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ECONOMY OBSERVER



August 2025

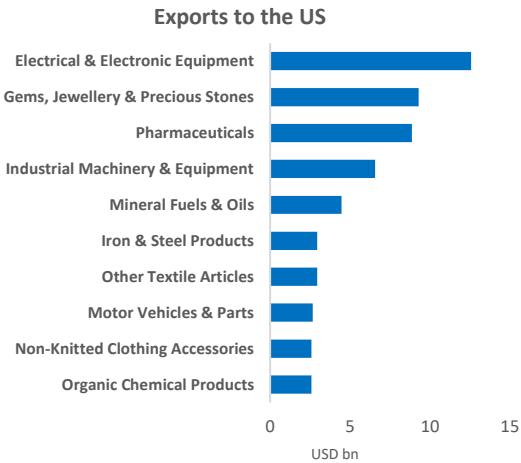
Higher US Tariffs Threaten India’s Competitive Edge Prompting Market Diversification Efforts

The US’s recent decision to impose a 50% tariff on Indian imports marks a sharp and somewhat unexpected shift in bilateral trade dynamics. India now faces the steepest tariff rates among US’s trading partners, despite its early participation in trade talks.

At the heart of the breakdown were unresolved disputes over market access. India reportedly resisted opening sensitive agriculture and dairy sectors, citing the need to safeguard small farmers. Washington also sees India’s continued purchases of discounted Russian energy and military equipment as undercutting its sanctions strategy. The US has levied additional penalties targeting such transactions, potentially inflating India’s oil import bill if it is forced to pivot away from Russian crude.

The impact is immediate and uneven across sectors. Labour-intensive exports gems and jewellery, textiles, and apparel face a sudden loss of cost competitiveness in one of their largest markets, threatening market share to rivals like Bangladesh and Vietnam. Electronics assembly, a pillar of India’s supply-chain diversification strategy, could also lose its cost advantage after Washington announced plans to impose a 100% tariff hike on chips and semiconductors, with limited relief for companies producing in the US. Pharmaceuticals face a potentially larger blow: the US is reviewing generic drug imports under a separate investigation, with proposals floating for punitive hikes as high as 200%. This would disrupt India’s dominance as a low-cost supplier to the US healthcare system and threaten a crucial export revenue stream.

	April 2 2025 Tariff (%)	August 7 2025 Tariff (%)	Change
EU	-	15	-
Japan	17	15	▼ 2
South Korea	27	15	▼ 12
Philippines	17	19	▲ 2
Malaysia	24	19	▼ 5
Pakistan	29	19	▼ 10
Indonesia	32	19	▼ 13
Thailand	36	19	▼ 17
Cambodia	49	19	▼ 30
Taiwan Region	32	20	▼ 12
Bangladesh	37	20	▼ 17
Sri Lanka	44	20	▼ 24
Vietnam	46	20	▼ 26
India	26	50	▲ 24



Mitigation strategies will need to be both immediate and unconventional. At the diplomatic level, India could explore sector-specific exemptions rather than broad tariff rollbacks, focusing on industries where US supply chains are structurally dependent on Indian inputs (e.g., generics, diamond cutting, IT-enabled services). In parallel, shifting parts of the value-addition process offshore especially final assembly for US-bound goods—to low-tariff partner countries could preserve market access without a complete relocation of production. India could also leverage its trade deals with the UK and EU (being negotiated) to offer reciprocal concessions to the US, creating bargaining chips without undermining domestic sensitivities.

Domestically, this is a moment to accelerate Make in India in targeted sub-sectors, but with a focus on supply-chain deepening rather than just assembly. Building capacity in tariff-insulated upstream inputs (e.g., textile fibers, specialty chemicals, semiconductor packaging) could reduce future exposure. Finally, exporters in high-risk categories should pilot differentiated product lines for the US niche, high-margin offerings that can absorb tariff costs rather than competing head-to-head on price in the mass market.

Latest Economy Observer report from Dun & Bradstreet’s highlights domestic resilience under threats of higher-than-expected US tariffs.

Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet said, “The 50% US tariffs on Indian exports clouds the near-term outlook for trade and investment, though hope still remains for a negotiated settlement at lower rates in the months ahead. Domestically, the economy continues to display resilience, with industrial activity advancing at a measured pace. Inflationary pressures are easing on the back of softer food prices and proactive policy interventions. Monetary conditions remain supportive, with recent rate cuts and liquidity measures aimed at spurring credit growth and lowering borrowing costs for MSMEs and consumers. The external sector will draw some support from the India UK CEFTA, which targets a doubling of bilateral trade by 2030.”

