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Macro & Matrices

AU SMALL FINANCE BANK

Editor: Dr. B. K. Bhoi

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New GDP Series: More Reliable and Consistent

The much-awaited new GDP series with base year changed from 2011-12 to 2022-23 is now available in the public domain. This was the eighth major revision of the base year since independence to reflect structural shifts, such as enhanced digital economy coverage, improved formalisation and updated sectoral weights. As per the new series, India's GDP growth decelerated sequentially to 7.8 per cent in Q3FY26 from 8.4 per cent in the previous quarter and 7.4 per cent in the same quarter last year. High base effect, slowdown of government capex, and moderation of export growth were behind the modest growth deceleration in Q3FY26. As per the second advance estimate, India's real GDP is expected to grow at 7.6 per cent in FY26, marginally higher than 7.4 per cent anticipated in the first advance estimate as per the old base. The new series goes much beyond the base-year change, which needs to be recognised before comparing two sets of data.

Key Methodological Changes

The new series incorporated changes mainly in four broad areas: a) improvement in deflation strategy, b) revision in the estimation methodology, c) use of high frequency data, and d) improving granularity of estimation.

One of the most significant shifts is the move from "single deflation" to double deflation for the manufacturing and agriculture sectors, and single extrapolation elsewhere. The double deflation method adjusts both input and output prices separately to calculate real value added more accurately, preventing diverging input/output prices from distorting growth figures.

The Supply and Use Tables (SUT) framework is now systematically integrated into the compilation process to reconcile differences between production-based and expenditure-based GDP estimates. This "product-balancing" ensures total supply equals total demand, reducing statistical discrepancies.

The new series replaces old proxy-based indicators for the household and informal sectors with direct level estimates from annual surveys. It utilises the Annual Survey of Unincorporated Sector Enterprises (ASUSE) and the Periodic Labour Force Survey (PLFS) for high-frequency data.

The number of price indicators has been significantly expanded, using over 260 item-level CPI indices. This allows for more nuanced price adjustments at a detailed industry-specific level (granularity) rather than using broad aggregates.

Value added by diversified enterprises is now split across their specific activities (e.g., manufacturing vs. services) using MGT-7/7A filings rather than being lumped under their "principal activity".

Estimates of Private Final Consumption Expenditure (PFCE) have been improved by adopting Classification of Individual Consumption according to Purpose (COICOP), 2018 classification.

There has been extensive integration of real-time digital databases, including Goods and Services Tax (GST) data, the e-Vahan portal (vehicle registrations), and the Public Financial Management System (PFMS) for government expenditure.

Attributes of the New Series

Although old and new series data are not strictly comparable, distinct attributes of the new series provide confidence to the policymakers on several counts. First, real GDP growth rates are now more reliable and consistent under the new series (Table 1). Real GDP growth in FY24 was revised downward by 2 percentage points to 7.2 per cent. Value addition was low in FY24 due to high input costs, which was well captured by the double deflation method. Value additions in the next two years were higher due to fall in the prices, particularly the input costs. Despite global headwinds, India's average real GDP growth in the new series at 7.3 per cent during the last three years is commendable, although slightly lower than 7.7 per cent recorded under the old series.

Second, following adoption of double deflation method, manufacturing value added witnessed double-digit growth in real terms during the last five quarters since Q3FY25 besides resilience of the services sector with near double-digit growth notwithstanding moderation of value added in public administration.

Table 1: India's Real GDP Growth Rates (%)

Year	New Base 2022-23=100	Old Base 2011-12=100
2023-24	7.2	9.2
2024-25 (FRE)	7.1	6.5
2025-26 (SAE)	7.6	7.4

Note: FRE: First Revised Estimate; SAE: Second Advance Estimate. ***Source: MoSPI.***

Third, nominal GDP was consistently lower to the tune of about Rs. 12 trillion (3-4 per cent) in the new series compared to the old series despite wider coverage (Table 2). Bulk of the downward revision in the nominal GDP was registered in the PFCE, followed by significant reduction in discrepancies, which declined from an annual average of Rs. 6.5 trillion in old series during the last three years to less than rupees one trillion in the new series. As the error component has come down in the expenditure GDP, the divergence between GDP and GVA growth has also narrowed significantly.

