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CANOMICS

YOUR WINDOW TO THE ECONOMIC PULSE

MONTHLY MAGAZINE
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अर्थनीति

॥ वार्ता कृषिपाशुपाल्ये वाणिज्या च ॥

Agriculture, animal husbandry, and trade constitute Vārtā (the science of economics/ livelihood)

--Kautilya

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Message from MD & CEO...

Calendar year 2025 was unprecedented. The scale and magnitude of geo political developments that unfolded during the year was beyond any stretch of imagination-a throwback to Cold War Days. This has unsettled the existing global order with potential ramifications for both developed and emerging market economies. However, India shows resilience even amidst this tumultuous phase. The combination of repo rate cuts, income tax changes and tweaks in GST rates boosted consumption and resulted into better-than-expected economic growth. The BFSI sector performed exceptionally well. Asset quality in the banking sector improved significantly and capital adequacy is well above the minimum threshold which would facilitate double digit credit growth. However, lagging deposit growth, especially low-cost deposits, remain an industry concern.

The strength displayed by the economy resonates in the banking sector. Bank credit growth is in double digits, growing more than 12% on an annual basis. This has been fairly broad-based with agriculture, MSME and personal loan categories growing at 10-14%, as per latest available statistics. The 125-bps cut in repo rate has catalyzed the process which augurs well for consumption led economic growth. These rate cuts have made retail loans including housing, automobile and education loans cheaper resulting in a win-win situation for both Banks and borrowers. Loan against gold jewellery has also seen a remarkable surge which can be attributed to rising gold prices. Now silver is also emerging as a useful asset class and silver backed loans too are possible. This is useful for individuals in need of emergency funds as they can avail more by pledging same quantum of gold or silver due to rising prices of these metals. Overall bank credit growth for FY 2025-26 is expected to remain healthy at 11-12%.

The central bank is taking enough measures to ensure financial stability. In the face of global headwinds and currency, RBI is intervening in a timely manner to prevent undue volatility in currency movements. In the last two months, it has managed to keep INR range bound between 89.8 to 90 levels. Simultaneously, OMOs, VRRs and FX swaps are being deployed to ensure orderly liquidity management and ensure that short term rates are range-bound preventing volatility. The transmission of monetary policy is satisfactory with weighted average rates on fresh loans declining by 69 bps. These supportive measures go a long way in protecting the margins of banking industry at a time when interest rates are declining and resource mobilization is highly competitive.

Calendar year 2025 witnessed huge traction on the reforms front by both RBI and Government. Strong FDI flows were seen in the banking space which is expected to provide growth capital. RBI has proposed new norms enabling domestic Banks to participate in acquisition financing, Central Bank Digital Currency (CBDC) is gaining traction, Cross border transactions using CBDC is also under consideration. Further, Government initiatives like simplification of income tax Codes, notification of a new labour code, GST rate rationalization, relief measures for exporters and efforts to enable Indian Banks gain scale and strength are underway. These measures will catalyze the growth of banking sector and the economy in the years ahead.

All eyes are now on the upcoming Union Budget. It is expected to indicate strong reform momentum. There is expected to be renewed thrust on sunrise sectors and Research & development to enhance productivity led growth. India is now a shining example of stability and economic strength amidst global headwinds.

Year 2026 has started on a good note for India on economic and diplomatic fronts. We are on the threshold of another stellar year which should augur well for all stakeholders.

Hardeep Singh Ahluwalia
Managing Director & Chief Executive Officer (I/c)
& Executive Director

From the Desk of the Chief Economist



For India, the New Year has started on a positive note, major multilateral agencies and think-tanks have upgraded the growth outlook for India and real GDP growth is expected to range between 6.5% to 7%, notwithstanding, a slight moderation which is likely due to a shift to the new base year. Reform momentum would be intact with renewed thrust on manufacturing, research and development as well as new and renewable energy sources. While speculation was rife that US tariffs and a protectionist global order would exact a toll on our growth, we have emerged largely unaffected. This is attributable to the remarkable pace at which we fostered trade and economic relations with other economies, hedging ourselves against trade risks by diversification.

India effectively leveraged her global standing to conclude Free Trade Agreements (FTAs) and Comprehensive Economic Partnership Agreements (CEPA) with Europe, Australia, Canada and GCC countries. In the context of the recent EU-India FTA which is expected to be signed by the end of this month, EU was categorical in stating that it views trade ties with India as a great opportunity to reinvigorate its economic growth. It is also pertinent to note that from a policy of non-alignment, we transitioned to 'constructive alignment' to protect our interest in a dynamic and volatile geo-political order.

Demand drivers improved considerably. Rural demand, which had been soft for the past couple of years, is showing signs of recovery, evidenced by sales in the FMCG sector and waning demand for MNREGA work. Advances estimates of GDP show consumption to nominal GDP ratio surging past 61% with real consumption growing 7.2% annually. The GST rate tweaks and 125 bps repo rate cut will amplify this trend. Personal loans are growing fast though risk from unsecured segment needs careful monitoring.

Public capex has been expanding briskly though private capex momentum is below expectations. For the past three years, Union Budget has continued interest free capex loans to states. In an indication of sound fiscal-monetary coordination, the central bank cut the repo rate by 125 bps, which facilitates hassle free debt management and helps to rein in fiscal deficit, besides doubling up as a growth booster for the economy.

Current account deficit is well managed at below 1%, buoyed by strong remittance flows and service exports, leaving little room for concern. External debt to GDP ratio has been steadily declining.

To be sure, rupee depreciated by 6% this year, earning the tag of the worst performing currency. However, this is not due to weakness in our domestic fundamentals and is attributable to extraneous factors over which we have little control- geopolitics being at the forefront. However, rupee weakness will help boost export competitiveness and alleviate some pain inflicted on certain sectors due to tariffs. An RBI study estimates that 5%-rupee depreciation increases GDP growth by 25 bps through the export channel.

The reforms unleashed over the past decade will help us to face 2026 with greater poise and confidence. Investor appetite is expected to improve from the second half of the fiscal in anticipation of improved corporate performance. Our demographic profile and vast talent pool make us too hard to be ignored by the rest of the world.

Dr. Madhavankutty G.
Chief Economist



Movement of Key Market Indicators during the Month...

Indicators	High	Low	Average	Remarks
Sensex	85712	84391	85050	Sensex remained range-bound with marginal volatility during the month amid mixed global cues. Investor sentiment was influenced by profit booking at higher levels, while selective buying in frontline stocks provided support.
Bankex	67018	65888	66347	Bankex witnessed moderate fluctuations reflecting cautious investor approach toward the banking sector. Concerns over asset quality and margin pressures were balanced by stable credit growth and improved capital adequacy.
India G Sec Yield	6.67	6.49	6.57	G-Sec yield stayed elevated during the month due to persistent inflation concerns and expectations of a prolonged tight monetary stance. Higher borrowing requirements and global yield movements also exerted upward pressure on long-term yields.
US Treasury	4.20	4.07	4.14	US Treasury yields remained firm amid strong economic data and sticky inflation in the US. Market participants continued to factor in delayed rate cuts by the Federal Reserve, keeping yields elevated through the month.
Gold (Per troy \$)	4533	4190	4316	Gold prices showed upward bias supported by global uncertainties and safe-haven demand. Expectations of monetary easing in the medium term and geopolitical risks provided additional support to prices.
Brent Oil	63.71	58.77	61.62	Brent crude prices softened during the month due to demand concerns and adequate global supply. Weak global growth outlook and easing geopolitical tensions contributed to the decline in oil prices.
USD/ INR	91.03	89.27	90.02	The rupee remained under pressure against the US dollar due to capital outflows and a strong dollar index. However, RBI intervention and stable domestic fundamentals helped contain excessive volatility.

