Macro & Matrices

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Central Bank Sovereignty in a Digital Era: Indian Experience

Central banks, together with other regulators, exercise sovereign powers over the financial system to achieve mainly three objectives: financial stability, price stability and external stability. Traditionally, central-bank sovereignty has been typically associated with the exclusive authority to issue legal tender, conduct monetary policy, manage liquidity, act as lender of last resort and oversee the payment and settlement system. In the digital era, money is increasingly held and transferred electronically; payment platforms increasingly mediate economic transactions; private technology companies participate extensively in financial intermediation; and new forms of digital money - Stablecoins, Central Bank Digital Currencies (CBDCs) - are being used for money to move across jurisdictions almost instantaneously. Do central banks lose sovereignty due to digitalisation/financial innovations?

India's Digital Revolution: A Success Story

India has made remarkable progress in digitalisation, particularly in the payments and settlement space. Unified Payments Interface (UPI), operated by the National Payments Corporation of India (NPCI) in the retail payments space, is notable among other digital innovations in the BFSI sector. This has created a highly efficient domestic digital payment infrastructure without weakening central bank sovereignty. India's UPI-based retail transactions exceeded 24 billion in August 2026 (value: nearly Rs.30 trillion) and are approaching 30 billion (one billion per day) - the highest in the world in volume terms. India has positioned itself as a global leader in digital payments. Many countries are emulating the UPI's success story, which grew in an orderly manner under RBI's prudent oversight.

The RBI launched its wholesale CBDC pilot in November 2022 and its retail CBDC pilot in December 2022. The retail pilot has subsequently been expanded, enabling interoperability with UPI. Currently, programmability use cases are being explored for domestic transactions like direct benefit transfers, interest subvention scheme, etc. With the introduction of the digital rupee (e₹) on a pilot basis, the central bank's physical money is now transformed into a digital form. Both UPI and e₹ are digital innovations. The RBI explicitly distinguishes between UPI and e₹, describing e₹ as a digital form of cash and UPI as a means of payment. They co-exist and complement each other in the payment space. Has digitalisation diminished RBI's sovereignty?

The Indian model has several sovereignty-enhancing characteristics: the rupee remains the unit of account; banks/payment system infrastructure remain regulated intermediaries; the payment systems operate under Indian law; settlement ultimately occurs within the regulated financial system; the RBI retains responsibility for monetary policy and financial stability. The infrastructure can be connected to foreign payment systems without surrendering RBI's sovereignty. India demonstrated that payment innovations could strengthen sovereignty rather than weaken it.

Cross-Border Transactions

Cross-border payments remain considerably more complex than domestic payments. They often involve correspondent banks, multiple intermediaries, different operating hours, foreign-exchange conversion, compliance checks and different legal systems. The existing cross-border payment system is expensive, slow, fragmented, and vulnerable to geopolitical threats under special circumstances like sanctions.

A bigger sovereignty challenge arises from cross-border private digital money, including stablecoins and crypto assets. Blockchain-based decentralised finance, like private crypt assets, has emerged as an alternative for cross-border transactions. Unfortunately, crypto assets remain unregulated and try to bypass the banking system, leading to a significant loss of central bank sovereignty. Even stablecoins, which belong to the crypto family with a difference (having an underlying asset), are unlikely to ensure central bank sovereignty as they compete with domestic currency, interfere with monetary transmission, and disintermediate deposits with commercial banks. No central bank has used foreign stablecoins as underlying assets for the issuance of domestic currency.

The BIS, IMF and World Bank have argued that CBDCs could enhance cross-border payments if countries cooperate and ensure interoperability. The G20 has prioritised faster, cheaper, transparent, and more inclusive cross-border payments and set targets to achieve this by the end of 2027. The Committee on Payments and Market Infrastructure (CPMI), hosted by the BIS, leads the implementation of 11 of the 19 building blocks under the overall G20 programme. In addition to 28 central banks as Members of CPMI, the BIS, FSB, IMF & IIF are involved in the orderly development of CBDCs, which can provide an alternate architecture that preserves central bank sovereignty.

The BIS Project mBridge is a prominent example of international experiments involving multi-CBDC cross-border transactions with central bank sovereignty. It developed a shared multi-CBDC platform involving the central banks and monetary authorities of China, Hong Kong, Thailand, and the UAE. The platform reached the minimum viable product stage in 2024 and was designed to facilitate real-time cross-border payments and foreign-exchange transactions using CBDCs.

