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Macro & Matrices

Editor: Dr. B. K. Bhoi

Preview

- India’s Financial System: Resilient Amid Emerging Risks

- RBI Amendment Directions, 2026: Matters to be placed before the Boards of the Banks

- RBI Issues Draft ‘Guidance on Regulatory Expectations for Data Governance’

- RBI Invites Public Comments on Draft ‘(Commercial Banks - Acquisition and Holding of Shares or Voting Rights) Amendment Directions, 2026’

- Key Statistical Tables

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AU SMALL FINANCE BANK

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India's Financial System: Resilient Amid Emerging Risks

According to the RBI's Financial Stability Report (FSR), June 2026, India's financial system remained exceptionally resilient in 2025-26, notwithstanding elevated global risks from geopolitical tensions (including energy price volatility and supply chain disruption), public debt overhang, bond market fragility and leveraged non-bank institutions. An effort has been made to critically examine the FSR and analyse how the emerging risks associated with a resilient financial system are hidden in the fine print.

Financial System Resilient

The stability parameters of India's financial system were robust in FY26. First, as of March 2026, the capital-to-risk-weighted asset ratio (CRAR) of scheduled commercial banks (SCBs) was as high as 17.7%, the gross non-performing assets (GNPA) ratio at a multi-decade low of 1.8%, liquidity buffer comfortable (LCR at 124.2%), strong profitability across banks (Rs. 4 trillion), elevated provision coverage ratio (75.6%), and very low slippage ratio (1.2%). Second, the balance sheets of other segments of the financial system, such as NBFCs, the insurance sector, and mutual funds also remained strong. Third, a variety of stress tests indicated the resilience of banks/NBFCs/insurance sectors/mutual funds under severe adverse scenarios. Fourth, corporate sector balance sheets remained healthy, evidenced by a falling debt-to-equity ratio, strong sales growth (13.9%), resilient operating profit (15.4%) and a rising interest coverage ratio (6.5%). Fifth, the Indian economy did not show signs of macroeconomic imbalances as growth was high, inflation was low, fiscal consolidation was on track, and the external current account deficit was 0.6% of GDP. Overall, Indian financial system stress remained low, better than earlier episodes, such as the global financial crisis, the taper tantrum, the IL&FS collapse and the Covid-19 pandemic.

Despite macroeconomic buffers, global macro-financial risks were a major source of uncertainty. Emerging markets faced spillover risks from capital outflows, currency depreciation, tighter external financing conditions, higher borrowing costs, weaker global growth prospects, higher inflation expectations, and, above all, a high probability of asset price correction, especially if AI optimism fades.

Although external vulnerability indicators were sound, the Indian Rupee (INR) was under severe pressure in the last quarter of FY26 and beyond, following portfolio outflows and drying up of other capital inflows. Financial markets were highly volatile, with the 10-year G-sec yield rising above 7%. Notwithstanding RBI's interventions in the forex market, INR breached Rs. 97/$ briefly in May 2026 before fluctuating above Rs. 95/$. Keeping in view global uncertainty and its potential impact on India's balance of payments in FY27, both the RBI and the government initiated several measures to encourage capital flows in the short run and reduce large dependence on crude oil imports in the long run.

Emerging Concerns

India's inflation-growth dynamics are changing in 2026-27. Following breakdown of peace process in West Asia, inflation risk remains high with moderation of GDP growth in FY27. Adverse supply shocks from geopolitical tensions have impacted fuel and commodity prices. Weather-related risks (including possible weak monsoon conditions) could push food inflation higher. Inflation could rise to the upper end of the RBI's tolerance band under adverse scenarios.

Rising household leverage is a major concern. India's household debt-to-GDP ratio (45.5% in March 2026) was higher than that of Chile, Brazil and South Africa but lower compared to Thailand, Malaysia and China. Of the total household borrowings, the share of non-housing retail loans rose to 58.4% in March 2026, of which nearly 50% was consumption loans. A large part of the retail loans was secured by household gold, where collateral damage could be high if gold prices adjusted downward. NPAs were high relating to unsecured personal loans, particularly, credit card NPAs of PSBs were as high as 13.5% in March 2026. Moreover, households are vulnerable to an abrupt fall in equity prices as their financial savings have increased in risky assets, such as equities and mutual funds, in recent years.

