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Macro-Financial Perspectives on Indian Economy[1]

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1.1. Introduction

Global economic outlook has been uncertain due to persistent trade frictions, policy uncertainty and steady deterioration in consumer sentiment (FSR 2025, Bhattacharya et.al. 2025). The threat of high tariffs has revived the spectre of inflation and restricted monetary policy options for central banks. At the same time, governments in most countries, hamstrung by the burden of public debt, are incapable of expansionary fiscal policies. However, the global financial sector has been resilient, so far, to the volatility in the real sector. Against this backdrop, the Indian experience has been brighter, with steady GDP growth and benign CPI. With the recent imposition of harsh tariffs, the journey may not be as smooth in future.

This chapter attempts to study the Indian macro-financial performance in light of the global experience and glean some important insights. It is structured as follows. Section 1.2 discusses some recent developments in the Indian economy. Section 1.3 presents the Indian growth story. Section 1.4 traces the trajectory of inflation in India. Section 1.5 studies the impact of monetary and fiscal policies. Section 1.6 analyzes the credit and investment portfolios of Indian banks. Section 1.7 delves into the forex and equity markets. Section 1.8 concludes.

1.2. Recent Macro-financial Developments

This section presents some updates, which could have significant implications for the Indian economy.

Impact of US Tariffs

On April 2, 2025, the US government imposed a set of reciprocal tariffs on various countries with which it had large trade deficits. After the expiry of the 90-day pause, intended for bilateral negotiations, it imposed a 25% tariff on India on 7 July 2025. This was followed by a 25% penalty on August 6, 2025, for continued imports of Russian oil, which took the overall tariff on Indian exports to 50%. This is the highest tariff imposed by the US on any country except Brazil. The additional tariffs were effective from 27 August 2025 (Dun and Bradstreet 2025, KPMG 2025).

The US tariffs are intended to reduce the Indian purchase of Russian crude oil (around 36% of crude imports). At present, Russian crude trades at USD 61–USD 65 per barrel, while Brent is priced at USD 65–USD 69. Although the margin has narrowed, large-scale diversion (e.g., 50%) of oil purchase to new suppliers (e.g., US and Saudi Arabia) may disrupt global market prices and spike the annual oil import bill by around USD 2 billion for India

1. At NIBM, we have an Internal Shadow Monetary Policy Committee (ISMPC), that meets faculty colleagues after each monetary policy announcement, to discuss macroeconomic developments and their repercussions on the financial sector. This chapter is written by the members of the ISMPC (arranged in alphabetical order of their last names). It is an attempt to synthesize our analysis and is expected to set the tone for the chapters to follow.

(Dun and Bradstreet 2025). Furthermore, the rise in global crude prices may add 8–12 bps to headline inflation (Dun and Bradstreet 2025). A third reason for the fractious trade negotiations between the two countries is India's reluctance to liberalise agricultural and dairy imports from the US.

The harsh tariffs are expected to hit the MSME segment hardest. These units account for almost 45% of total exports, which are concentrated in the US markets. More than 4000 suppliers cater to one US customer, while more than 9000 firms serve less than 10 customers (KPMG 2025, Dun and Bradstreet 2025). Therefore, labour-intensive sectors such as gems and jewellery, marine products, textiles and apparel, agriculture and pharmaceuticals are expected to be hurt by US tariffs. About 30% of the exports of these items are targeted at the US. The average revenue loss of these units due to the tariffs is pegged between 15% and 20%.

An initial test of the of the resilience of Indian exports, to US tariffs, was observed in September 2025. Official data shows that though exports to the US fell by 11.93% year-on-year to USD 5.46 billion during the month, overall exports increased by 6.7% to USD 36.38 billion. There was a sharp growth in exports to East Asia, Europe and the Middle East. The commerce ministry has identified forty key countries across the world, in response to US tariffs, for diversification of Indian exports (Pradhan 2025)

Moreover, the direct impact on the banking sector may be muted. Export credit accounts for less than 1% of the non-food credit for banks. The secondary effect on bank asset quality and profitability, from possible job losses and weaker firm balance sheets, needs to be investigated. It is estimated that the macroeconomic impact of tariffs will be around 0.4% to 0.5% of the GDP reduction every year.

Goods and Services Tax (GST) Rate Revision

The GST Council approved a two-slab structure for GST, effective September 22. Necessities and consumer staples would attract a rate of 5%, while aspirational goods like cars and ACs would be eligible for 18%. A special tax of 40% would be levied on sin goods. The fiscal impact of GST rate cut is expected to be limited, due to consumption-led growth, with the projected deficit unchanged at 4.4% of GDP (Singh 2025).

The combination of higher festive demand and GST rate cuts pushed the HSBC Purchasing Managers Index (PMI) from 57.7 in September to 59.2 in October 2025 (Rajora 2025). The rise portrays an expansion in economic activities. The gross GST revenue increased by 4.6% year-on-year in October 2025. Gross GST revenue from imports rose by 12.9%, during the same period, which indicates healthy trading activity (PIB 2025). The robust growth in GST revenue may help the economy strike a balance between consumer demand and fiscal buoyancy.

Financial Sector Assessment Programme (FSAP) 2024

On October 30, the World Bank uploaded its India-FSAP report on its website. The salient features of the report (RBI 2025) are as follows:

a. India's financial sector has become more resilient, diversified and inclusive, due to a string of reforms. More initiatives are needed to mobilize enough private capital, for the drive towards a USD 30 trillion economy in 2047

b. India has made commendable progress in the harmonization of regulations for NBFCs and co-operative banks. The introduction of the Insolvency and Bankruptcy Code (2016), the TReDS platform for factoring and the Priority Sector Lending (PSL) framework have strengthened the credit infrastructure in the country. The strong Digital Public Infrastructure and government programmes have improved credit access to a large section of the Indian population.

c. Sound oversight in securities markets has been combined with reforms to improve liquidity through better collateral management and support for mutual funds and corporate debt. As a result, the size of the capital market (equity, corporate bonds and G-secs) has grown from 144% to 175% of GDP, since the last FSAP. The

development of the insurance sector is aligned to its peers in other countries.

d. The improvements suggested in the FSAP report, in the structure and conduct of financial reforms, are in line with the development plans of the Indian authorities.

1.3. India's Growth Scenario

The Indian economy posted an impressive average growth of 8.2% in the four years till the end of March 2025. This growth outperformance of India against its global peers was largely driven by a substantial increase in government capital expenditure, which crowded in private investment and private consumption expenditure. Meanwhile, the resilience of the contact intensive sectors supported the growth of services, while favorable climatic conditions boosted agriculture production and rural demand.

Real GDP growth rates for FY 2022-23 and 2023-24 were substantially revised upwards to 7.6% and 9.2% respectively from the earlier estimates of 7% and 8.2% (Figure 1.1). The economy lost some steam in FY 2024-25 as it slowed down to 6.5%, due to a mix of factors such as tighter financial conditions, lingering geopolitical tensions, recurring adverse food price shocks and uncertain global economic outlook.

The deceleration on the demand side in FY 2024-25 is largely explained by slowdown in growth of Gross Capital Formation (GCF) from 10.5% in the previous year to 6.7% this year, and a sharp dip in growth of Government Final Consumption Expenditure (GFCE) due to election related underspending from 8.1% to 2.3%. However, the recovery in growth of Private Final Consumption Expenditure (PFCE) from 5.6% to 7.2% and some revival of export growth from 2.2% from 6.3% and dip in import growth, have helped sustain GDP growth rate above 6%. On the supply side, slowdown in Gross Value added (GVA) growth is attributed to the sharp deceleration in the manufacturing sector to 4.5% from 12.3%. Otherwise, visible momentum in the agricultural sector (4.6%) and the service sector (7.2%) have retained the overall GVA growth at 6.4% (GoI 2025a).

When we consider the quarterly numbers for the demand side, GDP growth in Q1 of FY 26 shows some acceleration at 7.8%, compared to 7.4% and 6.5% in Q4 and Q1 of FY 25 (Fig-

FIGURE 1.1

Aggregate Demand Vs Aggregate Supply: Annual GDP and GVA Growth

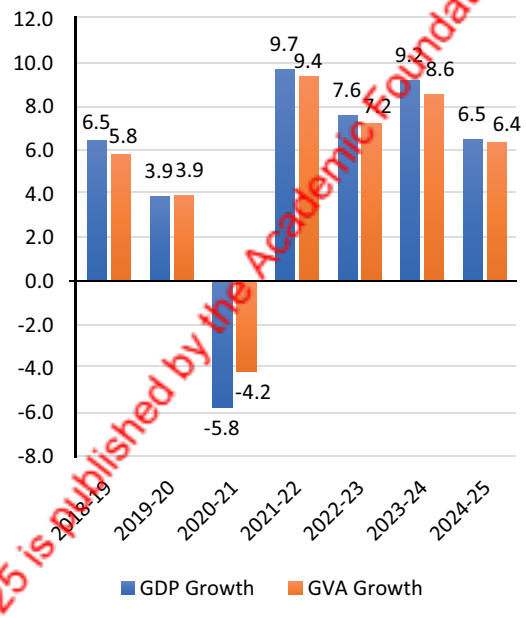
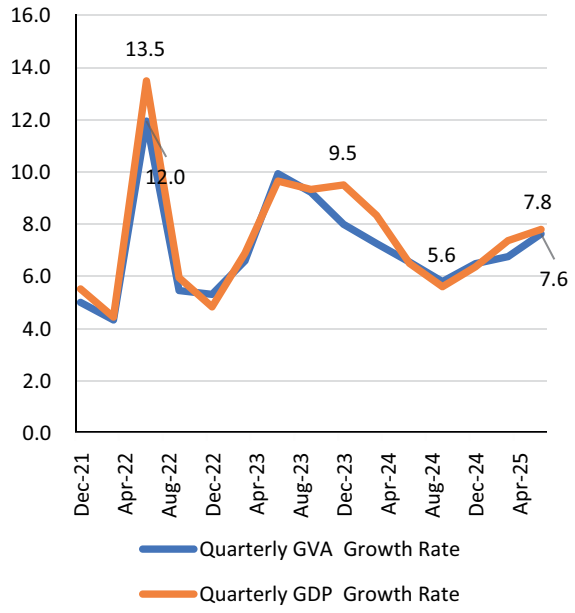


FIGURE 1.2

Trends in Quarterly GDP and GVA: Post-COVID Recovery



Source: CMIE Economic outlook.

ure 1.2). Growth recovery is aided by a strong revival in GFCE (7.5%), while supported by momentum in PFCE, GCF and exports. Further, the GVA growth in Q1 of FY26 unexpectedly improved to 7.6% relative to 6.8 and 6.6% recorded respectively in Q1 and Q4 of FY25. This buoyancy on the supply side is fueled by growth revival in the manufacturing and service sectors to 7.7% and 9.3% respectively, in the June quarter of FY 26. Besides, the sustained momentum in agricultural output and rising rural income is very promising, and the Indian economy is poised for a GDP growth of close to 7% in the current year.

1.4. Inflation

Historically, India's inflation story is predominantly determined by food inflation. This is true for both CPI and WPI inflation (Figures 1.3 & 1.4). Both measures have declined substantially to 1.54% and 0.13%, respectively, on the back of falling food inflation (GoI, 2025b, 2025c). An analysis of the monthly CPI inflation data from 2012 to 2015 shows that food inflation was high and persistent. For instance, during half of this period, food inflation exceeded 6%, while it exceeded 10% on 14% of the occasions. In the last one year, CPI inflation dipped from 6.21% in October 2024 to 1.54% in September 2025, a fall of 4.67 percentage points, which is fully explained by the fall in food inflation from 10.9% to -2.3% (Figure 1.3). Furthermore, 82% of the fall in headline inflation can be attributed to the decline in vegetable inflation from 42.2% to -21.4%.