India's Future-Ready Payments System

The digital era does not necessarily represent a threat to central-bank sovereignty. It represents a transition from sovereignty over physical money and conventional payment infrastructure to sovereignty over digital money, data, technology standards, and settlement architecture. India is relatively well positioned for this transition because it has developed two critical public infrastructures: the UPI ecosystem and the RBI's CBDC architecture.

Like many other countries, India's cross-border agenda has been to preserve and potentially strengthen monetary sovereignty while allowing money and payment systems to become increasingly digital, interoperable and international. The UPI is now live in over eight countries, including the UAE, Singapore, Bhutan, Nepal, Sri Lanka, France, Mauritius and Qatar. The Government of India has signed Memoranda of Understanding with 23 countries for sharing digital payment infrastructure that promotes orderly cross-border transactions. The mechanism has been to make local payment systems interoperable between two countries for cross-border transactions. The model can be modified as a multilateral arrangement under the BIS-developed Project Nexus.

India's payments system is future-ready for integration into an agreed global architecture for cross-border transactions under the G20 initiative. Indian CBDC can be connected to another country's CBDC through bilateral interoperability, a multilateral platform, or through a common settlement infrastructure involving tokenised central-bank money.

Editor

RBI Invites Comments on Draft Know Your Customer (KYC) Amendment Directions, 2026

On September 11, 2026, the Reserve Bank of India (RBI) released the draft Reserve Bank of India (Know Your Customer) Amendment Directions, 2026 for public consultation. The proposed amendments seek to revise the existing provisions on 'Operations of Bank Accounts and Money Mules' under the KYC Directions, 2025 by introducing a Standard Operating Procedure (SOP) for dealing with suspected money mule accounts and cyber-enabled financial frauds. The proposal follows the Hon'ble Supreme Court's order dated August 4, 2026, directing RBI to adopt and circulate a uniform SOP governing temporary debit holds on amounts or accounts linked to money mule activity. A consolidated draft has been issued for all Commercial Banks and Urban Cooperative Banks, with separate final directions to be released after the consultation process.

Key Highlights

- Standard SOP proposed for suspected money mule accounts: The draft directions propose insertion of a new Annex III to the KYC Directions, 2025, prescribing a Standard Operating Procedure for identifying suspected money mule transactions and accounts and for taking subsequent action in cases involving cyber-enabled financial fraud. Banks will continue to be governed by existing KYC and anti-money laundering obligations, including suspicious transaction reporting requirements.

- Temporary debit holds mandated upon identification of suspected transactions and accounts: Banks will be required to place an immediate temporary debit hold upon identifying a suspected money mule transaction or account through transaction-monitoring systems or internal controls. The debit hold may apply either to the suspected amount or, where the account itself is suspected to be a money mule account, to the entire account. A suspected money mule transaction has been defined as a transaction of ₹1,000 and above flagged as potentially linked to cyber-enabled financial fraud. Banks required to notify account holders of debit hold actions: Banks will be required to promptly notify the account holder regarding the temporary debit hold, the reasons for such action, the process for seeking its removal and the contact details of the concerned officer. Notification must generally be provided immediately through digital channels or by the end of the next day where physical communication is used.

- Time-bound framework prescribed for review and removal of debit holds: Account holders shall be provided 20 days from the date of the temporary debit hold to furnish an explanation or justification. Banks shall examine the explanation received, or undertake due diligence where no explanation is submitted, and decide whether to remove the hold, continue the restriction and report the matter to the Jurisdictional Police Authority, or comply with directions issued by a law-enforcement agency or competent authority.

- Coordination with law-enforcement agencies formalised: Where suspicion persists, banks will be required to report the matter through the NCRP-CFCFRMS platform to the Jurisdictional Police Authority and act on any instructions subsequently received from law-enforcement agencies or competent authorities. The SOP also lays down timelines for both reporting and subsequent action.

- Outer limit specified for continuation of temporary debit holds: In the absence of any contrary instruction from a law-enforcement agency or competent authority, temporary debit holds may remain in force for a maximum period of 60 days, comprising the period allowed for customer response, bank review and law-enforcement coordination.

