

Macro & Matrices

Editor: Dr. B. K. Bhoi

Preview

- 16th Finance Commission Award: Tilted Towards Efficiency
- Risk-based Premium Framework for Deposit Insurance in India
- RBI (NBFC - Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026
- Discussion Paper on Licensing of Urban Co-operative Banks
- Key Statistical Tables

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16th Finance Commission Award: Tilted Towards Efficiency

The 16th Finance Commission (16th FC), chaired by Dr. Arvind Panagariya, was constituted on December 31, 2023, to recommend the fiscal framework for the five years from April 1, 2026, to March 31, 2031. The Commission submitted its report to the President of India on November 17, 2025, and tabled in the Parliament on February 1, 2026. An attempt has been made here to reflect briefly on the rationale behind its key recommendations.

Key Recommendations

The states' share in the divisible pool of central taxes, popularly known as vertical transfer, is retained at 41 per cent. This aligns with the 15th FC's recommendation, as against to the states' demand to increase the share to 50 per cent. The 16th FC recommended several changes in the distribution of corpus among states to achieve multiple objectives of horizontal devolution (see Table 1 below), such as correcting fiscal imbalance, ensuring an equitable distribution based on needs and capacity, and promoting efficiency/fiscal discipline. Thus, the 16th FC award is perceived as a continuity with change that will govern India's fiscal federalism for the next five years.

Table 1: Weights of Horizontal Devolution (%)

Criteria	15th FC (2021-2026)	16th FC (2026-2031)
Income Distance	45.0	42.5
Population (2011 census)	15.0	17.5
Demographic Performance	12.5	10.0
Area	15.0	10.0
Forest	10.0	10.0
Tax and Fiscal Efforts	2.5	-
Contribution to GDP	-	10.0
Total	100	100

Source: Reports of the 15th and 16th Finance Commissions.

Horizontal Devolution

To maintain equity among states, income distance (per capita GSDP Distance) continued to attract the highest weight of 42.5 per cent in 16th FC, although it was 2.5 per cent lower than that under 15th FC. The 16th FC defined income distance as the difference between the per capita GSDP of a state and the average of the per capita GSDP of the top three large states over the period 2018-19 and 2023-24, excluding the pandemic year 2020-21.

While the weight of population, based on the 2011 census, was revised upward by 2.5 per cent to 17.5 per cent, that of demographic performance was reduced by the same magnitude to 10 per cent. The 16th FC redefined demographic performance in terms of the 'inverse of population growth' between 1971 and 2011, unlike the 'inverse of total fertility control' adopted by the 15th FC.

For the first time, a new criterion, "Contribution to GDP", was introduced with a 10 per cent weight to reward efficiency. Consequently, the weight of 'area' was reduced by five per cent and income distance by 2.5 per cent, in addition to the complete abolition of 'tax and fiscal efforts' (2.5 per cent under 15th FC).

Economically stronger states and those that effectively

managed population growth are the primary gainers. The shares of all five southern states (Karnataka, Kerala, Andhra Pradesh, Telangana, and Tamil Nadu) have increased. Maharashtra, Gujarat, Haryana, and Punjab have also benefited due to the new GDP-based efficiency criterion. Moreover, Assam, Himachal Pradesh, Jharkhand, Mizoram, and Uttarakhand saw marginal increases in their inter-se shares. Uttar Pradesh and Bihar witnessed the most notable declines, though their absolute amount still increased due to a larger overall divisible pool. Madhya Pradesh, West Bengal, Odisha, and Rajasthan registered marginal losses. Most North-Eastern states (except Assam and Mizoram) faced reductions.

Grants-in-Aid to States

Unlike general-purpose devolution, FCs provide grants-in-aid to states for specific purposes. The 16th FC has recommended grants worth Rs 9.47 lakh crore over the five years, comprising: (i) local governments (Rs 7.91 lakh crore), and (ii) disaster management (Rs 1.56 lakh crore) (See Table 2). The 16th FC has discontinued (i) revenue deficit grants, (ii) sector-specific grants, and (iii) state-specific grants recommended by the 15th FC.

Table 2: Grants-in-Aid to States

Grants	Amount (Rs. Crore)
Local Governments	7,91,493
Rural Local Bodies	4,35,236
Urban Local Bodies	3,56,257
Disaster Management	1,55,916
Total	9,47,409

Source: 16th Finance Commission.

The grants for local governments shall be split in the ratio of 55:45, with rural and urban local bodies receiving Rs 4.35 lakh crore and Rs 3.56 lakh crore, respectively. The grants for rural local bodies have two components - basic (80%) and performance-based (20%). Grants for urban local bodies have four components: basic (Rs. 2,32,125 crore), performance-based (Rs. 58,032 crore), special infrastructure grants (Rs. 56,100 crore), and urbanisation premium grants (Rs. 10,000 crore) - the last two are meant for comprehensive waste-water management system in cities and merger of peri-urban villages into adjoining urban local body areas, respectively.

