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Economic Round-up: June 2025

Last month was marked by increased volatility in the global financial system as hostilities between Iran and Israel erupted suddenly. The immediate impact was felt on almost all asset classes, with oil prices and safe-haven assets noticing a significant uptick. The war which lasted 12-days once again reinforced the fragility of the global trading system. However, a delicate cease-fire deal was quickly negotiated which helped in calming investor sentiments. Countries continue to grapple with unique growth and inflation dynamics, which in turn is shaping their respective monetary policy decisions. In India, a favourable inflation outlook swayed the central bank to frontload its rate cuts. Further support has also been provided with proactive liquidity management and regulatory overhauls. Overall, India's growth remains on a stable expansion path as visible in the performance of high frequency indicators. We expect RBI to remain on hold for the remainder of the year, with the monsoon playing a key role in shaping the policy rate path.

Macro developments

CPI inflation in the **US** moderated further to 0.1% in May'25 from 0.2% in Apr'25 on a MoM basis. Core inflation (ex. food and energy), also decelerated to 0.1% in May'25, lower than an anticipated 0.3% increase. In contrast, PPI (final demand) rose by 2.6% in May'25, higher compared with an increase of 2.5% last month. Along similar lines, core PCE, Fed's preferred gauge for inflation rose by 2.7% on a YoY basis, marginally higher than 2.6% in Apr'25. Mixed inflation readings have raised concerns over underlying price pressures. Growth concerns however remained with macro data signalling a further slowdown. Retail sales declined at a steep pace of 0.9% last month, following up on a decline of 0.1% in Apr'25. Importantly, personal spending, which account for a major share of US GDP, declined by 0.1% in May'25 after increasing by 0.2% in Apr'25. Weak consumer sentiment was also reflected in the Conference Board's consumer confidence index which dipped to 93 in Jun'25 from 98.4 in May'25. Industrial production declined by 0.2% in May'25, after a flat reading last month. ISM manufacturing PMI rose to 49.0 in Jun'25 from a 6-month low of 48.5 in May'25, even as firms grappled with volatile business environment. Even the housing market showed signs of stress, with housing starts and new home sales registering steep declines. Labour market conditions remained largely stable with the unemployment rate holding steady at 4.2% in May'25. Job openings also rose to 7.8mn in May'25 from 7.4mn in Apr'25, signalling strength in the labour market.

In case of **Eurozone**, manufacturing PMI rose to a 34-month of 49.5 in Jun'25 rising modestly from 49.4 in May'25 from 49 in Apr'25. However, it continues to remain below the key 50-mark which separates expansion from contraction. Businesses remained optimistic of future demand as new work orders stabilized after a period of sustained decline. Out of the 8 survey countries in the region, 4 noted an expansion in manufacturing activity, with Ireland and Greece leading the pack. Manufacturing PMI in Germany remained in the contraction territory, but picked up to a 34-month high of 49.0 marking a significant pick up from 48.3 in May'25. This was supported by a sustained improvement in new orders and output. ZEW's economic sentiment index for Germany noted a significant improvement to (-) 72 in Jun'25 from (-) 82 in May'25. Even Ifo's business climate index rose to 88.4 in Jun'25 compared with 87.5 last month. However, retail sales and exports continued to decline, even as inflation met the ECB's target of 2% in Jun'25.

China's official manufacturing PMI rose to 49.7 in Jun'25 rising moderately from 49.5 in May'25. It however, remains below the crucial 50-mark. However, Caixin manufacturing PMI showed a sharp recovery to 50.4 in Jun'25 from 48.3 in May'25. This was led by a sharp increase in new orders which contributed to higher production as trade driven optimism contributed to better demand conditions. Input costs were lower, even as firms remained cautious on hiring. Separately, China's non-manufacturing PMI (official) noted further improvement to 50.5 in Jun'25 from 50.3 in May'25. Other indicators remained mixed. Exports growth decelerated to 4.8% May'25 from 8.1% last month, as exports to the US dropped sharply. Import growth remained lacklustre and declined by 3.4%, following up on a decline of 0.2% in Apr'25, reflecting continued weakness in domestic demand. However, retail sales advanced by 6.4% on a YoY basis, picking up from 5.1% growth recorded in Apr'25. Growth in industrial production slowed down to 5.8% in May'25 from 6.1% last month. Growth in industrial profits declined sharply by 9% in May'25 after increasing by 3% in Apr'25.

