



# Economic Outlook: FY27

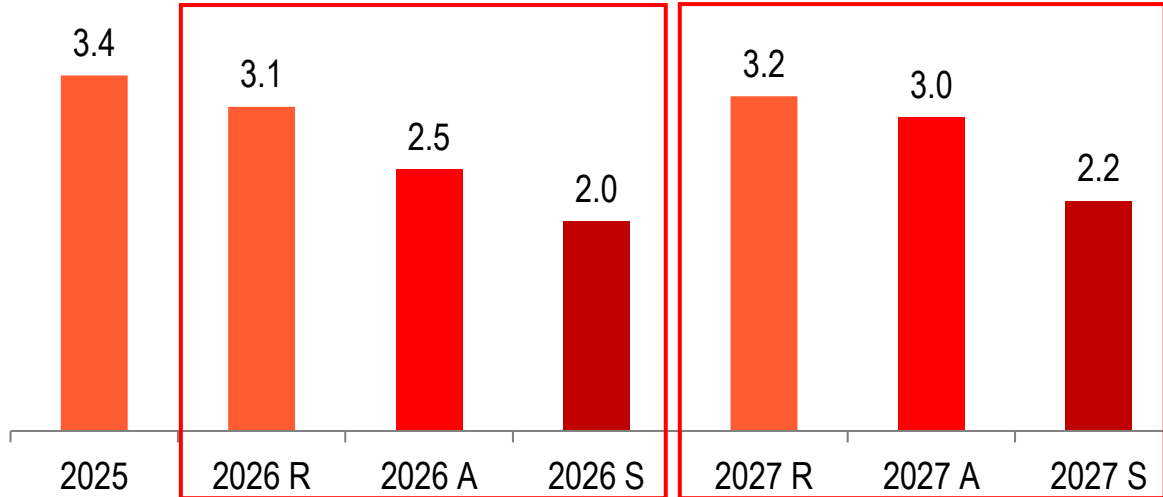
## Economic Research Department

# IMF: Global growth trajectory remains uncertain

Global growth expected to be lower

(% YoY)

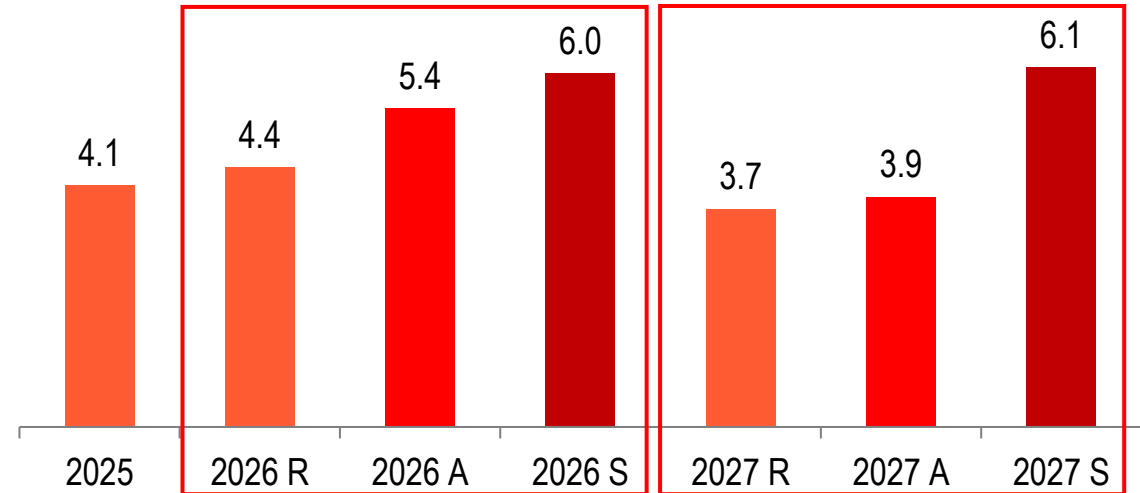
Global GDP growth



Global inflation expected to inch up due to higher energy prices

(% YoY)

Global Inflation rate



Source: IMF World Economic Outlook | R: Reference forecasts, A: Adverse scenario, S: Severe scenario

## Reference scenario

- War is short lived
- Oil prices increase by 21.4% in 2026
- Oil prices decline by 7.6% in 2027

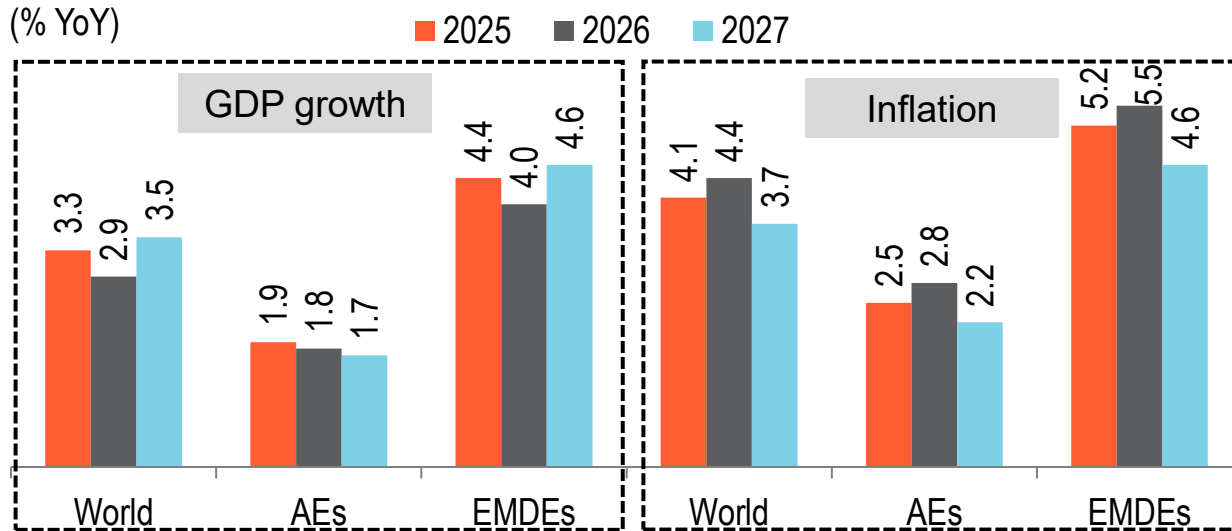
## Adverse scenario

- More protracted increase in oil prices
- 1Y inflation expectations +50bps in AEs; +90bps in EMs (ex. China)
- Corporate premiums in AE & China +50bps; EMs +100bps

## Severe scenario

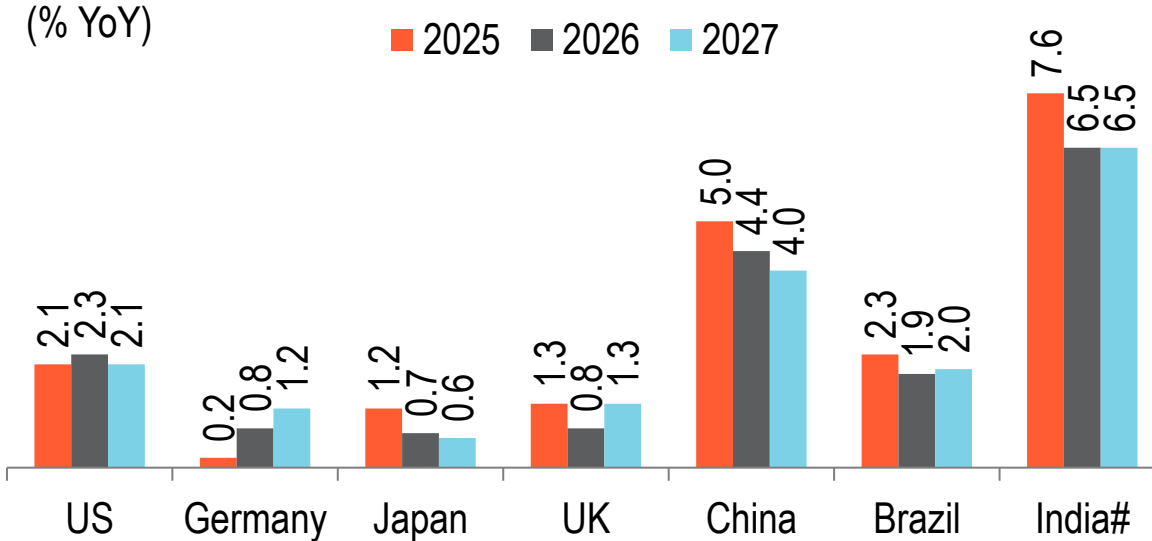
- More pronounced impact on oil prices
- 1Y inflation expectations +100bps in AEs; +130bps in EMs (ex. China)
- Corporate premiums in AE & China +100bps; EMs +200bps

## Growth in AEs estimated lower



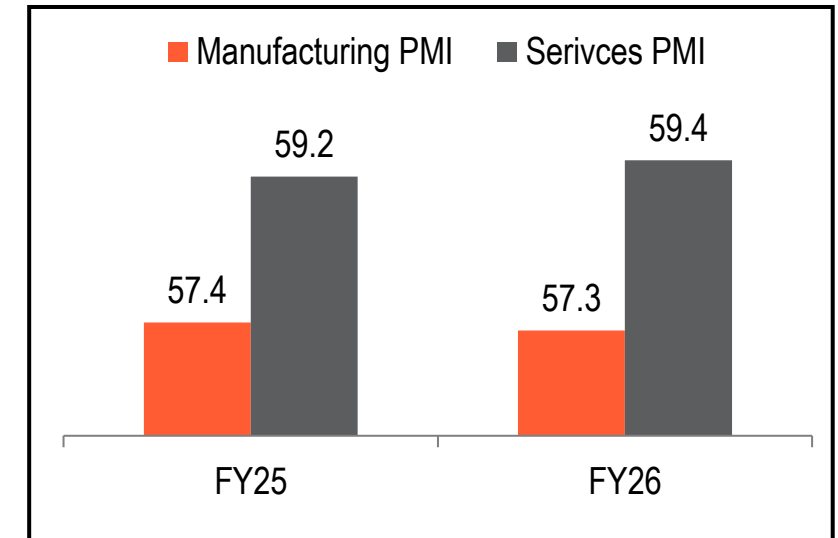
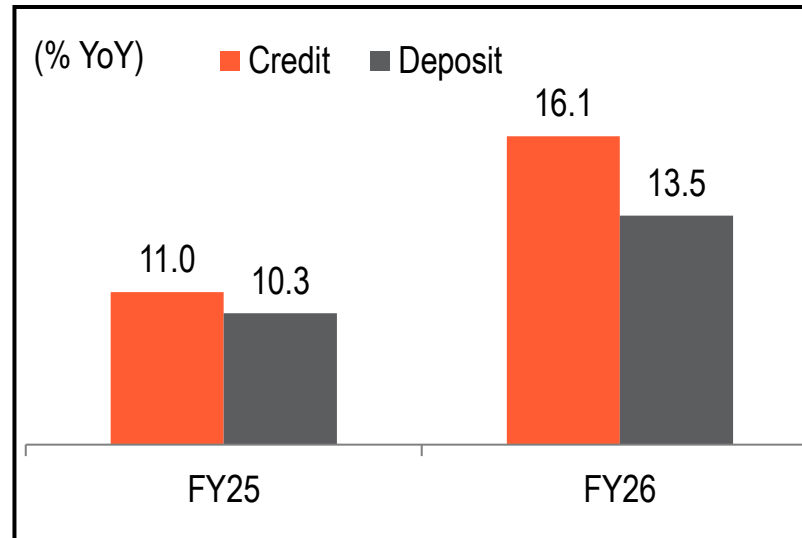
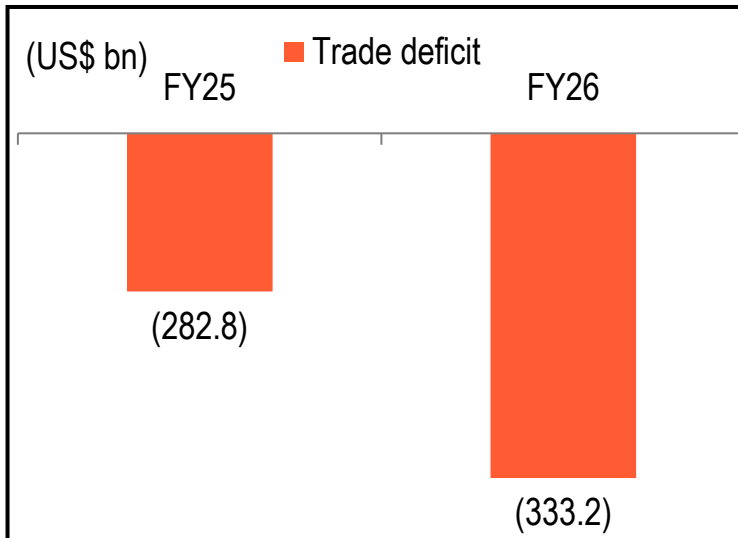
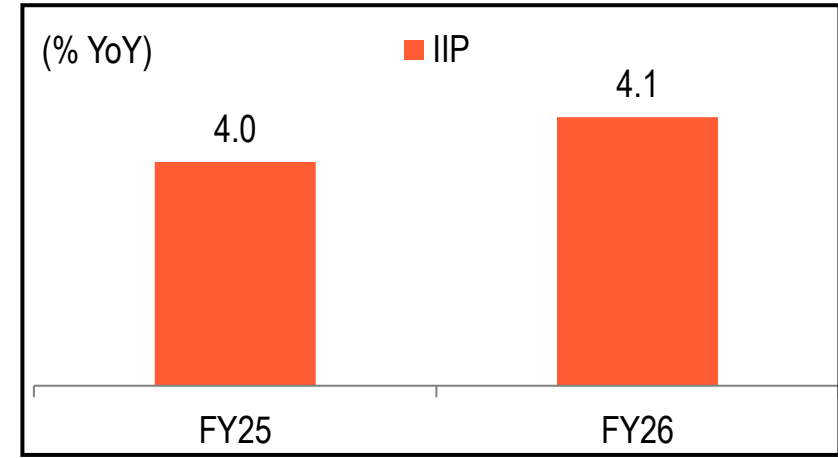
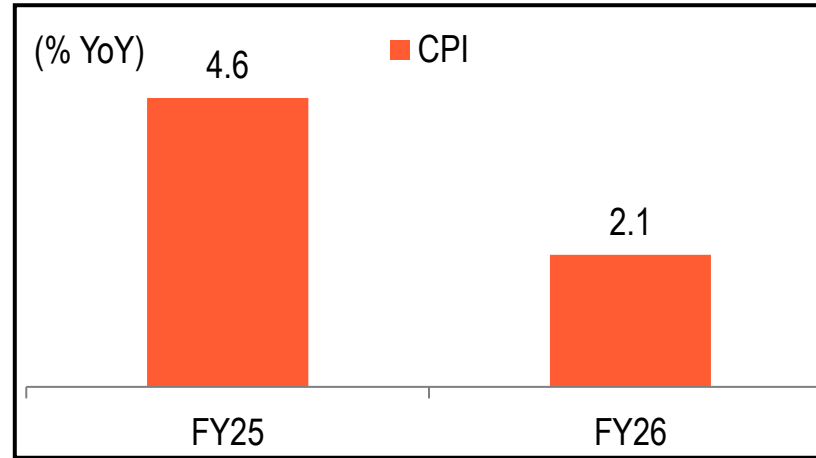
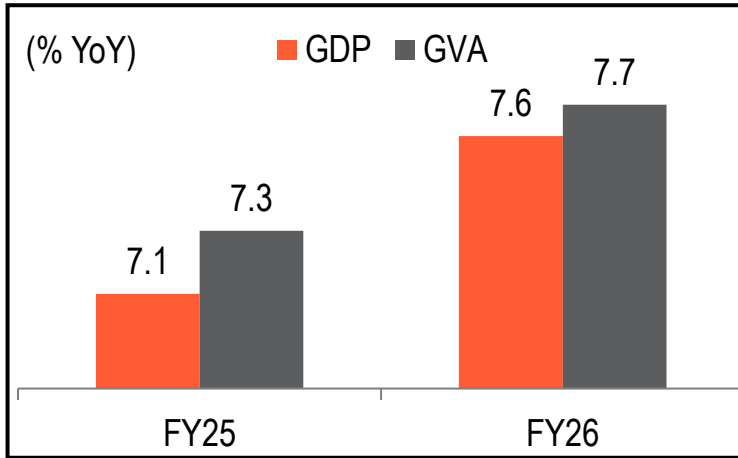
Source: IMF World Economic Outlook # Data for India is fiscal year

