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*कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग*

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### IMPACT OF US TARIFF

On July 31, 2025, the USA announced a 25% reciprocal tariff on its imports from India. Further an additional penalty of 25% on Indian goods imported into the USA, w.e.f., August 27, 2025 was also announced on account of oil purchases from Russia. The tariffs threaten India's \$87 billion exports directed to the US, equivalent to 2.5% of India's GDP. As USA is India's topmost export destination, the development is significant for India's export sector.

The USA is also an important destination for **E-Commerce exports** from the country. Starting August 29, 2025, the U.S. will eliminate the \$800 de minimis rule<sup>1</sup>, an exemption that allowed low-value shipments to enter the country duty-free and with minimal paperwork. This change will have major implications for e-commerce exporters.

The vulnerable sectors are as under: -

- **Textiles and Apparel:** This is a cornerstone of India's manufacturing and export economy, employing millions. With a total tariff of up to 50%, Indian garments, carpets, and home textiles will become significantly more expensive for US consumers. This could lead to a substantial loss of market share to competing nations and could jeopardize the future of thousands of MSMEs. (Around \$ 3.5 Billion US Exports)
- **Gems and Jewellery:** India is a global leader in diamond cutting and polishing and a major exporter of gold jewellery. With tight margins, the additional tariffs on India's exports will make Indian-made jewellery less appealing to American buyers. This could impact exports worth over \$12 billion annually and impact the skilled workforce in this sector.
- **Marine Products:** Indian seafood, especially shrimp, is a major export to the US. This sector is already facing intense competition from countries like Ecuador. The new tariff erases India's cost advantage, potentially leading to a decline in exports and revenue for businesses along the coast. (Around \$ 2 Billion US Exports)
- **Engineering Goods and Chemicals:** While consumer goods get the most attention, a vast array of engineering products, auto components, and organic chemicals also fall under the new tariff regime. This could disrupt established supply chains and force companies to find alternative markets or absorb the higher costs, a challenge for many small and medium-sized enterprises. (Around \$ 9 Billion US Exports)

Some major Indian exports though remain unaffected by the revised tariff structure, preserving their competitiveness in the US market which includes **Pharmaceuticals (US\$9.8 billion in exports)**, **Smartphones and electronics (US\$10.6 billion)** and **Petroleum products (US\$4.1 billion exports)**.

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<sup>1</sup> The "de minimis rule" in law and business refers to the principle that minor or trivial matters are disregarded by the legal system or business processes.

The tariffs are expected to make Indian goods far costlier in the US, with potential to cut US-bound exports by 40–50 per cent. India could lose up to \$43 billion in exports if the 25% tariff and additional 25% penalty is applied across sectors. If all goods exports are subjected to 50% tariff rate, the direct **impact on growth is likely to be around 30 - 60 bps** and indirect impact could be of the similar magnitude in the period of 12 months. The **current account deficit** could also widen by 50 bps from current estimates of 0.8% of GDP for FY'26.

Further, India's products will become less competitive compared to those from other Asian countries like Vietnam (facing only a 20% US tariff), Indonesia, and Japan. This will lead to increase in unemployment in impacted sectors and MSME leading to cascading effect on the economy. High tariffs can also hurt investor sentiment, especially if they signal worsening India–US trade relations. Foreign Institutional Investors (FIIs) may reduce exposure to India, fearing lower earnings from impacted sectors. Market volatility may also rise, especially in export or manufacturing indices.

The tariffs will affect the Banking sector as well. Banks with higher exposure to the export oriented borrowers may face repayment issues. To arrest the further depreciation of rupee, the Central Bank may support it through forex interventions (purchasing rupee and selling dollars) that may squeeze the liquidity. Large industries which will be hit by the tariffs may also affect the business of MSMEs in their supply chains. Major orders are already on hold from the USA on account of tariffs. Volatility in the capital market may have adverse impact on the Bank's investments and trading portfolio. This may lead to lower trading profits and fee income from the treasury operations.

In the short term, India must focus on minimising losses through trade negotiations. Government will have to consider targeted support schemes for the exporters in the sectors majorly affected. Government could also consider Interest Equalization scheme, which offers exporters a subsidy on interest rates to lower borrowing costs.

Simultaneously in the long run, there is a need to explore new markets for exports to diversify the markets and reduce dependence on US. Countries are looking for reliable and cost effective suppliers in areas where India, especially its MSMEs, hold a competitive edge like pharmaceuticals, textiles, engineering goods, processed foods, IT services etc. Investing in automation and digital technologies can enhance operational efficiency, reduce production costs and improve supply chain responsiveness.

The imposition of US tariffs is expected to curtail Indian exports, dampen GDP growth, and exert downward pressure on the rupee—particularly impacting agricultural and consumer goods sectors in the short term.

However, these effects may gradually moderate, supported by ongoing diplomatic negotiations and India's ability to pivot toward alternative trade markets. The **domestic demand-driven nature** of India's economy helps cushion the blow, making the overall impact less severe. Despite the tariff vulnerabilities, S&P has upgraded India's sovereign rating from BBB- to BBB with the stable outlook on the back of strong economic fundamentals which is expected to support the country's growth momentum over the next two to three years. In this light, S&P Rating has outlined that the impact of U.S. tariffs on India will likely be manageable.

Going forward, there is a need to diversify our export markets and bring in major reforms in the country so as to reduce costs, innovate products and bring in product differentiation so as to remain competitive in the global market and reach to diverse segments of customers.

**Ajay Kumar Singh**  
General Manager

## **2. BRICS IN A FRAGMENTED WORLD: REIMAGINING GLOBAL GOVERNANCE THROUGH THE GLOBAL SOUTH**

In an increasingly multipolar and geopolitically tense world, the BRICS grouping has emerged as a compelling platform for cooperation, development, and reform. What began as an acronym coined by Goldman Sachs in 2001 to describe the economic potential of Brazil, Russia, India, and China, transformed into a formal intergovernmental organization in 2009. The inclusion of South Africa in 2010 not only expanded its geographic scope but also added a crucial dimension — the voice of the African continent.

The **expansion of BRICS in 2023**, with the inclusion of Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates, has further bolstered its global relevance. This enlargement, often referred to as **BRICS+**, is emblematic of the growing desire among nations to forge alliances outside the conventional power corridors. Today, the bloc accounts for about **48% of the world's population** and over **a third of global GDP** (in PPP) terms, a gap it is fast closing with the G7 nations.

Today, BRICS+ is more than just a coalition of emerging economies. It represents an alternative worldview — one that seeks to rebalance global governance, amplify the voice of the Global South, and foster inclusive multilateralism. Against the backdrop of persistent geopolitical fissures, ranging from the Russia-Ukraine conflict and US-China tensions to the fragmentation of global supply chains, BRICS+ is being increasingly viewed as a counterweight to the dominance of traditional Western-led institutions.

The global financial crisis of 2008 exposed the inadequacies of existing multilateral institutions in representing the interests of emerging economies. BRICS was born in this vacuum — not as an ideological bloc, but as a pragmatic coalition united by shared aspirations for reform, equity, and developmental sovereignty. Over the years, the grouping has institutionalized cooperation through mechanisms such as the **New Development Bank (NDB)** and the **Contingent Reserve Arrangement (CRA)**, which aim to enhance financial resilience and support infrastructure funding without the conditionalities often attached to traditional lenders.

BRICS has steadily evolved into a political and economic voice for the Global South. It has advocated for equitable vaccine distribution, championed development financing, and pushed for climate justice. Its support for **South-South cooperation** — built on principles of mutual respect and non-interference — distinguishes it from many traditional aid and development models.

During the COVID-19 pandemic, BRICS countries coordinated responses, shared best practices, and collaborated on vaccine research and production. At multilateral fora, including the UN and the G20, BRICS has consistently demanded reforms in institutions like the **IMF**, **World Bank**, and **UN Security Council**, calling for greater representation and democratization.

### **India's Anchoring Role in BRICS**

As a founding member, India has played a vital role in shaping the BRICS agenda. With its unique positioning — straddling partnerships with both developed economies and the Global South — India serves as a bridge within the grouping. Its contributions span diverse domains:



- **Digital Public Infrastructure:** India's success with platforms like UPI and Aadhaar has inspired BRICS-level conversations on digital financial inclusion.
- **Climate Action:** Through initiatives like the International Solar Alliance and LiFE (Lifestyle for Environment), India has led climate discourse within BRICS.
- **Health and Technology:** India's pharmaceutical capacity and vaccine diplomacy during the pandemic further cemented its leadership.

India's presidency of BRICS in 2021 was marked by tangible outcomes — an Action Plan on counter-terrorism, increased cooperation in health and trade, and a renewed push for resilient global supply chains. The country is all set to assume the presidency of BRICS in 2026 — a pivotal moment not just for the country, but for the grouping itself. Building on the experience of hosting the G20 in 2023, India is well-positioned to steer BRICS through a transformative phase. Several agenda items merit attention:

1. **Reform of Global Financial Architecture:** Continued push for structural changes in IMF and World Bank governance to reflect the realities of today's economy.
2. **Local Currency Trade:** Encouraging bilateral and multilateral trade settlements in local currencies to reduce vulnerability to external shocks.
3. **Alternative Payment Architecture:** One of the most significant financial innovations under active discussion within BRICS is the development of an independent payment settlement system, often referred to as *BRICS Pay*. This initiative aims to provide a credible alternative to the SWIFT network, reducing reliance on Western-controlled financial infrastructure. The proposed platform could facilitate real-time cross-border transactions in local currencies, boosting intra-BRICS trade and enhancing financial sovereignty.
4. **Climate Finance and Technology Transfer:** A focused agenda on affordable green technology, energy transition financing, and equitable carbon budgeting.
5. **Digital Public Goods:** Exporting India's successful DPI models to other BRICS members and the Global South at large.
6. **Strengthening BRICS+ Integration:** Streamlining cooperation with the new members while retaining the original strategic coherence of the bloc.

BRICS today stands at a crossroads. Internal divergences — such as differing geopolitical interests and economic priorities — are real. But so is the potential for constructive cooperation. As the world grapples with economic uncertainties, climate crises, and institutional fatigue, BRICS offers an alternate paradigm rooted in solidarity, mutual benefit, and shared progress.

India's upcoming presidency provides a strategic opportunity to infuse BRICS with a renewed sense of purpose and pragmatism. With its development-first approach, experience in digital and green transitions, and commitment to inclusive multilateralism, India can lead BRICS toward becoming a more effective and representative force in global affairs — a true voice of the Global South in a rapidly evolving world order.

**Smriti Behl**  
**Officer (Economics)**  
**SMEAD, Head Office**

### **3. INDIA'S ECONOMIC EQUATION: RATING OPTIMISM, FISCAL LEVERS, AND TRADE TENSIONS**

In August 2025, the Indian economy presents an unprecedented convergence of positive and negative shocks that will reshape the country's economic trajectory going forward – first, the sovereign rating upgrade by S&P Global after an 18-year wait, second, the announcement of comprehensive GST reforms set to roll out by Diwali, and the looming threat of 50% US tariffs by the month end.

This trinity of events offers a compelling case into how Indian economy must simultaneously navigate global pressures while capitalizing on domestic policy levers. More importantly, it reveals the intricate transmission channels through which rating improvements, fiscal stimuli, and trade shocks interact to shape growth trajectories, inflation dynamics, and financial stability.

#### **S&P Rating Upgrade: Beyond Sentiment Improver**

India's first sovereign rating upgrade in 18 years by S&P from BBB-(positive) to BBB (stable) represents more than a symbolic recognition. It reflects fundamental improvements in fiscal architecture that have positioned India favourably within the emerging market scale. The upgrade validates a remarkable fiscal consolidation journey from a deficit of 9.2% in 2020-21 to a projected 4.4% in 2025-26, while maintaining a strong growth momentum.

The immediate market response provides early evidence of the rating dividend. Financial sector stocks surged 3-6% as external borrowing costs declined by 10-15 basis points. This cost reduction cascades through the economy via multiple channels including lower sovereign borrowing costs that create fiscal space, reduced corporate funding expenses enhance investment returns, and improved risk perception attracts patient capital.

However, the rating upgrade's true value lies in its timing. By enhancing policy credibility precisely when India faces external trade pressures, it provides crucial buffers for countercyclical measures. The upgrade essentially expands the government's policy toolkit at a moment when bold fiscal interventions may be necessary to offset trade disruptions.

#### **GST Rationalization: Consumption Multiplier Effect**

The proposed GST reforms with a simplified two-slab structure represent the most ambitious indirect tax restructuring since the system's inception in 2017. The economic logic is compelling by shifting approximately 99% of items from the 12% slab to 5% and 90% of goods from 28% to 18%, the reforms target categories with high consumption multipliers and significant rural penetration.