The entry-level criteria to be fulfilled to avail local body grants are: (i) constitution of the local bodies as per the Constitution, (ii) publication of provisional and audited accounts of the local bodies, and (iii) timely constitution of the State Finance Commission. While 50 per cent of the basic grant will be untied, the rest will be tied to: (i) sanitation and solid waste management, and/or (ii) water management.

These grants for local bodies are further divided into state performance grants (a minimum benchmark for transfers to local bodies from their own resources) and local body performance grants (linked to achievement of minimum targets specified by the Commission for own-source revenue growth).

(Continued on the next page)

Fiscal Discipline

The Commission has recommended a fiscal roadmap for the Central and State governments to reduce fiscal deficit to 3.5 per cent of GDP and 3 per cent of GSDP by 2030-31, respectively. It also recommended discontinuing the practice of off-budget borrowings by states; such borrowings shall be strictly brought onto their budgets. According to the Commission's projection, the combined debt of the Central and State governments may decline from 77.3% of GDP in 2026-27 to 73.1% in 2030-31.

To achieve these targets, the Commission recommended that states should actively pursue the privatisation of electricity distribution companies (DISCOMs), review and rationalise their subsidy expenditure, particularly for schemes providing unconditional cash transfers to untargeted beneficiaries, and close 308 inactive State Public Sector Enterprises (SPSEs) under a state-level PSEs disinvestment policy.

Editor

Risk-based Premium Framework for Deposit Insurance in India

On February 6, 2026, the Deposit Insurance and Credit Guarantee Corporation (DICGC), with approval from the Reserve Bank of India, notified the implementation of a Risk-Based Premium (RBP) Framework for deposit insurance, to be effective from April 1, 2026. This marks a shift from the long-standing flat-rate premium system (now 12 paise per Rs. 100 of assessable deposits per annum), aligning premiums more closely with the risk profile of insured banks. The framework aims to incentivise sound risk management, differentiate better-managed banks through lower premiums, and strengthen the Deposit Insurance Fund (DIF).

Key Highlights

- **Shift from flat-rate to risk-sensitive premium:** Banks will now be charged deposit insurance premiums based on a risk assessment rather than a uniform rate. Two risk models are introduced. Tier 1 is introduced for scheduled commercial banks (excluding RRBs) and Tier 2 for RRBs and co-operative banks. Under Tier 1 model, risk rating will combine supervisory ratings, quantitative assessment, and potential loss to the DIF in case of failure of insured banks, while Tier 2 model will employ the last two criteria. The weightage of supervisory ratings will be shifted to quantitative assessment for small foreign banks and Small Finance Banks.

- **Four-tier rating and differentiated premium slabs:** Based on the risk assessment score, each bank will be classified into four categories; A, B, C and D, with corresponding premium rates of 8, 10, 11, and 12 paise (per Rs. 100 of assessable deposits), respectively. Category A banks will receive a 33.33 per cent discount from the current card rate, reflecting the lowest risk.

- **Vintage-based incentives to reward long-term stability:** Banks with longer periods of uninterrupted, distress-free operations can receive up to 25 per cent additional discount, applied over and above the risk-model incentive. Tier-1 banks will get 1 per cent incentive per completed year (max 25 per cent) subject to banks having no record of restructuring and major distress. Tier-2 banks (RRBs, StCBs, DCCBs) and Tier -4 banks (large UCBs with deposits > Rs. 10,000 crore) will get a flat 25 per cent incentive if they have 25 years of satisfactory

conduct without any restructuring and major distress.

- **Effective premium determined by dual-incentive structure:** The final payable rate will be determined by the following formula:

$$\text{Effective Rate} = \text{Card Rate} \times (1 - \text{Risk Model Incentive}) \times (1 - \text{Vintage Incentive}).$$

Banks under Supervisory Act Framework/Prompt Corrective Action and certain bank types (LABs, Payments Banks) will continue to pay at the card rate due to data limitations or supervisory concerns.

- **Supervisory override to maintain prudential safety:** DICGC retains the right to override the computed rating if adverse developments arise, requiring the bank to pay a higher premium until normalcy is restored. This reinforces supervisory vigilance.

- **Confidentiality of ratings and revised disclosure norms:** Banks are barred from disclosing their DICGC risk category or using it for business solicitation. The earlier requirement to publish the premium amount in notes to accounts will be discontinued; banks will instead state that applicable premiums were paid on time.

