PNB ECOLENS

MONTHLY BULLETIN

पीएनबी इकोलेंस मासिक बुलेटिन

January 2026

जनवरी 2026

STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

Published by:
Punjab National Bank
Strategic Management & Economic Advisory Division (SMEAD)
Corporate Office, Plot No. 4, Sector 10,
Dwarka, New Delhi-110075

निम्न द्वारा प्रकाशित:
पंजाब नैशनल बैंक
कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग
कॉर्पोरेट कार्यालय, प्लॉट सं. 4, सेक्टर-10,
द्वारका, नई दिल्ली-110075

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OUTLOOK 2026: BALANCING GROWTH, STABILITY, AND TRANSFORMATION

The global economy steps into 2026 with resilience and hope. After navigating inflationary shocks, monetary tightening, and geopolitical disruptions over the past few years, economies particularly emerging markets like India are now entering a phase where **growth sustainability, financial stability, and policy credibility** will remain the buzzword in the year 2026. The stability on the global economic growth may be seen in the year 2026 nut it may remain below pre pandemic level. However, downside risk may pose threat as many countries experience elevated debt level and weak investment scenario.

Globally, inflation has moderated but remains **structurally higher than the pre-pandemic era**. Advanced economies are moving towards **gradual monetary easing**, but policy rates are unlikely to return to ultra-low levels. Growth in major economies remains uneven, constrained by high debt, ageing populations, and geopolitical realignments. Capital flows in 2026 will thus be favouring economies with strong fundamentals.

Global banks are now prioritizing fintech partnerships for revenue diversification and AI efficiency. In the year, stability is expected to persist with increased lending amid geopolitical escalations, tariff spillovers, and cyber risks. **Regulatory resilience** and **climate adaptations** remain key supervisory focuses in the year 2026.

India enters 2026 poised for a transformative economic leap, projecting 7.3% GDP growth by RBI in its Monetary Policy Committee (MPC) Meeting held in Dec’25. IMF’s projection for **India’s GDP growth** is also in line with that of regulator. India is confronted with robust domestic demand, manageable external vulnerability, and steady fiscal consolidation. India will continue to remain key growth engine for the world.

The year 2026, inflation management has become less about aggressive tightening and RBI is likely to maintain a wait and watch approach striving for balancing growth with inflation expectations anchoring. **Retail Inflation reached historic low of 0.25 percent** in Oct’25 on the back of steep decline in Food prices and GST 2.0 reforms. The inflation rose to 1.33 percent in December 2025.

In the year 2026, public expenditure continues to act as a growth anchor, but its **crowding-in effect[1] on private investment** will define medium-term momentum. Structural reforms in logistics, manufacturing, and labour markets may pave way for making India globally competitive.

[1] an economic phenomenon where increased government spending stimulates private investment and economic activity

Furthermore, in 2026, India is actively progressing with several free trade agreements (FTAs) to enhance export growth, diversify its markets, and secure access to critical minerals amid evolving global trade dynamics. The **Oman Comprehensive Economic Partnership Agreement (CEPA)**, signed in December 2025, is set to come into effect by March 2026. These measures will improve market access for sectors such as textiles, pharmaceuticals, and electronics, lessen dependence on individual export destinations, and foster MSME development in alignment with India's broader economic objectives. Under Australia's ECTA, Indian labour-intensive exports will enjoy zero-duty access on all tariff lines starting from 1 January 2026. The recently concluded the **mother of all deals-"India-EU Free Trade Agreement (FTA)"** will be beneficial for the boosting of trade between India and EU members expected to come into effect from early 2027.

The upcoming Union Budget 2026 is also anticipated to reflect a **pragmatic balance** with the continued infrastructure push alongside fiscal consolidation. The emphasis is less on subsidies and more on **productivity-enhancing expenditure** and social sector efficiency. Revenue buoyancy, driven by GST stabilisation and formalisation, provides fiscal space.

Various Reforms measures including implementation of four comprehensive labour codes are also likely to improve the ease of doing business attracting investment while Supply chain finance innovation will help MSME sector expansion. India's transition towards Renewable Energy, EVs and digital public infrastructure is expected to attract significant investment in the year 2026, creating employment and improving sustainability outcome.

Indian banking in 2026 stands on its strongest footing in decades. With NPAs at multi-year lows, high capital adequacy, and improved governance, banks are transitioning from recovery mode to credit growth. However, rapid credit growth demands enhanced risk assessment. The focus is shifting towards **credit quality, sectoral diversification, and early stress detection** to curb the NPAs.

In 2026, the Indian banking sector is expected to undergo more significant transformation, marked by more efficient credit transmission, wider adoption of digital lending platforms, and a growing number of fintech-bank collaborations. These advancements will streamline lending processes, enhance customer experience, and broaden financial inclusion. However, it is crucial that regulatory authorities maintain **strong oversight** to safeguard the system and prevent any potential risks to financial stability.

The Road Ahead

The defining challenge of 2026 is not growth generation but **growth management**. For India, success will depend on maintaining macro-stability while enabling entrepreneurship, credit flow to productive sectors which take India on the path of **VIKSIT BHARAT@2047**.

In 2026, India is set to demonstrate robust domestic demand, implement impactful reforms, and advance both monetary and labour policies, while also adjusting its approach to trade relations. India's economic and banking trajectory in 2026 signals a quiet but significant shift from recovery to responsibility, from expansion to endurance. The choices made now will shape not just the next year, but the next decade.

Ajay Kumar Singh
General Manager

2. INDIA'S BANKING SECTOR IN 2026: FUTURISTIC HORIZONS OF GROWTH AND INNOVATION

The Indian banking sector in 2026 stands at a crucial stage of transformation, marked by strong balance sheets, rapid digitalisation, and expanding credit demand, while simultaneously facing emerging risks from technology and global uncertainties. Post-pandemic recovery and sustained government focus on capital expenditure have created a favourable environment for banking sector growth, but the sustainability of this growth depends on prudent risk management and institutional reforms which will remain the cornerstone for the banking sector in the coming time.

Let us first delve deeper into the bygone year which was marked by strong domestic demand, robust growth, low inflation, and healthy bank balance sheets supporting India's financial system. **India is in the Goldilocks Economy phase.** Banks exhibited strong capital adequacy, improved asset quality (low NPAs), and high profitability, with SCBs' GNPA ratio at a multi-decade low (around 2.2% in Sep 2025).[2] The year 2025 was also full of significant developments including the anticipated surge in system credit, particularly towards green infrastructure and AI-driven sectors, fostering job creation and inclusive growth.

Coming to the year 2026 and what does it hold for the Banking sector. Banks in India are expected to maintain healthy asset quality, hence reducing the need for massive provisioning. However, the external factors are likely to continue posing risk and challenge before us. With anticipated emphasis on the infrastructure, MSME, Retail and Agriculture via., Union Budget 2026, Banking Sector in India is to see surge in the credit growth.

We have seen spree of reforms in Banking sector in the past few days. In line with the same. from 1 January 2026, the Indian banking sector is implementing a comprehensive and stricter set of new digital banking regulations. These rules mandate that banks must obtain explicit approval before offering any online or mobile banking services, ensuring that each digital offering is properly authorised. We may see some uptick in profitability in 2026 supported by fee-based income and cost-effective digital operations.

Apart from this, neutral monetary stance adopted by the regulator and Central Bank Digital Currency (CBDC) pilots is likely to reduce transaction costs and drive efficiency for the banking sector in India.

[2] As per RBI's FSR Released in Dec'25

Technological support such as the automation of underwriting processes through AI co-pilots, beyond basic transactions, the digital rupee introduces programmable money features, allowing funds to be geo-fenced, time-bound, or restricted for specific uses. This capability may be particularly useful for government social welfare schemes and corporate disbursements, ensuring funds serve their intended purpose without misuse. Deployment of advanced QR and open banking infrastructure by Public Sector Banks are expected to redefine the competitive landscape. These developments position India's banking sector as a leader in innovation and resilience for 2026.

Also, Financial institutions are increasingly exposed to climate-sensitive industries, and rapidly evolving regulatory standards. In the coming time, managing climate and ESG-related risks to remain a significant challenge for banks overcome.

With opportunities there are set of challenges as well. Key challenges may include disparity between rapid credit growth and slower deposit growth, causing high credit-deposit ratios. Furthermore, with the fall in interest rates, banks face difficulties in mobilizing low-cost deposits, putting pressure on funding costs. Apart from this, the Banking sector may remain vulnerable to **"trade-related headwinds**" particularly in MSME segment.

With the development on digital front, banks are now required to strengthen their cybersecurity measures to safeguard customer data and transactions against potential threats. The updated framework introduces rigorous protocols for obtaining and documenting customer consent, making sure that users are fully informed and in control of their digital interactions. These reforms aim to foster greater trust, transparency, and security as digital banking becomes an integral part of India's financial landscape.

Going ahead, Indian banking sector is poised for robust growth propelled by technological advancements and a dynamic economic environment. Banks are expected to leverage digital innovation to streamline operations and enhance customer experience, with a major focus on credit expansion projected at 12-14%[3] in tandem with a GDP growth of 7.3 percent for FY'26[4].

In conclusion, Indian banking in 2026 is well positioned to play a pivotal role in supporting economic growth, financial inclusion, and sustainable development. While opportunities arising from digital innovation, infrastructure financing, and green transition are substantial, addressing challenges related to asset quality, cybersecurity, governance, and climate risk will be essential. A balanced approach that combines growth with prudence, innovation with regulation, and profitability with inclusion will determine the long-term stability and effectiveness of the Indian banking system.

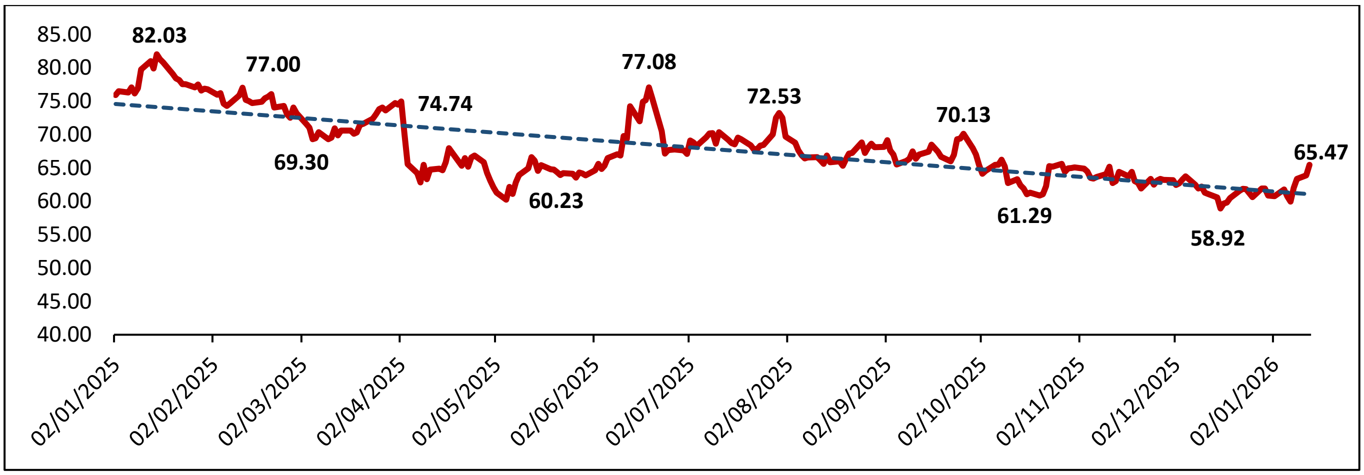
Virendra Prakash Bansal
Deputy General Manager

[3] As per SBI
[4] As per RBI MPC Dec'25

3. FROM SCARCITY TO SURPLUS: THE CHANGING ECONOMICS OF CRUDE OIL

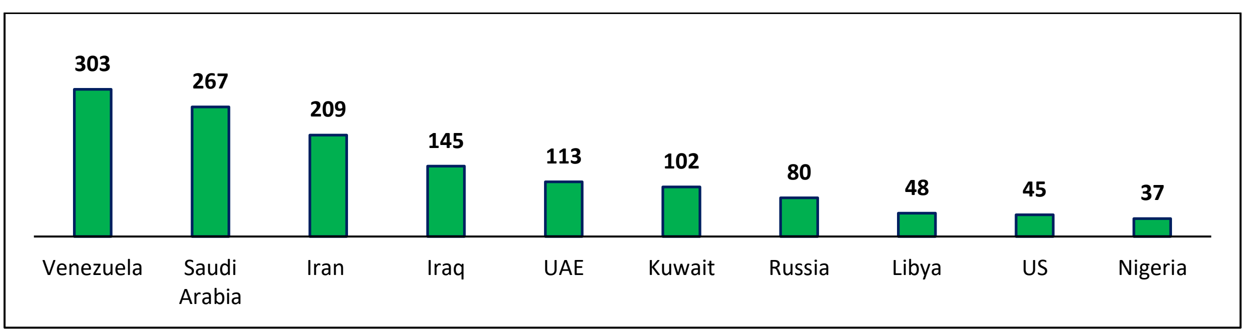
Global crude oil markets are entering a critical phase marked by weakening demand growth, rapid expansion in supply and persistent geopolitical risks. This shift is already visible in prices. After averaging USD 80.7 per barrel in 2024, Brent crude has declined to around USD 69 in 2025 and is currently fluctuating between USD 65–70, the lowest annual level since the pandemic year of 2020. The fall does not reflect a collapse in demand, but a growing imbalance between moderating consumption and rapidly expanding supply. With inventories already rising, even small negative demand surprises or supply increases are now triggering disproportionate downward pressure on prices.

Fig 1: Brent Crude Futures (in $ per barrel)



The world continues to hold ample proven oil reserves, led by Venezuela (303 billion barrels), followed by Saudi Arabia (267 billion barrels), and then Iran, Iraq, Russia and Canada. However, today's market is no longer constrained by geology – it is constrained by investment, geopolitics and infrastructure. For example, Venezuela which possesses the world's largest oil reserves, the country currently produces less than one million barrels per day due to years of international sanctions, lack of investment and severe deterioration of its oil infrastructure. Meanwhile, countries with better investment access – the US, Brazil, Guyana and Canada – are rapidly converting reserves into marketable supply.

