

India–US Interim Trade Framework: A Reset in Trade Relations and a Pathway to a Broader BTA



- India and the US have announced a framework for an Interim Trade Agreement (ITA), representing a calibrated reset in bilateral trade relations and providing a phased pathway toward a comprehensive Bilateral Trade Agreement (BTA).
- The US has decided to lower reciprocal tariffs to 18% on over USD 30 billion of Indian goods exports, a sharp reduction from the earlier cumulative tariff burden of 50%. This rate is also lower than that applied to major regional competitors, thereby improving India's relative competitiveness in the US market.
- The additional 25% surcharge linked to Russian crude oil imports has been withdrawn; however, Russia continues to account for a large share of India's crude oil imports despite a decline in recent months. The issue remains diplomatically sensitive and represents a potential risk to the durability of the interim trade arrangement.
- Around USD 44 billion of Indian goods exports to the US, including generic pharmaceuticals, gems and diamonds, smartphones, and aircraft parts, are estimated to benefit from zero reciprocal tariffs following the successful conclusion and implementation of the ITA.
- India has secured targeted relief from higher tariffs under the US Section 232, including the withdrawal of surcharges on certain aircraft and aircraft parts, along with a preferential tariff rate quota for automotive parts.
- Labour-intensive sectors such as textiles, leather and footwear, toys, home décor, and gems & jewellery, as well as electronics and pharma, emerge as key beneficiaries, with positive implications for export growth, MSMEs, and employment.
- Beyond tariffs, the framework emphasises addressing non-tariff barriers affecting bilateral trade, including import licensing, standards recognition, and regulatory frictions, particularly for ICT goods, medical devices, and agricultural trade.
- India has also indicated an aspirational intent to import up to USD 500 billion of US goods over the next five years, spanning energy products, aircraft and aircraft parts, precious metals, technology products, and coking coal; this is a non-binding target but signals possible deeper strategic and supply-chain integration over time.
- At the macro level, the agreement introduces moderate upside bias to our real GDP growth projections of 7.4% in FY26 and 6.5%–7.0% in FY27. We wait for clarity on product-level tariff details and the release of the revised GDP series by the end of February before recalibrating projections.
- With the framework in place, the overhang from US tariff-related uncertainty has reduced materially, supporting market sentiment and potentially easing pressure on FPI flows and the currency, although these will remain sensitive to further progress on the ITA/BTA and broader global macro-financial conditions.

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Relief from Elevated Tariffs; Negotiations Continue on Interim Trade Agreement and Broader BTA

After a prolonged period of negotiations, India and the US have announced a framework for an Interim Trade Agreement (ITA), representing a calibrated reset in bilateral trade relations and providing a phased pathway toward a comprehensive Bilateral Trade Agreement (BTA). **The framework delivers reciprocal tariff reductions, the conditional withdrawal by the US of the additional 25% surcharge linked to India's energy imports from Russia, selective market access improvements, and enhanced regulatory cooperation.** More complex issues, particularly non-tariff barriers (NTBs), standards alignment, digital trade, and investment, etc., have been deferred to subsequent negotiations under the BTA framework.

At the core of the framework is the **US decision to reduce the reciprocal tariff rate to 18% on over USD 30 billion of Indian goods exports.** India's total good exports to the US stood at USD 86.5 billion in FY25. This tariff reduction covers a broad range of products, including textile and apparel, leather and footwear, plastic and rubber, organic chemicals, home décor, artisanal products, and certain machinery. This tariff reduction is to be implemented following the issuance of a US executive order, which government officials quoted in the media have indicated is expected shortly.

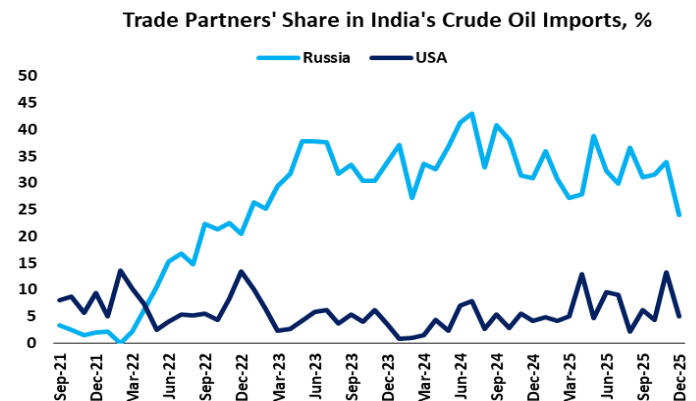
This represents a sharp reduction from the cumulative tariff burden of up to 50% imposed in August 2025. The new 18% reciprocal tariff rate is also lower than tariffs applied to several competing suppliers, such as China (around 35%), Vietnam (20%), Bangladesh (20%), and Indonesia (19%), thereby improving India's relative price competitiveness in the US market.