Key Rates of Key Players

Rates	SBI	PNB	BOB	Canara	UBI	BOI	Highest Rate	Lowest Rate	Any Change In the Month
RLLR	7.90	8.10	7.90	8.00	8.00	8.10	8.10 (PNB, BOI)	7.90 (SBI, BOB)	Change all Banks
MCLR (1Yr.)	8.70	8.75	8.75	8.70	8.60	8.85	8.85 (BOI)	8.60 (UBI)	Change SBI
Term Dep (1Yr.)	6.25	6.10	6.25	5.90	6.25	6.25	6.25 (SBI, BOB, UBI, BOI)	5.90 (Canara)	Change Canara, PNB

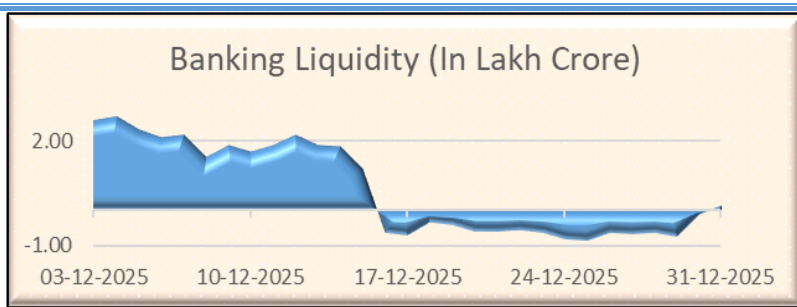
Domestic Policy Rates

SDF	MSF	Fixed Rev Repo	CRR	SLR	MCLR (overnight)	Term Dep. >1 yr
5.00	5.50	3.35	3.00	18.00	7.80-7.95	5.85 - 6.60
Change	Change	Change	Unchanged	Unchanged	Unchanged	Unchanged

Policy Context: Policy rates were changed during December 2025, with RBI maintaining a calibrated stance to ensure adequate liquidity while keeping inflation risks in check.

Liquidity Position During the Month (In Lakhs Cr.)

Opening	Closing	Highest	Lowest	Average
2.59 (surplus)	0.17 (surplus)	2.71 (surplus)	-0.85 (deficit)	0.73 (surplus)



Policy Implications

System liquidity remained tight during the month, prompting RBI to intervene through measures such as OMO operations and dollar swaps to ease liquidity pressures and ensure orderly market functioning

Global Policy Rates Status

RBI Repo Rate	US Fed	European Central Bank	Bank of Japan	Bank of England	Bank of Indonesia	PBOC, China	Bank of Korea
5.25	3.75-4.0	2.15	0.75	3.75	4.75	3.00	2.5

Quick Observations: Global central banks largely remained on hold amid easing inflation trends, while monitoring growth risks and global financial market volatility.



Top 3 Focus of the Month ...

US Economy's Rollercoaster Ride

The U.S. Bureau of Economic Analysis released final third-quarter (July-September) GDP figures on December 23, showing growth accelerated to a robust 4.3% annualized rate — the fastest in two years and well above economists' expectations of around 3.3%. This was driven by strong consumer spending (up 3.5%) and a rebound in exports. The news boosted stock markets and highlighted the economy's resilience despite earlier concerns

The Fed's Third Cut: Easing Amid Division

On December 10, the Federal Reserve delivered its third consecutive 25-basis-point rate cut, bringing the benchmark range to 3.50%-3.75%. Chair Jerome Powell emphasized support for a weakening job market, even as inflation remained sticky and the economy showed vigor. The decision wasn't unanimous—dissents highlighted deep divisions within the FOMC. Projections signaled caution ahead, with only limited cuts expected in 2026. Markets interpreted it as a "hawkish cut," pushing back against aggressive easing while keeping the door open for more if employment falters.

RBI's Growth Boost: Rate Cut and Upward GDP Revision

In its December 5 policy review, the Reserve Bank of India unanimously slashed the repo rate by 25 basis points to 5.25%—part of a cumulative 125 bps easing cycle in 2025. Governor Sanjay Malhotra cited benign inflation (projected at just 2% for FY26) and resilient growth as key drivers.

The RBI also upgraded its FY26 GDP forecast to 7.3% (from 6.8%), with Q3 at 7.0% and Q4 at 6.5%. This reflected strong Q2 performance (8.2% growth) fueled by consumption, GST rationalization and government capex. The move signaled a pivot toward supporting momentum amid emerging slowdown risks.

Major Economies & their Economic Soundness...

Economic Health Indicators

Country	Nominal GDP (USD Trillion) (Jan-Dec 2024)	GDP Growth Annual Growth rate (Sep-2025)	Gross Debt (of GDP) Dec-2024	Unemployment Rate Nov-2025	Inflation Rate (%) Nov-2025
USA	29.30	2.3	124%	4.6%	2.7
China	18.79	4.8	88.3%	5.1%	0.7
Germany	4.68	0.3	62.2%	6.3%	2.3
Japan	4.02	1.1	237%	2.6%	2.9
India	3.91	8.2	81.9%	4.7%	0.7
UK	3.64	1.3	93.6%	5.1%	3.2
France	3.16	0.9	113%	7.7%*	0.9
Italy	2.37	0.6	135%	6.0%**	1.1
Canada	2.24	1.4	111%	6.5%	2.2
Russia	2.17	0.6	16.4%	2.1%	6.6

*Data Sep-2025, **Oct 2025

Major Economies & Their Bond Yield...

Bond Yield (%) of Major Economies

Country	10Y Bond Yield (31-Dec-25)	Variation Vs. US T-Bill	Observations
US	4.17	---	High debt levels will keep yields elevated
China	1.84	-2.33	Excess capacity in manufacturing sector causes low inflation and lower yields
Germany	2.86	-1.31	10 Year rising due to rising energy prices and inflation
Japan	2.07	-2.1	Yield rising due to rising inflation but real interest rate lowest
India	6.60	2.43	One of the highest real rates and yields high due to demand supply issues in bond market
United Kingdom	4.47	0.3	Real rates high. Stagflation scenario
France	3.56	-0.61	Higher bond yields and lower growth
Italy	3.51	-0.66	Higher inflation phenomena across EU impacting Italy also
Canada	3.43	-0.74	Real rates reasonable
Russia	14.44	10.27	High debt levels will keep yields elevated



Regulatory Moves/Announcements/Amendments by RBI ...

Regulatory Moves/Announcements/Amendments by RBI (1/2)

