

SOCIO-ECONOMIC VOICES



"Diversifying Exports Can Strengthen India's Forex Resilience"

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"Rupee Internationalisation Needs Stronger Market Infrastructure"

Intro: India's economy is growing fast, but not without new tests. From record public capex and festival demand to Trump-era tariffs, erratic rains, and uneven consumption, the next few quarters look complex. In this conversation, Dr. Rupa Rege Nitsure explains what's driving the numbers. Speaking to Mahima Sharma of Indiastat, the Former Chief Economist, BFSI Sector, Dr. Nitsure shares the areas where cracks may appear and what India must fix—from fiscal discipline to stronger banks and smarter reforms—to keep growth steady and fair. Read the exclusive at Socioeconomic Voices this week.

MS: India's GDP growth in Q1 FY26 was a strong \sim 7.8 % - what structural factors are driving that and which of them are likely to fade in the next 2-3 quarters?

Dr RRN: India's GDP growth in Q1 FY26 was primarily driven by the services sector followed by construction and manufacturing sectors. From the expenditure side, public capital spending especially on infrastructure projects supported the growth momentum. Having said that, a favorable statistical base also aided in giving healthy GDP prints. During September-October, 2025, the GST rationalisation and a boost coming from the festival season stimulated consumption spending.

Going forward, a delayed impact of President Trump's tariffs on the exporting sectors, adverse impact of heavy unseasonal rains on the standing kharif crops in at least ten Indian states and languishing private capital spending have every potential to drag down the GDP growth prints. Unevenness in consumption spending as reflected in the divergent growth rates of consumer durables and consumer non-durables and rising unemployment rate especially in urban belts may drag India's GDP growth below 7.0% in H2, FY26.

MS: With inflation now near 1.5% and the economy still growing strongly, how should the Indian government strike a balance between supporting growth and keeping its finances in check? What are the risks if it spends too much - or holds back too tightly?

Dr RRN: Thanks to the RBI's "inflation-targeting" monetary policy framework, India's retail (CPI-based) inflation has seen a steady decline from 6.21% in Oct, 2024 to 1.54% in Sept, 2025. Going forward, massive kharif crop damages due to heavy unseasonal rains and significantly depreciated rupee pose risks to India's inflation trajectory through cost-push impulses.

Lower than expected output of food grains may prompt the government to undertake a series of measures to boost supplies and ease inflationary pressures. There could be an increase in food subsidies as well, which may strain the fiscal exchequer. While India's Central government has undertaken a major step for fiscal consolidation by shifting the fiscal anchor from deficit targets to debt levels, rising indebtedness of State governments and one of the highest "interest cost burden" in India among emerging market economies have been weighing on India's overall fiscal outlook

As per the recent CareEdge report, State governments account for nearly one-third of General Government debt and their fiscal positions have been deteriorating due to rising committed expenditures, especially on subsidies. Given the increased uncertainty on the back of Trump tariffs and geopolitical fragmentation and the increased frequency of extreme weather events due to climate change, India's Central government will face a tough challenge of balancing fiscal consolidation with welfare spending especially for underprivileged classes and the exporting sectors.

MS: India's trade gap has grown to about US \$28 billion in September, mainly because of high gold imports and weak export demand. How can India reduce this pressure on foreign exchange without slowing down growth or hurting jobs?

Dr. RRN: India's merchandise trade gap widened to US \$32.16 billion in September, 2025 from US\$ 19.12 billion in June, 2025 primarily due to significantly increased imports of gold, silver, fertilisers & electronics, while exports growth remained muted amid weak export demand and tariff barriers. The wider trade deficit has been putting adverse pressure on the Indian rupee and to arrest disorderly depreciation of the Indian currency, the RBI has been selling dollars leading to draining of rupees from the banking system. Tighter liquidity conditions have negative implications for interest rates, investment and growth.

To mitigate the pressure on its foreign exchange reserves, without slowing down growth or hurting jobs, the RBI has been relying on various measures. To avoid a knee-jerk reaction on rupee liquidity, the RBI has been intervening in both the spot and forward markets. It uses forward contracts and swaps to manage the currency without affecting the domestic liquidity conditions to the extent possible.

The most stable components of foreign exchange reserves are export earnings, foreign direct investment (FDI) and remittances. To improve export earnings, the policymakers will have to implement policies that can improve competitiveness and attractiveness of Indian exports. There have been active efforts to diversify India's export destinations too. Negotiations are on to improve Indian exports' market access to regions other than the USA.

To attract more long-term foreign capital (FDI), our policymakers will have to create a more stable environment in terms of taxes and other regulations/restrictions for foreign investors. To attract higher inflows of NRI remittances, competitive interest rates on FCNR(B) and NRE deposits have to be offered. The RBI has also been undertaking strategic investment of its reserves in highly safe and liquid assets like sovereign bonds of major countries and gold. All these measures put together can enhance the quality and the strength of India's foreign exchange reserves without slowing down growth or hurting jobs.

MS: With global growth slowing and new trade barriers emerging, India faces more external risks. How well can India's economy handle such global shocks, and what new policies could make it stronger and more self-reliant?