POSITIVE

- CPI inflation fell to 2.1% y/y in June 2025, a 77-month low, primarily due to lower food prices.
- India and the UK signed a Comprehensive Economic and Trade Agreement (CETA), eliminating tariffs on 99% of Indian exports.
- Non-editable GSTR-3B and 3-year filing cut-off introduced to improve tax compliance and transparency.
- E-Way Bill Portal 2.0 launched with real-time sync and enhanced API access, improving logistics efficiency.
- Credit-on-UPI enabled, expanding access to digital credit through pre-sanctioned credit lines.
- Normal monsoon supported early kharif sowing, helping stabilize food output and inflation.
- Positive policy landscape continued reforms under Make in India, GST, and digital transformation are improving efficiency and attracting investment.

NEGATIVE

- US imposed a 25% tariff on Indian goods, with an additional 25% because of oil imports from Russia, threatening exports in gems & jewellery, pharma, and electronics.
- Merchandise trade deficit widened to \$283 billion in FY25, driven by gold and crude oil imports.
- Rare-earth supply chain disruptions exposed vulnerabilities in electronics and EV production.
- Equity markets dipped briefly due to weak earnings in banking and IT; India VIX rose 7%.
- Imports from FTA partners like UAE and China continue to outpace exports; FTA deficit rose to \$26 billion.
- INR faces depreciation risks from FII outflows and potential export losses due to tariffs.
- Mining and electricity output contracted, limiting broader industrial momentum.
- New UPI regulations restrict balance checks and API calls during peak hours, possibly affecting user experience.

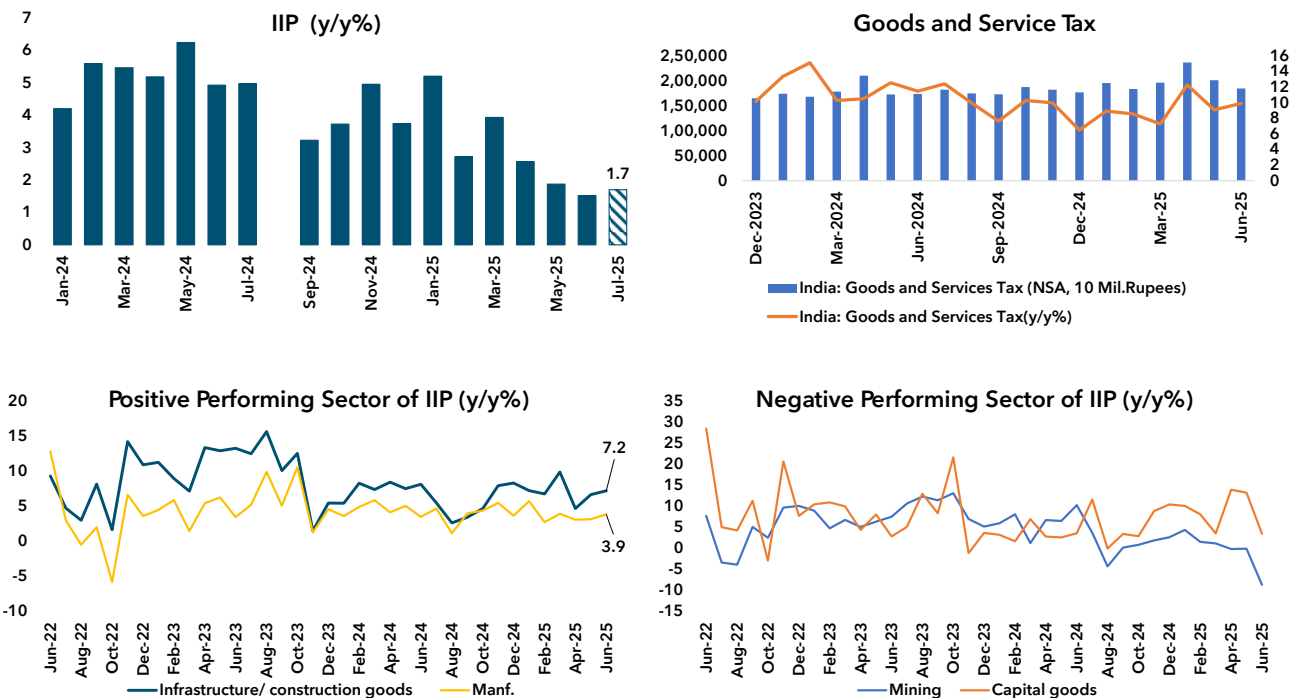
D&B's Economy Observer Forecast			
Variables	Forecast**	Latest Period	Previous period
IIP Growth	1.7% (July-25)	1.5% (June-25)	1.9% (May-25)
Inflation WPI	-1.0 (July-25)	-0.1% (June-25)	0.4% (May 25)
CPI (Combined)	1.1 (July-25)	2.1% (June-25)	2.8% (May-25)
91-day T-Bills*	5.3% (July-25)	5.4% (June-25)	5.8% (May-25)
10-year G-Sec Yield*	6.3% (July-25)	6.3% (June-25)	6.3% (May-25)
Bank Credit	12.0% (July-25)	9.5% (June-25)	9.0% (May-25)
Exchange Rate (INR/USD) *	85.9 (Aug-25)	85.8 (July-25)	85.9 (June-25)