Announcements	Brief Summary	Impacts
Gold Metal Loan (GML) Scheme dated 04 Dec 2025 Effective from April 1, 2026	The move aims to streamline processes, remove inconsistencies and promote uniform practices across banks offering gold metal loans to manufacturers, exporters and jewellery businesses. The new directions provide clearer definitions, harmonised procedures and improved monitoring mechanisms for GML operations.	It will improve ease of doing business for borrowers by simplifying and harmonising Gold Metal Loan regulations. Enhances banks' operational flexibility and strengthens prudential oversight. The updated norms will emphasise stronger risk assessment, transparent pricing practices and better reporting to prevent misuse or mismanagement of gold-backed credit facilities.
Repeal of Market Mechanism Framework dated 04 Dec 2025	RBI has taken a decisive step toward simplifying regulatory oversight and minimising procedural overlap. The updated approach ensures that monitoring of large borrowers remains efficient while aligning credit discipline with modernised supervisory tools. The requirements for borrower reporting, deviation classification and lender information-sharing under the framework now stand withdrawn.	This move simplifies monitoring processes by removing dual-layer reporting and classification systems. Instead, lenders will continue relying on updated asset quality norms, early warning systems and the revised framework for stressed assets to assess borrower behaviour and credit risk.
Business Authorization for Co-operative Banks dated 04 Dec 2025	This move aimed at consolidating and updating the regulatory framework governing the expansion and operational permissions of co-operative banks. These directions are expected to bring uniformity, clarity and procedural efficiency to the way co-operative banks open, close or modify their business locations. The draft includes clear reporting norms and compliance requirements for all business authorization activities.	This move will strengthen the regulatory framework for urban and rural co-operative banks and will promote a stable and efficient banking environment. This comprehensive approach is intended to ensure better governance, reduce ambiguity, and maintain customer trust in the sector.
Credit Information Reporting Directions, 2025 dated 04 Dec 2025 Effective July 1, 2026	This move aims to strengthen reporting discipline and improve the accuracy and timeliness of credit information shared by regulated entities with Credit Information Companies (CICs). A shift from periodic bulk reporting to weekly incremental submissions, ensuring that any new credit activity or change in borrower information is captured in near real time.	Faster reflection of loan sanctions, repayments, restructuring, defaults and delinquency status. Better quality of credit underwriting and monitoring. Reduction in data lags that may otherwise impair credit assessment or risk scoring. Stronger market-wide transparency and early detection of financial stress.
Responsible Business Conduct Directions, 2025 dated 04 Dec 2025 Effective April 1, 2026	To strengthen financial inclusion and customer service, primarily by overhauling rules for Basic Savings Bank Deposit (BSBD) Accounts, making them a standard, no-minimum-balance offering with enhanced free facilities like ATM cards, cheque books and digital access, impacting commercial banks, SFBs, Payments Banks and LABs.	These amendments aim to ensure affordable banking for all, driving BSBD account usage and better customer experience across the financial sector.

Regulatory Moves/Announcements/Amendments by RBI (2/2)

Announcements	Brief Summary	Impacts
Large Exposures Framework (LEF) and Intragroup Transactions and Exposures dated 04-Dec-2025	To clarify prudential treatment of exposures, especially for foreign bank branches operating in India. Exposures of a foreign bank branch in India to its head office (HO) and other branches in the same legal entity are now clearly covered under LEF rules. Exposures to distinct legal entities within the same group (like subsidiaries of the HO) are categorised under ITE. In cases where there's no explicit legal ring-fencing between an FBB and its HO, exposures must be counted on a gross basis (no netting).	This will enhance risk governance as Banks must monitor and manage large borrower and group exposures more consistently, reducing systemic risk. This will bring more clarity for foreign bank branches like Rules on how exposures are measured against their head offices and affiliates provide operational certainty. This will promote Stronger prudential supervision and timely risk assessment across the banking sector.
Reserve Bank of India (Undertaking of Financial Services) Directions, 2025 dated 05 Dec 2025 Effective December 5, 2025	To tighten supervision, clarify rules and harmonize regulations for banks and their group entities (like NBFCs/HFCs) undertaking non-core financial activities, aiming to segregate core banking, restrict risky investments and ensure better capital and risk management across the financial group. Key changes include stricter definitions for agency/referral services, new investment caps and mandatory compliance with NBFC norms for group entities engaging in certain lending.	This move will enhance group-level prudential supervision. Will Create a harmonised regulatory perimeter for entities under a banking group. Reduce risks arising from non-core or non-bank financial activities undertaken within the group. Strengthen governance, ring-fencing and capital protection mechanisms.
Draft Circular on Disclosure of Transaction Cost for Foreign Exchange Transactions dated 09-Dec-2025	The draft proposes mandating Authorised Dealers (ADs) to disclose full transaction costs—including remittance fees, foreign exchange rates and currency conversion charges—for forex cash, tom and spot contracts offered to retail users.	Enhances price transparency and informed decision-making for retail forex users. Improves comparability of forex costs across banks and market participants. May increase compliance and reporting requirements for authorised dealers, while promoting fair market practices.
Maintenance of Cash Credit, Current and Overdraft Accounts by banks dated 11 Dec 2025. Effective April 1, 2026	RBI eased norms for opening and maintaining current and overdraft accounts, aiming for better financial discipline with rules, to modernize regulations. Banks may now maintain current accounts without restriction for customers with banking exposures under ₹10 Crore. For exposures exceeding ₹10 Crore, banks holding at least 10% exposure to a borrower may provide current and overdraft facilities.	Enhances flexibility for banks in opening and managing CC, current and OD accounts. Promotes regulatory clarity and consistency across different banking segments. May improve credit flow and operational efficiency, while strengthening risk management practices.
RBI postponed the implementation of Phase-2 of Continuous Clearing and Settlement on Realisation (CCSR) under the Cheque Truncation System (CTS) dated 24- Dec-2025	Phase-2 was set to take effect on January 3, 2026, aims to make cheque clearance almost real time. The postponement is to give banks additional time to streamline operational readiness. RBI has revised the presentation session timing to 9:00 AM-3:00 PM and the confirmation session timing to 9:00 AM-7:00 PM. The directive has been issued under the Section 10 (2) read with Section 18 of Payment and Settlement Systems Act, 2007 (Act 51 of 2007).	Banks get more time to upgrade systems and processes, reducing operational risks. Cheque clearing reforms may see a temporary delay in achieving faster realisation benefits under Phase-2. Revised session timings may improve operational flexibility and efficiency for participating banks.



Policy Moves /Announcements by Central Government...

Government Announcements/Moves

Announcements	Brief Summary	Impacts
Parliament has approved a new bill to levy a higher excise duty on tobacco and related products.	This is being done in Andhra, Bihar, Karnataka, MP, Telangana, UP and West Bengal. In these states, more than 1 lakh acres of land are shifting from tobacco cultivation to other crops.	The Govt aims to encourage farmers to switch from tobacco cultivation to other crops. This will curb consumption and strengthen public health outcomes.
Finance ministry increases foreign investment limit in AU small Finance Bank to 74% from 49%.	Foreign portfolio investors held 34.5% in the bank as on September 30 while there was no foreign direct investment.	The increased limit would assist the bank in maintaining sufficient headroom for foreign investment in bank through permissible mode of investments.
The Viksit Bharat - Guarantee for Rozgar and Aajeevika Mission (Gramin) (VB- G RAM G) Bill, 2025 was introduced in Lok Sabha.	This bill will replace the MGNREGA Act, 2005 and Bill increases the guarantee from 100 days to 125 days.	This will strengthen rural income security, reduce distress migration, and support consumption demand in village.
Finance Minister introduced the Security Markets Code Bill 2025 in the Lok Sabha.	The bill proposes to consolidate the securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India (SEBI) Act, 1992 and the Depositories Act, 1996.	This will simplify regulations, reduce compliance burden, strengthen regulatory clarity and boost investors' confidence.
Parliament clears SHANTI Bill, opening India's nuclear sector to private players.	Private companies can now participate in the sector. This was previously controlled by the government. The new law removes old restrictions.	This will boost atomic energy. This supports energy needs and reduces fossil fuel reliance.
The government has permitted the export of organic sugar, setting an annual limit of 50,000 tonnes.	The decision was notified by the DGFT and places the exports under the regulatory framework of APEDA (Agricultural and Processed Food Products Export Development Authority).	Support Value-added agriculture export by enabling Indian producers to access premium global markets for certified organic sugar.

Peer's Signal: Indian Banks/FIs with New Business Strategy...

