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RESERVE BANK OF INDIA

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October 09, 2024

Governor's Statement: October 9, 2024

The flexible inflation targeting (FIT) framework has completed 8 years since its introduction in 2016. This is a major structural reform of 21st century in India. It stands out for its committee approach to decision making; transparency of policy making process and communication; accountability hinging upon quantitatively defined inflation target; and operational independence. Over the years, the framework has matured across various interest rate cycles and monetary policy stances.

2. When I look back, I can say with confidence that FIT has served us well over the years and has proved its mettle. It brought about an era of price stability in the pre-COVID-19 period, with inflation averaging around the target rate of 4 per cent. Thereafter, despite continuing global turmoil from multiple sources in the last four years or so, the flexibility embedded in the FIT framework has helped us to effectively address these unprecedented challenges, while supporting growth. Monetary policy in India was able to respond to the economic slowdown decisively and swiftly in the wake of COVID-19 pandemic and again pre-emptively during the build-up of inflationary pressures after the war began in Ukraine in early 2022. The prevailing well balanced growth-inflation dynamics is a testimony to the success of the FIT framework.

Decisions and Deliberations of the Monetary Policy Committee (MPC)

3. The Monetary Policy Committee (MPC), with new external members, met on 7th, 8th and 9th October, 2024. After assessing the evolving macroeconomic and financial conditions and the outlook, the MPC decided by a majority of 5 out of 6 members 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. Further, the MPC decided unanimously to change the stance to 'neutral' and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth.

4. The MPC noted that currently the macroeconomic parameters of inflation and growth are well balanced. Headline inflation is on a downward trajectory, though its pace has been slow and uneven. Going forward, the moderation in headline inflation is expected to reverse in September and likely to remain elevated in the near-term due to adverse base effects, among other factors. Food inflation pressures could see some easing later in this financial year on the back of strong *kharif* sowing, adequate buffer stocks and good soil moisture conditions which are conducive for *rabi* sowing. Adverse weather events continue to pose contingent risks to food inflation. Core inflation, on

the other hand, appears to have bottomed out.[1] Fuel component of CPI remains in contraction.[2]

5. Domestic growth has sustained its momentum, with private consumption and investment growing in tandem. Resilient growth gives us the space to focus on inflation so as to ensure its durable descent to the 4 per cent target. In these circumstances, the MPC decided to remain watchful of the evolving inflation outlook in the coming months. Keeping in view the prevailing inflation and growth conditions and the outlook, the MPC considered it appropriate to change the stance to 'neutral' and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth.

Assessment of Growth and Inflation

Global Growth

6. The global economy has remained resilient since the last meeting of the MPC,[3] although downside risks from increasingly intense geopolitical conflicts, geoeconomic fragmentation, financial market volatility and elevated public debt continue to play out. Manufacturing is showing signs of slowdown, while services activity is holding up.[4] World trade is exhibiting improvement.[5] Inflation is softening, supported by lower energy prices. Growing divergence in inflation-growth dynamics across countries has resulted in varying monetary policy responses.[6]

Domestic Growth

7. Real gross domestic product (GDP) grew by 6.7 per cent in Q1:2024-25, led by a revival in private consumption[7] and improvement in investment. The share of investment in GDP reached its highest since 2012-13.[8] Government expenditure, on

[1] Core (CPI excluding food and fuel) inflation increased during July-August 2024 to 3.4 per cent on an average with pick up in core services inflation, reflecting the impact of the revision in mobile phone tariffs.

[2] CPI fuel inflation has remained in deflation for twelfth consecutive month since September 2023. In August 2024, deflation in CPI fuel was at (-)5.3 per cent as compared to (-)5.5 per cent in July and (-)3.6 per cent in June. This was on account of moderation in electricity prices inflation and LPG prices remaining in the deflationary zone, reflecting the cumulative impact of price cut in August 2023 and March 2024.

[3] The OECD in its Interim Economic Outlook (September 2024) revised up global growth forecast for 2024 by 10 bps to 3.2 per cent from May 2024 projections and retained it at 3.2 per cent for 2025.