Fig 2: Top 10 countries with largest crude oil reserves, 2024 - in million barrels (mb)

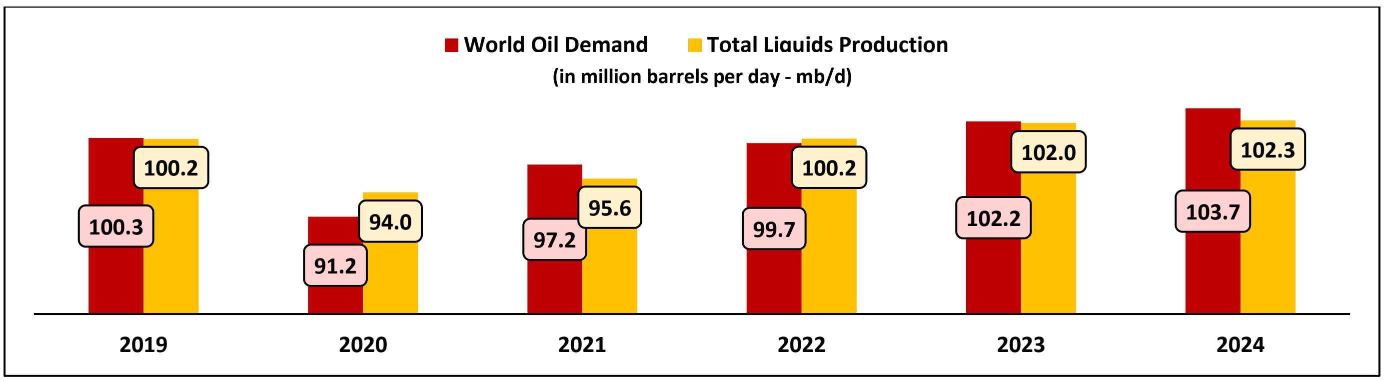


Demand and Supply Dynamics:

Global oil demand is still increasing, but the pace of growth has slowed sharply. Consumption is projected to reach 103.8 mb/d in 2025 and 104.5 mb/d in 2026, translating to annual growth of less than 1 mb/d—significantly below pre-pandemic trends. This deceleration is structural in nature. Oil use in OECD economies is flattening or declining as energy-efficiency gains, electrification and tighter climate policies reduce dependence on fossil fuels. China, once the engine of global oil demand, is also approaching a consumption peak as electric vehicles, hybrids and high-speed rail rapidly lower its oil intensity. At a broader level, global economic expansion is increasingly decoupling from oil consumption due to the adoption of cleaner and more efficient technologies.

On the supply side, however, the market is moving in the opposite direction. Oil production is expanding much faster than demand. A major contributor is the shift in OPEC+ strategy: since April 2025, the group has raised output targets, focusing on defending market share rather than prices. Non-OPEC producers including US shale, Brazil, Guyana and Canada are simultaneously bringing substantial new supply online. Additionally, several Middle Eastern and Latin American producers are ramping up output as years of under-investment and capacity erosion are gradually reversed. Together, these trends are creating a widening supply-demand imbalance, setting the stage for a prolonged period of softer oil prices.

Fig 3: World oil demand vs Total liquids production (including Non-DoC liquids production and DoC NGLs)



The global oil market is transitioning into a structurally weaker price environment as slowing demand growth converges with expanding supply and rising inventories. However geopolitical flashpoints particularly those involving Iran, Russia, and Venezuela continue to pose significant risks. As OPEC's fourth-largest producer and the custodian of the Strait of Hormuz (through which 20% of world's oil flow), Iran occupies a central position in global oil markets, where any conflict involving Tehran, Israel or the US could rapidly tighten supply.

Nonetheless, in the absence of a sustained and material supply shock, Brent crude prices are expected to remain anchored in the USD 60–65 per barrel range through 2026, with further downside potential if the supply glut intensify.

Manse Wahi
Manager (Economics)
Head Office, SMEAD

Data Source: World Bank, OPEC, IEA

4. INDIA'S INVESTMENT CYCLE: FROM PUBLIC SUPPORT TO PRIVATE PARTICIPATION

Capital formation determines how economies evolve, not just how fast they grow. While consumption cycles influence short-term momentum, it is investment that expands productive capacity, embeds productivity gains and shapes medium-term growth potential. In India's case, movements in the investment cycle over the past decade have had lasting implications for growth quality, employment creation and macro-financial stability.

After an extended phase in which public capital expenditure acted as the primary stabiliser, recent official data and forward-looking assessments suggest that private investment is gradually re-engaging. This does not imply a retreat of the public sector from capital formation. Instead, it points to a more even distribution of investment responsibility, with public and private capex increasingly reinforcing each other.

Reading The Investment Cycle Over Time

India's investment intensity has followed a clear cyclical pattern. During the mid-2000s expansion, Gross Fixed Capital Formation (GFCF) rose steadily, peaking at about 34% of GDP in FY 2011–12, driven largely by private sector investment in infrastructure, manufacturing and real estate. The subsequent decade marked a prolonged correction. Project delays, rising corporate leverage and policy uncertainty weakened private investment appetite, causing the investment rate to decline steadily. By FY 2020–21, GFCF had fallen to around 28% of GDP, reflecting a deep and persistent investment slowdown rather than a short-term cyclical dip.

Since then, the recovery has been measured but visible. Provisional national accounts data show GFCF stabilising and edging higher to about 29.6–30% of GDP by FY 2024–25, signalling a transition from contraction to cautious rebuilding.

Public Investment as The Anchor

A key reason the downturn did not deepen further was the expanding role of public investment. As private capex weakened through much of the 2010s, public sector capital expenditure increased its share within GFCF to roughly one-third in recent years, materially higher than during the earlier private-led cycle.

This expansion was strategic. Public capex was directed toward highways, railways, ports, power systems and digital infrastructure—assets that sustain demand while also addressing structural constraints for private investment. The continuation of this approach in FY 2025–26, with central capital expenditure budgeted at ₹11.21 lakh crore (around 3.1% of GDP), reflects a sustained emphasis on asset creation rather than short-term stimulus. Execution has also improved. Central government capex utilisation has consistently crossed 55–60% by November in recent years, indicating front-loaded spending and better project implementation.

Private Investment Shows Signs of Repair

What differentiates the current phase is the changing posture of the private sector. MOSPI's Forward-Looking Survey on Private Sector CAPEX Investment Intentions (April 2025) shows that private corporate investment increased from ₹3.95 lakh crore in FY 2021–22 to ₹6.56 lakh crore in FY 2024–25, before moderating to ₹4.89 lakh crore in FY 2025–26. Importantly, even after moderation, private capex intentions remain well above early-recovery levels, indicating normalisation rather than withdrawal.

The composition of private investment reinforces this interpretation. Over 60% of planned private capex is directed toward plant and machinery, transport equipment and ICT assets, suggesting a focus on productivity enhancement rather than speculative expansion. Manufacturing, logistics, renewable energy and data-driven services account for a substantial share of these planned investments.

Macro Conditions and Confidence

Macroeconomic conditions have become more supportive of investment. RBI's Order Books, Inventories and Capacity Utilisation Survey (OBICUS) show capacity utilisation consistently around 74–75% through FY 2024–25, a level historically associated with new investment decisions. At the same time, RBI Financial Stability Reports note improved corporate balance sheets, declining leverage ratios and stronger internal accruals, reducing barriers to capex.

Consumption as An Enabling Factor

Investment decisions are shaped by demand visibility. Measures that support household consumption—such as income-tax relief and GST rationalisation—can strengthen the capex cycle indirectly by improving revenue predictability. Recent analyses emphasise that India's capex revival is increasingly demand-backed rather than policy-forced, with consumption recovery playing a supporting role.

A Measured Transition

Taken together, the evidence points to a measured transition rather than a sharp handover. Public investment continues to provide scale, stability and risk mitigation, while private capex is responding gradually to improved infrastructure, healthier balance sheets and clearer demand signals. If this alignment persists, India's investment rate can move closer to its historical highs, supporting durable growth and employment creation without recreating the vulnerabilities of earlier investment booms.

Shubham Kumar Singh
Officer (Economics)
Head Office, SMEAD

5. CLASSROOM : PRIORITY SECTOR LENDING (PSL)

Priority Sector Lending (PSL) is a cornerstone of India's banking regulation. Its purpose is to ensure that vital but credit-constrained segments of the economy such as agriculture, micro & small enterprises, education, renewable energy, housing for the underserved and weaker sections receive adequate institutional finance. By mandating banks to allocate a specific share of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposures (CEOBSE) to these segments each year, PSL promotes financial inclusion and balanced economic growth.

Targets & Compliance Mechanism, for domestic commercial banks & foreign banks (20+ branches), the overall PSL target is 40% of ANBC. Specialized banks have higher mandates: 75% for Regional Rural Banks (RRBs) and 60% for Small Finance Banks (SFBs) (revised as of 2025-26). Sub-targets include 18% for Agriculture, 7.5% for micro enterprises and 12% for Weaker Sections (15% for RRBs). Within this framework, loans are categorised based on activity, loan size, and borrower profile, and only those meeting clearly defined criteria qualify as PSL. Lenders failing to meet these targets must either invest the shortfall in low-yielding funds like the Rural Infrastructure Development Fund (RIDF) with NABARD (or other designated institutions) or purchase Priority Sector Lending Certificates (PSLCs) from over-achieving banks.

RBI Strengthening the Framework targeting operational clarity, PSL norms alignment with updated regulatory guidelines, and strengthening oversight on on-lending and credit risk transfer mechanisms. Some of the major amendments announced by the regulator on 19th January 2026 are:

(i) To prevent more than one bank from claiming the same loan as priority sector exposure, the RBI now requires intermediary lenders (NBFCs, MFIs, and HFCs) to provide mandatory external auditor certificates. This step strengthens the audit trail and reduces misreporting risk.

(ii) Loans extended by banks to the National Cooperative Development Corporation (NCDC) for on-lending to cooperative societies now qualify as PSL, subject to appropriate audit certification, broadening credit access to rural and agricultural cooperative networks.

(iii) RBI has clarified that banks cannot charge loan-related fees including guarantee fees on priority sector loans up to ₹50,000, safeguarding affordability for marginal borrowers.

(iv) Change in ANBC computation and Bond exemptions, where the RBI has clarified the treatment of exemptions linked to long-term bonds for infrastructure & affordable housing, now aligned with the Resource Raising Norms Directions, 2025. Banks can issue qualifying unsecured, rupee-denominated bonds (minimum 7-year maturity) that are excluded from both CRR and SLR requirements, subject to caps based on 'eligible credit'.

(v) RBI has also updated reporting timelines (quarterly & annual intervals within 15 days and one month) interest-rate norms, and some districts removed from the list of special category areas.

These reforms strengthen the governance of PSL compliance while enhancing the reach of credit to underserved segments. They reflect a broader regulatory emphasis on transparency, accurate reporting, and targeted credit flow critical for translating policy intent into tangible outcomes in credit markets. Beyond compliance, PSL serves as a bridge between financial intermediation and inclusive economic development and remains a key instrument in shaping India's credit architecture and supporting equitable economic progress.

Kartik Khandelwal
Officer (Economics)
SMEAD, Head Office

6. GIST OF RBI CIRCULARS

Date of the circular	**Dec 11, 2025**
Ref No.	**RBI/2025-26/147 DOR.CRE.REC.353/07-02-006/2025-26**
Subject	**Reserve Bank of India (Commercial Banks – Credit Risk Management) – Amendment Directions, 2025**

The RBI has amended its Credit Risk Management Directions, effective April 1, 2026. Banks may open current/OD accounts freely for borrowers with less than ₹10 crore exposure. For exposures of ₹10 crore or more, only banks with at least 10% share in total or fund-based exposure may open such accounts; others may maintain only collection accounts. Special rules apply if no bank meets the criteria, or only one bank has exposure. Exemptions exist for accounts under FEMA, regulator/government mandates, or regulated entities. Funds in collection accounts must be transferred to designated accounts within two working days. Banks must monitor compliance at least half-yearly and flag accounts in their systems. Accounts must only be used for authorized business, with robust monitoring to prevent misuse. Term loans should be credited directly to beneficiaries. Banks may implement these changes earlier if desired.

Date of the circular	**Dec 11, 2025**
Ref No.	**RBI/2025-26/148 DOR.RET.REC.354/12.01.001/2025-26**
Subject	**Reserve Bank of India (Commercial Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Amendment Directions, 2025**

The Banking Laws (Amendment) Act, 2025 has revised the definition of 'Fortnight' for CRR and SLR maintenance to two periods per month, effective December 15, 2025. All references to 'Friday' in reporting are replaced with 'day' or 'last day of the fortnight'. Banks must submit single electronic Form A (fortnightly) and Form VIII (monthly) returns on the CIMS portal, using digital signatures. During the transition (Dec 13–15, 2025), CRR/SLR maintenance is based on NDTL as of Nov 28, 2025, with 100% CRR required. Maintenance for Dec 16–31, 2025 and Jan 1–15, 2026 is based on NDTL as of Nov 28 and Dec 15, respectively; from Jan 16, 2026, as per the new schedule. Other reporting and terminology changes are specified for compliance. Banks must ensure IT law compliance and no paper returns are accepted.

7. ESG UPDATE

(Banking for People, Planet & Prosperity)

1. **India's reclaims third place in Global Wind Market in 2025**

- India regained its position as the world's third-largest wind energy market in 2025, moving ahead of Brazil and Germany in annual wind capacity additions.
- The country is set to add around 6.2 GW of wind power capacity in 2025, nearly doubling the installations compared to 2024 and surpassing its previous annual record.
- This strong rebound in wind installations was driven by improved project execution, hybrid auctions, and enhanced grid connectivity, reflecting renewed momentum in India's wind sector.

2. **Google, renew back 150 MW Rajasthan Solar deal to unlock Scope 3 Emission cuts**

- 150 MW solar project in Rajasthan to be commissioned in 2026, generating about 425,000 MWh annually and supporting India's 500 GW non-fossil target.
- Long-term agreement expands ReNew's committed corporate clean energy portfolio to 2.7 GW and underpins project bankability.
- Deal pioneers a new approach to Scope 3 emissions via environmental attribute certificates in a high-growth grid market.

3. **Noida International Airport at Jewar Set to Become India's Greenest Airport with Massive Solar, EV & RNG-Powered Sustainability Push**

- The airport will feature an 82.94-acre solar farm capable of generating around 51,966 MWh of renewable energy, positioning it as a leader in clean energy adoption among Indian airports.
- Around 20% of the parking area will be dedicated to EV charging stations, and all operational airside vehicles will be fully electric, supported by multiple charging points. Additional green features include a Renewable Natural Gas (RNG) plant to supply green fuel for vehicles and backup systems, rainwater harvesting ponds, and a robust waste management and environmental monitoring system.

4. **Altitude secures 3,60,000 tonnes of Biochar Carbon removal from India and Philippines**

- Altitude has committed to procuring more than 360,000 tonnes of CO_2 Removal Certificates from biochar facilities in India and the Philippines, with first deliveries from 2026.
- The partnership highlights Asia's growing role in scalable carbon removal linked to waste management, rural value creation, and long-duration climate mitigation.

