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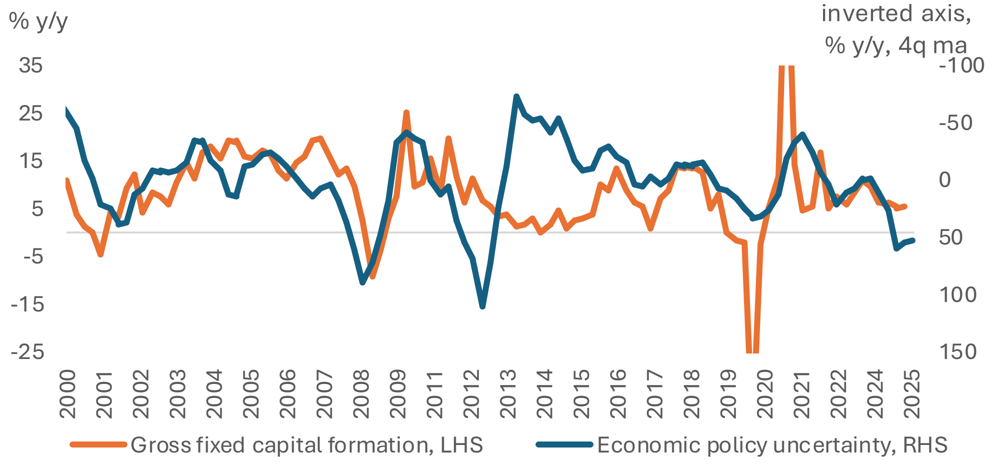
ECONOMY OBSERVER

May 2025

Will Tariff Uncertainty from the US Hit India's Investment Climate?

As the United States signals a renewed push for reciprocal tariffs on trading partners, the threat of a more fragmented global trade regime has returned to the fore. While much of the initial rhetoric has centered on China, countries like India are not immune to the spillover. The implications are particularly sharp for export-oriented sectors, which have grown steadily in the post-pandemic realignment of supply chains. A sharp turn in U.S. tariff policy would bring fresh uncertainty–precisely when India is positioning itself as a stable alternative in a volatile global economy.
Yet India begins from a relatively resilient position. Unlike Vietnam or Cambodia, whose export competitiveness relies heavily on preferential access to the U.S. market, India already faces higher Most Favored Nation (MFN) tariffs. In fact, India has withstood earlier tariff actions reasonably well–most notably in 2019 when the U.S. revoked Generalized System of Preferences (GSP) benefits. Export performance dipped temporarily, but by late 2022, outbound shipments had recovered across key categories including pharmaceuticals, apparel, and engineering goods. However, the concern today is not only the tariffs themselves, but the unpredictability they introduce into the investment climate.

Chart: Policy uncertainty vs investment



Source: PolicyUncertainty.com, Central Statistics Office

Historically, uncertainty has a dampening effect on business investment. Firms hesitate to commit capital when the policy outlook is murky, especially in sectors exposed to global demand. India's Gross Fixed Capital Formation (GFCF) data reflects this sensitivity. After peaking in FY2018–19, GFCF growth slowed sharply during the trade tensions of 2019-2020, and fell further in the pandemic. It has since recovered, reaching ₹74.6 billion in FY2023–24, or 29.2% of GDP–up from 28.3% the previous year, according to the Ministry of Statistics and Programme Implementation. But continued momentum depends heavily on investor confidence that export pipelines will remain stable and predictable.
That confidence, to some extent, appears intact. Dun & Bradstreet's Global Business Optimism Index for Q2 2025 shows India outperforming global peers on both supply chain and investment confidence. The Supply Chain Continuity Index (GSCI) jumped to 118 in Q2 from 87 in Q1, indicating that Indian firms see far fewer disruptions than their global counterparts. More significantly, the Global Investment Confidence Index (GICI) rose to 129—continuing a strong upward trajectory even as the global average declined. These numbers signal that India's business sector is not only absorbing external shocks but remains committed to long-term capital formation.
A key reason for this resilience is government policy. India has paired its trade diplomacy with industrial incentives that deepen domestic capacity. The Production-Linked Incentive (PLI) scheme, already a $24 billion commitment across sectors, has been further expanded with the recent announcement of a $4 billion Design-Linked Incentive (DLI) scheme to support indigenous electronics design. This marks a strategic pivot from simply assembling goods to creating intellectual property at home—a move that appeals to high-value investors navigating tariff turbulence globally. Electronics, pharmaceuticals, auto components, and renewable technologies are already seeing rising investment inflows as a result.
To ease trade tensions and deepen economic ties, India has cut tariffs on key U.S. products—lowering duties on Harley-Davidson bikes from 50% to 40% and on bourbon whiskey from 150% to 100%. These moves signal India's willingness to address American concerns. Building on this, both countries have signed terms of reference for the first phase of a bilateral trade deal, aiming to finalize it by year-end and push trade toward a $500 billion target by 2030. Talks begin virtually this month, with in-person rounds in May. India is also weighing major tariff cuts on over half of $23 billion in U.S. imports—its most sweeping liberalization in years.
In sum, while tariff uncertainty is a headwind, India's macroeconomic strength, business sentiment, and proactive industrial policy provide a robust foundation. Investors may tread cautiously in the short term, but India's fundamentals—and its evolving place in global supply chains—still make it one of the most attractive investment destinations in a disrupted world.

