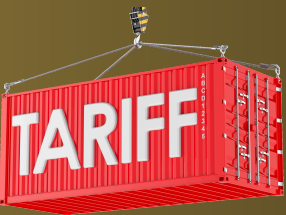




50% Tariff & The Market Reaction

Market impact and policy responses

29th Aug 2025



Introduction

The imposition of a 50% tariff by the US on Indian exports effective August 27, 2025, has created near-term volatility in Indian markets. However, robust domestic policy actions, an expected consumer-friendly GST rate cut, strategic export diversification, and global recognition of India's growth fundamentals are all cushioning the shock and boosting optimism for the future.

Short-Term Market Impact

- The Sensex fell 1,550 points in two days due to an FPI (Foreign Portfolio Investor) selloff, largely attributed to tariff fears and global risk sentiment.
- Midcap & Smallcap Indices saw a sharp correction of 2.6% & 2.9% each compared to the Largecap Index's 1.85%. Hardest hit sectors included Telecom, Realty, Services, Utilities, Metal, Financials, and Power, all down between 2.7%–3.7%.
- BSE's Market capitalization shrank by ₹5.3 lakh crore as foreign investors withdrew nearly ₹30,000 crore in August.

GST Rate Cut: Major Boost for Consumption

- The government is set to implement a new GST rate cut by the end of September, streamlining the regime to two primary slabs—5% for essentials (including food, textiles, medicines, and many FMCGs) and 18% for most other goods.
- Key consumer durables, auto, and electronics will see GST fall from 28% to 18%, leading to price reductions of 7–8% and making goods significantly more affordable for consumers. **The GST council meets on 3rd & 4th Sep when the rates are likely to be finalised.**

- The Bank of Baroda estimates this rate cut will deliver a windfall of ₹0.7–1 lakh crore (0.2–0.3% of GDP) to consumers in the second half of FY26, giving a strong boost to discretionary spending and overall consumption during the festive season.
- This consumption surge is widely expected to help offset negative external shocks, thereby reinforcing economic stability.

Policy & Diplomatic Responses

- India has hired two top US lobbying firms, Mercury Public Affairs and SHW Partners LLC, to press India's case in Washington and negotiate tariff relief, aiming to eliminate the additional 25% tariff.
- The government is seeking a rollback of the tariff while preparing for retaliatory measures in the WTO if needed, ensuring India's interests are forcefully represented.
- There is continued commitment to keeping national interests at the forefront, whether on energy imports or global trade.

Growth in Exports to China and Diversification

A key long-term strategy involves diversifying India's export markets. This includes:

- **India's exports to China jumped 20% to \$5.8 billion (April–July 2025)**, with surges in petroleum, electronics, chemicals, and gems—reducing the trade deficit and reflecting greater export competitiveness.
- Export destination diversification is well underway, with the share of exports to the US falling and trade relations strengthening with China, Africa, CIS countries, and Latin America.
- India's relations with China are already getting better with China lifting restrictions on export of rare earth magnets, fertilizers and tunnel boring machines to India. India plans to relax visa curbs on Chinese business professionals as part of a thaw of bilateral ties
- The current visit by PM, Modi to China after 4 years and his likely one-on-one meeting with the Chinese President Xi on 31st Aug could further improve the bilateral relations
- **India is expanding its outreach to 50 countries including the Middle East and Africa** to reduce reliance on any single market and mitigate risks of trade disruptions.

Green Shoots and Optimism

- **The RBI and government have kept the 6.5% GDP growth projection for FY26 unchanged**, emphasizing confidence in macroeconomic stability despite global

uncertainties.

- Rising rural wages, good monsoon (aiding agriculture), and inflation trending comfortably below 4% are contributing to robust domestic demand.
- **India's recent rating upgrade by S&P after 18 years and affirmation of outlook by Fitch**, despite the 50% tariff levy by the US, reflect global confidence in India's economic fundamentals, resilience and policy credibility.
- **Domestic mutual funds & DIs have been supporting equity markets**, helping to absorb FPI-driven volatility with overwhelming monthly SIP flows which are at ₹28,464 Crs currently.

Outlook: Tariffs Likely Temporary, Impact Manageable

Ongoing high-level negotiations with the US, India's strong industry and diplomatic efforts, anticipated GST-driven consumption boom, and export diversification set the stage for rapid recovery and resilience.

US trade actions often mirror domestic political cycles and are frequently revised, especially given mutual interest in restoring a stable partnership. Short term volatility could prevail in the markets, providing opportunities to buy to ride the long term growth story.

www.dhanavruksha.in

+91 73058 88454