Int. J. Sci. R. Tech., 2026 3(7)
A Multidisciplinary peer-reviewed Journal
www.ijsrtjournal.com [ISSN: 2394-7063]

Original Article

Financial Stability And Strategic Oil Demand Management In India: A Study In The Context Of Asian Geopolitical Conflicts

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ABSTRACT

India is the world's third-largest consumer of crude oil and depends on imports for nearly 87% of its petroleum requirements. Such dependence makes the Indian economy highly vulnerable to geopolitical conflicts occurring in major oil-producing regions, particularly in West Asia. The geopolitical tensions observed during 2026 caused significant disruptions in global crude oil supply chains, leading to increased oil prices and substantial macroeconomic challenges for oil-importing countries. The present study investigates the impact of Asian geopolitical conflicts on India's financial stability by analysing crude oil demand, international crude oil prices, inflation, exchange rates, and gross domestic product (GDP) growth during the period 2023–2026. Secondary data were collected from the Reserve Bank of India, Ministry of Petroleum and Natural Gas, International Energy Agency, International Monetary Fund, and World Bank. The study adopts a descriptive and analytical research design using percentage analysis, trend analysis, correlation analysis, and the Chi-square test. The findings reveal that rising crude oil prices are strongly associated with increasing inflation and depreciation of the Indian rupee, while exhibiting a negative relationship with GDP growth. The study concludes that expanding strategic petroleum reserves, diversifying crude oil import sources, strengthening diplomatic cooperation with exporting nations, and accelerating renewable energy adoption are essential policy measures for improving India's long-term financial stability and energy security.

Keywords: Crude Oil; Financial Stability; Energy Security; Geopolitical Conflict; Strategic Petroleum Reserve; India.

INTRODUCTION

Energy is the backbone of economic development, and crude oil plays a vital role in India's industrial, transportation, and manufacturing sectors. India's dependence on imported crude oil has steadily increased over the years, making the nation vulnerable to international price fluctuations and geopolitical uncertainties.

The Asian geopolitical conflict of 2026, particularly tensions in the Middle East, significantly disrupted global oil supply chains. Since a substantial share of India's crude imports passes through the Strait of Hormuz, any military or political instability in this region directly affects India's oil availability and pricing.

Map: India's Major Oil Import Route :

Saudi Arabia / Iraq / UAE
↓
Strait of Hormuz
↓
Arabian Sea
↓
India

A sudden rise in crude oil prices leads to inflation, currency depreciation, increased import bills, and reduced economic growth. Therefore, strategic oil demand management has become crucial for maintaining financial stability.

2. REVIEW OF LITERATURE:

1. Hamilton (2009): Hamilton found that oil price shocks have historically caused inflationary pressures

Relevant conflicts of interest/financial disclosures: The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

and economic slowdowns in oil-importing nations. His work established a strong connection between crude oil prices and macroeconomic performance.

2. Kilian (2014) : Kilian emphasized that geopolitical events are a major cause of oil price volatility. Strategic reserves and supply diversification were identified as effective policy responses.

3. Bhattacharyya (2019) : Bhattacharyya highlighted India's heavy dependence on imported crude oil and warned that this dependence exposes the country to external economic shocks.

4. International Energy Agency (2025) : The IEA projected a sharp increase in India's energy demand and stressed the need for renewable energy adoption and import diversification.

5. Reserve Bank of India (2026) : RBI observed that crude oil price increases directly influence inflation, exchange rates, and fiscal deficits, thereby affecting financial stability.

Research Gap :

Most previous studies focused on oil price fluctuations in normal market conditions. Limited research has been conducted on India's oil demand management during wartime geopolitical disruptions in Asia, particularly in 2026.

3. OBJECTIVES OF THE STUDY :

1. To analyze the impact of Asian geopolitical conflicts on India's oil demand.
2. To examine the relationship between crude oil prices and financial stability.
3. To evaluate India's strategic preparedness during oil market disruptions.
4. To suggest measures for strengthening energy security.

4. SCOPE OF THE STUDY :

1. The study covers India for the period 2023–2026.
2. It focuses on crude oil demand, pricing, and financial stability.
3. Comparative references are made to other Asian economies.
4. The study examines geopolitical conflicts affecting oil supply routes.

