



POLICY PULSE

A MONTHLY NEWSLETTER

SEPTEMBER 2025
VOL. 7 ISSUE 08

IN THIS ISSUE

ECONOMY SNAPSHOT

Global Economy 3

Indian Economy 4

FTAS/ BILATERALS 6

POLICYAND REGULATORY NEWS

EU AI Rules for Foundational Models Enforced 8

Resilience Amid Trade Tensions and Softening Demand

The global economy in August 2025 displayed a delicate balance between resilience and vulnerability. While growth momentum persisted in several advanced and emerging markets, mounting trade frictions, cautious monetary stances, and sectoral slowdowns underscored the fragility of recovery. Policymakers across economies are walking a tightrope – supporting growth without reigniting inflation.

Growth Momentum Holds, But Outlook Softens

Global growth projections for 2025 have been slightly revised upward by some institutions. Investec, in its August outlook, projected global GDP growth at around 3.2%, supported by stronger-than-expected performances in parts of Asia and Europe. The IMF continues to forecast 3.0% growth for 2025, while the UN's August briefing was more cautious, anticipating only 2.4% amid rising trade tensions and limited fiscal headroom.

This divergence highlights a two-speed recovery – with select economies demonstrating relative resilience, even as others struggle under the weight of structural weaknesses and policy uncertainty.

Trade Tensions Return to the Forefront

Trade disruptions re-emerged as a key drag on global sentiment in August. The U.S. administration's decision to raise effective tariff rates reignited concerns of a new protectionist wave. Several countries, including India, responded with reciprocal tariffs – in some cases as high as 50% – which escalated bilateral tensions and clouded the prospects for global supply chains.

The phenomenon of “tariff front-running”, where firms expedite imports ahead of tariff hikes, has distorted trade data, complicating policy interpretation. Meanwhile, emerging economies are reassessing trade dependencies and seeking alternative routes for sourcing critical inputs.

Monetary Policy Tight but Cautious

Central banks across advanced economies maintained a cautious monetary stance in August. Although inflationary pressures are moderating, wage inflation and sticky core prices have kept policymakers vigilant. The U.S. Federal Reserve and European Central Bank (ECB) signalled a wait-and-watch approach, prioritising price stability over premature rate cuts.

In contrast, some emerging markets began limited monetary easing, seeking to support growth without triggering capital outflows. Consumer confidence, however, remains fragile – the U.S. Conference Board Index slipped to 97.4 in August, reflecting household concerns over persistent price pressures and policy uncertainty.

Outlook

The outlook for the global economy remains fragile but functional. For policymakers and businesses alike, strategic flexibility and market diversification will be key to navigating an uncertain macroeconomic environment.

INDIAN ECONOMY

Holding Strong Amid Global Uncertainty

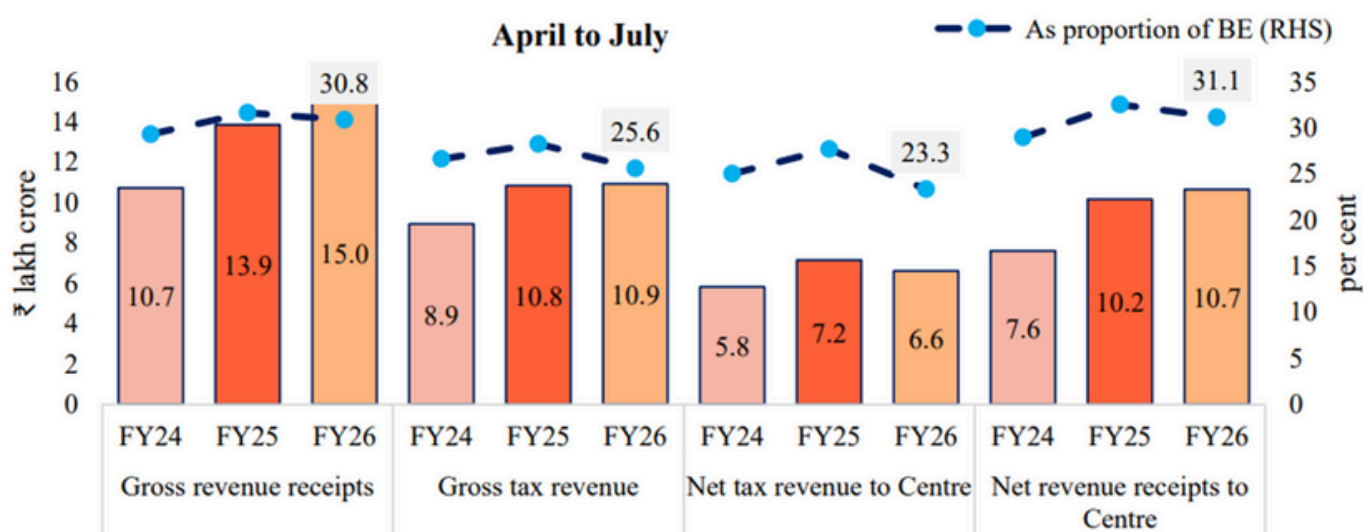
India's growth story continued its resilient trajectory in August 2025, underpinned by domestic demand, stable inflation, and robust fiscal management. Despite global volatility, the macroeconomic fundamentals remained sound, supported by government-led capital spending and a healthy external position.