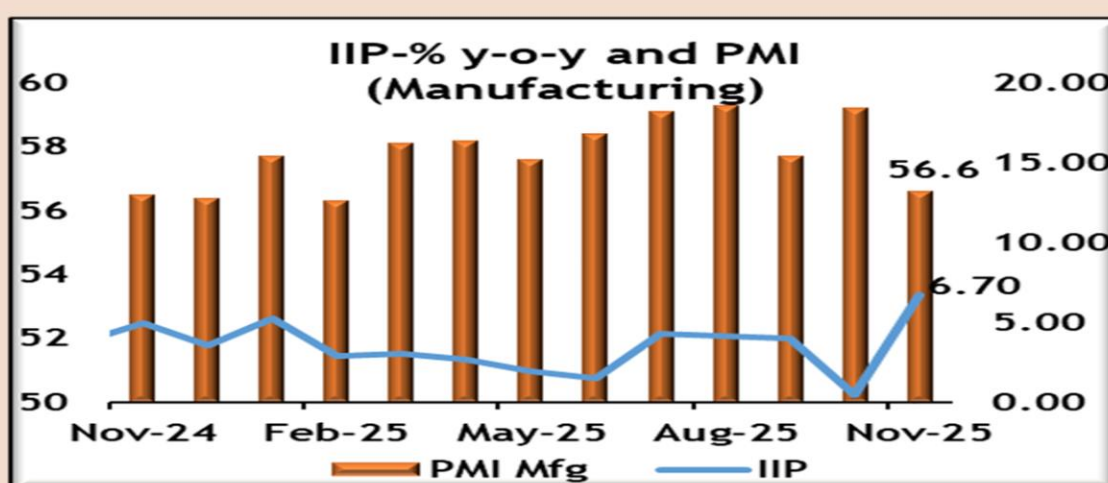
Date	News Headlines	Summary/Implications
Dec-11	SBI, BOB get RBI nod to set up fraud detection platform	Indian Digital Payment Intelligence Corporation will be established as a Section 8 company (a special type of non-profit organization) under the Companies Act, 2013 to strengthen fraud detection in digital payments in real time across banks.
Dec-15	SBI launched YONO 2.0, a new version of its mobile banking app	The bank aims to double its YONO user base to 20 crore customers within the next two years to enhance digital experiences and seamless integration across banking channels.
Dec-16	HDFC bank secured RBI approval for its group entities	To collectively hold up to 9.5% in IndusInd bank. This approval is valid for one year until December 14 2026, allows for aggregate investments by entities like HDFC Mutual Fund and HDFC life.
Dec-17	Kotak Bank plans to raise its CBS 'stress related capacity to 5x by March 2026	Part of the bank's technology transformation strategy, aimed at greater scalability, reliability and digital performance - reducing downtime risk and ensuring system can handle higher workloads.
Dec-18	Axis Bank and Google Pay launched a co-branded credit card	Enabling payments across apps and offline merchants with instant reward earning and redemption.
Dec-19	HDFC Bank & Bank of Baroda collectively secured \$1.5 bn in overseas loan	Bolstering their liquidity amidst stabilising interest rate. HDFC bank raised \$ 1 bn through a three-and-a-half-year loan, while BoB secured \$500 Mn via a 5-year pact, with MUFG (Mitsubishi UFJ Financial Group) and HSBC involved in the transactions.
Dec-19	Govt announced to divest up to 3% stake in Indian Overseas Bank	This includes a base offer of 2% with an additional 1% green-shoe-option. Floor price for the OFS has been set at discount around Rs 34 per share with an aim to reduce the government's stake (Presently 94%) and increase public shareholding align with SEBI minimum 25% public shareholding requirement.
Dec-23	Bank of India raised ₹10,000 crore	It was raised through long-term infrastructure bonds at a coupon rate of 7.23% per annum to fund infrastructure and affordable housing.
Dec-23	Axis Bank launched fully digital unsecured credit solution for MSME	Loans ranging from ₹2 lakh to ₹20 lakh, offering quick credit with cash-flow-linked repayments, especially for retail merchants.
Dec-26	PNB reported a loan fraud of Rs 2,434 crore to the RBI	The fraud is associated with the erstwhile promoters of Srei Equipment Finance (SEFL) and Srei Infrastructure Finance (SIFL). PNB has already made full provisions for the entire outstanding exposure related to these accounts within its books (₹1,241 crore for SEFL and ₹1,193 crore for SIFL).
Dec-29	Bandhan Bank has sold a ₹3,212 crore microfinance non-performing loan portfolio	This sale to ARCIL for ₹578 crore followed a Swiss Challenge process. The bank also initiated a process to sell an additional ₹3,720 crore in loans. These actions come as the bank's asset quality faced pressure from the microfinance segment.

Behaviour of other Macro-Economic Indicators (1/4)...

IIP Surge: India Hits 6.7% Growth in November - 25-Month High!

India's Index of Industrial Production (IIP) surged to a **25-month high** of 6.7% year-on-year in November 2025, rebounding sharply from 0.5% in October. This strong performance, driven by post-festive restocking, GST rate cuts and manufacturing recovery, signals resilient domestic demand amid low inflation and monetary easing.

Manufacturing led the charge with 8.0% growth, while mining rebounded to 5.4%. Electricity contracted -1.5%.



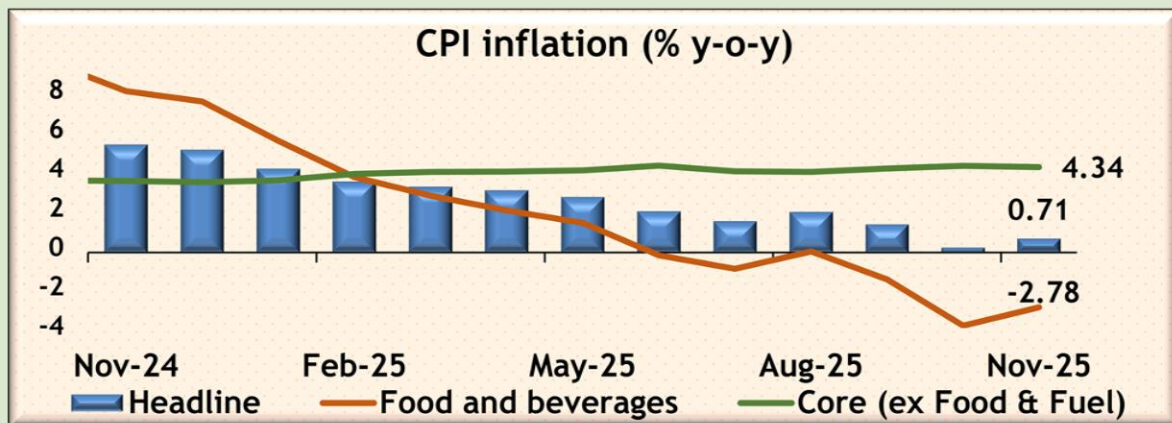
Other Observations:

- ✓ Manufacturing-led recovery indicates strengthening domestic demand and improved capacity utilization, supporting higher industrial growth in the coming months.
- ✓ Strong growth in capital goods (10.4%) and infrastructure/construction goods (12.1%) signals a pickup in investment activity and faster execution of infrastructure projects, positive for medium-term economic expansion.
- ✓ Post-monsoon rebound in mining (5.4%) improves raw material availability, reducing supply-side constraints for core industries such as metals and manufacturing.
- ✓ Broad-based expansion across 20 out of 23 manufacturing industries reflects resilience in industrial activity rather than growth driven by a few sectors.
- ✓ Contraction in electricity output (-1.5%) highlights seasonal demand moderation and remains a downside risk if weakness persists, given its role as an industrial input.
- ✓ Improved performance of consumer durables and non-durables suggests recovering consumption sentiment, supporting demand-driven industrial growth.
- ✓ Overall IIP acceleration from October strengthens confidence in industrial momentum heading into the latter part of FY26, though sectoral divergences warrant close monitoring.

