

## Global Economic Outlook

**US Economy:** The U.S. economy grew at an annual rate of 3.3% in the second quarter, revised up from the initial estimate of 3%. This improvement was driven by strong business investment, especially in intellectual property and artificial intelligence, along with a rebound in consumer spending. The labour market remains stable, as the number of people in the U.S. applying for unemployment benefits (jobless claims) dropped slightly last week by 5,000 bringing the total to 229,000 for the week ending on August 23, 2025. Employment gains averaged just 35,000 jobs/month, down from 123,000/month in 2024. The labour market is described as in a “no-hire, no-fire” mode, largely due to tariff-related uncertainties.

**Chinese Economy:** On August 31, 2025 Prime Minister Narendra Modi met Chinese President Xi Jinping in Tianjin, marking his first visit to China in seven years. Both leaders emphasized the importance of stable and friendly relations between India and China for global peace and prosperity. Meanwhile, ageing populations and rising government debt—especially in China and the U.S.—posed economic challenges. China’s debt stands at 84% of GDP, and experts warn its growth could slow significantly by the 2050s.

**UK Economy:** UK house price growth slowed to 2.1% in August 2025, down from 2.4% in July 2025, amid rising calls for property tax reforms in the upcoming Autumn Budget. Proposals include changes to stamp duty and potential new levies on high-value homes. Meanwhile, UK bank shares fell sharply following suggestions of a windfall tax that could raise £8 billion annually. The idea, backed by the IPPR think tank, aims to recover taxpayer costs linked to the Bank of England’s quantitative easing programme, which is costing £22 billion a year. Bank executives have warned that such tax measures could undermine efforts to strengthen the financial sector.

## Domestic Economic Outlook

**India to surpass US, become world’s 2nd largest economy by 2038:** According to EY’s Economy Watch report, India is projected to surpass the United States in purchasing power parity (PPP) by 2038, becoming the world’s second-largest economy with an estimated size of \$34.2 trillion.

Based on IMF forecasts, India is expected to grow at 6.5% annually between 2028 and 2030, compared to 2.1% for the U.S. The report highlights India’s strong momentum, with growth rates already 2.3 times higher than the U.S. in 2024 and projected to be 3.1 to 3.6 times higher in the following years. Despite recent U.S. tariffs on Indian goods, the report reinforces confidence in India’s long-term economic trajectory.

**Govt sets 46.35 MT rice procurement target for 2025-26:** The government has set a rice procurement target of 46.35 MT for the 2025-26 kharif season, slightly lower than last year. With buffer stocks already over four times the norm, FCI aims to balance MSP support, high paddy arrivals, and push for millet procurement to aid crop diversification. In the 2024-25 season, the Food Corporation of India (FCI) and state agencies have purchased 54.49 MT — 47.38 MT (kharif) and 7.1 MT (rabi) — of rice equivalent to paddy from farmers at the minimum support price (MSP). Paddy procurement is largely carried out from surplus grain-producing states, including Punjab, Haryana, Andhra Pradesh, Telangana, Odisha, Chhattisgarh and Madhya Pradesh. This year’s kharif paddy sowing has been higher than last year due to surplus monsoon rains.

**RBI examining measures to expand bank credit; no tussle between financial stability and growth:** RBI Governor Sanjay Malhotra, speaking at FIBAC 2025, emphasized collaboration between banks and corporates to reignite investment momentum amid global economic uncertainty. He stated that the RBI is exploring ways to expand bank credit, especially in emerging sectors, and dismissed any perceived conflict between financial stability and growth, affirming both share the goal of building a developed India. Highlighting India’s strong macroeconomic fundamentals, he urged stakeholders to embrace technology like AI and ML to drive innovation and resilience in the financial system.

**Sugar stocks rally 20% as Govt lifts cap on ethanol production:** Sugar stocks surged up to 20% on September 2, 2025, after the Indian government lifted restrictions on ethanol production. Sugar mills and distilleries can now freely produce ethanol from sugarcane juice, syrup, B-heavy

molasses, and C-heavy molasses during the Ethanol Supply Year 2025-26. This move supports the ethanol blending program while ensuring enough sugar remains available for domestic use. Earlier, in 2023-24, the government had limited ethanol production due to lower sugar output.

**Current account back in deficit, 0.2% in Q1:** India's current account slipped into a deficit of \$2.4 billion (0.2% of GDP) in Q1 FY26, reversing the surplus seen in Q4 FY25. The deficit was driven by a wider trade gap and weak capital inflows, though remittances and services exports provided some support. U.S. tariffs and a falling rupee have triggered a sharp \$4 billion sell-off by foreign portfolio investors in August 2025, raising concerns that the current account deficit (CAD) could exceed 1% of GDP this fiscal year.

**CEA sticks to 6.3-6.8% growth forecast for FY26:** On August 29, 2025, Chief Economic Advisor V. Anantha Nageswaran reaffirmed India's economic growth forecast of 6.3–6.8% for the current financial year. He expressed confidence that domestic reforms—such as proposed GST rate cuts, deregulation by states, and easing interest rates—will boost demand and investment, helping offset the impact of the 50% U.S. tariff on Indian goods. While manufacturing may face short-term pressure, exporters are exploring new markets.

### Interest Rate Outlook

**India's bond yields dip as large investors expected to absorb debt supply:** India's government bond yields fell in early trade on September 2, 2025, as traders anticipated strong demand from long-term investors for the ₹316.5 billion (\$3.6 billion) state bond auction—over ₹100 billion more than scheduled, marking the second consecutive week of higher-than-planned state borrowing. The temporary dip in yields was driven by expectations that large state-run institutions would absorb the supply, allowing the government to issue debt at lower rates. However, the broader trend in yields remains upward due to concerns over GST rate cuts, inflationary pressures, and increased issuance of ultra-long bonds, which continue to weigh on market sentiment.

### RBI to meet bond market first week of September 2025 to discuss second-half borrowing: Report

India's central bank (RBI) will meet with banks and primary dealers in first week of September 2025 to discuss borrowing plans for the second half of FY26, amid rising bond yields and investor concerns. India plans to borrow ₹6.8 trillion in October–March, after raising ₹8 trillion in April–September. Investors are urging the RBI to reduce the supply of ultra-long bonds (30–50 years), which saw a sharp 30 bps yield rise in August, compared to 19 bps for 10-year bonds. Concerns over GST rate cuts and inflation forecasts have further dampened sentiment, prompting calls for RBI intervention to restore market confidence.

**Outlook:** For investors, the current bond market developments in India present a mixed outlook. On one hand, the expectation that large institutions will absorb excess state bond supply may stabilize yields temporarily, offering opportunities for short-term gains. On the other hand, rising concerns over fiscal slippage due to GST rate cuts and increased borrowing could lead to higher long-term yields and market volatility. Higher borrowing costs due to rising yields could strain budgets and reduce fiscal space. Higher yields on government securities may attract more retail participation.

Government Security Yield (%)					
Date	24 Aug	26Aug	28Aug	30 Aug	01 Sept
USA 10 yr	4.26	4.26	4.21	4.23	4.25
Ind 10 yr	6.56	6.62	6.54	6.59	6.59
Ind 5 yr	6.31	6.42	6.40	6.37	6.36
Ind 1 yr	5.63	5.58	5.61	5.66	5.65

Source: worldgovernmentbonds.com