Tariff suspense a key risk to economy: Govt

FinMin report flags India Inc's foreign investments

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New Delhi, 27 May

The risk of renewed trade barriers, after the 90-day pause on the 26 per cent tariff on Indian exports to the US expires on July 9, remains a key external vulnerability, and the outcome of a pause in the US-China reciprocal tariffs will also be important for the Indian economy, the Finance Ministry noted on Tuesday.

However, a successful US-India trade agreement could "flip current headwinds into tailwinds, opening up new market access and energising exports", officials from the economic division of the Department of Economic Affairs wrote in the monthly economic review for April.

Prolonged uncertainty around trade tariffs could keep foreign portfolio investment (FPI) flows volatile through 2025-26 (FY26) and deter private capital as firms will adopt a 'more cautious' stance amid global uncertainty and tighter financial conditions, the officials averred, terming it a key risk for capital flows.

"Further, the passage of the US Budget Bill for the next financial year and the reaction in the US bond market, in light of the recent downgrade of the US sovereign credit rating by Moody's, will also set the tone for financial markets globally in the final months of 2025," the review stated.

Acknowledging that net Foreign Direct Investment (FDI) inflows into India were rather 'subdued' in 2024-25 (FY25) at just $0.4 billion, the ministry linked this to rising repatriations owing to profit booking by foreign investors and an increase in outward FDI flows that suggest growing global expansion by Indian firms. Gross FDI inflows remained broadly stable at $81 billion in FY25.

However, officials indicated some unease about India Inc. investing in large amounts overseas, while dithering on outlays at home. "That Indian overseas direct investment increased nearly by $12.5 billion during the year FY25, even as uncertainty reigned in the world, warrants attention, especially given their cautious attitude towards domestic investment," the review underlined.

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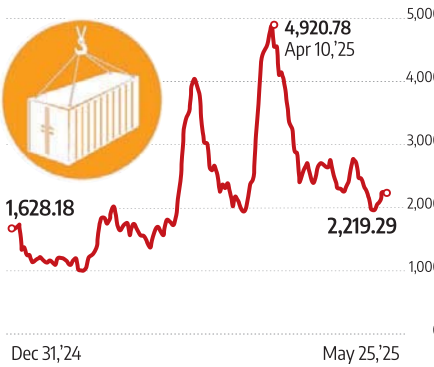
Clouds of uncertainty

Daily trade policy uncertainty index (7-day moving avg)



Source: https://www.policyuncertainty.com/

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EU to reduce carbon border levy to just 10% of firms

EU countries backed plans on Tuesday to scale back the bloc's carbon border levy to cover just 10 per cent of the firms currently covered by the scheme, on the grounds that these firms account for nearly all of the emissions involved. Their approval makes it highly likely that the EU will exempt most of the 200,000 importers that had been due to face the tariff starting next year.

US to foreign students: Visa may be revoked for skipping classes

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Tariff uncertainty may hurt services trade too

The ongoing policy uncertainty could have adverse ripple effects on services trade, which has been largely unaffected by the US tariff turmoil so far, by hindering investment in sectors that rely on global interconnectivity. This, the ministry's review noted, would potentially harm overall trade in services.

The imposition of reciprocal tariffs by the US, particularly a 26 per cent tariff on Indian imports effective April 2025, has injected uncertainty into India's export outlook, and 'successive rounds of restrictive trade measures and geoeconomic confrontations' could severely disrupt global production lines, international trade flows, and likely reduce global economic activity.

The ministry also linked the downgrade of growth projections for India by some agencies, including the International Monetary Fund's World Economic Outlook that has lowered its real GDP growth estimate for India by 30 basis points to 6.2 per cent, to the 'higher levels of global uncertainties and trade tensions'.

"However, India is still expected to be the fastest-growing major economy and faced the least amount of cut amongst other global economies," it said on the IMF's updated assessment released last month.

While multiple agencies project India's growth to be in the range of 6.3-6.7 per cent in FY26, the review said direct tax exemptions and fiscal measures, along with the interest rate cuts from the Reserve Bank of India, are expected to further stimulate consumption and investment. "These could accelerate the recovery and lift growth towards the upper end of forecasts of 6.3 per cent to 6.8 per cent, given in the latest Economic Survey," it argued.

The review also asserted that the "monetary policy setting is conducive for fostering economic growth" in light of an "optimistic" inflation outlook, marked by falling prices for crude oil and food, as well as the 'above-normal' monsoon forecast.

"In the future, India is set to gain from supply chain adjustments, a wider range of foreign direct investment sources, and increased collaboration with global investors looking for resilience and growth," the review concluded, noting that foreign direct investors are likely to respond positively to policies that strengthen the country's medium-term growth prospects.