5. **World Future Energy Summit 2026: Shaping the global path to a Sustainable and Net-Zero future**

- The World Future Energy Summit 2026 is being held from 13–15 January 2026 at the Abu Dhabi National Exhibition Centre (ADNEC), Abu Dhabi, serving as a global platform for clean energy dialogue, innovation, and collaboration.
- Key focus areas include renewable energy, green hydrogen, energy storage, AI-driven energy solutions, and technologies supporting net-zero and climate resilience goals.

6. **World's 1st Carbon-Neutral Steel Plant Redefines Industrial ESG in the UAE**

- The UAE's Arabian Gulf Steel Industries has become the world's first independently certified carbon-neutral steel plant, marking a breakthrough in sustainable heavy industry.
- The facility runs on renewable energy and uses a circular production model that recycles scrap, drastically reducing emissions compared to conventional steelmaking.
- It has been recognized with the CARE ESG Award, positioning the UAE as a global leader in industrial decarbonisation and ESG compliance.

7. **Germany pledges €1.24-bn boost for green partnership**

- Germany committed €1.24 bn to India under the Green & Sustainable Development Partnership to support renewable energy, green hydrogen, e-mobility (PM e-Bus Sewa), and climate-resilient infrastructure.
- India and Germany signed 27 MoUs and joint declarations covering critical minerals, semiconductors, telecommunications, innovation, and industrial cooperation.
- India will supply up to 5 lakh tonnes of green ammonia annually to Germany, marking a major step in clean energy trade and green hydrogen value chains.

8. **Random Forest Model conducted in Saudi Arabia Delivers Breakthrough in Predicting Construction Carbon Emissions with 73% Accuracy**

- The Random Forest model achieved the highest accuracy in forecasting construction-phase carbon emissions, with 78% accuracy in classifying projects into low, medium, and high-emission categories.
- Waste generation, energy consumption, and project duration emerged as the most influential drivers of emissions, highlighting critical areas for sustainability improvements.

9. **Ola Electric launches Shakti Energy Storage**

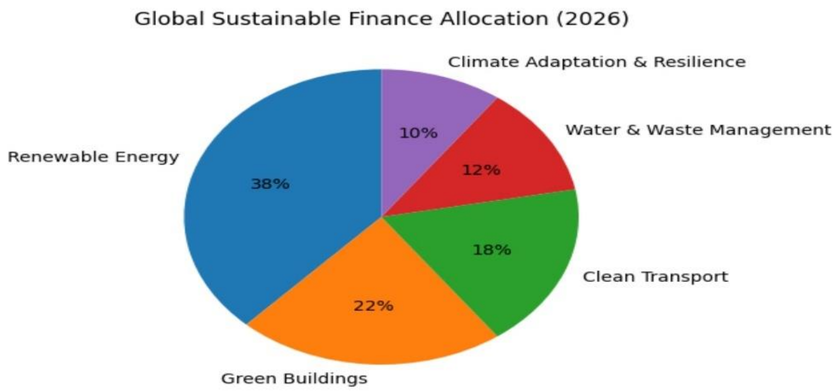
- Ola Electric has entered the residential energy storage market by launching Ola Shakti, its first portable battery energy storage system (BESS) designed for homes and offices.
- The system is fully powered by Ola's indigenous 4680 Bharat Cells, manufactured at its Gigafactory in Krishnagiri, Tamil Nadu, highlighting end-to-end "Researched, Engineered, and Made in India" capabilities.
- Shakti offers advanced safety, high efficiency, zero running and maintenance costs, wide voltage protection positioning it as an alternative to traditional inverters and diesel generators.

10. **India records historic surge in Green Energy Capacity**

- India added a record 44.5 GW of green (renewable) energy capacity in 2025, the highest annual addition so far.
- Solar power led the growth, followed by wind energy, significantly strengthening India's clean power mix. The sharp rise keeps India on track to achieve its 500 GW non-fossil fuel capacity target by 2030.

***ESG Brain Teaser*-** India target: Non-fossil electricity capacity of 500 GW by 2030 supports which national pledge acronym?

Smart Green Tip - Cook with lid on- It locks in heat and steam, helping food cook faster while cutting gas use by about 30%



Source: Bloomberg NEF- Sustainable Finance Market Outlook

The pie chart shows how global sustainable finance is distributed across key ESG themes in 2026. Renewable energy receives the largest share, highlighting continued focus on decarbonisation and clean power transition. Green buildings and clean transport together account for a significant portion, reflecting growing investments in energy efficiency and low-carbon mobility. Notably, increased allocation to water, waste management, and climate adaptation indicates a strategic shift toward managing physical climate risks. Overall, the chart reflects a maturing ESG landscape that balances mitigation with resilience.

Ask Yourself - What ESG value do I embody most — Environment, Social, or Governance?

Ans. to ESG Brain Teaser: Panchamrit/Nationally Determined Contributions (NDCs)

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.bank.in.

8. CLIMATE NEWS

1. IEA: India's Coal Demand Growth Shifts Toward Industry in 2025

India remains a key driver of global coal demand, but its consumption pattern is evolving. According to the International Energy Agency (IEA), overall coal demand in 2025 is expected to dip slightly by 1.2%, falling to about 1,297 million tonnes. This decline is largely due to reduced coal use in power generation rather than a structural slowdown, signalling a shift in demand dynamics.

Coal-fired power generation is projected to fall by around 3% in 2025, supported by higher hydropower output from an extended monsoon season and continued growth in solar and wind capacity. Despite this, coal remains the backbone of India's electricity system, accounting for roughly 73% of total coal consumption. India's installed capacity reached 495 GW in August 2025, including 223 GW of coal-based plants, even as the country targets 500 GW of non-fossil capacity by 2030.

While power sector coal use eases, industrial demand is strengthening. Cement and steel production are leading this trend, driven by infrastructure growth and fuel switching from petroleum coke to thermal coal. Cement demand is expected to rise by 5–6%, with major producers expanding capacity. Steelmaking, particularly coal-based direct reduced iron projects, is also boosting both thermal and metallurgical coal consumption, supported by government incentives under the coal gasification strategy.

The IEA projects non-power coal consumption to climb from 356 million tonnes in 2025 to about 470 million tonnes by 2030, fuelled by industrial expansion and coal gasification initiatives. Overall coal demand is expected to grow 17% by 2030, reaching 1,522 million tonnes. While renewables will gradually reduce coal's share in electricity generation—from 70% in 2025 to 60% by 2030—coal will remain critical for India's industrial growth and energy security through the decade. *(indianexpress.com)*

2. India added 2,362 MW of biomass and 228 MW of waste-to-energy capacity in Last 10 years

India has made significant strides in bioenergy development over the past ten years, adding 2,362 MW of biomass-based power and 228 MW of waste-to-energy capacity. In addition, around 2.88 lakh biogas plants have been installed across the country, supporting rural energy needs and reducing dependence on conventional fuels. These efforts reflect India's commitment to leveraging organic waste and biomass for sustainable energy production.

The Ministry of New and Renewable Energy (MNRE) is spearheading bioenergy adoption through the National Bioenergy Programme (NBP), Phase-I, which runs from 2021-22 to 2025-26. The program aims to utilize surplus biomass from rural areas for power generation while creating additional income streams for rural households. It includes sub-schemes such as the Waste-to-Energy Programme, Biomass Programme for briquettes and pellets, and the Biogas Programme. Complementary initiatives like the National Policy on Biofuels, SATAT, GOBAR-Dhan, and Pradhan Mantri JI-VAN Yojana further strengthen India's bioenergy ecosystem.

Bioenergy, derived from organic materials such as wood, crop residues, and dung, is evolving with modern technologies to produce cleaner fuels like biogas and liquid biofuels. As of November 2025, India's installed bioenergy capacity stands at 11.6 GW, accounting for about 13% of the country's total final energy consumption. With projections indicating up to 45% growth in modern bioenergy use between 2023 and 2030, bioenergy is poised to play a critical role in India's transition toward a low-carbon energy future. *(economictimes.indiatimes.com)*

3. Lok Sabha passes nuclear energy Bill allowing privatisation

On December 17, 2025, the Lok Sabha passed the Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India (SHANTI) Bill, paving the way for private sector participation in India's nuclear energy industry. Despite opposition demands to refer the Bill to a parliamentary panel, the legislation now moves to the Rajya Sabha for further discussion. Science Minister Jitendra Singh emphasized that the Bill reflects changing technological and energy needs, dismissing allegations of favouritism toward specific companies.

A major provision of the SHANTI Bill is the removal of the supplier liability clause from the Civil Liability for Nuclear Damage Act, 2010, which previously allowed operators to seek recourse from equipment suppliers in case of accidents. Critics, including Congress MPs Manish Tewari and Shashi Tharoor, raised concerns about capping operator liability at ₹3,000 crore, citing global precedents like Fukushima and Chernobyl where cleanup costs ran into hundreds of billions of dollars. The government clarified that additional funds would come from a nuclear insurance pool and a newly proposed Nuclear Liability Fund.

The government argues that the Bill will attract foreign investment and accelerate deployment of advanced technologies such as small modular reactors under India's Nuclear Mission. Supporters see this as a step toward meeting growing energy demand and reducing carbon emissions, while opponents warn of risks to public safety and financial accountability. If enacted, the SHANTI Bill could mark a historic shift in India's nuclear policy, opening doors for private and global players in a sector long dominated by state control. *(www.thehindu.com)*

4. No chess on a dead planet': Massive protest disrupts Wijk aan Zee tournament in Netherlands

The Tata Steel Chess Tournament in Wijk aan Zee, Netherlands, faced an unprecedented disruption when climate activists dumped 2,025 kilograms of coal at the venue's main entrance, delaying the opening of one of the world's most historic chess events. The protest, led by Extinction Rebellion Nederland, directly targeted Tata Steel the title sponsor accusing the company of environmental harm and using the prestigious tournament for sportswashing. Activists blocked entry to the venue and unfurled a large banner reading "No Chess on a Dead Planet," calling attention to what they described as the company's continued reliance on fossil fuels and its inability to meet climate-neutral commitments.

In their public statement, the activists alleged that Tata Steel is the largest lead emitter in the Netherlands, linking its industrial operations to serious health risks for children in the surrounding areas, including long-term exposure to toxic pollutants. They further claimed that the company emits 11.3 megatons of CO_2 annually, amounting to roughly 8% of the country's total emissions, asserting that real emissions may exceed reported figures. According to the group, the societal cost of pollution runs into billions of euros each year, with measurable consequences such as reduced life expectancy among residents. They argued that sponsorship of high-profile events like the Tata Steel Chess Tournament creates a false image of social responsibility while masking environmental damage. *(timesofindia.indiatimes.com)*

9. DETAILED HIGHLIGHTS OF FINANCIAL STABILITY REPORT (FSR) DEC'25

1. Credit and Deposit Growth:

- SCBs credit growth remained steady at 11.0% YoY at end-September 2025.
- PSBs credit growth fell marginally but continued to outpace that of PVBs.
- The shares of agricultural and industrial loans in aggregate credit have contracted, while those of services and personal loans have expanded over the previous year.
- SCBs deposit growth continued to fall in successive half years since March 2024 and reached 9.8% as of end-September 2025, led by sharp deceleration for PVBs.

Table 1: Credit and Deposit Growth

	Credit Growth (YOY %)				Deposits Growth (YOY %)			
	Mar'24	Sep'24	Mar'25	Sep'25	Mar'24	Sep'24	Mar'25	Sep'25
PSBs	13.8	13.0	12.2	12.1	9.6	9.1	9.5	9.4
PVBs	28.3	11.7	8.9	9.8	20.1	15.1	12.2	10.1
All SCBs	19.2	12.5	11.0	11.0	13.5	11.5	10.7	9.8

Table 2: Credit Growth of Select Sector

	Agriculture		Industry		Services		Personal Loans	
	Sep'24	Sep'25	Sep'24	Sep'25	Sep'24	Sep'25	Sep'24	Sep'25
PSBs	13.8	9.9	8.9	3.9	15.9	12.5	13.9	19.7
PVBs	19.1	8.5	5.8	14.1	13.1	12.8	12.1	6.1
SCBs	15.7	8.9	7.6	8.3	14.8	12.7	13.0	12.6

2. Asset Quality:

Table 3: Asset Quality

Banks	GNPA %				NNPA %				PCR % *			
	Mar'24	Sep'24	Mar'25	Sep'25	Mar'24	Sep'24	Mar'25	Sep'25	Mar'24	Sep'24	Mar'25	Sep'25
PSBs	3.7	3.3	2.8	2.5	0.8	0.7	0.6	0.5	77.1	78.5	78.5	79.0
PVBs	1.8	1.9	1.8	1.7	0.5	0.5	0.5	0.5	73.9	73.1	72.6	71.6
All SCBs	2.8	2.6	2.3	2.2	0.6	0.6	0.5	0.5	76.4	77.0	76.3	76.0

**PCR without Technical write-off*

3. Sectoral Asset Quality:

- Credit quality continued to improve across broad economic sectors. Agriculture GNPA ratio has improved slightly but remains higher than other sectors. Personal loans category, asset quality of SCBs improved across all segments, except for vehicle/ auto loans.
- Within the industrial sub-sectors, asset quality exhibited sustained improvement across all sub-sectors barring food processing.

Table 4: Sector-wise GNPA Ratio (%)

Sector	SCBs	
	Sep'24	Sep'25
Agriculture	6.2	6.0
Industry	2.9	1.9
Services	2.5	1.8

4. Credit quality of large borrowers:

- Large borrowers[2] continued to account for about 44% of SCBs total credit, while their share in GNPAs fell sharply to 33.8% by Sep'25.
- Asset quality improved across bank groups, with the overall GNPA ratio declining from 3.0% in Mar'24 to 1.6% in Sep'25.
- SMA-1 and SMA-2 loan volumes contracted by end-Sep'25 compared to June, while SMA-0 loans rose slightly.
- Large borrowers' credit quality broadly matched external ratings, though 36.6% of their advances carrying a GNPA ratio of 3.5% lacked such ratings.

Table 5: Growth in SMAs & NPAs of Large Borrowers in Sep'25 (Q-o-Q%) (SCBs)

S.No.	*Parameter*	Sep'24	Dec'24	Mar'25	Jun'25	Sep'25
1	*SMA-0*	*-10.8*	*-32.4*	*-15.2*	*21.0*	*4.3*
2	*SMA-1*	*101.4*	*-13.3*	*24.2*	*-41.2*	*-15.3*
3	*SMA-2*	*66.9*	*23.6*	*-77.1*	*237.4*	*-35.9*
5	*NPA*	*-6.6*	*-3.3*	*-13.4*	*-6.0*	*-7.3*

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

5. Capital Adequacy:

- CRAR remained strong across banks at 16.0% for PSBs and 18.1% for PVBs as of Sep'25. CET1 ratios were also high, reflecting continued build-up of quality capital, while the overall Tier 1 leverage ratio increased.