*Weekly Average ** Dun and Bradstreet Forecast

Real Economy

- Dun & Bradstreet forecasts the Index of Industrial Production (IIP) to grow by 1.7% y/y in July 2025, indicating continued but modest expansion in industrial activity. Growth is being driven by steady momentum in manufacturing, particularly in basic metals, and construction-linked sectors, even though mining and electricity output contracted.
- The manufacturing sector remains supported by resilient domestic demand and policy tailwinds, though recent disruptions in global supply chains especially in rare-earth materials have highlighted vulnerabilities in electronics and EV production. The government has responded with incentives for domestic rare-earth production and supply chain diversification.
- On the trade front, India and the UK signed a Comprehensive Economic and Trade Agreement (CETA) in July 2025, eliminating tariffs on 99% of Indian exports. Bilateral trade has already reached USD 56 billion, with a target to double it by 2030.
- The US announcement on August 6 of a 50% tariff on Indian goods could dampen export momentum, particularly in sectors like gems & jewellery, pharmaceutical products and certain electronics. A bilateral trade deal under negotiation may offer relief if agreed upon in the coming months.
- From a governance perspective, the rollout of non-editable GSTR-3B returns in July and the implementation of a three-year filing cut-off rule from August 2025 signal a push toward greater tax compliance and transparency. These reforms are expected to reduce tax evasion, improve GST collections, and enhance fiscal space for public investment.

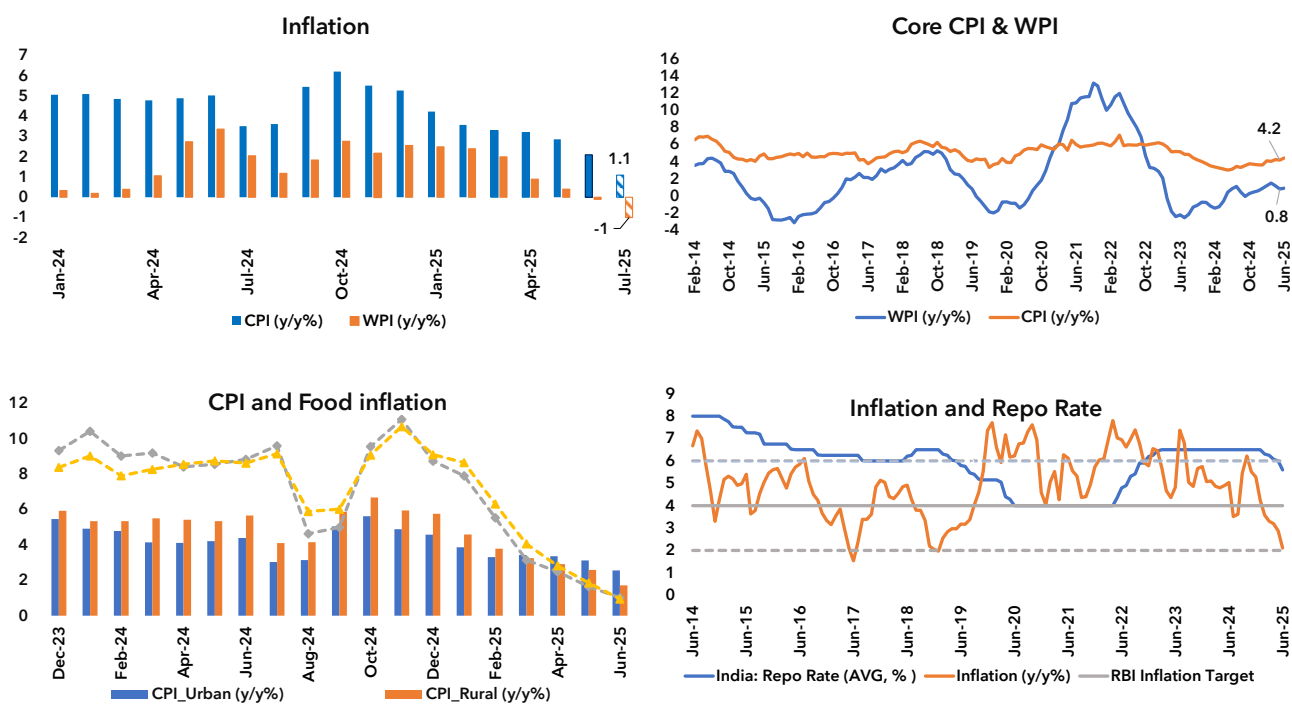
India's near-term industrial outlook remains cautiously optimistic. Despite external shocks and trade headwinds, domestic policy agility, resilient demand, and structural reforms continue to support growth. The convergence of fiscal, trade, and digital reforms reinforces investor confidence and strengthens the foundation for long-term economic resilience.



