

ADB lowers GDP growth forecast for FY26 to 6.7%

Says global uncertainty may affect investments in India; Moody's sees country benefitting from trade diversions

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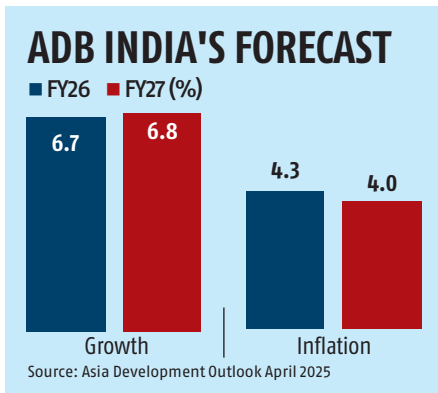
The Asian Development Bank (ADB) has revised downwards India's GDP growth forecast for the financial year 2025-26 (FY26) to 6.7 per cent from the earlier 7 per cent in its April 2025 latest outlook report.

"A major risk arises from US tariff levies on India's and other countries' exports, which could reduce trade and investment flows and potentially create volatility in the domestic financial market," the report said. Global economic uncertainty may also affect completion of investment projects in India, ADB said in its report. However, ADB in its report highlighted that these risks could potentially be mitigated by a trade agreement between India and US, which is being negotiated and the fact that India's merchandise exports to the US account for a relatively low 2 per cent of GDP. Favourable monetary and fiscal policies, rising rural incomes, and moderating inflation would support India's growth, ADB said.

The growth for the financial year 2026-27 has been projected at 6.8 per cent in the report.

Addressing food inflation with extreme weather events would be a challenge for India, which ADB said could impose risks on agricultural outlook. "A structural mismatch between demand and supply trends could give rise to higher food inflation and raise inflationary expectations unless policies are implemented to build resilience into the food supply chain," the ADB report said.

Meanwhile, Moody's Ratings said that the newly announced tariffs are likely to upend global trade dynamics. While the new tariffs will hurt the 'China+1' strategy, the ratings agency said that Asia Pacific economies may be incentivised to deepen trade and investment ties intra-regionally. India, it said, may benefit from some trade diversion activity and companies seeking to access large markets while



keeping operating costs reasonable. The latter, it said, would only happen over a number of years.

Tariffs cast a shadow on growth prospects

Aggressive US tariffs, which could escalate into a full-blown trade war, pose a significant threat to growth prospects, the report said. "Full implementation of the April 2 US tariffs, as well as retaliatory measures by US trading partners, would negatively affect the US outlook, but also reduce growth and inflation in the PRC and other regional economies," the ADB report said. The economies in developing Asia and the Pacific are projected to grow 4.9 per cent this year, down from 5 per cent last year.

The growth forecasts, ADB said, were finalised prior to the April 2 announcement of new tariffs by the US administration. The forecasts are likely to be lowered further by ADB in its July report. "Rising tariffs, uncertainties about US policy, and the possibility of escalating geopolitical tensions are significant challenges to the outlook. Asian economies should retain their commitment to open trade and investment, which have supported the region's growth and resilience," ADB Chief Economist Albert Park said.