The West Asia War: Elusive Peace and India's Domestic Challenge—Growth with Price Stability

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The month of June 2026 produced three striking headlines in business and economics, which may be ranked in reverse order of the famous spaghetti western: the Ugly, the Bad, and the Good.

The Ugly: A False Gold Sale Report

On June 2, Bloomberg Business carried a report by Abhishek Gupta claiming that the Reserve Bank of India (RBI) had sold US$12 billion worth of gold overseas to bolster foreign exchange reserves. The claim was speculative, based on declining reserves and unsupported by any official data. The very next day, the RBI categorically denied that any gold had been sold. On June 3, Bloomberg issued a correction. Jeanette Rodrigues acknowledged that Gupta had "erroneously used same-day domestic gold prices to value RBI's gold reserves." When valued using the London Bullion Market Association's benchmark prices, the RBI's gold holdings remained unchanged at 880.52 metric tonnes.

Although the report was corrected, the damage had already been done. The false claim suggested financial desperation, triggered political controversy, and unsettled markets. Opposition leaders seized the "golden opportunity," indirectly invoking memories of 1991, when Prime Minister P.V. Narasimha Rao and Finance Minister Dr. Manmohan Singh pledged 47 tonnes of gold to the Bank of England and the Union Bank of Switzerland to avert a balance-of-payments crisis.

That decision, culturally humiliating and often likened to pawning a bride's Stri Dhan, ultimately restored international confidence, unlocked IMF assistance, and paved the way for India's economic liberalisation.

The lesson of 1991 was that transparency and decisive action can restore financial stability. The lesson of 2026 is different: even minor methodological errors in reserve valuation can rapidly snowball into "fake news" with significant economic and political consequences.

The Bad: CPI–WPI Divergence Anxiety

The second headline concerned inflation. In early June, sections of the media highlighted a divergence between Consumer Price Index (CPI) inflation and Wholesale Price Index (WPI) inflation. Concerns mounted until the release of official May inflation data on June 13, which showed that the

TABLE – Some Key Inflation Indicators 2026 : January 2026 to June 2026

Year 2026 Month	CPI based Inflation (YonY)%	Core Inflation (YonY)%	WPI Inflation (YonY)%	PPI Inflation (YonY)%	Brent crude Price US$/barrel	Petrol Price in Mumbai Rs/liter	Diesel price in Mumbai Rs/liter	Exchange Rate of US Dollar Rs/$	Notes
January	2.74	3.4	1.85	1.38	64.6	103.54	90.03	90.79	Baseline Before West Asia War, Market Stability, Retail prices holding steady.
February	3.21	3.4	2.18	2.28	69.4	103.54	90.03	90.74	Subdued International crude prices Zero domestic retail price movemen
March	3.4	3.7	3.98	4.17	99.4	103.54	90.03	92.98	Crude Price rises. Oil marketing companies (OMCs) asked to bear losses
April	3.48	3.7	8.26	8.06	114.3	103.54	90.03	93.79	Hormuz straits closed. Crude price surged. The government froze retail rates
May	3.93	3.8	9.68	9.38	117.4	111.18	97.83	95.45	Price shocks all around Retail fuel prices rose by Rs 7 .50 / litre. Mumbai petrol price leaping by mid May Prices plateaued at their new highs after May 25.
June	TBA	TBA	TBA	TBA	72.91 as on June 29, 2026	111.21 as on June 29, 2026	97.83 as on June 29, 2026	94.54 as on June 29, 2026	Global crude price has cooled

TBA : To be Announced by mid July 2026

two indices were broadly aligned. CPI inflation moderated to 3.93%, comfortably within the RBI's target range of 2–6%, while WPI inflation remained elevated but stabilised as fuel-driven pressures began to ease.

Analysts emphasised that CPI remains the RBI's principal policy anchor, whereas WPI often reflects temporary supply-side shocks.