- **Operational guidelines on data, timelines and systems:** Premiums for each half-year will be based on the latest available audited data and supervisory rating. Payments must be made through DICGC's Samyak portal within the statutory timelines. Risk category will be communicated confidentially to the MD/CEO of the insured bank.

For details, please see DICGC's Circular dated February 6, 2026 (<https://www.dicgc.org.in/sites/default/files/2026-02/implementation-of-rbp-framework.pdf>).

RBI (NBFC - Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026

The Reserve Bank of India issued the Draft Amendment Directions, 2026 on February 10, 2026, to refine the regulatory framework governing NBFCs under the Scale Based Regulation regime. The amendments introduce a clearer classification structure, streamline registration and exemption processes for entities without public fund exposure and customer interface, align terminology across all Master Directions, and strengthen supervisory guardrails. These changes aim to enhance regulatory clarity while reducing compliance burden for low risk NBFCs.

Key Amendments

- **Introduction of a Distinct Type I and Type II NBFC Framework:** The Directions introduce a clearer classification system under which Type I NBFCs are entities that do not avail public funds and do not have customer interface, and Type II NBFCs are all others. Additional definitions, including indirect receipt of public funds, have been added to ensure uniform terminology across the framework.
- **Revised Registration and Deregistration Process for Type I NBFCs:** NBFCs with asset size below one thousand crore rupees that operate without public funds and customer interface are exempted from registration. A structured deregistration process has been introduced requiring an application from existing Type I NBFCs through PRAVAAH, latest by September 30, 2026, enclosing the original Certificate of Registration, audited financials for the last three years, a statutory auditor certificate confirming non access to public funds and absence of customer interface, and a Board resolution affirming long term adherence to this model. Deregistered entities must disclose their status as Unregistered Type I NBFCs in the Notes to Accounts.
- **Mandatory Registration for Larger Non-Public Fund NBFCs:** Entities operating without public funds and without customer interface but having asset size of one thousand crore rupees or more must obtain a Certificate of Registration as Type I NBFCs. They can avail the relaxed regulatory regime only after obtaining the Certificate of Registration.

- **Annual Compliance Conditions for Exempt Entities:** Unregistered Type I NBFCs must pass an annual Board resolution confirming the absence of public funds and customer interface, make appropriate 'Notes to Accounts' disclosures, and ensure statutory auditors file exception reports in case of any breach. Violation of these conditions may result in loss of exemption and supervisory action.
- **Additional Requirements for Overseas Financial Sector Investments:** Unregistered Type I NBFCs intending to undertake overseas investments in the financial services sector must first obtain registration as Type I NBFCs and comply with the applicable Overseas Investment Directions, including obtaining prior RBI approval.
- **Clarifications on Public Funds and Customer Interface Definitions:** The Directions clarify that public funds include loans from directors and shareholders, while customer interface includes lending, guarantees or any financial product or service offered on commercial terms, including to group entities. Employee loans under employment terms, and not on commercial terms, are not regarded as customer interface.
- **Supervisory Clarifications and Scope of Exemptions:** RBI clarifies that the exemption for Unregistered Type I NBFCs applies only to registration requirements and not to other provisions of Chapter IIIB of the RBI Act. RBI retains authority to issue instructions where risks arise, undertake enforcement under Chapter V, and override registration or deregistration decisions when necessary.
- These Directions shall come into force from April 01, 2026.

For details, please see RBI's Draft Circular dated February 10, 2026

(https://www.rbi.org.in/scripts/bs_viewcontent.aspx?id=4864).

Discussion Paper on Licensing of Urban Co-operative Banks

The Reserve Bank of India (RBI) released a Discussion Paper on January 13, 2026, to initiate consultations on resuming licensing of Urban Co-operative Banks after a pause of more than two decades. The paper examines the evolution of the UCB sector, reviews supervisory experience since 2004, outlines improvements in financial strength and regulatory oversight, and presents key considerations for determining whether new licenses should be issued. The objective is to obtain stakeholder views on eligibility norms, governance expectations, capital requirements and risk safeguards for potential new UCBs.

Key Highlights

- **Assessment of Sectoral Evolution and Regulatory Strengthening:** The paper highlights that UCBs have undergone significant changes, including consolidation of weak banks, introduction of a tiered regulatory framework, and enhanced supervisory powers following the 2020 amendments to the Banking Regulation Act. The Umbrella Organization has also become operational to support

technology and liquidity needs of smaller UCBs.

- **Proposed Eligibility Criteria for New UCB Applicants:** If licensing resumes, the Discussion Paper proposes stringent criteria focusing on large and financially sound co-operative credit societies. Suggested entry norms include minimum capital of Rs. 300 crore, at least ten years of active operations, five years of strong financial performance, assessed CRAR above 12 per cent, net NPA ratio not exceeding 3 per cent, and preference for multi state entities with wider geographic presence.

