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PNB **ECOLENS**

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कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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MPC REGULATORY REFORMS: STRENGTHENING INDIA'S ECONOMIC FOUNDATIONS

The Reserve Bank of India's October 2025 Monetary Policy announcement has been refreshingly both growth and reform-oriented unleashing a comprehensive suite of regulatory measures designed to sustain monetary stability, strengthen resilience, facilitate credit flow and promote prudent risk management.

In its bi-monthly monetary policy statement released on 1st October 2025, the RBI maintained the policy repo rate at 5.5% with a neutral stance. RBI upgraded the GDP growth forecast for FY26 to 6.8% and trimmed inflation projections to 2.6%, reflecting robust domestic demand and easing price pressures.

Apart from policy measures, the RBI also announced various regulatory measures as well. Among the key regulatory highlights, the RBI introduced a risk-based deposit insurance premium regime. Under this system, banks with better risk management and sound ratings will pay lower premiums thereby incentivising prudent practices and bolstering overall financial stability.

Another significant reform is the proposal to implement the Expected Credit Loss (ECL) provisioning framework, with prudential floors, effective from 1st April 2027. This initiative aims to ensure banks maintain stronger capital buffers, thus freeing up resources for further lending hence contributing towards Nation's progress and development. This can be marked as vital step for modernising credit risk management with greater foresight and transparency.

Furthermore, the RBI plans to roll out revised Basel III capital adequacy norms for commercial banks from April 2027. These updated norms will feature lower risk weights for select sectors, notably MSMEs and residential real estate including home loans. The reform undertaken may be viewed as a sea change that will improve capital efficiency, allowing banks to better support credit flow to the MSME and housing finance segment. This move will boost credit expansion and economic growth while maintaining regulatory discipline essential for banking stability.

Additionally, the withdrawal of guidelines that previously enhanced credit supply for large borrowers through market mechanisms (draft) will allow banks to re-engage with large corporates from April 2026. These original guidelines were designed to curb concentration risk by disincentivizing large, highly leveraged borrowers from relying excessively on the banking system for incremental funding, thereby encouraging them to access market-based resources. This step is anticipated to boost competitiveness with the bond and commercial paper markets.

The policy also removed previous restrictions on business overlaps between banks and their group entities, granting bank boards greater autonomy over strategic allocation of business streams. This move is expected to enable banks and their affiliates to operate with fewer constraints and pursue growth opportunities more effectively by working in consonance.

To further stimulate investment, the RBI issued draft regulations proposing an increase in the lending limit against shares from Rs. 20 Lakh to Rs. 1 Crore. This substantial enhancement broadens opportunities for high-net-worth individuals and affluent retail investors to leverage their portfolios, potentially expanding share-backed lending and fee-based income for banks.

Another draft guidelines also propose raising the IPO financing limit from Rs. 10 lakh to Rs. 25 lakh per person. This upward revision is likely to fuel demand among active retail investors, particularly during high-demand IPO periods, and expand banks' IPO-linked lending and fee-based income. This step enlarges the lending opportunities for banks in capital market with prudent risk management.

Moreover, the RBI is set to allow banks to finance Mergers and Acquisitions (M&A), with draft guidelines to be issued. It is believed that allowing banks to finance M&A will foster incremental credit flow and support the growing consolidation in sectors like pharmaceuticals, technology, and manufacturing. RBI's policy shift as a strategic opportunity for banks to reclaim market share in the M&A financing space, deepen their corporate lending role, and support India's evolving corporate landscape with disciplined risk management and enhanced skills development.

By overhauling key regulatory frameworks and removing operational bottlenecks, the RBI has laid the groundwork for a more agile and robust banking sector that can adapt to both domestic and global shifts. The focus on risk-based supervision, forward-looking provisioning, and capital adequacy demonstrates RBI's commitment to safeguarding financial stability while ensuring that credit flows efficiently to productive sectors such as MSMEs, housing, and large corporates. Expanded lending limits against shares and IPO financing are poised to deepen capital markets, empower investors, and generate new revenue streams for banks.

Furthermore, the strategic relaxation of business overlap restrictions and the forthcoming facilitation of M&A financing underline the RBI's support for innovation, consolidation, and growth, allowing Indian banks to compete effectively with global peers.

Collectively, these measures reflect the RBI's direct and proactive approach to regulatory reform, emphasising price stability while fostering growth. The reforms are designed to create a more resilient, inclusive, and innovation-friendly financial ecosystem, positioning India to navigate global uncertainties and technological advancements, including those in artificial intelligence.

As India embraces emerging technologies and navigates an evolving global landscape, the RBI's policy stance will be instrumental in steering the country towards sustainable and inclusive growth, making the financial sector a true partner in the nation's journey to achieving the goal of VIKSIT BHARAT@2047.

Ajay Kumar Singh
General Manager



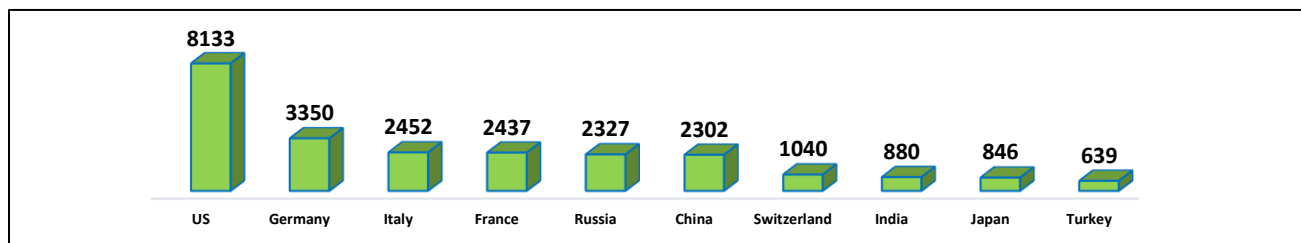
2. SHIFTING GOLD DYNAMICS: INSTITUTIONAL AND ETF SURGE

The global gold market in 2025 is witnessing a significant structural shift in demand, moving away from traditional jewellery consumption toward central bank reserves and investment instruments such as exchange-traded funds (ETFs), bars, and coins. In an environment marked by currency fluctuations, geopolitical and trade risks, gold continues to play a pivotal role as both a store of value and a strategic financial asset. Its enduring appeal lies in its dual function — as a defensive hedge against macroeconomic uncertainty and as a competitive component within diversified investment portfolios.

Central Banks Anchor Demand

Central banks remain the cornerstone of demand, shaping global gold trends through steady accumulation. The United States maintains the largest official gold reserves, with holdings exceeding 8,100 tonnes, followed by Germany, Italy, France, and Russia. Notably, countries like Bolivia, Venezuela, and Uzbekistan hold more than 80% of their total foreign reserves to gold. This strategy reflects a conscious move away from the U.S. dollar, as reserve managers seek assets that offer resilience against sanctions and geopolitical uncertainties.

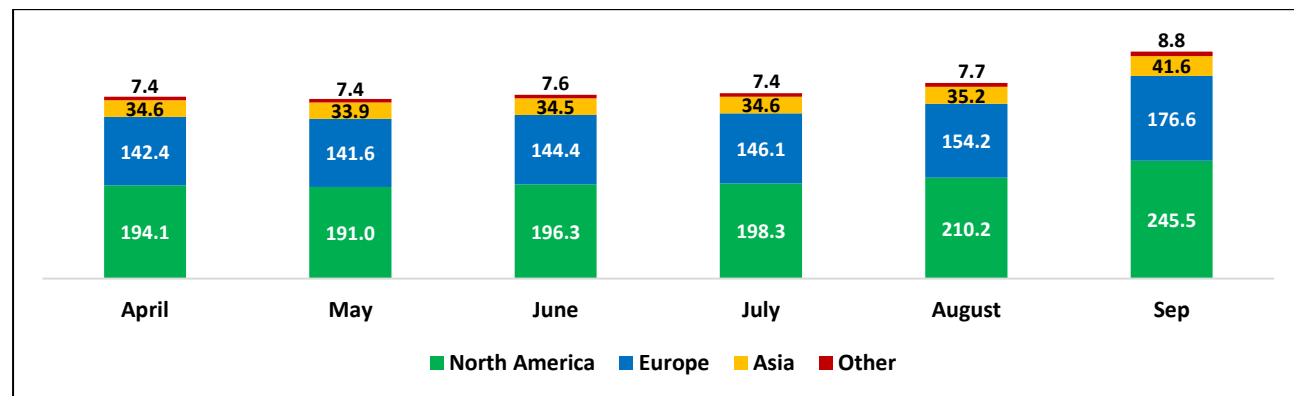
Fig 1: Top 10 countries with Central Bank gold holdings (in tonnes)



ETF Inflows Hit record Highs

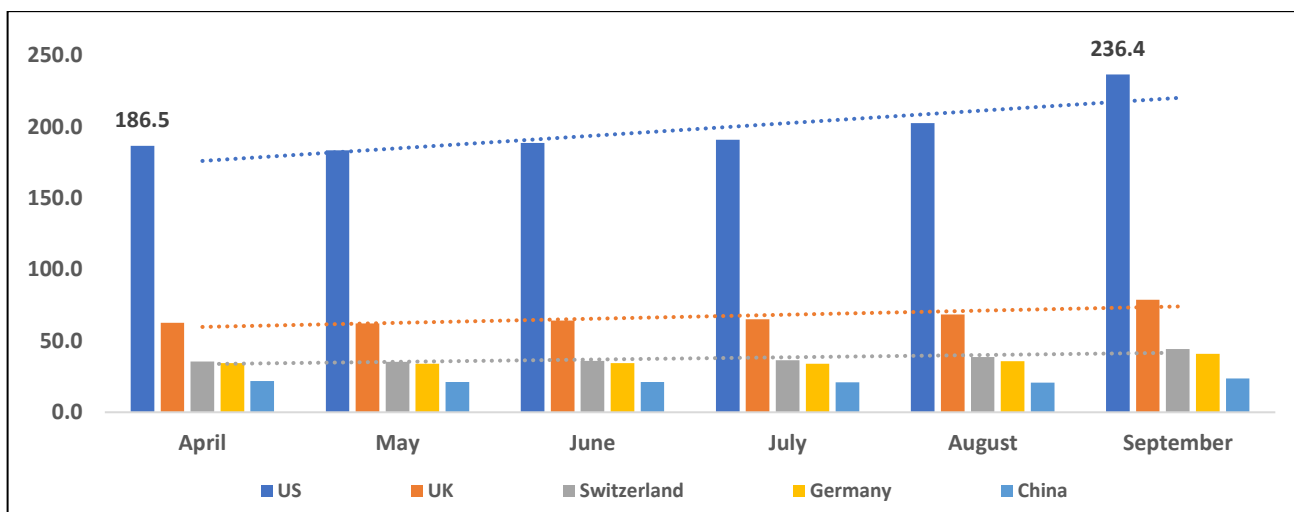
- A major highlight of 2025 has been the unprecedented surge in global gold ETFs inflows. Total assets under management (AUM) of global gold ETFs had climbed to a high of US\$472 billion in September. North America region led the inflows amounting to US\$36.82 billion, followed by European funds at US\$14.13 inflows, while Asia registered inflows of US\$12.41 billion so far this year.

Fig 2: Regional Gold ETFs - Total AUM (billions)



- In North America, gold ETFs witnessed their fourth consecutive month of inflows in September, adding US\$10.60 billion during the month. Persistent trade frictions, policy uncertainty, and geopolitical risks, coupled with a weaker U.S. dollar strengthened investor appetite for gold.
- In Europe, gold ETFs registered their fifth consecutive month of inflows, adding US\$4.41 billion in September. The UK, Switzerland, and Germany were the leading contributors, with the strong rally in gold prices serving as a key catalyst for demand. The European Central Bank (ECB) and the Bank of England (BoE) maintained their policy rates, while inflation remained elevated, pushing real yields lower and amplifying policy uncertainty. These conditions have heightened investor interest in gold as a protection against declining purchasing power and as a momentum-driven asset during periods of economic fragility.
- Asia also demonstrated notable strength, with gold ETF inflows totalling US\$2.12 billion in September, led by India, which alone accounted for US\$902 million. India has now become the world's seventh-largest gold ETF market, surpassing countries such as Japan, Australia, and Canada. By September, India's total gold ETF assets under management had reached US\$10 billion.

Fig 3: Top 5 countries by Total AUM of Gold ETFs (in billions)



Conclusion

Amidst ongoing global uncertainty, gold's relevance as both a monetary and investment asset is set to remain intact. The remarkable rise in ETF inflows, record-high assets under management, and deepening participation across regions signify a structural shift toward electronic and institutional gold holdings. With robust ETF demand and sustained central bank purchases, gold prices are projected to remain in the range of US\$4,100–4,500 per ounce. No longer seen merely as a traditional commodity or decorative asset, gold has firmly established itself as a strategic pillar of global macro-financial stability — acting as a hedge against inflation, currency depreciation, and geopolitical risks.

Data Source: World Gold Council

Mansi Wahi

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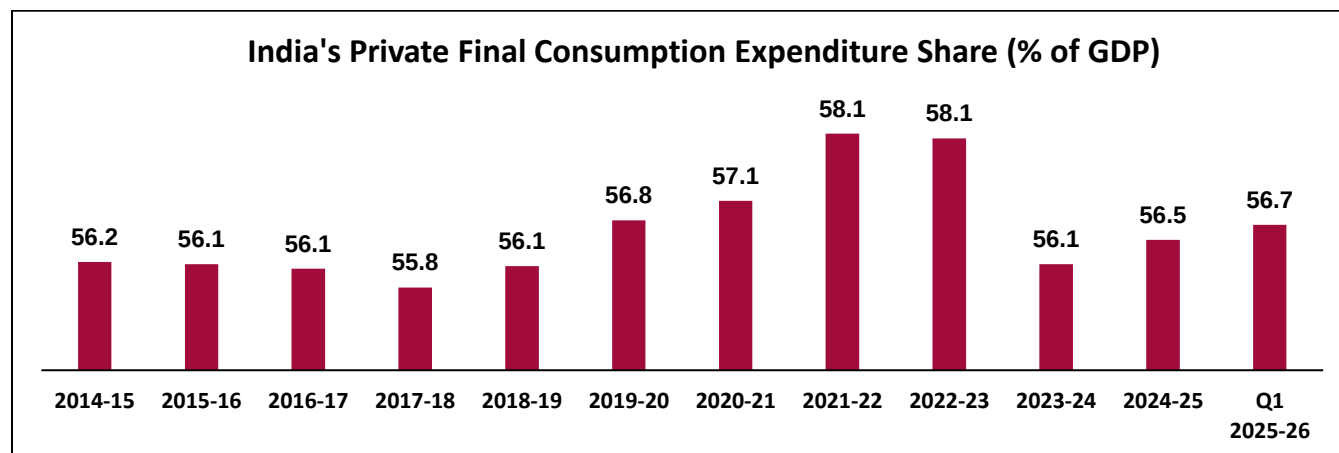


3. DOMESTIC CONSUMPTION: DRIVING INDIA'S MULTI-SECTORAL GROWTH

Consumption remains the heartbeat of India's economy, contributing nearly 57-58 percent to the country's Gross Domestic Product (GDP). It is not just a measure of household spending, but a vital force that drives investment, employment, and production cycles. However, the COVID-19 years muted this engine job insecurity, income losses, and precautionary savings subdued demand and shifted consumer behaviour towards essentials.

