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INDEX OF SERVICES PRODUCTION – DECODING INDIA'S SERVICES SECTOR

India has rolled out its first ever Index of Services Production (ISP), marking a significant upgrade in how the country measures its economy. For decades, the services sector has quietly done most of the heavy lifting for growth, contributing more than half of national output, yet short term activity was largely inferred from lagged data. The new ISP changes that by giving India a dedicated, high frequency barometer for services, much like the Index of Industrial Production (IIP) does for manufacturing.

ISP tracks short-term changes in the volume of output produced by the formal services sector relative to a specified base year. By introducing ISP, which is a monthly tracker across 19 different service segments, India has taken a step toward global statistical standards.

ISP has been developed in alignment with frameworks recommended by the Organisation of Economic Cooperation & Development (OECD) and benchmarked against international practices like the UK's Monthly Index of Services (IoS), Eurostat's service production indices across European Union economies (such as France, Germany, and Spain), and South Korea's Service Industry Activity Index. The ISP gives policymakers a real-time, high-frequency tool to measure real economic momentum and take timely steps to improve if any.

The initial results from April 2026 showed plenty of energy. A 14 out of the 19 tracked sectors posted double-digit growth compared to the previous year. The performance was led by the accommodation and food services sector, which surged by 37.2 percent as consumer spending and travel rebounded. Majority of the areas stayed in positive territory, with only air transport, down 13.9 percent, and rail transport, down slightly at 0.4 percent, showed decline.

However, at present eight key sectors make up nearly 87 percent of the entire index weight, meaning their performance heavily dictates the overall score. Wholesale and retail trade take up the biggest chunk at 23 percent, followed closely by information services at 22.5 percent and administrative support services at 15 percent. The Index has been constructed using two main streams such as GST filings and direct administrative records from sectors like banking, insurance, and transport.

While the new index is a massive leap forward, at present it is only measuring the formal economy and essential service pillars like healthcare and education are not yet included in the calculations. However, these gaps will eventually be plugged with the streamlining of the Index in due course. The statistics ministry already plans to fold in health, education, and broader coverage down the line using data from enterprise surveys.

As the Index of Services Production expands its coverage and steadily improves data quality, it will bring India closer to global best practice in tracking a modern, services-driven economy. A clearer, timelier view of services activity will allow policymakers to calibrate responses with greater precision and speed, aligning decisions more closely with conditions on the ground.

Sunil Kumar Goel
Chief General Manager

2. FCNR DEPOSITS: A STRATEGIC CATALYST FOR DEPOSIT MOBILISATION

With a view to strengthen India's balance of payments, incentivise capital inflows and provide support to rupee, RBI in its Monetary Policy Meet held on 5th June 2026 announced a special FCNR (B) deposit scheme under which Banks can raise FCNR (B) deposits with maturities of three to five years and access a special USD/INR swap facility. The special swap window substantially reduces the hedging cost for participating banks as the RBI bears the swap premiums, allowing banks to offer higher interest rates on these deposits.

An FCNR (B) account allows Non-Resident Indians (NRIs) to hold fixed deposits in foreign currency, insulating both the principal and interest from exchange rate fluctuations. The interest earned on FCNR (B) deposits is generally exempt from income tax in India for NRIs and are freely repatriable, thus offering high returns. For banks, these deposits can become a valuable source of medium-term foreign currency funding, particularly when they are mobilised in maturities aligned with regulatory incentives and supported by hedging arrangements.

The RBI's latest framework therefore seeks to make the route attractive for both sides: NRIs receive competitive foreign currency returns, while banks secure access to relatively stable funding base at an improved effective cost. At a time when global financial conditions remain uncertain and emerging market currencies are exposed to external pressures, the scheme is designed to attract stable Non-Resident Indian funds into the domestic banking system while reducing the cost of such mobilisation for banks.

- **Key features of the RBI scheme**

The central feature of the scheme is the special treatment given to FCNR (B) dollar deposits. Deposits mobilised during the specified window and having a minimum tenor of three years and a maximum tenor of five years are eligible for regulatory relief from maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements and has temporarily removed interest rate ceiling on these FCNR (B) deposits. By exempting qualifying FCNR (B) deposits from these requirements and removing the interest rate ceiling, the RBI has lowered the cost of funds and enhanced the ability of banks to offer more competitive rates to NRI depositors without weakening their margins.

Another important component is the US Dollar-Rupee swap facility. Under this arrangement, eligible banks can swap mobilised foreign currency funds with the RBI at no premiums, thereby eliminating the currency risk and giving banks greater certainty over the rupee resources generated from foreign currency deposits. The availability of such a swap facility is particularly relevant in a volatile exchange-rate environment, as it supports orderly mobilisation without requiring banks to individually absorb or hedge the full currency exposure in the market.

- **Why the scheme matters for Indian banks**

For Indian banks, the scheme comes at a time when deposit mobilisation has become a strategic priority. Credit growth in recent years has often outpaced deposit growth, increasing competition for stable liabilities. Banks have responded by revising domestic term deposit rates, strengthening customer outreach and exploring alternative funding avenues. FCNR (B) deposits, under the RBI's special framework, offer an additional channel to mobilise resources from the global Indian diaspora and reduce excessive dependence on domestic wholesale deposits.

The scheme can also help banks improve liquidity management. Since the eligible deposits are of three to five years' tenor, they provide a more stable liability profile than short-term foreign currency inflows.

This maturity characteristic is valuable for banks seeking to manage asset-liability mismatches, support credit growth and maintain adequate liquidity buffers. From a profitability perspective, the scheme may offer a funding advantage if banks mobilise deposits prudently, price them competitively and deploy the proceeds efficiently.

The RBI's latest data shows that banks have mobilized \$17.41 billion through FCNR (B) deposits as of 17th July 2026. Market estimates suggests that mobilisation under the scheme could reach more than \$50 billion till the window closes on 30th September 2026.

- **Benefits for NRIs**

For non-resident Indian depositors, FCNR (B) deposits provide a way to hold savings in foreign currency with Indian banks while avoiding direct rupee depreciation risk on the deposit principal. Indicative rates offered by most of the banks is in the range of around 6.0 – 6.6 per cent on these deposits for maturity of 5 years. Further, several banks are allowing eligible customers to leverage their capital. The leveraged structure typically allows an NRI to place an FCNR (B) deposit and borrow against that collateral through an overseas or GIFT City-based banking unit to create a larger FCNR (B) deposit. The strategy enables investors to generate equity like returns from the spread between FCNR (B) deposit rates and borrowing costs.

- **Benefit for the Wider Economy**

At the macroeconomic level, the initiative is intended to augment foreign currency inflows, strengthen foreign exchange reserves and improve external sector resilience. Stable inflows through banking channels can help reduce pressure on the balance of payments, provide confidence to markets and support orderly exchange-rate management. While the measure is not a substitute for long-term export competitiveness or structural capital flows, it can act as a timely stabilising tool in periods of external uncertainty.

- **Strategic priorities for banks**

To make the most of the scheme, banks need a calibrated mobilisation strategy rather than a purely rate-led campaign. First, pricing must be competitive but sustainable. While higher rates can attract deposits quickly, banks must evaluate the all-in cost after considering swap terms, hedging cost for interest outflows, liquidity value, deployment opportunities and expected margins. Aggressive pricing without clear deployment plans may dilute the economic benefit of the scheme.

Second, customer outreach should be targeted. Banks can segment NRI customers by geography, currency preference, relationship depth and investment horizon. Branches in high-remittance corridors, overseas offices, digital channels and relationship managers can be aligned to communicate the product proposition clearly. Simplicity, transparency and speed of execution will be critical differentiators.

- **Conclusion: an opportunity beyond temporary mobilisation**

By combining regulatory relief, currency-risk management support and a focused mobilisation window, the FCNR (B) deposit mobilisation scheme improves the economics of foreign currency deposit mobilisation at a time when stable deposits are strategically important.

The scheme can support deposit growth, enhance liquidity flexibility and contribute to India's external-sector stability, while offering NRIs a secure and attractive investment avenue to participate in the country's financial system.

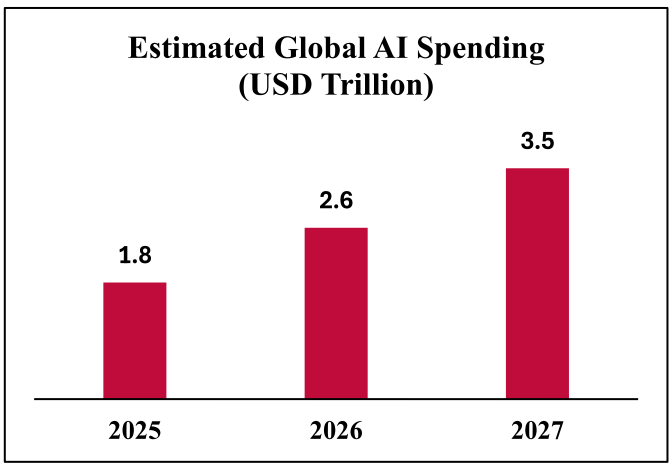
Virendra Prakash Bansal
Deputy General Manager
SMEAD, Head Office

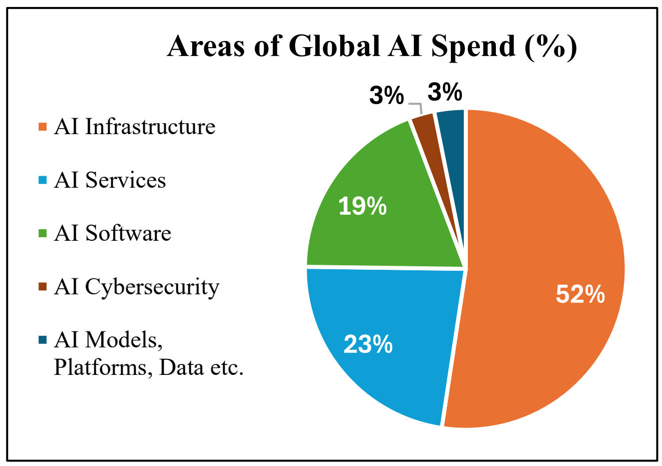
3. GLOBAL GROWTH AMID STRUCTURAL REALIGNMENT

The global economy is undergoing a defining phase where technological transformation and geopolitical realignment are simultaneously reshaping the composition of growth itself. According to the IMF's World Economic Outlook Jul'26 update, the global growth is expected to be resilient at 3.0% this year that will further recover to 3.4% in 2027. Though it is lower than the 3.5% average recorded across 2024 and 2025, this represents a much stable growth given the higher global energy prices (rose more than 30% since pre-conflict level), trade disruptions and supply chain pressures driving global inflation back to 4.7% and stalling rate cuts by major central banks.

Yet, a systemic slowdown has been prevented owing to a massive wave of technological investment and innovation driven by Artificial Intelligence (AI) across multiple industries. Global investors and companies are pouring billions into physical and digital infrastructure, cushioning the blow. Morgan Stanley estimates that nearly $3 trillion of AI-related infra investment will flow through the global economy by 2028, providing real macro support by creating new sources of demand, supporting employment and encouraging spending on energy, communications and logistics infrastructure.

Meanwhile, the coexistence of these opposing factors presents new challenges for policymakers, businesses and financial institutions requiring a careful balance between financial stability, market concentration risks, and workforce disruptions. Moreover, the gains from AI so far remain concentrated in the US and China along with South Korea and Taiwan that produce AI hardware and their growth forecasts have been revised up this year. Elsewhere, AI's contribution to growth remains modest, though it is gathering pace quickly as the technology's potential becomes harder to ignore.





Source: Gartner

While technological innovation provides optimism, geopolitical fragmentation presents an equally powerful headwind. Recent years have witnessed the increasing use of tariffs, export controls, investment restrictions and industrial subsidies, as countries move away from policies that maximise efficiency and gains from trade. This strategic realignment carries three consequences. First, duplication of production facilities across multiple jurisdictions increases costs and reduces economies of scale. Second, fragmented supply chains reduce efficiency and may contribute to structurally higher inflation. Third, uncertainty surrounding geopolitical developments discourages long-term private investment and complicates corporate planning.

Energy markets illustrate this challenge clearly geopolitical tensions and shipping disruptions generate periodic volatility and raise costs, forcing firms to diversify suppliers and build larger inventories, which in turn increases operating costs. Consequently, the world is moving away from the era of hyper-globalisation towards what may be termed strategic globalisation, a system where economic relationships are increasingly shaped by geopolitical considerations rather than purely commercial efficiency.

This emerging scenario has **complicated the task of Central banks** as they need to balance three competing objectives simultaneously. First, supporting economic growth without reigniting inflation. Second, safeguarding financial stability against overvalued assets, and third preserving institutional credibility amid global instability. Furthermore, increased public debt across many advanced economies has reduced fiscal flexibility, placing greater responsibility on monetary authorities to manage economic fluctuations. The result is likely to be a policy environment characterized by greater caution, increased data dependence and potentially higher equilibrium interest rates than those experienced during the decade following the Global Financial Crisis.

For India, this transition presents a unique strategic opportunity. The country's large domestic market, rapidly expanding digital public infrastructure, improving manufacturing capabilities and globally competitive services sector position it favorably within the evolving global economic landscape. Initiatives that have strengthened India's electronics manufacturing, semiconductor development and digital innovation are showing results in export numbers and complementing the country's emergence as an increasingly important destination for global capability centres and technology investment. At the same time, India remains exposed to external risks with elevated crude oil prices widening the current account deficit and increasing imported inflation. Slower global demand may moderate export growth, while financial market volatility influencing capital flows and exchange rate dynamics.

Conclusion

The defining feature of the global economy today is not limited to slower growth or persistent uncertainty, but the coexistence of two transformative forces. On one side, geopolitical fragmentation is reshaping trade, investment and supply chains, increasing costs and reducing the efficiency gains that characterized the era of hyper-globalization. On the other side, AI is generating a powerful wave of investment, raising productivity (already witnessed in some sectors though not at scale), stimulating innovation and creating new engines for economic growth.

These benefits will not be distributed evenly. Countries capable of combining technological readiness, skilled labour, resilient infrastructure and strategic policy frameworks will emerge as the principal beneficiaries of the next wave of global growth. Those unable to adapt may find themselves increasingly left behind in a global order where data, computing power and innovation matter as much as capital and labour once did.

Kartik Khandelwal
Officer (Economics)
Head Office, SMEAD

4. FUELLING FINANCE FOR MSME & MANUFACTURING: BUILDING THE BRIDGE TO A VIKSIT BHARAT

It has become almost customary to call the MSME sector the backbone of the Indian economy. It would be more accurate to call it the nursery of Indian entrepreneurship — the space where risk is first taken, the first job created, and where the ambition of a Viksit Bharat by 2047 must ultimately take root. The numbers bear this out. **India is home to over 8.9 crore registered MSMEs**, **employing close to 39.5 crore people**, the **second-largest source of employment after agriculture**. These enterprises **contribute a little over 31 per cent of GDP**, **roughly 35 per cent of manufacturing output**, and close to **half of the country's total exports**. Government's stated ambition is to see the sector's GDP share rise to around 40 per cent by 2047. Each of these percentage points represents a small operator in Ludhiana, a textile unit in Surat, a components manufacturer in Pune, or a young start-up founder in a Tier-2 or Tier-3 town attempting to build a smart factory — the distributed, decentralised model that gives MSMEs their unique power to create inclusive, regionally balanced growth.

And yet the sector remains under-served in financial terms. India's MSME **credit gap is estimated at around Rs 25-30 lakh crore**, **with only about 14 to 16 per cent of enterprises having access to formal credit** — arguably the single most important number in any conversation on MSME banking, representing both an unmet need and an enormous opportunity. The reasons are familiar: thin or absent credit histories, inadequate collateral, informal cash flows and delayed receivables. For decades the conventional wisdom in banking was that MSME lending was inherently high-risk and high-cost; that wisdom is now being overturned, not by lowering underwriting standards, but by changing the tools used to assess risk. Encouragingly, **credit outstanding from scheduled banks to the sector stood at about Rs 36.8 lakh crore as of December 2025**, growing at a healthy 15 per cent CAGR over five years. With 42 per cent of new originations last year coming from entirely new-to-credit borrowers, public sector banks continue to dominate the sub-Rs 10 lakh segment that is typically the entry point for first-time borrowers.

What lends genuine confidence that this gap can be narrowed meaningfully is the convergence of government policy, regulatory facilitation and India's unique Digital Public Infrastructure. The Union Budget 2026-27 has placed MSMEs at the centre of the growth agenda through a strategy to build **'Champion MSMEs'**, anchored by a new **SME Growth Fund of Rs 10,000 crore**, a further capital top-up to the Self-Reliant India Fund, and mandatory **TReDS-based procurement by Central PSEs**, backed by **CGTMSE guarantees** — a structural fix for the delayed payments that routinely choke MSME working capital. On the regulatory side, the RBI's Unified Lending Interface (ULI) is fast becoming the UPI moment for credit, aggregating data from land records, GST filings, Digilockers and Account Aggregators so that lenders can assess creditworthiness through verified digital footprints rather than paper files alone. The policy architecture and the digital rails are largely in place; what remains is the operational discipline to put them to work at scale.

Alongside mainstream commercial credit, three flagship government schemes have played a significant role in widening the base of formal borrowers. **PM SVANidhi has benefited over 75.5 lakh street vendors through 1.12 crore loans worth more than Rs 17,800 crore**, with its window now extended to March 2030. **PM Vishwakarma has registered close to 30 lakh artisans** and craftspeople, offering collateral-free loans of up to Rs 3 lakh at 5 per cent interest along with a toolkit incentive and skilling stipend. And the **Pradhan Mantri Mudra Yojana has disbursed close to 38.71 crore loans since inception** — nearly two-thirds to women — recently strengthened by a 'Tarun Plus' category that doubled the ceiling available to graduated borrowers, to Rs 20 lakh. Equally significant is how these schemes are now delivered: the JanSamarth portal brings together over 250 lenders and fifteen-plus schemes onto a single digital rail, with eligibility checks and sanction completed online, while SVANidhi vendors increasingly transact through UPI-linked instruments and a dedicated Credit Card.