Core inflation peaked at 6.22% in December 2022, before it fell and stayed near 4% for some time. A different measure of core inflation, which excludes vegetable inflation from headline CPI inflation, has been stuck near 4% for the last 21 months. Probably, the government can adopt a new measure of Core CPI Inflation to set the 4% inflation target, which excludes some volatile items in the vegetables group, in its upcoming review of the five-year inflation target in March 2026. Targeting a revised measure of core inflation can open up more space for monetary policy to further cut rates. Even persisting with the existing 4% inflation target for a revised headline CPI inflation based on the latest consumption expenditure survey will also usher in lower policy rates as weights

FIGURE 1.3
Trends in CPI Inflation

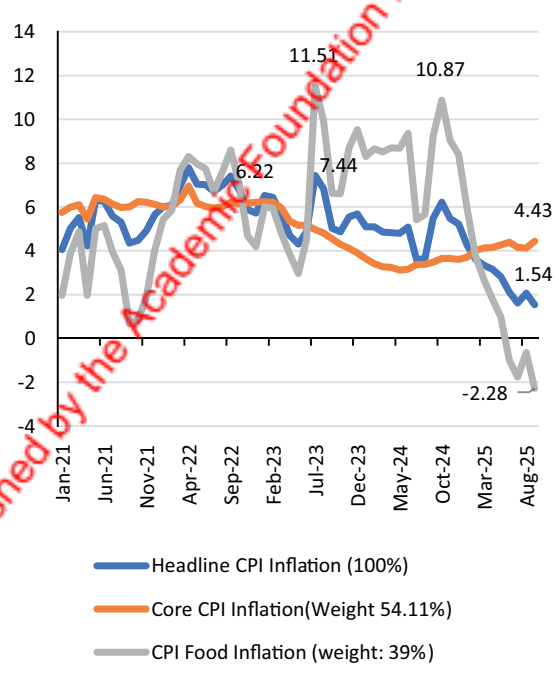
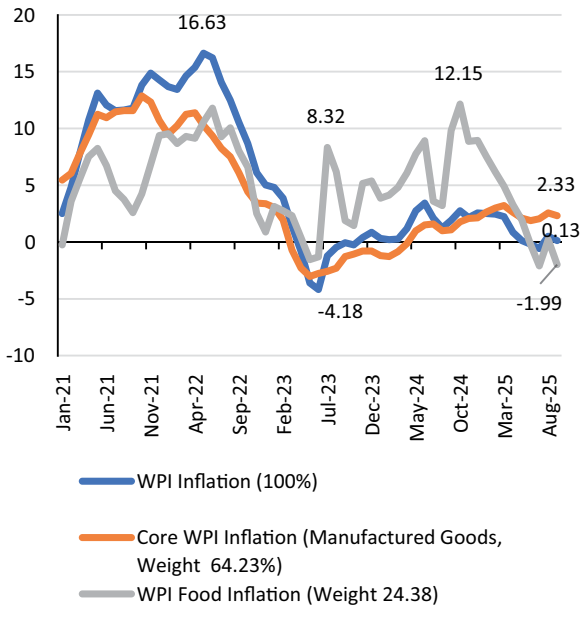


FIGURE 1.4
Trends in WPI Inflation



Source: CMIE Economic outlook.

assigned to food inflation are expected to fall below 39%.

1.5. Macroeconomic Policy Scenario

RBI's Monetary Policy

In India, the Monetary Policy has worked well, under the flexible inflation targeting regime, in terms of achieving its dominant objective of price stability. RBI eased monetary policy by cutting repo rates by 250 bps from 6.5 % to 4 % between February 2019 and May 2021, while persisting with an ultra-accommodative stance until March 2022, to stimulate the economy during the pandemic. However, the outbreak of the Russia-Ukraine war in late February 2022 and the consequent rise in CPI inflation forced the central bank to shift its monetary policy stance to the withdrawal of accommodation and changed its focus to price stability away from economic growth. This was followed by a series of quick policy rate hikes, which added up to 250bps, between May 2022 and February 2023, to raise repo rates from 4% to 6.5%. Subsequently, the policy rates were paused until January 2025, by which time the headline CPI inflation was durably aligned to the 4% target.

In December 2024, the RBI cut the CRR by 50 bps to inject nearly ₹ 1.18 trillion liquidity into the banking system. This was followed by a series of policy rate cuts, 25 bps each in February and April 2025 and 50 bps in June 2025, to bring down the repo rates cumulatively by 100bps to 5.5%. It was supplemented with a big CRR cut of 100 bps to 3% in June to stimulate the economy through higher credit growth (RBI, 2025a, 2025b, 2025c). Meanwhile, the change in the stance to accommodative in April was reversed to neutral in June 2025, to signal that monetary policy is left with very limited space to stimulate growth in the near future. However, the October monetary policy took a U-turn to signal possible rate cuts in the near future, as the MPC observed that downward revision of inflation and growth projections for the second half of the current year and beyond have opened up more policy space to support growth. RBI indicated that it would continue to follow a data-dependent and meeting-by-meeting approach in deciding about the timing and magnitude of future rate cuts.

Monetary Policy Transmission and Bank Performance

After two years of robust credit growth, the pace slowed down for both private and public sector banks in FY 2024-25. Policy repo rate hikes were also paused from February 2023 onwards. As a result, spreads (between interest income and interest cost) narrowed across the banking sector, as a whole.

TABLE 1.1

Bank Credit Volume (Rs. Cr.) and Growth

	Mar-23	*Mar-24*	*Mar-25*
PSB	82,83,763	95,06,329	1,07,50,234
Change		14.76%	13.09%
PVB	53,66,673	68,61,388	74,76,925
Change		27.85%	8.97%

Source: Author computation based on IBA data.

TABLE 1.2

Fresh (Weighted Average) Loan and Term Deposit Rates (in %)

	Mar-23	*Mar-24*	*Mar-25*
PSB - WALR	8.67	8.68	8.66
PSB - WADR	6.82	6.97	7.01
PVB - WALR	10.08	10.29	10.32
PVB - WADR	6.55	6.67	6.90

Source: RBI.

TABLE 1.3

Spread as a Percentage of Assets

	Mar-23	*Mar-24*	*Mar-25*
PSB	2.59	2.63	2.50
PVB	3.63	3.49	3.47

Source: IBA.

Tables 1.1 to 1.3 offer a few insights. First, the behaviour of spreads is governed by the degree of credit growth. Private sector banks (PVBs) experienced much faster growth in loans and advances in FY 2023-24 (albeit amplified by the merger of a bank and non-bank) and exhibited a sharper decline in spreads. Public sector bank (PSB) credit rose faster in FY 2024-25 and the consequent fall in spreads was steeper. Second, PVBs also earned higher loan rates and paid lower deposit rates, in order to man-

age their spreads, vis-à-vis PSBs. Third, the increase in WALR for PVBs, in FY 2023-24 and FY 2024-25, appears paradoxical. These banks have almost 90% of their loans linked to EBLR, which respond to policy repo rate shocks. Since repo rates did not rise between March 2023 and March 2025, the observed uptick in WALR by 24 bps can be attributed to higher credit risk premiums charged by PVBs (Basu and Chherawala 2025). As expected, the WALR for PSBs remained almost constant.

PVBs also paid lower term deposit rates during this period (Table 1.2). This strategy should be examined against the backdrop of a steady decline in CASA ratios across the banking sector. A fall in low-cost CASA should be associated with a rise in fixed deposit rates. Instead, PVBs chose to pay lower rates than PSBs. Table 1.4 depicts the differences in CASA ratios between the bank groups.

TABLE 1.4

CASA Ratios Across Bank Groups

	Mar-23	*Mar-24*	*Mar-25*
PSB	40.38	38.64	39.1
PVB	44.06	39.84	38.6

Source: RBI, CareEdge Ratings.

The deterioration in CASA ratios is due to migration of savings deposits to higher-rate term deposit accounts as well as mutual funds, provident and pension funds, during the tight money regime (Basu et.al. 2024). From a comparison of tables 1.2 and 1.4, it is noteworthy that though the fall in CASA balances is stronger for PVBs, they also paid lower rates on term deposits. This implies that they must have depended more on market borrowings, instead of term deposits, to offset the erosion in CASA ratios. Table 1.5 illustrates how PVBs have relied more on non-deposit liabilities, as a source of funds.

TABLE 1.5

Deposits as a Ratio of Total Liabilities (in %)

	Mar-22	*Mar-23*	*Mar-24*
PSB	84.34	83.55	83.24
PVB	74.12	74.59	71.57

Source: RBI.

The ratio of deposits to total liabilities has always been higher for PSBs. In other words, PVBs have borrowed more from the market (perhaps with higher capital buffers as well). Greater reliance on nondeposit liabilities may suggest a liquidity crunch with wide gulf between credit and deposit growth rates. It may also prove useful when market rates are expected to decline. For instance, by the third quarter of 2024, the share of PSBs in CD issuance had climbed to 69% and the average tenor of CDs had dropped to 146 days, which indicated that all banks anticipated an imminent rate decline (Anshul et. al. 2025). Table 1.6 shows the benefits of market borrowing when rates fall.

TABLE 1.6

Weighted Average Call Rates (WACR) and CD Rates (in %)

	Mar-23	*Mar-24*	*Mar-25*
WACR	6.78	6.85	6.35
CD (avg.)	7.43	7.58	7.25

Source: RBI.

In sum, banks tried to adjust their credit-deposit ratios, loan and deposit pricing strategies and tapped into market borrowing, in order to strike a balance between their top line and bottom line. As a result, their profitability and solvency parameters remained stable, as shown in Tables 1.7 and 1.8.

TABLE 1.7

Return on Assets and Basel III Capital Adequacy Ratios for PSBs (in %)

	Mar-23	*Mar-24*	*Mar-25*
ROA	0.81	0.93	1.08
CRAR	15.65	15.68	16.47

Source: Author computation based on IBA Data.

TABLE 1.8

Return on Assets and Basel III Capital Adequacy Ratios for PVBs (in %)

	Mar-23	*Mar-24*	*Mar-25*
ROA	1.41	1.55	1.45
CRAR	18.72	17.60	18.47

Source: Author computation based on IBA Data.

TABLE 1.9

Outstanding (Weighted Average) Loan and Term Deposit Rates (in %)

	June-23	*June-24*	*June-25*
PSB - WALR	9.19	9.21	8.76
PSB - WADR	6.46	7.00	7.07
PVB - WALR	10.81	10.83	10.47
PVB - WADR	6.67	7.09	7.09

Source: RBI.

It is clear that margins have shrunk for both bank groups, between June 2023 and June 2025. In light of this trend, which is expected to continue, greater reliance on market borrowing appears logical. Further migration of savings deposits to capital markets, during the easy money regime, may worsen the situation for banks.

What are the possible options for banks? First, they may focus on fee-based income, which is a small proportion of total income. Second, they may target more trading profits, which are bound to rise as market rates fall. In short, they should diversify their sources of income, when rates are expected to decline, away from NII.

Fiscal Policy and Union Budget

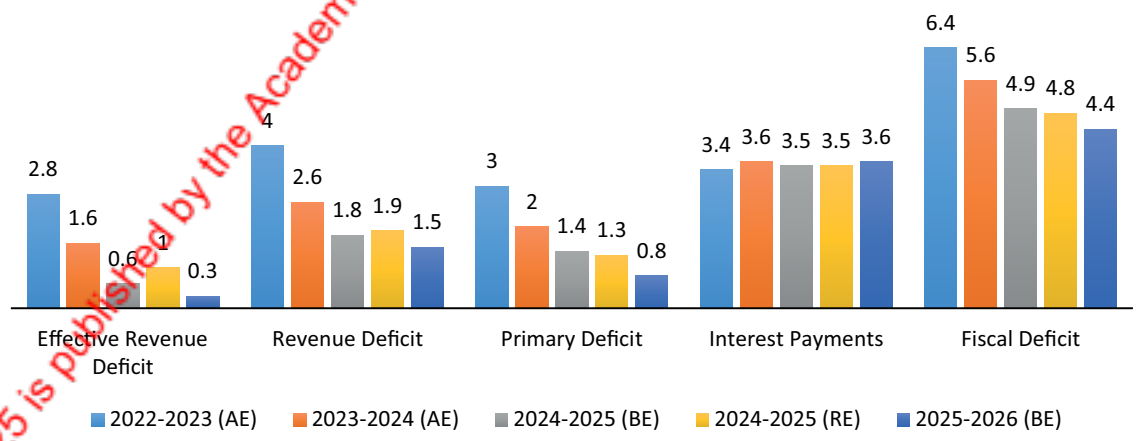
The Union Budget 2025-26 continued to emphasize on inclusive and sustainable long-term growth with fiscal discipline in order realize the vision of Viksit Bharat. The Annual Financial Statement focused on four engines of growth, namely, Agriculture, MSMEs, Investments and exports. While the government continued to promote capital expenditure, it also took measures to boost private consumption by increasing the disposable income of tax payers through greater direct tax concessions.

The size of the Government of India's Budget for FY 2025-26, which is roughly 14.2% of the GDP, is estimated to grow by 7.4% to Rs 50.65 trillion compared to the revised estimates for the previous year. Within this, the revenue expenditure is projected to grow at 6.7% to ₹39.4 trillion, while Capital expenditure is expected to rise at 10.1% to ₹11.21 trillion. Meanwhile, the effective capital expenditure for the current year is put at ₹15.5 trillion, which shows a 17.5% jump over the revised estimates of the previous year. This a clear sign of Government's consistent resolve to prioritize capital expenditure (GoI 2025d).

The central Government has largely adhered to the fiscal deficit target mandated under the FRBM Act, by bringing the Fiscal deficit down to 4.8% of the GDP in FY 2024-25, while reducing the target further to 4.4% in 2025-26 (Figure 1.5). In future, the government will shift its focus from fiscal deficit to public debt, as the

FIGURE 1.5

Important Fiscal Ratios (%of GDP)



Source: Ministry of Finance.

fiscal anchor, and plan to reduce it by a certain amount every year. Accordingly, central government debt is to be brought down by 1% to 56.1% by end of this year (GoI, 2025e). As long as the excess of nominal GDP growth rate over the interest cost on government debt exceeds the primary deficit, public debt will be sustainable in India. Government fiscal consolidation effort will show further improvement as revenue deficit and Primary deficit are projected to come down to 1.5% and 0.8% respectively in FY 2025-26 from 1.9% and 1.3% in the previous year. Overall, India's fiscal policy is on the right track, with a sound balance between fiscal stimulus and debt sustainability.

