



CareEdge

► Debt & Forex Market Update

July 2025



Key Global Developments

- IMF raises global growth forecast
- JGB yields rise
- ECB pauses rate cuts
- Fed likely to hold rates in July

India Debt & FX Market Trends

- Inflation continues on a downward trajectory
- Cumulative rainfall 7% above the LPA
- Liquidity conditions comfortable
- VRRR auctions push the call rate temporarily above the repo rate
- 10Y GSec yield inches up; Yield curve steepens
- Bank credit & deposit growth eases vs last year
- Key banking sector rates yet to fully reflect repo rate cuts
- Slight dip in CD issuances; Sharp rise in CP issuances
- Corporate bond issuances surge
- Goods deficit widens in Q1; Services surplus rises
- FPI outflows continue for second straight month in July
- Rupee weakens over the past month, volatility stays low

≡ Key Global Developments

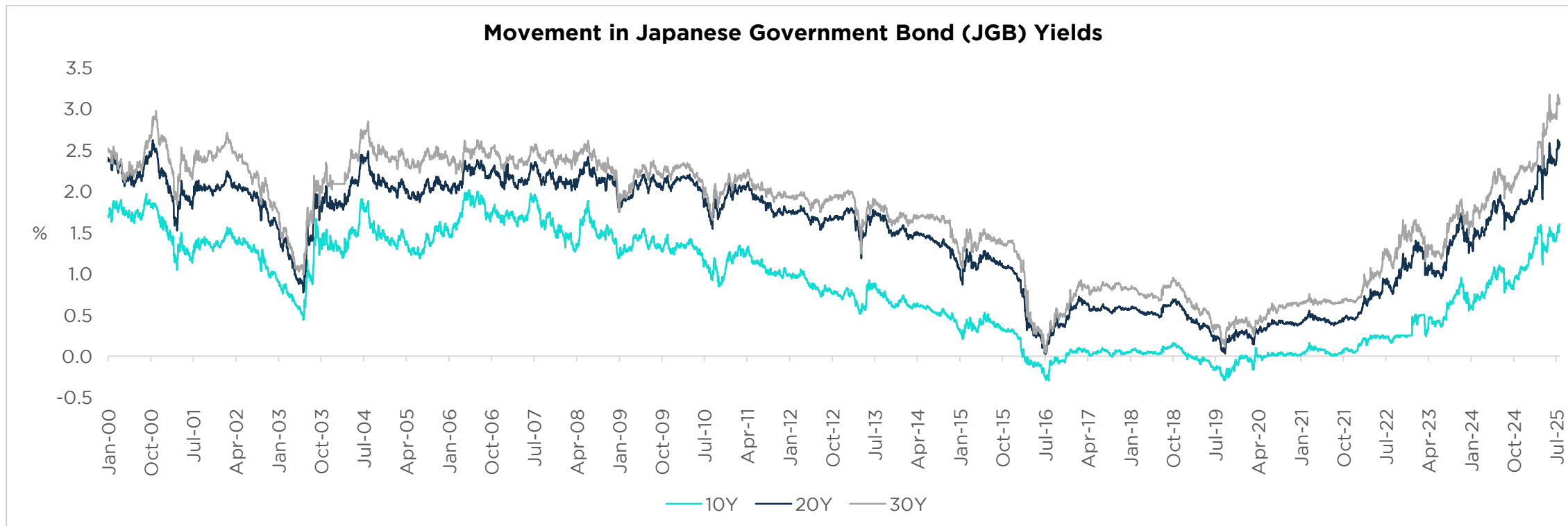
IMF Raises Global Growth Forecast

Key Updates from Latest IMF World Economic Outlook (WEO)					
	July 2025 WEO (YoY, %)			Difference from April 2025 WEO (pp)	
	2024	Projections		Projections	
		2025	2026	2025	2026
World Output	3.3	3.0	3.1	0.2	0.1
-Advanced Economies	1.8	1.5	1.6	0.1	0.1
US	2.8	1.9	2.0	0.1	0.3
Euro Area	0.9	1.0	1.2	0.2	0.0
Japan	0.2	0.7	0.5	0.1	-0.1
UK	1.1	1.2	1.4	0.1	0.0
-Emerging Market & Developing Economies	4.3	4.1	4.0	0.4	0.1
China	5.0	4.8	4.2	0.8	0.2
India	6.5	6.4	6.4	0.2	0.1
World Trade Volume (Goods and Services)	3.5	2.6	1.9	0.9	-0.6
World Consumer Prices	5.6	4.2	3.6	-0.1	0.0
-Advanced Economies	2.6	2.5	2.1	0.0	-0.1
-Emerging Market & Developing Economies	7.7	5.4	4.5	-0.1	-0.1

Source: IMF

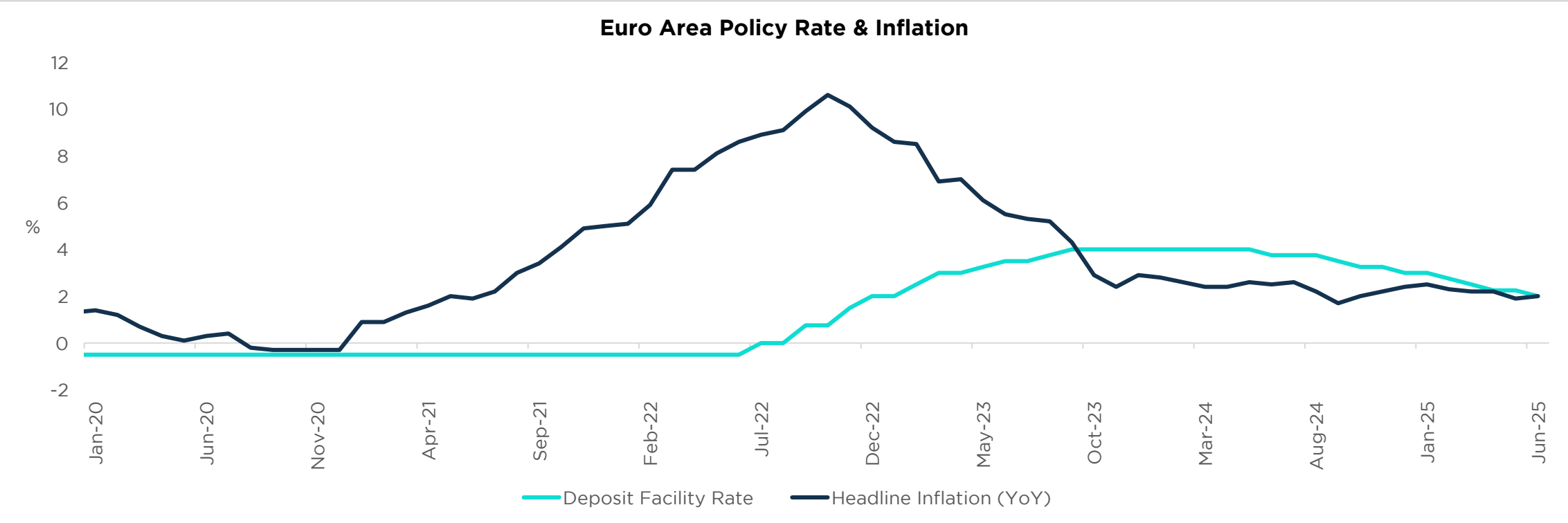
Note: For India, data and projections are presented on a fiscal year basis.

- The IMF has raised its global growth forecast for 2025 and 2026, driven by stronger-than-expected front-loading in anticipation of higher tariffs and lower effective US tariff rates (the US effective tariff rate underlying the IMF's July projections is 17.3%, down from 24.4% in April). A weaker dollar is also cushioning the tariff impact on US trading partners.
- However, growth projections for 2025 and 2026 remain below the 2024 outcome of 3.3% and the pre-pandemic average of 3.7%.
- Inflation is expected to stay above target in the US but remain more subdued in other major economies.
- Risks to the outlook remain tilted to the downside.



Source: Refinitiv. Data as of 25 July

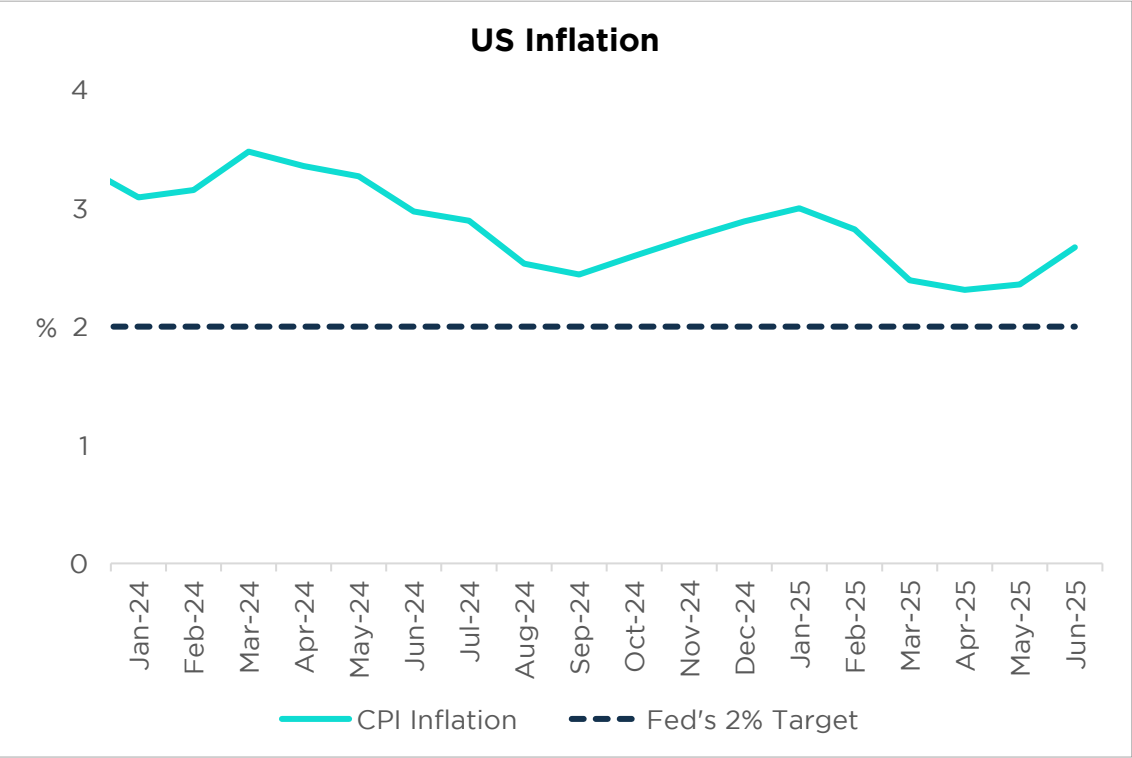
- 10Y, 20Y and 30Y JGB yields rose by 21, 24 and 16 bps, respectively, over the past month.
- Long-end yields up on fiscal concerns and reduced demand from Japanese life insurance companies.
- Elevated inflation (3.3% in June vs 2% target) supports further monetary policy normalisation.
- BoJ likely to hold rates in July. However, the odds of an October hike have risen.



