

Indian Rupee Gains from Tax Reforms Despite U.S. and India Trade Disputes

August 18, 2025

— Categories: Finance



The Indian rupee strengthened against the U.S. dollar following recent tax reforms introduced by Prime Minister Narendra Modi, reflecting increased investor confidence. Early trading showed the currency gaining ground despite ongoing uncertainties in U.S.-India trade relations.

In the 1-month non-deliverable forward market, the rupee was trading near 87.5 per U.S. dollar, slightly higher than its previous close. Equity markets mirrored this optimism, with Nifty futures indicating a potential rise in the Nifty 50 index. Analysts attribute the positive response to policy measures designed to stimulate economic activity and attract foreign investment.

India's recent tax cuts aim to encourage corporate spending and investment, providing a short-term boost to the domestic economy. By reducing corporate tax obligations and offering incentives, the government seeks to enhance the attractiveness of Indian assets for international investors. These reforms are expected to support liquidity in financial markets and revive confidence among foreign portfolio participants.

Geopolitical factors continue to influence the rupee's trajectory. Recent developments in global energy markets, including eased tensions regarding Russian oil imports, have provided additional support for the currency. However, trade frictions with the United States remain a key risk. Washington has announced plans to impose a 25 percent tariff on Indian goods beginning August 27, citing concerns over energy imports and broader trade imbalances.

The U.S.–India trade discord has also affected scheduled negotiations. A planned trade negotiation visit has been postponed, delaying progress toward a comprehensive bilateral agreement. These challenges introduce uncertainty for financial markets, limiting the potential for sustained rupee appreciation in the near term.

Market indicators suggest cautious optimism. The U.S. dollar index stood at 97.88, Brent crude oil at \$65.8 per barrel, and the 10-year U.S. Treasury yield at 4.31 percent. Foreign investors displayed a mixed response, adjusting portfolios with \$258.2 million sold in Indian equities and \$200.5 million purchased in government bonds.

The Indian rupee has benefited from domestic tax reforms and favorable developments in global energy markets. Nevertheless, ongoing trade tensions with the United States remain a risk factor. Analysts note that sustained currency strength will depend on continued domestic reforms and progress in bilateral trade negotiations. Investors are expected to monitor developments closely, balancing optimism from government incentives with the uncertainties of international trade relations.