*For the Year April 1, 2023 to March 31, 2024**

PART ONE: THE ECONOMY - REVIEW AND PROSPECTS

I ASSESSMENT AND PROSPECTS

I.1 The global economy is exhibiting resilience and fortitude. There are, however, multiple challenges emanating from still elevated inflation, tight monetary and financial conditions, escalating geopolitical tensions, rising geoeconomic fragmentation, disruptions in key global shipping routes, high public debt burdens and financial stability risks. Amidst heightened uncertainty, global growth is likely to weaken below its historical average in 2024, with divergent and uneven pathways across geographies and sectors. Global financial markets are on edge, with recurrent bouts of volatility as every incoming data increases uncertainty around monetary policy trajectories of major central banks.

I.2 Inflation is easing but rules above target in major systemic economies. The outlook for further disinflation is impeded by sticky core and services inflation and tight labour markets. While major advanced economy (AE) central banks are expected to pivot towards rate cuts in 2024, the fuzzy inflation trajectory is leading to sharp gyrations in market expectations of the pace and timing of monetary policy easing. In this milieu, several emerging market economies (EMEs)[1] have started rate cutting cycle and major AEs are undertaking regime shifts including exits from negative policy rates.

I.3 Amidst this challenging global economic environment, the Indian economy is exhibiting strength and stability with robust macroeconomic fundamentals and financial stability. India has emerged as the fastest growing major economy in the world and a leading contributor to global growth. Inflationary pressures are abating, led by steady core disinflation and deflation in fuel prices. Food inflation, however, remains vulnerable to recurring supply shocks which are preventing a quicker alignment of headline inflation with the target. Fiscal consolidation is progressing along with an improvement in the quality of fiscal spending and adjustment. The external sector is gaining strength, with the narrowing of the current account deficit (CAD) and foreign exchange reserves rising to an all-time high. The financial sector is sound and vibrant, supporting double digit credit growth, backed by high capital adequacy, solid earnings and improvements in asset quality. The outlook for the Indian economy in 2024-25 is brightening.

2. Assessment of the 2023-24 Experience

Global Economy

I.4 According to the International Monetary Fund (IMF)[2], global growth decelerated to 3.2 per cent during 2023 from 3.5 per cent during

* : Wherever information is available, this chapter has been updated beyond March 2024.

1 Brazil, Chile, Colombia, Mexico and Peru are amongst EMEs that have cut their policy rates during 2024; Indonesia and Türkiye, on the other hand, have raised their policy rates during this period.

2 World Economic Outlook, April 2024, International Monetary Fund (IMF).

2022. The pace of economic activity was dragged down, *inter alia*, by restrictive monetary policy stances to tame inflation, protracted geopolitical tensions and sluggish recovery in China. The potential impact of climate change became increasingly evident, with economic losses due to extreme weather events. Global inflation fell to 6.8 per cent in 2023 from 8.7 per cent in 2022 on the back of easing commodity prices, favourable supply conditions and monetary tightening across major economies, but still remained at its highest level in over two decades. Inflation in respect of core items and services remained elevated, exhibiting persistence in major economies amidst tight labour market conditions.

I.5 Global merchandise trade volume contracted by 1.2 per cent in 2023 in contrast to an increase of 3.0 per cent in the preceding year as demand rotated back from goods towards services with the ebbing of the pandemic[3]. Apart from geopolitical tensions and geoeconomic fragmentation, the multi-decadal high inflation in 2023 depressed consumption of manufactured goods, which also dampened external trade. On the other hand, services trade exhibited resilience due to continued recovery in spending on travel from the COVID-19 pandemic lows and sustained demand for digitally delivered services.

I.6 Global financial conditions tightened amidst heightened volatility in response to synchronised monetary policy tightening as well as aggravating geopolitical conflicts. Sovereign bond yields hardened to multi-year highs in the first half of 2023-24, driven up by monetary tightening and exhibited large two-way fluctuations in the subsequent period over growing haziness surrounding monetary policy trajectories of major central banks. The US dollar remained strong, with large swings in response to changing monetary policy expectations. This exerted downward pressures on a number of EME currencies. Global equity markets inched up higher on prospects of soft landing, with sharp gains registered in technology and artificial intelligence (AI) related stocks.

