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Fitch Cuts India's FY27 Growth Forecast to 6.4% on Energy Shock

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WHY IN NEWS

Fitch Ratings cut India's **GDP growth forecast for FY2026-27 to 6.4%**, from 6.7% earlier, on **June 9, 2026**, citing the **US-Iran war** pushing up global energy prices and eroding real incomes. Fitch raised its 2026 Brent crude assumption to **$87 a barrel** (from $70), warned of inflation rising toward 5.3% by year-end, and lowered its global growth forecast too. The cut highlights India's vulnerability to imported energy shocks.

WHAT FITCH SAID

INDICATOR	FITCH'S VIEW
India FY27 GDP growth	6.4% (cut from 6.7%)
Cause	US-Iran war raising energy prices, eroding real incomes
Brent crude assumption (2026)	$87 a barrel (up from $70)
Inflation	Rising toward 5.3% by end of the year
India FY28 growth	6.7% (recovery as the shock unwinds)
FY29 trend growth	About 6.4%
Global growth 2026	Cut to 2.4%

The slowdown is expected to bite most in the second and third quarters of FY27, as higher prices squeeze consumer spending.

WHY AN OIL SHOCK HURTS INDIA

India imports more than **85% of its crude oil**, so a war-driven spike in global prices transmits quickly into the domestic economy:

- **Higher inflation:** costlier fuel raises transport and manufacturing costs and the import bill.
- **Squeezed incomes:** higher prices erode real (inflation-adjusted) incomes, denting consumption, the largest driver of India's GDP.
- **Wider deficits:** a bigger oil-import bill widens the current-account and trade deficits and pressures the rupee.
- **Policy bind:** the RBI must weigh supply-driven inflation against growth (it held the repo rate at 5.25% on June 5, 2026).

WHO FITCH IS, AND WHY RATINGS MATTER

Fitch is one of the **Big Three global credit rating agencies**, alongside **S&P Global** and **Moody's**. These agencies assess the creditworthiness of countries and companies and publish growth and inflation forecasts that influence:

- **Borrowing costs:** ratings affect the interest a government or firm pays on debt.
- **Investor sentiment:** forecasts shape foreign-investment decisions.

A forecast cut is not a rating downgrade, but it signals caution about the near-term outlook.

THE WAY FORWARD

To insulate the economy from energy shocks, India's options include:

- **Strategic Petroleum Reserves** to buffer supply disruptions.
- **Source diversification** and discounted-crude purchases.
- **Accelerating renewables and ethanol blending** to cut oil dependence over time.
- **Rupee-based trade settlements** to reduce dollar exposure.

UPSC RELEVANCE

Prelims

- Fitch cut India's **FY27 GDP forecast to 6.4%** (from 6.7%) on June 9, 2026
- Cause: **US-Iran war**; Brent assumption raised to **$87/barrel** (from $70)
- Inflation seen rising toward **5.3%** by year-end; global growth cut to 2.4%
- **Big Three rating agencies:** Fitch, S&P, Moody's
- India imports over **85% of its crude oil**; RBI held repo at 5.25% (June 5)

Mains Angles

1. **GS3 External Vulnerability:** Examine how India's high crude-import dependence exposes it to energy shocks, and the strategies to insulate the economy.
2. **GS3 Monetary Policy:** Discuss the RBI's dilemma between supply-driven inflation and supporting growth.
3. **GS3 Growth:** Assess the reliability and influence of credit-rating-agency forecasts on India's economy.

FACTS CORNER

FACT	DETAIL
Agency	Fitch Ratings
India FY27 forecast	6.4% (cut from 6.7%)
Date	June 9, 2026
Cause	US-Iran war, energy prices
Brent assumption	$87/barrel (from $70)
Inflation outlook	Rising toward 5.3%
FY28 forecast	6.7%
Big Three agencies	Fitch, S&P, Moody's
India crude import dependence	Over 85%
RBI repo (June 5)	5.25% (held)

Sources: Business Standard, RBI, PIB

Source: Fitch Cuts India's FY27 Growth Forecast to 6.4% on Energy Shock — Ujiyari.com | Free UPSC & State PCS Current Affairs

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