Lower GST rates to spur consumption, drive growth: S&P

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The lowered goods and services tax (GST) rates, income tax cuts and interest rate reductions are likely to make consumption a greater driver of India's growth compared with investment in the current and next financial year, credit rating agency S&P Global said on Monday.

"Lowered GST rates will support middle-class consumption and complement income tax cuts and interest rate reductions introduced this year. These changes are likely to make consumption a greater driver of growth compared with investment, in this financial year, and the next," the rating agency said in its latest Economic Outlook for the Asia-Pacific region, while retaining its growth forecasts for India unchanged at 6.5 per cent for FY26 and 6.7 per cent for FY27.

The agency maintained that despite elevated US tariffs and global trade uncertainties, India's domestic demand has stayed robust. On global headwinds, the agency said that the spike in the effective US tariff is weighing on the expansion of export-oriented manufacturing in India, but added that "there are signs the US may lower tariffs on Indian products".

"If India can secure a trade agreement with the US, it will reduce uncertainty and enhance confidence, which would boost labour-intensive sectors," the report added.

The report highlights that the rupee has faced depreciation pressures, triggered by capital outflows and tariff uncertainty. "In India, capital outflows have contributed to currency weakness. Added uncertainty from unexpectedly high US tariffs and the lack of a trade deal with the US have further squeezed the rupee," it noted.

The rating agency notes that among key factors influencing monetary policy, inflation is not currently a problem in Asia-Pacific, including India. Owing to softer food inflation, it has trimmed its CPI inflation forecast for India to 2.5 per cent for the current financial year (FY26). However, it expects the food prices in India to normalise, with consumer inflation projected to rise to about 5 per cent in the next financial year, before moderating again to 4.4 per cent in FY28.

Without naming India, the agency reckons that there is little room for additional rate cuts in the Asia-Pacific region as "policy rates have for the most part already descended close to estimates of neutral policy interest rates."

After slashing the key interest rate by 100 basis points (bps) to 5.50 per cent between February and June, the Monetary Policy Committee of the Reserve Bank of India had chosen to keep interest rates unchanged for the second successive time at its last bi-monthly review on October 1.