## India to remain the fastest growing economy in 2026



- Continued tailwinds from AI driven investment, softer monetary policy, weaker dollar, and fiscal support offset by the crisis
- Possibility of further escalation in conflict leading to more pronounced and large-scale effect
- Commodity-importing EMs and developing economies with “preexisting fragilities” would face a greater impact of the conflict

# India's macro performance impressive in FY26

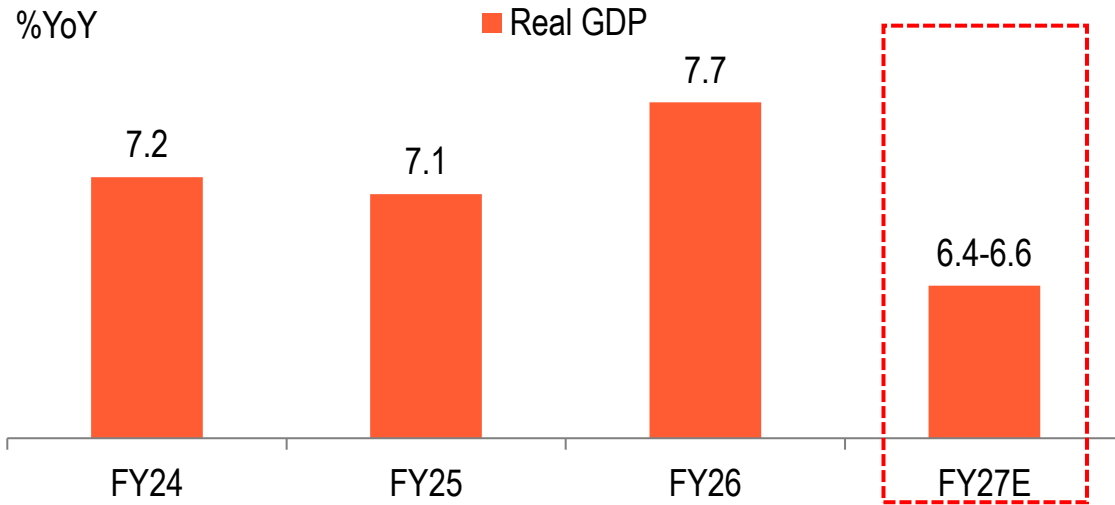


Source: CEIC, Markit

## Basic assumptions made for calculating baseline scenario forecasts

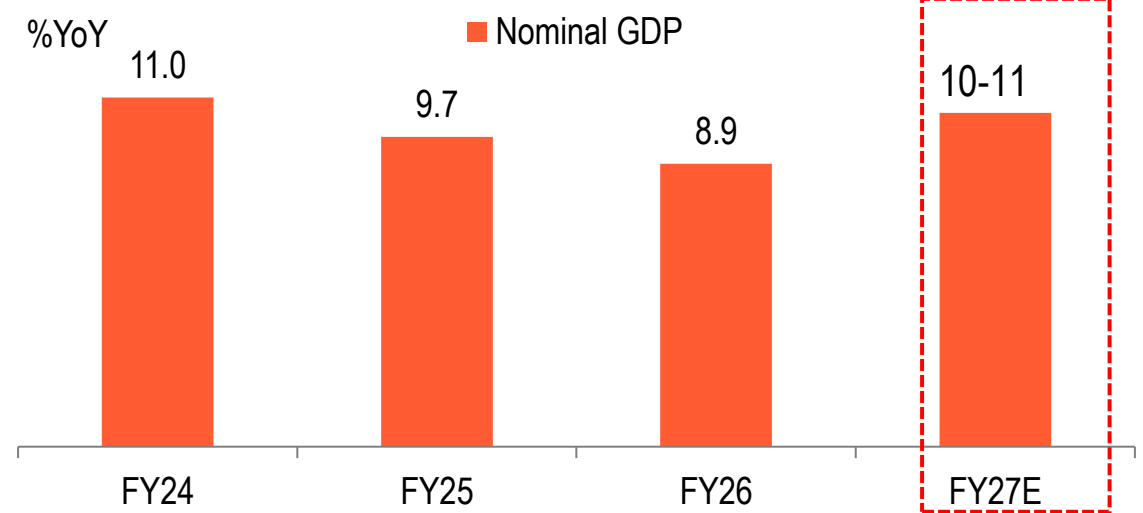
- Impact of the war will be felt for the next six months.
- For all our calculations we have assumed oil price to average US\$ 80-90/bbl in FY27.
- There will be cumulative 7.5-10% increase in domestic petrol and diesel prices. ATF prices to also remain elevated.
  - *Change in any of the above assumptions can lead to divergence in forecasts from our base case scenario.*

## India's GDP expected to grow at a steady pace



Source: CEIC, Bank of Baroda Research, Note: E: Estimates

## Double digit growth in nominal GDP back in FY27



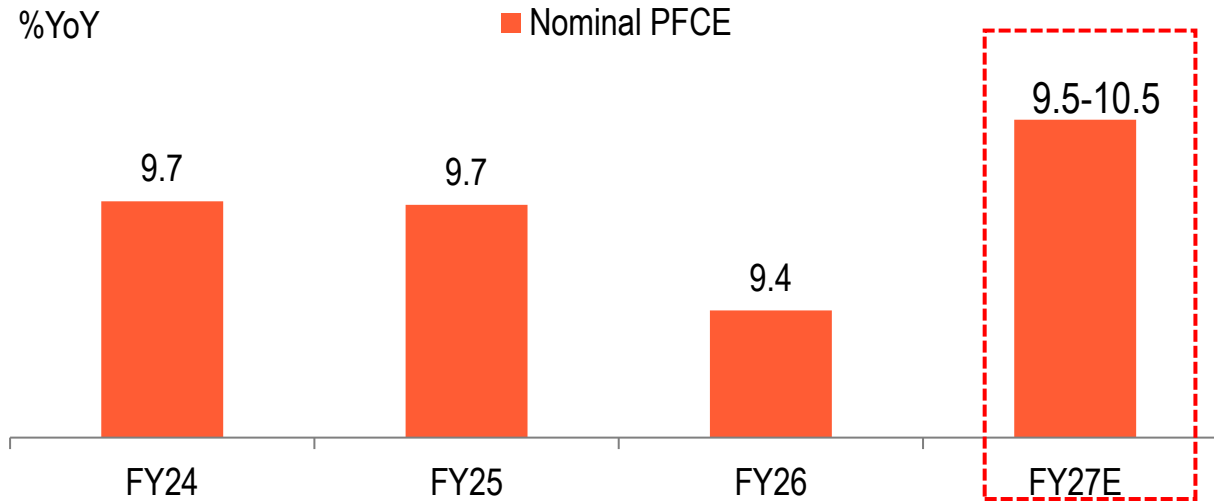
### Downside risks:

- Agriculture sector-below normal monsoon and higher probability of El Nino.
- Oil prices spike again due to resumption of war.
- Supply chains take time to return to normal.
- Export growth takes time to pick up.

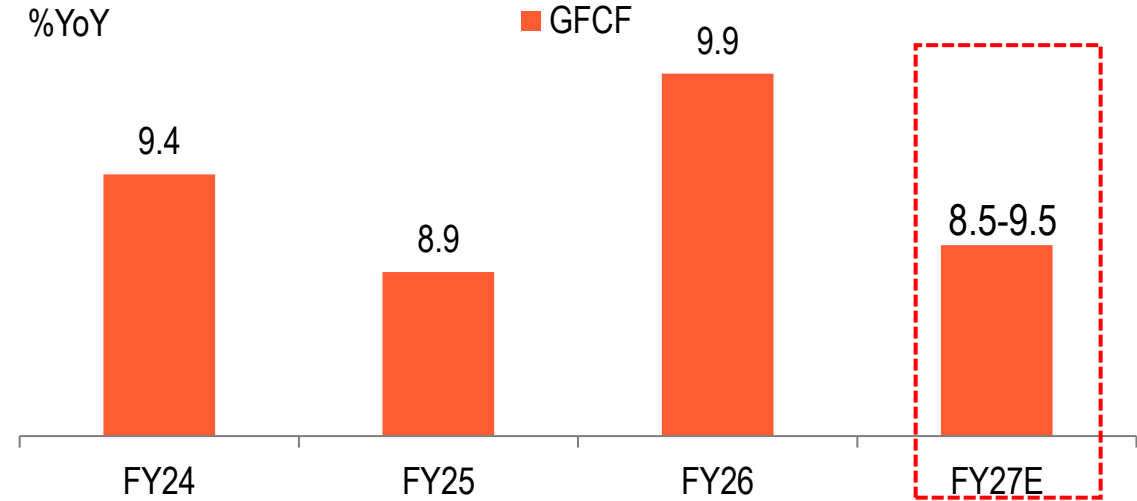
### Tailwinds

- Private sector investment revives in infra based sectors
- Government fulfils commitment on capex.
- Export of services maintains momentum
- Bilateral trade agreements add depth to exports.
- Services sector remains buoyant.