Price Scenario

- Dun & Bradstreet forecasts CPI inflation to ease further to 1.1% y/y in July 2025, down from 2.1% y/y in June, marking a 77-month low. The moderation is driven by a consistent decline in food prices, with vegetable and pulse prices stabilizing at lower levels due to favorable seasonal trends.
- In June 2025, urban inflation declined to 2.56%, down from 3.12% in May, while rural inflation eased to 1.72%, compared to 2.59% in the previous month.
- The sharper decline in urban areas was driven by a steeper fall in food inflation, which dropped to -1.22% in urban regions versus -0.92% in rural areas. This reflects the impact of better supply chain efficiencies and lower retail markups in urban markets.
- A normal monsoon has supported early kharif sowing across key agricultural regions, helping to stabilize output expectations and contain food inflation pressures. Food and beverages inflation remains subdued, reinforcing the broader disinflationary trend.
- On the wholesale front, WPI inflation is expected to decline by 1.0% y/y in July 2025, following a 0.1% contraction in June. This marks the first consecutive monthly contraction since October 2023, led by persistent softness in input costs, subdued global commodity prices, and easing transportation charges, particularly in fuel and freight.
- The sharp fall in food and mineral oil prices has been a key driver of the WPI decline, reflecting broader deflationary pressures in wholesale markets.

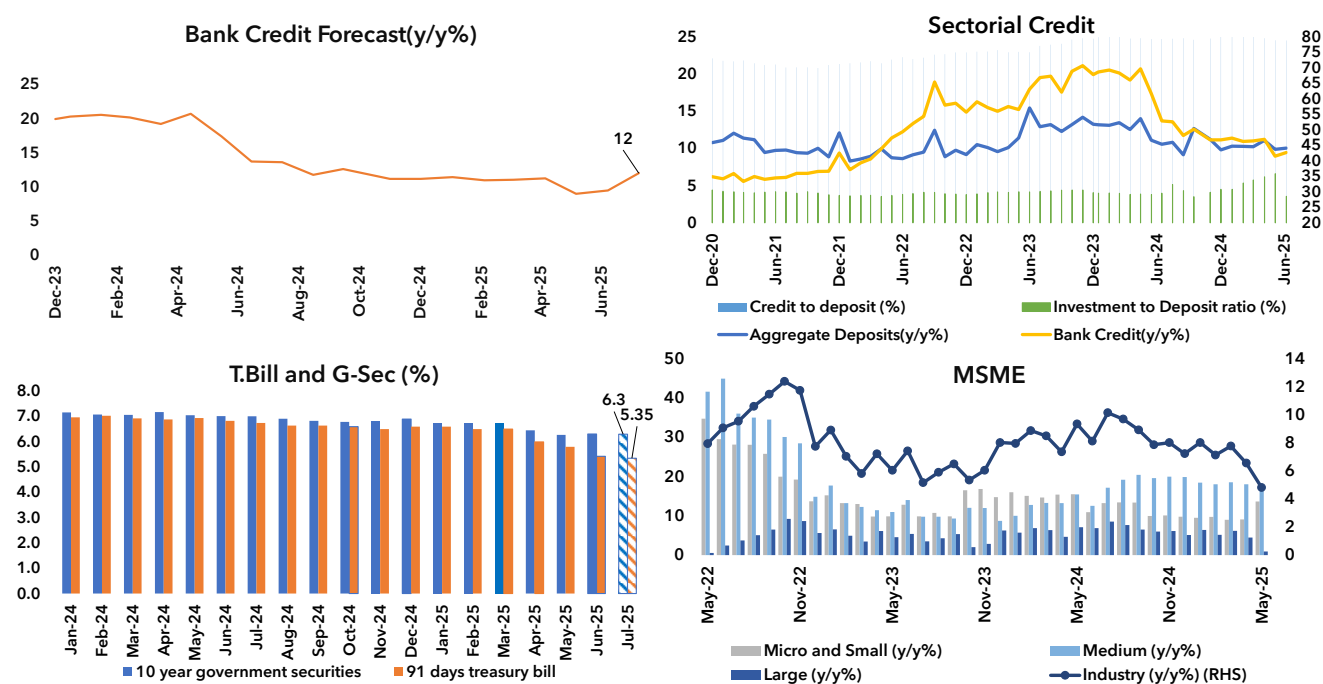
India's inflation trajectory continues to moderate, reinforcing price stability and strengthening the case for continued policy support to growth. Improved agricultural productivity, favorable weather conditions, and robust agri-infrastructure investments have stabilized food prices. Industrial sectors are benefiting from softening input costs, aiding manufacturers, particularly in export-oriented industries. Over the medium term, headline inflation is projected to remain well within the RBI's target range, offering policymakers strategic flexibility to maintain a supportive policy stance. The RBI's careful calibration of liquidity and interest rates will be crucial in managing inflation expectations amid a still-uncertain global environment.