[4] Global manufacturing PMI remained in contraction in September 2024 at 48.8 from 49.6 in August. The global services sector continued to expand with the PMI remaining in the expansion zone for the twentieth consecutive month at 52.9 in September.

[5] World merchandise trade volume growth remained positive during April-July 2024 *vis-à-vis* contraction in the corresponding months in 2023.

[6] Since the last MPC meeting, the US, Euro Area, New Zealand, Sweden, Canada, Czech Republic, Switzerland, Iceland among advanced economies (AEs) and Mexico, Colombia, Peru, Chile, Hungary, Philippines, Indonesia and South Africa among emerging market economies (EMEs) have cut their policy rates. Russia and Brazil, on the other hand, raised their benchmark rates.

[7] Private final consumption expenditure (PFCE) growth accelerated to a seven-quarter high of 7.4 per cent in Q1:2024-25.

[8] Growth in gross fixed capital formation (GFCF) was 7.5 per cent in Q1:2024-25 (6.5 per cent in Q4:2023-24) and the share of GFCF in GDP stood at 34.8 per cent – the highest since Q2:2012-13.

the other hand, contracted during the quarter.[9] On the supply side, gross value added (GVA) expanded by 6.8 per cent surpassing GDP growth, aided by strong industrial and services sector activities.[10]

8. High frequency indicators available so far suggest that domestic economic activity continues to be steady. The main components from the supply side – agriculture, manufacturing and services – remain resilient. Agricultural growth has been supported by above normal south-west monsoon rainfall[11] and better *kharif* sowing[12]. Higher reservoir levels[13] with good moisture conditions of soil augur well for the ensuing *rabi* crop. Manufacturing activity is gaining on the back of improving domestic demand, lower input costs[14] and a supportive policy environment.[15] Eight core industries output fell by 1.8 per cent in August on a high base.[16] Excess rainfall also dampened production in certain sectors such as electricity, coal and cement in August. The purchasing managers' index (PMI) for manufacturing at 56.5 for September remained elevated. The services sector continues to grow at a strong pace.[17] PMI services at 57.7 in September indicates robust expansion.[18]

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[9] Government final consumption expenditure (GFCE) contracted by 0.2 per cent during Q1:2024-25. Revenue expenditure net of interest payments and subsidies of central government contracted by 1.5 per cent, while that of state governments grew marginally by 0.9 per cent during the quarter.

[10] Gross value added (GVA) growth rose sequentially in Q1:2024-25, but the increase in subsidies – 3.6 per cent by the Union government and 30.9 per cent by the states – offset the gains from showing up in GDP growth. As a result, net taxes on products increased by 4.1 per cent in Q1:2024-25 as against 22.2 per cent in Q4:2023-24.

[11] During the current Southwest Monsoon season, the cumulative rainfall has been 8 per cent above the Long Period Average (LPA), compared to 6 per cent below LPA during the corresponding period last year.

[12] The total area sown under kharif crops, as of September 27, 2024, at 1108.6 lakh hectares is 101.1 per cent of the full season normal area. It is 1.9 per cent and 1.7 per cent higher than last year and the normal area as on date, respectively. Further, the area under major crops *viz.* rice, pulses, coarse cereals, oilseeds, and sugarcane is higher over last year; however, it is lower in the case of cotton.

[13] All-India water storage in 155 major reservoirs stood at 88 per cent of the total capacity as of October 3, 2024, as against 74 per cent a year ago and decadal average of 77 per cent. The current storage level translates into 18.3 per cent above the level in the corresponding period of last year and 14.0 per cent over the last ten years' average.

[14] In Q2:2024-25, the World Bank commodity price index declined by 3.8 per cent on quarter-on-quarter (q-o-q) basis and 4.1 per cent on year-on-year (y-o-y) basis. Brent crude oil prices also declined by 5.6 per cent (q-o-q) and 7.6 per cent (y-o-y) during the quarter. Firms polled in the Reserve Bank enterprise surveys expect input cost pressures to ease.

