

Manuscript ID:
IJEBAMPSR-2026-030211

Volume: 3

Issue: 2

Month: April

Year: 2026

E-ISSN: 3065-9140

Submitted: 06 Mar 2026
Revised: 11-Mar-2026
Accepted: 11-Apr -2026
Published: 30-Apr -2026

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DOI: 10.5281/zenodo.21256227

DOI Link:
<https://doi.org/10.5281/zenodo.21256227>



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How to Cite this Article:

Ubale, V. W. (2026). Global Economic Development and Sustainability Challenges in the 2026 Energy and Geopolitical Crisis. *International Journal of Economics, Business, Accounting, Agriculture and Management Towards Paradigm Shift in Research (IJEBAMPSR)*, 3(2), 59–66.
<https://doi.org/10.5281/zenodo.21256227>

Global Economic Development and Sustainability Challenges in the 2026 Energy and Geopolitical Crisis

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Abstract

The global economy in 2026 is undergoing a structural shift driven by escalating geopolitical conflicts, particularly the West Asia crisis involving Iran, Israel, and the United States, along with the prolonged Russia–Ukraine war. This paper conceptualizes the crisis as a dual energy shock characterized by supply disruptions and price volatility, leading to stagflation, weakened growth, and disrupted global trade. With global GDP growth declining to nearly 1.4% and inflation rising significantly, the study evaluates the implications for India's macroeconomic stability. The analysis identifies key structural vulnerabilities in the Indian economy, including high dependence on imported energy, exposure to volatile geopolitical regions, and fragile supply chains. Using secondary data and an analytical framework, the paper critically examines India's policy response and highlights its largely reactive nature. The study concludes that while India demonstrates relative resilience, long-term economic stability requires strategic diversification, stronger energy security, and accelerated progress toward sustainable development in an increasingly fragmented global economic environment.

Keywords: Global Energy Shock, Geopolitical Conflict, Stagflation, Geoeconomic Fragmentation, Indian Economy, Energy Security, Inflation, Supply Chain Disruption, Macroeconomic Stability, Sustainable Development

Introduction

The global economic landscape in 2026 is undergoing a fundamental transformation driven by escalating geopolitical conflicts and persistent disruptions in energy markets. The intensification of the West Asia conflict involving Iran, Israel, and the United States, coupled with the prolonged Russia–Ukraine war, has produced a systemic shock that extends far beyond regional boundaries, reshaping global economic stability. Unlike earlier economic crises that were primarily rooted in financial imbalances or cyclical demand contractions, the present crisis is characterized by a simultaneous energy supply disruption and sharp price escalation, resulting in widespread stagflationary pressures across both advanced and emerging economies.

The continuation of war into 2026 has significantly heightened uncertainty in key global energy corridors, particularly the Strait of Hormuz, a critical route for global oil transportation. Persistent military tensions, strategic confrontations, and supply insecurities in this region have led to sustained volatility in crude oil and natural gas prices. This volatility has increased production and transportation costs worldwide, contributing to rising inflation while simultaneously constraining economic growth. As a result, policymakers across countries face a complex trade-off between controlling inflation and sustaining growth, thereby exposing the limitations of conventional macroeconomic policy tools in addressing supply-driven shocks.

At the same time, the global economy is witnessing an accelerated shift toward geoeconomic fragmentation. Nations are increasingly prioritizing energy security, strategic autonomy, and national interests over the efficiency gains associated with globalization. The growing prevalence of protectionist policies, regional trade arrangements, and “friend-shoring” strategies indicates a structural reconfiguration of global trade and investment patterns. The persistence of geopolitical conflicts has further reinforced this transition, leading to a more fragmented, uncertain, and security-driven global economic order.

In this evolving context, India occupies a significant yet vulnerable position within the global economy. As one of the fastest-growing major economies, India has demonstrated a degree of macroeconomic resilience; however, its structural characteristics expose it to external shocks. A high dependence on imported fossil fuels, deep integration into global supply chains, and substantial exposure to geopolitically sensitive regions make the Indian economy particularly susceptible to fluctuations in energy prices and disruptions in international trade. Furthermore, the current crisis presents a dual policy challenge for India. On the one hand, there is an urgent need to address immediate macroeconomic concerns such as inflationary pressures, fiscal stress, and external imbalances. On the other hand, the country must continue to pursue long-term developmental objectives, including sustainable growth, energy transition, and climate commitments. The persistence of the ongoing war situation complicates this balance, as short-term energy security considerations often conflict with long-term sustainability goals.