According to the Ministry of Statistics and Programme Implementation (MoSPI) data, the private final consumption expenditure (PFCE) had slipped to around 56.1 percent of GDP in FY24. Encouragingly, the tide has seen some reversal over the past one and half years, with PFCE rising to nearly 56.7 percent in Q1 FY26. This rebound has been underpinned by a combination of tax cuts, rationalised GST rates, stable interest rates, and cooling inflation factors that have collectively lifted household purchasing power and restored consumer confidence.

The chart illustrates the contribution of PFCE to India's GDP, highlighting a steady rise in consumption share until FY22, stabilization in FY23, a decline in FY24, and a subsequent recovery thereafter.



Source – MoSPI

Broad Based Revival Across Sectors

The most visible evidence of the recovery lies in the automobile industry, a reliable bellwether for consumer sentiment. Data from the Society of Indian Automobile Manufacturers (SIAM, Sept 2025) shows total domestic vehicle sales at 2.56 million units in September 2025 a 5.6 percent year-on-year rise. Passenger vehicles saw robust demand from urban buyers, while two-wheelers, a key rural indicator, grew 6.7 percent. Commercial vehicles registered over 8 percent growth, reflecting improved logistics and infrastructure activity. This momentum has rippled into ancillary segments auto components, tyres, lubricants, and financing creating a multiplier effect that links consumption directly with industrial output.

Fast-moving consumer goods (FMCG) have continued this trend of resilience. NielsenIQ and CMIE data for mid-2025 indicate a 7 percent annual increase in FMCG sales, led by packaged foods, beverages, and personal care products.

Urban centres remain growth anchors, but rural markets too are gaining traction following healthy monsoons and higher government spending. Moderating inflation has revived real purchasing power, while corporates have adapted by introducing smaller value-based packs to capture price-sensitive demand.

Consumer durables an essential barometer of discretionary spending have also staged a strong comeback. According to CMIE's Retail Tracker (2025), durable goods sales grew by 6.5 percent in the second quarter of FY26. Affordable finance options, aggressive festive promotions, and digital penetration have expanded access to middle-income households across urban and semi-urban India. The convergence of convenience, technology, and affordability is thus defining the new phase of consumption growth.

Real estate and housing too have turned the corner. Knight Frank India (2025) reported a 9 percent year-on-year rise in residential sales during the first half of FY26, supported by low mortgage rates and improved income stability. The Reserve Bank of India's data show a parallel increase in housing loan disbursements, underscoring sustained appetite for home ownership. This revival has spurred activity in related industries cement, steel, furnishings, and construction—providing employment and creating wealth effects for households.

The services sector, long a pillar of India's GDP, has witnessed a resurgence led by travel, hospitality, and e-commerce. Redseer and ICRA (2025) report a 12 percent rise in domestic travel bookings and hotel occupancy levels above 70 percent in key metros during Q2 FY26. E-commerce platforms, meanwhile, recorded 10 percent growth in gross merchandise value (GMV), fuelled by expanding digital adoption in Tier-II and Tier-III cities. This signals that consumption is not confined to metropolitan India; smaller towns are now driving a significant share of incremental demand.

Rural India has played a vital complementary role. Strong agricultural output, higher minimum support prices (MSPs), and improved rural wages have raised disposable incomes. Demand for two-wheelers, entry-level appliances, and FMCG goods has grown steadily, supported by deeper financial inclusion and increased access to digital payments. The rural market is no longer a laggard—it is evolving into a parallel consumption engine, reinforcing domestic demand even when global conditions remain uncertain

Conclusion

India's domestic consumption revival today is more than a cyclical rebound it represents structural resilience across sectors. The coordinated effect of income-tax reliefs, GST rationalization, and targeted government spending has catalyzed the initial turnaround, but its durability stems from rising household incomes, better credit access, and a broad-based recovery that cuts across geography and income levels. With private consumption's share of GDP inching higher each quarter, India's growth narrative remains firmly anchored in its domestic market.

Going forward, maintaining stable prices, supporting rural incomes, and continuing fiscal measures that enhance disposable income will be key to sustaining momentum. If these trends persist, India's consumption-driven growth model will not only remain resilient amid global volatility but also ensure that the path of expansion stays inclusive, balanced, and deeply rooted in domestic demand.

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4. HIGHLIGHTS OF THE RBI'S MONETARY POLICY ANNOUNCED ON 01.10.2025

A. Policy Rate / Reserve Ratio	Existing	Now	Change
Policy Repo Rate	5.50%	5.50%	No Change
Standing Deposit Facility (SDF)	5.25%	5.25%	
MSF Rate	5.75%	5.75%	
Bank Rate	5.75%	5.75%	
B. Reserve Ratios			
Cash Reserve Ratio (CRR)	3.75%	3.75% (will reduce to 3.00% in phased manner with 25 bps cut each on October 4, November 1 and November 29))	No Change
Statutory Liquidity Ratio (SLR)	18.0%	18.0%	

a. Policy Rates and Stance: Reserve Bank of India's (RBI) monetary policy commission (MPC) kept **the repo rate unchanged unanimously at 5.50%** in its fourth Bi-monthly monetary policy for the financial year 2025-26.

b. Stance: RBI's MPC also decided to retain its stance unchanged at **'neutral'**.

c. Rationale: Against the backdrop of evolving domestic and global conditions, the MPC noted that the impact of front-loaded monetary policy actions and recent fiscal measures is still unfolding. The Committee therefore considered it prudent to pause and allow the transmission of earlier actions before charting the next course.

d. Also while the inflation outlook has turned more benign, with headline and core inflation expected to remain broadly aligned with the target despite base effects, the Committee judged it necessary to await greater clarity before easing further.

e. On growth, the outlook remains resilient, supported by a favorable monsoon, lower inflation, monetary easing, and GST reforms, though external headwinds and tariff-related uncertainties could temper momentum in the second half of the year.

i. Economy and Inflation Outlook

Economy Outlook

- **Global economy:** The global economy has displayed stronger than expected resilience supported by robust growth in the US and China. However, the outlook remains clouded because of policy uncertainties and inflationary pressures. Inflation continues to stay above target in some advanced economies keeping central banks under pressure. Financial markets have shown volatility with the US dollar strengthening after upward revision in US growth, treasury yields hardened in response to shifting policy rate expectations, while equity markets have stayed buoyant across both advanced and emerging economies.
- **Domestic Economy:** On the domestic front, the Indian economy recorded robust GDP growth of 7.8% in Q1:2025-26, led by strong private consumption and investment. On the supply side, a revival in manufacturing and continued strength in the services sector contributed to a 7.6% growth in Gross Value Added (GVA), with high-frequency indicators signaling resilient economic activity.
 - Rural demand is buoyant due to good monsoon and healthy agricultural activity, while urban consumption is gradually recovering. Investment activity is holding firm, supported by construction, although capital goods production and imports have moderated.
 - Going forward, above-normal monsoon, higher kharif sowing, favorable reservoir levels, and GST rate rationalization are expected to strengthen domestic demand. Rising capacity utilization, conducive financial conditions, and structural reforms will further support investment. At the same time, global trade and tariff uncertainties, geopolitical tensions, and financial market volatility pose downside risks.

Real GDP projections have been revised as under:

RBI's GDP Projections	Q2 FY'26	Q3 FY'26	Q4 FY'26	FY'26	Q1 FY'27
06.08.2025	6.7%	6.6%	6.3%	6.5%	6.6%
01.10.2025	7.0%↑	6.4%↓	6.2%↓	6.8%↑	6.4%↓

Inflation Outlook

- Inflation has remained subdued, staying well below 4 percent, primarily due to benign food prices and favorable base effects. The Consumer Price Index (CPI) declined to 1.6% in July 2025 before rising modestly to 2.1% in August 2025.

- Fuel group inflation remained stable, fluctuating within a narrow band of 2.4% to 2.7% between June and August. Core inflation was largely contained at 4.2% in August, and when excluding precious metals, it stood at 3.0% for the same month.
- Looking ahead, favorable monsoon, higher kharif sowing, adequate reservoirs and buffer food stocks are expected to keep food prices soft. The recent GST rate cuts will also lower prices of several items in CPI basket. However, large adverse base effects may push inflation higher in Q4.

RBI Inflation Projections	Q2 FY'26	Q3 FY'26	Q4 FY'26	FY'26	Q1 FY'27
06.08.2025	2.1%	3.1%	4.4%	3.1%	4.9%
01.10.2025	1.8%↓	1.8%↓	4.0%↓	2.6%↓	4.5%↓

The projections for Inflation have been revised downwards with risks evenly balanced:

ii. External Sector

- India's current account deficit (CAD) moderated to US\$ 2.4 billion (0.2% of GDP) in Q1:2025-26 as compared with US\$ 8.6 billion (0.9 per cent of GDP) in Q1:2024-25 aided by higher net services exports and strong remittances inflows, despite a higher merchandise trade deficit.
- Services exports, led by software and business services, along with remittances are expected to keep the CAD sustainable during the year.
- On the financing side, net FDI reached a 38-month high in July 2025, while net FPI recorded outflows of US\$ 3.9 billion so far. **Foreign exchange reserves stood at US\$ 700.2 billion, covering over 11 months of imports.**
- Despite robust fundamentals, the INR has experienced depreciation and bouts of volatility amid global uncertainties. Overall, the external sector remains resilient and well-positioned to meet external obligations comfortably.

iii. Liquidity and Financial Market Conditions

- System liquidity has remained comfortable, with an average daily LAF surplus of ₹2.1 lakh crore since the last MPC meeting. The drawdown of government cash balances and the remaining 75 bps CRR cut during October–November are expected to support near-term liquidity. The RBI will continue active two-way operations to anchor short-term rates.

- Money market rates have stayed stable under these conditions. Monetary transmission has been broad-based: following a 100 bps repo rate cut, the weighted average lending rate (WALR) on fresh rupee loans declined by 58 bps.

- **On the deposit side the weighted average domestic term deposit rate (WADTDR) WADTDR on fresh deposits fell by 106 bps.** Rates on outstanding loans and deposits also softened. Going forward, adequate liquidity and the remaining CRR cuts will further support effective transmission of policy rates.

iv. Financial Stability

- System-level indicators for Scheduled Commercial Banks (SCBs) — including capital adequacy, liquidity, asset quality, and profitability—remain healthy. Non-Banking Financial Companies (NBFCs) also show sound financials, with adequate capital and improved GNPA ratios.

- Bank credit growth, while lower than last year, continues to support economic activity. Importantly, the overall flow of financial resources to the economy is robust, with non-bank sources contributing ₹2.66 lakh crore in 2025-26 so far, more than offsetting a ₹0.48 lakh crore decline in non-food bank credit, ensuring continued support to productive sectors.

v. Additional Measures

I. Regulation

a. Strengthening the resilience and competitiveness of the banking sector

- **Expected Credit Loss (ECL) framework for provisioning:** The key proposal is to replace the current incurred loss framework with an Expected Credit Loss (ECL) approach for SCBs and All India Financial Institutions from April 2027, with a glide path till 2031 to ensure smooth implementation subject to a prudential floor, while retaining existing asset classification norms.

- **Basel III Guidelines:** Revised Basel III capital adequacy norms for commercial banks to take effect from April 2027, with reduced risk weights for MSMEs and residential real estate. To strengthen the banking sector and align with global standards, the RBI will soon issue draft guidelines for implementing the revised Basel framework on the Standardized Approach for Credit Risk.

- **Forms of Business and Prudential Regulation for Investments:** The RBI has finalized draft guidelines on forms of business and investment for banks, removing the proposed restriction on overlapping businesses between banks and their group entities.

- **Introduction of Risk Based Premium Framework for Deposit Insurance in India:** The Deposit Insurance and Credit Guarantee Corporation (DICGC) plans to introduce a Risk Based Premium model for deposit insurance, replacing the current flat rate system. This new approach will allow sound banks to pay lower premiums, promoting better risk management.

b. Improving flow of credit

- **Review of Capital Market Exposures Guidelines for banks:** The RBI proposes to rationalize and broaden guidelines for capital market exposures by banks and other regulated entities. Key changes include enabling banks to finance acquisitions by Indian corporates, increasing limits for lending against shares (from Rs. 20 lakh to Rs. 1 crore and for IPO financing from Rs. 10 lakh to Rs. 25 lakh per person), REITs, and InvITs, removing the regulatory ceiling on lending against listed debt securities.

- **Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism – Withdrawal:** The RBI proposes to withdraw the 2016 guidelines on enhancing credit supply for large borrowers, as the Large Exposures Framework now addresses concentration risk at the individual bank level. Any system-level concentration risk will be managed through specific macroprudential tools as needed.

- **Risk Weights on infrastructure lending by NBFCs:** The RBI plans to introduce a principle-based framework wherein lower risk weights will be applicable for NBFC lending to operational, high quality infrastructure projects. This will help to promote better risk assessment and capital allocation.

- **Discussion Paper on Licensing Framework for new Urban Co-operative Banks (UCBs):** It will be issued shortly, following over two decades of pause and recent positive developments in the sector.

c. Promoting Ease of Doing Business

- **Consolidation of Regulatory Instructions:** The Reserve Bank is consolidating subject wise its regulatory instructions across 11 types of regulated entities.

- **Review of Restrictions on Transaction Accounts:** It is proposed to ease certain restrictions on the operation of Current Accounts, Cash Credit Accounts, and Overdraft Accounts, providing greater flexibility to banks — especially for borrowers regulated by a financial sector regulator.

II. Foreign Exchange Management

- **Foreign Currency accounts by Indian exporters - extension of time period for repatriation from accounts held in IFSC in India:** The repatriation period for export proceeds in foreign currency accounts held in IFSCs will be extended from one month to three months, aiming to encourage exporters to use IFSC Banking Units and boost forex liquidity in IFSCs.

- **Merchanting Trade Transactions (MTT):** The period for forex outlay under Merchanting Trade Transactions (MTT) will be increased from four months to six months, to help Indian merchants manage supply chain disruptions and complete transactions efficiently.