1.6. Bank Credit Growth

The sustained two-year period of elevated policy interest rates (at 6.50% from February 2023 to January 2025) put the brakes on the rapid credit expansion that was experienced post the COVID pandemic. Year-on-year (YOY) Non-food bank credit growth began to decline after peaking at 17.91% in November 2023, and the deceleration continued even after the central bank slashed the repo rate by 100 basis points by the end of June 2025 (Figure 1.6).

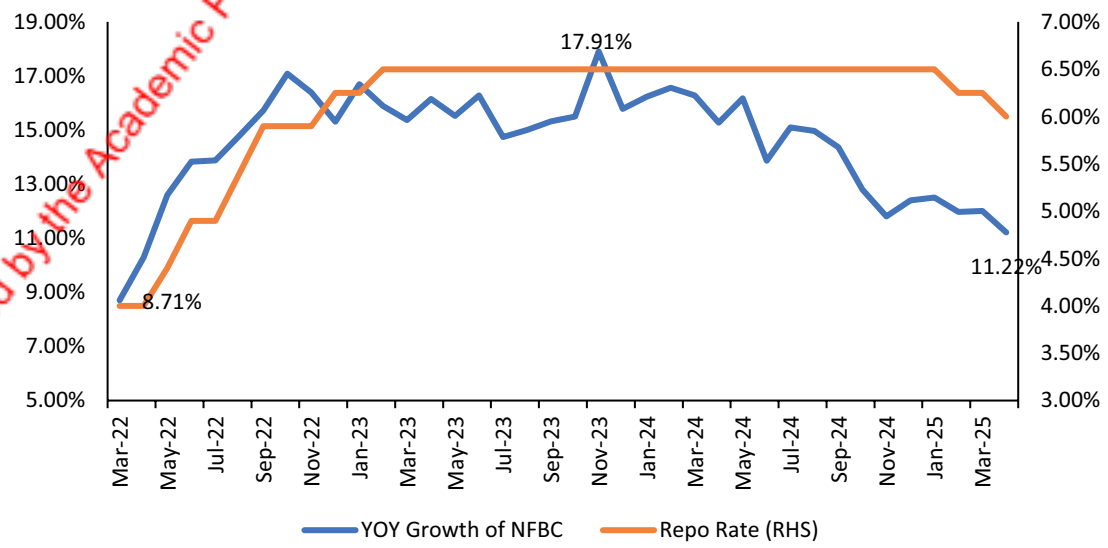
The weakening trend of credit growth was broad-based across various bank groups (Figure 1.7) and across major credit segments (Figure 1.8). Among bank groups, credit by private banks had the slowest rise, whereas the jump in foreign banks' lending did not materially impact overall credit growth due to their negligible share. Among the sectors, the slowdown was sharpest for credit to Agriculture and related activities. The drag on overall credit growth came primarily from Service sector and Retail, which together constitute 63% of total non-food bank credit.

Bank Credit to Commercial Sectors

Credit growth declined in 2025 compared to the previous year across the spectrum of business loans (Figure 1.9). The decline was sharpest for the NBFC sector, as a fallout of the RBI's regulatory measure of increasing the risk weights of bank credit to NBFCs by 25 percentage points in November 2023. On the other hand, the recent move by the RBI to restore the NBFC risk weights to their original levels (February 2025) may not be able to reverse the downtrend quickly. MSME, Services and Commercial Real Estate (CRE), together constituting 26% of non-food bank credit, were the key drivers of commercial credit in FY 2024, but underperformed in FY 2025. Growth in credit to large corporates remained tepid at 6.19% in FY 2025. This is explained firstly by the sales growth, which fell

FIGURE 1.6

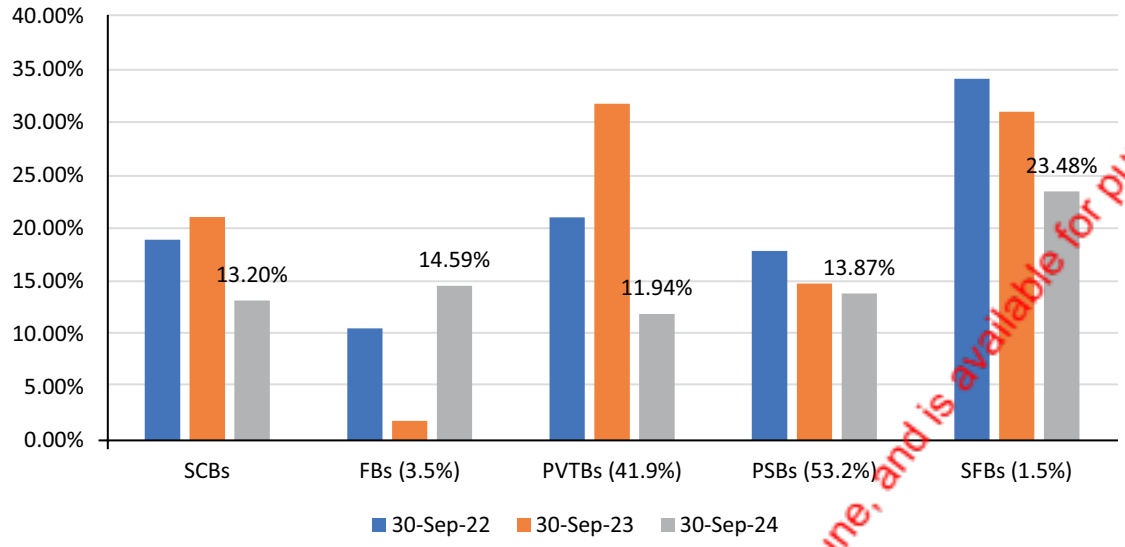
Year On Year Growth in Non-Food Bank Credit and Policy Repo Rate



Source: Authors' construction based on RBI data.

FIGURE 1.7

YOY Domestic Credit Growth Across Bank Groups

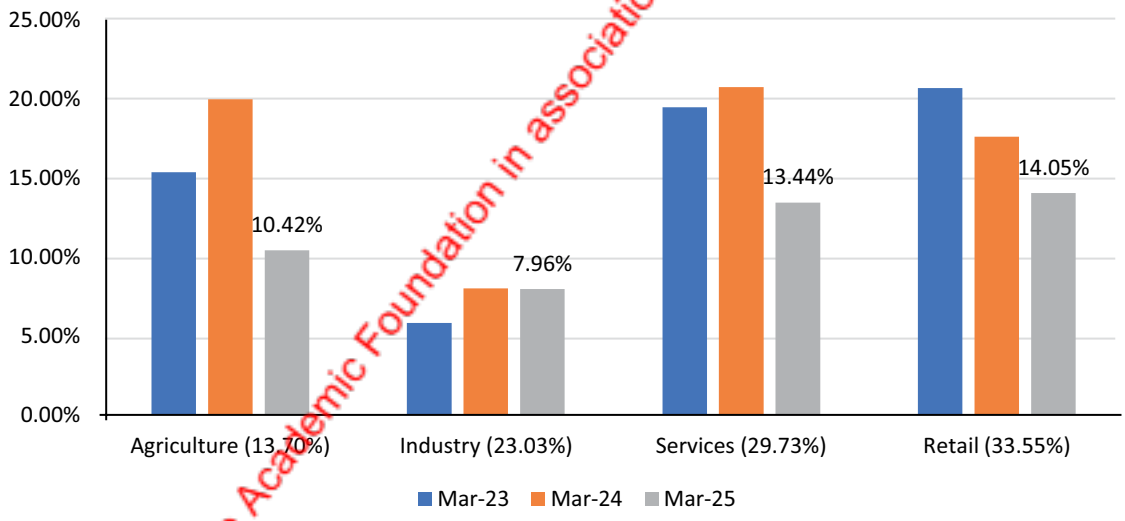


Note: Figures in brackets represent the share of the Bank Group in Bank Credit as on September 2024.

Source: Authors' construction based on RBI data.

FIGURE 1.8

YOY Credit Growth for Major Segments



Note: Figures in brackets represent the share of the Sector in Non-food Bank Credit as on April 2025.

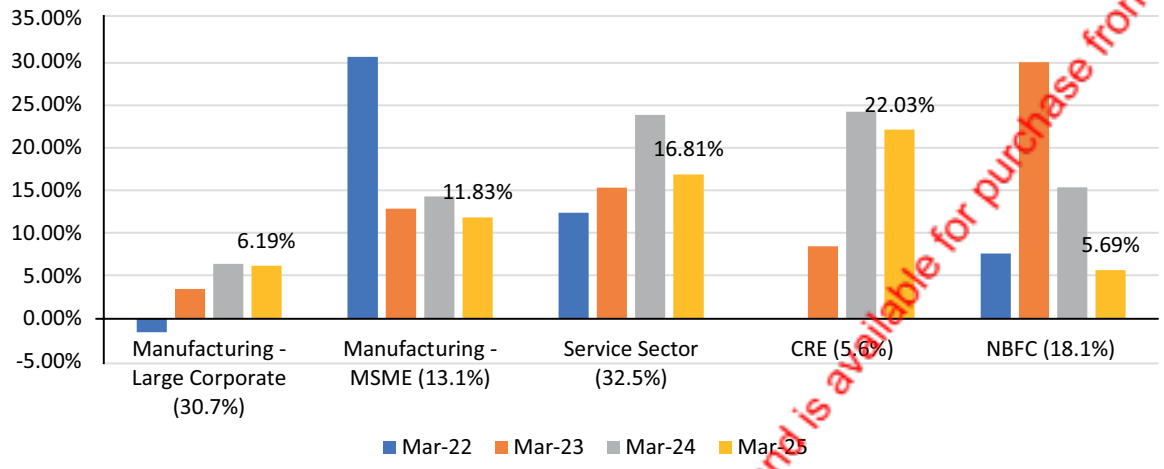
Source: Authors' construction based on RBI data.

to 7.1% in Mar-2025; and secondly by the deleveraging of Indian companies, whose debt-equity ratio fell continuously from 0.62 in FY 2021 to 0.41 in FY 2025 (RBI FSR, June 2025).

Within the manufacturing sector, credit to MSMEs, while moderating in FY 2025, continued to outpace corporate credit (Figure 5). Despite its lower share of 30% in manufacturing, MSME credit had a positive contemporaneous correlation with IIP growth, whereas corporate credit remained decoupled from domestic industrial output growth.

FIGURE 1.9

YOY Bank Credit Growth to Commercial Sectors

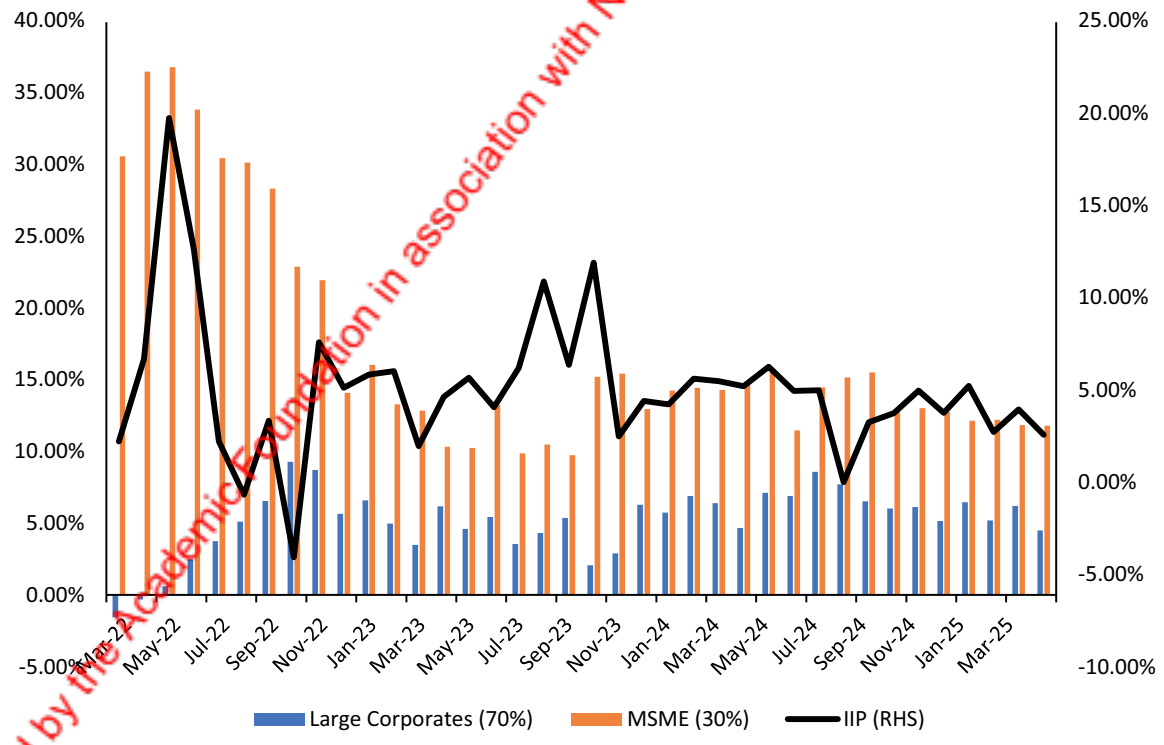


Note: Figures in brackets represent sector share in Total Bank Credit to Commercial Sectors.

Source: Authors' construction based on RBI data.

