dun & bradstreet

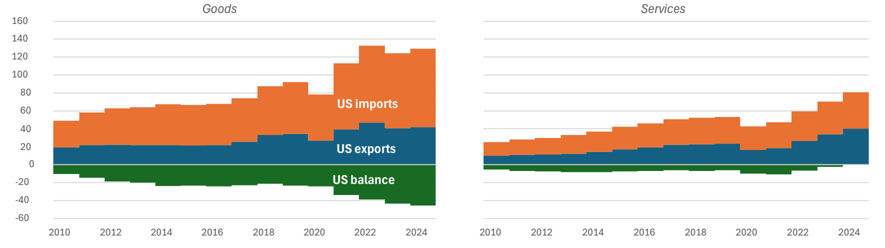
ECONOMY OBSERVER

Trump’s Tariff Gambit: Which Indian Sectors Are Most at Risk?

Donald Trump is set to announce reciprocal tariffs on April 2nd, reigniting trade tensions with key trading partners. Among the countries likely to be impacted, India stands out due to its high tariff differential with the US. While India’s trade-weighted average tariff rate 2023 was at 12%, it was much lower for the US at 2.2%. This gap has been a long-standing point of contention, with Trump frequently criticizing India’s tariff policies as unfair. The upcoming announcement raises critical questions about how these reciprocal tariffs will be structured and which Indian exports to the US will bear the brunt of these measures.

The exact nature of the tariff mechanism remains unclear. If the US implements a direct like-for-like tariff structure, the product lines most affected should ideally be those where the US imports the highest volumes from India. As of 2024, the top 5 include Electrical machinery & equipment ($14.4 billion in annual imports from India), pharmaceutical products ($12.7 billion), pearls, precious stones, metals ($11.9 billion), machinery, boilers & reactors ($7.1 billion), and mineral fuels, oils & bituminous substances ($3.2 billion). These categories in aggregate make up close to 50% of India’s export basket to the US, making them natural targets if tariffs are applied in a symmetrical manner.

However, high trade volume alone does not determine the extent of potential damage. Trump’s trade decisions have historically been driven not just by tariff differentials but also by strategic considerations. In previous tariff actions, Trump demonstrated a willingness to exempt products that are crucial to US industries, even if they came from high-tariff countries, like the exclusion of Mexican auto imports from broad-based tariff hikes, due to their critical role in US automobile supply chains. This precedent suggests that some Indian exports, despite their high trade volumes, may be shielded if US businesses depend heavily on them and cannot easily switch suppliers.



US Trade Balance with India

To assess which Indian exports are truly at risk, we have developed a Tariff Vulnerability Score at the HS 6-digit level. This score is calculated based on three key factors: Weighted Tariff Differential (higher tariffs make the product more vulnerable), US Dependence on Imports from India (lower dependence means the US can afford to impose tariffs without major disruption), and India’s Export Dependence on the US (higher dependence increases India’s risk). We normalized these factors using Min-Max scaling and combined them to generate a final vulnerability score.

Our findings suggest that specific tariff lines at HS code 6-digit level under pharmaceutical products, railway & tramway equipment, and electrical machinery & equipment are among the sectors with the most vulnerable categories under a reciprocal tariff regime. These products, for example pharma face high tariff disparities, whereas railway & tram equipment has a high dependency on US. Conversely, sectors such as miscellaneous chemical products, edible vegetables, and articles of iron or steel may be less impacted due to their essential nature for US industries. As the tariff announcement approaches, businesses on both sides must prepare for potential disruptions. If a strict reciprocal tariff system is implemented, India’s high-tariff products could face immediate retaliation. However, if exemptions are granted based on economic necessity, certain sectors may remain insulated. The final outcome will depend on how the US prioritizes trade enforcement versus economic pragmatism.