- **Relaxation in compliance requirements for Small Value Exporters/Importers:** The RBI will simplify reconciliation in EDPMS/IDPMS by allowing AD banks to close bills up to ₹10 lakh

per bill based on a declaration from the exporter or importer, reducing compliance burden and enhancing ease of doing business.

d. Simplifying foreign exchange management

- **Review of External Commercial Borrowing Framework:** The RBI plans to introduce a revised ECB framework that expands eligible borrowers and lenders, rationalizes borrowing limits and maturity restrictions, removes cost caps, reviews end-use restrictions, and simplifies reporting requirements.

- **Rationalization of regulations for Establishment in India of a Branch Office or a Liaison Office or a Project Office or any other place of business:** The RBI has comprehensively reviewed and revised its 2016 regulations for establishing offices or places of business in India, making them principle-driven, delegating more powers to AD banks, and reducing compliance burden to further enhance ease of doing business.

e. Enhancing consumer satisfaction

- **Review of instructions on Basic Savings Bank Deposit (BSBD) Account:** The range of services available to Basic Savings Bank Deposit account holders —without any minimum balance charges — is proposed to be expanded to include digital banking services such as mobile and internet banking.

III. Consumer Protection

- **Measures for strengthening the Internal Ombudsman mechanism in REs:** To strengthen the Internal Ombudsman (IO) mechanism in regulated entities it is proposed to grant IOs compensation powers, direct access to complainants, and introduce a two-tiered grievance redressal structure within entities.

- **Review of the Reserve Bank – Integrated Ombudsman Scheme, 2021:** The Integrated Ombudsman Scheme will be expanded to include State Co-operative Banks and District Central Cooperative Banks, enabling their customers to access the RBI Ombudsman mechanism. Additionally, the Scheme is being comprehensively reviewed to enhance clarity, simplify procedures, and reduce timelines for more effective and timely grievance redressal.

IV. Financial Markets

f. Internationalizing Indian Rupee

- **Lending in Indian Rupees (INR) by Authorised Dealer (AD) banks to Persons Resident Outside India:** To promote cross-border trade settlement in INR and local currencies, the RBI will allow AD banks in India and their overseas branches to lend in INR to residents and banks in Bhutan, Nepal, and Sri Lanka, making INR liquidity more accessible in these countries.

- **Additional Reference Rates to be published by Financial Benchmarks India Limited:** The RBI has proposed that Financial Benchmarks India Limited (FBIL) expand its published reference rates to include select currencies of India's major trading partners, aiming to deepen the

onshore forex market and enable banks to quote directly in more currency pairs, thereby improving trade efficiency.

- **Expanding the bouquet of investments for Special Rupee Vostro Accounts (SRVA) holders:** The RBI will now allow balances in Special Rupee Vostro Accounts (SRVA) to be invested in corporate bonds and commercial papers, expanding investment options beyond government securities and treasury bills.

vi. Our View:

- ✓ The RBI's MPC decision to keep the repo rate and stance unchanged at 5.50% and neutral, respectively was in line with our expectations amid strong GDP growth numbers for Q1 'FY26 and benign inflation. RBI has adopted a wait and watch approach to gain greater clarity on the impact of GST rationalization and additional tariffs announced by the US.
- ✓ The full transmission of the front-loaded 100 bps repo rate cut is still underway, while system liquidity remains comfortable with an average LAF surplus of ₹2.1 lakh crore. Furthermore, the upcoming 75 bps CRR cut scheduled for October–November 2025, along with continued government spending, is expected to further support liquidity.
- ✓ Inflation remain benign, expected to stay broadly aligned with the target, supported by soft food prices, GST rate rationalization, and favorable monsoon conditions.
- ✓ On the regulatory front, RBI proposes ECL provisioning, revised Basel III capital norms, and risk-based deposit insurance, along with reforms to improve credit flow and simplify banking operations.
- ✓ RBI will promote cross-border trade in INR by allowing AD banks to lend in INR to Bhutan, Nepal, and Sri Lanka, expanding reference rates and SRVA investment options.
- ✓ These measures announced by the RBI will lower capital requirements of the Banks while ensuring credit flow to crucial sectors of the economy.

5. GIST OF RBI SPEECH: DRIVING INCLUSIVE AND SUSTAINABLE GROWTH THROUGH DIGITAL PUBLIC INFRASTRUCTURE AND FINTECH

*Keynote Address by Shri Sanjay Malhotra, Governor, Reserve Bank of India at the Global Fintech Fest
2025, October 8, 2025, Mumbai*

Digital Public Infrastructure (DPI) as the Engine for India's Growth Story

- DPI underpins India's digital transformation over the last decade or so. It rests on three layers, that have played critical roles in addressing barriers to inclusion and enabling innovation at scale.
- One, the identity layer, anchored by Aadhaar with more than 1.4 billion enrolments, has made it possible to authenticate identity instantly. It has also enabled millions to open bank accounts and participate in the formal financial system through electronic KYC. It is at the core of Direct Benefit Transfer (DBT) for government benefits.
- Two, the payments layer which translates identity into action. Aadhaar Enabled Payment System (AePS) has enabled banking through micro-ATMs and facilitated access even in remote locations. Unified Payments Interface (UPI) has allowed close to 490 million unique users to make nearly 20 billion transactions every month, almost half of the global real-time payment volumes.
- Three, the data layer has reshaped how financial services are delivered. DigiLocker with over 590 million users, has enabled citizens to store and share documents securely in a digital form.

FinTech complementing the DPI

- Complimenting these three layers of DPI, we have a vibrant FinTech ecosystem. The foundation of DPI allows FinTechs to set up quickly, scale rapidly, and deliver targeted solutions to not only address current but also future challenges.
- India is today home to over 10,000 FinTech companies, with cumulative investments exceeding USD 40 billion over the past decade.
- The sector's strength include a large and deep pool of skilled technology talent, a vibrant financial ecosystem spanning payments, lending, insurance, pensions, wealth management, etc. which is supporting FinTech innovation, and enabling policies and regulatory frameworks which are facilitating FinTechs.
- RBI has been proactive in engaging with the FinTech sector, as is borne out by nearly 500 interactions with FinTech entities during FY 2024-25 alone.
- The Reserve Bank has also established a FinTech Repository to collect key information on activities, products, and technologies, enabling more informed and evidence-based policymaking for the FinTech sector.

- Recognizing the diversity in the FinTech Sector, RBI has granted recognition to a Self-Regulatory Organisation (SRO) in the FinTech Sector to enable FinTechs which are not directly regulated to operate within a calibrated framework with baseline governance standards and best practices developed by the industry itself.

The Next Phase of India's Digital Journey

- Account Aggregator (AA) enables DPI for data integration across various data sources to widen and deepen financial inclusion. This ecosystem has seen notable progress with 17 AAs, 650 Financial Information Users (FIUs), 150 Financial Information Providers (FIPs), 160 million accounts being served, and 3.66 billion data requests from FIUs processed by AAs.
- The Unified Lending Interface (ULI) is another landmark step in data aggregation. Since its launch in August 2023 till October 03, 2025, the ULI pilot has now expanded to 120 data sources/services, 58 lenders including banks, NBFCs, cooperative banks with 3.2 million loans sanctioned and ₹1.75 trillion in lending.
- India's Central Bank Digital Currency (CBDC), the Digital Rupee (e₹) represents a critical new rail in the DPI architecture.
- Since its launch in December 2022, the retail e₹ pilot today has 19 banks and 7 million users, enabling person-to-person (P2P) as well as person-to-merchant (P2M) transactions. Interoperability with UPI also enables wider adoption of the e₹ without compromising user convenience.
- Asset tokenisation offers new possibilities for Indian financial markets in expanding access, improving transparency, and enhancing settlement efficiency through smart contracts.
- Artificial Intelligence holds the potential to fundamentally enhance the next generation of DPI in complementary ways. Eg. Conversational payments can simplify transactions for users with low digital literacy.
- The rapid expansion of digital finance has also created new challenges such as digital frauds and cyber threats.
- The Reserve Bank has instituted several customer protection measures, such as two-factor authentication (2FA), tokenisation of card on file, and providing customers with the control to switch off transactions to secure digital transactions.
- MuleHunter.ai, developed by the Reserve Bank Innovation Hub has been scaled up from about 5 banks at the beginning of this year to 21 banks.

Conclusion

- By building on India's unique strengths of DPI, a vibrant ecosystem, a digitally connected population, enabling policies, and tech talent, FinTechs can bridge digital divides, foster healthy competition, and drive innovation.

6. CLASSROOM : MUHURAT TRADING – THE ECONOMICS OF AUSPICIOUS BEGINNINGS

Each year, as Diwali lights up homes across India, the country's financial markets also join the celebration of prosperity. For one special hour, the stock exchanges open their doors for Muhurat Trading, a practice that blends tradition with modern finance. What began as a symbolic ritual among trading communities has now become a nationally recognised event, where retail investors, institutions, and even first-time participants place trades to mark the start of a new Samvat year.

The significance of Muhurat Trading lies less in numbers and more in sentiment. For many, it is not about chasing returns but about invoking prosperity, continuity, and optimism. Over time, however, this symbolic act has also acquired a real economic dimension.

A Tradition Rooted in Culture, for centuries, business families in Western India considered Diwali the start of their financial year. New account books (*Chopda Poojan*) were opened, and token investments were made to seek the blessings of Goddess Lakshmi. With the rise of organised exchanges, this practice was formalised into a one-hour trading window. Today, both BSE and NSE conduct Muhurat sessions, making it a pan-India financial ritual. For many households, buying even a single share during this session is about participating in a tradition of prosperity.

Market Behaviour and Anecdotes, historically, the Nifty 50 has ended in the green on most Muhurat sessions (10 out of 12 times from 2014 to 2025), reflecting the optimism of the occasion. The session often attracts new investors, making it a gateway for households to engage with equity markets in a culturally familiar way. As the participation in India's securities markets remains limited with only 9.5% or roughly 32.1 million households, actively participate in the markets as per the SEBI Investor Survey 2025. Against this backdrop, Muhurat Trading takes on added significance: it not only sustains tradition but also serves as an entry point for many first-time investors. Even large institutions participate, not for profit, but to symbolically mark their presence in the new Samvat year.

The Economics of Sentiment, it highlights a deeper truth about markets that sentiment matters. Investors are not always rational, beliefs, traditions, and collective optimism often shape decisions (Behavioural Finance). The sense of prosperity during Diwali, reinforced by symbolic gains, spills over into higher consumption and credit demand (Festive Multiplier). Such rituals also strengthen the perception of markets as institutions embedded in society and culture, not just transactional spaces (Trust and Continuity). The markets are more than policy and regulation they are social institutions shaped by traditions and psychology. By linking finance with festivals, Muhurat Trading lowers barriers for new investors and makes markets more inclusive. Even symbolic acts can influence expectations, confidence, and spending, creating ripple effects across the economy.

A Uniquely Indian Phenomenon, in a world dominated by algorithms and high-frequency trades, Muhurat Trading stands out as a distinctly Indian practice. It reminds us that finance is deeply intertwined with culture and society. Also, for banks, it underscores the importance of recognising the emotional side of money. For investors, it is a moment to begin the year with optimism. And for the economy, it is a small yet powerful example of how tradition and modernity can coexist in shaping financial behaviour.

Kartik Khandelwal
Officer (Economics)
SMEAD, Head Office

7. GIST OF RBI CIRCULARS

Date of the circular	Oct 3, 2025
Ref No.	RBI/2025-26/91
Subject	International Trade Settlement in Indian Rupees (INR)

The Reserve Bank of India (RBI) has issued a circular permitting Authorised Dealer Category-I banks (AD banks) to expand the investment options available for surplus balances held in Special Rupee Vostro Accounts. Previously, as per Circular No.10 dated July 11, 2022, these balances could be invested in government treasury bills and securities under FEMA guidelines. Now, in light of Circular No.13 dated October 3, 2025, AD banks may also allow investments in non-convertible debentures, bonds, and commercial papers issued by Indian companies, subject to prescribed limits and regulations. These revised instructions are effective immediately, and AD banks are advised to inform their clients accordingly. The directions have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999, and are without prejudice to any other legal approvals required.

Date of the circular	Oct 1, 2025
Ref No.	RBI/2025-26/88
Subject	Merchanting Trade Transactions (MTT) – Review of time period for outlay of foreign exchange

The Reserve Bank of India (RBI) has issued a circular revising the guidelines for merchanting trade transactions (MTT) handled by Authorised Dealer Category-I banks (AD banks). As per the earlier Circular No.20 dated January 23, 2020, the entire MTT was to be completed within nine months, with no foreign exchange outlay beyond four months. In a recent review, RBI has now extended the permissible time period for foreign exchange outlay from four to six months to help merchanting traders manage their transactions more efficiently. All other provisions of the earlier circular remain unchanged. This revised instruction is effective immediately, and AD banks are advised to inform their clients accordingly. The directions have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999, and are subject to any other applicable legal approvals.

Date of the circular	Sep 29, 2025
Ref No.	RBI/2025-26/85 DOR.CAP.REC.No.53/21.01.002/2025-26
Subject	Reserve Bank of India (Basel III Capital Regulations - Perpetual Debt Instruments (PDI) in Additional Tier 1 Capital – Eligible Limit for Instruments Denominated in Foreign Currency/Rupee Denominated Bonds Overseas) Directions, 2025

The Reserve Bank of India (RBI) has issued revised directions regarding the eligible limit for Perpetual Debt Instruments (PDIs) in Additional Tier 1 (AT1) capital, specifically those denominated in foreign currency or rupee-denominated bonds overseas. Effective from October 1, 2025, PDIs issued in foreign currency or rupee-denominated bonds overseas will be eligible for inclusion in AT1 capital up to a maximum of 1.5% of Risk Weighted Assets (RWAs), based on the latest audited or limited-reviewed financial statements. These directions have been issued under Section 35A of the Banking Regulation Act, 1949, and other enabling provisions, in the public interest.

Date of the circular	Sep 26, 2025
Ref No.	RBI/2025-26/82 DoR.MCS.REC.50/01.01.003/2025-26
Subject	Reserve Bank of India (Settlement of Claims in respect of Deceased Customers of Banks) Directions, 2025

The Reserve Bank of India (RBI) has issued the “Settlement of Claims in respect of Deceased Customers of Banks” Directions, 2025, to streamline and standardize procedures for claim settlement across banks. These directions aim to minimize hardship for nominees, survivors, and legal heirs by harmonizing documentation and timelines for deposit accounts, safe deposit lockers, and articles in safe custody. Key provisions include simplified claim procedures for accounts with or without nomination/survivorship clauses, clear guidelines for handling claims involving wills or disputes, and compensation for delays in settlement. Banks are required to settle deposit-related claims within 15 calendar days of receiving all documents and pay interest or penalties for delays. The directions also cover claims related to missing persons, proprietary accounts, and foreign-issued death certificates, and mandate banks to publicize procedures and make claim forms easily accessible. These directions will be effective no later than March 31, 2026.