The magnitude of potential impact is substantial. Conservative estimates suggest the reforms could unleash demand worth 0.4% of GDP, concentrated in essential goods, consumer durables, and automobiles. This stimulus arrives at a crucial juncture, addressing ongoing urban consumption sluggishness and supporting the imperative for a widespread demand rebound.

The temporal dynamics add another layer of complexity. Consumer behavior theory suggests rational agents will defer purchases ahead of announced price reductions, creating a pre-implementation demand trough followed by a sharp recovery. This pattern requires careful monetary policy coordination to manage resulting volatility while maximizing the consumption boost.



More intriguingly, the reforms address the most important driver in India's growth model i.e. Private Consumption. While investment and government expenditure have driven growth in the past quarter, consumption's contribution has remained below potential. GST rationalization directly targets this constraint by enhancing disposable income across income brackets, potentially rebalancing growth toward more sustainable demand-driven expansion.

### **Tariff Turbulence: Sectoral Vulnerability Meets Macroeconomic Resilience**

The escalation of US tariffs to 50% creates the starkest external challenge, affecting approximately \$60 billion of Indian exports. Yet the sectoral concentration of impact reveals both vulnerabilities and opportunities for strategic response. Labor-intensive sectors such as textiles, gems and jewelry, leather goods face acute pressure that could displace millions of workers in specific regional clusters.

However, India's macroeconomic structure provides substantial insulation. With domestic consumption accounting for 60% of GDP and the US representing just 2.2% of domestic output, the aggregate impact remains manageable. Preliminary analysis suggests a 20-30 basis point drag on growth significant but far from destabilizing.

The tariff shock also accelerates necessary structural adjustments. Export diversification efforts, already underway toward Southeast Asia, Africa, and the Middle East, receive added urgency. Domestic market orientation gains strategic value as global trade fragmentation continues. Most importantly, the crisis catalyzes productivity improvements and quality upgrades that enhance long-term competitiveness.

### **Growth Trajectory: Synthesis and Outlook**

The net impact on India's growth trajectory reflects the complex interplay of these offsetting forces. While tariff headwinds create sectoral stress, the rating upgrade and GST stimulus provide countervailing support. Our analysis gravitates toward 6.2-6.3% growth for FY26 modest revision despite significant policy shifts, reflecting the offsetting nature of recent developments.

This stability masks important compositional changes. Export growth may decelerate in affected sectors while domestic demand receives meaningful support. Investment patterns could shift toward domestic-oriented industries while export-focused sectors reassess expansion plans. The resulting growth may prove more balanced and resilient, even if aggregate numbers remain unchanged.

### **Implications for Economic Management**

These developments collectively illustrate India's evolution toward more nuanced economic management. The ability to leverage rating improvements for policy space, implement structural reforms under external pressure, and maintain consensus-based governance during stress demonstrates institutional maturity. The key lesson involves the value of maintaining multiple policy levers simultaneously. Fiscal discipline creates rating enhancement opportunities, which in turn provide space for strategic interventions. Domestic policy credibility becomes a buffer against external shocks while enabling proactive rather than reactive policy responses.

India's experience offers broader insights for emerging market management. Economic resilience derives not from avoiding shocks but from maintaining institutional capacity to respond effectively when multiple pressures converge. The present context challenges this capability while simultaneously opening avenues for transformative policy interventions.

**Kartik Khandelwal**  
**Officer (Economics)**  
**Head Office, SMEAD**

## 4. RBI MONETARY POLICY HIGHLIGHTS : 06.08.2025

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)	4.00%	4.00% (will reduce to 3.00% in phased manner from Sept'25)	
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 third Bi-monthly monetary policy for the financial year 2025-26.
- b. **Stance:** RBI also kept its stance unchanged at '**neutral**' decided unanimously by members.
- c. **Rationale:** The decision to keep the repo rate and stance unchanged stems from the fact that the effects of the 100 bps repo rate cut since February 2025 are still unfolding, with monetary policy transmission continuing. While headline inflation has eased, largely due to volatile food prices, core inflation remains steady around the 4% mark. Domestic growth is resilient but still below expectations, warranting close monitoring of evolving macroeconomic conditions before considering any further rate action.
- d. The decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth.

### i. Economy and Inflation Outlook

#### Economy Outlook

- **Global economy:** The global environment continues to be challenging. Although financial market volatility and geopolitical uncertainties have abated somewhat from their peaks in recent months, trade negotiation challenges continue to linger. Global growth, though revised upwards by the IMF (from 2.8% to 3.0% for 2025 and 3.0% to 3.1% for 2026), it remains muted. The pace of disinflation is slowing down, with some advanced economies even witnessing an uptick in inflation.
- **Domestic Economy:** On the domestic front, the growth remains resilient and is broadly evolving around the RBI's growth forecast even though some high-frequency indicators showed mixed signals in May-June 2025. Private consumption, aided by rural demand, and fixed investment, supported by buoyant government capex, continue to boost economic activity, though urban consumption revival especially discretionary spending, is tepid.

- On the supply side, a steady south-west monsoon (4% above normal as of 4<sup>th</sup> Aug) is supporting kharif sowing (5.1% higher YoY as of 1<sup>st</sup> Aug), replenishing reservoir levels and boosting agriculture activity (69% of the full capacity). The services sector (services PMI reached 11-month high of 60.5 in July'25) and construction activity also remain robust. However, growth in industrial sector remained subdued and uneven across segments, pulled down by electricity and mining (contracted by 3.0% and 1.9%, respectively, during Q1 FY26).
- Going forward, the above normal southwest monsoon, lower inflation, rising capacity utilization and congenial financial conditions continue to support domestic economic activity. The supportive monetary, regulatory and fiscal policies including robust government capital expenditure should also boost demand. The services sector is expected to remain buoyant, with sustained growth in construction and trade in the coming months.
- Prospects for external demand remain uncertain due to ongoing tariff announcements and unresolved trade negotiations. Additionally, prolonged geopolitical tensions, persistent global uncertainties, and heightened volatility in international financial markets continue to pose significant headwinds to the overall growth outlook.

Taking all these factors into consideration, GDP projections kept unchanged as under with risks evenly balanced:

<b>RBI's GDP Projections</b>	<b>Q1 FY'26</b>	<b>Q2 FY'26</b>	<b>Q3 FY'26</b>	<b>Q4 FY'26</b>	<b>FY'26</b>	<b>Q1 FY'27</b>
<b>06.06.2025</b>	<b>6.5%</b>	<b>6.7%</b>	<b>6.6%</b>	<b>6.3%</b>	<b>6.5%</b>	<b>-</b>
<b>06.08.2025</b>	<b>6.5%↔</b>	<b>6.7%↔</b>	<b>6.6%↔</b>	<b>6.3%↔</b>	<b>6.5%↔</b>	<b>6.6%</b>

### Inflation Outlook

- CPI headline inflation declined for the eighth consecutive month to a 77-month low of 2.1% (YoY) in June 2025. This was driven primarily by a sharp decline in food inflation led by improved agricultural activity and various supply side measures. Food inflation logged its first negative print since February 2019 at (-) 0.2% in June. High-frequency price indicators signal a continuation of the lower price momentum in food prices this year to July 2025 as well.
- Core inflation, which remained within a narrow range of 4.1-4.2% during February-May, increased to 4.4% in June, driven partly by a continued increase in gold prices.
- The inflation outlook for 2025-26 has become more benign than expected in June. Large favourable base effects combined with steady progress of the southwest monsoon, healthy kharif sowing, adequate reservoir levels and comfortable buffer stocks of foodgrains have contributed to this moderation.
- However, CPI inflation is likely to rise above 4% by Q4 FY26 and beyond, as unfavorable base effects, & demand-side factors from policy actions come into play. Barring any major negative shock to input prices, core inflation is likely to remain moderately above 4% during FY26. Weather-related shocks pose risks to inflation outlook.

Taking into account these factors, the projections for CPI Inflation are as under:

<b>RBI Inflation Projections</b>	<b>Q2 FY'26</b>	<b>Q3 FY'26</b>	<b>Q4 FY'26</b>	<b>FY'26</b>	<b>Q1 FY'27</b>
<b>06.06.2025</b>	<b>3.4%</b>	<b>3.9%</b>	<b>4.4%</b>	<b>3.7%</b>	<b>-</b>
<b>06.08.2025</b>	<b>2.1%↓</b>	<b>3.1%↓</b>	<b>4.4%↔</b>	<b>3.1%↓</b>	<b>4.9%</b>

## ii. External Sector

- India's current account deficit (CAD) moderated to 0.6% of GDP in FY25 from 0.7% of GDP in FY24 due to robust services exports and strong remittances receipts despite higher merchandise trade deficit, which has further widened in Q1 of FY26.
- India's share in world services exports has risen markedly from about 2% in 2005 to 4.3% in 2024, driven by strong software and business services exports. Robust services exports coupled with strong remittance receipts are expected to keep CAD within the sustainable level during the FY26.
- On the financing side, gross FDI remained strong in April–May FY26, though net FDI moderated due to higher outward flows. Net FPI saw outflows of \$0.8 billion (April–July), mainly from the debt segment, while ECBs and non-resident deposits posted positive inflows.
- As of August 1, 2025, forex reserves stood at \$688.9 billion, covering over 11 months of merchandise imports.
- Overall, India's external sector remains resilient with the RBI remaining confident of meeting India's external financing requirements comfortably.

## iii. Liquidity and Financial Market Conditions

- System liquidity has remained in surplus, averaging ₹3.0 lakh crore daily since the last MPC, up from ₹1.6 lakh crore during the previous two months. The staggered CRR cut from September 2025 is expected to further ease liquidity. This comfortable liquidity has facilitated effective transmission of repo rate cuts across money, bond, and credit markets.
- Between Feb–June 2025, weighted average lending rate (WALR) on fresh rupee loans fell by 71 bps (55 bps due to rate cuts), and by 39 bps on outstanding loans. Deposit rates also moderated, with weighted average domestic term deposit rate (WADTDR) on fresh deposits declining by 87 bps. Transmission has been broad-based across sectors.
- *Going forward, the Reserve Bank will continue to manage liquidity flexibly to support credit flow and ensure smooth transmission. An internal Working Group has reviewed the Liquidity Management Framework (LMF) and recommended continuing with WACR as the operating target due to its strong correlation with other overnight rates and its effectiveness in signalling. It also advised retaining the variable rate auction mechanism for repo and reverse repo operations to align market rates with the policy rate.*

#### iv. **Financial Stability**

- Scheduled Commercial Banks (SCBs) continue to show strong financial health across capital adequacy, liquidity, asset quality, and profitability. The credit-deposit ratio stood at 78.9% in June 2025, broadly unchanged from a year ago. NBFCs also remain sound, with adequate capital and improved asset quality.
- Bank credit grew by 12.1% in FY25 slower than 16.3% in FY24 but above the 10-year average of 10.3%. Non-food bank credit fell by ₹3.4 lakh crore, but this was offset by higher flows from non-bank sources. Overall financial flows to the commercial sector rose from ₹33.9 lakh crore in FY24 to ₹34.8 lakh crore in FY25, with the trend continuing into the current year.
- Faster transmission in money markets has led large corporates to shift toward market-based funding like commercial paper and corporate bonds. Improved profitability has also enabled greater reliance on internal resources for expansion.

#### v. **Additional Measures**

##### **I. Jan-Dhan Accounts and Financial Inclusion**

- As the Jan Dhan Scheme marks its 10<sup>th</sup> anniversary, a significant number of accounts are due for re-KYC. To facilitate this, banks are organising camps at the Panchayat level from July 1 to September 30, aiming to deliver doorstep banking services. These camps will not only support re-KYC and new account openings but also promote micro-insurance, pension schemes, and address customer grievances reinforcing the broader goal of financial inclusion.

##### **II. Regulation**

###### **a) Standardisation of procedure for settlement of claims in respect of deposit accounts of deceased customers of banks.**

- Under the Banking Regulation Act, 1949, nomination facilities are available for deposit accounts, articles in safe custody, and safe deposit lockers aimed at easing the settlement process after a customer's death. While banks are currently required to follow simplified procedures for claims by nominees, survivors, or legal heirs, these procedures vary widely. To improve customer service and reduce hardship for families, a decision has been made to standardize the documentation and streamline claim settlement processes across banks. A draft circular outlining these changes will soon be released for public consultation.

