

## 1. Global Economic Outlook

As per the Global Economic Prospects Report (June 2025) of World Bank Group, global growth is slowing due to a substantial rise in trade barriers and the pervasive effects of an uncertain global policy environment. Growth is expected to weaken to 2.3% in 2025, with deceleration in most economies relative to last year. This would mark the slowest rate of global growth since 2008, aside from outright global recession. By 2027, global GDP growth is expected to average just 2.5% in the 2020s- the slowest pace of any decade since the 1960s. Growth in EMDEs is expected to slow in 2025, to 3.8%, before edging up a touch over 2026-27, to 3.9%.

**US Economy:** The U.S. economy contracted in the first quarter of FY 2026 amid tepid consumer spending, underscoring the distortions caused by the administration's aggressive tariffs on imported goods. The first quarter GDP fell by 0.5% over the previous quarter, a sharper decline than the second estimate of a 0.2% drop. The weaker GDP figure was largely driven by significant downward revisions to consumer spending and exports. A flood of imports as businesses rushed to bring in goods before US government's sweeping tariffs kicked in also accounted for the bulk of the decrease in GDP. The flow of imports has since subsided, positioning GDP for a sharp rebound in the second quarter. Consumer spending rose just 0.5%, the slowest pace since the sharp declines of 2020. Exports grew only 0.4% compared to the earlier estimate of 2.4%.

**UK Economy:** After a strong GDP growth of 0.7% in the first quarter of 2025, the UK economy growth is expected to slow to 0.1% in the second quarter and 0.2% in the third quarter, as per Reuters. The Bank of England's Monetary Policy Committee at their June policy meeting noted that the labour market has continued to loosen. The committee left the interest rates untouched at 4.25%. As per a Reuters poll, the British economy will grow a mild 1% this year with the Bank of England set to cut interest rates two times in 2025. Britain is the only major economy to have agreed a trade deal with the U.S., exempting it from U.S. government's increased tariffs on steel and aluminium imports for now, but a 10% goods levy remains in place.

**Chinese Economy:** China's services activity expanded at the slowest pace in nine months in June, as demand weakened and new export orders declined amid a fragile trade truce with the United States. The Caixin/S&P Global services purchasing managers' index (PMI), fell to 50.6 from 51.1 in May, marking the weakest expansion since September 2024 but remaining above the 50-mark separating expansion from contraction.

## 2. Domestic Economic Outlook

**S&P ups India growth forecast to 6.5%:** S&P Global Ratings raised India's economic growth projection to 6.5% for 2025-26. This follows a cut in the country's growth outlook to 6.3% by the agency last month. This is the first upward revision of India's growth for the current fiscal by a major agency. This follows earlier downgrades by S&P, IMF, and World Bank amid global uncertainty.

**India's forex reserves dip by \$1.01 billion:** India's forex reserves dropped by \$1.01 billion to \$697.93 billion. The gold reserves were down by \$573 million to \$85.74 billion. The Special Drawing Rights (SDRs) declined by \$85 million to \$18.672 billion. India's reserve position with the IMF also declined by \$1 million to \$4.45 billion.

**Net direct tax collection dips 1.39%:** Net direct tax collection for the current financial year slipped 1.39% to ₹4.59 lakh crore as of 19 June 2025. The dip is attributed to muted growth in advance tax payments and a surge in refund issuances. Advance tax collections, a key indicator of corporate profitability and individual income, rose by just 3.87% year-on-year to Rs 1.56 lakh crore. This is a sharp slowdown compared to the 27% growth recorded during the same period last year.

**Core sector growth drops to a nine-month low:** India's combined index of Eight Core Industries (ICI) increased by 0.7% (provisional) in May 2025 as compared to the Index in May, 2024. This marks the slowest growth in nine months, following a tepid 1% increase in April and 4.5% in March. The subdued performance was largely due to a sharp contraction in electricity generation, which fell 5.8%, and continued weakness in fertiliser (-5.9 %) and natural gas (-3.6%) output. Crude oil production also declined by 1.8% in May 2025 over May 2024.

**CII projects India's FY26 GDP growth at 6.4-6.7%:** Confederation of Indian Industry forecasts India's GDP growth to grow at 6.4-6.7% in FY 26, driven by domestic demand. The industry body urges tax, land, and logistics reforms while warning of global headwinds and mineral shortages impacting key sectors like auto.

**Farm goods exports rise 8% in April-May:** Farm goods exports rose over 8% to \$4.2 billion in April-May 2025, led by strong rice, buffalo meat, and fruit shipments. India's rice trade regained momentum after export curbs were lifted. Rising global demand and above-normal monsoon forecast are expected to further boost agri-exports. India's exports of agricultural and processed food products have commenced on a brisk note in the current fiscal with the shipments rising by over 8% on year to \$4.16 billion in April-May. The shipments were driven primarily by a sharp increase in exports of rice, buffalo meat and fruits and vegetables.

**PMI touches 14-month high to 61.0:** The HSBC Flash India Composite Purchasing Managers' Index (PMI), compiled by S&P Global, jumped to a 14-month high of 61.0 in June month from 59.3 in May. India's private sector activity accelerated sharply in June as companies ramped up production to meet surging domestic and international demand. Services gained momentum with the activity index rising to 60.7 in June from May's 58.8 – the strongest since August last year—while manufacturing gained pace due to robust output and its PMI climbed to 58.4 in June from 57.6 in May.

**June GST collection drops below ₹2 lakh crore mark:** India's gross Goods and Services Tax (GST) collection went up by 6.2% on-year for the month of June to ₹1.84 lakh crore. However, on a month-on-month basis, GST collection during the month dipped as April 2025 recorded GST worth ₹2.37 lakh crore, followed by ₹2.01 lakh crore in May.

### 3. Interest Rate Outlook

**Stable Indian government bond yields push investors towards more attractive corporate debt:** Indian mutual funds and insurance companies are shifting towards an accrual strategy to capitalise on higher corporate bond yields, as government bond yields are expected to remain largely stable. Fund managers are increasingly favouring shorter-

duration bonds when yields are near the upper end of the range.

**India-US bond yield gap narrows to 1.88% points:** The yield gap between India's 10-year government bond and the US 10-year Treasury note has narrowed significantly, falling to just around 1.88% points, a far cry from the 6.35% points spread seen in 2014. The development comes amid a steady drop in Indian bond yields driven by easing inflation, a dovish monetary policy stance from the Reserve Bank of India (RBI), and improving macroeconomic fundamentals. This narrowing is not merely a result of reduced risk premiums but highlights India's fiscal discipline, manageable debt levels, and inflation staying within the central bank's comfort range. India has consistently met its fiscal consolidation targets over the past three years, with a fiscal deficit goal of 4.4% set for FY26. The debt-to-GDP ratio stands at a more manageable ~82%, and inflation has remained stable in the 4–4.5% range

The narrowing yield gap makes Indian government securities less attractive to foreign institutional investors (FIIs), who will now seek higher risk-adjusted returns elsewhere. Lesser FII inflows, and potentially elevated outflows may be expected unless the yield gap widens again.

**Government Bond Yield (in %)**

Date	12 June	16 June	20 June	28 June	06 July
<b>USA 10 Yr</b>	4.36	4.44	4.38	4.27	4.33
<b>Ind 10 Yr</b>	6.23	6.27	6.32	6.32	6.29
<b>Ind 5 Yr</b>	5.99	5.98	6.01	6.03	6.04
<b>Ind 3 Yr</b>	5.85	5.83	5.85	5.94	5.81

Source: [worldgovernmentbonds.com](http://worldgovernmentbonds.com)