FIGURE 1.10

Growth of Credit to Industry Segments Versus IIP Growth



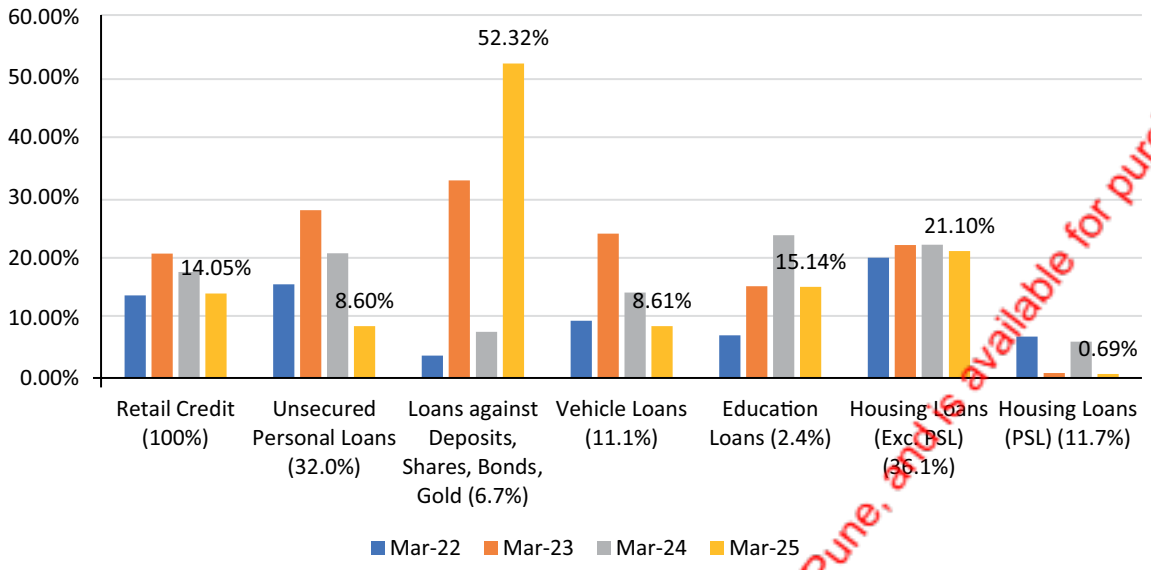
Source: Authors' construction based on RBI data.

Retail Credit

The decline in retail credit growth (from 17.6% in FY 2024 to 14.05% in FY 2025, Figure 1.11) was due to a decrease in unsecured retail loans, vehicle loans and education loans; the first being constrained by higher regulatory risk weights imposed by RBI. It is interesting to note that there was a surge in secured retail loans backed by financial assets like deposits, shares, bonds, and gold (by 52.32% in FY 2025). With private

FIGURE 1.11

YOY Credit Growth in Segments of Retail Bank Credit



Note: Figures in brackets denote the share of the retail credit segment in total retail credit by banks.

Source: Authors' construction based on RBI data.

final consumption expenditure (PFCE) growth languishing at 6% in FY 2025, we can presume that households were borrowing primarily for investment in financial assets rather than consumption.

In FY 2025, non-priority sector home loans grew at the highest rate of 21.1% among retail segments, albeit marginally lower than the previous year (Figure 1.12). However, priority sector housing credit tapered off to below 1%, suggesting a clear shift of lending activity towards premium housing markets. The falling pan-India Housing Price Index (HPI) growth explains the lackadaisical credit growth across commercial and residential real estate.

Priority Sector Credit

The declining trend in priority sector credit growth was largely in tandem with non-food bank credit, thereby maintaining a fairly stable share (average 43.80%) in non-food bank credit during FY 2025 (Figure 1.13). MSME, agriculture and allied activities, lending to weaker sections, and low-cost housing constituted the majority share (98.2%) of the priority sector. Other segments, including Renewable Energy and Export credit, constituted only 1.8% share of priority sector lending and shrank further in FY 2025.

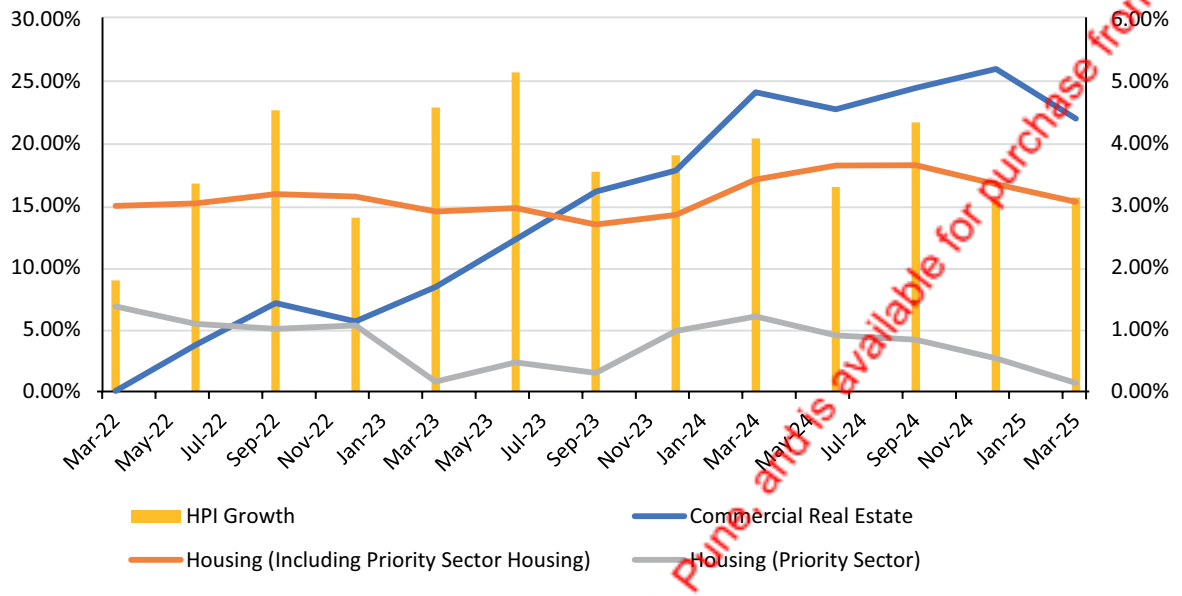
Asset Quality

The asset quality of the Banking sector continued to improve steadily, as seen by the declining trend in Stressed Advances Ratio, Gross Non-Performing Assets (GNPA) Ratio, and Net Non-Performing Assets (NNPA) Ratio between March 2022 and September 2024 (Figure 1.14). Over the same period, the Provisions Coverage Ratio (PCR) increased from 86.56% to 92.88%. In the cross-section, Public Sector Banks (PSBs) and SFBs had weaker asset quality in terms of stressed advances and GNPAs as compared to all SCBs (Figure 1.15). However, PSBs had higher than average PCR and were thus better protected, whereas the PCR for SFBs was significantly lower than the industry average.

The GNPA ratios for broad credit segments continued to fall between March 2022 and September 2024 (Figure 1.16). The decline was sharpest for credit to Industry and other Non-Food Credit. Retail loans, which otherwise has the lowest GNPA ratio among credit segments, but more than one-third share in bank credit, saw a marginal uptick in the GNPA ratio from 1.20%

FIGURE 1.12

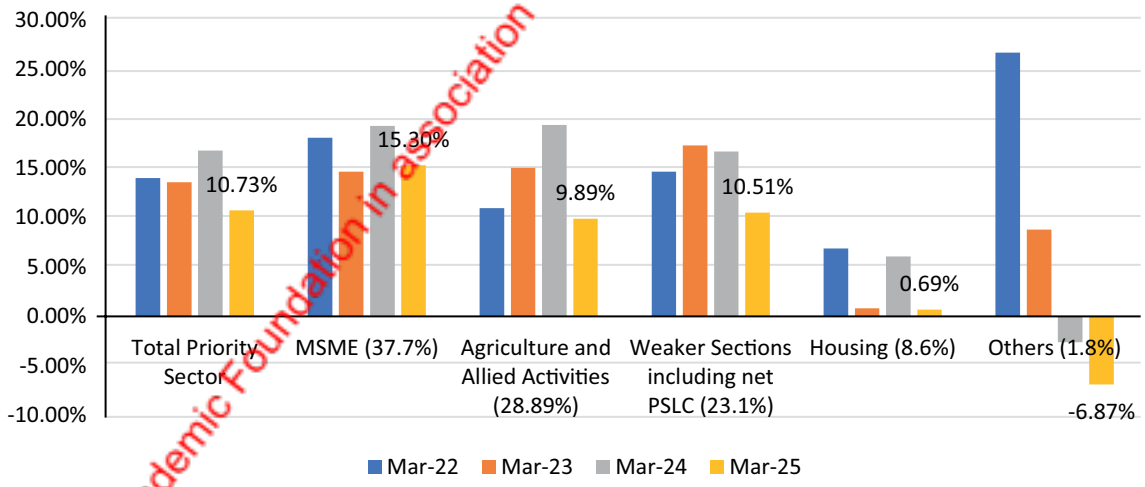
YOY Credit Growth in Commercial and Residential Housing Credit vis-a-vis Change in HPI



Source: Authors' construction based on RBI data.

FIGURE 1.13

YOY Growth in Credit to Priority Sector Segments



Source: Authors' construction based on RBI data.

in March 2024 to 1.23% in September 2024. This was contributed by rising delinquencies in vehicle loans, credit card receivables, and other retail loans (Figure 1.17).

Between March 2022 and March 2024, the movement in NPAs (Figure 1.18) showed a continuously falling slippage ratio[3] However, the write-off rate[4] and the recovery rate[5] plateaued out in FY 2024. The higher write-off rate has kept the share of Loss assets under control at 26.36% in September 2024 (Figure 1.19). The concern is the rising share of Substandard

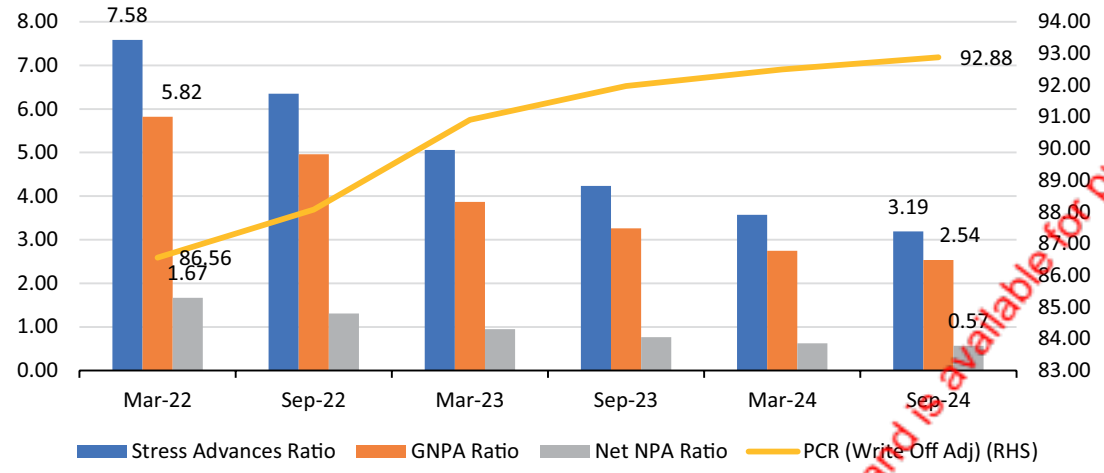
3. Slippage ratio is measured as the addition of NPAs during the year as a percentage of standard advances at the start of the year.

4. Write-off rate is defined as the amount written off during the year as a percentage of GNPA at the start of the year.

5. Recovery rate is measured as the NPA amounts upgraded or recovered during the year as a percentage of GNPA at the start of the year.

FIGURE 1.14

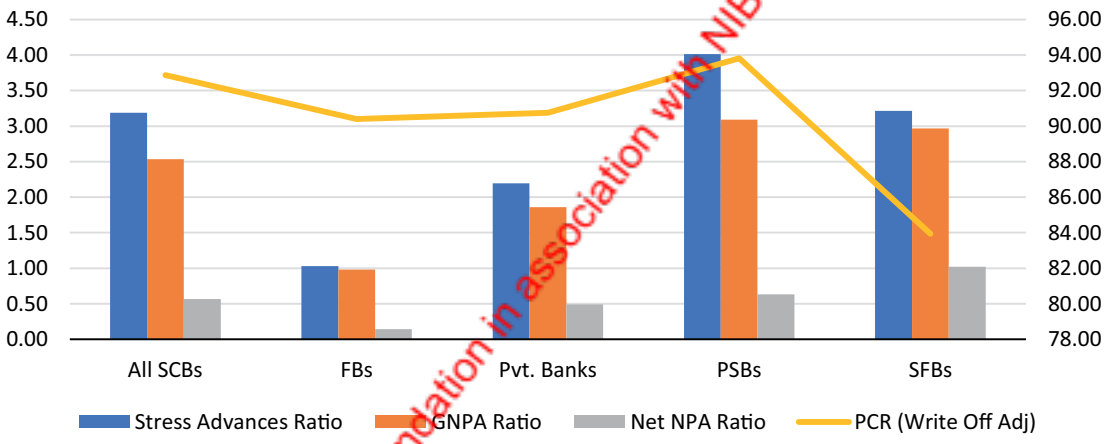
Trend in Banking Sector Asset Quality Indicators



Source: Authors' construction based on RBI data.