8. ESG UPDATE

(Banking for People, Planet & Prosperity)

1. Centre releases guidelines for Rs 2,000-crore EV charging network

- 100% subsidy for EV (Electric Vehicles) chargers on government premises (offices, hospitals, schools) with free public access. 80% subsidy on infrastructure and 70% on equipment for transport hubs like airports, railway stations, and toll plazas.
- Deployment of 72,300 public EV charging stations across cities, highways, and smart urban centres. Bharat Heavy Electricals Ltd (BHEL) appointed as Project Implementation Agency.

2. India to Add Record 43 GW Renewable Energy Capacity in 2025

- India is set to add a **record 43 GW** of renewable energy capacity in 2025, the highest ever in a single year.
- Solar power will account for the **majority of the new capacity**, followed by wind and other clean sources. This milestone brings India closer to its **500 GW non-fossil fuel target by 2030**, reinforcing its global climate commitments.
- The growth includes **grid-connected and storage-backed projects**, enhancing reliability and energy security.

3. Kerala becomes first Indian state to approve ESG policy

- The Kerala Cabinet officially approved a comprehensive state-level ESG policy aimed at guiding sustainable industrial growth.
- The policy offers incentives to businesses that adopt ESG practices and aims to attract environmentally aligned investments. Kerala may now serve as a model for subnational ESG regulation in India.

4. “Building Bridges 2025” highlights sustainable finance as a business imperative

- **Sustainable finance is now essential**, not optional—central to resilient and future-ready business models.
- Key themes included blended finance models, ESG innovation, and mobilising private capital for climate solutions.
- **Collaboration across governments, finance, and civil society** is key to accelerating global climate action and inclusive growth.

5. GAIL honoured with Prithvi Award 2025 for ESG excellence

- GAIL (India) Ltd. was honoured with Prithvi Award for outstanding contributions in ESG and sustainability.
- Initiatives cited include carbon footprint reduction, waste & water management, and community development.
- The award presentation was flagged by central ministers and industry leaders, boosting corporate ESG visibility.

6. Ethanol blended petrol leads to Marginal Mileage dip

- Ethanol blending creates a steady income source for farmers—₹40,000 crore paid this year through sugarcane & maize procurement.
- India saved over ₹1.44 lakh crore in crude import bills through ethanol substitution, adding ₹43,000 crores more this year.
- The program cut 736 lakh tonnes of CO₂, equal to planting 30 crore trees, while improving fuel efficiency and air quality. (Source: ToI,30.8.2025)

7. Australia's ASIC sues fund for ESG “greenwashing” via fossil exposure

- The Australian Securities and Investments Commission (ASIC) brought civil action against Fiducian for marketing an ESG fund while holding assets in mining & fossil companies.
- Between 2019–2024, the accused fund invested in Rio Tinto, BHP, Woodside, Newcrest contrary to ESG claims.
- ASIC alleges investor deception and failure to adjust the product disclosure statement or properly address complaints.

8. Earth in Danger- 60 % of Global Land Has Crossed Safe Ecological Limits

- A new scientific assessment reveals that 60% of the Earth's land surface now exceeds its locally defined “safe zone” for ecological stability.
- The breach signals severe strain on planetary life-support systems — carbon, nitrogen, water cycles are destabilised, biodiversity under threat.
- Scientists warn this scale of overshoot could push ecosystems into irreversible tipping points unless rapid global restoration and emission cuts occur.

9. Delhi Metro's bid to operate on clean energy

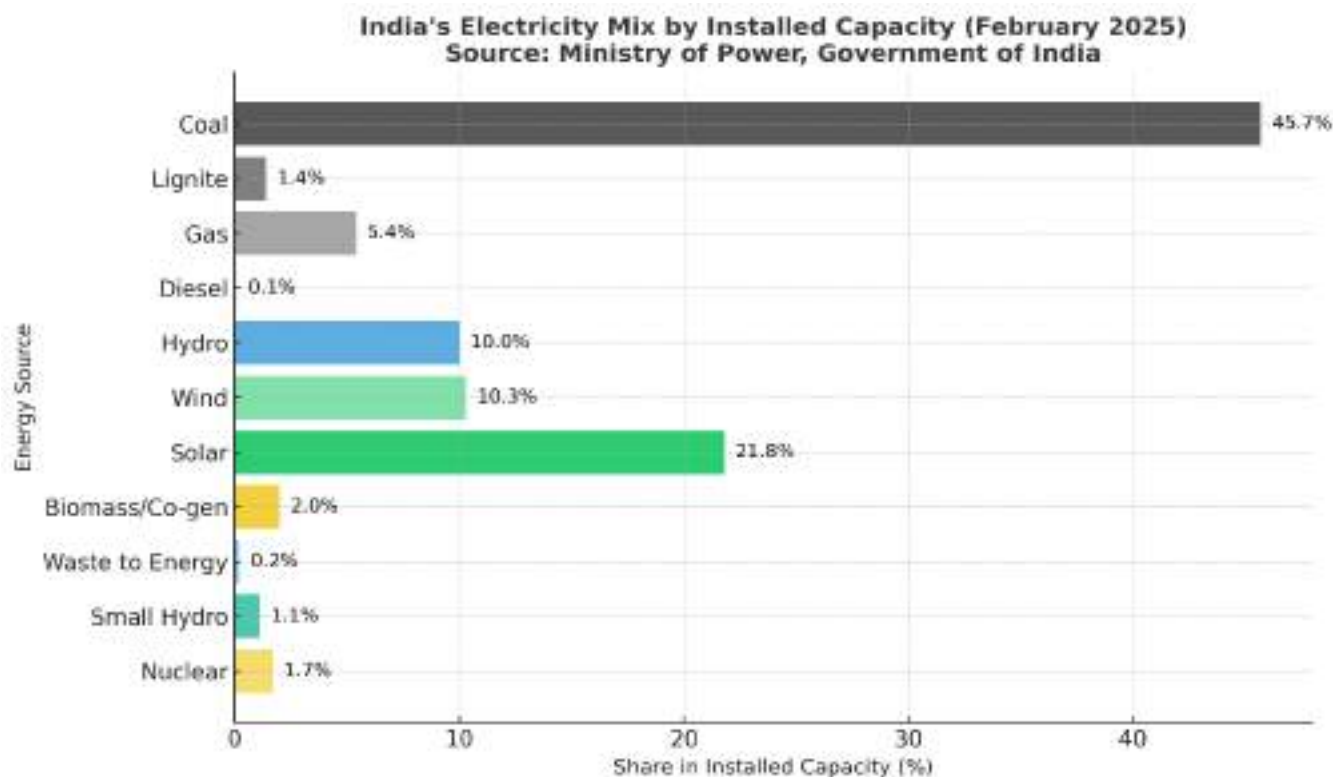
- **Delhi Metro plans to procure 500 million units of renewable energy annually** to boost clean energy usage beyond current sources.
- **A new solar power plant with battery storage** will be set up anywhere in India within 15 months under a 25-year PPA (Power Purchase Agreement).
- **Renewable share to rise from 33% to over 60%**, supporting Phase-IV expansion and reinforcing Delhi Metro's leadership in sustainable transport.

10. NTPC Converts CO₂ into Methanol

- NTPC (National Thermal Power Corporation) has achieved a major milestone by converting captured carbon dioxide into methanol, offering a cleaner fuel alternative and advancing industrial decarbonisation.
- The pilot project is located at NTPC's Vindhyachal plant in Madhya Pradesh and uses indigenous technology developed by BHEL and IIT-Delhi, highlighting India's innovation in clean energy.
- This initiative supports the circular carbon economy by transforming emissions into usable fuel, aligning with NTPC's broader sustainability and climate goals.

ESG Brain Teaser- In climate risk, floods and heatwaves are _____ risks; policy changes/tech shifts are _____ risks. (fill blanks).

Smart Green Tip - Plant one indoor air-purifying plant like Areca Palm or Snake Plant.



India is steadily moving toward a more balanced and sustainable energy mix by expanding its use of renewables, bioenergy, nuclear power, and energy storage technologies. As of February 2025, nearly half—47.4%—of the country's total installed electricity capacity comes from non-fossil fuel sources, with solar energy leading at 21.8%, followed by wind (10.3%), hydro (10%), and nuclear (1.7%).

To accelerate solar adoption, India is rolling out both grid-connected and off-grid solutions. The Solar Parks Scheme and Ultra-Mega Solar Power Projects aim to build 40,000 MW of capacity. So far, 55 solar parks have been approved across 13 states, totalling 39.9 GW, with 12.2 GW already operational by December 2024. In wind energy, Tamil Nadu, Gujarat, Maharashtra, and Karnataka remain the frontrunners in capacity and development.

Ask Yourself - Have I inspired at least one person to act for the planet?

Ans. to ESG Brain Teaser: Physical Risk, Transition Risk.

ESG Cell

SMEAD, Head Office

For any ideas or suggestions related to ESG "*Green Ideas Section*" of the Lead Parivartan Portal(LTP) or mail to esgcell@pnb.co.in.

9. CLIMATE NEWS

Government notifies first Greenhouse Gas Emission Intensity (GEI) Target Rules

In a landmark move to combat industrial greenhouse gas emissions, the Indian government has notified the first legally binding Greenhouse Gas Emission Intensity (GEI) Target Rules under the Carbon Credit Trading Scheme (CCTS), 2023. These rules apply to four carbon-intensive sectors—aluminium, cement, pulp & paper, and chlor-alkali—mandating them to reduce emissions per unit of product output, measured as tonnes of CO₂ equivalent (tCO₂e) per tonne of product.

The GEI targets are enforced by the Central Pollution Control Board (CPCB) and aim to incentivize cleaner production. Entities that emit less than their assigned targets will earn tradable carbon credit certificates issued by the Bureau of Energy Efficiency (BEE). Those exceeding their targets must either purchase additional credits or pay an environmental compensation—twice the average carbon credit price for that compliance year—thereby creating a market-based compliance mechanism.

This initiative is a significant step toward operationalizing India's domestic carbon market. It ensures transparency through mandatory registration and documentation on the Indian Carbon Market portal. Moreover, the environmental compensation collected will be reinvested into strengthening carbon market infrastructure, aligning with India's climate commitments under the Paris Agreement and supporting a sustainable industrial transition. ([thehindu.com](https://www.thehindu.com))

Three Major Indian Ports Recognised as Green Hydrogen Hubs Under National Mission

Ministry of New and Renewable Energy has formally recognised three major ports as Green Hydrogen Hubs under the National Green Hydrogen Mission. These ports are Deendayal Port Authority in Gujarat, V.O. Chidambaranar Port Authority in Tamil Nadu and Paradip Port Authority in Odisha. The Ministry said in a statement that this recognition marks a significant step towards creating an integrated hydrogen ecosystem and advancing India's transition towards clean energy.

Welcoming the development, Ports, Shipping and Waterways Minister Sarbananda Sonowal said, this recognition marks a defining moment in India's maritime journey. He added that government is working towards building an ecosystem of sustainable development that will power India towards realising the vision of becoming net zero by 2070.

The National Green Hydrogen Mission aims to position India as a global hub for the production, utilisation, and export of green hydrogen and its derivatives. The Mission promotes the development of large-scale hydrogen hubs to serve as focal points for production and consumption. ([newsonair.gov.in](https://www.newsonair.gov.in))

PSBs sanction over 5 lakh loans worth ₹10,907 crore under PM's Surya Ghar Muft Bijli Yojana

The government has said that over five lakh loan applications amounting to 10 thousand nine hundred seven crore rupees have been sanctioned by Public Sector Banks (PSBs) under the Prime Minister's Surya Ghar Muft Bijli Yojana. The Ministry of Finance said the loan has been sanctioned to provide financial support to the beneficiaries in installing rooftop solar systems.

The Ministry further said that with participation from PSBs, several enhancements have been introduced, such as the inclusion of co-applicants and the removal of capacity-based caps in the scheme to ease access to loans and expand the reach of the scheme.

The PM Surya Ghar Muft Bijli Yojana is being supported by making the credit delivery process easier and facilitating collateral-free loans at lower interest rates through PSBs. The loans are processed online through the JanSamarth Portal, ensuring a simple, digital, and quick experience for beneficiaries. (economictimes.com)

India Sets Solar, Wind Power Record in First Half of 2025

India achieved a major milestone in clean energy during the first half of 2025, with record growth in both solar and wind power. This surge helped reduce emissions from the power sector by 24 million tonnes compared to the same period in 2024. Solar power generation rose by 17 TWh—a 25% increase—raising its share in the electricity mix to 9.2%. Wind power also saw a 29% jump, contributing 5.1% to the national grid. Together, these gains outpaced the modest 1.3% rise in electricity demand, marking a clear shift toward renewable energy.

Other clean energy sources also contributed to this transition. Nuclear power generation increased by 14%, while hydropower rebounded with a 17% rise after a previous decline. These developments, combined with solar and wind growth, significantly reduced reliance on fossil fuels. Coal-based power generation dropped by 22 TWh (3.1%), and gas-based power fell by 34%, leading to a substantial cut in carbon emissions from the sector.

Despite the slow growth in electricity demand—partly due to milder weather and reduced cooling needs—India’s clean energy expansion remained strong. Even if demand had grown faster, renewable energy would still have met the increase. Looking ahead, demand is expected to rise in the second half of 2025, which may slightly boost coal use. However, the momentum in renewable energy suggests continued progress in reducing emissions and fossil fuel dependence. (economictimes.com)

India Plans ₹38,900 Crore Carbon Capture Programme to Meet Climate Goals

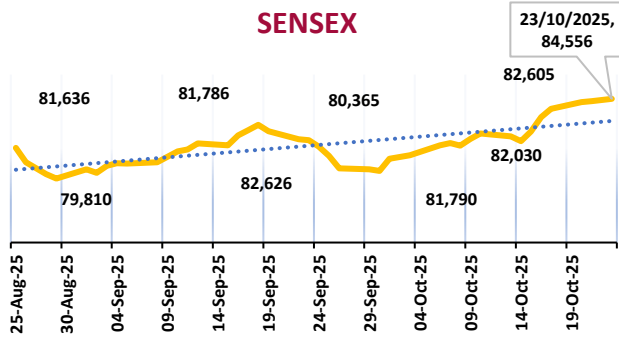
The Indian government is formulating a ₹38,900 crore Carbon Capture, Utilisation and Storage (CCUS) programme to curb industrial carbon emissions and support its long-term climate commitments. Of the total outlay, the Centre plans to contribute ₹19,500 crore, with the remaining funds expected to come from bank loans and multilateral institutions. The programme will include multiple sub-schemes, with some—such as R&D initiatives—receiving full government funding, while others may be supported up to 40–50%.

