# Will GST rationalisation help check retail inflation?

Since the GST rate of essential items has declined from 12 per cent to 5 per cent/NIL and which comes into effect from September 22, the CPI or retail inflation in this category may also come down by 25-30 bps in the current fiscal after considering a 60 per cent pass through effect on food items.

Apart from it, the rationalisation of the GST rates of services should also lead to another 40-45 bps reduction in CPI inflation on other goods and service items, considering a 50 per cent pass through effect. Overall, Ecowrap believes CPI inflation may be moderated in the range of 65-75 bps over next fiscal.

With August inflation print a tad higher that the 2 per cent mark, a rate cut in October looks onerous.

Even a rate cut in December looks a little difficult if growth numbers for Q1 and Q2 are taken into consideration.

Looking ahead, despite the healthy trends in the Kharif sowing, large excess rains, and flooding in some parts of the country in late August and early-September could impact the Kharif crop yields, and consequently output and prices, and thus, remain a key monitorable.

Thus, October may see headline CPI going even sub-1 per cent, led by GST cuts and a favourable base effect.

While GST-led lower tax incidence may not be the perfect rationale for the RBI to reassess its policy stance, Emkay believes that a multitude of factors could still lead to a change in the RBI's reaction function.

Moreover, experts re-assert that the RBI's focus on one-year ahead expected inflation appears misplaced in an evolving world – especially as the global landscape continues to shift toward a disinflationary bias in Asia.

However, another section of analysts think otherwise. They believe that with the implementation of GST rate cuts, the impact of the same on the CPI inflation is unlikely to be material in the ongoing month, given that the average monthly prices are used for computation of the price indices.

Overall, the analysts expect the headline CPI inflation to print at 2.0 per cent in September.

The dip in the average monthly prices owing to the GST cut will start to be visible in the October data, which along with a high base, is likely to soften the inflation print for the month to 1.5 per cent.

In Icra's view, the GST rejig could dampen the headline CPI prints by 25-50 bps during Q3 relative to its pre-GST rationalisation estimates, taking the average for FY26 to 2.6 per cent.

While the average CPI inflation for FY26 is now likely to print around 2.6 per cent, and October-November may mark a fresh low, the trajectory subsequently remains upward sloping.

This, in conjunction with the stronger-than-expected GDP growth in Q1, and the positive impact of the GST reforms on growth in the later quarters, suggest a status quo for the repo rate in the October policy review.

# India's credit growth declines, but broader financial flows remain resilient

## Repo rate cuts fail to spur credit demand, a deeper look at India's banking sector

CURRENTLY, there has not been the required credit growth in the banking industry despite the fact that the RBI has reduced the repo rate by more than 100 basis points. This should normally have resulted in a lower cost of borrowed funds and a substantial rise in demand for bank loans.

However, the slower credit growth compared to last year may be due to weak demand for credit for fresh investments and project expansion. Capacity utilisation has also not picked up sufficiently to create demand for fresh term loans. Similarly, demand for fresh working capital loans has been limited due to subdued consumer demand in the market.

**RBI Governor Sanjay Malhotra recently said that although credit growth slowed in 2024–25, the broader flow of financial resources to the commercial sector has improved significantly. Therefore, the slowdown in corporate borrowings should not be viewed in isolation. According to him, the overall flow of financial resources to the commercial sector increased from Rs 33.9 trillion in 2023–24 to Rs 34.8 trillion in 2024–25. He also stated that "this trend continues during the current financial year."**

Another factor is that, apart from loans that were automatically repriced due to repo rate cuts (linked to market benchmarks), other loans did not benefit from adequate transmission of lower repo rates into lending rates. If banks are unable to offer better lending rates—because their earlier contracted deposit rates, particularly on long-term deposits, remain high—then concerns about a shrinking net interest margin and profitability restrict their ability to pass on lower rates to new borrowers.

In this regard, RBI Governor Sanjay Malhotra recently said that although credit growth slowed in 2024–25, the broader flow of financial resources to the commercial sector has improved significantly. Therefore, the slowdown in corporate borrowings should not be viewed in isolation. According to him, the overall flow of financial resources to the commercial sector increased from Rs 33.9 trillion in 2023–24 to Rs 34.8 trillion in 2024–25. He also stated that "this trend continues during the current financial year." As per the RBI's definition, this flow includes bank loans, loans from non-banks, LIC investments in corporate debt, and funds raised overseas.