In **India**, growth momentum remains intact with high frequency indicators signalling a steady pace of economic momentum. Manufacturing PMI rebounded in Jun'25, brining the Q1 average to 58.1 versus 57.4 in the last quarter. Services PMI too signals significant traction in services sector activity with Q1 at 59.4 versus 58 in Q4 FY25. GST collection remained buoyant at Rs. 6.34 lakh crores in Q1 FY26, compared with Rs. 5.75 lakh crores in Q4 FY25. Toll collections have also increased at a robust pace of 16.2% in Q1, building up on a gain of 15.1% in the last quarter of FY25. IIP growth has remained weaker this year at 1.8% (Apr-May'25) versus 5.7% in the same period last year. However, significant uptick in capital goods production is a huge positive. Demand indicators however paint a mixed picture. While PV sales have continued to struggle, tractor sales and two-wheeler sale have shown some traction in the last month. At the same time, monsoon has progressed well with cumulative rainfall above 10% of LPA as of 1 Jul 2025. This has been reflected in higher kharif sowing, with acreage of major crops such as paddy, pulses and oilseeds noticing marked improvement over last years. Expectations of above normal monsoon in Jul'25 as well, along with higher reservoir storage bodes well for the outlook on agriculture sector as well as inflation. RBI's forward-looking surveys also suggest that growth is likely to remain on a strong path. Credit growth remained muted at 9.6% in Jun'25 (upto 13 Jun 2025) compared with 19.1% in the same period last year. Sector wise, retail and services sector have witnessed a sharp deceleration (upto May'25). Improvement in liquidity situation, regulatory changes along with frontloaded rate cuts are likely to support credit growth in the coming months.

Central bank actions

US Fed held its policy rate steady in the range of 4.25-4.50% in its latest meeting, as it continues to monitor the evolving growth and inflation dynamics. Interestingly, Fed's dot plot hinted at another 50bps reduction in rates this year, even as the expectations of rate cuts in both 2026 and 2027 were scaled back. Further, Fed projections pointed towards increased stagflationary risks, with growth in 2025 now expected at 1.4% (1.7% estimated in Mar'25) and inflation (core PCE) estimated at 3.1% versus 2.8% estimated in Mar'25. Fed has kept rates steady at current levels since Dec'25 as it navigates a turbulent policy environment. While noting that the risks to economic outlook have eased, the FOMC advocated a measured approach to rates. More recently, the Fed Chair reiterated that the central bank is likely to wait and assess the full impact of tariffs on growth and inflation, before deciding to lower rates again, continuing with its "meeting-by-meeting" stance. As of now, a rate cut has largely been priced in for Sep'25, however, there are also expectations that it could be sooner.

Bank of England (BoE), kept its policy rate steady at 4.25% in Jun'25 following a 25bps reduction in May'25. Interestingly, the division in voting pattern intensified further with 6 MPC members voting for status quo, and the rest voting for another 25bps rate cut. The committee weighed the impact of the conflict in Middle-East against a slowing domestic labour market. A gradual and cautious approach to rate cuts was maintained, with the Governor acknowledging that rates are on a gradual downward path. This reduces the possibility of successive rate cuts in the future. Analysts expect another 50bps reduction in policy rates this year bringing the terminal rate to 3.75%. In particular, recent comments from the Governor expressing concerns about the slowdown in domestic labour market conditions and its impact on growth have solidified bets of a rate cut in Aug'25.

The ECB reduced its policy rates by 25bps in Jun'25 on expected lines. With this, the standing deposit facility rate was lowered to 2% from 4% in 2023. The MPC noted that significant progress has been made in bringing the inflation within the central bank's target of 2%. The Central Bank also lowered its inflation projections for the current year to 2%, compared with 2.3% it estimated in Mar'25. For 2026 as well, inflation was marked down. At the same time, growth projection for 2025 was retained at 0.9% amidst continued trade related uncertainties. The rate cut cycle is widely seen to be nearing the end, with analysts seeing the room for another quarter point reduction in rates this year, largely expected in Sep'25.

