

Oil shock threatens India despite robust buffers: World Bank

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Prolonged periods of elevated oil prices can significantly impact the Indian economy, even though there were ample buffers to cushion shocks due to prevailing geopolitical uncertainties, World Bank economists said on Thursday.

Speaking at an event hosted by the National Council of Applied Economic Research (NCAER), Aurelien Kruse, World Bank Lead Economist for India, highlighted how the turmoil, marked by energy market disruptions and financial volatility, has already dented growth momentum, entering the fiscal year from a position of strength built on prior robust performance.

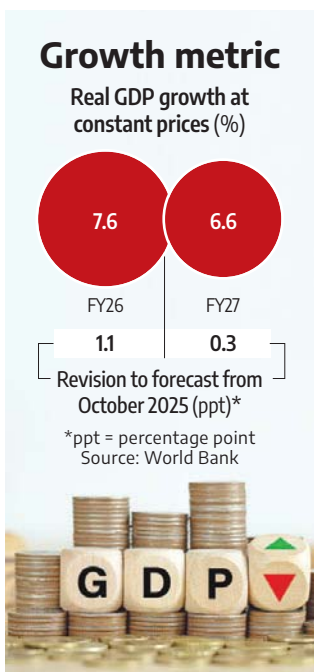
Kruse emphasised India's buffers, noting the economy's exposure through net energy imports is notable but middling compared to peers like Korea or Thailand. "India has the luxury, in a way, to even not let prices pass through to retail fuel, which is very significant," he said, underscoring policy space to cushion the blow.

However, prolonged shocks could amplify vulnerabilities — from trade dependencies to capital outflows — driven by foreign investor risk aversion, rather than domestic fundamentals, he cautioned.

Franziska Ohnsorge, World Bank Chief Economist for South Asia, echoed this. The current situation is a slowdown "largely because of headwinds in the global energy market dislocation", according to her. She framed the West Asia crisis as a temporary energy disruption layered atop shifting financial expectations, like stalled US Fed rate cuts. The energy markets will "sort of normalise", she said.

"This global financial environment is what's really changed, and it may last a little longer than the energy market disruption," she observed, pointing to heightened forecast uncertainty as markets price in stability over easing.

"India came into the crisis from a very strong position and buffers... Despite the global headwinds, we do see India and the region, continuing to be a



very strong, gross performing region compared to other emerging markets across the world," said World Bank Regional Practice Director, Prosperity, for South Asia, Sebastian Eckardt at a separate press conference.

The South Asia Economic Update upped India's 2026-27 (FY27) gross domestic product (GDP) forecast by 30 basis points to 6.6 per cent on Wednesday. The Bank, however, said that updated growth projection would mark a deceleration from the 7.6 per cent uptick expected in FY26, reflecting headwinds from the West Asia conflict.

Separately, Kruse said that the authorities had struck the right balance between taking measures to manage supply without doing massive rationing, or restrictions, and maintaining retail prices of oil relatively constant. "Having said that, the risks are obviously massive. They're tilted to the downside," he said.

The economists downplayed major inflation risks from energy shocks. Ohnsorge noted South Asia's energy share in consumer price baskets aligns with emerging market averages, giving governments leeway to act.

Kruse added that despite US tariffs and global headwinds, India's current account nar-

rowed resiliently, buoyed by services, remittances, and unexpectedly sturdy goods exports. Remittances from Gulf migrants, often low-skilled, have proven "remarkably resilient," he said, as senders scrape funds amid shocks.

On household impact, Ohnsorge highlighted India's EU and UK trade pacts, which double its preferential access to global GDP shares and favour rural households consuming imported goods. Terming them "pro-household reforms", she said that the FTAs will boost real income, especially for rural and poorer households consuming tariff-affected goods like processed foods.

Ohnsorge also highlighted how artificial intelligence's (AI) disruptive shadow loomed large over jobs. She detailed how information and communication technology (ICT) services — 25 per cent of regional exports — thrive in output, but shed hiring post-ChatGPT, with AI-exposed firms cutting 1 per cent more than others. "AI adoption is eroding job prospects in some of the best-paid jobs, especially in AI-exposed jobs. And that compounds the long-standing subnational labour market divergence that holds back certain regions in almost every country in the region," she emphasised.

NITI Aayog Vice Chairman, Suman Bery, questioned India's manufacturing push, asking if policymakers are clear "what we want manufacturing for" and "the cost of each formal job," noting it as a key policy pillar.

He highlighted regional challenges in monetising semi-skilled labour compared to eastern neighbors, calling these issues "not idiosyncratic" to India, but tied to South Asia's unique hurdles in climbing the manufacturing ladder.

Kruse flagged the backcasting phase of the base year revision of GDP to 2024 as particularly noteworthy, stressing an overlooked impact: rebasing doesn't just revise national figures, it reestimates subnational GDPs. These shifts carry "very significant impact on states' borrowing ability and subnational fiscal rules". The Bank would watch closely for the back series data, he added.