## Consumption demand to rebound in FY27



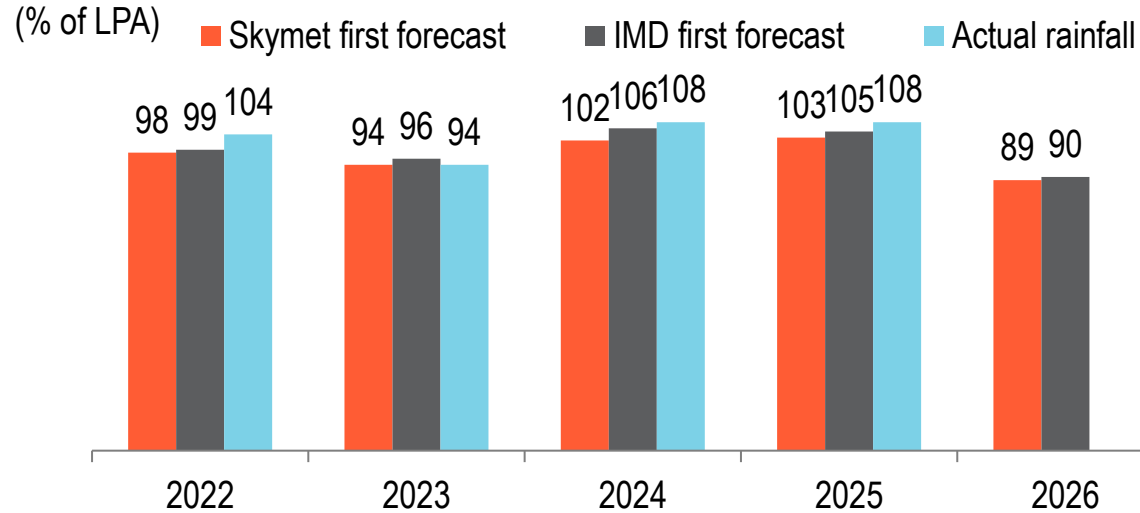
## Investment to grow at a steady pace



Source: CEIC, Bank of Baroda Research, Note: E: Estimates

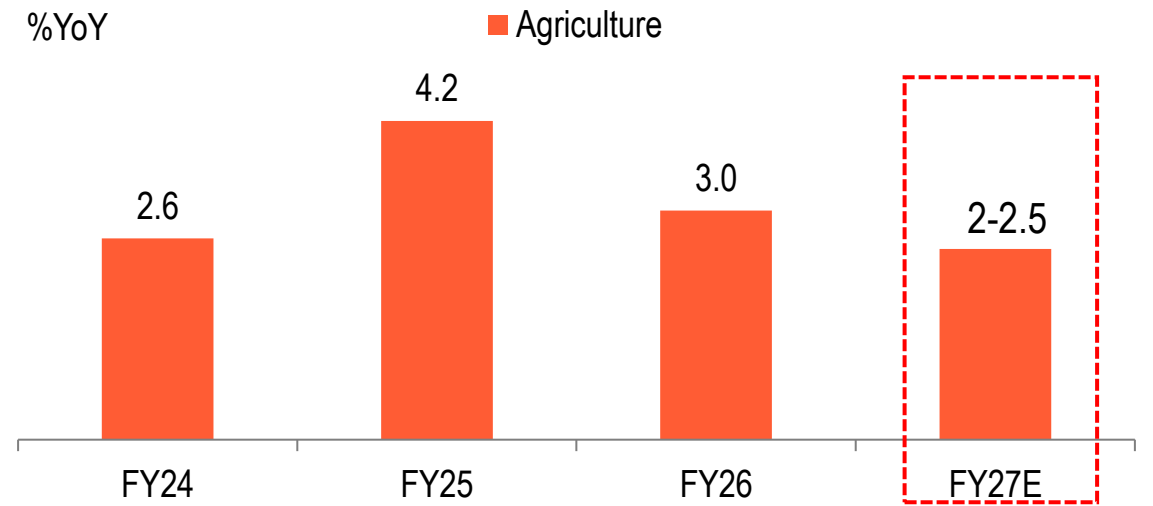
- Limited uptick expected in consumption story led by some revival in urban demand.
  - Rural demand depends on how monsoon plays out.
  - Drivers: focus on premiumization, tax measures, GST rationalization
- Investment to register stable growth- state and central government spending to edge upwards
  - Private investment to be directed towards infra space.
    - War conditions can make companies cautious as there is uncertainty.

## Below normal monsoon expected in 2026



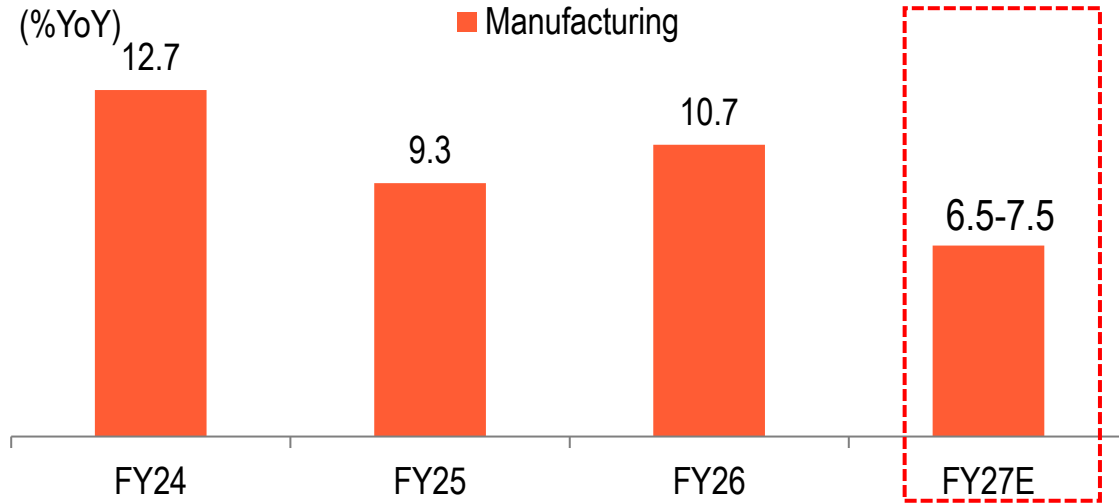
Source: CEIC, Bank of Baroda Research, Note: E: Estimates

## Agriculture to grow at a lower rate in FY27 assuming disturbances

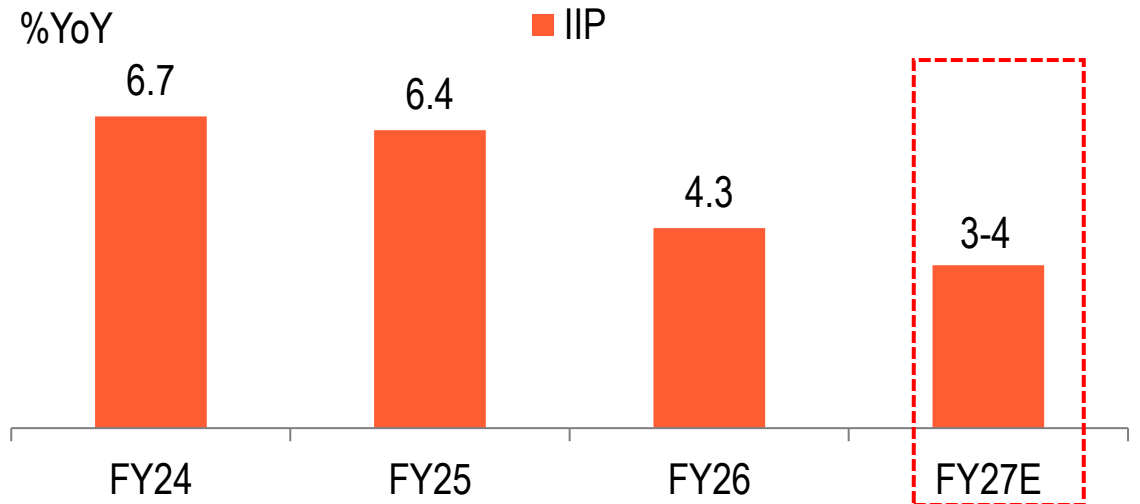


- 80% probability of El-Nino event during Jun-Aug'26 (World Meteorological Organization).
- Risk of lower food grain output, farm income and impact on agriculture growth-down to 2-2.5%.
- Potentially can affect rural demand.
- Food inflation can be affected in case of lower output of specific crops like pulses or oilseeds.
- Reservoir levels to be monitored and will have bearing on rabi crop too.
- Buffer stocks however high and can provide support if needed – but limited to rice and wheat.

Growth in manufacturing sector to be lower



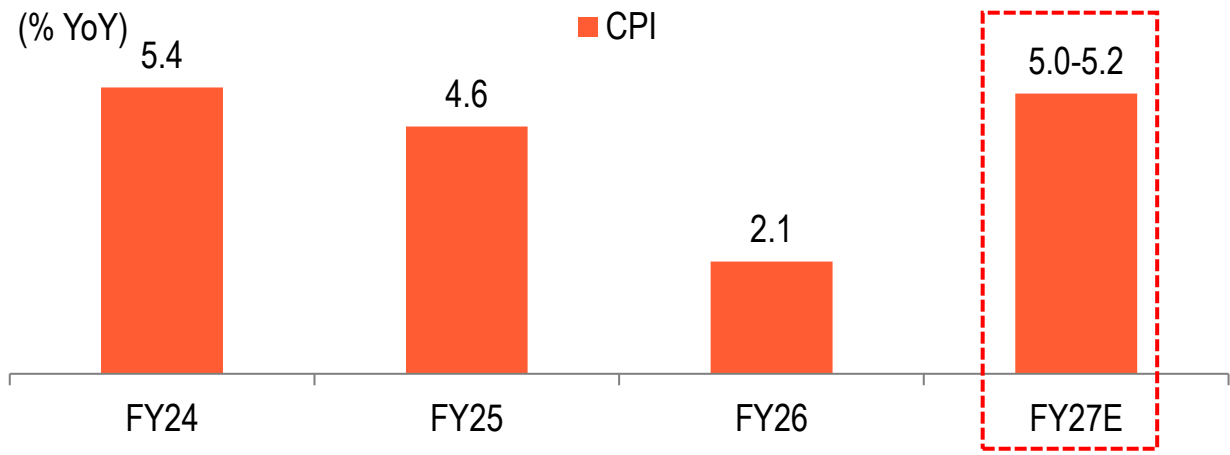
Industrial growth expected to be around 3-4%



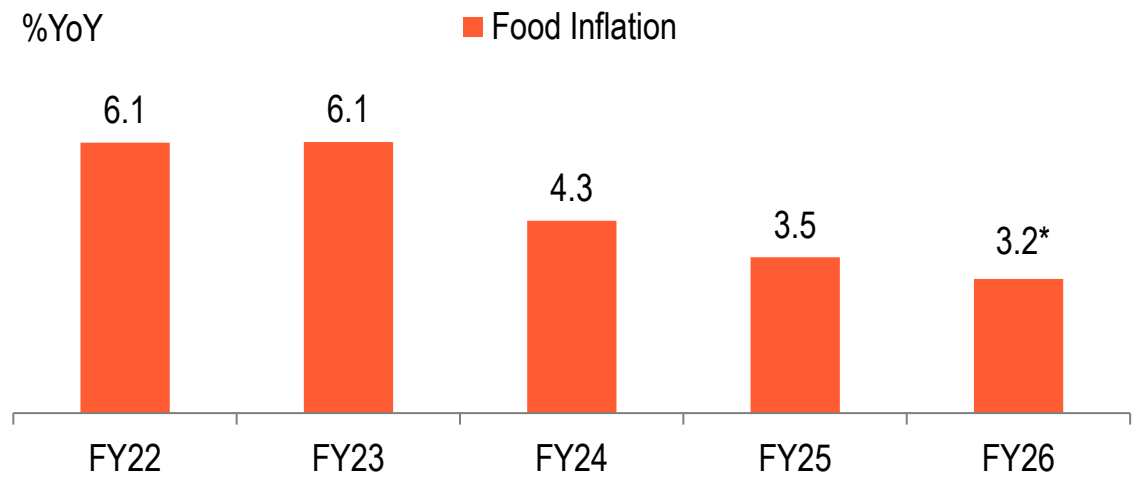
Source: CEIC, Bank of Baroda Research | E: Bank of Baroda Estimates

- Manufacturing sector to grow at a stable pace.
  - Moderation expected due to base effect, war impact on supply chains and demand conditions.
- Supply chain bottlenecks due to geopolitical events and elevated inflation, could adversely impact sectors.
  - Sectors which will be under pressure –petro based industries, food, glass and ceramics, textiles and chemicals
- Machinery, auto, metals along with infra and construction to do well.