Table 6: Capital Adequacy

Banks	CRAR %				Tier 1 Leverage Ratio* (%)			
	Mar'24	Sep'24	Mar'25	Sep'25	Mar'24	Sep'24	Mar'25	Sep'25
PSBs	15.5	15.4	16.1	16.0	6.0	6.0	6.3	6.2
PVBs	17.8	17.8	18.3	18.1	9.7	10.0	10.2	10.3
All SCBs	16.8	16.7	17.3	17.2	7.8	7.8	7.9	8.1

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

6. Earnings & Profitability:

- SCBs net interest income (NII) growth fell sharply to 2.3% (YoY) in Sep'25, with declines across all bank groups.

- Profit growth also slowed, as profit after tax (PAT) rose just 3.8% compared to double-digit gains in 2023-24 and 2024-25. Meanwhile, other operating income (OOI) contributed more to PAT in the current year.

Table 7: Net Interest Margin (Annualized)

Banks	PSBs	PVBs	All SCBs
NIM (%) Mar'24	3.1	4.3	3.6
NIM (%) Sep'24	3.0	4.1	3.5
NIM (%) Mar'25	3.0	4.1	3.5
NIM (%) Sep'25	2.8	3.9	3.3

Table 8: Profitability Ratios

Banks	Return on Assets (ROA) %				Return on Equity (ROE) %				Cost of Funds (CoF) %			
	Mar'24	Sep'24	Mar'25	Sep'25	Mar'24	Sep'24	Mar'25	Sep'25	Mar'24	Sep'24	Mar'25	Sep'25
PSBs	0.9	1.0	1.1	1.0	13.2	14.3	14.5	13.4	5.0	5.3	5.4	5.4
PVBs	1.8	1.8	1.7	1.6	15.4	15.0	13.9	12.6	5.9	6.0	6.0	5.9
All SCBs	1.3	1.4	1.4	1.3	13.8	14.1	13.6	12.5	5.4	5.6	5.7	5.6

7. Liquidity

- PSBs have improved their liquidity positions further in Sep'25, as evident from the strengthening of both liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) over Mar'25.
- Both LCR and NSFR have been comfortably above the regulatory minimum of 100 per cent across bank groups.

Table 9: Liquidity Coverage Ratio

Bank Group	Sep'25
PSBs	133.7
PVBs	122.1
All SCBs	131.7

8. Resilience – Macro Stress Tests:

- Macro stress tests aim to assess the resilience of the banking system to macroeconomic shocks.
- The tests project capital ratios of banks under three scenarios - a baseline and two adverse macro scenarios over a one-and-half year, incorporating credit risk, market risk and interest rate risk in the banking book in the framework.
- The results revealed that the aggregate CRAR of 46 major SCBs may drop from 17.1% in Sept'25 to 16.8% by Mar'27 under the baseline scenario. It may fall to 14.5% and 14.1% under the hypothetical adverse scenarios 1 and 2, respectively. All banks remain above the 9% minimum requirement even under the adverse scenarios.
- CET1 ratios for 46 banks may rise slightly from 14.6% (Sep'25) to 14.8% (Mar'27) under the baseline but fall to 12.7% and 12.3% under adverse scenarios. All banks remain above the 8% minimum requirement.
- The aggregate GNPA ratio for 46 banks may fall from 2.1% (Sep'25) to 1.9% (Mar'27) under baseline but rise to 3.2% and 4.2% under adverse scenarios.

9. Sensitivity Analysis:

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

i. Credit Risk:

- Credit risk sensitivity has been analyzed under two scenarios wherein the system level GNPA ratio as of March 2025, is assumed to rise from its prevailing level by (i) one standard deviation (SD); and (ii) two SD in a quarter.
  - Under a severe shock of two SD:
  - ✓ Aggregate GNPA ratio of 46 select SCBs moves up from 2.1% to 8.1%.
  - ✓ System-level CRAR and CET1 capital ratio depletes by 380 bps and 370 bps, respectively, but remains well above the respective regulatory minimum levels.

ii. Credit Concentration Risk:

- Stress tests on banks' credit concentration showed that in the extreme scenario of default, if the top three individual borrowers' default, GNPA rises by 350 bps, while CRAR and CET1 fall by 90 bps and 80 bps.
- Defaults by the top three group borrowers would be harsher, with GNPA up 520 bps and both capital ratios down 130 bps. Still, no bank's CRAR dips below the regulatory minimum.
- Meanwhile, concentration risk has eased, as the CR-100 ratio and Credit Concentration Risk Index (CCRI) based on the top 100 borrowers have steadily declined over the past two years.

iii. Sectoral Credit Risk

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

iv. Interest Rate Risk

- In a stress scenario of a parallel upward shift of 250 bps in the yield curve, the impact on the fair-valued portfolio would reduce the system level CRAR and CET1 ratio by 96 bps and 97 bps, respectively.

v. Equity Risk

- With banks' limited capital market exposure, a sharp equity price fall would have minimal impact on CRAR. Simulated shocks of 25%, 35%, and 55% reductions showed moderated effects on CRAR in Sep'25 compared to Mar'25.

vi. Liquidity Risk

- Liquidity stress test attempts to assess the impact of a shock on liquidity positions of the select 46 SCBs, caused by plausible run on deposits, and increased demand for unutilized portions of committed credit and liquidity facilities.
- The results showed that the aggregate LCR of the select SCBs would fall from 131.0 per cent in the baseline scenario to 123.3 per cent in stress scenario 1 and further to 116.8 per cent in stress scenario 2.

10. HIGHLIGHTS: REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 2024-25

Commercial Banks

- The Indian banking sector remained resilient and stable in 2024–25, supported by double-digit growth in credit and deposits, strong profitability, low NPAs, and comfortable capital and liquidity buffers.
- Banking system fundamentals continued to provide a strong cushion against risks and support sustained credit flow.

Balance Sheet Analysis

- The consolidated balance sheet of scheduled commercial banks (SCBs) (excluding RRBs) expanded by 11.2% during 2024-25 as compared with 15.5% during 2023-24.
- Excluding merger effects, bank credit grew by 12.5% and investments by 9.9% in 2024-25, down from 16.0% and 11.6% in 2023-24. Deposit growth also moderated to 11.4% from 13.4% a year earlier.
- Public Sector Banks (PSBs) continued to account for the largest share of banking assets, although their share declined marginally. PSBs' share in SCBs' balance sheet dropped slightly to 54.9% by March 2025 while private and foreign banks gained marginally.
- **Liabilities**: Deposit growth moderated, mainly due to slower growth in term deposits. However, short-term deposits increased across all bank groups. PSBs showed stronger transmission of policy rate cut than private banks.
- **Assets:** Credit growth also moderated across all bank groups. The credit-deposit ratio increased to 79.2%, indicating stronger loan demand relative to deposit mobilization. This points to tighter system liquidity but continued credit momentum.
- Investment growth slowed, mainly due to a decline in SLR investments. Banks increased exposure to state government securities, non-SLR instruments and equities, indicating greater portfolio diversification.
- The ratio of international assets to liabilities improved in 2024–25. Growth was driven by higher foreign currency lending, NOSTRO balances and placements abroad, while international liabilities grew more slowly.
- Off-balance sheet exposures rose to 161.9% of balance sheet size in March 2025 (from 138.6%) at end-March 2024. Foreign banks accounted for more than half of these exposures.

Financial Performance

- Profitability of SCBs remained robust, with Return on Assets (RoA) increasing to 1.4% and Return on Equity (RoE) remained stable at 13.5%.
- PSBs recorded an improvement in profitability, while private banks saw mild moderation.
- Net profits of banks increased, though at a slower pace due to moderation in growth of net interest income.
- Net Interest Margins (NIM) declined to 3.1% due to higher cost of funds and moderation in lending yields.
- The provision coverage ratio (PCR) (not adjusted for write-offs) of SCBs remained stable at 76.3 per cent at end-March 2025.

Capital position and Asset Quality

- Banks remained well capitalized, with CRAR at 17.4% and Tier-1 capital at 15.5% by March 2025. These levels are significantly above regulatory requirements.
- Liquidity measures such as the Liquidity Coverage Ratio (LCR at 132.6%) and Net Stable Funding Ratio (NSFR at 126.4%) were comfortably above regulatory minima, ensuring strong liquidity resilience.
- Asset quality improved markedly, with gross NPAs declining to 2.2% by March 2025, a multi-decadal low attributed to recoveries and upgradations. During the same period net NPAs fell to 0.5%, reflecting better provisioning.
- The slippage ratio of SCBs, declined for the fifth consecutive year to 1.4% at end-March 2025.
- Recovery channels such as the Insolvency and Bankruptcy Code (IBC) played a dominant role followed by Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI).

Frauds

- The number of fraud cases increased, but the total amount involved declined in 2024–25. This indicates a shift towards more frequent but smaller-value frauds.
- In 2024-25, PVBs accounted for 59.3 per cent of the total number of frauds reported, while PSBs accounted for 70.7 per cent of the amount involved.
- During 2024-25, instances of penalty imposed by the Reserve Bank increased across all regulated entities, except PSBs, PBs and CICs. The penalty amount, however, fell compared to last year across all regulated entities, except Co-operative banks, SFBs, RRBs and HFCs.

Credit Growth

- Bank credit growth stayed in double digits in 2024-25 but slowed, especially in personal loans, services, agriculture, and industry.
- The share of services and personal loans in total credit rose, while industry and agriculture declined. Medium industries saw faster credit growth, but micro, small, and large industries slowed. Housing loans remained the main driver for personal loans.
- MSME credit accounted for 19.0% of total adjusted net bank credit, slightly down from last year.
- Agriculture had the highest gross NPA ratio while retail loans had the lowest.
- Priority sector's share in total GNPAs of scheduled commercial banks increased to 64.7%.
- Priority sector lending grew by 12.5%, slower than the previous year.
- Outstanding Kisan Credit Cards rose by 3.9%, and trading volume of Priority Sector Lending Certificates jumped by 36.4%.
- Exposure to sensitive sectors (capital market and real estate) was 27.1% of total loans and advances.
- Unsecured loans' share in gross advances declined to 24.5%, continuing a downward trend.
- Share of unsecured loans in SCBs' gross advances declined to 24.5% at end-March 2025, marking the second consecutive year of decline.

Other Parameters

- Six PSBs reduced government shareholding by raising equity from the market; five still had over 75% government ownership at March 2025.
- Digital payments surged by 17.9%, making up 97.6% of all payments. UPI led in transaction volume, while RTGS dominated in value. Debit card use declined, but credit card payments continued to rise.

- The RBI Ombudsman received 2.96 lakh complaints, up 0.8%, mostly from metro and urban areas. Private banks saw the most complaints about loans and credit cards, while PSBs had more complaints about digital and deposit services.
- SCBs increased their domestic branches by 2.8% to 1.64 lakh, though the pace of new openings slowed.
- The number of self-help groups (SHGs) accessing bank credit rose to 55.6 lakh from 54.8 lakh the previous year.

Regional Rural Banks

- RRBs' balance sheet grew by 7.6% in 2024-25, mainly funded by deposits and owned funds as borrowings declined.
- Deposits made up 79% of liabilities, with low-cost CASA deposits at 53.5%. The credit-deposit ratio rose to 73.1%, reflecting faster loan growth than deposits.
- Asset quality improved with GNPA ratio falling to a 13-year low of 5.4%, and NNPA to 2.0%, supported by higher provisions.
- Capital adequacy reached an all-time high of 14.4%.
- Priority sector advances comprised 84.7% of total loans at end-March 2025.

Overall Assessment

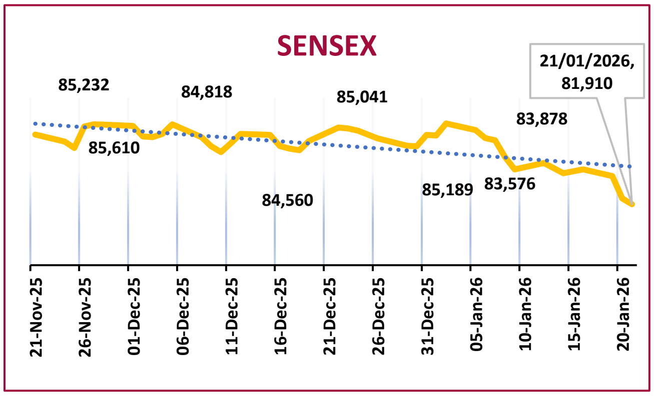
- Scheduled commercial banks' balance sheets grew steadily, with strong profitability and improved asset quality.
- Capital and liquidity remained well above regulatory requirements, supporting resilience and ongoing credit expansion.
- Banks face rising competition from non-bank lenders and must adapt to digitalization and new risks, including cyber threats.
- Continued focus on risk management, operational efficiency, and good governance is essential for long-term stability.

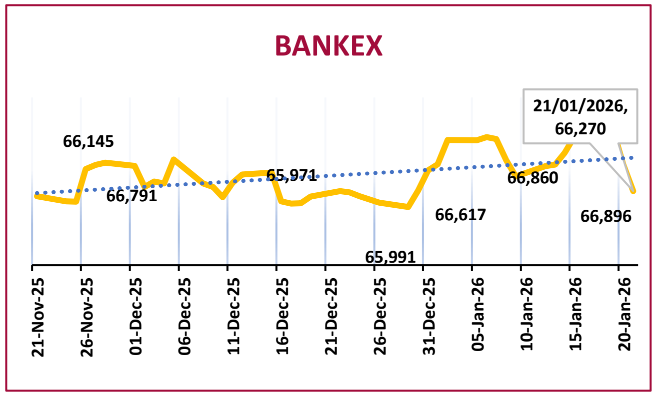
Non-Banking Financial Institutions

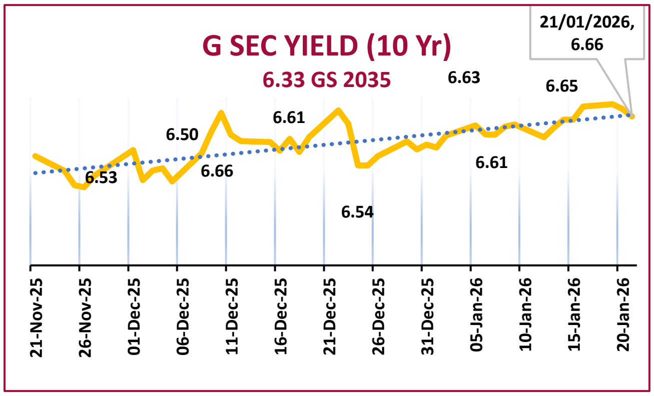
- Non-banking financial institutions (NBFIs) are an important constituent of India's financial system. Within NBFIs, the Reserve Bank regulates non-banking financial companies (NBFCs), housing finance companies (HFCs), all India financial institutions (AIFIs) and standalone primary dealers (SPDs).
- NBFCs are financial institutions (FIs) which play a vital role in complementing the banking sector by extending credit to diverse sectors and customer segments, including small businesses, microfinance borrowers, and underserved segments of the population. NBFCs have emerged as key drivers of financial inclusion and growth of India's financial ecosystem.
- NBFCs are regulated by the Reserve Bank under the scale-based regulation (SBR) framework wherein differential regulations are applied proportionate to scale and systemic importance of NBFCs. As on end-March 2025, 15 NBFCs (including four HFCs) were identified for the upper layer (NBFC-UL), which are subject to more stringent regulations as compared to NBFCs in middle (NBFC-ML) and base (NBFC-BL) layer.
- By the end of March 2025, NBFCs were responsible for approximately 25% of the total credit provided by scheduled commercial banks, highlighting their increasing role in fulfilling the economy's credit needs. During this period, NBFCs demonstrated better asset quality and maintained strong capital positions.