5. LIMITATIONS OF THE STUDY :

1. The research is based entirely on secondary data.
2. Geopolitical events are uncertain and rapidly changing.
3. Forecasting future conflicts is difficult.
4. The study is limited to macroeconomic variables.

6. HYPOTHESIS :

Null Hypothesis (H_0)

There is no significant relationship between Asian geopolitical conflicts and India's financial stability.

Alternative Hypothesis (H_1)

There is a significant relationship between Asian geopolitical conflicts and India's financial stability.

7. RESEARCH METHODOLOGY :

- **Research Design:** Descriptive and Analytical
- **Nature of Data:** Secondary
- **Data Sources:** RBI, IEA, IMF, Ministry of Petroleum, World Bank
- **Study Period:** 2023–2026
- **Statistical Tools Used:**
    - Percentage Analysis
    - Correlation Analysis
    - Chi-square Test
    - Graphical Representation

8. DATA ANALYSIS AND INTERPRETATION :

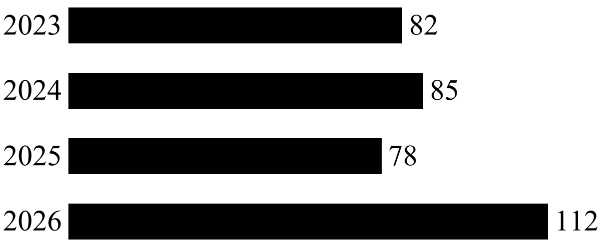
Year	Oil Imports (MMT)	Brent Price (USD/Barrel)
2023	232	82
2024	238	85
2025	245	78
2026	252	112

Table 1: India's Crude Oil Imports and Brent Prices

Interpretation

The table shows a steady increase in India's crude oil imports. However, Brent crude prices rose sharply in 2026 due to geopolitical tensions, increasing India's import burden significantly.

Graph 1: Brent Crude Price Trend



Indicator	2025	2026
Inflation (%)	4.8	6.9
Rupee/USD	83.2	92.5
GDP Growth (%)	7.1	6.2

Table 2: Key Economic Indicators

Interpretation

Higher crude oil prices contributed to increased inflation, depreciation of the rupee, and slower GDP growth in 2026.

Graph 2: Inflation Comparison

9. TESTING OF HYPOTHESIS :

Correlation Analysis

Variables	Correlation Coefficient
Oil Price vs Inflation	+0.91
Oil Price vs Rupee Depreciation	+0.88
Oil Price vs GDP Growth	-0.84

Interpretation

The results indicate a strong positive relationship between crude oil prices and inflation, as well as currency depreciation. A negative relationship exists between oil prices and GDP growth.

Chi-Square Test

- Calculated Value = 12.64
- Table Value = 9.49
- Level of Significance = 5%

Decision :

Since the calculated value exceeds the table value, the null hypothesis is rejected.

Result :

There is a significant relationship between Asian geopolitical conflicts and India's financial stability.

10. MAJOR FINDINGS :

1. India imports nearly 87% of its crude oil requirement.
2. Geopolitical tensions in Asia cause substantial volatility in oil prices.
3. Rising crude prices significantly increase inflation.
4. The Indian rupee depreciates sharply during oil supply disruptions.
5. GDP growth slows due to increased production and transportation costs.

6. Strategic petroleum reserves provide temporary protection against supply shocks.
7. Renewable energy investments reduce long-term dependence on imported crude oil.

11. SUGGESTIONS :

1. Expand Strategic Petroleum Reserve capacity to cover at least 120 days of imports.
2. Diversify crude oil import sources beyond West Asia.
3. Accelerate investment in renewable energy and electric mobility.
4. Strengthen diplomatic relations with major oil-exporting countries.

CONCLUSION

India's financial stability is highly dependent on global crude oil markets. The geopolitical conflicts witnessed in Asia during 2026 exposed India's vulnerability to supply disruptions and price volatility. Strategic reserves, diversified sourcing, and renewable energy development are essential for mitigating these risks. A proactive energy policy will help India maintain economic stability and ensure long-term energy security.

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HOW TO CITE: Amol S. Patil[1]*, Chhaya A. Patil[2], Financial Stability And Strategic Oil Demand Management In India: A Study In The Context Of Asian Geopolitical Conflicts, Int. J. Sci. R. Tech., 2026, 3 (7), 245-248. https://doi.org/10.5281/zenodo.21295943