FIGURE 1.15

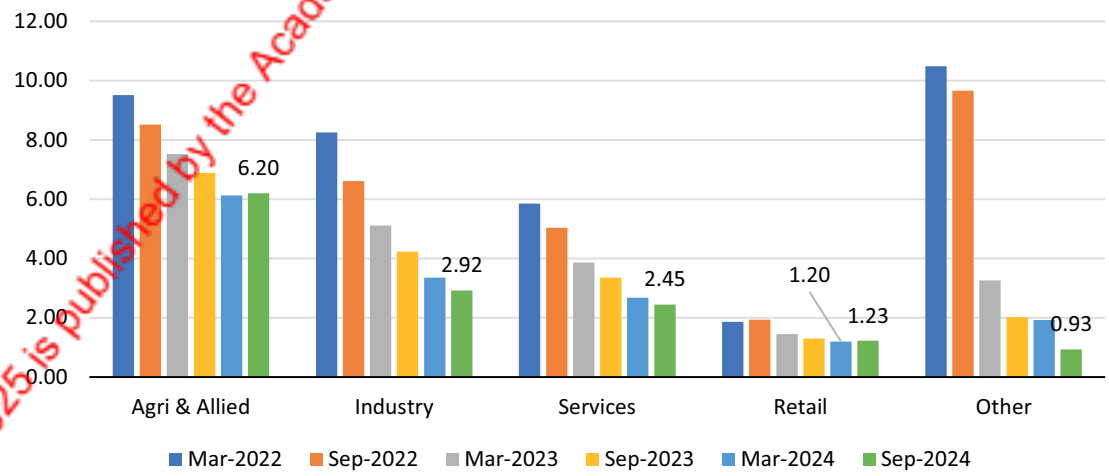
Asset Quality Indicators by Banking Group as of 30-Sep-2024



Source: Authors' construction based on RBI data.

FIGURE 1.16

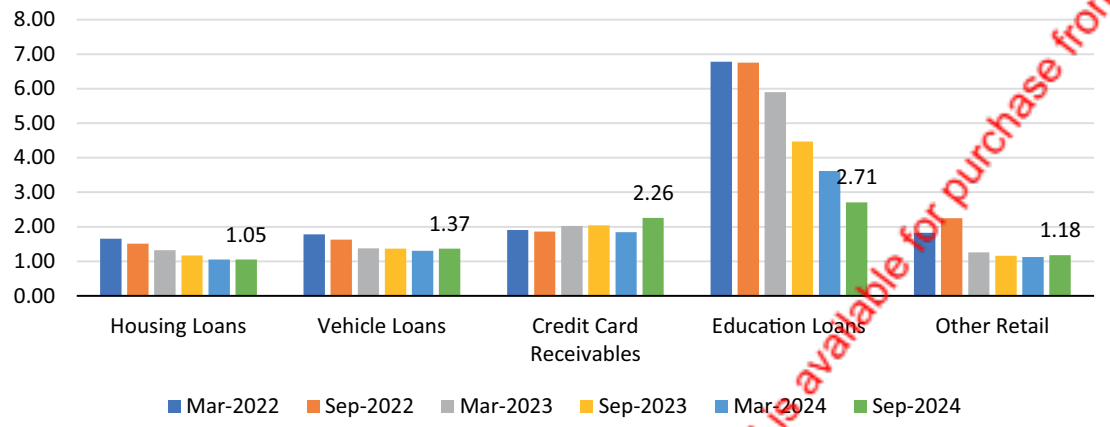
Trend in GNPA Ratio - by Broad Credit Sectors



Source: Authors' construction based on RBI data.

FIGURE 1.17

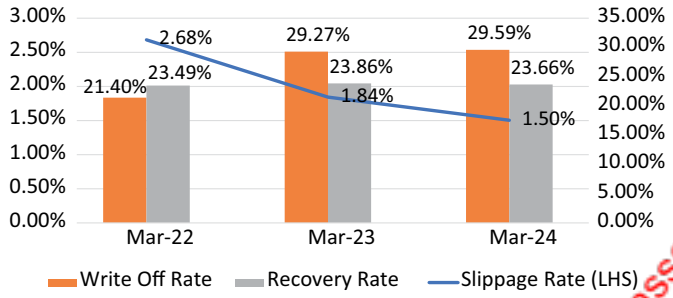
Trend in GNPA Ratio by Retail Credit Categories



Source: Authors' construction based on RBI data.

FIGURE 1.18

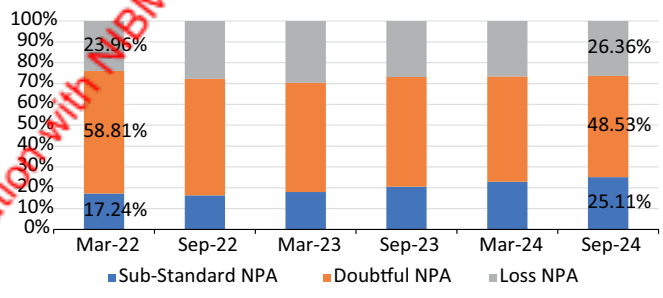
Movement of NPAs



Source: Authors' construction based on RBI data.

FIGURE 1.19

NPA Profile



Source: Authors' construction based on RBI data.

assets (from 17.24% in March 2022 to 25.11% in September 2024), which is reflective of fresh accretions to NPAs, possibly from the retail credit segment.

Debt Securities Market

The following figure (Figure 1.20) clearly exhibits the importance of debt securities market in the growth of Indian economy, vis-à-vis a few other developed and emerging economies, In terms of contribution to respective GDPs. The Govt. (Non-Govt.) securities market in India, as a percentage of GDP, stood at around 52 percent (17 percent) during the year 2023-24, highlighting the significant share of central government securities, and also the increasing importance of the corporate bond market for the overall development of the economy.

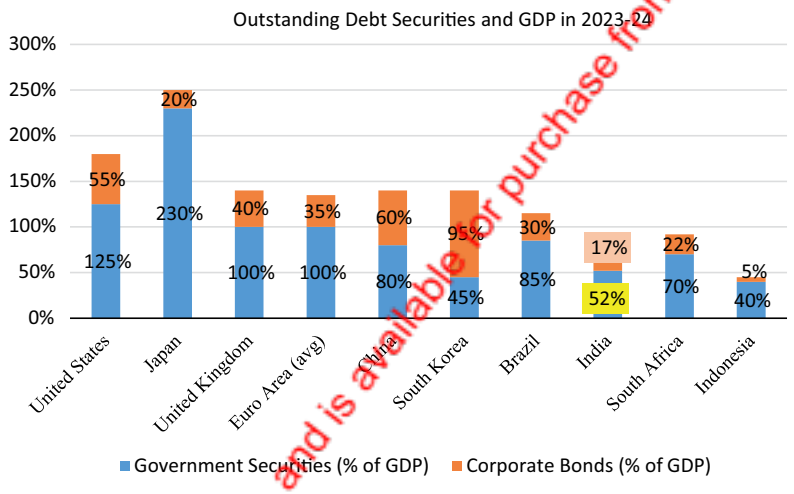
Govt. securities (both GOI bonds and SDL) in India have grown substantially over the last decade, reflecting the government's increasing reliance on market borrowing programmes to fund central and state-level fiscal deficits. Table 1.10 exhibits the size and growth of the G-Sec (GOI & SDL) market, and also the percentage share of the issuing states in total annual borrowing of all the states, during the last three financial years (FY 2022-23 to FY 2024-25). The total outstanding borrowing of the Central Govt (State Govts.) has increased from Rs. 91.66 lakhs crores (Rs. 49.29 lakhs crores) to Rs. 112.17 lakhs crores (Rs. 64.05 lakhs crores) from FY 2022-23 to FY 2024-25. Though the total issuance of G-secs has gone down by Rs. 20 thousand cr. (from Rs.14.28 lakhs crores in FY 2022-23 to Rs.14.08 lakhs crores in FY 2024-25), the total issuance of SDL has expe-

rienced a significant growth of around 65 percent (Rs.5.13 to Rs.8.51 lakhs crores) during the same period. The highest growth is in Maharashtra (10 to 14 percent), with a consistent share of Andhra Pradesh (9 to 10 percent) and Tamil Nadu (14 percent). The SDL segment experiences a spike in issuance during the fourth quarter, emphasising in year-end borrowing plans of states.

Unlike the market for SLR (Govt.) securities, the Non-SLR (Non-Govt. securities or Corporate Bonds) securities market in India is primarily dominated by Private Placements, though the majority are listed on BSE and/or NSE. The trend in primary issuance of corporate bonds in India is exhibited in Figure 1.21, highlighting the slow but steady growth (from Rs. 4.13 lakhs crores in 2014-15 to Rs. 9.95 lakhs crores in 2024-25), which has more than doubled the market size over the last decade. Although the corporate bond market in India has deepened in terms of total issuance size, the width of the market has reduced since 2016-17, bringing the total number of issuance (private placements) down almost by 50 percent (from 3377 to 1659), although the total issuance in public has experienced around 100 percent (from 20 to 45 issuances) hike. Such a declining trend in the width (Total number of bond issuance)

FIGURE 1.20

Debt Market as a Percentage of GDP in Selected Economies

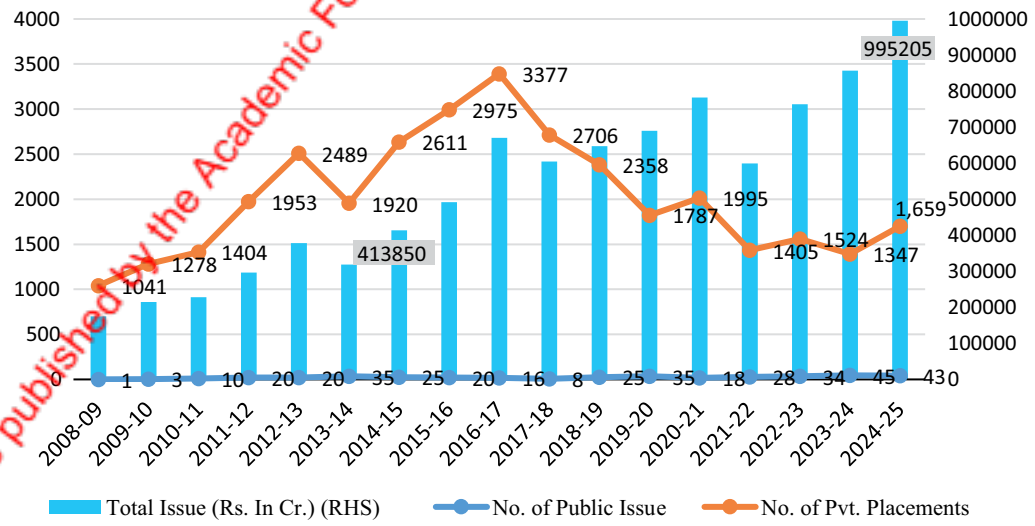


of the Indian corporate bond market could be probably due to low investor risk appetite, which has resulted in a fall in the demand for Non-SLR bonds with relatively poor creditworthiness (e.g. below AA rating).

As Figure 1.22 shows, bank credit (Non-SLR investments) growth rates rose (fell) since 2022-23 Q4, while the scenario reversed after one year (2023-24 Q4). The declining credit (Non-Food) exposure of SCBs has been offset

FIGURE 1.21

Primary Issuance of Corporate Bonds in India



Source: SEBI; Figure is author's creation.

TABLE 1.10

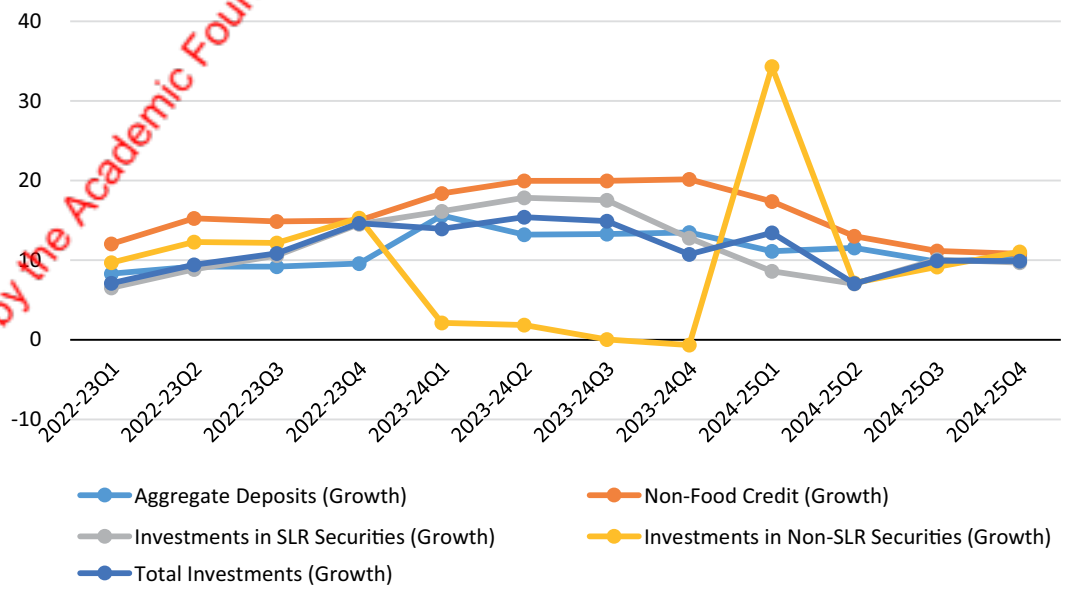
Govt. Borrowings (Issuance & Outstanding of Securities: GoI vs. State Govt.)