Dr. RRN: The most urgent challenge for India coming from the global sphere is to weather the impact of President Trump's tariffs and other measures like increased H1B Visa fees, etc. that have huge potential to slow down India's economic growth. Over the period of time, India's reliance on foreign trade has increased significantly. Exports now make up more than 20% of India's GDP and this makes India vulnerable to trade shocks. Moreover, the US is the largest trading partner of India. To mitigate the impact of US restrictions, India will have to design policies that will make its manufacturing, in general, and exports in particular more competitive and also to diversify its export destinations away from the US and more towards the EU, China and West Asia. While the short-term measures like GST rationalisation and stimulative monetary policy are supportive of domestic consumption, the long-term structural reforms will go a long way to place India on a decent and sustainable growth path. Key priorities for this include improving the investment climate by tackling corruption & red tapism in the state machinery, incentivising spending on research & development in manufacturing & services, making tax compliance simpler & effective, undertaking reforms in logistics and upgrading physical infrastructure to lower the cost of production and trade. India should also undertake dedicated efforts to raise its female labour force participation rate from 33%, which is one of the lowest in the world and implies humongous waste of an important productive resource.

MS: Given the RBI's decision to hold the repo rate at 5.50 % despite very low inflation, do you think the monetary stance is optimal? Why might the RBI be cautious about lowering rates further?

Dr. RRN: Since February 2025, the Monetary Policy Committee (MPC) of the RBI has reduced the Repo rate by 100 basis points and the CRR by 75 basis points (another 25 bps due on Nov 29th), yet its transmission to the long-term rates in the banking segment as well as bond markets is incomplete. Fixed investment sentiment of the private corporate sector is still quite weak and not broad-based.

Consumption has recovered during the festival season but it too was concentrated in the high-end consumer durables like cars, white goods and electronics. The spending on lower-end consumer non-durables continues to remain subdued. **Growing external sector risks and uncertain demand conditions are holding back the private capex**. Against this backdrop, we feel the MPC's decision to hold policy rates and retain the policy stance at "neutral" was optimal. The RBI would like to loosen the monetary policy only when it is confident that the policy easing would help actual investment, job creation and consumption.

MS: How should monetary policy interact with fiscal policy (government spending, tax cuts) given current conditions — what coordination or "checks and balances" are needed?

Dr. RRN: In the post-Covid period, the Indian government tried to stimulate the economy by increasing public spending (Capex) and reducing both the direct and indirect (GST rationalisation) taxes. However, increased global uncertainty and disruption to the global supply chains due to the geopolitical fragmentation, wars and the Trump

tariff shock have reduced the effectiveness of the expansionary fiscal policy to a great extent. India is yet to see a broad-based revival of private investment spending. Even the consumption recovery in India is uneven. While the RBI tried to complement fiscal policy by keeping an expansionary bias in monetary policy during FY26, the monetary policy too has not been much successful in stimulating non-food credit demand.

Compared to FY25, the actual growth of non-food credit during FY26 has been lower. Going forward, the RBI should be cautious and announce sector-specific measures to improve credit flows to specific sectors like MSMEs or agriculture or affordable housing, etc. rather than announcing blunt measures like the reduction in interest rates or CRR. Such broad-brush measures have not brought about the expected outcome for the end-users of credit so far because of weak private investment and uneven consumption sentiment.

MS: Credit growth is about \sim 10.3 % year-on-year but deposit growth is \sim 9.8 % and the credit-deposit ratio \sim 79 %. What do these figures tell us about monetary transmission and banking sector health?

Dr. RRN: As per the latest RBI data (as on Oct 17, 2025), the y-o-y credit growth is about $\sim 11.5\%$ but deposit growth is $\sim 9.5\%$ and the credit-deposit ratio $\sim 80.44\%$. Bank deposit growth has fallen below the double-digit threshold for four consecutive fortnights. Due to the paucity of deposit funds, banks have been liquidating their holdings of government securities to fund credit disbursements. A high credit-deposit ratio signals liquidity tightness in the banking system. Banks are not able to raise enough deposits even after raising fixed deposit interest rates because Indian households are actively investing into alternative avenues like mutual funds, bonds, equities and fintech platforms that are offering higher returns and more flexibility.

Going ahead, banks will have to offer much higher interest rates on term (fixed) deposits to create a healthy deposit base. This will put pressure on banks' net interest margins (NIM) and profitability, as lending rates are falling in line with the monetary policy signals.

MS: Credit growth is modest and slowing in many segments (industry loans \sim 6.5 % in Aug vs \sim 9.7 % a year ago). What are the key bottlenecks in bank lending (demand vs supply) right now?

Dr. RRN: The latest Sectoral Deployment of Credit Report by the RBI published on October 31st showed that non-food bank credit grew by 10.2% (y-o-y) during the fortnight ended Sept 19, 2025 and credit to industry grew by just 7.3% (y-o-y). The primary bottlenecks in bank lending are weak private sector investment activity and cautious & uneven consumption spending amid increased job and income uncertainty. The weekly statistical supplement of the RBI shows that a surge in non-food credit disbursed by banks ahead of the festival season could not sustain and banks' loans actually contracted in the first fortnight of October, 2025.