Domestic Economy

I.7 Against the backdrop of subdued global economic activity and multiple headwinds, the Indian economy expanded at a robust pace in 2023-24, with real GDP growth accelerating to 7.6 per cent from 7.0 per cent in the previous year – the third successive year of 7 per cent or above growth[4]. With gross fixed capital formation (GFCF) accelerating to 10.2 per cent in 2023-24 from 6.6 per cent in 2022-23, investment was the major driver of domestic demand, buoyed by government spending on infrastructure. Growth in private consumption demand, on the other hand, stood at 3.0 per cent as against 6.8 per cent a year ago. Government consumption demand was also subdued tracking fiscal consolidation. Net exports dragged down growth due to the moderation in exports as a result of contraction in global trade volumes. Import demand was relatively buoyant on robust domestic demand.

I.8 On the supply side, growth in gross value added (GVA) in the agriculture and allied sector in 2023-24 stood at 0.7 per cent as against 4.7 per cent a year earlier as foodgrains production

[3] Global Trade Outlook and Statistics, April 2024, World Trade Organisation (WTO).

[4] All references to GDP data in this Report are based on the Second Advance Estimates of National Income 2023-24 released by the National Statistical Office on February 29, 2024, unless indicated otherwise.

declined due to the deficient and uneven southwest monsoon rainfall. The government undertook a number of supply measures throughout the year to maintain domestic supply-demand balance in food items and mitigate inflationary pressures. They included release of public foodgrains stocks through open market sales; application of stock limits in cereals and pulses; export restrictions on cereals and onions; and easing of access to import pulses and edible oils. The declaration of 2023 as the international year of millets by the United Nations (UN) provided a renewed thrust to diversification of crops from rice and wheat towards nutritional, environmentally sustainable and traditional crops across the country.

I.9 In the industrial sector, manufacturing GVA accelerated, benefitting from the boost to corporate profitability provided by easing of input costs. Industrial activity was also supported by the sustained momentum in mining and electricity generation. Infrastructure and capital goods production gained from the government's push to capital expenditure. The production of consumer goods recovered, led by the consumer non-durables segment. The recovery in consumer goods was volume driven, with growth in rural demand catching up with the urban segment. The government continued with initiatives to promote the industrial sector, especially in emerging areas. Investment amounting to ₹1.3 trillion was approved for the establishment of three semi-conductor manufacturing units as part of the development of the full production line for semi-conductors. In order to support the renewable energy initiative, royalty rates for the extraction of three vital and strategic minerals [*viz.,* lithium, niobium, and rare earth elements (REEs)] were specified to attract bidders in the auction process. The government also endorsed a viability gap funding (VGF) scheme to develop battery energy storage systems (BESS) by lowering storage costs for both distribution companies and consumers. The '*Pradhan Mantri Surya Ghar: Muft Bijli Yojana'* [5] marks a significant push towards sustainable energy solutions.

I.10 The services sector, with a share of over 63 per cent in GVA, remained the mainstay of aggregate supply, with growth of 7.9 per cent in 2023-24. Construction activity accelerated to register double digit growth, benefitting from rising demand in the housing sector and the government's thrust on infrastructure. The sustained ebullience in bank credit growth propelled financial services, while there was a slowdown in IT services during 2023-24 on subdued global demand.

I.11 Employment conditions improved, with the unemployment rate falling to its lowest level during 2023 (January-December) - 3.1 per cent in the usual status and 5.0 per cent in the current weekly status - in the periodic labour force survey (PLFS) series for which data are available from 2017-18 (July-June). Both urban and rural regions recorded a decline in the unemployment rate. The labour force participation rate (LFPR) and worker population ratio (usual status) increased to 59.8 per cent and 58.0 per cent, respectively, in 2023, the highest since the survey's inception, along with a steep rise in the female LFPR.

I.12 According to the Climate Change Performance Index (CCPI) Report 2024, India's

[5] The scheme, launched on February 13, 2024, aims to provide free electricity to one crore households; the households will be provided a subsidy of up to 40 per cent of the cost of the solar panels to install it on their roofs.

climate action performance improved, making India the fourth best performing nation among 63 countries analysed. Strong progress was made towards nationally determined contributions in terms of key indicators like reduction in the emission intensity of GDP and an increase in the installed capacity of non-fossil fuel-based energy resources. Among major climate initiatives, India notified the carbon credit trading scheme (CCTS) while also launching the National Green Hydrogen Mission.

I.13 Inflationary pressures moderated *albeit* unevenly during 2023-24, reflecting the combined impact of calibrated monetary tightening, easing of input cost pressures and supply management measures. Headline inflation softened to 5.4 per cent during 2023-24 from 6.7 per cent in the previous year, driven by the fall in core inflation (CPI excluding food and fuel) to 4.3 per cent from 6.1 per cent. Fuel inflation also eased sharply, moving into deflation since September 2023, with the reduction in the domestic prices of liquefied petroleum gas (LPG) and kerosene on the back of correction in global energy prices. Food inflation, on the other hand, hardened amidst high volatility. Sustained pressures from prices of cereals, pulses, spices and vegetables due to overlapping supply shocks pushed up food inflation to 7.0 per cent in 2023-24 from 6.7 per cent a year ago, thereby keeping headline inflation above the target.