TOP 25 VULNERABLE PRODUCTS - HS 2 DIGIT				Contribution by		
HS Code	Number of commodity lines (HS code 6 digit) in Top 60	Description	Average Tariff Vulnerability	Weighted Tariff Differential	US dependence on imports from India	India's dependence on exports to the US
30	1	Pharmaceutical products	1.26	0.91	-0.13	0.47
86	1	Railway, tramway equipment	1.09	0.09	0.00	1.00
93	2	Arms and ammunition	1.08	0.09	0.00	1.00
22	1	Beverages, spirits, vinegar	1.08	0.09	0.00	1.00
85	8	Electrical machinery, equipment	1.06	0.29	-0.06	0.83
95	1	Toys, games, sports equipment	1.04	0.09	0.00	0.95
20	1	Preparations of vegetables, fruit, nuts	1.03	0.09	0.00	0.94
12	4	Oil seeds, grains, industrial plants	1.01	0.09	-0.04	0.96
81	2	Other base metals, cermets	1.00	0.09	-0.01	0.93
51	1	Wool, animal hair, woven fabric	1.00	0.09	-0.01	0.93

BOTTOM 25 VULNERABLE PRODUCTS - HS 2 DIGIT				Contribution by		
HS Code	Number of commodity lines (HS code 6 digit) in Bottom 60	Description	Average Tariff Vulnerability	Weighted Tariff Differential	US dependence on imports from India	India's dependence on exports to the US
38	1	Miscellaneous chemical products	-0.73	0.09	-0.95	0.14
07	1	Edible vegetables	-0.69	0.09	-0.93	0.15
73	1	Articles of iron or steel	-0.68	0.09	-0.92	0.16
15	1	Animal, vegetable fats and oils	-0.66	0.18	-0.95	0.10
78	1	Lead and articles thereof	-0.63	0.09	-0.81	0.09
53	2	Vegetable textile fibers, paper yarn	-0.63	0.09	-0.84	0.12
52	7	Cotton and cotton fabrics	-0.60	0.09	-0.79	0.10
67	1	Feathers, artificial flowers	-0.58	0.09	-0.70	0.03
29	16	Organic chemicals	-0.54	0.09	-0.87	0.25
44	1	Wood and wood articles	-0.52	0.09	-0.98	0.37

Source: BEA, UN COMTRADE

India's Growth Story: Building Momentum Despite Global Risks- DUN & BRADSTREET

Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet said,

India's growth remains on solid ground, supported by strong rural demand, government spending, and a rebound in industrial activity. As we move into April, the focus will be on whether this momentum can be sustained amid evolving global risks. Inflationary pressures have eased, with CPI falling to a seven-month low, giving the Reserve Bank of India room for further rate cuts in its April meeting. This could provide additional support to domestic demand, particularly as we enter a period of increased investment activity. However, external risks remain a key concern. The possibility of U.S. reciprocal tariffs set to be announced on April 2 could weigh on key export sectors such as under pharmaceutical products and electrical machinery. Additionally, currency pressures persist despite RBI intervention, and capital outflows remain a risk. Navigating global headwinds while maintaining domestic economic resilience will be crucial for sustaining the growth trajectory.

POSITIVES

- GDP growth accelerated to 6.2% in Q3 FY25, driven by improved rural consumption and government spending.
- Retail inflation dropped to 3.61%, easing monetary pressures and improving purchasing power.
- The RBI cut its policy rate by 25 bps to 6.25%, boosting economic growth prospects.
- The trade deficit narrowed to USD 13.8 billion, supported by reduced non-essential imports.
- Corporate performance strengthened with notable revenue, EBITDA, and PAT growth in Q3FY25.
- Foreign Institutional Investors recorded a net inflow of USD 6.94 billion, reversing a month-long sell-off.
- Deposit growth outpaced credit growth, driven by increased CASA deposits.
- EPFO introduced OTP-based authentication and a mobile app, enhancing user security and convenience.