Looking ahead, banks, industry associations and policymakers would do well to focus on five priorities. First, deepen the use of alternative and cash-flow data — GST returns, utility payments, e-commerce transactions and EPFO records — to convert thin-file borrowers into full-fledged, bankable customers. Second, strengthen co-lending partnerships between banks, NBFCs and fintechs, combining the last-mile reach of smaller institutions with the balance-sheet strength and lower cost of funds that banks can offer. Third, invest in financial and digital literacy for MSME entrepreneurs, since even a well-designed loan product is only as effective as a borrower's ability to understand and use it. Fourth, accelerate the shift toward cluster-based and sector-specific underwriting, so that risk assessment reflects the genuine dynamics of each sector rather than a one-size-fits-all model. Fifth, sustain the discipline of measuring outcomes — credit growth, slippage ratios, turnaround times — with the same rigour applied to disbursement targets, so that penetration and quality advance together rather than at each other's expense. Empowerment, after all, demands more than capital: it needs technology, market access, ease of doing business, and the confidence that comes from being treated as a long-term partner in growth rather than a transaction to be processed.

India's ambition to become a Viksit Bharat by 2047, and to establish itself as a globally competitive manufacturing hub, will be written substantially in the ledgers of its micro, small and medium enterprises. The task before the financial sector is clear: to keep widening the door of formal credit without ever lowering the threshold of prudence.

Smriti Behl

Officer (Economics)

HO SMEAD

5. BEYOND THE CLICK: MANAGING DIGITAL DEPOSIT RUN-OFFS AND TIGHTER LIQUIDITY IN THE ERA OF INSTANT BANKING

Traditionally, public sector banks relied on a loyal, sticky deposit base. However, the modern banking ecosystem is facing a critical structural challenge: **credit growth is consistently outpacing deposit growth**. **But WHY?**

The Democratization and Digitization of Capital Markets: Traditional Current Account and Savings Account (CASA) balances—historically the bedrock of low-cost, stable bank funding—are shrinking as retail and high-net-worth (HNI) customers actively migrate idle cash toward higher-yielding avenues like mutual funds and Portfolio Management Services (PMS). Frictionless onboarding via Unified Payments Interface (UPI) autopay, instant demat account activation, and apps have reduced the friction of investing. Retail investors can now route idle capital directly into liquid mutual funds, overnight funds, or systematic investment plans (SIPs) with a few clicks, stripping banks of their default "parking lot" status for surplus cash.

Negative Real Returns on Traditional Deposits & The Rise of Alternative Wealth Channels (viz. Mutual Funds): The deposit gap signals that retail customers are no longer passive savers; they have evolved into active yield-seekers. For banks, defending net interest margins requires moving beyond traditional deposit mobilization—innovating embedded digital wealth products, introducing tiered loyalty rewards on transactional balances, and competing directly with capital market yields to prevent structural disintermediation.

The Digital Penalty: Traditional retail deposits are historically viewed as granular, stable, and "sticky," attracting lower regulatory run-off factors (typically **3% to 5%** for stable retail deposits). However, regulators and risk models assign higher run-off factors (ranging from **10% to 25%** or higher depending on account characteristics) to digital and mobile-enabled deposits due to unique behavioral attributes:

a) Frictionless Outflows: UPI autopay, instant NEFT/RTGS/IMPS, and one-click sweep mechanisms allow depositors to drain balances instantly and,

b) Aggressive Yield Sensitivity: Mobile-first customers frequently use aggregator apps or neo-banking interfaces that dynamically track interest rates, instantly migrating idle cash to higher-yielding alternative platforms.

Does it impact the profitability?

YES! Here's how-

- **Erosion of Net Interest Margins (NIM):** To satisfy the higher net cash outflows, without relying on flighty digital deposits, banks must substitute them with more stable, longer-term funding sources like term deposits, Certificates of Deposit (CDs), or wholesale borrowings. These alternative liabilities carry substantially higher interest costs, driving up the overall cost of funds and compressing NIM. Concurrently, the forced holding of excess HQLA (predominantly low-yielding government securities) dilutes asset yield.

- **Contraction of Lending Capacity (Credit Growth):** Liquid assets (HQLA) yield significantly less than commercial or retail loans. When capital is trapped in low-yielding liquidity buffers to satisfy conservative LCR(Liquidity Coverage Ratio) requirements, the bank's lending firepower shrinks. The credit creation multiplier is stunted because a larger proportion of every rupee raised must sit idle in the liquidity buffer rather than being deployed into higher-margin credit assets.

The most important question that arises, what is the solution? The answer is very simple! Targeting Non-Digital, Sticky Institutional Segments. To close the deposit gap and counter digital run-off, banks must transition branch staff from passive "order takers" into proactive Relationship Managers (RMs). Corporate and trust deposits behave differently from retail funds; they are driven by operational complexity, fiduciary compliance, and personal touch rather than marginal interest rate ticks. Branch staff must target specific high-value pools:

- **Medium-to-Large Corporates (Working Capital Floats):**Instead of competing for generic current accounts, RMs must embed themselves into the client's supply chain ecosystem. By offering integrated cash management systems (CMS), automated collections, vendor payment portals, and ERP-integrated API banking, the bank becomes operationally embedded. Once a corporate ties its payroll, ERP systems, and daily collections to a bank's platform, the current account balance becomes structurally "sticky" and impossible to migrate on a whim.
- **Trusts, Societies, and Educational Institutions:** These entities handle corpus funds, endowment flows, and fee collections that require high fiduciary governance and customized reporting. Branch staff should map local trusts (religious, educational, charitable) and offer dedicated escrow services, trustee advisory desks, and automated sweep structures for surplus corpus funds. Trustees and board committees prioritize relationship trust, compliance ease, and long-term institutional stability over transient yield, resulting in multi-year deposit retention.

To change staff behavior, banks must fundamentally alter daily branch key performance indicators (KPIs). Shift evaluation metrics away from simple account opening counts or product cross-selling toward **Deposit Stickiness and Weighted Average Duration (WAD)**. Staff should be incentivized on the longevity and cost stability of the deposits they bring in. Assign every branch employee a curated portfolio of local corporate, SME, and trust accounts, turning them into dedicated relationship owners rather than generalists serving whoever walks through the door.

When capital moves at the speed of thought, banks can no longer afford to treat liquidity as a static pool. The future belongs to those who build reservoirs resilient enough to withstand a digital storm.

Roli Mishra
Chief Manager
STC Faridabad

6. HIGHLIGHTS OF THE RBI'S FINANCIAL STABILITY REPORT (JUN'26)

MACROFINANCIAL RISKS

1. Global Macro Economy

- Global financial conditions tightened following the outbreak of the West Asia conflict. Though financial markets have recovered, supported by optimism around artificial intelligence, salient vulnerabilities such as bond market fragilities, elevated asset valuations and the expanding role of non-bank financial intermediaries could amplify fresh shocks and pose risks to global financial stability.
- Sovereign debt, already at elevated levels, continues to increase at a time when the global economy is facing growth headwinds and increasing debt servicing costs.
- Following the West Asia conflict, government bond yields have surged to their highest levels in 20 years in some of the advanced economies (AEs).

2. Domestic Outlook

- The Indian economy entered the recent bout of global turbulence triggered by the West Asia conflict with stronger macroeconomic fundamentals than in many earlier episodes of external stress.
- Indian economy recorded a strong growth of 7.7% in 2025-26 (average growth of 7.3% in the last three years), supported by strong private consumption and fixed investment.
- Several measures undertaken by the Government, including support to MSME and export sectors, are expected to help sustain economic activity, while mitigating the impact of external shocks.
- Headline inflation rose from 3.5% in April 2026 to 3.9% in May 2026, reflecting, inter alia, an increase in passthrough of oil prices. However, a combination of conflict-driven supply shock and projected weak monsoon due to El Niño could push inflation to the higher end of the tolerance band in Q3:2026-27 and worsen inflation expectations.
- The West Asia conflict led to a sharp increase in crude oil prices, which could widen India's current account deficit (CAD).
- The capital account has remained under pressure due to moderating inflows. While gross foreign direct investments (FDI) were robust in 2025-26 (US$ 95 billion) on the back of strong growth prospects, net FDI flows were muted due to rising repatriation and higher outbound foreign direct investments.

3. Financial Markets

- The Indian Rupee (INR) has been under sustained depreciation pressure over the last several months due to elevated trade uncertainty, weakening of capital inflows and deteriorating investor sentiments
- Recent measures undertaken by the Reserve Bank and the Government to attract capital inflows, together with the moderation in crude oil prices, are expected to improve market sentiments toward the Indian Rupee.

- FPI equity outflows of US$ 30.7 billion in 2026 have exceeded the prior record of US$ 18.9 billion in 2025, marking the highest level observed in the past two-and-a-half decades.
- The banking sector's health has been constantly improving over the past several years, thereby strengthening financial stability. This is reflected across key metrics, viz., capital and liquidity buffers, profitability, asset quality, and loan-loss provisions.
- Even as the banking system's resilience remains intact, funding is emerging as a key challenge. Banks' liability profile is shifting from low-cost current and savings account (CASA) to higher-cost term deposits and CDs, pushing up the marginal cost of funds.
- Private corporate investment remains subdued as reflected in the moderation in the investment to GDP ratio. Capacity utilisation, however, remains elevated and above its long-term average of 74.0%.
- Household sector's debt continues to trend upward, reaching 45.5% of GDP by end September 2025. The increase has been driven primarily by non-housing retail loans, which constitute 58.4% of total borrowings as of March 2026.
- Consumption-related loans remain the primary driver of household borrowings.
- There has been a notable shift in banks' housing loan portfolios over time. Loan distribution has moved toward higher-value segments, with the share of ₹50 lakh and above credit limits now accounting for 44.7% of outstanding loans.
- Gold loans have emerged as the largest segment within non-housing retail loans, growing at a CAGR of 42.4% since March 2024 - nearly twice the pace of overall non-housing retail loans (CAGR of 23.0%) during the same period.

FINANCIAL INSTITUTIONS: SOUNDNESS AND RESILIENCE

1. Credit and Deposit Growth:

- SCBs credit growth accelerated to 14.5% YoY during 2025-26. Among sub-sectors, personal and services loans continued to be the principal drivers of overall credit growth.
- PSBs credit growth also rose to 15.2% YoY and continued to outpace PVBs growth.
- SCBs aggregate deposit grew by 11.5% YoY during 2025-26. Growth in term deposits continued to outpace that of CASA deposits, indicating sustained preference for interest-bearing term deposits.
- PVBs deposit growth continued to surpass PBSs growth during 2025-26.

Table 1: Credit and Deposit Growth

	Credit Growth (YOY %)				Deposits Growth (YOY %)			
	Sep'24	Mar'25	Sep'25	Mar'26	Sep'24	Mar'25	Sep'25	Mar'26
PSBs	13.0	12.2	12.1	15.2	9.1	9.5	9.4	10.4
PVBs	11.7	8.9	9.8	13.3	15.1	12.2	10.1	12.6
All SCBs	**12.5**	**11.0**	**11.0**	**14.5**	**11.5**	**10.7**	**9.8**	**11.5**

SCBs credit growth across all four major sectors increased in Mar'26 vis-à-vis Mar'25, indicative of broad-based strengthening of credit demand.

Table 2: Credit Growth of Select Sector

	Agriculture		Industry		Services		Personal Loans	
	Mar'25	Mar'26	Mar'25	Mar'26	Mar'25	Mar'26	Mar'25	Mar'26
PSBs	9.8	16.2	6.7	8.1	12.3	15.6	17.7	19.8
PVBs	8.6	10.2	8.8	18.3	12.5	14.3	6.1	10.7
SCBs	**9.1**	**15.2**	**7.8**	**12.1**	**13.2**	**15.2**	**11.7**	**15.3**

2. Asset Quality:

Table 3: Asset Quality

Banks	GNPA %				NNPA %				PCR % *			
	Sep'24	Mar'25	Sep'25	Mar'26	Sep'24	Mar'25	Sep'25	Mar'26	Sep'24	Mar'25	Sep'25	Mar'26
PSBs	3.3	2.8	2.5	2.1	0.7	0.6	0.5	0.4	78.5	78.5	79.0	77.8
PVBs	1.9	1.8	1.7	1.5	0.5	0.5	0.5	0.4	73.1	72.6	71.6	72.3
All SCBs	**2.6**	**2.3**	**2.2**	**1.8**	**0.6**	**0.5**	**0.5**	**0.4**	**77.0**	**76.3**	**76.0**	**75.6**

**PCR without Technical write-off*

- The GNPA ratio of SCBs declined to a fresh multi-decadal low of 1.8%, and their NNPA ratio declined further to a record low of 0.4% as of Mar'26. The improvement in asset quality was broad-based across bank groups.
- SCBs provisioning coverage ratio (PCR excl. TWO) remained broadly stable at 75.6% as of Mar'26, though marginally down from 76.3% in Mar'25.
- Write-offs relative to GNPAs, however, remained elevated during 2025-26, particularly in the case of PVBs and FBs (foreign banks).

3. Sectoral Asset Quality:

- Credit quality improved across all broad economic sectors. Agriculture, despite improvement, continued to exhibit the highest GNPA ratio of 5.1% and accounted for the largest share in SCBs' GNPAs at 37.2% in Mar'26.
- Within industry subsectors and the personal loans category, asset quality broadly improved across all segments.

Table 4: Sector-wise GNPA Ratio (%)

Sector	SCBs	
	Mar'25	Mar'26
Agriculture	6.1	5.1
Industry	2.3	1.6
Services	2.0	1.5
Personal Loans	1.2	1.0

4. Credit quality of large borrowers:

- Share of large borrowers[1] in total credit of SCBs rose marginally to 44.5% as at end Mar'26 against 43.9% a year ago, however their share in gross NPAs declined steadily (31.5% in Mar'26 vs 37.5 in Mar'25).
- Asset quality of large borrowers improved across bank groups, with the SCBs GNPA ratio declining to 1.2% as at end-Mar'26 from 1.9% as at end-Mar'25.
- SMA-1 and SMA-2 loan volumes contracted, while that of SMA-1 loans increased in March 2026.

Table 5: Growth in SMAs & NPAs of Large Borrowers (Q-o-Q%) – SCBs

S.No.	*Parameter*	Mar'25	Jun'25	Sep'25	Dec'25	Mar'26
1	*SMA-0*	*-15.2*	*21.0*	*4.3*	*-18.0*	*-5.1*
2	*SMA-1*	*24.2*	*-41.2*	*-15.3*	*8.8*	*35.3*
3	*SMA-2*	*-77.1*	*237.4*	*-35.9*	*33.3*	*-69.8*
5	*NPA*	*-13.4*	*-6.0*	*-7.3*	*-9.3*	*-4.9*

5. Earnings & Profitability:

- As monetary policy easing transmitted progressively through the banking system during 2025-26, both the cost of funds (CoF) and the yield on assets (YoA) declined sequentially in a largely synchronized manner, leaving net interest margins (NIMs) falling marginally across bank groups when compared on YoY basis.
- Nevertheless, supported by higher credit volumes, growth in net interest income (NII) of SCBs recorded a modest improvement of 4.0% YoY in Mar'26. Growth in other operating income of SCBs, although remaining robust at 14.5% in Mar'26.
- SCBs profit after tax (PAT) increased to ₹4.05 lakh crore during 2025-26 from ₹3.78 lakh crore a year ago (7.2% YoY rise), driven by sustained credit expansion, stable interest margins and robust growth in other operating income.

Table 6: Net Interest Margin (Annualized)

Banks	PSBs	PVBs	All SCBs
Sep'24	3.0	4.1	3.5
Mar'25	3.0	4.1	3.5
Sep'25	2.8	3.9	3.3
Mar'26	2.8	3.9	3.3

Table 7: Profitability Ratios

Banks	**Return on Assets (ROA) %**				**Return on Equity (ROE) %**				**Cost of Funds (CoF) %**			
	Sep'24	**Mar'25**	**Sep'25**	**Mar'26**	**Sep'24**	**Mar'25**	**Sep'25**	**Mar'26**	**Sep'24**	**Mar'25**	**Sep'25**	**Mar'26**
PSBs	1.0	1.1	1.0	1.1	14.3	14.5	13.4	13.7	5.3	5.4	5.4	5.3
PVBs	1.8	1.7	1.6	1.6	15.0	13.9	12.6	12.6	6.0	6.0	5.9	5.7
All SCBs	**1.4**	**1.4**	**1.3**	**1.3**	**14.1**	**13.5**	**12.5**	**12.6**	**5.6**	**5.7**	**5.6**	**5.4**

[1] *A large borrower is defined as one who has aggregate fund-based and non-fund-based exposure of ₹5 crore and above with any bank. This analysis is based on SCBs' global operations.*

6. Capital Adequacy:

- SCBs CRAR & CET1 reached multi-decadal highs of 17.7% and 15.3%, respectively. All bank groups recorded an increase as of Mar'26, reflecting continued build-up of quality capital, while the overall Tier 1 leverage ratio increased marginally to 8.2%.

Table 8: Capital Adequacy

Banks	CRAR %				Tier 1 Leverage Ratio* (%)			
	Sep'24	Mar'25	Sep'25	Mar'26	Sep'24	Mar'25	Sep'25	Mar'26
PSBs	15.4	16.1	16.0	16.6	6.0	6.3	6.2	6.4
PVBs	17.8	18.3	18.1	18.5	10.0	10.2	10.3	10.4
All SCBs	**16.7**	**17.4**	**17.2**	**17.7**	**7.8**	**7.9**	**8.1**	**8.2**

** Tier 1 Leverage Ratio is the ratio of tier 1 Capital to Total Exposure.*

7. Liquidity

- Liquidity positions across bank groups moderated in Mar'26 vis-à-vis Mar'25, as evident though all bank groups continued to maintain liquidity buffers well above the respective regulatory minimum levels (of 100%) in both LCR and NSFR.

Table 9: Liquidity Coverage Ratio

Bank Group	Mar'25	Mar'26
PSBs	132.1	122.1
PVBs	128.7	122.4
All SCBs	132.5	124.2

8. Resilience – Macro Stress Tests:

- Macro stress test assesses the resilience of SCBs to adverse macroeconomic shocks.
- It attempts to project capital ratios of banks under a baseline and two adverse macro scenarios over a two-year horizon.
- The aggregate CRAR of 46 major SCBs may decline from 17.5% in March 2026 to 15.6% by March 2028 under the baseline scenario. It may fall to 13.3% and 13.0% under adverse scenarios 1 and 2, respectively.
- The aggregate GNPA ratio of 46 banks may edge up from 1.8% in March 2026 to 1.9% by March 2028 under the baseline scenario. It may rise to 3.8% and 4.1% under adverse scenarios 1 and 2, respectively.