Money Market

- India’s financial markets in July 2025 remained stable, supported by steady yields, improving credit conditions, and fiscal discipline. Dun & Bradstreet projects the 10-year G-Sec yield to hover around 6.3%, backed by strong investor sentiment, as reflected in a 12.6% y/y rise in the D&B Investment Confidence Index for Q3 2025. The 91-day T-Bill yield is expected to ease to 5.3%, indicating surplus liquidity. The RBI’s continued cancellation of the 14-day VRR auction signals comfortable systemic liquidity and aligns with its accommodative policy stance. Bank credit growth is projected to rise to 12.0%, driven by MSMEs, retail borrowers, and strong demand in housing and services. Industrial credit also showed early signs of recovery.
- The July G-Sec auction raised ₹36,000 crore across two papers (5.91% GS 2028 and 6.33% GS 2035), both fully subscribed, reflecting robust investor appetite and stable yield expectations.
- Despite a brief equity market dip due to weak earnings in banking and IT, overall financial conditions remained stable. The India VIX rose 7%, but broader sentiment stayed positive, supported by macroeconomic fundamentals.
- E-Way Bill Portal 2.0, launched on July 1, 2025, introduced a dual-portal system with real-time sync and enhanced API access, improving logistics efficiency and ensuring uninterrupted compliance operations.
- From August 1, 2025, new UPI regulations limit balance checks and high-frequency API calls during peak hours. Additionally, NPCI enabled credit-on-UPI, allowing users to link pre-sanctioned credit lines (overdrafts and secured loans) to UPI apps, expanding access to digital credit.

