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कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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THE GST RATIONALIZATION

The Goods and Services Tax (GST), introduced on 1st July 2017, is India's most significant indirect tax reform since Independence. By bringing together multiple central and state taxes into a single, unified system, GST created a common national market, reduced the cascading of taxes, simplified compliance, and improved transparency. Over eight years, GST has steadily evolved through rate rationalisation and digitalization, becoming the backbone of India's indirect tax framework.

The GST rationalisation marks a significant milestone in India's tax landscape. In a landmark step towards simplification and consumer relief, the GST Council has approved a 2-tier rate structure of 5% and 18%, replacing the earlier 4- slabs of 5%, 12%, 18%, and 28% on 396 items. The revised structure will come into effect from 22nd September 2025. This bold move is expected to yield widespread benefits for the Indian economy and the banking sector.

❖ Benefits to the Indian Economy

By reducing GST on a wide range of goods, from household essentials like soaps and toothpaste to consumer durables and automobiles, prices will decrease. The rationalization is expected to lower the inflation by 20-30 bps in the current Financial Year. This puts more money in the hands of consumers, stimulating spending and boosting overall consumption.

The cut in GST on cement and construction materials will give a big boost to the housing sector. This will lower the cost of homes and infrastructure projects, making ownership of houses more affordable. The move is also expected to spur demand in real estate and create new jobs in construction.

Reduction in GST on items related to farming and agriculture equipment, like tractors, and lower rates on biopesticides will ease the financial burden on farmers. Correcting the inverted duty structure on Fertilizer inputs will boost domestic fertilizer production and reduce dependence on imports, strengthening self-reliance in agriculture. These measures are expected to give an impetus to rural development.

Further, new rates will lower input costs for many industries, especially for Micro, Small, and Medium Enterprises (MSMEs). This will improve their cash flow, reduce working capital constraints, and make them more competitive. The correction of inverted duty structures where the tax on inputs is higher than on the final product will also make it easier for businesses to claim refunds and operate more efficiently. All these initiatives will further support the vision of Make in India.

Moving from a multi-tiered system to a two-rate structure will significantly reduce the complexity of tax compliance for businesses. This will lead to fewer classification disputes, a reduction in litigation, and a

decrease in compliance costs. This improved 'ease of doing business' will encourage more businesses to join the formal economy, widening the tax base and boosting government revenue in the long run.

Most developed economies operate with fewer GST/VAT rates, and India's move in this direction aligns its tax system with global best practices, making it more attractive for foreign investors.

❖ **Banks stand to benefit substantially**

The rationalisation of GST, combined with the tax relief measures introduced in the Union Budget, is anticipated to spur a surge in demand for goods and services. This increased consumption will encourage industries to scale up their operations, potentially reviving private investment, which has remained subdued in recent years. This will create a favourable environment for lending and financial growth.

With consumer goods like cars and household appliances becoming more affordable, there will be a surge in demand for retail loans. Banks are well-positioned to capitalize on this, with an expected increase in applications for auto loans, home loans, and personal credit. This will lead to higher loan disbursements and stronger balance sheets for lenders. Further, GST on health and life insurance policies is reduced to zero (from 18%) making insurance more affordable, creating significant opportunities for banks to expand income from bancassurance vertical.

Input cost reductions (e.g., agri machinery, textiles, kitchenware now taxed at 5%) will improve MSME profitability and repayment capacity, spurring demand in the sector. The improved financial health and working capital of MSMEs will lower their risk profile, making them more attractive to lenders. This will unlock fresh credit demand from small and first-time borrowers, especially in semi-urban and rural areas. For banks, this is a significant opportunity to grow their MSME lending books.

A simplified tax structure and a more formalized economy will encourage businesses to adopt digital payment solutions and fintech platforms for their operations. This will drive a more cashless and digitally integrated economy, benefiting banks' digital payment infrastructure and services.

While the government may experience short term revenue loss and strain on the fiscal deficit, it is expected to be offset in the long run by higher compliance due to simplified rates, broader consumption base and faster economic growth leading to higher direct and indirect tax collections.

The rationalisation of GST rates in India from four to two marks a progressive step towards a simpler, more efficient tax system. The reform is poised to deliver broad-based economic benefits, including easier compliance, reduced disputes, and greater transparency. The banking sector, as a key pillar of the economy, will also witness enhanced efficiency and growth opportunities, reinforcing the positive impact of this crucial tax reform. As the country moves forward, these reforms are expected to contribute significantly to India's vision of Viksit Bharat.

Ajay Kumar Singh
General Manager

2. ANALYSIS OF GLOBAL FOREIGN DIRECT INVESTMENT

Introduction

Foreign Direct Investment (FDI) plays a key role in global economic integration by providing access to capital, technology, and expertise. It drives growth and innovation, with investor confidence shaped by stability, clear policies, and strong infrastructure. Adapting investment frameworks is essential for countries to remain competitive in 2025 and beyond.

Key Factors Influencing FDI Inflows

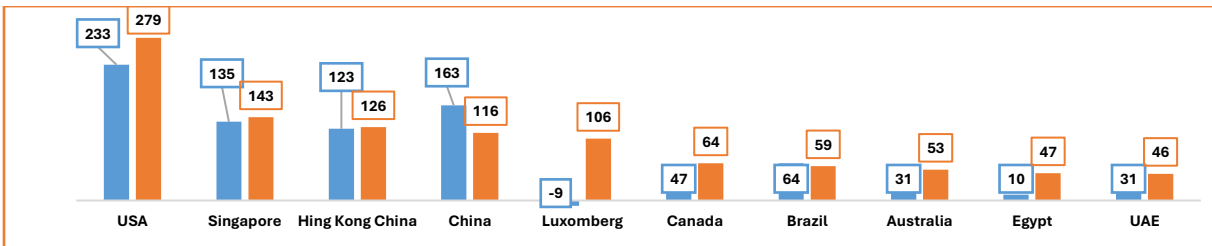
FDI inflows into a country are shaped by a combination of economic, regulatory, and socio-political factors. Among the most prominent determinants are:

- **Economic Stability:** Investors are drawn to countries exhibiting steady growth, low inflation, and predictable economic policies, as these reduce risks associated with their investments.
- **Market Size:** Larger and growing markets offer greater opportunities for sales and expansion, making them attractive destinations for foreign investment.
- **Regulatory Environment:** Transparent, predictable, and business-friendly regulations encourage foreign entities to establish operations, while excessive bureaucracy or restrictive laws can deter investment.
- **Infrastructure:** Robust physical and digital infrastructure such as transport networks, power supply, and internet connectivity enhances the efficiency and competitiveness of foreign ventures.
- **Labour Force:** Availability of a skilled, cost-effective, and adaptable workforce supports productivity and innovation, which is crucial for attracting FDI.
- **Taxation & Incentives:** Competitive tax rates and investment incentives, including tax holidays or subsidies, can significantly influence multinational firms' decisions regarding where to invest.
- **Political and Legal Stability:** A stable government and legal system ensure the safety of investments and reduce risks related to policy reversals, expropriation, or civil unrest.

Global Trends in FDI

- In recent decades, the patterns of Foreign Direct Investment (FDI) across the globe have experienced significant volatility, influenced by changing economic circumstances, geopolitical shifts, and modifications in policy regimes. By 2024, total global FDI stood at \$1.5 trillion, representing an 11 percent decrease compared to the previous year. This reduction was mainly due to ongoing geopolitical conflicts, intensifying trade tensions, and higher borrowing costs.
- According to the World Bank, ongoing disruptions in global supply chains and heightened investor caution are prompting FDI to gravitate towards more stable markets. Additionally, Environmental, Social, and Governance (ESG) considerations are increasingly influencing investment decisions, with investors preferring countries that demonstrate a strong commitment to sustainability and ethical business practices.

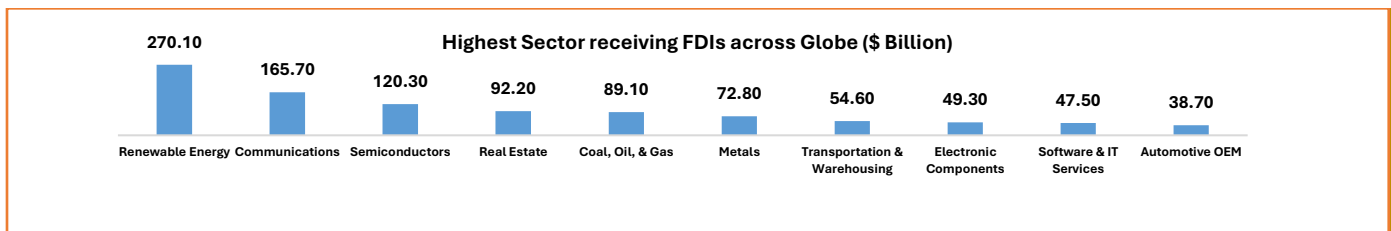
Top 10 Countries Receiving Highest FDIs (2024, Billion Dollars)¹



Region wise FDI inflows

- **Developed Economies:** In 2024, developed economies saw FDI inflows drop by 22% to \$626 billion which was heavily impacted by ongoing geopolitical and economic challenges.
- **North America:** In contrast, North America's FDI inflows rose by 23% to \$343 billion, led by the United States' strong market, infrastructure, and stable environment.
- **Developing Economies:** These economies posted a slight 0.2% increase in FDI, totalling \$867 billion, reflecting resilience amid global uncertainty.
- **Asia:** Asia remained a key FDI destination with \$605 billion, despite a 3% decrease from the previous year, supported by its dynamic markets and ongoing development.
- **Africa:** Africa recorded a standout 75% increase in FDI, signalling growing confidence in its economic future.

Sector wise FDI Trend:



Greenfield investments fell by 5% in 2024, yet total project announcements still hit \$1.3 trillion. Meanwhile, cross-border M&A surged by 14% to \$443 billion, though this remains below the decade's average. Developing nations faced sharp drops in key sectors: infrastructure (-35%), renewables (-31%), water and sanitation (-30%), and agrifood (-19%). Only the health sector bucked the trend, with a 20% jump in project number and value, but total volume stayed under \$15 billion. Despite persistent political and economic headwinds, these shifts are opening avenues for adaptation and innovation.

Outlook for 2025: Countries need to diversify investment strategies

- Global FDI is expected to see moderate growth in 2025, aided by better financing conditions and increased M&A activity.
- Geopolitical tensions and economic uncertainty, including tariffs, continue to pose challenges for both developed and developing economies.
- A proactive focus on global cooperation and diversification may boost investor confidence and stability in 2025. Such strategies can help countries manage economic fluctuations and unlock new growth opportunities.

¹ Source: UNCTAD

3. REIMAGINING INDIAN BANKING TO POWER THE DOMESTIC ECONOMY

As India charts its path towards becoming a developed economy by 2047, the domestic financial system finds itself at an inflection point. Having emerged from the twin balance sheet stress of the past decade, Indian banks today are better capitalised, more profitable, and carry lower non-performing assets.

The future calls for banks to evolve beyond their conventional roles—transforming from custodians of savings into engines of innovation, inclusion, and nation-building. This demands reimagining how credit flows, liabilities are mobilised, and technology is leveraged.

To unlock India’s growth potential, it is essential to revive long-term project and infrastructure finance. Banks can no longer be the sole bearers of long-tenor risks; they must build “blended finance” structures, co-funded with development finance institutions such as NABFID and long-term investors like insurance and pension funds. This would allow risk-sharing and lengthen tenors, while freeing bank balance sheets to fund new projects.

