



ECONOMIC OUTLOOK AND MACRO TRENDS

**FY2027 GDP growth set to ease below
6.5% amid elevated energy prices, sub-par
monsoon**

June 2026

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Abbreviations

AE: Advance Estimates
 ATF: Aviation Turbine Fuel
 AUM: Assets under Management
 BAI: Business Assessment Index
 BoP: Balance of Payments
 BU: Billing Unit
 CAD: Current Account Deficit
 CGA: Controller General of Accounts
 CGST: Central Goods and Services Tax
 CIL: Coal India Limited
 CNY: Chinese Yuan
 CP: Commercial Paper
 CPD: Cut and Polished Diamond
 CPI: Consumer Price Index
 CSI: Current Situation Index
 CTD: Central Tax Devolution
 CV: Commercial Vehicle
 ECB: External Commercial Borrowing
 ESF: Economic Stabilisation Fund
 F&B: Food and Beverages
 FAO: Food and Agriculture Organization
 FAR: Fully Accessible Route
 FCI: Food Corporation of India
 FCNR: Foreign Currency Non-Resident
 FDI: Foreign Direct Investment
 FMCG: Fast Moving Consumer Goods
 FPI: Foreign Portfolio Investors
 FRL: Full Reservoir Level

FRP: Financial, Real Estate and Professional Services
 GCC: Global Capability Centre
 GCF: Gross Capital Formation
 GDP: Gross Domestic Product
 GFCE: Government Final Consumption Expenditure
 GFCF: Gross Fixed Capital Formation
 G-Sec: Government Securities
 GVA: Gross Value Added
 HFC: Housing Finance Companies
 HSD: High Speed Diesel
 IGST: Integrated Goods and Services Tax
 IIP: Index of Industrial Production
 IMD: Indian Meteorological Department
 IMF: International Monetary Fund
 IOS: Industrial Outlook Survey
 JPC: Joint Plant Committee
 KMS: Kharif Marketing Season
 LAF: Liquidity Adjustment Facility
 LPA: Long Period Average
 LPG: Liquefied Petroleum Gas
 LRF: Long Range Forecast
 M&HCV: Medium and Heavy Commercial Vehicle

MGNREGS: Mahatma Gandhi National Rural Employment Guarantee Scheme
 MICE: Meetings, Incentives, Conferences, Exhibitions
 MoM: Month-on-month
 MoRTH: Ministry of Road Transport and Highways
 MoSPI: Ministry of Statistics and Program Implementation
 MPC: Monetary Policy Committee
 MSF: Marginal Standing Facility
 MSP: Minimum Support Price
 MTD: Merchandise Trade Deficit
 NBFC: Non-Banking Finance Companies
 NBS: Nutrient Based Subsidy
 NHAI: National Highway Authority of India
 NR(E)RA: Non-Resident (External) Rupee Account
 NRI: Non-Resident Indians
 NRO: Non-Resident Ordinary
 NSO: National Statistical Office
 OMC: Oil Marketing Companies
 PADOS: Public Administration, Defence and Other Services
 PE: Provisional Estimate
 PFCE: Private Final Consumption Expenditure

PIT: Personal Income Tax
 PLF: Plant Load Factor
 PLI: Production Linked Incentive
 PPF: Public Provident Fund
 POL: Petroleum Oil and Lubricants
 PSU: Public Sector Undertaking
 PV: Passenger Vehicle
 REER: Real Effective Exchange Rate
 RCCS: Rural Consumer Confidence Survey
 RMS: Rabi Marketing Season
 SAE: Second Advance Estimate
 SDF: Standing Deposit Facility
 SDR: Special Drawing Rights
 SIOS: Services and Infrastructure Outlook Survey
 STT: Security Transaction Tax
 SW: Southwest
 THTCS: Trade, Hotels, Transport, Communication and Services related to broadcasting
 UCCS: Urban Consumer Confidence Survey
 UPI: Unified Payments Interface
 VRR: Voluntary Retention Route
 WPI: Wholesale Price Index
 WTO: World Trade Organisation