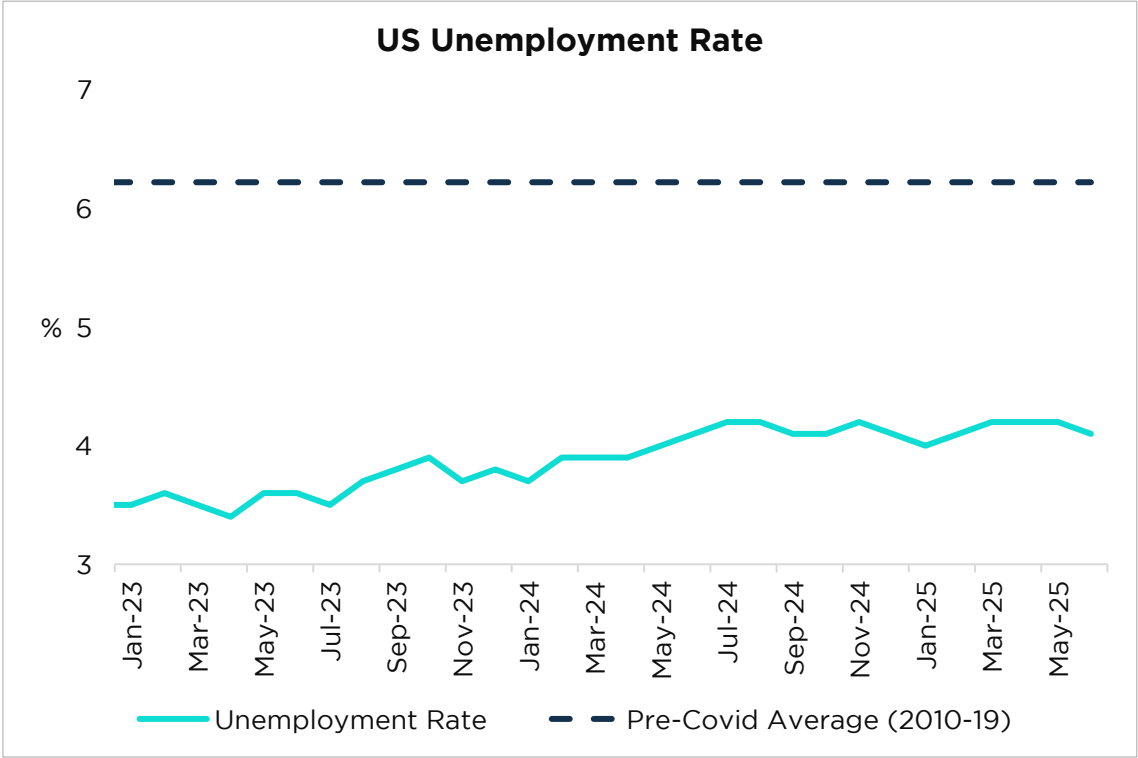
Source: CEIC

- EU inflation hit the ECB's 2% target in June.
- ECB kept policy rates on hold in July's meeting, marking its first pause since July 2024.
- ECB is likely to stay on hold this year, though downside growth risks from tariffs and a stronger euro could prompt a final rate cut later this year.

Fed Likely to Hold Rates in July



Source: CEIC

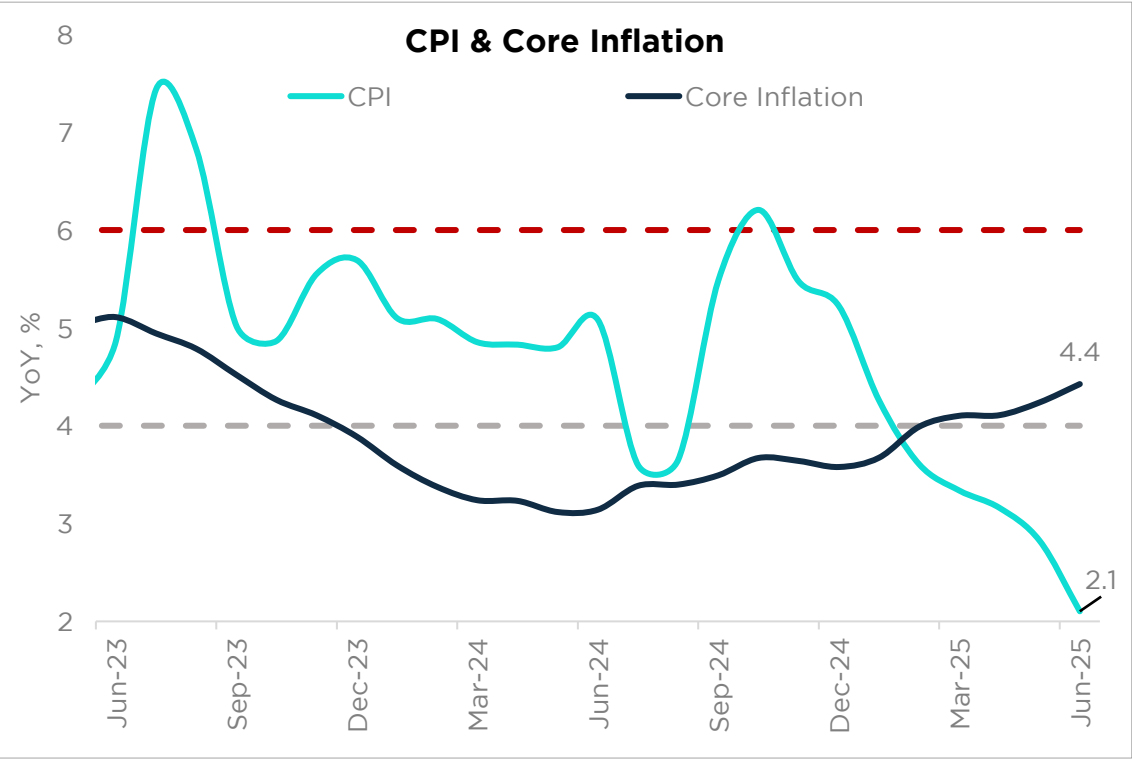


Source: CEIC

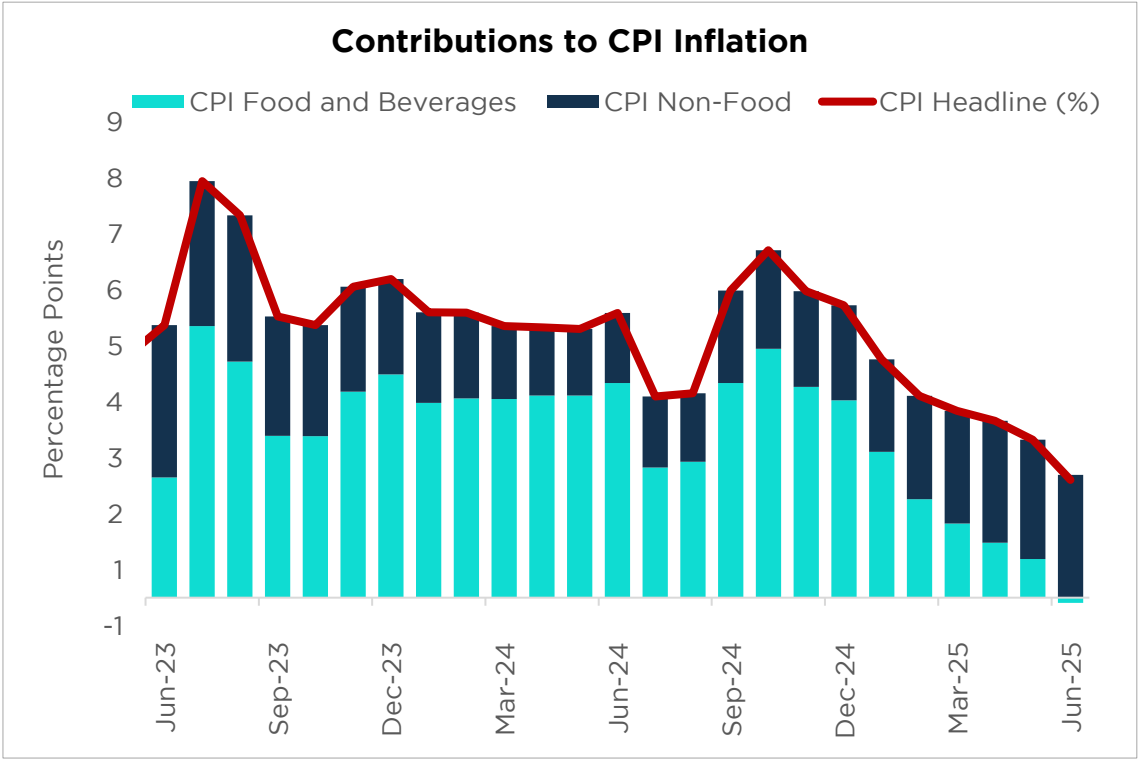
- Tariff impact on US consumer prices is starting to show. US inflation rose to 2.7% in June (vs 2.4% in May), the highest since February.
- The labor market has loosened but the unemployment rate remains well below the historical average.
- We expect the Fed to stay on hold in its July meeting. Markets are pricing in two Fed rate cuts this year (in September and December).

