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POLICY PULSE

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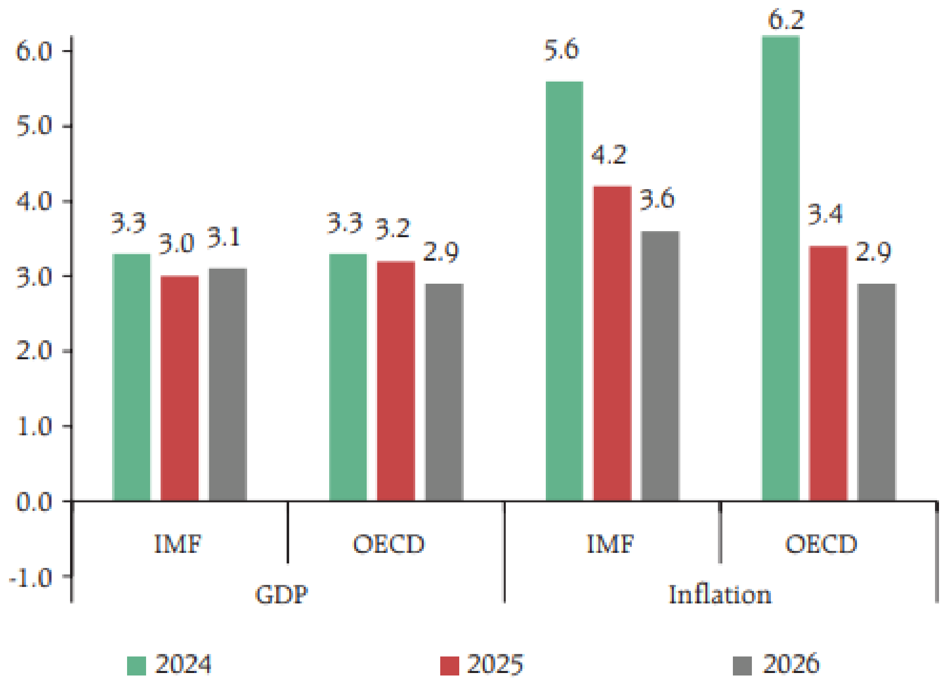
GLOBAL ECONOMY

Global Economy Overview

The global economy remained resilient through early Q4-2025, though headwinds intensified amid policy uncertainty, trade tensions, and uneven manufacturing momentum. The IMF's October update projects global growth at 3.2% in 2025, signalling modest improvement but still below pre-pandemic averages. Advanced economies are expected to grow at 1.6%, and emerging market & developing economies (EMDEs) at 4.2%.

IMF and OECD projections for Growth and Inflation (Per cent)



Source: RBI

Global Inflation Dynamics

Global inflation has eased markedly from earlier peaks, largely driven by declining energy prices, the normalisation of global supply chains, and a broad-based moderation in goods inflation. Improved logistics, easing input costs, and weaker global demand have contributed to disinflation across several economies. However, the pace of moderation has been uneven, with inflation remaining above central bank targets in parts of the world.

Despite the ongoing disinflation, core and services inflation remain sticky, particularly in advanced economies. This persistence reflects tight labour market conditions, elevated wage growth, and continued services-led demand, which have limited the speed at which inflation converges to target levels. The RBI notes that while the global disinflation process is underway, inflation risks have not been fully extinguished and remain sensitive to commodity price volatility, geopolitical disruptions, and climate-related supply shocks.

Global monetary policy remains restrictive, with major central banks adopting a cautious, data-dependent approach to policy easing. The need to ensure durable disinflation has constrained the pace of monetary accommodation, contributing to tighter global financial conditions.

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These conditions have, in turn, led to intermittent risk-off episodes in global financial markets, with emerging market economies particularly exposed to capital flow volatility and external financing pressures.