## Prices expected to accelerate in FY27

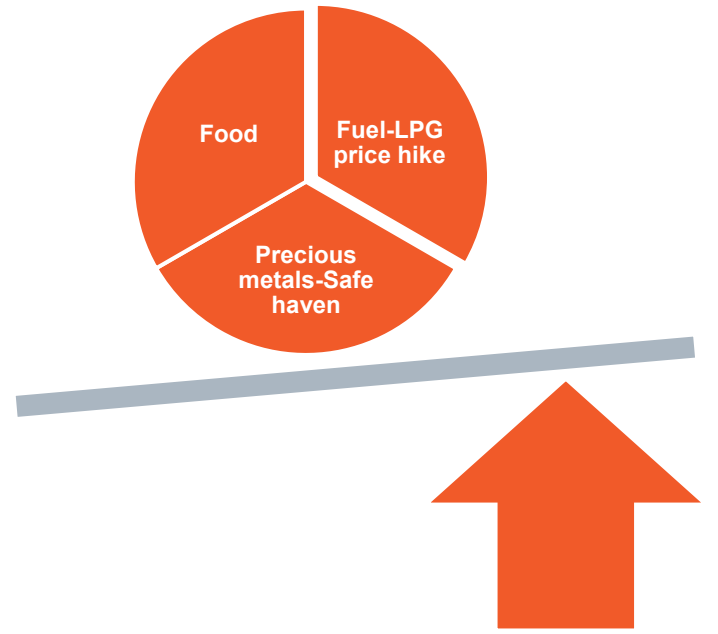


## Pace of food inflation



Source: CEIC, Bank of Baroda Research, Note: \* average of 3-months

## Risk concentration in inflation



- Upside risks due to:
- Heatwave conditions in northwest and central India (IMD).
  - Possible El Nino conditions.
  - Rising farm input cost

# Core inflation-risks are upside

## Downside risks to core inflation stem from:

- Strong dollar may impinge on gold prices, impacting inflation in personal care and effects category.
- Demand side pressures likely to be capped.
- Core excluding precious metals likely to be ~3.0-3.2% in FY27.

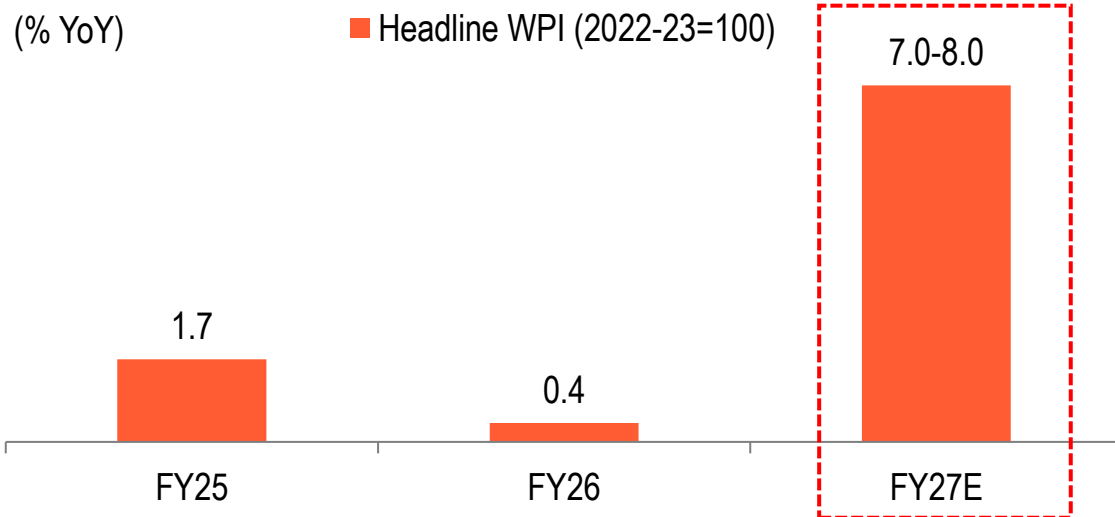
## Upside risks also persist:

- Second round impact of commercial LPG price hike on restaurants and hospitality sector.
- Transportation sector covering aviation and road to be affected by higher prices.
- Government action on retail prices of fuel will be critical.
- Expectation of pass through of higher input costs by firms to consumers.

Core inflation is expected to be ~4.7-4.9% in FY27, with risks tilted to the upside

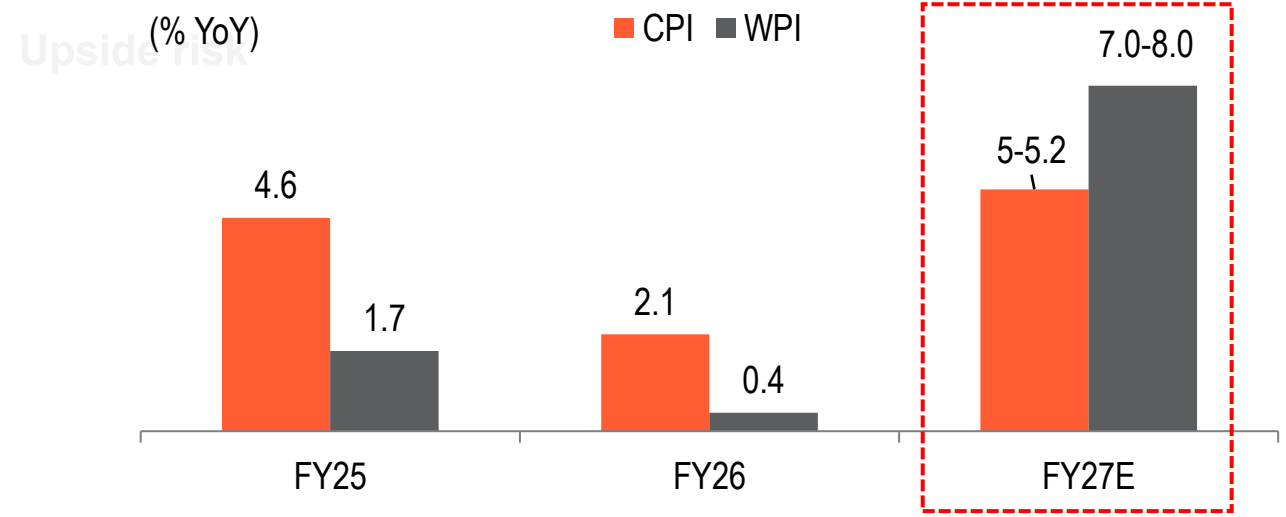
# WPI is likely to impacted more than CPI

## WPI to be higher on the back of low base



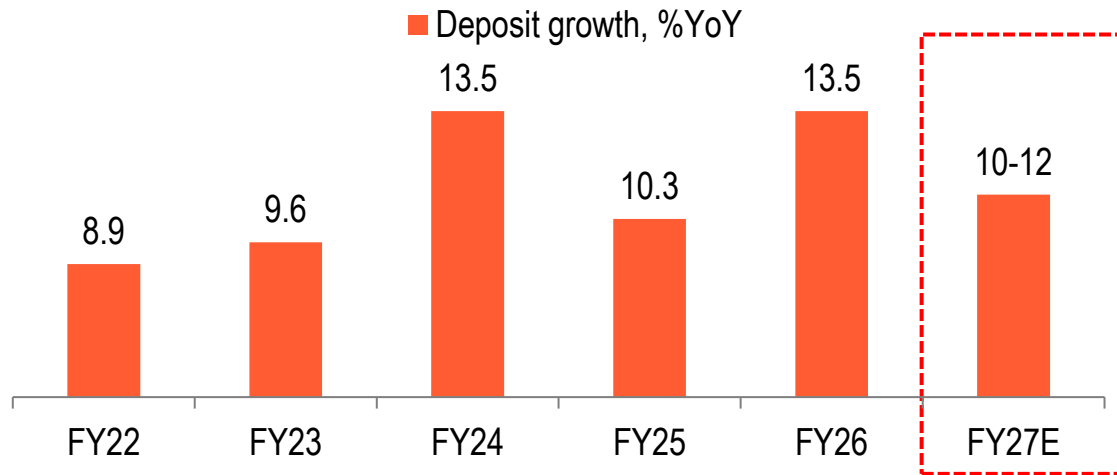
Source: CEIC, Bank of Baroda Research, Note: E: Estimates

## Convergence between WPI & CPI or not?

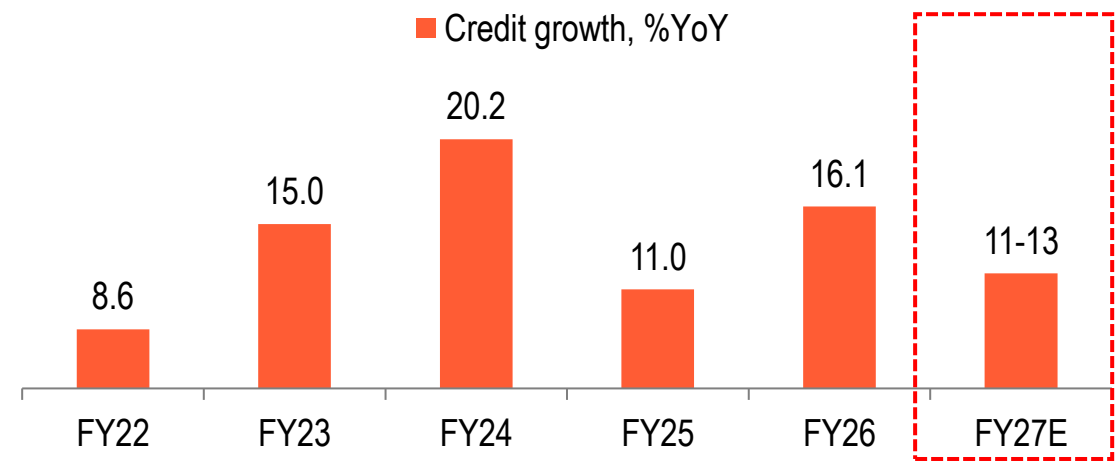


- WPI inflation faces more upside risk than CPI due to:
  - Higher weight of fuel components
  - Higher risks of imported inflation
- The gap between WPI and CPI is likely to increase in FY27, thus indicating higher pressure on producers and reduction in margins

## Deposit growth higher than last year



## Credit growth buoyant



Source: RBI, Bank of Baroda Research| E-Bank of Baroda Estimates

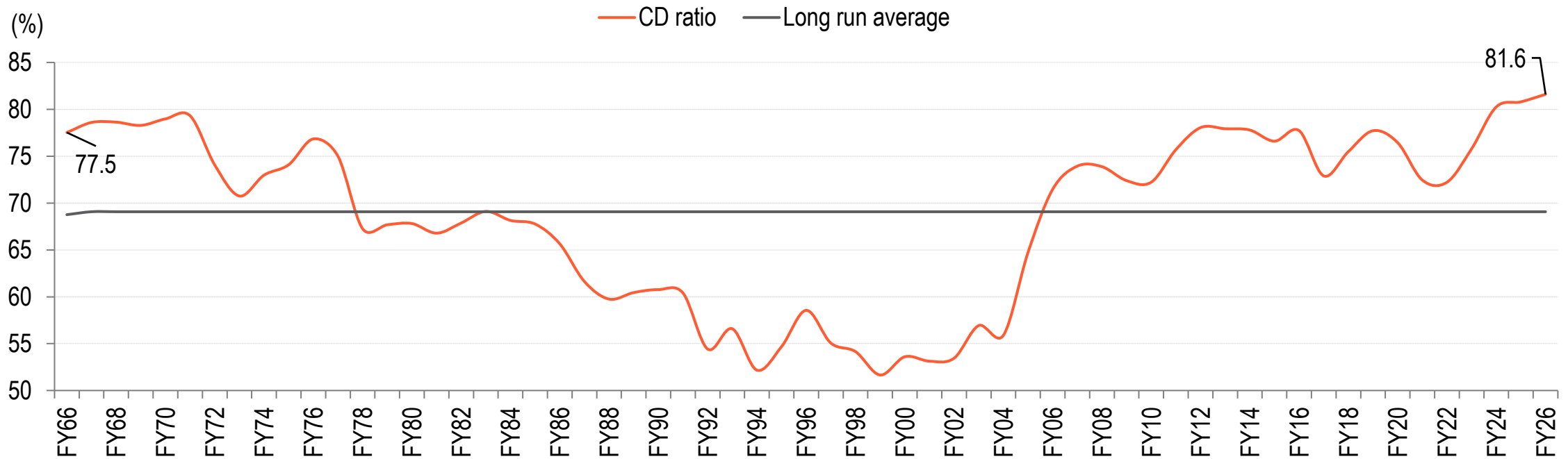
### Deposit growth to be supported:

- Geo-political uncertainties might channelize savings towards safer instruments against the backdrop of volatile market dynamics.
- Recent moves on FCNR (B) deposits to aid growth in deposits.
- To get support if there is an increase in repo rate during the year.

### Credit growth to be steady:

- Retail and services to drive overall credit demand.
- MSME might face some disruption on account of geopolitical uncertainty. However, policy measures including ECLGS 5.0 to lend support.