NEGATIVES

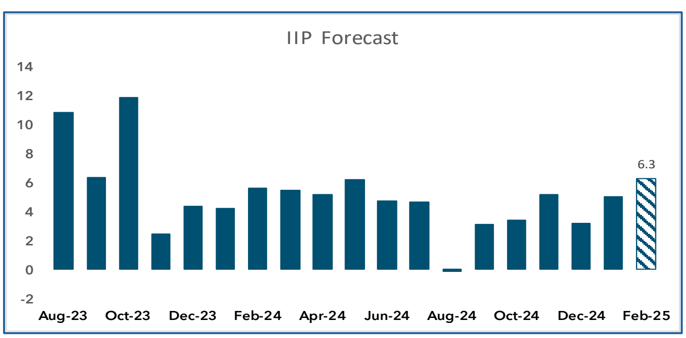
- The US Reciprocal Tariff Policy threatens key export sectors like pharmaceuticals and electrical machinery.
- Consumer confidence weakened due to inflation concerns, global uncertainty, and stock market volatility.
- Inflationary pressures persist, impacting household budgets with rising essential costs.
- Global economic uncertainties and geopolitical tensions continue to pose financial risks.
- Merchandise exports fell 10.9% YoY in February, reflecting weak global demand.
- Foreign Portfolio Investors withdrew ₹23,710 crore from equities in February, raising market concerns.
- Crude oil imports surged 4.7%, while domestic production declined, increasing energy costs.
- Core inflation rose to 4.1%, crossing 4% for the first time in 14 months.
- WPI inflation increased to 2.4% due to slower declines in fuel prices.
- Rural inflation remained higher than urban inflation, indicating persistent pressure in agricultural markets.

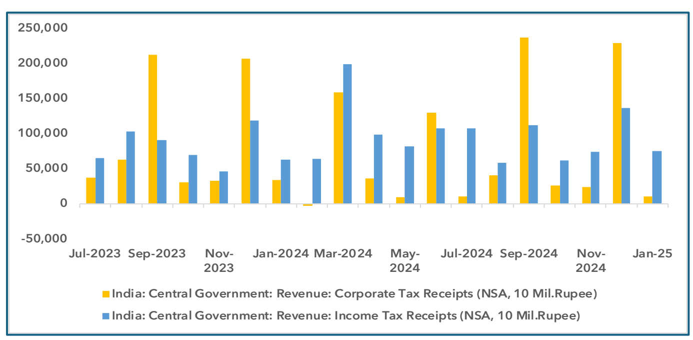
D&B's Economy Observer Forecast

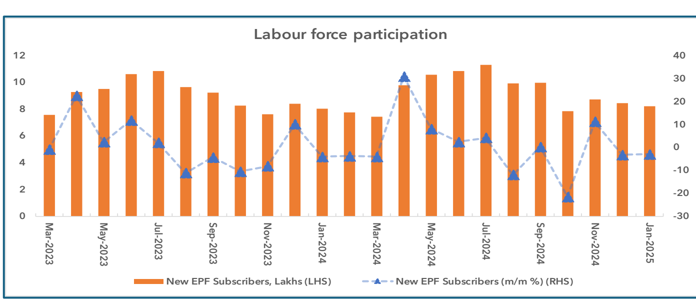
Variables	Forecast	Latest Period	Previous period
IIP Growth	6.3% Feb-25	5.0% Jan-25	3.2% Dec-24
Inflation WPI	2.4% Mar-25	2.4% Jan-25	2.3% Jan-25
CPI (Combined)	3.5% Mar-25	3.6% Feb-25	4.3% Jan-25
Exchange Rate (INR/USD) *	86.9 Apr-25	87.1 Mar-25	87.1 Feb-25
91-day T-Bills*	6.4% Mar-25	6.5% Feb-25	6.6% Jan-25
10-year G-Sec Yield*	6.6% Mar-25	6.7% Feb-25	6.8% Jan-25
Bank Credit	10.5% Mar-25	11% Feb-25	11.4% Jan-25