Table 2: Nominal GDP (Rs. Trillion)/ Growth Rates (%)

Year	New Base 2022-23=100	Old Base 2011-12=100
2023-24	289.84 (11.0)	301.23 (12.0)
2024-25 (FRE)	318.07 (9.7)	330.68 (9.8)
2025-26 (SAE)	345.47 (8.6)	357.14 (8.0)

Source: MoSPI.

(Continued on the next page)

Concluding Observations

Downward revision of nominal GDP in the new series has obvious impact on macroeconomic ratios such as fiscal-deficit-to-GDP, debt-to-GDP, etc., which have increased. Moreover, India is likely to miss to target of becoming the US$ 4 trillion economy in FY26 following reduced nominal GDP and depreciation of Indian rupee against the US dollar.

The new series may undergo another round of revision when WPI data will be available as per the new base (2022-23=100). This will further refine India's national accounts data under double deflation strategy. Data on new series, currently available since the base year 2022-23, improves accuracy/reliability, and thereby overcomes the IMF's adverse 'C' rating for India's national accounts statistics. Back data, using revised methodology of the new series, are expected to be released by December 2026.

Editor

Commercial Banks – Credit Facilities Amendment Directions, 2026

On February 13, 2026, the Reserve Bank of India released the Reserve Bank of India (Commercial Banks - Credit Facilities) Amendment Directions, 2026, introducing wide ranging changes to definitions, governance requirements, acquisition finance norms, lending against eligible securities, and credit facilities to capital market intermediaries (CMIs). The amendments refine and modernise the credit framework for banks, strengthen prudential safeguards, and align multiple chapters of the 2025 Master Directions with evolving market structures. The revised norms, which were scheduled to be effective from April 1, 2026, have been deferred by three months to July 1, 2026, in response to requests received from the regulated entities.

Key Highlights

- **New acquisition finance framework:** RBI deleted the earlier acquisition finance sections in full and replaced them with a streamlined, principle-based framework that focuses on strategic, long-term investments. Under the new regime, banks may extend acquisition finance to non-financial companies acquiring domestic or foreign entities, provided these companies meet minimum net worth (₹500 crore), and profitability during the previous three years. In the case of unlisted firms, additional requirement shall be an investment grade rating (BBB- or above) from a credit rating agency. Financing may be routed through the parent, an existing subsidiary, or an SPV, subject to stringent acquisition norms and related party restrictions. Bank funding is capped at 75 per cent of the independently assessed acquisition value, supported by valuations from external valuers. Borrowers must contribute the balance through own funds, furnish a corporate guarantee, and maintain a post-acquisition consolidated debt-equity ratio not exceeding 3:1. The revised framework also lays down detailed expectations on collateral, bridge financing conditions, and limits on participation by overseas branches, creating a more coherent and risk sensitive structure for banks undertaking such exposures. Banks shall put in place a Board approved policy on acquisition finance, suitably incorporating the underwriting benchmarks that address the structural complexities of such transactions, in particular relating to exposure limits, equity contribution, leverage multiples, and cash-flow certainty.

