

# 'FY26 GDP growth forecast may take 20-30 bps hit'

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Global research firms anticipated a 20-30 basis point hit to India's growth numbers following the US' decision to impose a 25 per cent tariff, plus a penalty, on the country.

Nomura, in a note, had assumed a baseline reciprocal tariff of 10 per cent on India. Thus, if tariffs remain at 25 per cent, it would adversely affect GDP (Gross Domestic Product) growth by hurting exports to the US, eroding any benefits from trade diversion, impacting profit margins, reducing investments, and potentially leading to job losses for MSMEs.

"We maintain our FY26 GDP growth forecast at 6.2 per cent year-on-year, but flag a downside risk of 0.2 percentage points in case the tariffs get entrenched at these levels," the note said.

## GDP PROJECTION

On July 29, the International Monetary Fund (IMF) had upped India's GDP forecast for FY26 by 20 basis points to

## Where India stands in the tariff war

	Pre-Liberation Day tariff rate (%)	Reciprocal tariff rate applied on April 2 (%)	Latest tariff rate (%) (Bold = renegotiated)	Share of US in total exports (%), 2024	Trade balance with US (\$ bn), 2024
Cambodia	8.0	49	36	37.2	12
Laos	3.1	48	40	0.7	1
Vietnam	4.6	46	20	29.5	123
Bangladesh	10.5	37	35	17.6	6
Thailand	0.9	36	36	18.3	46
China	33.0	34	42	14.6	295
Indonesia	4.1	32	19	9.9	18
India	3.0	26	25	18.2	46
South Korea	0.0	25	25	18.7	66
Malaysia	0.7	24	25	13.2	25
Japan	1.6	24	15	19.9	68
Philippines	1.4	17	19	16.5	5
Hong Kong	3.3	10	-	6.5	-22
Singapore	0.0	10	-	8.5	-3
Australia	0.5	10	-	4.6	-18

Note: Pre-Liberation Day tariff rates refer to US effective weighted average tariff rates on Asian countries, and are as of 2022 for all countries except China (where we use our latest estimates), Laos and Bangladesh (both as of 2021). Source: Nomura Global Economics

6.4 per cent, stating the revision reflected a more benign external environment than assumed in its April reference forecast. This IMF pro-

jection is lower than the RBI's forecast of 6.5 per cent, but falls within the 6.3-6.8 per cent growth range projected by the Economic Sur-

vey for the current fiscal. Another global firm, Barclays, said although 25 per cent tariffs on India are higher than those on its Emerging Mar-

ket Asian peers, Japan, and the EU, the Indian economy is relatively closed with domestic demand as the mainstay of growth.

"We do not see the 25 per cent announced tariff meaningfully impacting GDP growth, pegging the likely impact at 30bp," a note by Barclays said.

## FINAL TARIFFS

Barclays expects final tariffs on India to settle lower than the announced 25 per cent as India and the US continue with trade deal talks.

"As things stand, we estimate that the effective average US import tariff on Indian goods is at 20.6 per cent in trade-weighted terms. This is sharply higher than both the pre-liberation day tariff rate of 2.7 per cent and the 90-day pause tariff rate of 11.6 per cent. In contrast, India's import tariff on US goods is lower, at 11.6 per cent, in trade-weighted terms," it said.

Aditi Raman, Associate Economist at Moody's Analytics, noted that the Indian economy is relatively more domestically oriented than

most in the region and relies far less on trade.

"Pharmaceuticals, gems, and textiles are they key sectors that are likely to take a hit. A point of contention is market access to the key agricultural and dairy sector, which India has historically been reluctant to grant," she said.

## FISCAL SUPPORT

Radhika Rao, Senior Economist at DBS Bank, felt that downside risks are likely to be offset by fiscal support for labour-intensive industries and smaller exporting firms, besides further rate cuts. In the interim, authorities will seek fresh markets, with acceleration in trade agreements after the successful completion of the FTA with the UK in May (EU and New Zealand are under discussion).

"Despite limited tariff arbitrage, we are still of the view that the economy will continue to benefit from trade diversion flows as manufacturers diversify and de-risk from other production bases, including China," she said.