Equally crucial is deepening the corporate bond and secondary loan markets, which remain underdeveloped despite the creation of the Secondary Loan Market Association (SLMA). A robust loan trading platform would enable banks to recycle capital by selling operational infrastructure loans to investors with lower risk appetites, reducing concentration risk and enhancing capital turnover.

Simultaneously, banks must expand credit access to sunrise sectors—renewables, electric mobility, agri-tech, and MSMEs—through AI-powered underwriting models that draw on GST, supply chain and utility data. Emerging digital rails like the Unified Lending Interface (ULI), Account Aggregator (AA) framework and Open Credit Enablement Network (OCEN) can shift underwriting from relationship-driven to data-driven models, enabling faster and more confident loan origination.

As the competition for deposits intensifies, banks must go back to the basics—designing products that attract and retain household savings. Goal-linked savings accounts that integrate financial planning, and policy-rate-linked term deposits that auto-adjust with repo rate changes, can reduce disintermediation to market instruments. Embedding recurring deposit nudges within UPI and gamifying savings, as seen with Kakao Bank in South Korea, could help raise small-ticket deposits at scale.

Deepening financial inclusion will also be pivotal. Expanding a ‘phygital’ footprint—combining digital platforms with physical presence through business correspondents, regional language interfaces (leveraging Bhashini), and micro-ATMs—can unlock rural household savings. Bundling deposits with

micro-insurance, NPS and recurring deposits in a single journey will improve convenience and stickiness.

Public sector banks, with their wide reach and trust capital, can position themselves as “national champions”—safe, reliable and development-oriented institutions that channel household savings into nation-building.

Technological transformation, especially through AI, offers a once-in-a-generation opportunity to reshape banking economics. Generative AI-driven relationship managers can deliver hyper-personalised engagement at scale, while AI-based pricing engines can dynamically manage yields on both loans and deposits.

On the risk side, AI can power early warning systems by using satellite and social media data to detect incipient distress, and can enable predictive maintenance of IT infrastructure, reducing outages and cyber risks. Simultaneously, banks can use AI to tag and track ESG-linked loans and build green loan taxonomies that are attractive to global climate funds—aligning balance sheet growth with sustainability goals.

To sustain India’s economic momentum, banks must rebalance their portfolios—from a predominant focus on retail credit towards a healthy mix that includes high-impact infrastructure lending. This requires partnerships across the financial ecosystem—DFIs, fintechs, NBFCs and BigTech—for origination, underwriting and distribution. It also calls for embedding innovation through internal digital labs, and upskilling the workforce in AI literacy, data science and behavioural economics.

Ultimately, the future of India’s domestic economy hinges on its financial system’s ability to evolve. By embracing data-driven credit, reinventing deposit mobilisation, and embedding AI across the value chain, banks can transcend cyclical headwinds and lay the foundations for a resilient, inclusive and innovation-led financial architecture. In doing so, they will not just support India’s growth—they will shape its journey to becoming a “*Viksit Bharat*” by 2047.

Smriti Behl
Officer (Economics)
SMEAD, Head Office

Data Source: PLFS & CMIE

4. GIST OF RBI SPEECHES: CHARTING NEW FRONTIERS

Inaugural Address by Shri Sanjay Malhotra, Governor, Reserve Bank of India – August 25, 2025, at the e FIBAC 2025 Conference, Mumbai

India's economic landscape is defined by resilience, stability, and a forward-looking vision aimed at transforming the nation into a developed economy by 2047. The macroeconomic fundamentals are robust, with post-pandemic recovery averaging 8% growth, moderated inflation, improved fiscal indicators, and a stable external sector supported by rising foreign exchange reserves and a sustainable current account deficit. These indicators reflect a strong foundation for long-term growth and financial stability.

Monetary policy continues to play a central role in maintaining price stability while supporting economic expansion. Strategic adjustments in interest rates and liquidity have helped anchor inflation expectations and ensure financial system stability. The regulatory framework guiding financial institutions is built on principles of proportionality, consultation, evidence-based decision-making, and agility. Recent reforms include streamlined norms for cooperative banks, non-banking financial companies (NBFCs), and priority sector lending. Future plans involve implementing Basel III guidelines and simplifying regulatory processes to enhance efficiency and compliance.

Financial inclusion remains a key priority, with efforts focused on expanding access, usage, and quality of services, particularly in underserved rural areas. Strengthening Business Correspondent networks and launching outreach campaigns at the Gram Panchayat level are central to this strategy. Formal credit access for micro, small, and medium enterprises (MSMEs) is being enhanced through digital platforms like the Unified Lending Interface, which leverages India's digital public infrastructure to facilitate seamless credit delivery.

Customer-centricity is emphasized as essential for long-term financial sustainability. Measures include conduct regulations, grievance redressal systems, and internal ombudsman frameworks to ensure transparency, accountability, and responsiveness. Technology is driving transformation in credit delivery and operational efficiency, with platforms such as Account Aggregator and PRAVAAH streamlining processes and improving service delivery.

The path forward calls for collaborative efforts between regulators and industry to foster investment and inclusive growth. Economic decisions are encouraged to reflect values that prioritize the well-being of the most vulnerable, aligning financial progress with social responsibility and long-term national development goals. This approach aims to ensure that growth is not only sustainable but also equitable and inclusive.

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 began with the establishment of the Reserve Bank of India in 1935 and gradually expanded to include entities like NBFCs, UCBs, and cooperative banks. Over time, specialized regulators such as SEBI, IRDAI, PFRDA, and IFSCA emerged, each contributing to a robust, consumer-focused financial ecosystem.

Globally, countries adopt various regulatory models—sectoral, integrated, Twin Peaks, and partially integrated—each with distinct trade-offs. Central banks often play a pivotal role in maintaining financial stability. Regulatory approaches include principle-based, rule-based, and outcome-based frameworks, alongside activity-based and entity-based regulation. A hybrid model is seen as effective in managing oversight and systemic risks.

Balancing innovation with stability presents ongoing challenges. Climate risks, technological disruptions, and the need to reduce regulatory burdens require adaptive strategies. RBI's initiatives like digital lending guidelines, V-CIP, and the FREE-AI framework aim to address these complexities. Efforts such as RRA 2.0, PRAVAAH, and Connect 2 Regulate streamline compliance and foster stakeholder engagement.

Inter-regulatory coordination is essential, especially for financial conglomerates and emerging partnerships that span multiple domains. Platforms like the Financial Stability and Development Council (FSDC) and its Sub-Committee facilitate collaboration and oversight.

A shift toward principle and outcome-based regulation is underway, supported by forward-looking strategies and Regulatory Impact Assessments (RIAs) for evidence-based policymaking. Enhancing compliance through clarity, consolidation, and consumer-centricity is prioritized. Behavioral economics is proposed as a tool to improve regulatory efficiency and effectiveness.

A balanced regulatory approach is vital to support innovation while safeguarding financial stability. India's diverse and evolving financial landscape demands a dynamic, inclusive, and forward-thinking regulatory architecture that remains responsive to emerging risks and opportunities.

5. CLASSROOM : DECODING SOVEREIGN BOND RATINGS

Every time a government issues debt in international markets, investors ask a simple but crucial question: how safe is this sovereign's promise to repay? Sovereign bond ratings provide the answer. Assigned by global rating agencies, they distil a nation's economic, fiscal, and institutional health into a grade that determines borrowing costs and investor appetite. For emerging economies, the implications extend beyond finance as these ratings shape perceptions of policy credibility and resilience.

Core Drivers of Ratings - Though the methodologies vary, four parameters that dominate assessment worldwide are:

- I. **Economic strength** – Size and growth of country's GDP, per capita income, sectoral (Agri, Industry and Services) diversification, and long-term competitiveness (Sustainability).
- II. **Fiscal position** – The debt-to-GDP ratio, fiscal deficit trends, revenue mobilisation, and the state's repayment capacity of its debt both internal and external.
- III. **External and monetary profile** – The inflation rate trajectory along with exchange rate stability, adequacy of reserves, and current account balance also plays a crucial role.
- IV. **Institutional and political stability** – Policy continuity, governance standards, and social stability that underpin repayment willingness also play a crucial role.

These dimensions combine to create an integrated view of both the ability and willingness of a sovereign to honour debt. A notch higher on the rating scale can save billions in borrowing costs, while a downgrade can spark currency volatility and capital flight out of the country.

The “Big Three” **Moody's, Standard & Poor's, and Fitch** share a common framework but diverge in emphasis and approach as

- **Moody's** applies a quantitative scorecard, stressing institutional robustness and event-risk management. Its ratings lean heavily on structural factors that anchor long-term resilience.
- **S&P** blends data with judgment through a six-pillar model covering institutions, economy, external accounts, fiscal performance, debt burden, and monetary settings. Its methodology gives more room for forward-looking assessments.
- **Fitch** evaluates four drivers i) Structural features ii) Macroeconomic outlook iii) Public finance, and iv) External balance. While, placing sharper weight on debt dynamics and external vulnerabilities.

Why It Matters - A sovereign's rating acts as its global report card. It governs the premium demanded by investors, affects cross-border capital flows, and influences domestic financial conditions. For policymakers, sustaining or improving ratings demands fiscal discipline, credible reforms, and stable macroeconomic management. For investors, ratings serve as a compass in navigating risk across countries. Therefore, the sovereign bond ratings are not just grades they are global trust markers, signalling how the world views a nation's economic credibility.

In September 2025, India received its third sovereign upgrade of the year, as Japan's R&I raised the rating to “BBB+” with a stable outlook, citing strong growth prospects and fiscal discipline.

Kartik Khandelwal
Officer (Economics)
SMEAD, Head Officer

6. GIST OF RBI CIRCULARS

| | |
|-----------------------------|--|
| Date of the circular | Sep 5, 2025 |
| Ref No. | RBI/2025-26/77 CO.DPSS.ODD.No.S604/06-08-024/2025-2026 |
| Subject | Returns – Department of Payment and Settlement Systems – Submission in CIMS |

The Reserve Bank of India (RBI) has announced that from August 2025 onwards, all Scheduled Commercial Banks, including RRBs, UCBs, StCBs, DCCBs, Payment Banks, and Small Finance Banks, must submit Internet Banking (R065) and Mobile Banking (R102) returns monthly via the Centralised Information Management System (CIMS). Admin users for each entity have been created, and they are responsible for setting up login credentials for return submission. Returns must be filed by the 7th of the following month, with non-compliance subject to penal action under the Payment and Settlement Systems Act, 2007. This move aims to streamline reporting and enhance data management across the banking ecosystem.

| | |
|-----------------------------|--|
| Date of the circular | Aug 14, 2025 |
| Ref No. | RBI/2025-26/75 DOR.AML.REC.46/14.01.001/2025-26 |
| Subject | Reserve Bank of India (Know Your Customer (KYC)) (2nd Amendment) Directions, 2025 |

The Reserve Bank of India has issued the second amendment to its Know Your Customer (KYC) Directions, 2016, effective immediately. Key updates include the addition of a link to FAQs for better clarity, and enhanced inclusivity measures—applications from Persons with Disabilities (PwDs) must not be rejected without due consideration, and liveness checks must not exclude individuals with special needs. The amendment also mandates KYC during occasional transactions of ₹50,000 or more and international money transfers. Aadhaar Face Authentication is now recognized as a valid method. Two additional circulars have been added to the Appendix for reference. These changes aim to improve transparency, accessibility, and compliance in line with evolving financial and regulatory needs.