Bank of Japan, maintained its policy rate on hold at 0.5% in its latest meeting. However, the central bank reiterated its plan to reduce its bond purchases by JPY 400bn each quarter to roughly JPY 3tn by Mar'26. Beyond this, the pace of bond purchases will be further reduced to JPY 200bn per quarter till the end of Mar'27. Faced with faltering growth and high inflation conundrum, the BoJ has adopted a cautious approach. According to the central bank's own assessment, growth is likely to moderate this year due to trade issues, even as inflation has remained above target for more than 3 years. For now, analysts see the possibility of a rate hike in Jan'26 at the earliest.

Economic reports

Bonds Wrap

Global yields showed the impact of risk aversion on the backdrop of geopolitical conflict in the Middle East. Hence, yields of major AEs such as the US and UK traded with a softening bias. In the US, weak macro print, raised hopes of further policy easing. India's 10Y yield however showed some upward bias, despite a more than expected dovish policy by RBI. Higher FPI outflows (on account of lower interest rate differential with the US) both through the debt-VRR and FAR route has also contributed to some degree of stiffening in domestic yields. The yield curve continued to show steepening bias as very long part of the curve (13 year and above) showed upward momentum. Going forward, we expect some correction. The long run part is expected to be stable as both global (risk off sentiment ahead of 9 Jul tariff deadline) and domestic macros are favourable. On liquidity, the announcement of VRRR by RBI has hinted at normalisation and resorting back to the 1% NDTL surplus level. The extension of call money market hours is also a welcoming move towards improving its liquidity and volume, thus enabling further realignment of operating target variable to repo. Against all these backdrops, we expect India's 10Y yield to trade with a softening bias in the range of 6.25-6.35% in the current month.

Currency update

INR depreciated by 0.2% in Jun'25, following a 1.3% depreciation registered in May'25. Rupee's performance rebounded (0.4% appreciation) in the second fortnight of Jun'25, as tensions in the Middle East eased. This resulted into softer oil prices and improvement in risk appetite of investors. Equity flows remained positive for the third consecutive month in Jun'25, even as debt outflows accelerated. Weakness in US$ also helped, which is mainly led by concerns surrounding fiscal policies, stagflation risks and Fed's independence. Although we expect some amount of volatility as we near the US tariff pause deadline (9 Jul), overall we believe weakness in US$ will persist considering its domestic factors. Domestically, strong domestic macros along and sufficient external buffers are likely to prevent any sharp depreciation in INR. We expect INR to trade in the range of 85.25-86.25/$ in the near-term. A trade deal between India and US will be positive for the rupee.

Monsoon and sowing update

South-West monsoon picked up pace, with rainfall recorded at 9% above LPA till 30 Jun 2025. However, region wise some deviation is noted. While the East and North-Eastern parts of the country have recorded deficient rainfall (-17%), followed by Southern Peninsula (-3%), the Central (25%) and North-Western regions (42%) have reported above normal rainfall. Out of 36, 19 sub-divisions (49% of the country) have received normal to excess rainfall during this period, while 10 states are in the deficient zone. Overall, the progress of monsoon into the country has been positive, which has resulted in higher sown area of kharif crops compared with last year. As of 27th Jun 2025, overall sown area has improved by 11.3% compared with last year. Higher acreage of pulses, rice and oilseeds has been registered. Total sown area of rice and pulses has grown by 47.3% and 37.2% respectively, while oilseeds have registered an improvement to 20%. For July'25, IMD expects above normal rainfall at 106% of LPA. This bodes well for the inflation outlook going forward, however, spatial distribution of rainfall will be a key watchable.