OVERVIEW



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EXHIBIT: YoY GDP growth trends (2022-23 prices)

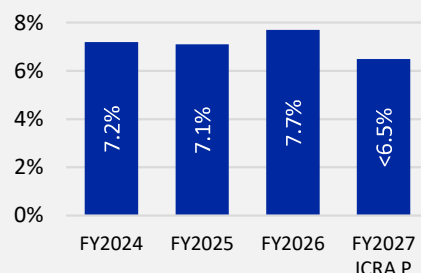
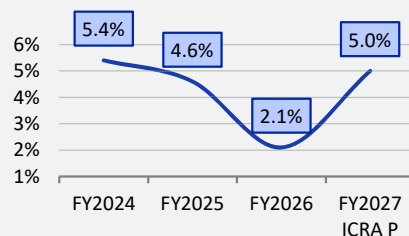


EXHIBIT: YoY CPI inflation trends*



*CPI inflation data for FY2024-2026 is as per the 2011-12 series, while for FY2027 is as per 2022-23 series; P: Projected; Source: NSO; ICRA Research

Given the uncertainty around the duration of the ongoing West Asia crisis, elevated energy prices for an extended period poses a key downside risk to growth in the near term, including muted prospects for investment demand, negative impact on corporate profitability and dampening consumer sentiments. Besides, the IMD's forecast of deficient rainfall in the ongoing Southwest Monsoon season and potential development of strong El Nino conditions have dulled the agricultural outlook and rural demand prospects for H2 FY2027. ICRA currently assumes crude oil prices to average at ~\$95/bbl in FY2027, amid the ongoing stickiness in prices amid the stalemate in West Asia. This presumes that oil prices will remain elevated in H1 FY2027 before moderating to around \$80/bbl in H2 FY2027. Consequently, ICRA expects the GDP growth (at constant 2022-23 prices) to slip below 6.5% in FY2027 from the 7.7% seen in FY2026 PE.

On the inflation front, risks remain tilted to the upside owing to the below-normal monsoon forecast triggered by El Nino and elevated energy prices. ICRA expects the CPI inflation to average at 5.0% in FY2027, similar to the MPC's forecast (+5.1% YoY). While the next move on policy rates is likely to be a hike, its timing would depend on how geopolitical and macro developments, including the severity of the El Nino, transmit to a generalisation of inflationary pressures. ICRA believes that the October and December 2026 policy meetings could be live for potential rate hike(s), after there is some clarity on the monsoon impact. Additionally, ICRA expects the current account deficit (CAD) to more than double to 1.7% of GDP in FY2027 from 0.6% of GDP in FY2026, owing to likely surge in net oil import bill and higher commodity prices, amidst the West Asia conflict. On the fiscal front, the West Asia crisis is likely to necessitate the Government of India (GoI) to make additional allocations for fertiliser and LPG subsidy, while excise duty cut on auto fuels and some hit to direct taxes may dampen its revenues. Overall, ICRA estimates the FY2027 fiscal deficit to print at 4.7% of GDP, ~40 bps higher than the budgeted target.

Macroeconomic Variables		FY2026	FY2027 ICRA Projections
	GDP Growth (at constant 2011-12 prices)	7.7%	<6.5%
	CPI Inflation	2.1%	~5.0%
	Current Account Balance (% of GDP)	-0.6% of GDP	-1.7% of GDP
	GoI's Fiscal Deficit	4.4% of GDP	4.7% of GDP
	G-sec Yields	10-year G-sec yield to range between 6.85-7.00% in the near term	
	Policy Repo Rate	Expect back ended rate hike(s) in 2026, post monsoon clarity	
	USD/INR	USD/INR pair to trade between 94.0 and 96.0 in the near term	



