GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

RAJYA SABHA
UNSTARRED QUESTION NO. 1046
TO BE ANSWERED ON 28.07.2026

IMPACT OF WEST ASIA CONFLICT ON INDIAN ECONOMY

1046 Shri S.R. Sivalingam:

Will the Minister of Finance be pleased to state:

(a) the impact of the ongoing West Asia conflict on the country's economy, particularly in terms of pressure on the Rupee, rising import costs and effects on industrial and corporate sectors;
(b) the details of measures undertaken by Government in coordination with the Reserve Bank of India for stabilising the rupee, managing external risks and mitigating adverse effects on businesses and trade; and
(c) the progress made in strengthening economic resilience, maintaining financial stability and addressing challenges arising from global geopolitical uncertainties?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) As a major player in global markets, India's economy is also linked with international trends, which impact its exchange rate movements. Since the start of the West Asia conflict, the Indian Rupee (INR) has depreciated against the US Dollar (USD) by 5.8 per cent in FY 2026-27 (from 27 February up to July 22, 2026).

At present, the macroeconomic fundamentals of the Indian economy remain strong. Real GDP has consistently grown at over 7 per cent during the last three years. Economic growth continues to be supported by robust domestic demand, healthy corporate balance sheets and prudent fiscal management. The high-frequency indicators for the first quarter of 2026-27 also point to sustained momentum in economic activity and domestic demand, indicating the continued resilience of the Indian economy. The Index of Industrial Production (IIP) recorded a growth rate of 4.9 per cent year-on-year (YoY) in April 2026 and 5.1 per cent YoY in May 2026, indicating continued investment-led industrial growth despite heightened global uncertainty.

The industries reliant on imported inputs may face cost pressures. Thus, to support stability, the Government is easing import-led inflation through duty adjustments, expanding MSME credit, ensuring affordable financing, attracting long-term FDI, promoting trade facilitation and digital platforms, and advancing free trade agreements.

(b) The value of the INR is market-determined, with no target or specific level or band. The Reserve Bank of India (RBI) regularly monitors the foreign exchange market and intervenes in situations of excess volatility. Further, the RBI monitors key developments across the globe which may have an impact on the USD-INR exchange rate.

The RBI has undertaken several measures to boost forex inflows, which in turn may ease the depreciation pressure on INR. These include liberalisation of the External Commercial Borrowing framework in February 2026, expansion of the Fully Accessible Route for Government securities, liberalisation of the foreign portfolio investment framework, enhanced investment limits for Non-Resident Indians and Overseas Citizens of India, introduction of swap facilities for FCNR(B) deposits, external commercial borrowings by Public Sector Units, and overseas borrowings by Authorised Dealer (AD) banks, and restoration of the export realisation period to nine months. In addition, Memoranda of Understanding on Local Currency Arrangements have been signed with the UAE, Indonesia, Maldives and Mauritius.

The Government has also undertaken a series of measures to provide a conducive environment for business and trade, including expanding market access, trade facilitation reforms, customs modernisation, digitalisation of trade processes, and deeper integration into global value chains. The country has also extensively expanded its network of Free Trade Agreements, providing greater certainty and diversified market access for Indian businesses.

In May 2026, the Government approved the Emergency Credit Line Guarantee Scheme (ECLGS) 5.0, aimed at facilitating an additional credit flow of ₹2.55 lakh crore to businesses affected by the conflict-induced disruptions. The scheme provides 100 per cent guarantee coverage for MSMEs and 90 per cent coverage for non-MSMEs and airlines, without any guarantee fees.

(c) As stated in (a), the macroeconomic fundamentals of the Indian economy remain strong, supported by robust domestic demand, healthy corporate balance sheets and sustained fiscal discipline. Further, according to the RBI's *Financial Stability Report (June 2026)*, the domestic financial system remains resilient, underpinned by strong bank and non-bank balance sheets.

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