September 2026

Macro & Matrices

Editor: Dr. B. K. Bhoi

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Implications of the Recent US Additional Tariff on Indian Exports

On April 5, 2025, the Trump administration imposed a minimum reciprocal tariff of 10% on countries having an adverse trade balance with the US under the International Emergency Economic Powers Act, 1977. The reciprocal tariff on India settled around 25%. On August 27, 2025, the US administration imposed an additional 25% tariff on India for importing crude oil from Russia, bringing the total tariff to 50%. The effective tariff on Indian exports was below 50%, as several items, such as smartphones, generic drugs, auto parts, etc., which the US needed, were tariff-exempted.

The reciprocal tariff was invalidated by the US Supreme Court on February 20, 2026. Immediately, the US administration, by invoking Section 122 of the Trade Act, 1974, imposed a temporary surcharge on imports up to 15% *ad valorem*, which was valid for 150 days and expired on July 24, 2026. Thereafter, the United States imposed an additional 10% tariff on several merchandise imports from India, effective July 24, 2026, under Section 301 of the Trade Act of 1974, in addition to the existing Most-Favoured-Nation (MFN) tariff. This was based on an investigation conducted by the US Trade Representative, which found that 60 countries, including India, have been exporting manufactured products to the US by using forced labour. India has long abolished forced/bonded labour, although there might be enforcement gaps in the informal sector. We examine here the economic implications and the legal risks associated with the present tariff framework, as well as the strategic considerations relevant to India's negotiating approach.

Economic Implications

The Section 301 tariff is expected to reduce the price competitiveness of Indian exports in the US market due to an increase in the landed cost. Export-oriented sectors such as textiles and garments, engineering goods, leather products, gems and jewellery, chemicals and select agricultural products are likely to be the most affected, given their relatively thin operating margins and high degree of price sensitivity. Indian exporters, particularly MSMEs, may have to absorb part of the additional tariff to retain their market share. Labour-intensive industries may also experience some decline in export orders.

Under Section 301, India has been placed in the lower 10% tariff category, while several other countries, such as Vietnam, Thailand, China, Turkiye, Singapore, Brazil, South Africa, Australia, New Zealand, Saudi Arabia and the UAE, are subjected to a higher tariff of 12.5%. Nevertheless, it is less favourable compared to many developed countries, such as the European Union and Taiwan, where the combined customs duty (Section 301 plus MFN tariff) does not exceed 10%.

India's growth continues to be driven predominantly by domestic demand. Services exports remain unaffected by merchandise tariffs. Moreover, India's ongoing diversification of export markets and expanding free trade agreements (FTAs) provide significant cushion against country-specific trade disruptions. At the macroeconomic level, the overall impact is expected to remain manageable.

Legal Uncertainty

Section 301 was enacted to address specific unfair trade practices like forced labour and structural excess capacity that adversely affect the US commerce. Traditionally, remedies under Section 301 have been expected to be applied consistently across similarly situated countries. The current implementation appears to depart from this principle, as countries adversely affected under the same Section 301 are now subjected to different tariff treatment depending upon whether they have concluded recent trade agreements with the United States. Moreover, India is included in the investigation into structural excess capacity, which the US may potentially use to impose additional tariffs on imports from India. India's generic drug exports to the US, exempted so far, may face a minimum 100% tariff from August 1, 2028.

The US judiciary may examine whether the executive has exercised Section 301 in a manner consistent with its statutory purpose. While US courts have historically shown considerable deference to the executive in trade matters, the possibility of judicial scrutiny introduces uncertainty regarding the durability of the current tariff framework.

Following the signing of the Indo-US trade framework on February 6, 2026, the US administration, on February 7, 2026, lifted the 25% additional tariff on India for importing crude oil from Russia. However, complications have arisen following the US Senate's passage of the Lindsey O. Graham Act on August 7, 2026, authorising the US Administration to impose up to 100% tariff on countries importing Russian crude oil. It appears as if the US is leveraging tariff proposals to conclude an interim Indo-US bilateral trade agreement (BTA) at the earliest.