RBI invites stakeholder comments through the 'Connect to Regulate' portal by February 13, 2026. Feedback will inform the drafting of detailed licensing guidelines, which will be released for public consultation.

For details, see RBI's Circular dated January 13, 2026 (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=62028).

1. Major Weekly Indicators

As on week ended (2025-26)	05-Dec	12-Dec	19-Dec	26-Dec	02-Jan	09-Jan	16-Jan	23-Jan	30-Jan	06-Feb	13-Feb	20-Feb	27-Feb
Liquidity (Injection (+)/ Absorption (-)) (₹ trillion)	-2.38	-1.73	-0.75	0.52	-0.72	-0.35	-1.35	-1.01	-1.06	-4.52	-4.59	-3.60	-4.24
Weighted Average Call Money Rate (%)	5.37	5.19	5.37	5.43	5.43	5.37	5.36	5.43	5.34	5.07	5.03	5.08	5.09
91-Day Treasury Bill (Primary) Yield (%)	5.35	5.27	5.28	5.26	..	5.31	5.34	5.49	5.5	5.34	5.32	5.32	5.30
182-Day Treasury Bill (Primary) Yield	5.53	5.48	5.50	5.48	..	5.54	5.6	5.66	5.68	5.60	5.56	5.54	5.51
364-Day Treasury Bill (Primary) Yield	5.55	5.49	5.50	5.54	..	5.58	5.63	5.72	5.74	5.65	5.61	5.60	5.59
10-Year G-Sec Par Yield (FBIL) (%)	6.55	6.66	6.67	6.65	6.69	6.71	6.75	6.74	6.77	6.82	6.75	6.78	6.71
INR-US\$ Spot Rate	89.92	90.39	90.20	89.83	90.12	90.14	90.65	91.62	91.9	90.42	90.74	90.95	90.95
Forex Reserve (USD Billion)	687.26	688.95	693.32	696.61	686.8	687.19	637.33	709.41	723.77	717.06	725.73	723.61	728.49
Brent Crude Spot Price (USD/Barrel)	64.42	62.11	61.35	60.24	61.98	65.11	66.97	68.16	72.25	70.45	69.96	72.75	71.32
10-Year US Treasury Yield to Maturity (%)	4.14	4.19	4.16	4.14	4.19	4.18	4.24	4.24	4.26	4.22	4.04	4.08	3.97
Gold Spot Price (₹/10 gram) (in Lakhs)	1.30	1.34	1.34	1.40	1.36	1.39	1.43	1.56	1.5	1.55	1.56	1.57	1.62

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

2. Select Monthly Indicators

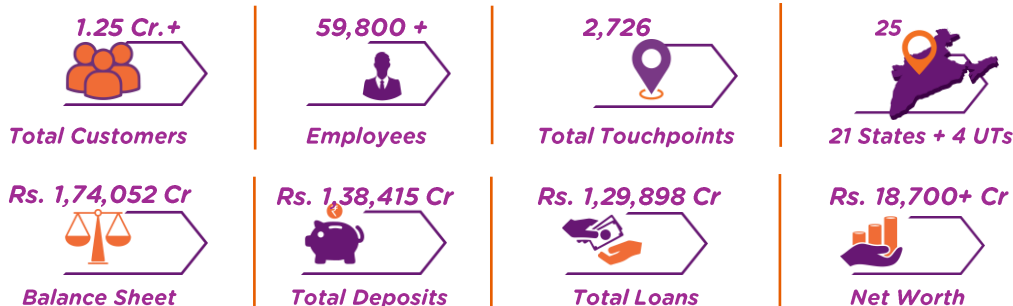
Monthly	Jan '25	Feb '25	Mar '25	Apr '25	May '25	Jun '25	Jul '25	Aug '25	Sep '25	Oct '25	Nov '25	Dec '25	Jan '26
Reserve Money (₹ Trillion)	46.53	47.12	48.29	48.61	49.63	49.24	48.88	49.15	48.59	48.34	48.14	47.99	49.23
Broad Money (₹ Trillion)	266.93	269.13	272.87	276.31	279.90	282.30	281.40	283.09	283.50	289.98	291.36	298.01	299.04
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	1.33	2.75
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	7.20	7.8	4.80
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	1.75	1.93
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	-2.36	-13.14
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	5.67	5.66
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	6.68	6.64
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	8.64	8.71	8.28	8.67
Outstanding Loans	9.87	9.80	9.77	9.70	9.69	9.44	9.38	9.32	9.26	9.24	9.2	9.06	9.04

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)



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

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