RBI's Tightrope Walk: Balancing Growth Revival and External Pressures– DUN & BRADSTREET

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

"India's macroeconomic near-term outlook signals cautious optimism, with the RBI steering a delicate balance between growth and macroeconomic stability. Prospects for the manufacturing sector appear strong, with expectations of a shift in demand from U.S. firms moving away from China toward India. Inflation is low because of weak commodity prices, allowing the RBI to cut the repo rate again in April. This will further boost domestic demand, which is already supported by steady rural consumption. India's recovery will hinge on sustained policy support and the stabilization of the global economic landscape. The path forward, while not without risks, is marked by underlying structural strength and policy agility."

POSITIVES

- The RBI cut the repo rate by 25 bps to 6.00%, supporting credit expansion and economic growth.
- The Indian Rupee has been strengthening against the US Dollar, reflecting investor confidence in India's macro stability.
- Services exports, especially IT and professional services, stayed robust, helping offset weak goods exports.
- RBI's ₹40,000 billion OMO purchase helps maintain balance in the financial system amid liquidity deficits.
- Low inflation allows the RBI to maintain an accommodative, pro-growth monetary stance.
- FII inflows remained positive, reflecting strong investor confidence in Indian markets.

NEGATIVES

- Escalating tariffs and non-tariff barriers from major economies could hamper India's export growth.
- Fluctuations in copper and aluminum prices could drive industrial cost pressures.
- Key sectors like engineering goods, textiles, and gems & jewelry have seen a general decline in exports.
- Increasing global trade barriers, new U.S. tariffs, and geopolitical tensions, which pose risks to exports and external demand while dampening private investment sentiment.

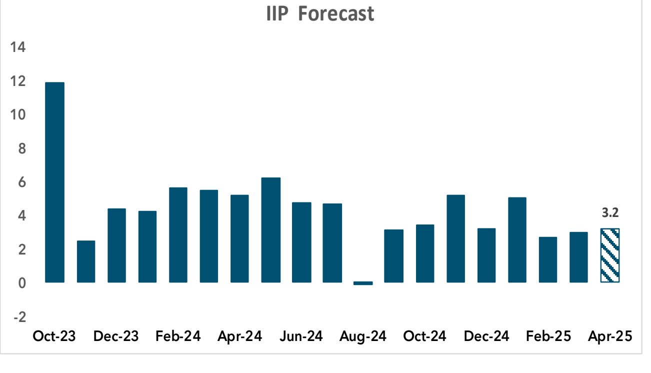
D&B's Economy Observer Forecast			
Variables	Forecast**	Latest Period	Previous period
IIP Growth	3.2%Apr-25	3.0%Mar-25	2.7% Feb-25
Inflation WPI	1.3% Apr-25	2.0% Mar-25	2.4% Feb-25
CPI (Combined)	2.8% Apr-25	3.3% Mar-25	3.6% Feb-25
Exchange Rate (INR/USD) *	85.2 May 25	85.7 Apr 25**	86.6 Mar-25
91-day T-Bills*	6.5% Apr-25	6.5% Mar-25	6.5% Feb-25
10-year G-Sec Yield*	6.7% Apr-25	6.7% Mar-25	6.7% Feb-25
Bank Credit	11.5% Apr 25	11% Mar-25	11% Feb-25

