go up

We believe much higher market volatility may be an important part of getting the warring parties to agree to a reopening of the SoH, especially as it would be a tool for Iran to get better terms (Fig 14). This may show up in the next few weeks (oil markets expect so too). If oil prices do not fall, given the scale of the BoP adjustment, it would be unwise to let all the adjustment occur through the INR NEER. Rate hikes may be necessary to slow the economy. There are upside risks to inflation too, based on RBI's model (Fig 10). The economy may need to run with a significant labour market slack till energy prices stay high.

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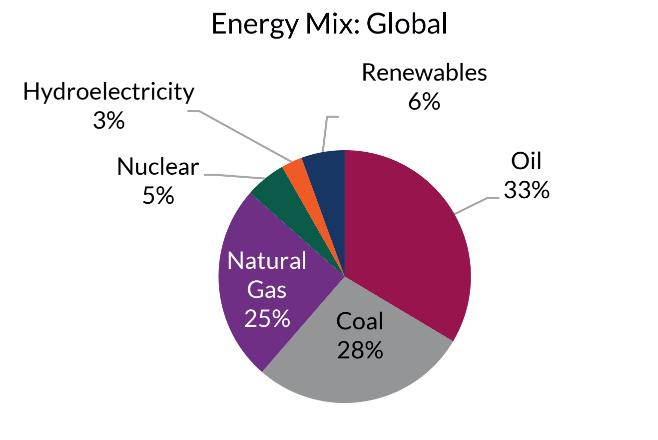
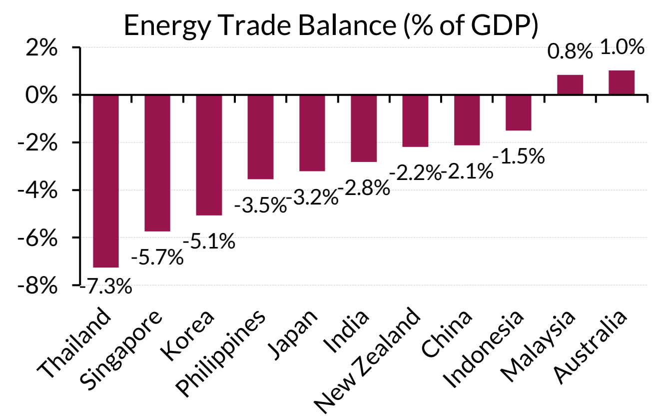
Exhibit 2: 20% of oil and 2.5% of gas flows via the Strait of Hormuz -> 7% of global energy demand hit



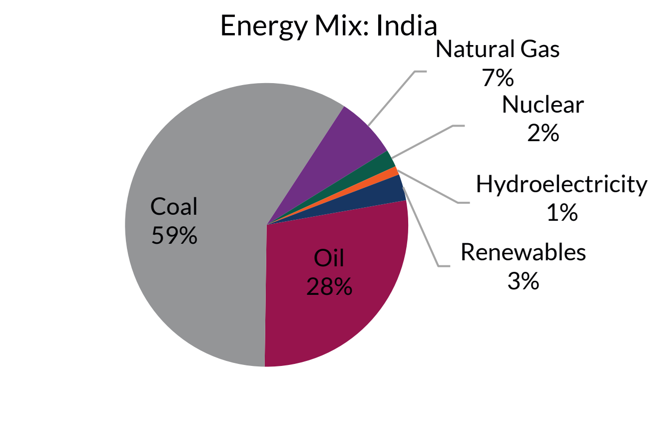
Source: Energy Institute, Statistical Review of World Energy (2025)

Exhibit 3: Net energy imports as % of GDP higher in North Asia



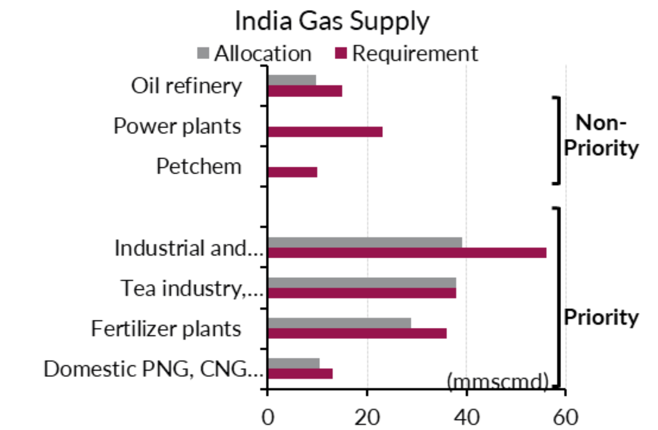
Source:, UN Comtrade, World Bank; Axis Bank Research

Exhibit 4: For India, we estimate ~10% of energy flows through the Strait of Hormuz



