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Goldman Sachs Cuts India GDP to 5.9% — Oil Shock Macroeconomics

25 March 2026

SUBJECTS COVERED

ECONOMY

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✍ WHY IN NEWS

Goldman Sachs lowered India's calendar year 2026 GDP growth forecast to 5.9% — the second downgrade in a month — citing surging crude prices, rupee depreciation, and widening current account deficit triggered by the Iran-related oil supply disruption.

The Downgrade Timeline

DATE	GDP FORECAST	TRIGGER
Pre-war (early Feb)	7.0%	Baseline
March 13, 2026	6.5%	First downgrade — Hormuz disruption begins
March 24, 2026	5.9%	Second downgrade — prolonged supply disruption

Macro Impact Channels

Oil Price Transmission

Goldman Sachs expects **Brent crude to average \$105/barrel in March** and **\$115/barrel in April** if the disruption continues until mid-April. India imports **85-88% of its crude oil**, making it among the most vulnerable major economies to supply shocks.

Every **\$10/barrel rise in oil prices** approximately:

- Increases India's Current Account Deficit by **0.3-0.4% of GDP**

- Adds **30-40 bps to headline inflation**
- Reduces GDP growth by **0.2-0.3 percentage points**

Rupee Depreciation

The Indian rupee has weakened **4% against the US dollar in 2026** (after a 4.7% decline in 2025). A weaker rupee amplifies the oil import bill (India pays for oil in dollars), creating a vicious cycle of higher inflation and wider trade deficit.

Inflation Trajectory

Goldman Sachs revised India's 2026 inflation forecast in three stages:

- Pre-war: **3.9%**
- Mid-March: **4.2%**
- Latest: **4.6%**

At 4.6%, inflation would be **above the RBI's 4% target** but within the tolerance band (2-6%). However, food inflation — already elevated — combined with fuel price pass-through could push headline CPI closer to the upper band.

Current Account Deficit

CAD is expected to widen from **1.3% of GDP** (October-December 2025 quarter) to **2.0% of GDP** in CY2026, driven by:

- Higher oil import bill
- Potential disruption to Gulf remittances (India receives ~\$40 billion annually from the Gulf region)
- Reduced exports to West Asia

Monetary Policy Dilemma

Goldman Sachs anticipates a **50 basis points repo rate hike** from the current **5.25%** — a dramatic reversal, given that the RBI had just cut rates by 25 bps in February 2026 to support growth. The central bank now faces a classic **impossible trinity** challenge:

OBJECTIVE	STATUS
Price stability	Under threat (inflation at 4.6%)
Growth support	GDP slowing to 5.9%
Exchange rate stability	Rupee weakening 4%

The RBI's next Monetary Policy Committee (MPC) meeting will be watched closely for its response to this stagflationary pressure.

India's Vulnerability — Structural Factors

Strategic Petroleum Reserve

India's SPR capacity is only **5.33 million metric tonnes** — enough for approximately **9.5 days of consumption**. This is woefully inadequate compared to the **IEA-recommended 90 days** of import cover. SPR facilities are located at **Visakhapatnam** (1.33 MMT), **Mangaluru** (1.5 MMT), and **Padur** (2.5 MMT).

Diversification Efforts

India has been attempting to diversify oil sources — increasing imports from Russia, the US, and West Africa. However, **60-65% of India's crude still transits through the Strait of Hormuz**, making true diversification difficult in the short term.

Comparison with Other Economies

COUNTRY	GDP IMPACT (ESTIMATED)	KEY VULNERABILITY
India	-1.1 pp (7.0% → 5.9%)	85-88% oil import dependence
Philippines	Energy emergency declared	45 days fuel supply
Japan	Recession risk elevated	90%+ oil import dependence
China	Growth slowing	World's largest oil importer
US	Moderate impact	Net energy exporter since 2019

UPSC RELEVANCE

GDP, CAD, CPI, repo rate, SPR locations, MPC, Strait of Hormuz

Impact of oil price shocks on Indian economy; monetary policy dilemmas in stagflationary environment; India's energy security challenges

“India imports 85% of its crude oil yet has only 9.5 days of strategic reserves. How should India prepare for oil supply disruptions?”

★ FACTS CORNER — KNOWLEDGE PEDIA

GOLDMAN SACHS INDIA FORECASTS (MARCH 2026):

GDP CY2026: 5.9% (down from 7.0% pre-war)

Inflation CY2026: 4.6% (up from 3.9%)

CAD: 2.0% of GDP (up from 1.3%)

Brent crude: \$105/bbl (March), \$115/bbl (April)

Expected repo rate hike: 50 bps from 5.25%

Rupee decline in 2026: 4%

INDIA'S OIL SECTOR:

Oil import dependence: 85-88%

Annual oil import bill (FY2025): ~\$150 billion

Top oil suppliers: Iraq, Saudi Arabia, Russia, UAE, Kuwait

SPR capacity: 5.33 MMT (~9.5 days)

SPR locations: Visakhapatnam, Mangaluru, Padur

IEA recommended: 90 days import cover

RBI MONETARY POLICY:

Current repo rate: 5.25%

Reverse repo rate: 3.35%

CRR: 4.0%

SDF rate: 5.0%

MSF rate: 5.50%

RBI inflation target: 4% (tolerance band: 2-6%)

MPC: 6 members (3 RBI + 3 external)

OTHER RELEVANT FACTS:

India is world's 3rd largest oil consumer

India is world's 5th largest economy by nominal GDP

OPEC controls ~40% of world oil production

Strait of Hormuz: ~20% of world's traded oil

Sources: [Business Standard](#), [Business Today](#), [Free Press Journal](#)

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