According to the White House proclamation, the **additional 25% duty has been withdrawn with effect from February 7, following India's reported commitments to "stop directly or indirectly importing Russian Federation oil,"** increase purchases of US energy products, and expand bilateral defence cooperation over the next 10 years. The US has retained the option to reimpose this duty should Russian oil imports resume.

India has not formally confirmed these commitments. While Russian crude imports have moderated in recent months, they have not ceased. Provisional data indicate that India's crude oil imports from Russia declined by around 17% YoY in FY26 (up to December), reducing Russia's share in India's total crude oil imports from approximately

~35% in FY25 to about 31% in FY26 (till December) and down to ~24% in Dec'25. Given this still-high dependence, a complete halt to Russian crude oil imports in the near term would be operationally and economically challenging. As a result, while **the removal of the surcharge has eased near-term trade frictions, the issue remains diplomatically sensitive and represents a potential risk to the durability of the interim trade arrangement.**

Russia's Share in India's Crude Oil Imports Falling but Remains Large



Source: CMIE

Labour-Intensive Exports Gain from Tariff Cuts; Zero Reciprocal Tariffs Possible for Several Products

The framework also envisages zero reciprocal tariffs by the US for several Indian export categories, including generic pharmaceuticals, gems and diamonds, and aircraft parts, subject to the successful implementation of the ITA. The existing exemption for smartphone exports from reciprocal tariffs is likely to continue. Taken together, **these zero-reciprocal-tariff categories are estimated to cover roughly USD 44 billion¹ of India's goods exports to the US under the interim phase of the BTA, which is likely to be signed by mid-March.**

Some elements of the framework remain conditional and are routed through US national-security instruments; however, India has secured certain carve-outs. India will benefit from targeted relief from higher tariffs under US Section 232, including the withdrawal of metal-linked "national security" surcharges on certain aircraft and aircraft parts. For automotive parts, India will receive a preferential tariff-rate quota (TRQ): in-quota shipments will face lower duties, while out-of-quota volumes will continue to attract elevated tariffs.

Further tariff relief for Indian pharmaceutical exports remains linked to ongoing Section 232 investigations. While the joint statement signals negotiated outcomes for generic pharmaceuticals and ingredients, precise product-level

¹ As per the Commerce Minister's press conference on 7 February. The PIB release dated 9 February outlines a breakup of ~USD 39.4 billion worth of Indian exports to the United States, on which zero reciprocal tariffs will be applicable. This includes USD 10.03 billion of exports where reciprocal tariffs

will be reduced from 50% to zero, agricultural products worth USD 1.04 billion, and USD 28.3 billion worth of exports receiving structural duty relief under Section 232 (on an end-use basis), assuring zero reciprocal duty.

coverage will become clear once those reviews conclude. Broader Section 232 duties on steel, aluminium, copper, and certain auto segments have not been addressed in the framework, and we wait details on the same.

Lower 18% Reciprocal Tariff on Over USD 30 bn and Potential Zero Reciprocal Tariff on ~ USD 44 bn Worth of Indian Exports to the US

Goods Category	Exports to US in (US \$ Bn)		Share in India's exports to US %	
	FY25	FY26*	FY25	FY26*
Electronics	15.9	16.7	18.4	28.4
Gems & Jewellery	10.0	3.5	11.5	6.0
Pharmaceuticals	9.8	5.9	11.3	10.0
Textiles*	9.8	5.9	11.3	10.0
Machinery, Parts etc.	6.7	4.9	7.7	8.2
Agricultural & Allied Products*	5.6	3.4	6.5	5.8
Marine Products*	2.7	1.7	3.1	2.9
Cereals*	0.6	0.3	0.6	0.6
Refined Petroleum Products	4.2	2.7	4.9	4.6
Iron & Steel and Articles thereby*	3.7	2.5	4.3	4.2
Organic Chemicals	2.7	1.7	3.1	2.9
Auto Components	2.6	1.6	3.0	2.8
Plastic Articles	1.7	1.0	1.9	1.7
Miscellaneous Chemical Products	1.2	0.9	1.4	1.5
Furniture & Accessories	1.1	0.7	1.3	1.2
Articles of Stone, Cement etc.	1.0	0.5	1.1	0.8

Source: DGCIS; USITC; Note: Textiles include HS Codes 61, 62, 63, 57 & 59. Agriculture & Allied sectors include HS Code 01–20, 22, 23 & 24. Iron & Steel and articles thereof include HS Codes 72 & 73. Marine products include HS codes 3 & 16 Cereals include HS codes 10 & 19. FY26 data is up to November 2025.