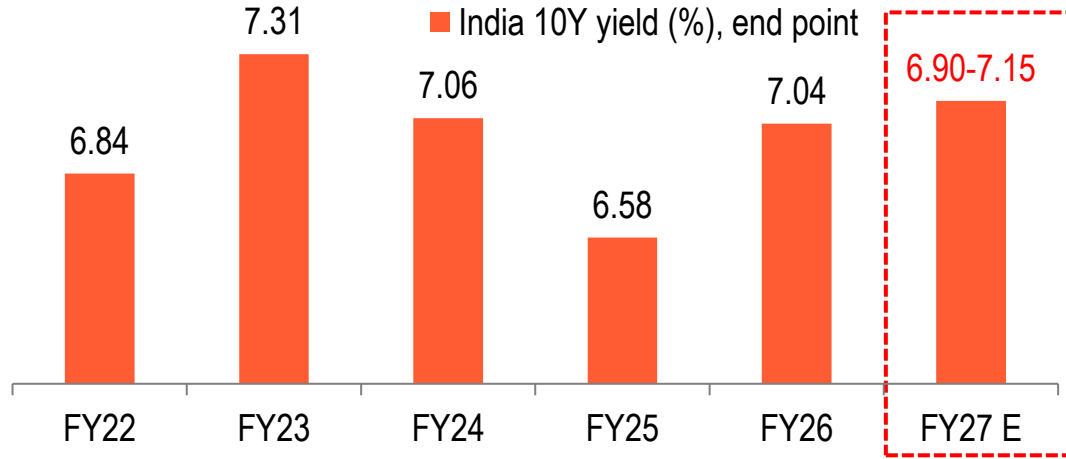
## CD ratio remains elevated



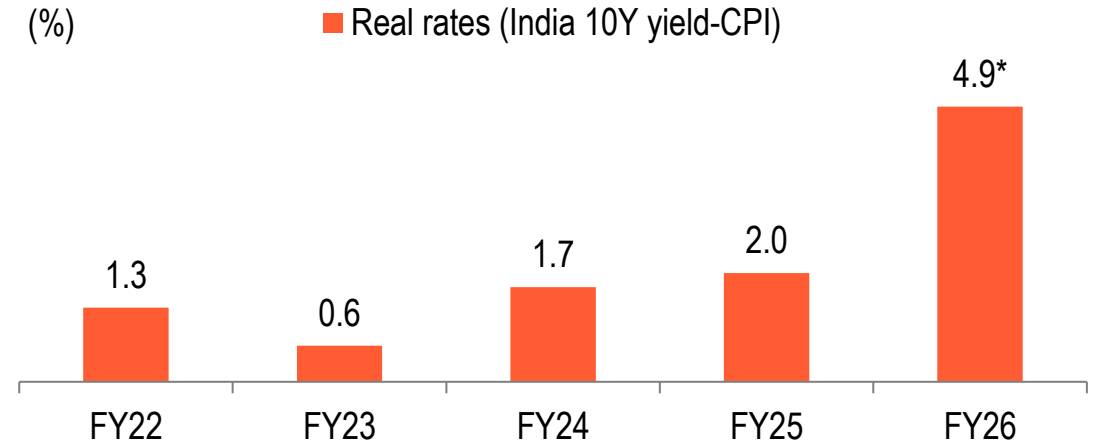
Source: RBI

- FY26 has seen credit deposit ratio far outpacing LR average.
- Some normalisation in the ratio is expected in FY27, currently the ratio is at 82.8.

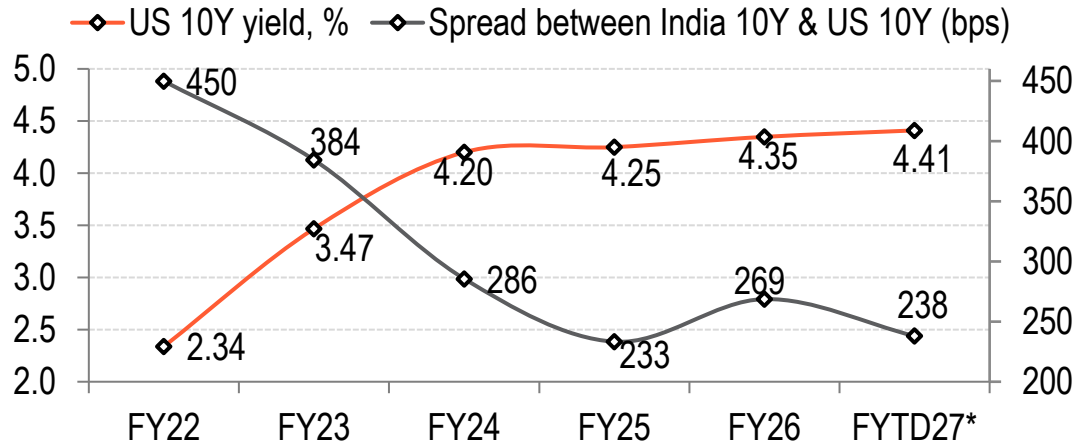
India's 10Y yields inched up in FY26; similar level seen in FY27



Real rate elevated



Spread between India and US 10Y widened in FY26; narrowing in FYTD27



- Yield on 10Y G-sec is expected to average ~6.90-7.15% this year, given rise in oil & gas prices, and assuming 1 rate hike by RBI in FY27.
- Hawkish to neutral stance of Fed indicates that US 10Y yield can go up by another 10-15bps by the end of Mar'27.
- Spread between India and US rates may narrow and cause pressure on FII flows.
- Real rates can fall further this year, as risks to inflation persist.

Source: Bloomberg, CEIC, Bank of Baroda Research| E- Bank of Baroda estimates. Note: All rates and calculation based on end-point data; FY26 CPI is last 3 months avg; \* Data as of 19 Jun 2026

## Pause on the cards:

- Despite headwinds, domestic growth broadly steady with some underlying drivers.

- Inflation while expected to rise, still within the tolerance band for the MPC.

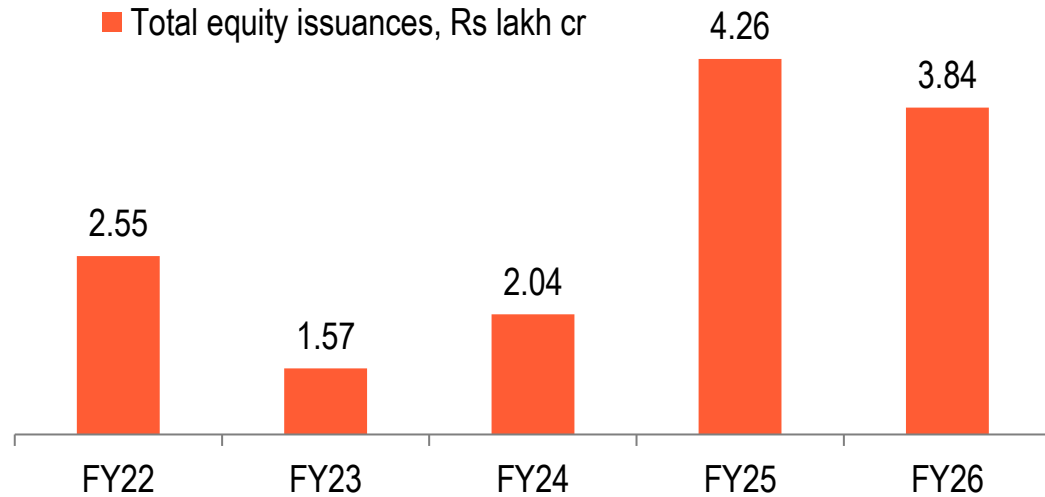
## But risks remain:

- Core inflation can see some upside pressure due to second-round effects

- Weaker monsoon can push up prices of food items such as pulses and cereals

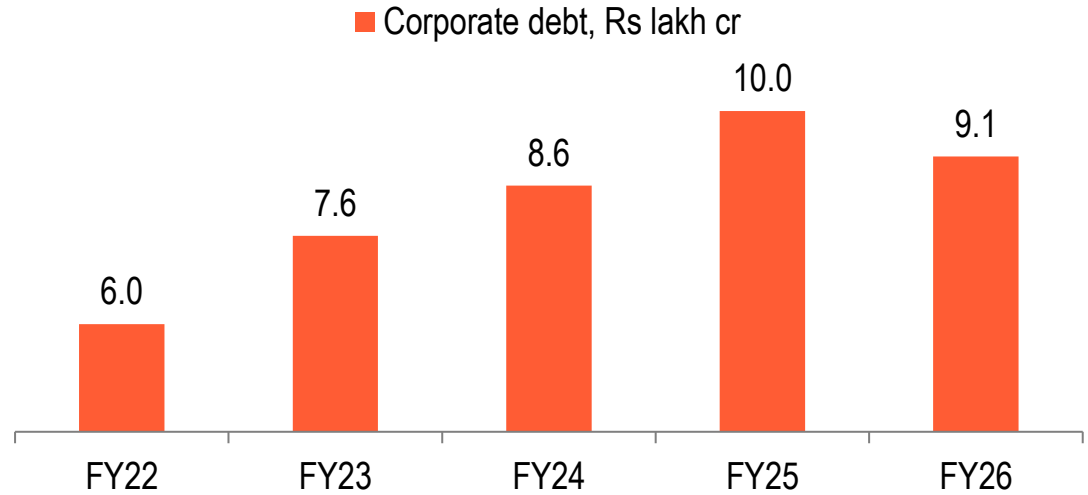
We do not expect any rate action from the RBI at least till Oct'26, beyond which 1 rate hike is possible based on data.

## High equity issuances last year may not be maintained



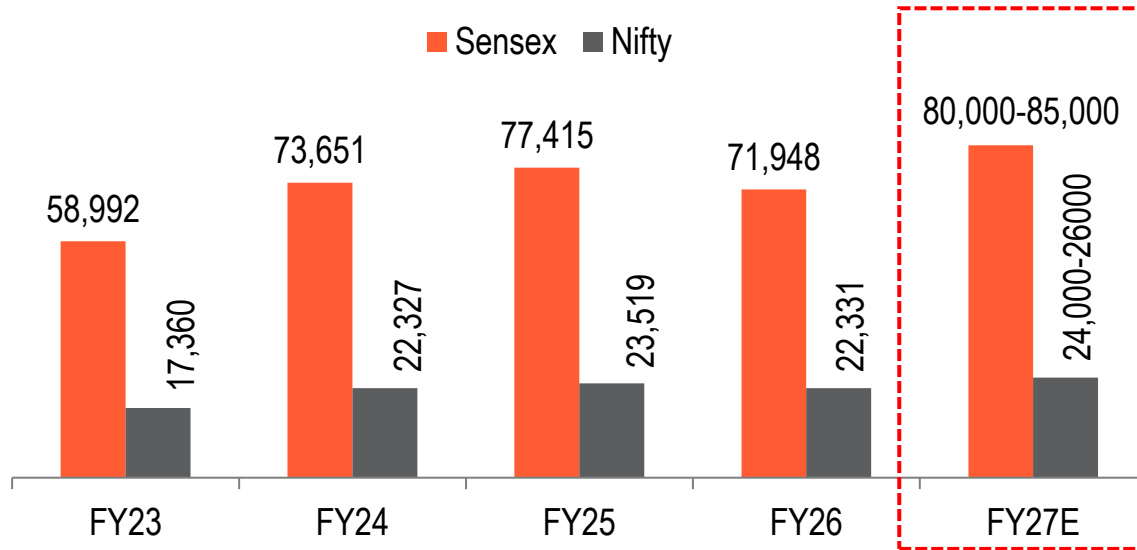
Source: CMIE

## Corporate debt issuances will be linked to investment climate

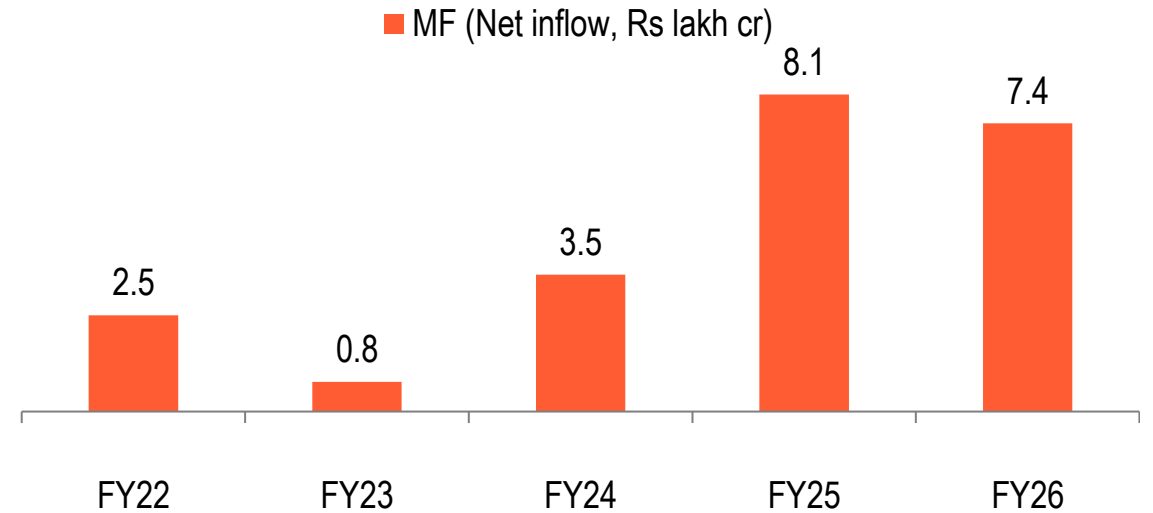


- Equity issuances by companies is expected to range between Rs 4-4.5 lakh crore this year.
- Corporate debt may be of higher order of Rs 9.5-10 lakh crore in FY27.
  - Based on higher investment by infra based companies
  - Borrowings to be dominated by finance companies