Dr M Narendra

Whenever market conditions are favourable, corporates raise funds directly from the market, either through commercial papers or short-, medium-, and long-term debt instruments. They also raise equity resources through fresh issues, rights issues, and private placements when equity markets are favourable. At the same time, many corporates that are flush with funds due to strong profitability may repay their high-cost bank borrowings in the absence of opportunities for acquisitions or fresh investments.

It is generally expected that reduced interest rates should lead to enhanced credit growth. However, there is often a time lag between repo rate cuts and higher credit demand. For example, as per BCG research, between 2014 and 2016 credit growth did not pick up even after 12–24 months of falling interest rates.


**To create a level playing field, the government has previously incentivised corporates by cutting corporate tax rates. More recently, in the Union Budget, the government extended substantial benefits to individuals by enhancing the income tax exemption limits. This move has increased disposable income in the hands of people, encouraging greater spending on consumption, tourism, and luxury items—thereby boosting domestic demand**

Similarly, a paper authored by Deep Narayan Mukherjee, Gopal Sharma, Kanishka Singh, and Pooja Kaphalia found that between 2018 and 2020, despite stable or declining interest rates, credit growth did not accelerate. By contrast, between 2022 and 2023, credit grew strongly despite rising interest rates. According to the BCG paper, 2016–18 was the only phase in which credit growth aligned with falling interest rates.

To create a level playing field, the government has previously incentivised corporates by cutting corporate tax rates. More recently, in the Union Budget, the government extended substantial benefits to individuals by enhancing the income tax exemption limits. This move has increased disposable income in the hands of people, encouraging greater spending on consumption, tourism, and luxury items—thereby boosting domestic demand.

In addition, as announced by Prime Minister Narendra Modi on the eve of Independence Day, "GST 2.0" reforms were implemented from September 22nd, introducing two slabs—5% (for essential consumption items) and 18% (for all other items)—as against the earlier four slabs of 5%, 12%, 18%, and 28%. This is expected to significantly boost consumption and economic activity. Although the reforms may reduce government GST revenues by Rs 48,000 crore, SBI estimates that the actual loss will be minimal (around Rs3,700 crore), as higher economic activity and consumption will partly offset the shortfall. SBI also projects that these reforms could lower inflation by 65–75 basis points in FY 2027.

These reforms may also lead to higher capacity utilisation, prompting corporates to undertake new capex, which would boost credit demand for banks.

Recently, SBI Chairman C S Setty stated that sustained consumption is crucial for driving private capital expenditure (capex), as corporates are already operating at a high capacity—around 75% utilisation. Expansion in sectors like renewable energy, refineries, cement, and steel is dependent on demand revival. He also noted that many large companies are currently meeting their capex needs using internal cash reserves and capital markets, which explains the muted demand for bank credit.

Another issue for the banking industry is the declining trend in CASA (current account and savings account) deposits. Following the repo rate cut, banks—including SBI—reduced the interest payable on savings accounts. In SBI's case, since June 2025 the uniform SB interest rate has been 2.5% per annum. Consequently, SBI's CASA ratio fell marginally to 39.36% in June 2025, from 40.70% a year earlier and 39.97% in the previous quarter. Similarly, Bank of Baroda's CASA ratio fell by 64 basis points to 39.33% in the June quarter.

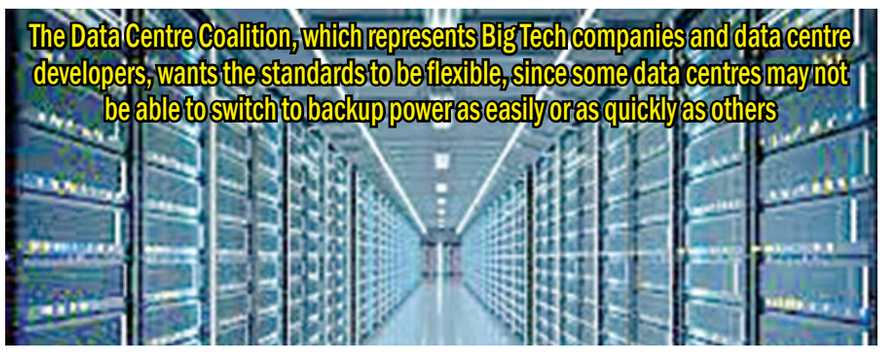
In an effort to protect their net interest margins, banks have reduced SB deposit rates, as the cost of term deposits (locked at higher rates earlier) takes time to adjust downward. While this supports asset-liability management (ALM), it makes SB deposits less attractive for customers. Therefore, banks need to expand their SB customer base through special campaigns, value-added services, technology-enabled products, cross-selling, and stronger customer engagement. At the recent two-day "PSB Manthan," the government urged banks to improve CASA deposits, which would help them extend more competitive credit to key sectors of the economy. Emphasis was placed on agriculture, micro, small, and medium enterprises (MSMEs)—the job-generating sectors critical for inclusive growth.