9. Sensitivity Analysis:

- In sensitivity analyses, shocks are applied to single factors like GNPA, interest rate, equity prices and deposits, one shock at a time.

a. **Credit Risk:**

- Credit risk sensitivity has been analyzed under two scenarios wherein the system level GNPA ratio as of March 2026, is assumed to rise from its prevailing level by (i) one standard deviation (SD); and (ii) two SD in a quarter.
- Under a severe shock of two SD:

✓ Aggregate GNPA ratio of 46 select SCBs moves up from 1.8% to 8.1%.

- ✓ System-level CRAR and CET1 capital ratio depleted by 400 bps and 420 bps, respectively, but remains well above the respective regulatory minimum levels.

b. **Credit Concentration Risk:**

- Stress tests on banks' credit concentration showed that in the extreme scenario of default, if the top three individual borrowers' default, GNPA rises by 340 bps, while CRAR and CET1 fall by 80 bps and 90 bps.
- Defaults by the top three group borrowers would be harsher, with GNPA up 510 bps and the CRAR and CET1 ratios would decline by 120 and 130 bps, respectively. Still, no bank's CRAR dips below the regulatory minimum.
- The credit concentration risk index (CCRI) also increased in the last two quarters, indicating a rise in concentration risk among the top 100 borrowers.

c. **Sectoral Credit Risk**

- Sectoral credit risk indicated marginal impact on the capital of SCBs at aggregate level.

d. **Interest Rate Risk**

- In a stress scenario of a parallel upward shift of the yield curve by 250 bps, the impact on the fair-valued portfolio and the interest rate derivatives portfolio would reduce the system level CRAR and CET1 ratio by 99 bps and 100 bps, respectively.

e. **Equity Risk**

- As banks have limited direct capital market exposures due to regulatory guidelines, any impact of a possible significant fall in equity market prices on banks' CRAR is expected to remain modest.

f. **Liquidity Risk**

- Liquidity stress test attempts to assess the impact of plausible run on deposits, and increased demand for unutilized portions of committed credit and liquidity facilities on the liquidity positions of banks.
- The results showed that the aggregate LCR of the select SCBs would fall from 123.7% in the baseline scenario to 116.7% in stress scenario 1 and further to 110.8% in stress scenario 2.

REGULATORY INITIATIVES IN THE FINANCIAL SECTOR

Amid global uncertainties and their implications on trade flows, energy markets, and capital movements, regulators worldwide are deploying a range of measures to safeguard financial systems and maintain financial stability.

❖ **Initiatives from Domestic Regulators / Authorities**

1. **Directions on Lending to Related Parties-** Lending to counterparties related or connected to regulated entities through ownership or control over lending decisions may create conflicts with the interests of banks and other stakeholders. Accordingly, the Reserve Bank issued principle-based related-party lending Directions on January 05, 2026.

2. **Risk-Based Premium Framework for Deposit Insurance in India-** With RBI approval, DICGC introduced a Risk-Based Premium Framework under Section 15(1) of the Deposit Insurance and Credit Guarantee Corporation (DICGC) Act, 1961, enabling differential premium rates for insured banks. The framework uses a two-tier risk assessment for Tier 1 banks, comprising Scheduled Commercial Banks excluding RRBs, and Tier 2 banks, comprising RRBs, Rural Cooperative Banks and Urban Co-operative Banks.

3. **Investments by Foreign Portfolio Investors in Debt Securities** - To improve predictability under the Voluntary Retention Route (VRR) and ease of doing business, from April 01, 2026, VRR investments in Government and corporate debt securities will be counted under the respective General Route limits. FPIs choosing longer retention periods may liquidate portfolios, partly or fully, after completing the minimum retention period.
4. **Swap Facility for External Commercial Borrowings and Overseas Foreign Currency Borrowings (OFCB)-** RBI introduced a US Dollar-Rupee Forex Swap Facility for eligible ECBs by PSUs and OFCBs by AD Category-I banks with maturities of three years or more, drawn until December 31, 2026, and operational until January 15, 2027.
5. **Open Positions of Authorised Dealers-** To curb volatility and ensure orderly forex market conditions, on March 27, 2026, RBI mandated Authorised Dealers to keep net open positions involving INR (NOP-INR) in the onshore deliverable market within US$ 100 million at each business day-end, effective April 10, 2026.
6. **Reserve Bank of India (Cash Reserve Ratio and Statutory Liquidity Ratio) Second Amendment Directions, 2026 -** To attract foreign capital, fresh FCNR(B) deposits of 3–5 years mobilised or renewed between June 8 and September 30, 2026, are exempt from CRR and SLR from the reporting fortnight beginning July 1, 2026. Fresh NRE term deposits of three years or more mobilised or renewed between June 19 and September 30, 2026, are similarly exempt from the reporting fortnight beginning July 16, 2026. The exemption applies to the original deposit amount while held in banks' books.
7. **Risk Management and Inter-Bank Dealings -** Amid heightened forex volatility, on April 01, 2026, RBI restricted Authorised Dealers from offering INR-linked non-deliverable derivatives to resident and non-resident users, rebooking cancelled INR forex derivative contracts, and entering INR forex derivative contracts with related parties. On April 20, 2026, restrictions on INR-linked non-deliverable derivatives and cancellation/rebooking were withdrawn.
8. **Reporting of Related Party Transactions by Authorised Dealer Category-I Banks -** To enhance forex market transparency, RBI directed AD Category-I banks to report INR-related foreign exchange derivatives undertaken globally by their related parties to CCIL's Trade Repository.
9. **Directions on Asset Classification, Provisioning, and Income Recognition for Commercial Banks** - Effective April 01, 2027, RBI's new Directions seek to strengthen credit risk management, improve comparability across regulated entities, and align the framework with international financial reporting principles. They replace existing Income Recognition, Asset Classification and Provisioning (IRACP) norms with a forward-looking Expected Credit Loss (ECL) framework, including a three-stage provisioning approach and income recognition based on the Effective Interest Rate methodology.
10. **Reserve Bank of India (Commercial Banks - Capital Charge for Credit Risk** – Standardised Approach) Directions, 2026, issued on April 27, 2026, revise the credit risk capital charge framework to make it more robust, granular, and risk-sensitive. Based on Basel III standards, the Directions implement a key global post-crisis reform, tailored to the Indian context.
11. **Technology-enabled KYC: Balancing Customer Convenience and Risk Management-** KYC processes have transformed over the past decade and a half with technology-based identification tools such as Aadhaar e-KYC, Aadhaar Offline verification, DigiLocker e-documents, Video KYC and the Central KYC Records Registry (CKYCR).

7. CLASSROOM
IMPORTED INFLATION

Imported inflation is a general price spike that starts with global, external shocks rather than anything happening inside the domestic economy. Unlike standard "demand-pull" inflation where local consumers are flush with cash and driving up prices, imported inflation is purely a supply-side hit. It happens when the global cost of essential goods and raw materials jumps. For economies that rely heavily on imports, this is incredibly disruptive.

The Transmission Mechanism

When geopolitical tensions flare up such as, a conflict in the Middle East, the global oil prices will instantly spike. For countries importing most of their energy, this is a massive blow. Local refineries suddenly have to shell out way more US dollars for the exact same volume of crude. To make matters worse, global investors usually panic during these crises and pull capital out of emerging markets. This capital flight crashes the local currency, hitting importers from both sides.

As soon as that expensive oil hits domestic ports, a domino effect ripples through the entire economy. Higher fuel costs immediately jack up transportation costs for everything from industrial steel to everyday groceries. Since businesses can't just absorb these surging manufacturing and logistics bills, they are forced to pass the extra costs down the line. Ultimately, the everyday consumer ends up paying the price at the store.

The Economic Impact

When inflation is imported, it immediately erodes real purchasing power. Families have to stretch every rupee just to cover everyday essentials, causing discretionary spending to dry up and slowing down overall domestic consumption. Businesses get caught in a massive margin squeeze; if they can't hike prices fast enough to match rising input costs, their profits crash, forcing them to freeze hiring and capital expenditure.

This environment also breaks the national budget. The government is usually forced to step in and absorb the shock by spending heavily on fuel and fertilizer subsidies to protect the public, which blows a massive hole in the fiscal deficit. Meanwhile, corporate borrowers face high financial stress as their margins shrink, causing commercial banks to panic over default risks and completely tighten up their lending standards.

On the flip side, there is a structural silver lining over the long run. A weaker currency makes domestic exports look incredibly cheap and attractive to global buyers, giving a solid boost to sectors like IT services and specialized manufacturing. Plus, when importing goods becomes painfully expensive, it acts as an economic incentive to innovate and build domestic capacity. For instance, perennially high oil prices are often the exact wake-up call needed to accelerate local renewable energy projects, push electric vehicle adoption, and cut down on external vulnerabilities.

Navigating the Fallout

Managing imported inflation requires managing a high-stakes trade-off. It causes undeniable short-term pain for households and strains the fiscal budget, but it also forces a critical structural choice. The country can either rely on temporary interventions to manage the immediate shock or use the crisis as a catalyst to build a self-reliant economy that won't break the next time a global storm hits.

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8. TRIAL INDEX OF SERVICES PRODUCTION (ISP)

Government has introduced the **Index of Services Production (ISP)**, a new macroeconomic indicator. The first release was for the Month of April 2026, launched on 14th July 2026.

The ISP is India's first high-frequency indicator dedicated to measuring services sector output. It tracks short-term changes in the volume of output produced by the formal services sector relative to a specified base year.

Key Features of the Index

Some of the key features of the index include:

- The base year of ISP has been selected as 2024-25. This is well aligned with other sub-sectors that use the new Consumer Price Index (CPI) series based on 2024.
- *Regular monthly trial indices will be released with a lag of ~60 days. Data will be available on the 29th of each month or the next working day if 29th is a holiday.*
- Currently, different price deflators are used for ISP compilation.
    - The Wholesale Price Index (WPI) is used for wholesale trade.
    - For most other sectors, the relevant Consumer Price Index (CPI) or the closest matching CPI is used.

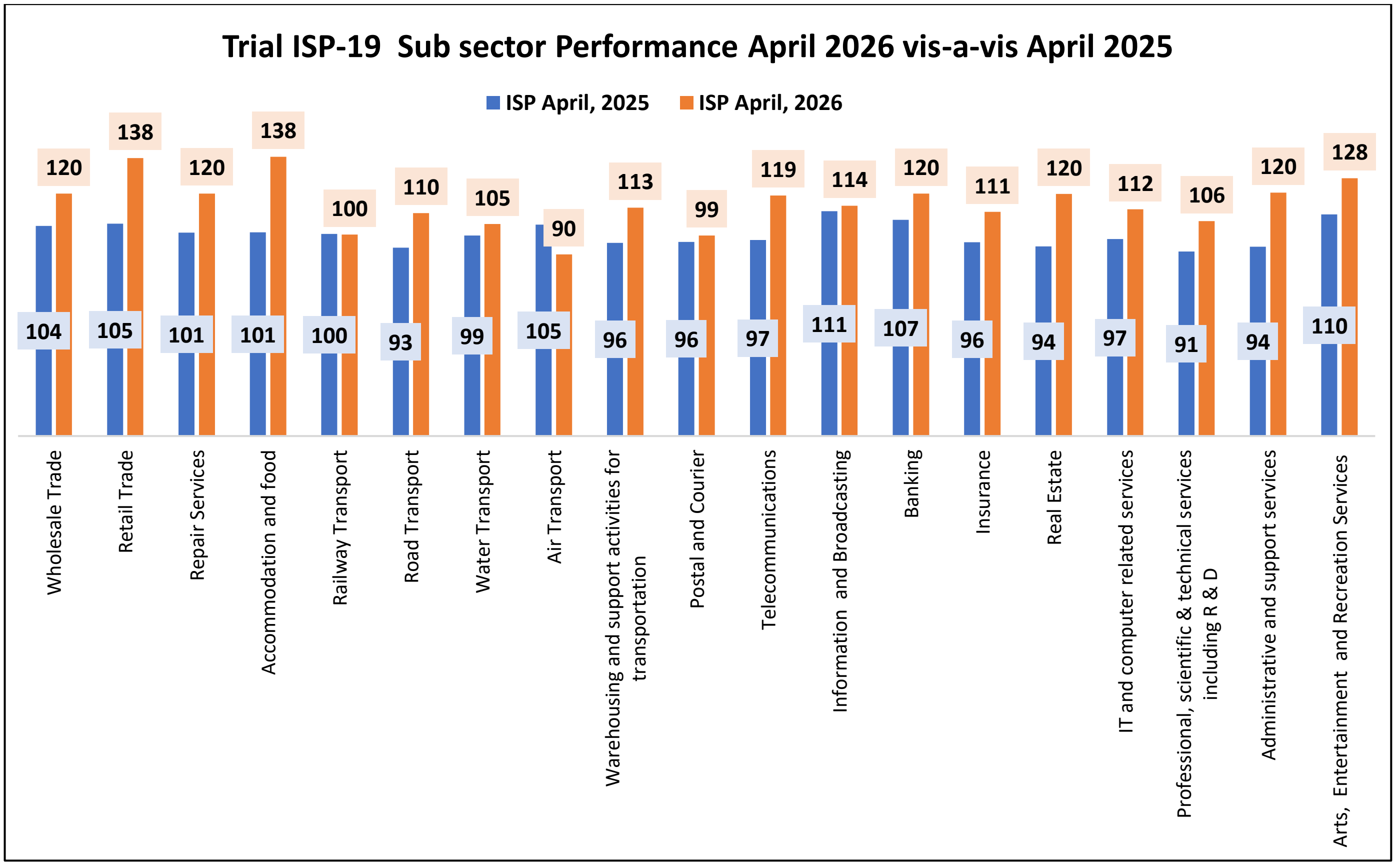
Data Sources:

- Instead of physical units, it utilizes GST outward supplies, administrative data, and the Annual Survey of Incorporated Services Sector Enterprises (ASISSE)

Why ISP matters

- **GDP & Value Add:** Accounting for 52.9% of the Gross Value Added (GVA), the services sector acts as the primary powerhouse of India's economic output, keeping the country firmly anchored as a services-led major economy.
- **Employment Catalyst:** While historically known for contributing heavily to GDP but lagging in job creation compared to agriculture, the sector's growth is translating into massive job numbers, capturing ~30% of total employment and adding 40 million jobs in just six years.
- **Export Powerhouse:** Reaching an estimated USD 103.41 billion in just the first quarter (April–June) of FY2026-27 with a robust 6.16% Y-o-Y growth emphasizes India's global competitive edge, particularly driven by IT, software, Global Capability Centers (GCCs), and professional services.
- The Government aims to position India as a world leader in services, targeting a 10% share in global services by 2047.
- Several advanced economies regularly publish an ISP or equivalent indicators, such as **France, Spain, and Slovenia.** Further countries like Japan, China, South Korea also publish Service Industry Activity Index.

Performance of 19 sub sectors:



- Out of the 19 sub-sectors, 14 recorded double-digit growth in April 2026 as compared to April, 2025.
- The yearly top 5 sub-sectors for 2025-26 include accommodation and food (35.6%), retail trade (30.5%), repair services (25.1%), wholesale trade (23.6%) and road transport (22.6%).
- With the introduction of ISP, India is advancing its statistical system with global standards.

Likely Impact of ISP:

- **Elevated Economic Visibility:** Because services make up over 50% of the Gross Value Added (GVA) in countries like India, the ISP closes a massive data gap. Policymakers and businesses no longer has to wait for quarterly GDP reports to spot economic trends.
- Trial Index covers nearly 60% of the services and more number of services are likely to be included to make it 80% coverage.
- **Targeted Policymaking:** By providing high-frequency, sector-specific data (such as sharp declines in specific areas like air transport), central banks and governments can deploy targeted fiscal or monetary interventions.
- **Global Standardization:** Releasing an official monthly services metric aligns a country's statistical framework with OECD and global benchmarks.

9. GIST OF RBI CIRCULARS

Date of the circular	June 24, 2026
Ref No.	RBI/2026-27/155 DOR.MRG.REC.No.141/21-01-002/2026-27
Subject	Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Tenth Amendment Directions, 2026

The RBI circular dated June 24, 2026 amends the prudential norms on capital adequacy for commercial banks with respect to foreign exchange risk, effective from April 1, 2027. It requires banks to compute Net Open Position (NOP) and maintain capital charge for forex risk at both standalone and consolidated levels on a daily basis. The circular provides detailed guidance on exclusions from NOP, including positions deducted from regulatory capital and certain structural foreign exchange positions. It allows banks to exclude eligible structural forex positions, such as investments and accumulated surplus in overseas branches, subsidiaries, joint ventures, IFSC Banking Units, and Offshore Banking Units, subject to strict conditions and documentation.

Banks must calculate such exemptions quarterly using the CET1 ratio and relevant forex RWAs, with currency-wise caps. The circular also clarifies the methodology for calculating NOP across spot, forward, derivative, gold, overseas operations, and other foreign currency positions. The capital requirement for foreign exchange positions, including gold, will be 9% of the overall NOP under the shorthand method. Overall, the amendment aims to align RBI's forex risk capital framework more closely with international standards and ensure consistent implementation across banks

Date of the circular	June 17, 2026
Ref No.	RBI/2026-27/138 DOR.SOG(SPE).REC.117/13.03.00/2026-27
Subject	Reserve Bank of India (Commercial Banks – Interest Rate on Deposits) Amendment Directions, 2026

The RBI circular dated June 17, 2026 amends the Commercial Banks – Interest Rate on Deposits Directions, 2025, with immediate effect. It temporarily withdraws the interest rate ceiling on fresh FCNR(B) deposits of three years and above up to five years. The restriction on interest rates for fresh NRE deposits of three years and above, including renewals upon maturity, is also withdrawn till September 30, 2026. Transfers from NRO accounts to NRE accounts will not qualify for this exemption. The measure aims to provide banks greater flexibility in mobilizing longer-tenor non-resident deposits.

10. ESG UPDATES

1. India Launches First Wind Supply-Chain Portal to Strengthen Domestic Manufacturing

- The Government launched India's first dedicated digital platform for wind turbine supply-chain management to improve sourcing transparency and strengthen domestic manufacturing.
- India's installed wind power capacity reached 56.09 GW as of March 2026, ranking the country fourth globally, while another 28 GW of capacity is under implementation.
- The initiative supports India's clean-energy transition by strengthening indigenous wind equipment supply chains and reducing dependence on imported components.

