*Governor's Statement**

Shaktikanta Das

In the recent years, the world has gone through one crisis after another; and the pattern continues. Even against this backdrop, the Indian economy exhibits strong fundamentals, together with financial stability and positive growth momentum. Nevertheless, we need to remain vigilant in an unsettled global environment. The new realities brought about by technological advancements; supply chain realignments; trade and financial fragmentation; and climate change pose opportunities as well as challenges. In this milieu, India looks ready to embark upon a new era of transformation aided by a favourable demography[1], improving productivity and technology, and a conducive policy environment. The confluence of these factors brightens the prospects of sustained high growth in India in the years ahead.[2]

As the Reserve Bank approaches its centenary year, RBI@100, it will gear up even more to remain future-ready for India's fast growing economy. It will take steps to enhance India's global footprint. For our journey during the next decade, we have drawn up strategies consisting of policy actions towards positioning the Reserve Bank as a model central bank of the global south. The agenda for the run-up to RBI@100 is documented in the Annex to this statement. I urge the keen observers of the Indian economy and financial system to take a close look at these action plans. This is not a static document as we are living in a dynamic world. Our endeavour will be to continually update it as may be required.

Decisions and Deliberations of the Monetary Policy Committee (MPC)

The Monetary Policy Committee (MPC) met on 5th, 6th and 7th June 2024. After a detailed assessment of the evolving macroeconomic and financial developments and the outlook, it decided by a 4 to 2 majority to keep the policy repo rate unchanged at 6.50 per cent. Consequently, the standing deposit facility (SDF) rate remains at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent. The MPC also decided by a majority of 4 out of 6 members to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.

I shall now briefly set out the rationale for these decisions. The inflation-growth balance is moving favourably. Growth is holding firm. Inflation continues to moderate, mainly driven by the core component[3] which reached its lowest level in the current series in April 2024.[4] The deflation in fuel prices is ongoing.[5] Food inflation, however, remains elevated.[6]

While the MPC took note of the disinflation achieved so far without hurting growth, it remains vigilant to any upside risks to inflation, particularly from food inflation, which could possibly derail the path of disinflation. Hence, monetary policy must continue to remain disinflationary and be resolute in its commitment to aligning inflation to the target

* Governor's Statement - June 7, 2024.

[1] Among the top 5 economies of the world, India has a relatively younger population with a median age of 28 years in 2021 as compared with 38 for the US and China, 40 for the UK, 45 for Germany and 48 for Japan.

[2] The balance sheets of the corporate and banking sectors in India have been fortified and remain well capitalised to support our economic expansion. India has become the new engine of global growth and is playing a larger role on the world stage. India's contribution to global growth increased from an average of around 7.0 per cent in the first decade of the 2000s to 11.6 per cent in the following decade of 2010-11 to 2019-20 and currently stands at 18.5 per cent in 2023-24.

[3] CPI excluding food and fuel.

[4] Core inflation at 3.2 per cent (year-on-year) in April 2024 was the lowest in the current CPI series (2012=100).

[5] Deflation in fuel which started from September 2023 at (-) 0.1 per cent has since then deepened to (-) 4.2 per cent in April 2024.

[6] Food inflation was at 7.9 per cent in April 2024 and averaged 7.0 per cent in FY 2023-24.

of 4.0 per cent on a durable basis. Sustained price stability would set strong foundations for a period of high growth. Accordingly, the MPC decided to keep the policy repo rate unchanged at 6.50 per cent in this meeting. The MPC also decided to remain focused on withdrawal of accommodation to ensure anchoring of inflation expectations and fuller policy transmission[7].

Assessment of Growth and Inflation

Global Growth

Global growth is sustaining its momentum in 2024 and is likely to remain resilient, supported by rebound in global trade.[8] Inflation is easing, but the final leg of this disinflation journey may be tough. Central banks remain steadfast and data-dependent in their fight against inflation. Market expectations regarding the timing and pace of interest rate cuts are also changing with incoming data and central bank communication.[9] US dollar and sovereign bond yields remain range bound. While gold prices have surged on safe haven demand, equity markets have gained in both advanced and emerging market economies since the last MPC meeting.

Domestic Growth

The provisional estimates released by the National Statistical Office (NSO) placed India's real gross domestic product (GDP) growth at 8.2 per cent in 2023-24.[10] During 2024-25 so far, domestic economic activity has maintained resilience. Manufacturing activity continues to gain ground on the back of strengthening domestic demand. The eight core industries posted healthy growth in April 2024. Purchasing managers' index (PMI) in manufacturing continued to exhibit strength in May 2024 and is the highest globally.[11] Services sector maintained buoyancy as evident from available high frequency indicators.[12] PMI services stood strong at 60.2 in May 2024 indicating continued and robust expansion in activity.

