Goldman Sachs Downgrades India’s Growth Outlook Amid Energy Shock

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Global investment bank Goldman Sachs has downgraded India’s economic growth forecast for 2026 to 5.9%, citing rising global energy prices and disruptions in oil supply. The downgrade reflects concerns over an energy shock triggered by geopolitical tensions affecting crude oil supply routes, particularly the Strait of Hormuz.

Key Reasons for Downgrade

The slowdown is primarily attributed to higher crude oil prices and prolonged supply disruptions. India, being a net importer of crude oil (over 85% dependence), is highly vulnerable to such shocks. Rising oil prices increase import bills, weaken the currency, and push up inflation.

Additionally:

Brent crude expected to rise to $105–$115 per barrel (short term)

Disruption in Strait of Hormuz impacts global energy supply

Indian rupee under depreciation pressure

Impact on Economy

Inflation: Expected to rise to around 4.6% in 2026

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Current Account Deficit (CAD): Likely to widen to ~2% of GDP

Forex Reserves: Declining trend observed

Rupee Depreciation: Leads to imported inflation

These factors collectively weaken growth prospects and increase macroeconomic vulnerability.

RBI Policy Implications

The report suggests that the Reserve Bank of India (RBI) may adopt a tighter monetary policy stance to control inflation and currency pressure.

Possible repo rate hike of 50 basis points

Focus on controlling inflation expectations

Managing exchange rate volatility

Additional Facts:

Strait of Hormuz: A critical chokepoint through which ~20% of global oil passes

India's Energy Dependence: Imports crude from over 40 countries

Inflation Target (RBI): 4% ± 2% (i.e., 2–6% band)

GDP (Gross Domestic Product): Measures total economic output of a country

Energy Shock: Sudden rise in energy prices affecting economic stability