

# U.S. Tariffs – Its impact on Indian Economy and Markets

## Key Highlights:

- The U.S. President announced **25% tariff on goods imported from India**, starting August 01, 2025.
- As per the latest executive order announced on August 06, 2025, **an additional, 25%** tariff rate has been imposed due to India's ongoing energy and defence trade with Russia.
- For FY25 India had a **net goods trade surplus with the U.S.** to the extent of \$41.2 billion.
- Export driven sectors remain vulnerable; however, Pharma and Electronics are temporarily exempt.
- Market reaction has been volatile, but a **"wait-and-watch"** approach is being adopted amid uncertainty over the **Indian governments next move.**

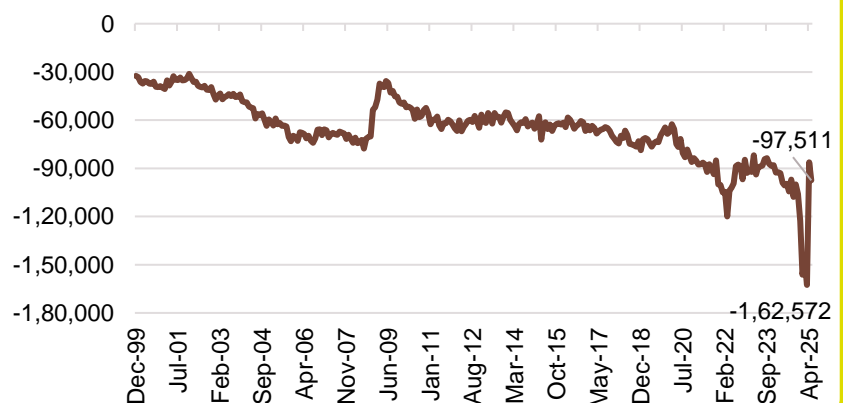
## The Backdrop:



### Why has Trump imposed Tariffs?

To reduce the **mounting trade deficit** that United States (U.S.) had with countries across the globe and thereby also reducing its **swelling Debt to GDP Ratio**, U.S. President Donald Trump during his second presidency, enacted a series of steep protective tariffs affecting nearly all goods imported into the U.S.

### U.S. increasing Goods Trade Deficit (\$ Mn)



Source: U. S. Bureau of economic Analysis

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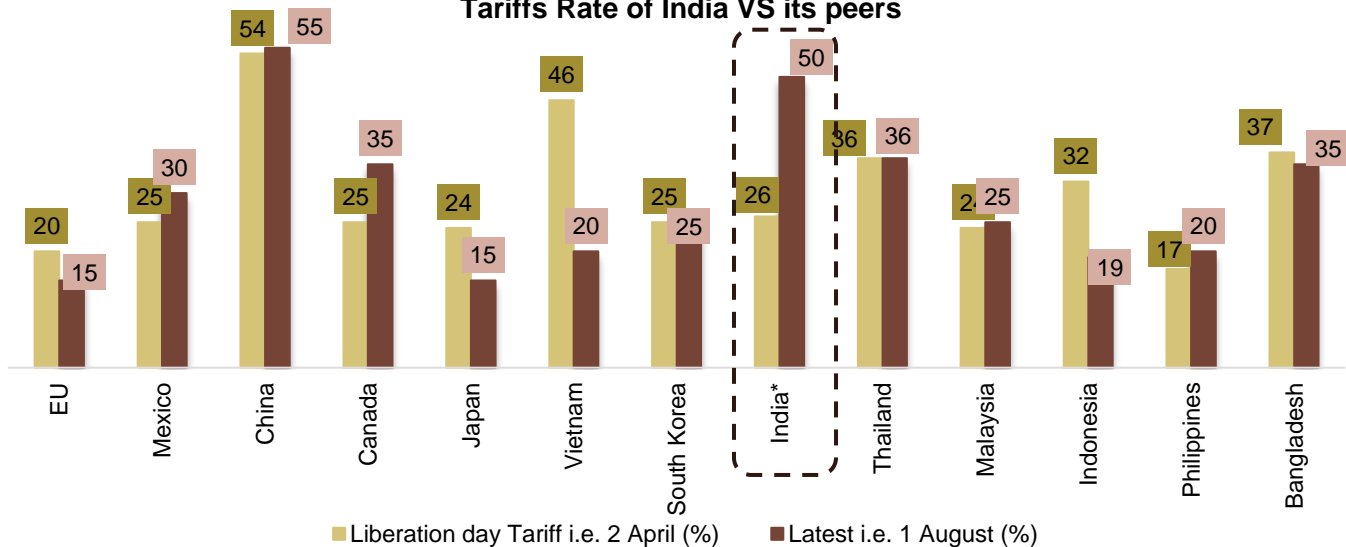


