

Moody's cuts India's growth forecast for 2026 to 6%

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Moody's Ratings on Tuesday slashed India's GDP growth forecast for year 2026 by 0.8 percentage points to 6 per cent on subdued private consumption, capital formation, and industrial activity amid higher energy costs.

In its Global Macro Outlook May update, Moody's said that over the next six months, the impact from higher energy prices and fuel and fertilizer-related shortages will vary widely across countries, reflecting differences in exposure and resilience. "The global outlook remains highly uncertain amid an increasingly prolonged confrontation and fragile ceasefire between the US and Iran. We estimate growth losses ranging from around 0.8 ppt for India," Moody's said.

For calendar year 2027, Moody's slashed GDP growth estimates by 0.5 percentage points to 6 per cent for India. Moody's said India is "particularly vulnerable" to high oil prices given its heavy reliance on imported crude and liquefied natural gas (LNG). India imports about 90 per cent of its energy requirements.

As a net grain producer, agricultural exports will benefit in the near term from higher prices, but higher fuel and fertilizer costs would weigh on government finances, potentially constraining planned capital spending, Moody's said.

Coal powers about 70 per cent of India's electricity generation, while non-fossil sources (solar, wind, hydro)

continue to expand.

"Our central scenario projection of 6 per cent growth in both 2026 and 2027, following 7.5 per cent growth in 2025, reflects more subdued private consumption, capital formation, and industrial activity amid tighter financial conditions and higher energy costs," Moody's said.

Persistently high energy costs would keep inflation elevated, compress profits, weaken investment and strain public finances, while major central banks remain on hold but ready to tighten financial conditions if necessary, it added.

The US-based rating agency said drawn-out negotiations between the US and Iran, ongoing shipping blockades and the risk of military escalation threaten the truce's durability.

Against this unstable backdrop, the global economy faces another potential energy and food-price shock, particularly if transit flows to and from the Gulf remain constrained, Moody's said, adding the magnitude of growth and inflation effects hinges on the duration of the Strait of Hormuz's closure.

India imports 60 per cent of its LPG usage and of that, 90 per cent flows through the now-closed Strait of Hormuz. Several Asian economies are actively diversifying their supplier mix by expanding oil imports from existing partners and exploring new sources.

India is importing more Russian crude, while Japan and Korea are shifting incrementally toward US barrels, Moody's said.

