

U.S. Imposes Additional 25% Tariff on Indian Goods Amid Rising Trade Pressures

As the Reserve Bank of India holds its benchmark rate at 5.5%, EBC Financial Group warns India's external outlook may face greater pressure in the months ahead.

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/EINPresswire.com/ -- U.S. President Donald Trump announced on August 7 an additional 25% tariff on Indian exports, citing India's continued imports of Russian oil — a move that sharply escalates trade tensions. The new tariffs, which come on top of an existing 25% duty on select goods, will push total tariffs to as high as 50%, making them among the highest levied on any U.S. trading partner. Set to take effect on August 28, the decision follows the collapse of trade talks and marks the most significant downturn in India-U.S. relations since Trump's return to office.

Amid these developments, the Reserve Bank of India (RBI) kept its key interest rate unchanged at 5.5%, signaling caution as global volatility threatens to weigh on India's otherwise steady domestic outlook.

New Tariffs Deepen Trade Frictions

Complicating the policy landscape are deteriorating trade relations between India and the U.S. Following five inconclusive rounds of trade talks, President Trump sharply escalated tensions by targeting sectors such as textiles, footwear, gems, and jewelry — industries central to India's export economy. The new tariffs could severely limit access to the U.S. market, which accounted for nearly \$87 billion in Indian exports in 2024.

"The trade narrative has shifted from tension to outright disruption," said Samuel Hertz, Head of



APAC, EBC Financial Group. “These tariffs are not just symbolic — they strike at the heart of India's export-led growth. Labour-intensive sectors that rely on U.S. demand are now facing real obstacles, and the ripple effects could slow economic momentum at home.”

India's Ministry of External Affairs addressed the move as “extremely unfortunate,” emphasising that its Russian oil imports are based on national interest and energy security. In response, the Indian government is reportedly evaluating additional export incentives and strategic partnerships, as Prime Minister Narendra Modi prepares for a rare visit to China — hinting at a potential geopolitical recalibration.

Policy Pause Signals Prudence in Volatile Times

RBI Governor Sanjay Malhotra confirmed that the Monetary Policy Committee voted unanimously to maintain a neutral stance, noting that while inflationary pressures have eased, global uncertainties remain a key concern.

“The RBI's decision to pause reflects a careful balancing act,” said Hertz. “India's inflation trend allows for breathing room, but the broader policy environment remains fragile due to global developments. The central bank is clearly signaling that the next move will depend on the impact of geopolitical developments before any further policy changes.”

The central bank maintained its FY25–26 GDP forecast at 6.5%, and trimmed its inflation outlook from 3.7% to 3.1%, after headline inflation touched a six-year low in June.

Investor Confidence Faces New Stress Test

Although India's stock market has shown resilience — with only marginal declines since the tariff announcement — its performance has lagged behind regional peers. Analysts cite weaker corporate earnings growth, capital outflows, and a deteriorating trade outlook as contributing factors.

“Markets are holding steady on the surface, but underneath there's pressure building in capital flows,” said Hertz. “Investors are watching closely to see whether the government can contain the fallout without triggering a broader pullback in business sentiment. In this environment, portfolio diversification and active currency risk management become even more important.”

The Indian rupee strengthened slightly following the RBI's decision, but renewed volatility is expected as tariff implementation approaches. Meanwhile, oil prices edged up 1% this week, driven by both geopolitical tension and unexpected U.S. crude inventory draws.

Outlook Hinges on Flexibility and Diplomacy

Economists believe that while India's domestic economy remains fundamentally solid, its

external vulnerabilities are rising. The RBI is expected to consider rate cuts later this year, depending on how the global environment evolves.

“India’s economic policy toolkit is not exhausted — far from it,” Hertz added. “But the space for preemptive moves is narrowing. Future rate decisions will depend not just on inflation and growth metrics, but on how effectively New Delhi navigates external friction through diplomacy.”

India’s Crossroads: Caution Without Complacency

For policymakers, businesses, and investors, India is entering a critical phase — one where global political dynamics could increasingly shape domestic outcomes.

“India has handled uncertainty well in recent years,” concluded Hertz. “But this is different — while it’s not a financial shock, there are major policy considerations at play. Staying agile and grounded in data will be crucial in the coming months.”

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