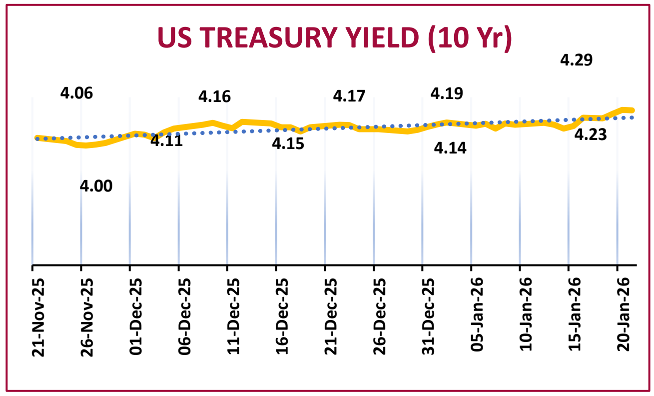
- In the sectoral distribution of NBFC credit, industry and retail segments accounted for 81.1 per cent of total credit followed by services at 15.4 per cent. Credit to services recorded a significant increase of 29.8 per cent followed by industry and retail loans exhibiting double digit growth during the same period.
- NBFCs are strengthening their presence in the MSME sector by offering tailored products and using digital lending platforms. Their lending to MSMEs in services now surpasses that to MSME industries. By March 2025, loans to MSMEs made up nearly 10% of all NBFC credit, reflecting their expanding role. NBFCs also saw faster credit growth to MSMEs compared to banks during 2024-25.
- The share of aggregate borrowings from banks in total borrowings of NBFCs continued to be significant although it has shown some moderation in recent years. Bank lending to NBFCs accounted for 8.5 per cent of total bank credit at end-March 2025 as compared with 8.9 per cent in the preceding year.
- NBFCs derived 93.2 per cent of income from fund-based sources, viz., interest income and investment earnings, while the remaining is from fee-based sources. There was a moderation in total income growth of NBFCs at end-March 2025 due to deceleration in interest income growth, driven by NBFC-ML.
- Expenditure recorded an increase due to higher interest expenses, provisioning for NPAs, and write-offs of bad debts. Deceleration in income along with an increase in expenditure led to a higher cost to-income ratio and contraction in net profits.
- The asset quality of NBFCs showed further improvement in 2024-25. GNPA ratio declined to 2.9 per cent at end-March 2025 from 3.5 per cent at end-March 2024. NNPA ratio also followed a downward trajectory, reflecting effective resolution of NPAs and adequate provisioning.
- Provisions made by NBFCs represented by provision coverage ratio stood at 66.6 per cent at end-March 2025.
- NBFCs maintained strong capitalization, with their capital to risk-weighted assets ratio (CRAR) reaching 25.9% at the end of March 2025—significantly exceeding the required regulatory minimum of 15%.
- Financial assistance sanctioned and disbursed by AIFIs grew marginally in 2024- 25. All AIFIs, except SIDBI, recorded moderate increase in both sanctioned and disbursed amounts.
- The consolidated balance sheet of AIFIs grew by 10.1 per cent at end-March 2025 compared to 20.1 per cent in the previous year. Loans and advances, which constitute 85.2 per cent of AIFIs' assets, grew at a robust pace albeit lower than a year ago, as lending by all AIFIs, except the EXIM Bank, decelerated.
- AIFIs' investments recorded a robust growth of 26.7 per cent at end-March 2025, despite a contraction in investments by EXIM Bank and NHB.
- All AIFIs maintained CRAR well above the regulatory minimum of nine per cent at end-March 2025, ensuring that their capital positions are strong and healthy to absorb potential financial shocks.
- All major financial indicators for HFCs improved significantly in 2024-25, as their income outpaced expenses, leading to a better return on assets (RoA).
- The asset quality of HFCs recorded an improvement in terms of both GNPA and NNPA ratios at end-March 2025. The aggregate CRAR of the sector stood at 28 per cent, well above the regulatory requirement of 15 per cent.
- As at end-March 2025, there were 21 Primary Dealers (PDs), 14 functioning departmentally as bank PDs and seven as Standalone PDs (SPDs) [registered as NBFCs under section 45-IA of the RBI Act, 1934].
- Looking ahead, it is important to keep a close watch on how microfinance loans are performing. Recent regulatory steps—such as reinstating lower risk weights for bank loans to NBFCs and a more accommodative monetary policy—are supporting NBFCs in broadening their reach.

