

Economists see downside risks to growth

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India faces downside risks to its growth prospects post the US' reciprocal tariff, economists have said. They also expect a deeper rate cut.

"We see downside risk of 30-60 bps to our growth estimate of 6.5 per cent for F26e," a Morgan Stanley report by Upasana Chachra, Chief India Economist, and Bani Gambhir, Economist, said. It said that in case of pronounced downside risks to growth, policy makers are likely to pause fiscal consolidation and increase capex spending to support domestic demand.

GLOBAL SLOWDOWN

Some economists feel that reciprocal tariffs for various countries could lead to a global slowdown, which will have a mixed impact. According to DK Srivastava, Chief Policy Advisor, EY India, this global slowdown may have a positive impact

on India due to a lowering of crude oil prices.

However, "there would be an adverse impact on India's export growth and, therefore, GDP growth, which may come down to 6 per cent as against the expectation of 6.5 per cent in 2025-26, if India does not respond with suitable policies to neutralise this adverse impact," he said.

Anubhuti Sahay, Head-India, Economics Research at Standard Chartered Bank, estimates that an effective 20 per cent tariff increase in India's exports to the US is likely to adversely impact India's GDP by 35-40 bps.

While no reciprocal tariffs on products like pharma and mineral fuels are positive for India, negotiations on higher proposed tariff on agriculture products need to be monitored. "We estimate maximum impact on the agriculture sector, given large tariff gaps and relatively higher value added for these products versus other products," Sahay said.

Now, all eyes are on the April 7 Monetary Policy Committee meet.

DEEP RATE CUT?

Most economic research reports see a deep rate cut in the MPC meet. A report by Barclays Research team said the higher-than-expected tariffs reinforce its view of three more rate cuts from the RBI to a terminal rate of 5.5 per cent.

"Ultimately, weaker global growth and the downside effects of US tariffs on exports — even if temporary — suggest that the RBI will likely remain on an easing track. "Growth and inflation outcomes being lower than the RBI's estimated trajectory mean that a rate cut at next week's meeting is likely a done deal," the report said.

Morgan Stanley's report concluded by saying that on the back of downside risks to growth, "we see risk of a deeper rate easing cycle, with additional rate cuts of 50-75 bps as RBI will likely need to support demand."