Behaviour of other Macro-Economic Indicators (2/4)...

November CPI Inflation edges up to 0.71%

CPI inflation for November edged up to 0.71% compared to 0.25% in October, mainly attributable to base effect as the print was 5.5% in November 2024. However, core inflation is 4.3% driven by price pressure in housing, education, healthcare and personal care. Food & beverages with a weight of 46% in CPI will continue to be in deflationary territory. Gold prices increased by 58.5% in November 2025 over Nov'24 which contributed significantly to the headline even though its weight in the index is only 1.08% and edges up to 0.71%.



Gold and silver with a weight of 1.08% and 0.11% had an inflation rate of 58.5% and 65% and contributed disproportionately to retail inflation. If both these are excluded, overall CPI inflation for November would be only 0.0068% or practically nil inflation. Due to continued geo political tensions and Federal reserve rate cut possibilities gold prices are likely to increase. Thus, excluding gold and silver retail inflation risks slipping into deflation in the coming months.

India's Trade Rebounds Strongly in November 2025

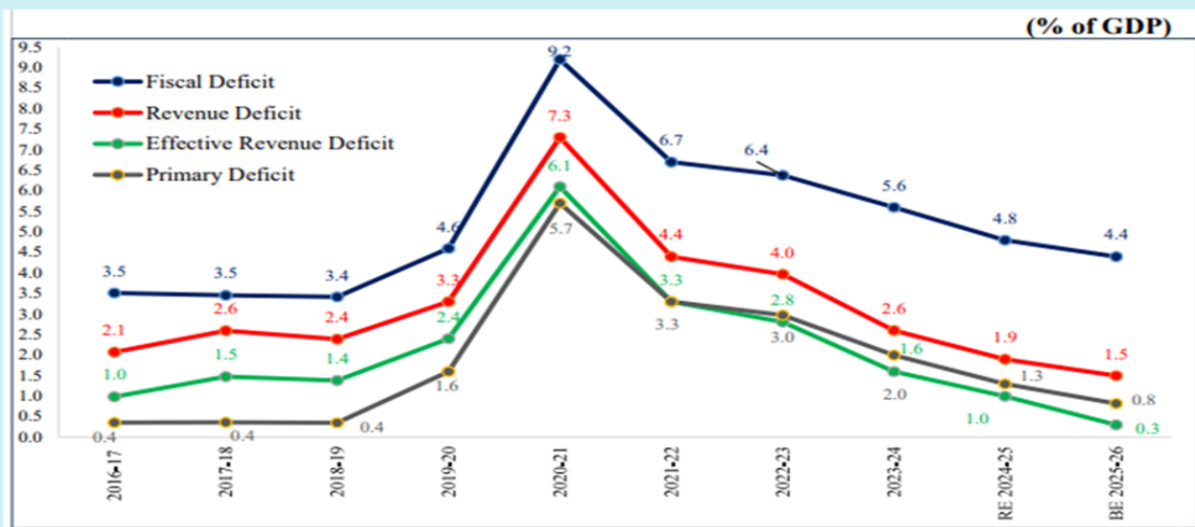
India's trade sector demonstrated impressive resilience in November 2025, despite persistent global headwinds from US tariffs. Preliminary data from the Ministry of Commerce and Industry, released on December 15, 2025, showed merchandise exports jumping 19.4% year-on-year to US\$ 38.13 billion, fueled by robust growth in engineering goods (up 23.8%) and electronics (up nearly 39%). Exports to the US rose over 22% despite steep tariffs. Imports dipped 1.9% to US\$ 62.66 billion, driven by sharp declines in gold, oil and coal, narrowing the merchandise trade deficit to US\$ 24.53 billion—a significant improvement from the previous year's US\$ 31.92 billion and October's record US\$ 41.68 billion.

Including services, total exports climbed 15.52% to US\$ 73.99 billion, while imports edged down 0.60% to US\$ 80.63 billion, shrinking the overall trade deficit to just US\$ 6.64 billion, bolstered by a strong services surplus. For April-November 2025-26, merchandise exports grew 2.62% to US\$ 292.07 billion amid rising imports, reflecting ongoing efforts to diversify and strengthen high-value exports.

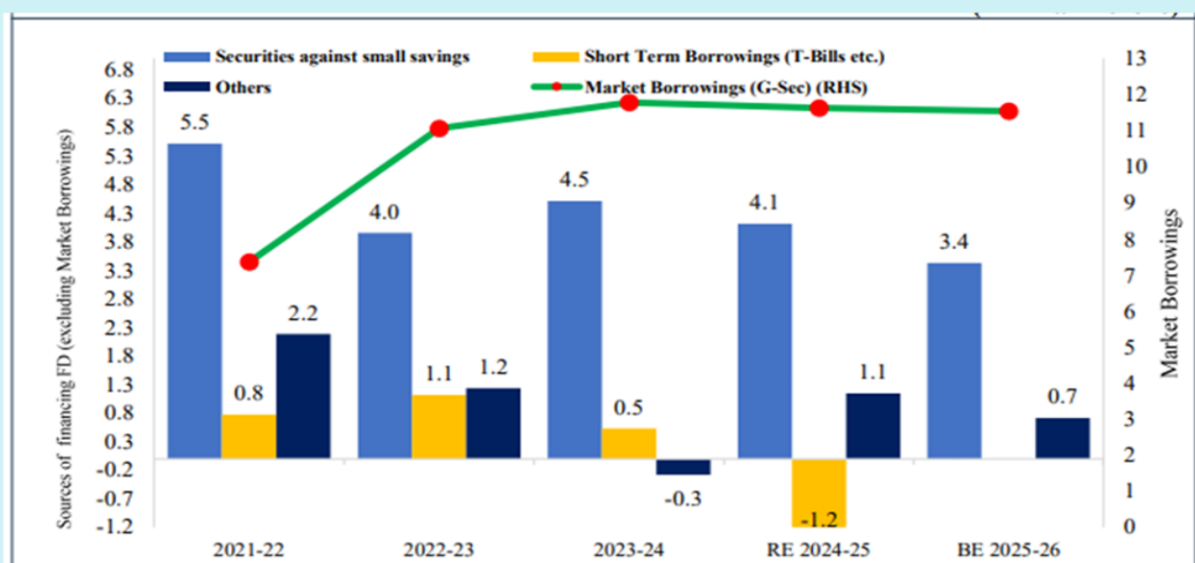
Behaviour of other Macro-Economic Indicators (3/4)...

India's Fiscal Deficit Trends: Steady Consolidation Path

India's fiscal deficit has been on a **steady consolidation path** since the pandemic peak of 9.2% of GDP in FY2020-21, dropping to 6.7% in FY2021-22, 6.4% in FY2022-23, 5.6% in FY2023-24, and an actual/revised 4.8% in FY2024-25. For, FY2025-26 (April 2025-March 2026), the government has set an ambitious target of **4.4% of GDP** (₹15.7 lakh crore), continuing its commitment to reduce it below 4.5% as outlined earlier.