	FY 2022-23		*FY 2023-24*		*FY 2024-25*	
Issuers	*Issuance Size (Rs. in Cr.)*	*% Share*	*Issuance Size (Rs. in Cr.)*	*% Share*	*Issuance Size (Rs. in Cr.)*	*% Share*
Central Govt.	1428052		1543000		1408141	
All State Govt.	513778	100	741974	100	851103	100
Andhra Pradesh	52260	10	70407	9	78205	9
Assam	16100	3	16950	2	19000	2
Gujarat	32500	6	28500	4	38200	4
Haryana	36500	7	48500	7	49500	6
Himachal Pradesh	10800	2	8600	1	7359	1
Jammu & Kashmir UT	6745	1	14246	2	13170	2
Kerala	22539	4	35003	5	53666	6
Madhya Pradesh	28000	5	48000	6	63400	7
Maharashtra	49000	10	77000	10	123000	14
Punjab	38600	8	47426	6	40828	5
Rajasthan	34234	7	60032	8	74141	9
Tamil Nadu	71000	14	107000	14	118025	14
Telangana	36000	7	48900	7	54709	6
Uttar Pradesh	33500	7	74200	10	45000	5
Uttarakhand	2500	0	5800	1	8400	1
West Bengal	43500	8	51410	7	64500	8
Total Outstanding (GOI) in Q4	91.66 Lakhs Cr.		102.66 Lakhs Cr.		112.17 Lakhs Cr.	
Total Outstanding (SDL) in Q4	49.29 Lakhs Cr.		56.52 Lakhs Cr.		64.05 Lakhs Cr.	

Source: CCIL Reports; Table is Author's creation.

FIGURE 1.22

Quarterly Business Growth of SCBs: Deposits, Credit & Investments



Source: CCIL Reports; Figure is author's creation.

by the increasing investment exposure to Non-SLR securities (bonds and debentures), during this phase. The sudden pickup in Non-SLR investments, from the last quarter of 2023-24 could be probably due to the implementation (from April 1, 2024) of new RBI guidelines on classification and valuation of investments, where SCBs were permitted to classify their Non-SLR debt investments under the Held till Maturity (HTM) category, giving a boost to the buy and hold incentives for such securities.

The corporate bond market in India shows strong growth potential, with higher public issuance and emergence of municipal bonds and green bonds.

Secondary Market Liquidity

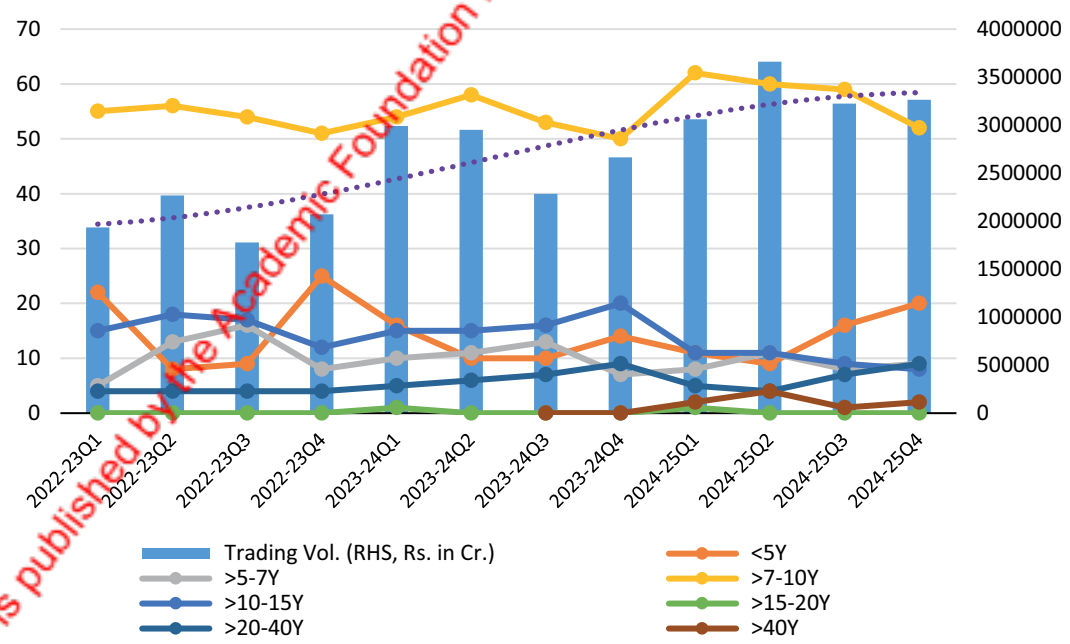
The RBI and GoI consistently take a series of initiatives to increase secondary market liquidity for Govt. securities (GOI & SDL), in terms of deeper and wider participation from various segments (institutional and retail), both domestic and overseas. Figure 1.23 exhibits the slow but increasing trend in the secondary market liquidity for Govt. securities, with an average quarterly trading volume of Rs. 26.79 lakhs crores (Rs. 36.61 lakhs crores in 2024-25Q2 and Rs. 32.64 lakhs crores in 2024-25Q4). The maximum liquidity (with a quarterly average of 55 percent of the total trades) is in securities with maturity between 7 to 10 years, followed by others (with a quarterly average within 14 percent across all tenors).

Figure 1.24 captures the yield spread /term premium, i.e., the difference between the yields on long-term and short-term GOI bonds. It highlights the decreasing trend in the yield spread / term premium on traded central govt. securities. It exhibits that the term premium between 10-year and 3-month (1-year and 3-months) GOI bonds has narrowed from 229 basis points (103 basis points) in 2022-23Q1 to 16 bps (-3 bps) in 2024-25Q4. The flattening of the risk-free yield curve is possibly due to central bank efforts to ensure economic stability and growth.

However, the Indian bond market experienced an unusual trend since May 2025. As depicted in Figure 1.25, even after the policy rate cut in June 2025 (by 50 bps, from 6.00% to 5.50%) by the RBI, the bond (GOI) yields, especially

FIGURE 1.23

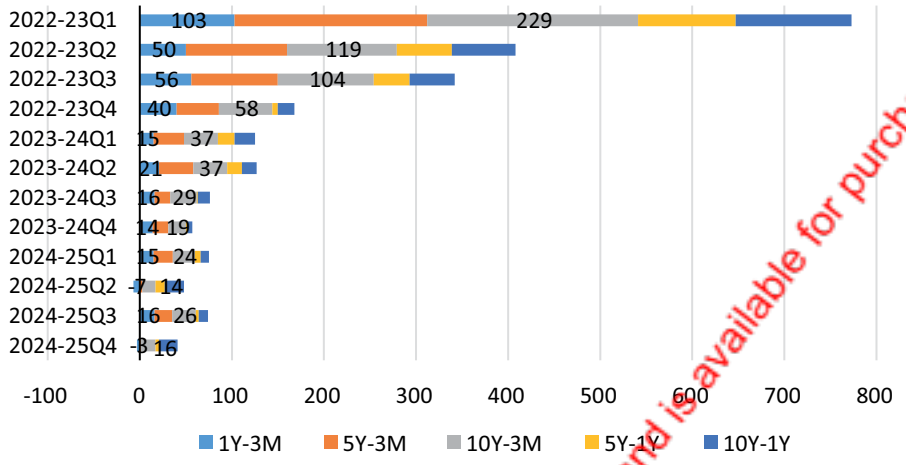
Maturity-wise Secondary Mkt. Trading Volume in G-Secs



Source: CCIL Reports; Figure is author's creation.

FIGURE 1.24

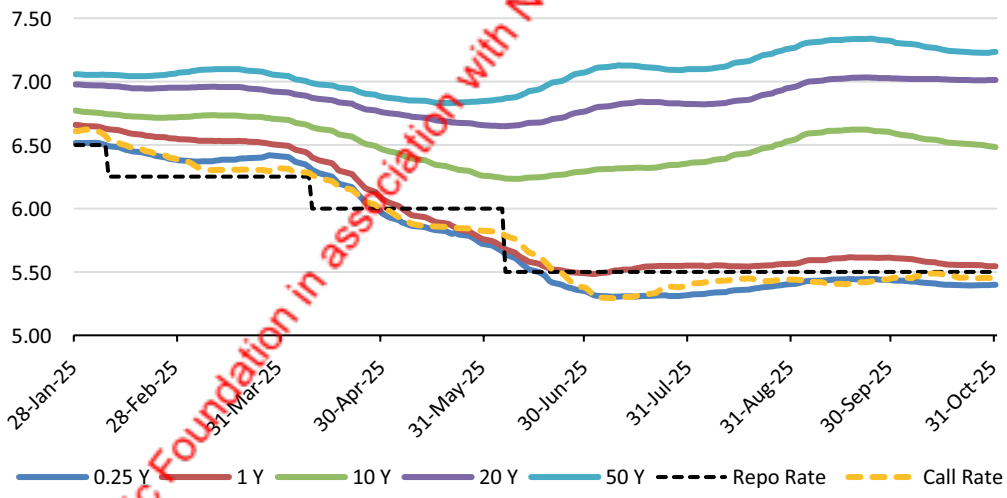
Trends in GOI Yield Spreads or Risk-free Term Premium (in Bps.)



Source: CCIL Reports; Figure is author's creation.

FIGURE 1.25

Historical Trend in Bond Yield vs Policy Rate in India



Source: RBI, FBIL; Figure is author's own creation.

the medium and long term (10 year and above), gradually hardened till September 2025, leading to widening the term premium (the term premium between 10Y and 3M widened from around 50 bps to 100 bps), and steepening of the risk-free yield curve. The 10-year yield almost remain same (6.60% to 6.70%) even after a cumulative rate cut by100 bps till September 2025, but slightly softened after the last MPC announcement in October 2025. When the bond yield rises despite falling inflation, it indicates that investors are worried about fiscal pressures, possibly arises due to rationalization of GST (from 4 slabs to 2 slabs), leading to risk of fiscal slippage and higher borrowing needs, and/or global headwinds.

As far as the secondary market for SDL is concerned, the RBI takes a series of initiatives to improve liquidity. It has always been difficult to identify the factors which drive the secondary market liquidity of SDLs, and also to arrive at

TABLE 1.11

State-wise Issuance and Trading in SDL (% Share)

	Q4-FY25		*Q4-FY24*		*Q4-FY23*		*Q4-FY22*	
States	*Issuance*	*Trading*	*Issuance*	*Trading*	*Issuance*	*Trading*	*Issuance*	*Trading*
Maharashtra	12.89	13.34	12.41	14.83	8.97	10.06	5.95	15.33
Tamil Nadu	10.50	10.77	8.93	9.95	12.11	13.04	14.87	13.90
Karnataka	10.36	12.56	13.40	14.83	1.33	4.63	15.72	13.65
West Bengal	7.71	8.94	8.53	6.91	8.63	7.78	8.45	5.60
Madhya Pradesh	6.54	6.99	3.85	6.13	9.36	9.48	3.40	4.54
Gujarat	5.69	5.08	3.35	4.85	5.65	8.54	5.74	7.62
Rajasthan	5.09	5.22	6.72	6.10	5.58	4.86	6.54	4.98
Kerala	4.99	5.22	3.86	4.29	4.62	3.68	2.97	4.84
Uttar Pradesh	4.60	6.14	10.66	8.81	13.83	13.84	5.52	6.21
Haryana	4.56	4.06	3.85	3.96	5.70	4.93	5.95	4.76
Odisha	4.55	2.62	-	0.09	-	0.32	-	1.02
Chhattisgarh	4.14	1.80	5.95	1.68	0.66	0.33	-	0.90
Bihar	3.58	3.50	4.87	6.99	3.92	3.44	2.33	1.07
Telangana	3.52	4.01	3.40	3.03	4.04	2.57	5.19	3.90
Andhra Pradesh	3.45	2.94	3.34	3.50	4.05	3.94	4.44	5.19
Uttarakhand	1.84	0.95	0.87	0.40	0.90	0.74	2.55	0.52
Assam	1.83	2.31	1.43	1.04	1.40	0.70	1.47	0.19
Punjab	1.70	2.21	1.59	0.72	4.52	3.96	5.11	1.89
Jharkhand	0.81	0.69	0.25	0.24	0.33	0.57	1.49	2.18
Himachal Pradesh	0.54	0.20	0.69	0.49	1.99	1.30	-	0.66
Other States	1.11	0.45	2.05	1.16	2.41	1.29	2.31	1.05
	100	100	100	100	100	100	100	100
Correlation (Issuance vs. Trading Vol.)		96.91%		93.52%		95.47%		79.36%
Correlation (Issuance vs. Trading Spread)		85.46%		26.76%		76.23%		86.88%
Correlation (Volume vs. Spread)	-27.83%	-37.65%	-41.01%	15.46%	-26.97%	14.51%	-17.30%	-10.38%