## India U.S. - No Trade deal – but a penalty:

Despite multiple rounds of discussion, India failed to secure a trade deal with the U.S. President Trump announced a **25% tariff on India plus penalty** of 25% (taking the total tariff up to 50%) for having trade relations with Russia for defence and oil which

will potentially have implications on more than \$86 billion (FY25) worth of goods that India exports to the U.S. The 25% additional tariffs are to be effective 21 days (negotiation period) post the announcement.

### Tariffs Rate of India VS its peers



Source: Bloomberg, Yale budget lab, Nuvama Research

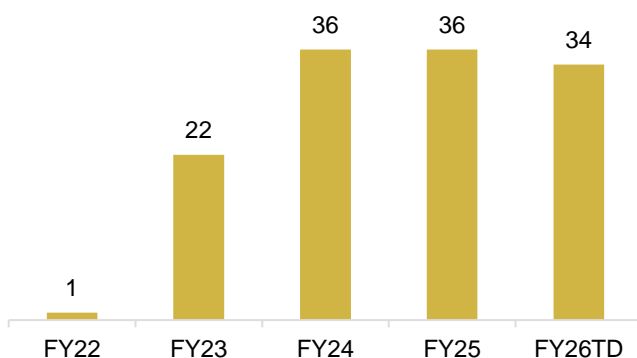
Note: \* For India - data as per latest circular announced on 6 Aug (Announcement dated 30 Jul – 25% & 6 Aug - Additional 25% i.e. total 50%)



## India–Russia Trade Dynamics:

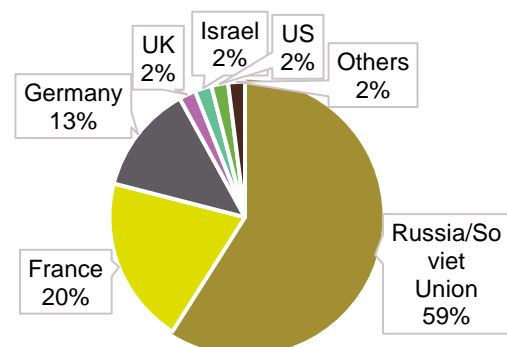
**India - Russia, bilateral trade touched a record \$68.7 billion in FY25**, up from just \$10.1 billion pre-COVID. **India imports primarily crude oil, fertilizers, and metals from Russia.**

### Russia's % share in India crude import volumes



Source: Ministry of Commerce, Emkay Research

### Countrywise India Defence Equipment source



Source: SIPRI, Emkay Research

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India has invested around \$16 billion in Russia, largely in oil and gas, pharmaceuticals and IT. Russian investments in India—estimated at \$20 billion—are concentrated in energy, petrochemicals, steel and railways. The two sides aim to grow bilateral trade to \$100 billion by 2030 and bilateral investment to \$50 billion by 2025. As per the data, over the past 3 years, **Russia has become one of India's largest crude oil suppliers** on the back of discounted prices of Russian crude discount vs Brent. However, now this discount is virtually zero now, reducing the incentive to buy from Russia. Nonetheless, **India remains heavily dependent on Russia for its defence equipment.**