##### **III. Financial Markets**

###### **a) Introduction of Auto-bidding facilities in RBI Retail-Direct for Investment and Re-investment in T-bills**

- Launched in November 2021, the Retail-Direct portal enables retail investors to open Gilt accounts with the RBI and directly invest in Government Securities (G-Secs) through primary auctions and secondary market transactions. Since its inception, the scheme has evolved with new features, including expanded product offerings, flexible payment options, and the launch of a mobile app in May 2024.
- To further empower investors, an auto-bidding facility for Treasury bills (T-bills) has now been introduced. This feature allows investors to automate their bids in primary auctions, covering both fresh investments and reinvestments making it easier to plan and manage their portfolios systematically.



## **5. GIST OF RBI SPEECHES: CATALYSING SUSTAINABLE & GREEN INFRASTRUCTURE FINANCING FOR ACHIEVING NET ZERO**

*Inaugural Address by Shri M Rajeshwar Rao, Deputy Governor, Reserve Bank of India – July 03, 2025, at the Conference on Green Infrastructure Finance at College of Agriculture Banking, RBI, Pune*

### **The Climate Imperative**

Climate change has shifted from abnormal to normalized extreme weather patterns. Economic costs are staggering - \$2 trillion over 2014-2023, with \$451 billion in just 2022-23. Every dollar invested in climate-resilient infrastructure saves four dollars in avoided losses, yet global infrastructure requires USD 3-5 trillion annually until 2050 to achieve net-zero targets.

### **Critical Challenges**

**Financing Gap:** Only 1.5% of global investment funds align with Paris Agreement goals, leaving a \$2.5 trillion annual climate finance shortfall.

**Technology Risks:** Evolving green technologies face higher perceived risks compared to traditional alternatives, limiting debt financing access and requiring greater equity investment.

**Knowledge Gap:** Limited climate science understanding in financial sectors and inadequate financial modeling expertise among climate scientists creates assessment difficulties.

**Verification Issues:** Risk of greenwashing necessitates robust Monitoring, Reporting, and Verification (MRV) systems.

### **Strategic Solutions**

**Endogenous Enablers:** Enhanced information flow, data gap bridging, MRV systems, technical expertise development.

**Exogenous Enablers:** Risk capital provision, blended finance mechanisms, first loss guarantees, global fund harmonization, innovative instruments like sustainability-linked loans.

### **Call to Action**

Financial leadership must act urgently. Digital solutions, blockchain, and AI should streamline verification processes. The transition demands international cooperation, technology transfer, and systemic multilateral financial architecture reform. Sustainable infrastructure represents the foundation for climate action, economic resilience, and intergenerational equity. The question isn't whether the future will be built, but whether it will be sustainable.

# **STRONGER – RESPONSIBLE GOVERNANCE FOR A RESILIENT**

## **UCB SECTOR**

*Validictory Address by Shri Swaminathan J, Deputy Governor, Reserve Bank of India at the Seminar for Directors of Urban Co-operative Banks held in CAB, Pune on Friday, July 11, 2025*

### **Context & Significance**

Delivered during the International Year of Cooperatives 2025, this address recognizes Urban Cooperative Banks (UCBs) as essential grassroots development engines serving underserved segments through personalized, community-rooted banking services built on relationships and local knowledge.

### **Regulatory Support Framework**

Recent government and RBI initiatives include a four-tiered regulatory framework for proportional regulation, establishment of the National Urban Cooperative Finance and Development Corporation Ltd. (NUCFDC) as an Umbrella Organisation, and revised priority sector lending guidelines responding to sector feedback.

### **Five Critical Areas for Directors**

- 1. Strengthening Governance:** Root cause of UCB distress lies in weak internal governance, not external shocks. Directors must actively engage, ask difficult questions, ensure arm's length transactions, and prioritize long-term institutional interests over endorsing decisions.
- 2. Building Robust Assurance Functions:** Risk management, internal audit, and compliance require independence, direct Board communication, and active director engagement beyond routine report reviews.
- 3. Constructive Stakeholder Engagement:** Treat auditors and RBI inspection teams as valuable partners, not adversaries. Focus on understanding root causes and implementing corrective actions decisively.
- 4. Responsible Technology Adoption:** Digital transformation must align with risk appetite and operational capacity, emphasizing cybersecurity as a governance issue requiring realistic readiness assessment.
- 5. Collective Strength through Umbrella Organisation:** NUCFDC offers shared technology solutions, capacity building, and economies of scale while preserving unique local identity.

### **Call to Action**

Banking operates entirely on depositor trust. Directors must ensure governance excellence, risk management, and secure technology adoption to maintain UCBs' vital role in India's cooperative financial ecosystem.

# **RETHINKING REGULATIONS IN AN INTERCONNECTED**

## **FINANCIAL SYSTEM**

*Inaugural Address delivered by Shri M Rajeshwar Rao, Deputy Governor, Reserve Bank of India – August 18, 2025 - at the DoPT MDP on Financial Market Regulations at the Indian Institute of Management Kozhikode (IIMK)*

India's financial regulatory framework has evolved from RBI's establishment in 1935 to a multi-regulator system including SEBI, IRDAI, PFRDA, and IFSCA. Post-1991 reforms introduced private banks, prudential norms, and capital adequacy standards, strengthening oversight across banking, securities, insurance, and pensions.

Regulatory models vary globally: sectoral (India, Brazil), integrated (Singapore, UK pre-2008), Twin Peaks (Australia, UK post-GFC), and hybrid approaches. Each model has trade-offs in coordination, sectoral focus, and risk management. India uses a sectoral model with coordinated oversight for financial conglomerates.

Regulation-making involves principle-based (flexible but subjective), rule-based (clear but rigid), and outcome-based (goal-oriented) approaches. RBI uses a mix depending on context—e.g., digital lending directions emphasize outcomes like transparency.

Activity-based regulation targets specific financial services regardless of provider, while entity-based regulation focuses on the institution's overall resilience. A hybrid approach enhances oversight and adaptability. Risk-based regulation tailor's rules to systemic impact, optimizing supervisory resources.

Challenges include balancing innovation with stability, integrating climate and tech risks, and managing regulatory burden. Emerging models like Banking-as-a-Service and AI adoption require agile frameworks. RBI initiatives like PRAVAAH, RRA 2.0, and Connect 2 Regulate aim to streamline compliance and enhance stakeholder engagement.

Inter-regulatory coordination is vital, supported by platforms like FSDC and joint supervision mechanisms. Emphasis is placed on regulatory impact assessments, periodic reviews, and behavioral economics to improve consumer outcomes.

In essence, the future of financial regulation lies in adaptability, collaboration, and clarity—building a resilient system that supports India's growth ambitions while safeguarding its financial integrity. As quoted, "If you do nothing, there will be no result"—a call to action for thoughtful, responsive regulation.

## **6. CLASSROOM: TARIFFS AND ITS SIGNIFICANCE**

### **What is a Tariff?**

A tariff is a tax levied by the government on imported goods, and at times on exports. Its main function is to make foreign goods costlier than domestic products, thereby safeguarding local industries from overseas competition. Tariffs are a vital instrument in international trade policy.

### **Types of Tariffs**

- ❖ **Ad Valorem Tariff:** Charged as a fixed percentage of the value of the imported item, e.g., 10% on a ₹1,00,000 car equals ₹10,000.
- ❖ **Specific Tariff:** Imposed as a set amount per unit, regardless of value, e.g., ₹5,000 per tonne of steel.
- ❖ **Compound Tariff:** Combination of both—percentage of value plus a fixed amount, e.g., 5% of value and ₹200 per unit.

### **Significance of Tariffs**

- ❖ **Protecting Domestic Industries:** Tariffs make imports pricier, boosting local products and jobs.
- ❖ **Revenue Generation:** Especially important for developing nations, tariffs are a key source of government income.
- ❖ **Trade Negotiations:** Tariffs serve as leverage in international trade deals to encourage cooperation.
- ❖ **Correcting Trade Imbalances:** By curbing imports, tariffs help stabilise currency and the economy.
- ❖ **Encouraging Local Value Addition:** Structuring tariffs can promote domestic processing and job creation.

### **Potential Downsides of Tariffs**

- ❖ Tariffs can result in higher import costs, making foreign goods more expensive.
- ❖ Increased import costs often lead to higher prices for consumers in the domestic market.
- ❖ Higher prices may reduce consumers' purchasing power and limit their choices.
- ❖ Other countries may retaliate by imposing their own tariffs on exports. Such retaliatory measures can escalate into trade wars, negatively impacting global economic growth.

Tariffs are a powerful tool in the hands of governments for managing international trade, protecting domestic industries, generating revenue, and negotiating trade deals. However, they must be applied judiciously to balance the interests of producers, consumers, and the broader economy. In the context of a rapidly globalising world, understanding tariffs and their significance remains essential for policymakers, businesses, and individuals alike.

**Anoop Varghese**  
**Manager (Economics)**  
**SMEAD, Head Office**

## **7. GIST OF RBI CIRCULARS**

<b>Date of the circular</b>	<b>Aug 13, 2025</b>
<b>Ref No.</b>	<b>RBI/2025-26/73 CO.DPSS.RLPD.No.S536/04-07-001/2025-2026</b>
<b>Subject</b>	<b>Introduction of Continuous Clearing and Settlement on Realisation in Cheque Truncation System</b>

The RBI circular announces the transition of the Cheque Truncation System (CTS) to continuous clearing and settlement on realisation, effective in two phases: October 4, 2025, and January 3, 2026. Cheques will be processed and confirmed in real time, with hourly settlements based on positive or deemed confirmations. Drawee banks must confirm cheques within specified timeframes or they'll be deemed approved. Presenting banks must release payments to customers within one hour of settlement. Banks must inform customers and ensure readiness.

<b>Date of the circular</b>	<b>Aug 12, 2025</b>
<b>Ref No.</b>	<b>RBI/2025-26/72 A.P. (DIR Series) Circular No. 09</b>
<b>Subject</b>	<b>Investment in Government Securities by Persons Resident Outside India through Special Rupee Vostro account</b>

The RBI circular dated August 12, 2025, allows persons' resident outside India who maintain Special Rupee Vostro Accounts (SRVAs) for international trade settlement to invest their surplus rupee balances in Central Government Securities, including Treasury Bills. This move is in line with the Foreign Exchange Management regulations and the updated Master Direction on Non-resident Investment in Debt Instruments. The directions are effective immediately, and Authorised Dealer Category-I banks are instructed to inform their clients accordingly. These provisions are issued under the Foreign Exchange Management Act, 1999, and do not override other legal requirements.

<b>Date of the circular</b>	<b>Aug 5, 2025</b>
<b>Ref No.</b>	<b>RBI/2025-2026/71 A.P. (DIR Series) Circular No.08</b>
<b>Subject</b>	<b>International Trade Settlement in Indian Rupees (INR)</b>

The Reserve Bank of India (RBI) has permitted Category-I Authorised Dealer (AD) banks to open Special Rupee Vostro Accounts (SRVAs) for overseas correspondent banks without prior RBI approval. This move, effective immediately, aims to facilitate international trade settlements in Indian Rupees (INR). The directive is issued under FEMA, 1999, and AD banks are advised to inform their clients accordingly. It does not override other legal permissions or approvals that may be required under different laws.



## 8. CLIMATE NEWS

- **India Commissions Indigenous Green Hydrogen Power Plant at Kandla Port.**

In a significant stride towards sustainable energy, India has commissioned a 1 MW Green Hydrogen Power Plant (GHPP) at Kandla Port, developed under the National Green Hydrogen Mission. This indigenously built facility is capable of producing approximately 140 metric tonnes of green hydrogen annually through electrolysis powered by renewable sources like solar and wind. The initiative marks a major milestone in India's ambition to become a global hub for green hydrogen production, usage, and export.

Green hydrogen, produced by splitting water molecules using clean electricity, holds transformative potential across industries. It can replace fossil fuels in steel production, refineries, and fertilizer plants, and power hydrogen fuel cell vehicles such as buses and trucks. Additionally, it offers solutions for energy storage and grid balancing, especially during peak demand or low renewable generation periods. However, challenges remain, including high production costs (\$4–\$6 per kg), complex storage requirements, and significant water and energy consumption.

To overcome these hurdles, the government is focusing on reducing costs through tax reforms, affordable electricity access, and green financing. Incentives like the PLI scheme for green steel and the introduction of Green Hydrogen Purchase Obligations (GHPO) aim to stimulate market demand. The National Green Hydrogen Mission, led by the Ministry of New and Renewable Energy, targets 5 million metric tonnes of annual production by 2030, supported by strategic programs like SIGHT and pilot projects in steel, mobility, and shipping sector.

- **NITI Aayog unveils: \$200 Billion Electric Vehicle Opportunity Report and India Electric Mobility Index.**

The report presents a thorough evaluation of the current obstacles hindering the transition to electric mobility in India. Key challenges include difficulties in financing electric vehicles—particularly buses and trucks—insufficient and underutilized public charging infrastructure, and a general lack of awareness about electric vehicle (EV) performance among stakeholders. Additionally, gaps in data and regulations are impeding evidence-based policymaking.

