OECD ups India's FY26 growth forecast to 6.7%

Cites fiscal easing, GST reforms; expects global growth to soften in H2

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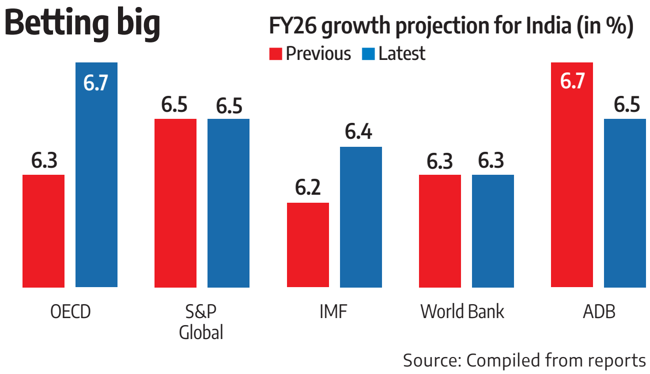

The Organisation for Economic Co-operation and Development (OECD) on Tuesday raised India's growth forecast for the current financial year (FY26) by 40 basis points (bps) to 6.7 per cent, citing monetary and fiscal easing along with goods and services tax (GST) cuts. However, it warned that higher tariff rates are expected to weigh on the export sector.

On the other hand, global credit rating agency S&P Global retained its FY26 growth forecast for India at 6.5 per cent as it expects domestic demand to remain strong. This outlook is supported by a largely favourable monsoon season, cuts in income tax and goods and services tax (GST), and accelerating government investment. "In India, higher tariff rates will weigh on the export sector, but overall activity is anticipated to be supported by monetary and fiscal policy easing, including GST reforms," the OECD said in its latest interim outlook. It was less optimistic about the next financial year, as it lowered the FY27 projection by 20 bps to 6.2 per cent.

On the global front, the OECD assessed that growth proved "more resilient" than expected in the first half of 2025, expanding 3.2 per cent — 30 bps higher than its June forecast. This was driven by front-loading of goods production and trade ahead of higher US tariff rates, with industrial production in most G20 economies outpacing 2024 levels.

"Strong investment in high-technology sectors also boosted activity in the US and Japan. Nonetheless, private consumption growth weakened in the US and in parts of the euro area, including France and Italy. Many emerging-market economies had upside growth surprises but in some cases this reflected idiosyncratic factors that are not expected to continue, such as a spike in Brazil's first quarter agriculture production and a steep fall in the growth of GDP deflator in the second quarter in India," it added.

Looking ahead, the OECD expects global growth to soften noticeably in the second half of the year as front-loaded activity fades and higher tariffs in the US and China dampen investment and trade. Heightened geopolitical and policy uncertainty will continue to weigh on domestic demand in many economies, it said.

On inflation, the OECD projected India's consumer prices to average 2.9 per cent in FY26, down from an earlier estimate of 4.1 per cent, and to remain close to 3 per cent in FY27. This is on account of a decline in food price inflation, "helped by strong domestic supply and export restrictions".

S&P, too, lowered its inflation forecast for India to 3.2 per cent in FY26, anticipating a 25-bp rate cut by the Reserve Bank of India (RBI) in FY26. "For India, we have revised our inflation forecast down to 3.2 per cent for FY26 after a sharper-than-expected decrease in food inflation. This leaves room for further monetary policy adjustments, and we anticipate a 25 bps rate cut by the RBI this year," S&P noted.