≡ India Debt & FX Market Trends

Inflation Continues on a Downward Trajectory



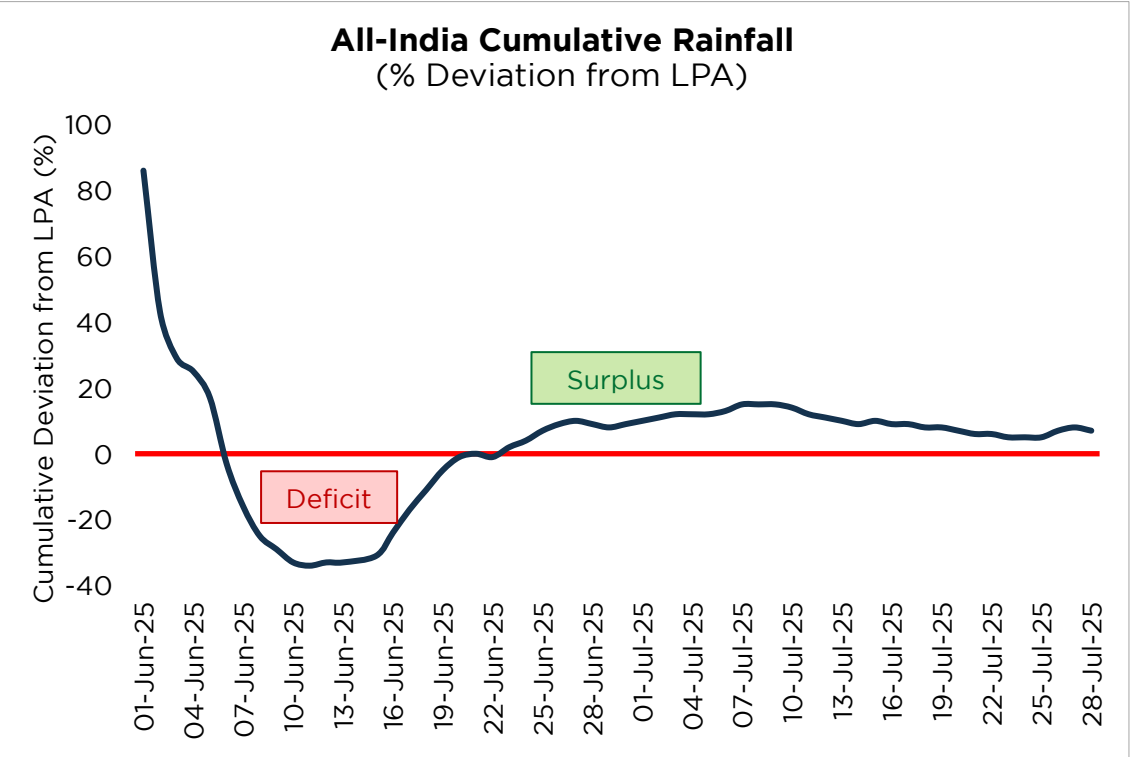
Source: MOSPI, CareEdge



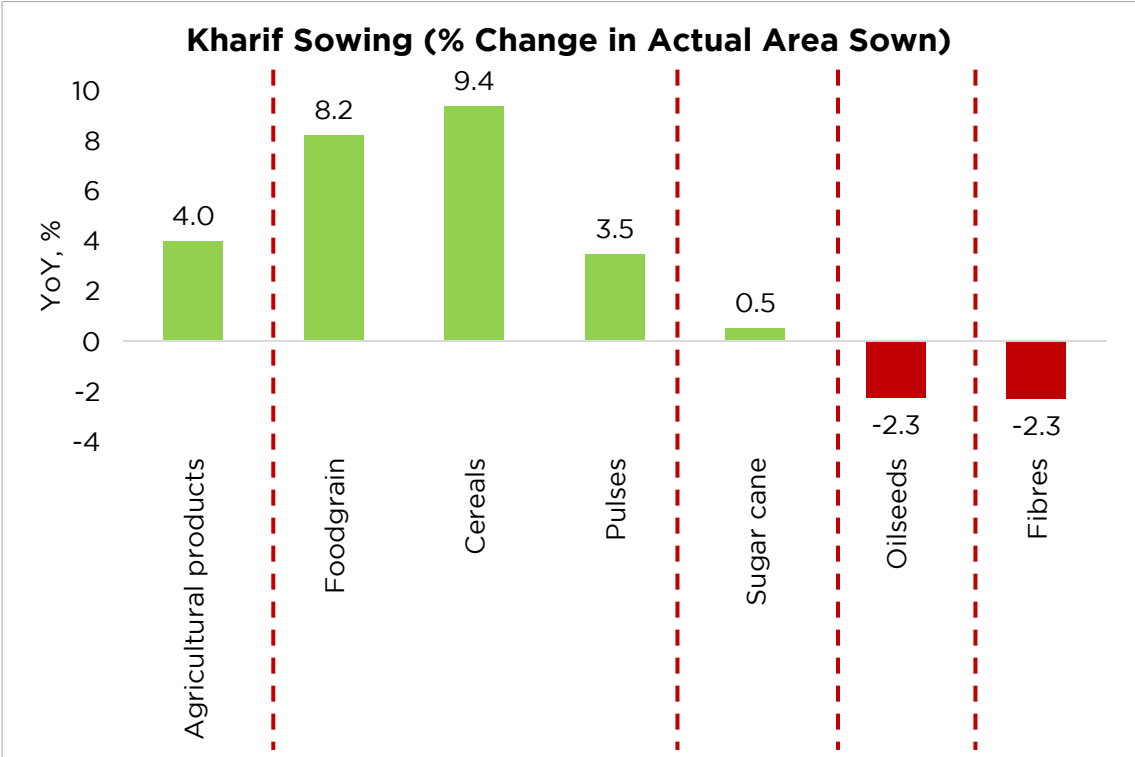
Source: MOSPI, CareEdge

- Sustained easing in CPI inflation was primarily driven by moderation in food inflation and a favourable base effect.
- The rise in core CPI is not broad-based and is mainly attributed to double-digit inflation in precious metals.
- We expect average CPI inflation to marginally ease from 2.7% in Q1 FY26 to 2.6% in Q2 FY26, before rising to above 4% in Q4 FY26.