To address these issues, the report recommends a strategic shift from incentive-based approaches to mandates, such as setting clear timelines for zero-emission vehicle adoption and tightening fuel efficiency norms. It also suggests innovative financing models like lower-interest loans and leasing options to reduce upfront costs. Programs should focus on achieving full electrification in select cities before scaling up nationwide, alongside efforts to boost R&D, optimize charging hub locations, and support private charge point operators.

The India Electric Mobility Index (IEMI), developed by NITI Aayog in collaboration with the World Resources Institute India, serves as a benchmarking tool to assess states' progress in EV adoption. It evaluates 16 indicators across three weighted themes: Transport Electrification Progress (50%), Charging Infrastructure Readiness (30%), and EV Research and Innovation Status (20%). This index

aims to guide policy and investment decisions by providing a data-driven framework for tracking and accelerating electric mobility efforts.

- **India Surpasses Clean Energy Milestone Ahead of Schedule.**

India has achieved a major clean energy milestone by reaching 50.08% of its total installed electricity capacity from non-fossil fuel sources, amounting to 484.82 GW. This accomplishment comes five years ahead of the target set under India's Nationally Determined Contributions (NDCs) to the Paris Agreement. The breakdown of the current energy mix includes 184.62 GW from renewable energy (38.08%), 49.38 GW from large hydro (10.19%), and 8.78 GW from nuclear sources (1.81%), while thermal power still contributes 242.04 GW (49.92%).

Several strategic initiatives have propelled this rapid growth. The PM Surya Ghar scheme enabled around 7 lakh rooftop solar installations, while PM-KUSUM provided solar-powered pumps to farmers, promoting energy-secure agriculture. Domestic manufacturing of solar PV modules and wind turbines has expanded under Production Linked Incentive (PLI) schemes. Infrastructure investments in inter-state transmission systems have improved power evacuation from renewable-rich regions. Additionally, policy reforms like the Green Energy Open Access Rules 2022 and 100% FDI under the automatic route have attracted private and foreign investment. The Viability Gap Funding (VGF) scheme is also supporting offshore wind energy projects.

This achievement positions India as a global leader in climate action, demonstrating that developing nations can transition to clean energy without compromising economic growth. It reduces dependence on imported fossil fuels, enhancing energy security and resilience against global price fluctuations. The diversified energy portfolio strengthens grid stability and supports industrial growth. Moreover, the renewable energy sector is generating substantial employment across manufacturing, installation, and maintenance, contributing to inclusive economic development.

- **India Revises Flue Gas Desulphurisation Policy for Thermal Power Plants.**

In July 2025, the Ministry of Environment and Forests announced a major revision to India's flue gas desulphurisation (FGD) policy, exempting 78% of coal-fired thermal power plants from mandatory FGD installation. This marks a shift from blanket regulation to a more targeted, cost-effective approach. FGDs, which reduce sulphur dioxide (SO<sub>2</sub>) emissions, were mandated in 2015, but by 2025, only 8% of India's 180 coal plants had complied due to high costs and limited availability. The new policy categorizes plants into three groups: Category A (11%) near major cities must install FGDs by December 2027; Category B (11%) near Critically Polluted Areas or Non-Attainment Cities may require FGDs by December 2028 based on expert review; and Category C (78%) are exempt.

The revised policy is backed by data showing declining ambient SO<sub>2</sub> levels and minimal impact of SO<sub>2</sub> on PM<sub>2.5</sub>-related health issues. India's annual SO<sub>2</sub> standard of 50 µg/m<sup>3</sup> is stricter than those in Japan, the EU, and Australia. A 2023 survey of 492 cities revealed only two exceeded this limit. Indian coal contains just 0.5% sulphur, contributing to relatively low SO<sub>2</sub> emissions. The cost of installing FGDs is approximately ₹1.2 crore per megawatt, which would total ₹2.54 lakh crore if applied to all plants.

Studies found no significant difference in SO<sub>2</sub> levels between plants with and without FGDs, reinforcing the limited benefits of universal installation.

This policy revision reflects a strategic balance between environmental protection and economic practicality. By focusing on high-impact areas, the government aims to improve air quality where it matters most while avoiding unnecessary expenditure. The exemption of most plants acknowledges the limited effectiveness of FGDs in regions with already low SO<sub>2</sub> levels. Compliance deadlines are set for Category A (by 30 December 2027) and Category B (by 30 December 2028), while Category C plants remain exempt. The Ministry will continue monitoring pollution levels to adapt regulations as needed, ensuring a dynamic and data-driven approach to environmental governance.

- **Three Indian Mines Earn Historic Seven-Star Sustainability Rating.**

In a landmark achievement for sustainable mining, the Ministry of Mines awarded the prestigious seven-star rating to three Indian mines in 2025—the first time this top-tier recognition has been granted. The honoured mines are Ultratech Cement's Naokari limestone mine, Tata Steel's Noamundi iron ore mine, and Sandur Manganese and Iron Ore Ltd.'s Kammatharu mine. This rating is reserved for mines that have maintained five-star ratings for five consecutive years and passed a rigorous two-stage evaluation, including self-assessment and on-site validation by the Indian Bureau of Mines (IBM).

The star rating system evaluates mines across four key modules: mine-level impact management, progressive mine closure and restoration, social welfare, and transparent reporting. A five-star rating requires a score of 90% or above in these areas, while the seven-star rating demands sustained excellence. Ultratech's Naokari mine, the first limestone mine to achieve this rating, was recognized for zero-waste mining and innovative reuse of lime sludge and paper mill residue. It also leads in social initiatives like the Dharanya Kanya Scheme, which trains women to operate heavy machinery, and environmental innovations such as floating solar panels and waste heat recovery systems.

Launched in 2014-15, the Star Rating of Mines programme has significantly improved mining practices across India. In 2023–24 alone, 98 mines were recognized, including 95 with five-star ratings. UltraTech Cement emerged as a leader, securing the highest number of five-star ratings across multiple minerals for the second consecutive year. The scheme covers a wide range of minerals including limestone, iron ore, bauxite, lead-zinc, and manganese, and has become a key driver of responsible mining, community development, and environmental stewardship.

- **What is the European Union's CBAM, and why has BRICS condemned and rejected it?**

The European Union's Carbon Border Adjustment Mechanism (CBAM), introduced in 2023, is a climate-related trade policy that imposes a carbon tax on certain imported goods based on the emissions generated during their production. Its goal is to prevent "carbon leakage"—where companies move production to countries with less stringent emissions standards—and to encourage cleaner industrial practices globally. Under CBAM, EU importers must purchase carbon certificates equivalent to the carbon cost that would have been incurred if the goods were produced under EU regulations. If the exporting country has already taxed the carbon emissions, that cost can be deducted. CBAM is currently in a transitional phase and will be fully implemented by 2026.

BRICS nations—Brazil, Russia, India, China, and South Africa—have strongly opposed CBAM, condemning it as a unilateral and unfair trade barrier that undermines their efforts to transition to cleaner economies. They argue that CBAM violates international trade and climate agreements and disproportionately affects developing countries by making their exports, such as steel and cement, less competitive in European markets. BRICS has raised concerns at various international forums, including climate conferences, but the EU has remained firm in its stance. The group views CBAM as a protectionist measure that could hinder global cooperation on climate action.

The EU's Carbon Border Adjustment Mechanism (CBAM) aims to curb carbon leakage by taxing imports based on their carbon footprint, thereby maintaining Europe's environmental standards and industrial competitiveness. However, developing countries like India and China argue that CBAM unfairly penalizes their exports, violating international trade and climate agreements and ignoring the principle of differentiated responsibilities in global climate policy. They see it as a disguised trade barrier that benefits industries in developed nations while disadvantaging those in the Global South. This opposition has been voiced strongly at climate forums, with BRICS and the BASIC group calling for unified resistance against such unilateral measures that shift climate burdens onto developing economies.

- **How flash floods are affecting India?**

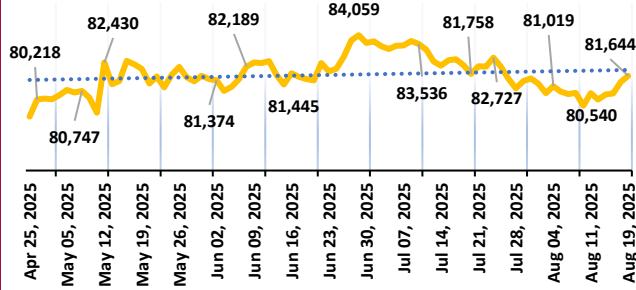
Flash floods have caused widespread devastation across India, with over 100 deaths in Himachal Pradesh this month and hundreds more in Kerala, Ladakh, and Sikkim over the past year. These sudden floods, triggered by extreme rainfall, claim over 5,000 lives annually and damage infrastructure, agriculture, and ecosystems. Rising global temperatures have intensified their frequency, with flash flood events increasing from 132 in 2020 to 184 in 2022. Despite the growing threat, research on vulnerable regions remains limited, hindering effective adaptation strategies. A recent IIT-Gandhinagar study identifies the Himalayas, west coast, and Central India as flash flood hotspots.

A recent study has found that only about 25% of flash floods in India are directly caused by extreme rainfall; the rest result from a combination of heavy precipitation and pre-existing soil saturation. If the ground is already wet, it cannot absorb more water, leading to rapid runoff and increased flood risk. Flash floods often occur after prolonged rainfall rather than isolated intense events. In regions like the west coast and Central India, the high flashiness of sub-basins—where water levels rise quickly—also contributes to flooding. In the Himalayas, steep slopes and significant elevation differences further intensify the risk of flash floods.

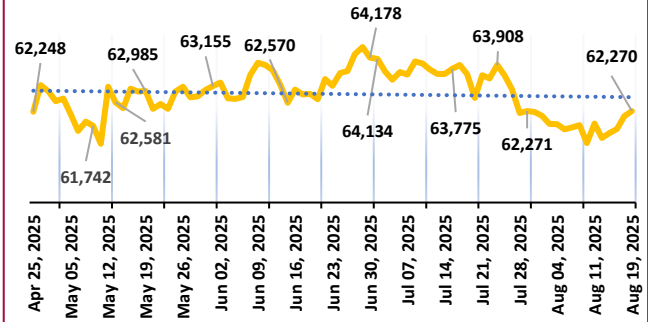
Climate change is significantly increasing the frequency and intensity of flash floods due to rising global temperatures, which allow the atmosphere to hold more moisture and cause heavier rainfall. In India, extreme precipitation events have surged across all seasons, especially during the monsoon, which accounts for over 75% of flash floods. Since 1995, flash floods have notably risen in river basins like the Brahmaputra, Ganga, and Krishna. The study also found that even non-flash flood-prone areas are now experiencing more wet hours, increasing their vulnerability. To address this, researchers stress the need for region-specific adaptation strategies, improved early warning systems, climate-resilient infrastructure, and better land-use planning.