Against this backdrop, the present study examines the macroeconomic implications of the 2026 geopolitical crisis with a specific focus on India. It seeks to analyze the transmission mechanisms of global energy shocks, identify structural economic vulnerabilities, critically evaluate policy responses, and propose strategic measures aimed at enhancing economic resilience in an increasingly volatile and fragmented global environment.

Background of the Crisis:

The 2026 global energy shock is rooted in the escalation of geopolitical tensions in West Asia, particularly involving Iran, Israel, and the United States, alongside the continuing Russia-Ukraine war. These conflicts have collectively disrupted global energy supply systems, creating a dual shock of supply constraints and price volatility. A critical factor in this crisis is the strategic vulnerability of key energy transit routes such as the Strait of Hormuz, through which a significant share of global oil trade passes. Heightened military tensions and uncertainty in this region have led to sharp fluctuations in crude oil prices, directly affecting global production costs, transportation, and inflation levels. The interaction between the West Asia conflict and the Russia-Ukraine war has intensified the crisis by simultaneously disrupting both oil and natural gas markets. This has resulted in stagflationary pressures at the global level, characterized by rising inflation and slowing economic growth.

For India, the crisis has significant economic implications due to its high dependence on imported energy and strong integration with global trade networks. Rising oil prices have increased

inflation, widened the current account deficit, and placed pressure on fiscal resources. The situation highlights India's structural vulnerability to external shocks and underscores the need for greater energy diversification and strategic preparedness.

Objectives:

The study is guided by the following objectives:

1. **Analyse the Global Energy Shock** – To examine the nature and dynamics of the 2026 global energy shock arising from the West Asia conflict and its interaction with the Russia-Ukraine war, with emphasis on supply disruptions and price volatility.
2. **Assess Macroeconomic Impact Globally** – To evaluate the effects of geopolitical conflicts on global GDP growth, inflation, trade flows, and the emergence of stagflationary pressures.
3. **Examine Transmission to India** – To investigate how global energy shocks affect India's economy, focusing on inflation, fiscal imbalance, current account deficit, and currency fluctuations.
4. **Identify Structural Vulnerabilities in India** – To assess India's dependence on imported energy, fragile supply chains, and exposure to geopolitically sensitive regions.
5. **Evaluate Policy Response** – To critically examine India's short-term and long-term policy measures, including energy diplomacy, fiscal and monetary interventions, and crisis management strategies.
6. **Analyse Goeconomic Fragmentation** – To study the implications of global economic fragmentation on trade patterns and India's position within emerging regional and strategic economic blocs.
7. **Assess Sustainability Challenges** – To explore the trade-off between immediate energy security and long-term sustainability goals, including renewable energy transition and climate commitments.
8. **Propose Strategic Measures** – To develop a comprehensive framework for enhancing India's economic resilience, diversification, and sustainable growth amidst ongoing geopolitical uncertainty.

Research Methodology:

This study adopts an integrated qualitative and quantitative approach to analyse the macroeconomic implications of the 2026 West Asia conflict, focusing on global energy shocks and India's vulnerabilities.

- **Research Design:** The research examines three core dimensions:
 1. **Global Energy Shock** – Nature, dynamics, and transmission mechanisms of the 2026 energy crisis.

2. **Macroeconomic Impact** – Effects on global and Indian GDP, inflation, trade, and energy prices.
3. **Policy and Structural Analysis** – Evaluation of India's economic vulnerabilities and policy responses.
 - **Data Sources: International Organizations**-IMF (World Economic Outlook), World Bank (Global Economic Prospects), OECD (Economic Outlook), UNCTAD (Trade and Development Report), **Energy Data**-International Energy Agency, OPEC, BP Statistical Review., **Indian Economic Data** - Reserve Bank of India (Monetary Policy Reports), Government of India (Economic Survey, Ministry of Petroleum & Natural Gas Reports), NITI Aayog
 - **Scope and Limitations**

Scope:

*Focus on the 2026 West Asia conflict and its economic consequences.