7. ESG UPDATE

(Banking for People, Planet & Prosperity)

1. **Tailored emission targets proposed for steel players**

- India plans to roll out customized emission reduction targets for major steel manufacturers, taking into account their varying operational capacities.
- The approach aims to balance decarbonisation goals with industrial realities across large and small enterprises.
- The policy outlines a gradual reduction trajectory, targeting 8-9% reduction in emissions by financial year 2027, using FY2024 as the baseline.

2. **India sets up National Designated Authority (NDA) to implement provisions of carbon trading under Paris Agreement**

- The Environment Ministry constituted a 21-member NDA, chaired by the Union Environment Secretary, to oversee carbon trading and market-based climate mechanisms under Article 6 of the Paris Agreement.
- The body facilitates compliance with global frameworks, enabling India's participation in both market and non-market carbon mechanisms under the Paris Agreement.

3. **India will require 9 GW of charging capacity for e-trucks by 2030**

- A new study by the International Council on Clean Transportation (ICCT) estimates that India will need approximately 9 GW of charging capacity by 2030 to support growing demand from electric trucks.
- High-power chargers along freight corridors and logistics hubs are seen as critical to ensure the adoption of e-trucks and support India's Net-Zero by 2070 targets.

4. **MindSpace REIT Raises ₹550 Crore via Sustainability-Linked Bonds (SLBs)**

- MindSpace Business Parks REIT secured an additional ₹550 crores from the International Finance Corporation (IFC) through SLBs, bringing its total to ₹1,200 crores.
- It's the first SLB issuance by an Indian REIT under SEBI's new ESG framework introduced in June 2025. Proceeds will be channelled toward enhancing energy efficiency, expanding green-certified space, and building a sustainable, future-ready portfolio.

5. **L&T raises ₹5 billion through India's first ESG bonds on NSE**

- Larsen & Toubro (L&T) issued ₹500 crores in ESG bonds—the first in India under SEBI's new sustainability-linked bond framework, listed on the National Stock Exchange.
- The bonds carry a 3-year maturity and a 6.35% annual coupon, structured to comply with SEBI's updated ESG guidelines.

- HSBC acted as the sole lead arranger, and the bond includes specific KPIs tied to reducing freshwater withdrawal intensity and greenhouse gas emissions.

6. India's First ESG Lab Inaugurated in Mumbai

- Maharashtra's Chief Minister inaugurated India's first ESG (Environmental, Social, Governance) Lab, located in Mumbai.
- The lab aims to integrate ESG principles with emerging technologies—like AI, quantum computing, and climate-focused innovation.
- It positions India at the forefront of educational integration, grooming students for a technology-driven and environmentally conscious future.

7. India's outbound investments surge 67% in FY25, driven by ESG, GIFT City, and global tax reforms

- India's outbound investments rose by 67.74%, from US \$24.8 billion in FY 2023-24 to US \$41.6 billion in FY 2024-25. (*Source: The Economic Times, 24.08.2025*)
- The number of outbound investment transactions also increased by 15%, signalling stronger global investor confidence among Indian firms.
- Companies are prioritizing ESG considerations, technology-led growth, and geographic diversification—moving investments beyond traditional jurisdictions like Singapore and Mauritius toward new hubs.

8. ESG Bonds rapidly gain traction in Indian Debt market

- ESG bonds, once niche, are now becoming a mainstream financing tool in India's debt market.
- Rising domestic & global investor interest is driving issuances across corporates & financial institutions.
- SEBI's new sustainable finance framework (June 2025) is boosting credibility and encouraging more ESG bond offerings.

9. Apparel Manufacturers Lead Climate Action in the Global South

- As major fashion brands retreat from climate commitments, garment manufacturers in regions like India, Vietnam, and Bangladesh are doubling down on sustainability.
- Key initiatives include the adoption of renewable energy, solar deployment, and energy-efficient technologies.
- Examples: Epic Group is building a net-zero factory in India, while Arvind is replacing coal with biomass boilers through strategic partnerships.

10. Verra & S&P Global Launch Next-Gen Carbon Registry

- Verra and S&P Global have teamed up to develop a next-generation carbon registry.
- The goal is to enhance transparency, reliability, and credibility in carbon markets, making carbon credits easier to track and more trustworthy.

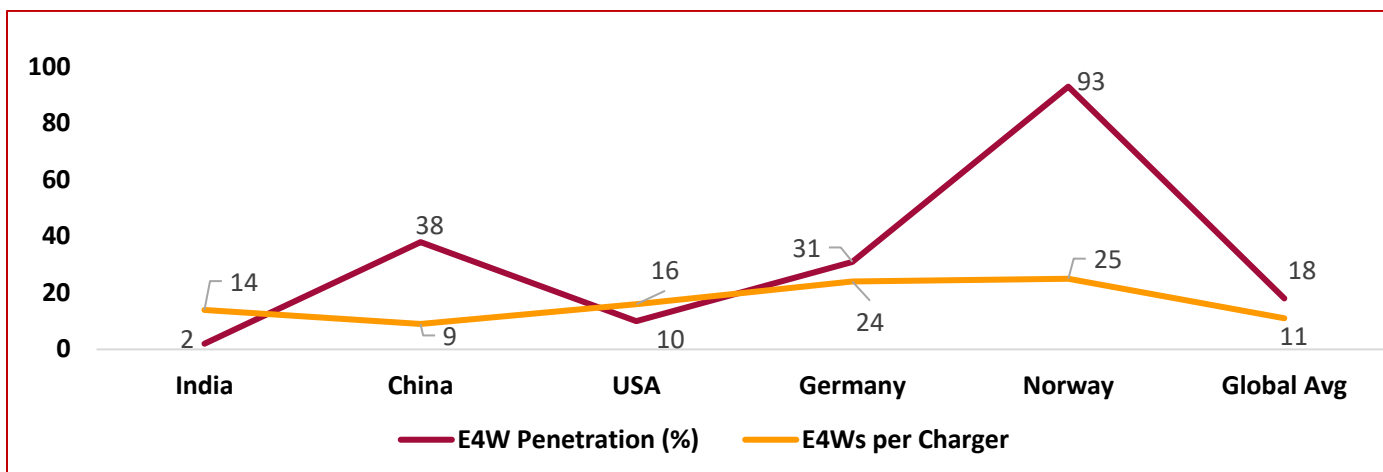
- This development is critical as global demand for robust, verifiable carbon accounting systems continues to climb.

ESG Brain Teaser- I am invisible, yet I warm the planet. Banks track me under Climate risk.

Who am I?

Smart Green Tip -Switch to e-statements & encourage 5 customers to opt in.

Charging Infrastructure Availability V/S 4W EV Penetration (2024)



Source: Niti Ayog Report, 2025, EVs in India

The figure compares EV charging infrastructure with 4-wheeler EV penetration in 2024 across major countries. India's EV penetration stands at just 2%, far below global benchmarks. Yet, with an impressive ratio of 14 EVs per public charger, the country demonstrates a promising foundation for infrastructure-led growth. This signals that India may be better positioned than it appears to scale adoption rapidly—provided policy, affordability, and awareness gaps are bridged. China demonstrates strong progress with 38% penetration and 9 EVs per charger, while Norway leads globally at 93% penetration with 25 EVs per charger, reflecting both high adoption and supportive infrastructure. The global average stands at 18% penetration and 11 EVs per charger, underscoring India's urgent need to boost EV uptake alongside infrastructure development.

Ask Yourself -My Little Green step for today?

Ans. to ESG Brain Teaser: Greenhouse gas (GHG) emissions.

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

India's National Designated Authority for Carbon Trading

India has officially formed a National Designated Authority (NDA) to oversee carbon emissions trading under Article 6 of the Paris Agreement. This development follows the resolution of Article 6 at COP29 in Baku, Azerbaijan, in November 2024, which laid the groundwork for international carbon markets. The NDA marks a significant step in India's climate strategy, enabling the country to participate in global carbon credit trading while advancing its domestic climate goals.

Structure and Strategic Role of the NDA: The NDA is a 21-member committee chaired by the Secretary of the Ministry of Environment, Forest and Climate Change, with representation from key ministries including External Affairs, Steel, Renewable Energy, and NITI Aayog. It serves as the central authority for evaluating, approving, and authorising emission reduction projects eligible for trading under Article 6. The NDA also determines which activities align with India's sustainability priorities and updates this list regularly to reflect evolving national goals.

Supporting India's Climate Commitments: India's Nationally Determined Contributions (NDCs) include reducing emissions intensity by 45% and achieving 50% of electric power capacity from non-fossil sources by 2030. The NDA plays a crucial role in facilitating carbon credit generation and trading, helping India mobilise investments in clean technologies and afforestation efforts. By ensuring transparency, environmental integrity, and avoiding double counting, the NDA strengthens India's position in global climate action and supports its transition to a low-carbon economy. ([thehindu.com](https://www.thehindu.com))

Global Climate Action at COP 30 in Brazil

The 30th Conference of the Parties (COP 30) to the UNFCCC is set to take place in November 2025 in Belem, Brazil. This summit comes at a critical time as global climate mitigation efforts face mounting challenges. The primary focus will be on strengthening international cooperation to limit global warming and manage climate risks. With current national commitments falling short of the Paris Agreement goals, COP 30 is expected to push for more ambitious and enforceable climate actions.

The UNFCCC originally placed climate responsibility on developed nations, but over time, the framework has shifted toward shared commitments, increasing pressure on developing countries like China and India. While developed nations have reduced emissions since 1995, emissions in China, Russia, and India have risen. Per capita emissions vary widely, with the U.S. at 14.3 tonnes, Russia at 12.5, and India at just 2.1 tonnes. These disparities highlight the importance of the principle of "common but differentiated responsibilities," which developing nations aim to reinforce at COP 30.

Climate change poses serious economic threats, especially to developing regions. The Asian Development Bank warns that continued high emissions could shrink Asia-Pacific GDP by 17% by 2070, with India facing a potential 25% decline. Meanwhile, inconsistent climate policies—such as the U.S. withdrawal from the Paris Agreement under the Trump administration—have undermined progress. COP 30 presents an opportunity for countries like Brazil and India to lead coalitions of low-emission nations and advocate for stronger commitments from historically high emitters, ensuring a fair and effective global response to climate change. (unfccc.int)

Rooftop solar installations seen doubling to four million by March 2026 on PM Surya Ghar boost

The government expects rooftop solar installations to more than double to four million by March 2026, supported by the newly introduced utility-led aggregation model under the Prime Minister Surya Ghar Muft Bijli Yojana. This forms part of the broader target of installing 10 million rooftop solar units by March 2027, with 1.7 million households having adopted the systems so far. Officials estimate that the aggregation model could itself add around one million installations by enabling distribution companies to aggregate demand and implement rooftop solar projects on behalf of households. The model is designed to streamline approvals, improve vendor accountability, and reduce costs for consumers.