## 9. DAILY ECONOMIC INDICATORS

### SENSEX

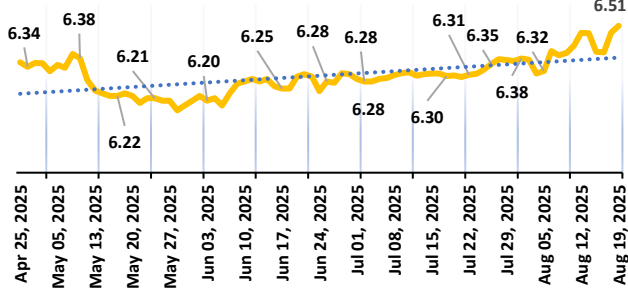


### BANKEX

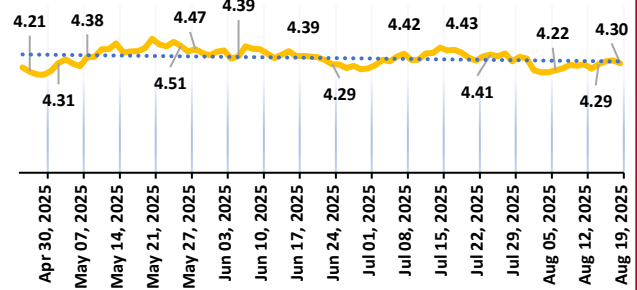


### G SEC YIELD (10 Yr)

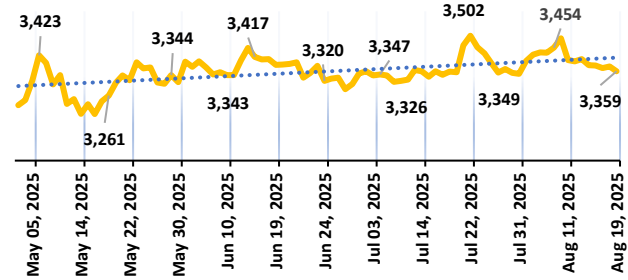
6.33 GS 2035



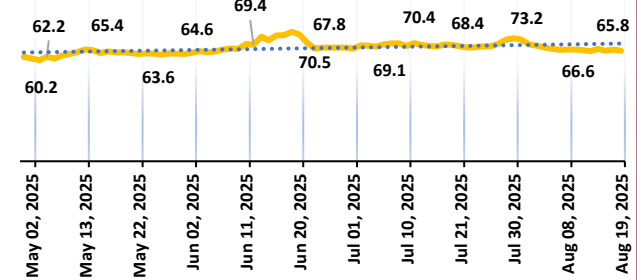
### US TREASURY YIELD (10 Yr)



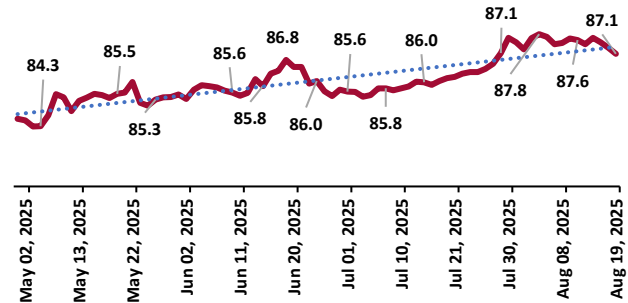
### GOLD Futures (\$)



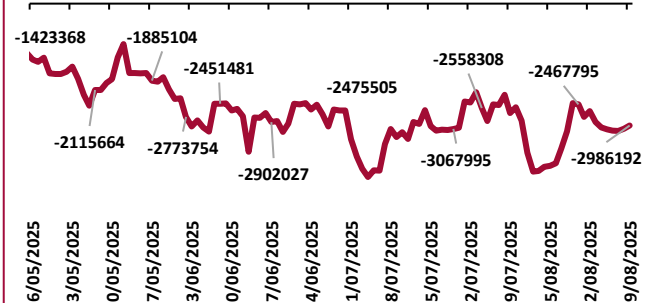
### BRENT Oil Futures (\$)



### USD/INR



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

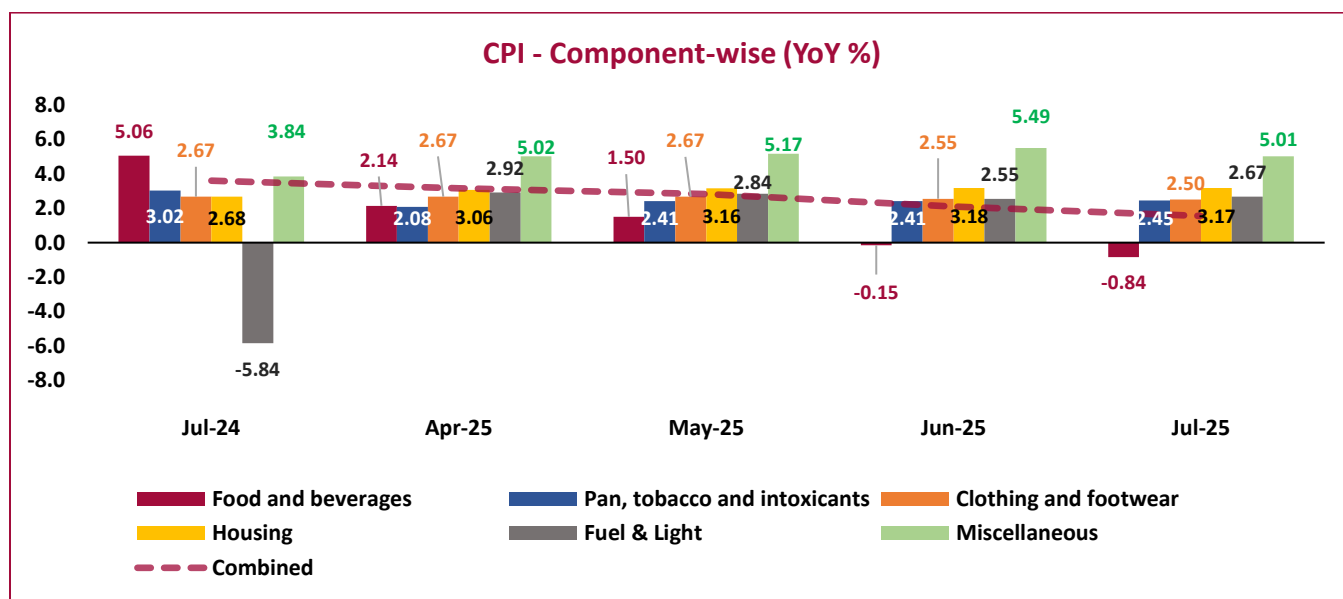
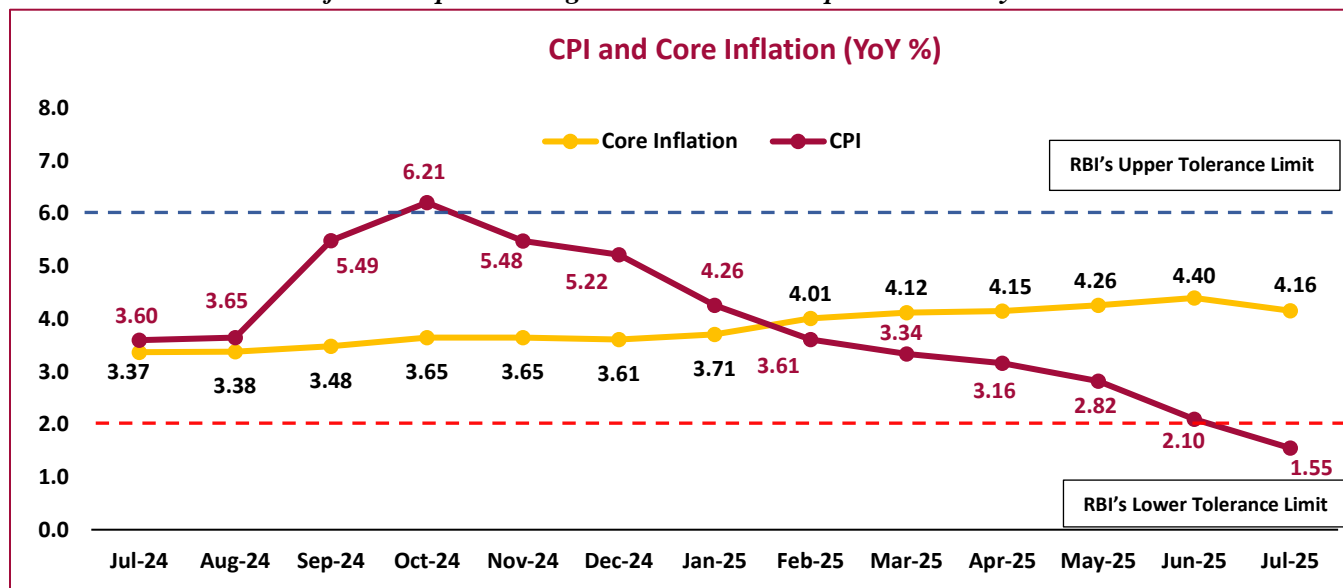




## 10. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

### CONSUMER PRICE INDEX (CPI)

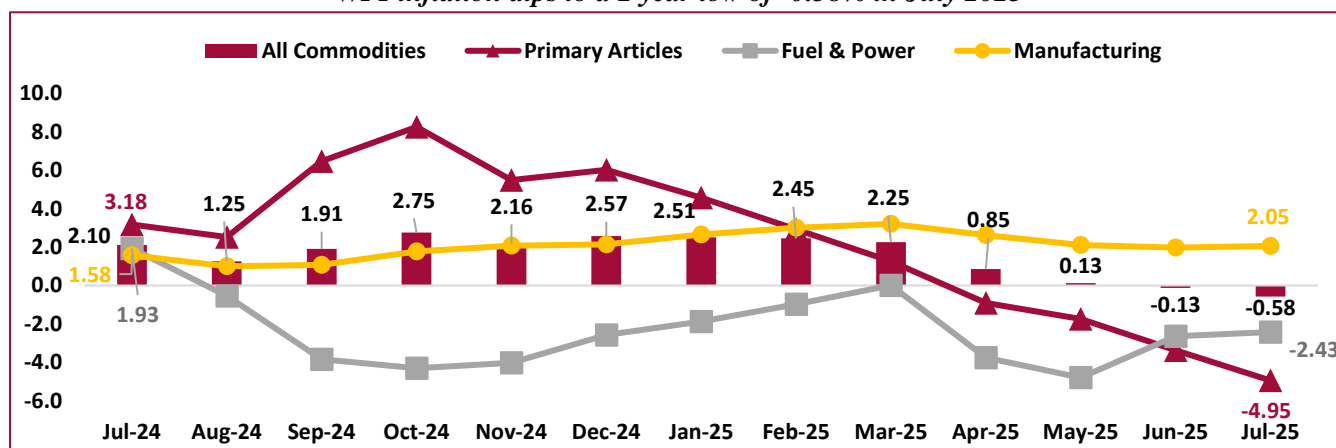
*CPI inflation dips to an Eight Year Low to 1.55 per cent in July 2025*



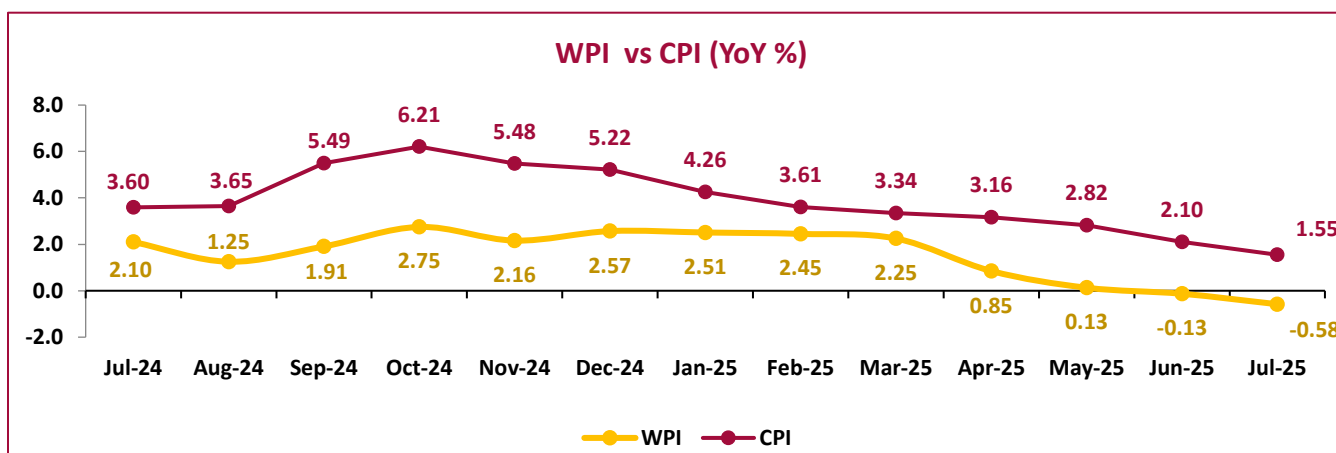
Retail inflation measured by CPI dropped further to 1.55 per cent (provisional) in July 2025, falling from 2.10 per cent in June 2025 and 3.60 per cent in July 2024. Urban inflation fell from 2.56 per cent in June to 2.05 per cent in July 2025, while rural inflation fell from 1.72 per cent in June to 1.18 per cent in July 2025. The continued moderation in overall CPI inflation marks the ninth consecutive month of easing inflation, largely due to food inflation falling in negative zone.