Private consumption, the mainstay of aggregate demand, is recovering, with steady discretionary spending in urban areas[13]. Revival in rural demand is getting a fillip from improving farm sector activity.[14] Investment activity continues to gain traction,[15] on the back of ongoing expansion in non-

[7] In response to the increase of 250 basis points (bps) in the policy repo rate, the weighted average lending rate (WALR) on fresh rupee loans rose by 204 bps while that on outstanding loans rose by 111 bps (May 2022 – April 2024). During the same period, the weighted average domestic term deposit rates (WADTDRs) on fresh deposits and outstanding deposits rose by 245 bps and 188 bps, respectively.

[8] According to the World Economic Outlook (WEO) of the IMF (April 2024), world trade growth (goods and services) is projected to increase from 0.3 per cent in 2023 to 3.0 per cent in 2024 and further to 3.3 per cent in 2025. The World Trade Organisation (WTO) in its Global Trade Outlook and Statistics (April 2024) projected the world merchandise trade volume, which contracted by 1.2 per cent in 2023, to grow by 2.6 per cent in 2024 and 3.3 per cent in 2025.

[9] Some central banks from advanced economies like Switzerland, Sweden, Canada and Euro Area have begun their rate easing cycle during 2024. On the other hand, market expectations of rate cut by the US Fed, which was higher earlier, have moderated subsequently.

[10] Real GDP expanded by 7.8 per cent in Q4:2023-24. Private consumption and gross fixed capital formation (GFCF) grew by 4.0 per cent and 6.5 per cent, respectively, in Q4:2023-24. For the full year 2023-24, private investment and GFCF expanded by 4.0 per cent and 9.0 per cent, respectively. On the supply side, gross value added (GVA) expanded by 6.3 per cent in Q4:2023-24. Manufacturing rose by 8.9 per cent and services registered growth of 7.0 per cent in Q4. For 2023-24, GVA expanded by 7.2 per cent. Manufacturing and services sector grew by 9.9 per cent and 7.9 per cent, respectively.

[11] Eight Core industries expanded by 6.2 per cent in April 2024 and PMI manufacturing at 57.5 remained strong in May driven by robust new orders.

[12] E-way bills and toll collections increased by 14.5 per cent and 3.6 per cent, respectively, in April/May 2024. GST revenues rose by 10.0 per cent in May. Domestic air cargo and international air cargo posted a healthy growth of 27.6 per cent and 26.4 per cent, respectively, in May. Petroleum consumption rose y-o-y by 6.1 per cent in April.

[13] Retail sales of passenger vehicles increased by 7.7 per cent in April-May. Domestic air passengers rose by 4.6 per cent during this period, on the back of capacity constraints and a high base of 19.0 per cent growth a year ago.

[14] Retail two-wheeler sales expanded by 16.3 per cent in April-May. The demand under Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) declined by 14.3 per cent in May 2024, reflecting continued improvement in farm sector employment. Contraction in tractor sales moderated to 3.0 per cent in April from 22.9 per cent in Q4:2023-24. Rural FMCG volume growth which was lagging the urban demand has picked up since Q2:2023-24 and overtook it in Q4:2023-24.

[15] Construction sector activity posted a robust growth of 8.7 per cent in Q4:2023-24. Steel consumption expanded by 11.3 per cent in May and cement production rose by 0.6 per cent in April. Production of capital goods increased by 6.1 per cent in March 2024, while imports of capital goods rose by 3.2 per cent in April. The government-led infrastructural development, continued support under the Production Linked Incentive Scheme and other make-in-India initiatives are supporting public investments.

food bank credit.[16] Merchandise exports expanded in April with improving global demand. Non-oil non-gold imports entered positive territory.[17] Services exports and imports rebounded and posted a strong growth in April 2024.[18]

Looking ahead, the forecast of above normal south-west monsoon by the India Meteorological Department (IMD)[19] is expected to boost *kharif* production and replenish the reservoir levels.[20] Strengthening agricultural sector activity is expected to boost rural consumption. On the other hand, sustained buoyancy in services activity should continue to support urban consumption. The healthy balance sheets of banks and corporates; government's continued thrust on capex; high capacity utilisation;[21] and business optimism augur well for investment activity. External demand should get a fillip from improving prospects of global trade. Taking all these factors into consideration, real GDP growth for 2024-25 is projected at 7.2 per cent with Q1 at 7.3 per cent; Q2 at 7.2 per cent; Q3 at 7.3 per cent; and Q4 at 7.2 per cent. The risks are evenly balanced.