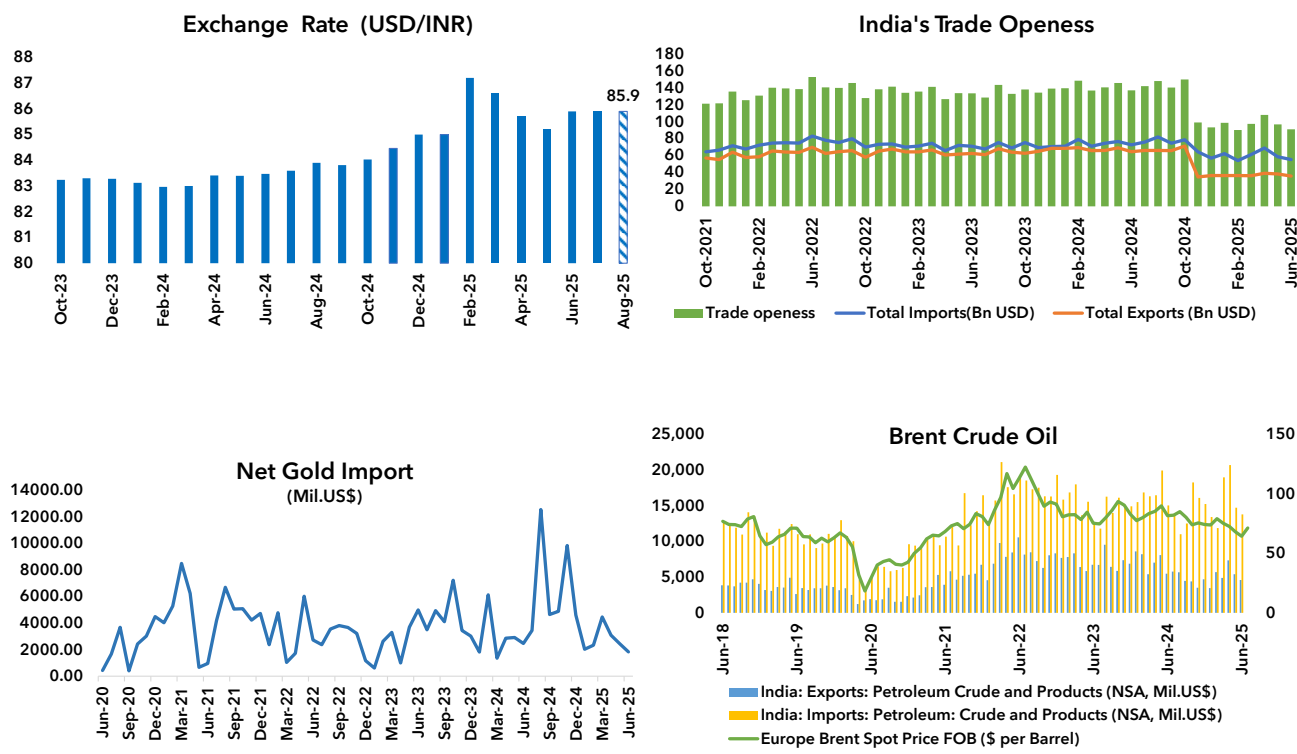
India’s financial markets remained stable in July 2025, supported by strong investor confidence, surplus liquidity, and rising credit growth. Key reforms included the launch of E-Way Bill Portal 2.0 and new UPI regulations, enhancing digital infrastructure and expanding access to credit.



External Scenario

- Dun & Bradstreet expects the rupee to average ₹85.9/USD in August, The Indian rupee has depreciated through July, mainly due to a stronger US Dollar and reduced capital inflow. However, the rupee may face further depreciation pressure due to FII outflows and potential export losses if higher tariffs are imposed on India. The RBI remains active in curbing excessive volatility and maintaining orderly currency movement.
- Services exports remain a key pillar of resilience, with India’s services exports reaching a record \$387.5 billion in FY25, led by robust growth in IT, consulting, and professional services.
- Foreign exchange reserves provide a strong buffer, standing at approximately \$645 billion as of July 2025, helping India absorb external shocks and maintain macroeconomic stability.
- Merchandise trade deficit has widened significantly, reaching \$283 billion in FY25, up from \$241 billion the previous year, largely due to a sharp rise in gold and crude oil imports. Gold imports surged amid festive and investment demand, while oil imports remained elevated due to price volatility and increased energy needs.
- Recent trade developments show mixed momentum, with a marginal uptick in exports in June and early July, particularly in electronics and agricultural goods. However, imports continue to outpace exports, especially from FTA partners like the UAE and China. Notably, India’s merchandise trade deficit with FTA partners rose to \$26 billion, and a potential trade facilitation agreement with the EU is under discussion, aimed at improving market access and reducing tariff barriers.

India’s external sector continues to navigate a complex global landscape marked by volatile commodity prices and shifting trade dynamics. While the services sector and forex reserves offer resilience, the growing merchandise trade deficit driven by surging oil and gold imports remains a key vulnerability. With trade negotiations underway and policy buffers in place, India is actively recalibrating its external strategy to balance growth ambitions with macroeconomic stability.



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.

About Dun & Bradstreet:

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India is also the home to **Dun & Bradstreet Technology & Corporate Services LLP**, which is the Global Capabilities Center (GCC) of Dun & Bradstreet supporting global technology delivery using cutting-edge technology. Located at Hyderabad, the GCC has a highly skilled workforce of over 500 employees, and focuses on enhanced productivity, economies of scale, consistent delivery processes and lower operating expenses.

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Dun & Bradstreet Contact:

Silvia Dsouza

Email: dsouzasi@dnb.com