The scheme provides up to 300 units of free electricity each month, along with direct subsidies and collateral-free loans for installation. With an outlay of Rs. 75,021 crore (US\$ 8.6 billion), implementation will be carried out through power distribution companies and vendors till 2026-27. Industry experts highlight that expanding rooftop solar is key to meeting clean energy goals, easing the financial burden on distribution companies, and providing households with reliable, low-cost electricity. A joint study by JMK Research and the Institute for Energy Economics and Financial Analysis noted that scaling the decentralised energy market, of which rooftop solar is a crucial part, will be vital to strengthening India's energy security and advancing its path towards energy independence. (economictimes.com)

India will require 9 GW of charging capacity for e-trucks by 2030: Report

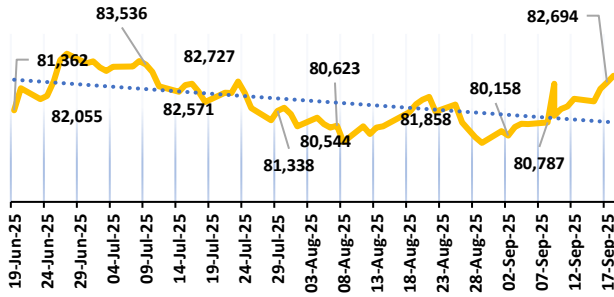
India will require approximately 9 GW of charging capacity to meet the projected demand for electric trucks, according to the International Council on Clean Transportation (ICCT). This is nearly five times Delhi's current power generation capacity, highlighting the scale of infrastructure needed. As of early FY 2024–25, India had 26,367 public EV charging stations, with roughly one charger for every 235 EVs. The ICCT's report emphasizes the need for depot and highway charging, especially in freight-heavy states like Maharashtra, Uttar Pradesh, Rajasthan, Gujarat, and Madhya Pradesh.

To accelerate e-truck adoption, India launched the PM Electric Drive Revolution in Innovative Vehicle Enhancement (E-DRIVE) scheme in July 2025, with a ₹500 crore outlay for e-trucks from a total budget of ₹10,900 crore. The scheme offers an upfront discount of up to ₹9.6 lakh per e-truck, targeting N2 and N3 category trucks (3.5–55 tonnes). It mandates scrapping old diesel trucks and includes a 5-year battery and vehicle/motor warranty. These incentives aim to promote green logistics, reduce emissions, and improve air quality.

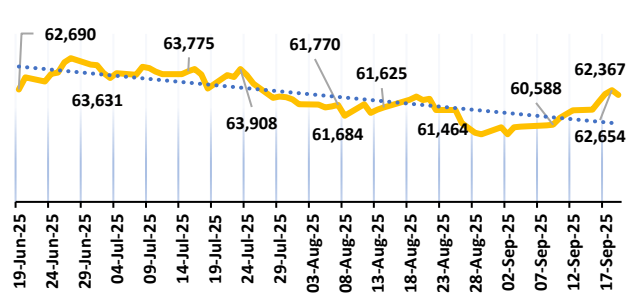
India's Net Zero by 2070 pledge requires 100% zero-emission truck sales by 2050. The government is supporting this transition through policy reforms and manufacturing incentives. Under the PLI scheme for automobiles, ₹26,000–27,000 crore has already been invested out of the ₹42,000 crore target. Additionally, the ₹80,000 crore PLI scheme for advanced chemistry cell batteries aims for 50 GWh capacity by 2029, with industry projections exceeding 100 GWh. These efforts are building a robust domestic EV ecosystem, making India a competitive hub for clean transportation technologies. (Downtoearth.org.in)

9. DAILY ECONOMIC INDICATORS

SENSEX

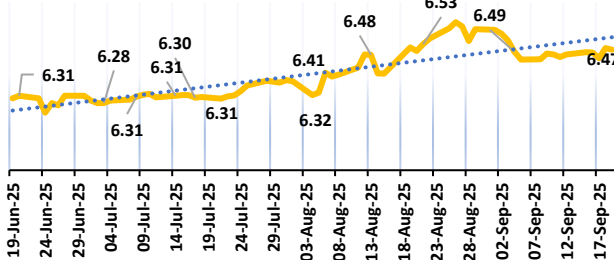


BANKEX

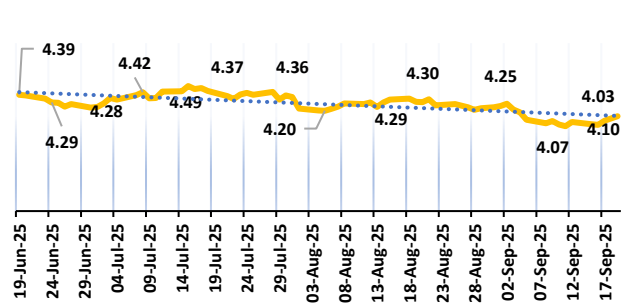


G SEC YIELD (10 Yr)

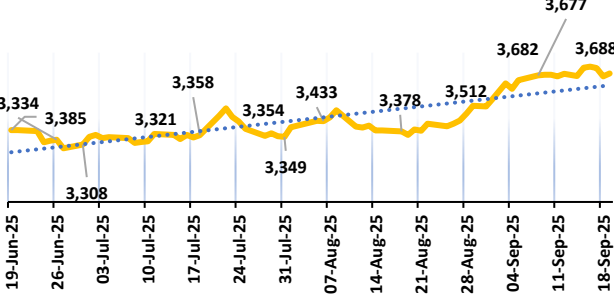
6.33 GS 2035



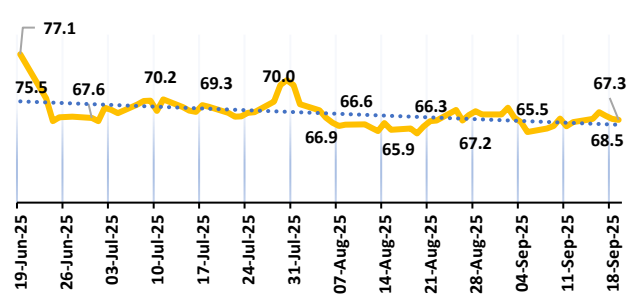
US TREASURY YIELD (10 Yr)



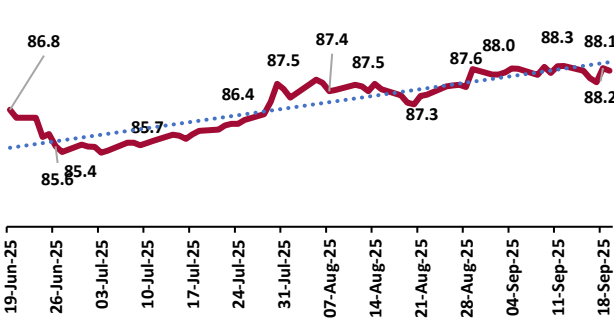
GOLD Futures (\$)



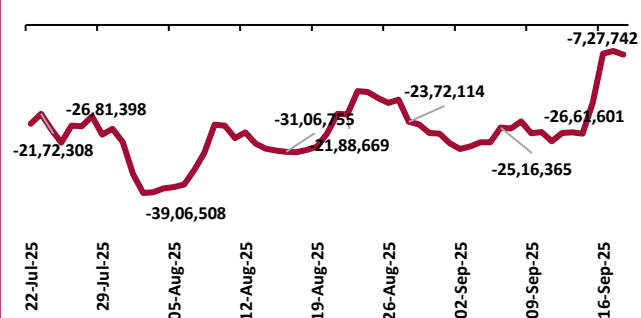
BRENT Oil Futures (\$)



USD/INR



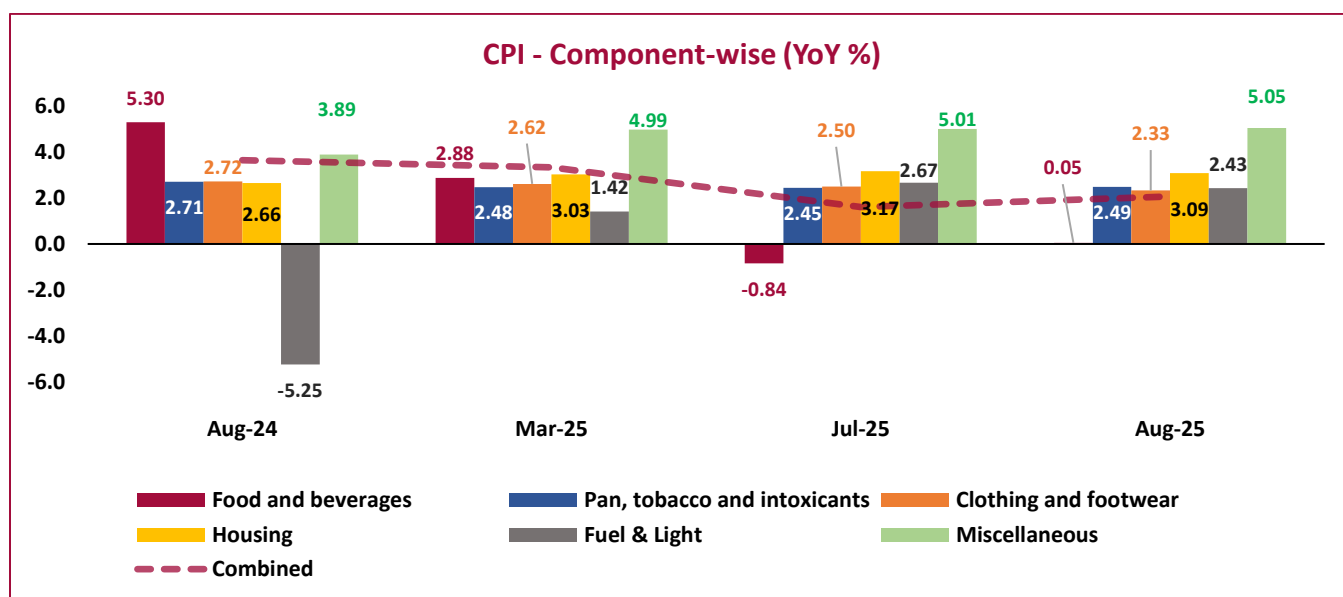
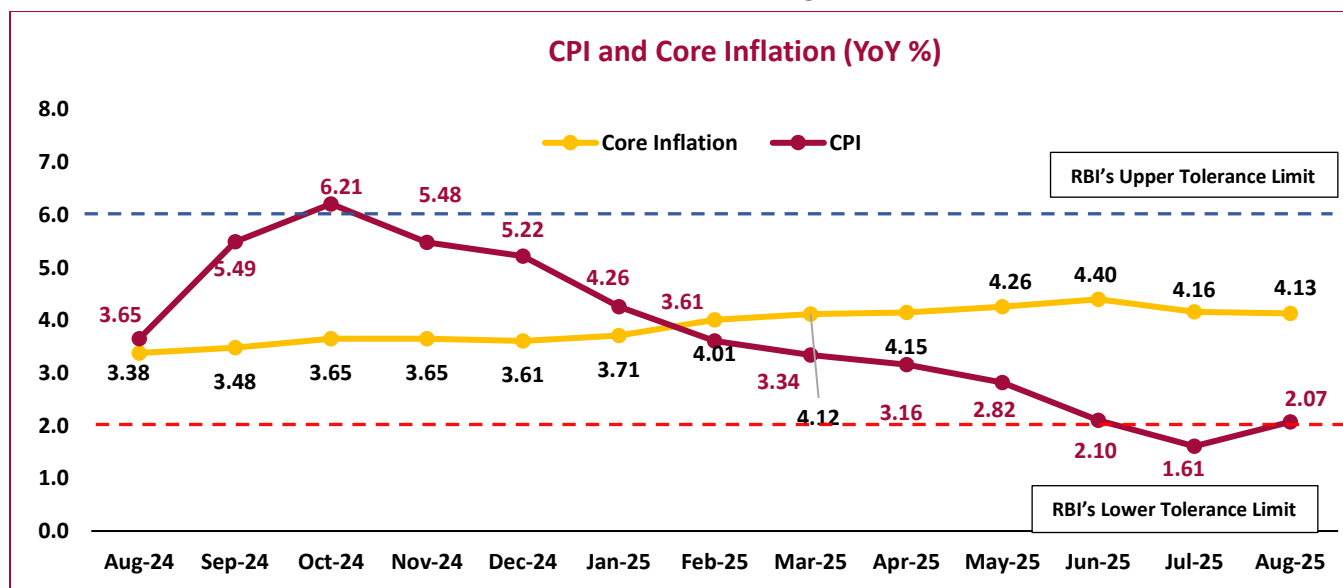
Systemic Liquidity under LAF - Net Liquidity (Rs. Million)



10. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

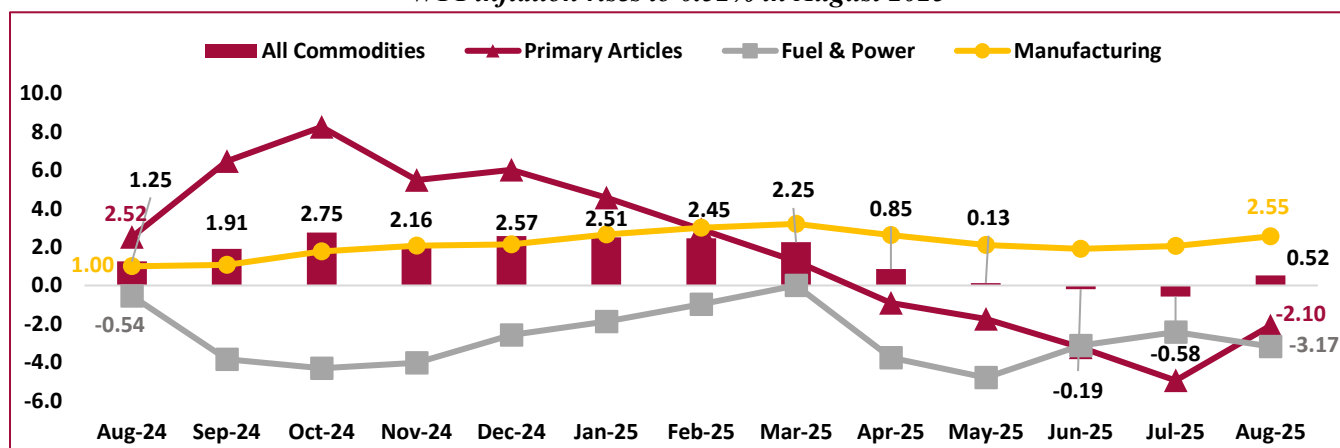
CPI increased to 2.07% in August 2025



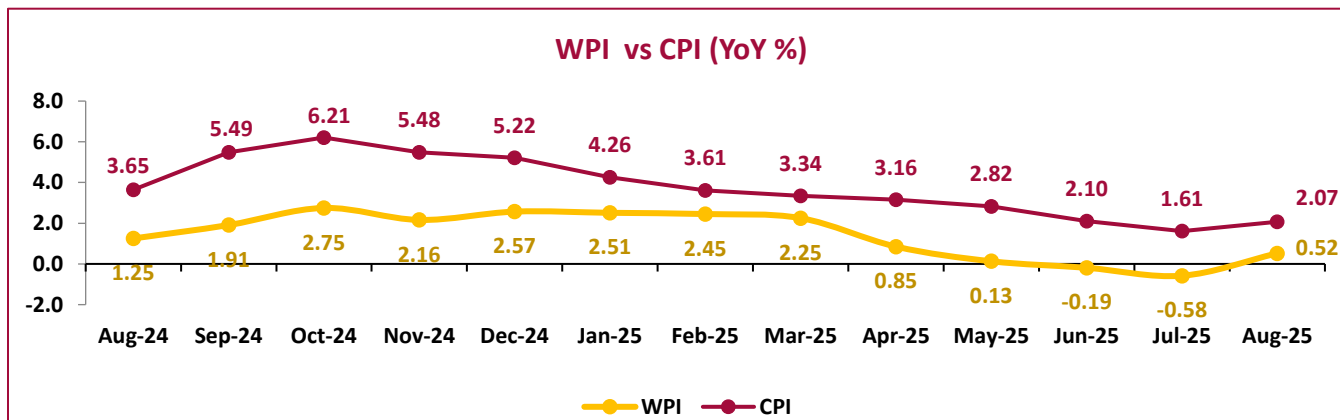
CPI inflation inched up to 2.07% in August as the favourable base effect waned and food prices moved out of deflation. Urban inflation stood at 2.47%, while rural inflation was recorded at 1.69% in August 2025, both reflecting mild upticks from the previous month. Core inflation (excl. food and fuel & light) moderated marginally to 4.13% in August 2025 from 4.16% in July 2025. It reflects persistent price pressures in non-food, non-fuel categories.

WHOLESALE PRICE INDEX (WPI)

WPI inflation rises to 0.52% in August 2025



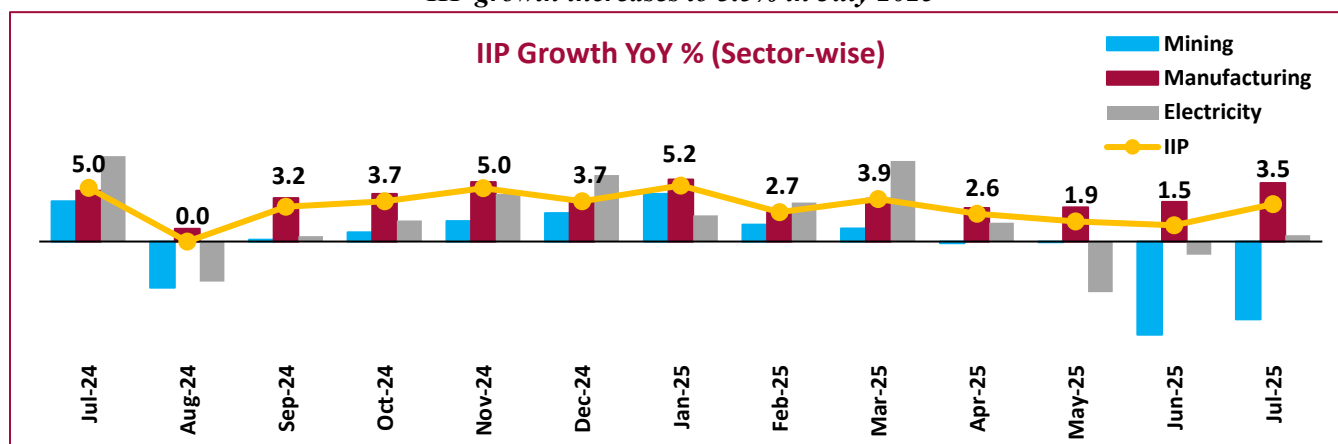
| WPI Inflation YoY (%) | Primary Articles | | Fuel & Power | | Manufactured Products | | Food Index | | All Commodities | |
|-----------------------|------------------|-------|--------------|-------|-----------------------|------|------------|-------|-----------------|-------|
| Weights | 22.62% | | 13.15% | | 64.23% | | 15.26% | | 100% | |
| | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 |
| June | 9.20 | -3.22 | 0.48 | -3.13 | 1.50 | 1.90 | 8.91 | -0.26 | 3.43 | -0.19 |
| July | 3.18 | -4.95 | 1.93 | -2.43 | 1.58 | 2.05 | 3.60 | -2.15 | 2.10 | -0.58 |
| August | 2.52 | -2.10 | -0.54 | -3.17 | 1.00 | 2.55 | 3.21 | 0.21 | 1.25 | 0.52 |



The Wholesale Price Index (WPI) for August 2025 recorded a growth of 0.52% on a year-on-year (YoY) basis. This is an increase compared to the negative WPI in July 2025 at 0.58%. In August 2024, WPI stood at 1.25%. The inflation rate for **primary articles** has shown a contraction of 2.10%, reflecting improved vegetable output and softening supply-side pressures. The **fuel and power** category witnessed deflation at 3.17%, indicating a decrease in prices. The inflation rate for **manufactured products** was at 2.55%, showing an increase over last year. With the modest rise in WPI in August 2025 and retail Inflation remaining in the RBI's Tolerance Band, Policy makers will continue to keep close watch over the evolving scenario both domestically and globally.

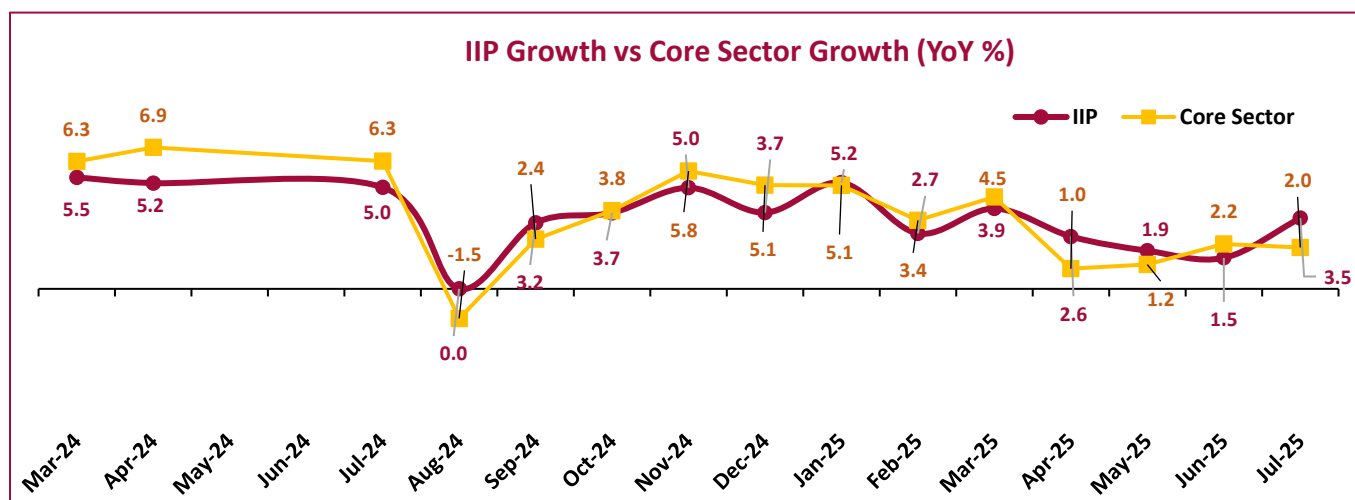
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth increases to 3.5% in July 2025



IIP Growth YoY % (Usage-wise)