EXECUTIVE SUMMARY



ICRA expects GDP growth to slip below ~6.5% in FY2027, with downside risks emerging from sustenance of the West Asia crisis

- Given the uncertainty around the timeline of the resolution of the West Asia conflict, elevated energy prices for an extended period present a near term downside risk to growth, with potential consequences, including muted prospects for investment demand, negative impact on corporate profitability and subdued consumer sentiments.
- Besides, the likely development of El Nino conditions and weak monsoon forecast for 2026 have dulled the agricultural outlook and rural demand prospects for H2 FY2027, while rising inflation risks and expectations of a rate hike in late-2026 may weigh on urban consumption demand. Based on these factors and assuming an average crude oil price of \$95/barrel, ICRA pegs the GDP growth to moderate to sub-6.5% in FY2027 from 7.7% in FY2026, entailing lower growth outcomes in H1.



CPI inflation expected to average at ~5% in FY2027; ICRA expects back-ended rate hike in 2026

- The YoY CPI inflation print is expected to cross the 4%-mark in May 2026, crossing the mid-point of the MPC's band for the first time in the new series, owing to the impact of the fuel price hike, rising commercial LPG prices, and higher import duty on precious metals. Overall, ICRA expects the CPI inflation to average at 5.0% in FY2027 (in line with the MPC's estimate: +5.1%), amid upside risks from a sub-par monsoon as well as elevated energy prices and prolonged supply disruptions owing to the West Asia conflict.
- Given the paring of MPC's growth projections, and with inflation forecasts remaining below the upper bound of the MPC's target range of 2-6%, ICRA believes that the next move on rates is likely to be a hike, as any premature policy easing would only hit near-term growth outcomes. We believe that the Oct and Dec 2026 policy meetings are live for potential rate hike(s), after there is some clarity on the monsoon turnout.



India's CAD to enlarge to ~1.7% of GDP in FY2027 from 0.6% of GDP in FY2026

- ICRA expects the value of merchandise exports to rise by 7-8% YoY to \$478-480 billion in FY2027 (\$446.1 billion in FY2026; on a BoP basis), aided by a low base as well as the jump in commodity prices owing to the West Asia crisis. Additionally, merchandise imports are projected to grow by a much sharper 12-13% YoY to \$878-880 billion in FY2027 (\$783.4 billion in FY2026).
- Consequently, the MTD is estimated to widen to ~\$400 billion in FY2027 from \$337 billion in FY2026 (on a BoP basis). This is likely to be only partly offset by a healthy growth in the service trade surplus (+7%; \$231-233 billion in FY2027 vs. \$217 billion in FY2026). Consequently, India's CAD is expected to widen to ~1.7% of GDP in FY2027 from 0.6% of GDP in FY2026. The recent measures by the GoI and the RBI to attract capital flows are likely to offer respite, and aid in financing the CAD to a large extent in FY2027, preventing a sharp drawdown of reserves in the fiscal.



GoI's fiscal deficit to exceed the target of 4.3% of GDP by ~40 bps in FY2027

- ICRA currently pegs the net impact of the West Asia conflict on the GoI's fisc at ~Rs. 1.3 trillion, with higher fuel and fertiliser subsidies, and some hit to OMC dividends, excise and direct tax/GST collections. However, these would be partly offset by higher collections on account of customs duty hike on gold and silver and allocation towards the ESF. This is estimated to entail a fiscal slippage of ~30 bps, along with the ~10 bps estimated on account of a lower nominal GDP vis-à-vis that given at the time of the Union Budget FY2027 presentation. Accordingly, ICRA projects the fiscal deficit to print at ~4.7% of GDP in FY2027, as against the Budget Estimate (BE) of 4.3%.
- In ICRA's view, the recent measures by the GoI and the RBI to attract foreign capital flows could boost G-sec demand to some extent and help cool yields. ICRA now expects the 10-year G-sec yield to trade between 6.85-7.00% in the near term.

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