As of June 2025, Indian banks registered a 10.2% year-on-year growth in non-food bank credit, compared to 13.8% in June 2024.

*(The author is former Chairman & Managing Director of Indian Overseas Bank)*

# Changing strategy: US electric grids under pressure from energy-hungry data centres

MARC LEVY



**The Data Centre Coalition, which represents Big Tech companies and data centre developers, wants the standards to be flexible, since some data centres may not be able to switch to backup power as easily or as quickly as others**

WITH the explosive growth of Big Tech's data centres threatening to overload US electricity grids, policymakers are taking a hard look at a tough-love solution: bumping the energy-hungry data centres off grids during power emergencies. Texas moved first, as state lawmakers try to protect residents in the data-centre hotspot from another deadly blackout, like the winter storm in 2021 when dozens died.

Now the concept is emerging in the 13-state mid-Atlantic grid and elsewhere as massive data centres are coming online faster than power plants can be built and connected to grids. That has elicited pushback from data centres and Big Tech, for whom a steady power supply is vital.

Like many other states, Texas wants to attract data centres as an economic boon, but it faces the challenge of meeting the huge volumes of electricity the centres demand. Lawmakers there passed a bill in June that, among other things, orders up standards for power emergencies when utilities must disconnect big electric users.

That, in theory, would save enough electricity to avoid a broad blackout on the handful of days during the year when it is hottest or coldest and power consumption pushes grids to their limits or beyond. Texas was first, but it won't be the last, analysts say, now that the late 2022 debut of OpenAI's ChatGPT ignited worldwide demand for chatbots and other generative AI products that typically require large amounts of computing power to train and operate.

"We're going to see that kind of thing pop up everywhere," said Michael Weber, a University of Texas engineering professor who specialises in energy. "Data centre flexibility will be expected, required, encouraged, mandated, whatever it is."

Data centres are threatening grids. That's because grids can't keep up with the fast-growing number of data centre projects unfolding in Texas and perhaps 20 other states as the US competes in a race against China for artificial intelligence superiority.

Grid operators in Texas, the Great Plains states and the mid-Atlantic region have produced eye-popping projections showing that electricity demand in the coming years will spike, largely due to data centres.

A proposal similar to Texas' has emerged from the nation's biggest grid operator, PJM Interconnection, which runs the mid-Atlantic grid that serves 65 million people and data-centre hotspots in Virginia, Ohio and Pennsylvania.

The CEO of the Southwest Power Pool, which operates the grid that serves 18 million people primarily in Kansas, Oklahoma and other Great Plains states, said it has no choice but to expand power-reduction programmes — likely for the biggest power users — to meet growing demand.

The proposals are cropping up at a time when electricity bills nationally are rising fast — twice the rate of inflation, according to federal data — and growing evidence suggests that the bills of some regular Americans are rising to subsidise the gargantuan energy needs of Big Tech.

Analysts say power plant construction cannot keep up with the growth of data centre demand, and that something must change. "Data centre load has the potential to overwhelm the grid, and I think it is on its way to doing that," said Joe Bowring, who heads Monitoring Analytics, the independent market watchdog in the mid-Atlantic grid.

Data centres might have to adjust Big Tech is trying to make their data centres more energy efficient. They are also installing backup generators, typically fuelled by diesel, to ensure an uninterrupted power supply if there's a power outage.

Data centre operators, however, say they hadn't anticipated needing that backup power supply to help grid operators meet demand and are closely watching how utility regulators in Texas write the regulations.

The Data Centre Coalition, which represents Big Tech companies and data centre developers, wants the standards to be flexible, since some data centres may not be able to switch to backup power as easily or as quickly as others. The grid operator also should balance that system with financial rewards for data centres that voluntarily shut down during emergencies, said Dan Diorio of the Data Centre Coalition.

Nation's largest grid operator has a proposal PJM's just-released proposal revolves around a concept in which proposed data centres may not be guaranteed to receive electricity during a power emergency. That's caused a stir among power plant owners and the tech industry.

