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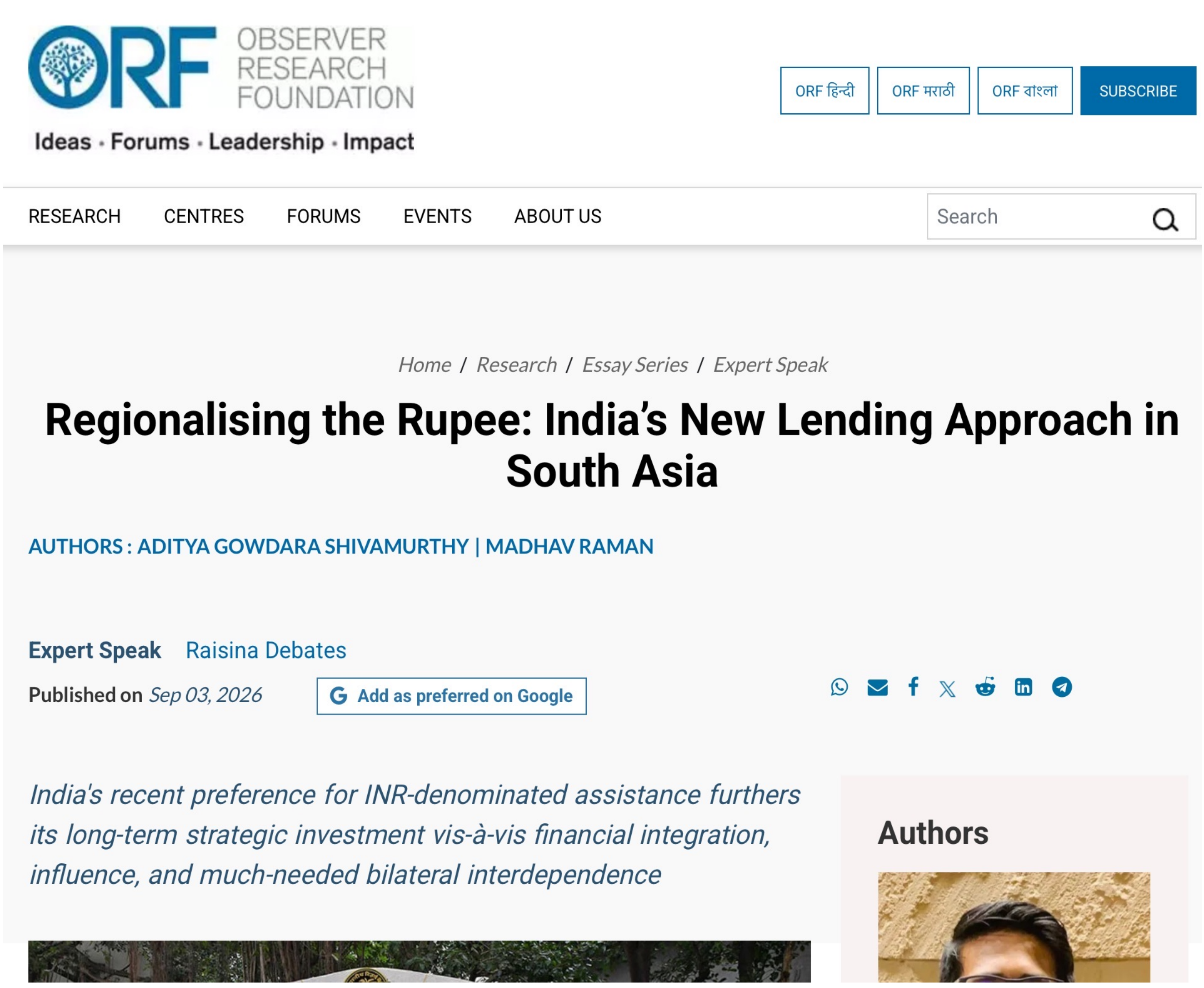
Regionalisation the Rupee - India's new lending approach



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Regionalising the Rupee: India's New Lending Approach in South Asia

AUTHORS : ADITYA GOWDARA SHIVAMURTHY | MADHAV RAMAN

Expert Speak Raisina Debates

Published on *Sep 03, 2026* Add as preferred on Google

India's recent preference for INR-denominated assistance furthers its long-term strategic investment vis-à-vis financial integration, influence, and much-needed bilateral interdependence

Authors

Context India is increasingly extending credit to South Asian neighbours in Indian rupees rather than US dollars. The shift seeks to deepen regional financial integration & strengthen India's economic influence.