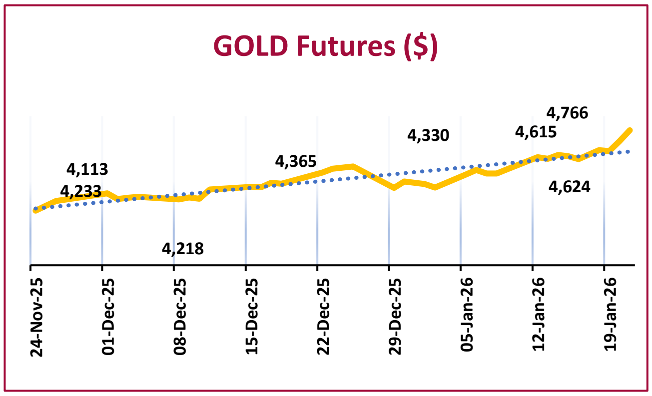
11. DAILY ECONOMIC INDICATORS

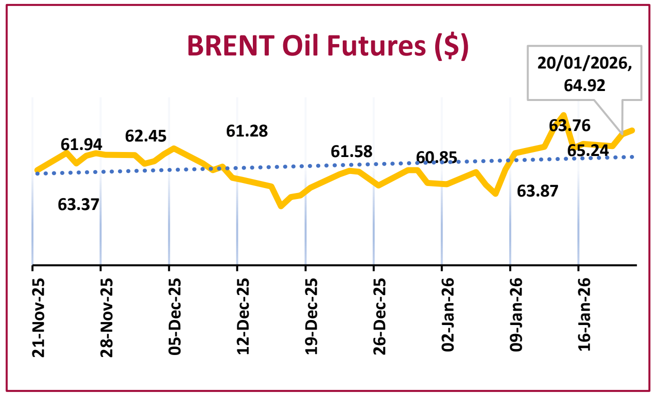


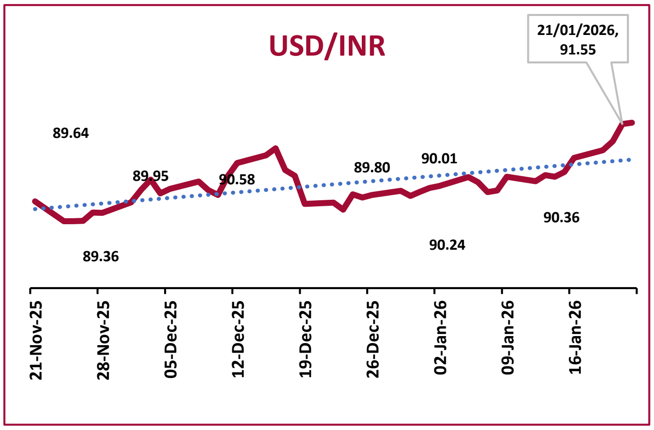


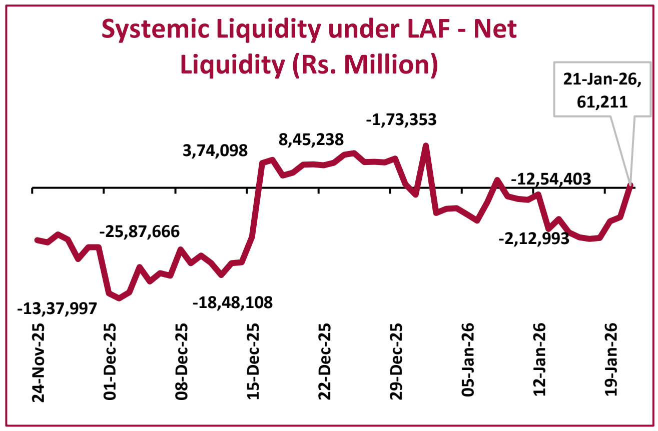








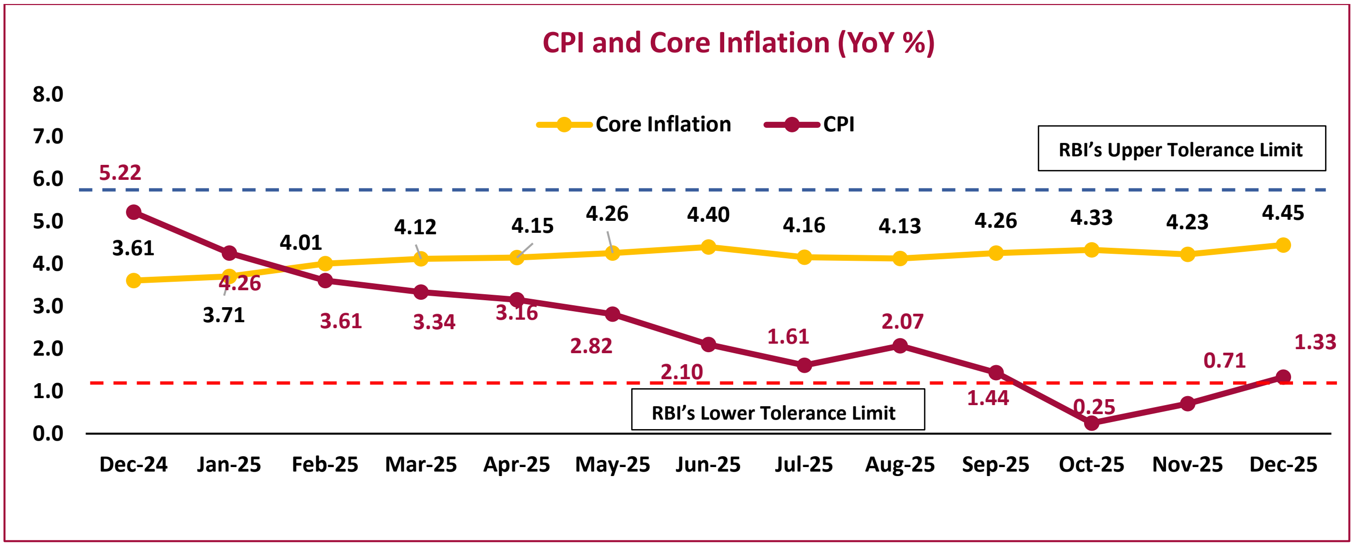


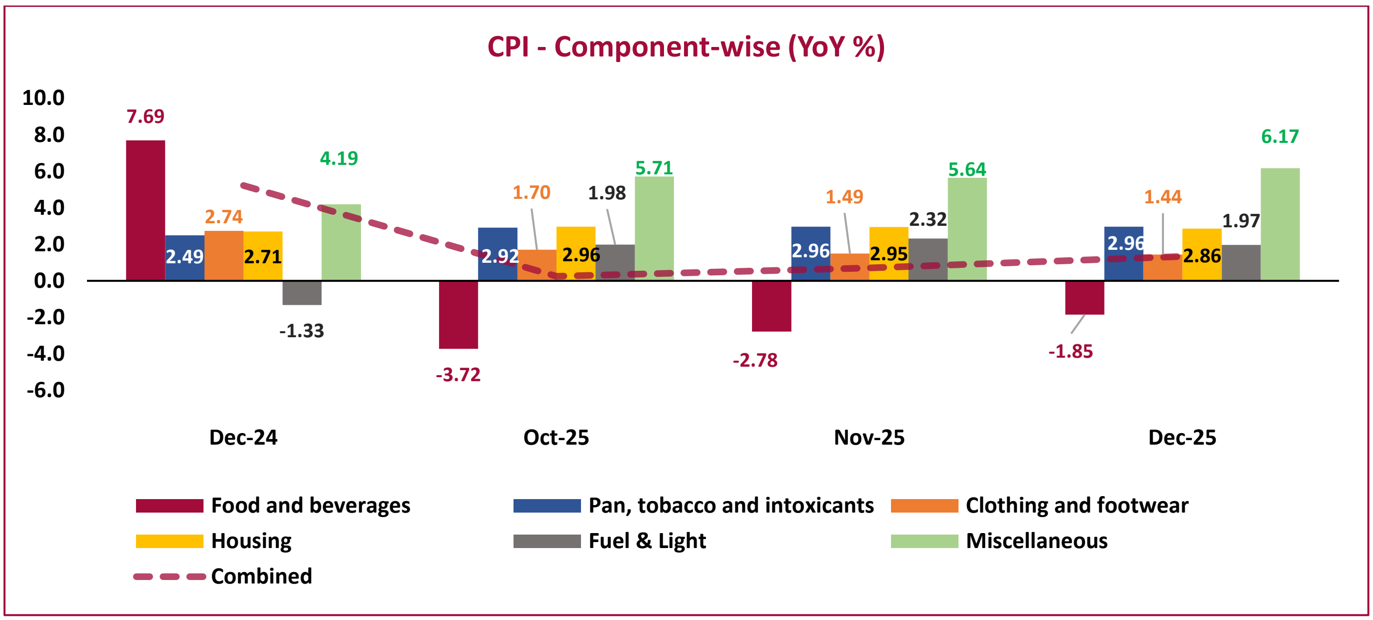


12. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

CPI increased to 1.33% in December 2025

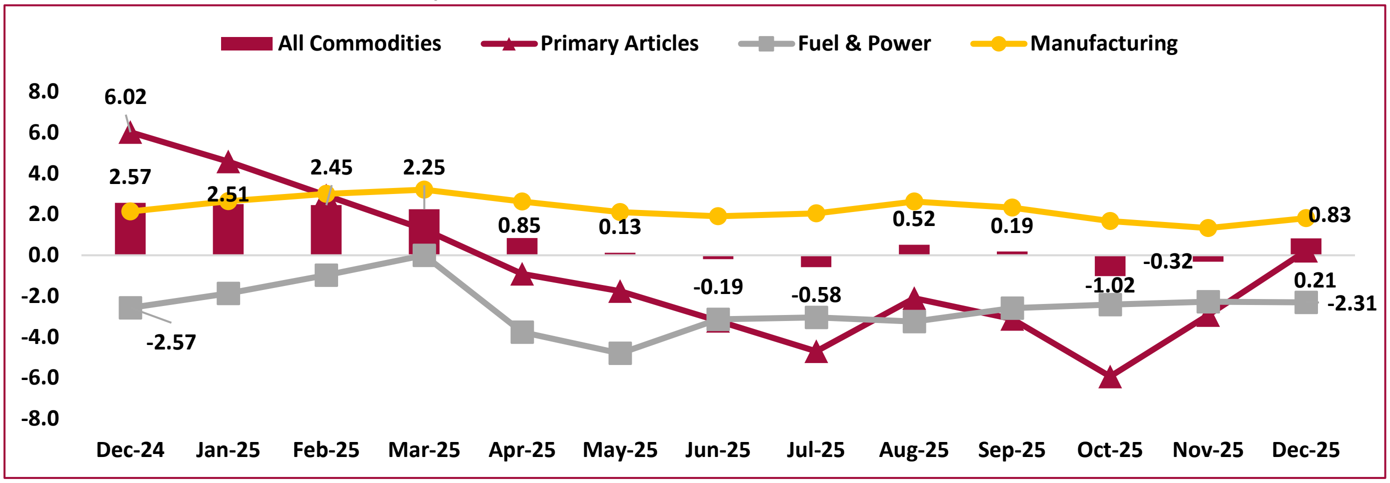




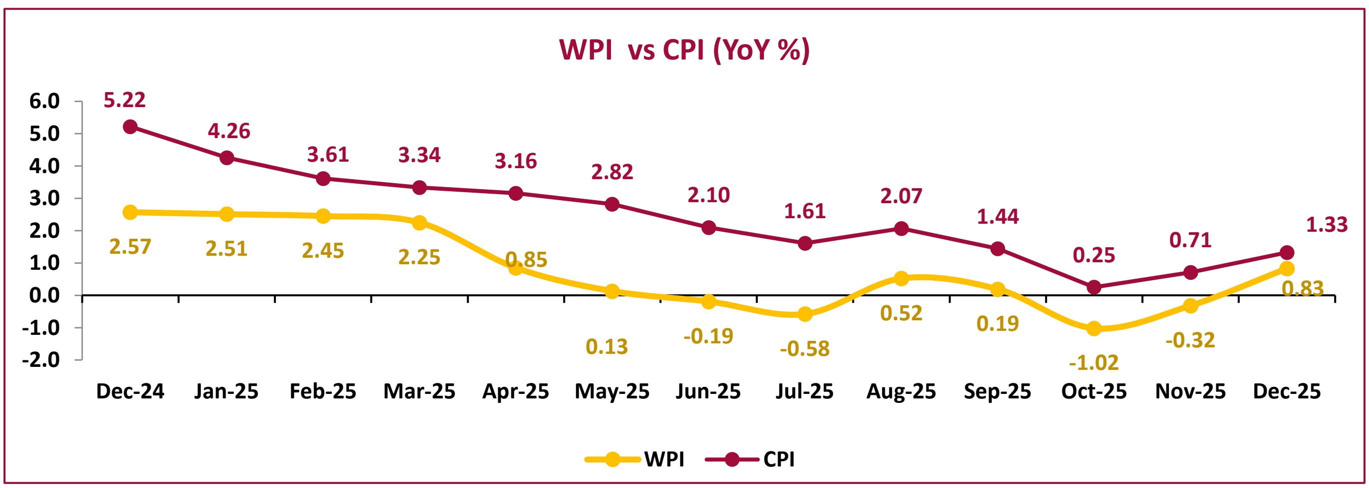
India's consumer inflation rose to 1.33% in December, accelerating from 0.71% in Nov'25. There is an increase of 62 basis points in headline inflation of December 2025 in comparison to previous month. The increase in headline inflation and food inflation during the month of December 2025 is mainly attributed to increase in inflation of Personal care and effects, Vegetables, Meat and fish, Egg, Spices and Pulses and Products. An increase in headline and food inflation in rural sector observed in December 2025. An increase from 1.40% in November 2025 to 2.03% in December 2025 is observed in headline inflation of urban sector.

WHOLESALE PRICE INDEX (WPI)

WPI inflation accelerated to 0.83% in December 2025



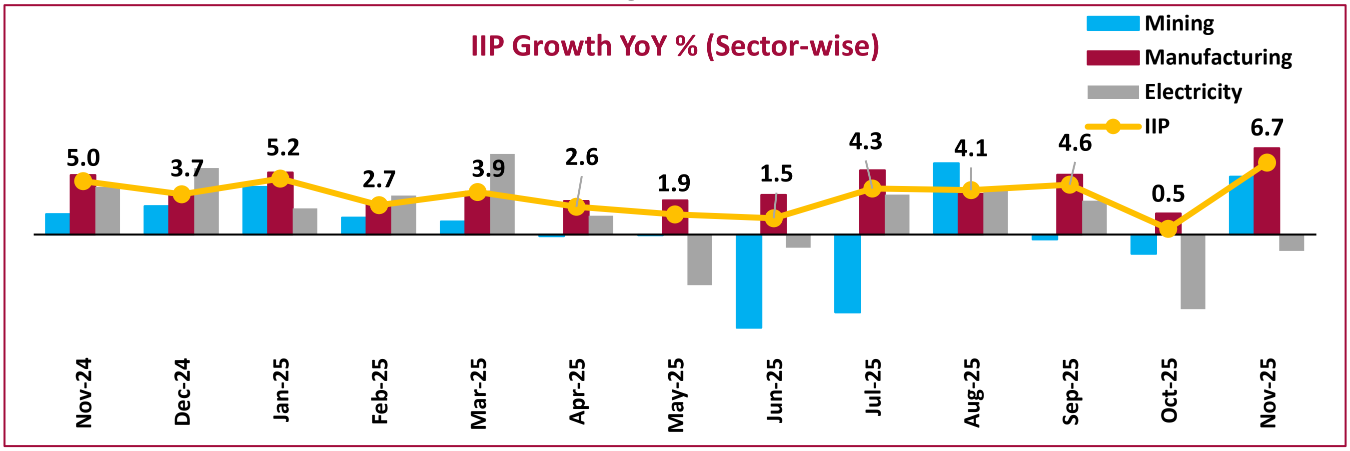
WPI Inflation YoY (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Group		All Commodities	
Weights	22.62%		13.15%		64.23%		24.38%		100%	
	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025
October	8.26	**-5.93**	-4.31	**-2.42**	1.78	**1.68**	12.15	**-5.04**	2.75	**-1.02**
November	5.49	**-2.93**	-4.03	**-2.27**	2.07	**1.33**	8.86	**-2.6**	2.16	**-0.32**
December	6.02	**0.21**	-2.57	**-2.31**	2.14	**1.82**	8.95	**0**	2.57	**0.83**



WPI Inflation inches up in December 2025 to 0.83%, driven mainly by rising prices of manufactured goods and minerals. Inflation stood at -0.32 percent in November 2025 and 2.57 percent in December 2024. The rise observes in Wholesale Price Index in December 2025 was mainly driven by sectors such as miscellaneous manufacturing, minerals, machinery and equipment production, as well as the manufacture of food products and textiles. Furthermore, wholesale price index registered a 0.71% increase in December 2025 compared to November 2025, reflecting an acceleration in price growth towards the year's end.

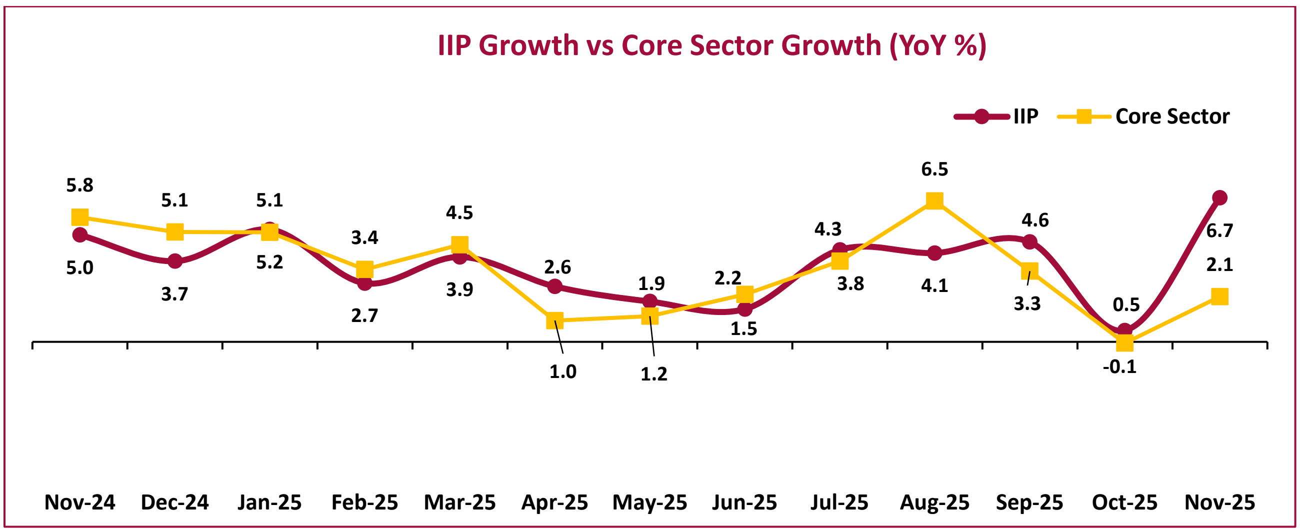
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP records 6.7% growth in November 2025



IIP Growth YoY % (Usage-wise)

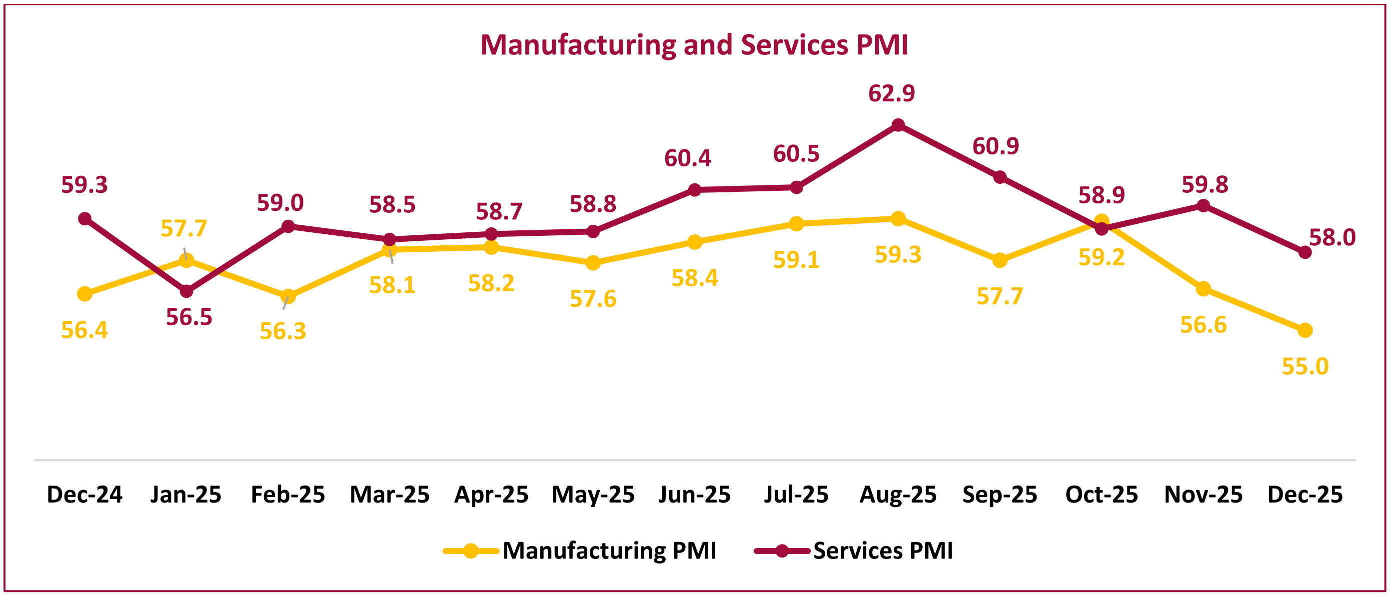
	Weight (%)	Nov'24	Nov'25		Apr-Nov (FY24-25)	Apr-Nov (FY25-26)
Primary Goods	34.05	2.7	2.0		3.9	0.3
Capital Goods	8.22	8.9	10.4		4.4	7.3
Intermediate Goods	17.22	4.8	7.3		4.3	5.3
Infra/Construction Goods	12.34	8.0	12.1		6.0	9.0
Consumer Durables	12.84	14.1	10.3		8.8	4.7
Consumer Non- Durables	15.33	0.6	7.3		-0.5	-1.0



Industrial activity, as indicated by Index of Industrial Production rebounded to 6.7% in November 2025 from 0.5% growth in October 2025. It stood at 5.0% in November 2024. On a sequential basis, IIP rose by 4.6% in November 2025, with the index at 158.0 compared to 151.1 in October 2025. All six use-based categories witnessed a broad-based pick-up in November 2025 vis-à-vis October 2025. Consumer durables grew sharply by 10.3% YoY in November 2025 after witnessing a decline of 1.3% YoY in the previous month.