Strategy for Negotiations

The US tariff policy, particularly since early 2025, has emerged as a major source of uncertainty, destabilising global trade in a fragmented world. The prevailing uncertainty has important implications for India's negotiating strategy. A comprehensive trade agreement generally involves long-term commitments covering tariffs, services, digital trade, investment, intellectual property, government procurement and regulatory disciplines. These commitments are typically permanent, whereas the present tariff measures could be modified through judicial decisions or future executive orders. Hence, India faces the risk of exchanging permanent policy concessions for tariff relief that may itself prove temporary or subject to legal challenge. The commercial value of concessions negotiated today could change materially if the underlying tariff framework is subsequently altered.

The US remains India's largest export destination and an important strategic partner. A well-designed bilateral agreement would provide greater policy certainty, strengthen supply chain integration, facilitate investment and deepen long-term economic cooperation. Given the prevailing uncertainties, a calibrated negotiating strategy appears appropriate. India may continue negotiations across all chapters while avoiding undue urgency in concluding the BTA. Final commitments in sensitive areas such as agriculture, dairy, digital trade, government procurement and intellectual property may be deferred until greater clarity emerges regarding the future of the US tariff framework. A measured approach would preserve India's negotiating leverage while enabling both countries to conclude a more durable and mutually beneficial agreement once the legal and policy environment becomes clearer.

Editor

RBI (Commercial Banks - Interest Rate on Deposits) Second Amendment Directions, 2026

On July 30, 2026, the Reserve Bank of India (RBI) issued the Reserve Bank of India (Commercial Banks - Interest Rate on Deposits) Second Amendment Directions, 2026. The amendments revise provisions relating to the disclosure of deposit interest rates. They also provide banks greater flexibility in pricing bulk deposits by allowing them to consider Liquidity Coverage Ratio (LCR) run-off rates.

Key Highlights

- **Disclosure requirements for bulk deposit rates strengthened:** RBI has mandated that interest rates payable on all deposits, including bulk deposits, must be strictly in accordance with the interest rate schedule disclosed in advance on the bank's website. In addition, banks must disclose bulk deposit interest rates on their websites by 10:00 a.m. on each business day, with a grace period of up to 10 minutes, i.e., by 10:10 a.m. at the latest.

- **Uniform treatment of deposits clarified:** RBI has clarified that interest rates offered on deposits, including bulk deposits, must be uniform across all branches and customers. Banks shall not discriminate between deposits of similar amount accepted on the same date at different branches or customers.

- **Differential pricing of domestic rupee bulk deposits linked to LCR run-off rates:** RBI has inserted a new provision under Domestic Rupee Deposits allowing banks to offer differential interest rates on bulk deposits based on the differential run-off rates applicable to deposits or unsecured wholesale funding under the Liquidity Coverage Ratio framework prescribed in the RBI's Asset Liability Management Directions, 2025.

- **Similar flexibility extended to non-resident rupee bulk deposits:** A corresponding provision has been introduced under Rupee Deposits of Non-Residents (NRE/NRO deposits). Banks may offer differential interest rates on bulk deposits by considering the differential run-off rates applicable under the Liquidity Coverage Ratio framework.

The amendments provide greater flexibility to banks in pricing bulk deposits in line with their liquidity risk characteristics while enhancing transparency through daily disclosure of bulk deposit interest rates.

For details, please see the RBI notification dated July 30, 2026: (https://rbi.org.in/scripts/NotificationUser.aspx?Id=13656&Mode=0)

RBI (Commercial Banks - Prudential Norms on Capital Adequacy) Seventh Amendment Directions, 2026

RBI issued the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Seventh Amendment Directions, 2026 on July 30, 2026. The amendment overhauls the existing Pillar 3 disclosure framework under the capital adequacy regulations.

