

Economy Has Weathered the West Asia Shock. Now, Reform for Sustained Growth

Editorial Analysis | Takshasheela School of Civil Services By Puja Kakati (Senior Faculty, APSC/UPSC | 3-time APSC viva panel member | 10 years' experience as a mentor)

Why the West Asia Conflict Was a Major Threat to India

West Asia occupies an outsized place in India's economic calculus. The region supplies a large share of India's crude oil and gas, and it is deeply linked to the Indian economy through trade, remittances, and investment. When conflict erupted in the region, this dependence became India's single biggest point of vulnerability, and the risk travelled through three distinct channels.

First, the conflict pushed oil prices upward, which raised India's import bill, stoked inflation, and widened the current account deficit. Second, disruptions to regional supply chains raised input and transport costs across sectors, putting pressure on overall growth. Third, the resulting geopolitical uncertainty triggered capital outflows, which weakened the rupee.

Together, these three channels — an energy shock, a supply-side shock, and a currency shock — meant that a conflict thousands of kilometres away had the potential to derail India's growth story at home.

How India Weathered the Shock

The Indian economy has, so far, absorbed this shock more comfortably than many observers expected. The editorial attributes this resilience to three deliberate policy responses.

A Coordinated Fiscal-Monetary-Regulatory Stimulus

Well before the crisis peaked, policymakers had already put in place a coordinated stimulus through 2025. This included direct tax cuts in February, GST rationalisation in September, an effective 150 basis point reduction in policy interest rates, and regulatory easing in the financial sector.

This combination is a textbook case of counter-cyclical macroeconomic policy — using fiscal and monetary levers together to support aggregate demand rather than working at cross purposes. Lower tax rates raised disposable income and, with it, consumption. Lower interest rates reduced the cost of borrowing, which supported both credit demand and investment. Regulatory easing improved overall financial conditions. The net effect was that the domestic economy entered the West Asia crisis with considerably more momentum than it otherwise would have had.

Swift Diversification of Energy Imports

India also acted quickly to reduce its exposure to a single volatile source of energy. According to the editorial, India imported roughly 17 percent more energy than usual in the previous quarter specifically to guard against domestic shortages, drawing on crude oil from Russia and LNG from both the United States and Oman.

Alongside this diversification, the government chose to absorb a significant part of the oil price shock itself, rather than passing the full burden on to households and businesses through higher retail fuel prices. This fiscal absorption protected private consumption and industrial production in the short run, but it came at the cost of added pressure on the fiscal deficit — a trade-off that is likely to matter in future budget cycles.

Together, these measures prevented fuel shortages, industrial disruption, severe energy rationing, and what could otherwise have been a major supply-side shock to the economy.

Acceleration in Non-Oil Exports

A third, more encouraging development has been the acceleration of India's non-oil exports. The editorial links this to a nearly 15 percent depreciation in the real effective exchange rate (REER) since 2025, alongside a reduction in US tariffs and generally resilient global growth.

The logic here is straightforward: a weaker rupee makes Indian goods cheaper for foreign buyers, which improves export competitiveness. If a product priced at Rs. 900 is worth roughly \$11 when the exchange rate is Rs. 80 to the dollar, the same product becomes cheaper, at about \$10, when the rupee slides to Rs. 90 to the dollar — making it more attractive in international markets. But this is a double-edged tool: the same depreciation that helps exporters also makes imports, including oil, more expensive. A weaker currency is therefore not an unqualified good; it manages one problem while aggravating another.

The Underlying Numbers — and the Warning Attached to Them

GDP growth for the previous quarter is estimated at around 8 percent, a figure that looks strong given how severely the conflict was expected to affect growth. Automobile sales, credit growth, exports, and corporate earnings have all shown resilience, reinforcing the picture of an economy that has held up well under pressure.

But the editorial is careful to attach a warning to this good news: the present recovery should not be mistaken for permanent structural strength. Much of the recent growth has been driven by tax cuts, GST rationalisation, interest rate cuts, regulatory easing, strong credit growth, currency depreciation, and other forms of temporary policy support. These are, by their nature, cyclical factors. Once their effect fades, India's growth trajectory will depend on deeper, structural fundamentals rather than on the policy support that cushioned this particular shock.

Cyclical Recovery versus Structural Growth

This distinction between cyclical and structural growth sits at the heart of the editorial's argument, and it is a useful framework for any answer on India's growth story.

Cyclical growth results from temporary factors — fiscal stimulus, monetary easing, credit expansion, tax reductions, and favourable exchange-rate movements. It can lift GDP figures quickly, but it does not, by itself, change the economy's underlying productive capacity.

Structural growth, by contrast, is generated by long-term improvements in productivity, employment, human capital, private investment, infrastructure, export competitiveness, and institutions. It is slower to build but far more durable once achieved.

High GDP growth today, in other words, does not automatically guarantee high sustainable growth tomorrow. The gap between the two is precisely where reform needs to do its work.

The Way Ahead

The editorial draws a sharp contrast between two possible paths for India's consumption-led growth model.

A **sustainable** model runs through productive employment: higher employment leads to higher household income, which supports genuine consumption growth, which in turn gives businesses the demand visibility needed to justify new private investment. This is a virtuous cycle in which growth reinforces itself through real income gains.

An **unsustainable** model, by contrast, runs through easy credit: cheap borrowing fuels higher consumption even without a corresponding rise in income, leading to rising household debt and, eventually, financial vulnerability.

The editorial's central message is that India's employment challenge is therefore not a side issue — it is central to whether the country's current growth phase evolves into lasting, structural prosperity or remains a temporary, policy-supported bounce.

Practice Questions

Prelims MCQ

Consider the following statements regarding India's economic resilience to the West Asia shock:

Diversification of energy imports was one factor that helped India manage the crisis.

The recent growth acceleration was driven entirely by structural improvements in private investment.

Depreciation in the real effective exchange rate can improve export competitiveness.

Fiscal absorption of an oil price shock can protect consumers but may increase fiscal pressure.

Which of the statements given above are correct?

(a) 1, 2 and 3 only (b) 1, 3 and 4 only (c) 2, 3 and 4 only (d) 1, 2, 3 and 4

Answer: (b) 1, 3 and 4 only. Statement 2 is incorrect because the editorial argues that the recent growth pick-up is substantially cyclical rather than structural.

Mains Question

"India's resilience to external shocks should not be confused with the achievement of sustainable economic growth." Discuss in the context of the recent West Asia crisis. (GS-3, 250 words)

Takshasheela School of Civil Services — APSC | UPSC | ADRE