I.14 Considering the growth-inflation dynamics, the Monetary Policy Committee (MPC) kept the policy repo rate unchanged at 6.50 per cent during 2023-24 and continued with a stance of withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth. The MPC noted that monetary policy has to remain disinflationary to ensure fuller transmission and better anchoring of inflation expectations. Liquidity conditions tightened during 2023-24 in sync with the monetary policy stance. The liquidity surplus as reflected in average daily net absorption under the liquidity adjustment facility (LAF) moderated to ₹485 crore during 2023-24 from ₹1.87 lakh crore in the previous year. The Reserve Bank conducted two-way operations, both main and fine-tuning auctions, to ensure availability of adequate liquidity in the banking system. The weighted average call rate (WACR) traded, on an average, 13 basis points (bps) above the policy repo rate during 2023-24.

I.15 Domestic financial markets remained stable during 2023-24, with orderly movements in the bond and foreign exchange markets and exuberant equity markets. G-sec yields softened on favourable inflation prints, reports of inclusion of Indian bonds in major global bond indices and lower than expected market borrowings by the Union Government in the interim Union Budget 2024-25. Corporate bond yields moderated tracking the G-sec yields, and corporate bond issuances increased. The Indian Rupee (INR) displayed stability on the back of improving external sector and macroeconomic fundamentals, including a significant moderation in the CAD and resurgent capital inflows, that offset persistent headwinds from volatile global financial markets, the strong US dollar and persisting geopolitical tensions. The INR depreciated by 1.4 per cent during 2023-24 (7.8 per cent in the previous year) and was amongst the best performing major EME currencies during the year. Equity prices recorded solid gains on robust corporate earnings and strong domestic GDP growth. There were, however, intermittent corrections due to geopolitical concerns and uncertain monetary policy trajectories in the systemic economies. The domestic equity market capitalisation crossed the US$ 4 trillion mark in H2:2023-24, making the Indian stock market the fifth largest in the world.

I.16 The transmission of the repo rate increases undertaken in 2022-23 to banks' lending and deposit rates continued in 2023-24 amidst moderation in surplus liquidity in the banking system and credit growth persistently outpacing deposit growth. The share of external benchmark linked loans in total outstanding floating loans rose further, with a concomitant fall in the marginal cost of funds-based lending rate (MCLR) linked loans. The expansion of currency in circulation moderated while deposit growth accelerated with the return of ₹2000 banknotes (following their withdrawal from circulation in May 2023) to the banking system, mostly in the form of deposits.

I.17 The central government delivered on its fiscal consolidation commitments. The gross fiscal deficit (GFD) declined to 5.9 per cent of GDP in 2023-24 (RE) from 6.4 per cent of GDP in 2022-23. Revenue spending growth was contained at 2.5 per cent while capital expenditure grew in double digits for the fourth consecutive year. Fiscal adjustment was also supported by buoyant revenues - gross tax revenues increased to 11.7 per cent of GDP in 2023-24 (RE), their highest level since 2008-09, driven by income tax collections. States budgeted a GFD of 3.1 per cent of GDP in 2023-24, within the limit of 3.5 per cent prescribed by the Centre. Capital expenditure by states rose by 19.4 per cent during 2023-24. The general government deficit moved lower in 2023-24 (BE), even as general government capital outlay increased from 5.0 per cent of GDP in 2022-23 (RE) to 5.6 per cent of GDP in 2023-24 (BE).

I.18 During H2:2023-24, the Reserve Bank issued an ultra-long security of 50-year tenor aggregating ₹30,000 crore to cater to the growing needs of long-term institutional players. The central government's borrowing in H2 also included the issuance of new sovereign green bonds (SGrBs) of 30 years. The weighted average yield (WAY) on G-secs issued during the year moderated to 7.24 per cent in 2023-24 from 7.32 per cent in the previous year.

I.19 India's merchandise exports fell in 2023-24, driven by the declines in global trade volume and commodity prices. In 2023-24, merchandise exports contracted by 3.1 per cent in US dollar terms, while imports fell by 5.7 per cent. Consequently, India's merchandise trade deficit narrowed to US$ 238.3 billion during 2023-24 from US$ 264.9 billion a year ago. With robust services exports and a steady flow of inward remittances, the CAD moderated to 1.2 per cent of GDP during April-December 2023 from 2.6 per cent in the corresponding period a year ago.

