May 2026

# Macro & Matrices

AU SMALL FINANCE BANK

Editor: Dr. B. K. Bhoi

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## West Asia Conflict: Managing Spillover Effects

The re-escalation of conflict in West Asia since late February 2026, mostly centred on Iran, Israel, and the Gulf region, has intensified concerns regarding global energy security, maritime trade, financial stability, and economic growth. For India, these developments are not merely an external geopolitical event but a direct macroeconomic and strategic challenge. West Asia is India's principal source of crude oil and natural gas, a major destination for exports, a critical conduit for maritime trade, and the workplace for over 9 million Indian expatriates whose remittances support domestic consumption and external balance.

Shocks originating in the Gulf region are unfolding through trade, prices, financial flows, and expectations, influencing economic outcomes in India and abroad. Even if Middle East tensions ease quickly, crude oil prices are unlikely to revert to the pre-conflict level of USD 70 per barrel due to large-scale damage inflicted on Gulf oil infrastructure. This article examines how India is managing the spillover effects emanating from the West Asia conflict to contain its adverse effects.

### Energy Security at Stake

Energy represents the most immediate and critical channel through which the West Asia conflict affects India. India imports nearly 90 per cent of its crude oil requirements (over 50 per cent of natural gas), with approximately half sourced from West Asia. Additionally, a significant share of India's energy imports transits through the Strait of Hormuz, a strategic maritime chokepoint vulnerable to military disruption. Rising crude oil prices pose multiple threats to India, including a higher import bill, emerging inflationary pressures, currency depreciation, and a widening current account deficit.

India's response has been twofold. First, it has pursued tactical diversification of crude sourcing, increasing imports from non-traditional suppliers such as Russia, the United States, and Latin America, while retaining cordial relations with Gulf producers. This has reduced supply concentration risk, but not price risk. Second, India has drawn upon its Strategic Petroleum Reserves to smooth short-term disruptions. Together, these measures have mitigated the immediate energy shock, even as India remains structurally exposed to global oil price movements.

### Policy Responses

Rising crude oil prices affect government finances through a higher subsidy burden, reduced excise revenues when fuel taxes are adjusted, and potential slippage in inflation-linked expenditure. India's fiscal response to the West Asia conflict has been pragmatic and calibrated rather than reactive. First, the government has relied on absorbing part of the oil shock through selective fuel tax adjustments on petrol and diesel and delayed pass-through to retail prices. This approach aims to contain inflationary pressures and protect household consumption, particularly at a time when monetary policy space is constrained by supply-side inflation. Second, the government has selectively increased export duties on petroleum products to maintain domestic supply. Third, fiscal buffers built in the post-pandemic period through improved tax buoyancy and fiscal consolidation efforts have provided India with greater flexibility to temporarily absorb external shocks without immediate fiscal retrenchment, particularly capital expenditure. While prolonged energy price increases could strain subsidy allocations and fiscal arithmetic, the government has been trying to maintain fiscal credibility through calibrated rather than abrupt adjustments.

The Monetary Policy Committee, in its April 2026 policy, adopted a cautious response, maintaining a pause in policy rate while explicitly recognising heightened downside risks to growth and upside risks to inflation. Rather than tightening monetary policy in response to supply-side inflation, the RBI has emphasised expectations management, macro-financial stability, and policy continuity.

On the external front, exchange rate volatility triggered by global risk aversion has been managed through prudent foreign exchange interventions aimed at smoothing disorderly movements rather than defending the exchange rate at a fixed level. Moreover, the RBI relied on regulatory measures to curb speculative activities against the domestic currency by limiting the net open position to USD 100 million and restraining/monitoring offshore non-deliverable derivative contracts involving Indian rupee.

### Maritime Security

Beyond oil markets, the conflict has disrupted key maritime trade routes in the Red Sea, Gulf of Aden, and Arabian Sea. The resulting rise in freight rates, insurance premiums, and delivery times has implications for India's exports, fertilizer imports, and industrial supply chains.

India has responded proactively by enhancing maritime security operations, particularly under Operation Sankalp. The Indian Navy has expanded its presence in critical sea lanes, escorted merchant vessels, and responded to piracy and asymmetric threats such as drone and missile attacks. These actions serve not only commercial interests but also reinforce India's strategic objective of ensuring freedom of navigation in the Indian Ocean.