Inflation

CPI headline inflation softened further during March-April, though persisting food inflation pressures offset the gains of disinflation in core and deflation in the fuel groups.[22] Despite some moderation, pulses and vegetables inflation remained firmly in double digits. Vegetable prices are experiencing a summer uptick following a shallow winter season correction.[23] The deflationary trend in fuel was driven primarily by the LPG price cuts in early March.[24] Core inflation softened for the 11th consecutive month since June 2023.[25] Services inflation moderated to a historic low and goods inflation remained contained.[26]

The exceptionally hot summer season and low reservoir levels may put stress on the summer crop of vegetables and fruits. The *rabi* arrivals of pulses and vegetables need to be carefully monitored.[27] Global food prices have started inching up.[28] Prices of

[16] Non-food bank credit expanded by 15.8 per cent y-o-y as on May 17, 2024. Bank credit to food processing, textiles, chemicals, base metal and engineering goods increased y-o-y by 17.9 per cent, 8.3 per cent, 13.4 per cent, 11.9 per cent and 9.5 per cent, respectively, in April 2024. Among infrastructure sectors, bank credit expanded by 3.0 per cent, 7.0 per cent and 7.1 per cent, respectively, in power, roads, and telecommunication during April 2024.

[17] India's merchandise exports expanded by 1.1 per cent (y-o-y) to $35.0 billion, and imports registered an expansion of 10.3 per cent to $54.1 billion in April 2024. Merchandise trade deficit stood at US$ 19.1 billion in April 2024 as compared with US$ 14.4 billion in April 2023.

[18] Services exports and imports grew by 17.7 per cent and 19.1 per cent, respectively, in April 2024.

[19] The India Meteorological Department (IMD) released the updated Long-Range Forecast for 2024 Southwest Monsoon (SWM) seasonal rainfall (June to September) on May 27. The SWM season rainfall (June-September) will likely be above normal this year at 106 per cent of the long-period average (LPA) with a lower model error of ±4 per cent than previously anticipated in April 2024.

[20] At the all-India level, the water storage level in 150 major reservoirs stood at 22 per cent of total capacity as of June 6, 2024.

[21] Early results suggest that capacity utilisation in manufacturing rose to 76.5 per cent in Q4:2023-24 from 74.7 per cent in the preceding quarter, reaching well above the long-term average of 73.8 per cent.

[22] Headline CPI inflation moderated to 4.8 per cent in April 2024 from 4.9 per cent in March and 5.1 per cent in February. CPI food inflation, however, edged up to 7.9 per cent in April from 7.7 per cent in March. Deflation in CPI fuel further deepened to (-) 4.2 per cent in April from (-) 3.4 per cent in March. CPI inflation excluding food and fuel (core inflation) moderated further to 3.2 per cent in April from 3.3 per cent in March and 3.4 per cent in February.

[23] The decline in vegetable prices during winter season was around (-) 9 per cent during 2023-24 (after a price build-up of around 41 per cent), compared to around (-) 25 per cent last year (after a price build-up of around 19 per cent). The average winter correction during November-December to March, between 2020-21 to 2022-23, has been around (-) 28 per cent, while average summer price build-up for these years has been around 29 per cent.

[24] The reduction in Liquified Petroleum Gas (LPG) prices for households by ₹100 per cylinder, effective March 9, 2024, resulted in CPI LPG, on a year-on-year basis, to decline from (-) 13.3 per cent in February to (-) 24.9 per cent in April 2024.

[25] Core inflation sequentially moderated from 5.2 per cent in May 2023 to 4.2 per cent in October 2023 and further to 3.2 per cent in April 2024, registering a decline of about 2 percentage points.

[26] Core CPI services inflation moderated to a historic low to 2.8 per cent in April (in the 2012=100 series) from 3.0 per cent in March and 3.1 per cent in February. Core goods inflation was at 3.6 per cent in April as against 3.5 per cent in March and 3.6 per cent in February.

[27] In pulses, in addition to price pressures in *kharif* tur, high frequency data from Department of Consumer Affairs (DoCA) also point to price pressures in *rabi* gram. In vegetables, potato price since mid-April is also showing a sharp uptick.

[28] Food and Agriculture Organisation (FAO) food price index, after declining from May 2023 to February 2024, registered month over month increases of 1.1 per cent and 0.7 per cent during March and April 2024, respectively. In May 2024, the World Bank food price index registered a month-over-month increase of 1.3 per cent.

industrial metals have registered double digit growth in the current calendar year so far.[29] These trends, if sustained, could accentuate the recent uptick in input cost conditions for firms.[30]

On the other hand, the forecast of above normal monsoon bodes well for the *kharif* season. Wheat procurement has surpassed last year's level. The buffer stocks of wheat and rice are well above the norms.[31] These developments could bring respite to food inflation pressures, particularly in cereals and pulses. The outlook on crude oil prices remains uncertain due to geo-political tensions. Assuming a normal monsoon, CPI inflation for 2024-25 is projected at 4.5 per cent with Q1 at 4.9 per cent; Q2 at 3.8 per cent; Q3 at 4.6 per cent; and Q4 at 4.5 per cent. The risks are evenly balanced.

What do these Inflation and Growth Conditions mean for Monetary Policy?

