S&P lowers India's FY26 growth forecast to 6.5%

Says services-led exports to US to remain resilient

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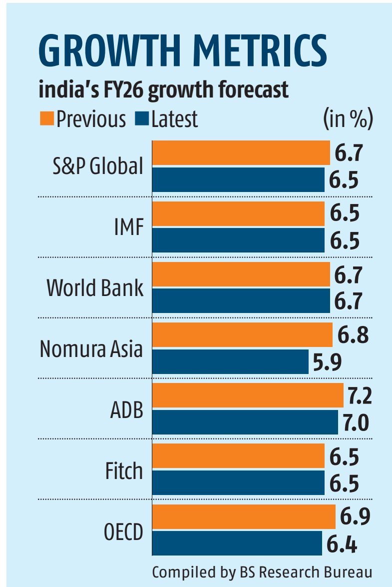

S&P Global on Tuesday revised downwards its India growth forecast for 2025-26 by 20 basis points (bps) to 6.5 per cent while maintaining that the country's services-led exports to the US will remain resilient despite impending reciprocal tariffs.

"India's gross domestic product (GDP) will grow 6.5 per cent in the financial year ending March 31, 2026, we expect. Our forecast is the same as the outcome for the previous financial year but lower than our earlier estimate of 6.7 per cent," the global credit rating agency said in its latest quarterly economic update for APAC.

The update assumes the upcoming monsoon season will be normal and that commodity prices — especially crude oil — will remain soft.

"Cooling food inflation, the tax benefits announced in the country's Budget for the financial year ending March 2026, and lower borrowing costs will support discretionary consumption," the update notes.

The update also projected that the Reserve Bank of India will cut interest rates by another 75-100 bps in the current cycle, as easing food inflation and lower crude prices will bring headline inflation closer to the central bank's target of 4 per cent in the financial year ending March 2026.

On the possible impact of US tariffs, the update notes that, as tariffs tend to be levied on goods, trade will be more resilient in economies where a substantial share of exports consists of services.

"This is the case for the Philippines and, especially, India. Still, all of APAC will feel the indirect impact of tariff turmoil. Slower international growth resulting from trade friction and the associated uncertainty will weigh on exports," it noted.

However, the US tariff hikes on China's exports will weigh on its economy.

"We had incorporated 10 per cent US tariffs in our November baseline, implying an effective US tariff on Chinese exports of about 25 per cent. The additional 10 per cent levies will bring the effective rate to about 35 per cent. That will depress China's growth through lower exports, investment, and other spillover effects," the update said.

S&P said the impact on GDP growth would be most pronounced for Malaysia (because of semiconductors), Singapore (due to pharmaceutical products), and South Korea (because of automobiles).