### Strategic Autonomy

India's diplomatic response to the West Asia conflict has been characterised by strategic neutrality and issue-based engagement. Maintaining working relationships with Iran, Israel, the Gulf states, the United States, and Russia allowed India to protect its economic and security interests without alignment-based constraints. This approach reflects India's broader doctrine of strategic autonomy, prioritising national interest, regional stability, and multilateral norms over bloc politics. Calls for de-escalation, respect for international law, and protection of maritime security have enhanced India's credibility as a responsible stakeholder while preserving policy flexibility.

### Conclusion

India has significant macroeconomic buffers - relatively comfortable foreign exchange reserves, a moderate current account deficit, low inflation, and resilient growth - which provide the capacity to absorb external shocks compared with earlier episodes, although vulnerabilities persist due to India's structural energy dependence. India's management of the West Asia conflict and its spillover effects reflect a multifaceted and increasingly mature policy response. Energy diversification, cautious monetary policy, calibrated fiscal management, proactive maritime security, and balanced diplomacy together constitute a coherent response to a complex external shock. To reduce India's energy dependence in the medium term, there is a need to accelerate structural reforms in the energy sector.

***Editor***

# Trade Receivables Discounting System (TReDS) – Draft Master Directions, 2026

On April 8, 2026, the Reserve Bank of India issued the Draft Reserve Bank of India (Trade Receivables Discounting System) Directions, 2026 for public comments, proposing a consolidated Master Direction to replace the existing TReDS guidelines last updated in July 2018, along with subsequent circulars. The draft aims to rationalise and harmonise the regulatory framework governing TReDS platforms, align it with developments in the factoring and payment systems landscape, and strengthen governance and risk management standards. Once finalised, the Directions will repeal earlier guidelines while preserving the validity of existing authorisations and approvals.

## Key Highlights

- **Unified Master Direction framework:** RBI proposes to move TReDS regulation from a guideline-based structure to a comprehensive Master Direction, consolidating instructions issued since 2014. This improves regulatory clarity, reduces fragmentation, and aligns TReDS oversight with RBI's broader approach to regulating payment system operators under the Payment and Settlement Systems Act, 2007.
- **Authorisation and capital requirements streamlined:** The draft formalises the authorisation process for TReDS platforms through RBI's online portal and prescribes a minimum net worth of ₹25 crore, aligned with other non-bank payment system operators. Existing TReDS entities that do not meet this threshold are required to comply by March 31, 2027, while maintaining the required net worth on an ongoing basis. The framework also explicitly incorporates RBI norms relating to change in control, foreign investment, and investments from FATF non-compliant jurisdictions.
- **Strengthened governance and fit-and-proper norms:** Detailed fit and proper criteria are prescribed for Directors and management of TReDS entities, covering integrity, financial soundness, criminal or regulatory actions, and disqualifications under law. Mandatory declarations and RBI's ability to seek inputs from other regulators represent a tightening of governance standards compared with the earlier framework.
- **Refined participant framework and alignment with factoring regulations:** The Directions clearly define eligible participants, including MSME sellers, buyers, financiers, insurance companies, and the National Credit Guarantee Trustee Company Limited. Financiers are explicitly restricted to entities permitted to undertake factoring under the Factoring Regulation Act, 2011, strengthening regulatory consistency across receivables financing channels.
- **Explicit support for credit risk mitigation:** A key enhancement over the 2018 guidelines is the explicit permission for financiers to avail credit guarantee cover from NCGTC for TReDS exposures. Financiers may also avail credit insurance, though such insurance is not recognised as a credit risk mitigant for prudential capital benefits. These measures are expected to encourage wider participation and improve risk sharing.
- **Operational and legal safeguards:** The draft reiterates that all TReDS transactions are without recourse to MSME sellers, places unconditional payment obligations on buyers once invoices are accepted, mandates registration of assignment of receivables with CERSAI, permits re-discounting subject to RBI's credit risk transfer norms, and strengthens reporting, settlement, and cybersecurity audit requirements.
- **Detailed reporting requirements**: Draft Directions indicate submission of annual net-worth certification and IS/cyber security audits, monthly TReDS transaction statistics and event-based filings for Board/Director changes.

The draft Directions seek to strengthen the institutional framework for TReDS by enhancing governance, improving legal certainty, enabling risk mitigation, and providing a more coherent and predictable regulatory environment for MSME receivables financing.

Please see RBI's press release dated April 8, 2026 for details (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=62526).

