FY26 GDP growth may take 60-bp hit

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The US' move to raise the tariff on most Indian goods to 50 per cent could drag India's GDP growth for FY26 by 35 to 60 basis points, according to various economists. One basis point (bp) is equal to 0.01 per cent.

While domestic consumption may avert a huge blow to growth, experts feel that it would still be a setback for the economy and may require government intervention. "If 50 per cent tariff sticks then there could be an impact of 40 to 60 bps on our baseline forecast of 6.3 per cent," said Sakshi Gupta, principal economist, HDFC Bank.

Gupta said the impact would be contingent on a number of factors, including final tariff on China, pace of rupee depreciation and recovery in the domestic economy itself.

Analysis by Morgan Stanley Research estimates that if all goods exports are subject to a 50 per cent tariff rate, the direct impact on growth is likely to be 60bps. The indirect impact, it said, could be of a similar magnitude, over a period of 12 months.

"However, if downside risks persist, we anticipate policy support to step up to bolster domestic growth conditions," Morgan Stanley report said. In FY25, India's total exports to the US stood at US$86.5bn which is 2.2 per cent of the GDP.

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Tariff impact

Drag on growth estimated by economists

UBS	35 bps
Bank of Baroda	40 bps
HDFC Bank	50 bps
Goldman Sachs (for CY26)	60 bps

While several economists are hopeful that the tariff announcement is not tenable and there could be a settlement between the two countries in the 21-days window, given the current situation the GDP growth would take some hit.

"We should look at the impact the tariffs could have on nominal GDP growth since it is important for corporate revenue growth, credit demand and fiscal accounting.

The CAD could also widen by 50 bps from our current estimate of 0.8 per cent of GDP for FY26 if current 50 per cent trade tariffs stay, but capital flows are what will matter more from a currency point of view," Tanvee Gupta Jain, Chief India Economist, UBS Securities India said. UBS Securities has so far kept its forecast for FY26 unchanged at 6.4 per cent. Gupta said in FY26 there could be a downside impact of 35 bps to GDP growth and 60 bps in FY27.

"In the worst case there would be a negative impact of 40 basis points for the GDP growth this financial year, if there is no deal and no package for exporters," said Madan Sabnavis, chief economist, Bank of Baroda.

With several factors at play, economists feel how the global growth pans out would also play a role in India's GDP growth. "This is a high impact situation with a low probability," said Vivek Kumar, economist, QuantEco Research.

A report by Goldman Sachs estimated that if the new additional duty is enforced, then that would constitute a potential drag of 0.6 percentage points to India's calendar year GDP growth.

"We see downside risks to our growth estimates for both CY25 and CY26, but are not making any changes to our growth forecasts at the moment, given that there is a three-week window for negotiations until the new incremental tariffs come into effect," the Goldman Sachs report said.

A report by Emkay Strategy said that the additional 25 per cent tariff would decimate Indian exporters to the US and bring exports to the US to a near-complete halt, with second-order hits on employment-heavy sectors like textiles and jewellery.