

Special Coverage: US doubles tariffs on India to 50%

Key takeaways

- ◆ President Trump recently announced the decision to impose an additional 25% tariff on Indian goods due to India's purchase of crude oil from Russia. The additional tariffs, which would take the total tariffs on Indian goods to 50%, would be effective from 28 August, giving both countries time to negotiate. If implemented, the additional tariffs would dent India's exports and GDP growth.
- ◆ From a policy perspective, India has the ability to use both monetary and fiscal policy to support growth. We expect the Reserve Bank of India (RBI) to cut rates by 0.25% in Q4, but don't rule out further cuts should headwinds to growth intensify. India's fiscal consolidation over the past few years should allow the government with room to increase spending to boost growth, if required.
- ◆ We maintain our overweight on Indian equities, supported by robust macro fundamentals, structural reform momentum and resilient domestic demand. However, we acknowledge that the situation remains fluid given recent tariff developments and escalating trade tensions. We are watching for signals across financial conditions, earnings and sentiment.



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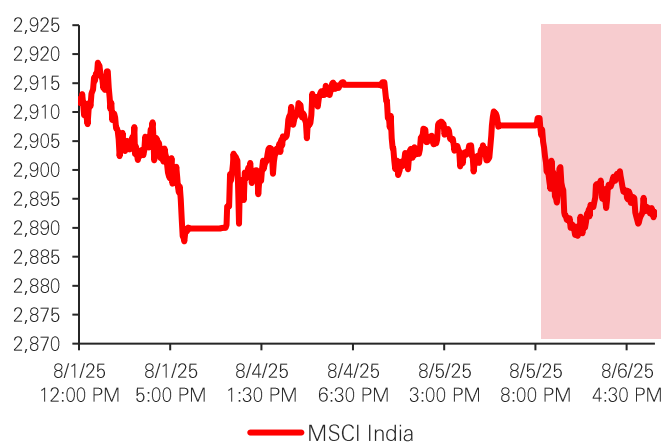
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What happened?

- President Trump recently announced the decision to impose an additional 25% tariff on Indian goods due to India's purchase of crude oil from Russia. According to the executive order, the additional tariff would take effect from 28 August. If implemented, the additional tariff, along with the previously announced 25% tariff on Indian goods, would take the total tariff rate to 50%, one of the highest globally.
- The recent tariff announcement marks another leg of deterioration in the US-India trade relationship. India had been one of the earliest countries to engage the US in bilateral trade talks as early as February this year. However, the trade talks since then have seen limited progress, as both sides have been unable to come to an agreement over some key areas.
- The immediate market reaction was relatively muted, indicating that investors had at least partially factored-in the risk over the past few days. The MSCI India index fell nearly 0.5% overnight whereas USD/INR has been largely stable.

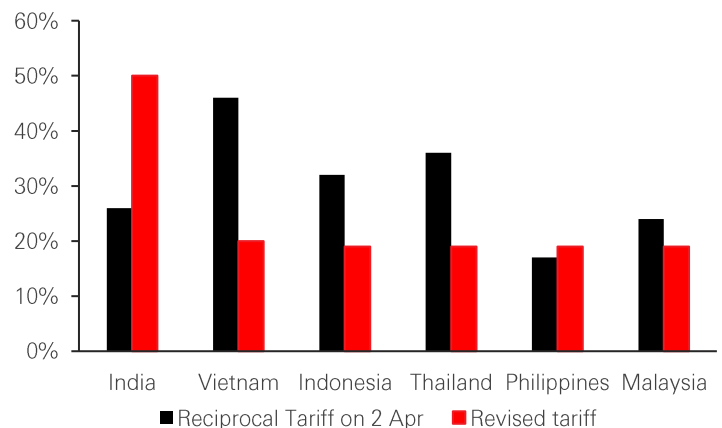
MSCI India declined c. 0.5% after the announcement of additional tariffs



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 7 August 2025. Past performance isn't a reliable indicator of future performance.

- In 2024, India's goods exports to the US stood at USD 81bn (2.1% of GDP), while the overall trade surplus was USD 38bn. Electronics, precious stones, pharmaceuticals, textiles and machinery were the key exports from India to the US.
- If implemented, the secondary tariffs would have a detrimental impact on Indian exports and growth outlook. They would raise the total tariff to 50%, more than double of the tariffs imposed on most ASEAN countries, hurting India's export competitiveness. While the direct economic impact of the tariffs appears relatively contained at this stage, the potential spillover effects shouldn't be underestimated.
- However, the additional tariff announcement can also be viewed as a negotiation tactic. Since April this year, there have been several instances of the US announcing eye-popping tariff rates initially before lowering them after receiving concessions from its trading partners. The additional tariffs would be effective on 28 August, giving both the US and India time to negotiate further. Hence, it's quite possible that the final tariff rate for India could be lower than 50%.
- India had committed to increasing its purchase of US energy and defense equipment in February 2025. India's crude oil imports from Russia declined in July, and it's theoretically possible for India to further reduce the reliance on Russian oil, given the decline in global oil prices in 2025. While a retaliation from India can't be ruled out, we assign low probability to it, as the administration has consistently highlighted its willingness to engage in negotiations to arrive at a mutually acceptable trade agreement. Encouragingly, India and the US continue to negotiate on trade.

Tariff on India would be more than double those of ASEAN peers, if additional tariffs are implemented



Source: White House, HSBC Private Bank and Premier Wealth as at 7 August 2025.

Investment implications

- From a fundamental perspective, high-frequency indicators continue to point towards robust economic momentum. The healthy monsoon season should lead to an improvement in rural incomes over the next 6-12 months, which, combined with low inflation and increase in real wages, can underpin resilience in domestic consumption. However, the private capex is likely to remain subdued in light of the heightened uncertainty.
- From a policy perspective, India has the ability to use both monetary and fiscal policy to support growth. In the MPC meeting earlier this week, the RBI kept the interest rates unchanged at 5.5%, in line with our expectations. While the RBI has cut interest rates by 1% this year, we see room for another 0.25% rate cut later this year, especially as the central bank lowered its FY 26 (April 2025 to March 2026) inflation forecast from 3.7% to 3.1%. Should India's growth face further headwinds owing to trade uncertainty, it's certainly possible that the RBI could enact deeper rate cuts.
- From a fiscal policy perspective, India has been on consolidation path, progressively lowering the fiscal deficit over the past few years. In FY 26 budget announcement, the government had projected the fiscal deficit to reduce to 4.4% (from 4.8% previously). The government has the option to increase spending to support growth, thereby slowing down the pace of fiscal consolidation.
- Heightened trade tensions have clearly increased the downside risks for Indian equities. However, it's possible for India to secure a reduction in tariffs over the course of next three weeks, before the higher rate comes into effect. Hence, while we acknowledge the increased risks, we maintain our overweight on Indian equities, supported by its robust macro fundamentals, structural reform momentum and resilient domestic demand. The medium-to long-term story remains intact.

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