Facts

- Since 2025, India has extended around US $ 1.27 billion in rupee-denominated credit to Maldives, Bhutan and Sri Lanka.
- Exim Bank has extended 300+ Lines of Credit to 68 countries, covering 600+ projects & worth $25 billion cumulatively.
- South Asian neighbours largely run trade deficits with India, making rupee generation through exports, tourism, remittances and investment crucial for repayment.

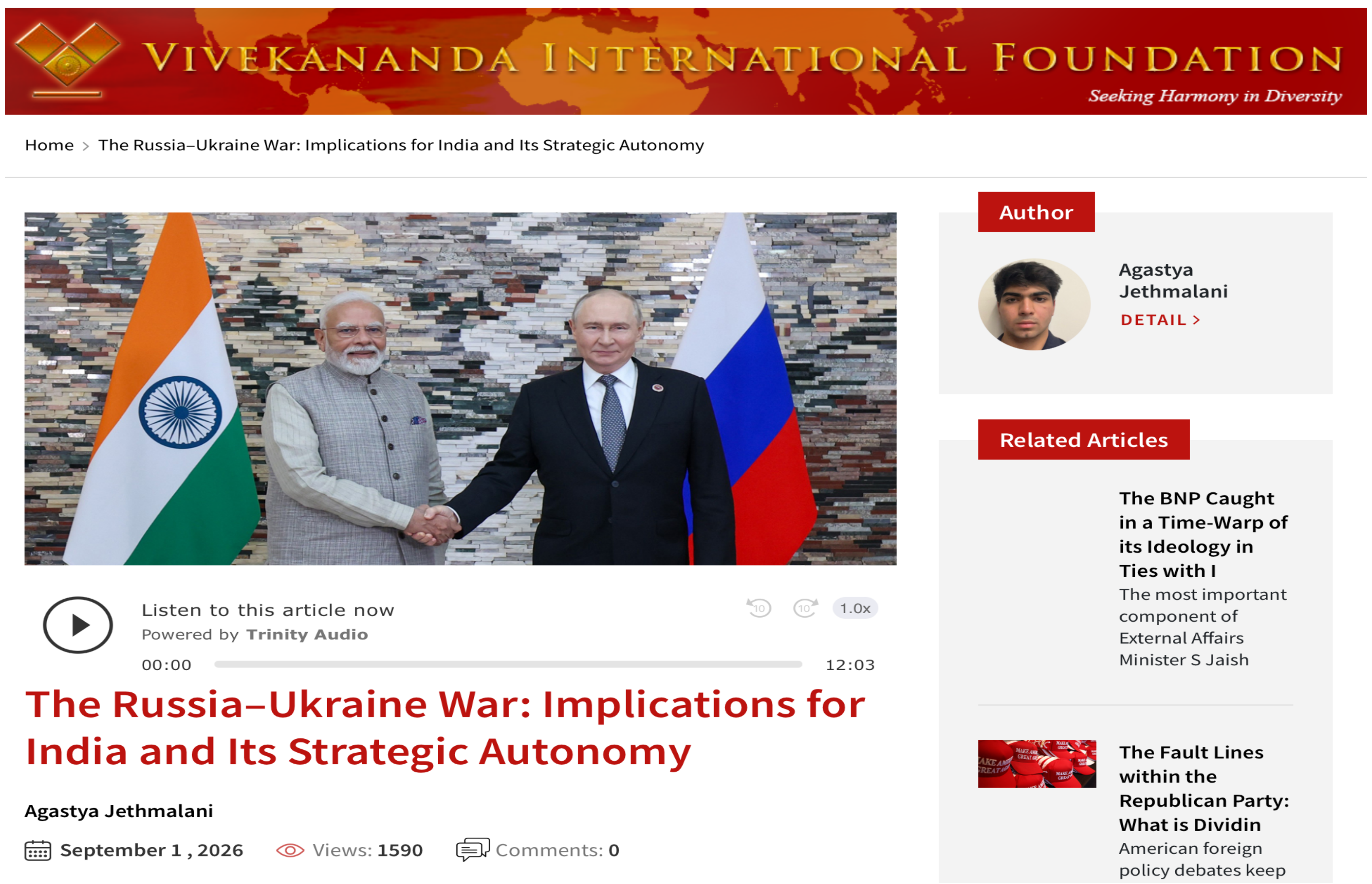
Analytical Crux

Rupee-denominated lending represents more than development finance; it is an instrument of economic statecraft and regional financial integration. By linking credit with trade, tourism, remittances, UPI, RuPay & rupee payment mechanisms, India can deepen economic interdependence with its neighbourhood. However, persistent trade deficits mean partner countries may spend rupees faster than they earn them, creating repayment risks. Thus, the success of rupee internationalisation depends on expanding bilateral trade and strengthening India-centred financial connectivity while remaining sensitive to neighbour's economic vulnerabilities.

