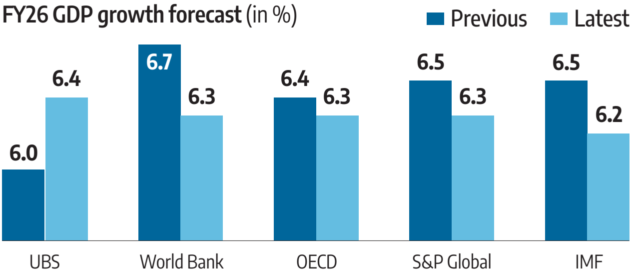
OECD cuts FY26 growth forecast to 6.3%, UBS raises it to 6.4%

Revised estimates

FY26 GDP growth forecast (in %)



Data as of June 3

Source: BS Research Bureau

SHIVA RAJORA
New Delhi, 3 June

In its latest outlook, the Organisation for Economic Co-operation and Development (OECD) on Tuesday lowered its 2025-26 (FY26) growth forecast for India by 10 basis points (bps) to 6.3 per cent, even as UBS Securities raised its forecast for the same financial year to 6.4 per cent from 6 per cent estimated earlier.

OECD expects that the risk of increased trade tensions, including the imposition of higher US tariffs on Indian exports, could dampen external demand and harm export-oriented sectors such as textiles, chemicals, and pharmaceuticals.

On the other hand, UBS expects no "significant" increase in the tariff rates against India and is hopeful of the US-India trade deal materialising soon.

However, both UBS and OECD expect private consumption to strengthen gradually and become broad-based. "Private consumption will gradually strengthen, driven by rising real incomes that are helped by moderate inflation, recent tax cuts, and a strengthening of the labour market. Investment will be supported by declining interest rates, and substantial public capital spending, but higher US tariffs will weigh on exports," it said.

Besides, OECD also lowered its FY27 growth outlook for India by 20 bps to 6.4 per cent.

"Better-than-expected domestic demand momentum (is foreseen), building on a climbdown of tariffs on Chinese imports, hopes of a likely US-India trade deal materialising (sooner than later), and the tailwind of sustained lower global crude oil prices along with pickup in household consumption growth as rural consumption gathers pace (on hopes of a favourable monsoon, and lower food prices) and urban demand improves on policy stimulus (income tax relief), softening inflation (supporting discretionary spending), and rate cuts," the UBS note said.

OECD, the 38-member grouping of developed nations, also cautioned against a less benign monsoon that would reduce agricultural output and rural incomes, thus pushing up food prices, and weighing on gross domestic product (GDP). It was also hopeful of one more rate cut of 25 bps by the Reserve Bank of India (RBI), over the 50 bps reduction the central bank has already delivered.

"Trade tensions may also discourage private investment in tradable sectors. Stronger-than-expected remittances and investment inflows, coupled with robust infrastructure implementation, could lift growth above current projections," the grouping noted.

UBS Securities also expected monetary policy to continue to do the heavy-lifting to support India's growth momentum. "Given softer inflation, we expect the RBI to cut rates by an additional 50-75 bps in this cycle," it noted.

However, OECD painted a gloomier picture for the global economy as global growth is projected to decline from 3.3 per cent to 2.9 per cent for 2025 and 2026, citing the impact of a widening trade war triggered by US President Donald Trump's tariff policies.