The financing structure will vary based on the scale and maturity of the projects. Semi-commercial ventures may receive full government backing, while lab-scale projects could be partially funded. CCUS technology is designed to capture carbon dioxide emissions from major industrial sources like power plants, steel, and cement factories—sectors that are central to India’s economic and energy landscape.

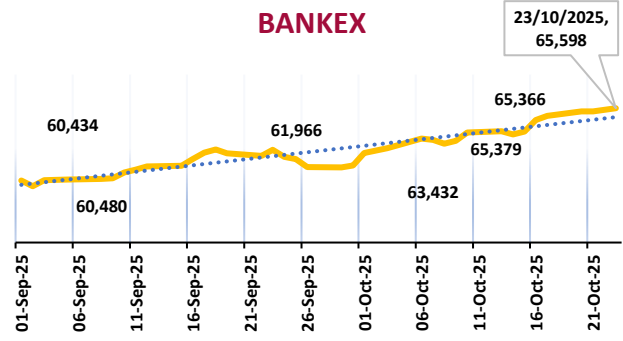
Given India’s continued reliance on coal-based power, with 97 GW of capacity planned by 2032, CCUS is seen as a critical tool in the country’s decarbonization strategy. The initiative aligns with India’s broader climate goals of halving emissions by 2050 and achieving net-zero emissions by 2070. A key component of the plan may include geological sequestration, which involves permanently storing captured carbon dioxide in underground rock formations. (economictimes.com)

10. DAILY ECONOMIC INDICATORS

SENSEX

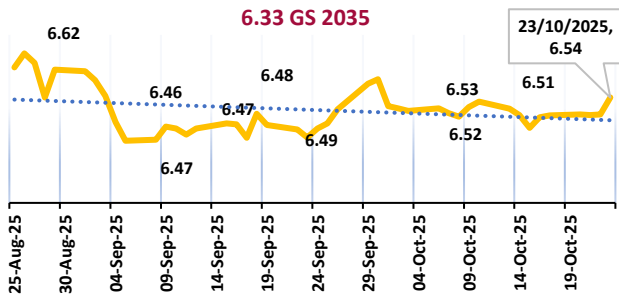


BANKEX

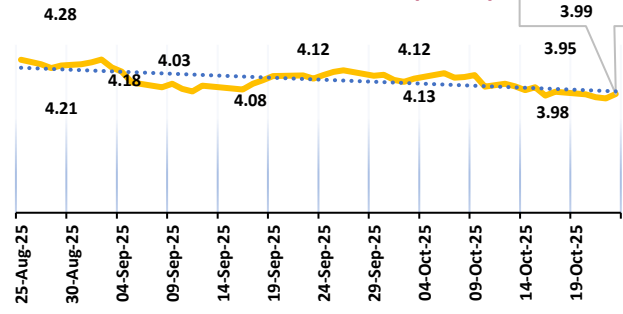


G SEC YIELD (10 Yr)

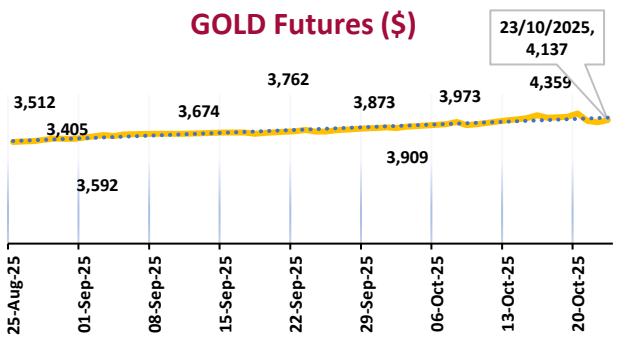
6.33 GS 2035



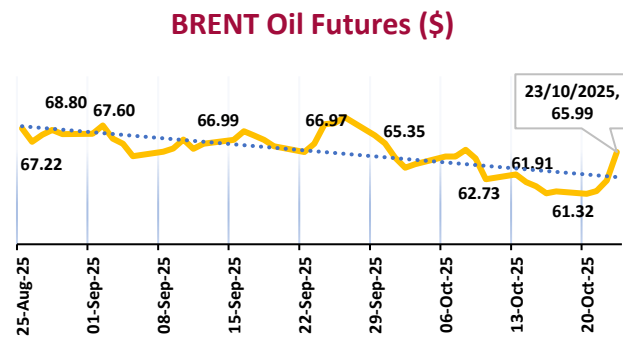
US TREASURY YIELD (10 Yr)



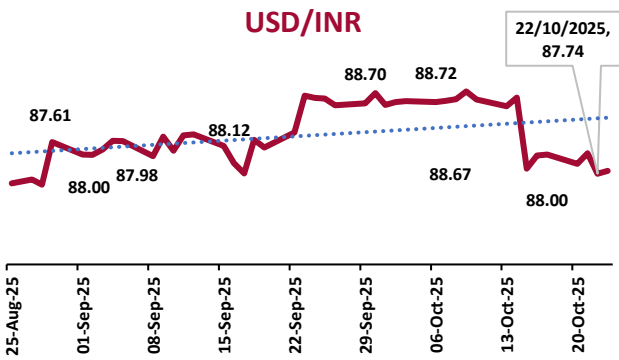
GOLD Futures (\$)



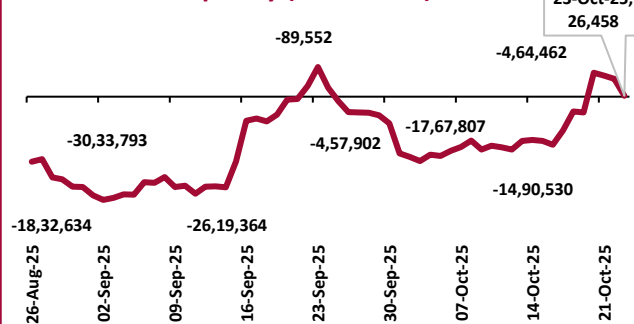
BRENT Oil Futures (\$)



USD/INR



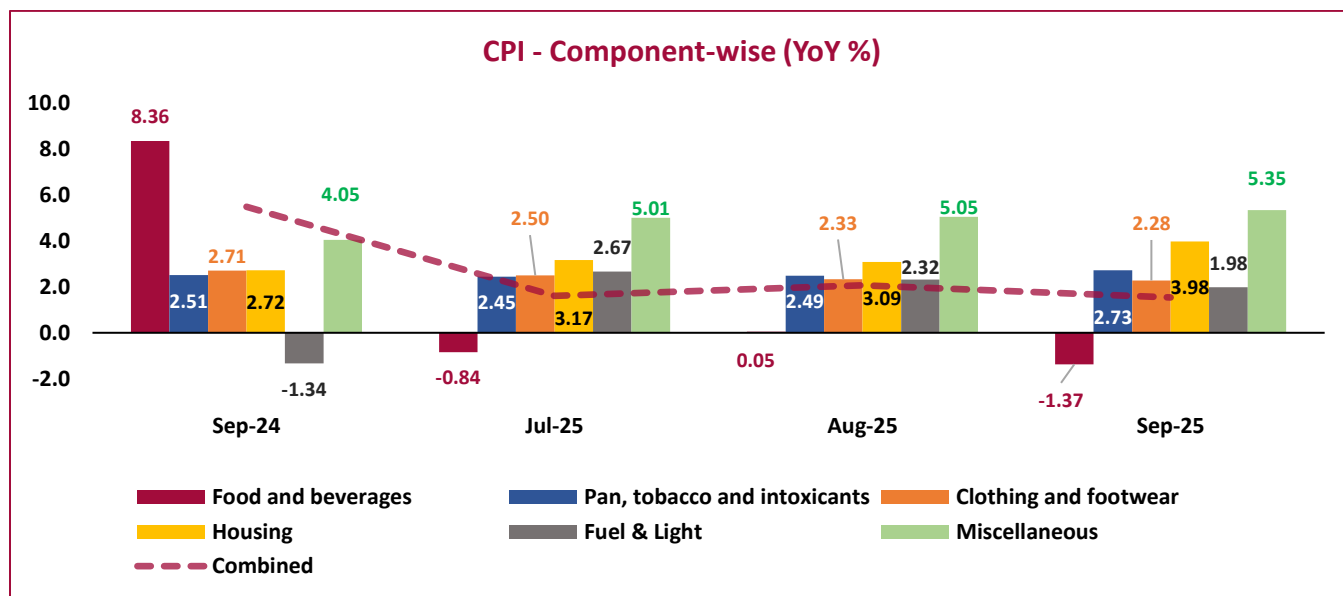
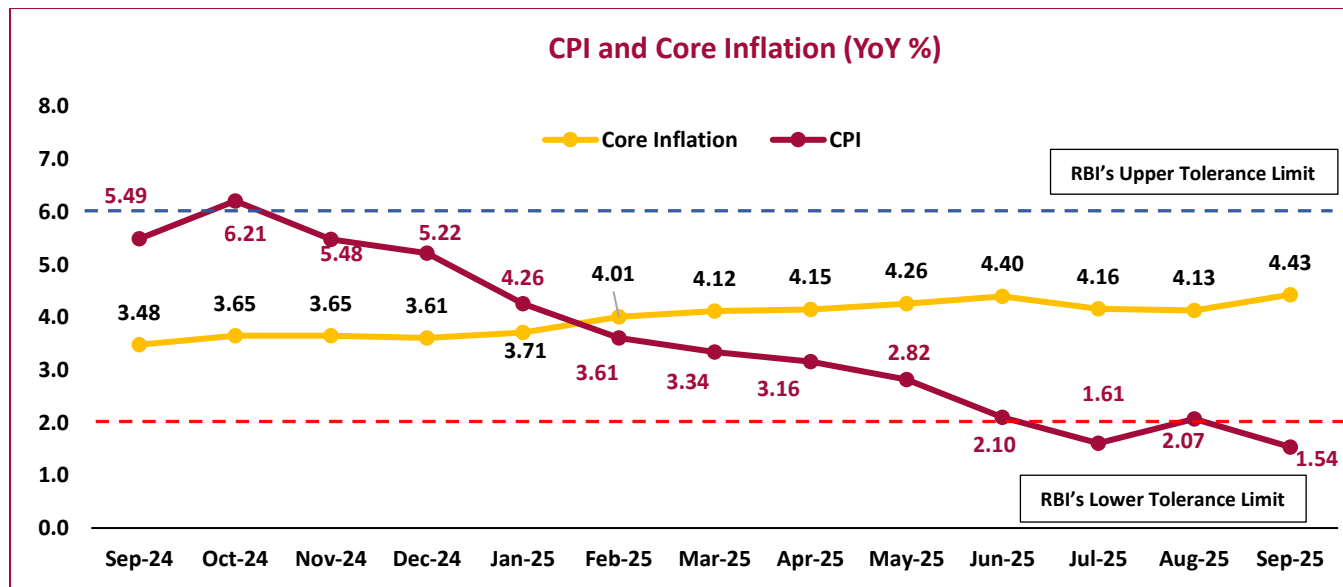
Systemic Liquidity under LAF - Net Liquidity (Rs. Million)



11. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

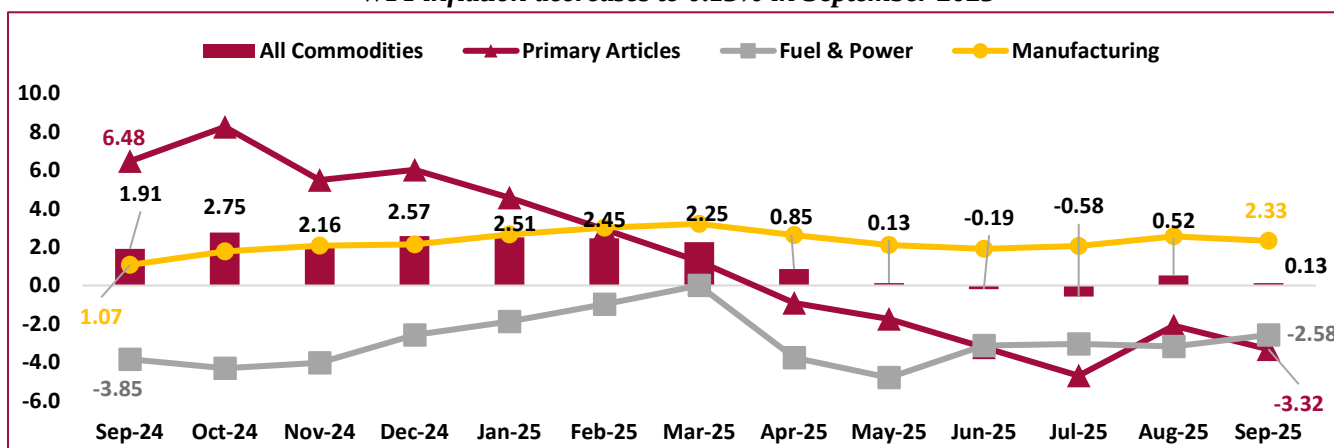
CPI eased to 1.54% in September 2025



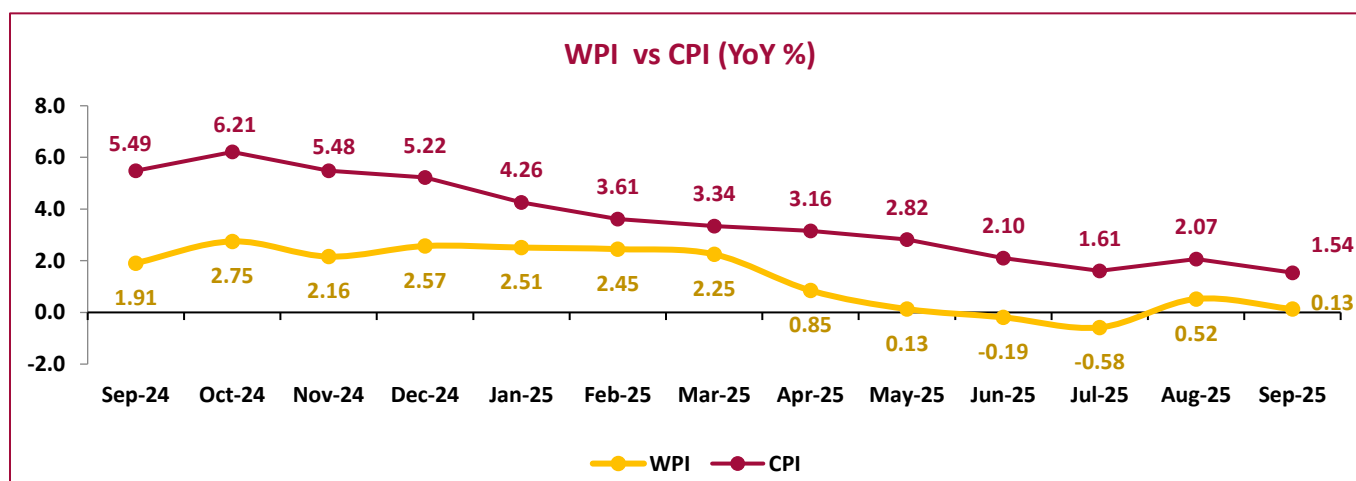
India's retail inflation eased sharply to 1.54% in September 2025, marking its lowest level since June 2017. Urban inflation stood at 2.04%, while rural inflation was recorded at 1.07% in September 2025, both reflecting decline from the previous month. Core inflation (excl. food and fuel & light) increased marginally to 4.43% in September 2025 from 4.13% in August 2025. It reflects persistent price pressures in non-food, non-fuel categories. There is a sequential uptick in inflation in Pan Tobacco & Intoxicants, Housing and Miscellaneous category. Inflation for miscellaneous items shot up to 5.35% in September 2025, due to surge in prices of gold and silver.

