

Economic hit from war could be 'fairly significant': CEA - Business News | The Financial Express

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A sustained rise in crude oil prices to \$130 could significantly impact India's growth, inflation and fiscal balance, according to the Chief Economic Adviser.

India's economy remains resilient at moderate oil prices, but prolonged spikes could widen deficits, raise inflation and slow GDP growth.

[Chief Economic Adviser V Anantha Nageswaran](#) has cautioned that if crude oil prices spike and remain around \$130 for a two to three quarters, it would have "fairly significant" impact on the Indian economy by dragging the Gross Domestic Product (GDP) growth down from 7.4% to 6.4% for 2026-27, while also pushing inflation toward 5.5%. Such a scenario could also widen the current-account and fiscal deficits to 3.2% and 5.6% of the GDP respectively, he said.

Briefing the Parliamentary Standing Committee on Finance on March 2 about the implications of the West Asia crisis for the economy, the CEA said: "If the shock is short-lived and temporary, then even if it (oil) escalates to \$130, it will not matter. So, by and large, the answers we get suggest that, up to 90 dollar per barrel, the macroeconomic assumptions for 2026-2027 of achieving around 7% to 7.4% real GDP growth, inflation remaining at or around 2%, a current account deficit between 1% and 1.2%, and a fiscal deficit being around 4.3% to 4.4% will be feasible."

[What did V Anantha Nageswaran say?](#)

The CEA told the panel that simulation were carried out after the conflict began in West Asia on its effect on various macroeconomic parameters, for three different oil prices: \$90, \$110 and \$130. The simulation showed that if the price of oil remains at \$130 for about two to three quarters, then the macroeconomic impact could be fairly significant, he said.

According to Nageswaran, oil prices at \$130 for over two quarters might increase the CAD from around 1.2%, where it currently is, to around 3.2%, also due to possible decline in inward remittances. Similarly, the fiscal deficit could rise from 4.4% to 5.6%.

To counter these risks, the Committee urged the Department of Economic Affairs (DEA) proposed a Strategic Energy Mitigation Framework. This mechanism would endeavour to ensure the economy remains resilient against future price shocks exceeding the \$90 threshold.

Committee notes potential for a 'triple whammy'

In its report tabled in Parliament on Tuesday, the Committee noted with "serious concern" the potential for a "triple whammy" of surging crude prices, market volatility, and maritime delays arising from the West Asian conflict. As per the report, the DEA told the panel that scenario-based assessments of the macroeconomic implications of higher oil prices indicate that sustained crude oil prices above \$100 per barrel would be required before broader macroeconomic aggregates reflect significant strain.

Brent crude futures climbed nearly 3%, to \$103/barrel on Tuesday amid escalation in the war between the US-Israel and Iran. The international benchmark oil price was up nearly 50% from level before the war started on February 28.

The DEA said two major trade developments—an agreement with the European Union and a framework pact with the United States—along with a recent US Supreme Court judgment, have significantly reduced uncertainty around the high tariffs faced by Indian exports. **Although China continues to benefit from its strong manufacturing base and excess capacity, the easing of tariff pressures has also placed India among the top three beneficiaries.** Notably, India now enjoys a relative advantage of about two to three percentage points over competitors such as Indonesia and Vietnam in terms of the effective weighted average customs duty on exports to the United States, the DEA said.

As geopolitical tensions in the Persian Gulf stabilise, these structural tailwinds are expected to support India's exports and attract capital inflows, thereby easing pressure on the Indian rupee during 2026–27, it said.

On the domestic front, the government has taken significant steps to shield households from rising energy costs. While LPG prices warranted a Rs 134 increase per cylinder, only Rs 60 was passed on to consumers. The government may absorb the rest. It compensated oil marketing companies with Rs 22,000 crore in FY23 and approved Rs 30,000 crore support in FY25, despite higher global prices.