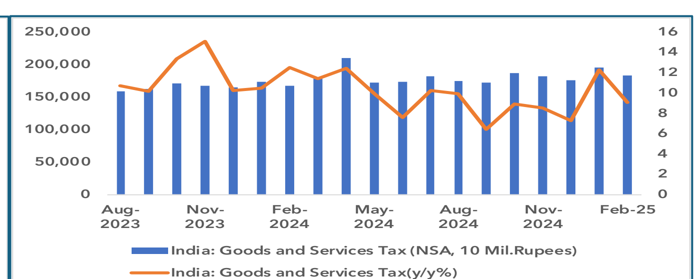
Real Economy

India's economic growth accelerated to 6.2% in Q3 of FY25, up from 5.6% in the previous quarter, largely driven by enhanced rural consumption due to a favorable monsoon and increased government expenditure, which rose by 8.3% in Q3, compared to a modest 3.8% in the previous quarter. India's industrial growth gained momentum in January 2025, with the Index of Industrial Production (IIP) rising to 5.0%, led by manufacturing and mining. Looking ahead. **Dun & Bradstreet forecasts IIP to rise to 6.3% in February 2025, supported by the Kumbh Mela and Holi driven consumer spending which significantly boosted the travel and hospitality industry, generating substantial revenue and creating jobs and capital goods investment. .** Additionally, the Reserve Bank of India (RBI) cut the policy repo rate by 25 basis points (bps) to 6.25% from 6.5% earlier, which is expected to further support economic growth. Despite these positive signals, India faces potential headwinds from the upcoming US reciprocal tariff policy, set to take effect on April 2, which could impact key export sectors such as metals, electrical machinery, pharmaceuticals, and automobiles. Navigating these external pressures will be crucial to sustaining industrial growth and ensuring balanced economic progress. **Consumer confidence** in India has seen a declining trend due to several factors. Inflationary pressures have been a significant concern, as rising prices for essential goods and services impact household budgets. Additionally, fluctuating global economic conditions, including uncertainties in major economies and geopolitical tensions, have created a sense of instability. The recent dip in the stock market has also contributed to a more cautious outlook among consumers, as it affects investments and savings. The Indian government introduced measures to boost female labour force participation, including flexible work arrangements and better infrastructure support, as part of the Union Budget 2025-26. By March 2025, female labour force participation had risen significantly, attributed to more educated women joining the workforce and government initiatives promoting safe, inclusive workplaces. Additionally, **The Employees' Provident Fund Organisation (EPFO)** has recently introduced OTP-based second-factor authentication for employers' login, enhancing security by requiring a One-Time Password sent to the registered mobile number. Additionally, EPFO launched a mobile application on the UMANG platform, allowing employers, employees, and pensioners to access various services like viewing passbooks, raising claims, and updating KYC information. EPFO emphasizes the importance of Universal Account Number (UAN) activation for availing online services, consolidating all EPF accounts under one number. Furthermore, linking Aadhaar with UAN has been made mandatory for filing Electronic Challan cum Return (ECR), ensuring accurate identification and verification of members. **Corporate tax and GST** in India have focused on enhancing compliance and security. For corporate tax, there have been restrictions on carrying forward business losses post-amalgamation and clarifications on the taxation of business trusts like REITs and InvITs. The government has removed the requirement for tax collected at source (TCS) on the sale of specified goods, simplifying international transactions. For GST, significant updates include the implementation of mandatory multi-factor authentication (MFA) for generating e-invoices and e-way bills, effective from February 2025 for taxpayers with an annual turnover exceeding ₹5 crore. The GST Network (GSTN) has also updated Harmonized System of Nomenclature (HSN) codes and revised the time limits for e-invoice reporting. These changes aim to improve security, streamline processes, and enhance compliance.