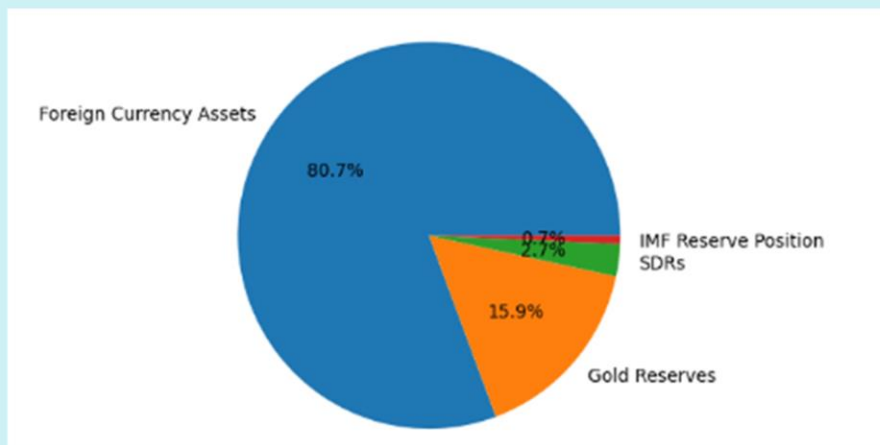
As of the latest data (April-November 2025, released December 31, 2025 by the Controller General of Accounts), the fiscal deficit stands at approximately ₹9.77-9.8 lakh crore, or 62.3% of the full-year target—higher than the 52.5% recorded in the same period last year.



Behaviour of other Macro-Economic Indicators (4/4)...

India's Forex Fortress: \$693 Billion Shield Intact!

India's foreign exchange reserves ended 2025 on a strong note, building resilience amid global volatility. The latest available RBI data (as of the week ended December 19, 2025, released December 26, 2025) showed reserves surging by \$4.368 billion to \$693.318 billion—a near-record high driven by gains in gold holdings (\$2.623 billion increase to \$110.365 billion) and foreign currency assets (\$1.641 billion rise to \$559.428 billion).



A large forex reserve strengthens India's ability to manage currency volatility and defend the rupee during external shocks. It boosts global investor confidence, helping stabilize financial markets and reduce borrowing risk. The reserve also provides insurance against crises such as oil price spikes, capital outflows or geopolitical disruptions.

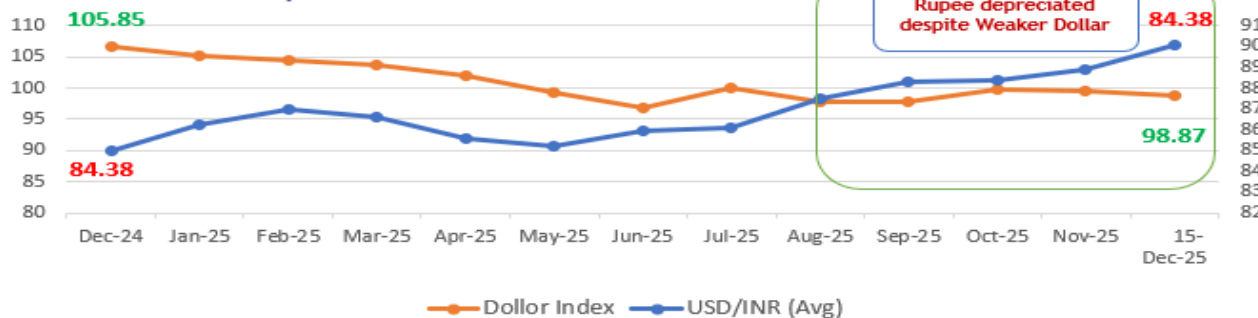


Data Stat: Revealing the Top 2 Data Taste of the Month...

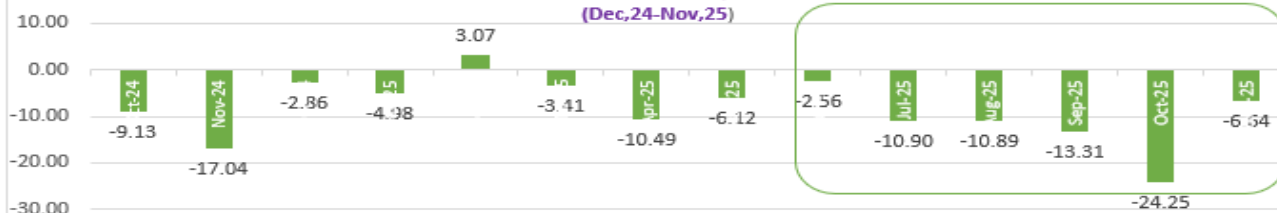
Discussion 1: Why relatively Weaker Dollar has not strengthened the Rupees in this Year?

Data Source: Data of Cogencis, CMIE, RBI & PIB

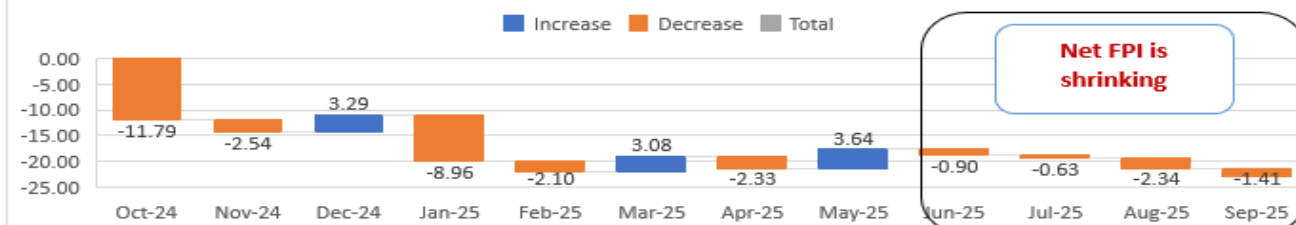
Movement of USD/INR Versus Dollar Index



Trade Deficit : Sharp Rise (Dec,24-Nov,25)