Cumulative Rainfall 7% Above the LPA



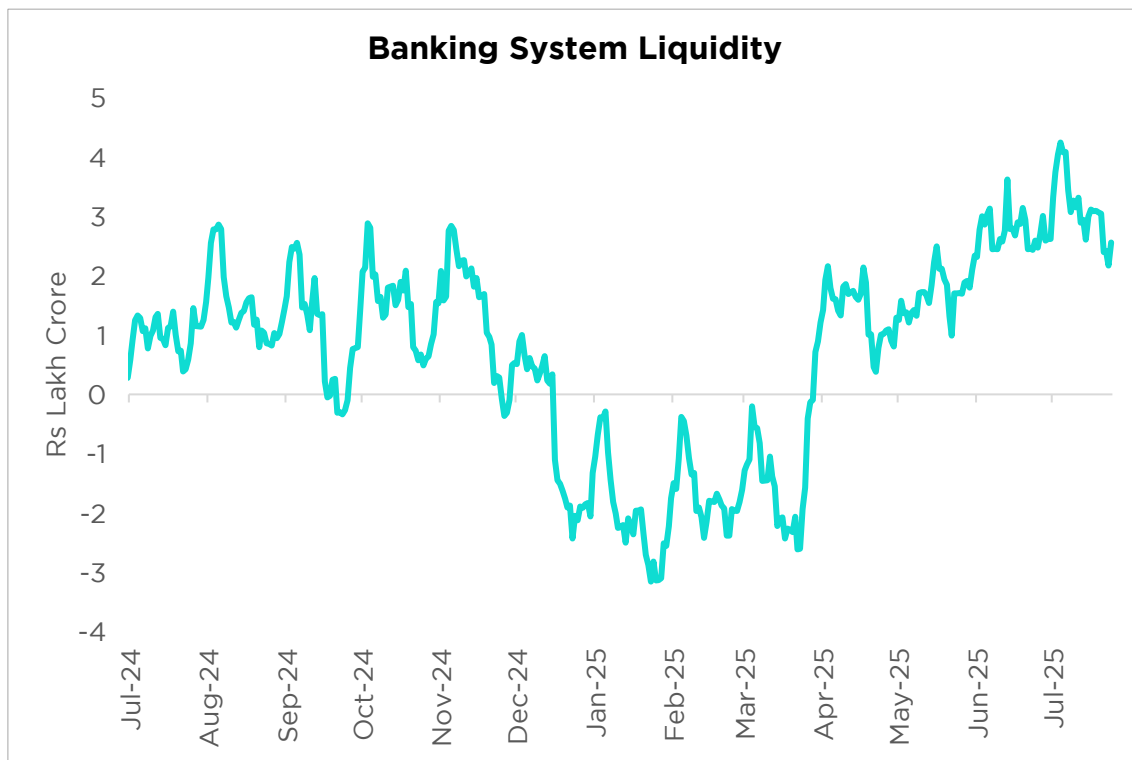
Source: IMD, CMIE. Data as of 28 July



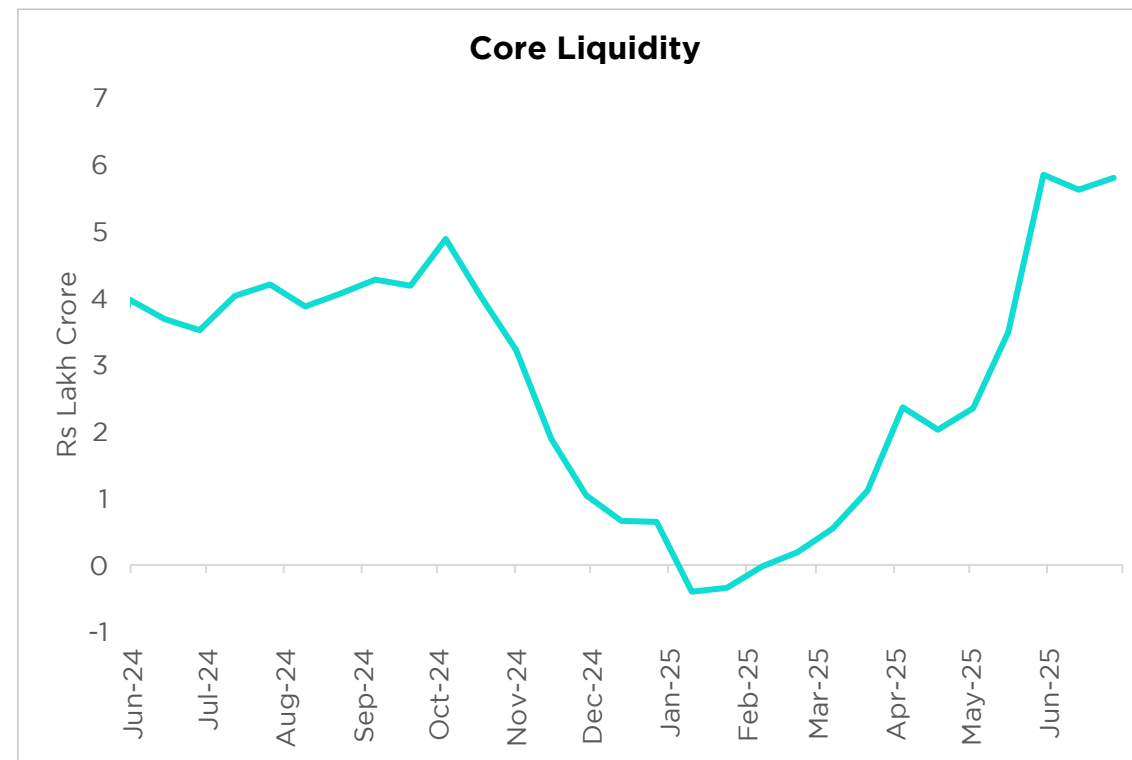
Source: Ministry of Agriculture & Farmers Welfare, CMIE. Data as of 25 July

- Southwest monsoon has been 7% above the Long Period Average (LPA) as of 28 July 2025.
- With rainfall projected to be above normal in July, the prospects for agricultural output remain favourable.
- Total sown area has increased by 4% YoY as of 25 July 2025. Despite some slowdown in sowing, the overall sowing progress remains upbeat.

Liquidity Conditions Comfortable



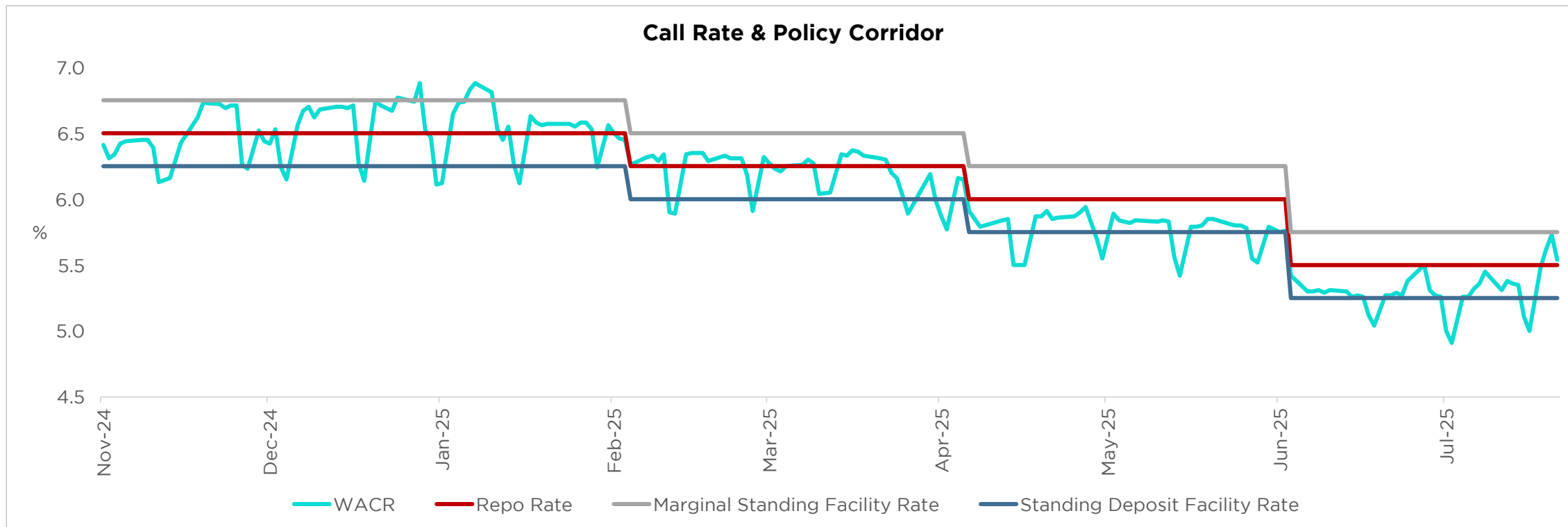
Sources: RBI, CEIC. Data as of 24 July
Positive values denote liquidity surplus.



Sources: RBI, CEIC. Data as of 27 June
Core liquidity includes government cash balances. Positive values denote liquidity surplus.

- Average banking system liquidity surplus rose to Rs 3.2 lakh crore in July (up to 24 July) from Rs 2.7 lakh crore in June.
- Core liquidity surplus surged to Rs 5.8 lakh crore as of 27 June.
- The RBI conducted VRRR auctions of varying maturities to manage the evolving liquidity conditions.
- The banking system liquidity surplus currently stands around 1.1% of NDTL. We expect the RBI to maintain the surplus in the range of 1-1.5%.

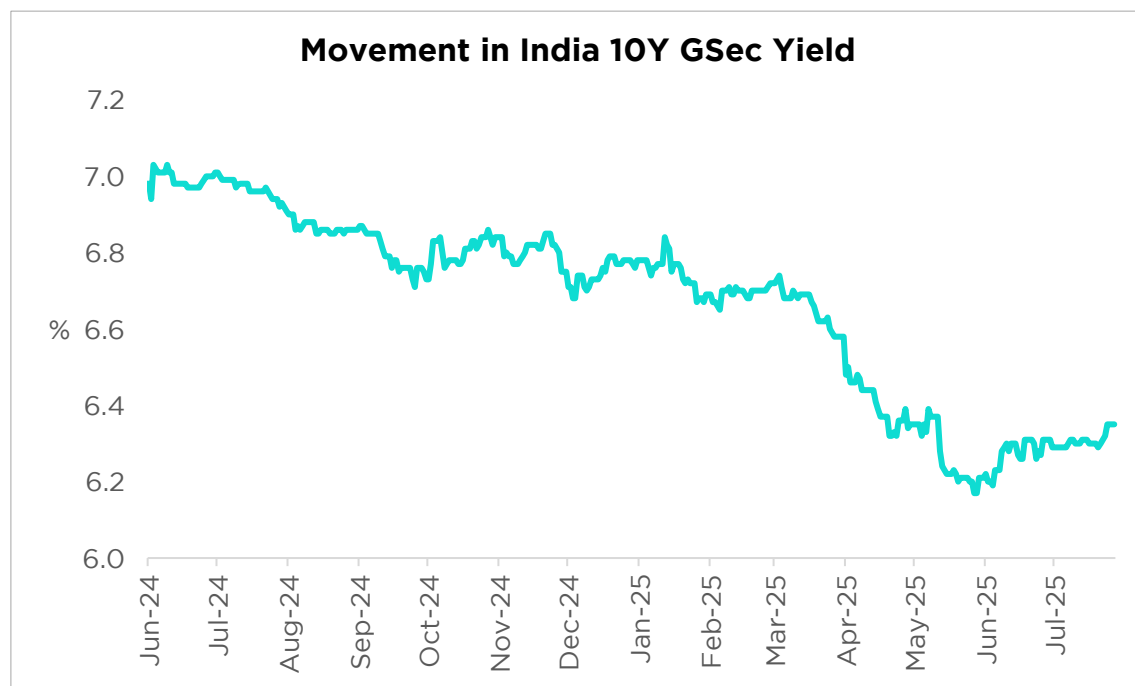
VRRR Auctions Push Call Rate Temporarily Above the Repo Rate