2. India's Battery Storage Capacity Rises More Than Eleven-Fold in First Half of 2026

- India's installed battery storage capacity increased from 0.78 GWh at the end of 2025 to 8.7 GWh in the first half of 2026, representing more than eleven-fold growth.
- Around 260 GWh of energy-storage projects are currently at various stages of development as India expands round-the-clock renewable power capacity.
- Rising lithium, copper and aluminium costs are, however, putting pressure on battery storage tariffs and project viability, highlighting the need for realistic pricing and sustainable financing models.

3. India Strengthens SDG (Sustainable Development Goals) Monitoring with National Indicator Framework 2026

- MoSPI released the SDG–National Indicator Framework (NIF) Progress Report 2026, featuring 277 indicators across all 17 SDGs to track India's progress towards the 2030 Agenda.
- India recorded nearly three-fold growth in per capita renewable energy capacity, alongside significant expansion in waste recycling infrastructure.
- The share of Ramsar Site- Designated Wetland area increased from 4.15% to 8.66%, highlighting India's strengthened focus on wetland and biodiversity conservation.

4. India Clears ₹19,700-Crore Carbon Capture Scheme to Accelerate Industrial Decarbonisation

- The government has cleared a ₹19,700-crore CCUS scheme to accelerate carbon capture, utilization and storage technologies for reducing emissions in high-carbon industries such as power, steel and cement.
- The scheme is expected to attract nearly ₹37,500 crores in investments and create a carbon-capture capacity of 7 million tonnes per annum.
- A dedicated ₹2,500-crore R&D fund is likely to support technology innovation and scale up CCUS deployment across key industrial sectors; Union Cabinet approval is the next step.

5. **₹1,500-Crore Recycling Scheme to Strengthen India's EV Battery Ecosystem**

- Government's ₹1,500-crore Critical Mineral Recycling Incentive Scheme aims to boost recycling of end-of-life batteries and strengthen domestic supply chains.
- Focuses on recovery of key minerals such as lithium, cobalt and nickel, reducing dependence on imported battery materials.
- The initiative supports a circular economy and India's growing EV ecosystem, as lithium-ion battery demand is projected to reach 220 GWh by 2030.

6. **PSU Banks record sharp surge in Green Deposits in FY26**

- Eight PSU banks mobilised ₹3,733 crore in green deposits, over 2× FY25 levels.
- Funds were largely deployed towards renewable energy, EVs and clean transportation.
- Growth reflects rising focus on sustainable finance and RBI's Green Deposit Framework.

7. **Rising Fuel Prices Strengthen EV Cost Advantage; E4W Penetration Hits 6.1%**

- Electric four-wheeler (E4W) penetration increased to 6.1% by May 2026, compared with the FY2026 average of 4.6%, while adoption grew around 40% to nearly 26,000 units in the three months ending May.
- Higher fuel prices raised ICE vehicle running costs by 7–8%, improving the total cost of ownership advantage of E4Ws by around 300 basis points.
- E4W volumes are expected to more than double to nearly 5 lakh units by next fiscal, potentially increasing market penetration to 8–10%, supported by falling EV acquisition costs and wider model availability.

8. **Adani Energy to Acquire IntelliSmart for ₹3,050 Crore, Boosting Smart Metering Push**

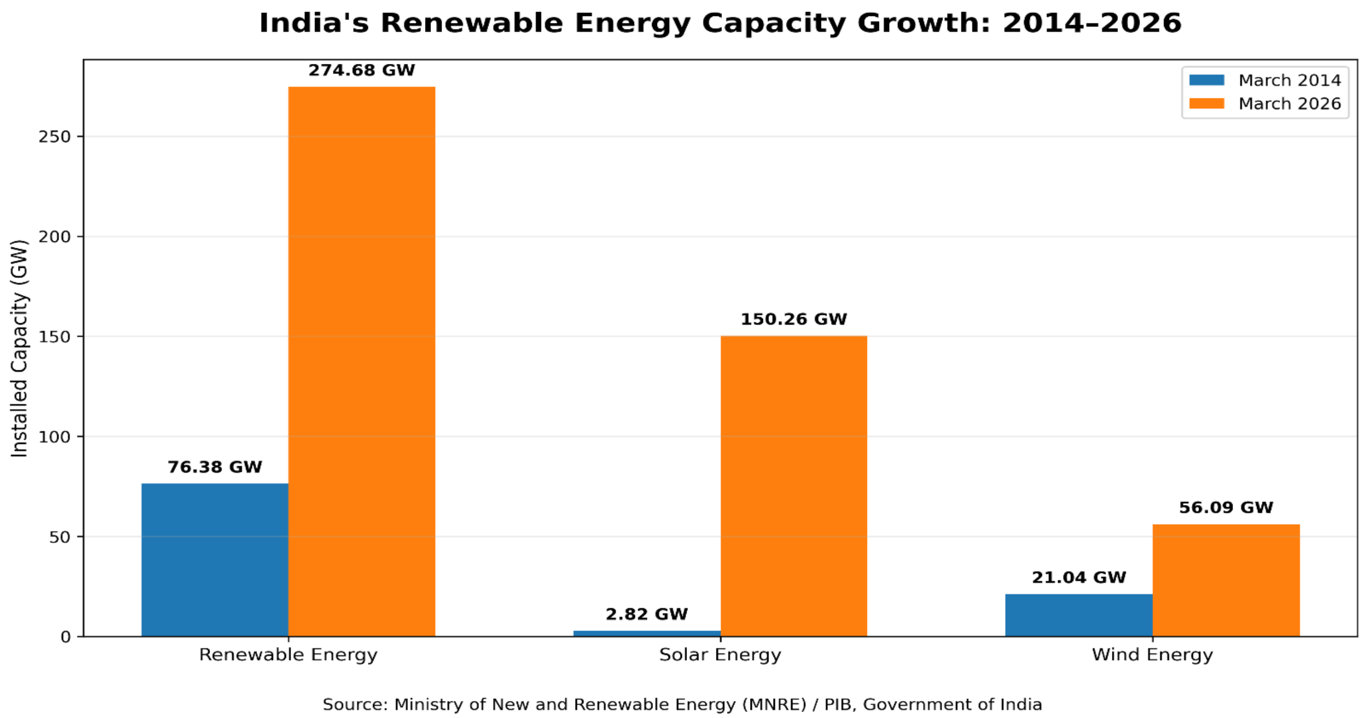
- Adani Energy Solutions (AESL) will acquire a 100% stake in IntelliSmart Infrastructure for ₹3,050 crores, strengthening its presence in India's rapidly expanding smart metering and power distribution modernisation sector.
- The acquisition will expand AESL's total smart meter portfolio to over 4.7 crore meters. IntelliSmart itself has a portfolio of 2.2+ crore smart meters across five states.
- The deal is expected to support digitalisation, energy efficiency and modernisation of India's electricity distribution network through technology-led smart metering solutions and improved operational efficiency.

9. **Microsoft Cuts Data Centre Water-Use Intensity by Nearly 90% Amid AI Expansion**

- Microsoft reduced average data-centre water use effectiveness from 2.3 litres per kWh in the early 2000s to 0.27 litres per kWh in 2025, an improvement of nearly 90%.
- The company has achieved a 25% reduction in water-use intensity across its owned data-centre fleet and is targeting a 40% improvement by 2030.
- The initiative highlights the growing ESG focus on water stewardship as rapid AI and cloud infrastructure expansion increases pressure on natural resources.

***ESG Brain Teaser*-** Which renewable energy source accounted for India's highest-ever annual capacity addition of 6.05 GW in FY 2025–26?

Smart Green Tip - *Switch to Smart Charging*: Charge electric vehicles and energy-intensive devices during off-peak hours wherever possible. This helps reduce pressure on the electricity grid and supports better integration of renewable energy.



India Accelerates Renewable Energy Growth

India's renewable energy capacity has expanded significantly, rising from 76.38 GW in March 2014 to 274.68 GW in March 2026. Solar capacity recorded exceptional growth from 2.82 GW to 150.26 GW, while wind capacity increased from 21.04 GW to 56.09 GW during the said period, highlighting India's accelerating clean energy transition.

Ask Yourself – How can I reduce the environmental footprint of my daily travel while also encouraging sustainable mobility choices among others?

Answer to ESG Brain Teaser: Wind Energy

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For any ideas or suggestions related to ESG kindly share them on "Green Ideas Section" of the Lead Parivartan Portal (LTP) or mail to esgcell@pnb.bank.in.

Disclaimer: The contents of this publication have been compiled from publicly available print and digital media sources for information and awareness purposes.

11. CLIMATE NEWS

1. Europe Leads Global Climate Progress Amid Uneven Climate Action:

The latest Yale University Environmental Performance Index (EPI) ranks Estonia, Luxembourg, and the United Kingdom as the world's top-performing countries on environmental protection. The index evaluates 177 countries across 47 indicators, including air and water quality, biodiversity, greenhouse gas emissions, and sustainable resource management. European nations dominate the top rankings, while the United States has slipped to 27th place. China has shown improvement but still ranks relatively low due to its dependence on coal, and India remains near the bottom because of challenges such as tree cover loss and pollution. India ranks 176th out of 177 countries in the global EPI.

The report notes that many countries have successfully reduced traditional environmental problems such as unsafe drinking water and air pollution. However, progress in addressing climate change remains slow, with most nations not reducing greenhouse gas emissions quickly enough to achieve their net-zero targets. Experts warn that insufficient climate action could lead to more frequent and severe heatwaves, droughts, storms, and other climate-related impacts.

The EPI highlights the importance of sustained climate policies, investment in renewable energy, and international cooperation to accelerate the transition to a low-carbon economy. It also serves as a benchmark that encourages countries to improve their environmental performance by learning from global best practices. As climate risks continue to intensify, stronger collective action will be essential to achieve long-term environmental sustainability. *(theguardian.com)*

2. India's energy intensity falls 30% since 1991, easing oil shock risks

India has reduced its energy intensity by nearly 30% since the 1991 balance of payments crisis, meaning the economy now requires significantly less energy to produce each unit of GDP. According to Our World in Data, energy use declined from 1.37 kilowatt-hours per international dollar of GDP in 1991 to 0.96 kWh in 2022, with government data indicating a further decline in recent years. Although India's total energy consumption has increased alongside economic growth, GDP has expanded at a much faster pace, making the economy more energy efficient and less vulnerable to oil price shocks.

The improvement has been driven by technological advancements, greater industrial efficiency, and the growing contribution of the services sector, which consumes less energy than heavy industries. Government initiatives such as the Energy Conservation Act, 2001 and the Perform, Achieve and Trade (PAT) scheme have also played a significant role by encouraging industries to improve energy efficiency. By the end of PAT Cycle VI, the programme had generated substantial energy savings while reducing carbon dioxide emissions.

Despite this progress, India remains heavily dependent on imported crude oil, with import dependence reaching nearly 89% in 2025-26. Lower energy intensity reduces the amount of fuel required for economic growth but does not eliminate the risks associated with global oil price volatility or supply disruptions. Going forward, continued improvements in industrial processes, transport, buildings, and energy-efficient technologies, alongside greater adoption of renewable and nuclear energy, will be essential to strengthen India's energy security and support sustainable economic growth. *(businessstandard.com)*

3. **Ethanol blending backed by global practice, scientific studies**

The Ethanol Blended Petrol (EBP) Programme has become a cornerstone of India's clean energy and biofuel strategy, aimed at enhancing energy security, reducing dependence on imported crude oil, supporting farmers, and lowering greenhouse gas emissions. Ethanol blending in petrol has increased from less than 1.5% in 2013-14 to 20% in 2025-26, achieving the national blending target five years ahead of schedule. During this period, ethanol procurement rose from about 38 crore litres to over 1,200 crore litres, while production capacity expanded nearly fivefold to around 2,000 crore litres, contributing to significant savings in foreign exchange and creating new market opportunities for agricultural produce such as sugarcane, maize, and rice.

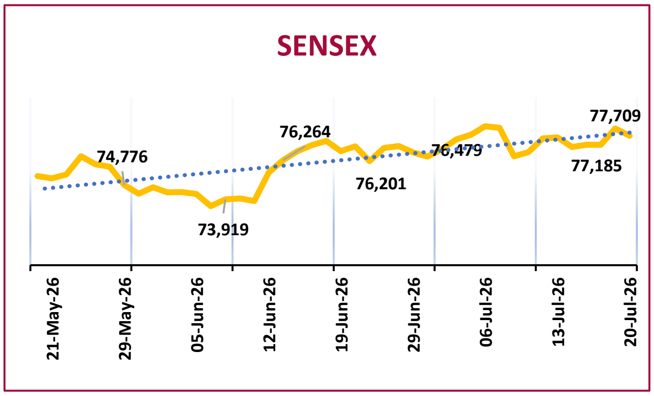
India's dependence on imported crude oil—currently around 88.5% of total consumption—makes ethanol blending an important strategy for improving energy security. The programme is backed by extensive scientific studies and real-world testing. Leading automobile manufacturers, including Toyota Kirloskar Motor, Maruti Suzuki, and Hero MotoCorp, have confirmed that E20 fuel is safe, reliable, and compatible with existing vehicles, with only a negligible impact on fuel efficiency. The programme also complies with BIS standards and BS-VI emission norms, ensuring both vehicle performance and environmental safety.

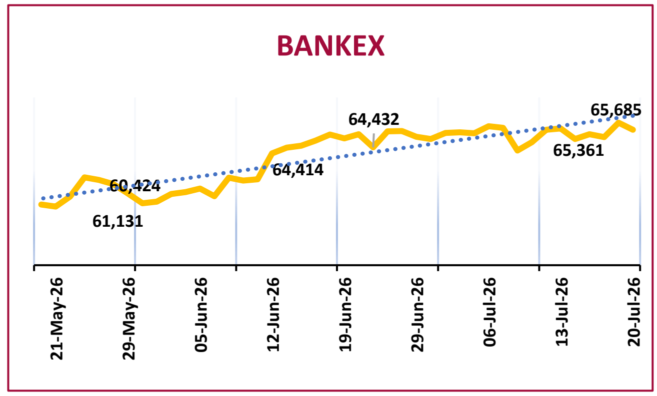
Ethanol blending is a globally accepted clean fuel strategy, with countries such as Brazil, the United States, Japan, Canada, and Thailand successfully adopting higher ethanol blends in transport fuels. India's rapid progress reflects coordinated efforts by the government, industry, and research institutions to promote sustainable mobility. As the programme continues to expand, it is expected to further strengthen India's energy independence, reduce emissions, enhance farmers' incomes, and support the country's transition towards a cleaner, more resilient, and self-reliant energy future. *(pib.gov.in)*

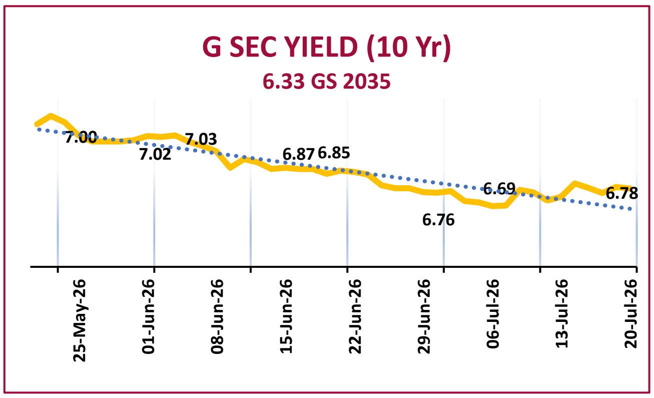
4. **Delhi Launches 70-Lakh Tree Plantation Drive and Ridge Rejuvenation Campaign**

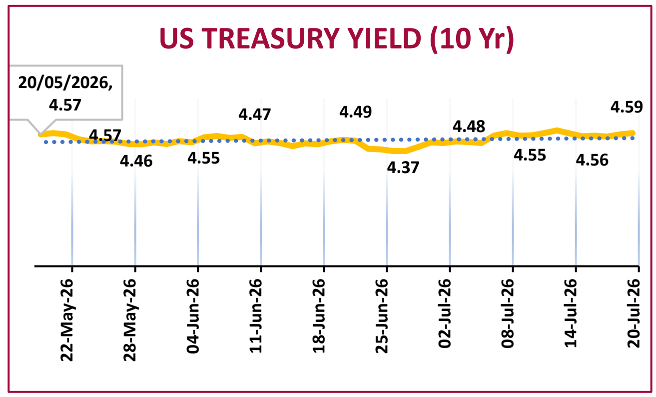
On 7 July 2026, Union Home Minister Amit Shah and Delhi Chief Minister Rekha Gupta launched the Mission 70 Lakh Tree Plantation Campaign and the Delhi Ridge Rejuvenation Campaign under the Green Action Plan 2026–27. The plantation drive aims to plant more than 70 lakh saplings across Delhi in parks, forest areas, roadsides, and open spaces. Alongside this, the Delhi government has introduced a four-year Eco-restoration Plan (2026–2030) to restore the Ridge forests by planting over one crore native saplings across 6,303 hectares, based on Delhi's first scientific Working Plan approved in 2025. The Ridge, which forms part of the Aravalli hill range, serves as Delhi's green lung and will be rejuvenated by replacing invasive species such as Vilayati Keekar with native trees including peepal, banyan, neem, and jamun. The plan also includes the restoration of more than 70 ponds, conservation of archaeological sites, and creation of themed green spaces to improve biodiversity and groundwater recharge. To encourage public participation, the government has launched the Green Drive Portal, enabling citizens to book plantation slots, request sapling delivery through Vriksh Rath, and locate nearby government nurseries. *(thehindu.com)*