# RBI Discussion Paper - Exploring Safeguards in Digital Payments to Curb Frauds

On April 9, 2026, the Reserve Bank of India (RBI) released a Discussion Paper (DP) on "Exploring Safeguards in Digital Payments to Curb Frauds", seeking stakeholder feedback by May 8, 2026. The DP proposes additional preventive measures to address the rising incidence of frauds in digital payments, particularly Authorised Push Payment (APP) frauds. The paper reflects RBI's assessment that while system level and authentication controls have strengthened payment security, fraud risks increasingly arise from social engineering and user manipulation, necessitating further safeguards at the process and customer control level.

## Key Highlights

**Background and Rationale**: India's digital payments ecosystem has expanded rapidly, with digital transaction volumes rising nearly 38-fold over the past decade. While strong security measures such as mandatory additional factor authentication, transaction controls, tokenisation, and real time settlements have enhanced confidence, fraud complaints have increased sharply. RBI notes that most recent frauds are APP frauds, where customers themselves authenticate transactions under deception, leaving limited scope for post transaction recovery. Data from the National Cyber Crime Reporting Portal (NCRP) shows a sharp rise in both the number and value of digital payment frauds between 2021 and 2025.

Against this backdrop, the Discussion Paper explores whether introducing friction selectively in high-risk transactions can help disrupt fraud execution without undermining overall efficiency of digital payments.

(Continued)

### Key Safeguard Options Proposed

❑ **Lagged Credit for Authorised Push Payments (APPs):** As a preventive safeguard, RBI proposes introducing a mandatory time lag for select account-to-account Authorised Push Payment transactions above a prescribed threshold (suggested at ₹10,000). Under this proposal, a one-hour delay at the payer bank's end would allow customers to cancel transactions and enable banks to undertake additional scrutiny during the critical "golden hour". Merchant payments, recurring payments, and cheque-based transactions are proposed to be excluded, with flexibility for whitelisting trusted payees or time sensitive transactions.

❑ **Additional Authentication by a Trusted Person for High Value Transactions:** To enhance protection for vulnerable customer segments, RBI proposes an additional layer of authentication for high value APP transactions (suggested threshold of ₹50,000) initiated by senior citizens and persons with disabilities. Under this safeguard, such transactions would require confirmation by a trusted person nominated by the customer, providing an independent check against impersonation and coercion-based frauds. The framework includes cooling off periods for changes in trusted persons and opt out provisions with appropriate disclosures.

❑ **Account Level Controls on Receipt of Large Credits (Anti Mule Account Safeguard):** RBI proposes introducing limits on aggregate credits that can be received in certain accounts without enhanced due diligence, as a measure to curb misuse of bank accounts as mule accounts. An indicative annual threshold of ₹25 lakh is suggested, beyond which banks would allow credits only as "shadow credits", usable after satisfactory review of the underlying transaction and customer profile. If the bank is not satisfied within a defined period, the funds would be reversed to the source.

❑ **Customer Induced Controls and Universal Kill Switch:** To strengthen customer empowerment across digital payment channels, RBI proposes extending customer-controlled switch on/off facilities beyond cards to all digital payment modes at the account level. In addition, a universal kill switch is proposed, enabling customers to instantly disable all digital payment access in the event of suspected fraud. Reactivation would be permitted only after appropriate authentication or physical verification, with limited exemptions for transactions such as standing instructions or mandates.

The Discussion Paper signals a shift towards proactive, pre-emptive fraud controls, balancing frictionless payments with risk-based intervention. By focusing on APP frauds, vulnerable customers, mule accounts, and customer empowerment, RBI aims to strengthen trust in digital payments while preserving systemic efficiency and financial inclusion.

For details, please see RBI's Discussion Paper at (*https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=23810*).

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

The Reserve Bank of India (RBI) released the Draft Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Fourth Amendment Directions, 2026 on April 8, 2026, for public comments. The draft proposes a focused amendment to the guidelines governing inclusion of current-year profits in Common Equity Tier 1 (CET1) capital for the computation of the Capital to Risk-Weighted Assets Ratio (CRAR). The objective is to simplify capital recognition norms while preserving prudential discipline over the quality of regulatory capital.

**Regulatory Context**: Under the existing framework, commercial banks were allowed to include profits of the current financial year in CET1 capital on a quarterly basis only if incremental provisioning for non-performing assets (NPAs) in any quarter of the previous year did not deviate by more than 25 per cent from the annual average. RBI's supervisory review found this condition to be operationally restrictive and weakly aligned with capital quality objectives, prompting the proposed revision.

### Proposed Key Regulatory Changes

❑ **Removal of NPA-Linked Eligibility Condition:** The draft Directions propose to do away with the qualifying condition linked to deviations in incremental NPA provisions. Banks will no longer be restricted from including quarterly profits in CET1 capital due to provisioning volatility in the previous financial year.