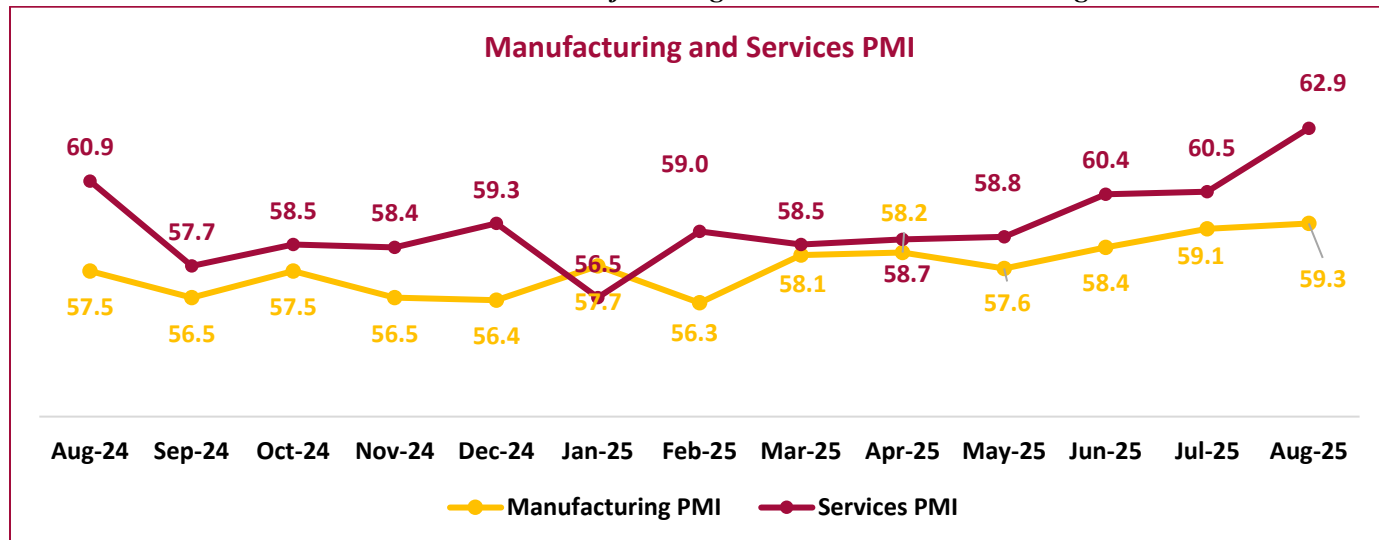
| Component | Weight | Jul'24 | Mar'25 | Jul'25 | Apr-Jul'24 | Apr-Jul'25 |
|--------------------------|--------|--------|--------|--------|------------|------------|
| Primary Goods | 34.05% | 5.9 | 3.9 | -1.7 | 6.6 | -1.4 |
| Capital Goods | 8.22% | 11.7 | 3.6 | 5.0 | 5.2 | 8.6 |
| Intermediate Goods | 17.22% | 7.0 | 3.8 | 5.8 | 4.4 | 5.2 |
| Infra/Construction Goods | 12.34% | 5.5 | 9.9 | 11.9 | 7.4 | 7.5 |
| Consumer Durables | 12.84% | 8.2 | 6.9 | 7.7 | 10.1 | 3.8 |
| Consumer Non- Durables | 15.33% | -4.2 | -4.0 | 0.5 | -1.3 | -1.0 |



IIP growth rate for the month of July 2025 is 3.5 per cent which was 1.5 per cent in June 2025. Growth rates of the three sectors, Mining, Manufacturing and Electricity for the month of July 2025 are - 7.2 percent, 5.4 percent and 0.6 percent respectively. Within manufacturing, 14 out of 23 industry groups recorded a growth in July 2025 over the same month last year. Top three positive contributors to the growth of IIP in use-based category are Infrastructure/construction goods, Intermediate goods and consumer durables.

PURCHASING MANAGERS' INDEX (PMI)

Services PMI rose to 62.9 and Manufacturing PMI increased to 59.3 in August 2025

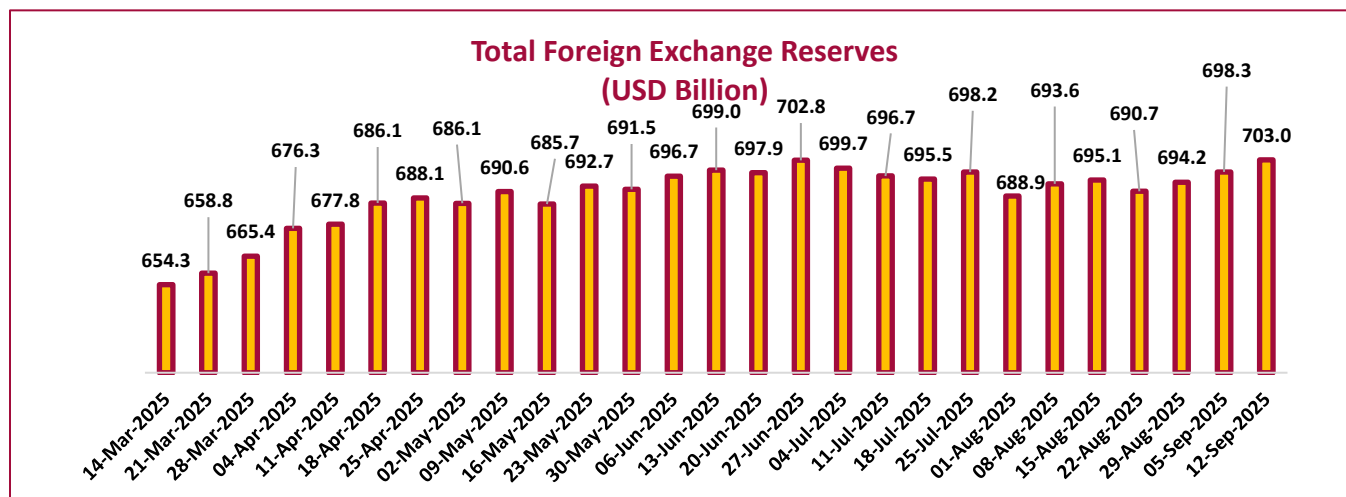


The HSBC India Manufacturing PMI rose to 59.3 in August 2025 from 59.1 in July, indicating the fastest improvement in operating conditions for 17-and-a-half years. The HSBC India Services PMI increased to 62.9 in August 2025 from 60.5 in July, marking the strongest expansion in the services sector since June 2010. The India Composite PMI, which combines the manufacturing and services PMI, rose to 63.2 in August 2025 from 61.1 in July, setting a new record for the index.

PERFORMANCE OF OTHER LEADING INDICATORS

| | Aug-24 | Sep-24 | Oct-24 | Nov-24 | Dec-24 | Jan-25 | Feb-25 | Mar-25 | Apr-25 | May-25 | Jun-25 | Jul-25 | Aug-25 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Coal production (YoY%) | -7.6 | 2.5 | 7.7 | 7.4 | 5.3 | 4.4 | 1.7 | 1.6 | 4.1 | 2.8 | -6.8 | -12.4 | 11.6 |
| Electricity generation (YoY%) | -3.8 | -1.3 | 0.5 | 2.7 | 4.5 | -1.3 | 2.4 | 4.8 | -1.8 | -8.2 | -6.1 | -0.8 | 1.0 |
| Consumption of petroleum products (YoY%) | -3.1 | -4.4 | 4.1 | 10.6 | 2.0 | 3.0 | -5.2 | -3.1 | 0.2 | 0.7 | 0.5 | -3.9 | 2.6 |
| Cargo handled at major ports (YoY%) | 6.7 | 5.8 | -3.4 | -5.0 | 3.4 | 7.6 | 3.6 | 13.3 | 7.0 | 4.3 | 5.6 | 4.0 | - |
| Cement production (million tonnes) | 32.1 | 32.4 | 34.0 | 32.0 | 38.9 | 40.5 | 39.8 | 45.7 | 38.0 | 38.6 | 39.5 | 35.8 | - |
| Steel consumption (million tonnes) | 12.6 | 12.3 | 13.0 | 12.3 | 13.8 | 13.7 | 12.4 | 14.3 | 12.0 | 13.1 | 13.2 | 13.4 | 13.7 |
| Fertiliser sales (YoY%) | -9.4 | -7.7 | -7.8 | 4.6 | 12.1 | 8.2 | 5.3 | - | - | - | - | - | - |
| Two-wheelers sales (Nos. in Lakhs) | 20.5 | 24.0 | 25.3 | 19.7 | 14.8 | 19.1 | 17.8 | 20.2 | 18.3 | 20.4 | 19.5 | 20.0 | 22.7 |
| Tractors sales (Nos. in Thousand) | 58.7 | 108.0 | 151.8 | 78.3 | 59.1 | 69.8 | 67.8 | 90.7 | 90.3 | 99.4 | 121.6 | 72.8 | 73.2 |

FOREIGN EXCHANGE RESERVES

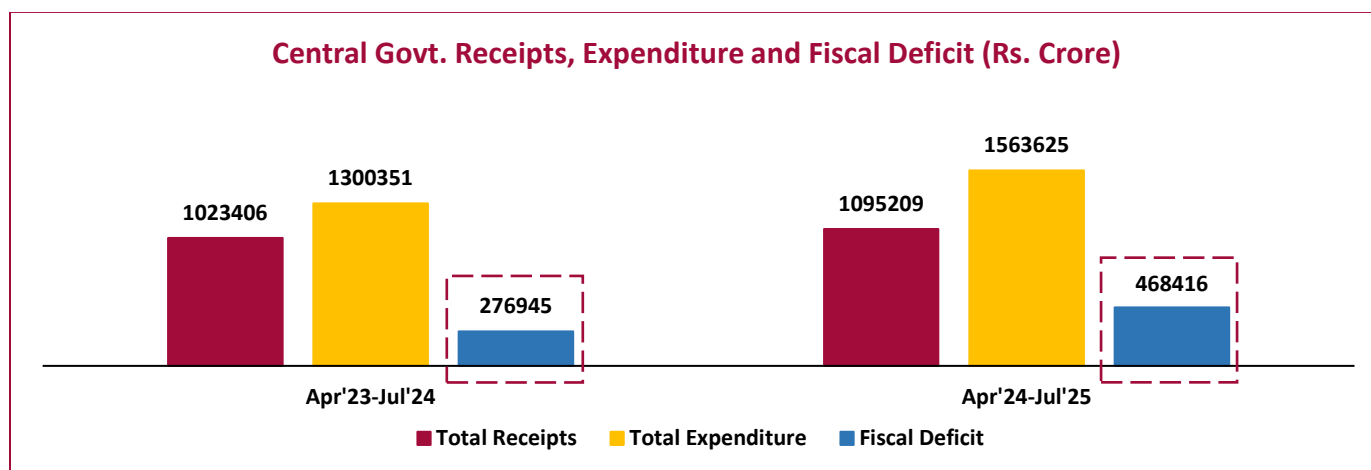


India's foreign exchange reserves reached \$703 billion, increasing by approx. \$5 billion in the week ending September 12. These reserves can cover approximately 11.5 months of imports.