Sectoral Impact So Far and Potential Beneficiaries of the US-India Trade Deal

At a sectoral level, growth in India's exports to the US weakened across several categories following the 50% tariff implementation in August 2025, with the notable exception of electronics and energy, which were largely protected by exemptions. The sharpest contractions were observed in gems and jewellery, followed by articles of stone and cement, plastic articles, marine products, textiles, and furniture and accessories. Together, these sectors accounted for nearly one-third of India's goods exports to the US in FY25, but their combined share has since declined to 22.7% in FY26 (till November 2025), underscoring the disproportionate impact of higher tariffs.

A second group of sectors, including auto components, iron & steel, and pharmaceuticals (despite most of it exempted from reciprocal tariff), experienced a single-digit contraction in export growth to the US during Aug-Nov'25, but managed to sustain growth in overall exports to the rest of the world (with the exception of organic chemicals and miscellaneous chemicals products, which were mixed), reflecting possible market diversification efforts and partial re-routing of exports. Meanwhile, other sectors, such as machinery & parts, saw moderate growth in exports to the US and globally during the same period. We expect recovery in India's goods exports to the US following a reduction in elevated tariffs.

Several Exports to the US Impacted by Tariff, Some Benefited from Diversification

Goods Category	Growth in Exports to US (YoY %)			Growth in Exports to World (YoY %)		
	FY25	Apr-July'25	Aug-Nov'25	FY25	Apr-July'25	Aug-Nov'25
Gems & Jewellery	0.3	-32.0	-55.4	-8.8	-0.7	-0.6
Articles of Stone, Cement etc.	10.3	-6.9	-43.9	6.8	4.5	-15.3
Plastic Articles	15.7	6.3	-28.5	10.5	2.3	-8.8
Agricultural & Allied Products*	13.4	15.4	-26.5	7.1	9.0	6.4
Marine Products*	7.7	16.4	-24.6	3.5	17.8	12.8
Textiles*	10.8	6.0	-16.0	9.9	7.1	-5.1
Furniture & Accessories	4.2	5.6	-12.7	5.8	3.3	-4.0
Cereals*	15.0	-6.2	-12.6	15.7	5.9	-2.7
Iron & Steel and Articles thereby*	13.3	27.6	-7.9	-10.9	7.5	6.1
Auto Components	-2.2	-3.9	-6.9	8.4	12.5	18.0
Pharmaceuticals	21.1	5.5	-6.3	11.2	7.7	6.8
Organic Chemicals	10.4	5.7	-1.0	-0.9	-2.7	1.8
Miscellaneous Chemical Products	-5.6	40.2	2.6	6.0	12.5	-1.8
Machinery, Parts etc.	8.5	18.5	5.5	11.4	12.8	9.7
Refined Petroleum Products	-27.9	-28.0	60.9	-23.5	-27.1	-2.4
Electronics	43.5	130.1	107.5	28.0	42.6	27.7

Source: DGCIS; USITC; Note: Textiles include HS Code 61, 62, 63, 57 & 59. Agriculture & Allied sector include HS Code 01–20, 22, 23 & 24. Iron & Steel and articles thereof include HS Codes 72 & 73. Marine products include HS codes 3 & 16. Cereals include HS codes 10 & 19.

India Calibrates Trade Concessions to Domestic Sensitivities; Advanced Technology Imports a Strategic Positive

On the import side, India will eliminate or reduce tariffs on all US industrial goods and a broad range of agricultural and food products, including dried distillers' grains (DDGs), red sorghum for animal feed, tree nuts, fresh and processed fruit, soybean oil, wine and spirits, and additional products. India's commerce minister has clarified that genetically modified (GM) food products and certain sensitive agricultural produce within the categories of grains, fruits, vegetables, spices, oilseeds, dairy, poultry, & meat, etc., remain fully excluded from concessions.

In addition, India may retain/put safeguards for certain import categories, including tariff-rate quotas, phased tariff reductions, and minimum import prices, where required. This calibrated approach is intended to protect small farmers and MSMEs, while allowing selective market access aligned with domestic sensitivities.

The framework also notes India's intention to purchase up to USD 500 billion worth of US products over the next five years, spanning energy, aircraft and aircraft parts, precious metals, technology products, and coking coal. Given that India's annual imports from the US were around USD 46 billion in FY25, **this target appears highly ambitious and would require exceptionally strong and sustained growth in bilateral trade, well above recent trends, and is unlikely to be achieved.** Importantly, the USD 500 billion figure is **aspirational rather than binding, a critical distinction given the potentially material implications for India's current account balance** if it were interpreted as a firm commitment.

In addition, both countries aim to significantly expand trade in technology products, including graphics processing units (GPUs) and other data centre equipments, and to deepen

bilateral technology cooperation. Given the US's continued leadership in many of these areas, this presents strategic opportunities for capacity building in India's technology-intensive sectors, including artificial intelligence, data infrastructure, and semiconductor manufacturing.

