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IN PERSPECTIVE

US–Iran deal and India's recovery

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After prolonged negotiations, a peace agreement aimed at restoring stability in West Asia was reached last week. The US and Iran formally signed the agreement in Versailles in France on June 18, ending the war. The key features include a 60-day temporary ceasefire and the immediate reopening of the Strait of Hormuz for commercial shipping, which has sharply reduced global crude oil prices. As soon as the official announcement was made, Brent crude oil prices fell, reaching as low as $78 per barrel – down fron June 18 from the May's peak of $117 .

This sudden fall in energy prices has injected a new optimism into India's overall economy, while simultaneously creating a peculiar situation where we must confront challenges caused by weather forecast of a likely monsoon deficit. Thanks to this global geopolitical relief, India's stock market strengthened continuously over the past four days. Lower crude prices are expected to reduce production costs for aviation and logistics companies, pushing up the Sensex and Nifty indices. India's foreign trade sector has also gained significant relief. With oil import costs dropping, demand for U.S. dollars also decreased, strengthening the Indian rupee from ₹96/$ to ₹94.6/$. This has helped safeguard foreign exchange reserves, reduce import costs, and strengthen India's external sector.

Domestic price indicators still pose challenges.

Data on June 13, showed the nation that India's Consumer Price Index (CPI) Inflation was at a moderate 3.93%, below the target of 4%, well below of the comfort range (4%+ 2%) . However, the revised Wholesale Price Inflation (WPI) in May stood at 8.26%. Meanwhile, the newly introduced Producer Price Index (PPI) inflation stood at a high 9.38%. in May. These producer-level price pressures could spill over into consumer markets in the coming months, signaling that inflationary pressures remain despite lower global crude prices. Future economic forecasts largely depend on the benefits of this crude oil price fall. However, these optimistic projections hinge entirely on how long the two-month ceasefire holds. If the U.S. and Iran fail to reach a permanent peace agreement, crude oil prices could surge back toward $100 per barrel. In that case, India’s current gains in stock markets and currency value could vanish overnight, pushing the economy back into severe inflationary stress.

On June 20, in response to Israeli strikes in Lebanon, Iran declared the Strait of Hormuz shut. This shows the fragile nature of the agreement,

Monsoon Deficit

India’s most pressing short-term challenge is the 35% monsoon deficit. Poor rainfall threatens agricultural output, raising food prices sharply. Reduced farm production weakens rural purchasing power, thereby raising lowering overall industrial demand. Exports of key crops like rice and sugar could decline, cutting export revenues and widening the balance of payments deficit. Rising drought relief and rural employment program costs would also strain government finances. To manage this crisis, the government and Reserve Bank of India must act in coordination. The RBI should not only focus on consumer inflation but also consider PPI data when shaping interest rate policies.

In this context, it is of interest to know the U.S. Federal Reserve’s June 17 decision to keep interest rates unchanged at 3.5%–3.75%. Despite the peace agreement lowering global inflation, geopolitical instability, trade disputes, and domestic inflation, the Fed pays attention to the risks preventing aggressive rate cuts., carefully balancing inflation risks against recessionary pressures. India must adjust trade policies to ensure smooth distribution of essential food items. Savings from lower crude import costs should be redirected into special financial packages for drought-affected rural economies to sustain demand.

Strong foreign exchange reserves at $671.63 billion for the week ended June 12, 2026, provide an adequate import cover of approximately 11 months of imports along with a healthy GDP growth rate. It is 6.6% this fiscal year, though below the 6.9% forecast in April.

The global crude oil savings from the U.S.–Iran peace agreement are a boon for India’s economy, but the domestic monsoon deficit is a major obstacle that reduces these benefits. In this tug-of-war between international advantages and domestic challenges, the monsoon’s impact often outweighs. Oil powers a nation’s machines, but rain feeds its people. Understanding this duality and channeling oil import savings into drought management is the path toward sustainable economic growth.

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