

Macro & Matrices

Editor: Dr. B. K. Bhoi

Preview

- Structural Transformation of India's Household Savings
- RBI Proposes Relaxations in External Commercial Borrowings
- Expected Credit Loss Provisioning: A New Beginning from April 1, 2027
- Trade Relief Measures, 2025
- Key Statistical Tables

Structural Transformation of India's Household Savings

Domestic savings play a crucial role in a country's development process. India's gross domestic savings (GDS) rate (as a percentage of gross domestic product (GDP) at current prices), which was secularly witnessing an upward trend from 16.8 percent in the 1970s to 36.9 percent in 2010-11, declined significantly thereafter to around 30 percent. This has pulled down India's gross capital formation (GCF) from a high of 39.8 percent in 2010-11 to 28.2 percent in 2020-21, before rising modestly to 31.4 percent in 2023-24.

Despite the moderation of GDS and GCF, India's growth momentum has been sustained at close to 8 percent in the post-COVID period. Improvement in factor productivity seems to have contributed to India's high rate of GDP growth. RBI's KLEMS data, available with a lag, does not show an appreciable increase in productivity at the aggregate level. Productivity growth in certain sectors might have been partly offset by declines in other sectors due to the uneven impact of structural reforms, delays in the adoption of technology, and the obsolescence of certain products and processes in a competitive world.

The share of wages in India's GDP has been falling in recent years. Average labor productivity in India is one of the lowest among peer countries. Moreover, capital is generally used inefficiently in developing countries like India, with the capital-output ratio remaining elevated. While productivity growth is a slow process, particularly in developing countries, there is a need to improve India's savings ratio to sustain a high rate of investment and growth. This has assumed renewed significance in the context of external savings supplementing India's domestic savings to a limited extent—around 1 percent of GDP - over the last decade. Hence, policymakers are rightly concerned about the recent slowdown in India's savings ratio.

The household sector has consistently been the primary contributor to gross domestic savings, accounting for around 70 percent of GDS, although its share has marginally declined to about 60 percent recently due to a modest rise in the contribution of the private corporate sector (from 40 percent to 45 percent). The public sector's share has been negative or negligible. The slowdown in India's savings ratio can be attributed primarily to structural transformation in the savings behavior of Indian households.

Underlying Reasons

Historically, India's household savings in physical and financial assets were relatively stable. In recent years, there has been a distinct shift, with physical savings—mostly in gold and real estate—gaining prominence over financial savings. This can be attributed to the erosion of financial savings following high inflation. Of the total financial savings, the net financial savings of Indian households declined noticeably from a recent peak of 11.6 percent of GDP in 2020-21 to 4.9 percent in 2022-23, before improving marginally to 5.1 percent in 2023-24. The underlying reason has been the surge in households' financial liabilities, reaching a high of 6.4 percent of GDP in 2023-24. While households' big-ticket purchases and lifestyle expenses are facilitated by the easy availability of personal loans, rising household debt is a major concern from a financial stability perspective. Households'

preference for current consumption over long-term savings could be influenced by falling inflation expectations (an increase in real wealth) following the implementation of the flexible inflation-targeting regime since 2016.

Indian households have become more return-sensitive. This is evident from a discernible shift in the composition of financial savings away from low-yielding traditional bank term deposits towards higher-yielding, market-linked instruments. The share of bank deposits in gross financial savings has decreased significantly from 46.3 percent in 2018-19 to around 35 percent now. On the contrary, investments in mutual funds and direct equities have nearly doubled during the same period. High inflation and low real interest rates on traditional savings may have pushed investors to seek better returns in other asset classes. Government initiatives on financial inclusion and the rise of digital platforms have increased access to formal financial markets, particularly in Tier 2 and smaller cities, fostering greater participation in market-linked investments. Growing per capita income and aspirational goals may also have influenced households to spend more on education, healthcare, and lifestyle needs, often financed by credit.

Looking Forward

Many researchers believe that India is gradually transitioning from an investment-driven economy to a consumption-driven economy. As saving is a residual surplus, India's gross domestic savings ratio has limited scope for further increase. A fall in the savings ratio may reduce the pool of domestic capital available for investment, increasing India's dependence on foreign capital to fund growth. With rising liabilities and declining savings, households are more vulnerable and may face higher financial stress in the future. A sharp fall in security prices may wipe out their hard-earned savings, potentially impairing their creditworthiness and affecting bank balance sheets through an increase in delinquencies.