- Internal policy framework required to be put in place by banks: Banks shall formulate internal policies covering technology-based identification of suspected money mule activity, criteria for placement and removal of debit holds, modes of communication with customers, linkage with NCRP-CFCFRMS and grievance redressal arrangements. Account-level debit holds are to be applied only as a last resort and in exceptional circumstances.

- Record-keeping, monitoring and grievance redressal framework prescribed: Banks will be required to maintain a centralised MIS containing details of debit holds, customer communications, reporting to law-enforcement agencies and actions taken. Records must be retained for prescribed periods, enhanced monitoring of affected customer relationships is required, and banks must designate nodal officers to handle complaints under the framework and resolve grievances within 30 days.

- The proposed directions are scheduled to come into effect from April 1, 2027, or earlier if a bank chooses to implement the SOP before then. RBI has invited comments and feedback from regulated entities and other stakeholders until October 2, 2026.

For details, please see the RBI's Press Release dated Sept. 11, 2026, https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR110975FCF246F5BC47ACB3EA34B0CB6A5303.PDF

SEBI Launches 'Demat 2.0' Pilot for Tokenised Corporate Bonds

On September 10, 2026, the Securities and Exchange Board of India (SEBI) announced the successful launch of 'Demat 2.0', a pilot project for the issuance of tokenised corporate bonds. The announcement was made jointly by Shri Sanjay Malhotra, Governor, Reserve Bank of India (RBI), and Shri Tuhin Kanta Pandey, Chairman, SEBI, at the Global Fintech Fest in Mumbai. The pilot aims to test a new market infrastructure for issuing, holding, trading and settling corporate bonds using Distributed Ledger Technology (DLT) and central bank digital currency (CBDC).

Key Highlights

- Pilot launched for issuance of tokenised corporate bonds: Under Demat 2.0, corporate bonds are issued as digital tokens on a distributed ledger maintained by market infrastructure institutions. The ownership record is held by depositories on a shared ledger rather than through conventional issuance and settlement processes.

- Integration with RBI's wholesale CBDC enables atomic settlement: The platform is connected to RBI's wholesale central bank digital currency (e₹) through the Unified Market Interface (UMI). This enables atomic settlement, whereby the transfer of bonds and funds occurs simultaneously, eliminating settlement risk.

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- **Smart contract-based servicing enabled for bond payments and redemption:** Interest payments and redemption proceeds can be executed automatically through smart contracts embedded in the distributed ledger. The framework is expected to reduce reliance on manual processes involved in identifying bondholders, calculating dues and routing payments through multiple intermediaries.

- **Same-day issuance and instantaneous settlement facilitated under the pilot:** The pilot is expected to enable issuers to receive funds on the same day as bidding, compared with the typical settlement period of two to three days. Similarly, investors in the secondary market are expected to receive sale proceeds immediately upon settlement.

- **Operational efficiencies expected for issuers and intermediaries:** The new framework is expected to reduce issuance and servicing costs through automation of processes and minimise file sharing, reconciliation and validation requirements across market participants.

- **India becomes first jurisdiction to combine tokenised bonds with statutory depositories and CBDC settlement:** According to SEBI, India is the first country where corporate bonds have been issued natively on a distributed ledger, with ownership records maintained by statutory depositories and settlement completed using central bank digital currency within the existing regulated market infrastructure.

- **Pilot issuances have commenced under Phase I:** Three issuers have raised an aggregate of ₹1,025 crore through tokenised bonds under the pilot. These include REC Limited (₹500 crore), L&T Limited (₹500 crore) and IIFL (₹25 crore).

- **Subsequent phases to extend trading and investor access:** Future phases of the pilot are proposed to facilitate trading of tokenised bonds through existing RFQ platforms and extend participation to retail investors. The experience from the pilot will guide any broader rollout of the framework.

- **Existing investor protection framework remains unchanged:** The press release clarifies that while the technology used to record ownership and service bonds is changing, the legal nature of the instrument and investors' rights remain unchanged. Existing requirements relating to credit ratings, debenture trustees, listing and disclosures will continue to apply.