## Sensex to advance in FY27



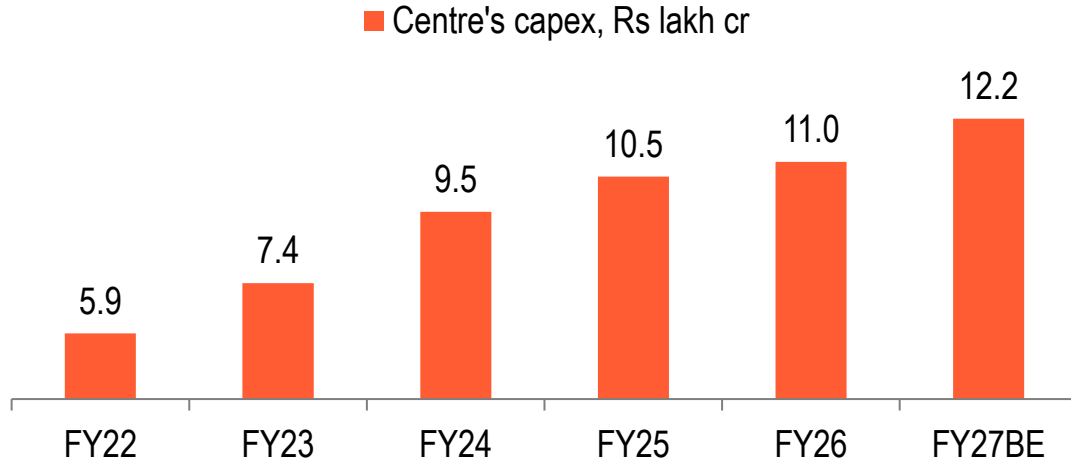
## Slower mutual fund inflows in FY26



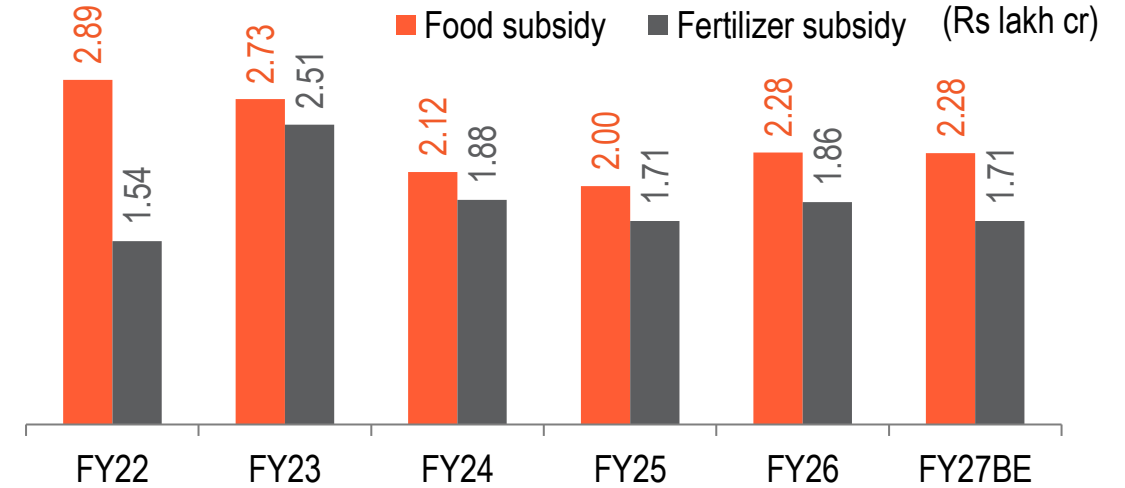
Source: CEIC, Bank of Baroda Research | Note: E: Estimates, End point of March has been taken. MF inflow, also includes others as subcomponent

- Equity index has seen volatility in the last 20-months. For the last 2 years, average annual volatility has been 14%.
  - Investors remain cautiously optimistic since bulk of the war impact will be seen in Q1FY27.
  - Corporate profitability will hold clue
  - Sensex expected to climb 80,000-85,000 level and Nifty to advance to 24,000-26,000 level in FY27 if war ends before Diwali.
    - But this will mean more of recovering space lost due to the war
- Mutual funds will see some traction once war ends and market stabilizes.
  - Can revert to range of Rs 8-8.5 lakh crore in FY27

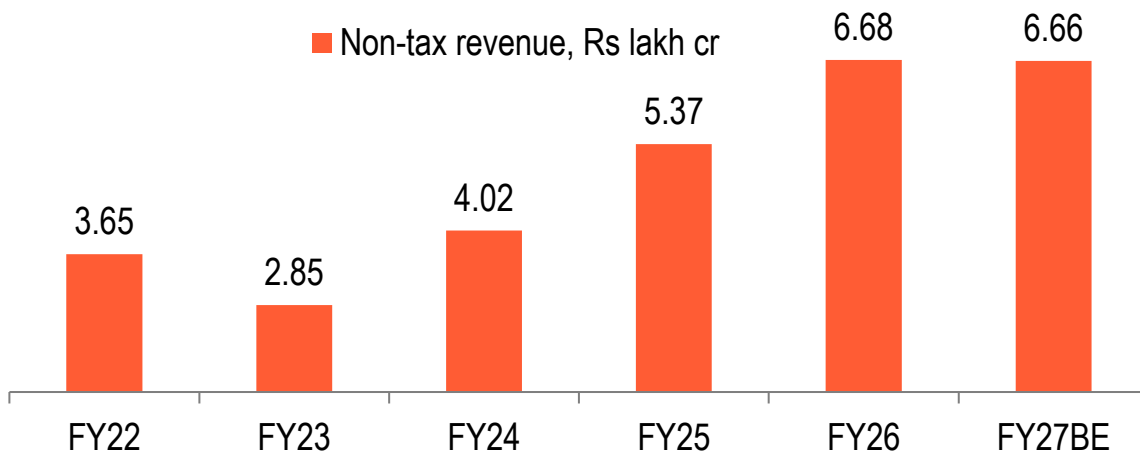
## Continued focus on capital expenditure



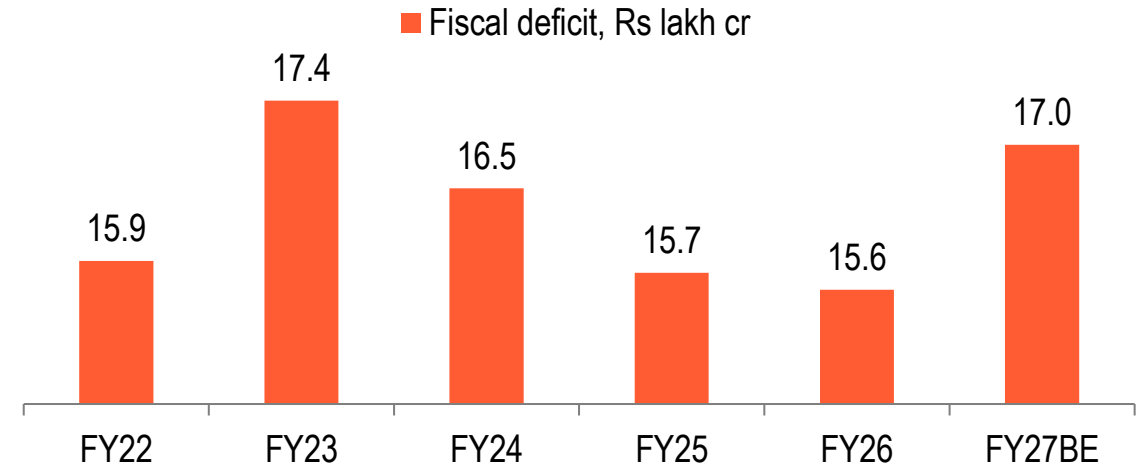
## Government's subsidy bill can go up in FY27



## Dividend from OMCs can impact non-tax revenue of Centre

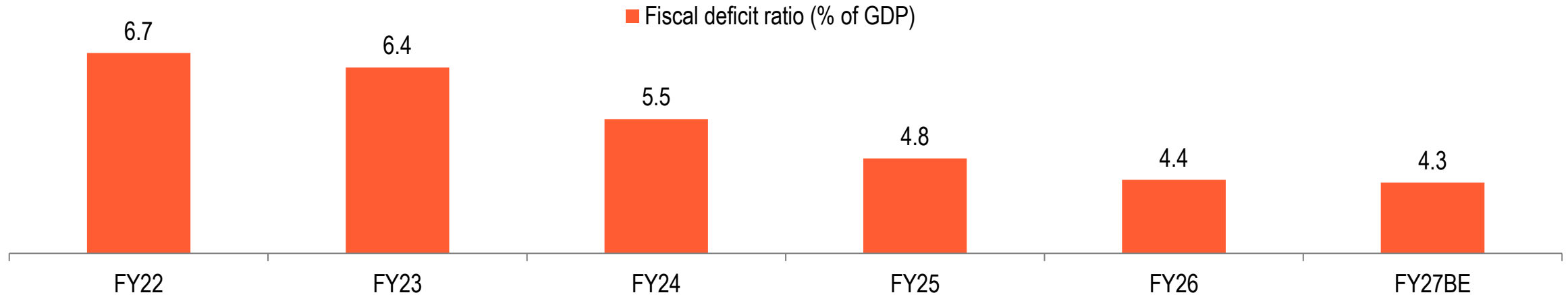


## Fiscal deficit will be impacted by interplay of revenue and spending



Source: Union Budget documents | Note: BE-Union Budget Estimates

## Focus on fiscal consolidation

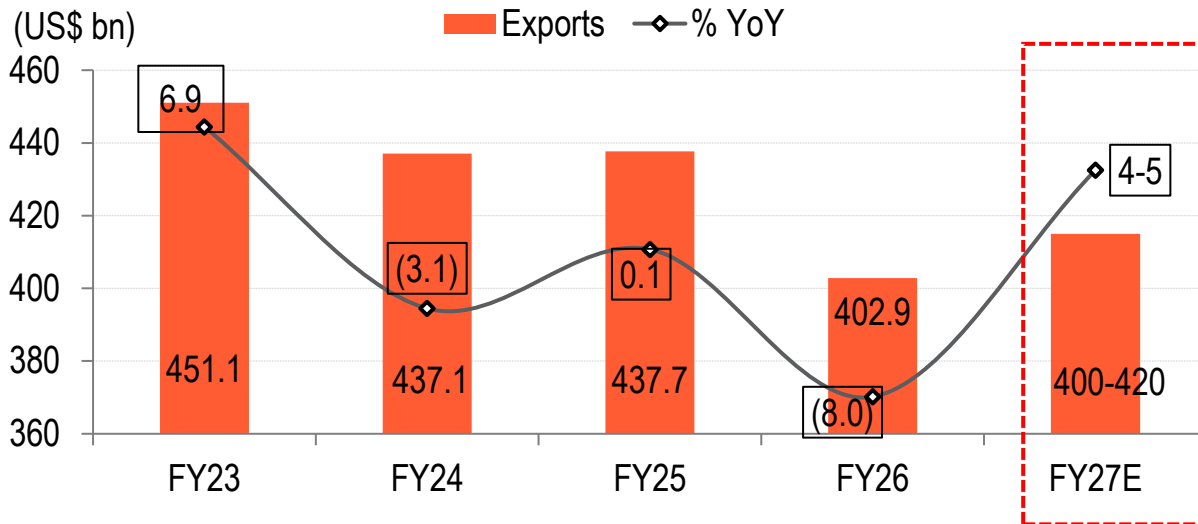


Source: RBI | Note: BE-Union Budget Estimates

### Challenges for meeting budgeted FD ratio if oil prices remain elevated:

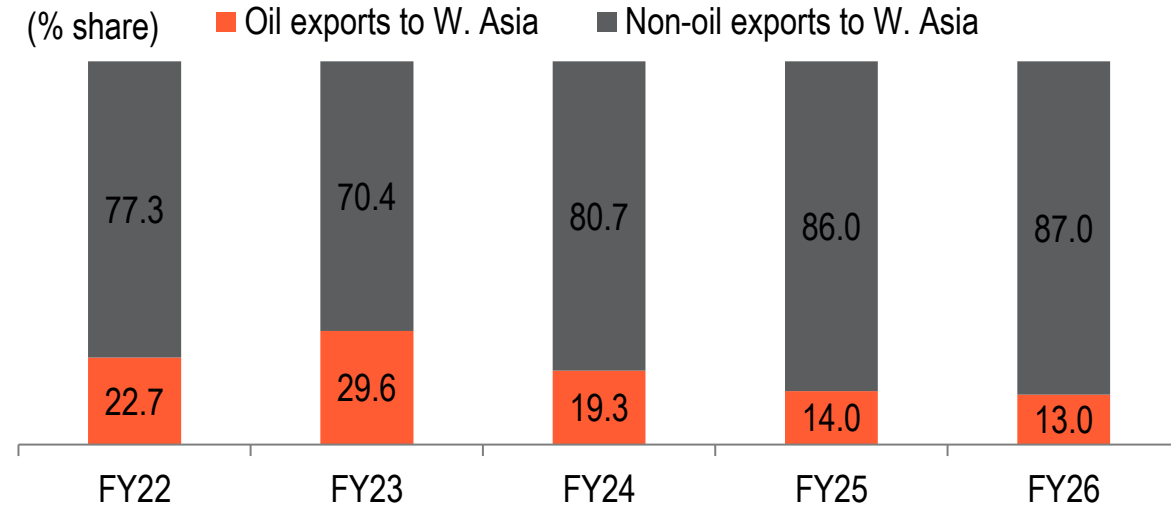
- Fertilizer subsidy bill can increase by 30-40% (~Rs 50-70,000 crore).
- Shortfall from special additional excise duty cut can be around Rs 1.3 lakh crore.
- Dividend of OMCs will impact non-tax revenues (~30% of PSU dividend comes from OMCs). Corporate tax may also face pressure if OMCs report mounting losses (they account for ~5% of corporate tax collections).
- Capex programme may have to be revisited in case deficit rises
- Fiscal slippage can be between 0.3-0.4% of GDP due to these shocks. Much will depend on how expenditure is dovetailed to support fiscal deficit.