This episode recalled developments in 2023, when CPI and WPI inflation diverged sharply. At that time, CPI inflation remained above 6% due to rising food and services costs, while WPI inflation fell to multi-year lows as global energy and metal prices declined. Households experienced rising living costs even as producers benefited from lower input prices.

By mid-2023, vegetable price shocks—particularly in tomatoes, onions, and potatoes (the well-known "TOP" basket)—pushed CPI inflation higher, while WPI continued to soften. Dr. S.K. Ghosh of SBI noted that food carries a weight of nearly 40% in the CPI basket, compared with only about 15% in the WPI basket, explaining much of the divergence.

In 2026, however, the divergence proved short-lived. CPI stability reassured policymakers, while WPI volatility was largely attributed to tensions in West Asia and associated fuel price spikes. Retail fuel price controls helped contain CPI volatility, and by mid-June attention had shifted to the RBI's repo rate policy and foreign exchange reserve management.

The Good: The End of the West Asia War

The third headline was the most welcome and rightly deserves to be ranked as the good news of the month. On June 18, the United States and Iran formally signed an agreement in Versailles, France, bringing active hostilities in West Asia to an end. The key provisions included a 60-day ceasefire and the immediate reopening of the Strait of Hormuz to commercial shipping.

The agreement sharply reduced global crude oil prices. Following the announcement, Brent crude fell to around US$78 per barrel from its May peak of US$117.

The sudden decline in energy prices injected fresh optimism into the Indian economy, although it coincided with concerns over a likely monsoon deficit. Nevertheless, geopolitical relief strengthened Indian financial markets over the following days. Lower crude prices reduced production costs for sectors such as aviation and logistics, boosting investor sentiment and lifting both the Sensex and Nifty indices.

India's external sector also benefited. Cheaper oil imports reduced demand for US dollars, strengthening the rupee from ₹96 per dollar to ₹94.6 per dollar. This helped preserve foreign exchange reserves, lower import costs, and improve overall external-sector stability.

Yet domestic price indicators remain a cause for concern. Mid-June data introducing the new Producer Price Index (PPI), which is expected to replace the WPI, showed producer inflation running at 9.38% in May. The WPI stood at 8.26% while CPI inflation was 3.93%, marginally below the RBI's 4% target.

These producer-level price pressures may eventually spill over into consumer markets, suggesting that inflationary risks persist despite lower oil prices. Future economic prospects depend significantly on the durability of the ceasefire. If the United States and Iran fail to reach a permanent peace settlement, crude oil prices could quickly return to US$100 per barrel or higher, erasing many of India's recent gains in financial markets and currency stability.

A Costly Omission

Israel's exclusion from the June 18 agreement soon proved costly. On June 20, following Israeli strikes in Lebanon, Iran declared the Strait of Hormuz closed, exposing the fragility of the arrangement. Intense diplomatic efforts followed, and on June 26 Israel was incorporated into a revised agreement, positioning it as a partner in the peace process.

President Donald Trump, reportedly eager to secure at least one nomination for the Nobel Peace Prize before the December 2026 nomination cycle closed for the 2027 award, strongly backed this revised and supposedly more durable agreement.

However, repeated violations by Israel have undermined both the June 18 and June 26 accords. By late June, the ceasefire had effectively collapsed. American diplomats continue searching for what they describe as the "best possible agreement," though the effort increasingly resembles the old saying about "three blind men in a dark room searching for a black cat that has already escaped."

Conclusion

On the domestic front, India's policymakers—particularly those at the RBI and the Ministry of Finance—face a difficult balancing act. They must contend with the prospect of a monsoon deficit associated with the El Niño phenomenon, rising producer-price pressures, and uncertainty surrounding the fragile West Asian ceasefire.

The policy challenge is clear: to deploy well-coordinated monetary and fiscal measures that can sustain economic growth while preserving price stability Achieving this balance will be crucial to ensuring that external geopolitical gains are not offset by domestic inflationary pressures. ■

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