For details, please see the RBI notification dated Aug. 12, 2026: (https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=5143)

RBI Invites Public Comments on Draft Directions on Credit Valuation Adjustment (CVA) Framework

Credit Valuation Adjustment (CVA) reflects the adjustment to the default risk-free prices of derivatives to account for potential counterparty default. CVA risk refers to losses resulting from changes in CVA values, driven by shifts in counterparty credit spreads and market risk factors. The CVA capital charge ensures banks to hold sufficient capital to cover these risks. The extant CVA framework was issued by the Reserve Bank in 2011, which was based on the Basel Committee on Banking Supervision (BCBS) standards issued in 2010. The BCBS has, since, issued revised CVA guidelines under the final Basel III framework. Accordingly, it has been decided to issue revised instructions on CVA framework permitting banks in India to adopt the basic approach (BA-CVA).

The Reserve Bank of India (RBI) released the draft Reserve Bank of India (Commercial Banks - Credit Valuation Adjustment Framework) Directions, 2026 on August 7, 2026, and invited public comments. The proposed framework seeks to align India's CVA capital regime with the revised Basel III standards and replace the existing framework issued in 2011. The directions introduce a more risk-sensitive approach for measuring credit valuation adjustment risk arising from derivative exposures and provide banks with alternative approaches depending on the size and complexity of their derivatives portfolios

Key Highlights

- **Basic Approach (BA-CVA) introduced as the primary methodology:** Banks will be required to calculate CVA capital requirements using the Basic Approach for CVA (BA-CVA). Banks may choose between a full version and a simplified reduced version depending on whether they actively hedge CVA risk. The full BA-CVA recognises eligible credit spread hedges, while the reduced version does not.

- **Alternative capital treatment for banks with smaller derivatives portfolios:** Banks with aggregate notional amounts of non-centrally cleared derivatives of up to ₹10 lakh crore may opt for an alternative treatment under which the CVA capital requirement is set at 100 per cent of the counterparty credit risk (CCR) capital requirement. Such banks will not be permitted to recognise CVA hedges under this approach.

- **Choice between full and reduced BA-CVA approaches:** The draft directions prescribe sector-specific risk weights for counterparties, with separate calibrations for investment-grade and high-yield/unrated exposures. Risk weights range from 0.5 per cent for investment-grade sovereigns and central banks to 12.0 per cent for high-yield or unrated financial and other sector counterparties and are used in computing stand-alone CVA capital requirements.

- **Framework specifies eligibility and treatment of CVA hedges:** Banks adopting the full BA-CVA may recognise single-name CDS and index CDS used for hedging counterparty credit spread risk. Single-name CDS receive varying levels of capital recognition based on their relationship with the underlying counterparty, with higher recognition accorded to direct hedges and lower recognition to legally related or sector-region based indirect hedges.

- **Counterparty-specific supervisory risk weights introduced:** The full BA-CVA framework recognises eligible single-name and index CDS hedges and incorporates supervisory correlations and hedging misalignment adjustments to reflect the effectiveness of indirect hedges. The framework separately captures systematic and idiosyncratic components of CVA risk in the capital calculation.

- **Pillar 3 disclosure requirements prescribed for CVA risk:** Banks will be required to make annual qualitative disclosures covering their CVA risk management framework, including processes for identifying, monitoring and hedging CVA risk, and whether they have opted for the alternative CVA treatment. They will also be required to furnish semi-annual quantitative disclosures on CVA risk-weighted assets and capital requirements through prescribed standardised templates for the reduced and full BA-CVA approaches.

The draft direction applies to commercial banks but excludes Small Finance Banks, Payments Banks, and Local Area Banks. The directions are proposed to come into effect from April 1, 2027. Comments from regulated entities, market participants and other stakeholders were invited by August 28, 2026. The proposed framework seeks to strengthen the measurement and capitalisation of counterparty credit risk in derivatives activities while providing proportionate compliance options for banks with less complex exposures.

For details, please see the RBI Press Release dated August 7, 2026, https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR8360497664805FD4C3C9605FE4788AE5EFA.PDF.