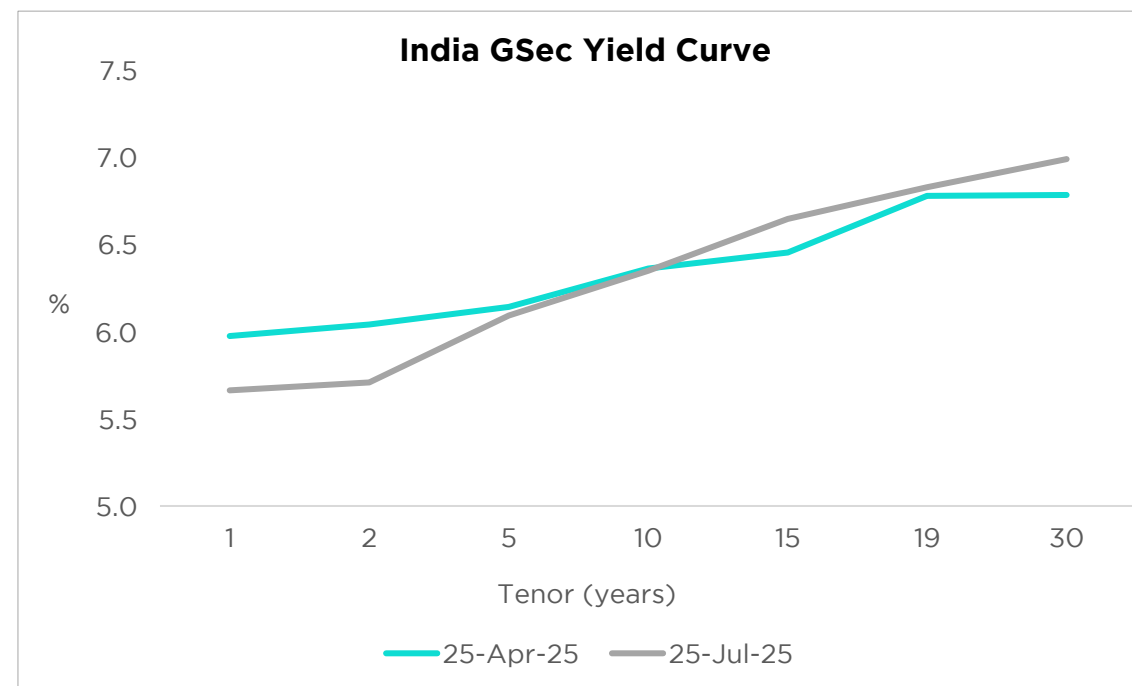
Sources: RBI, CEIC. Data as of 24 July

- On average, the WACR was 18 bps below the policy rate in July (up to 24 July), compared to 21 bps in June.
- On 22 and 23 July, the WACR exceeded the repo rate before aligning with it thereafter.

10Y GSec Yield Inches Up; Yield Curve Steepens



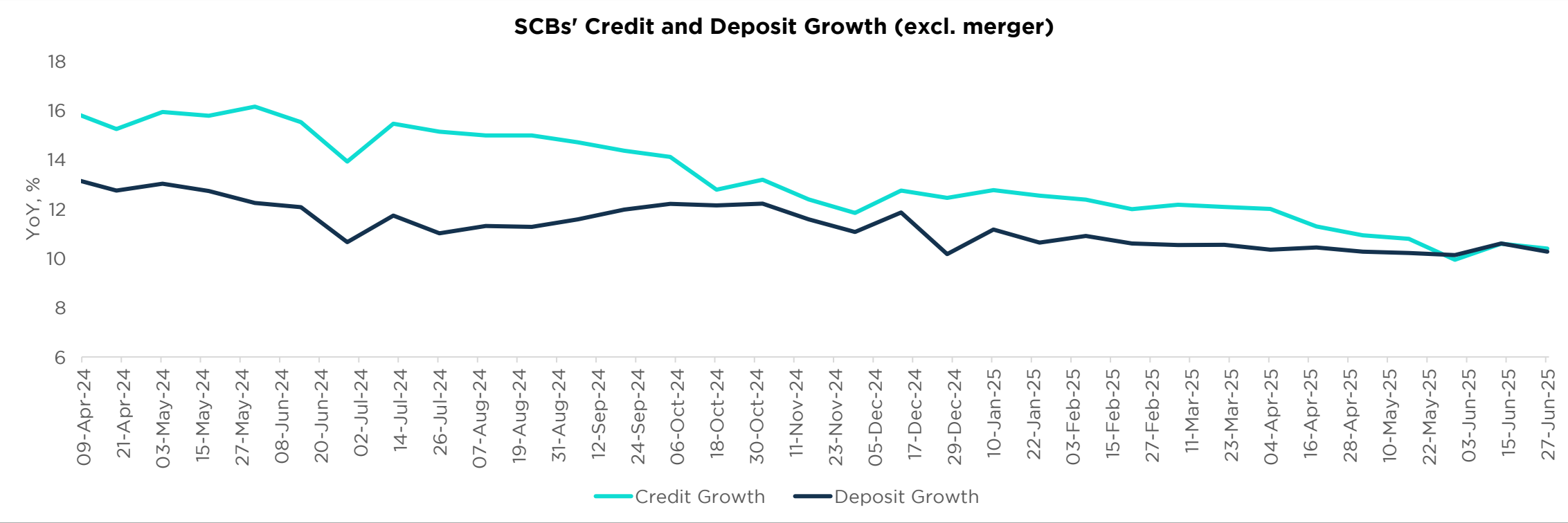
Source: Refinitiv. Data as of 25 July



Source: Refinitiv

- India 10Y GSec yield rose by around 7 bps over the past month.
- Higher UST yields added some upward pressure.
- Domestic yields also rose as RBI Governor signaled future rate moves will hinge on the 6-12 month inflation outlook, not current dynamics. He also stressed that the shift to a 'neutral' stance raises the bar for any rate cut.
- The yield curve has steepened, with short-end yields falling and long-end yields rising.
- RBI front-loaded easing with a 50 bps repo rate cut in June and shifted its stance to neutral. We do not expect further rate cuts unless downside risks to growth materialise.

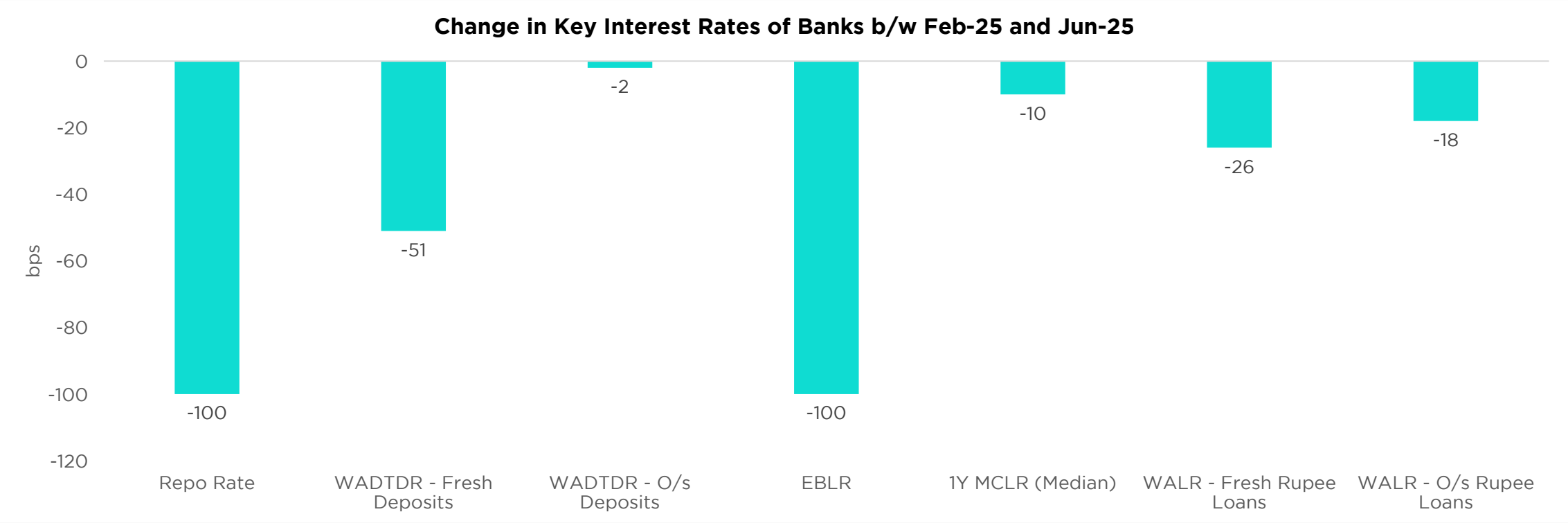
Bank Credit & Deposit Growth Eases vs Last Year



Source: CMIE. Data as of 27 June

- Credit growth slowed to 10.4% YoY as of 27 June, down from 13.9% a year ago.
- Deposit growth also eased to 10.3% YoY from 10.7% last year.
- The gap between credit and deposit growth has narrowed significantly.
- In FY26, SCB credit offtake is likely to be supported by RBI rate cuts, the rollback of risk weights on bank lending to NBFCs and deferral of the LCR framework.