GDP Growth

India's real GDP expanded by 7.8% YoY in Q1 FY26, the fastest in five quarters. Growth was broad-based across sectors, with manufacturing (7.7%) and services (9.3%) driving momentum, while agriculture grew at a steady 3.7%.

Fiscal Push

Revenue receipts for April–July 2025 totalled 31% of the Budget Estimates, supported by growth in GST (+9.8%) and corporate tax (+7.6%). States mirrored the Centre's capex-led approach, prioritising infrastructure over routine revenue spending. However, income tax receipts moderated due to revised slabs and delayed filings. Fiscal prudence was maintained with a focus on quality spending.

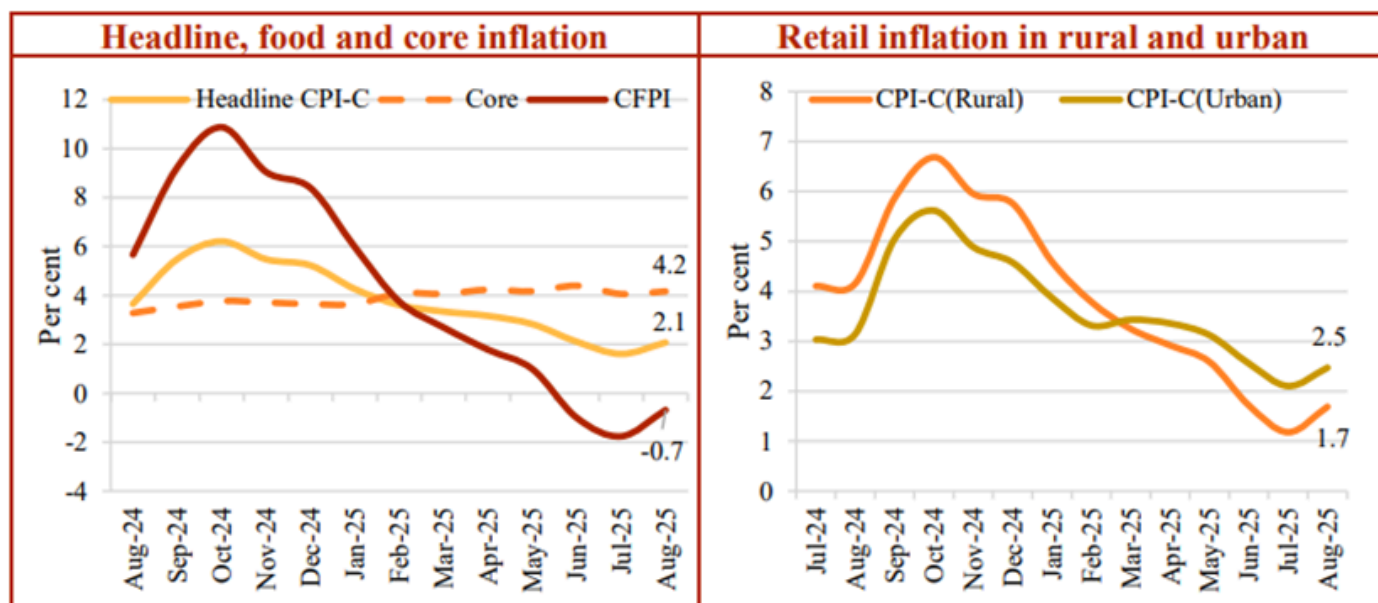


Source: RBI

Price Stability Restored

Headline CPI inflation slowed to 2.07% in August 2025, the lowest in nearly a year. Core inflation remained steady at 4.16%, indicating limited demand-pull pressures. Urban inflation at 2.5% was slightly higher than rural (1.7%). The government's proactive supply-side management, including edible oil stabilisation measures, helped reduce price volatility.

INDIAN ECONOMY



Source: RBI

Trade performance (April–August 2025)

In August 2025, India's total exports (goods and services) increased by 9.3% (YoY), primarily driven by a 12.2% (YoY) rise in service exports. Merchandise exports grew by 6.7% (YoY), and overall merchandise trade performance remains broad-based in terms of composition.

Export-Imports	2023-24	2024-25	2025-26
Merchandise exports	176.7	179.6	184.1
Non-petroleum exports	141.4	147.3	158.1
Merchandise imports	275.8	300.1	306.5
Non-oil imports	187.4	196.1	209.6

Unit: USD Billion

India & Australia Push Ahead on CECA Talks



India and Australia concluded the 11th round of the Comprehensive Economic Cooperation Agreement (CECA) negotiations in New Delhi (18–23 August 2025). Officials covered a wide range of issues, including trade in goods and services, mobility, digital trade, rules of origin, environment, labour, and legal provisions. The talks build on the Interim Economic Cooperation and Trade Agreement (ECTA) signed in December 2022.

The CECA is expected to go beyond including the digital economy, gender and sustainability, potentially reshaping the India–Australia trade partnership.

AITIGA Plus: India and the Philippines Begin Preferential Trade Talks