While regular monitoring of retail loans is warranted, prudence must be exercised in extending consumer loans, particularly in the unsecured category, including credit card outstanding. Although deposits are expected to remain the primary source of funding for bank credit and investment, banks may increasingly rely on non-deposit resources in a competitive market. Moreover, banks must choose between protecting net interest margins (NIMs) and expanding business by improving efficiency through NIM compression. It is prudent for banks to take advantage of the securitization of assets, both standard and substandard, to expand business even with limited deposit growth. Banks should also increase fee-based activities, which would strengthen their bottom line even when NIMs are under pressure.

To achieve India's aspirational goal of becoming a developed country by 2047, the country should depend more on increasing productivity rather than pushing the savings rate beyond its natural limits. Hence, it is imperative for the government to pursue structural reforms, create conditions for the adoption of the latest technology across sectors, and improve the quality of education to reduce the skill gap in the economy.

Editor

(Inaugural Issue, to be published every month)

RBI Proposes Relaxations in External Commercial Borrowings

As a follow-up to the Developmental and Regulatory Policies announced on October 1, 2025, the RBI released the Draft External Commercial Borrowing (ECB) Framework on October 3, 2025, for public consultation. The draft circular on ECB proposes a shift towards a more market-driven and liberalized framework. Key highlights include, inter alia, higher borrowing limits, removal of the all-in-cost ceiling, standardized maturity periods, and simplified reporting.

Key Proposals

- **Higher borrowing limits:** Borrowers can now raise ECBs up to USD 1 billion or 300% of their net worth, whichever is higher, under the automatic route - a significant increase from the previous automatic route limit of USD 750 million. Financial sector entities regulated by financial sector regulators will be exempt from this limit.
- **Market-determined cost of borrowing:** The existing all-in-cost ceiling has been removed, allowing interest rates to be negotiated between the borrower and lender based on prevailing market conditions.
- **Uniform minimum average maturity period:** A uniform MAMP of three years is proposed, with manufacturing companies allowed to raise up to USD 50 million outstanding with a maturity between one and three years.
- **Borrower eligibility:** The criteria for eligible borrowers have been expanded to include any Indian entity (other than an individual) that is permitted to borrow under Indian law,

including Limited Liability Partnerships (LLPs), Real Estate Investment Trusts (REITs), and Infrastructure Investment Trusts (InvITs).

- **Relaxed end-use restrictions:** The list of negative end-uses for ECB proceeds has been simplified. Notably, ECBs may now be used for certain real estate projects and acquisitions, subject to compliance with other regulations.
- **Simplified reporting:** The new framework moves from fixed periodic reporting to an event-based system, where borrowers only report specific transactions such as drawdown, refinancing, or conversion to equity.
- **Repatriation of proceeds:** The draft regulations require immediate repatriation of ECB proceeds to India, with stricter monitoring of fund utilization by Authorized Dealer (AD) Category I banks.
- **Expanded lender base:** Any person resident outside India and foreign branches or IFSC-based branches of regulated entities can now act as lenders, creating a wider pool of capital for Indian firms.

The proposed framework will unlock global capital for highly rated Indian corporates, lowering their cost of funds, and reducing their dependence on domestic debt/credit markets. For details, please see RBI circular dated October 3, 2025 (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=61351).

Expected Credit Loss Provisioning: A New Beginning from April 1, 2027

As a follow-up of the RBI's October 2025 Developmental and Regulatory Policy, the Reserve Bank of India's (RBI), on October 7, 2025, issued a draft circular on Expected Credit Loss (ECL) provisioning, proposing a major shift from the current 'incurred loss' model to a forward-looking, risk-based framework, aligning Indian banking with global accounting standards like IFRS 9.

Key highlights of the draft circular, *inter alia*, include:

- **Forward-Looking Approach:** Instead of recognizing losses after a default has occurred, banks will now estimate and make provisions for potential future losses using predictive models based on Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).
- **Loss Given Default:** Banks are expected to calculate LGD based on their own historical data and macroeconomic forecasts. However, if they are unable to estimate LGD

accurately, they can apply regulatory backstops. The RBI has proposed a uniform LGD floor of 65 percent for secured exposures and 70 percent for unsecured ones.

- **Three-Stage Asset Classification:** Financial assets will be categorized into three stages based on credit risk since initial recognition, while retaining the extant norms for Non-Performing Asset (NPA) classification:

- o Stage 1: No significant increase in credit risk, which requires 12-month ECL provisioning.

