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Global Economic Outlook

US Economy: President Trump's sweeping new tariffs have increased the risks of the US economy entering into a period of stagflation. There is a potential for the fresh tariffs to fuel higher prices as businesses pass on the costs of the new import duties to consumers. With the latest round of import duties, the effective average tariff rate now stands at 18%, the highest since 1934. The economy could face another hit from tariffs if some U.S. businesses, which are on the hook for paying the import duties to the federal government, scale back hiring or expansion plans to cope with those higher costs.

> **Stagflation:** Stagflation is an economic condition characterized by slowing economic growth, high unemployment, and rising prices (inflation) simultaneously.

UK Economy: British businesses are having their strongest month in a year due to a rebound in the dominant services sector. The Purchasing Managers' Index picked up to 53.0, its highest since August last year. The pace of economic growth had accelerated over the summer after a sluggish spring. But the manufacturing PMI weakened to 47.3 from 48.0 in July, and its lowest in three months as factories took hit from the tariffs imposed by US.

Chinese economy: China's factory output growth slumped to an eight-month low in July, while retail sales slowed sharply, as the second largest economy faces soft demand at home and external risks. It is raising pressure on policymakers to roll out more stimulus to revive domestic demand and ward off external shocks to the $19 trillion economy. National Bureau of Statistics (NBS) data showed that the industrial output grew 5.7% year-on-year in July.

Domestic Economic Outlook

India's trade deficit hits eight-month high in July: India's merchandise trade deficit widened to an eight-month high of $27.35 billion in July as imports surged ahead of US tariff hikes, outpacing a moderate rise in exports. Shipments to the US climbed 21.6 per cent year-on-year in April–July.

WPI inflation in negative for second straight month: As per the data released by the Ministry of Commerce and Industry, inflation measured by the Wholesale Price Index (WPI) dropped to -0.58% in July. This marked the second straight month of negative rate of inflation. This is primarily due to decrease in prices of food articles, mineral oils, crude petroleum & natural gas, manufacture of basic metals, etc. WPI-based inflation has been steadily easing since March and hit a 14-month low of 0.39 per cent in May.

Restructuring of the GST regime: In a significant GST reform, the central government has proposed eliminating the 12% and 28% tax slabs, redistributing items primarily to 5% and 18%. A few remaining items in the 28% bracket—currently the highest—will be moved to a new 40% slab that will cover only a few 'sin goods' such as tobacco products. This major overhaul is expected to stimulate economic growth, however, in the short term the GST restructuring could result in lower revenues flowing to the exchequer.

US tariff impact to ease out in one to two quarters- CEA: Chief Economic Advisor, Anantha Nageswaran stated that the impact of the 50% US tariff on Indian goods may fade in 1–2 quarters. Indian government is planning to provide assistance by giving credit guarantees for loans overdue up to 90 days for small businesses and exporters. Despite the US imposing additional 25% tariffs on India, the economic momentum has not slowed down.

> **Tariff**: A tax imposed by one country on the goods and services imported from another country to influence it, raise revenues, or protect competitive advantages.

Farm and processed foods exports rise 9% to $8 billion in April-July: India's farm and processed food exports rose 9% to $7.99 bn in April-July 2025, driven by rice, buffalo meat, fruits, and vegetables. Rising global demand, eased export curbs, and higher shipments to markets like Bangladesh are expected to boost exports further this fiscal year.

India set to become world's most coveted consumer market- Morgan Stanley: According toa report released by Morgan Stanley, India is

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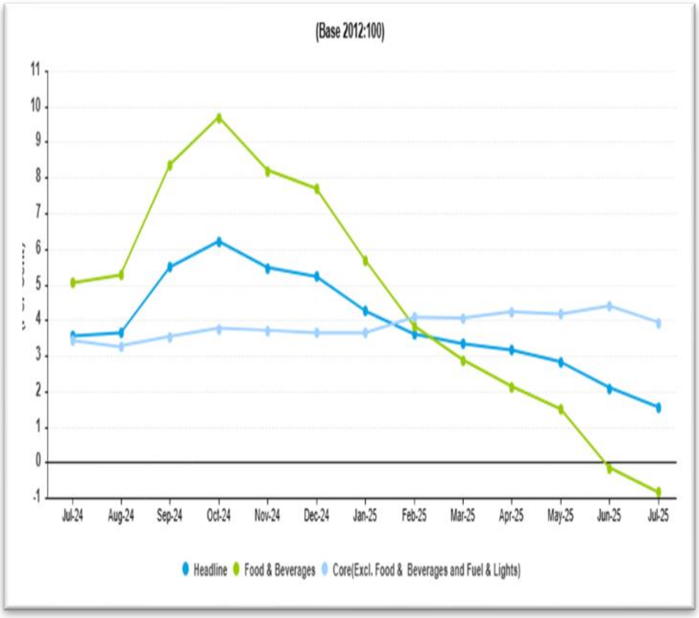
experiencing a rising credit-to-GDP ratio and a growing share of manufacturing in GDP, both of which point to a more diversified and resilient economic base. The falling oil intensity in GDP, coupled with a higher share of exports, particularly in services, suggests that India's external position is improving.

CPI inflation eases to 8-year low of 1.55% in July: As per the data released by MoSPI, India's retail inflation, based on the Consumer Price Index (CPI), for July stood at 1.55%, down from 2.10% in June. This is down 55 basis points in comparison to June 2025. It is the lowest year-on-year inflation rate after June 2017.

CPI (Combined) Y-o-Y Inflation



Source: rbi.org

Negative food inflation for second straight month: Retail food inflation remained in the negative zone for two consecutive months in July when it came in at -1.76%, driven by subdued prices of vegetables, cereals, pulses, meat, eggs and spices. The food inflation last month was slowest since January 2019, when it was reported at -2.24%. The decline in food inflation last month was also attributed to favourable base effect.

Outbound investments grow 67% to $41.6 bn in FY25: India's outbound investments surged by 67.74% in the last fiscal year to a record $41.6 billion, driven by companies in technology, pharma, and automotive sectors. A new trend shows Indian firms are diversifying beyond traditional jurisdictions like Singapore and Mauritius, increasingly using gateways like the UAE, Luxembourg, and Switzerland

Interest Rate Outlook

Sovereign bond yields surge most in 14 months: Yields on the benchmark Indian sovereign bonds climbed the most in 14 months at 6.50%. This was after the Prime Minister's Independence Day address where he announced GST rationalisation by introducing fewer and likely lower slabs for indirect taxes. That could lower federal revenues and fuel the need to borrow more. While the tax reforms are inherently disinflationary and reflect the government's intent to push growth, the immediate worry is the likelihood of higher bond supply at a time when demand from long-only investors has been relatively muted.

Outlook: With yields now trading above the Reserve Bank of India's policy repo rate of 5.50%, bond traders are bracing for higher government borrowing and potential inflationary pressures. This will lead to potential crowding out of private investment, as government borrowing absorbs more market liquidity. Rising yields will reduce the market value of government bonds held in their portfolios, leading to mark-to-market losses, especially for public sector banks. In response transmission in lending rates, this leads to higher lending rates for consumers and businesses, especially for Home Loans & Personal loans, Auto loans, SME and corporate loans.

Government Security Yield (%)

Date	08 Aug	11 Aug	14 Aug	17 Aug	20 Aug
USA 10 yr	4.29	4.29	4.29	4.32	4.29
Ind 10 yr	6.40	6.43	6.40	6.40	6.50
Ind 5 yr	6.16	6.20	6.27	6.25	6.35
Ind 1 yr	5.47	5.45	5.58	5.53	5.50

Source: worldgovernmentbonds