## Headwinds to exports growth due to Middle-East conflict



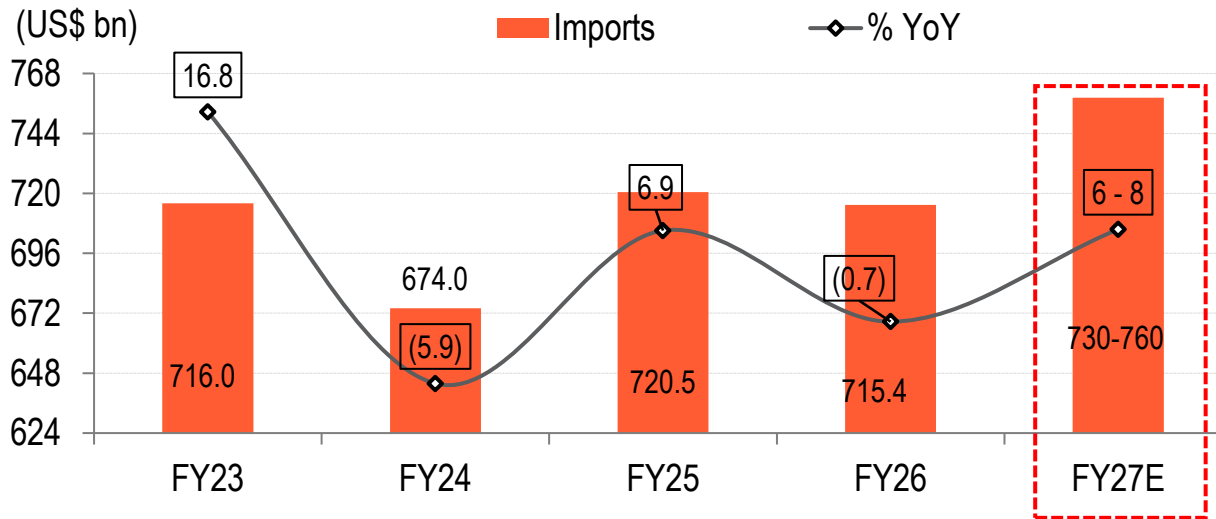
Source: CEIC, CMIE, Bank of Baroda Research | Note: E: Bank of Baroda Estimates

## Share of oil products in India's exports to West Asia is significant



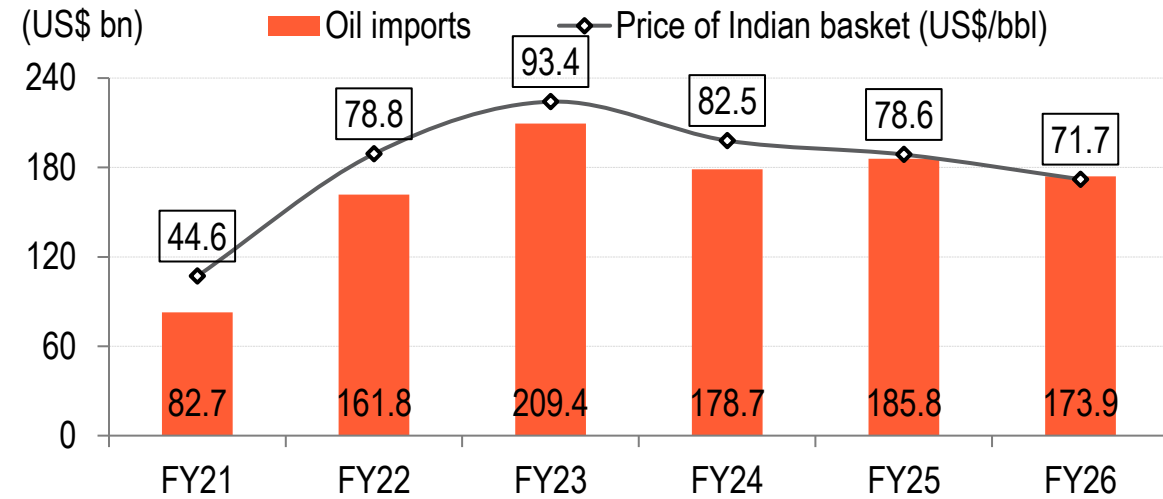
- Tailwinds to export growth will come from:
  - Re-opening of the strait of Hormuz
  - Electronic exports have continued to do well
  - FTAs with countries to add some weight to exports.
- Headwinds for export growth are:
  - Exports to West Asia impacted in Q1 (~15% of India's total exports)
  - Weakness in global demand

## Elevated prices can push up import bill



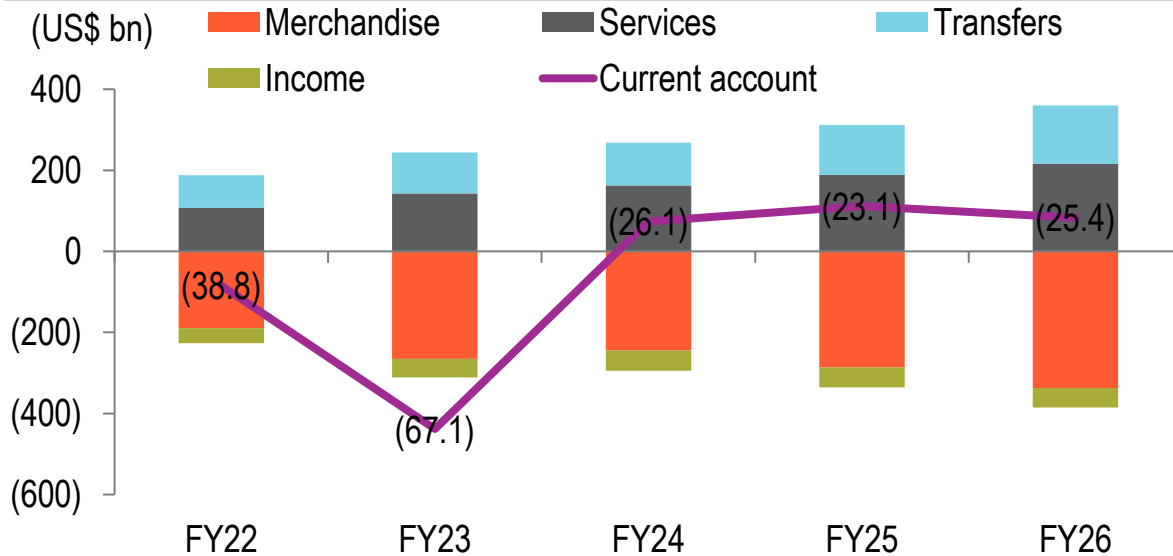
Source: CEIC, CMIE, Bank of Baroda Research

## Oil imports the critical factor



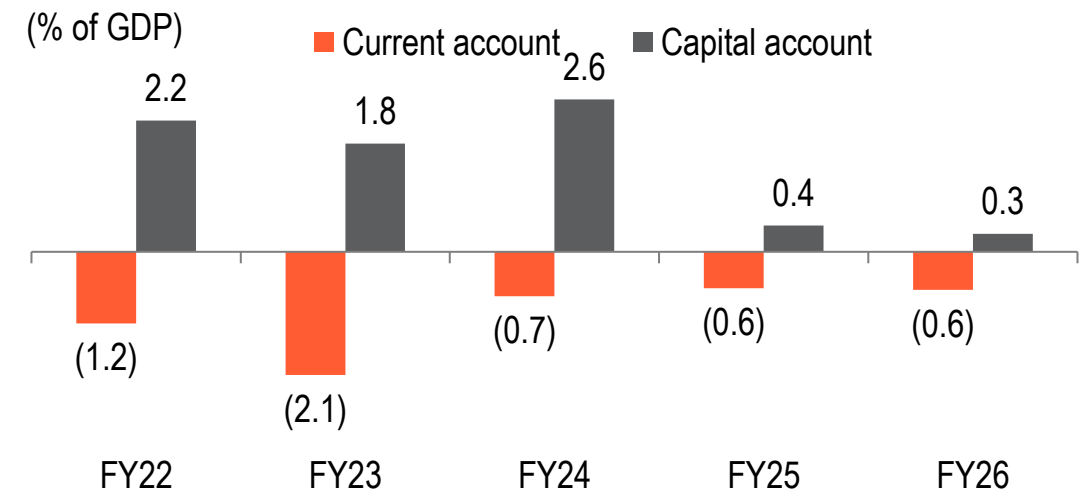
- Tailwinds for imports are:
  - Oil prices have moderated after the announcement of peace deal
  - Other global commodity prices also expected to ease as the Strait of Hormuz opens and shipping routes are restored
- Headwinds also persist:
  - Gold prices have declined by ~14% from recent highs, though it is back at US\$ 4000-4200/troy ounce level

## India's current account at manageable levels



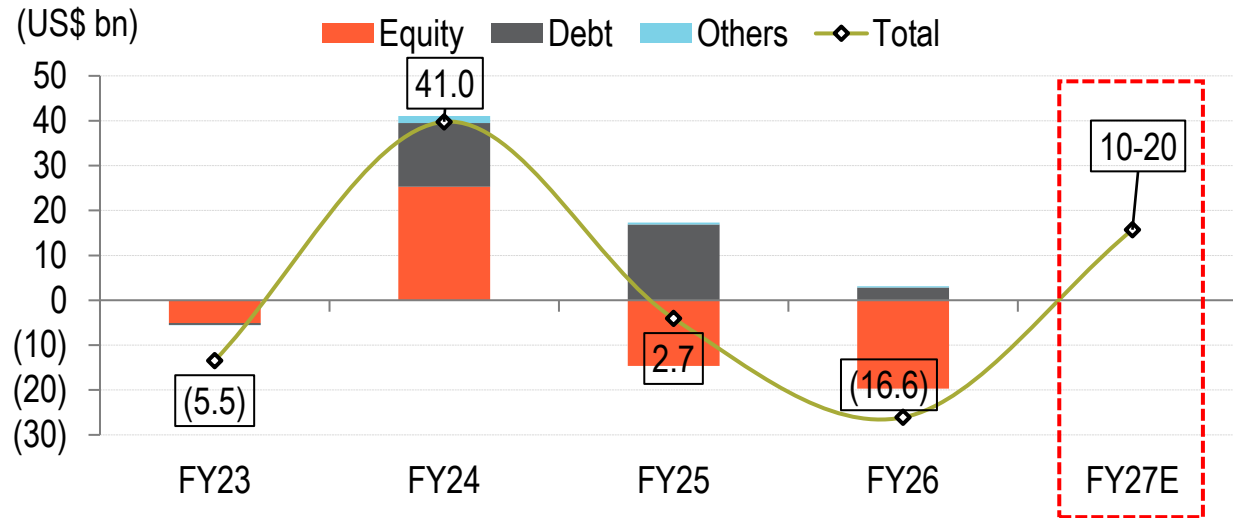
Source: CEIC, CMIE

## Risks remain..



- Higher trade deficit due to lower exports to West Asia
  - Oil import bill can be elevated due to higher oil prices
  - Other global commodity prices can also see some upward momentum
- Remittances from GCC could be impacted
- India's current account deficit as a % of GDP expected to settle in the range of 1.8-2.0% of GDP in FY27