- o Stage 2: Significant increase in credit risk (e.g., loans overdue by more than 30 days, though this presumption can be rebutted); requires lifetime ECL provisioning; and

- o Stage 3: Credit-impaired (NPA) assets; requires lifetime ECL provisioning.

- **Prudential Floors:** The circular prescribes minimum provisioning floors for Stage 1 and Stage 2 assets, which are generally higher than existing norms, particularly for Stage 2 assets. Provisioning norms will remain broadly the same for Stage 3 assets.
- **Broader Scope of Exposures:** Provisioning will be required for non-funded exposures like bank guarantees and unutilized credit limits, which was not the case earlier.
- **Governance and Model Risk Management:** Banks are required to establish a robust governance framework with active Board oversight with a three-tier model of risk management system for the ECL computation (frontline operations, risk management, and internal audit).
- **Implementation Timeline:** The new framework is set to be implemented from April 1, 2027. The RBI expects the transition may have a limited one-time impact on banks' capital position. Therefore, RBI provides a four-year glide path until 2030-31 as a transitional arrangement to adjust the impact of additional provisioning on banks' Common Equity Tier 1 (CET1) capital.
- **Enhanced Disclosures:** The new norms mandate detailed financial disclosures to help stakeholders better understand the

impact of credit risk and the ECL methodology.

- **Exclusions:** The framework currently excludes Regional Rural Banks (RRBs), Small Finance Banks (SFBs), and Payments Banks, reflecting potential operational challenges in these institutions.

Way forward: To implement the RBI's ECL framework, banks must build robust internal models for PD, LGD, and EAD with forward-looking macroeconomic inputs. For a strong governance framework involving Board-level oversight, a dedicated subcommittee may be needed to constantly monitor the credit quality across the credit cycles. Transition may be smooth given the high provision-coverage ratio maintained by most banks and the 4-year glide path proposed by RBI in the draft Direction.

The move aims to strengthen the financial system by ensuring early recognition of potential stress, enhancing transparency, and building greater resilience in the banking sector. For details, please see the RBI Draft Circular dated October 7, 2025 (https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?id=4751).

Trade Relief Measures, 2025

(Notification dated November 14, 2025 | Effective Immediately)

The RBI (Trade Relief Measures) Directions, 2025, offer broad support for Indian exporters to reduce stress from tariffs and market volatility, help viable export businesses continue operations, and provide financial breathing room for exporters. The regulations will be applicable to Regulated Entities (REs), namely, Commercial Banks, Primary (Urban) Co-operative Banks, State Co-operative Banks and Central Co-operative Banks, Non-Banking Financial Companies (including Housing Finance Companies), All-India Financial Institutions, and Credit Information Companies (limited to reporting requirements). The highlights of the Trade Relief Measures are as follows:

Key Provisions

- **Extended Credit Periods:** Pre-shipment and post-shipment export credit extended to 450 days for loans disbursed until March 31, 2026.
- **Realisation/Shipment Window:** Period to realise export proceeds and ship goods after advance payment extended to 15 months and 3 years, respectively.
- **Loan Repayment Moratorium:** Term loan instalments and working capital interest due between September 1, 2025, and December 31, 2025, can be deferred.
- **Flexible Working Capital:** Lenders can recalculate drawing power (max withdrawal limit) by reducing margins or reassessing current assets.
- **Liquidation Flexibility:** Packing credit can be liquidated from other legitimate sources (e.g., domestic sales) if shipments are delayed.

- **Interest Calculation:** Deferred interest on working capital accrues at simple interest, not compounded, easing burden.

Who Benefits & How

- **Affected Exporters:** Businesses in 20 specified sectors (e.g., textiles, leather, machinery, etc.) facing cash flow mismatches and delayed shipments.
- **Lenders (Banks/NBFCs):** Provided framework to support borrowers while managing asset quality.

Borrower Eligibility

A borrower qualifies for relief if all the following conditions are met:

- Engaged in exports relating to the sectors specified in the Annex of the circular;
- Had an outstanding export credit facility as on August 31, 2025; and
- All credit accounts were Standard as on August 31, 2025.

