

# West Asia crisis to moderate India's GDP growth in FY27: Rating agencies

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Amid West Asia crisis, two of India's leading economic research and rating firms have projected the growth rate for fiscal year 2026-27 between 6.2 per cent and 6.7 per cent.

While India Ratings & Research (Ind-Ra) expected growth to be 6.7 per cent, ICRA cut its forecast to 6.2 per cent from 6.5 per cent.

India is estimated to grow at 7.6 per cent during FY26, data for which will be made public on June 5.

## IND-RA'S PROJECTION

Giving the first projection of 6.7 per cent for FY27 with the base year of 2022-23, Ind-Ra said it believes higher fuel and food prices due to uncertainty over West Asia conflict and the likely impact of evolving El Nino on agriculture from mid-2026 will pull down GDP growth in FY27. "A \$10/bbl increase in crude oil prices could reduce GDP growth by 44bp, while a 10 per cent reduction in capex could lower GDP growth to 6 per cent," Megha Arora, economist at Ind-Ra, said.

The agency, in its baseline forecast, assumed oil at \$95/bbl. If the West Asia conflict resolves quickly and oil prices average less than \$95/bbl in FY27, GDP growth could benefit. A weaker-than-expected El-Nino and



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improved capital flows could also boost GDP growth beyond the current estimate.

Arora listed geopolitical developments, particularly the West Asia conflict, high headline inflation, a depreciated currency from weak capital inflows, weaker-than-expected capex, weak global trade growth, strong FY26 growth (base effect), low industrial production as measured by the Index of Industrial Production, and notably, the likely El Nino weather pattern from mid-2026 as major headwinds.

## ICRA CUTS FORECAST

ICRA lowered its forecast for FY27 and FY26. For FY26, ICRA estimated GDP growth at 7.5 per cent, marginally lower than the National Statistical Office's (NSO) Second Advance Estimate (SAE) of 7.6 per cent for the fiscal. "ICRA now assumes crude oil prices to average at \$95/bbl in FY27, against our prior estimate of \$85/bbl,

given the ongoing stickiness in prices amid the stalemate in West Asia. Consequently, we have pared our baseline forecast for the FY27 GDP growth (at constant 2022-23 prices) to 6.2 per cent from the 6.5 per cent expected earlier," ICRA Chief Economist Aditi Nayar said.

The rating agency also said GDP growth in the fourth quarter is expected to ease to a three-quarter low of 7 per cent from 7.8 per cent in Q3 of 2025-26.

A slower expansion across the industrial and services sectors is expected to have moderated GDP growth between these quarters.

"However, a slower rise in manufacturing volumes, contraction in exports, and nascent signs of margin pressure amid the West Asia fallout may have weighed on the industrial gross value added growth performance in the quarter. Consequently, we expect the GDP growth to have slowed to a three-quarter low of 7 per cent in Q4 2025-26, below the NSO's implicit estimate of 7.3 per cent for the quarter, while remaining quite robust," Nayar said.

Slowing global growth and shipping disruptions triggered by the West Asia conflict weighed on merchandise exports in the March quarter, which fell by 2.8 per cent on a y-o-y basis, after a modest 1.4 per cent rise in the December quarter.