Verbatim Quotes

"When India's bilateral lending, trade & payment systems all operate in rupees, the financial architecture of South Asia becomes India-centred by design."

The Russia-Ukraine war - implications for India



Context The Russia-Ukraine conflict has significantly affected India's energy security, defence supplies, trade & relations with the west.

Facts

- Russia's share in India's crude oil imports increased from around 2% before the war to about 35%, valued at nearly US $ 50 billion in FY 2024-25.

- India-Russia bilateral trade rose from about US $ 13 billion in 2021-22 to US $ 68.7 billion in 2024-25, but with a nearly US $ 59 billion trade deficit.

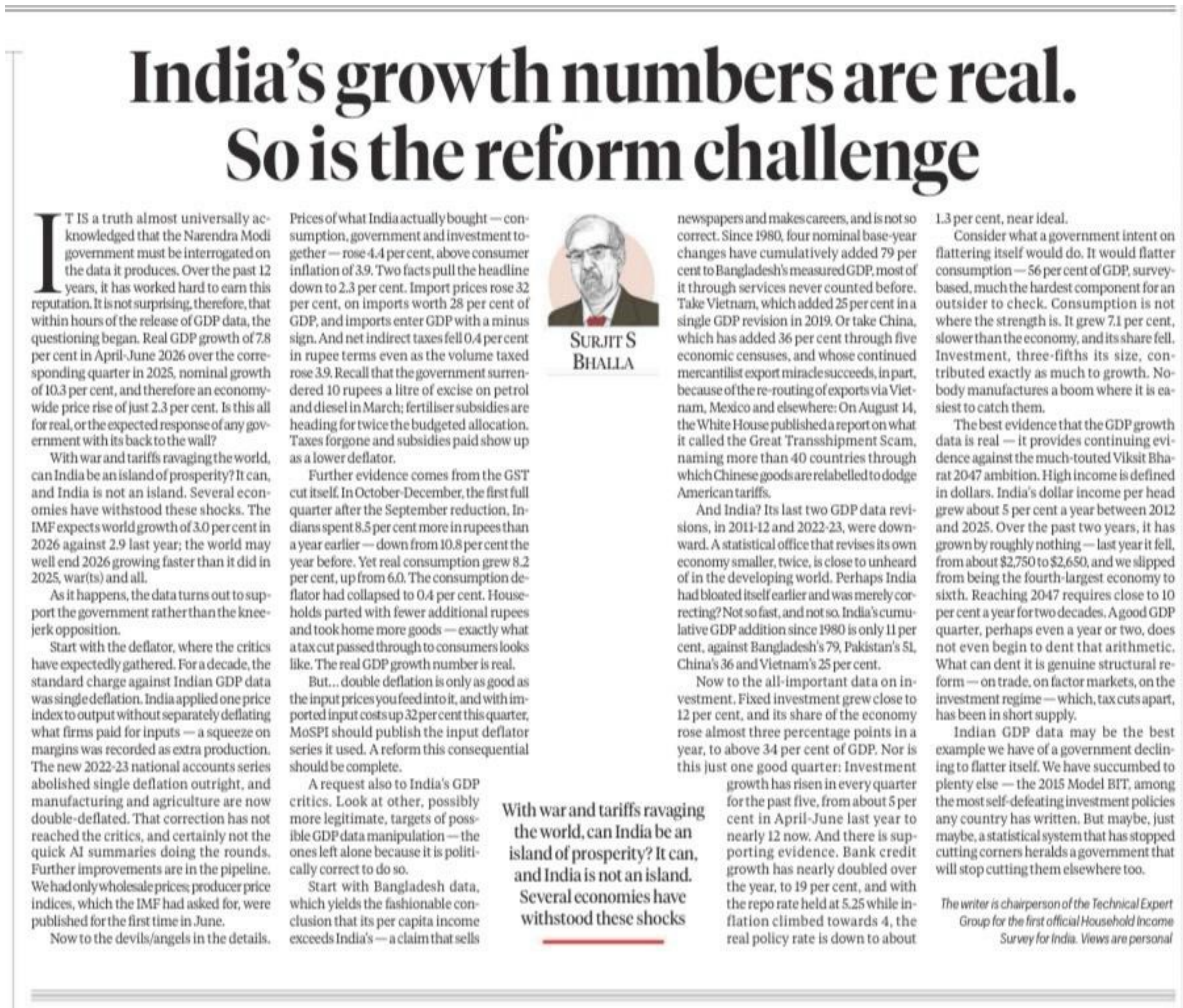
Analytical Crux

The Russia-Ukraine war demonstrates India's attempt to preserve strategic autonomy through multi-alignment. Continued Russian oil purchases have strengthened energy security and helped manage import costs, while engagement with Ukraine & Western powers prevents excessive dependence on Moscow. However, this autonomy carries costs, including Western trade pressure, a large India-Russia trade deficit and vulnerabilities in defence supply chains. The conflict therefore reinforces the need to diversify energy & defence partnerships, expand indigenous capabilities & retain flexibility in an increasingly multipolar & transactional international order.

Verbatim Quotes

"The international system is marked by multipolarity & transactional state behaviour."

India's growth numbers are real, so is the reform challenge



India's growth numbers are real. So is the reform challenge

Surjit S Bhalla

IT IS a truth almost universally acknowledged that the Narendra Modi government must be interrogated on the data it produces. Over the past 12 years, it has worked hard to earn this reputation. It is not surprising, therefore, that within hours of the release of GDP data, the questioning began. Real GDP growth of 7.8 per cent in April-June 2026 over the corresponding quarter in 2025, nominal growth of 10.3 per cent, and therefore an economy-wide price rise of just 2.3 per cent. Is this all for real, or the expected response of any government with its back to the wall?

With war and tariffs ravaging the world, can India be an island of prosperity? It can, and India is not an island. Several economies have withstood these shocks. The IMF expects world growth of 3.0 per cent in 2026 against 2.9 last year; the world may well end 2026 growing faster than it did in 2025, war(ts) and all.

As it happens, the data turns out to support the government rather than the knee-jerk opposition.