1. Major Weekly Indicators

As on week ended (2026)	03-Jul	10-Jul	17-Jul	24-Jul	31-Jul	07-Aug	14-Aug	21-Aug	28-Aug	04-Sep	11-Sep	18-Sep	25-Sep
Liquidity (Injection (+)/ Absorption (-)) (₹ trillion)	-1.79	-1.24	-0.81	-1.79	-2.46	-2.30	-3.12	-2.51	-4.02	-8.31	-6.82	-3.81	-3.12
Weighted Average Call Money Rate (%)	5.31	5.29	5.30	5.28	5.30	5.09	5.15	5.16	5.20	5.07	4.97	5.05	5.19
91-Day Treasury Bill (Primary) Yield (%)	5.25	5.30	5.33	5.35	5.34	5.28	5.26	5.26	5.26	5.26	5.21	5.28	5.39
182-Day Treasury Bill (Primary) Yield	5.47	5.49	5.57	5.61	5.60	5.55	5.54	5.57	5.62	5.66	5.62	5.75	5.82
364-Day Treasury Bill (Primary) Yield	5.66	5.66	5.72	5.77	5.74	5.70	5.71	5.74	5.80	5.91	5.91	6.04	6.09
10-Year G-Sec Par Yield (FBIL) (%)	6.72	6.72	6.78	6.84	6.84	6.79	6.77	6.89	6.92	6.98	7.05	7.08	7.14
INR-US$ Spot Rate	95.24	95.31	96.37	96.54	95.37	95.21	95.43	95.75	95.56	94.49	95.72	95.79	95.89
Forex Reserve (USD Billion)	674.19	675.16	676.24	682.35	692.87	707.00	716.91	729.33	740.80	785.71	780.78	765.90	747.56
Brent Crude Spot Price (USD/Barrel)	68.68	74.34	85.01	100.31	96.95	87.62	92.02	96.92	89.75	102.24	118.06	119.66	116.01
10-Year US Treasury Yield to Maturity (%)	..	4.56	4.55	4.69	4.75	4.65	4.68	4.74	4.73	4.78	4.96	5.01	5.17
Gold Spot Price (₹/10 gram) (in Lakhs)	1.48	1.44	1.42	1.43	1.44	1.52	1.55	1.62	1.57	1.53	1.53	1.55	1.52

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

2. Select Monthly Indicators

Monthly	Aug '25	Sep '25	Oct '25	Nov '25	Dec '25	Jan '26	Feb '26	Mar '26	Apr '26	May '26	Jun '26	Jul '26	Aug '26
Reserve Money (₹ Trillion)	49.15	48.59	48.34	48.14	47.99	49.23	49.89	51.20	52.25	52.73	52.56	52.70	52.77
Broad Money (₹ Trillion)	283.09	283.50	289.98	291.36	298.01	299.04	302.98	314.66	311.59	313.62	318.88	322.81	332.22
Consumer Price Index Inflation (Y-o-Y % Change)	2.01	1.41	0.04	0.49	1.17	2.74	3.21	3.40	3.48	3.93	4.38	4.45	4.82
Index of Industrial Production (Y-o-Y % Change)	4.67	6.1	-0.89	7	6.74	4.15	4.43	3.02	4.88	4.97	8.81	7.35	7.97
Gross GST Collection (₹ Trillion)	1.74	1.89	1.96	1.70	1.75	1.93	1.84	2.00	2.43	1.94	1.94	2.11	2.00
Overall Trade Balance (Goods +Services) (USD Billion)	-11.62	-13.32	-24.24	-7.14	-2.36	-13.14	-9.27	0.32	-9.80	-12.50	-12.30	-14.10	-10.32
Weighted Average Term Deposit Rate of SCBs (%) – Monthly average													
Fresh Term Deposits	5.56	5.60	5.57	5.59	5.67	5.66	5.65	6.07	5.79	5.83	5.99	5.85	5.67
Outstanding Term Deposits	6.87	6.82	6.78	6.73	6.68	6.64	6.62	6.62	6.59	6.57	6.58	6.58	6.56
Weighted Average Lending Rate of SCBs (%) - Monthly average													
Fresh Loans	8.74	8.50	8.64	8.71	8.28	8.49	8.44	8.40	8.50	8.51	8.53	8.52	8.61
Outstanding Loans	9.32	9.26	9.24	9.2	9.06	9.04	9.00	8.99	8.98	8.97	8.96	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)



Total Customers



Employees



Total Touchpoints



21 States + 4 UTs



Balance Sheet



Total Deposits



Total Loans



Net Worth

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