## WHOLESALE PRICE INDEX (WPI)

WPI inflation dips to a 2 year low of -0.58% in July 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
May	7.42	-1.75	1.01	-4.80	1.00	2.11	9.93	-1.25	2.74	0.13
June	9.20	-3.38	0.48	-2.65	1.50	1.97	11.14	-3.75	3.43	-0.13
July	3.18	-4.95	1.93	-2.43	1.58	2.05	3.50	-6.29	2.10	-0.58

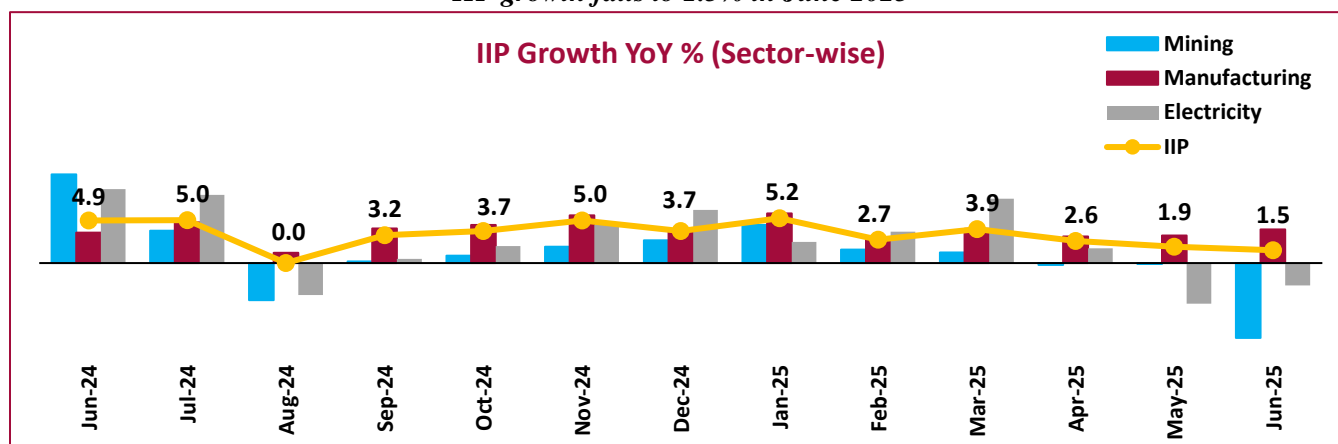


India's wholesale price index (WPI)-based inflation fell to a 2-year low of -0.58 per cent in July 2025 this year. Primary Articles category contracted to 4.95 per cent in July 25, from a contraction of 3.38 per cent in the previous month. Meanwhile, the fuel and power category also witnessed deflation of 2.43 per cent, against deflation of 2.65 per cent in June 25.

In the manufactured products category, inflation increased to 2.05 per cent from 1.97 per cent in the previous month. July marked the second consecutive month of deflation in WPI since the beginning of 2025. It was primarily pulled down by deflationary trends in the primary articles, fuel and power and food groups.

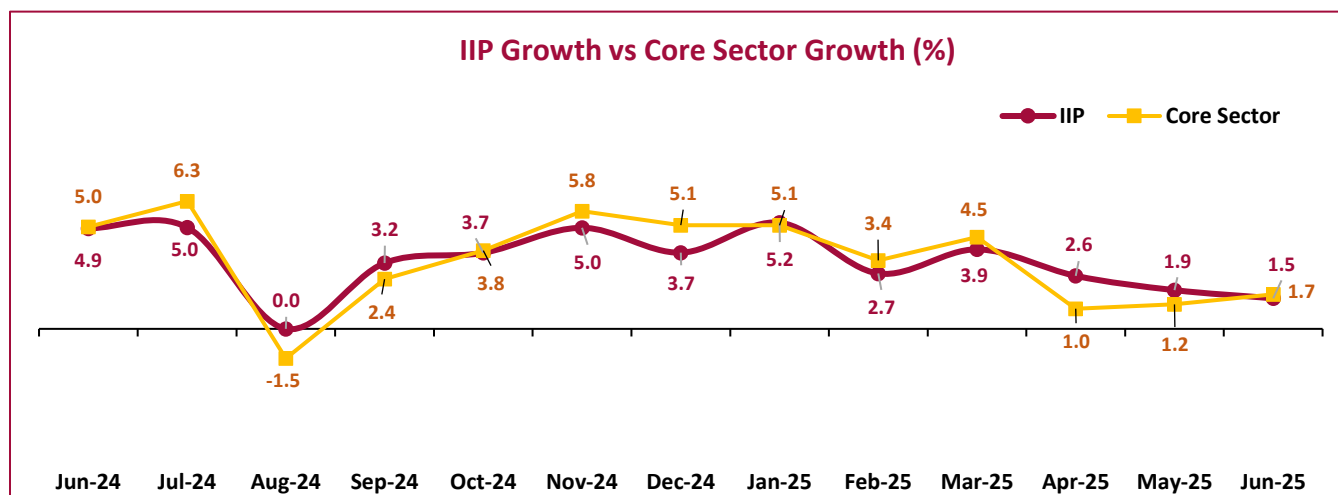
## INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

*IIP growth falls to 1.5% in June 2025*



### IIP Growth YoY % (Usage-wise)

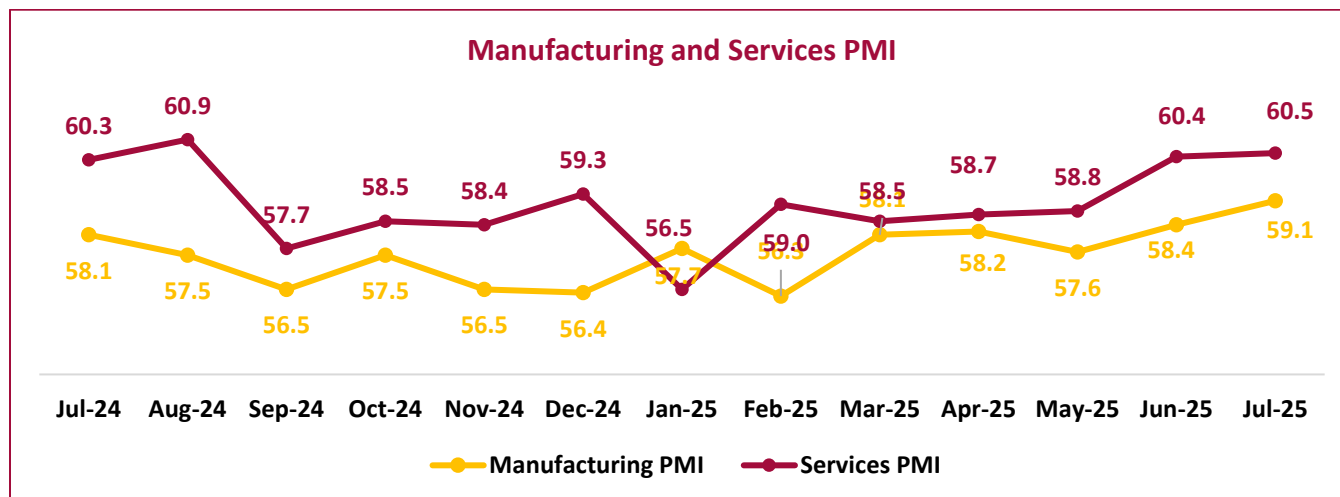
Component	Weight	Jun'24	May'25	Jun'25	Apr-Jun'24	Apr-Jun'25
Primary Goods	34.05%	6.3	-1.4	-3.0	6.9	-1.6
Capital Goods	8.22%	3.6	13.3	3.5	3.1	10.0
Intermediate Goods	17.22%	3.2	4.7	5.5	3.5	5.0
Infra/Construction Goods	12.34%	8.2	6.7	7.2	8.1	6.3
Consumer Durables	12.84%	8.8	-0.9	2.9	10.7	2.6
Consumer Non- Durables	15.33%	-1.0	-1.0	-0.4	-0.3	-1.3



IIP grew by 1.5 per cent in Jun'25 which is lower than the growth seen in May'25 of 1.9 per cent. For April-Jun'25, cumulative growth was 2.0 per cent. Manufacturing sector had shown a growth of 3.9 per cent, while Mining and Electricity sectors showed a decline of -8.7 per cent and -2.6 per cent respectively. In the use-based classification, Construction goods and Intermediate goods recorded a growth of 7.2% and 5.5% respectively whereas Primary goods experienced negative growth along with consumer Non-Durables.

## PURCHASING MANAGERS' INDEX (PMI)

*Services PMI rose to 60.5 and Manufacturing PMI increased to 59.1 in July 2025*



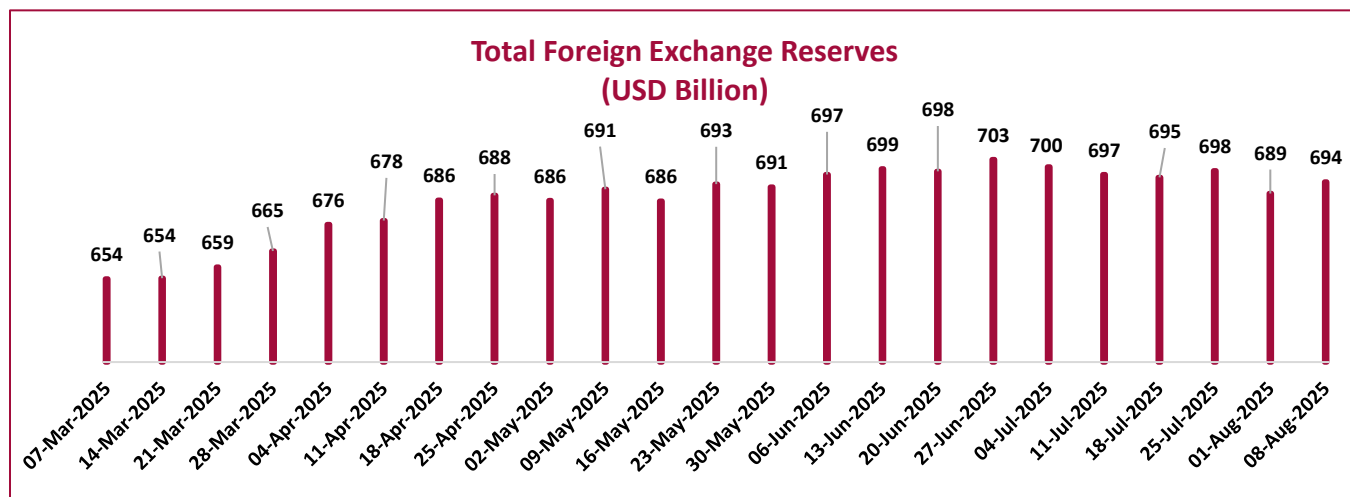
The **HSBC India Manufacturing PMI** rose to a 16-month high of 59.1, driven by a sharp increase in new orders and output. The **HSBC India Services PMI** sector accelerated to a 11-month high to reach 60.5. This was primarily on account of strong international demand and sustained increase in business activity.

The **India Composite PMI**, which combines the manufacturing and services PMI, edged up marginally to 61.1 in July 2025 from 61.0 in June 2025, marking the strongest expansion since April 2024.

## PERFORMANCE OF OTHER LEADING INDICATORS

	Jul 24	Aug 24	Sep 24	Oct 24	Nov 24	Dec 24	Jan 25	Feb 25	Mar 25	Apr 25	May 25	Jun 25	Jul 25
Coal production (YoY%)	6.4	-7.6	2.5	7.7	7.4	5.3	4.4	1.7	1.6	4.1	2.8	-6.8	-12.4
Electricity generation (YoY%)	6.8	-3.8	-1.3	0.5	2.7	4.5	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.9
Consumption of petroleum products (YoY%)	10.7	-3.1	-4.4	4.1	10.6	2.0	3.0	-5.2	-3.1	0.2	0.7	1.4	-4.0
Cargo handled at major ports (YoY%)	5.9	6.7	5.8	-3.4	-5.0	3.4	7.6	3.6	13.3	7.0	4.3	5.6	-
Cement production (million tonnes)	31.3	32.1	32.4	34.0	32.0	38.9	40.5	39.8	45.7	38.0	38.7	39.8	-
Steel consumption (million tonnes)	12.3	12.6	12.3	13.0	12.3	13.8	13.7	12.4	14.3	12.0	13.1	13.2	13.2
Two-wheelers sales (Nos. in Lakhs)	17.7	20.5	24.0	25.3	19.7	14.8	19.1	17.8	20.2	18.3	20.4	19.5	20.0
Tractors sales (Nos. in Thousand)	68.0	58.7	108.0	151.8	78.3	59.1	69.8	67.8	90.7	90.3	99.4	121.6	72.8

## FOREIGN EXCHANGE RESERVES

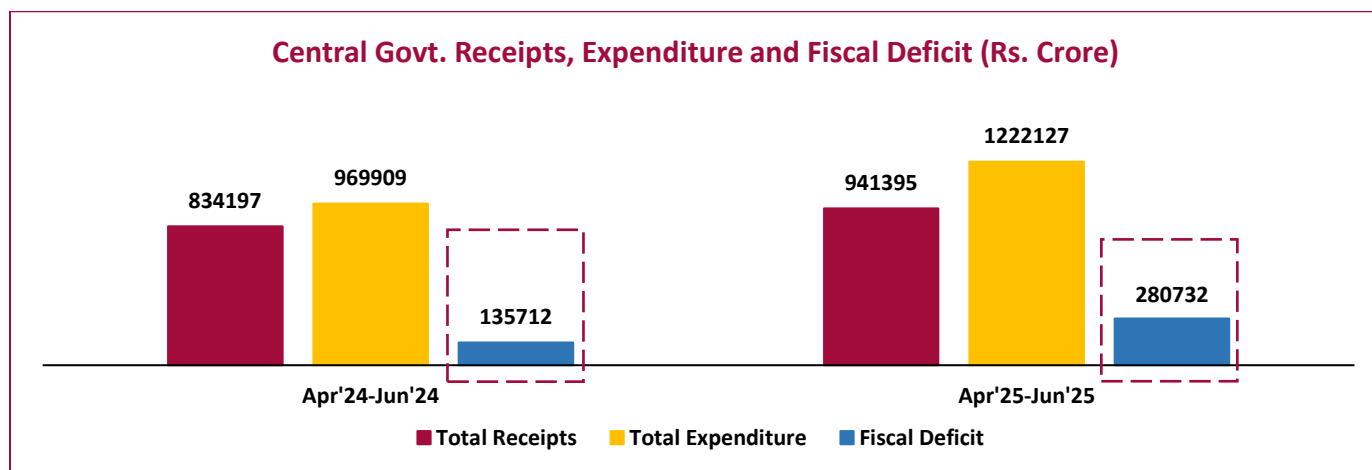


India's total foreign exchange (forex) reserves increased to \$693.6 billion as of 08<sup>th</sup> August 2025 from \$688.8 billion for the week ended 01<sup>st</sup> August 2025.