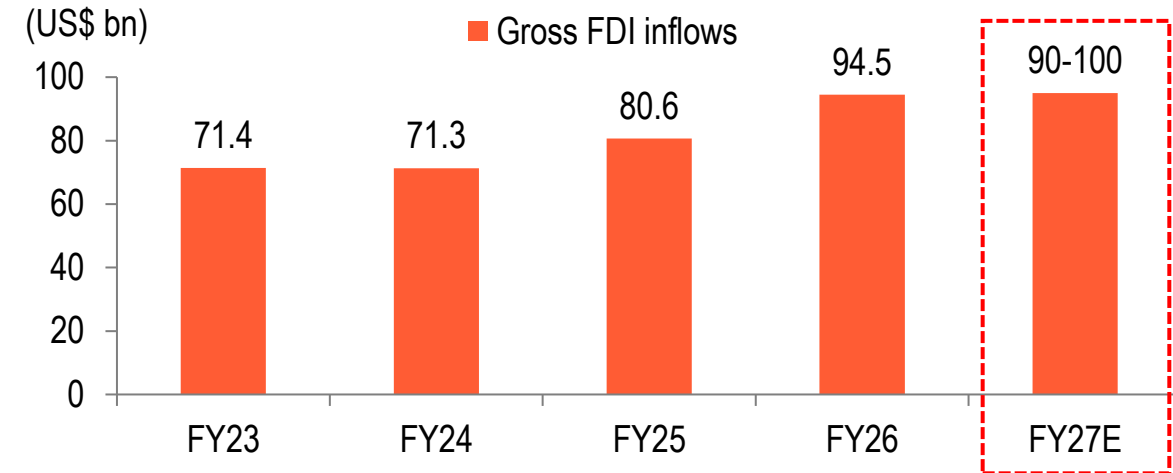
## FPI outflows from domestic markets have continued



Source: CEIC, CMIE, Bank of Baroda Research | E: Estimates

- Global financial market volatility is expected to persist due to geopolitical tension
- FPI inflows likely to witness a turnaround due to recent measures by the RBI, specially in the debt segment

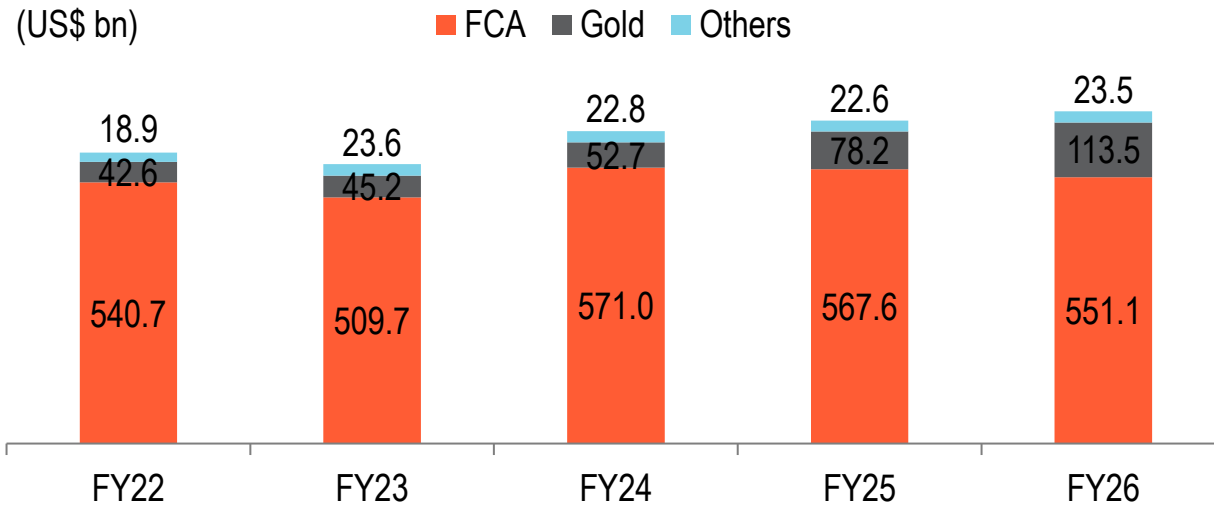
## Gross FDI inflows have improved..



- The quantum of investible resources will hold clue to FDI flows.
- Gross flows will remain steady at around US\$ 80-90 bn.
  - Question is on repatriation, which has been high due to funds either booking profit or looking for investing in other markets.

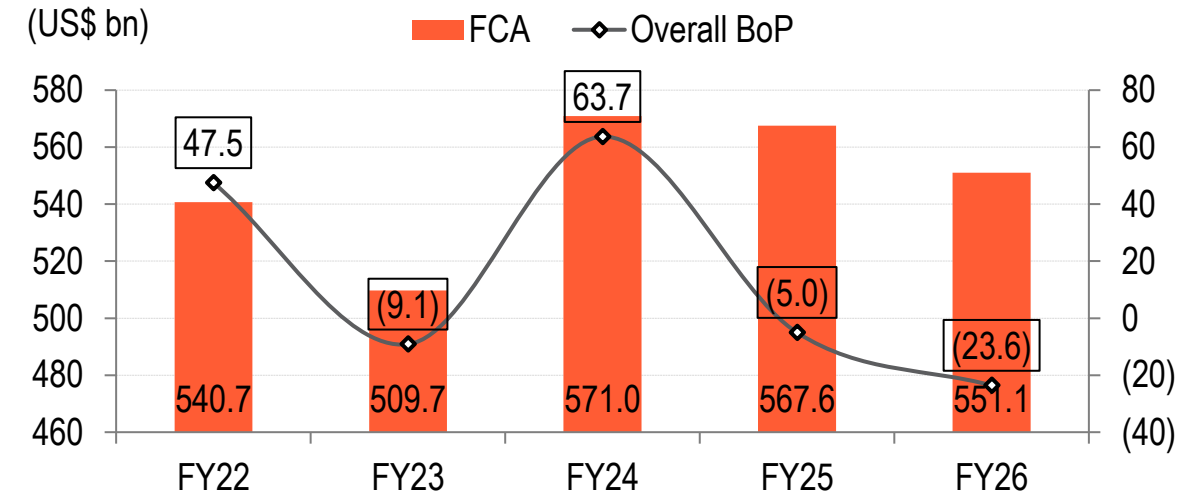
Foreign inflows (FII+FDI) form the bulk of India's capital account surplus.

## India has strong external buffers..



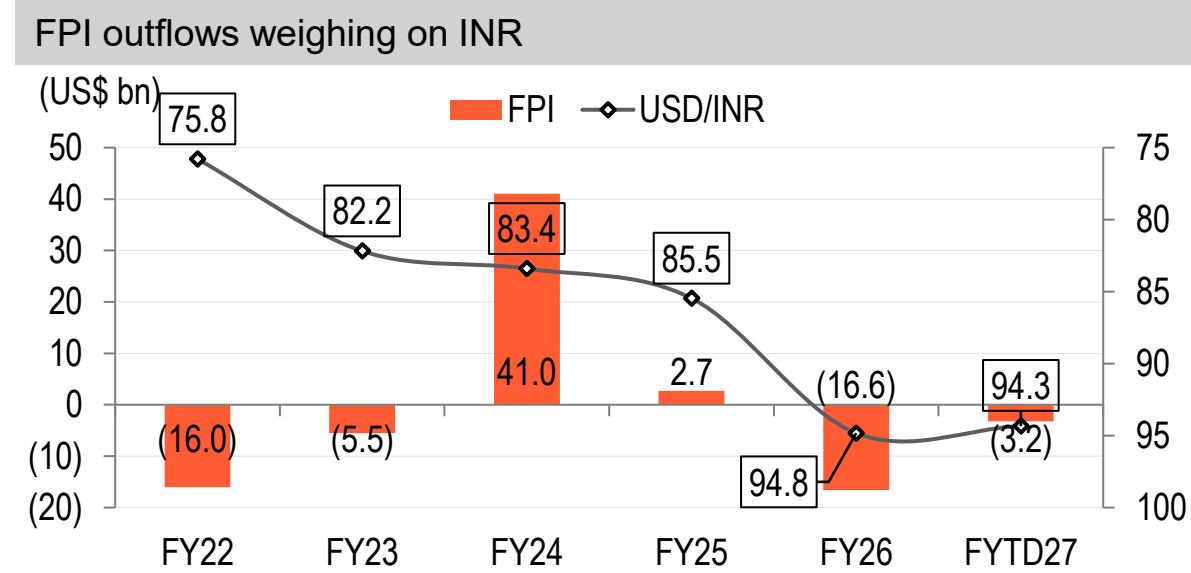
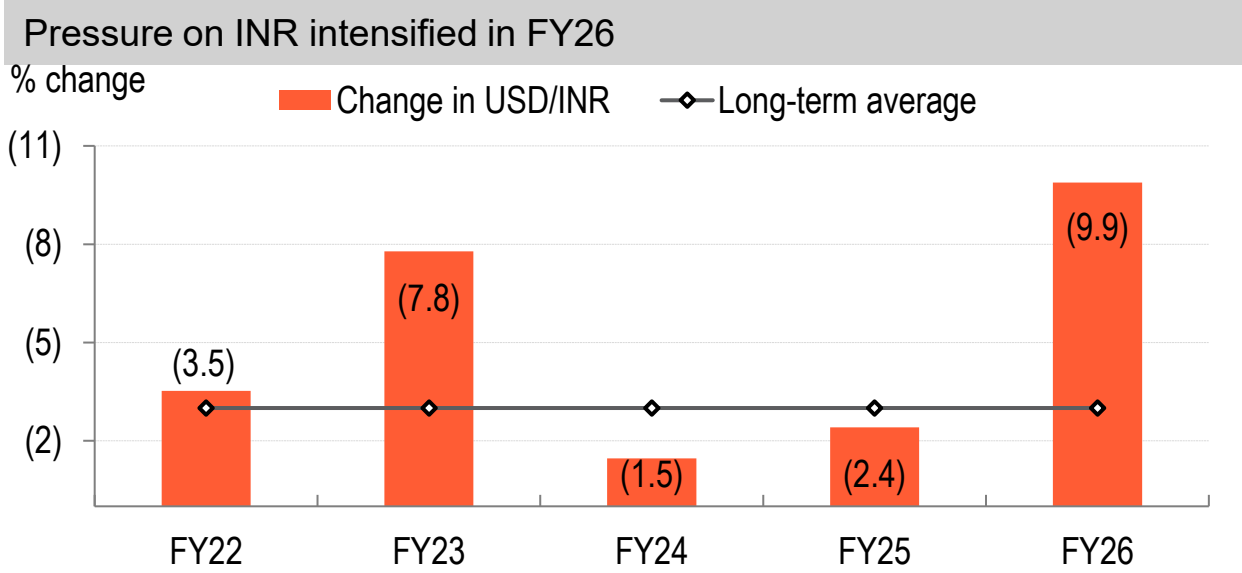
Source: CEIC

## BoP surplus likely in FY27



- Share of gold in India's foreign exchange reserves has more than doubled from 7% in FY22 to 16% in FY26 (valuation effect).
- Foreign currency assets (FCA) have declined due to higher CAD and lower capital account surplus
- Recent measures by RBI and government likely to attract NRI deposits, ECB inflows and debt inflows of around US\$ 40-50bn.
  - FCNR(B) will be operational till 30 Sep with tenors of 3 & 5 years.
  - ECB swap will be open till 15 Jan 2027.
- We expect a sum of \$ 50-60 bn to be added on FPI, NRI and ECB measures

India's forex reserves can comfortably cover ~ 11 months of imports.



Source: Bloomberg | Note: FYTD27: Data upto 19 Jun 2026

- INR depreciated in FY26 due to persistent FPI outflows.
- Geo-political tensions also weighed on INR.
- Improvement in capital inflows due to recent measures by the RBI should support INR.
- We expect USD/INR to trade between 94-96/\$ in the near-term.

| Indicators                                | FY26 | Forecast, FY27 | Risks                        |
|---|------|----------------|------------------------------|
| <b>GDP (% YoY)</b>                        | 7.7  | 6.4-6.6        | Upside (recent developments) |
| <b>CPI (% YoY)</b>                        | 2.1  | 5.0-5.2        | Upside (risk of El Nino)     |
| <b>WPI (% YoY)</b>                        | 3.2  | 7-8            | Upside                       |
| <b>Current account deficit (% of GDP)</b> | 1.0* | 1.8-2.0        | Upside                       |
| <b>Fiscal deficit (% of GDP)</b>          | 4.4  | 4.7-4.8        | Upside                       |
| <b>Credit (% YoY)</b>                     | 16.1 | 11.0-13.0      | Neutral                      |
| <b>Deposits (% YoY)</b>                   | 13.5 | 10.0-12.0      | Neutral                      |
| <b>Repo rate (%)</b>                      | 5.25 | 5.25-5.50      | Upside                       |

Source: CEIC, RBI, Union Budget, Bank of Baroda Research

## Economic Research team

### Authors:

|                    |           |
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Thank you