India and the Philippines have formally exchanged terms of reference to launch negotiations for a Preferential Trade Agreement (PTA), building on the ASEAN–India Trade in Goods Agreement (AITIGA) that has been in place since 2010. The proposed pact will focus on expanding market access, with India seeking concessions for agricultural products such as potatoes and grapes,

while offering expertise in oil and gas consultancy. In return, the Philippines has showcased its strengths in seaweed cultivation technologies, which India is exploring for nutritional use.

The announcement coincided with the state visit of President Ferdinand R. Marcos Jr. to India, where both sides also agreed to expedite the AITIGA review by the end of 2025. Bilateral trade reached USD 3.3 billion in FY24, with India exporting USD 2.16 billion, led by pharmaceuticals, and importing USD 1.17 billion in minerals and gems. Looking ahead, India has pledged support for major infrastructure projects in the Philippines, including the sharing of its Gati Shakti platform for integrated planning, reinforcing the broader strategic partnership between the two nations.

UK–South Korea Economic Dialogue Expands Beyond Trade to AI & Defence



The United Kingdom and South Korea have agreed to accelerate negotiations on upgrading their bilateral free trade agreement to conclude talks by the end of this year. The decision followed the fifth round of discussions held last month in Seoul, where officials addressed issues

such as easing rules of origin, strengthening supply chain cooperation, and introducing new provisions on digital trade.

Beyond trade liberalisation, the two sides also explored deeper cooperation across a wide range of strategic sectors, including artificial intelligence, quantum technology, defence industries, engineering, biotechnology, space, and energy. South Korean officials further urged the UK to review its safeguard measures on domestic steel products and its electric vehicle subsidy scheme, stressing the need to ensure fair competition for Korean companies.

Thai–EU FTA Talks Stall as Sensitive Issues Persist

Thailand's Department of Trade Negotiations (DTN) has acknowledged that the Thai–EU Free Trade Agreement (FTA) is unlikely to be concluded by the end of 2025 due to unresolved sensitive issues. Negotiations, launched in 2023, cover 24 chapters of trade and services, but only seven chapters have been finalised so far. Key sticking points include the EU's demands on government procurement, energy policy, and compliance with global trade rules, which could impact a wide range of stakeholders in Thailand.