WHOLESALE PRICE INDEX (WPI)

WPI inflation decreases to 0.13% in September 2025



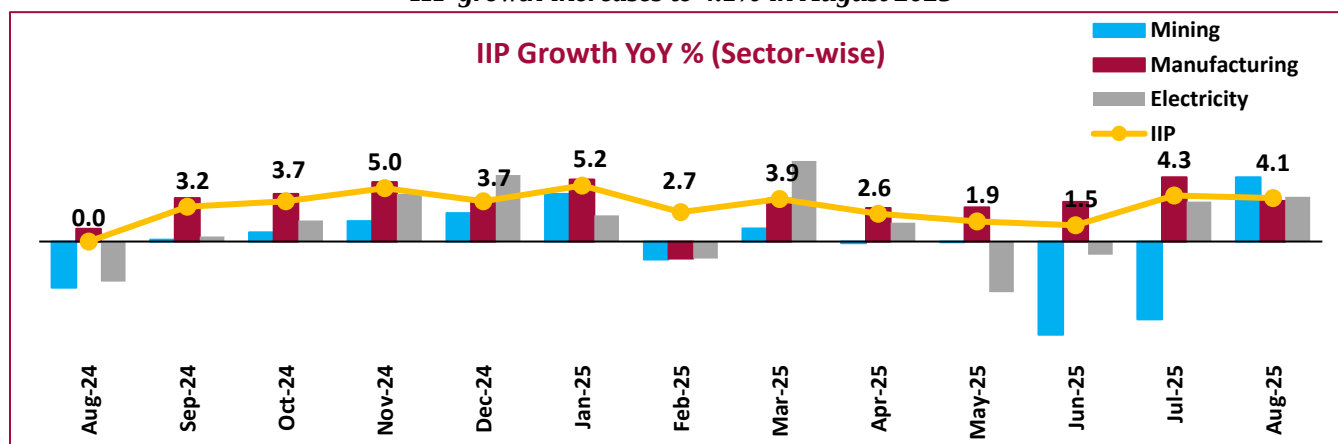
WPI Inflation YoY (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles (Part of Primary Articles)		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025
July	3.18	-4.70	1.93	-3.04	1.58	2.05	3.50	-6.29	2.10	-0.58
August	2.52	-2.10	-0.54	-3.17	1.00	2.55	3.06	-3.06	1.25	0.52
September	6.48	-3.32	-3.85	-2.58	1.07	2.33	11.48	-5.22	1.91	0.13



The wholesale inflation measured by WPI eases to 0.13 per cent (provisional) in September 2025 on a YoY basis, compared to 0.52 per cent in August 2025. It was significantly lower than 1.91 per cent recorded in September 2024. The continued deflation in Primary Articles also supported the decline as it contracted 3.32 per cent YoY in September 2025, led by food articles (vegetables & pulses) and non-food articles. The Fuel and power witnessed a deflation of 2.58 per cent in September 2025, against 3.17 per cent in the previous month.

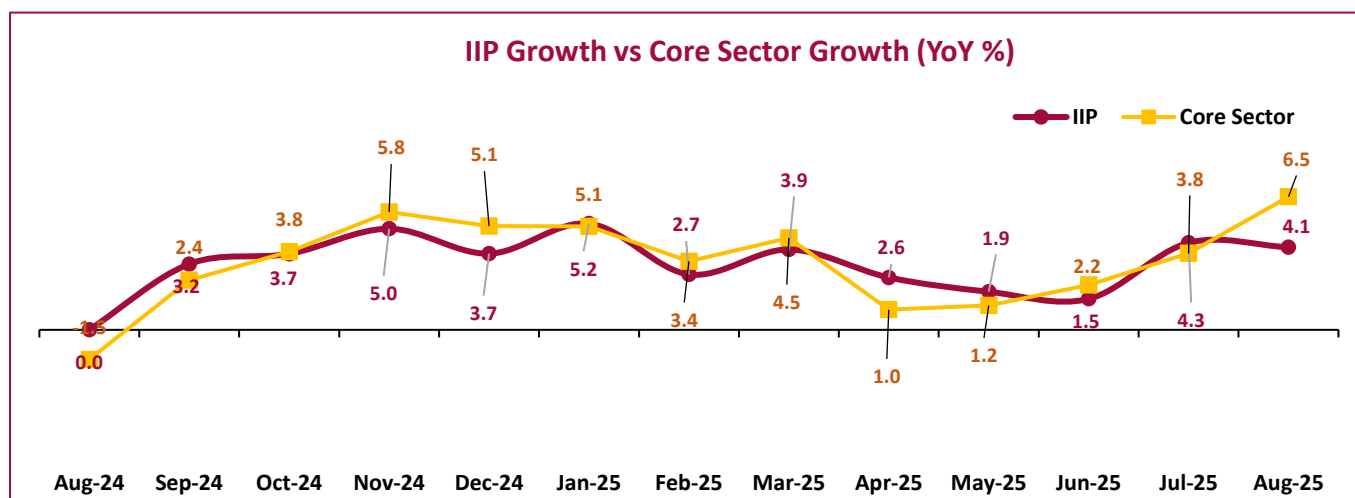
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth increases to 4.1% in August 2025



IIP Growth YoY % (Usage-wise)

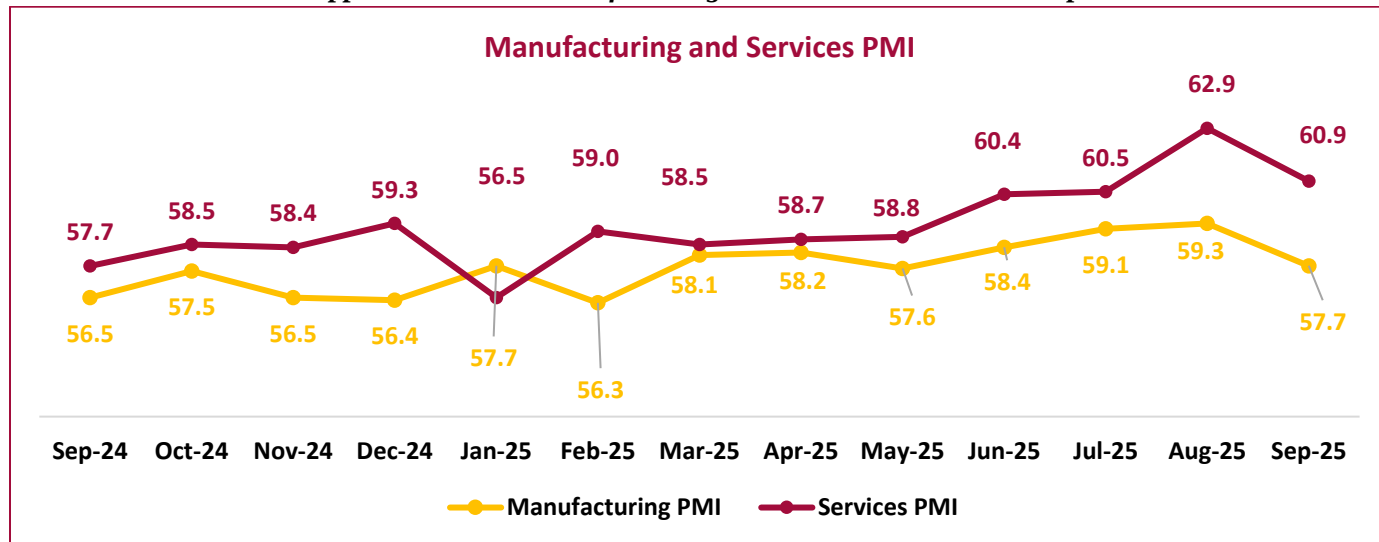
Component	Weight	Aug'24	Mar'25	Aug'25	Apr-Aug'24	Apr-Aug'25
Primary Goods	34.05%	-2.6	3.9	5.2	4.8	-0.1
Capital Goods	8.22%	0.0	3.6	4.4	4.1	8.1
Intermediate Goods	17.22%	3.1	3.8	5.0	4.1	5.3
Infra/Construction Goods	12.34%	2.7	9.9	10.6	6.4	8.5
Consumer Durables	12.84%	5.4	6.9	3.5	9.0	3.8
Consumer Non- Durables	15.33%	-4.4	-4.0	-6.3	-1.9	-2.0



IIP grew to 4.1% in Aug'25 compared to 4.3% in July'25. The IIP index stood at 151.7 in Aug'25, higher than 145.8 in Aug'24. For April–Aug FY' 26, cumulative growth was just 2.8%, compared to 4.3% in the same period last year. The growth rates of the three sectors, Mining, Manufacturing and Electricity for the month of Aug 2025 are 6.0 percent, 3.8 percent and 4.1 percent respectively. Amongst Use Based, all the sectors showed growth except Consumer Non-durables (6.3%) in Aug'25.

PURCHASING MANAGERS' INDEX (PMI)

Services PMI slipped to 60.9 and Manufacturing PMI decreased to 57.7 in September 2025

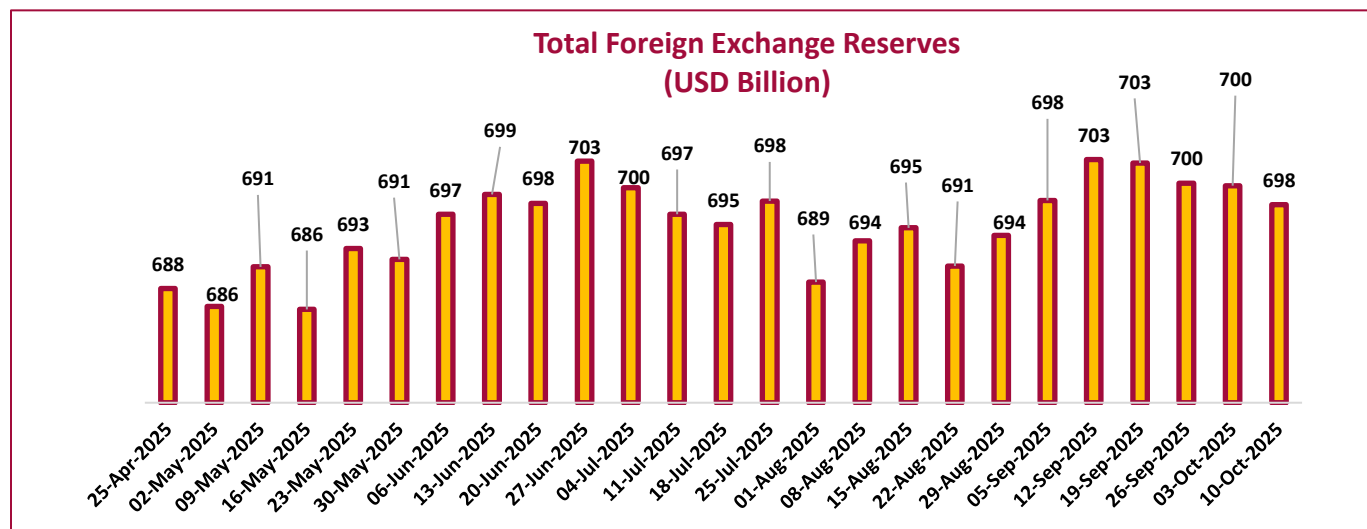


The HSBC India Manufacturing PMI eased to 57.7 in September 2025 from 59.3 in August 2025, while the HSBC India Services PMI slipped to 60.9 in September 2025 from 62.9 in August 2025. The India Composite PMI Output Index also declined to 61.0 in September 2025 from 63.2 in August 2025, reflecting a broad-based moderation in growth across both sectors.

PERFORMANCE OF OTHER LEADING INDICATORS

	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Coal production (YoY%)	2.4	7.7	7.4	5.3	4.4	1.7	1.6	4.1	2.8	-6.8	-12.4	11.6	-1.0
Electricity generation (YoY%)	-1.4	0.5	2.7	4.5	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.8	1.0	0.7
Consumption of petroleum products (YoY%)	-4.4	4.1	10.6	2.0	3.0	-5.2	-3.1	0.2	0.7	0.5	-3.9	2.6	7.0
Cargo handled at major ports (YoY%)	5.8	-3.4	-5.0	3.4	7.6	3.6	13.3	7.0	4.3	5.6	4.0	2.5	-
Cement production (million tonnes)	32.4	34.0	32.0	38.9	40.5	39.8	45.7	38.0	38.6	39.5	35.7	34.5	-
Steel consumption (million tonnes)	12.4	13.0	12.3	13.8	13.7	12.4	14.3	12.0	13.1	13.2	13.4	13.8	13.5
Two-wheelers sales (Nos. in Lakhs)	24.0	25.3	19.7	14.8	19.1	17.8	20.2	18.3	20.4	19.5	20.0	22.7	25.9
Tractors sales (Nos. in Thousand)	108.0	151.8	78.3	59.1	69.8	67.8	90.7	90.3	99.4	121.6	72.8	73.2	154.4

FOREIGN EXCHANGE RESERVES

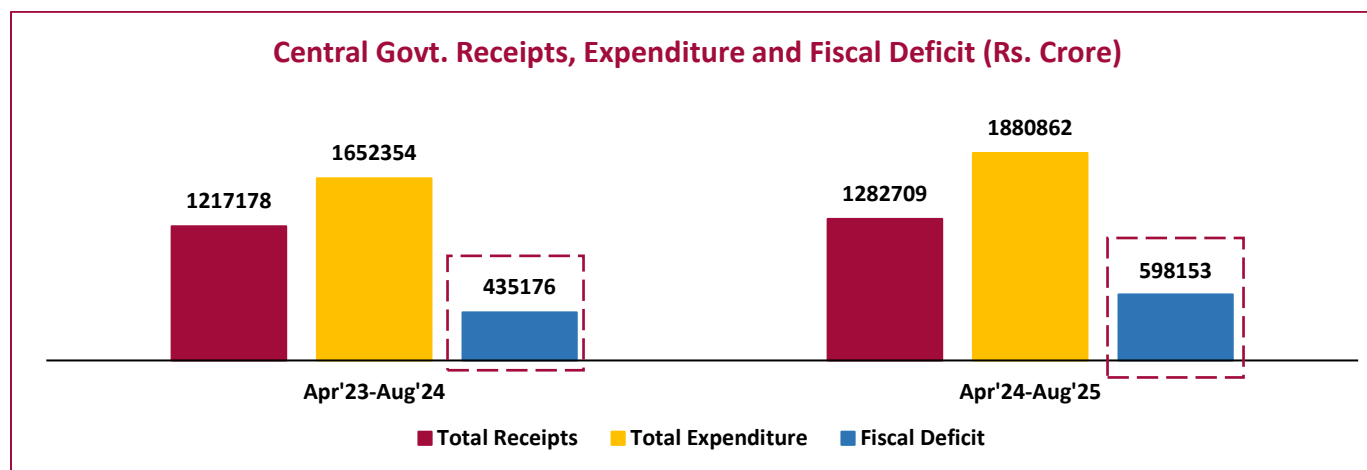


India's foreign exchange reserves reached \$698 billion in the week ending October 10.