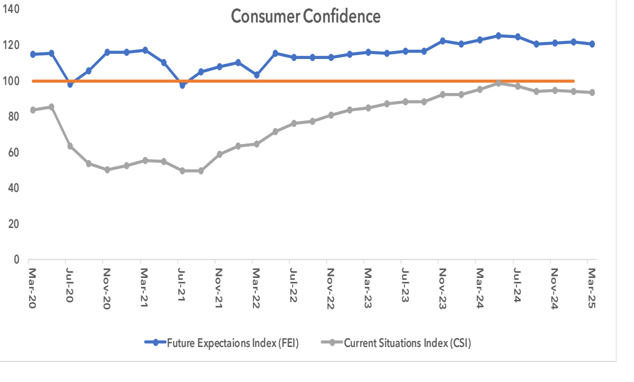
***Weekly Average ** Dun and Bradstreet Forecasts."**

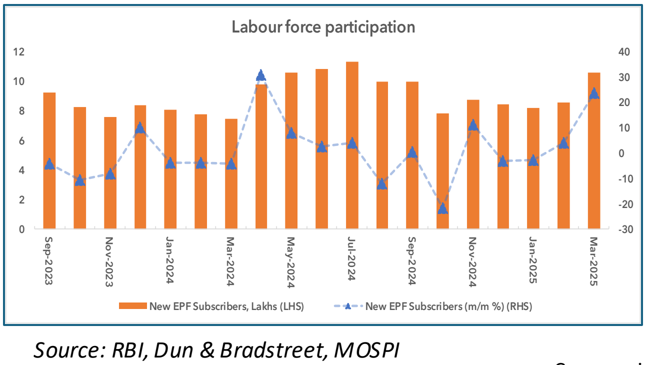
Real Economy

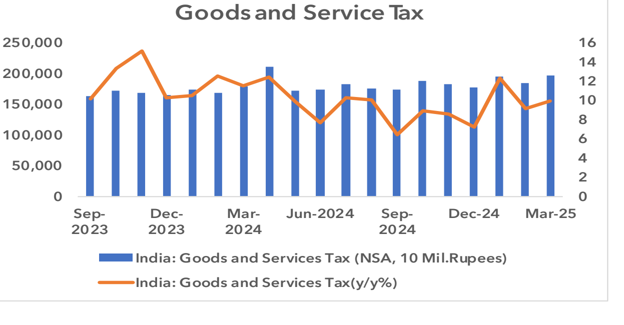
•Dun & Bradstreet indicates a modest uptick in the Index of Industrial Production (IIP), anticipated to expand by 3.2% in April 2025, up from 3.0% in March.
•Dun & Bradstreet has revised its GDP growth forecast for 2025-26 to 6.3% from 6.8%, reflecting rising global uncertainties and external headwinds such as U.S. tariff pressures and ongoing trade tensions that continue to weigh on exports and private investment.
•Industrial recovery remains uneven, with moderate growth seen in the automotive and electronics sectors, supported by domestic demand and government Production-Linked Incentive (PLI) schemes.
•The RBI has adopted an accommodative monetary policy stance, cutting the repo rate to 6.00% and deploying liquidity measures to stimulate credit, household consumption, and SME growth.
•Public sector investments in infrastructure, renewable energy, and urban development remain strong, counterbalancing the weak momentum in private sector capital formation amid global uncertainties.

India's near-term growth outlook is shaped by rising global trade barriers, new U.S. tariffs, and geopolitical tensions, which pose risks to exports and external demand while dampening private investment sentiment. To mitigate risks, the Reserve Bank of India (RBI) has cut the repo rate and enhanced liquidity to stimulate consumption and credit, while public sector capital expenditure in infrastructure and renewable energy continues to drive growth. Additionally, shifting global supply chains present an opportunity for India, as companies diversify operations away from China, with Apple's expansion in India serving as a prominent example. This reshuffling could boost domestic manufacturing and investment. We see industrial activity stabilizing, with the Index of Industrial Production (IIP) expected to rise modestly from the 2.7 dip in February , supported by sectors like electronics and automotive, buoyed by strong domestic demand and targeted Production-Linked Incentive (PLI) schemes. Despite external vulnerabilities, India's large domestic market and institutional strength act as crucial buffers against short-term shocks.