- **Major overhaul of lending against securities:** A dedicated new framework now governs loans against eligible securities, requiring banks to establish detailed internal policies that cover collateral eligibility, LTV criteria, concentration limits, valuation practices, and margin call procedures. The regime expressly prohibits lending against a bank's own securities, partly paid shares, locked-in securities, IDRs, and short-term instruments such as Commercial Papers and NCDs with original maturity up to one year, as well as securities of entities to which banks are otherwise barred from extending credit. For individuals, RBI has prescribed LTV ceilings (for example, 60 per cent for listed shares, 75 per cent for equity oriented mutual funds, ETFs, REITs and InvITs, and 85 per cent for debt mutual funds or highly rated debt securities), while also introducing specific borrowing caps, including a ₹1 crore limit for loans against certain securities, a ₹25 lakh ceiling for secondary market purchases, and a ₹25 lakh limit for IPO, FPO or ESOP financing with a minimum margin requirement of 25 per cent. All such exposures are classified under capital market exposure norms unless specifically exempted, ensuring consistent prudential treatment across banks.

- **New dedicated chapter for financing Capital Market Intermediaries (CMIs):** RBI introduced a dedicated Chapter XIII A to regulate bank credit to Capital Market Intermediaries (CMIs), covering entities such as brokers, clearing members, custodians, and market makers. Under this framework, banks may extend credit only to CMIs that are duly regulated and compliant with their respective supervisory requirements. All such exposures are classified as capital market exposure and are subject to the Large Exposure Framework, ensuring tighter prudential oversight. The facilities permitted include working capital loans, finance for margin trading activity, overdrafts to bridge settlement related timing mismatches, and funding support for market-making operations. At the same time, the framework restricts financing for proprietary trading or securities acquisition by CMIs, except in narrowly defined scenarios. Banks may also issue guarantees on behalf of CMIs, but these must be backed by minimum collateral of 50 per cent, of which at least 25 per cent must be in cash. All facilities are generally required to be fully secured, with a minimum haircut of 40 per cent applied to equity collateral, alongside specific norms for intra-day limits, margin trading funding, and acceptance of collateral from group entities to ensure robust risk control.

- **Consequential changes across related Directions:** Corresponding amendments were also issued across related Directions on Capital Adequacy, Concentration Risk Management, Financial Statements and Disclosures, and Undertaking of Financial Services to maintain consistency throughout the regulatory framework. These cross references ensure that credit exposure norms, capital treatment, disclosure requirements, and broader risk management standards remain fully aligned with the revised credit facilities framework, creating a coherent and harmonised set of instructions for banks.

The Amendment Directions establish a more modern and risk aligned credit framework by overhauling norms for acquisition finance, lending against securities, and credit to capital market intermediaries. The revised structure replaces fragmented provisions with clearer definitions, sharper prudential guardrails, and consistent treatment of exposures across high-risk segments. By strengthening valuation standards, collateral rules, LTV limits, and governance requirements, RBI aims to reinforce credit discipline while enabling banks to operate within a transparent and predictable regulatory environment. Overall, the Directions bring greater clarity, uniformity, and stability to financing practices in an increasingly complex market landscape.

For details, please refer to RBI's Notification dated February 13, 2026; (*https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=13297&Mode=0*).

Prudential Norms on Declaration of Dividend and Remittance of Profit by Regulated Entities

The Reserve Bank of India (RBI) issued a comprehensive set of Master Directions governing dividend declaration and profit remittance across regulated entities including Commercial Banks, Small Finance Banks, Payments Banks, Local Area Banks, and Regional Rural Banks effective from the financial year 2026-27 (FY27).

RBI intends these Directions to strengthen the quality of capital, discourage excessive payouts during stress, and ensure that only sustainable, high-quality earnings form the basis for dividend payouts or profit remittances. The framework aligns distribution policies with regulatory capital requirements, risk profile, and supervisory assessments, thereby supporting long-term banking system stability

Key Provisions Across the Directions

- **Applicability and Scope**: The Directions apply to Commercial Banks, Small Finance Banks (SFBs), Payments Banks (PBs), Local Area Banks (LABs), and Regional Rural Banks (RRBs). Separate Master Direction has been issued for each segment, while foreign banks receive separate guidance on profit remittance. These Directions supersede prior instructions and standardise expectations across the banking system from FY27.

