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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
ई-मेल/email : helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400 001
Department of Communication, Central Office, Shahid Bhagat Singh Marg, Fort, Mumbai - 400 001 फोन/Phone: 022 - 2266 0502

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RBI Bulletin – December 2024

Today, the Reserve Bank released the December 2024 issue of its monthly Bulletin. The Bulletin includes Bi-monthly Monetary Policy Statement (December 4-6) 2024-25, ten speeches, four articles, and current statistics.

The four articles are: I. State of the Economy; II. Government Finances 2024-25: A Half-Yearly Review; III. Daily Reserves Maintenance Behaviour of Banks; and IV. Real Effective Exchange Rate and its Implications for India's Trade Balance.

I. State of the Economy

The global economy continues to exhibit resilience with steady growth and moderating inflation. High frequency indicators (HFIs) for the third quarter of 2024-25 indicate that the Indian economy is recovering from the slowdown in momentum witnessed in Q2, driven by strong festival activity and a sustained upswing in rural demand. The prospects for agriculture and hence rural consumption are looking up with brisk expansion of rabi sowing. Headline CPI inflation moderated to 5.5 per cent in November 2024 on the back of easing food prices.

II. Government Finances 2024-25: A Half-Yearly Review

By Harshita Yadav, Aayushi Khandelwal, Kovuri Akash Yadav, Rachit Solanki, Anoop K Suresh, Samir Ranjan Behera, and Atri Mukherjee

This article presents a review of Government finances for the first half of 2024-25 by looking at the trends in receipt and expenditure of the Centre and States, key deficit indicators and their financing. Estimates on general government (Centre plus States) finances for H1 of 2024-25 are also presented.

Highlights:

- The Centre's revenue collections comprising both tax and non-tax sources have been buoyant in H1:2024-25. The robust growth in tax receipts was primarily driven by income tax and goods and services tax (GST) while non-tax revenues benefitted from the jump in surplus transfer by the Reserve Bank. On the expenditure front, while revenue expenditure is on track to meet the budgeted targets, there is a slack in the capital expenditure.
- The growth in States' revenue receipts during H1:2024-25 was driven by tax revenues, while there was a contraction in non-tax revenues and grants from the Centre. On the expenditure front, States sustained the pace of revenue expenditure during H1:2024-25, while their capital expenditure declined.
- Several States have announced sops in their 2024-25 Budgets; such spending may divert resources away from critical social and economic infrastructure development.

III. Daily Reserves Maintenance Behaviour of Banks

By Sujeesh Kumar, Manjusha Senapati and Praggya Das

Cash reserve ratio (CRR) and its various attributes such as the daily minimum maintenance, incremental reserves requirements and exemptions on reservable liabilities are effective tools in the monetary policy toolkit of the Reserve Bank of India to manage liquidity. This article analyses the daily reserve maintenance behaviour of scheduled commercial banks (SCBs) in India across various CRR policy changes especially during the flexible inflation targeting (FIT) period.

Highlights:

- The course of FIT and the introduction of automated sweep-in and sweep-out (ASISO) facility for banks brought down the level of average daily excess reserves maintained by SCBs, thus freeing up incremental resources of banks that may be deployed by banks for productive purposes.
- ASISO facility has significantly reduced the volatility in the banks' reserve maintenance and enabled them to manage their daily reserves efficiently.
- Inter-bank volatility in reserve maintenance was low and SCBs better managed their reserves when the daily minimum maintenance requirement was at 90 per cent – requirements below this norm were associated with higher volatility.

IV. Real Effective Exchange Rate and its Implications for India's Trade Balance

by Srijashree Sardar, Dipak R. Chaudhari, Priyanka Priyadarshini, Anshul and Sangeeta Das

This article examines the factors that impact real effective exchange rate (REER) in a cross-country setting. Also, it analyses the impact of REER movements on India's merchandise trade balance using a non-linear autoregressive distributed lag (NARDL) model.

Highlights:

- Cross-country estimates of select emerging economies indicate that the REER is influenced by productivity differential, terms of trade, government expenditure and net foreign assets.
- The empirical analysis for India indicates the existence of asymmetric association between trade balance and REER.
- The empirical findings indicate that in India depreciation in REER improves trade balance while appreciation deteriorates it. The impact of REER depreciation on trade balance is more than an equivalent REER appreciation in the short-run and vice versa in the long-run.

The views expressed in the Bulletin articles are of the authors and do not represent the views of the Reserve Bank of India.

(Puneet Pancholy)
Chief General Manager

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