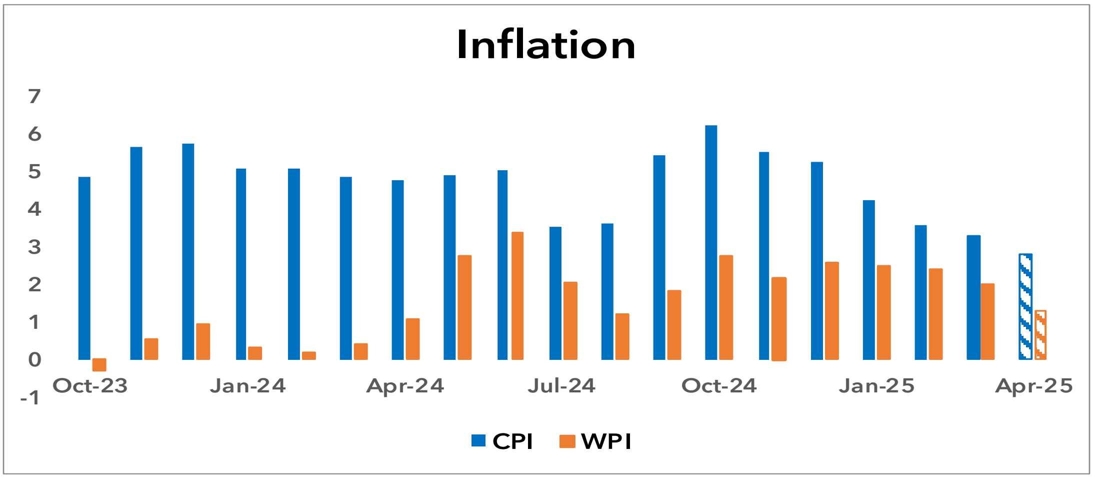


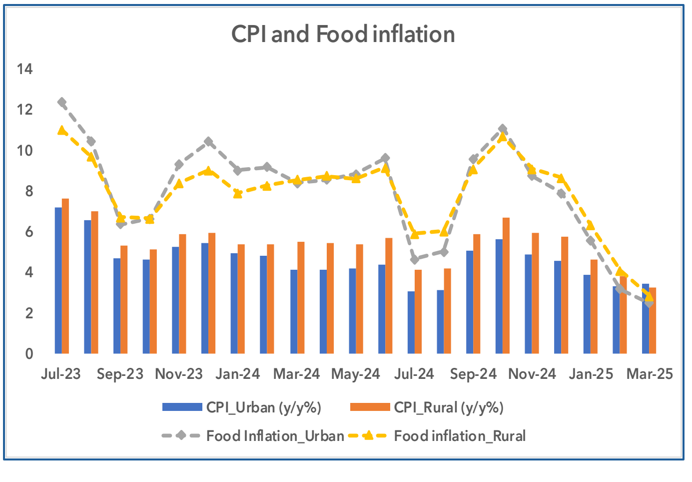
Source: RBI, Dun & Bradstreet, MOSPI

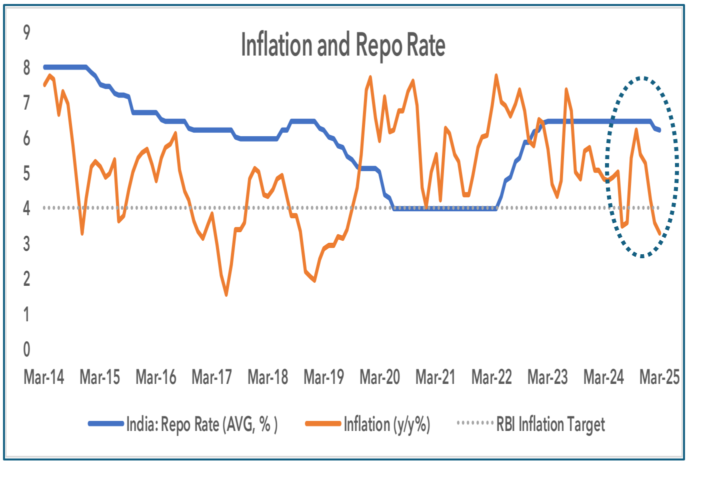
Price Scenario

•Dun & Bradstreet projects retail inflation (CPI) will decline to 2.8% in April 2025, down from 3.3% in March, helped by strong agricultural output and stable food prices.
•Dun & Bradstreet forecast Wholesale inflation (WPI) to ease to 1.3% in April, driven by moderating global commodity prices and softer industrial input costs.
•Key risks include potential spikes in industrial metal prices (copper, aluminum) and supply chain disruptions arising from geopolitical tensions.
•CPI inflation is likely to average between 3.0% and 3.5% in FY26, inflation staying below target will give RBI the confidence to pursue expansionary monetary policy