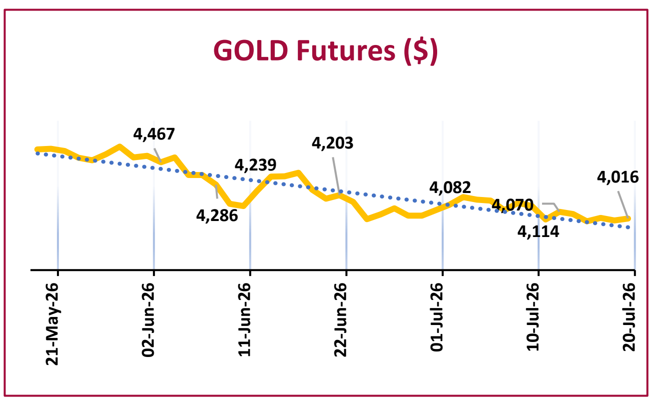
12. DAILY ECONOMIC INDICATORS

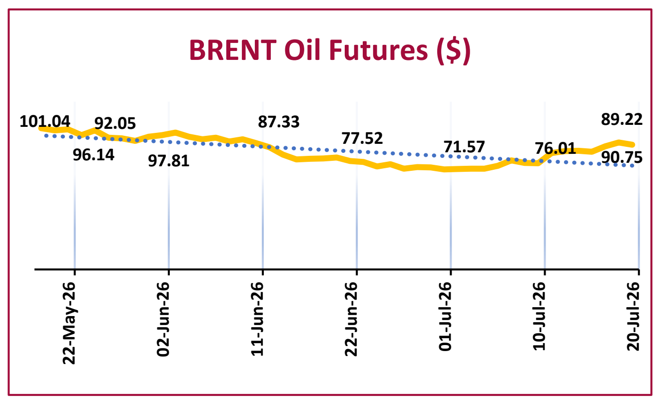


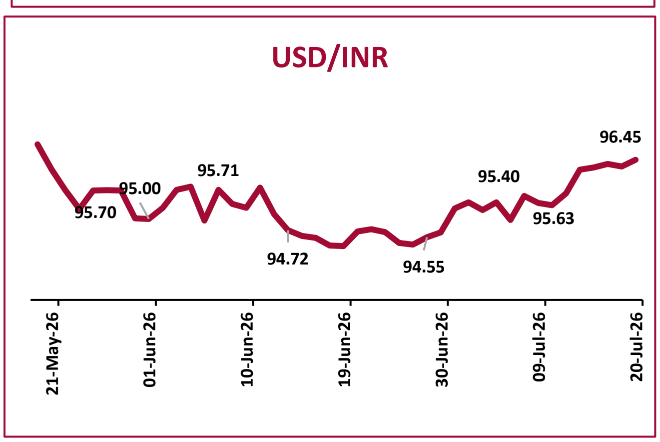


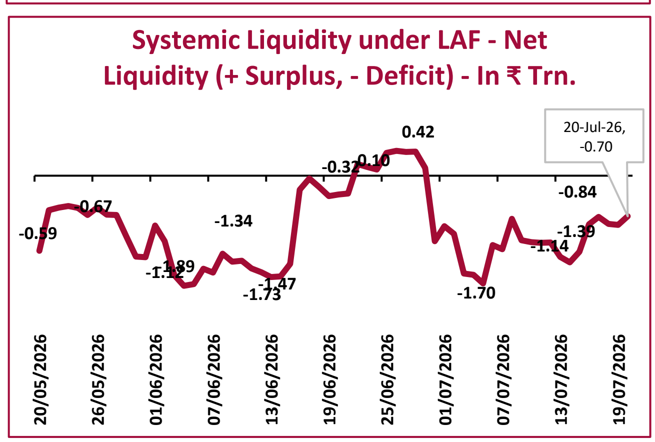








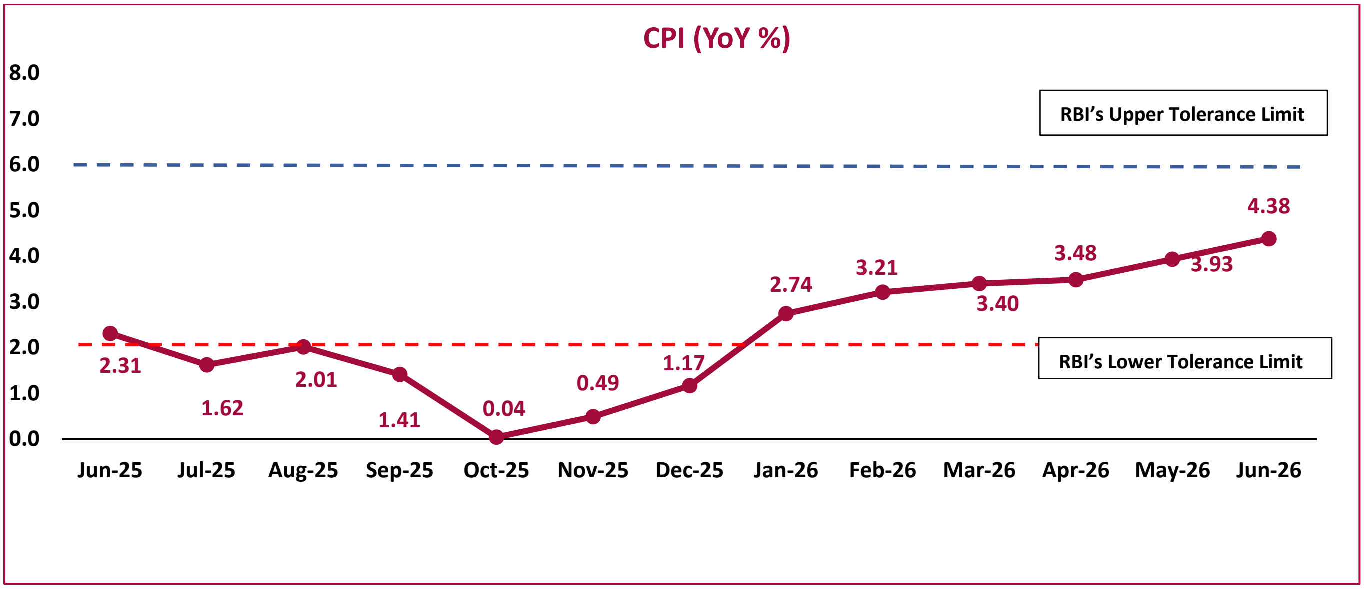


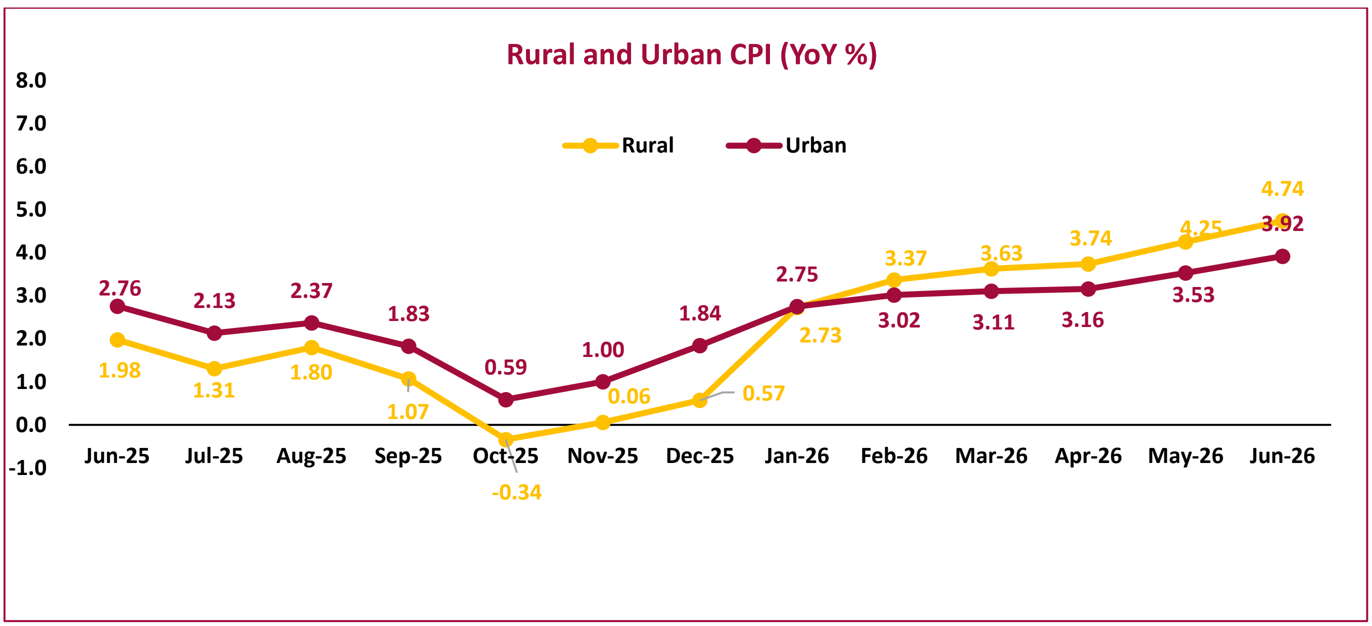


13. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI) – New Base Year 2024

CPI increased to 4.38% in June 2026

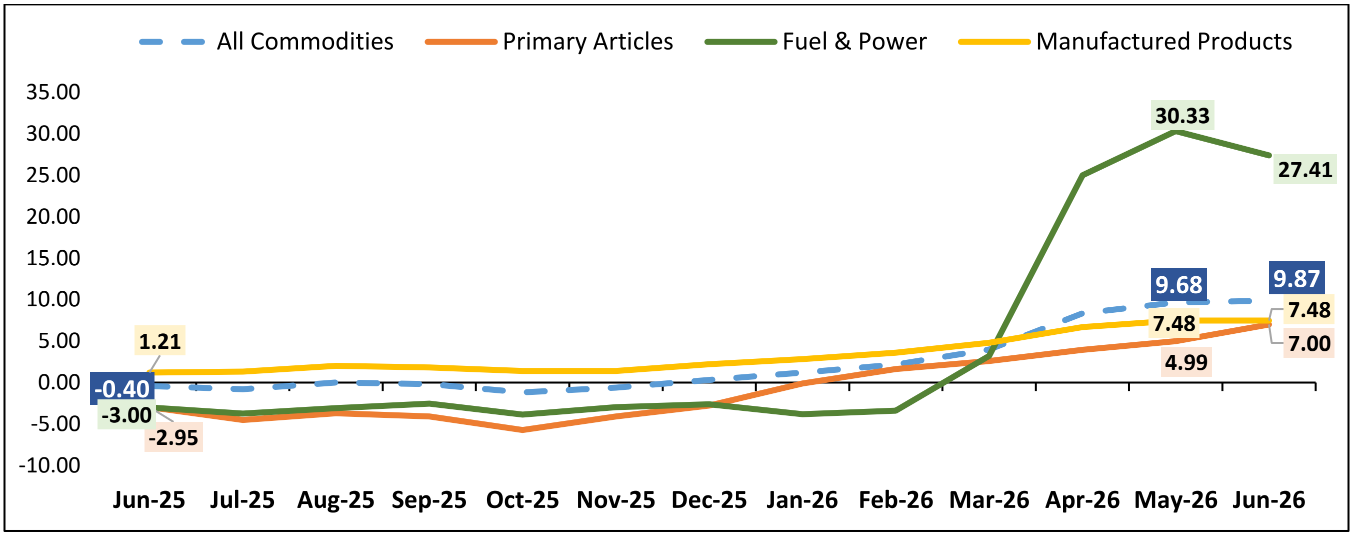




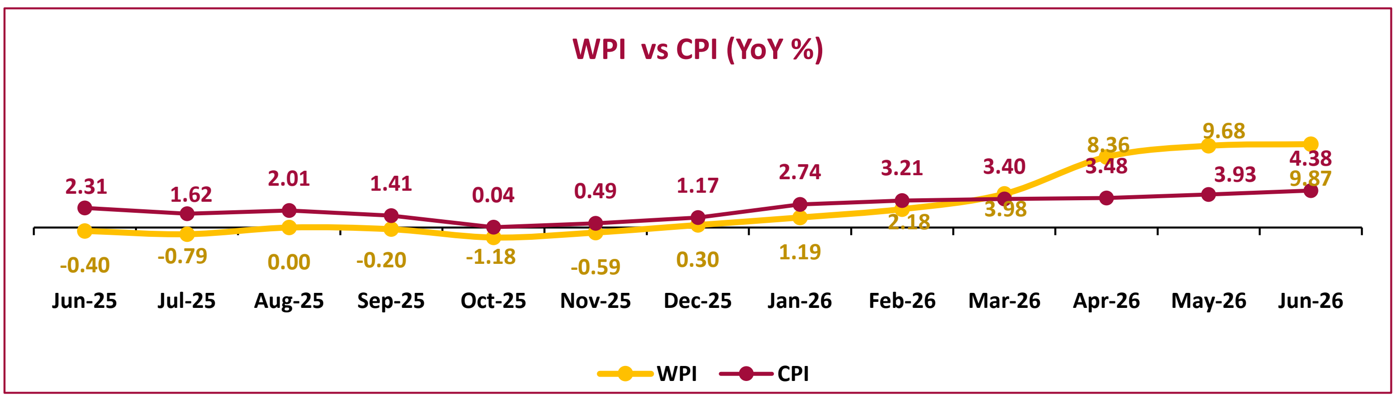
India's consumer inflation rose to 4.38% in Jun'26, up by 45 bps from 3.93% in May'26. Rural Inflation increased to 4.74% in Jun'26 as compared to 4.25% in the previous month, while Urban inflation has increased to 3.92% as compared to 3.53% for the same period. Food Inflation accelerated to 5.32% in June'26 as compared to 4.78% for May'26. Housing inflation rate for the month of June'26 is 2.10% and the corresponding inflation rates for rural and urban are 2.66% and 1.90% respectively. Top 5 items which recorded highest inflation in the month of Jun'26 are Silver Jewellery, Ginger, Gold/Diamond/Platinum Jewellery, Tomato and Raisins & Monacca.

WHOLESALE PRICE INDEX (WPI)- YOY %

WPI inflation edged up further to 9.87% in June 2026



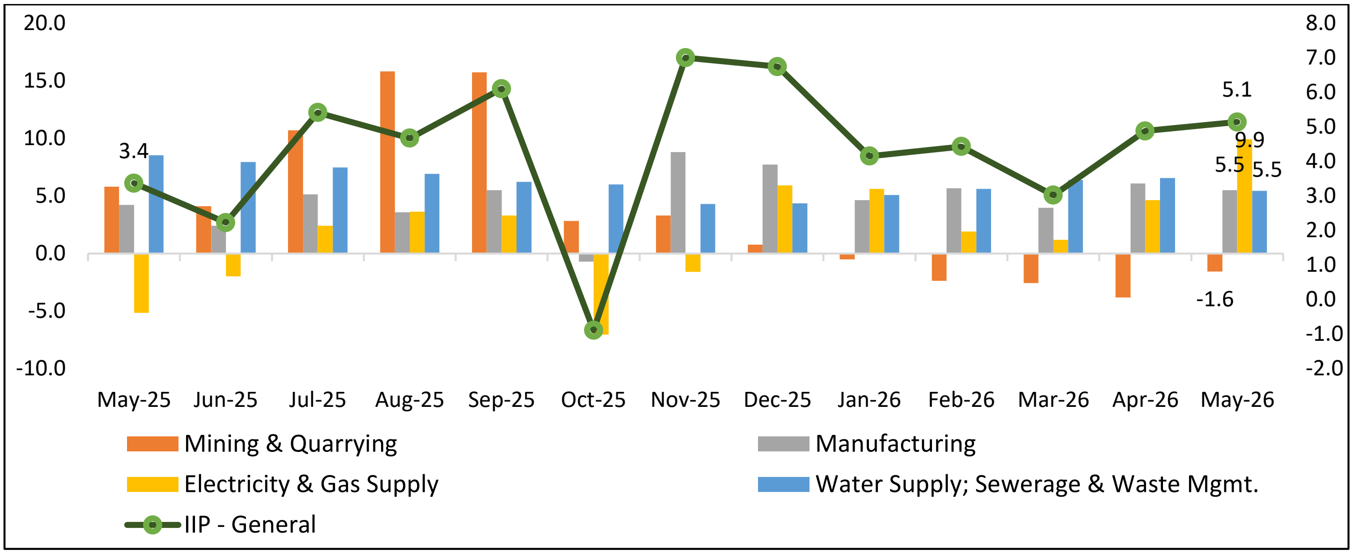
WPI Inflation YoY (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Index *(Part of Primary Articles & Manufactured Products)*		All Commodities	
Weights	22.76%		14.11%		63.13%		24.99%		100%	
	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026
April	-0.28	3.96	-3.48	25.00	1.83	6.68	1.58	3.29	0.60	8.36
May	-1.63	4.99	-5.45	30.33	1.42	7.48	0.09	4.49	-0.20	9.68
June	-2.95	7.00	-3.00	27.41	1.21	7.48	-1.62	6.14	-0.40	9.87



Wholesale Price Index rose further to 9.87% in Jun’26 as against 9.68% in May’26 as measured by new base year 2022-23. The acceleration in WPI was attributed to higher prices of food articles, mineral oils, basic metals, and chemicals and chemical products etc. Food inflation rose to 6.14% in Jun’26 (18-months high) from 4.49% in May’26, with a broad-based price rise across sub-categories. Inflation in Fuel & Power category eased from previous month’s high but remained elevated at 27.41% YoY in Jun’26 as against 30.33% recorded in May’26, led by lower inflation in Crude petroleum & natural gas. Inflation in Manufactured products, which carry the highest weight in the WPI basket remained at the same level of 7.48% in Jun’26.