The IMF and OECD highlight several key downside risks to the global inflation and growth outlook, including the escalation of geopolitical conflicts and trade tensions, renewed volatility in energy and food prices, abrupt repricing of global financial conditions, and climate-related shocks affecting agricultural output. Overall, the global macroeconomic environment is characterised by moderate growth, declining but still sticky inflation, and elevated uncertainty, underscoring the importance of strong domestic growth drivers, policy credibility, and adequate macroeconomic buffers for emerging economies such as India.

INDIAN ECONOMY

Growth and Demand Conditions

GDP Growth Outlook:

The Reserve Bank of India projects India's GDP growth at around 6.8% in FY 2025–26, reflecting strong domestic fundamentals and resilience to global headwinds. The growth outlook carries an upward bias, supported by robust Q1 FY26 performance, with real GDP growth driven by strong consumption and investment activity. High-frequency indicators continue to signal sustained momentum across key sectors.

Drivers of Growth:

Private consumption remains the primary engine of growth, supported by rising urban demand and improving rural incomes. Government capital expenditure continues to play a critical role, with public capex budgeted at over ₹11 lakh crore in FY26, supporting infrastructure development and crowding in private investment. The services sector remains resilient, with trade, transport, financial services, and business services recording steady expansion. Manufacturing activity has shown signs of stabilisation, aided by firm domestic demand and capacity utilisation levels remaining above their long-term averages.

Inflation Outlook:

CPI inflation is projected at around 2.6% for FY 2025–26, significantly below the RBI's medium-term target of 4%. The benign inflation outlook reflects moderation in food prices, stability in fuel prices, and favourable base effects. Core inflation has remained contained, indicating limited underlying price pressures.

External Sector Developments

Trade Performance:

India's merchandise trade performance has been shaped by weak global demand, geopolitical disruptions, and elevated commodity prices. In recent months, merchandise exports recorded mid-single-digit growth, reaching around US$36–37 billion, supported by engineering goods, electronics, and petroleum products, even as exports of labour-intensive goods remained subdued. Merchandise imports rose at a faster pace, driven primarily by energy imports, gold, and electronic goods, taking monthly imports to around US$58–60 billion. As a result, the merchandise trade deficit widened to over US$30 billion in the latest reported months.

Services Trade

The services sector continues to act as a critical stabiliser for India's external account. Net services exports remained strong, delivering a surplus of around US$15–16 billion per month, led by IT services, business services, and travel. This robust services surplus has helped offset the widening merchandise trade deficit, keeping the current account deficit (CAD) at manageable levels, well within the economy's financing capacity.

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Monetary and Financial Conditions

Monetary Policy Stance:

The RBI maintained the repo rate at 5.50% and retained a neutral policy stance in October 2025. The decision reflects confidence in the domestic growth outlook and comfort on inflation, while preserving flexibility to respond to evolving global and domestic developments.

Liquidity and Credit:

System liquidity remains in surplus, ensuring smooth monetary policy transmission and orderly financial market conditions. Bank credit growth, at around 11–12% year-on-year, continues to outpace deposit growth, indicating sustained demand for credit from productive sectors of the economy.

Overall Assessment

The RBI's October 2025 Monetary Policy Report underscores India's macroeconomic resilience amid slowing global growth and heightened uncertainty. Strong domestic demand, low and stable inflation, comfortable external buffers, and supportive financial conditions position the Indian economy well to absorb external shocks. The neutral policy stance reflects a calibrated balance between supporting growth and maintaining vigilance against emerging inflationary and financial stability risks.

A New Strategic EU-India Agenda: Council Conclusions

The Council's endorsement of the New Strategic EU–India Agenda marks a significant elevation of the partnership, positioning India as one of the EU's most consequential global allies. By establishing a long-term framework across economic, technological, security, and geopolitical domains, the agenda signals a shift from transactional cooperation to a structured, strategic relationship. The emphasis on concluding a balanced and ambitious Free Trade Agreement (FTA) underscores the urgency of unlocking new opportunities for trade, investment, and sustainable growth.

For the industry, the FTA push is particularly impactful. Enhanced market access and the removal of trade barriers will open doors for sectors such as manufacturing, pharmaceuticals, IT services, and renewable energy. Companies can expect smoother entry into both markets, reduced tariffs, and stronger protections for intellectual property. At the same time, the inclusion of sustainable development provisions means businesses will need to align with higher environmental, social, and governance (ESG) standards, creating both challenges and opportunities in green innovation and compliance.