*Analysis of both global and Indian macroeconomic trends.

*Assessment of policy responses and sustainability implications.

Limitations:

*Reliance on secondary data may limit real-time accuracy.

*Projections may change with evolving geopolitical conditions.

*Econometric modelling is not included, which may limit causal precision.

5) Sectoral Impacts

Sector	Impact	Explanation
Manufacturing	High	Rising input costs reduce output
Transport	Severe	Fuel price surge increases costs
Agriculture	Moderate	Fertilizer costs rise
MSMEs	High	Reduced demand and higher costs

6) Structural Vulnerabilities

India's **energy import dependence** (85% for crude oil, 50% for natural gas) and exposure to global supply chain disruptions amplify the impact of external shocks.

Table 1: Global Macroeconomic Indicators (2025 vs 2026)

Indicator	2025	2026	Change
Global GDP Growth	2.8%	1.4%	↓ 50%
Global Inflation	4.5%	7.7%	↑ 71%
Crude Oil Price	\$75	\$120	↑ 60%
Trade Growth	3.2%	1.1%	↓ 65%

The global economy is experiencing a stagflationary shock, characterized by:

- Slowing economic growth
- Rising inflation
- Supply-side disruptions

Energy price increases act as the **primary transmission mechanism**, affecting production, transportation, and consumption globally.

Additionally, the crisis has accelerated **gloeconomic fragmentation**, where countries prioritize **economic security over globalization efficiency**.

Impact on Global Economy

The 2026 West Asia conflict, combined with the prolonged Russia-Ukraine war, has had significant implications for India's economy due to its high dependence on imported energy and integration into global supply chains. Key impacts are as follows:

1) Energy-Driven Inflation

Rising global crude oil and natural gas prices have increased domestic fuel and transportation costs, leading to cost-push inflation and reducing household purchasing power.

2) Moderation in Economic Growth

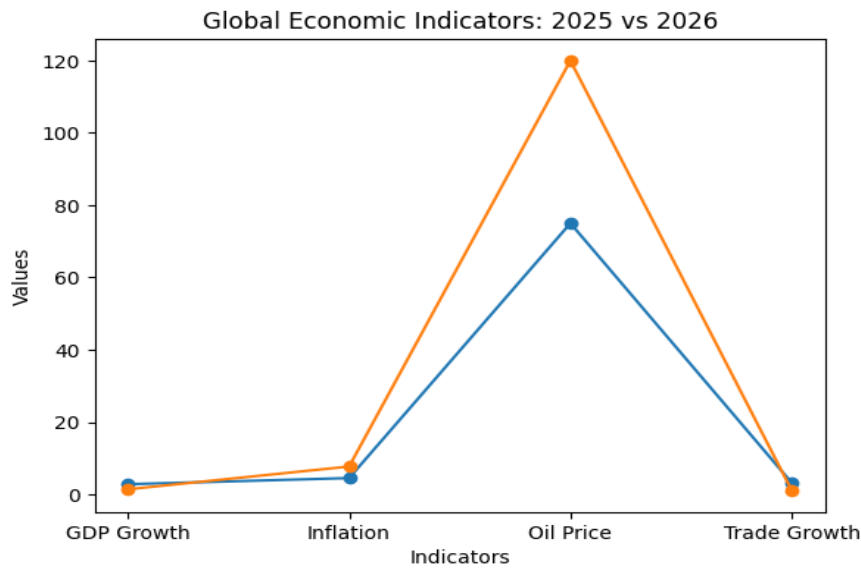
Higher input costs, weak demand, and investment uncertainty—particularly in energy-intensive sectors—have slowed GDP growth from 7.2% (2025) to around 6.0–6.1% (2026).

3) External Sector Vulnerabilities

- **Current Account Deficit (CAD):** Rising import bills have widened the CAD, increasing pressure on foreign exchange reserves.
- **Exchange Rate Depreciation:** Capital outflows and higher import payments have weakened the rupee, further aggravating inflation.