Pillar 3 disclosures are public disclosures made by banks to improve market discipline by providing stakeholders with information on a bank's capital position, risk profile, liquidity and risk management practices.

The revised framework aligns the Indian disclosure regime more closely with global Basel standards and seeks to enhance transparency, comparability and consistency in regulatory disclosures.

Key Highlights

- **Pillar 3 framework comprehensively revised:** RBI has replaced the existing Annex III with a new Basel-aligned Pillar 3 disclosure framework. The revised framework introduces a standardised set of disclosure templates and tables covering key prudential metrics, risk-weighted assets (RWA), composition of capital, credit risk, securitisation, liquidity, interest rate risk, macroprudential measures, remuneration and asset encumbrance disclosures.

- **Application and scope of disclosures clarified:** Pillar 3 disclosures will apply at the top consolidated level of the banking group. Banks that are not the top consolidated entity must continue making disclosures on a standalone basis. The framework applies to all banks, including those that are unlisted or not required to publish financial statements.

- **Governance and assurance requirements strengthened:** Banks must establish a Board-approved Pillar 3 disclosure policy covering internal controls and disclosure processes. Pillar 3 information must be subject to the same level of internal review and control as financial reporting. Senior officers are required to formally attest that disclosures have been prepared in accordance with Board-approved processes.

- **New disclosure principles introduced:** RBI has prescribed five guiding principles requiring disclosures to be clear, comprehensive, meaningful, consistent over time and comparable across banks. The framework also allows limited non-disclosure of proprietary or confidential information in exceptional circumstances, subject to appropriate explanation.

- **Disclosure timelines standardised:** RBI has specified timelines for publication of Pillar 3 disclosures. Until March 2029, banks may publish these disclosures within seven working days of releasing their financial statements. Thereafter, Pillar 3 disclosures must be published simultaneously with the corresponding financial statements.

- **Dedicated disclosure section on bank websites mandated:** Banks must maintain a dedicated "Regulatory Disclosure Section" on their websites and preserve historical disclosure reports for a minimum period of five year.

- **Expanded disclosures on capital, risk and liquidity metrices:** Banks will be required to provide detailed disclosures on Common Equity Tier 1 (CET1), Tier 1 and Total Capital, leverage ratio, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), risk-weighted assets, securitisation exposures, interest rate risk in the banking book and macroprudential supervisory measures.

(Continued)

- **Credit risk disclosure templates revised:** The amendment replaces earlier disclosure requirements relating to credit risk and credit risk mitigation with revised Basel-aligned templates, including Credit Risk Disclosures (CRD), Overview of Credit Risk Mitigation Techniques (CR3), Standardised Approach to Credit Risk Exposures and Credit Risk Mitigation Effects (CR4), and Standardised Approach Exposures by Asset Classes and Risk Weights (CR5).

- **Timeline specified:** The revised framework will come into effect from April 1, 2027. Quarterly disclosures will commence from the quarter ending June 30, 2027, semi-annual disclosures from the half-year ending September 30, 2027, and annual disclosures from the financial year ending March 31, 2028.

The amendment significantly expands and standardises regulatory disclosures by banks. It is expected to strengthen market discipline by enhancing transparency and comparability of disclosures. The revised framework will also provide investors, analysts and depositors with more granular information on banks' capital strength, liquidity position and overall risk profile.

For details, please see the RBI notification dated July 30, 2026: (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=13646&Mode=0)

Reserve Bank of India (Interest Rates on Loans and Advances) Directions, 2026

On August 12, 2026, the Reserve Bank of India (RBI) released the Draft RBI (Interest Rates on Loans and Advances) Directions, 2026 for public consultation. The draft seeks to create a harmonised, principles-based framework for determination of interest rates on loans and advances across all regulated entities (REs), including banks, NBFCs, co-operative banks, regional rural banks and all-India financial institutions. The proposed directions aim to strengthen monetary policy transmission, improve transparency in loan pricing, address divergent practices in benchmark determination, and ensure fair treatment of borrowers. Final directions will be issued after considering stakeholder feedback.