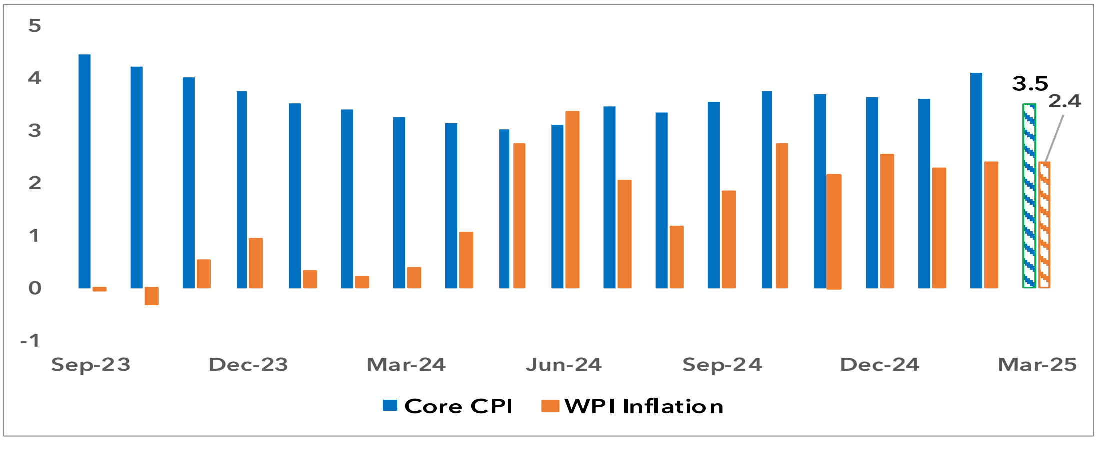


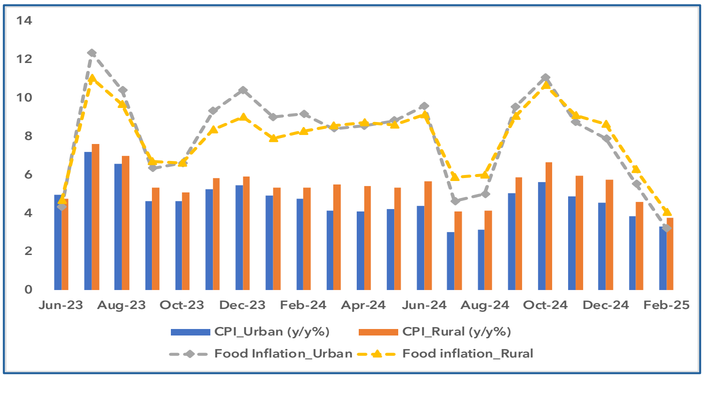


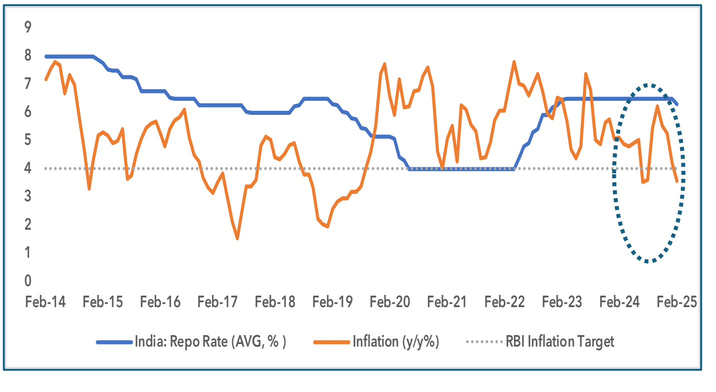
Source: RBI, Dun & Bradstreet, MOSPI

Price Scenario

India's price scenario showed encouraging signs for consumers as inflationary pressures eased. Retail inflation (CPI) dropped to a seven-month low of 3.61%, primarily due to a significant reduction in food prices. Key items like vegetables, eggs, meat, and fish saw notable price decreases, contributing to this decline. Both rural and urban areas experienced a similar trend, with headline inflation easing and food inflation dropping. Rural inflation remains higher than urban inflation, influenced by food price trends, with rural inflation at 4.06% and urban inflation at 3.20% in February 2025. On the wholesale front, WPI inflation saw a slight uptick to 2.4% from 2.3% in January, mainly due to a slower decline in fuel prices. Core inflation crossed 4% for the first time in 14 months, reaching 4.1%. **Dun & Bradstreet forecasts that WPI inflation for March 2025 will remain at 2.4%, driven by marginal increases in input costs and global commodity price fluctuations.** Additionally, higher metal prices and concerns over tariffs are expected to contribute to this forecast**. D&B expects CPI inflation for March 2025 to be 3.5%, reflecting continued easing of food prices and stable fuel costs. Improved supply conditions, favorable weather, and government measures such as targeted spending and tax incentives are also anticipated to support this trend.** The Reserve Bank of India (RBI) is expected to implement at least 75 basis points of rate cuts in 2025, with successive reductions anticipated in April and August. Corporate performance remains strong, with revenue, EBITDA, and PAT growth of 6.2%, 11%, and 12%, respectively, in Q3FY25. This overall stabilization in prices reflects improved supply conditions and easing cost pressures, which are likely to support household consumption and economic stability moving forward. In February 2025, India's monetary policy continued to address the challenge of managing inflation and supporting growth, with inflation easing to 3.6% from 4.3% in January 2025. By March 2025, inflation further decreased to 3.5%, reflecting ongoing efforts to stabilize prices. Despite this moderation, inflation remains slightly above the Reserve Bank of India's (RBI) target of 4%, driven by stubbornly high food prices and external uncertainties.