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

	Jul -24	Aug -24	Sep -24	Oct -24	Nov -24	Dec -24	Jan -25	Feb -25	Mar -25	Apr -25	May -25	Jun -25	Jul- 25
E-way bill Generation	10.5	10.5	10.9	11.7	10.2	11.2	11.8	11.2	12.5	11.9	12.3	11.9	13.2

## FISCAL DEFICIT



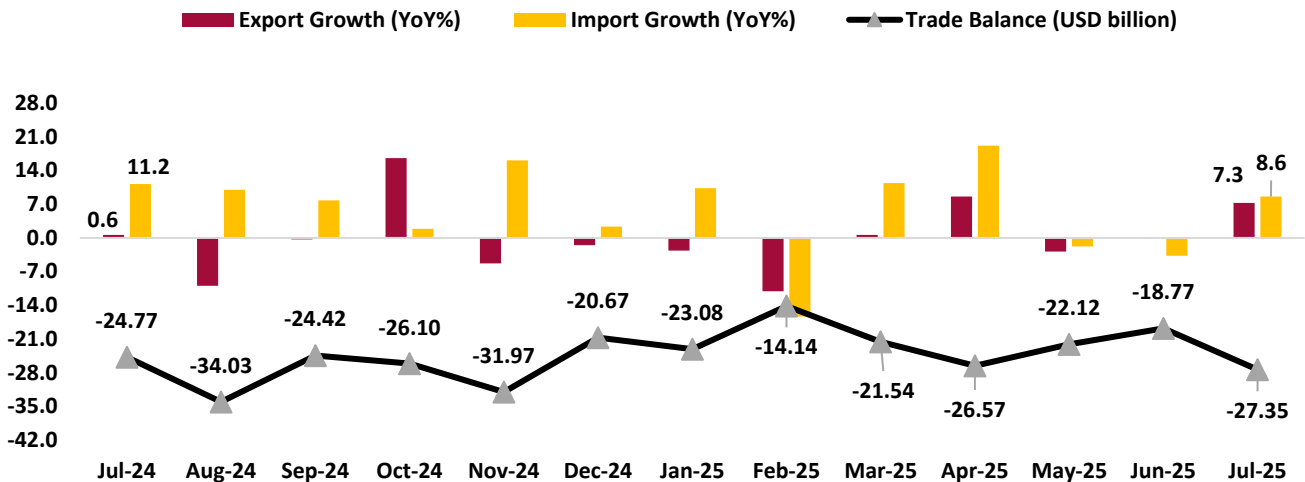
India's fiscal deficit government's fiscal deficit in June 2025 period came in at ₹2.81 lakh crore amounting to 17.9% of full year target. Total receipts stood at ₹9.41 lakh crore (26.9% of this fiscal year's budget target) while total expenditure was at ₹12.22 lakh crore. Revenue receipts stood at ₹9.13 lakh crore out of which tax revenue was ₹5.40 lakh crore and non-tax revenue was ₹3.73 lakh crore.



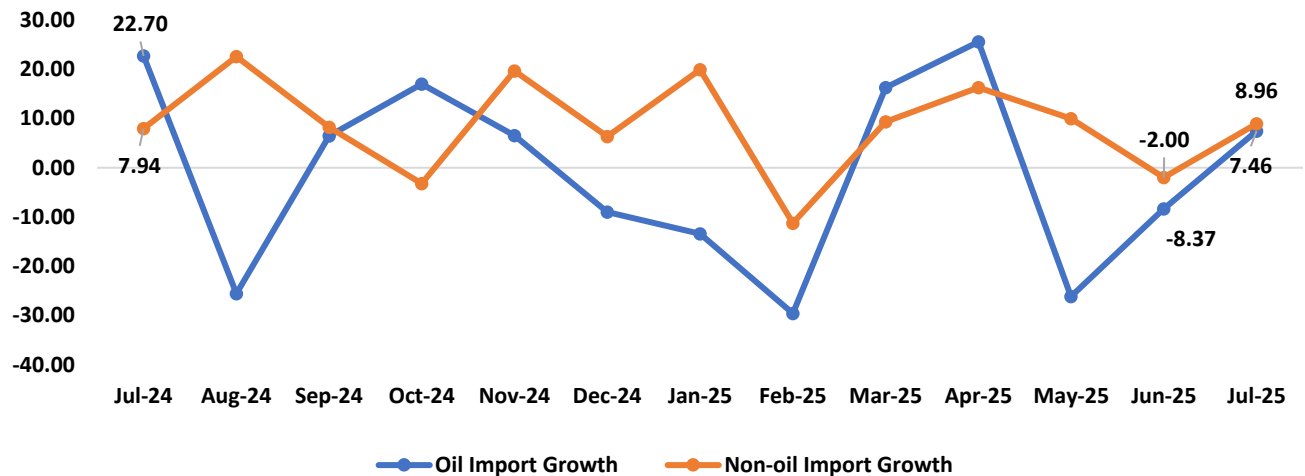
## FOREIGN TRADE

*Merchandise Trade Deficit increases to an eight month high of USD 27.35 billion*

### Merchandise Exports, Imports & Trade Balance



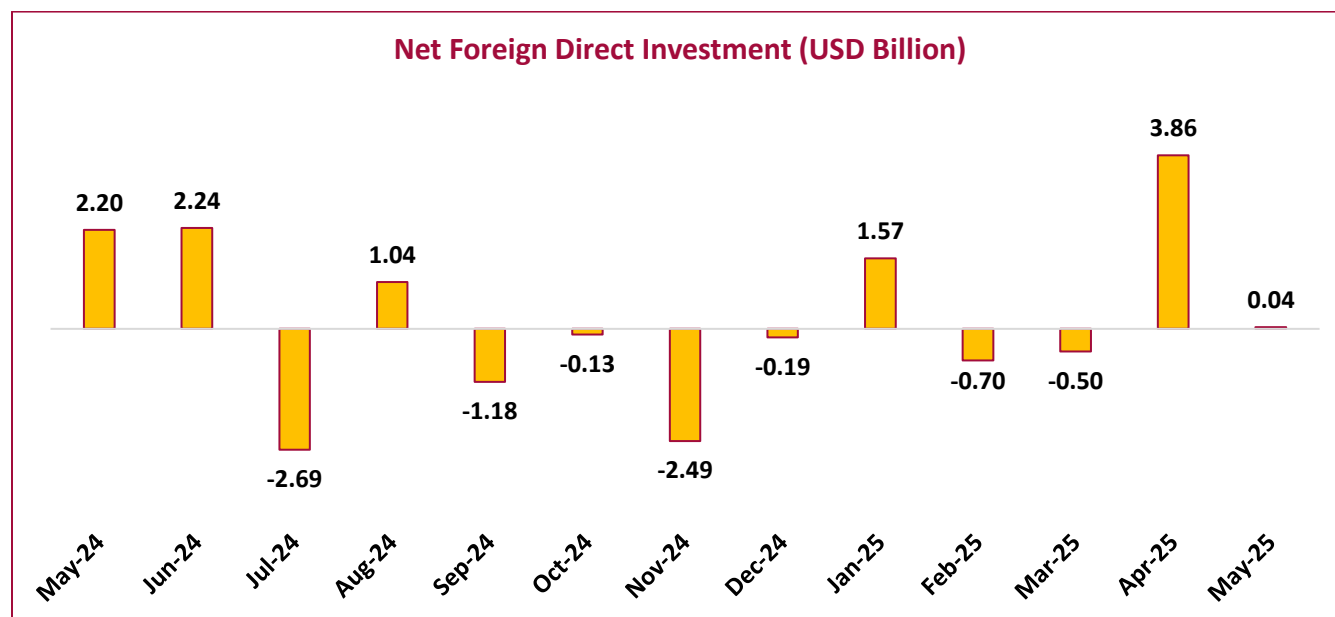
### Import Growth (YoY%) - Oil and Non-oil



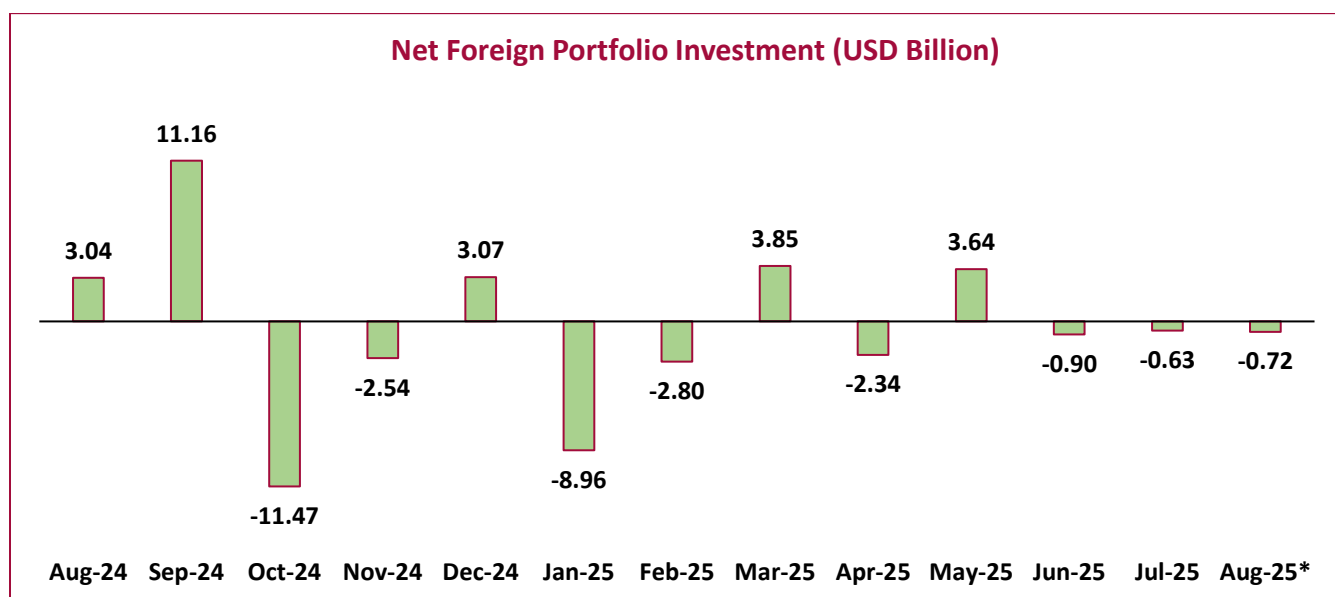
India's merchandise trade deficit increased to eight-month high of \$27.35 billion in July 2025 from \$18.77 billion in June 2025. In July 2024, it was \$24.77 billion. Merchandise exports for July 2025 increased by 7.29% YoY to \$37.24 billion. Petroleum product exports fell by 25.05% YoY to \$4.34 billion, while non-petroleum product exports rose by 13.77% YoY to \$32.89 billion.

Merchandise imports improved by 8.59% YoY to \$64.59 billion, with crude oil imports increasing by 7.46% YoY. The proportion of oil imports within merchandise imports declined to 24.12% in July 2025, down from 25.59% in the previous month. In contrast, the share of non-oil imports increased to 75.88% from 74.41% during the same period.