The four pillars of cooperation, prosperity & sustainability, technology & innovation, security & defence, and connectivity & global issues translate into tangible industry benefits. Green growth and energy transition initiatives will boost renewable energy and clean technology sectors, while digital partnerships and AI cooperation will strengthen India's IT and start-up ecosystem.

Defence-industrial collaboration offers scope for joint ventures in the aerospace and maritime industries, and supply-chain resilience efforts will diversify sourcing of critical raw materials and advanced manufacturing inputs.

Finally, the agenda's focus on research, education, and skilled mobility provides industries with access to talent and innovation ecosystems. Increased participation in Horizon Europe, academic exchanges, and start-up collaboration will accelerate R&D and cross-border innovation. For businesses, this means not only new markets but also deeper integration into global value chains, supported by resilient supply networks and shared commitments to multilateralism. In essence, the agenda sets the stage for industries to thrive in a more interconnected, sustainable, and innovation-driven EU–India partnership.

Second Round of UK–Türkiye FTA Talks Wraps Up

Türkiye and the United Kingdom have completed the second round of negotiations to upgrade their existing Free Trade Agreement (FTA), held in London in September 2025, as part of efforts to transform the 2021 continuity pact into a "next-generation" and comprehensive trade deal.

The talks concentrated on expanding cooperation beyond goods to include new market openings in agricultural products, streamlining customs procedures, and boosting engagement in sectors such as financial services, telecommunications, maritime transport, postal/courier services, and digital trade, with a particular emphasis on secure data flows and investment protections. Both sides also engaged in discussions on intellectual property, regulatory practices, labour, and environmental standards, with the British government describing the round as "productive" and noting positive progress in several areas.

U.S. Deepens Bilateral Trade Engagements Across Asia

The United States has announced a series of major bilateral trade initiatives with Vietnam, Thailand, Malaysia, Cambodia and South Korea, signalling a broader shift toward reciprocal, investment-linked, and supply-chain-oriented partnerships in the Asia-Pacific region. These developments combine tariff changes, extensive non-tariff reforms, and large-scale commercial commitments across critical sectors.

United States – Vietnam

The U.S. and Vietnam agreed on a new framework for an "Agreement on Reciprocal, Fair and Balanced Trade," under which Vietnam will provide preferential market access for substantially all U.S. industrial and agricultural exports. The U.S. will retain a 20% tariff on most Vietnamese-origin goods but may reduce tariffs to zero for selected products, including pharmaceuticals, semiconductors, energy products, lumber, and copper articles.

Vietnam has committed to accepting vehicles built to U.S. safety and emissions standards and will streamline regulatory approvals for U.S. medical devices and pharmaceuticals. It will also strengthen intellectual property enforcement and enhance cooperation on customs, export control enforcement and duty-evasion prevention. Bilateral trade is expanding rapidly, rising 27% year-on-year to USD 126.4 billion in the first nine months of 2025, with Vietnam's surplus widening to USD 99.1 billion. Both sides plan to finalise and sign the trade agreement.

United States – Thailand

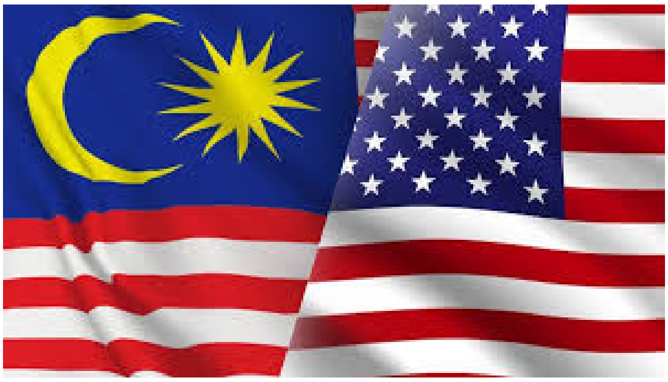
The United States and Thailand have outlined a wide-ranging Reciprocal Trade Agreement under which Thailand will eliminate tariff restrictions on approximately 99% of U.S. industrial, food and agricultural products. The U.S. will maintain a 19% tariff on most Thai-origin goods under existing executive orders, with zero-tariff treatment possible for items included in agriculture, energy, etc.