4) Fiscal Stress

Increased government expenditure on subsidies and welfare to cushion the impact of rising fuel costs has expanded the **fiscal deficit** to 6.4%, raising concerns over long-term fiscal sustainability.



Impact on Indian Economy:

1) Energy-Driven Inflation Pressure

Rising global crude oil prices have directly increased domestic fuel and transportation costs, leading to cost-push inflation and reducing household purchasing power.

2) Moderation in Economic Growth

India's GDP growth has slowed due to higher input costs, weak demand, and declining investment sentiment, particularly in energy-intensive sectors.

3) Widening Current Account Deficit (CAD)

Increased oil import bills have expanded the CAD, putting pressure on foreign exchange reserves and external sector stability.

4) Exchange Rate Depreciation

Higher import outflows and capital volatility have weakened the Indian rupee, further intensifying imported inflation.

5) Fiscal Stress and Rising Deficit

Government expenditure on subsidies and welfare measures has increased, leading to a higher fiscal deficit and concerns over long-term fiscal sustainability.

6) Industrial and MSME Vulnerability

Manufacturing and MSMEs are facing rising production costs and reduced demand, affecting profitability and overall output.

7) Severe Impact on Transport Sector

The transport sector is highly affected due to direct dependence on fuel prices, resulting in increased logistics and service costs.

3) Indirect Impact on Agriculture

Although relatively stable, agriculture is impacted through rising fertilizer costs and supply uncertainties linked to global disruptions.

4) Supply Chain Disruptions

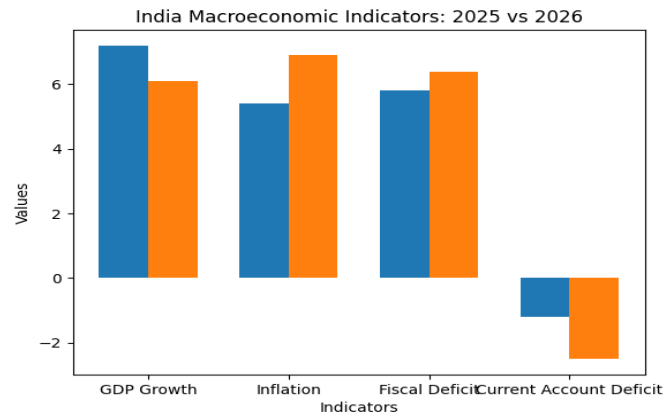
Global trade disturbances have affected the availability and cost of intermediate goods, impacting production efficiency.

5) Overall Structural Vulnerability

High energy import dependence and external exposure have made India's economy sensitive to global shocks, highlighting the need for diversification and resilience.

Table 2: India's Macroeconomic Indicators

Indicator	2025	2026	Impact
GDP Growth	7.2%	6.0–6.1%	Slowdown
Inflation	5.4%	6.8–7.0%	Increase
Fiscal Deficit	5.8%	6.4%	Expansion
Current Account Deficit	-1.2%	-2.5%	Vulnerability



India's growth remains relatively strong but shows **clear signs of stress**:

- Rising inflation reduces purchasing power
- Fiscal pressure increases due to subsidies
- External imbalance worsens due to high import bills

Table 3: Energy Dependence

Energy Source	Import Dependence
Crude Oil	85%
Natural Gas	50%
Fertilizers	30–35%

India's structural dependence on imported energy significantly amplifies external shocks.

Table 4: Sectoral Impact

Sector	Impact	Explanation
Manufacturing	High	Input cost rise
Agriculture	Moderate	Fertilizer inflation
Transport	Severe	Fuel cost surge
MSMEs	High	Demand + cost pressure

Sustainability Challenges:

The 2026 global energy shock has created significant challenges for India's sustainability agenda by intensifying the trade-off between immediate energy security and long-term environmental commitments.

1. Energy Security–Sustainability Trade-off:

The crisis has compelled policymakers to prioritize short-term energy availability over long-term sustainability goals, leading to a shift in policy focus.

2. Increased Reliance on Fossil Fuels:

Uncertainty in global energy markets has resulted in greater dependence on coal and other fossil fuels, slowing the transition toward cleaner energy sources.