Beyond tariffs, both countries will address non-tariff barriers under the framework. India has committed to resolving long-standing non-tariff barriers, including import licensing and quantitative restrictions affecting ICT products, and addressing barriers related to US medical devices and non-tariff impediments to trade in US food and agricultural products.

India has also agreed to assess, within six months of the Agreement's entry into force, the acceptability of US-developed or internationally recognised standards for US exports in identified sectors. In addition, cooperation on rules of origin, digital trade facilitation, and supply-chain resilience will be advanced further under the broader BTA.

Potential Implications for the Growth Outlook, Foreign Capital Flows and Currency

The latest framework marks an important reset in India-US trade relations, adopting a calibrated and phased approach that could unlock incremental gains and lower effective tariffs over time. The interim trade framework delivers meaningful tariff relief across a wide range of India's export-oriented sectors, while preserving domestic policy space in sensitive areas.

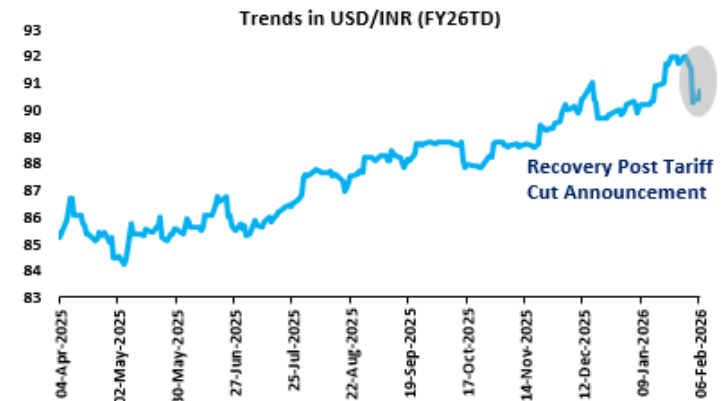
Both sides have agreed to extend preferential market access to each other in sectors of mutual interest, while retaining safeguards against potential disruptions. At the same time, the framework allows either party to revisit commitments in response to the other party's unilateral tariff actions, underscoring the arrangement's interim and flexible nature. Significant work remains to finalise the interim agreement and, subsequently, the full BTA, particularly as negotiations navigate contentious sectoral issues and broader geopolitical challenges.

From a macro perspective, we see **potential moderate upside bias to our real GDP growth projections of 7.4% in FY26 and 6.5%–7.0% in FY27, driven by the reciprocal tariff reduction to 18% (lower than our earlier expectation of 20–25% by Q4 FY26) and the possibility of zero-tariff treatment on nearly half of India's goods exports to the US.** That said, we will await further clarity on product-level tariffs details, as well as the release of the revised GDP series (with a new base year of 2022–23 and associated technical changes), scheduled for release by the end of February, before recalibrating our projections.

Beyond the impact on external trade, the reduction in reciprocal tariffs and the broader reset in trade relations have supported market sentiment. The currency has shown

early signs of stabilisation following the announcements by the US President and the Indian Prime Minister late evening on 2nd February, with the INR appreciating by ~1% against the USD since the announcement. That said, the Indian currency remains down 6.1% against the USD on an FYTD basis, reflecting the impact from sustained foreign portfolio investors' (FPIs) outflows that intensified after the imposition of the 50% tariff in August.

Signs Of Easing Pressure on the Rupee Post US Tariff Reduction Announcement



Source: CMIE

Following the tariff imposition in August, FPIs' investment flows across both equity and debt markets turned increasingly volatile. FPIs' equity outflows intensified, with only a brief pause in October, before turning decisively negative again. Cumulative FPI equity outflows reached USD 9.5 billion in FY26 (up to the end of January), following substantial outflows of USD 15.6 billion in FY25.

Debt flows initially displayed resilience through early 2025 but weakened progressively as trade-related uncertainty persisted. Net FPI debt inflows moderated sharply to USD 1.4 billion in FY26 (up to the end of January), compared with inflows of USD 16.8 billion in FY25, reflecting rising investor caution amid an unsettled external trade environment.

Encouragingly, both equity and debt segments recorded FPI investment inflows of USD 0.9 billion and USD 0.8 billion, respectively, in the first week of February, indicating some stabilisation in foreign investor sentiment following the announcement of tariff reductions on India. This improvement also supported equity markets, with the NIFTY 50 Index rising by ~2.4% since the announcement, extending FYTD gains to 9.2%.

A sustained reduction in US tariff rates, alongside improved policy clarity, could help stabilise investor sentiment and support a gradual recovery in capital inflows, thereby supporting domestic growth and the currency. While pressures on FPIs and the currency are likely to ease, they will remain sensitive to further progress on the trade agreement and to evolving global macroeconomic and geopolitical developments.

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