I.20 Capital flows were robust during 2023-24, attracted by buoyant economic growth and improving domestic macroeconomic fundamentals. Net foreign portfolio investment (FPI) flows recorded a significant turnaround to US$ 41.6 billion in 2023-24, the second highest after 2014-15 (US$ 45.1 billion). India received the highest net FPI inflows amongst EME peers during the year. Gross foreign direct investment (FDI) flows were resilient at US$ 71.0 billion in 2023-24, broadly comparable to US$ 71.4 billion a year ago. Net foreign direct investment (FDI) flows, however, moderated to US$ 10.6 billion from US$ 28.0 billion primarily owing to higher repatriation. Other major capital flows - external commercial borrowings (ECBs) and non-resident deposits - were higher during the year. With overall net capital inflows outpacing the CAD, there was an accretion to the foreign exchange reserves to the tune of US$ 32.9 billion (on a balance of payments basis, *i.e.*, excluding valuation effects) during April-December 2023. India's foreign exchange reserves rose to an all-time high of US$ 648.7 billion as on May 17, 2024, covering 11.4 months of imports and strengthening buffers against external sector risks and adverse spillovers.

I.21 Scheduled commercial banks (SCBs) remained well-capitalised, maintaining capital adequacy above the regulatory minimum as at end-September 2023. Bank credit growth sustained momentum during 2023-24. The asset quality of SCBs improved further, along with moderation in the gross non-performing assets (GNPAs) as at end-September 2023. Profitability indicators such as return on equity (RoE) and return on assets (RoA) were also robust. Macro stress tests for credit risk suggest that SCBs would be in a position to comply with the minimum capital requirements, both at the aggregate and individual bank level, even under a severe stress scenario.

I.22 Capital adequacy of non-banking financial companies (NBFCs) was comfortable and asset quality improved as at end-September 2023. On the profitability front, RoA and net interest margin (NIM) stood strong and the cost-to-income ratio improved. Robust credit growth was sustained, supported by demand for retail credit. Urban cooperative banks (UCBs) witnessed an improvement in their capital adequacy, with their capital to risk-weighted assets ratio (CRAR) surpassing the minimum requirement across all tiers in September 2023.

I.23 Several regulatory and supervisory guidelines were issued during the year in line with global best practices towards strengthening of governance, risk management practices and capital buffers. The regulatory guidelines included: (a) default loss guarantee in digital lending; (b) framework for compromise settlements and technical write-offs; (c) prudential norms for classification, valuation, operations of investment portfolios of commercial banks; (d) minimum capital requirements for operational risk; and (e) establishment of an umbrella organisation for UCBs. A draft disclosure framework on climate-related financial risks was released in February 2024 for public consultation.

I.24 On the supervision side, the Reserve Bank actively engaged with supervised entities (SEs) to ensure execution of best practices related to governance and assurance functions and compliance with the extant guidelines. The Reserve Bank undertook a comprehensive onsite cyber risk assessment of major SEs. The coverage of information technology (IT) examination was expanded to cover more UCBs and select NBFCs, with close follow up of compliance in identified risk areas. The implementation of *DAKSH*[6], a SupTech tool, considerably streamlined the communication and dissemination of threat intelligence to SEs. The Prompt Corrective Action (PCA) framework, introduced on December 14, 2021 for NBFCs (except government NBFCs), has been extended to government NBFCs (except those in Base Layer) and it would be applicable with effect from October 1, 2024.

I.25 During 2023-24, the Reserve Bank conducted pilots with various use cases in central bank digital currency-Retail (e₹-R) as well as

[6] Reserve Bank's advanced supervisory monitoring system.

e₹-Wholesale (e₹-W) segments. The pilot in the e₹-R segment was expanded to 15 banks and covered 81 locations. The interoperability between the unified payments interface (UPI) and the CBDC was introduced to leverage the UPI acceptance infrastructure to offer convenience and a seamless experience to the users. The scope of the e₹-W was expanded to include interbank lending and borrowing transactions along with changes in technical architecture.

I.26 With the objective of bringing efficiency in terms of cost reduction, quicker disbursement, and scalability in all segments of loans where rule-based lending is possible, a public tech platform for frictionless credit (PTPFC) was conceptualised by the Reserve Bank and developed by the Reserve Bank Innovation Hub (RBIH), drawing upon the learnings from the pilot in digital *kisan* credit card (KCC) and digital dairy projects conducted in 2022. The pilot of the platform commenced on August 17, 2023 and its scope and coverage are being expanded to include more products, data providers and lenders, based on learnings and feedback from stakeholders.