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

	Sep -24	Oct -24	Nov -24	Dec -24	Jan -25	Feb -25	Mar -25	Apr -25	May -25	Jun- 25	Jul- 25	Aug -25	Sep- 25
E-way bill Generation	10.9	11.7	10.2	11.2	11.8	11.2	12.5	11.9	12.3	11.9	13.2	12.9	13.2

FISCAL DEFICIT

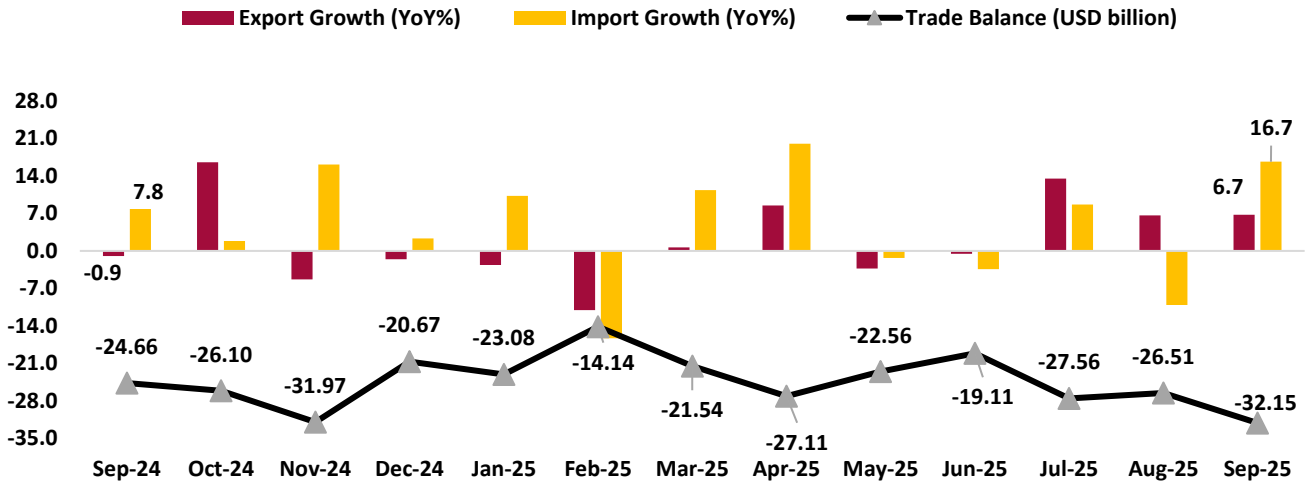


The government's fiscal deficit in August 2025 period came in at ₹5.98 lakh crore amounting to 38.1% of the Budgeted estimates (BE) vis-à-vis ₹4.35 lakh crore i.e. 27.0% of BE reached during the same period last year. Govt.'s total expenditure stood at ₹18.81 lakh crore reaching 37.1% of the BE during April-August 2025. The increase was driven largely by higher capital spending, even as net tax receipts slipped.

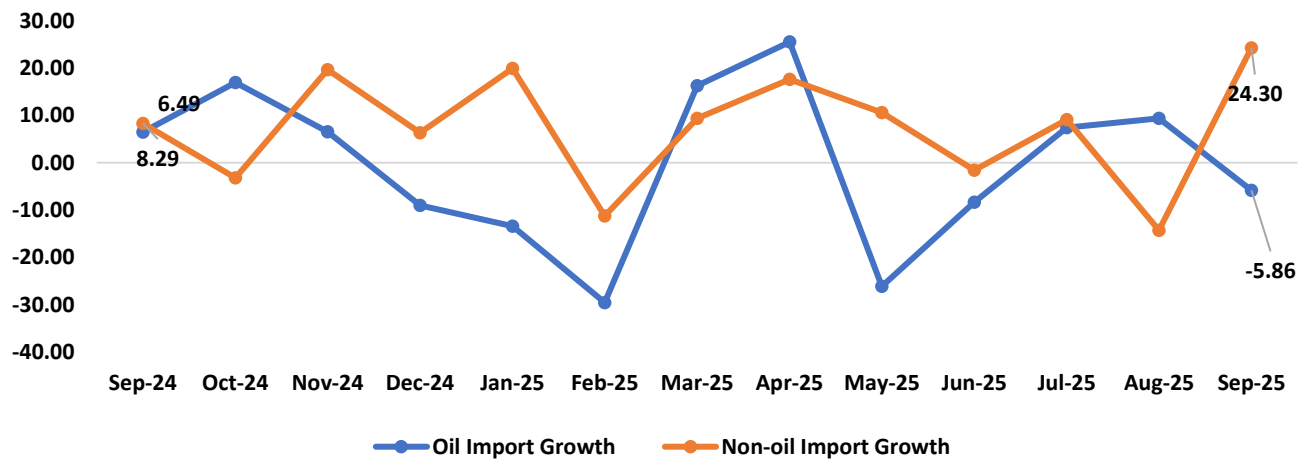
FOREIGN TRADE

Merchandise Trade Deficit narrows to USD 32.15 billion

Merchandise Exports, Imports & Trade Balance

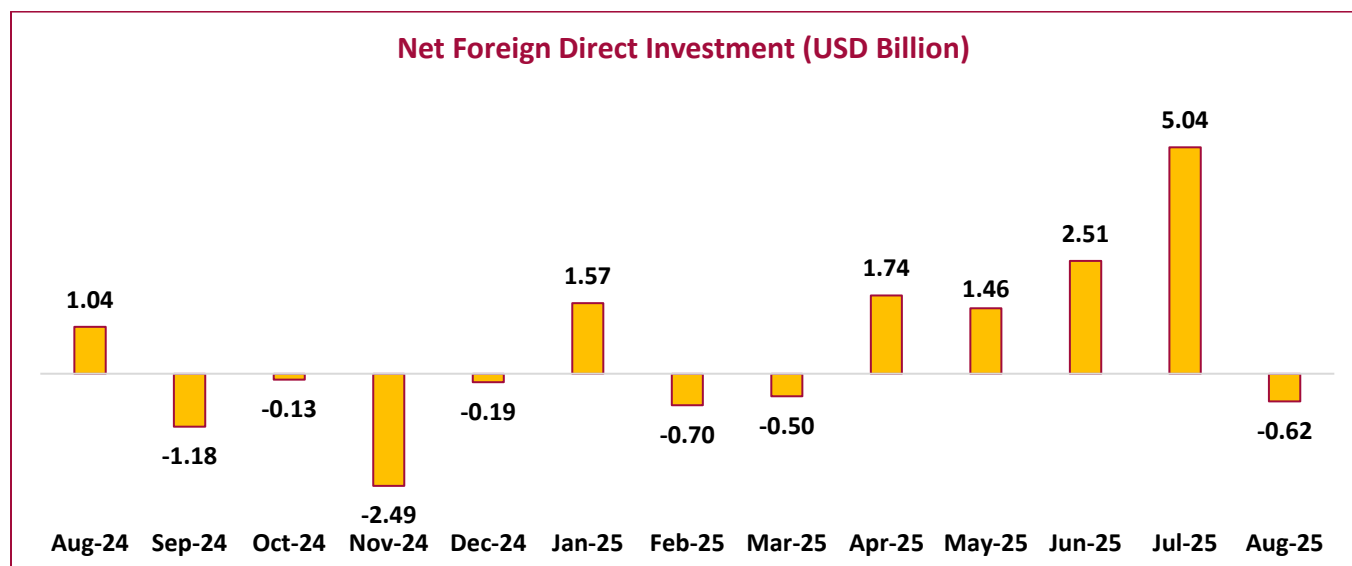


Import Growth %-Oil and Non-oil

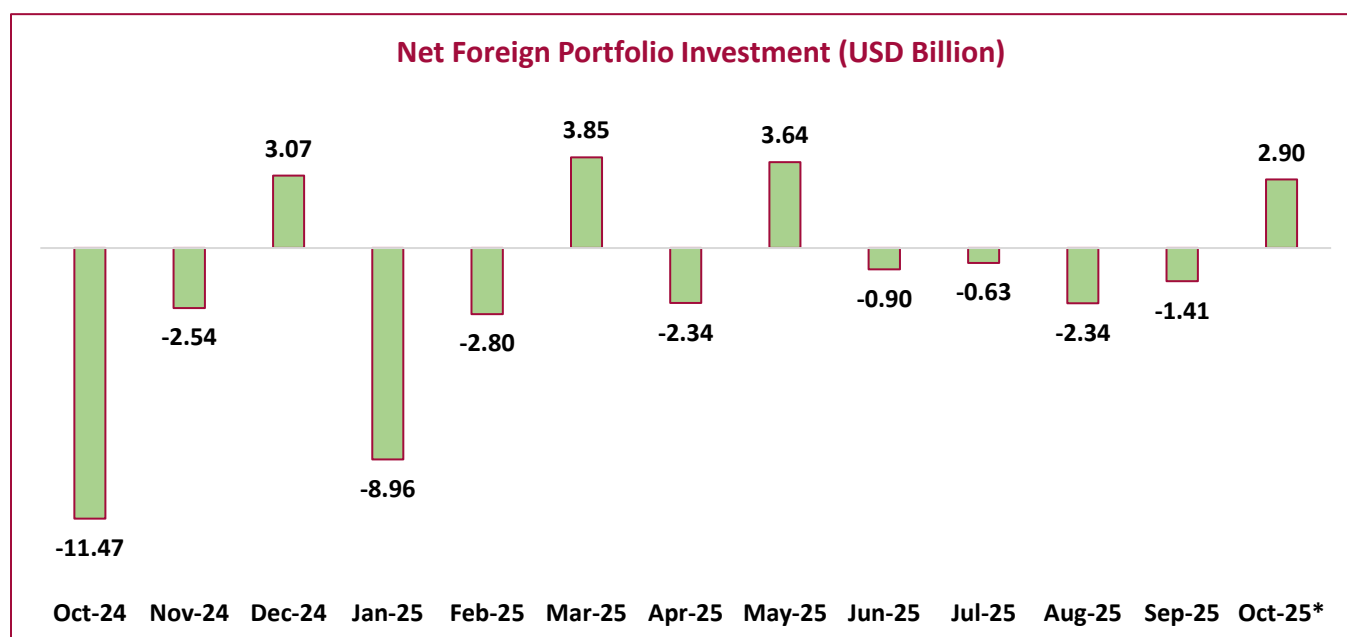


The difference between imports and exports of goods stood at \$32.15 billion in September 2025. It widened from \$26.51 billion in August 2025. It was recorded at \$24.66 billion in September 2024. Merchandise exports stood at \$36.38 billion in September 2025, increased by 6.74% on year-on-year basis, from \$34.08 billion in September 2024. Non-petroleum and non-gems & jewellery exports in September 2025 were US\$ 28.59 billion compared to US\$ 26.95 billion in September 2024, growing at a rate of 6.08%. Merchandise imports increased by 16.65% YoY for the month of September 2025 to \$68.53 billion. Non-petroleum, non-gems & jewellery imports in September 2025 were US\$ 41.77 billion compared to US\$ 36.96 billion in September 2024, showing an increase of 13.01% YoY.

FOREIGN INVESTMENTS



Foreign Direct Investment (FDI) turned negative in August 2025, marking the first time in the current fiscal year, due to a moderation in gross inflows and a rise in repatriation. Net FDI recorded an outflow of USD 0.62 billion, after showing an inflow of USD 5.04 billion in July 2025.



*upto 23rd Oct 2025

Net FPI inflows into the country remained robust, with net inflows rising from USD -1.4 billion in September 2025 to USD 2.9 billion by 23rd October 2025. This marks a significant turnaround after months of outflows. Despite this recent selling, FPIs have been net buyers in the first three weeks of October 2025, after three straight months of outflows.