Start with the deflator, where the critics have expectedly gathered. For a decade, the standard charge against Indian GDP data was single deflation. India applied one price index to output without separately deflating what firms paid for inputs — a squeeze on margins was recorded as extra production. The new 2022-23 national accounts series abolished single deflation outright, and manufacturing and agriculture are now double-deflated. That correction has not reached the critics, and certainly not the quick AI summaries doing the rounds. Further improvements are in the pipeline. We had only wholesale prices; producer price indices, which the IMF had asked for, were published for the first time in June.

Now to the devils/angels in the details. Prices of what India actually bought — consumption, government and investment together — rose 4.4 per cent, above consumer inflation of 3.9. Two facts pull the headline down to 2.3 per cent. Import prices rose 32 per cent, on imports worth 28 per cent of GDP, and imports enter GDP with a minus sign. And net indirect taxes fell 0.4 per cent in rupee terms even as the volume taxed rose 3.9. Recall that the government surrendered 10 rupees a litre of excise on petrol and diesel in March; fertiliser subsidies are heading for twice the budgeted allocation. Taxes forgone and subsidies paid show up as a lower deflator.

Further evidence comes from the GST cut itself. In October-December, the first full quarter after the September reduction, Indians spent 8.5 per cent more in rupees than a year earlier — down from 10.8 per cent the year before. Yet real consumption grew 8.2 per cent, up from 6.0. The consumption deflator had collapsed to 0.4 per cent. Households parted with fewer additional rupees and took home more goods — exactly what a tax cut passed through to consumers looks like. The real GDP growth number is real.

But... double deflation is only as good as the input prices you feed into it, and with imported input costs up 32 per cent this quarter, MoSPI should publish the input deflator series it used. A reform this consequential should be complete.

A request also to India's GDP critics. Look at other, possibly more legitimate, targets of possible GDP data manipulation — the ones left alone because it is politically correct to do so.

Start with Bangladesh data, which yields the fashionable conclusion that its per capita income exceeds India's — a claim that sells newspapers and makes careers, and is not so correct. Since 1980, four nominal base-year changes have cumulatively added 79 per cent to Bangladesh's measured GDP, most of it through services never counted before. Take Vietnam, which added 25 per cent in a single GDP revision in 2019. Or take China, which has added 36 per cent through five economic censuses, and whose continued mercantilist export miracle succeeds, in part, because of the re-routing of exports via Vietnam, Mexico and elsewhere: On August 14, the White House published a report on what it called the Great Transshipment Scam, naming more than 40 countries through which Chinese goods are relabelled to dodge American tariffs.