## FOREIGN INVESTMENTS



India witnessed a steep decline in net foreign direct investment in May FY26. The sharp decrease of investments in India can be attributed to fall in gross inflows and a surge in repatriation by overseas investors.



\*upto 19<sup>th</sup> August 2025

Foreign Portfolio Investments (FPI) in August remained as net outflows. The FPI turned net sellers in Indian equities. Foreign investors have now pulled out a net Rs. 1,16,810 crores from Indian equities so far in 2025, indicating that foreign investors continue to remain cautious amid the ongoing uncertainty.

## DEPOSIT AND CREDIT OF SCBs

Parameter (Rs. Lakh Crore)	26.07.24	21.03.25	11.07.25	25.07.25	YoY Growth(%)	YTD Growth(%)	Fortnightly Growth (%)
Deposits	211.94	225.81	233.26	233.49	10.17%	3.40%	0.10%
Advances	168.14	182.44	184.70	185.02	10.04%	1.41%	0.17%
Business	380.08	408.25	417.96	418.51	10.11%	2.51%	0.13%

## SECTORAL DEPLOYMENT OF CREDIT- INDUSTRY WISE

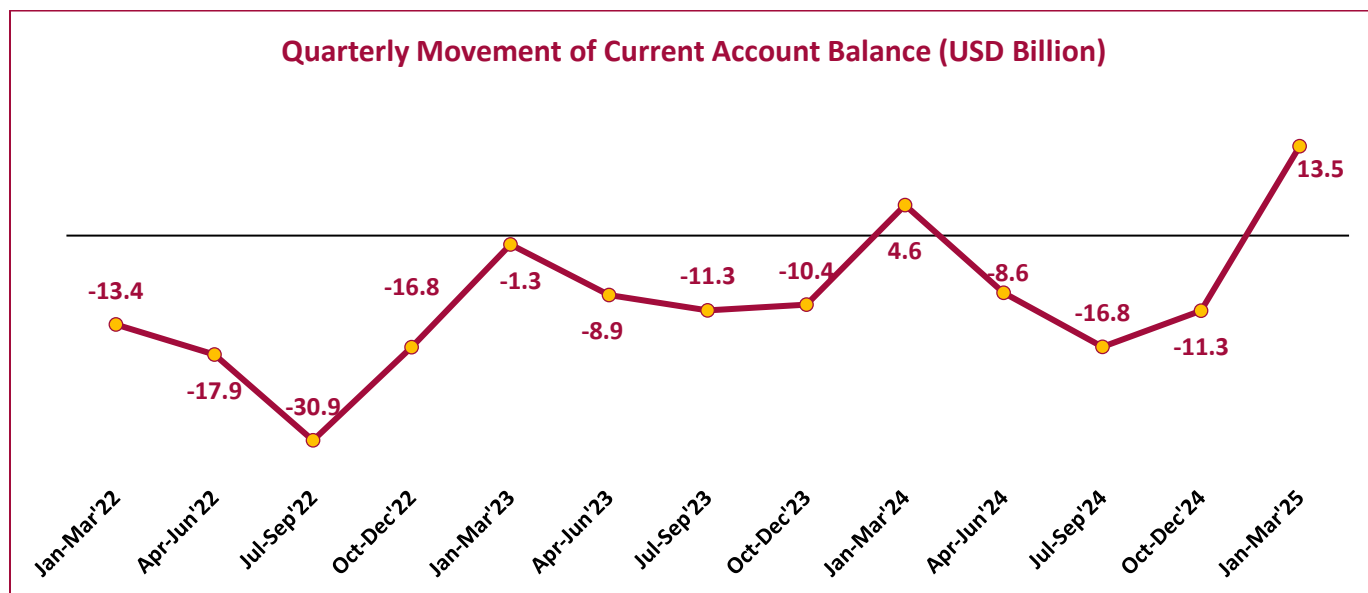
Parameter* (Rs. Lakh Crore)	Jun-24	Mar-25	May-25	Jun-25
<b>Total Non-food</b>	<b>168.5</b>	<b>182.1</b>	<b>182.2</b>	<b>184.2</b>
Agriculture and allied activities	21.6	22.9	23.0	23.1
Industry	37.3	39.4	38.8	39.3
<i>Of which</i>				
Micro & small	7.3	7.9	8.4	8.7
Medium	3.2	3.6	3.7	3.6
Large	26.8	27.8	26.8	27.0
<b>Personal loans</b>	<b>54.9</b>	<b>59.5</b>	<b>60.6</b>	<b>61.5</b>
<i>Of which</i>				
Housing (Including priority sector housing)	28.0	30.1	30.4	30.7
Credit card outstanding	2.7	2.8	2.9	2.9
Education	1.2	1.4	1.4	1.4
Vehicle loans	5.9	6.2	6.4	6.5
<b>Services</b>	<b>47.1</b>	<b>51.6</b>	<b>50.9</b>	<b>51.3</b>
<i>Of which</i>				
Computer software	0.3	0.3	0.3	0.4
Tourism, hotels & restaurants	0.8	0.8	0.9	0.8
Shipping	0.1	0.1	0.1	0.1
Aviation	0.5	0.5	0.5	0.5
Retail trade	5.0	5.4	5.3	5.4
Commercial real estate	4.8	5.3	5.5	5.6

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

On a YoY basis, non-food bank credit for the month ended June 30, 2025, grew by 9.3 per cent. Credit to agriculture and allied activities registered a growth of 6.8 per cent YoY as of June 2025 as compared to 17.4 per cent in June 2024. Credit to industry rose by 5.5 per cent YoY in June 2025 as compared to 8.1 per cent in June 2024. YoY growth in Credit to services sector moderated to 9.0 per cent in June 2025 as compared to 17.4 per cent in June 2024.

## 11. QUARTERLY ECONOMIC INDICATORS

### CURRENT ACCOUNT BALANCE



India's current account balance recorded a surplus of \$13.5 billion, or 1.32 per cent of gross domestic product (GDP), during the January-March 2025 quarter of the previous financial year (Q4FY25) as compared with \$4.6 billion, a year ago, amid a significant jump in services receipts and strong remittances. The current account of India reported a surplus in Q4FY25 as against a deficit of \$11.3 billion in Q3FY25. Going further, CAD may be affected by the heightened volatility in the global economy with escalating geopolitical tensions and trade restrictions.

## 12. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	0.50%	Jan 24, 2025 (25bps)	September 19, 2025
European Central Bank	Europe	2.15%	Jun 5, 2025 (-25bp)	September 11, 2025
Federal Reserve	U.S.A	4.50%	Dec 18, 2024 (-25bps)	September 17, 2025
Bank of England	U.K	4.00%	Aug 07, 2025 (-25bp)	September 18, 2025
Peoples Bank of China	China	3.00%	May 20, 2025 (-10bp)	-
Reserve Bank of India	India	5.50%	Jun 06, 2025 (-50bps)	October 01, 2025

### 13. MACRO ECONOMIC INDICATOR OUTLOOK

**Banking system liquidity** continue to stay in surplus territory at around Rs.2.73 trillion during Apr-July, keeping short-term rates like WACR and tri-party repo below the policy repo rate. Going forward, the liquidity is expected to remain moderately surplus in Q2 FY25, aided by government spending, easing credit demand and 100 bps phased CRR cut starting September first week.

Retail **Inflation** is expected to remain well within the manageable limit, with the RBI projecting an average Consumer Price Index (CPI) inflation rate of 3.1% for FY26 (revised downward its earlier estimate of 3.7%). However, CPI may exceed 4% in Q4 FY26 due to base effect and demand-side pressures from policy actions, though the current outlook still allows scope for monetary policy adjustments.

India's **current account deficit (CAD)** moderated to 0.6% of GDP in FY25 from 0.7% of GDP in FY24. However, the CAD is projected to widen to approximately 0.9% in FY26, driven by expected headwinds in the export sector. These include ongoing U.S. tariff-related challenges and potential upside risks to global commodity prices, which could strain trade dynamics & weigh on the external account.

India's **Index of Industrial Production (IIP)** is projected to grow by 3.8% in FY26 (lower than earlier expectation), down from 4.1% in FY25. The slowdown is attributed across economic activities including mining and quarrying, electricity generation and manufacturing growth (particularly in sub-sectors like basic metals, chemicals, and electrical equipment).

The central government accelerated the spending majorly Capex in FY26 amounted to Rs.12.2 trillion during April-June 2025. The government remains confident in achieving its **fiscal deficit** target of 4.4% in FY26, even with personal income tax rate tax cuts and upcoming moderation in the Goods and Services Tax (GST) regime, aiming to reduce the cost of daily essentials and electronics. Achieving this goal is considered ambitious, given the focus on capital expenditure and potential revenue constraints in FY26. Effective fiscal management will be crucial to meet this target.

In response to growth challenges and controlled inflation, the RBI frontloaded a 50 bps repo rate cut in Jun'25, bringing the cumulative reduction to 100 bps. Banks have passed on 71 bps to fresh loans and 87 bps to fresh deposits, indicating steady **monetary policy** transmission. While headline inflation has softened mainly due to volatile food prices, but core inflation remains stable near 4%, warranting close macroeconomic monitoring before any further rate action by the central bank.

Concerns are mounting as tariff-related uncertainties cast a shadow over India's real growth prospects for FY26 as Indian goods facing a tariff of 25% from the US along with an incremental penalty of 25 per cent, which would come into effect from August 27. This is considerably higher than the rates applied to other countries such as Vietnam, Bangladesh, Thailand, & China, raising concerns of a 35 to 80 bps hit to real growth. Despite this, India's **real GDP** is projected to grow at around 6.4% in FY26. Meanwhile, the tariff penalty is expected to pose a greater risk once it materialises.



## 14. INDUSTRY OUTLOOK

### PHARMACEUTICAL INDUSTRY

India's pharmaceutical industry is a global powerhouse often referred to as “**Pharmacy of the World**”. It is 3rd largest by volume and 14th by value. The Indian pharmaceutical industry was valued at approximately **USD 50–58 billion** in FY 2023–24. It is projected to grow to around **USD 57 billion** by FY 2025 and reach **USD 130 billion** by 2030. The long-term forecasts suggest a potential surge to **USD 400–450 billion** by 2047.

**Global Reach of India's Pharmaceutical Industry:** At present, India supplies around 20% of the global generic medicines by volume and over 60% of global vaccines, catering to over 150–200 countries. India's export in Pharma grew robustly approximately USD 25–30 billion in FY 2024–25 showing double digit growth.

**Scenario in Domestic Market:** The domestic market is growing steadily, driven by rising demand for chronic therapies, expanded healthcare access via programs like **Ayushman Bharat** and increased availability of generics through **Jan Aushadhi** stores.

#### **Drivers of Growth (2025–2030 & beyond)**

**1. Government Initiatives & Policy Support:** The PLI (Production Linked Incentive) schemes for bulk drugs, APIs, biopharmaceuticals, and medical devices (with an outlay of Rs.15,000 Crore) are fuelling investments and self-reliance. Additionally, Strengthening of Pharmaceutical Industry (SPI) scheme with Rs.500 Crore to further bolster MSMEs. Also, the expansion of Pradhan Mantri Bhartiya Janaushadhi Kendras is also increasing access to affordable generics. A total of 16,912 Jan Aushadhi Kendras (JAKs) have been opened till 30.6.2025

**2. Innovation, R&D & Digital Transformation:** India is shifting from generics to innovation, with growing investment in R&D. Apart from this, digital tools such as AI/ML technologies are also being harnessed for drug discovery, trial design, and regulatory processes.

**3. Bio-similars & Biologics:** Bio-similars are emerging as a high-growth export driver which is estimated to grow and reach USD 10–12 billion by 2025, growing at a CAGR of ~22%. A surge in demand for complex biologics globally is opening new frontiers for Indian firms.

**4. CRDMO/CDMO Momentum:** Gradually India is becoming a hub for Contract Research, Development, and Manufacturing Organizations (CRDMOs). Market potential is expected to escalate from USD 12 billion in 2024 to USD 25 billion by 2030. Sector players are urging improved regulatory support and infrastructure via dedicated pharma parks.

**5. Infrastructure & Regional Development:** India is undertaking Initiatives like Hyderabad Pharma City, proposed to span ~19,000 acres, aim to build a massive pharmaceutical cluster, employing 560,000 and attracting significant investments.

Overall, the Indian pharmaceutical industry is poised for significant growth and transformation, driven by strong domestic demand, increasing global exports, and a focus on innovation and technological advancements.

<sup>1</sup> <https://www.pib.gov.in/PressNoteDetails.aspx?id=154488&NoteId=154488&ModuleId=3>

## 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

*“Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence.”*

*— Helen Keller*

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