PURCHASING MANAGERS' INDEX (PMI)

Services PMI decreased to 58.0 and Manufacturing PMI decreased to 55.0 in December 2025

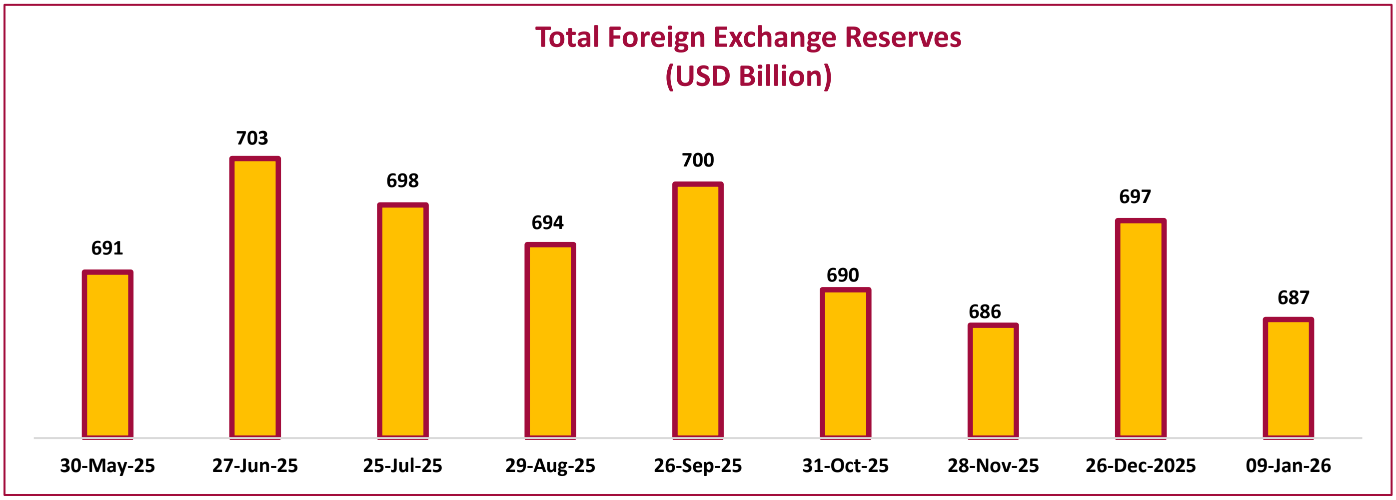


The HSBC India Manufacturing PMI eased further to 55.0 in December 2025, down from 56.6 in November 2025, marking the slowest improvement in operating conditions in two years. Factory output and new orders continued to expand, but at a more subdued pace, reflecting softer demand and challenging market conditions. Meanwhile, India's services sector also moderated, with the HSBC India Services PMI declining to 58.0 in December 2025 from 59.8 in November 2025. Although this signals a slower rate of expansion, activity remained robust, supported by ongoing new business intakes and resilient export demand. Overall, both sectors continued to grow, but the pace of expansion softened as 2025 ended, highlighting increased caution among businesses and a more competitive environment.

PERFORMANCE OF OTHER LEADING INDICATORS

	Dec -24	Jan-25	Feb -25	Mar -25	Apr -25	May-25	Jun-25	Jul-25	Aug -25	Sep-25	Oct-25	Nov-25	Dec -25
Coal production (YoY%)	5.3	4.4	1.7	1.6	4.1	2.8	-6.8	-12.4	11.6	-1.0	-8.5	2.1	3.6
Electricity generation (YoY%)	4.4	-1.3	2.4	4.8	-1.8	-8.2	-6.1	-0.8	1.0	0.8	-10.6	-5.0	4.3
Consumption of petroleum products (YoY%)	2.0	3.0	-5.2	-3.1	0.2	1.1	0.5	-4.4	4.8	7.0	-1.5	2.8	5.3
Cargo handled at major ports (YoY%)	3.4	7.6	3.6	13.3	7.0	4.3	5.6	4.0	2.5	11.5	11.9	14.5	-
Cement production (million tonnes)	38.9	40.5	39.8	45.7	38.0	38.6	39.5	35.7	34.2	34.4	36.3	37.3	-
Steel consumption (million tonnes)	13.8	13.7	12.4	14.3	12.0	13.1	13.2	13.4	13.7	13.4	13.3	12.9	14.3
Two-wheelers sales (Nos. in Lakhs)	14.8	19.1	17.8	20.2	18.3	20.4	19.5	20.0	22.7	25.9	26.4	24.2	20.1
Tractors sales (Nos. in Thousand)	59.1	69.8	67.8	90.7	90.3	99.4	121.6	72.8	73.2	154.4	173.6	102.0	79.7

FOREIGN EXCHANGE RESERVES

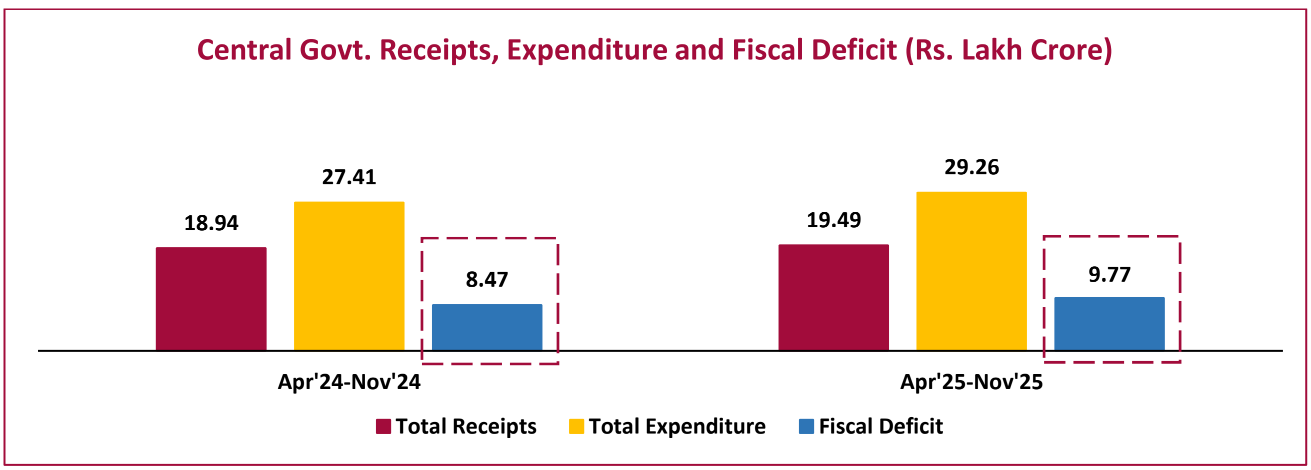


India's foreign exchange reserves reached $687 billion in the week ending January 10, 2026.

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

	Dec -24	Jan -25	Feb -25	Mar -25	Apr -25	May -25	Jun -25	Jul -25	Aug -25	Sep -25	Oct -25	Nov -25	Dec -25
E-way bill Generation	11.2	11.8	11.2	12.5	11.9	12.3	11.9	13.2	12.9	13.2	12.7	13.0	13.8

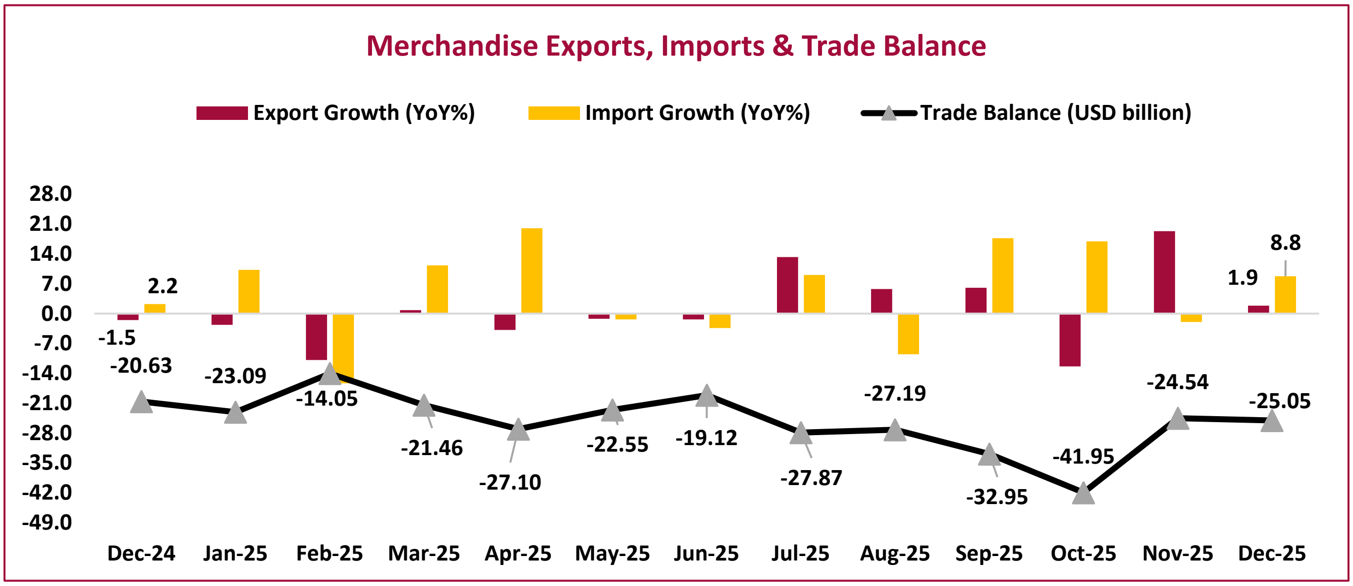
FISCAL DEFICIT

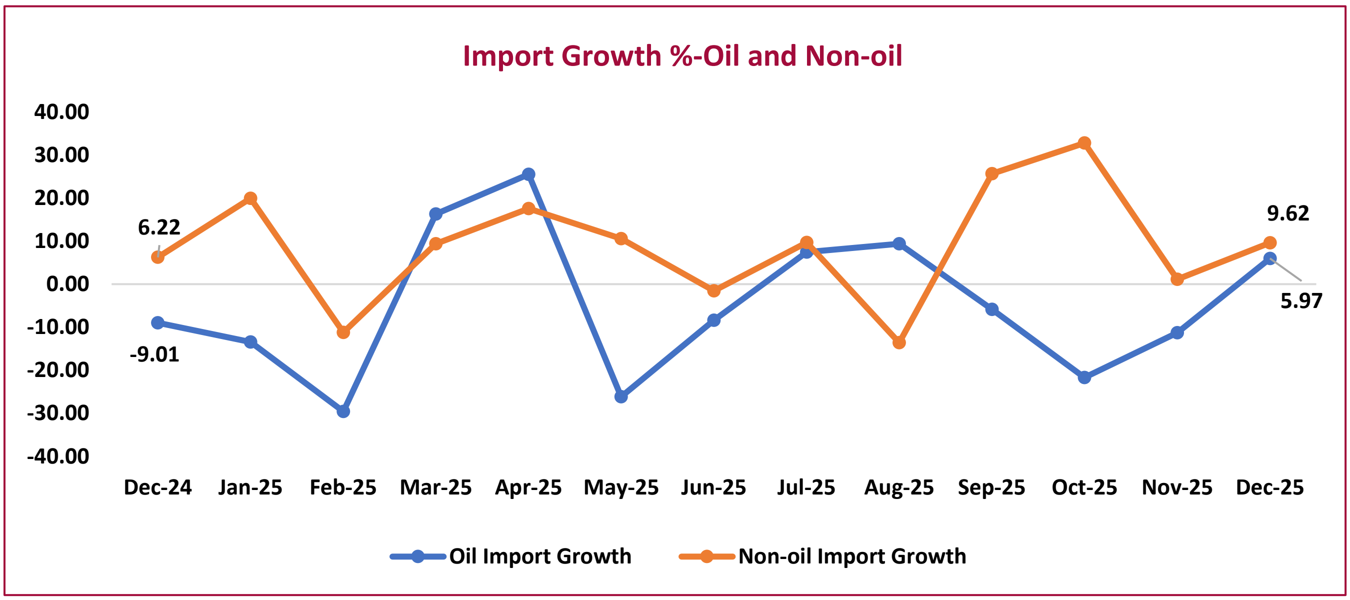


The government's fiscal deficit in November 2025 came in at ₹9.77 lakh crore amounting to 62.3% of the Budgeted estimates (BE) vis-à-vis ₹8.47 lakh crore i.e. 52.5% of BE during the same period last year. Govt.'s total expenditure stood at ₹29.26 lakh crore reaching 57.8% of the BE during April-November 2025. This compares to ₹27.41 lakh crore recorded in the same period last year i.e. 56.9% of estimate. Total receipts of ₹19.49 lakh crore accounted for 55.7% of the BE, down from 59.1% last year during the same period, due to lower achievement in net tax revenue compared to last year (49.1% vs 55.9%).

FOREIGN TRADE

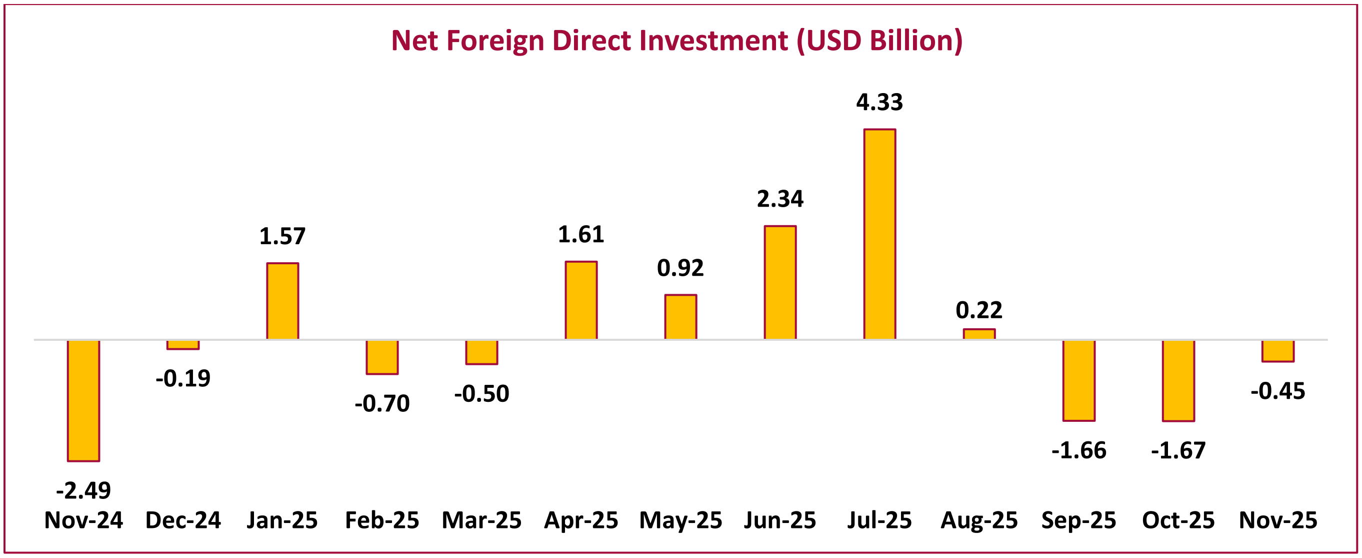
Trade Deficit widens to 25.05 USD billion in December 2025