With war and tariffs ravaging the world, can India be an island of prosperity? It can, and India is not an island. Several economies have withstood these shocks

And India? Its last two GDP data revisions, in 2011-12 and 2022-23, were downward. A statistical office that revises its own economy smaller, twice, is close to unheard of in the developing world. Perhaps India had bloated itself earlier and was merely correcting? Not so fast, and not so. India's cumulative GDP addition since 1980 is only 11 per cent, against Bangladesh's 79, Pakistan's 51, China's 36 and Vietnam's 25 per cent.

Now to the all-important data on investment. Fixed investment grew close to 12 per cent, and its share of the economy rose almost three percentage points in a year, to above 34 per cent of GDP. Nor is this just one good quarter: Investment growth has risen in every quarter for the past five, from about 5 per cent in April-June last year to nearly 12 now. And there is supporting evidence. Bank credit growth has nearly doubled over the year, to 19 per cent, and with the repo rate held at 5.25 while inflation climbed towards 4, the real policy rate is down to about 1.3 per cent, near ideal.

Consider what a government intent on flattering itself would do. It would flatter consumption — 56 per cent of GDP, survey-based, much the hardest component for an outsider to check. Consumption is not where the strength is. It grew 7.1 per cent, slower than the economy, and its share fell. Investment, three-fifths its size, contributed exactly as much to growth. Nobody manufactures a boom where it is easiest to catch them.

The best evidence that the GDP growth data is real — it provides continuing evidence against the much-touted Viksit Bharat 2047 ambition. High income is defined in dollars. India's dollar income per head grew about 5 per cent a year between 2012 and 2025. Over the past two years, it has grown by roughly nothing — last year it fell, from about \$2,750 to \$2,650, and we slipped from being the fourth-largest economy to sixth. Reaching 2047 requires close to 10 per cent a year for two decades. A good GDP quarter, perhaps even a year or two, does not even begin to dent that arithmetic. What can dent it is genuine structural reform — on trade, on factor markets, on the investment regime — which, tax cuts apart, has been in short supply.

Indian GDP data may be the best example we have of a government declining to flatter itself. We have succumbed to plenty else — the 2015 Model BIT, among the most self-defeating investment policies any country has written. But maybe, just maybe, a statistical system that has stopped cutting corners heralds a government that will stop cutting them elsewhere too.

The writer is chairperson of the Technical Expert Group for the first official Household Income Survey for India. Views are personal

Context

India's reported 7.8% real GDP growth in April-June 2026 has triggered debate over the credibility of the underlying data, particularly the unusually low implied GDP deflator.

Facts

- India recorded 7.8% real GDP growth & 10.3% nominal growth, implying a GDP deflator of about 2.3% in April-June 2026.
- The 2022-23 national accounts series abolished single deflation, with manufacturing & agriculture now subject to double deflation.

Analytical Crux

The debate over India's growth is ultimately about measurement as well as structural transformation. The low 2.3% deflator can be explained by sharply higher import prices, changes in indirect taxes & improved national accounting methodology. Yet credible growth statistics do not automatically translate into broad-based economic prosperity. Weak per-capita dollar income and the need for sustained near-double-digit growth underline the reform challenge. India must therefore complement strong GDP performance with employment generation, productivity enhancement, investment, human-capital development & institutional reforms to realise Viksit Bharat by 2047.

Verbatim Quotes

"A good GDP quarter, perhaps even a year or two, does not even begin to dent that arithmetic."

UPSC LINK

- **PSIR 2025, Paper I, 15 marks** — "With reference to Nehruvian perspective of planning and economic development, examine how the early phase of economic planning in India has laid the foundation of modern India's economic growth."

- **PSIR 2026, Paper I, 10 marks** — "Discuss the impact of liberalization on agriculture sector in India." Comment.

- **PSIR 2024, Paper II, 15 marks** — "'India has of late, chosen to debunk non-alignment in its pursuit of multi-alignment.' Comment.

- **GS-2 2025, 15 marks** — "'Energy security constitutes the dominant kingpin of India's foreign policy, and is linked with India's overarching influence in Middle Eastern countries.' How would you integrate energy security with India's foreign policy trajectories in the coming years?"

- **GS-2 2026, 10 marks** — "'BRICS acts as a powerful counterweight in global governance, actively amplifying the voice and influence of the Global South.' Explain the role of BRICS in projecting itself as an alternative to other groupings."

- **GS-2 2025, 10 marks** — "'With the waning of globalization, post-Cold War world is becoming a site of sovereign nationalism.' Elucidate."

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