US-INDIA PACT COULD OPEN NEW MARKET ACCESS: FINMIN REPORT

Fiscal, monetary steps may lift growth to 6.8%

FE BUREAU
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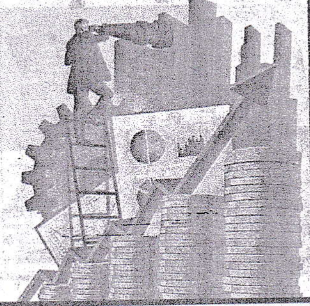
BRIGHT PROSPECTS

- Finmin report stated that India has the potential to remain as one of the most promising destinations for investment
- India-US bilateral trade pact could flip headwinds into tailwinds
- India and the US are likely to agree on an interim pact before July 8



- Govt had raised income tax exemption limit, which can leave around ₹1 lakh cr cash in the hands of taxpayers
- This will likely aid consumption and demand in the economy

THE GOVERNMENT'S DIRECT tax exemptions and fiscal measures, along with the rate cuts from the Reserve Bank of India, are expected to further stimulate consumption and investment to lift FY26 growth towards the upper end of forecasts of 6.3% to 6.8%, given in the latest economic survey, according to finance ministry's latest monthly report.

In the monthly economic report for April, finance ministry economists said a successful US-India bilateral trade agreement could flip current headwinds into tailwinds, opening up new market access and energising exports.

India and the US are likely to agree on an interim trade agreement before July 8, with New Delhi pushing for full exemption from the 26% reciprocal tariff on domestic goods.

On April 2, the US imposed an additional 26% reciprocal tariff on Indian goods but suspended it for 90 days till July 9. However, the 10% baseline tariff imposed by US remains in place.

The report also emphasised that India has the potential to remain as one of the most promising destinations for investment, amid global uncertainty.

In the FY26 budget, the Centre sharply raised the income tax exemption limit to ₹12 lakh from ₹7 lakh in the new tax regime, which the government said would leave around ₹1 lakh crore cash in the hands of taxpayers. This will likely aid consumption and demand in the economy. In its monetary policy committee meeting on April 9, the RBI cut the repo rate by 25 basis points to 6%, taking the cumulative cut in the last two MPC meetings to 50 bps.

Foreign direct investors are likely to respond positively to policies that strengthen the country's medium-term growth prospects, it said.

In particular, it said, policies that enhance the skills and productivity of the country's young workforce can significantly strengthen the virtuous cycle of investment and growth.

The report said India continues to be the fastest-growing major economy and faced the least amount of cut amongst other global economies as projected by various global agencies.

Multiple agencies project India's growth at 6.3-6.7% in FY26, supported by robust domestic fundamentals, stable macroeconomic management, and growing government capital expenditure, while declining inflation strengthens this outlook, it said.

As per the report, India's economy as of April 2025 is characterised by robust domestic fundamentals, prudent macroeconomic management, and a capacity to withstand external shocks, it said.