The developments relating to growth and inflation are unfolding as per our expectations. When the projected GDP growth of 7.2 per cent for 2024-25 materialises, it will be the fourth consecutive year with growth at or above 7 per cent. Headline CPI continues to be on a disinflationary trajectory. Monetary policy has played an important role in this process. This is evident from the decline in headline inflation by 2.3 percentage points between Q1: 2022-23 and Q4 of 2023-24.[32] Supply side developments and government measures also contributed to this moderation of headline inflation. Repeated food price shocks, however, slowed down the overall disinflation process.[33]

According to our projections, the second quarter of 2024-25 is likely to see some correction in headline inflation, but this is likely to be one-off on account of favourable base effects and may reverse in the third quarter.[34] At the current juncture, the uncertainties related to the food price outlook warrant close monitoring, especially their spillover risks to headline inflation.[35] In parallel, the behaviour of the core component also needs to be watched carefully. We need a descent of inflation to the 4 per cent target on a durable basis, while supporting growth.

There is a view that in matters of monetary policy, the Reserve Bank is guided by the principle of 'follow the Fed'.[36] I would like to unambiguously state that while we do keep a watch on whether clouds are building up or clearing out in the distant horizon, we play the game according to the local weather and pitch conditions. In other words, while we do consider the impact of monetary policy in advanced economies on Indian markets, our actions are primarily determined by domestic growth-inflation conditions and the outlook.

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[29] As per the World Bank, aluminium, copper, nickel, lead and zinc prices increased in the range of 10 to 21 per cent in 2024 so far (up to May 2024).

[30] As per the PMI data for May 2024, the increase in manufacturing sector input cost was the highest in last 21 months. Services sector also continued to record sharp increase in input costs in May 2024.

[31] As of May 16, 2024, the buffer stocks of rice and wheat stood at 501.6 lakh tonnes (3.7 times the norm) and 291.7 lakh tonnes (3.9 times the norm), respectively.

[32] Headline inflation declined from the recent peak of 7.3 per cent in Q1: 2022-23 to 5.0 per cent in Q4 of 2023-24.

[33] The continuing transmission of the increase in the policy repo rate (by 250 bps between May 2022 and February 2023) along with easing of supply side shocks contributed to the decline in inflation by 2.3 percentage points between Q1:2022-23 to Q4:2023-24. The sustained softening in core inflation reflects the transmission of the disinflationary monetary policy stance to underlying inflation trends in addition to the receding of adverse cost-push factors. Improving demand conditions and rural wages, on the other hand, exerted some upward pressure. Since Q2 of 2023-24, due to the occurrence of multiple food price shocks, the contribution of supply-side shocks to headline inflation, though easing, remained positive, slowing down the pace of disinflation (updated from Monetary Policy Report, April 2024).

[34] The momentum (month-over-month change in prices) last year during Q2:2023-24 was strong at 3.4 per cent resulting in high year-on-year inflation of 6.4 per cent during the same period. As a result, this year in Q2:2024-25 there is a favourable base effect of 3.4 per cent, aiding lower year-on-year projected inflation of 3.8 per cent.

[35] Food and beverages constitute 45.9 per cent of the CPI basket.

[36] Whether most central banks react to US Fed decisions either for controlling inflation or preventing capital outflows has been debated extensively [For further details, see Huertas, Gonzalo (2022). "Why Follow the Fed? Monetary Policy in Times of U.S. Tightening", IMF working paper series, Volume 2022, Issue 243, December].

Liquidity and Financial Market Conditions

During the current financial year so far, system liquidity transited from surplus to deficit conditions, and back to surplus in early June.[37] In consonance with the commitment made in the April policy statement of remaining nimble and flexible in liquidity management and in view of the shifting liquidity dynamics, the Reserve Bank mopped up surplus liquidity through variable rate reverse repo (VRRR) auctions during the first half of April, while injecting liquidity through variable rate repo (VRR) operations in the later part of April and in May.[38] In the first week of June, VRRR auctions have been conducted.[39] Banks' recourse to the marginal standing facility (MSF) under the liquidity adjustment facility (LAF) remained low during 2024-25 so far.[40]

Mirroring the liquidity dynamics, the weighted average call rate (WACR), on an average, remained close to the middle of the corridor.[41] Across the term money market segment, the yields on certificates of deposit (CDs), commercial papers (CPs) issued by non-banking financial companies (NBFCs) and 3-month treasury bills (T-bills) also eased.[42] In the credit market, monetary transmission remains ongoing.[43]

As you would be aware, the Central Board of the Reserve Bank decided to transfer ₹2.11 lakh crore as surplus to the Central Government for the accounting year 2023-24. As the economy remains robust and resilient, the Board decided to utilise this opportunity to increase the risk provisioning under the contingent reserve buffer (CRB) to 6.5 per cent of the Reserve Bank's balance sheet for 2023-24 from 6.0 per cent in 2022-23.[44] This would further strengthen the Reserve Bank's balance sheet. Prudence is at the core of our standard operating procedure.