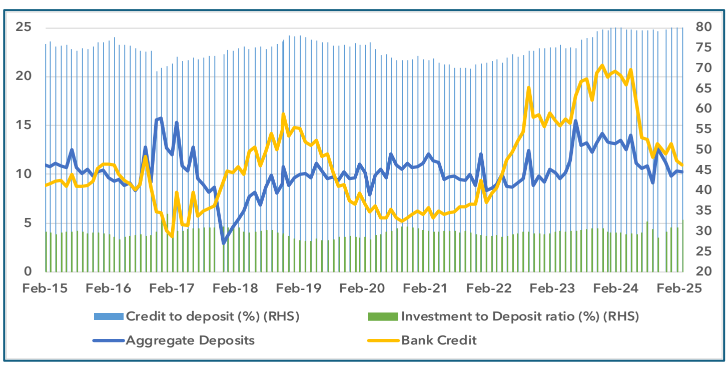


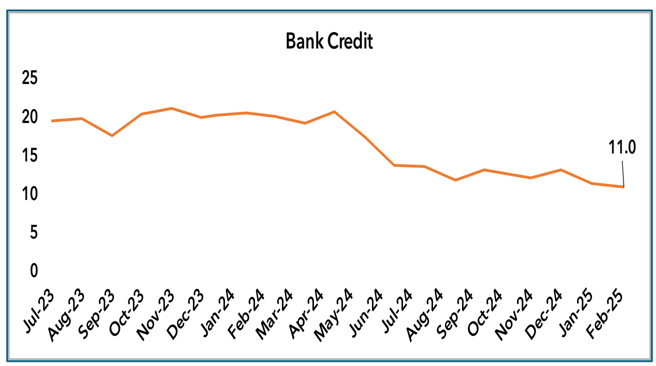


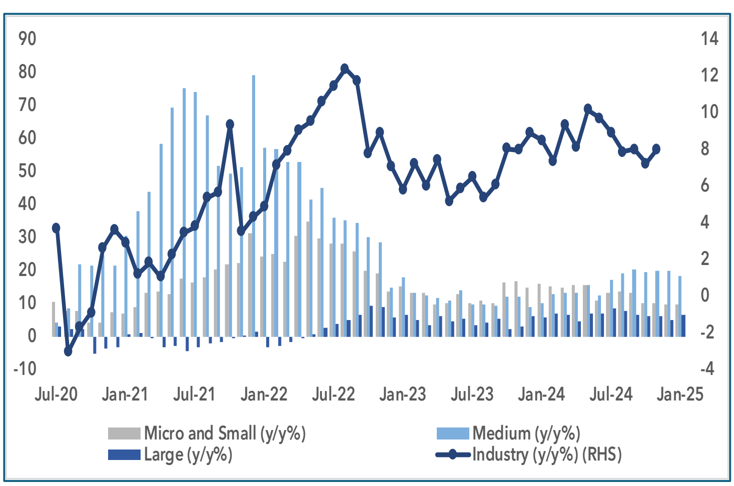
Source: RBI, Dun & Bradstreet, MOSPI

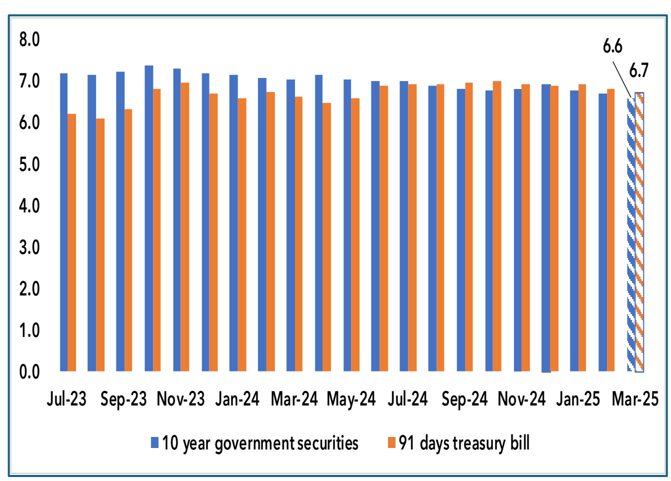
Money Market

India's financial markets in March 2025 reflect a dynamic interplay between monetary policy actions, market demand, and liquidity conditions. **Dun and Bradstreet forecasts the 10-year G-Sec yield moderating to 6.6%, 91-day Treasury Bill yield moderating to 6.4% from 6.5%, and bank credit growth slowing to 10.5% from 11%,** , reflecting a combination of easing inflation, stable borrowing, and cautious lending dynamics. India's retail inflation dropped to 3.61%, reducing pressure on the RBI to maintain a tight monetary stance and easing concerns about persistent price rises. Additionally, the government's borrowing program has remained stable, limiting excess bond supply and contributing to softer yields. The RBI's liquidity management measures, including OMO purchases, VVR auctions, and forex swaps, have improved liquidity conditions, placing downward pressure on short-term yields like the 91-day T-Bill. Improved liquidity, coupled with easing inflation, has encouraged expectations of future monetary easing, reinforcing the forecasted decline in short-term yields. On the credit front, elevated interest rates and a focus on risk management have prompted banks to adopt a more cautious lending approach, slowing credit growth despite continued investment activity. Moreover, businesses appear to be taking a wait-and-watch approach before committing to large-scale borrowing, tempering the pace of credit expansion. In March 2025, India's banking sector showed resilience despite challenges. Asset quality concerns persist, particularly in unsecured retail loans and microfinance segments. Deposit growth outpaced credit growth, driven by a revival in CASA (Current Account Savings Account) deposits. The cost of funds is expected to have peaked, and Net Interest Margins (NIMs) are under pressure due to anticipated interest rate cuts. The MSME sector performed robustly during this month, benefiting from government measures aimed at enhancing credit access and supporting first-time entrepreneurs. Enhanced credit availability, including increased credit guarantee cover and customised credit card schemes, supported MSMEs in expanding their operations. Despite these positive developments, MSMEs faced challenges such as tight liquidity and asset quality concerns, particularly in microfinance and unsecured loan segments.