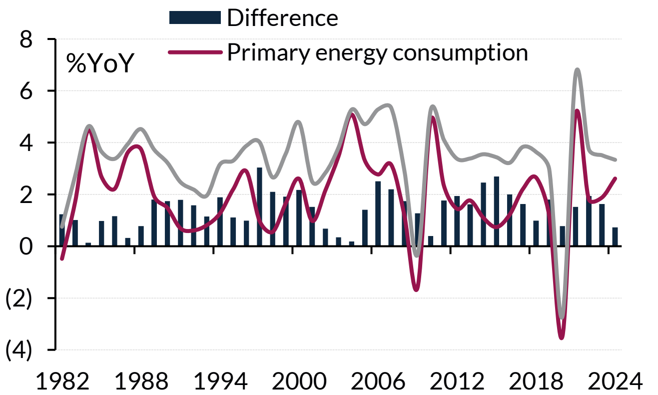
Source: Energy Institute, Statistical Review of World Energy (2025)

Exhibit 5: One-third of India's gas supply has been disrupted: non-priority sector allocation slashed



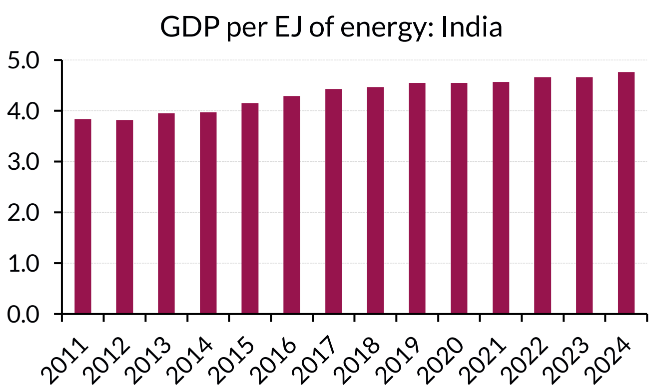
Source:, MoPNG; Axis Capital

Exhibit 6: Global energy demand grows in line with global GDP



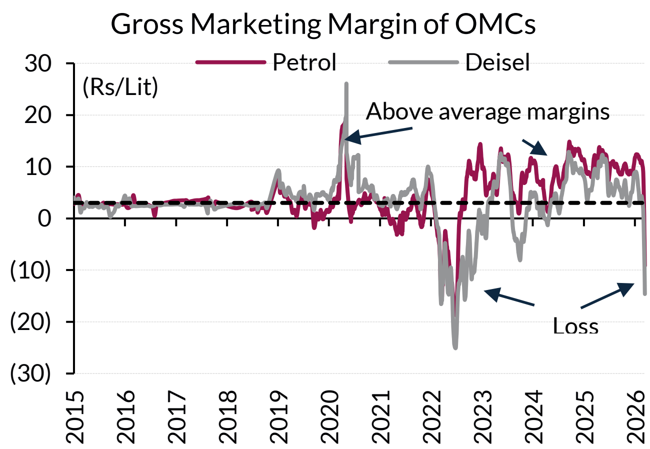
Source: Energy Institute, IMF; Axis Bank Research

Exhibit 7: India has seen 24% energy efficiency gain in India over 2012-24 (1.8% CAGR)



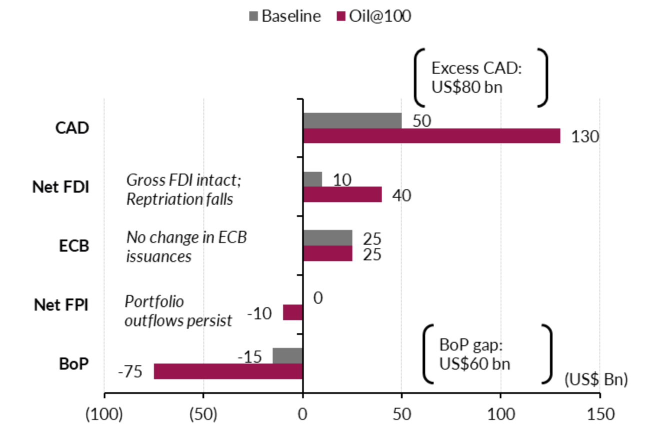
Source: BP Statistics World Energy Review; Axis Capital

Exhibit 8: Above average margins of OMCs in the past 2-3 years may offer some fiscal buffer



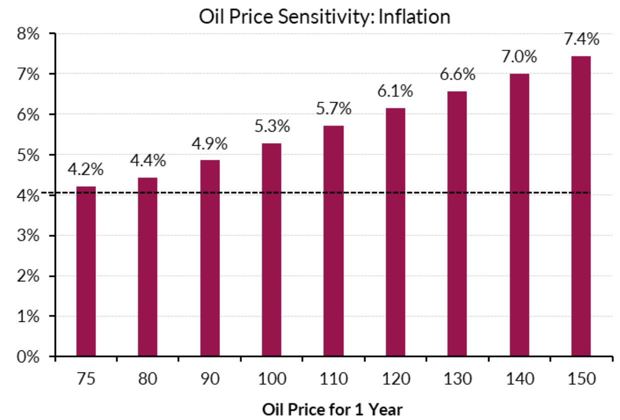
Source: Axis Capital estimates

Exhibit 9: The BoP adjustment needed could still be lower at $60bn with an end to FDI repatriation