- **Board Oversight and Governance:** Boards of regulated entities must exercise strong oversight while considering dividend declarations. The Directions require that boards evaluate factors such as a) asset-quality divergences flagged in supervision, b) auditor observations, c) capital buffers relative to regulatory minima, and d) the institution's medium-to-long-term growth plans. RBI emphasises that governance quality must underpin decisions on distribution of profits.

- **Eligibility Criteria for Declaring Dividend**: To declare dividends, entities must first meet all prescribed regulatory capital requirements, ensuring that their capital ratios are comfortably above the minimum thresholds laid out in the Directions. They must also report a positive Adjusted Profit After Tax (PAT) (defined in the Directions as profit after tax net of the specified adjustment for net NPAs) so that the distributable surplus reflects genuinely realised and high-quality earnings rather than temporary improvements. In addition, regulated entities must not be subject to any supervisory or regulatory restrictions that could indicate stress, non-compliance, or vulnerabilities that would make a distribution imprudent. Taken together, these conditions ensure that dividend decisions are grounded in sustainable profitability and sound financial health, rather than overstated, extraordinary, or volatile income streams.

- **Restrictions on the Source of Dividend**: Dividends cannot be declared from extraordinary or non-recurring profits, nor can they be drawn from unrealised valuation gains or from overstated earnings. The Directions make it clear that only genuine, realised, and recurring income can form the basis for dividend distribution. By prohibiting the use of such volatile or exceptional sources, the framework safeguards the bank's capital position and ensures that payouts remain firmly anchored in core operational performance, rather than being influenced by temporary or artificially inflated profit streams.

- **Profit Remittance by Foreign Banks**: Foreign banks operating in India in branch mode may remit profits to their head offices without seeking prior RBI approval, if their audited financial statements confirm the availability of surplus profits and the remitted amount does not arise from extraordinary or unrealised income. This framework allows foreign banks to transfer profits more efficiently while ensuring that remittances remain firmly grounded in genuine, realised earnings. By retaining these prudential safeguards, the Directions balance operational ease with regulatory discipline, ensuring that remittances do not undermine financial soundness or distort reported profitability.

- **Reporting Requirements:** All regulated entities must report dividend declarations or profit remittances to the RBI within 14 days, enabling supervisory follow-up and consistency across institutions.

- **Repeal of Earlier Instructions**: To streamline and modernise the regulatory framework, RBI has issued:

  - Four Repeal Directions,
  - Five new Master Directions, and
  - One Amendment Guideline, covering the entire spectrum of regulated entities.

These measures replace earlier guidance and create a unified prudential architecture from 2026-27 onward.

The consolidated framework reflects RBI's broader objective of reinforcing prudence, capital stability, and governance quality in profit distribution. By linking eligibility conditions to capital adequacy, earnings quality, and supervisory findings, the Directions ensure that dividend declarations and remittances support long-term financial resilience while providing flexibility for well-managed, well-capitalised institutions.

For details, please see RBI's Circular dated March 10, 2026 (*https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=62358*)

Amendment Directions on Counterparty Credit Risk – Add-on Factors for Potential Future Exposure

On March 10, 2026, RBI released a comprehensive set of Amendment Directions revising the treatment of Counterparty Credit Risk (CCR) and the computation of Potential Future Exposure (PFE) under the Current Exposure Method (CEM). These Directions follow the draft circular released in August 2025, incorporating stakeholder feedback before finalisation. The changes apply across Commercial Banks, Small Finance Banks, Payments Banks, and All India Financial Institutions (AIFIs). The amendments bring India's CCR framework in line with international (Basel) standards while providing entity specific clarity.

Key Developments

- **Revised Numerical Add on Factors for PFE:** The Amendment Directions replace the earlier PFE add on tables with revised, Basel aligned numerical factors for interest rate, exchange rate, equity, precious metal, and commodity derivative contracts based on residual maturity.