DEPOSIT AND CREDIT OF SCBs

Parameter (Rs. Lakh Crore)	04.10.24	21.03.25	19.09.25	03.10.25	YoY Growth (%)	YTD Growth (%)	Fortnightly Growth (%)
Deposits	219.20	225.81	235.47	240.98	9.94%	6.75%	2.34%
Advances	172.98	182.44	189.03	192.66	11.38%	5.60%	1.92%
Business	392.18	408.25	424.49	433.65	10.57%	6.24%	2.16%

SECTORAL DEPLOYMENT OF CREDIT- INDUSTRY WISE

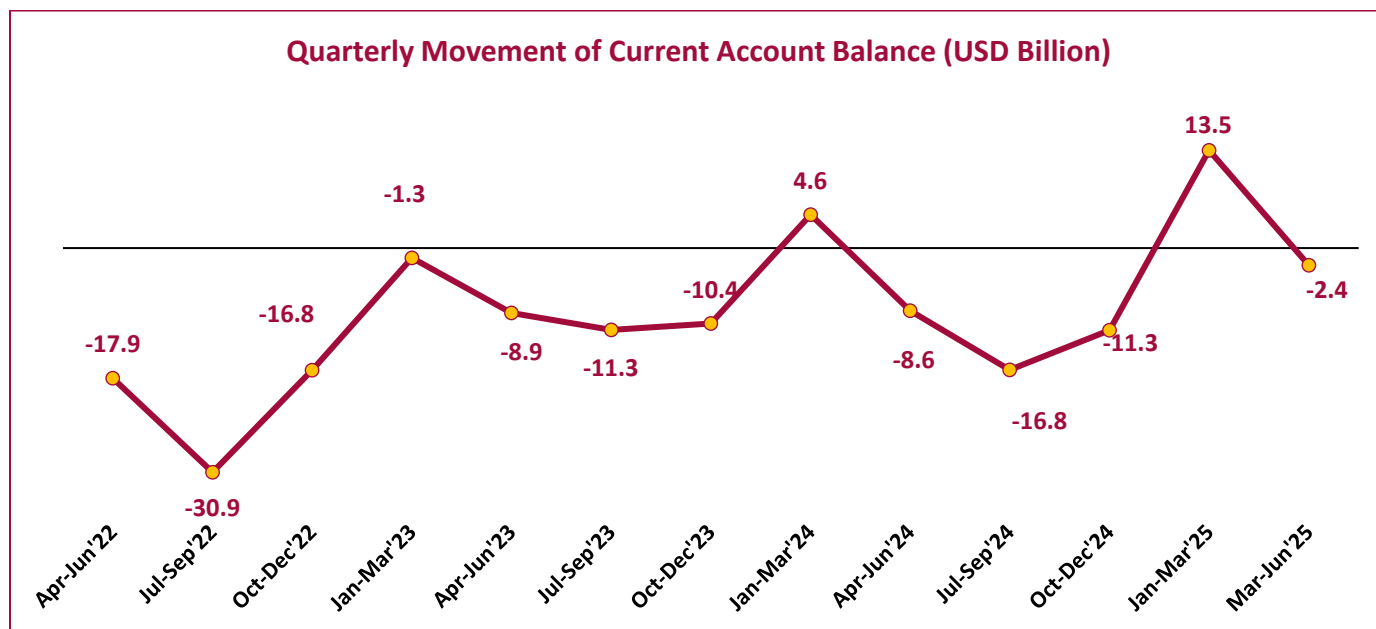
Parameter* (Rs. Lakh Crore)	Aug-24	Mar-25	Jul-25	Aug-25
Total Non-food	169.2	182.1	184.5	185.9
Agriculture and allied activities	21.6	22.9	23.1	23.2
Industry	37.6	39.4	39.5	40.0
Of which				
Micro & small	7.4	7.9	8.8	9.0
Medium	3.2	3.6	3.6	3.7
Large	26.9	27.8	27.0	27.4
Personal loans	55.6	59.5	61.6	62.1
Of which				
Housing (Including priority sector housing)	28.3	30.1	30.8	31.1
Credit card outstanding	2.8	2.8	2.9	2.9
Education	1.3	1.4	1.4	1.4
Vehicle loans	6.0	6.2	6.4	6.5
Services	46.4	51.6	51.1	51.4
Of which				
Computer software	0.3	0.3	0.4	0.4
Tourism, hotels & restaurants	0.8	0.8	0.9	0.9
Shipping	0.1	0.1	0.1	0.1
Aviation	0.4	0.5	0.5	0.5
Retail trade	5.0	5.4	5.4	5.5
Commercial real estate	4.9	5.3	5.6	5.6

*Figures include the impact of HDFC merger; based on LRF data

On a year-on-year (y-o-y) basis, non-food bank credit grew by 9.9 per cent in August 2025, compared to 13.6 per cent in August 2024. Credit to agriculture and allied activities registered a y-o-y growth of 7.6 per cent in August 2025 as compared to 17.7 per cent in August 2024. Credit to industry recorded a y-o-y growth of 6.5 per cent in August 2025 as compared to 9.7 per cent in August 2024. Credit to services sector registered a growth rate of 10.6 per cent y-o-y in August 2025 as compared to 13.9 per cent in August 2024. Credit to personal loans segment recorded a decelerated y-o-y growth of 11.8 per cent in August 2025 as compared to 13.9 per cent in August 2024.

12. QUARTERLY ECONOMIC INDICATORS

CURRENT ACCOUNT BALANCE



In Q1FY26, India's current account balance recorded a deficit of US\$ 2.4 billion, which is 0.2% of GDP. This is a significant improvement compared to the deficit of US\$ 8.6 billion (0.9% of GDP) in Q1FY25. However, it contrasts with the surplus of US\$ 13.5 billion (1.3% of GDP) recorded in Q4FY25. 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.

GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	0.50%	Jan 24, 2025 (25bps)	Oct 30, 2025
European Central Bank	Europe	2.15%	Jun 5, 2025 (-25bp)	Oct 30, 2025
Federal Reserve	U.S.A	4.25%	Sep 17, 2025 (-25bp)	Oct 29, 2025
Bank of England	U.K	4.00%	Aug 07, 2025 (-25bp)	Nov 06, 2025
Peoples Bank of China	China	3.00%	May 20, 2025 (-10bp)	-
Reserve Bank of India	India	5.50%	Jun 06, 2025 (-50bps)	Dec 05, 2025

13. MACRO ECONOMIC INDICATOR OUTLOOK

Liquidity Scenario

- o Net banking system liquidity, measured by the average daily net position under the Liquidity Adjustment Facility (LAF), remained in surplus in Oct'25 (average ₹1.39 trillion up to 19th Oct). This followed a mildly tight phase in the latter half of Sept'25, driven by higher government cash balances on account of advance tax & GST collections.
- o Since then, liquidity conditions improved as government spending picked up and the 25-bps reduction in the Cash Reserve Ratio (CRR) released primary liquidity, restoring surplus levels.
- o Between mid-September and mid-October, the RBI conducted 14 variable rate repo auctions (overnight to 6-day maturities) to inject liquidity and align overnight money market rates with the policy repo rate. With liquidity in surplus, average balances under the Standing Deposit Facility (SDF) remained elevated, while banks' recourse to the Marginal Standing Facility (MSF) stayed low.
- o On 30th Sept'25, the RBI announced a revised liquidity management framework. The overnight Weighted Average Call Rate (WACR) will continue as the operating target of monetary policy, while the 7-day variable rate repo/reverse repo will serve as the primary instruments for managing short-term or transient liquidity.
- o Accordingly, the RBI will maintain its focus on keeping TREPS above the SDF rate and aligning the WACR more closely with the policy repo rate, reinforcing its objective of effective liquidity transmission.

Interest Rate Scenario

- o The 10-year G-sec yield rose in late Sept'25 as heavy government borrowing of over ₹11.5 lakh crore for FY26 and larger auction sizes heightened supply concerns. In Oct'25, the yield has remained range bound (6.48-6.53% as of 23rd Oct), underscoring India's relative strong macro-economic fundamentals.

10 Year G-Sec/Treasury/Bond Yield of Major Countries (23.10.2025)

COUNTRY	Yield (%)
United States	3.99
United Kingdom	4.42
Japan	1.66
China	1.77
India	6.54

Source: Investing

- o Amidst surplus liquidity, the WACR largely hovered around the policy repo rate through September and October. It briefly traded above the repo rate in late September due to tax-related outflows, before slipping below the policy rate in early October as liquidity improved. To manage this, the RBI conducted two variable rate reverse repo auctions on October 9 and 15, 2025. Overall, the WACR showed closer alignment with the policy rate during September 16–October 16 compared with the prior month.

14. INDUSTRY OUTLOOK

TOURISM SECTOR IN INDIA

India, with its rich cultural heritage, diverse landscapes, and vibrant traditions, has always been a prominent destination for both domestic and international tourists. The tourism sector plays a pivotal role in the country's economic development, generating employment, fostering cultural exchange, and contributing significantly to foreign exchange earnings.

The Indian tourism industry has shown remarkable resilience and growth, especially in the wake of the COVID-19 pandemic. According to the Ministry of Tourism, Government of India, the sector witnessed a robust recovery. In 2024, India recorded 99.52 lakh foreign tourist arrivals (FTAs) and Foreign Exchange Earnings from tourism was at Rs.2,93,033 crores.

Tourism's contribution to India's Gross Domestic Product (GDP) and employment generation has been substantial. In 2023 - 24, the sector contributed 5.22% of the total GDP and employed 84.63 million people.

Several segments within the tourism sector are experiencing rapid growth. Heritage and Cultural Tourism is on the rise with destinations such as Jaipur, Varanasi, and Khajuraho attracting international visitors seeking authentic Indian experiences. The demand for eco-friendly travel and wellness retreats in places like Kerala and Uttarakhand is rising, fuelled by global interest in sustainable and health-oriented travel. For adventure seekers, activities such as trekking in the Himalayas, river rafting in Rishikesh, and wildlife safaris in national parks are increasingly popular. Further, in recent years, India has witnessed surge in medical tourism. India remains a top destination for affordable and high-quality medical care, attracting over 73 lakh medical tourists in 2024, particularly from Africa, the Middle East, and neighbouring Asian countries.

Government Initiatives

The Indian government has launched several initiatives to boost tourism, including the “Dekho Apna Desh” campaign to promote domestic travel and the “Incredible India 2.0” campaign targeting international markets.

Recognizing its potential for employment-led development, the Union Budget 2025-26 has allocated Rs.2,541 crores to enhance infrastructure, skill development, and travel facilitation. A major initiative includes developing 50 top tourist destinations in partnership with states through a challenge mode, ensuring world-class facilities and connectivity. Further, Substantial investments have been made in infrastructure, digitalization, and ease of travel, such as e-visa facilities, improved connectivity, and upgraded amenities at key tourist sites.

Outlook

Looking ahead, the Indian tourism sector is poised for sustained growth. Analysts project that by 2030, India could welcome over 20 million foreign tourists annually, with the sector's contribution to GDP potentially reaching \$350 billion.

In conclusion, India's tourism sector stands at the threshold of a new era, with immense potential to drive economic, social, and cultural progress. With its vast array of attractions and a proactive policy environment, India is well-positioned to become one of the world's leading tourism destinations in the coming years.

Chhavi Sachdeva

Senior Manager (Economics)

SMEAD. Head Office

15. 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

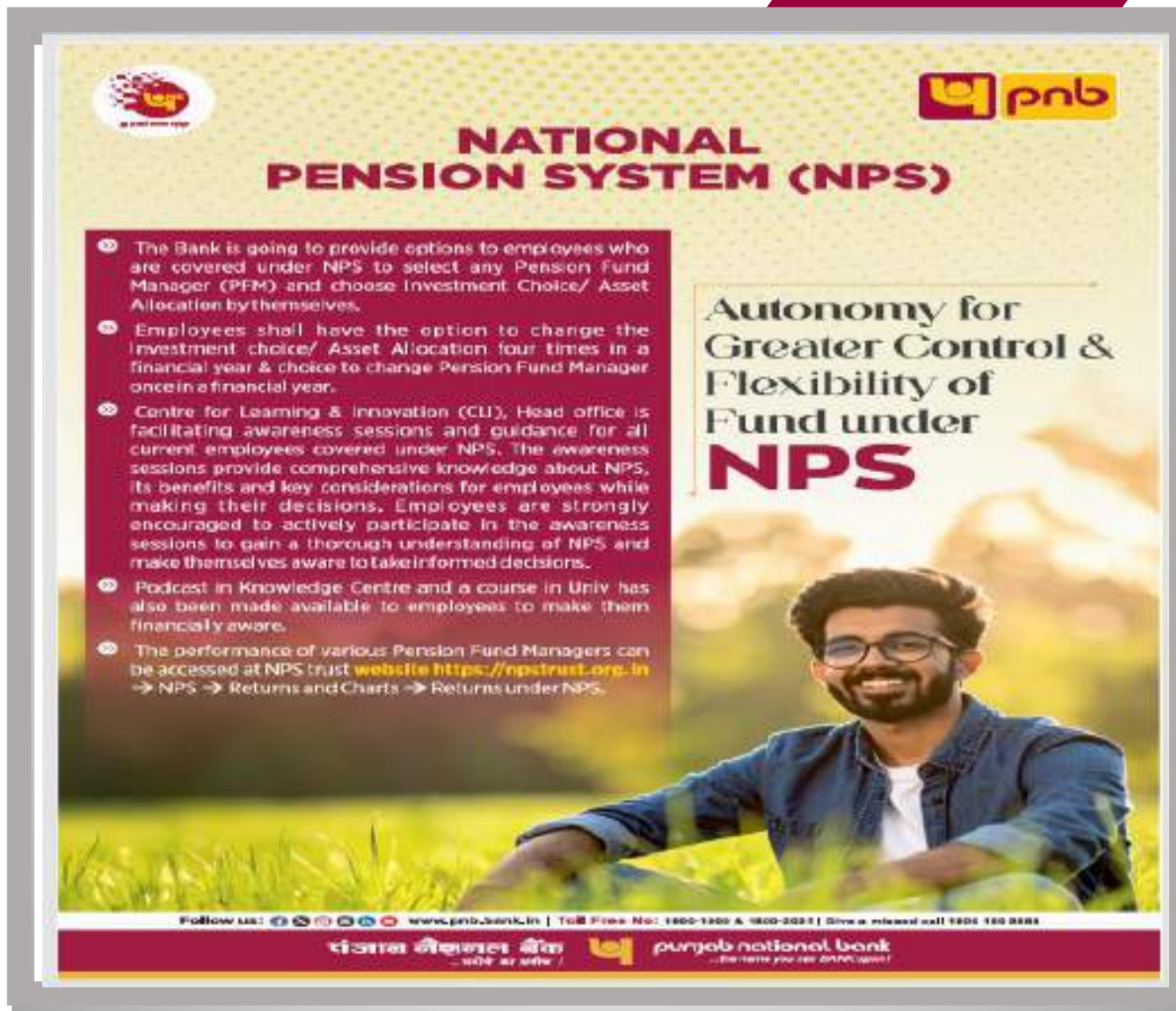
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QUOTE OF THE MONTH

“To acquire the habit of reading is to construct for yourself a refuge from almost all the miseries of life.”

— W. Somerset Maugham

”



NATIONAL PENSION SYSTEM (NPS)

- ❶ The Bank is going to provide options to employees who are covered under NPS to select any Pension Fund Manager (PFM) and choose Investment Choice/ Asset Allocation by themselves.
- ❷ Employees shall have the option to change the Investment choice/ Asset Allocation four times in a financial year & choice to change Pension Fund Manager once in a financial year.
- ❸ Centre for Learning & Innovation (CLI), Head office is facilitating awareness sessions and guidance for all current employees covered under NPS. The awareness sessions provide comprehensive knowledge about NPS, its benefits and key considerations for employees while making their decisions. Employees are strongly encouraged to actively participate in the awareness sessions to gain a thorough understanding of NPS and make themselves aware to take informed decisions.
- ❹ Podcast in Knowledge Centre and a course in Univ has also been made available to employees to make them financially aware.
- ❺ The performance of various Pension Fund Managers can be accessed at NPS Trust [website https://nps-trust.org.in](https://nps-trust.org.in)
→ NPS → Returns and Charts → Returns under NPS.

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