INDEX OF INDUSTRIAL PRODUCTION (IIP)

IIP grew by 5.1% in May 2026



IIP Growth YoY % (Sector-wise)

Component	Weight (%)	May'25	Apr'26	May'26
Mining & quarrying	**11.0**	5.8	-3.8	-1.6
Manufacturing	**76.1**	4.2	6.1	5.5
Electricity & Gas Supply	**10.9**	-5.2	4.6	9.9
Water Supply, Sewerage & Waste Management	**2.0**	8.5	6.6	5.5
IIP Index -General	**100.0**	**3.4**	**4.9**	**5.1**

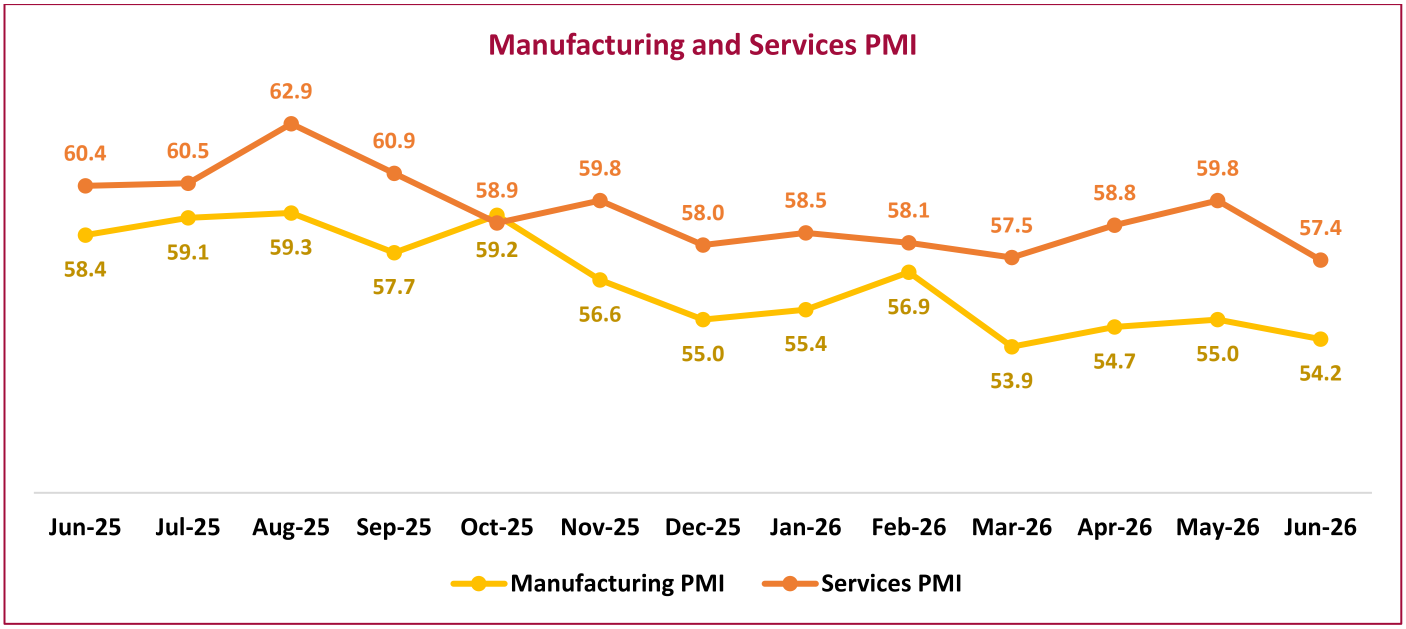
IIP Growth YoY % (Usage-wise)

Component	Weight (%)	May'25	Apr'26	May'26
Primary Goods	**31.1**	0.7	0.8	2.6
Capital Goods	**8.1**	9.5	12.0	12.9
Intermediate Goods	**22.4**	4.8	10.4	5.9
Infra/Construction Goods	**10.9**	5.7	6.1	5.9
Consumer Durables	**11.3**	1.9	5.6	7.2
Consumer non-durables	**16.2**	3.4	0.2	3.6

Industrial output, as measured by Index of Industrial Production recorded a 5.1% expansion in May'26 compared to 4.9% growth in Apr'26. It was higher than 3.4% growth recorded in May'25. On a sequential basis, IIP grew by 3.8% in May'26, with the index rising to 122.7 compared to 118.2 in Apr'26. IIP growth was driven by expansion in three out of four sub-segments, barring mining activity which declined for the fifth straight month. Under use-based classification, four out of six segments recorded higher growth in May'26 vis-à-vis Apr'26. Capital goods sector grew in double digits for second consecutive month, recording 12.9% YoY growth in May'26. MoSPI has revised and released the entire IIP 2022-23 series with Output Producer Price Index as the deflator instead of Wholesale Price Index.

PURCHASING MANAGERS' INDEX (PMI)

Services PMI decreased to 57.4 and Manufacturing PMI eased to 54.2 in June 2026

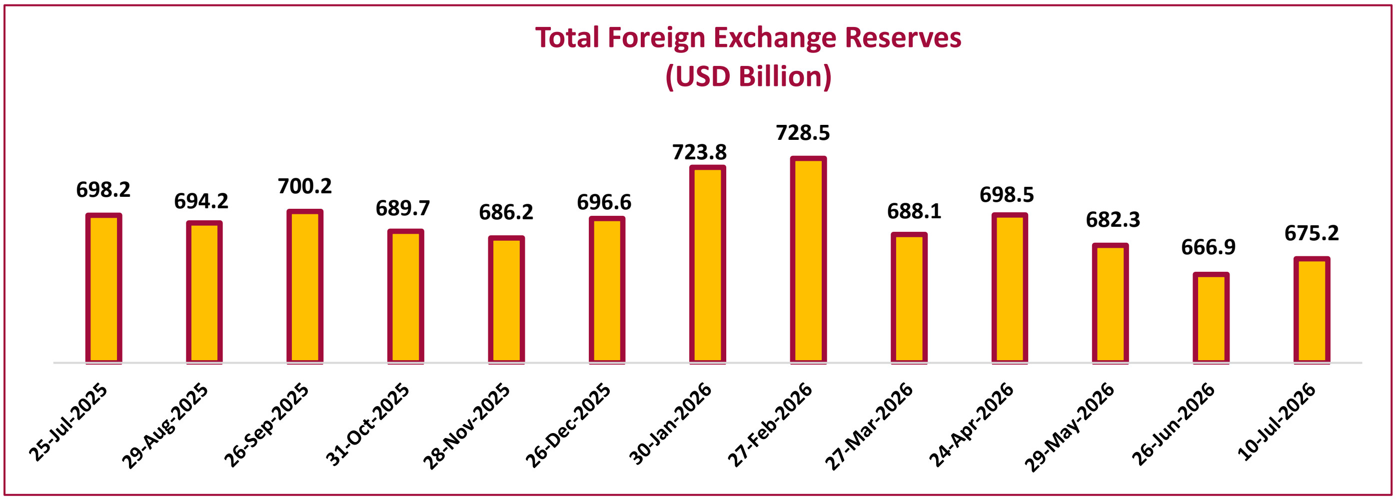


India's Manufacturing PMI eased to 54.2 in Jun'26 from 55.0 in May'26, its second-weakest expansion level since Jun'22 (after 53.9 in Mar'26) indicating that manufacturing activity continued to expand but at a slower pace. While the sector remained firmly in growth territory, the latest reading reflected a cooling in demand momentum (as new orders growth slowed), easing export growth and softer pricing pressures. India's Services PMI declined to 57.4 in Jun'26 from 59.8 in May'26, marking the lowest reading in 17 months, as softer domestic demand and reduced client interest weighed on business activity. Although the growth momentum weakened considerably, services sector remained firmly in expansion territory i.e. higher than 50.0.

PERFORMANCE OF OTHER LEADING INDICATORS

	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Bank deposit (YoY%)	10.1	10.2	9.3	9.4	10.8	10.2	12.7	10.6	11.3	16.2	13.3	12.2	13.3
Bank credit (YoY%)	9.5	10.0	10.1	10.8	12.0	11.5	14.5	13.4	14.0	17.1	16.5	17.7	18.6
Coal production (YoY%)	-6.9	-12.3	11.5	-1.0	-8.5	2.1	3.6	3.4	2.2	-4.1	-9.0	-9.5	1.4
Electricity generation (YoY%)	-6.1	-0.8	1.0	0.8	-10.6	-5.0	4.4	2.2	-1.5	-1.1	2.3	7.5	8.2
Consumption of petroleum products (YoY%)	0.5	-4.4	4.8	7.0	-1.5	0.6	4.5	0.3	4.5	3.2	-6.5	-5.3	-3.1
Cargo handled at major ports (YoY%)	5.6	4.0	2.5	11.5	11.9	14.5	12.7	7.6	5.1	0.6	2.5	6.6	9.4
GST Collections (in Rs. Lakh Crore)	1.8	2.0	1.9	1.9	2.0	1.8	1.8	2.0	1.9	2.0	2.4	1.9	1.9
Steel consumption (million tonnes)	13.2	13.4	13.7	13.4	13.3	13.0	14.4	14.9	13.4	16.3	13.0	14.4	14.2
Two-wheelers sales (Nos. in Lakhs)	19.5	20.0	22.7	25.9	26.4	24.2	20.1	23.8	23.6	24.0	23.8	24.0	24.0
Tractors sales (Nos. in Thousand)	121.6	72.8	73.2	154.4	173.6	102.0	79.7	97.7	88.5	112.5	114.7	118.4	136.0

FOREIGN EXCHANGE RESERVES

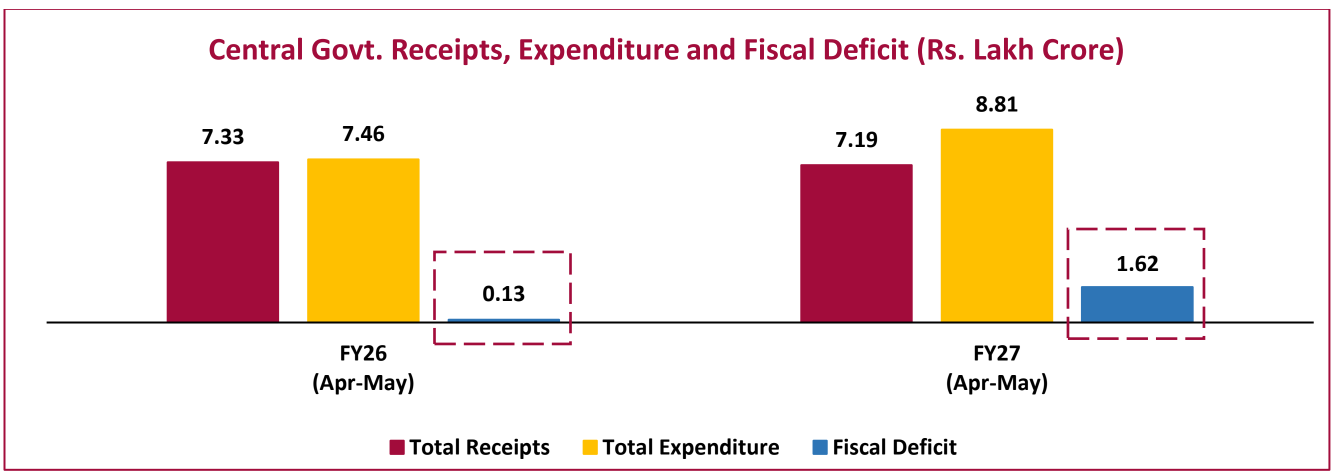


India's foreign exchange reserves stood at $675.2 billion in the week ending 10th July, 2026.

E-WAY BILL GENERATION (No. in cr.)

	Jun -25	Jul -25	Aug -25	Sep -25	Oct -25	Nov -25	Dec -25	Jan -26	Feb -26	Mar -26	Apr -26	May -26	Jun-26
E-way bill Generation	11.9	13.2	12.9	13.2	12.7	13.0	13.8	13.7	13.3	14.1	13.3	13.6	13.7

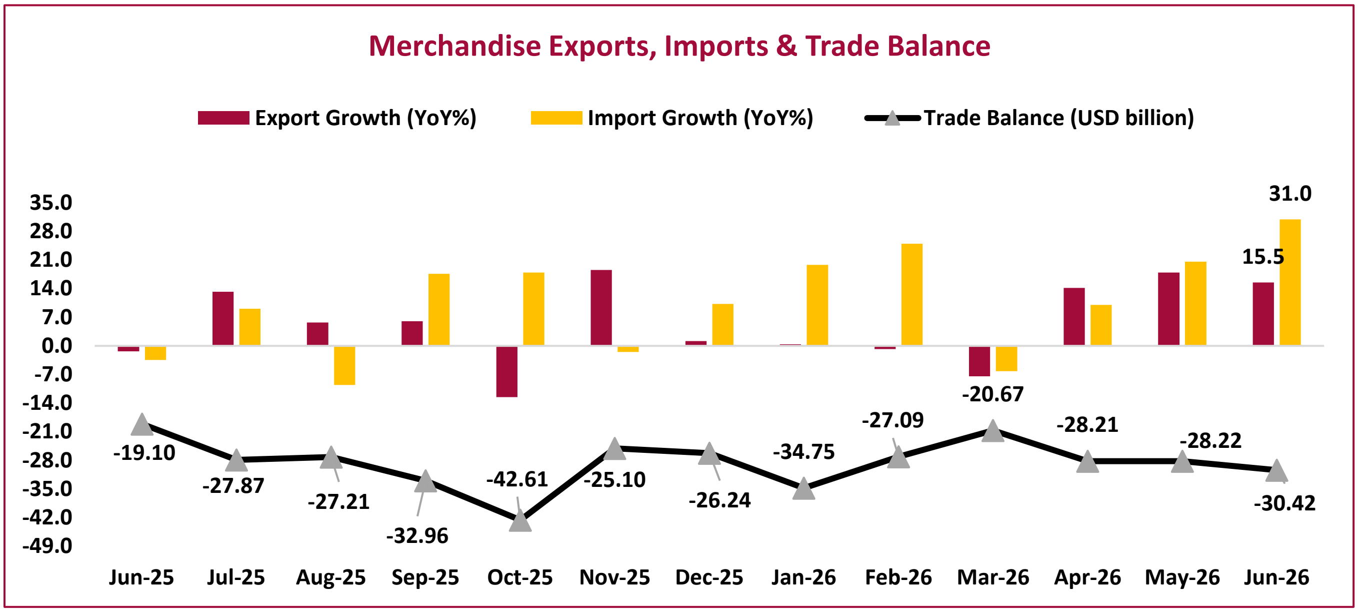
FISCAL DEFICIT

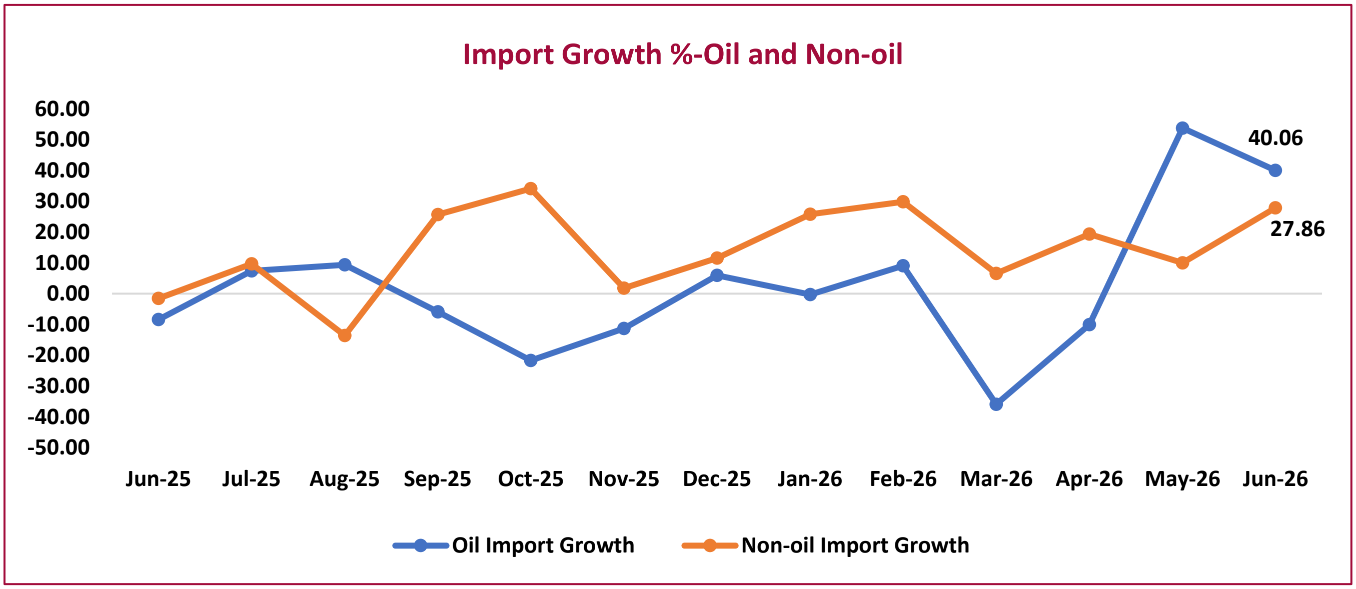


The government's fiscal deficit in May 2026 came in at ₹1.62 lakh crore amounting to 9.6% of the Budget Estimates (BE) vis-à-vis ₹0.13 lakh crore i.e. 0.8% of BE during the same period last year. Govt.'s total expenditure stood ₹8.81 lakh crore reaching 16.5% of the BE in May 2026. This compares to ₹7.46 lakh crore recorded in the same period last year i.e. 14.7% of estimate. Total revenue receipts of ₹6.99 lakh crore accounted for 19.8% of the BE, marginally down 20.7% last year during the same period.