- For market-related off-balance-sheet items, the RBI's revised framework prescribes differentiated add-on factors (per cent) based on the type of contract and its residual maturity.

  - For maturities < 1 year, add-on factors are 0.25 per cent (for interest-rate), 1 per cent (exchange-rate & gold), 6 per cent (equities), 7 per cent (precious metals, ex-gold), and 10 per cent (other commodities).
  - For maturities of 1-5 years, they increase to 0.50, 5, 8, 7, and 12 per cent, respectively.
  - For maturities > 5 years, the add-ons rise to 1.50 per cent, 7.50 per cent, 10 per cent , 8 per cent, and 15 per cent, respectively.

- **Mandatory CCR Capital Charge for Clearing Members:** Banks functioning as clearing members on SEBI recognised exchanges must compute and maintain capital charge for CCR. Earlier ambiguity is removed; this requirement is now explicit across all entity categories.

- **Consolidated Capital Requirement Rule Introduced:** Banks and AIFIs must now include CCR exposures of all entities within the consolidated group while computing capital requirements, closing regulatory gaps.

- **Revised Treatment of Resettable Derivative Contracts:** For derivatives periodically reset to zero market value, residual maturity must be counted only up to the next reset date. However, interest rate contracts >1 year must apply a minimum add-on floor of 0.50 per cent.

- **Updated Rules for Exposures to QCCPs (Qualified Central Counterparties):** A 2 per cent risk weight applies on trade exposures to QCCPs. Clearing members may be exempt if legally not obligated to reimburse client losses, supported by an independent legal opinion.

- **Add on Factors Now Apply to All Outstanding CCR Exposures:** Each entity level Direction states that revised add-on factors must be applied to all outstanding CCR exposures, not just newly originated ones.

- **Uniform Basel Alignment Across All Entities:** Across all four institutional categories (Commercial Banks, SFBs, Payments Banks, AIFIs), the goal is to largely align Indian CCR/PFE norms with Basel standards.

These measures represent a significant tightening and harmonisation of India's counterparty risk capital framework.

For details, please see RBI's Circular dated March 10, 2026 (*https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=62359*)

1. Major Weekly Indicators

As on week ended (2026)	02-Jan	09-Jan	16-Jan	23-Jan	30-Jan	06-Feb	13-Feb	20-Feb	27-Feb	06-Mar	13-Mar	20-Mar
Liquidity (Injection (+)/ Absorption (-)) (₹ trillion)	-0.72	-0.35	-1.35	-1.01	-1.06	-4.52	-4.59	-3.6	-4.24	-3.96	-3.31	-1.67
Weighted Average Call Money Rate (%)	5.43	5.37	5.36	5.43	5.34	5.07	5.03	5.08	5.09	5.07	5.08	5.30
91-Day Treasury Bill (Primary) Yield (%)	..	5.31	5.34	5.49	5.5	5.34	5.32	5.32	5.3	5.31	5.32	5.33
182-Day Treasury Bill (Primary) Yield	..	5.54	5.6	5.66	5.68	5.60	5.56	5.54	5.51	5.54	5.54	5.54
364-Day Treasury Bill (Primary) Yield	..	5.58	5.63	5.72	5.74	5.65	5.61	5.6	5.59	5.60	5.64	5.65
10-Year G-Sec Par Yield (FBIL) (%)	6.69	6.71	6.75	6.74	6.77	6.82	6.75	6.78	6.71	6.76	6.74	6.85
INR-US$ Spot Rate	90.12	90.14	90.65	91.62	91.9	90.42	90.74	90.95	90.95	91.68	92.44	93.35
Forex Reserve (USD Billion)	686.8	687.19	637.33	709.41	723.77	717.06	725.73	723.61	728.49	716.81	709.76	698.35
Brent Crude Spot Price (USD/Barrel)	61.98	65.11	66.97	68.16	72.25	63.77	63.05	72.75	71.32	96.74	103.23	118.42
10-Year US Treasury Yield to Maturity (%)	4.19	4.18	4.24	4.24	4.26	4.22	4.04	4.08	3.97	4.15	4.28	4.39
Gold Spot Price (₹/10 gram) (in Lakhs)	1.36	1.39	1.43	1.56	1.5	1.55	1.56	1.57	1.62	1.62	1.59	1.45