❑ **Continued Quarterly Inclusion of Profits in CET1:** Commercial banks may continue to reckon profits of the current financial year for CRAR computation on a quarterly basis. The framework retains quarterly recognition but shifts emphasis away from provisioning-based triggers to profit quality and verification.

❑ **Mandatory Audit or Limited Review of Financial Statements:** Quarterly financial statements used for inclusion of profits in CET1 capital must be audited or subjected to limited review. This ensures that capital recognition is firmly anchored in independently validated financial results.

❑ **Standardised Formula for Eligible Profits:** The amount of profit eligible for inclusion in CET1 capital must be computed using a prescribed regulatory formula, under which eligible profits are calculated after deducting an amount linked to the bank's average dividend payout over the preceding three financial years. This adjustment ensures that a conservative portion of profits remains excluded from regulatory capital, strengthening loss-absorption capacity.

❑ **Full Deduction of Cumulative Losses:** Any cumulative net loss up to the end of a quarter must be fully deducted while computing CET1 capital for that quarter. This prevents overstatement of capital during periods of uneven profit performance and ensures that CET1 reflects true net capital strength.

The Draft Fourth Amendment Directions apply to commercial banks governed by the Prudential Norms on Capital Adequacy Directions, 2025. RBI has invited stakeholder comments up to April 29, 2026, following which the Directions will be finalised. The amendments are proposed to come into force with immediate effect upon notification.

The draft amendment represents a calibrated regulatory refinement rather than a structural overhaul. By removing the NPA-linked restriction while reinforcing audit requirements, formula-based profit adjustments, and loss deductions, RBI aims to improve operational flexibility without compromising capital quality. The proposal enhances consistency and transparency in CET1 capital computation, while ensuring that only verifiable, sustainable, and prudently adjusted profits contribute to regulatory CET1.

For details, refer to RBI draft notification dated April 8, 2026 (*https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=4968*).

## 1. Major Weekly Indicators

| As on week ended (2026) | 06-Feb | 13-Feb | 20-Feb | 27-Feb | 06-Mar | 13-Mar | 20-Mar | 27-Mar | 3-Apr | 10-Apr | 17-Apr | 24-Apr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Liquidity (Injection (+)/ Absorption (-)) (₹ trillion) | -4.52 | -4.59 | -3.6 | -4.24 | -3.96 | -3.31 | -1.67 | -2.42 | -4.02 | -6.41 | -4.92 | -3.46 |
| Weighted Average Call Money Rate (%) | 5.07 | 5.03 | 5.08 | 5.09 | 5.07 | 5.08 | 5.30 | 5.37 | 5.65 | 5.06 | 5.08 | 5.19 |
| 91-Day Treasury Bill (Primary) Yield (%) | 5.34 | 5.32 | 5.32 | 5.3 | 5.31 | 5.32 | 5.33 | .. | .. | 5.31 | 5.21 | 5.22 |
| 182-Day Treasury Bill (Primary) Yield | 5.60 | 5.56 | 5.54 | 5.51 | 5.54 | 5.54 | 5.54 | .. | .. | 5.53 | 5.48 | 5.47 |
| 364-Day Treasury Bill (Primary) Yield | 5.65 | 5.61 | 5.6 | 5.59 | 5.60 | 5.64 | 5.65 | .. | .. | 5.63 | 5.59 | 5.60 |
| 10-Year G-Sec Par Yield (FBIL) (%) | 6.82 | 6.75 | 6.78 | 6.71 | 6.76 | 6.74 | 6.85 | 7.02 | 7.19 | 6.99 | 6.99 | 7.02 |
| INR-US$ Spot Rate | 90.42 | 90.74 | 90.95 | 90.95 | 91.68 | 92.44 | 93.35 | 94.60 | 93.21 | 92.65 | 92.72 | 94.30 |
| Forex Reserve (USD Billion) | 717.06 | 725.73 | 723.61 | 728.49 | 716.81 | 709.76 | 698.35 | 688.06 | 697.12 | 700.95 | 703.31 | 698.49 |
| Brent Crude Spot Price (USD/Barrel) | 63.77 | 63.05 | 72.75 | 71.32 | 96.74 | 103.23 | 118.42 | 121.47 | 111.69 | 119.07 | 98.63 | 111.86 |
| 10-Year US Treasury Yield to Maturity (%) | 4.22 | 4.04 | 4.08 | 3.97 | 4.15 | 4.28 | 4.39 | 4.44 | 4.35 | 4.31 | 4.26 | 4.31 |
| Gold Spot Price (₹/10 gram) (in Lakhs) | 1.55 | 1.56 | 1.57 | 1.62 | 1.62 | 1.59 | 1.45 | 1.45 | 1.50 | 1.53 | 1.55 | 1.53 |

