

World Bank ups India's FY26 GDP growth forecast to 6.5%

Lowers FY27 projection citing US tariffs imposed on three quarters of goods exports

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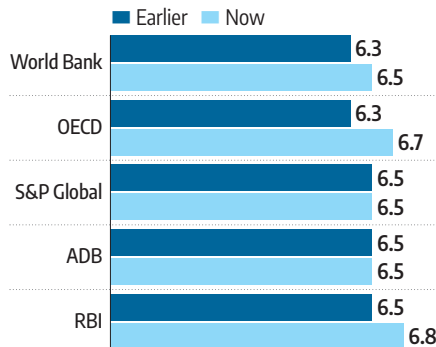
The World Bank on Tuesday raised India's FY26 gross domestic product (GDP) growth forecast to 6.5 per cent from 6.3 per cent in June and revised downwards the growth forecast for FY27 by 20 basis points (bps) to 6.3 per cent owing to the higher than expected tariffs imposed on India's exports by US President Donald Trump.

India, however, is expected to remain the world's fastest-growing major economy, underpinned by continued strength in consumption growth, the World Bank said in its South Asia Outlook. "The government's reforms to the goods and services tax (GST) — reducing the number of tax brackets and simplifying compliance — are expected to support activity... Forecast for FY27 has been downgraded, however, as a result of the imposition of a 50 per cent tariff on about three-quarters of India's goods exports to the United States," the report said.

It said domestic conditions, particularly agricultural output and rural wage growth, have been better than expected.

Growth expectations

FY26 projections (in %)



Source: BS Research

The Bank has forecast the growth for South Asia to reach 6.6 per cent in 2025 but may slow down to 5.8 per cent in 2026, partly due to US tariffs on India.

"If there is any improvement in India's access to foreign markets, including a cut in tar-

iffs, it would be beneficial for growth," said Franziska Ohnsorge, World Bank Chief Economist for South Asia during a press briefing.

The report noted that almost one-fifth of India's goods exports went to the US in 2024, equivalent to about 2 per cent of GDP.

Highlighting India's robust investment growth, supported by public infrastructure projects, strong credit growth, and loosening monetary policy, the World Bank report said, "Strong rural wage growth has offset slowdowns in urban consumption, as seen in weakness in car sales and personal credit." The World Bank also said that India is expected to be the world's fastest-growing source of energy demand in the medium term. It would surpass China to become the single largest source of energy demand by 2050.

The Bank said real GDP growth in the April-June quarter exceeded expectations, accelerating to 7.8 per cent. Talking about trade reforms, the report said that past trade reforms initiated periods of faster employment growth in countries like Bangladesh and Sri Lanka. But they had limited and uncertain impact on aggregate employment in India.