Structural change in the balance sheets of SCBs has emerged as a risk factor. Traditionally, credit expansion was financed by deposit growth. During FY26, scheduled commercial banks' credit growth was 14.5%, which was higher than the deposit growth (11.5%) by 300 basis points. Consequently, the incremental credit-deposit ratio rose above 100%. Part of the credit growth was financed by reducing investment portfolios, with LCR falling from 132.5% in March 2025 to 124.2% in March 2026. This has not only created a structural liquidity problem but also an asset liability management problem. Moreover, the net interest margin (NIM) of SCBs was under pressure, which declined from 3.5% in March 2025 to 3.3% in March 2026 (2.8% for PSBs), mainly due to a fall in the share of low-cost CASA deposits and a rising share of external benchmark-based lending rates (67%).

The increasing digitisation of financial services has enhanced efficiency/customer access but simultaneously expanded the threat landscape. Banks/NBFCs surveyed by the RBI identified AI-enabled cyberattacks and technology-related risks among the most significant emerging threats facing the financial sector. With growing reliance on digital infrastructure, cloud computing, and artificial intelligence, institutions must strengthen cybersecurity frameworks, invest in technological resilience, and improve incident-response capabilities. Operational resilience is now as important as financial resilience in safeguarding systemic stability.

Challenges Ahead

Rising household indebtedness, rapid growth in gold loans, cyber threats, geopolitical uncertainty, and potential corrections in global asset markets require careful monitoring. Banks must improve efficiency through innovations and technology adoption, including AI. HR and corporate governance need improvement to cope with the challenges of new technology. Banks may expand their reliance on non-deposit resources for balance sheet expansion. The expected credit loss framework for provisioning would be effective from April 2027, which requires banks to classify loans based on PD, LGD and EAD. Customer acquisition and their retention need attention in the backdrop of their changing expectations. Risk management, which has become highly complex in the 21st century, needs to be strengthened.

Editor

RBI Amendment Directions, 2026: Matters to be placed before the Boards of the Banks

On July 14, 2026, the Reserve Bank of India (RBI) issued the Reserve Bank of India (Commercial Banks - Governance) Amendment Directions, 2026, introducing a principle-based framework for matters to be placed before bank Boards. The amendments seek to rationalise and consolidate existing Board-related requirements. They also strengthen Board oversight of risk management, related-party exposures and corporate governance standards, while enabling greater delegation of routine matters to Board Committees. The objective is to allow Boards to devote more time to strategic decision-making, risk governance and oversight functions

Key Highlights

- **Board oversight responsibilities strengthened:** The amendment elevates Board oversight as a core governance function. Boards are required to oversee the bank's risk management framework, exposures to related entities including subsidiaries, and compliance with corporate governance standards relating to Board and committee composition, functioning and review processes.

- **New framework for matters to be placed before the Board:** RBI has replaced the earlier prescriptive requirements with a principle-based framework that classifies matters requiring Board approval, review or information, and those that may be delegated to Board Committees or management. The framework consolidates Board-related requirements across multiple regulations into standardised appendices covering policy approvals, governance matters, risk oversight, key appointments and other regulatory requirements.

- **More delegation to Board Committees:** Reviews of Board-approved policies may now be undertaken by Board Committees, with the Board required to approve only material amendments. Several approval, review and reporting requirements may also be delegated to committees such as the Audit Committee, Risk Management Committee, Asset Liability Management Committee and other designated committees.

- **Boards to set out matters reserved for their consideration:** Boards are required to clearly specify matters that must be reserved for Board approval or brought before them for review or information, while also defining the reporting framework to support effective oversight.

- **Greater focus on strategy and oversight:** The framework reiterates the Board's ultimate responsibility for the bank's business strategy, financial soundness, governance structure, key personnel decisions, risk management and compliance obligations, while allowing routine matters to be handled through delegated arrangements where appropriate.