FOREIGN TRADE

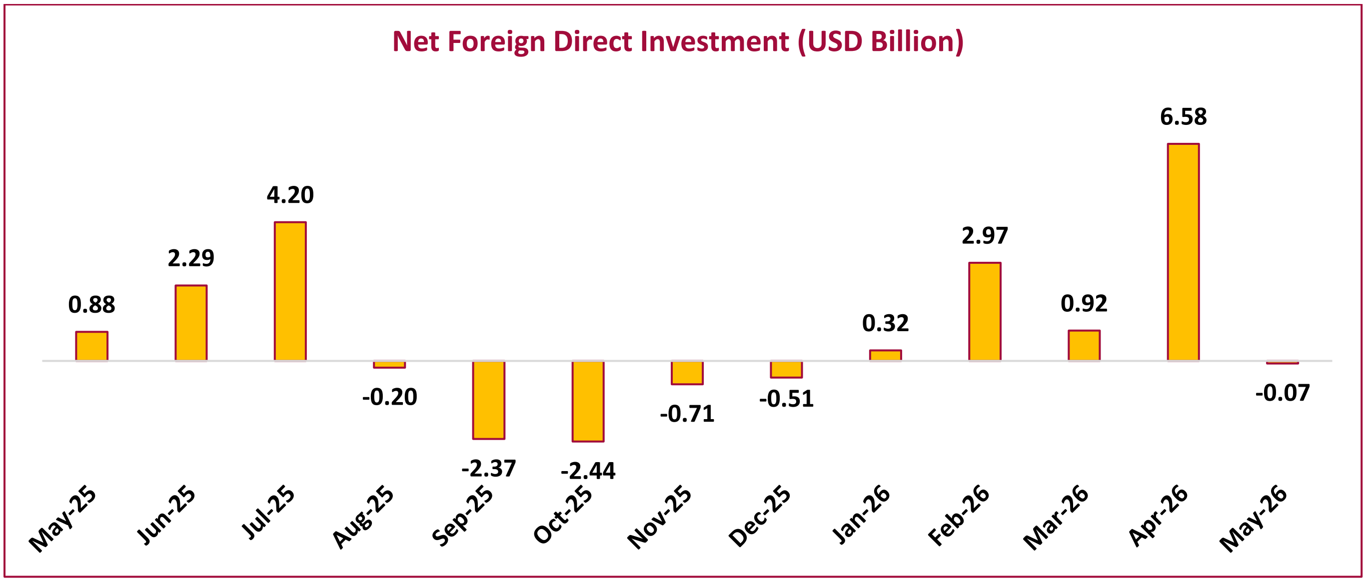
Trade deficit jumps to a five-month high of 30.42 USD billion in June 2026



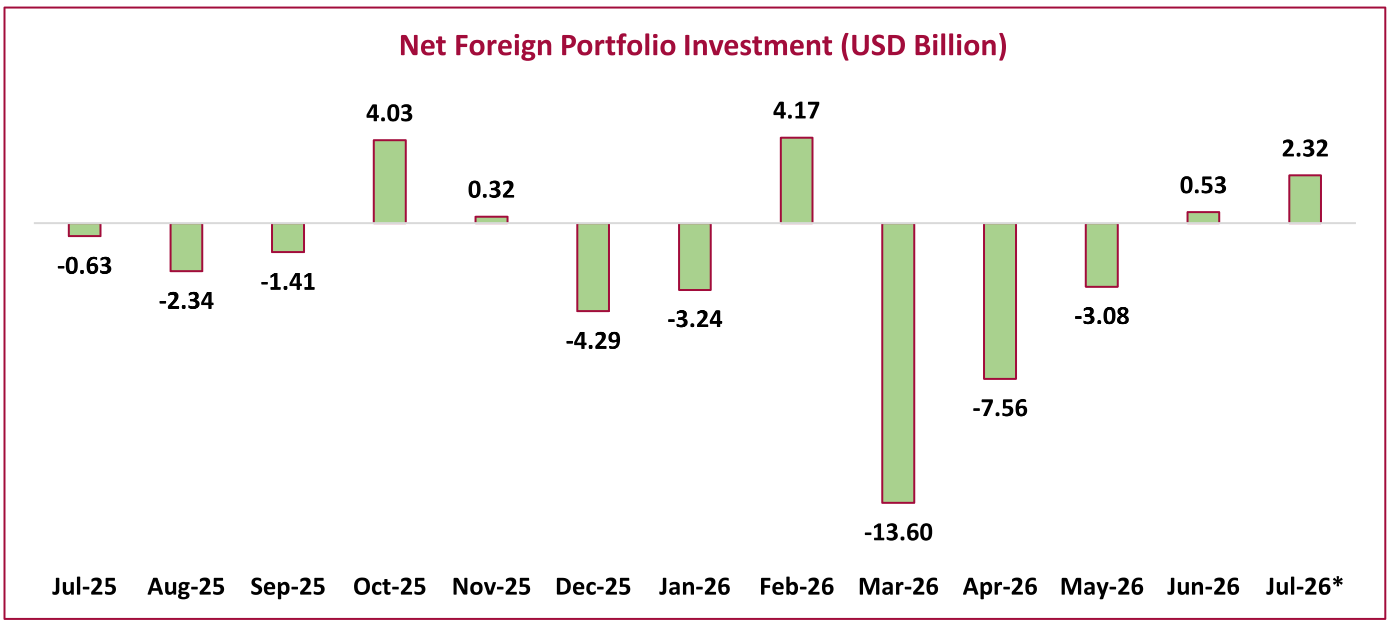


The gap between imports and exports of goods stood at $30.42 billion in June 2026. It increased from $19.10 billion in June 2025. It was recorded at $28.21 billion in May 2026. Merchandise exports increased to $40.41 billion in June 2026 from $34.98 billion in June 2025, registering a YoY growth of 15.5%. Exports of non-petroleum products rose by 16.4% YoY to $35.53 billion, while petroleum product exports surged 9.16% YoY to reach $4.87 billion. Merchandise imports grew by 31.0% YoY to $70.83 billion in June 2026, largely driven by higher imports of crude oil and electronic goods. Gold imports jumped 7.0% YoY, however, on sequential basis import value moderated to $1.97 billion in Jun’26 from $3.42 billion in May’26. Silver imports declined sharply by 73.6% YoY to $60.2 million.

FOREIGN INVESTMENTS



Net Foreign Direct Investment flows turned negative in the month May 2026 with outflows exceeding inflows by $74 million. This marked the end of the three-month streak of positive net inflows. This slight contraction followed a strong start to the fiscal year, though the combined net FDI for the April-May 2026 period remained positive at $6.5 billion.



**upto 17th July 2026*

Foreign portfolio investors (FPIs) turned net buyers in the month of June in the Indian stock market after 3 months of aggressive selling. Up to 17th July 2026, FPI inflows stood at 2.32 billion. The renewed buying interest was supported by improving domestic macroeconomic indicators, stable crude oil prices, and strong quarterly earnings reports.

DEPOSIT AND CREDIT OF SCBs

Parameter (Rs. Lakh Crore)	27.06.2025	31.03.2026	15.06.2026	30.06.2026	YoY Growth (%)	Fortnightly Growth (%)
Deposits	234.26	262.30	258.42	265.38	13.29	2.69
Advances	184.86	213.61	215.47	219.28	18.62	1.77
Business	419.12	475.91	473.89	484.67	15.64	2.27

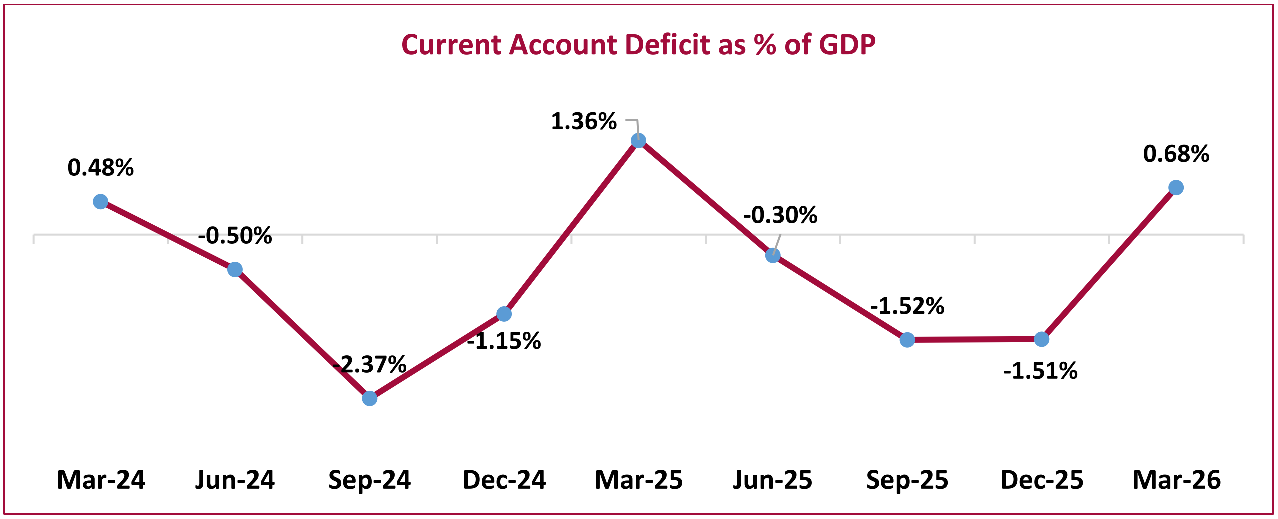
SECTORAL DEPLOYMENT OF CREDIT- INDUSTRY WISE

Parameter* (Rs. Lakh Crore)	May-25	Mar-26	May-26	YoY %
Total Credit	**182.9**	**213.6**	**215.2**	**17.7**
Agriculture and allied activities	**23.0**	**26.4**	**26.4**	**14.9**
Industry	**39.3**	**45.8**	**46.2**	**17.5**
Of which				
Micro & small	8.5	10.6	10.7	26.2
Medium	3.7	4.4	4.5	21.2
Large	27.2	30.8	31.1	14.4
Personal loans	**60.8**	**69.4**	**70.2**	**15.4**
Of which				
Housing (Including priority sector housing)	30.4	33.6	33.7	10.9
Credit card outstanding	2.9	2.9	2.9	1.3
Education	1.4	1.6	1.6	14.0
Vehicle loans	6.4	7.4	7.5	17.3
Services	**50.2**	**60.6**	**60.5**	**20.4**
Of which				
Computer software	0.3	0.5	0.5	54.9
Tourism, hotels & restaurants	0.9	1.0	1.0	22.0
Shipping	0.1	0.1	0.1	41.0
Aviation	0.5	0.5	0.6	25.8
Retail trade	5.3	6.0	5.9	11.3
Commercial real estate	5.4	6.3	6.4	18.7

Non-Food bank credit grew by 17.4% y-o-y in May'26 as compared to 8.8% in May'25. Credit to agriculture and allied activities registered a y-o-y growth of 14.9% in May'26 as compared to 7.5% in May'25. Credit to industry recorded a y-o-y growth of 17.5% in May'26 as compared to 5.3% in May'25. Credit to services sector registered a growth rate of 20.4% y-o-y in May'26 as compared to 8.4% in May'25, supported by robust growth in segments such as 'non-banking financial companies' (NBFCs),'commercial real estate' and 'trade'. Credit to personal loans segment recorded a y-o-y growth of 15.4% in May'26 as compared to 11.1% in May'25. While segments such as 'vehicle loans' and 'housing' registered steady growth, 'credit card outstanding' decelerated.

14. QUARTERLY ECONOMIC INDICATORS

CURRENT ACCOUNT BALANCE



Key Features of India's BoP in Q4:2025-26

- India's current account surplus stood at US$ 7.1 billion (0.7 per cent of GDP) in Q4:2025-26 as compared to US$ 13.7 billion (1.4 per cent of GDP) in Q4:2024-25.
- The current account deficit represents the gap between the value of a country's exports and imports of goods and services. It serves as a crucial indicator of the country's external sector.
- Merchandise trade deficit at US$ 83.4 billion in Q4:2025-26 was higher than US$ 59.3 billion in Q4:2024-25.
- Net services receipts increased to US$ 60.4 billion in Q4:2025-26 from US$ 53.3 billion a year ago.
- Services exports have risen on a year-on-year basis in major categories such as computer services and other business services.
- Net outgo on the primary income account, mainly reflecting payments of investment income, decreased to US$ 11.1 billion in Q4:2025-26 from US$ 11.9 billion in Q4:2024-25.
- Personal transfer receipts under secondary income account, mainly representing remittances by Indians employed overseas, rose to US$ 43.5 billion in Q4:2025-26 from US$ 33.9 billion in Q4:2024-25.
- In the financial account, foreign direct investment (FDI) recorded a net inflow of US$ 4.2 billion in Q4:2025-26, higher than US$ 0.4 billion in Q4:2024-25.
- Foreign portfolio investment (FPI) recorded a net outflow of US$ 12.0 billion in Q4:2025-26, higher than the outflow of US$ 5.9 billion in Q4:2024-25.
- Non-resident deposits (NRI deposits) recorded a net inflow of US$ 3.3 billion in Q4:2025-26, higher than US$ 2.8 billion in Q4:2024-25.

- Net inflows under external commercial borrowings (ECBs) to India amounted to US$ 3.6 billion in Q4:2025-26 as compared to US$ 7.5 billion in Q4:2024-25.
- Foreign exchange reserves increased by US$ 7.2 billion (on a BoP basis) in Q4:2025-26 as compared to an accretion of US$ 8.8 billion in Q4:2024-25.

Key Features of India's BoP During 2025-26

- India's current account deficit stood at US$ 25.2 billion (0.6 per cent of GDP) in 2025-26 as compared to US$ 22.9 billion (0.6 per cent of GDP) during 2024-25.
- Net invisibles receipts at US$ 312.0 billion were higher in 2025-26 than US$ 264.0 billion a year ago, primarily on account of net services receipts and net personal transfers.
- Net FDI inflows increased to US$ 6.9 billion in 2025-26 from US$ 1.0 billion in 2024-25.
- FPIs recorded net outflows of US$ 16.4 billion in 2025-26 as against net inflows of US$ 3.6 billion a year ago.
- In 2025-26, foreign exchange reserves depleted by US$ 23.6 billion (on a BoP basis) as compared with a depletion of US$ 5.0 billion a year ago.

15. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	1.00%	Jun 16, 2026 (25bp)	Jul 31, 2026
European Central Bank	Europe	2.40%	Jun 11, 2026 (25bp)	Jul 23, 2026
Federal Reserve	U.S.A	3.75%	Dec 10, 2025 (-25bp)	Jul 29, 2026
Bank of England	U.K	3.75%	Dec 18, 2025 (-25bp)	Jul 30, 2026
Peoples Bank of China	China	3.00%	May 20, 2025 (-10bp)	Jul 20, 2026
Reserve Bank of India	India	5.25%	Dec 05, 2025 (-25bp)	Aug 05, 2026

16. MACRO ECONOMIC INDICATORS OUTLOOK

ECONOMIC INDICATORS

- **GDP Growth** – India's GDP growth outlook for FY 2026-27 faces downside risks from a possible escalation of the Middle East conflict, which could push oil prices higher, and from a weaker monsoon due to the El Niño weather effect, according to an International Monetary Fund. *The RBI has revised its real GDP growth forecast for FY 2026-27 downward to 6.6% from 6.9%.*
- **Inflation** – India's consumer inflation rose by 45 bps to 4.38% in June'26 from 3.93% in May'26, crossing the RBI's medium-term target of 4% for the first time in 17 months. Higher diesel and petrol prices may add to inflationary pressures going forward. However, inflation could soften if the West Asia crisis eases or crude oil prices remain around $70 per barrel. *For FY'27, CPI inflation has been revised by RBI from 4.6% to 5.1%.*
- **Fiscal Deficit –** The fiscal deficit stood at ₹1.62 lakh crore in May 2026, equivalent to 9.6% of Budget Estimate, compared with ₹0.13 lakh crore or 0.8% of Budget Estimate in May 2025.
- **External Sector -** Despite strong export growth, faster import expansion widened India's trade deficit to US$37.42 billion in Apr-Jun 2026 from US$20.85 billion in Apr-Jun 2025. India's external sector is expected to remain resilient in FY27, supported by strong services exports, steady remittances, policy measures, foreign investment and debt inflows aided by global bond index inclusion. However, weak global demand, trade disruptions, geopolitical tensions, elevated energy prices, firm US yields and portfolio-flow volatility may weigh on merchandise exports.
- **Industrial Production (IIP)** - IIP growth rose to 5.1% in May'26, led by manufacturing and electricity, with manufacturing growing 5.5% YoY and driving overall momentum. Going forward, IIP is expected to remain around current levels, supported by limited expectations of a repo rate change, which may lend some strength to industrial activity.

MARKET INDICATORS

- **Rupee (INR)** – The rupee remains pressured by elevated crude prices, , geopolitical risks and volatile portfolio flows. FPI tax exemptions on government securities may support debt inflows and partly cushion pressures. USD/INR traded around 94.15–96.64 during 21 June–21 July 2026 and stood near 96.35 on 21 July 2026, close to its 52-week low of 96.96. *The rupee is likely to stay range-bound with a depreciating bias unless crude softens and flows improve.*
- **Crude Oil** - Crude oil prices are being higher due to heightened geopolitical risks and concerns over possible Middle East supply disruptions. With tensions around the Strait of Hormuz persisting, *energy markets are likely to remain volatile* as investors track further military and diplomatic developments.
- **G-Sec Yield** – Domestic bond sentiment remains supported by foreign inflows, global bond index inclusion, Fully Accessible Route expansion and policy measures, though crude volatility, global yields and geopolitical risks may keep yields volatile; the 10-year G-Sec yield moved in the range of 6.675%–6.864% during 21 June–21 July 2026 and stood around 6.77% on 21 July 2026, with the *outlook remaining range-bound with a mild easing bias if crude prices and US yields soften*.

17. INDUSTRY OUTLOOK

Renewable Energy

India's clean energy transition has moved from milestone-chasing to infrastructure-building, and the results reflect that maturity. The **country added a record 55.3 GW of non-fossil capacity in FY2025-26**, lifting cumulative **Renewable energy capacity to 274.68 GW as on Mar'26** (PIB), achieving its 2030 Paris NDC of 50% non-fossil capacity five years early. India now ranks **third globally in installed renewable capacity** as per International Renewable Energy Agency (IRENA), with solar contributing 150.26 GW of a 274.68 GW total renewable capacity, anchored by Rajasthan, Gujarat and Maharashtra.

Capital is keeping pace with capacity. India's **energy investment is set to hit a record $170 billion in 2026**, growing 11% annually over five years, with **solar photovoltaic (PV) investment rising 25%** annually and the **country now invests $3 in renewables and nuclear for every $1 in fossil generation**, up from $1.5 five years ago, a decisive reallocation of capital toward clean power. (IEA)

The next leg of growth looks increasingly diversified. **Battery storage** stands out: As battery storage projects scaled up, the discovered tariff of storage fell from $ 14,700/MW/month in 2023 to less than $ 3,000/MW/month in 2025 (ET Energy World), and the **market is projected to grow at a 28.7% CAGR** through 2033 (Persistence Market Research), backed by a fresh ₹5,400 crore Viability Gap Funding (VGF) tranche for 30 GWh and an ₹18,100 crore PLI for domestic Advanced Chemistry Cell (ACC) manufacturing. Hybrid renewable energy projects combining wind, solar and storage accounted for more than half of the 63 GW capacity awarded during 2025, reflecting a shift toward round-the-clock reliability. Transmission and grid investment is scaling to match this ambition through programmes like the Green Energy Corridor. Offshore wind, backed by a ₹7,453 crore VGF scheme and green hydrogen — where fund utilisation has risen sharply and the mission is projected to catalyse over ₹8 lakh crore in investment by 2030 (NSWS) add further breadth to the growth map.

Domestic manufacturing is scaling alongside deployment. India's ALMM (Approved List of Models and Manufacturers) enlisted solar module manufacturing capacity has grown twelve-fold from 8.2 GW to over 100 GW between March 2021 and August 2025 (CEEW) and stood at 204,383 MW as of July 2026 (MNRE). Solar cell manufacturing under ALMM List-II has also scaled to over 30,508 MW, reinforcing the domestic supply chain even as cell capacity remains the tighter constraint.

