

India pushes back on tariff assumption

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The Indian government has expressed its disagreement with the IMF staff's 'baseline' assumption that the 50 per cent US tariffs on its goods exports 'would remain in place indefinitely', based on which the staff pegged the country's GDP growth at 6.6 per cent this year, and pared its 2026-27 projection by 20 basis points to 6.2 per cent. It linked the growth drag next year to the "high US tariffs — assumed to persist under the baseline, dent external demand and investment." While Indian authorities agreed that the overall economic impact of the tariff shock "should be manageable in the near term, although a few industries would be heavily affected".

However, the authorities did not concur with the US tariff scenario the IMF staff painted and "considered staff's estimated growth impact to be



on the high side given frontloading and the potential for developing other export markets".

The IMF identified further escalation of trade tensions and deepening geoeconomic fragmentation as a significant near term risk for India which could lead to tighter financial conditions, higher input costs, and lower trade, FDI, and economic growth. "If tariffs persist at current levels, there would likely be scope for further monetary easing amid benign inflation dynamics," it observed. The Indian authorities acknowledged the elevated global uncertainty and potential

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further external shocks, but stressed that there was an "upside potential from newly concluded and forthcoming FTAs (free trade agreements)". The authorities also felt that staff's potential growth estimate was on the conservative side.

The IMF staff called for "targeted, transparent, and time-bound support" to industries heavily affected by tariffs, noting it is warranted to mitigate the distributional impact of the tariffs. "Pausing fiscal consolidation in FY27 — implying a neutral fiscal stance — would be appropriate if the tariffs persist," they argued, citing "an output gap

expected to open" next year under the baseline and high external uncertainty. "That said, if a tariff reduction avoids an output gap, fiscal consolidation should continue next year," the IMF staff recommended. Indian authorities have conveyed that it would be "premature to consider a pause" in fiscal consolidation in FY27, especially in the context of the credible and transparent fiscal guidance path that the Indian government has been following.

IMF also noted that if tariffs persist, there is room for lowering the monetary policy rate modestly owing to an expected emergence of a negative output gap amid benign inflation dynamics. "That said, a swift reversal of the tariffs would limit the need for further monetary easing," the review noted. The IMF staff also added a caveat for the RBI about the one-off direct impact on inflation from the GST reform, suggesting the central bank "should look through" it.