I.27 The rapid momentum of online retail and e-commerce, along with their growing adoption in tier 2 and tier 3 centres, drove the overall growth in card transactions. The *Bharat* Bill Payment System (BBPS) sustained momentum, facilitating bill collection and payments for more than 21,000 billers through an extensive network of 1,272 digital and around 92 lakh physical outlets nationwide. The account aggregator (AA) ecosystem, designed to facilitate secure and convenient data exchange for enhanced access to financial products and services, recorded considerable growth. The number of newly linked accounts and consent requests surged ten-fold during 2023-24. Concurrently, successful e-KYC authentications through *Aadhaar* grew by 28 per cent, symbolising the digitalisation-driven metamorphosis of the financial sector.

I.28 In order to enhance customer experience with other payment modes, the Reserve Bank expanded the scope and reach of e-RUPI vouchers (purpose-specific digital vouchers), streamlined BBPS processes and membership criteria, and issued a circular mandating card issuers to provide the customers the facility to choose among multiple card networks for their card issuance. Significant progress was made in making available a variety of digital payment options as their usage increased. In 2023-24, total digital payments recorded growth of 44.3 per cent and 16.4 per cent in volume and value terms, respectively, on top of growth of 58.3 per cent and 19.7 per cent, respectively, in the previous year.

I.29 The UPI platform achieved significant milestones, surpassing 13 billion transactions in a single month in March 2024. The notable reduction in the time taken to add another billion to its tally, coupled with a decrease in the average ticket size, underscores the pivotal role played by UPI in facilitating retail payments. Enhancements in various payment systems to facilitate user access and convenience continued during the year. To expand the ease of payments in offline transactions, near field communication (NFC) technology in UPI-Lite was enabled. An innovative payment mode, *viz.*, 'Conversational Payments' to initiate and complete transactions in a safe and secure environment, was also launched on the UPI. The entities facilitating cross-border payment transactions for import and export of goods and services were brought under the direct regulation of the Reserve Bank.

RuPay cards and UPI connectivity between India and Mauritius, and UPI connectivity between India and Sri Lanka were enabled. The scope of trade receivables discounting system (TReDS) was expanded by permitting insurance for transactions, expanding pool of financiers and enabling secondary market for factoring units (FUs).

I.30 The Reserve Bank's Financial Inclusion Index (FI-Index), a measure to assess the extent of financial inclusion in the country, improved from 56.4 in March 2022 to 60.1 in March 2023, with growth witnessed across the three sub-indices of access, usage and quality. Improvement in FI-Index was mainly contributed by usage and quality dimensions, reflecting deepening of financial inclusion. To assess and monitor the progress of financial inclusion and to gauge the extent of financial exclusion, a Financial Inclusion Dashboard - *ANTARDRISHTI* - was launched in June 2023.

I.31 The G20 Indian Presidency[7] under the Finance Track accorded primacy to the broad themes of climate change, digitalisation, and concerns of the Global South with priorities cutting across various Working Groups. Realising the vision of '*Vasudhaiva Kutumbakam*' - One Earth: One Family: One Future - the G20 Indian Presidency reaffirmed that the G20 remains the premier forum for global economic cooperation to steer the world through emerging challenges. The Indian Presidency revitalised multilateralism and amplified the Global South's voice, particularly in the areas of development finance, debt vulnerabilities and financial inclusion.

3. Prospects for 2024-25

Global Economy

I.32 The global economic outlook remains beset by multiple headwinds: inflation persisting above target with the pace of disinflation losing momentum; elevated public debt in major systemic economies and their repercussions on the global economy in the case of disorderly adjustments; financial stability risks from the higher for longer interest rates scenario; protracted geopolitical tensions; inefficiencies from geoeconomic fragmentation; and accentuated climate shocks. The global economy is projected to grow by 3.2 per cent each in 2024 as well as in 2025, the same pace as in the preceding year[8]. Growth in the AEs at 1.7 per cent in 2024 is projected to be marginally higher than that of 1.6 per cent a year ago. Emerging market and developing economies (EMDEs) are projected to expand at 4.2 per cent, below 4.3 per cent a year ago.