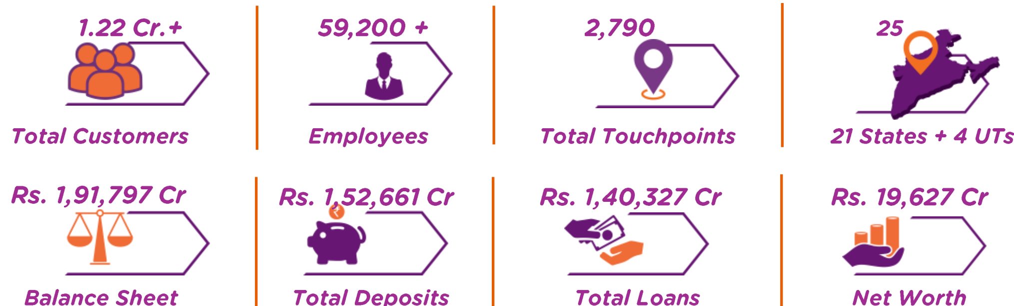
**Source: Reserve Bank of India, U. S. Energy Information Administration, Federal Reserve Board, Bullions.co.in.**

## 2. Select Monthly Indicators

| Monthly | Mar '25 | Apr '25 | May '25 | Jun '25 | Jul '25 | Aug '25 | Sep '25 | Oct '25 | Nov '25 | Dec '25 | Jan '26 | Feb '26 | Mar '26 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Reserve Money (₹ Trillion) | 48.29 | 48.61 | 49.63 | 49.24 | 48.88 | 49.15 | 48.59 | 48.34 | 48.14 | 47.99 | 49.23 | 49.89 | 51.20 |
| Broad Money (₹ Trillion) | 272.87 | 276.31 | 279.90 | 282.30 | 281.40 | 283.09 | 283.50 | 289.98 | 291.36 | 298.01 | 299.04 | 302.98 | 314.66 |
| Consumer Price Index Inflation (Y-o-Y % Change) | 3.34 | 3.16 | 2.82 | 2.10 | 1.61 | 2.07 | 1.44 | 0.25 | 0.71 | 1.33 | 2.74 | 3.21 | 3.40 |
| Index of Industrial Production (Y-o-Y % Change) | 3.90 | 2.60 | 1.90 | 1.50 | 4.30 | 4.10 | 4.60 | 0.40 | 7.20 | 8.00 | 5.10 | 5.10 | 4.10 |
| Gross GST Collection (₹ Trillion) | 1.83 | 2.37 | 2.01 | 1.85 | 1.96 | 1.86 | 1.89 | 1.96 | 1.70 | 1.75 | 1.93 | 1.84 | 2.00 |
| Overall Trade Balance (Goods +Services) (USD Billion) | -3.55 | -8.59 | -6.12 | -2.57 | -10.90 | -10.89 | -13.32 | -24.24 | -7.14 | -2.36 | -13.14 | -9.26 | -2.44 |
| Weighted Average Term Deposit Rate of SCBs (%) - Monthly average | | | | | | | | | | | | | |
| Fresh Term Deposits | 6.65 | 6.34 | 6.11 | 5.75 | 5.61 | 5.56 | 5.60 | 5.57 | 5.59 | 5.67 | 5.66 | 5.65 | 6.07 |
| Outstanding Term Deposits | 7.03 | 7.10 | 7.07 | 7.00 | 6.92 | 6.87 | 6.82 | 6.78 | 6.73 | 6.68 | 6.64 | 6.62 | 6.62 |
| Weighted Average Lending Rate of SCBs (%) - Monthly average | | | | | | | | | | | | | |
| Fresh Loans | 9.35 | 9.26 | 9.20 | 8.62 | 8.81 | 8.74 | 8.50 | 8.64 | 8.71 | 8.28 | 8.49 | 8.44 | 8.40 |
| Outstanding Loans | 9.77 | 9.70 | 9.69 | 9.44 | 9.38 | 9.32 | 9.26 | 9.24 | 9.2 | 9.06 | 9.04 | 9.00 | 8.99 |

**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 March 2026)

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