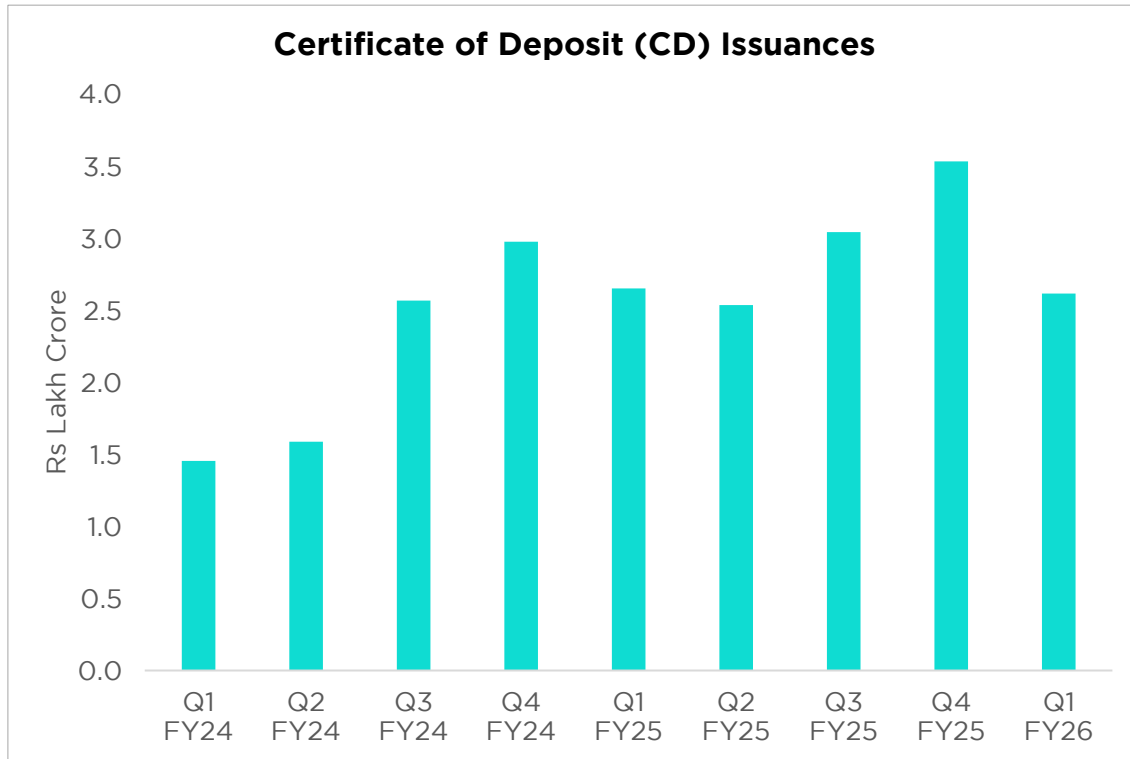
Key Banking Sector Rates Yet to Fully Reflect Repo Rate Cuts



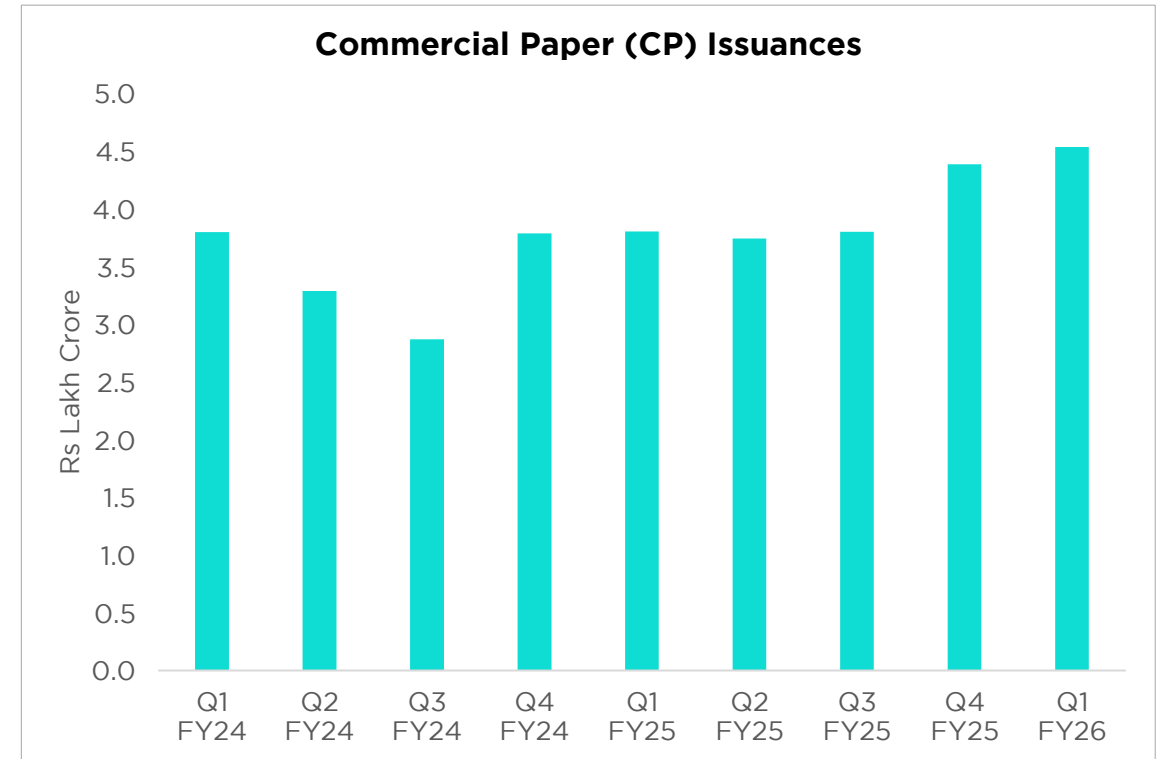
Source: RBI.
Data on WADTDR and WALR is for May 2025
Note: WADTDR: Weighted Average Domestic Term Deposit Rate; EBLR: External Benchmark-based Lending Rate; MCLR: Marginal Cost of Funds-based Lending Rate; WALR: Weighted Average Lending Rate

- Between Feb-Jun'25, RBI cut repo rate by 100 bps. However, transmission has been uneven.

Slight Dip in CD Issuances; Sharp Rise in CP Issuances

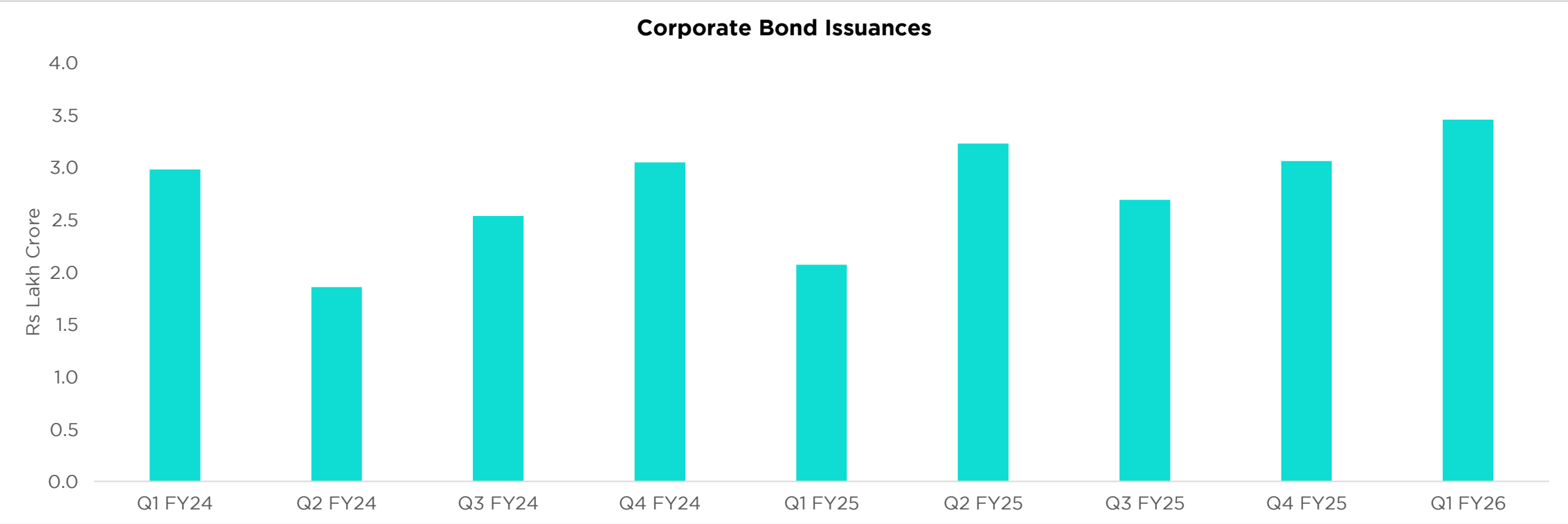


Source: CMIE



Source: CMIE

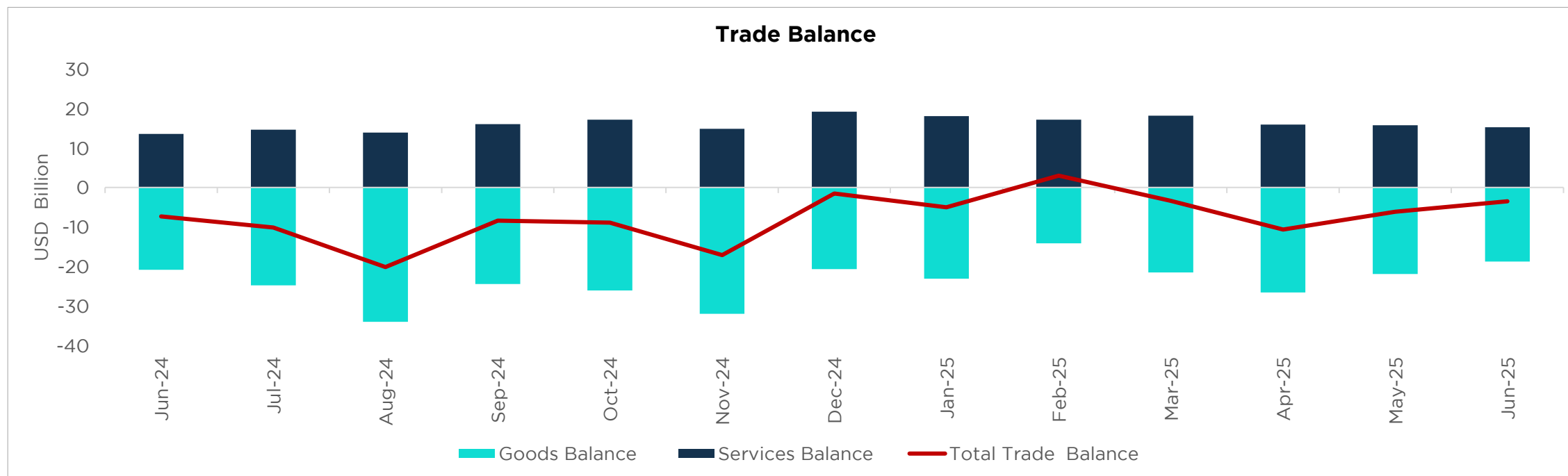
- CD issuances stood at Rs 2.62 lakh crore in Q1 FY26, 1.3% lower than same period last year.
- CP issuances amounted to Rs 4.54 lakh crore in Q1 FY26, up 19.3% YoY. The fall in interest rates has made CPs an attractive option to manage working capital and refinance short-term obligations.