3. Slowdown in Renewable Energy Transition:

Financial constraints, supply disruptions, and

Table 5: Energy Transition vs Crisis Reality

Dimension	Pre-Crisis	Current Trend	Impact
Renewable Energy	Expanding	Slower growth	Delay
Coal Usage	Declining	Increasing	Risk
Emissions	Reducing	Rising	Climate setback

The crisis has created a policy dilemma:

- Short-term: Ensure energy security
- Long-term: Achieve sustainability

This leads to a **“green paradox”**:

Increased fossil fuel use today may worsen future environmental outcomes.

crisis-driven priorities have reduced the pace of investment in renewable energy such as solar and wind.

4. Rising Carbon Emissions: Higher fossil fuel consumption has led to increased carbon emissions, undermining climate targets and international environmental commitments.

5. Investment and Technological Constraints:

Limited financial capacity and dependence on imported technology have restricted the expansion of clean energy infrastructure during the crisis period.

6. Policy Dilemma and Long-Term Risks:

Policymakers face a structural dilemma between ensuring economic stability and achieving sustainability goals. Continued reliance on non-renewable energy may result in long-term environmental and economic costs.

Evaluation of Indian Policy:

India's policy response to the 2026 global energy shock reflects a mix of short-term stabilization efforts and underlying structural limitations. While immediate measures have mitigated severe economic disruption, the overall approach remains

largely reactive and constrained by institutional and external factors.

1. Reactive Policy Approach: The policy response has been predominantly short-term, focusing on inflation control and price stabilization rather than anticipating the scale of the energy shock. This indicates limited preparedness for supply-driven global crises.

2. Inflation Management Constraints: Despite efforts to control fuel prices, indirect cost increases in transportation, food, and essential commodities have persisted. This highlights the limited effectiveness of policy measures in shielding households from imported inflation.

3. Exchange Rate and External Sector Pressure: Rising oil import bills and capital outflows have led to depreciation of the Indian rupee, increasing imported inflation. Policy interventions have

moderated volatility but have not fully stabilized the external sector.

4. Fiscal Stress and Subsidy Burden: Increased government spending on fuel subsidies and welfare measures has expanded the fiscal deficit. While necessary for short-term relief, it raises concerns about long-term fiscal sustainability.

5. Energy Security and Strategic Limitations: India's heavy reliance on energy imports, particularly from geopolitically sensitive regions, exposes weaknesses in energy diplomacy and diversification strategies. Limited strategic petroleum reserves further reduce crisis resilience.

6. Structural Weakness in Policy Framework: Delayed progress in key areas such as renewable energy transition, supply chain diversification, and domestic capacity building has increased vulnerability to repeated global shocks.

Table 6: Policy Gaps

Area	Issue	Impact
Energy Diplomacy	Limited diversification	Import risk
Oil Reserves	Low storage capacity	Shock vulnerability
Trade Policy	Weak regional ties	Export limits
Policy Response	Reactive approach	Delayed action

Analytical Discussion

1. Energy Diplomacy Weakness

India has not sufficiently diversified energy imports beyond politically sensitive regions.

2. Strategic Reserve Limitation

Petroleum reserves are significantly below global standards, reducing crisis preparedness.

Goeconomic Fragmentation:

Table 7: Fragmentation Indicators

Indicator	Trend	Impact
Trade Barriers	Rising	Reduced globalization
Sanctions	Increasing	Market distortions
Regional Blocs	Strengthening	Trade diversion

The global economy is shifting toward regionalization, which:

- Reduces efficiency
- Increases costs
- Alters global trade patterns

Policy Recommendations:

Table 8: Strategic Policy Framework

Policy Area	Short-Term	Long-Term
Energy	Diversify imports	Renewable transition
Trade	Regional agreements	Global integration
Fiscal	Targeted subsidies	Structural reforms
Industry	MSME support	Innovation-led growth
Diplomacy	Multi-alignment	Global leadership

1. Energy Diversification: India must reduce its dependence on West Asian oil by expanding imports from alternative regions such as Africa and Latin America, while simultaneously accelerating investment in renewable energy and green hydrogen to enhance long-term energy security.