- **Regular review of governance processes:** Boards are required to periodically review both the matters placed before them and those delegated to committees. The review should also cover the timeliness and quality of agenda papers, adequacy of information provided by management and the effectiveness of Board processes.

The revised provisions will apply to both public and private sector banks through corresponding amendments to the 2025 Governance Directions. By adopting a more principle-based and streamlined approach, the amendments seek to improve Board effectiveness while maintaining robust governance and regulatory oversight.

For details, please refer to RBI Notification dated July 14, 2026: (https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=13478&Mode=0).

RBI Issues Draft 'Guidance on Regulatory Expectations for Data Governance'

The Reserve Bank of India (RBI) released the draft Guidance on Regulatory Expectations for Data Governance on July 15, 2026 for public comments. The draft aims to strengthen data governance practices across regulated entities (REs) in view of the growing importance of data in risk management, regulatory compliance, financial reporting, customer service and decision-making. The guidance draws on supervisory observations and international standards, including the Basel Committee's BCBS 239 principles.

Key Highlights

- **Data governance framework for REs:** REs would be required to implement a board-approved DGF aligned with their overall risk management framework. The framework should cover governance arrangements, data risk management, data lifecycle controls, data quality, classification, architecture, audit mechanisms and third-party arrangements, while ensuring compliance with the Digital Personal Data Protection Act, 2023 and related regulations.

- **Board-level oversight of data governance:** Regulated entities (REs) would be required to establish a Board-level Data Governance Committee, or assign the responsibility to an existing Board committee, to oversee implementation of the data governance framework, review policies and monitor material issues, breaches and governance metrics. The Board would retain overall oversight of data governance arrangements.

- **Data risk management brought into the risk framework:** The guidance requires REs to identify, assess, monitor and manage data-related risks across the data lifecycle. The framework should address risks arising from data quality, privacy, security, cross-border operations, third-party arrangements and technological infrastructure, with key risks and remediation measures reported to the Board committee.

- **Clear ownership and accountability for data:** REs would need to establish a Data Function headed by a senior officer and clearly define the responsibilities of Data Owners, Data Stewards and Data Custodians. The guidance emphasises clear accountability for data governance outcomes, ownership, quality, classification and lifecycle management.

(Continued)

- **Lifecycle-based approach to data governance:** The draft prescribes governance controls across the entire data lifecycle, from data origination and capture to processing, sharing, transformation, retention, archival and disposal. Data must be governed consistently across all stages and supported by appropriate controls, documentation and consent management processes.

- **Single Source of Truth (SSOT) and data traceability:** REs would be required to establish authoritative data sources for key data elements and ensure consistency across business, risk and compliance functions. The guidance also emphasises metadata management, data lineage and reconciliation processes to improve traceability and reliability of data.

- **Risk-based data classification and data quality management:** REs would be required to classify data based on its criticality, sensitivity and business impact, and implement appropriate controls throughout the data lifecycle. The draft also requires data quality management processes and periodic reporting of persistent data quality issues to the governance committee.

- **Governance expectations for third-party data sharing:** REs would remain responsible for data shared with third parties and would need to implement safeguards covering access controls, encryption, monitoring, audit requirements, confidentiality protections and ongoing oversight of third-party arrangements.

- **Periodic review and audit of data governance arrangements:** Data governance frameworks, policies and controls would be subject to ongoing monitoring and periodic internal and external audits, with audit observations reviewed by the Audit Committee of the Board.

The draft guidance seeks to establish a structured and consistent approach to data governance across the financial sector by strengthening accountability, data quality, risk management and oversight arrangements.

For details, please refer to RBI's Draft Guidance dated July 15, 2026 available at:
(https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=5114).

