India well positioned to deal with effects of US tariffs, trade disruptions: Moody’s

PRESS TRUST OF INDIA
New Delhi, 21 May

India is well-positioned to deal with the negative effects of US tariffs and global trade disruptions as domestic growth drivers and low dependence on exports anchor the economy, Moody’s Ratings said on Wednesday. The agency said India’s initiatives to boost private consumption, expand manufacturing capacity and increase infrastructure spending will help offset the weakening outlook for global demand.

Easing inflation offers the potential for interest rate cuts to further support the economy, even as the banking sector’s liquidity facilitates lending.

“India is better positioned than many other emerging markets to deal with US tariffs and global trade disruptions, helped by robust internal growth drivers, a sizeable domestic economy and a low dependence on goods trade,” Moody's said. Besides, the Pakistan-India tensions, including the flare-up earlier in May, would weigh on Pakistan’s growth more than on India's growth.

“In a scenario of sustained escalation in localised tensions, we do not expect major disruptions to India's economic activity because it has minimal economic relations with Pakistan. Moreover, the parts of India that produce most of its agricultural and industrial output are geographically distant from the conflict zones,” Moody’s said.

However, higher defence spending would potentially weigh on India’s fiscal strength and slow its fiscal consolidation. The central government’s infrastructure spending supports GDP growth, while personal income tax cuts bolster consumption.

India’s limited reliance on the trade of goods and its robust service sector are mitigants to US tariffs. Nonetheless, sectors such as autos, which have some exports to the US, face global trade challenges despite their diversified operations.