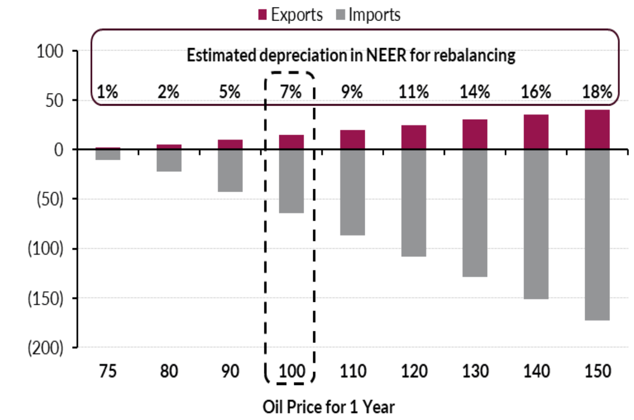
Source: Axis Bank Research

Exhibit 10: Inflation shock (as per RBI's model) could be 30bps for every 10% increase in price of oil



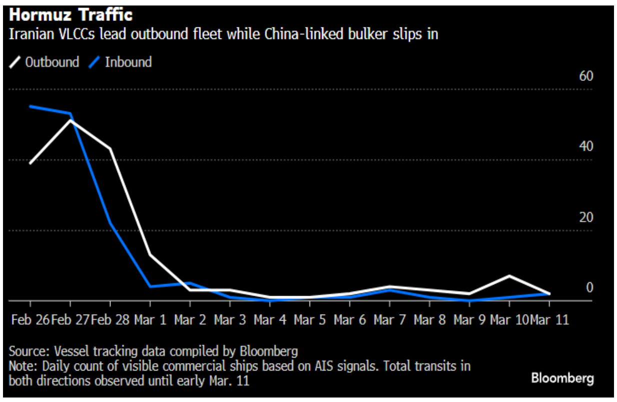
Source: RBI; Axis Bank Research

Exhibit 11: As per sensitivities published by RBI/Economic Survey, the INR may need to fall 7%



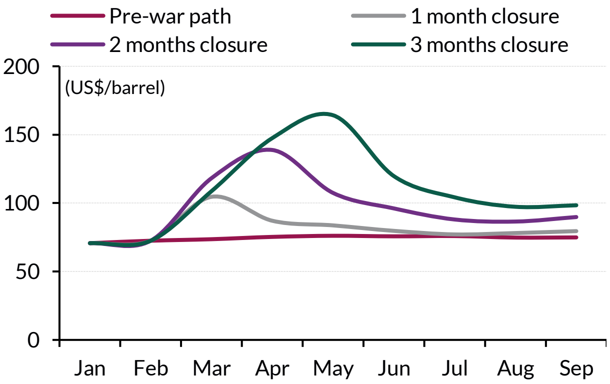
Source: Axis Bank Research

Exhibit 12: Traffic from the Strait of Hormuz is barely moving



Source: Bloomberg

Exhibit 13: Oil price normalization depends on how soon this ends



Source, Bloomberg

Exhibit 14: Strategy/Objectives of the Key Players in the conflict

Key Players	Objectives	Strategy
Iran	Regime survival Try to prevent periodic 'mowing the lawn' by US and Israel by creating a strong deterrent	Raise costs for everyone to build economic and diplomatic pressure on the US. a) Expand theatre of war to all US regional allies b) Extend the timeline of conflict c) Exhibit resilience through continuity d) Drive a wedge between Gulf monarchs and populations e) Socialize economic pressure globally through energy costs
US	a) A weakened Iran regime that can collapse b) Free mobility of trade and energy flows c) Preferential rights on Iran's oil resources d) Weakening of the Iran-Russia-China axis	Maximum pressure without committing troops on the ground
Israel	A permanently weakened Iran to maintain the regional power difference with Iran and its proxies	Obliteration of Iran's nuclear/military capabilities
GCC	a) Ensure limited damage to existing energy infra b) Domestic political stability c) Sustain flows of trade/tourism d) Weaken Iran to stop arms proliferation	Minimizing economic costs
China	a) Preserve investments in the region b) Minimize disruption to global growth c) Ensure cheap oil flows from Iran d) Avoid direct confrontation with the US	a) Ensure oil flows from Iran are sustained b) "Winning without fighting": prolong US entanglement c) Remain an arbiter in the region
Russia	Rebuild leverage in the Ukraine conflict	Maintain enough (informational/material) support to ensure regime survival and regional instability
Other Powers	Restart movement in the Strait of Hormuz	Europe and India have better relationships with Iran than the US

Source: Axis Bank Research