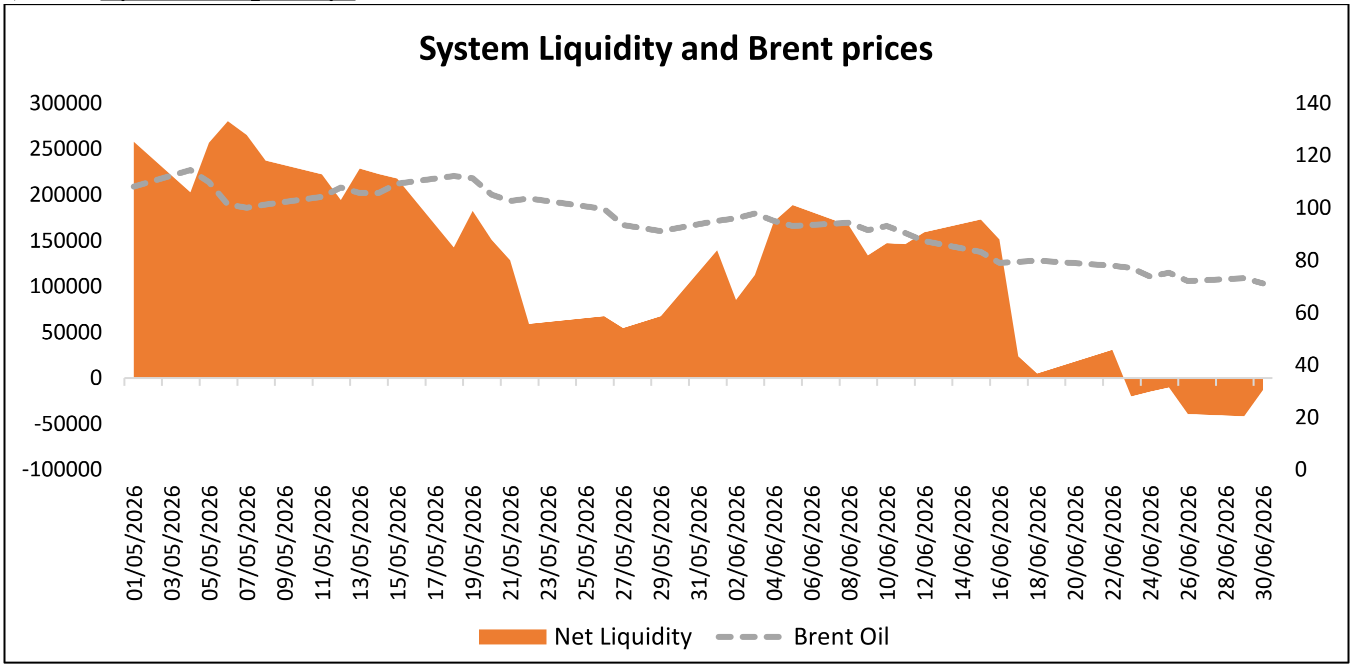
Execution is now the defining opportunity rather than a lingering constraint. Transmission build-out and DISCOM balance sheets are the two levers policymakers are actively strengthening through VGF-backed grid corridors, blended-finance transmission funding, and a DISCOM sector that has already turned its first profit in a decade. As these pieces align, India's renewable story is completing its natural evolution: from a capacity race to a durable, bankable growth engine for the decade ahead.

Shubham Kumar Singh
Officer (Economics)
SMEAD, Head Office

18. MARKET INSIGHTS

Outlook:

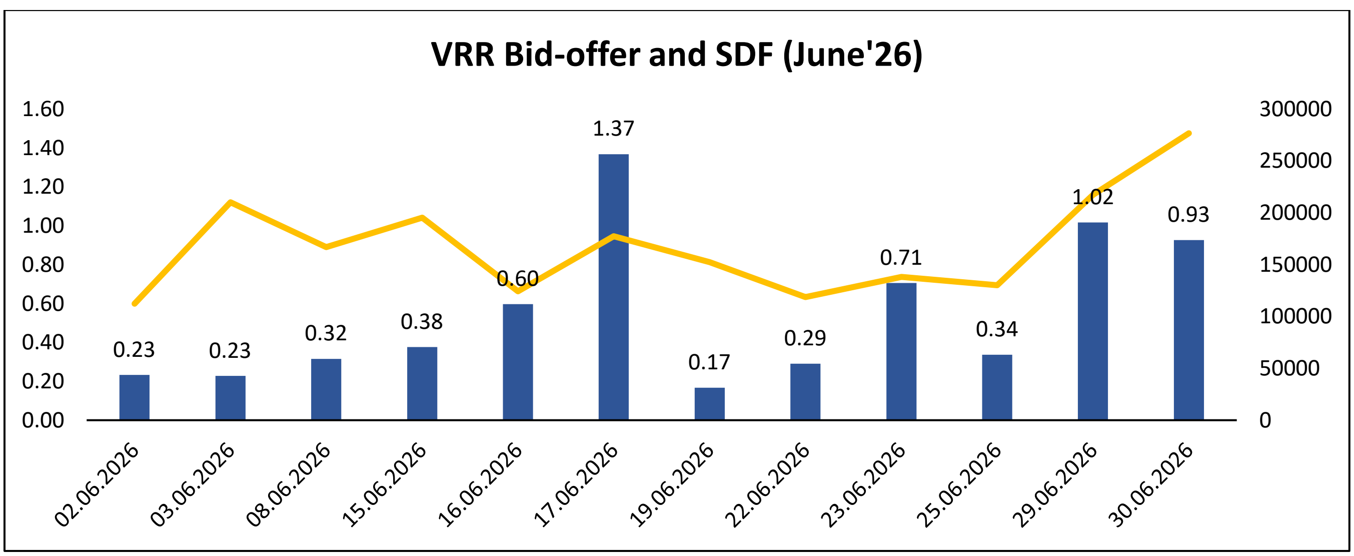
i) System Liquidity:



Source: RBI

During June'26, system liquidity witnessed moderation, hovering in the range of (-) 0.16% to 0.75% NDTL compared to 0% to 1% NDTL in May'26. In addition to transient factors (GST flows), seasonal currency leakage and lower Govt. Capital Expenditure offtake trend in first quarter contributed to the moderation.

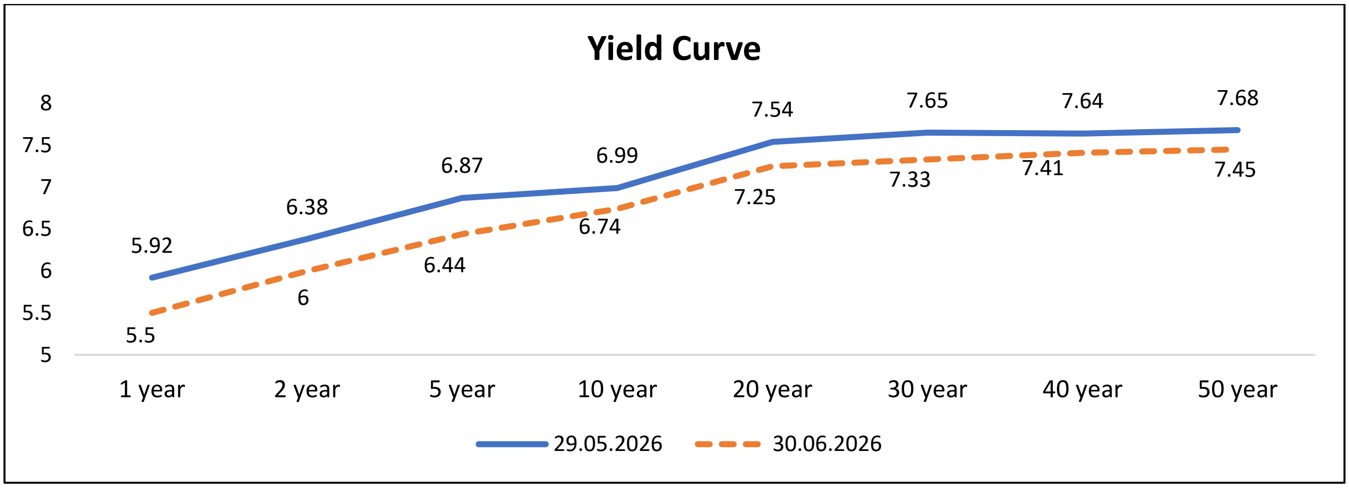
RBI conducted twelve VRR auctions during the month to infuse liquidity. Majority of VRRs witnessed low bid cover ratio as market participants resorted to maintaining lower SDF.



Outlook-July'26

Headwinds	Tailwinds
Any negative news on U.S.-Iran peace negotiation could likely increase Dollar sales, dragging liquidity.	Seasonal impact of currency leakage is expected to decline. Further, Capital Expenditure would also pick up pace and support liquidity.

ii) <u>G-sec yields:</u>



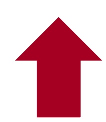
During June'26, yield curve witnessed bull steepening amidst easing of geopolitical concerns. The 10-yr. benchmark traded in the range of 6.75% to 7.07% and closed at 6.77%.

Bond market sentiments remained positive with anticipation of Bloomberg Global Aggregate Inclusion in near term with Fully Accessible Route bonds likely to account for 0.8-1.0% of Bloomberg Global Aggregate Index.

Further, MPC announcement of reduction of withholding capital gains tax for FPIs and inclusion of 15, 30 and 40year security in 'specified security' universe under FAR, eased demand concerns and softened yields.

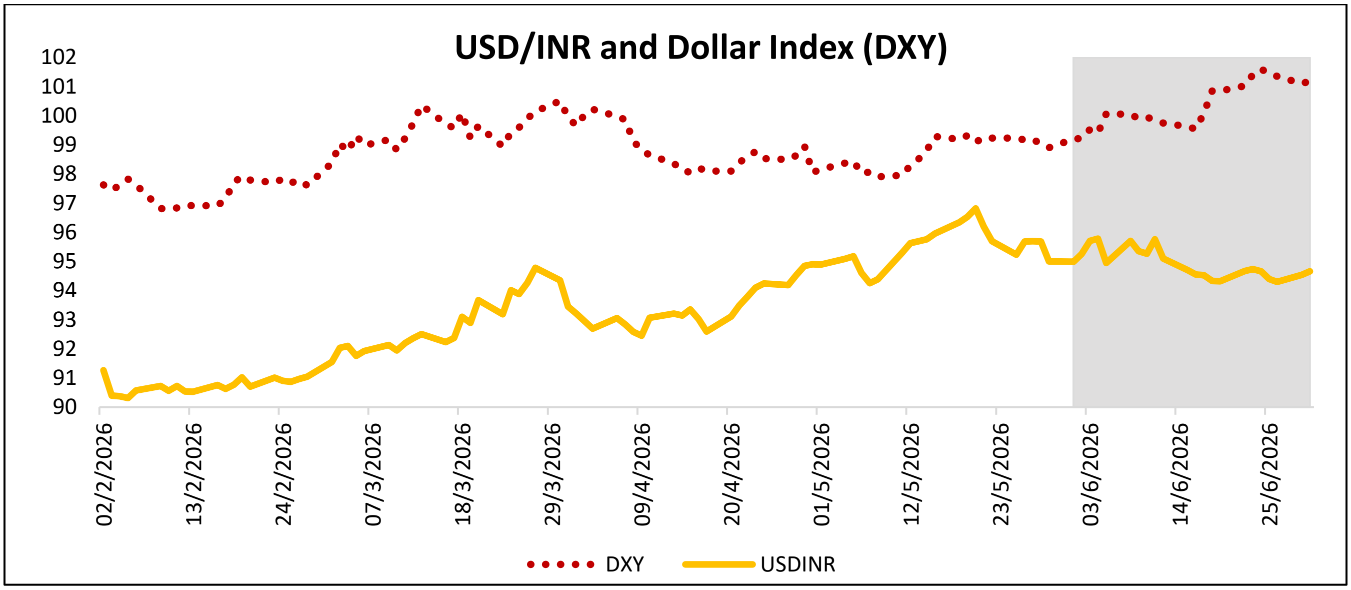
Near term Outlook:

Current inflation growth dynamics point towards higher inflation expectations with CPI projected at 5.10% (FY27) (MPC June'26 estimates) compared to 2.12% (FY26), weighing on yields. CPI for June'26 is expected at around 4.09% (YoY).

Parameter	Analysis	Impact on Yields
Demand & Supply	Demand supply dynamics could be impacted by higher SDL issuances in Q2FY27 with net market borrowings assessed to be 16.5% higher (ICRA estimates) than actual net issuance in Q2FY26 reflecting higher supply.	

Parameter	Analysis	Impact on Yields
Foreign inflows	Measures related to inclusion of new issuances of 15, 30 and 40 yrs. tenors under FAR and exemption of FPIs from capital gains are likely to support inflows.	↓

iii) <u>USD/INR:</u>



- During June'26, USD/INR traded in the range of 94.15 to 95.79, closing at 94.66. Overall, INR reflected appreciation from weaker levels of previous two months, taking support from higher Dollar inflows into Indian debt market, lower FII net outflows and correction in brent prices after U.S.-Iran interim peace agreement.
- Although Dollar Index witnessed surge following Fed's hawkish stance, significant decline in brent prices helped soften broad market sentiment regarding future rate hike expectations.
- In near term, INR is expected to be driven by fundamental and structural pressures of shrinking interest rate differential with U.S. INR is expected to remain range bound, supported by moderation in the crude prices and support from multiple measures introduced by RBI to attract Dollar flows.

Pragya Rani
Manager
Treasury

19. BOOK REVIEW

COURAGE IS CALLING: FORTUNE FAVORS THE BRAVE

Ryan Holiday’s Courage Is Calling: Fortune Favors the Brave compellingly positions courage as the essential virtue for the 21st century. In a world increasingly shaped by fear, uncertainty, and social conformity, Holiday argues that genuine courage is not dramatic heroism but the consistent, everyday decision to act with integrity despite risk. Blending Stoic philosophy with vivid historical examples from ancient Greece to the Civil Rights Movement he demonstrates how courage underpins all other virtues and drives personal and societal progress.

Building on the foundation that courage is the defining quality of our time, Holiday’s Courage Is Calling deepens this argument by showing how courage functions not just as an individual trait but as a social force. One of the book’s most compelling insights is that courage is contagious. When one person chooses to speak truth to power—whether in a boardroom, a classroom, or a community meeting, it creates a ripple effect, emboldening others to do the same. Holiday illustrates this with historical figures who, by refusing to stay silent in the face of injustice, sparked movements far larger than themselves.

This leads to another central theme: you have to own your courage. It’s not something you wait to feel; it’s something you choose and practice. Holiday emphasizes that courage must become a habit—a daily discipline of showing up, speaking up, and taking responsibility even when it’s uncomfortable. He draws on the Stoic idea that virtue is not abstract but lived, and that courage is the first virtue because it enables all others. Without the willingness to face fear - honesty, justice, and compassion remain theoretical. In this sense, “virtue is courage” isn’t just a slogan; it’s a practical framework for ethical living.

The book also explores how true leaders inspire through fearlessness - not by lacking fear, but by acting in spite of it. Holiday shares stories of individuals who, despite trembling hands or racing hearts, moved forward because they believed in something greater than their own comfort. This kind of fearlessness doesn’t demand perfection; it demands presence.

Perhaps the most uplifting message is the idea that courage makes people bigger. When you act with bravery, you don’t just solve a problem, you expand your own capacity and elevate those around you. Ultimately, Courage Is Calling is more than a motivational read; it’s a call to action. In a century marked by rapid change, polarization, and digital noise, the ability to act with clarity and conviction is rare and desperately needed.

Holiday’s message is clear: courage isn’t reserved for the exceptional few. It’s available to anyone willing to practice it, own it, and let it spread. For professionals, students, and leaders alike, this book offers both a mirror and a map—reflecting where we hold back and charting how we can move forward with purpose.

Narendra Patel
Senior Manager (IT)
Head Office, RAM Initiatives Division

20. READERS’ FEEDBACK

PNB ECOLENS provides an insightful analysis of current economic trends and global markets. The articles are well-researched, balanced, and easy to understand. An excellent resource for staying updated about latest economic developments.

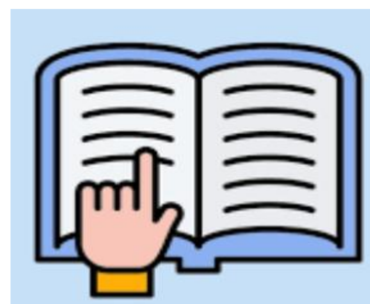
Anjali Shrivastava, Manager, International Banking & Trade Finance Division

PNB ECOLENS continues to be an insightful knowledge resource, offering a balanced perspective on emerging economic trends, sustainable finance, and technology-driven banking. The content is relevant, informative, and highly useful for banking professionals. The publication enhances professional awareness and supports informed decision-making in an increasingly dynamic financial environment.

Shwetank Kumar, DGM & Circle Head Circle Office: Alwar

PNB ECOLENS offers well-structured routine updates that keep readers consistently informed. Its rich content serves as an excellent resource for group discussion topics, especially valuable for promotion aspirants.

Ritesh Garg, Chief Manager, International Banking & Trade Finance Division



PNB ECOLENS is a very useful and informative monthly magazine. It presents economic and banking news in a simple and easy-to-understand manner. The magazine helps us stay updated on important developments in the economy, financial markets, and the banking sector. The articles are well-organized, relevant, and supported by facts and data. It is especially helpful for bank employees, students, and anyone interested in economic affairs. Overall, PNB Eco Lens is an excellent initiative by Punjab National Bank that enhances knowledge, promotes awareness, and provides valuable insights into current economic and financial trends.

Geetanjali, Senior Manager-IT, CPPD Division

21. DATA SOURCES

- *Reserve Bank of India (RBI)*
- *Ministry of Statistics and Programme Implementation (MOSPI)*
- *Office of Economic Adviser*
- *Ministry of Commerce and Industry, Department of Commerce, DGFT*
- *Press Information Bureau*
- *GST Council*
- *Websites of major Central Banks*
- *Controller General of Accounts (CGA)*
- *Investing.com*
- *Press Articles*
- *CMIE*
- *Statista*

QUOTE OF THE MONTH

"Every accomplishment starts with the decision to try."

— John F Kennedy

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