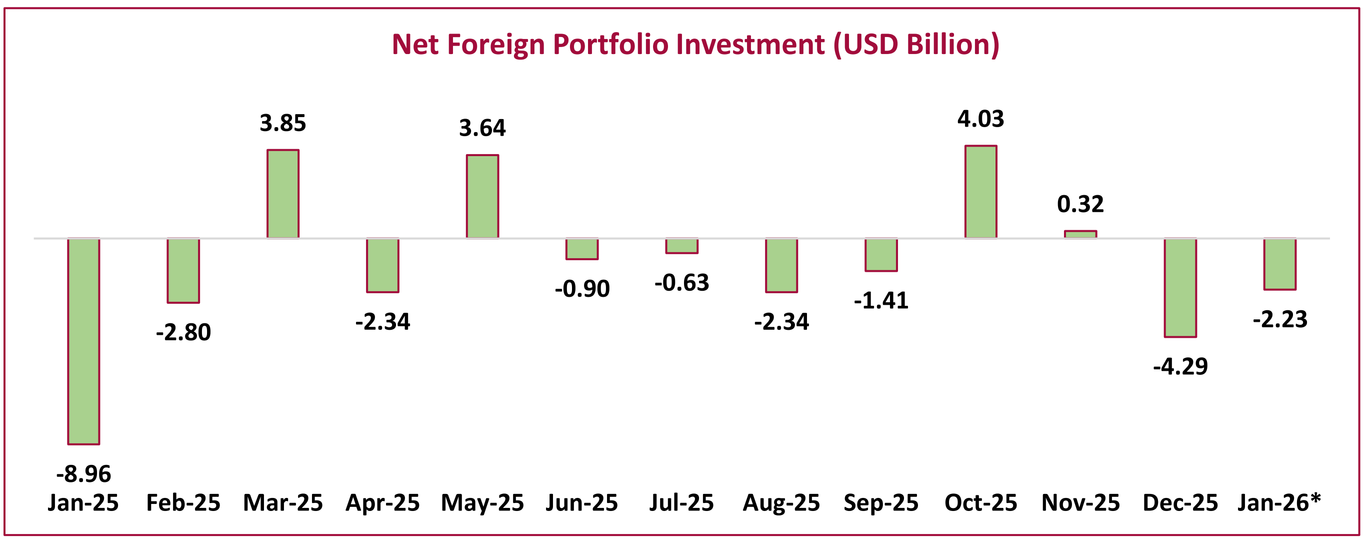


The difference between imports and exports of goods stood at $25.05 billion in December 2025. It expanded from $24.54 billion in November 2025. It was recorded at $20.63 billion in December 2024. Merchandise exports saw a modest rise to $38.51 billion in December 2025, compared with $37.80 billion in December 2024, registering 1.8% YoY growth. Meanwhile, merchandise imports increased by 8.8% YoY to reach $63.55 billion in the month of December 2025. Exports of non-petroleum products rose to $34.11 billion in December 2025, recording a yearly growth of 3.06%. In contrast exports of petroleum products declined by 6.49% YoY, amounting to $4.40 billion. Imports of gold fell by 12.07% YoY while silver imports saw an increase of 79.67% YoY in the month of December 2025.

FOREIGN INVESTMENTS



India's net foreign direct investment remained negative for the third consecutive month in October 2025, with outflows exceeding inflows by $1.5 billion. Separately, the RBI pointed out that uncertainty around the India-U.S. trade deal was a major reason why foreign portfolio investors were also taking more money out of the country than putting in it. The main drivers of the negative net FDI figure are a combination of a year-on-year fall in direct investments entering the country, and an increase in outward direct investments made by Indian companies.



***upto 16th Jan 2026*

As of December 2025, India's net foreign portfolio investment (FPI) position continued to exhibit volatility, with monthly net FPI flows fluctuating significantly throughout the year. In October 2025, there was a net inflow of USD 4.03 billion, followed by a smaller net inflow of USD 0.32 billion in November 2025. However, December 2025 saw a reversal, with net outflows of USD 4.02 billion. As of January 16, 2026, the trend continued, reflecting a net outflow of USD 2.23 billion.

DEPOSIT AND CREDIT OF SCBs

Parameter (Rs. Lakh Crore)	27.12.24	21.03.25	15.12.25	31.12.25	YoY Growth (%)	YTD Growth (%)	Fortnightly Growth (%)
Deposits	220.63	225.81	241.32	248.60	12.68%	10.09%	3.02%
Advances	177.43	182.44	196.95	203.23	14.54%	11.39%	3.19%
Business	398.06	408.25	438.26	451.82	13.51%	10.67%	3.09%

SECTORAL DEPLOYMENT OF CREDIT- INDUSTRY WISE

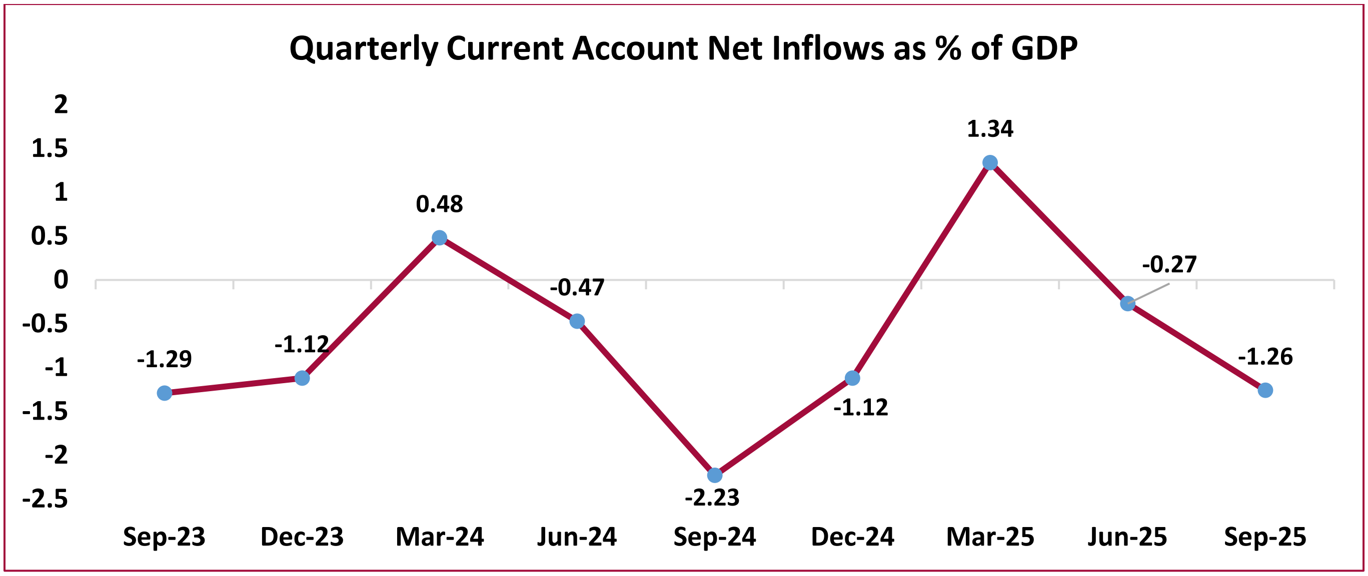
Parameter* (Rs. Lakh Crore)	Nov-24	Mar-25	Oct-25	Nov-25
Total Non-food	**174.6**	**182.1**	**193.2**	**194.5**
Agriculture and allied activities	**22.2**	**22.9**	**24.0**	**24.2**
Industry	**38.5**	**39.9**	**41.9**	**42.2**
Of which				
Micro & small	7.6	8.0	9.5	9.5
Medium	3.4	3.6	4.0	4.0
Large	27.4	28.2	28.4	28.7
Personal loans	**57.5**	**59.7**	**64.6**	**64.9**
Of which				
Housing (Including priority sector housing)	29.1	30.1	31.9	32.0
Credit card outstanding	2.9	2.8	3.0	3.0
Education	1.3	1.4	1.5	1.5
Vehicle loans	6.1	6.2	6.8	6.8
Services	**48.0**	**50.9**	**53.5**	**53.6**
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	0.5	0.5	0.5	0.5
Retail trade	5.1	5.4	5.7	5.7
Commercial real estate	5.1	5.2	5.7	5.7

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

Non-food bank credit grew by 11.4% y-o-y in Nov'25 as compared to 10.6% in Nov'24. Credit to agriculture and allied activities registered a y-o-y growth of 8.7% in Nov'25 as compared to 15.3% in Nov'24. Credit to industry recorded a y-o-y growth of 9.6% in Nov'25 as compared to 8.3% in Nov'24. Credit to services sector registered a growth rate of 11.7% y-o-y in Nov'25 as compared to 12.8% in Nov'24. Credit to personal loans segment recorded a y-o-y growth of 12.8% in Nov'25 as compared to 13.4% in Nov'24.

13. QUARTERL Y ECONOMIC INDICATORS

CURRENT ACCOUNT BALANCE



India’s current account deficit moderated to US$ 12.3 billion (1.3 per cent of GDP) in Q2FY2026 from US$ 20.8 billion (2.2 per cent of GDP) in Q2FY25.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. India’s external sector continues to show resilience, with services exports and remittances providing stability. These factors are expected to keep the CAD manageable, even as merchandise trade deficits remain elevated due to firm non-oil, non-gold imports.

14. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	0.75%	Dec 19, 2025 (25bps)	Mar 19, 2026
European Central Bank	Europe	2.15%	Jun 5, 2025 (-25bp)	Feb 05, 2026
Federal Reserve	U.S.A	3.75%	Dec 10, 2025 (-25bp)	Jan 26, 2026
Bank of England	U.K	3.75 %	Dec 18, 2025 (-25bp)	Feb 05, 2026
Peoples Bank of China	China	3.00%	May 20, 2025 (-10bp)	-
Reserve Bank of India	India	5.25%	Dec 05, 2025 (-25bp)	Feb 06, 2026

15. MACRO ECONOMIC INDICATOR OUTLOOK

Liquidity Scenario

- Liquidity conditions in the Indian banking system improved in Jan'26 as the average daily net position under the Liquidity Adjustment Facility (LAF), came back into surplus (average ₹0.56 trillion up to 20th Jan) but remained below comfortable levels (~1% of System NDTL). This followed a liquidity deficit during the second half of Dec'25, driven by higher government cash balances on account of advance tax & GST payments.
- Since then, the RBI has actively injected significant liquidity through Open Market Operations (OMOs), including a ₹50,000 crore purchase on 5th Jan as part of a larger ₹2 lakh crore plan. Alongside this, it has held a $10 billion Dollar-Rupee Buy/Sell Swap auction on 13th Jan, aiming to manage currency volatility and add durable rupee liquidity going forward.
- As a result, the overnight Weighted Average Call Rate (WACR) has eased to 5.42% (20th Jan) from 5.56% on 31st Dec'25. In December while non-food credit grew by 14.4%, deposit growth lagged at 12.7 per cent. This mismatch along with tight liquidity likely kept bank's overnight borrowing costs above the repo rate.
- 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

- The yield on the 10-year benchmark government security (G-sec) averaged 6.62% during the week ended January 16, 2026. While this marked a new high for the current fiscal year.
- The most significant development of the month was Bloomberg's decision to defer the inclusion of Indian bonds in its flagship Global Aggregate Index. It would reconsider the inclusion again in mid-2026. This disappointed investors who had expected the inclusion to trigger massive inflows.
- Goldman Sachs previously estimated that such a move could attracted USD 10-20 billion into the Indian debt market. Following the announcement on January 13, the 10-year bond yield reportedly hardened by 5-6 bps since then. At the same time, the US Treasury yields, which surpassed 4.25% amid renewed uncertainty over potential European retaliation against US trade policies and tariffs on Greenland putting a pressure on the domestic yields.

10 Year G-Sec/Treasury/Bond Yield of Major Countries (20.01.2026)

COUNTRY	Yield (%)
United States	4.46
United Kingdom	4.30
Japan	2.29
China	1.80
India	**6.67**

Source: Investing

- Going forward, the market is now looking toward next month's release of new base-year data for inflation and growth. Higher government borrowing during Q4 FY26 and limited scope for further rate cut in this fiscal year means yields are likely to remain largely sticky. The RBI is expected to prevent a major sell-off, making a sustained rally in bond yields unlikely.

16. INDUSTRY OUTLOOK- INSURANCE

The insurance sector in India is currently at a pivotal "inflection point." As of early 2026, the industry is transitioning from a traditional, agent-heavy model to a high-tech, customer-centric ecosystem, bolstered by aggressive regulatory reforms and a massive digital push.

Despite global economic volatility, the Indian insurance industry has maintained steady growth, though it still faces challenges in deep market penetration. The industry is projected to reach approximately $222 billion (₹19.30 lakh crore) by the end of FY26. The life insurance industry recorded a premium income of ₹8.86 lakh crore in FY25, reflecting a growth of 6.73%.

Transformational Reforms in 2025: Redefining Insurance Landscape

•Regulatory Reforms: The "Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025," passed by India's Parliament in late 2025, is a landmark legislation to transform India's insurance sector by allowing 100% Foreign Direct Investment (FDI), streamlining regulations, enhancing consumer protection (including a new Policyholder's Fund), empowering IRDAI, and introducing composite licenses, all aiming to deepen insurance penetration and accessibility for every citizen.

•Tax Exemptions: The 18% GST on individual life and health insurance premiums (including renewals/riders) was reduced to zero from September 22, 2025, significantly lowering costs. This makes term plans, ULIPs, health policies, and riders cheaper by about 18% on premium amounts.

•Bima Sugam Platform: Often called the "UPI moment for insurance," this IRDAI-led digital marketplace has simplified policy discovery, purchase, and claims, reducing reliance on intermediaries. It is designed to bring all insurance services under one roof, allowing users to browse and choose from a wide range of life, health and general insurance offered by different companies.

Emerging Trends for 2026

Several dynamic trends are shaping the Indian insurance sector in 2026. Embedded insurance is becoming increasingly common, with coverage now bundled seamlessly alongside other purchases such as travel tickets, electronics, or car loans, often facilitated via banking apps. Insurers are also embracing hyper-personalisation by leveraging Internet of Things (IoT) devices and wearables to offer innovative models like "pay-as-you-live" or "pay-as-you-drive," tailoring products to individual lifestyles and usage patterns.

India’s insurance penetration i.e. the percentage of a country's total insurance premiums (life and non-life) compared to its total economic output (Gross Domestic Product) is at 3.7% in FY’2024-25, almost half of the global average of 7.3%, signifying a vast opportunity under this sector.

India’s Tier 2 and Tier 3 cities are emerging as major growth areas for insurers driven by rapid demographic and socio-economic changes. An expanding middle class, coupled with increasing disposable household incomes and urbanisation, has chosen to increasingly prioritise financial security, driving demand for insurance products.

In summary, the Indian insurance market is exceptionally well-positioned for robust growth in the coming years. With progressive regulatory reforms, digital platforms like Bima Sugam, and a strong push towards customer-centric innovation, the sector is rapidly overcoming long-standing barriers to penetration and accessibility. As private players expand their footprint and technology continues to drive efficiency, the insurance sector is set to play a pivotal role in safeguarding India's economic aspirations and social security landscape.

Chhavi Sachdeva
Senior Manager (Economics)
SMEAD, Head Office

17. 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*

QUOTE OF THE MONTH

"The great aim of education is not knowledge but action."

— Herbert Spencer

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कॉर्पोरेट कार्यालय, प्लॉट सं. 4, सेक्टर-10,
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