I.33 Aided by restrictive monetary policy stances and lower international commodity prices, global inflation is projected to moderate from 6.8 per cent in 2023 to 5.9 per cent in 2024 and 4.5 per cent in 2025. The last mile of disinflation is, however, turning out to be challenging, as stated earlier. Recurrent supply shocks from adverse climate events and geopolitical hostilities pose upside risks to the disinflation process. Central banks in major AEs expect inflation to approach targets gradually and have accordingly indicated rate cuts beginning this year. Upward inflation surprises in the recent prints are, however, leading to a continuous repricing in market expectations and generating significant volatility in key financial

7 India took over the G20 Presidency on December 1, 2022, which concluded on November 30, 2023.

8 World Economic Outlook, April 2024, IMF.

market segments - currency, bonds and equities. Elevated financial market volatility and swings in capital flows add to macroeconomic and financial stability challenges faced by EMDEs.

I.34 Global trade volume (goods and services) is expected to recover with a growth of 3.0 per cent in 2024 and 3.3 per cent in 2025 from 0.3 per cent in 2023, with easing inflation and the expected rebound in goods trade[9]. The expected pick up in global trade in 2024-2025 will, however, pale relative to the 4.9 per cent expansion achieved during 2000-19.

I.35 High levels of public debt in major AEs and EMEs and their explosive trajectories are raising concerns around the sustainability of public finances in these economies and run the risk of adding to the already heightened financial market volatility. Elevated public debt levels in systemic economies can lead to spikes in risk premia and sovereign bond yields in these markets, which can then spillover to other financial market segments. The resulting retrenchment in capital flows could hamper the already subdued global growth. These potential disruptive dynamics call for credible fiscal consolidation plans in the affected countries to ensure stable global macroeconomic and financial environment. In the medium to long-term, climate change, cyber security, crypto currency, FinTech, CBDC and tech disruptions through AI/machine learning (ML), also require coordinated policy efforts at the global level.

Domestic Economy

I.36 The outlook for the Indian economy remains bright, underpinned by a sustained strengthening of macroeconomic fundamentals, robust financial and corporate sectors and a resilient external sector. The government's continued thrust on capex while pursuing fiscal consolidation, and consumer and business optimism augur well for investment and consumption demand.

I.37 The prospects for agriculture and rural activity appear favourable due to the ebbing *El Nino* and the expected above normal southwest monsoon. The extension of *Pradhan Mantri Garib Kalyan Anna Yojana* (PMGKAY) scheme for a period of five more years with effect from January 1, 2024 will strengthen national food security. The government's focus on *AatmaNirbhar* Oilseeds *Abhiyan*, the expansion of environmentally sustainable nano diammonium phosphate (DAP) in all agro-climatic zones and the promotion of bio-economy through a new bio-manufacturing and bio-foundry scheme in the interim Union Budget 2024-25 would also support the agriculture sector.

I.38 The traction in construction activity is likely to be sustained, supported by both residential and non-residential real estate demand. Emerging sectors like renewable energy and semi-conductors are expected to make rapid advances on the back of the recent initiatives. The interim Union Budget 2024-25, with an allocation of ₹6,903 crore for semi-conductor and display fabs, would contribute to making India a global hub for chip and electronics manufacturing. Investments under the production-linked incentive (PLI) scheme are likely to gain further momentum going forward. These factors are expected to create new employment opportunities, improve labour incomes and strengthen domestic demand. Taking into account these factors, real GDP growth for 2024-25 is projected at 7.0 per cent with risks evenly balanced.

[9] World Economic Outlook, April 2024, IMF.

I.39 The passage of 'The *Anusandhan* National Research Foundation Bill, 2023', has paved the way for establishing the *Anusandhan* National Research Foundation (NRF), which would provide a boost to research and innovation in basic science, healthcare, and humanities. Furthermore, the National Quantum Mission (NQM), approved at a total cost of around ₹6,000 crore (2023-24 to 2030-31), would scale up scientific and industrial research and development (R&D) and innovative ecosystem in quantum technology (QT). It would propel national priorities like Digital India, Make in India, Skill India and Stand-up India, Start-up India, Self-reliant India and sustainable development goals (SDGs). All these initiatives, along with government-led investment in the infrastructure sector and increasing adoption of digital technologies, are likely to boost productivity and potential growth in the medium-term.

I.40 Headline inflation moderated by 1.3 percentage points on an annual average basis to 5.4 per cent in 2023-24. The easing of supply chain pressures, broad-based softening in core inflation and early indications of an above normal southwest monsoon augur well for the inflation outlook in 2024-25. The increasing incidence of climate shocks, however, imparts considerable uncertainty to the food inflation and overall inflation outlook. Low reservoir levels, especially in the southern states and the outlook of above normal temperatures during the initial months of 2024-25 need close monitoring. The volatility in international crude oil prices, the persisting geopolitical tensions and elevated global financial market volatility also pose upward risk to the inflation trajectory. Taking into account these factors, CPI inflation for 2024-25 is projected at 4.5 per cent with risks evenly balanced.