Many questioned PJM's legal authority to enforce it or warned of destabilising energy markets and states scaring off investors and developers with uncertainty and risk. "This is particularly concerning given that states within PJM's footprint actively compete with other US regions for data centre and digital infrastructure investment," the Digital Power Network, a group of Bitcoin miners and data centre developers, said in written comments to PJM.

The governors of Pennsylvania, New Jersey, Illinois and Maryland said they worried that it's too unpredictable to provide a permanent solution and that it should at least be accompanied by incentives for data centres to build new power sources and voluntarily reduce electricity use.

Others, including consumer advocates, warned that it won't lower electric bills and that PJM should instead pursue a "bring your own generation" requirement for data centres to, in essence, build their own power source. A deal is shrouded in secrecy In Indiana, Google took a voluntary route.

Last month, the electric utility, Indiana & Michigan Power, and the tech giant filed a power-supply contract with Indiana regulators for a proposed $2 billion data centre planned in Fort Wayne in which Google agreed to reduce electricity use there when the grid is stressed. The data centre would, it said, reduce electricity use by delaying non-urgent tasks to when the electric grid is under less stress. However, important details are being kept from the public and Ben Inskeep of the Citizens Action Coalition, a consumer advocacy group, said that leaves it unclear how valuable the arrangement really is, if at all.

A new way of thinking about electricity

To an extent, bumping big users off the grid during high-demand periods presents a new approach to electricity. It could save money for regular ratepayers, since power is most expensive during peak usage periods. Abe Silverman, an energy researcher at Johns Hopkins University, said that data centres can and do use all the electricity they want on most days.

But taking data centres off the grid for those handful of hours during the most extreme heat or cold would mean not having to spend billions of dollars to build a bunch of power plants, he said. "And the question is, is that worth it? Is it worth it for society to build those 10 new power plants just to serve the data centres for five hours a year?" Silverman said. "Or is there a better way to do it?"

# Experts from 100 nations to attend IEC meet in Delhi

OVER 2,000 experts from more than 100 countries will come together in the national capital to take part in the 89th General Meeting of the International Electrotechnical Commission (IEC), Ministry of Consumer Affairs, Food & Public Distribution said on Sunday.

The event, hosted by the Bureau of Indian Standards (BIS), will be held from September 15 to 19, at Bharat Mandapam. Delegates will deliberate on international electrotechnical standards that aim to build a sustainable, all-electric and connected world.

This will be the fourth time India is hosting the prestigious IEC General Meeting, after 1960, 1997 and 2013.

The opening ceremony will be inaugurated by Union Minister of Consumer Affairs, Food & Public Distribution Minister of New & Renewable Energy, Pralhad Joshi, while Commerce and Industry Minister Piyush Goyal will inaugurate the IEC GM Exhibition.

The exhibition will be the largest of its kind in India's electrotechnical sector, showcasing innovations in electric mobility, smart lighting, electronics and IT manufacturing. It will also provide global networking opportunities for Indian start-ups.

India will play a special role at the event as it takes charge as the Global Secretariat for Standardisation in Low Voltage Direct Current (LVDC), an area seen as vital for clean and pollution-free energy solutions.

IEC Vice President Vimal Mahendru said that the organisation's membership represents nearly 170 countries, covering 99 per cent of the world's population and influencing 20 per cent of global trade in value. He added that India's leadership in LVDC standardisation will boost global efforts in clean technology development.

**The IEC, established in 1906, is the world's leading organisation for developing international standards in electrical, electronic and related technologies, with a global network of 30,000 experts.**

BIS Director General Pramod Kumar Tiwari highlighted the Bureau's efforts to connect quality and standardisation with young talent through student chapters and structured internship programmes.

As part of the IEC Young Professionals Programme, 93 young professionals from across the globe will participate in workshops, boot camps and industry visits in India. Sanjay Garg, BIS Director General Designate, also attended the briefing. The meeting will host more than 150 technical and management committee discussions to set next-generation standards.

Alongside, a series of workshops will focus on key areas such as sustainability, artificial intelligence, e-mobility and inclusive growth through standards.

James Wood, Director of Communications at IEC, said global surveys show strong public support for clean and green solutions, describing India as "a real sustainability champion" and an ideal host for the event. The IEC GM Exhibition will feature 75 exhibitors, including leading industries, associations and start-ups.

It will be open to the public from September 16 to 19, between 2:00pm and 6:00pm, with free entry through prior registration.

Over 2,000 students from schools and colleges are expected to visit the exhibition. Visitors will also be able to take a Digital Sustainability Pledge at the BIS pavilion. For every pledge, BIS will plant one sapling across its offices in India to promote environmental protection.

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