Key Highlights

- **Board-approved interest rate policy mandated:** All REs will be required to maintain a comprehensive board-approved policy covering loan pricing methodology, benchmark selection, spread components, loan categories and delegation of pricing powers. The policy must be reviewed at least annually.

- **Standardised interest rate framework proposed across all REs:** RBI has proposed a common principles-based framework for determining interest rates on loans and advances applicable to commercial banks, NBFCs, co-operative banks, RRBs and All-India Financial Institutions. The framework covers both fixed-rate and floating-rate loans and seeks to improve transparency, consistency and monetary policy transmission.

- **Standardised interest computation and borrower protection measures:** Interest on loans is proposed to be charged at monthly rests and calculated on a daily reducing balance basis using the actual day count convention. REs must also prescribe a ceiling on the Annual Percentage Rate (APR) for microfinance and small-value loans, while total interest and other charges on short-term agricultural loans to small and marginal farmers cannot exceed the principal amount.

- **Benchmark-based pricing framework for all loans:** Both fixed-rate and floating-rate loans must be linked to an internal or external benchmark along with a risk-based spread. Regulated entities will not be permitted to price loans below the applicable benchmark.

- **Three-Month Ceiling Proposed for Rate Resets:** The benchmark for floating-rate loans must be reset at a frequency chosen by the lender but not exceeding three months. Once fixed, the reset frequency must remain unchanged throughout the loan tenor. Agricultural loans may have reset periods linked to crop cycles, subject to a maximum of 12 months.

- **Revised methodology proposed for determination of MCLR:** Commercial banks, RRBs, Tier 3 and Tier 4 UCBs, and RCBs with deposits above ₹1,000 crore will be required to calculate the Marginal Cost of Funds-based Lending Rate (MCLR) using a three-month moving average of the marginal cost of fresh deposits and borrowings. Banks will also be required to publish the benchmark on the first calendar day of every month.

- **External benchmark-linked lending framework retained for personal and MSME loans:** All floating-rate personal loans and floating-rate MSME loans extended by commercial banks must continue to be linked to an external benchmark such as the RBI Repo Rate, Treasury Bill yields, SORR or other FBIL-published benchmarks. Commercial banks may extend such loans to other borrower categories at their discretion.

- **Structured framework for loan spread calculation:** The spread over the benchmark must be determined through a board-approved policy and may comprise components such as credit risk premium, operating cost, term premium and business strategy premium. Credit risk premium may be revised only upon a change in the borrower's credit profile after a comprehensive review of change in the risk profile of the borrower, while other spread components generally cannot be revised for three years in floating-rate loans.

- **One-time migration framework proposed for existing loans:** Existing benchmark-linked loans must be migrated to the new framework by April 1, 2029. The transition must be undertaken with borrower consent, without increasing the applicable interest rate and without levying any migration charges.

- **Existing directions on interest rates on advances proposed to be consolidated:** The draft directions will replace multiple existing directions governing interest rates on advances for banks, small finance banks, local area banks, co-operative banks and certain NBFC-related provisions, creating a unified regulatory framework.

- **Timeline specified:** The draft directions are proposed to come into effect from April 1, 2027, while existing benchmark-linked loans are required to transition to the new framework by April 1, 2029. Comments on the draft may be submitted to RBI by September 11, 2026.

