US doubles India tariff to 50% over Russia oil

'Unfair, unjustified, unreasonable', says MEA; new rates from Aug 28

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In a significant escalation of trade tensions, the Donald Trump administration on Wednesday imposed a further 25 per cent tariff on Indian exports to the United States (US), blaming New Delhi's continued purchases of Russian crude oil. The move brings the total tariff burden to 50 per cent, leaving India at a marked disadvantage compared to global competitors, including China, on virtually all merchandise exports to the US.

The US had already announced a 25 per cent tariff on Indian imports, set to come into force from August 7. The additional 25 per cent duty will apply to shipments arriving after a 21-day window, from August 28 onwards. These tariffs are being levied on top of existing World Trade Organization-compatible duties.

"I determine that it is necessary and appropriate to impose an additional ad valorem duty on imports of articles of India, which is directly or indirectly importing Russian Federation oil," Trump said in an executive order issued by the White House. The order states that India's continued oil trade with Russia undermines US national security and foreign policy interests, particularly in relation to the conflict in Ukraine.

India has condemned the tariff hike, calling the US decision "unfair, unjustified and unreasonable" and emphasising how the US in recent days "targeted" India's oil imports from Russia.

"We have already made clear our position on these issues, including the fact that our imports are based on market factors and done with the overall objective of ensuring the energy security of 1.4 billion people of India," the Ministry of External Affairs said.

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Trump increases burden (in %)

Sectors	Average US MFN tariff	From Aug 7 (+25%)	From Aug 28 (+25%)
Coffee, tea, cocoa, and spices	1.4	26.4	51.4
Fish and fish products	0.7	25.7	50.7
Chemicals	2.7	27.7	52.7
Textiles	8	33	58
Clothing	11.7	36.7	61.7
Rubber, leather, and footwear	4	29	54

"IT'S... EXTREMELY UNFORTUNATE... THESE ACTIONS ARE UNFAIR, UNJUSTIFIED AND UNREASONABLE. INDIA WILL TAKE ALL ACTIONS NECESSARY TO PROTECT ITS NATIONAL INTERESTS"

Ministry of External Affairs in a statement

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World witnessing trade policy dislocation: FinMin

The finance ministry on Wednesday said the world had witnessed "trade policy dislocation" as well as "escalating conflicts" across West Asia since the presentation of the FY26 Budget in February.

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"It is therefore extremely unfortunate that the US should choose to impose additional tariffs on India for actions that several other countries are also taking in their own national interest," the MEA further said.

The ministry added that India would take "all actions necessary" to safeguard its national interests.

Russia now supplies about one-third of India's total crude oil imports, making it New Delhi's largest energy partner. India is the world's second-largest buyer of Russian crude, after China.

According to the New Delhi-based think tank Global Trade Research Initiative (GTRI), while India could consider curbing Russian oil imports if economically feasible, it should not give in to US pressure without due consideration. "India should remain calm, avoid retaliation for at least six months, and recognise that meaningful trade negotiations with the US cannot proceed under threats or mistrust," GTRI said, warning that the US may find new pretexts to penalise India again.

Trump in his executive order stated that should "a foreign country" retaliate against the United States in response to this action, he may further raise the tariffs. However, he indicated that the order could be modified should India or Russia take what he described as "significant steps" towards aligning with the US on security, foreign policy, or economic matters.

Earlier this month, Trump had warned of secondary tariffs of up to 100 per cent on countries continuing trade relations with Russia, unless Moscow agreed to a ceasefire in Ukraine.

The Federation of Indian Export Organisations (FIEO) called the move a major setback for exporters, with nearly 55 per cent of India's shipments to the US directly affected. "The 50 per cent reciprocal tariff effectively imposes a cost burden, placing our exporters at a 30–35 per cent competitive disadvantage compared to peers from countries with lesser reciprocal tariff," said FIEO President S C Ralhan. He added that micro, small & medium enterprises-led sectors, in particular, may not be able to withstand the sudden cost surge. "Margins are already thin, and this additional blow could force exporters to lose long-standing clients."

The latest measures come amid criticism from within the US political establishment. Republican leader Nikki Haley had earlier said: "India should not be buying oil from Russia. But China, an adversary and the number one buyer of Russian and Iranian oil, got a 90-day tariff pause. Don't give China a pass and burn a relationship with a strong ally like India."

In May, the US government granted a 90-day pause on additional tariffs on China, a reprieve that is due to expire on August 12.

GTRI pointed to the disparity, noting that Beijing continues to avoid penalties due to its control over critical materials such as gallium, germanium, rare earths, and graphite — resources deemed vital to US defence and technology sectors.

"In 2024, China bought $62.6 billion of Russian oil, more than India's $52.7 billion, yet faces no such penalties," it said.

RBI hits pause on rate cuts, citing uncertainties

The yield on the benchmark 10 year bond surged 8 bps post the policy decision as the market perceived the monetary policy's tone as hawkish. The Q1FY27 inflation forecast of 4.9 per cent also surprised the market.

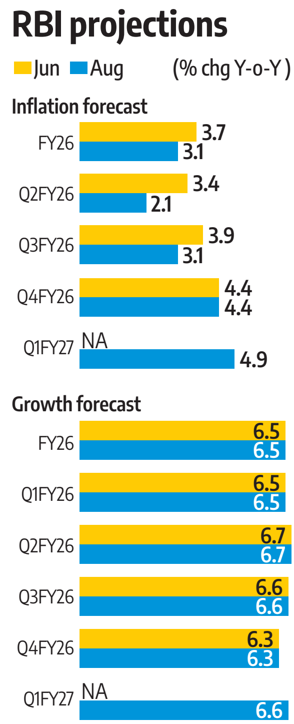
"On surface, today's policy may have sounded a shade hawkish," economists at HSBC said in a note while adding if subsequent growth data comes out weaker, the RBI could well lower its FY26 growth forecast and deliver a cut.

Malhotra said headwinds from persisting global uncertainties, prolonged geopolitical tensions, and volatility in global financial markets pose risks to the growth outlook. "Prospects of external demand, however, remain uncertain amidst ongoing tariff announcements and trade negotiations," he said.

According to Malhotra, domestic growth is holding up even though some high-frequency indicators showed mixed signals in May-June and a recovery in urban discretionary demand is still insipid.

"Domestic growth is holding up and is broadly evolving along the lines of our assessment even though some high-frequency indicators showed mixed signals in May-June. Rural consumption remains resilient while urban consumption revival, especially discretionary spending, is tepid. Fixed investment supported by buoyant government capex continues to support economic activity," he said.

While noting that the inflation outlook for FY26 has become more benign as compared to the previous MPC meeting in June, Malhotra said CPI inflation is likely to edge up above 4 per cent in Q4FY26 and beyond, as unfavourable base effects, and demand side factors from policy actions come into play.



Source: RBI

On liquidity, Malhotra reiterated that the central bank will keep sufficient liquidity in the banking system so that the productive requirements of the economy are met, and transmission to money markets and credit markets remains smooth.

Going forward, economists said a further rate cut would come if growth projections are cut.

"We think economic activity moderated in Q1 FY25-26 and see downside risks to the Q1 GDP forecast at 6.5 per cent (data due on 30 August). This will be a key metric to watch for as a trigger for a likely rate cut in October, in our view," Barclays economists said in a note.

At the same time, there is a view that given the inflation forecast, the current repo rate of 5.5 per cent could be the terminal rate.

"We may dub today's pause as the 'technical pause' as the