MS: PSBs are increasing their share of incremental credit (~59.7 %). What are the implications of this shift for competition, efficiency and risk in the banking sector?

Dr. RRN: It's a heartening fact that the PSBs in India are increasing their share of incremental credit. They are now posting their strongest advances growth since 2010, surpassing private banks for the first time in over a decade. This signals a turnaround for PSBs. They have posted a superior performance not just in terms of extending credit but are better placed in terms of liquidity and cost of funds compared to private counterparts, thanks to their higher base of CASA (current & saving account) deposits. This is facilitated by improved underwriting practices supported by digital technology and data analytics. Moreover, aggressive provisioning has made PSBs maintain gross slippage ratios at manageable levels.

As PSBs dominate in financial inclusion initiatives and in serving rural and priority sectors as compared to private banks, a rising share of PSB credit augurs well for a more balanced competitive landscape across different business segments. While PSBs have strengthened their capital positions and improved asset quality in recent years, as has been said by the RBI they should now make every possible effort to protect and deepen these gains. They should now hold forward looking capital buffers that reflect their risk profiles and growth ambitions rather than simply complying with regulatory norms.

The recurring pattern in economic and credit cycles has shown that "bad credit decisions are generally made in good times" and PSBs should remain more vigilant in these matters given the constraints on their operational freedom.

MS: About US\$ 17 billion of foreign investor outflows and the banking/financial sector undergoing reforms. Amid this, what are the priority regulatory changes India should focus on to make the financial sector globally competitive?

Dr. RRN: Since the 2008 Global Financial crisis, many fundamental changes were introduced in the Indian banking sector to make it stronger and competitive. The important ones being the stronger prudential regulations and better capital buffers. While both banks and NBFCs in India participate in the function of financial intermediation, their

combined capacity is not enough to meet the country's vast credit demand, particularly in specific segments like MSMEs and rural areas.

In the past 10-15 years, the relative importance of NBFCs has grown significantly as they have been extending credit to sectors underserved by banks. But their "interconnectedness" with the banking system has created systemic risks. To make Indian financial intermediaries (both banks & NBFCs) globally competitive, there is a need for stricter liquidity stress tests, higher macroprudential reserves (forward looking capital buffers) and better regulatory alignment between banks and NBFCs.

These measures will mitigate risks and prevent financial contagion. While Indian capital markets have gained sufficient momentum, Indian corporate bond markets remain severely underdeveloped. As a result, there is excessive dependence of India's corporate sector on bank funding, creating stresses for the banks' asset-liability profiles.

Broadening and deepening the corporate bond market is critical for diversifying financing channels and improving capital allocation efficiency. The IMF has identified three reform priorities for India's corporate bond market - (1) broadening the institutional investor base to create stronger demand for corporate bonds, (2) improving secondary market liquidity to help price discovery, and (3) streamlining regulatory processes for corporate debt issuance and more participation.

Without these reforms, India's bond market, in particular and financial sector in general cannot become globally competitive.

Another area is "internationalisation of rupee". While many efforts have already been made, India needs to further expand rupee-based financial instruments to facilitate cross-border trade, improve offshore rupee market liquidity to attract global investors. To attract sustained capital inflows into the Indian debt and equity markets, India needs to create a more predictable regulatory framework and avoid policy flipflops. Digital rupee has placed India at the forefront of monetary digitisation and cross border payment efficiency. However, digitisation brings with itself many risks like cybersecurity risks, rising cases of digital fraud and the concentration of a few big fintech players. In this context, India needs stronger consumer protection laws, enhanced cybersecurity measures, and stricter oversight of dominant digital payment firms. By accelerating these reforms, India can make its financial sector globally competitive.

About Dr Rupa Rege Nitsure

Dr. Rupa has over 35 years of experience in banking and finance. Formerly Group Chief Economist at L&T Finance and Chief Economist at Bank of Baroda, she has served on key RBI and Finance Ministry committees, including those on monetary policy and banking structure. Currently she is the Professor of Practice at Symbiosis School of Economics, Pune. An active researcher, media commentator and board member, her expertise spans macroeconomics and financial intermediation. She holds M.A., M.Phil, and Ph.D. degrees from Gokhale Institute of Politics & Economics, Pune.

About the Interviewer

Mahima Sharma is an Independent Journalist based in Delhi NCR. She has been in the field of TV, Print & Online Journalism since 2005 and previously an additional three years in allied media. In her span of work she has been associated with CNN-News18, ANI - Asian News International (A collaboration with Reuters), Voice of India, Hindustan Times and various other top media brands of their times. In recent times, she has diversified her work as a Digital Media Marketing Consultant & Content Strategist as well. Starting March 2021, she is also a pan-India Entrepreneurship Education Mentor at Women Will - An Entrepreneurship Program by Google in Collaboration with SHEROES. Mahima can be reached at media@indiastat.com

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