RBI Invites Public Comments on Draft '(Commercial Banks - Acquisition and Holding of Shares or Voting Rights) Amendment Directions, 2026'

On July 14, 2026, the RBI released the draft Reserve Bank of India (Commercial Banks - Acquisition and Holding of Shares or Voting Rights) Amendment Directions, 2026 for public comments. Under the existing framework, any person seeking to acquire a major shareholding in a banking company is required to obtain prior RBI approval, and fresh approval is needed if the shareholding subsequently falls below 5 per cent and later rises back to the major shareholding threshold. The draft amendments propose a one-time approval framework for subsequent acquisitions by eligible mutual funds, insurance companies and pension funds, while retaining the requirement of prior approval for an initial acquisition of major shareholding.

Key Highlights

- **One-time approval for subsequent acquisitions proposed**: RBI has proposed a framework under which certain institutional investors may obtain a one-time approval to make future acquisitions of major shareholding in the same banking company. Once granted, the approval would remain valid even if the investor's holding subsequently falls below the 5 per cent major shareholding threshold, unless revoked by RBI.

- **Proposal covers mutual funds, insurers and pension funds:** The facility is proposed to be available to SEBI-registered mutual funds, IRDAI-regulated insurance companies and PFRDA-registered pension funds that are not part of the promoter group or group of the banking company. Such entities would qualify for the one-time approval framework.

- **Acquisition permission may be granted up to 10 per cent holding:** RBI may permit qualifying persons with one-time approval to acquire up to 10 per cent of the paid-up share capital or voting rights of a banking company, subject to conditions specified in the approval.

- **Clarification on portfolio managers and indirect acquisition:** The draft clarifies that a client's acquisition will not be treated as an indirect acquisition by its portfolio manager where the client remains the registered owner of the shares, investment advice is non-binding, and voting rights are exercised only under a specific client mandate.

- **Existing monitoring requirements retained:** Banks will be required to continuously monitor qualifying persons with one-time approval in the same manner as major shareholders and applicants, including annual assessment of their fit-and-proper status and reporting of any material developments to RBI.

- **Reporting when holdings move above or below 5 per cent:** Major shareholders with one-time approval and qualifying persons with one-time approval will be required to inform RBI and the concerned bank within one day whenever their aggregate holding increases above or falls below the 5 per cent major shareholding threshold.

- **Applications through PRAVAAH:** Requests for one-time approval will be submitted through RBI's PRAVAAH portal. As under the existing approval process, RBI may seek comments from the concerned banking company before taking a decision.

The draft amendments seek to ease procedural requirements for long-term institutional investors while preserving RBI's oversight of significant shareholding in banks. By introducing a one-time approval mechanism and retaining ongoing monitoring and reporting requirements, the proposal aims to provide greater operational flexibility without diluting fit-and-proper or ownership governance standards.

For details, please refer to RBI's draft directions dated July 14, 2026, available at:
(https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=5109)

1. Major Weekly Indicators

As on week ended (2026)	01-May	08-May	15-May	22-May	29-May	5-Jun	12-Jun	19-Jun	26-Jun	03-Jul	10-Jul	17-Jul	24-Jul
Liquidity (Injection (+)/ Absorption (-)) (₹ trillion)	-2.10	-2.34	-2.57	-0.96	-1.14	-1.95	-1.76	-1.35	-1.24	-1.79	-1.24	-0.81	-1.79
Weighted Average Call Money Rate (%)	5.16	5.17	5.24	5.25	5.38	5.28	5.28	5.34	5.36	5.31	5.29	5.30	5.28
91-Day Treasury Bill (Primary) Yield (%)	5.26	5.29	5.34	5.52	5.56	5.56	5.30	5.26	5.25	5.25	5.30	5.33	5.35
182-Day Treasury Bill (Primary) Yield	5.50	5.50	5.53	5.75	5.73	..	5.55	5.50	5.45	5.47	5.49	5.57	5.61
364-Day Treasury Bill (Primary) Yield	5.65	5.69	5.77	5.98	6.03	..	5.91	5.79	5.64	5.66	5.66	5.72	5.77
10-Year G-Sec Par Yield (FBIL) (%)	7.08	6.95	7.02	7.06	6.99	6.98	6.91	6.87	6.79	6.72	6.72	6.78	6.84
INR-US$ Spot Rate	95.24	94.44	95.93	95.96	95.38	95.40	95.38	94.47	94.48	95.24	95.31	96.37	96.54
Forex Reserve (USD Billion)	690.69	696.99	688.89	681.38	682.32	681.61	671.63	672.59	666.93	674.19	675.16	676.24	682.35
Brent Crude Spot Price (USD/Barrel)	118.26	103.48	113.96	106.90	92.88	97.29	88.64	80.46	70.16	68.68	74.34	85.01	100.31
10-Year US Treasury Yield to Maturity (%)	4.39	4.39	4.59	4.56	4.45	4.55	4.48	..	4.38	..	4.56	4.55	4.69
Gold Spot Price (₹/10 gram) (in Lakhs)	1.52	1.53	1.59	1.59	1.57	1.55	1.51	1.47	1.44	1.48	1.44	1.42	1.43