I.41 As the path of disinflation needs to be sustained till inflation reaches the 4 per cent target on a durable basis, the MPC in its April 2024 meeting, kept the policy repo rate unchanged at 6.50 per cent and noted that monetary policy must continue to be actively disinflationary to ensure anchoring of inflation expectations and fuller transmission. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth. The Reserve Bank will remain nimble and flexible in its liquidity management through main and fine-tuning operations, both repo and reverse repo. It will deploy an appropriate mix of instruments to modulate frictional as well as durable liquidity to ensure that money market interest rates evolve in an orderly manner so that financial stability is preserved.

I.42 The Union government's impetus to growth-inducing capital spending is likely to be sustained in 2024-25 with more than half of borrowings directed towards financing of capital outlay. The central government extended the financial assistance scheme for states' capital expenditure to 2024-25 with an outlay of ₹1.3 lakh crore. The budgeted reduction in gross market borrowings from 5.3 per cent of GDP in 2023-24 (RE) to 4.3 per cent of GDP in 2024-25 (BE) will enhance the flow of funds to the private sector and support private investment. The fiscal outlook for states remains favourable, with adequate fiscal room to pursue increased capital expenditure. The digitalisation of the tax system has enhanced tax collections, with the Centre's direct tax revenues budgeted to reach 6.7 per cent of GDP in 2024-25, the highest in three decades.

I.43 India's merchandise exports should benefit from the projected rebound in global trade, but with downside risks from ongoing geopolitical conflicts and geoeconomic fragmentation. The CAD is expected to remain manageable in 2024-25 given the resilient services trade balance and large inward remittance receipts on the one hand, and stable capital flows, on the other. India's share in world remittance receipts is estimated to increase to 15.2 per cent in 2024 from 11.1 per cent in 2019 according to the World Bank. On the financing side, the favourable outlook for domestic economic growth, easing of domestic inflation, and business-friendly policy reforms would be enabling factors in attracting foreign investment, both direct and portfolio. The inclusion of India's sovereign bonds in major global bond indices ahead is also expected to support FPI flows. The opportunities in bilateral and multilateral trade agreements to facilitate greater participation in global value chains (GVCs), expanding reach to newer markets, and leveraging international trade in the Indian Rupee, would boost exports and FDI inflows, and strengthen external sector's resilience.

I.44 Capital and asset quality of banks and NBFCs remain healthy, supporting the growth in bank credit and domestic activity. Pre-emptive regulatory measures aimed at curbing excessive consumer lending and bank lending to NBFCs, and investments in alternate investment funds (AIFs) are expected to contain the build-up of potential stress in balance sheets of financial intermediaries and contribute to financial stability. While domestic banks and NBFCs have exhibited resilience amidst global uncertainties, recent events underscore the importance of vigilant risk management. Considering the dynamic nature of the interest rate risk, banks may have to address both trading and banking book risks, especially in the light of moderating NIM. On the liabilities side, it is imperative to focus on diversification of deposit sources as reliance on bulk deposits heightens sensitivity to interest rate fluctuations. Additionally, climate-related financial risks and the consequent micro and macro-prudential concerns necessitate a robust framework to identify, assess and manage such risks. Accordingly, the Reserve Bank is striving to make its regulations more principle-based, activity-oriented and proportionate to the scale of systemic risk, rather than entity-oriented.

I.45 Several regulatory and supervisory measures will be undertaken in 2024-25 to further strengthen financial intermediaries. They would include: (a) a comprehensive review of the extant IRACP[10] norms and the prudential framework for resolution of stressed assets across REs; (b) harmonised set of prudential guidelines for all REs undertaking project finance; (c) a comprehensive review of the extant regulatory instructions on interest rates on advances across REs; (d) move towards adopting a forward-looking expected credit loss (ECL) approach; (e) issuance of Securitisation of Stressed Assets Framework; and (f) efforts towards enhancing awareness, building capacity, and fostering collaboration among stakeholders to address effectively the multifaceted challenges of climate change for the financial system.

[10] Income Recognition, Asset Classification and Provisioning.

I.46 The supervisory initiatives taken by the Reserve Bank are aimed at identifying risks and vulnerabilities early, increasing the focus on root cause of vulnerabilities, and harmonising the supervisory rigour across various segments of the financial system. Frequent and wider interactions with the SEs would remain a critical tool to enhance the effectiveness of supervisory intervention. Strengthening governance and assurance functions of the SEs would continue to be a priority for the Reserve Bank.