Monthly FII/FPI Net Investment into Economy is Shrinking



Reflections

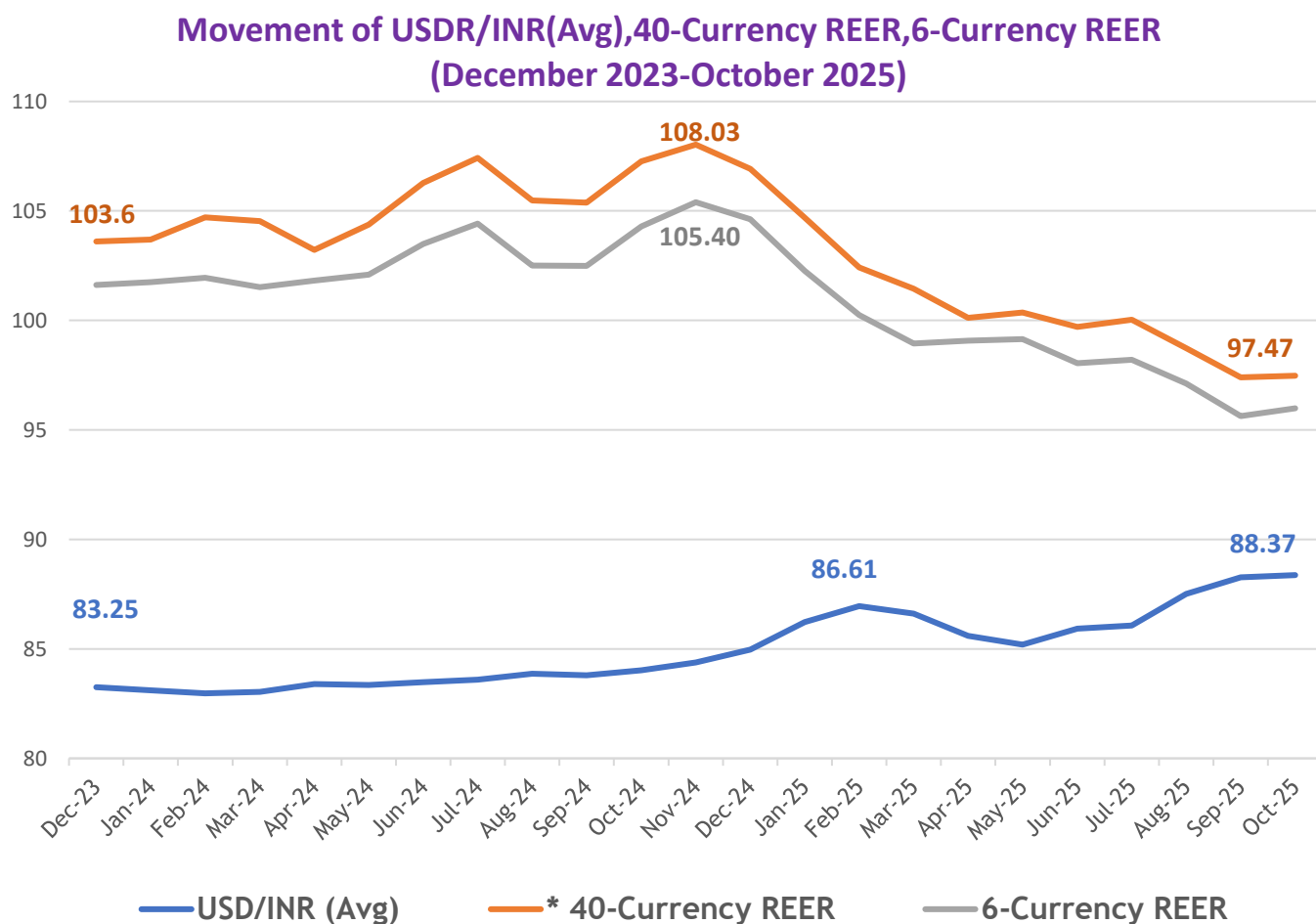
- ✓ First half (Dec'24-Jun'25): DXY drop helped the rupee a little.
- ✓ Second half (Jul'25-Nov'25): India's own problems (huge imports + foreigners selling stocks) completely overpowered the weaker dollar.
- ✓ During 12 months, Rupee down by 4.6%, although DXY down by 7%.
- ✓ Theoretically falling DXY should have strengthened the rupee. Since the Indian Rupee (INR) is not in that basket.
- ✓ This divergence occurred because India-specific headwinds outweighed the tailwind from a weaker broad USD.

Takeaways

- ✓ The negative India-specific factors (trade deficit + FPI selling) were much stronger than the positive global factor (weaker DXY).
- ✓ That is why the rupee kept falling month after month from July onwards even though the Dollar Index was going down or sideways.
- ✓ Moreover, India is a persistent trade deficit country and Dollar is always demanded by our importer and not vice-versa.

Discussion 2: Whether Rupee is undervalued or Weakening or Both?

Source: CMIE, 2025



Reflections

- ✓ The INR was overvalued through most of 2024 and early 2025 (REER > 100) despite steady nominal depreciation.
- ✓ From August 2025 something changed dramatically (combination of US tariff threats, FII outflows, strong USD rally and RBI allowing faster depreciation).
- ✓ In just 3-4 months (Aug-Oct 2025), the INR went from one of the most overvalued stages to clearly undervalued territory, as REER is less than 100.
- ✓ As of October 2025, the INR is cheaper (more competitive) than in last Ten Years.

Takeaways

- ✓ Rupee is both weakening (nominally against USD) and undervalued (in real terms)—a healthy adjustment for exports amid global headwinds, not a sign of structural crisis.



Rewinding News During the Month ...

Indian Banking/financial Sector News

Date	News Headlines	Summary/Implications
Dec-02	ADB approved \$650 million (about Rs 5,780 crore) policy-based loan	To help the Government of India to accelerate rooftop solar adoption and expand access to clean, affordable energy for 10 million households by 2027.
Dec-09	Fino payment banks get RBI "In -principal" approval to convert into a Small Finance Bank.	This can help Fino to grow its business into full banking functions after completing the license conditions.
Dec-12	RBI directed banks to link MSME loans to an external benchmark.	with a three-month reset clause to improve monetary policy transmission. Existing borrowers can switch to this regime under mutually agreed terms.
Dec-12	Lok Sabha passes seminal Insurance bill Sabka Bima, Sabki Raksha (Amendment of Insurance laws) bill, 2025	It raises the FDI limit in Indian Insurance companies from 74% to 100%, with an aim to attract more foreign capital, boost competition, support product innovation and bring global insurance players into India. Expand insurance coverage including rural and underserved areas. Achieving the vision of Insurance for All by 2047.
Dec-16	Major changes for NPS subscriber as PFRDA remove 5-year lock-in, eases exit norms	Higher lump-sum withdrawal- Non govt subscribers can take up to 80% (if corpus exceeding Rs 12.00 lakhs, earlier 60%) of the retirement corpus as a lump sum, in some cases 100% is allowed (if corpus does not exceed Rs 8.00 lakhs). Annuity requirement reduced- only 20% of corpus needs to be used to buy an annuity (Earlier 40%), aimed at providing greater flexibility to subscribers from non-government sectors.
Dec-16	Banks and non-banking finance companies (NBFCs) cannot levy any pre-payment charges	RBI barred pre-payment charges on floating-rate loans granted to individuals for non-business purpose and to individuals and MSEs for business purposes up to ₹50 lakh effective January 1, 2026.
Dec-18	New logo for RRBs to signify a single and unified brand identity	Currently 28 RRBs operate more than 22,000 branches across over 700 districts. On the principle of 'One State One RRB', the Department of Financial Services, Ministry of Finance, has consolidated 26 Regional Rural Banks (RRBs) across 11 states/UTs, effective from May 1, 2025.
Dec-19	GST rate rationalisation gives fillip to retail credit market in Q2FY26	Lifted the CMI (credit Market Indicator, a composite gauge used by CIBIL) to 95 from 92 & overall CMI to 99 in Q2FY26, driven by vehicle finance & consumer durables.
Dec-19	RBI approved a risk-based deposit insurance framework for banks	The approval follows a risk-based premium model. Mooted as an alternative to the existing flat rate premium-based deposit insurance scheme. To help banks that are more financially sound to save significantly on the premium paid.
Dec-26	CICs seek RBI nod to use utility bill data for Grameen Credit Score	To improve credit assessment for rural borrowers and SHG members. Incorporating non-credit data into GCS can help lenders better assess the creditworthiness of prospective borrowers with limited credit history in rural areas, furthering financial inclusion and increasing rural credit coverage.
Dec-30	Govt plans to amend SARFAESI ACT 2002	To include special situation funds (SSFs) as financial institutions and to require borrowers to file representations within 30 days of a demand notice for strengthening debt recovery, improve ease of doing business and resolve legal ambiguities over borrower rights.