Source: Prime Database. Data includes private placements and public issues.

- Corporate bond issuances in Q1 FY26 amounted to around Rs 3.45 lakh crore, up 67% YoY.
- Issuances in FY26 are likely to be supported by lower interest rates.

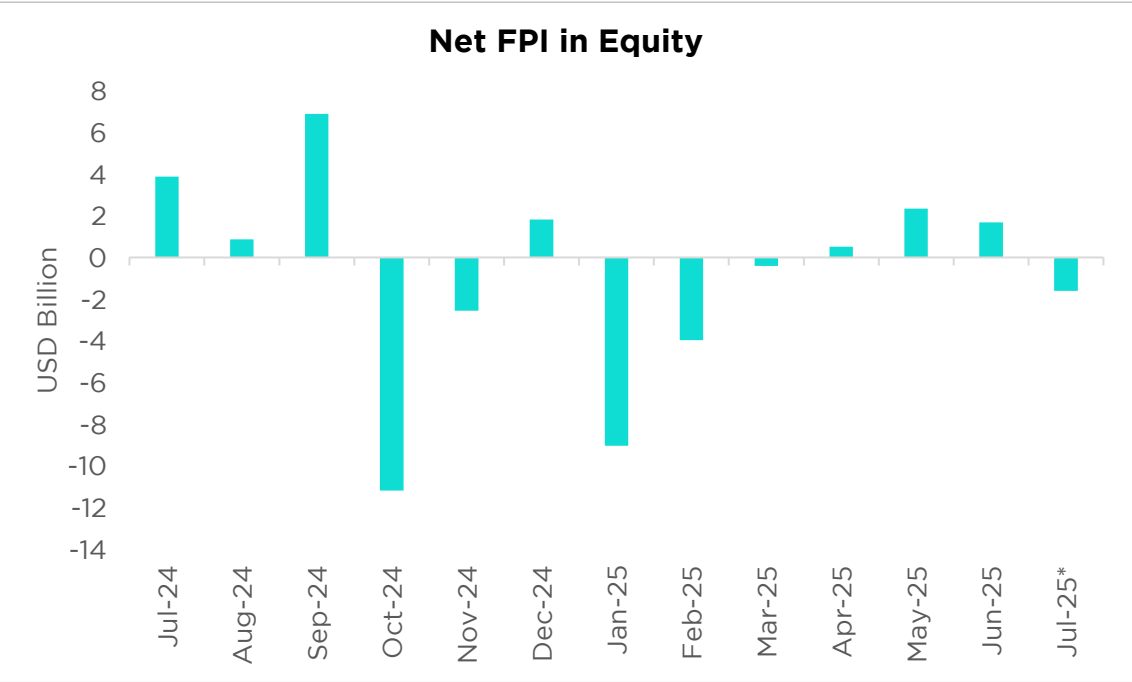
Goods Deficit Widens in Q1; Services Surplus Rises



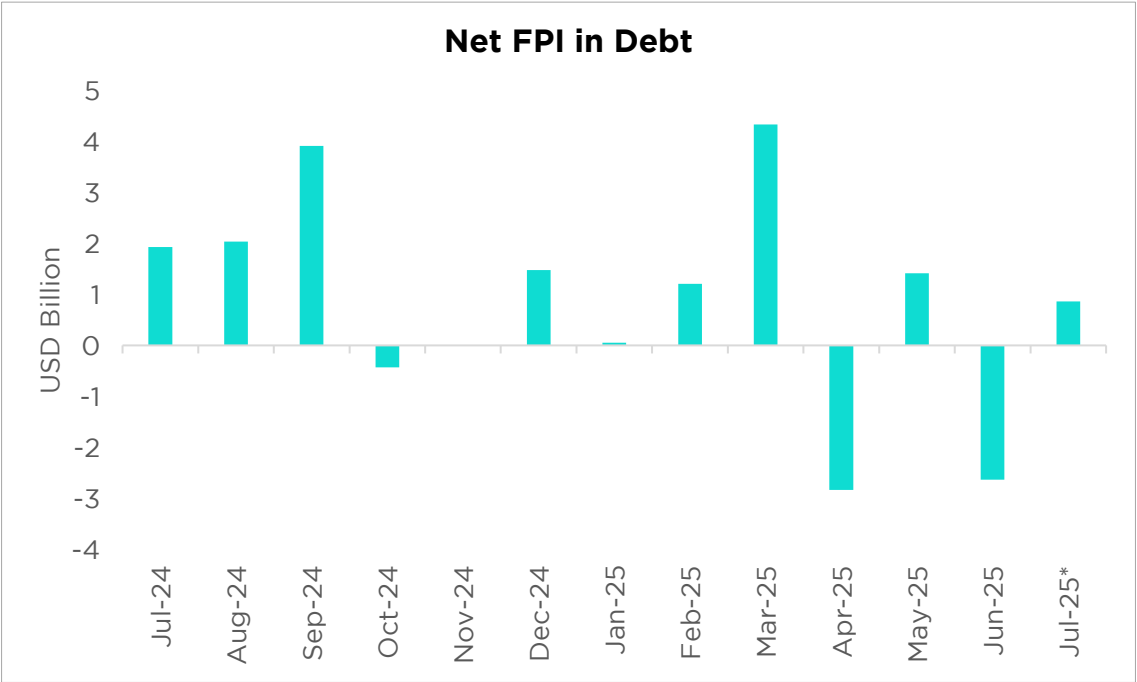
Source: CMIE

- India's goods trade deficit widened to USD 67.3 billion in Q1 FY26 from USD 62.1 billion in Q1 FY25.
- Services trade surplus surged to USD 47 billion in Q1 FY26 from USD 39.7 billion a year ago, helping to cushion the higher goods deficit.
- India's overall trade deficit (goods & services) stood at USD 20.3 billion in Q1 FY26, the lowest in three years.
- We expect India's goods exports to slightly weaken amidst a global trade slowdown. Non-petroleum exports are likely to contract by 0.8% YoY in FY26 (vs 6.1% growth in FY25).
- We expect services exports to remain resilient despite some pressure, rising 8% YoY in FY26.