2. Supply Chain Resilience: Strengthening domestic manufacturing capabilities and developing regional trade partnerships can reduce

3. Reactive Policymaking

Government responses are largely short-term and lack long-term strategic planning.

4. Geopolitical Neutrality Constraint

While neutrality provides flexibility, it reduces India's bargaining power in global negotiations.

vulnerability to global disruptions and ensure continuity in critical sectors during external shocks.

3. Macroeconomic Stability: A balanced approach combining targeted inflation control measures with prudent fiscal management is necessary to stabilize prices without undermining economic growth or increasing debt burdens.

4. Global Economic Engagement: Active participation in international economic institutions

and strategic trade alliances will enhance India's bargaining power, improve market access, and mitigate the effects of geoeconomic fragmentation.

5. Strategic Petroleum Reserves Expansion:

Increasing storage capacity for crude oil will provide a buffer against sudden supply disruptions and price volatility, improving crisis preparedness.

6. Renewable Energy Transition: Accelerating the shift toward solar, wind, and other clean energy sources will reduce long-term dependence on imported fossil fuels and align with sustainability commitments.

7. Industrial and MSME Support: Providing financial support, technological upgrades, and policy incentives to MSMEs and industries will help them withstand cost pressures and maintain productivity during economic shocks.

8. Proactive Economic Diplomacy: Adopting a multi-alignment strategy in foreign policy will enable India to secure energy supplies, diversify trade relations, and navigate geopolitical uncertainties more effectively.

Findings:

1. The 2026 crisis represents a systemic global shock: The crisis is not limited to a single region or sector but affects the entire global economic system through interconnected channels such as energy markets, trade networks, and financial systems. It reflects a structural disruption rather than a temporary fluctuation.

2. India's resilience is moderate but fragile: While India continues to maintain relatively stable growth compared to other economies, this resilience is conditional and vulnerable to prolonged external shocks, particularly due to its dependence on global energy markets.

3. Structural vulnerabilities amplify external risks: High dependence on imported crude oil, exposure to global supply chains, and reliance on geopolitically sensitive regions magnify the impact of external disturbances on India's domestic economy.

4. Policy response lacks long-term strategic depth: Government measures are largely reactive and focused on short-term stabilization (inflation control, subsidies), with insufficient emphasis on structural reforms such as energy diversification and supply chain resilience.

5. Sustainability goals face short-term disruption: The immediate need for energy security has led to increased reliance on fossil fuels, slowing down the transition to renewable energy and delaying climate commitments.

Conclusion:

The 2026 West Asia conflict, combined with the prolonged Russia-Ukraine war, has generated a structural global economic shock driven primarily by energy price volatility and supply disruptions. The crisis has pushed the global economy into a

stagflationary phase while accelerating geoeconomic fragmentation, thereby reshaping trade, investment, and policy priorities across nations.

For India, the impact has been significant though not destabilizing. The economy has demonstrated resilience; however, underlying structural vulnerabilities—particularly high energy import dependence, external sector exposure, and supply chain sensitivity—have amplified the effects of the crisis. Rising inflation, fiscal pressure, and widening current account deficits reflect the transmission of global shocks into the domestic economy.

The study finds that India's policy response has been largely reactive and focused on short-term stabilization rather than long-term structural transformation. While such measures have mitigated immediate risks, they are insufficient to address persistent geopolitical and energy-related uncertainties.

In conclusion, the ongoing global crisis highlights the need for a strategic shift in India's economic approach. Strengthening energy security, diversifying trade and supply chains, and accelerating the transition toward sustainable energy are essential for enhancing resilience. A balanced and forward-looking policy framework will be critical for ensuring stable and sustainable economic growth in an increasingly uncertain and fragmented global environment.

Acknowledgment

I would also like to acknowledge the contributions of international organizations, researchers, economists, policymakers, and institutions whose reports and publications provided valuable data and insights on global energy shocks, geopolitical conflicts, economic growth, inflation, sustainability, and policy responses. These sources formed the foundation of the analysis presented in this study. My sincere appreciation is extended to the organizations and agencies whose databases and reports, including those related to global economic trends, energy markets, and India's macroeconomic performance, supported the research methodology and analysis.

Financial support and sponsorship

Nil.

Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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