

New Tariffs Threaten India's Growth, Morgan Stanley Warns



The Indian economy could face a significant slowdown, with its GDP growth potentially being dented by as much as 80 basis points if the recently imposed 50% tariffs by the United States remain in place for an extended period. This stark warning comes from a new report by the financial services firm Morgan Stanley, which analyzed the potential fallout of the escalating trade tensions. The tariffs, which were raised from an initial 25%, target a wide range of Indian goods and have been implemented by the U.S. in response to India's continued imports of Russian oil.

The Morgan Stanley report highlights a two-tiered analysis of the tariff's impact. The firm's modeling suggests that if the 50% tariff were to be applied to all Indian goods exported to the U.S., the direct impact would shave off 60 basis points from India's GDP growth over the next year. However, a more likely scenario involves the tariffs being applied to the 67% of non-exempted goods, which translates to a direct hit of 40 basis points. With indirect effects of a similar magnitude, the total potential loss to GDP growth could reach 80 basis points.

The report breaks down the tariff's effects into three categories: primary, secondary, and tertiary. The primary effects stem from a decline in demand for tariff-hit products. Secondary effects ripple through global supply chains, reducing the demand for intermediate inputs and potentially leading to job losses. Tertiary effects could arise from smaller business profits and a weakened business climate, discouraging future investment.

This analysis is based on a linear impact from the external demand shock and does not account for potential mitigating steps. Morgan Stanley analysts noted that policymakers in India could respond to these headwinds. Possible actions include further interest rate cuts by the Reserve Bank of India to bolster domestic demand and a potential pause in fiscal consolidation by the central government, with an increase in capital spending. The sixth round of trade negotiations between India and the U.S., scheduled for later this month, will be a key event to watch, as it could determine the longevity and scope of these tariffs.