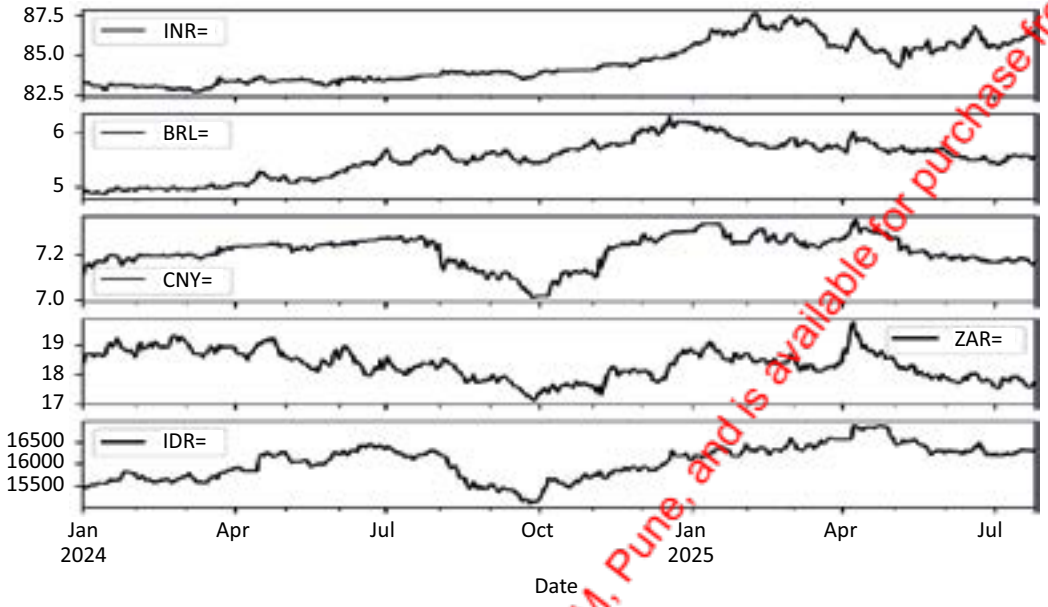
Source: CCIL Reports; Table is author's creation.

the suitable yield spread (Yield on SDL minus the risk-free yield of equivalent tenor) for the tradeable SDLs. The RBI has begun to publish the SDL curve (yield curve constructed out of actual trades in SDL) on a daily basis, to facilitate bidding in the primary market auction and also for the secondary market trades. The percentage shares of state-wise primary issuance and trading in SDLs are exhibited in Table 1.11, to demystify the primary factor(s) affecting the SDL spread, and the association between the primary market issuance and secondary market trading, both in terms of liquidity and spread.

The percentage shares of quarterly (Q4 FY 22 to Q4 FY25) state-wise issuance and trading volumes are found to be strongly and positively associated (with an average correlation of more than 90 percent). It suggests that the larger the size of primary issuance of a SDL, the higher would be its secondary market trading volume. A similar relationship also holds between issu-

FIGURE 1.26

Peer Group Comparison of Currencies (2024-2026)



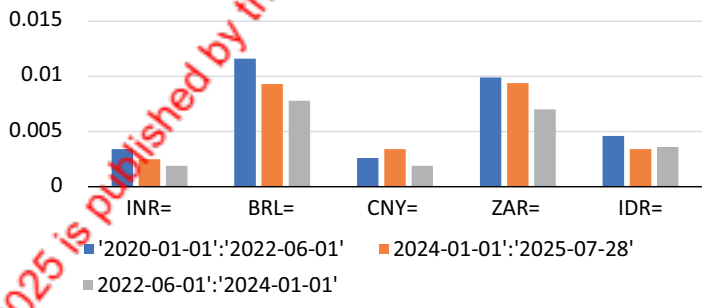
Raw data source: LSEG, Author's presentation.

ing and trading spreads (more than 85 percent in Q4 FY 25), highlighting the fact that the higher the SDL spread at the time of issuance, the more would be its trading spread. The data also supports the standard theory of a negative relationship between volume (issuance and trading) and yield spread (issuance and trading), but the relationship is found to be weaker.

India's SLR and Non-SLR bond markets are evolving steadily, supported by a robust regulatory framework, increasing investor awareness, and progressive policy reforms. Inclusion of India's G-Sec in global indices is likely to bring long-term capital inflows, reduce borrowing costs and deepen debt markets.

FIGURE 1.27

Peer Group Volatility (2020 -2025)



Raw data source: LSEG, Author's calculations.

1.7. Equity and Forex Markets

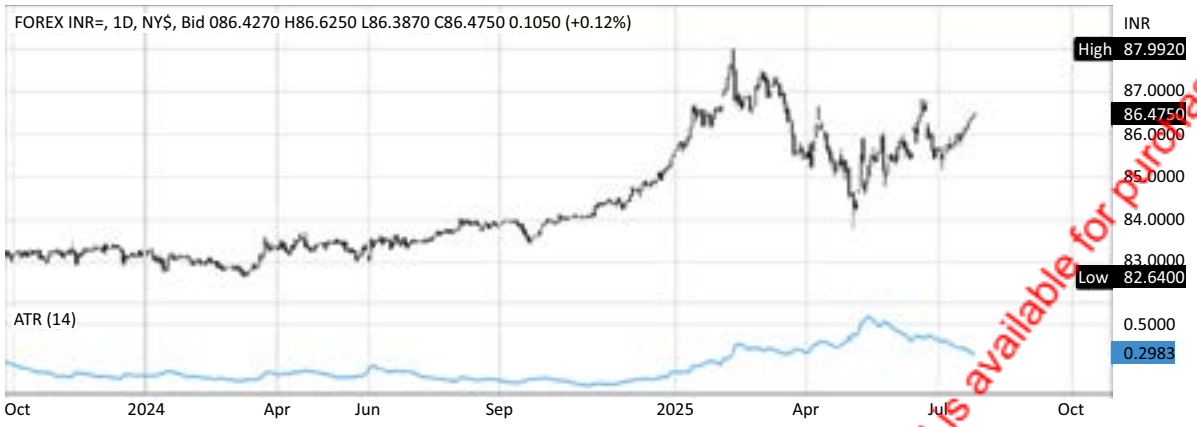
Forex

The focus in this section is on the developments in the Indian forex markets, starting with a comparative picture of the INR vis-à-vis other currencies. Figure 1.26 presents the INR movement in the context of the movement in Brazilian Real (BRL), Renminbi (CNY), South African Ran (ZAR), Indonesian Rupiah (IDR). It can be seen that, rupee was remarkably stable compared to other currencies till December 2024, after which it showed a sharp depreciation. This period is marked by depreciation of most peer group currencies, vis-a-vis the US Dollar. In the recent past, there has been a move towards appreciation in most of the currencies, mostly owing to the dollar weakness. This stability in rupee is also reflected in the fact that it exhibited the least volatility (Figure 1.27).

Figure 1.28 shows the movement in the Indian rupee, between March 2020 and July 2025. Till

FIGURE 1.28

INR Movement (Jan 2024 to July 2025)



Raw data source: LSEG, Author's presentation.

Dec 2024, rupee demonstrated a high degree of stability, as also seen in the movement of Average True Range (ATR)[6] in the lower panel of Figure 1. After December 2024, there was a sharper movement: Indian rupee moved from 84.55 on December 2, 2024, to a high of 87.99 on February 10, 2025, with massive intra-day trading range of around 90 paise. However, the fall was contained, and by May 2, 2025, rupee had appreciated to 83.76. Compared to the movement in 2023 and 2024, the movement in 2025 is both bigger and sharper. The entire third quarter of 2024-25 (August to beginning of November), rupee in contrast, just moved from a range of around 40 paise – 83.70 to 84.10. The fall in volatility in the last few months is shown in the falling ATR.

How should the movement be judged, in context of the policy perspective?

First, a key factor that has helped in the stability of rupee in the recent past is the stable crude price. Crude prices have trended downwards since 2024. Figure 1.29 measures rupee on the left axis and crude on the right. We can see periods of sharp increase in crude prices leading to sharp depreciation in rupee (Nov 2021- May 2022), while phases of crude price stability have helped keep rupee depreciation under control (June 2022 onwards). With the continuation of geopolitical crises in the Middle East, crude prices are expected to rise again. However, the fact that the past gains have not been passed over to consumers allows policy makers a breather here and augurs well for domestic consumers and firms

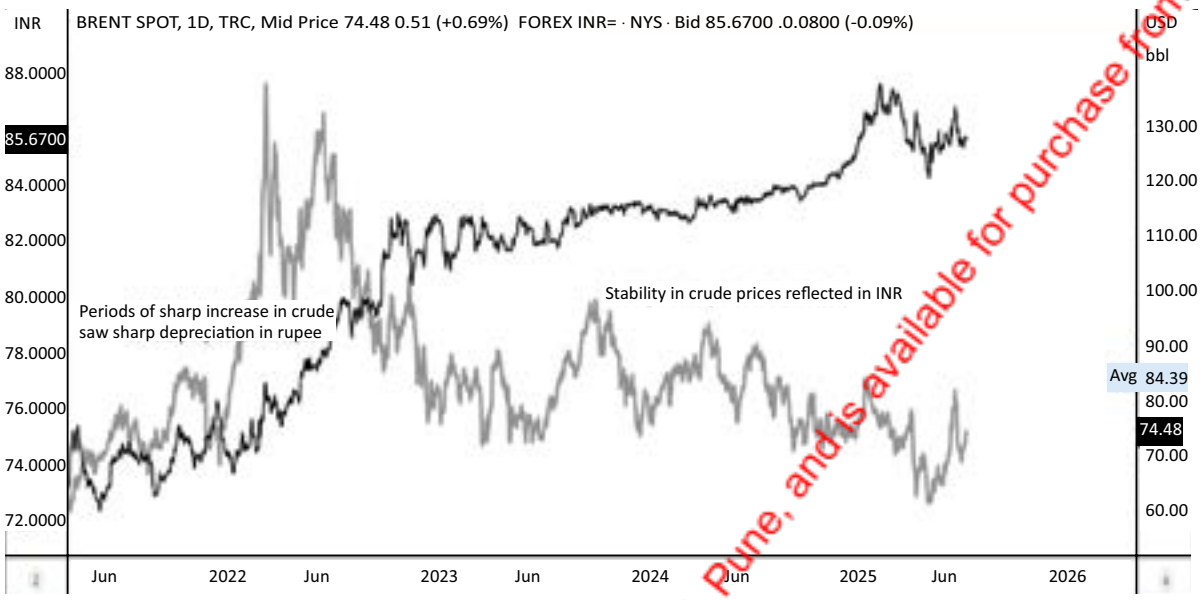
Second, a stable rupee is good for both exporters and importers. Given that most of Indian exporters have import exposures, this can help boost exports. It is especially crucial as exporters and importers face an uncertain global demand scenario, where policy oscillation is likely to reflect in business decisions. Export credit growth has for long been subdued, even with a subsidised interest rate, probably reflecting muted demand with lacklustre export growth (Figure 1.30). A market determined exchange rate under orderly market conditions is far more critical now. It will send a signal to firms to hedge exposures, or build in natural hedges, and free up monetary policy from external pressures.

Third, inflation has been benign in the recent past. For the first time since the pandemic, there has been a sharp slide in CPI General, CPI Food and WPI Food (Figure 1.31a). While the stability of food prices is essential for macroeconomic stability, the sharp fall in food prices can also lead to fall in agricultural incomes and rural consumption. Indian farmers, especially

6. Average True Range looks at the difference between the high and low values, or the range in prices during a trading session.

FIGURE 1.29

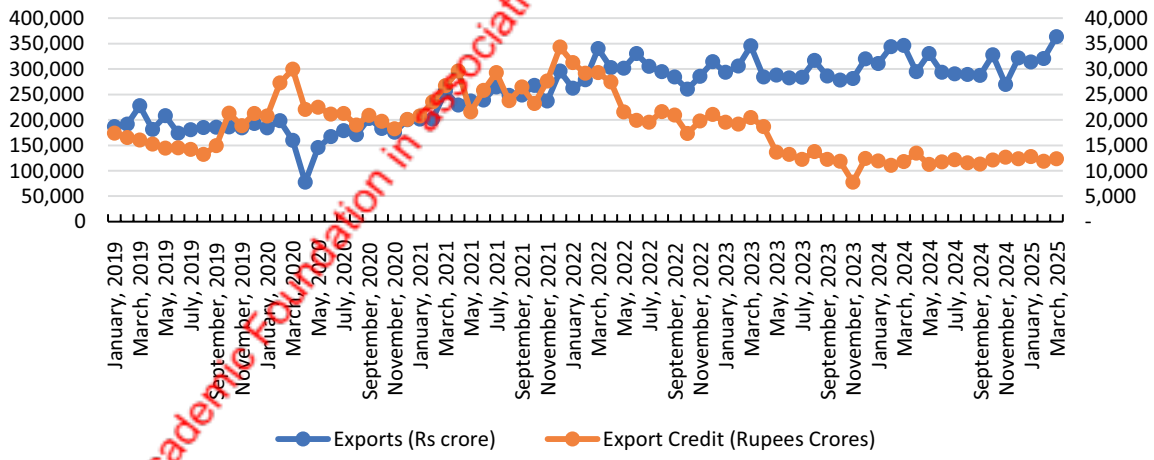
Crude Prices and Rupee Movement



Source: LSEG, Author's presentation.

