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BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: August 2025

SUMMARY

INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

Global growth turmoil continues as tariff related uncertainties and its impact are beginning to slowdown the US economy as well. Weak labour market data (non-farm payrolls, unemployment rate), along with moderation in domestic consumption (retail sales), industrial growth (factory orders) and real estate market (new home sales) are all pointing towards the same. Noting these trends, US Fed is widely expected to lower its policy rate by 25bps in its Sep'25 meeting and is estimated to reduce rates in its Oct'25 and Dec'25 meetings as well.

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Economic Round-up: August 2025

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Economist

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US has applied steep tariffs on India (50%—amongst the highest and at par with Brazil), while it has extended its truce with China for a 90-day period, ending 10 Nov'25. Domestically, growth so far remains robust with GDP in Q1FY26 jumping to 7.8% from 6.5% last year and 7.4% in Q4FY25. To maintain this momentum, central government has recently announced GST overhaul. As per the revised tax structure, good and services will be taxed under 2 main slabs—5% and 18% and sin goods will be charged at a higher rate of 40% versus 28% earlier. Majority of the everyday items have been moved to the 5% bracket or are now tax free. Higher value items are in 18% bracket, reflecting progressive nature of the indirect tax regime. This move is expected to provide FY26 GDP a boost of 0.2-0.3%. Festive demand and agriculture growth will also be supportive of GDP growth in the coming quarters

Global Central Banks: In Aug'25, in line with market expectations, US Fed, ECB and BoJ held rates steady. BoE lowered the policy rate by 25bps in view of slowing economic growth. In Sep'25, US Fed is expected revive its rate cutting cycle as it may deliver 3 back-to-back rate cuts in the remaining months of CY25. In contrast, ECB appears to have come to an end of its rate cut cycle as inflation is tracking near its targeted level and there are some indications of pick up in growth. BoE is also expected to hold rates stable this month in view of renewed price pressures. RBI signalled a hawkish pause in its latest meeting, indicating that growth fundamentals continue to hold ground so far and the front-loading of its 100bps rate cut should be given more time to show its impact before continuing on rate cut cycle again. For now, we expect RBI to maintain status quo.

Key macro data releases: CPI inflation softened significantly to 1.55% in Jul'25 (in line with BoB forecast of 1.5%), on YoY basis compared to 3.6% inflation seen in Jul'24. The fine prints show that food index remained in deflation territory for 2 consecutive months in a row, falling by (-) 1.8% in Jul'25 compared to 5.4% in Jul'24. **Core CPI (excl. food and fuel)** also softened to 4.1%, on YoY basis. Among major sub-components, transport and communication (led by favourable base) and education have been the major drag down.

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