The Indian rupee (INR) moved in a narrow range with low volatility during 2024-25 so far (up to June 5), despite trading under pressure amidst foreign portfolio investment (FPI) outflows.[45] The relative stability of the INR bears testimony to India's sound and resilient economic fundamentals, macroeconomic and financial stability, and improvement in the external outlook.

Looking ahead, the Reserve Bank will continue to be nimble and flexible in its liquidity management through main and fine-tuning operations in both

[37] System liquidity, as measured by the net position under the liquidity adjustment facility (net LAF) was, on an average, in surplus of about ₹1.1 lakh crore during April 1-19 but turned into deficit of about ₹1.22 lakh crore during April 20 - May 31, 2024. While higher government spending at the beginning of April eased liquidity, build-up of government cash balances because of advance tax payments and goods and services tax (GST) related outflows, commencement of government borrowing programme and higher currency outgo exerted pressure on liquidity in the latter half of April and May. Surplus liquidity averaged ₹0.35 lakh crore during June 2-5, 2024.

[38] During April 1-19, one main and 7 fine-tuning VRRR auctions (1 to 3 days maturity) absorbed surplus liquidity cumulatively amounting to ₹2.3 lakh crore, while 4 main and 13 fine-tuning VRR operations (1 to 7 days maturity) injected liquidity to the extent ₹12.0 lakh crore during the remaining part of April and in May 2024. On May 6, however, one overnight VRRR auction was conducted, which mopped up ₹0.26 lakh crore.

[39] Two VRRR auctions of 3 days maturity each were conducted on June 4 which absorbed ₹0.44 lakh crore.

[40] Average borrowings under the MSF at ₹8,928 crore during April - June (up to June 5) was lower than ₹23,861 crore during February - March 2024.

[41] The weighted average call rate (WACR) remained within the corridor of marginal standing facility (MSF) rate at 6.75 per cent and the standing deposit facility (SDF) at 6.25 per cent. The WACR averaged 6.57 per cent during April – June (up to June 5) as against 6.61 per cent during February – March. Rates in the collateralised segment – the triparty and market repo rates – although relatively softer, moved in tandem with the WACR.

[42] Average yields on CDs, CPs and T-bills moderated from 7.76 per cent, 8.34 per cent and 6.96 per cent, respectively, in February-March to 7.34 per cent, 7.75 per cent and 6.90 per cent, respectively, during April-June (up to June 5).

[43] See footnote number 7.

[44] This is based on the Economic Capital Framework (ECF) adopted by the Reserve Bank in August 2019 as per recommendations of the Expert Committee to Review the extant Economic Capital Framework of the Reserve Bank of India (Chairman: Dr. Bimal Jalan).

[45] The Indian rupee (INR) remained stable against the US dollar on a financial year basis (up to June 5) as compared to the depreciation witnessed by emerging market peers like Mexican peso, Brazilian real, Philippine peso, Argentine peso, Indonesian rupiah, Vietnamese dong, Thailand baht, Chinese yuan, Turkish lira and South Africa rand. Also, the coefficient of variation (CV) of the INR was 1.6 per cent, 1.2 per cent, 2.7 per cent, 0.6 per cent and 0.1 per cent for the years 2020-21, 2021-22, 2022-23, 2023-24 and 2024-25 (up to June 5), respectively. During 2023-24 and 2024-25 (up to June 5), the INR was the least volatile (in terms of CV) of various peer EME currencies including Chinese yuan, Thailand baht, Malaysian ringgit, Vietnamese dong, Indonesian rupiah and Philippine peso.

repo and reverse repo. We will deploy an appropriate mix of instruments to modulate both frictional and durable liquidity so as to ensure that money market interest rates evolve in an orderly manner which preserves financial stability. As our actions over the recent period have shown, the Reserve Bank stands committed to maintain stability and orderliness in all segments of financial markets and institutions regulated by it.

Financial Stability

The annual financial results for 2023-24 indicate that the banking system remained sound and resilient, backed by improvement in asset quality, enhanced provisioning for bad loans, sustained capital adequacy and rise in profitability.[46] The non-banking financial companies (NBFCs) also displayed strong financials in line with the banking sector. Notably, the gross non-performing assets (GNPAs) of scheduled commercial banks (SCBs) and NBFCs are below 3 per cent of total advances as at end of March 2024.[47] It is important that the Regulated Entities (REs) should continue to improve their governance standards, risk management practices and compliance culture across the organisation.

In November last year, we had flagged certain concerns on excessive growth in the unsecured retail loans and over-reliance of NBFCs on bank funding. Recent data suggests that there is some moderation in these loans and advances.[48] We are closely monitoring the incoming data to ascertain if further measures are necessary. The Boards and top management of REs should ensure that risk limits and exposures for each line of business are kept well within their respective risk appetite framework. The persisting gap between credit and deposit growth rates warrants a rethink by the Boards of banks to re-strategise their business plans. A prudent balance between assets and liabilities has to be maintained.