Domestic Economy News

Date	News Headlines	Summary/Implications
Dec-02	DPIIT Recognises 1,97,692 start-up under Start-up India Initiative	This recognition reflects the significant growth of the innovation ecosystem within India and demonstrates how India has implemented a supportive framework for entrepreneurs and innovation in terms of government policy and service offerings.
Dec-07	Nearly 24 lakh households have adopted rooftop solar as of December 2025 under PM Surya Ghar	This growth has made solar the largest part of India's renewable energy mix. Aims to bring rooftop solar to one crore homes. India now ranks third in the world of solar capacity and fourth in both wind energy and overall renewable capacity.
Dec-12	Niti Aayog backs policy push, tax sops to take corporate bond market to Rs. 120 lakh Crore	The report urges parity in taxation, lower barriers for foreign investors, stronger market infrastructure and coordinated policy measures to support investment and India's growth ambitions.
Dec-18	SEBI overhauled the cost framework for the Rs. 80 trillion domestic mutual fund (MF) industry	The changes aim to slash costs for investors and companies alike. Rules will be simplified to boost participation and make compliance easier. This move promises greater ease for businesses while protecting everyday investors.
Dec-18	India signs FTA with Oman, receives zero duty access on 99% of its export	This deal also includes several concessions that are expected to benefit India's service sector, including in terms of mobility of workers. It will give our trade new vigour and new trust for investments and will open the doors of new opportunities in every sector.
Dec-22	As per the RBI data net FDI into India nearly doubles to \$ 6.2 bn in April- October	FDI in India was \$3.3 billion in the same period earlier. According to the "State of Economy" report more than 60% of FDI inflows were in financial services, followed by manufacturing, electricity and communication services.
Dec-22	New Zealand and India have finalized a free trade agreement	This pact will significantly reduce tariffs on approximately 95% of New Zealand's exports to India, with over half becoming duty-free immediately. The agreement is poised to boost trade by leveraging India's growing middle class and fostering enduring commercial ties.
Dec-23	IFSCA (The International Financial Services Centres Authority) eases norms for fund manager in Gift City, approves new GIC rules	This move is aimed at positioning GIFT City as a global hub for high-value financial and technology services, at a time when India's Gic ecosystem is expanding rapidly.
Dec-23	According to the latest statistics given by Industrial Land Bank (IILB), more than 4,500 industrial parks have been identified	This comprise approximately 7.70 lakh hectares of land, out of which 1.35 lakh hectares are still left for development. This indicates the opportunity for future investments. These parks will also strengthen social well-being.
Dec-29	The finance ministry is reviewing the Pradhan Mantri Fasal Bima Yojana's cup-and-cap model	Large states are shifting to the cup-and-cap model, which limits insurer risk and profitability. The review aims to ensure the scheme's long-term sustainability and effective farmer coverage.
Dec-30	India's industrial output surged 6.7% year-on-year in November 2025, a significant rebound from October's slowdown	Manufacturing, particularly basic metals, pharmaceuticals, and motor vehicles, drove this recovery. Mining also saw a boost, though electricity generation contracted slightly. November's numbers reflect a return to normal production levels and a pickup in consumption after the festive period.
Dec-31	India has surpassed Japan to become the world's fourth largest economy	The achievement stems from strong domestic demand, a young workforce and robust economic momentum, with real GDP growth reaching 8.2%. The nation now targets Germany as its next economic milestone.

Global Economy News

Date	News Headlines	Implications
Dec-02	Euro zone inflation ticks up, pointing to steady ECB rates.	Euro area inflation rose to 2.2% in November with services inflation accelerating to 3.5%, signalling persistent domestic price pressures that supported the ECB's decision to keep interest rates unchanged and delayed prospects of early monetary easing.
Dec-08	Japan Q3 GDP Shrinks more than Initially Anticipated	Japan's GDP contracted 0.6% quarter on quarter in Q3, deeper than initial estimates and following a downward revision to Q2 growth, signalling a renewed loss of economic momentum that complicated the policy outlook despite expectations of monetary normalisation.
Dec-08	China trade surplus tops \$1 trillion for first time on non-US growth	China's trade surplus widened to USD 111.68 billion in November, the largest since June, as exports rose 5.9% year on year and outpaced imports, highlighting continued external demand support while underscoring weak domestic imports appetite amid slowing internal growth.
Dec-11	The US Fed lowers policy rates, signals pause and one cut next year	The US Federal Reserve cut the policy rate by 25 bps to 3.5%-3.75% band in December, the lowest since 2022, with three members dissenting against the move, which is rare.
Dec-11	US Budget Gap Narrows in November	The US budget deficit narrowed to \$173.3 billion in November from \$366.8 billion a year earlier as receipts rose 11.4%, driven by higher income and social insurance taxes, easing near-term fiscal pressures despite a slowing economy.
Dec-11	US September trade deficit lowest in more than five years as goods exports soar	The US trade deficit narrowed to \$52.8 billion in September, the lowest since June 2020, as exports rose 3% to a near-record high led by non-monetary gold and pharmaceuticals despite weakness in travel, transport and technology exports.
Dec-12	German economy stuck in slow lane	Germany remained in a weak growth phase as institutes cut 2025 growth to around 0.1% due to structural bottlenecks, delayed investment and tariff pressures, while widening fiscal deficits showed limited impact from planned spending.
Dec-17	Japan's exports to US post first rebound in 8 months as tariff pain eases	Japan's exports rose 6.1% year on year in November, the fastest pace since February, supported by stronger US demand and a weaker yen, providing external growth support and partially offsetting domestic economic softness.
Dec-18	US annual consumer inflation slows in November	US inflation eased to 2.7% in December, the lowest since July and below expectations, reinforcing disinflation trends which may also be indicative of weakening demand.
Dec-19	Bank of Japan raises rates to 30-year high, signals more hikes	The Bank of Japan raised short-term rates by 25 bps to 0.75% in a unanimous decision, marking a historic exit from ultra-loose policy and signalling confidence in inflation and wage momentum.
Dec-19	Bank of England cuts rates after tight vote but signals caution over further moves	The Bank of England cut the Bank Rate by 25 basis points to 3.75%, the lowest since 2022, as easing inflation and mounting economic strain prompted policy easing, signalling a shift toward supporting growth while retaining caution over the pace of further rate cuts.
Dec-22	China leaves benchmark lending rates unchanged for seventh straight month	China's central bank kept loan prime rates unchanged in December at 3.00% for one year and 3.50% for five years, signalling policy caution and limited scope for near-term monetary easing.
Dec-24	Robust consumer spending, rising exports fuel US economic growth in third quarter	US GDP grew at an annualised 4.3% in Q3, the strongest in two years, driven by firm consumer spending, exports and government outlays, underscoring resilient demand despite tight financial conditions.



Must Track in Next Month...

Date	Report/Event	Country
02-Jan	India HSBC Manufacturing PMI	India
02-Jan	US S&P global Manufacturing PMI	US
05-Jan	US ISM manufacturing PMI & Employment	US
06-Jan	India HSBC Composite PMI	India
06-Jan	US S&P Global Composite PMI	US
08-Jan	US Balance of Trade	US
09-Jan	China Inflation Rate YoY	China
09-Jan	Indians Bank Deposit & Credit Growth	India
12-Jan	India Inflation rate YoY	India
13-Jan	US inflation rate YoY	US
14-Jan	China Balance of Trade	China
14-Jan	India WPI inflation YoY	India
15-Jan	India Balance of Trade	India
16-Jan	US Industrial production YoY	US
19-Jan	China House Price Index, GDP growth, Industrial Production	China
22-Jan	US GDP growth Rate	US
23-Jan	Indians Bank Deposit & Credit Growth	India
28-Jan	India's Industrial Production YoY	India
29-Jan	US Fed interest rate Decision & Balance of Trade	US

Data Sources...

❖ Web Site:

- ❖ <https://mospi.gov.in/data>
- ❖ <https://data.rbi.org.in/DBIE/>
- ❖ <https://www.pib.gov.in/>
- ❖ <https://financialservices.gov.in/>
- ❖ <https://www.dgft.gov.in/CP/>
- ❖ <https://www.commerce.gov.in/>
- ❖ <https://www.sebi.gov.in/>
- ❖ <https://www.focus-economics.com/countries/india/>
- ❖ <https://tradingeconomics.com>

❖ Report / Publications:

- World Gold Council (WGC) Gold Demand Trends reports
- CMIE
- COGENCIS

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