



Macroeconomic Outlook

Macro implications of West Asia conflict differs from Covid

MAY 2026



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While GDP had fallen by 5.8% during the pandemic in FY2021, ICRA expects GDP growth to ease to 6.5% (baseline) in FY2027 from 7.6% in FY2026.

The West Asia crisis would push up both CPI (+4.5%) and WPI (+4.0%) inflation in FY2027, whereas the pandemic had impacted only CPI inflation.

India's CAD/GDP is expected to surge to 1.7% in FY2027 owing to the West Asia conflict, in contrast to the rare surplus of 0.9% seen in FY2021.

The Indian economy faced a series of domestic and global shocks during the ongoing decade, with the West Asia crisis being the latest one. Unlike the Covid-19 pandemic, which had simultaneously impacted demand and disrupted supply for an extended period, the West Asia crisis has manifested mainly as a supply shock, pushing up energy prices and input costs, even as domestic demand has remained relatively resilient so far. A prolonged supply shock is likely to translate to higher inflation and tighter margins, which could weaken incomes, consumer confidence and investment, translating to a demand shock, and stagflationary outcomes. ICRA has lowered its FY2027 GDP growth forecast to 6.5% from 7.1% and raised its CPI inflation projection to 4.5% from 4.0%, assuming an average crude oil price of \$85/barrel for the fiscal. However, these estimates are subject to sizeable risks; a longer conflict with average crude oil at \$105/bbl could drag growth below 6% and push inflation above 5%. While the Government of India (GoI) has shielded consumers from the sharp rise in global energy prices so far, this may not be sustainable, and an eventual rise in fuel prices would readjust the balance between the fisc and inflation outcomes. G-sec yields have spiked in response to global uncertainty as well as risks of fiscal slippage, in contrast with the situation seen during the pandemic when ultra-low rates had supported weak demand. Notably, the most significant difference in the macroeconomic impacts of the West Asia conflict and the pandemic would be visible on the Balance of Payments (BoP) front, with the current account deficit (CAD) expected to surge to a 4-year high of 1.7% of GDP, in contrast to the surplus of 0.9% of GDP seen during the pandemic in FY2021.

	FY2021 (Covid-19)	FY2023 (Russia-Ukraine war)	FY2026	FY2027 ICRA P (West Asia war)		
Average Crude Oil price (\$/bbl)	44.5	93.5	71.7	85 (Baseline)	105	125
GDP growth (constant prices)	-5.8%	7.6%	7.6%	6.5%	5.8%	5.0%
CPI inflation (average)	6.2%	6.7%	2.1%	4.5%	4.8%	5.1%
WPI inflation (average)	1.3%	9.4%	0.7%	4.0%	4.7%	5.5%
Current Account (% of GDP)	0.9%	-2.1%	-0.9%	-1.7%	-2.4%	-3.1%
Fiscal Deficit (% of GDP)	9.2%	6.5%	4.5%	4.6%	4.8%	5.0%

Note: GDP data for FY2021 and FY2023 and CPI data for all years is based on the 2011-12 series, while GDP data for FY2026-2027 is based on 2022-23 series; P: Projected; Source: NSO; RBI; Ministry of Commerce and Industry; PPAC; Ministry of Finance, Union Budget, GoI; CEIC; ICRA Research



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