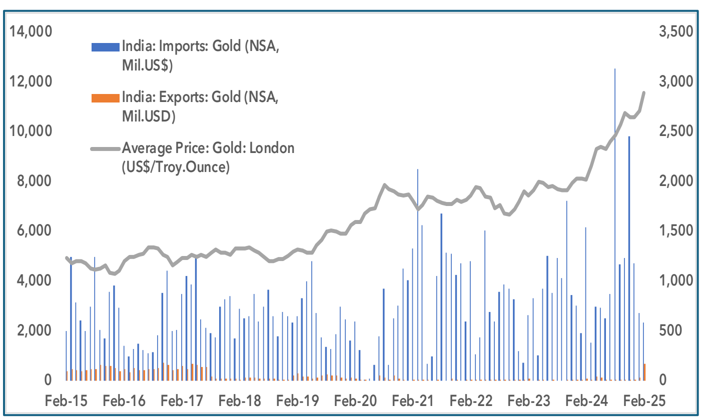


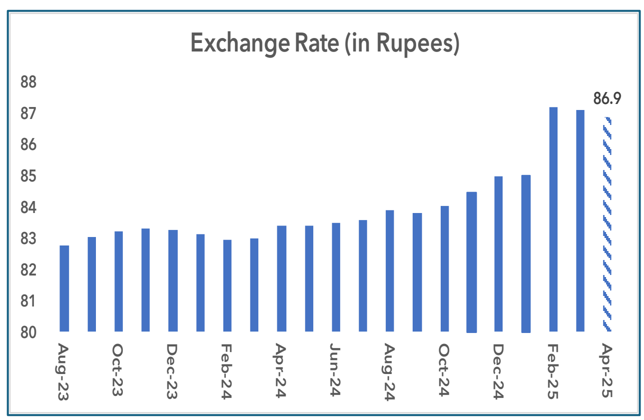


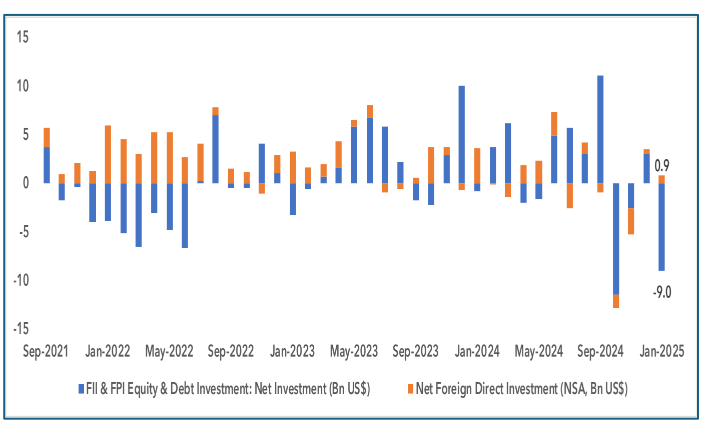
Source: RBI, Dun & Bradstreet, MOSPI

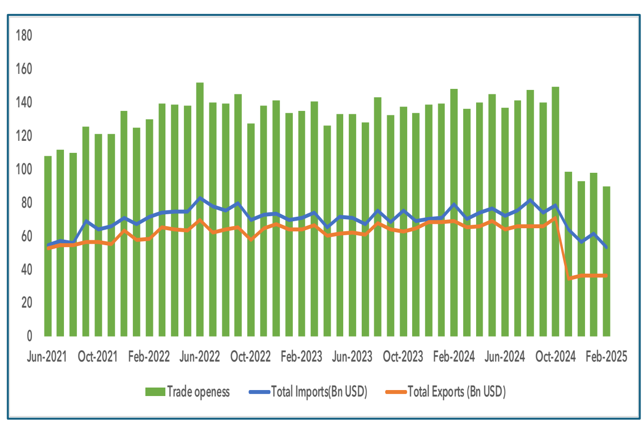
External Situation

In February 2025, the INR/USD exchange rate stood at 87.1, with expectations to remain stable in March and slightly strengthen to 86.9 by April due to global economic stabilization and easing capital outflows. The Reserve Bank of India's interventions and a weakening dollar are key factors in this stability. In mid-March, the trade deficit narrowed to USD 13.8 billion, driven by reduced imports of non-essential goods. FIIs ended a month-long sell-off with a net inflow of USD 6.94 billion, although FPIs withdrew ₹23,710 crore from equities in February. Exports grew marginally by 0.1% to $395.6 billion from April 2024 to February 2025, but merchandise exports declined by 10.9% YoY in February to $36.91 billion, largely due to base effects and weak global demand. Top-performing export sectors included electronics, rice, and ores, while petroleum products, engineering goods, chemicals, and gems & jewellery were weak. Imports increased by 5.7% to $656.7 billion, driven by gold, electronics, and petroleum during April 2024 to February 2025, but fell by 16.3% in February 2025, leading to a narrowing trade deficit. Oil and gold imports dropped significantly, contributing to the decline in overall imports, while imports of electronic goods and machinery remained strong, reflecting domestic investment demand. Gold prices hit record highs in February, rising by 14% to INR 86,831/10g, while new gold reserves in Odisha could reduce import dependency. Crude oil imports surged by 4.7% in February, with domestic production declining by 5.1%, raising the import bill to $124.7 billion during April-February. The government aims to increase natural gas's share in the energy mix to 15% by 2030, potentially boosting US gas imports. Exports showed marginal growth, but merchandise exports faced a decline due to weak global demand and base effects. Electronics, rice, and ores emerged as top-performing export sectors, while petroleum products, engineering goods, chemicals, and gems & jewellery struggled. The increase in imports, driven by gold, electronics, and petroleum, highlights strong domestic demand, although the significant drop in oil and gold imports in February contributed to the narrowing trade deficit. The record high gold prices and the discovery of new gold reserves in Odisha could potentially reduce import dependency and improve the trade balance. Crude oil imports surged, reflecting India's energy needs, while domestic production declined, raising the import bill. The government's aim to increase natural gas's share in the energy mix to 15% by 2030 indicates a strategic shift towards cleaner energy sources, potentially boosting US gas imports.









Source: RBI, Dun & Bradstreet, MOSPI

Economy Observer is a monthly report that shares an in-depth analysis on key macroeconomic developments in India and provides a monthly forecast of key economic indicators, providing insight into the expected direction of the Indian economy.

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