Customer protection remains on top of the Reserve Bank's priorities. In general, we have observed that guidelines on Key Facts Statement (KFS)[49] are followed, but a few REs still charge fees, *etc.* that are not specified or disclosed in the Key Facts Statement (KFS). It has also been observed in some micro finance institutions and NBFCs that the interest rates on small value loans are high and appear to be usurious. The regulatory freedom enjoyed by the REs in respect of interest rates and charges should be used judiciously to ensure fair and transparent pricing of products and services. The Reserve Bank continues its constructive engagements with such financial entities to safeguard the interest of customers and ensure overall financial stability.

External Sector

With lower trade deficit, robust services export growth[50] and strong remittances, the current account

[46] Provisional data relating to scheduled commercial banks (SCBs) for March 2024 suggest that their GNPA ratio dipped to 2.8 per cent. At the same time, the net non-performing assets ratio of SCBs declined to 0.6 per cent, the lowest ever, indicating adequate loan loss provisioning by the banking system. The provision coverage ratio (PCR) (without write-off adjusted) of SCBs rose to 76.5 per cent at end March 2024 as compared with 75.0per cent a year earlier. SCBs stressed asset ratio *i.e.*, gross non-performing asset (GNPA) ratio plus restructured advances ratio, was at 3.6 per cent, the lowest level since March 2008. Capital to risk-weighted asset ratio of SCBs at 17.4 per cent remained well above the regulatory requirement. Their headline profitability indicators, *viz.*, return on asset (RoA) and return on equity (RoE) were 1.1 per cent and 12.3 per cent, respectively, at end March 2024. The LCR of SCBs remained comfortable at 130.3 per cent, much above the minimum stipulation of 100 per cent.

[47] As per provisional data, the GNPA ratios of Banks and NBFCs stood at 2.8 per cent and 2.5 per cent, respectively, as at end March 2024.

[48] The Reserve Bank increased risk weights on unsecured consumer credit and bank credit to NBFCs on November 16, 2023 to pre-empt build up of any potential risk in these segments. Consequently, credit growth in unsecured personal loans such as 'credit card outstanding' declined from 34.2 per cent in November 2023 to 23.0 per cent in April 2024, while bank credit growth to NBFCs declined from 18.5 per cent in November 2023 to 14.4 per cent in April 2024.

[49] Key Facts Statement contains key facts of a loan agreement, in simple and easier to understand language, and is provided to the borrower in a standardised format. It includes a computation sheet of annual percentage rate (APR) and the amortisation schedule of the loan over the loan tenor. All third-party charges recovered from the borrower on actual basis also form part of the APR and disclosed separately.

[50] As per provisional figures, India's services exports grew by 4.2 per cent in Q4:2023-24, while services imports contracted by 0.1 per cent during the same period. Net services exports grew by 9.3 per cent during Q4:2023-24.

deficit is expected to have moderated in Q4:2023-24.[51] Services exports were predominantly driven by software exports, other business services and travel exports. The phenomenal rise of global capability centres (GCC) in India has provided a significant boost to India's software and business services exports.[52] India – with an expected 15.2 per cent share in world remittances in 2024 – continues to be the largest recipient of remittances globally. Overall, the current account deficit for 2024-25 is expected to remain well within its sustainable level.

On the external financing side, foreign portfolio investment (FPI) flows surged in 2023-24 with net FPI inflows at US$ 41.6 billion. Since the beginning of 2024-25, however, foreign portfolio investors have turned net sellers in the domestic market with net outflows of US$ 5.0 billion (till June 5). In 2023, India retained its position as the most attractive destination for greenfield foreign direct investment (FDI) in Asia Pacific.[53] Gross FDI remained robust in 2023-24, but net FDI moderated.[54] External commercial borrowings (ECBs) and non-resident deposits recorded higher net inflows as compared with the previous year.[55] The amount of ECB agreements also grew markedly during the year.[56]

Touching a new milestone, India's foreign exchange reserves reached a historical high of US$ 651.5 billion as on May 31, 2024. India's external sector remains resilient and the key external vulnerability indicators continue to improve.[57] Overall, we remain confident of meeting our external financing requirements comfortably.

Additional Measures

I shall now announce certain additional measures.

Review of Limit of Bulk Deposits in Banks

On a review of the bulk deposit limit, it is proposed to revise the definition of bulk deposits as 'Single Rupee term deposit of ₹3 crore and above' for SCBs (excluding RRBs) and SFBs. Further, it is also proposed to define the bulk deposit limit for Local Area Banks as 'Single Rupee term deposits of ₹1 crore and above', as applicable in case of RRBs.