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

| | Aug -24 | Sep -24 | Oct -24 | Nov -24 | Dec -24 | Jan -25 | Feb -25 | Mar -25 | Apr -25 | May -25 | Jun- 25 | Jul- 25 | Aug- 25 |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| E-way bill Generation | 10.5 | 10.9 | 11.7 | 10.2 | 11.2 | 11.8 | 11.2 | 12.5 | 11.9 | 12.3 | 11.9 | 13.2 | 12.9 |

FISCAL DEFICIT

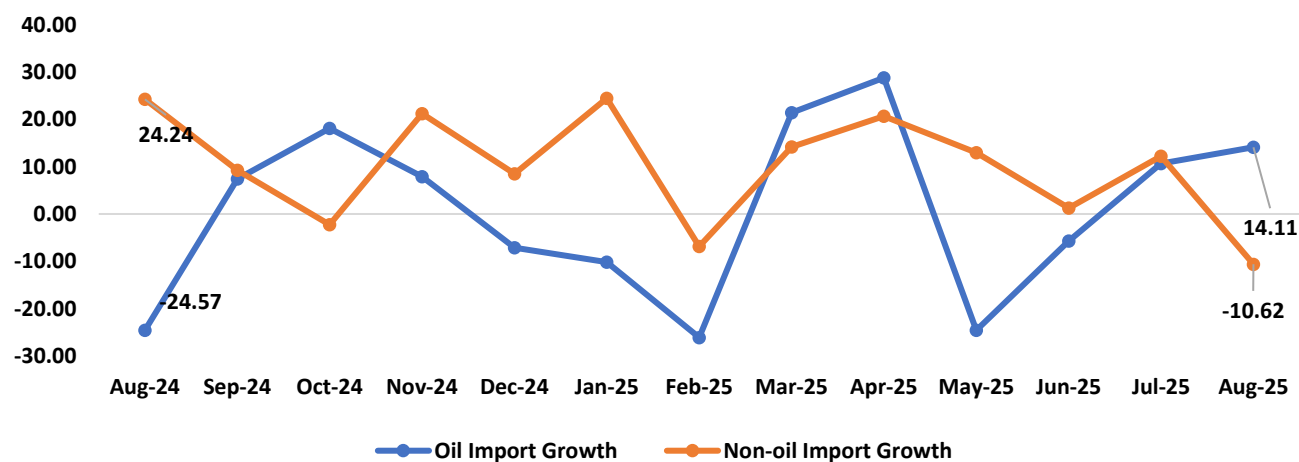
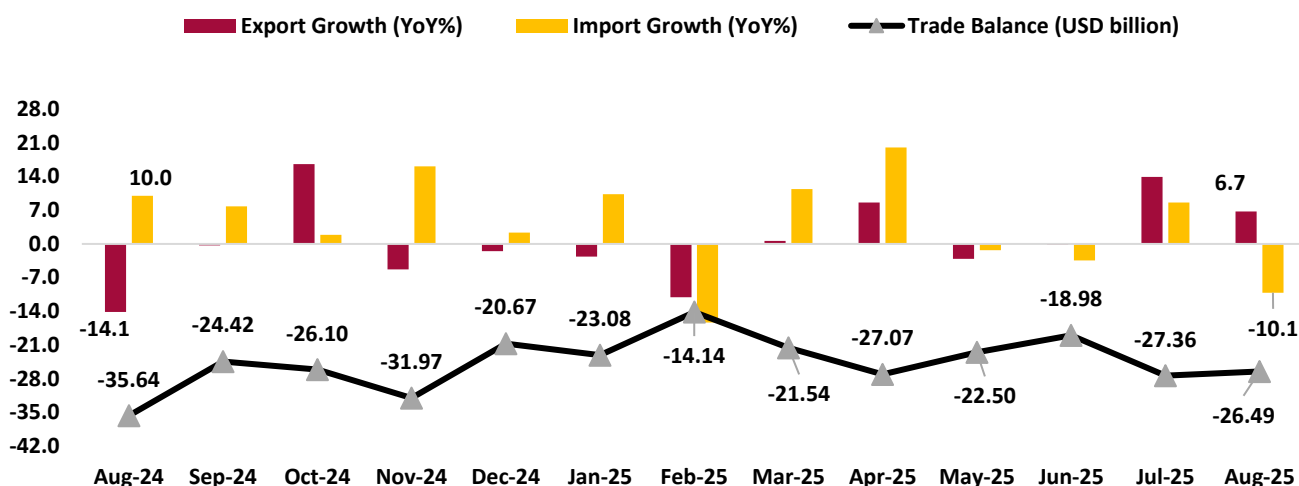


The government's fiscal deficit in July 2025 period came in at ₹4.68 lakh crore amounting to 29.9% of the Budgeted estimates (BE) vis-à-vis ₹2.77 lakh crore i.e. 17.2% of BE reached during the same period last year. Govt.'s total expenditure stood at ₹15.64 lakh crore reaching 30.9% of the BE during April-July 2025. This is 390 bps higher than the expenditure (₹13.00 lakh crore) in the same period last year i.e. 27.0%.

FOREIGN TRADE

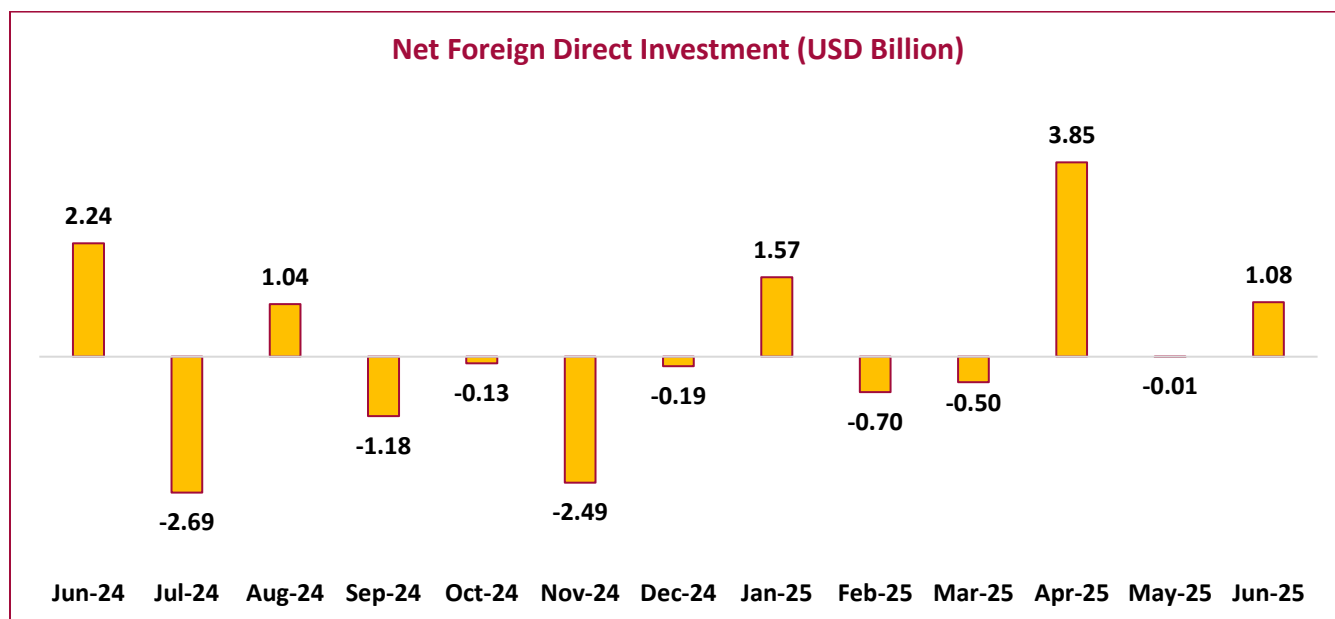
Merchandise Trade Deficit narrows to USD 26.49 billion

Merchandise Exports, Imports & Trade Balance

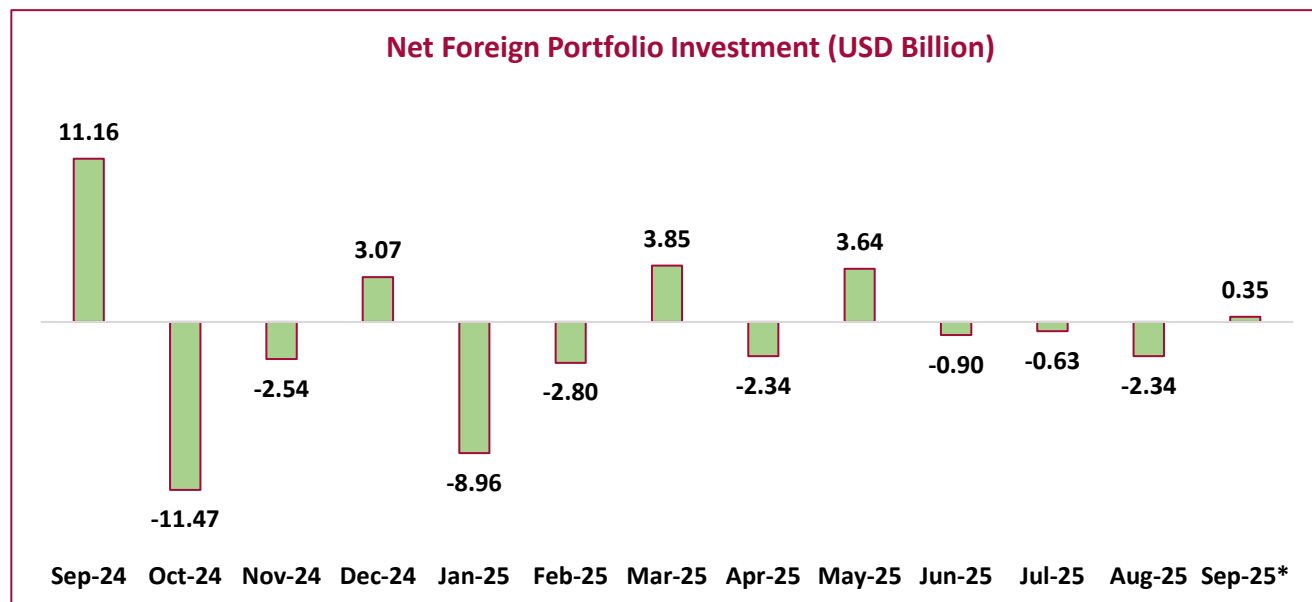


The difference between imports and exports of goods stood at \$26.49 billion in August 2025. It narrowed from \$27.36 billion in July 2025. It was recorded at \$35.64 billion in August 2024. Non-petroleum and non-gems & jewellery exports in August 2025 were US\$ 28.31 billion compared to US\$ 26.68 billion in August 2024, growing at a rate of 6.10%. Merchandise exports stood at \$35.10 billion in August 2025, increased by 6.72% on year-on-year basis, from \$32.89 billion in August 2024. Meanwhile, merchandise imports declined by 10.13% YoY for the month of August 2025 to \$61.59 billion. Non-petroleum, non-gems & jewellery (gold, silver & precious metals) imports in August 2025 were US\$ 41.02 billion compared to US\$ 41.41 billion in August 2024, showed a decline of 0.9%.

FOREIGN INVESTMENTS



In May and June 2025, India saw strong gross FDI, but net inflows slowed due to increased outward FDI, as reported by the RBI on August 28, 2025. In June 2025, net FDI fell by 52% year-on-year to US \$1 billion from US\$2.2 billion in June 2024. However, gross inflows remained robust, rising to US \$9.2 billion in June from US\$7 billion in May.



*upto 18th Sep 2025

In September 2025, FPIs initially saw an outflow of ₹12,257 crore from Indian equities due to a stronger dollar and geopolitical tensions, but significant inflows later in the month potentially reversed this trend, influenced by factors like a US Fed rate cut.