Thailand has committed to removing non-tariff barriers by accepting U.S.-built vehicles that meet American standards, opening access for U.S. pharmaceuticals and medical devices, and easing regulations for U.S. meat, poultry and corn-based DDGS.

United States – Malaysia

The U.S. and Malaysia announced a sweeping trade and investment pact centered on critical minerals, rare earths, energy supplies and major commercial agreements.

Malaysia has committed not to impose export bans or quotas on rare-earth and critical minerals destined for the U.S. The pact includes large-scale deals in aerospace, semiconductors and data-centre equipment worth an estimated USD 150 billion, along with Malaysia's LNG supply of 5 million tonnes annually to the U.S. valued at USD 3.4 billion per year. The agreement also provides preferential access for U.S. industrial goods—covering chemicals, machinery, electrical equipment, metals and passenger vehicles—and for U.S. agricultural products such as dairy, poultry, rice and fuel ethanol. An additional USD 70 billion U.S. investment fund commitment is part of the package, underscoring the strategic nature of the partnership.



United States – Cambodia

The U.S. and Cambodia have concluded a bilateral trade package under which Cambodia will eliminate all tariffs on U.S. industrial, agricultural and food products. Cambodia will treat U.S. exporters on a fully non-discriminatory basis and address existing non-tariff barriers by streamlining import licensing, accepting U.S.-standard vehicles, and recognising U.S. FDA regulatory approvals for medical devices and pharmaceuticals. For agricultural exports, Cambodia will adopt

U.S. sanitary and phytosanitary standards and remove additional testing requirements.

The agreement also includes commitments on digital trade, enabling cross-border data transfers, prohibiting discriminatory digital taxes, and promoting a predictable regulatory environment for services and investment. The U.S. will maintain a 19% tariff on most Cambodian goods, except those eligible for zero-tariff treatment including Aircraft, certain generics, selected agricultural products and natural resources.

United States – South Korea

The U.S. and South Korea announced a breakthrough trade understanding involving nearly USD 350 billion in Korean investments in the U.S., comprising USD 200 billion in direct cash infusions (in USD 20 billion instalments) and USD 150 billion in shipbuilding-related investment. In return, the U.S. will provide lower tariff treatment for Korean imports, although exact tariff adjustments and product scopes remain under negotiation.

The agreement still requires ratification by South Korea's parliament, while a detailed factsheet and a memorandum of understanding on trade and security cooperation. The scale of investment reflects a broader U.S. approach of blending trade concessions with strategic industrial and supply-chain commitments.

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EU Publishes Simplified CBAM Rules to Ease Compliance Burden

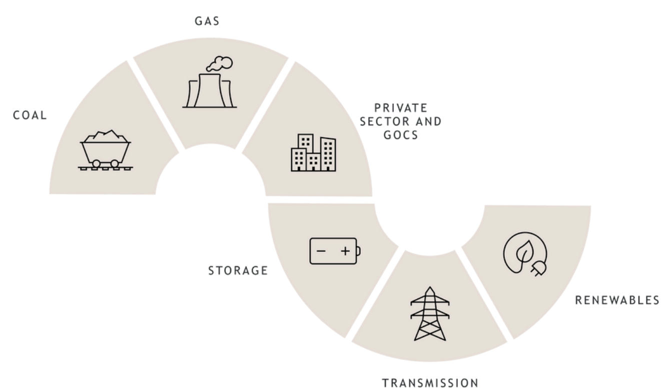
The European Union is introducing simplifications and strengthening measures to its Carbon Border Adjustment Mechanism (CBAM), which was adopted by the European Parliament and the Council and entered into force on 20 October 2025. The updated regulation is intended to both enhance the effectiveness of CBAM in preventing carbon leakage and reduce regulatory and administrative burdens, particularly for small and medium-sized enterprises (SMEs) and individual importers.