FIGURE 1.30

Export Growth and Export Credit



Source: RBI database, Author's presentation.

those producing crops not covered by Minimum Support Prices (MSP), are most vulnerable to such sharp price shocks leading to substantial fall in incomes (Ceballos et al. 2021). Figure 1.31b shows that in the recent past, the WPI prices have registered a sharp fall comparable only to the period following the rate hike phase (May 2023).

Finally, since intervention in the forex market by RBI and domestic market liquidity are intrinsically connected, policy rate decisions may depend on exchange rate shocks. From October 2024 to February 2025, the interventions to support the rupee led to a sharp fall in forex reserves. From March 2025, rupee-dollar swaps were used to infuse liquidity in the domestic market, leading to increase in reserves. (Fig-

FIGURE 1.31A

CPI Food and General and WPI Food Movement

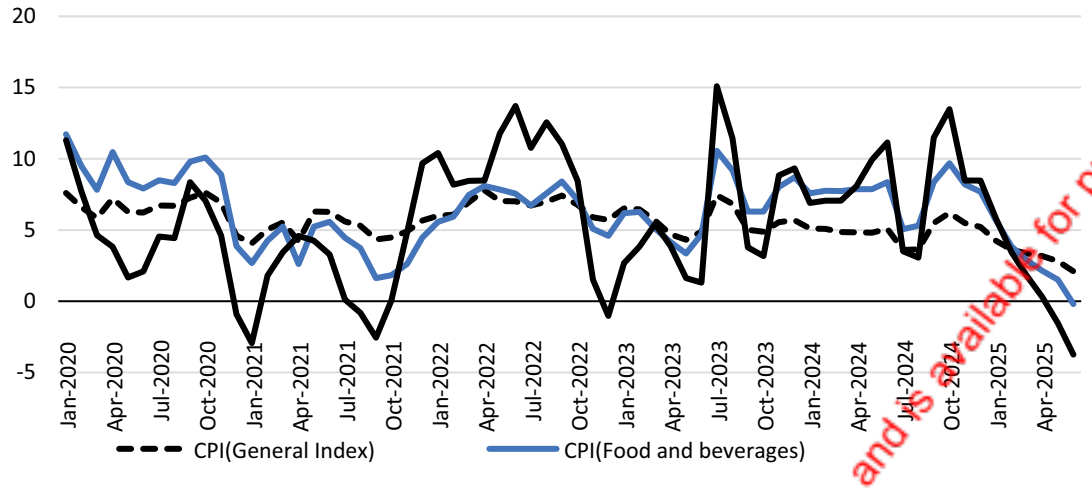
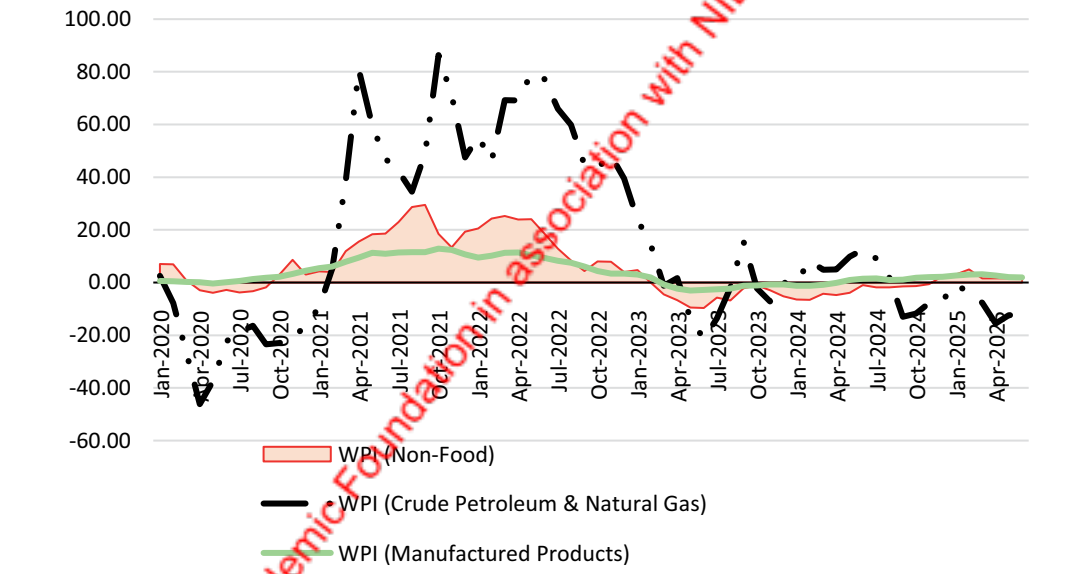


FIGURE 1.31B

WPI Non-Food and Fuel



ure 1.32). Spot interventions to prevent rupee depreciation, through dollar sales, led to fall in domestic liquidity. To avoid local repercussions, forward market interventions were carried out. While forward market interventions effectively pushed obligations to the future, if global conditions are unfavourable when swaps mature, the pressure on forex reserves may be substantial. RBI has also innovatively used rupee-dollar swaps, in the recent past, to address domestic liquidity. The maturity of these swaps from July 2025 onwards was also managed. The monetary policy statement, in June 2025, focussed on ensuring adequate liquidity in the domestic market. Past intervention in the forward market, which would have removed rupee liquidity, was handled by a careful tweak of the liquidity position. Thus, while interventions in forex market are crucial for maintaining stability, they have to be balanced with domestic liquidity concerns (Roy Trivedi and Das, 2025).

FIGURE 1.32

Trends in Foreign Currency Assets (USD mn.) and USD/INR Movement

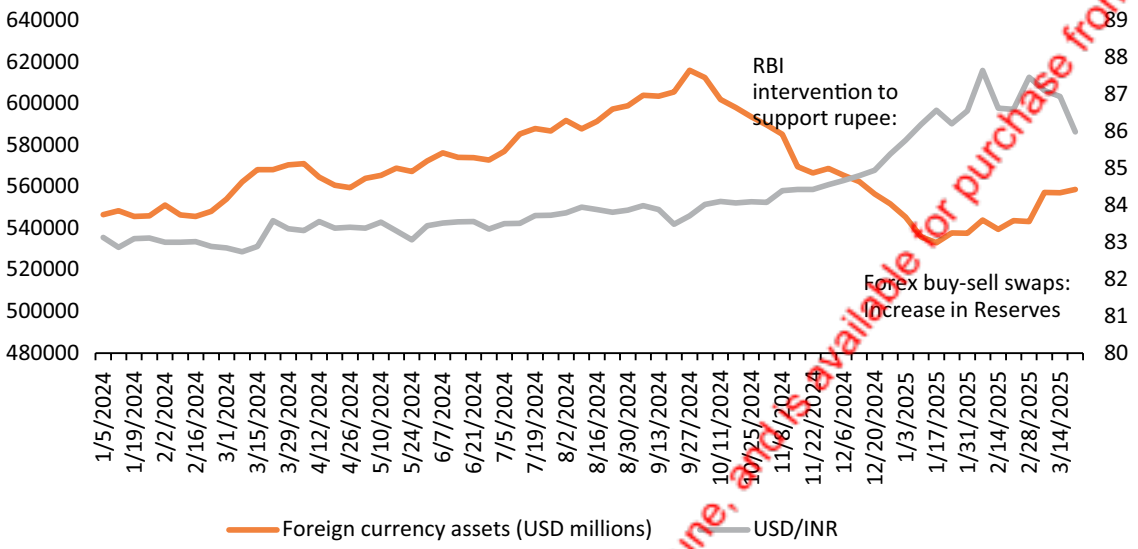
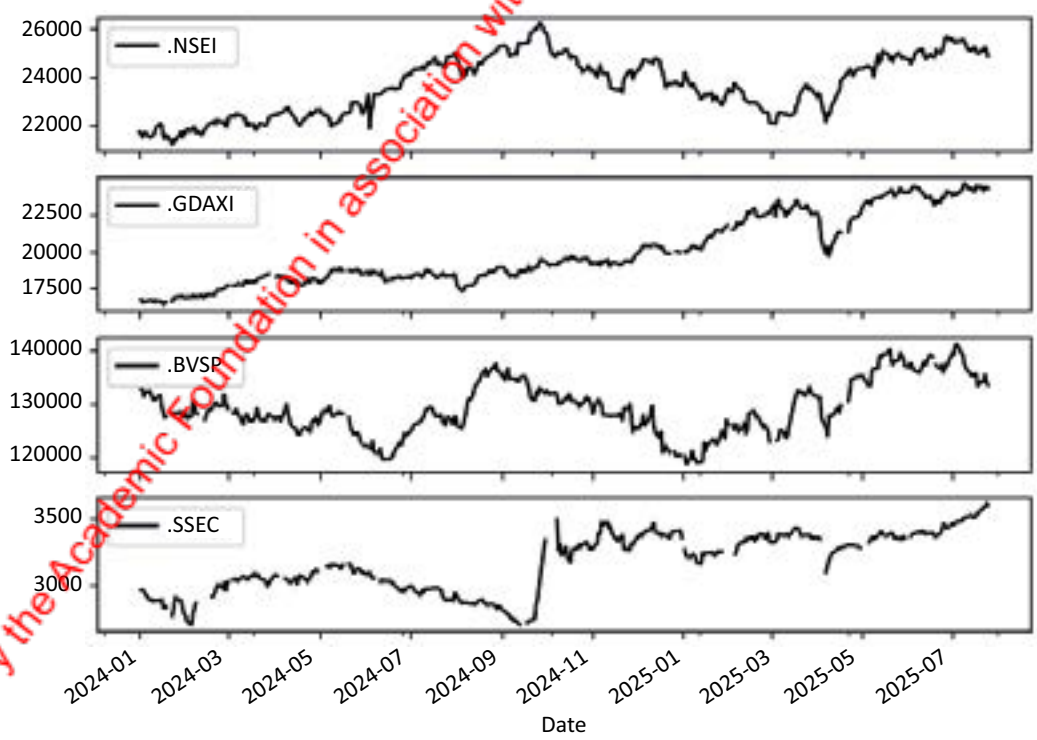


FIGURE 1.33

Major Global Stock Markets and their Movement



Source: LSEG, Author's presentation.

Equity Markets

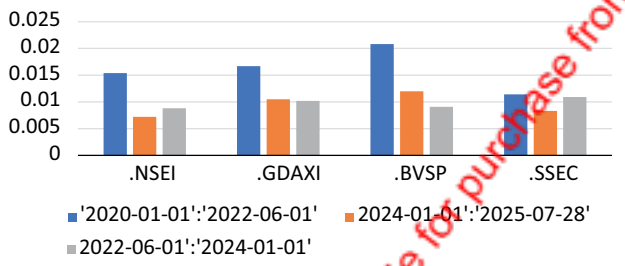
The financial markets around the world are showing a consistent rally as seen in Figure 1.33. Here six global markets are shown: Nifty 50 India (^NSEI), Deutscher Aktien Index, Germany (^GDAXI), Bovespa Index, Brazil (^BVSP),

SSE Composite Index, China (000001.SS) from 2024 to 2025. While the movement in 2024 has been uneven, with a sharp fall in emerging markets at the end, the last few months have seen a rally in most indices. This is surprising given the heightened uncertainty, during this period, around the world. Figure 1.34 gives the average volatility of these global indices for three select periods.

Looking at the Indian market, in Figure 1.35, it is observed that sharp rally in Nifty in 2024

FIGURE 1.34

Volatility of Global Indices



Raw data source: LSEG, author's calculations

FIGURE 1.35

Movement in Nifty

Source: LSEG, Author's presentation.

was halted in end-September, 2024. A sharp correction followed, with some contrarian moves, till April 7, 2025. A positive divergence appeared in price and Relative Strength Index just before the trend changed[7]. Prices have rallied since April 2025, leading to a sharp overvaluation and a negative divergence. From July 2025, there is a correction in the market.

1.8. Conclusions

The Indian economy appears to be a bright spot amidst the uncertainty in the global macro-financial environment. GDP growth has been steady, inflation has continued to slide and the performance of the financial sector has been robust. However, in the recent past, some concerns have arisen. Bank margins have shrunk,

7. The Relative strength Index is a momentum indicator which is given by the following formula: $RSI = 100 - \left[\frac{100}{1+RS}\right]$. A divergence refers to price and RSI moving in different directions. A positive divergence happens when prices makes a lower low, and RSI fails to make a lower low, predicting a halt in the downtrend. A negative divergence happens when price makes a higher high and RSI fails to make a higher high, suggesting a halt in the uptrend.

credit growth has decelerated across sectors and low-cost deposits have faced a sustained reduction. The distortions introduced by the harsh US tariffs may worsen matters.

In this milieu, banks may have to diversify their businesses and focus more on fee income and trading profits, in order to offset the strain on NII. The central government may further increase the quantum of public investment, which has a strong crowding-in effect on private capex and multiplier effect on GDP growth. Policymakers and regulators may have to devise special strategies to offset the impact of US tariffs. Some mitigants like diversification of the export basket and GST rate rationalization have already been introduced. These measures may create a virtuous cycle of credit and GDP growth. Since the foundation is strong, the initiatives are expected to ensure a sustained high growth path for the economy.

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