

Global Economic Outlook

US Economy: US economic growth rebounded more than expected in the second quarter, but that measurement grossly overstated the economy's health as declining imports accounted for the bulk of the improvement and domestic demand increased at its slowest pace in 2.5 years. Consumer spending, the engine of the economy, grew moderately after almost stalling in the January-March quarter. Business investment in equipment slowed sharply following double-digit growth in the prior quarter. Residential investment, which includes homebuilding and house sales via brokers' commissions, contracted for a second straight quarter.

Chinese economy: China's economy grew at an annual rate of more than 5% in the second quarter, staying on track to meet its 2025 growth target despite US government's trade war. As per the data from China's National Bureau of Statistics, China's Gross Domestic Product (GDP) expanded by 1.1% from April to June. With the more proactive and effective macro policies taking effects in the first half year, the national economy maintained steady growth with good momentum, showcasing strong resilience and vitality.

Japanese economy: Japan's economy is struggling to find its footing amid high inflation and a global slowdown. Real gross domestic product fell an annualized 0.2% between the fourth quarter of 2024 and the first quarter of 2025. The main drags to growth came from the public sector and net exports. Imports had been weak in the previous quarter but rebounded at the start of the year, lowering the trade balance. However, the underlying details of Japan GDP report were more reassuring. Private investment grew strongly with, with non-residential domestic investment in the private sector growing by an annualized 4.4% in the first quarter of the year.

Domestic Economic Outlook

IMF raises India's FY26 growth forecast to 6.4%: IMF has raised India's GDP growth forecast to 6.4% for both 2025 and 2026 citing a stronger external environment. In April, the IMF had cut India's growth projection by 30 basis points (bps) to 6.2% for FY26, citing higher trade tensions and

global uncertainty. Reaffirming India's position as the world's fastest-growing major economy, IMF attributed the upward revision to a more benign external environment than anticipated in its April forecast. IMF has also modestly raised its global growth outlook to 3% in 2025 and 3.1% in 2026, citing lower-than-expected impact from tariffs, a weaker US dollar, and improved financial conditions.

India's manufacturing PMI hits 16-month high of 59.1: As per the data released by S&P Global, India's manufacturing activity rose to 59.1 in July, rising from 58.4 in June signalling the strongest improvement in the health of the sector since March 2024. The PMI was comfortably above its long-run average. This 16-month high was for the Indian manufacturing sector benefitted from growth in new orders and output. The rise in new orders and output is linked to favourable demand conditions and successful marketing initiatives. Overall sales rose at the fastest pace in close to five years.

Fiscal deficit doubles in Q1 as spending picks up: India's fiscal deficit surged to ₹2.8 lakh crore (17.9% of annual target) in Q1 FY26, doubling year-on-year, with acceleration in capex and revenue expenditure even as net tax receipts declined. Due to robust non-tax receipts, the government's overall revenue receipts were still comfortable with 27.6% of the target met in Q1FY26 compared with 22.4% of the relevant target met during the year-ago period.