Industrial production

IIP growth was lower at 1.2% in May'25 from 6.3% in May'24. Compared with previous year (May'24), slower growth was noted across the board. Manufacturing output slowed most notably, while mining and electricity output contracted. Within manufacturing, major subsectors registered negative growth in May'25 compared with last year. For use-based industries, primary, infra and consumer goods registered moderation in May'25, while capital goods output registered stronger growth. For the near term, the focus would shift towards the possibility of the upcoming bilateral trade deal with the US which bodes well for the growth picture.

Inflation eases further

CPI inflation softened significantly to 2.8% in May'25(in line with BoB forecast of 2.7%), on YoY basis compared to 4.8% inflation seen in May'24. This was led by a significant moderation in food inflation. The broad comfort came from vegetables, pulses, cereals and protein-based items of consumption. This in turn is on account of better supply dynamics and resultant of concerted efforts of the government towards supply management policies. We expect CPI in Q1 to undershoot RBI's 2.9% forecast as Jun'25 high frequency price data is also comforting. However, close monitoring is required especially on the evolution of TOP (Tomato, Onion and Potato) trajectory as some buildup in prices albeit at a crawling level is witnessed. For core inflation, we expect some stickiness supported by frontloading of demand with RBI's jumbo rate cut and ample liquidity support. Overall, we expect for inflation, this year remains conducive if monsoon plays out well.

WPI inflation eases

WPI inflation eased to 0.4% in May'25—lowest since Mar'24, from 2.7% in May'24. It was also lower when compared with last month's (Apr'25) increase of 0.9%. From last year, food inflation has noted significant moderation, helped by vegetables (onion, tomato, and potato), spices, food grains and eggs, meat and fish. Fuel inflation was lower compared with May'24 and remained in deflation for the second consecutive month in May'25. Drop in mineral oil index, mirrors the trend in international oil prices. Manufactured product inflation however inched up, led by items like textiles, pharma products, chemicals, etc. Inflation in key components under basic metals (zinc, copper and lead) noted higher inflation, while their prices internationally are down. Going forward, tracking escalating tensions in the Middle East and attacks on energy infrastructure, has resulted in sharp spike in international oil prices in the last few days. If this continues for long, it may contribute to upside pressure in fuel inflation.

Debt servicing of India Inc

Corporate India did register high interest cover ratio for FY25 thus maintaining the improvement witnessed since the two covid years. The interest cover ratio, defined as PBIT to interest payments showed a virtual continuous increase from 3.77 in FY20 to 6.78 in FY25. This has been maintained notwithstanding the regime of high interest rates pursued by the RBI since May 2022. Out of a total of 31, 18 industries had an ICR of above the sample average of 6.78 in FY25 which is quite impressive. Furthermore, - The five biggest industries which invest in capital are crude oil, telecom, steel, cement and power. Besides telecom, all the others have an ICR of above 4 with crude oil topping with 6.71. Hence, the health of the sector has stabilized quite strongly in terms of ability to service debt. This reflects both a judicious use of credit as well as maintenance of growth in profits. This augurs well for the quality of bank assets on the corporate side.

State finances FY25 and FY26

The provisional estimates from the state budget for FY26 and revised estimates for FY25 showed some interesting trends. Fiscal deficit is estimated to be steady in FY26, while revenue deficit is expected to be lower when compared with FY25. This shows that states will be following a prudent path. The study takes a closer look at how the committed expenditure components fare, along with analyzing new trends within own tax revenue. Over 5 states are estimated to contribute around 50% of the total capital outlay in FY26 with Uttar Pradesh and Gujarat amongst the biggest contributor followed by states like Maharashtra and Madhya Pradesh.

Is corporate deleveraging behind us?

The An issue which gained prominence in the past is deleveraging by India Inc. Is it still prevalent or has that cycle bottomed out? This note attempts to capture those aspects of debt. Growth in debt in the five years ending FY25 was slower than that in the preceding five year period for non-financial companies. Interestingly, growth in fixed assets though somewhat lower in the FY20-FY25 phase was higher than that in debt indicating that companies may have been using their own funds to finance expansion. Furthermore, there has been not much change in the structure of debt with predominance of sectors such as power, crude oil, and telecom. The increase in debt is however aligned with growth in net sales. This is positive and opens opportunities for bank lending in a year of easing monetary policy cycle.

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