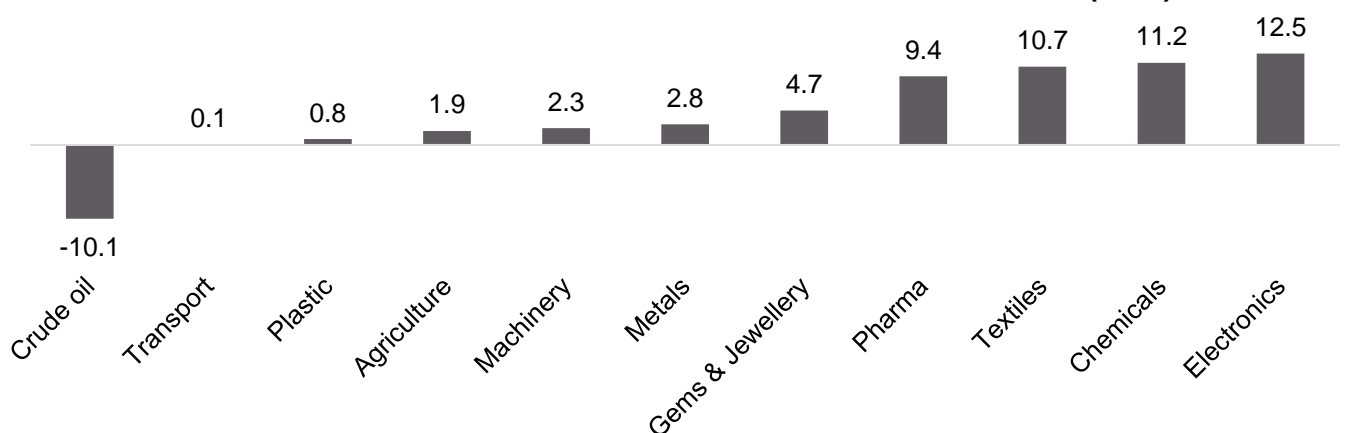
### Impact On the Indian Economy & Markets:



#### **Export driven sectors remain vulnerable:**

India–U.S. goods trade stood at \$132 billion in FY25, with India exporting \$86.5 billion and importing \$45.3 billion. This resulted in a net trade surplus of \$41.2 billion for India. India maintains a surplus in high-value sectors like Electronics, Chemicals, and Pharma, it is a significant net importer of U.S. Crude Oil. The graph suggests that **Textiles, Pharma, Gems & Jewellery, Auto, Electronics, and Seafood are the most vulnerable sectors**; however, Pharma & Electronics is temporarily exempt, Trump has signalled a possible **200% global tariff on pharma imports**, with a 12 to 18-month grace period. While **Auto is better-placed** as India might benefit from tariffs on China, Canada, and Mexico.

**FY25 Sector wise Net trade balance between India and U.S. (\$ bn)**



Source: CEIC. Goldman Sachs Global Investment Research



#### **Oil & Defence sector geodynamics are the key:**

The important angle to the tariff issue is the energy and defence purchases of India from Russia. As stated earlier, the **Russian crude discount has been nearly eliminated in recent months** – this means that the crude import bill may not change substantially if India ceases to purchase from Russia. However, if India and China were to stop buying crude from Russia, global oil prices would spike up leading hurting everyone including the U.S.

**Defence** purchases are riskier one – nearly **60% of India's military hardware is of Russian origin**, which has kept India dependent on Russia for refurbishment, spare parts, and maintenance, even with several indigenously manufactured platforms using Russian technology transfer and know-how.

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**U.S. tariffs could dent  
India's growth outlook:**

According, various news and brokerage reports, in FY25, **India's total exports to the U.S. stood at ~2.2% of GDP**. The original 25% tariff and the additional penalty are both applicable on 67% of India's exports to the U.S. If tariffs persist at high levels for a period of ~1 year, growth could see downside risks of 50-100 bps. Further, with **~2% of MSCI India's revenue is derived from goods exports to U.S.**, if the initial 25% tariffs are enforced there might be a 2% hit to EPS. Additionally, a 5pp (Percentage Points) increase in U.S. tariff rates could cause an 80 bps incremental hit to MSCI India EPS i.e. **a total hit of 5 – 6%**.

**Summary:**

Meanwhile, **India continues to diversify its trade base with new and ongoing free trade agreements**. A long-awaited FTA with the UK was signed on July 24th; negotiations are ongoing with the EU, Oman, Chile and New Zealand. India is also reviewing the Asean FTA to improve market access.

At present, India continues Russian oil purchases despite U.S. pressure. **India defends its relationship with Russia, emphasizing its independence**. As per the sources, Modi's government hasn't given India's oil refiners instructions to stop buying Russian oil, and no decision has been taken on whether to halt the purchases.

Besides, India's economy is largely driven by domestic consumption, with private consumption contributing significantly to its GDP. This is in contrast to many other **Asian economies that rely heavily on exports** for growth. Approximately **two-thirds of India's GDP is attributed to household and government consumption**.

- Sectoral Impact - Textiles, Gems & Jewellery, Auto and Seafood may see major impact.
- Crude trade can shift from Russia to U.S. without major cost implications due to narrowed discount.
- Defence decoupling from Russia is challenging and unlikely in the near term.
- GDP impact may be limited to ~50 - 100 bps, but currency and equity volatility could continue in the short term.
- Earnings too might be impacted by ~5 - 6%.

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