FPI Outflows Continue for Second Straight Month in July



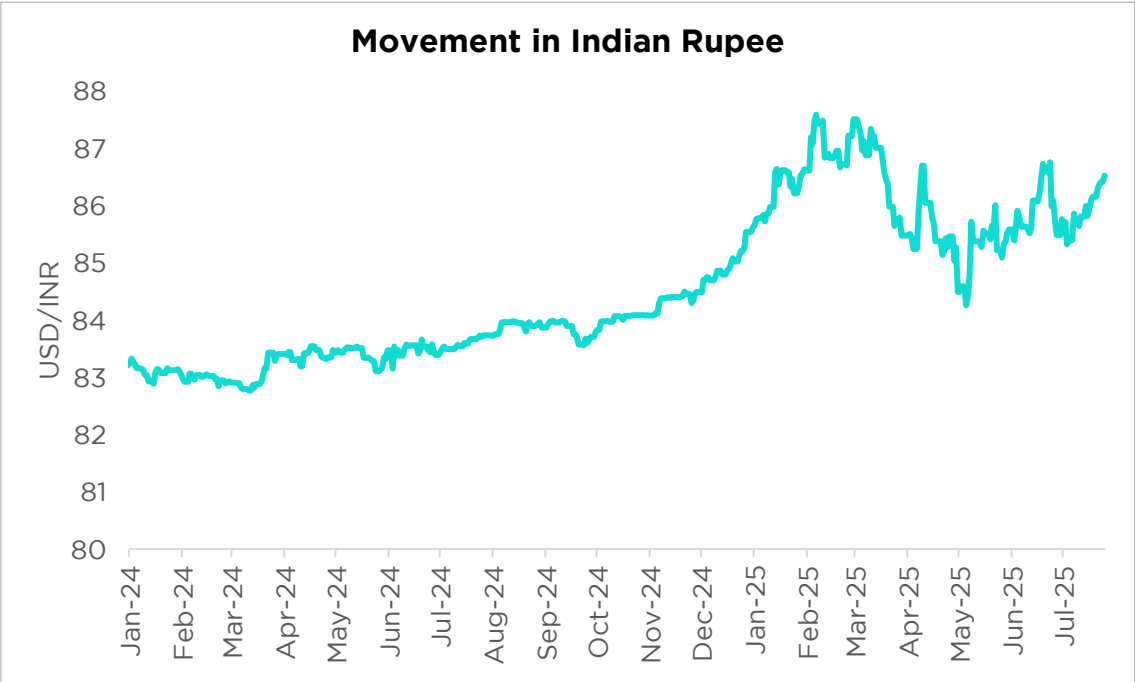
Source: NSDL. *Data as of 29 July



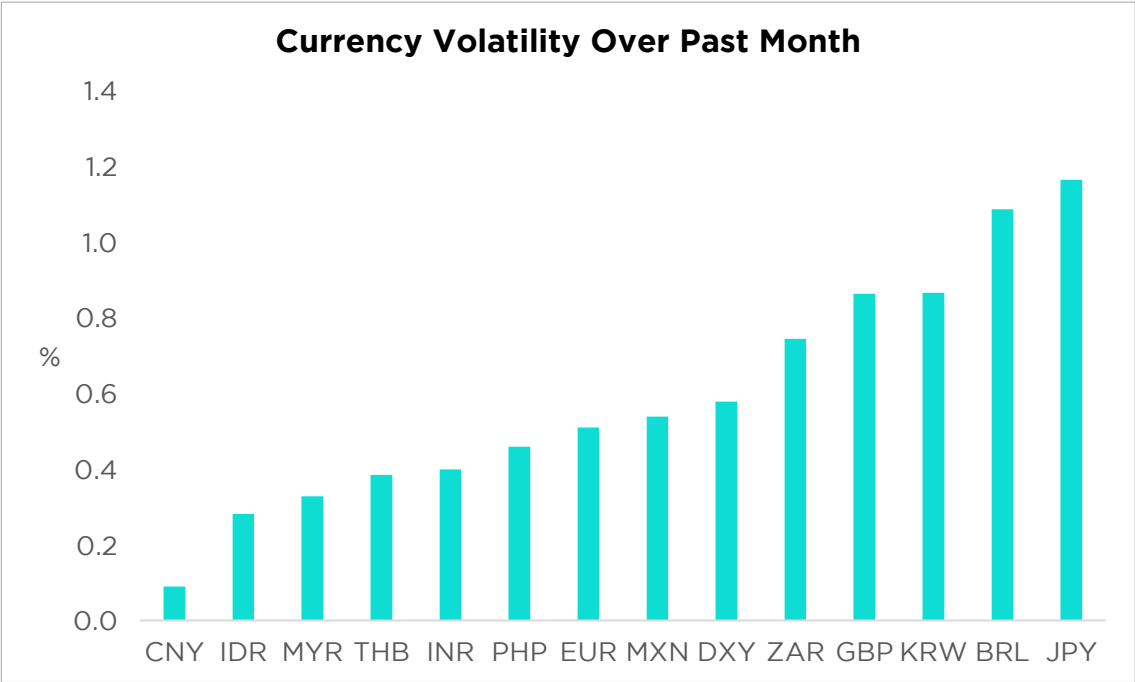
Source: NSDL. *Data as of 29 July

- Net FPI outflows (equity + debt) of USD 0.7 billion were recorded in July (up to 29 July), compared to USD 0.9 billion of outflows in June.
- Outflows in July were led by equity, while the debt segment saw inflows.
- CYTD net FPI outflows (equity + debt) stood at USD 8.2 billion, driven by USD 10.5 billion in net equity outflows, while debt saw net inflows of USD 2.4 billion.
- The US-India trade deal will be key for market sentiment and FPI flows.

Rupee Weakens Over Past Month, Volatility Stays Low

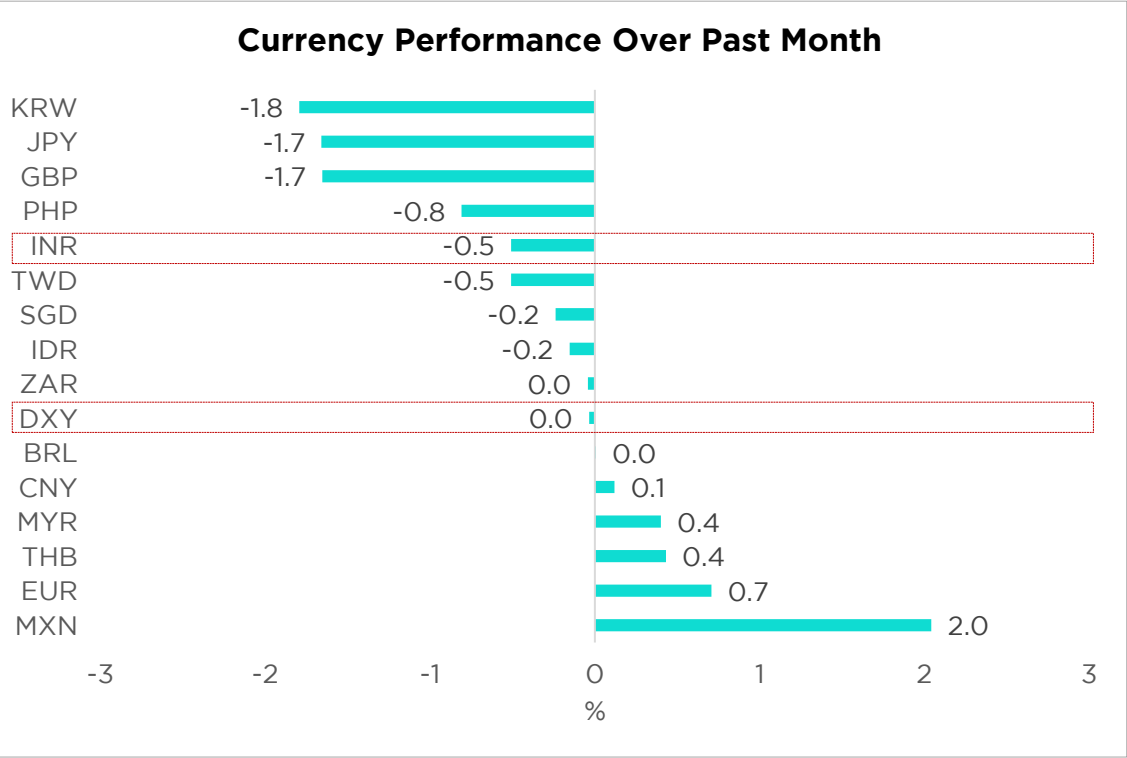


Source: Refinitiv. Data as of 25 July

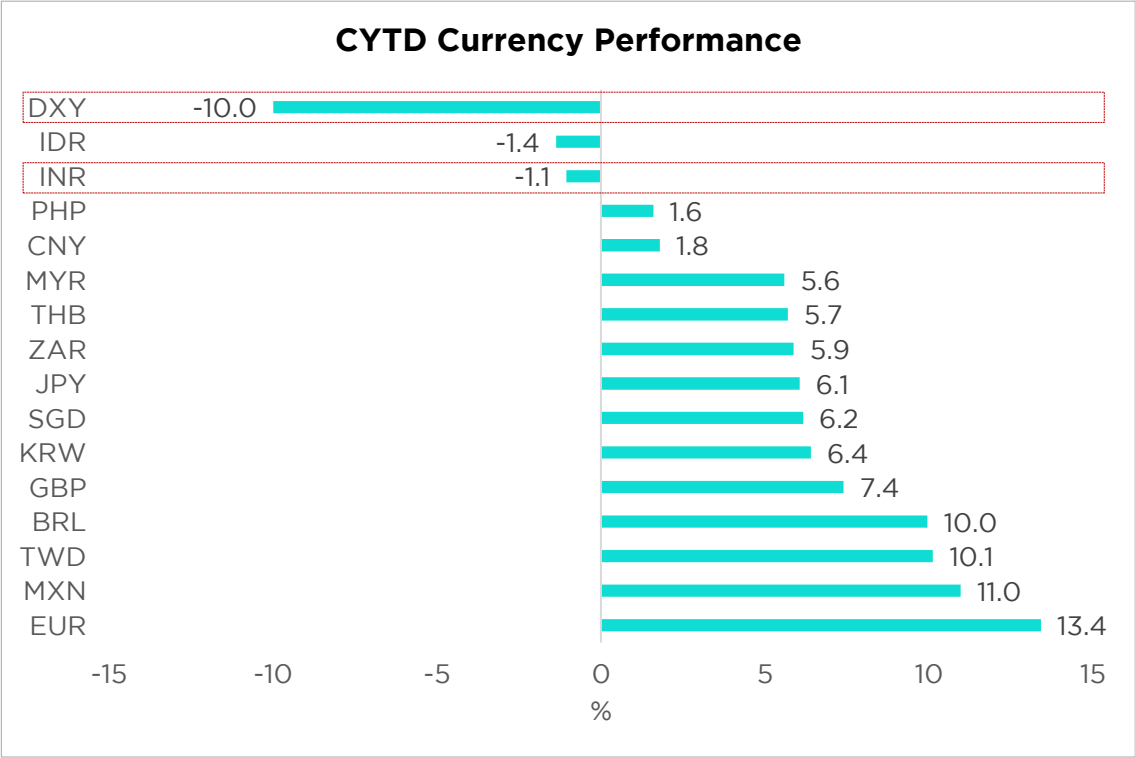


Source: Refinitiv, CareEdge. Data as of 25 July

- The rupee has depreciated by 0.5% against the dollar over the past month. However, it has remained among the least volatile major currencies.
- 40 currency trade weighted REER stood at 100.4 in June – implying valuation concerns have eased considerably.
- We expect USD/INR to stay rangebound at 85-87 by end-FY26, supported by a weaker dollar, stronger CNY and manageable CAD, though FPI flows may remain volatile.
- Developments around the US-India trade deal will be key to watch for its potential impact on market sentiment and capital flows.
- India’s forex reserves remain a key buffer, standing at USD 695 billion (18 July) and providing a comfortable import cover.



Source: Refinitiv. Data as of 25 July. Note: Negative values imply currency has weakened. DXY measures the dollar’s performance against a basket of currencies, while the performance of other currencies is measured against the USD



Source: Refinitiv. Data as of 25 July

- The dollar index is down 10% calendar year-to-date, weighed by trade policy uncertainty and US fiscal concerns. Expected Fed rate cuts in H2 2025 should keep the dollar soft.
- Any extension of the US-China trade truce would support CNY and other Asian currencies.

CareEdge Forecasts



Economic Growth

GDP growth projected at
6.4% in FY26



Inflation

Average CPI inflation projected at
3.5% in FY26



Current Account Deficit

CAD (as % of GDP) projected at
0.9% in FY26



Fiscal Deficit

Fiscal deficit (as % of GDP) budgeted
at **4.4%** in FY26



Interest Rates

10-Year G-Sec Yield to range
between **6.0%-6.2%** by end-FY26



Currency

USD/INR projected to trade
between **85-87** by end-FY26

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