DEPOSIT AND CREDIT OF SCBs

| Parameter (Rs. Lakh Crore) | 23.08.24 | 21.03.25 | 22.08.25 | 05.09.25 | YoY Growth(%) | YTD Growth(%) | Fortnightly Growth (%) |
|-------------------------------|----------|----------|----------|----------|------------------|------------------|------------------------------|
| Deposits | 215.50 | 225.81 | 235.04 | 236.70 | 9.84% | 4.82% | 0.71% |
| Advances | 170.50 | 182.44 | 186.45 | 188.00 | 10.26% | 3.05% | 0.83% |
| Business | 386.00 | 408.25 | 421.49 | 424.70 | 10.03% | 4.03% | 0.76% |

SECTORAL DEPLOYMENT OF CREDIT- INDUSTRY WISE

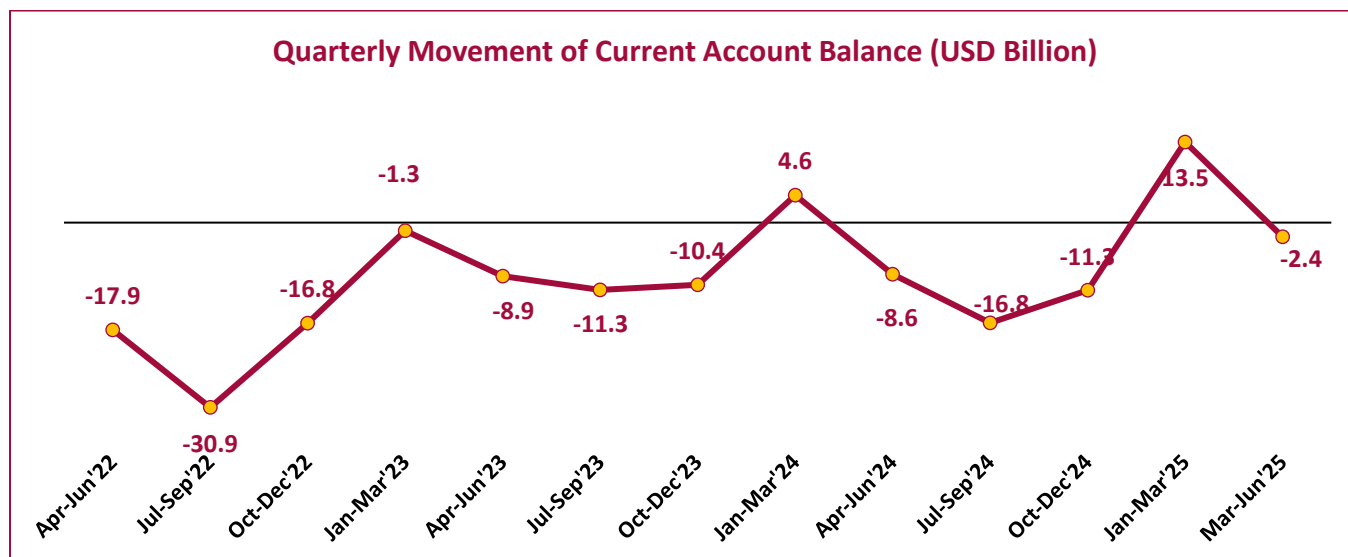
| Parameter* (Rs. Lakh Crore) | Jul-24 | Mar-25 | Jun-25 | Jul-25 |
|--|--------------|--------------|--------------|--------------|
| Total Non-food | 167.9 | 182.1 | 184.2 | 184.5 |
| Agriculture and allied activities | 21.6 | 22.9 | 23.1 | 23.1 |
| Industry | 37.2 | 39.4 | 39.3 | 39.5 |
| <i>Of which</i> | | | | |
| Micro & small | 7.3 | 7.9 | 8.7 | 8.8 |
| Medium | 3.2 | 3.6 | 3.6 | 3.6 |
| Large | 26.8 | 27.8 | 27.0 | 27.0 |
| Personal loans | 55.1 | 59.5 | 61.5 | 61.6 |
| <i>Of which</i> | | | | |
| Housing (Including priority sector housing) | 28.1 | 30.1 | 30.7 | 30.8 |
| Credit card outstanding | 2.8 | 2.8 | 2.9 | 2.9 |
| Education | 1.2 | 1.4 | 1.4 | 1.4 |
| Vehicle loans | 5.9 | 6.2 | 6.5 | 6.4 |
| Services | 46.2 | 51.6 | 51.3 | 51.1 |
| <i>Of which</i> | | | | |
| Computer software | 0.3 | 0.3 | 0.4 | 0.4 |
| Tourism, hotels & restaurants | 0.8 | 0.8 | 0.8 | 0.9 |
| Shipping | 0.1 | 0.1 | 0.1 | 0.1 |
| Aviation | 0.4 | 0.5 | 0.5 | 0.5 |
| Retail trade | 5.0 | 5.4 | 5.4 | 5.4 |
| Commercial real estate | 4.8 | 5.3 | 5.6 | 5.6 |

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

On a YoY(y-o-y) basis, non-food bank credit grew by 9.9 per cent as in July 2025, compared to 13.6 per cent in July 2024. Credit to agriculture and allied activities registered a y-o-y growth of 7.3 per cent in July 2025 compared to 18.1 per cent in July 2024. Credit to industry recorded a moderated y-o-y growth of 6.0 per cent in July 2025 compared to 10.2 per cent in July 2024. Credit to micro and small, and medium industries continued to grow at a robust pace. Credit to services sector recorded a growth of 10.6 per cent y-o-y in July 2025 compared to 14.5 per cent in July 2024.

11. QUARTERLY ECONOMIC INDICATORS

CURRENT ACCOUNT BALANCE



In Q1FY26, India's current account balance recorded a deficit of US\$ 2.4 billion, which is 0.2% of GDP. This is a significant improvement compared to the deficit of US\$ 8.6 billion (0.9% of GDP) in Q1FY25. However, it contrasts with the surplus of US\$ 13.5 billion (1.3% of GDP) recorded in Q4FY25. The current account deficit represents the gap between the value of a country's exports and imports of goods and services. It serves as a crucial indicator of the country's external sector. The deficit was driven by a higher merchandise trade deficit (Refer Chart 2), which stood at US\$ 68.5 billion in Q1FY26, higher than US\$ 63.8 billion in the corresponding quarter of the last fiscal year.

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) | Sep 19, 2025 |
| European Central Bank | Europe | 2.15% | Jun 5, 2025 (-25bp) | Sep 11, 2025 |
| Federal Reserve | U.S.A | 4.25% | Sep 17, 2025 (-25bp) | Oct 29, 2025 |
| Bank of England | U.K | 4.00% | Aug 07, 2025 (-25bp) | Sep 18, 2025 |
| Peoples Bank of China | China | 3.00% | May 20, 2025 (-10bp) | - |
| Reserve Bank of India | India | 5.50% | Jun 06, 2025 (-50bps) | Oct 01, 2025 |

13. MACRO ECONOMIC INDICATOR OUTLOOK

Liquidity Scenario

- The net banking system liquidity, as measured by the average daily net position under the liquidity adjustment facility (LAF) remained constant at a surplus liquidity of Rs.2.9 Trn in August 2025 (till 27th Aug), supporting the faster transmission of policy rate cuts to the credit market.
- Since the surplus liquidity continued to remain above the RBI Governor's desired liquidity of Rs.2 Trn, RBI may continue to conduct VRRR operations.
- RBI has actively managed system liquidity in August through a series of operations, in first and second week it absorbed a total of ₹3.82 Trn from the banking system. In third week, it initiated a three-day Variable Rate Reverse Repo (VRRR) operation to withdraw ₹0.23 Trn. However, as the Weighted Average Call Rate (WACR) rose above the repo rate, RBI responded with an overnight Variable Rate Repo (VRR) operation on August 21, injecting ₹0.31 Trn to ease tight liquidity conditions.
- This was followed by another VRRR operation on 22nd Aug, which absorbed ₹0.75 Trn. Overall, these calibrated interventions resulted in a net absorption of ₹0.99 Trn during the week ended 22nd Aug, reflecting RBI's proactive stance in maintaining orderly liquidity conditions.
- RBI's continued thrust on keeping TREPS above SDF rate and aligning weighted average call rate (WACR) closer to the repo rate reflects in its liquidity operations. This step is also directed to smoothened out the frictional surplus liquidity to keep forward inflation in line with central bank estimation.

Interest Rate Scenario

- After the August MPC meeting, where the repo rate was held steady at 5.50%, the India 10-year bond yield edged higher to around 6.4% and till 27th Aug it has further climbed at 6.7% levels due to no expectation of rate cut, worry on fiscal slippages and worsened demand-supply dynamics. The yields rose 23 bps in August & 35 bps since June policy.
- Consequently, the spread between 10-year US Treasury yields and 10-year G-sec yield widened to the highest in four and a half months to 218 bps (in the week ended 22nd Aug) from 215 bps in the previous week.
- This is because of hardening of Indian G-sec yields, making the Indian debt market more attractive. Foreign portfolio investments (FPI) recorded net inflows of USD 714 million in the Indian debt segment. This was the fourth consecutive week of net inflows in debt market.

10 Year G-Sec/Treasury/Bond Yield of Major Countries (27.08.2025)

| COUNTRY | Yield (%) |
|----------------|-------------|
| United States | 4.24 |
| United Kingdom | 4.73 |
| Japan | 1.63 |
| China | 1.77 |
| India | 6.68 |

Source: Investing

14. INDUSTRY OUTLOOK

INDIAN ELECTRONICS SECTOR: NAVIGATING GROWTH AMIDST TARIFF PRESSURES

India's electronics sector has witnessed remarkable growth over the past few years, emerging as a vital contributor to its economy. The **domestic production** of electronics goods has risen significantly, increasing from Rs.1.90 lakh crore in FY 2014-15 to **Rs. 9.52 lakh crore in FY 2023-24¹**. India is now the **world's second-largest mobile phone manufacturer**, and mobile phone production reached **USD 52 billion** in recent years, meeting **99%² of domestic demand**. Initiatives such as **Make in India**, **Production Linked Incentives (PLI)**, **Electronics Manufacturing Clusters Scheme**, and the **India Semiconductor Mission** have provided the foundation for this growth, attracting investment, improving infrastructure, and promoting innovation. The sector aims to **expand to USD 500 billion by 2030**, leveraging both domestic demand and export potential.

The Tariff Challenge and Its Immediate Impact

However, this growth trajectory now faces **significant headwinds**. In August 2025, the US **imposed tariffs of up to 50%** on most Indian electronics exports, **excluding certain categories** like smartphones and telecom equipment under temporary exemptions. This sudden move **threatens segments** such as inverters, battery chargers, and transformer parts, with potential losses estimated between USD 20–30 billion. The US remains a critical market, and **these tariffs jeopardize India's ambition of expanding the sector to USD 500 billion**. While smartphones, including high-value products like iPhones, are temporarily shielded, uncertainty around future exemptions has increased apprehensions among manufacturers and investors.

Government Initiatives

In response, India's government is stepping up efforts to cushion the impact. The expansion of the Production Linked Incentive (PLI) scheme, Semiconductor Mission along with initiatives promoting import substitution will help in reducing import dependency and strengthen local capabilities. The India Semiconductor Mission is attracting global players to invest in **component manufacturing and R&D**, strengthening supply chains. Additionally, **targeted measures such as GST cuts and festive season incentives** aim to boost domestic consumption amid rising input costs. Industry players are also exploring **new markets in Europe, Southeast Asia, and Africa** to diversify their export base.

Outlook

Looking ahead, India's electronics sector must navigate the challenges by building a robust component ecosystem and strengthening global partnerships. With a combination of policy support, investment, and strategic planning, the sector is well-positioned to not only overcome short-term tariff disruptions but also to sustain its long-term growth in making India a **global manufacturing powerhouse**.

Mansi Wahi
Manager (Economics)
SMEAD, Head Office

¹ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2124620>

² <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2099656>

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)*
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- *CMIE*

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QUOTE OF THE MONTH

“Reading is essential for those who seek to rise above the ordinary.”

— Jim Rohn

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