

# Rupee, inflation, growth: How global energy shock threatens India's Goldilocks era

The last few years, starting with Russia's invasion of Ukraine and the US and Israel's attacks on Iran and the subsequent closure of the Strait of Hormuz, have shown it's not just the financial markets that are vulnerable to global shocks but the economy as a whole.

Written by: [Siddharth Upasani](#) 6 min read New Delhi Updated: Mar 13, 2026 10:26 AM IST



A UAE navy ship sails next to a cargo ship in the Strait of Hormuz as seen from Khor Fakkan, UAE on Wednesday. AP

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India has always been at the mercy of the world's energy producers on account of the country having to import a vast majority of its fuel needs. But the last half a decade, starting with Russia's invasion of Ukraine and the US and Israel's attacks on Iran and the subsequent [closure of the Strait of Hormuz](#), have shown it's not just the financial markets that are vulnerable to these global shocks but the economy as a whole.

The impact is already visible on the rupee, which has had to contend with weak foreign direct investment and portfolio outflows from financial markets over the last one year (\$11.8 billion in 2025 and \$4 billion so far in 2026). The Indian currency, which fell below 90- and 91-per-dollar in December, breached 92 earlier this month. And if crude oil prices remain elevated, 100-per-dollar may not be far away.

According to a scenario analysis by QuantEco Research's economists, while the potential hit will be "miniscule" if oil averages around \$80 per barrel in 2026-27 (up from \$70 per barrel in 2025-26), the impact could become "non-linear and broad based" at higher levels: if oil averages \$100/barrel in 2026-27, the rupee could weaken to as much as 98.5-per-dollar, their analysis found.

Calculations by DSP Mutual Fund show that should crude oil prices rise beyond \$120/barrel in 2026-27 and India keeps importing at that price, the oil trade deficit could rise to \$220 billion and push the current account deficit higher than 3.1% of GDP. "Deficits of this kind can lead to significant currency depreciation, heightened inflation and liquidity crunch. In prior episodes, rupee depreciated more than 10% on such occasions, if the deficits persisted," the fund house said on Wednesday.

## Threat to Goldilocks zone

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The Indian economy has posted impressive growth rates recently, both under the old and new GDP series. Growth rose from 6.7% in the first quarter of 2025-26 to 8.4% in July-September 2025 before edging down to 7.8% in the final three months of 2025. Inflation, too, has settled comfortably below the Reserve Bank of India's (RBI) medium-term target of 4%, with the updated Consumer Price Index (CPI) series that has 2024 as the base year for prices coming in at 2.75% in January. However, this positive growth-inflation mix is now under threat.

"The Goldilocks narrative of strong growth and low inflation persists under the new GDP and CPI series, but is challenged by higher crude oil prices and fuel shortages," Nomura economists Sonal Varma and Aurodeep Nandi said in a note on Wednesday.

### **Shock to growth, inflation**

After surging past \$100/barrel, global crude oil prices have retreated but were back above \$90/barrel on Wednesday despite reports the International Energy Agency is set to release as much as 400 million barrels of oil – the largest in its history – to contain prices. But if Iran is to be believed, the worse may not be over: it said on Wednesday that it will switch from "reciprocal hits" to continuous strikes and the US will not be able to control oil prices. "Get ready for the oil barrel to be at \$200," an Iranian spokesperson said.

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The US has granted India a 30-day waiver to buy Russian oil that is already stuck at sea, but Nomura's Varma and Nandi think this, while helpful, will not be "a game changer".

Meanwhile, the gas shortage has already led to the Indian government to take measures to prioritise certain sectors over others, hike the price of household

cooking gas by Rs 60 per cylinder, and raise the minimum waiting period for booking these cylinders for refills to 25 days from 21. And though fuel prices at pumps have not moved for almost four years, household inflation is set to increase. Nomura, for instance, has raised its forecast for average CPI inflation in 2026-27 by 70 basis points (bps) to 4.5%, while UBS Chief India Economist Tanvee Gupta Jain warned that a crude oil price of \$100/barrel could lead to inflation crossing 5% in the next fiscal “assuming a full pass through” and no change in excise duty.

The story is similar for growth, with the RBI's projections pegging GDP growth (again, as per the old series) at 6.9-7% in the first two quarters of 2026-27, with risks “evenly balanced”. Economists, though, are already seeing downside risks and have even announced minor downgrades for 2026-27. While Nomura has cut its GDP growth forecast for 2026-27 by 10 bps to 7%, UBS and DBS Bank estimate a 40-bps hit to GDP growth if crude oil prices stay at \$100/barrel.

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## Footing the bill

If households don't pay the cost of higher global fuel prices, the Indian government and oil marketing companies will have to.

“The need to protect household purchasing power and support businesses as well as a packed state election calendar in 1H26 (first half of 2026) may prompt a more measured approach to retail fuel price adjustments, with the initial rise likely to be absorbed by the oil marketing companies,” Radhika Rao, Senior Economist at DBS Bank, said on Wednesday, adding that excise duty cuts could be an alternative to raising pump prices.

Either way, the central government's carefully-constructed fiscal targets are at risk just a few weeks after the presentation of the 2026-27 [Budget](#). For next year, the Centre has targeted a fiscal deficit of 4.3% of GDP and debt-to-GDP ratio of 55.6%.

Achieving both these objectives had already become difficult after MoSPI re-estimated India's GDP to be 3-4% smaller than before under the new data series.

Now, UBS' Jain sees an upside risk of 30 bps to the fiscal deficit if oil prices remain

elevated, with a Rs 2 reduction in the excise duty on petrol and diesel expected to leave the Centre's coffers dry by Rs 32,000 crore over a year.

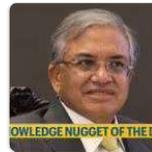
Costs will also rise from higher fertiliser subsidy – the finance ministry has already sought Parliamentary approval to spend another Rs 19,230 crore on fertiliser subsidy in 2025-26 itself. An Economic Stabilization Fund, to meet unexpected spending from “volatile global dynamics and uncertain global economic environment”, with a corpus of Rs 1 lakh crore is being set up.

The situation, undoubtedly, is fluid. If the war ends tomorrow and supply bottlenecks resolve quickly, the impact on India may not be much.

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