Rationalisation of Guidelines for Export and Import of Goods and Services under Foreign Exchange Management Act (FEMA), 1999

In view of the changing dynamics of international trade and in line with the progressive liberalisation of foreign exchange regulations, it is proposed to rationalise the extant FEMA guidelines on export and import of goods and services. This will further promote ease of doing business and provide greater operational flexibility to Authorized Dealer banks. Draft guidelines will be issued shortly for stakeholder feedback.

Setting up a Digital Payments Intelligence Platform

The Reserve Bank has taken a number of measures over the years to deepen digital payments while ensuring their safety and security. These measures

[51] The data on India's balance of payments for Q4:2023-34 will be released later this month.

[52] As per NASSCOM, the number of GCCs in India is expected to reach 1,900 by 2024-25 from around 1,580 in 2022-23.

[53] India attracted investment pledges of around US $ 84 billion across 1,006 FDI projects in 2023, accounting for 18.6 per cent of the total amount allocated to the region and 24.4 per cent of the number of projects announced for Asia Pacific (Source:"The fDi Report 2024: Global Greenfield Investment Trends", Financial Times).

[54] Gross foreign direct investment (FDI) was US$ 71.0 billion in 2023-24, broadly similar to US$ 71.4 billion a year ago. Net FDI moderated to US$ 10.6 billion in 2023-24 from US$ 28.0 billion a year ago owing to higher repatriation. Repatriation stood at US$ 44.4 billion in 2023-24 as compared with US$ 29.3 billion in 2022-23. Net outward FDI increased to US$16.0 billion in 2023-24 as compared with US$ 14.0 billion a year ago.

[55] External commercial borrowings to India witnessed a turnaround with net inflows of US$ 3.5 billion during 2023-24 as against net outflows of US$ 4.1 billion a year ago. Non-resident deposits recorded a higher net inflow of US$ 14.7 billion in 2023-24 than US$ 9.0 billion a year ago.

[56] The number of ECB agreements stood at 1,221 during 2023-24 as compared with 1,102 in 2022-23.

[57] India's CAD/GDP ratio moderated to 1.2 per cent in April-December 2023 from 2.6 per cent during April-December 2022. India's external debt/GDP ratio fell from 19.0 per cent at end-March 2023 to 18.7 per cent at end-December 2023. The net International Investment position to GDP ratio improved from (-) 11.3 per cent to (-) 10.8 per cent during the same period.

have boosted consumer confidence. Growing instances of digital payment frauds, however, highlight the need for a system-wide approach to prevent and mitigate such frauds. It is, therefore, proposed to establish a Digital Payments Intelligence Platform for network level intelligence and real-time data sharing across the digital payments' ecosystem. To take this initiative forward, the Reserve Bank has constituted a committee to examine various aspects of setting up the Platform.

Inclusion of Recurring Payments with Auto-Replenishment Facility under the e-mandate Framework

The adoption of e-mandates for recurring payment transactions has been increasing. It is now proposed to include payments, such as replenishment of balances in Fastag, National Common Mobility Card (NCMC), *etc.* which are recurring in nature but without any fixed periodicity, in the e-mandate framework. This will enable customers to automatically replenish the balances in Fastag, NCMC, *etc.* if the balance goes below the threshold limit set by them. This will enhance convenience in making travel / mobility related payments.

Introduction of Auto-Replenishment of UPI Lite Wallet – Inclusion under the e-mandate Framework

UPI Lite was introduced in September 2022 to enable small value payments in a quick and seamless manner through an on-device wallet. To encourage wider adoption of UPI Lite, it is now proposed to bring it under the e-mandate framework by introducing a facility for customers to automatically replenish their UPI Lite wallets if the balance goes below the threshold limit set by them. This will further enhance the ease of making small value digital payments.

HARBINGER 2024 – Innovation for Transformation

The Reserve Bank has taken several pioneering initiatives in recent years to encourage innovation in the fintech sector. One such key initiative is the global hackathon: 'HaRBInger - Innovation for Transformation'. The first two editions of the hackathon were completed in the year 2022 and 2023, respectively. The third edition of the global hackathon, "HaRBInger 2024" with two themes, namely 'Zero Financial Frauds' and 'Being Divyang Friendly' will be launched shortly.

Conclusion

At the Reserve Bank, our job demands poise, patience and perseverance. India's recent economic progress, continued momentum in economic activity and the overall promising prospects validate our approach to policymaking. At the moment, the Indian economy is at an inflection point in its path towards greater transformational changes that will bring about more stability and growth.

On inflation, we are on the right track, but there is still work to be done. Globally, there are concerns that the last mile of disinflation might be protracted and arduous amidst continuing geopolitical conflicts, supply disruptions and commodity price volatility. In India, with growth holding firm, monetary policy has greater elbow room to pursue price stability to ensure that inflation aligns to the target on a durable basis. In its current setting, monetary policy remains squarely focused on price stability to effectively anchor inflation expectations and provide the required foundation for sustained growth over a period of time. The words of Mahatma Gandhi resonate here and I quote, "if we are sure of our path ….., we should go on striving for it incessantly and uninterruptedly."[58]

Thank you. Namaskar.