India's inflation is broadly benign, strengthening the case for continued policy support to growth. Improved agricultural productivity, favorable weather conditions, and robust rural infrastructure investment have stabilized food prices, easing pressure on consumer inflation. Industrial sectors are benefiting from softening input costs, thanks to declining global commodity prices, which is helping manufacturers, particularly in export-oriented industries. Nonetheless, vulnerabilities remain rising volatility in industrial metal prices and the risk of global supply chain disruptions could introduce fresh inflationary pressures. Over the medium term, headline inflation is projected to stay well within the RBI's target range, offering policymakers the strategic flexibility to sustain an accommodative stance without destabilizing price stability. The RBI's careful calibration of liquidity and interest rates will be crucial to managing inflation expectations amid a still-uncertain global environment.





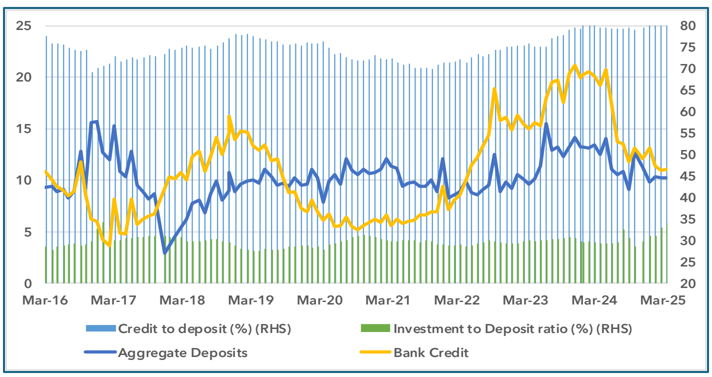


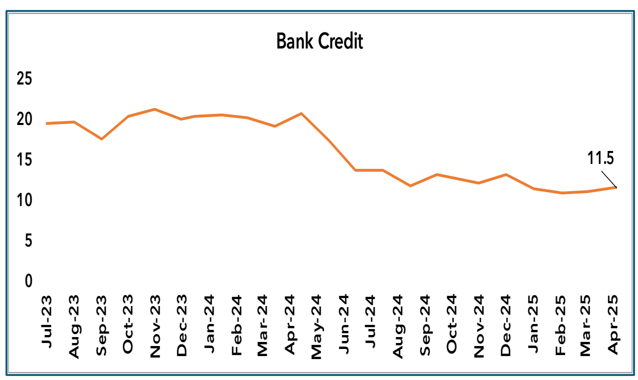
Source: RBI, Dun & Bradstreet, MOSPI

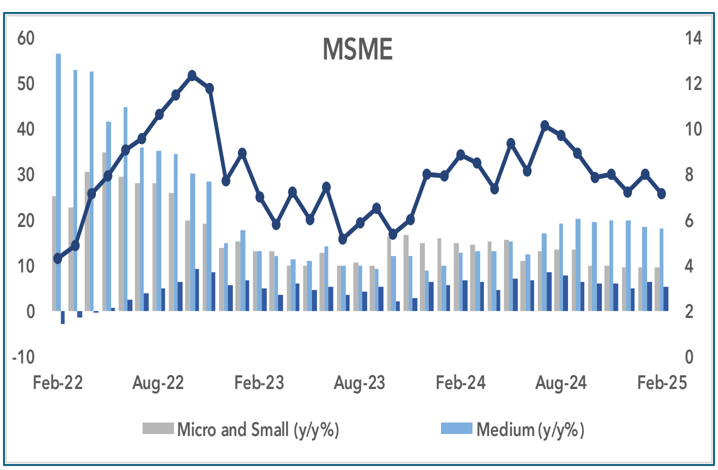
Money Market

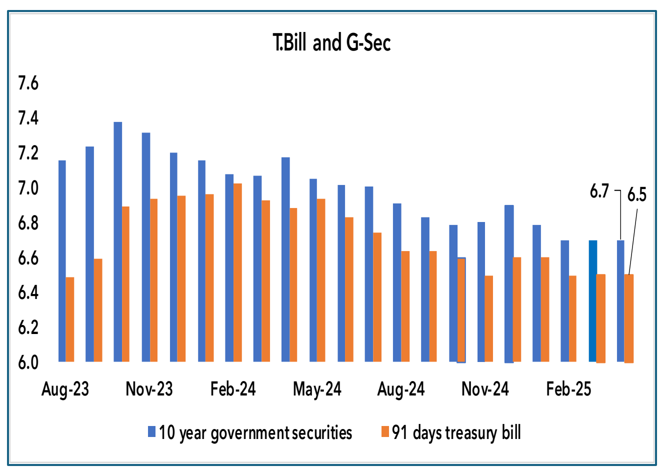
- Dun & Bradstreet projects the Indian Rupee (INR) to strengthen further to 85.8 in April and 85.2 by May 2025, driven by lower global inflation and strong capital inflows.
- Dun & Bradstreet forecasts the 10-year Government Security (G-Sec) yield to decline to 6.7% in April 2025, signaling a broad reduction in borrowing costs.
- India's merchandise trade deficit widened to $21.54 billion in March 2025, impacted by rising crude oil and gold imports amid geopolitical tensions.
- Services exports and foreign exchange reserves continue to bolster external sector stability. India's services exports reached a record $387.5 billion in FY25
- Key risks include rising global protectionism, oil price volatility due to geopolitical conflicts, and ongoing weakness in merchandise exports.

India's money and bond markets are adjusting to a lower interest rate environment, supported by easing inflation and proactive Reserve Bank of India (RBI) measures. Dun & Bradstreet forecasts the 10-year G-Sec yield to fall to 6.7% by April 2025. The RBI's strategies – cutting the repo rate to 6.00% and conducting a ₹40,000 billion OMO – aim to boost liquidity and credit flow. It is also targeting a surplus liquidity level of around 1% of deposits (₹2 trillion) to enhance policy transmission. Short-term rates have moderated, though private sector borrowing remains cautious. Bank credit growth has risen to 11.5%, driven by retail and MSME demand, while corporate credit appetite stays weak. The RBI has infused ₹5.41 trillion into the system this year and plans further bond purchases and daily overnight repos to manage liquidity. Sustained financial momentum will depend on policy transmission, the government's borrowing program, and global monetary trends.