For details, please see RBI's circular dated November 14, 2025 (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?id=12921&Mode=0>)

1. Major Weekly Indicators

As on week ended (2025)	03-Oct	10-Oct	17-Oct	24-Oct	31-Oct	07-Nov	14-Nov	21-Nov	28-Nov	05-Dec	12-Dec	19-Dec	26-Dec
Liquidity (Injection (+)/ Absorption (-)) (₹ trillion)	-2.00	-1.53	-1.09	-0.42	-1.35	-2.47	-2.48	-1.57	-1.82	-2.38	-1.73	-0.75	0.52
Weighted Average Call Money Rate (%)	5.47	5.43	5.43	5.53	5.58	5.40	5.37	5.41	5.45	5.37	5.19	5.37	5.43
91-Day Treasury Bill (Primary) Yield (%)	5.49	5.43	5.44	5.46	5.46	5.45	5.43	5.38	5.36	5.35	5.27	5.28	5.26
182-Day Treasury Bill (Primary) Yield	5.59	5.55	5.55	5.59	5.60	5.59	5.57	5.56	5.52	5.53	5.48	5.50	5.48
364-Day Treasury Bill (Primary) Yield	5.60	5.55	5.55	5.58	5.58	5.59	5.57	5.56	5.53	5.55	5.49	5.50	5.54
10-Year G-Sec Par Yield (FBIL) (%)	6.47	6.48	6.47	6.49	6.50	6.51	6.53	6.56	6.55	6.55	6.66	6.67	6.65
INR-US\$ Spot Rate	88.78	88.69	88.69	87.71	88.72	88.71	88.74	88.64	89.46	89.92	90.39	90.20	89.83
Forex Reserve (USD Billion)	699.96	697.78	702.28	695.36	689.73	687.03	692.58	688.10	686.22	687.26	688.95	693.32	696.61
Brent Crude Spot Price (USD/Barrel)	66.13	64.41	61.23	65.80	65.44	63.72	63.45	62.78	64.07	64.42	62.11	61.35	60.24
10-Year US Treasury Yield to Maturity (%)	4.13	4.05	4.02	4.02	4.11	4.11	4.14	4.06	4.02	4.14	4.19	4.16	4.14
Gold Spot Price (₹/10 gram) (in Lakhs)	1.18	1.21	1.27	1.23	1.21	1.21	1.24	1.25	1.27	1.30	1.34	1.34	1.40

Source: Reserve Bank of India, U. S. Energy Information Administration, Federal Reserve Board, Bullion









2. Select Monthly Indicators

Monthly	Jan '25	Feb '25	Mar '25	Apr '25	May '25	Jun '25	Jul '25	Aug '25	Sep '25	Oct '25	Nov '25
Reserve Money (₹ Trillion)	46.53	47.12	48.29	48.61	49.63	49.24	48.88	49.15	48.59	48.34	48.14
Broad Money (₹ Trillion)	266.93	269.13	272.87	276.31	279.90	282.30	281.40	283.09	283.50	289.97	291.36
Consumer Price Index Inflation (Y-o-Y % Change)	4.26	3.61	3.34	3.16	2.82	2.10	1.61	2.07	1.44	0.25	0.71
Index of Industrial Production (Y-o-Y % Change)	5.20	2.70	3.90	2.60	1.90	1.50	4.30	4.10	4.60	0.40	6.70
Gross GST Collection (₹ Trillion)	1.96	1.84	1.96	2.37	2.01	1.85	1.96	1.86	1.89	1.96	1.70
Trade Balance (USD Billion)	-4.96	3.08	-3.40	-8.59	-6.12	-2.57	-10.90	-10.89	-13.32	-24.24	-7.14
Weighted Average Term Deposit Rate of SCBs (%) - Monthly average											
Fresh Term Deposits	6.56	6.49	6.65	6.34	6.11	5.75	5.61	5.56	5.60	5.57	5.59
Outstanding Term Deposits	7.02	7.02	7.03	7.10	7.07	7.00	6.92	6.87	6.82	6.78	6.73
Weighted Average Lending Rate of SCBs (%) - Monthly average											
Fresh Loans	9.31	9.40	9.35	9.26	9.20	8.62	8.81	8.74	8.50	8.61	8.71
Outstanding Loans	9.87	9.80	9.77	9.70	9.69	9.44	9.38	9.32	9.26	9.24	9.21

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.

3. Major Parameters of AU Small Finance Bank (as on 30th September 2025)

 <p>1.2 Cr. +</p> <p>Total Customers</p>	 <p>57,800 +</p> <p>Employees</p>	 <p>2,626</p> <p>Total Touchpoints</p>	 <p>25</p> <p>21 States + 4 UTs</p>
 <p>Rs. 1,65,542 Cr</p> <p>Balance Sheet</p>	 <p>Rs. 1,32,509 Cr</p> <p>Total Deposits</p>	 <p>Rs. 1,22,877 Cr</p> <p>Total Loans</p>	 <p>Rs. 17,936+ Cr</p> <p>Net Worth</p>

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