New Thresholds and Implications for SMEs

A key element of the simplification package is the introduction of a de minimis exemption threshold of 50 tonnes per year for CBAM-covered goods. Importers below this threshold are exempt from CBAM obligations, including registration, emissions reporting, and certificate surrender. This change is expected to exempt around 182,000 importers, most of whom are SMEs and individual operators, while still covering over 99% of total emissions associated with CBAM goods. By significantly narrowing the compliance universe, the EU has reduced the administrative and financial burden on smaller firms that trade limited volumes with the EU.

For SMEs in third countries exporting to the EU, this change offers temporary relief but also signals longer-term challenges. Smaller exporters whose shipments fall below the 50-tonne threshold will face no immediate CBAM compliance costs, helping them remain competitive in the EU market during the early implementation phase. However, SMEs exporting larger volumes or those embedded in supply chains linked to major EU importers will still be affected by pricing pressures, emissions data requirements, and buyer-driven decarbonisation expectations. Over time, CBAM is likely to push even smaller exporters toward lower-carbon production and greater supply-chain transparency to sustain access to the EU market as full compliance takes effect from 2026–27.

Queensland Energy Roadmap 2025: Energy Transition and Environmental Strategy



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The Queensland Government released the Queensland Energy Roadmap 2025, setting out a clear and pragmatic energy transition strategy through 2030. The roadmap explicitly acknowledges that coal-fired power generation will continue to play a central role in the state's electricity system until existing assets reach the end of their technical life. To safeguard grid reliability and avoid supply disruptions, the government has committed A$1.6 billion under an Electricity Maintenance Guarantee to maintain and upgrade coal plant infrastructure and ensure operational readiness during the transition period.

At the same time, the roadmap signals a strong push to crowd in private investment in clean and firming technologies. Queensland plans to accelerate the deployment of large-scale solar and wind projects, supported by gas-based generation and energy storage systems to provide system flexibility and manage intermittency. This dual-track approach reflects the state's current energy reality—where coal accounts for more than 60% of electricity supply—while recognising the need to progressively diversify the generation mix to meet rising demand, population growth, and industrial load.

Overall, the roadmap positions Queensland as pursuing a managed and reliability-first energy transition, rather than a rapid coal phase-out. By sustaining existing coal capacity in the medium term while expanding renewables and storage, the state aims to balance energy security, affordability, and emissions reduction objectives. For

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AI Content Labelling Rules, 2025: Digital Governance and Platform Accountability

The Government of India released draft rules proposing a comprehensive framework for mandatory labelling of AI-generated content, marking a significant step in strengthening digital governance and platform accountability. The draft regulations—open for public consultation until 6 November—require all AI-generated images and videos to carry clear, visible labels covering at least 10% of the display area, and AI-generated audio content to include disclosure within the first 10% of its duration. The proposal also places direct compliance obligations on social media platforms, mandating user declarations for AI-generated uploads and the and the deployment of technical verification mechanisms to detect and flag such content.

The draft rules explicitly respond to growing concerns around deepfakes, manipulated media, and election-related misinformation. By emphasising visible labelling, metadata traceability, and platform-level enforcement, the government signals a shift from voluntary disclosure norms to a more prescriptive regulatory approach. The framework aligns India's digital policy trajectory with international precedents, particularly regulatory measures adopted by the European Union and China, while adapting them to India's platform ecosystem and electoral sensitivities.

Overall, the proposed rules position India as pursuing a transparency-first and risk-mitigation-oriented approach to AI governance rather than an outright restriction on generative technologies. For digital platforms, content creators, and AI developers, the draft provides early policy clarity on disclosure expectations, compliance systems, and liability management. If implemented, the framework is likely to reshape content moderation practices, increase compliance costs for platforms, and influence the design and deployment of generative AI tools in the Indian market ahead of upcoming electoral cycles.

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

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