Source: RBI, Dun & Bradstreet, MOSPI

External Situation

•Dun & Bradstreet projects the Indian Rupee (INR) to strengthen further to 85.8 in April and 85.2 by May 2025, driven by lower global inflation and strong capital inflows.
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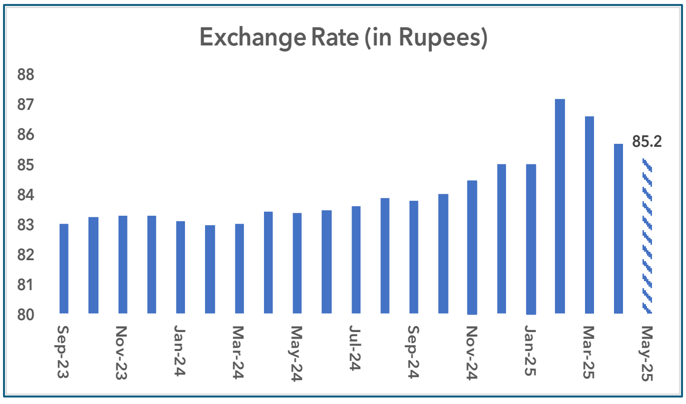
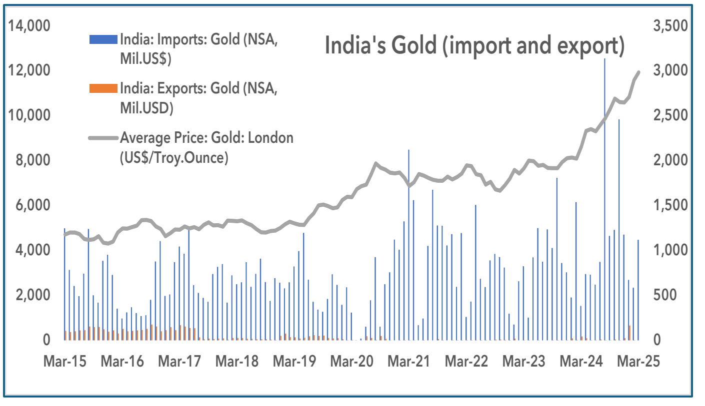
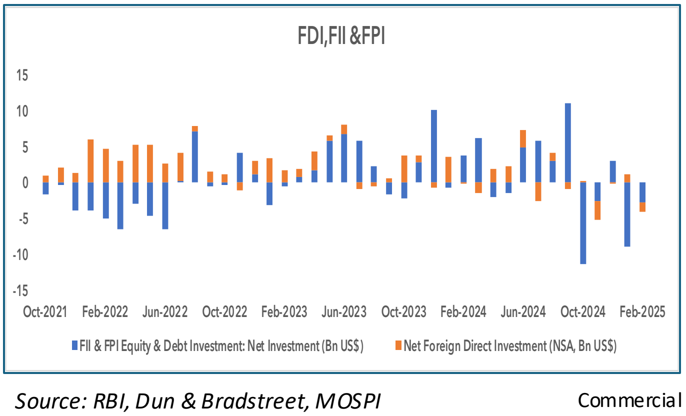
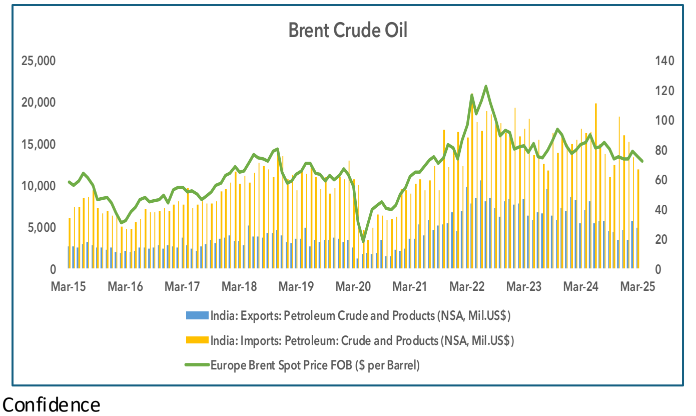
•Services exports and foreign exchange reserves continue to bolster external sector stability. India's services exports reached a record $387.5 billion in FY25
•Key risks include rising global protectionism, oil price volatility due to geopolitical conflicts, and ongoing weakness in merchandise exports.

India's external sector shows moderate resilience amid a challenging global environment. Dun & Bradstreet forecasts further strengthening of the Indian Rupee, supported by lower global inflation, steady capital inflows, and effective RBI interventions. However, vulnerabilities have surfaced as the merchandise trade deficit widened sharply, driven by surging imports of crude oil and gold amid geopolitical tensions and inventory restocking. While merchandise exports faced headwinds across sectors like engineering goods and textiles, services exports, particularly in IT and professional services, remained robust, helping offset some trade imbalances. India's strong foreign exchange reserves ($110 billion) offer critical buffers against external shocks. Nevertheless, external risks persist, including the threat of escalating global trade barriers and heightened oil price volatility stemming from geopolitical instability. Despite these challenges, India's structural strengths – a large domestic market, political stability, and a resilient services sector – position it favorably to manage global uncertainties and maintain external sector stability through FY26.









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.

About Dun & Bradstreet:

Dun & Bradstreet, a leading global provider of business decisioning data and analytics, enables companies around the world to improve their business performance. Dun & Bradstreet's Data Cloud fuels solutions and delivers insights that empower customers to accelerate revenue, lower cost, mitigate risk and transform their businesses. Since 1841, companies of every size have relied on Dun & Bradstreet to help them manage risk and reveal opportunity. For more information on Dun & Bradstreet, please visit www.dnb.com.

Dun & Bradstreet Information Services India Private Limited is headquartered in Mumbai and provides clients with data-driven products and technology-driven platforms to help them take faster and more accurate decisions across finance, risk, compliance, information technology and marketing. Working towards Government of India's vision of creating an Atmanirbhar Bharat (Self-Reliant India) by supporting the Make in India initiative, Dun & Bradstreet India has a special focus on helping entrepreneurs enhance their visibility, increase their credibility, expand access to global markets, and identify potential customers & suppliers, while managing risk and opportunity.

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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