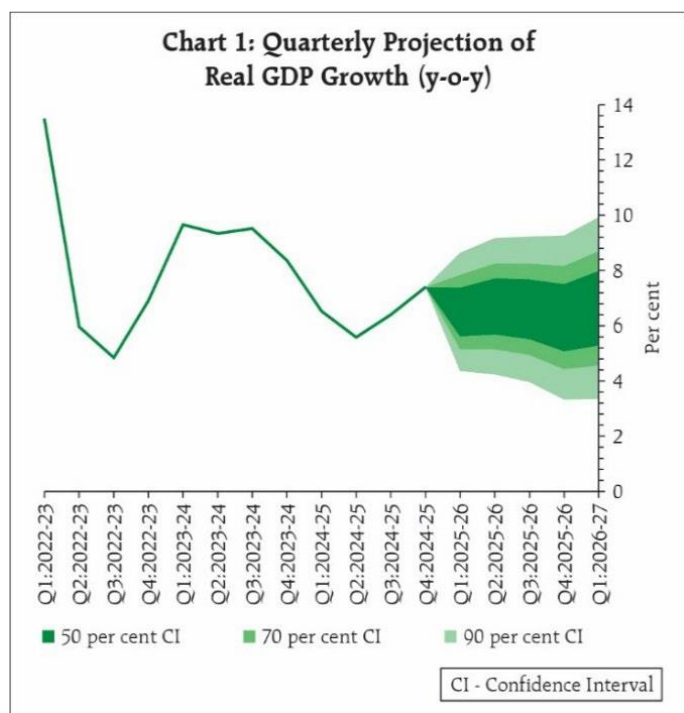
Potential impact of US tariffs on India's export and import: According to a report of Global Trade Research Initiative (GTRI), Indian exports to the US are projected to decline by nearly 30%, from \$86.5 billion in 2024-25 to about \$60.6 billion in 2025-26, as the new 25% reciprocal tariffs of US come into effect. The report stated that labour-intensive sectors such as garments, textiles, shrimp, jewellery, and engineering goods are among the worst affected Moody's has also warned that higher US tariffs and penalties will hurt India's manufacturing ambitions in high-value sectors like electronics. However, resilient domestic demand and strong services exports are expected to cushion the impact. India's annual oil import bill could rise by \$9-11 billion if the country is compelled to move away from Russian crude in response to US threats of additional tariffs or penalties on Indian exports.

Mid-2025 Indian economy cautiously optimistic- Finance Ministry:

As per a Finance Ministry report, the Indian economy in mid-2025 presents a picture of cautious optimism. Despite global headwinds marked by trade tensions, geopolitical volatility, and external uncertainties, India's macroeconomic fundamentals remained resilient. The report stated that despite monetary easing and a strong bank balance sheet, credit growth slowed, reflecting cautious borrower sentiment and possibly risk-averse lender behaviour. It also highlighted that while geopolitical tensions have not elevated further, the global slowdown, particularly in the US, could dampen further demand for Indian exports.

GDP growth forecast kept unchanged at 6.5% despite tariff threat- RBI MPC meeting:

Real GDP growth for 2025-26 has been projected at 6.5% by RBI MPC meeting of August 2025. It was projected at 6.5% for Q1, 6.7% for Q2, 6.6% for Q3, and 6.3% for Q4. Real GDP growth for Q1 2026-27 has been projected at 6.6%. The projections remain same as the previous MPC in June. RBI, in its meeting flagged the rising global trade uncertainties and stated that the headwinds emanating from prolonged geopolitical tensions, persisting global uncertainties, and volatility in global financial markets pose risks to the growth outlook but prospects for the Indian economy remain bright.



Source: rbi.org

Interest Rate Outlook

RBI maintains status quo and keeps stance

'neutral'-MPC meeting August 2025: The Reserve Bank of India's MPC maintained the policy rate at repo rate at 5.50%. Consequently, the standing deposit facility (SDF) rate under the liquidity adjustment facility (LAF) remained unchanged at 5.25% and the marginal standing facility (MSF) rate and the bank rate remained at 5.75%. This decision is in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +- 2%, while supporting growth.

Despite RBI's rate cuts, Indian G-Sec yields remain range-bound due to US yield pressures:

Despite a cumulative 100 basis points of rate cuts by the Reserve Bank of India between February and June 2025, Indian government bond yields have remained stable. The benchmark 10-year G-Sec yield has stayed range-bound between 6.25% and 6.45% from April to July, reflecting muted monetary transmission. This rigidity is largely due to external pressures, particularly elevated U.S. Treasury yields driven by fiscal concerns and the Federal Reserve's ongoing balance sheet tightening. These global headwinds are outweighing domestic policy easing, forcing investors to reassess duration risk and shift toward safer, shorter-term instruments.

Government Security Yield (%)

Date	20 July	24 July	28 July	01 August	05 August
USA 10 yr	4.43	4.49	4.41	4.21	4.21
Ind 10 yr	6.36	6.36	6.34	6.38	6.33
Ind 5 yr	6.04	5.99	6.02	6.03	6.07
Ind 1 yr	5.55	5.67	5.69	5.70	5.59

Sources: CMIE, worldgovernmentbonds.com