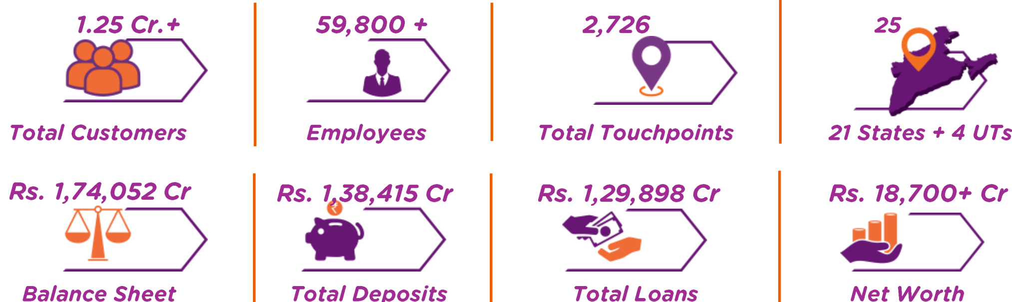
Source: Reserve Bank of India, U. S. Energy Information Administration, Federal Reserve Board, Bloomberg.

2. Select Monthly Indicators

Monthly	Feb '25	Mar '25	Apr '25	May '25	Jun '25	Jul '25	Aug '25	Sep '25	Oct '25	Nov '25	Dec '25	Jan '26	Feb '26
Reserve Money (₹ Trillion)	47.12	48.29	48.61	49.63	49.24	48.88	49.15	48.59	48.34	48.14	47.99	49.23	49.89
Broad Money (₹ Trillion)	269.13	272.87	276.31	279.90	282.30	281.40	283.09	283.50	289.98	291.36	298.01	299.04	302.98
Consumer Price Index Inflation (Y-o-Y % Change)	3.61	3.34	3.16	2.82	2.10	1.61	2.07	1.44	0.25	0.71	1.33	2.74	3.21
Index of Industrial Production (Y-o-Y % Change)	2.70	3.90	2.60	1.90	1.50	4.30	4.10	4.60	0.40	7.20	8.0	5.1	5.2
Gross GST Collection (₹ Trillion)	1.70	1.96	2.37	2.01	1.85	1.96	1.86	1.89	1.96	1.70	1.75	1.93	1.84
Overall Trade Balance (Goods +Services) (USD Billion)	3.08	-3.40	-8.59	-6.12	-2.57	-10.90	-10.89	-13.32	-24.24	-7.14	-2.36	-13.14	-9.26
Weighted Average Term Deposit Rate of SCBs (%) - Monthly average													
Fresh Term Deposits	6.49	6.65	6.34	6.11	5.75	5.61	5.56	5.60	5.57	5.59	5.67	5.66	5.65
Outstanding Term Deposits	7.02	7.03	7.10	7.07	7.00	6.92	6.87	6.82	6.78	6.73	6.68	6.64	6.62
Weighted Average Lending Rate of SCBs (%) - Monthly average													
Fresh Loans	9.40	9.35	9.26	9.20	8.62	8.81	8.74	8.50	8.64	8.71	8.28	8.49	8.44
Outstanding Loans	9.80	9.77	9.70	9.69	9.44	9.38	9.32	9.26	9.24	9.2	9.06	9.04	9.00

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 pre-December 2025 is based on Base year ~2011-12, January 2026 onwards is based on Base year ~2023-24

3. Major Parameters of AU Small Finance Bank as (on 31st December 2025)



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