Source: Reserve Bank of India, U. S. Energy Information Administration, Federal Reserve Board, Bullions.co.in.

2. Select Monthly Indicators

Monthly	Jun '25	Jul '25	Aug '25	Sep '25	Oct '25	Nov '25	Dec '25	Jan '26	Feb '26	Mar '26	Apr '26	May '26	Jun '26
Reserve Money (₹ Trillion)	49.24	48.88	49.15	48.59	48.34	48.14	47.99	49.23	49.89	51.20	52.25	52.73	52.56
Broad Money (₹ Trillion)	282.30	281.40	283.09	283.50	289.98	291.36	298.01	299.04	302.98	314.66	311.59	313.62	318.88
Consumer Price Index Inflation (Y-o-Y % Change)	2.31	1.62	2.01	1.41	0.04	0.49	1.17	2.74	3.21	3.40	3.48	3.93	4.38
Index of Industrial Production (Y-o-Y % Change)	3.00	5.00	3.60	5.50	0.00	6.50	5.80	4.50	5.30	3.20	4.90	5.10	7.30
Gross GST Collection (₹ Trillion)	1.71	1.96	1.86	1.89	1.96	1.70	1.75	1.93	1.84	2.00	2.43	1.94	1.94
Overall Trade Balance (Goods +Services) (USD Billion)	-2.57	-10.90	-10.89	-13.32	-24.24	-7.14	-2.36	-13.14	-9.27	0.32	-9.30	-12.18	-12.54
Weighted Average Term Deposit Rate of SCBs (%) - Monthly average													
Fresh Term Deposits	5.75	5.61	5.56	5.60	5.57	5.59	5.67	5.66	5.65	6.07	5.79	5.83	5.99
Outstanding Term Deposits	7.00	6.92	6.87	6.82	6.78	6.73	6.68	6.64	6.62	6.62	6.59	6.57	6.58
Weighted Average Lending Rate of SCBs (%) - Monthly average													
Fresh Loans	8.62	8.81	8.74	8.50	8.64	8.71	8.28	8.49	8.44	8.40	8.50	8.51	8.53
Outstanding Loans	9.44	9.38	9.32	9.26	9.24	9.2	9.06	9.04	9.00	8.99	8.98	8.97	8.96

Source: Ministry of Statistics and Programme Implementation, Ministry of Commerce & Industry, Reserve Bank of India, Central Board of Direct Taxes.
Note : Reserve Money and Broad Money data are outstanding as of the last Friday of each month,
CPI numbers are based on Base year ~2023-24, IIP numbers are based on Base year ~2022-23

3. Major Parameters of AU Small Finance Bank (as on 30th June 2026)

1.25 Cr.+ — *Total Customers*

58,000 + — *Employees*

2,920 — *Total Touchpoints*

25 — *21 States + 4 UTs*

Rs. 1,97,125 Cr — *Balance Sheet*

Rs. 1,57,727 Cr — *Total Deposits*

Rs. 1,44,250 Cr — *Total Loans*

Rs. 20,520 Cr — *Net Worth*

For detailed data, go to our website www.au.bank.in

Published by Economic Research Department, AU Small Finance Bank
Phone: 022 6249 0816 |erd@aubank.in