I.47 For UCBs, a revised supervisory action framework (SAF) under the nomenclature PCA framework is under consideration to further streamline and facilitate timely supervisory intervention to enable UCBs to initiate and implement remedial measures to restore their financial health. Recognising the importance of assurance functions in ensuring early identification of vulnerabilities and initiating corrective action, the harmonisation of guidelines on assurance functions applicable to SCBs, UCBs and NBFCs is being examined to further enhance their effectiveness.

I.48 The Reserve Bank would expand the scope of ongoing pilots in e₹-R and e₹-W in 2024-25 by incorporating various use cases as well as new designs, technological considerations and more participants, besides launching a full-scale public tech platform with more financial institutions/data service providers and product offerings.

I.49 For payment systems, the Reserve Bank would continue to chart the course laid down in the Payments Vision 2025 document. The focus would be on consolidation of measures to enhance customer centricity, promote innovation and support expansion. Under the 'integrity' pillar, the central payments fraud information registry (CPFIR) is planned to be extended to local area banks (LAB), state cooperative banks, district cooperative banks, regional rural banks (RRBs) and non-scheduled UCBs for payment fraud reporting. A risk-based authentication mechanism, as an alternative to SMS-based one-time password (OTP) for additional factor of authentication (AFA), would be effectuated to address risks in payments. On the international front, the fast payment system (FPS) as well as multilateral inter-linkages would be explored in collaboration with group of countries like European Union (EU) and South Asian Association for Regional Cooperation (SAARC).

I.50 Digital payments would be shaped through the pillars of integrity, inclusion, innovation, institutionalisation and internationalisation. India is poised to actively contribute to the sharing of knowledge regarding Digital Public Infrastructures, facilitating the creation of similar frameworks in other emerging nations. Furthermore, forward-looking initiatives such as the establishment of a cloud facility for the Indian financial sector and the creation of a FinTech repository are expected to enhance operational efficiency, reduce complexity and promote financial innovations.

I.51 The Reserve Bank would continue with its focus on ensuring availability of banking services to all sections of society across the country and strengthening the credit delivery system to cater to the needs of productive sectors of the economy, particularly agriculture, and micro and small enterprises. During 2024-25, the Reserve Bank would also review the priority sector lending guidelines and work towards formulation of the next iteration of the National Strategy for Financial Inclusion (NSFI) for the period 2025-30.

I.52 For ensuring public confidence in the financial system and to protect the interests of customers of REs, the Reserve Bank would focus on embedding AI and other related tools in complaint management system (CMS) to facilitate lodging of complaints with ease and ensure greater consistency in decision making process. The internal grievance redress (IGR) framework would be further strengthened to encourage banks to take proactive measures to improve customer service.

I.53 On April 1, 2024, the Reserve Bank commemorated the 90th year of its establishment. Over these nine decades, the Reserve Bank remained steadfast in discharging its responsibilities with integrity and professionalism towards developing an efficient and robust financial system by adopting global best practices in the areas of regulation, supervision and monetary policy, providing financial stability and resilience to the domestic economy. Going forward, the Reserve Bank would continue to endeavour to proactively take appropriate measures in the best interest of the economy to ensure a stable and strong financial system, while being mindful of risks stemming from the evolving technology, innovations, business practices and growing complexities in the financial sector[11].

4. Conclusion

I.54 To sum up, the Indian economy is navigating the drag from an adverse global macroeconomic and financial environment. Real GDP growth is robust on the back of solid investment demand which is supported by healthy balance sheets of banks and corporates, the government's focus on capital expenditure and prudent monetary, regulatory and fiscal policies. As headline inflation eases towards the target, it will spur consumption demand especially in rural areas. The external sector's strength and buffers in the form of foreign exchange reserves will insulate domestic economic activity from global spillovers. Geopolitical tensions, geoeconomic fragmentation, global financial market volatility, international commodity price movements and erratic weather developments pose downside risks to the growth outlook and upside risks to the inflation outlook. The Indian economy would also have to navigate the medium-term challenges posed by rapid adoption of AI/ML technologies and recurrent climate shocks. Even so, it is well placed to step-up its growth trajectory over the next decade in an environment of macroeconomic and financial stability so as to achieve its developmental aspirations by reaping its demographic dividend and exploiting its competitive advantages that have placed it as the fastest growing major economy of the world.

[11] Das, Shaktikanta (2024), 'Welcome Address at the RBI@90 Commemoration Function', April 1, Mumbai. Available at https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1427