At a stakeholder consultation workshop in Bangkok, Commerce Minister Jatuporn Buruspat emphasised the urgency of the deal, calling the EU a high-potential market critical for Thailand's trade strategy. With the upcoming rounds of talks scheduled for the coming months, officials aim to resolve sensitive issues.

Malaysia Set to Sign FTA with South Korea

Malaysia expects to sign its bilateral FTA with South Korea in October 2025, according to Investment, Trade and Industry Minister Tengku Zafrul Aziz. The deal will be Malaysia's 19th FTA, adding to its 18 existing bilateral and multilateral pacts.

Officials emphasised that the FTA would especially benefit the electrical and electronics sector, which is central to Malaysia's exports but vulnerable to tariff and origin compliance issues. The government is also strengthening supply chain mapping and enforcement of origin rules to prevent misuse of Malaysian routes for transshipment.

EU AI Rules for Foundational Models Enforced

The EU’s landmark AI Act has officially come into effect for providers of general-purpose AI (GPAI) models, ie, trained on vast datasets to perform a wide range of tasks, such as generating text, images, or other content. The new framework aims to ensure greater transparency, safety, and accountability in the development and deployment of powerful AI models across Europe. While new models must comply immediately, existing models are granted a transition period until 2027. To support implementation, the European Commission has issued guidelines, a training data summary template, and a voluntary Code of Practice for GPAI that providers can adopt for smoother compliance.

Key Highlights

The rules apply to large general-purpose AI models trained with more than 10^{23} FLOP and capable of generating language, ensuring that the most impactful foundation models fall under regulation. A central requirement is transparency: providers must disclose the sources of training data, methods used for filtering and pre-processing,

and known limitations or intended use cases. This aims to give regulators, businesses, and users greater clarity on how these systems work and where risks may lie.

The framework also strengthens copyright protection. Developers must explain how they ensured compliance with EU copyright law and disclose if copyrighted material was used in training datasets, setting clearer standards for lawful AI training. For the most advanced models, those trained with 10^{25} FLOP or more or classified as posing systemic risk, additional obligations apply. These include notifying the European Commission, implementing robust safety and security mechanisms, and undergoing stricter oversight.

To ease compliance, the EU has issued detailed guidelines and a reporting template to help providers standardise disclosures. A voluntary Code of Practice is also available, offering companies a structured path to show good faith compliance and reduce regulatory uncertainty.

Date / Period	Applicability	Key Requirements
From 2 Aug 2025	New GPAI models entering the EU market	Must comply with transparency, copyright, and data disclosure rules immediately.
By 2 Aug 2027	Existing GPAI models (released before Aug 2025)	Transition deadline to align with AI Act obligations.

POLICY AND REGULATORY NEWS

WORLD

Importantly, the scope is global: any provider, whether based in the EU or abroad, must comply if they want to place GPAI models on the European market.



For AI developers, the rules mean building compliance into model design and documentation from the start. This may add costs but also enhances trust and credibility in one of the world's largest digital markets. For businesses utilising AI, the regulation promises safer deployment, increased visibility into how AI models are trained, and more transparent accountability in the event of issues arising.



VeK is a policy advisory and research firm, distinguished by data-driven approach to analyse policy and regulatory developments in India and globally.

B-92, South City-I,
Sector-30, Gurugam,
Haryana – 122001

For Further Information, Please Contact:

Saloni Goyal
Lead Associate
Mobile: +91 85880 36912

Email: team@vekpolicy.com

Website: www.vekpolicy.com



Disclaimer: The Policy Pulse is a monthly newsletter published by RV-VeKommunicate LLP. The information and opinions contained in this Newsletter have been compiled from sources believed to be reliable and in good faith. While all efforts have been made to compile accurate information, VeK or its employees, affiliates, shall not be in any way responsible for any damage that may arise to any person from any inadvertent error in the information or omissions contained in the Newsletter.