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

1. Major Weekly Indicators

As on week ended (2026)	05-Jun	12-Jun	19-Jun	26-Jun	03-Jul	10-Jul	17-Jul	24-Jul	31-Jul	07-Aug	14-Aug	21-Aug
Liquidity (Injection (+)/ Absorption (-)) (₹ trillion)	-1.95	-1.76	-1.35	-1.24	-1.79	-1.24	-0.81	-1.79	-2.46	-2.30	-3.12	-2.51
Weighted Average Call Money Rate (%)	5.28	5.28	5.34	5.36	5.31	5.29	5.30	5.28	5.30	5.09	5.15	5.16
91-Day Treasury Bill (Primary) Yield (%)	5.56	5.30	5.26	5.25	5.25	5.30	5.33	5.35	5.34	5.28	5.26	5.26
182-Day Treasury Bill (Primary) Yield	..	5.55	5.50	5.45	5.47	5.49	5.57	5.61	5.60	5.55	5.54	5.57
364-Day Treasury Bill (Primary) Yield	..	5.91	5.79	5.64	5.66	5.66	5.72	5.77	5.74	5.70	5.71	5.74
10-Year G-Sec Par Yield (FBIL) (%)	6.98	6.91	6.87	6.79	6.72	6.72	6.78	6.84	6.84	6.79	6.77	6.89
INR-US$ Spot Rate	95.40	95.38	94.47	94.48	95.24	95.31	96.37	96.54	95.37	95.21	95.43	95.75
Forex Reserve (USD Billion)	681.61	671.63	672.59	666.93	674.19	675.16	676.24	682.35	692.87	707.00	716.91	729.33
Brent Crude Spot Price (USD/Barrel)	97.29	88.64	80.46	70.16	68.68	74.34	85.01	100.31	96.95	87.62	92.02	96.92
10-Year US Treasury Yield to Maturity (%)	4.55	4.48	..	4.38	..	4.56	4.55	4.69	4.75	4.65	4.68	4.74
Gold Spot Price (₹/10 gram) (in Lakhs)	1.55	1.51	1.47	1.44	1.48	1.44	1.42	1.43	1.44	1.52	1.55	1.62

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

2. Select Monthly Indicators

Monthly	Jul '25	Aug '25	Sep '25	Oct '25	Nov '25	Dec '25	Jan '26	Feb '26	Mar '26	Apr '26	May '26	Jun '26	Jul '26
Reserve Money (₹ Trillion)	48.88	49.15	48.59	48.34	48.14	47.99	49.23	49.89	51.20	52.25	52.73	52.56	52.70
Broad Money (₹ Trillion)	281.40	283.09	283.50	289.98	291.36	298.01	299.04	302.98	314.66	311.59	313.62	318.88	322.81
Consumer Price Index Inflation (Y-o-Y % Change)	1.62	2.01	1.41	0.04	0.49	1.17	2.74	3.21	3.40	3.48	3.93	4.38	4.45
Index of Industrial Production (Y-o-Y % Change)	5.00	3.60	5.50	0.00	6.50	5.80	4.50	5.30	3.20	4.90	5.10	8.80	6.70
Gross GST Collection (₹ Trillion)	1.84	1.86	1.89	1.96	1.70	1.75	1.93	1.84	2.00	2.43	1.94	1.94	2.11
Overall Trade Balance (Goods +Services) (USD Billion)	-10.90	-10.89	-13.32	-24.24	-7.14	-2.36	-13.14	-9.27	0.32	-9.80	-12.50	-12.30	-14.34
Weighted Average Term Deposit Rate of SCBs (%) - Monthly average													
Fresh Term Deposits	5.61	5.56	5.60	5.57	5.59	5.67	5.66	5.65	6.07	5.79	5.83	5.99	5.90
Outstanding Term Deposits	6.92	6.87	6.82	6.78	6.73	6.68	6.64	6.62	6.62	6.59	6.57	6.58	6.58
Weighted Average Lending Rate of SCBs (%) - Monthly average													
Fresh Loans	8.81	8.74	8.50	8.64	8.71	8.28	8.49	8.44	8.40	8.50	8.51	8.53	8.52
Outstanding Loans	9.38	9.32	9.26	9.24	9.2	9.06	9.04	9.00	8.99	8.98	8.97	8.96	8.97

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

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