[58] The Bombay Chronicle, 7-12-1944.

Annex

Aspirational Goals for RBI@100 in a Multi-Year Time Frame

1. **Monetary Policy and Liquidity Management**
   - Positioning the Reserve Bank as Leader of the Global South
   - Review of Monetary Policy Framework to address:
     - Balancing price stability and economic growth from an Emerging Market Economy (EME) perspective;
     - Refinements in monetary policy communication; and
     - Spillovers to EMEs from private and public debt overhang in systemically important economies.
2. **Globalisation of India's Financial Sector**
   - Financial Sector Reforms related to:
     - Expanding banking domestically in consonance with national growth;
     - Positioning 3-5 Indian banks among top 100 global banks in terms of size and operations;
     - Deepening and modernisation of financial markets/institutions/infrastructure; and
     - Supporting International Financial Services Centres Authority (IFSCA) to make GIFT City a leading international financial centre.
3. **Making Reserve Bank's Supervision a Global Model**
   - Risk Focused Supervision:
     - Supervisory culture for effective risk discovery; and
     - Ensuring an appropriate compliance culture at Supervised Entities (SEs).
   - Building 'Through the Cycle' Risk Assessment Framework by continuous Horizon Scanning and Holistic Risk Assessment;
   - Customer-centric supervision: Improving the conduct of SEs to protect and promote customers' interests through appropriate supervisory focus;
   - Effective Corrective Actions: Focus on prudent supervisory judgement and assessing supervisory effectiveness; and
   - Creating a Data Analytics Universe.
4. **Deepening and Universalisation of Digital Payment Systems – Domestically and Globally**
   - Internationalisation of India's Payment Systems – UPI/RTGS/NEFT;
   - Participation in Payment Systems Linkage Projects across countries – bilateral & multilateral;
   - Increasing the domestic usage of digital payments – Har Payment Digital; and
   - Phased implementation of Central Bank Digital Currency (e - Rupee).
5. **Deepening Financial Inclusion**
   - Focusing on Accessibility, Availability and Quality of financial services to all sections of the society.
6. **Expanding Credit Availability**
   - Strengthen data collection;
   - Comprehensive Credit Information Repository (CCIR) for supporting credit needs and monitoring;
   - Unified Loan Interface (ULI); and
   - Review of priority sector guidelines to proactively address emerging needs.
7. **Capital Account Liberalisation and Internationalisation of the Indian Rupee (INR)**
   - Enabling availability of INR to non-residents for facilitating cross-border transactions in INR;

- Enhancing accessibility of INR accounts to Persons Resident Outside India (PROIs);
- Adopting a calibrated approach towards interest-bearing Non-Resident Deposits; and
- Promoting Indian Multi-national Corporations (MNCs) and Indian global brands through overseas investments.

8. Dealing with Climate Change

- Regulatory/Supervisory framework for addressing challenges arising from climate change;
- Finalising guidance for Regulated Entities (REs) to stress test their asset portfolio to assess impact of climate change;
- Macro stress testing the impact of climate change on REs from a financial stability perspective;
- Strengthening payment systems' resilience to climate risks;
- Developing climate risk disclosure norms for REs;
- Providing inputs to government for finalising taxonomy on climate risks; and
- Publishing a risk management framework for managing climate-related financial risks.

9. Adoption of Artificial Intelligence/Machine Learning (AI/ML) in the Reserve Bank

- Articulation of an AI Policy for the Bank.
- Use of AI / ML in:
  - Leveraging RegTech/SupTech for effective supervision;
  - Management of Cyber Risk; and
  - Forecasting, Nowcasting and Surveys.

10. Financial Sector Cloud Infrastructure

- Indian Financial Cloud: Establish a cost-effective cloud facility for the financial sector to enhance the security, integrity and privacy of financial sector data while facilitating scalability and business continuity; and
- Internal AI Cloud: Develop an enterprise-wide platform with AI/ML capabilities to enhance operational efficiency, productivity, data analytics, risk management, decision making and customer experience.

11. Transformational Shifts in Data Collection, Processing and Storage

- Developing Data Mesh with REs;
- Cloud Quantum Computing Services for Analytics; and
- Geo-tagging for supporting high frequency data analysis.

12. Safeguarding Users Against Payment Frauds

- Widening and deepening consumer awareness;
- Making payment systems more safe and secure; and
- Identifying and implementing solutions for proactive prevention and quick redressal of frauds.

13. Developing a Secure Global Financial Messaging Hub

- Exporting financial networks and messaging systems as alternative platforms.

14. Making Reserve Bank's Human Resources and Infrastructure Future Ready.