[15] Government schemes such as Production Linked Incentive (PLI) scheme, Pradhan Mantri Awas Yojana (PMAY) [expanded to construct 3 crore additional houses], Pradhan Mantri Gram Sadak Yojana (PMGSY) [launching of phase IV], National Infrastructure Pipeline (NIP) and viability gap funding would provide impetus to capital formation.

[16] Index of eight core industries had recorded high growth of 13.4 per cent during August 2023.

[17] E-way bills increased by 18.5 per cent in September 2024. GST revenues at Rs. 1.73 lakh crore rose by 6.5 per cent and toll collections expanded by 6.5 per cent during September. Port cargo posted a healthy growth 6.7 per cent in August 2024. Aggregate bank credit and deposits registered robust growth of 14.4 per cent and 12.0 per cent, respectively, as on September 20, 2024.

[18] India continues to record the highest PMI reading among major economies for both manufacturing and services since July 2022 and April 2023, respectively.

9. On the demand side, rural demand[19] is trending upwards while urban demand[20] continues to hold firm. Government consumption is improving. [21] Investment activity remains buoyant,[22] with government capex rebounding from a contraction observed in the first quarter. [23] Private investment continues to gain steam[24] on the back of expansion in non-food bank credit,[25] higher capacity utilisation[26] and rising investment intentions.[27] On the external front, services exports is supporting overall growth. [28]

10. Looking ahead, India's growth story remains intact as its fundamental drivers – consumption and investment demand – are gaining momentum. Prospects of private consumption, the mainstay of aggregate demand, look bright on the back of improved agricultural outlook and rural demand. Sustained buoyancy in services would also support urban demand. Government expenditure of the centre and the states is expected to pick up pace in line with the Budget Estimates. Investment activity would benefit from consumer and business optimism, government's continued thrust on capex and healthy balance sheets of banks and corporates. Taking all these factors into consideration, real GDP growth for 2024-25 is projected at 7.2 per cent, with Q2 at 7.0 per cent; Q3 at 7.4 per cent; and Q4 at 7.4 per cent. Real GDP growth for Q1:2025-26 is projected at 7.3 per cent. The risks are evenly balanced.

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[19] Wholesale two-wheeler sales expanded by 10.7 per cent in July-August 2024. The demand under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) declined by 16.6 per cent during July-September, reflecting improvement in farm sector employment. Rural areas are recording higher FMCG sales growth than the urban areas since Q4:2023-24.

[20] Consumer durables posted a growth of 8.2 per cent in July 2024. Domestic air passengers rose by 7.6 per cent in July 2024 and 6.7 per cent in August.

[21] Central government revenue expenditure (net of interest payments and subsidies) grew by 9.6 per cent in July-August, after contracting by 1.5 per cent in the previous quarter. This will boost Government consumption which was lagging in Q1.

[22] Steel consumption rose by 10.0 per cent in August 2024, while cement production increased modestly by 1.0 per cent in July-August. Imports of capital goods expanded by 8.7 per cent during August 2024, while capital goods production increased sharply by 12.0 per cent in July 2024.

[23] Central government capex increased by 25.8 per cent in July-August 2024 after contracting by 35 per cent in Q1:2024-25.

[24] The interest coverage ratio for corporates in Q1:2024-25 touched a nine-quarter high due to sustained operating profit growth and lower interest expenses. Furthermore, the working capital cycle has significantly shortened, indicating a positive outlook.

[25] Bank credit to food processing, textiles, chemicals, base metal, and engineering goods increased y-o-y by 14.4 per cent, 6.4 per cent, 15.9 per cent, 16.1 per cent, and 16.6 per cent respectively in August 2024. Among infrastructure sectors, bank credit recorded growth of 4.1 per cent, 4.2 per cent and (-) 1.7 per cent, respectively, in power, roads, and telecommunication during August 2024.

[26] Seasonally adjusted capacity utilisation (CU) increased to 75.8 per cent in Q1:2024-25 from 74.6 per cent in Q4:2023-24.

[27] As per RBI Surveys, manufacturers' investment intentions for 2024-25 improved, with most firms planning similar or higher investments compared to last year.

[28] India's merchandise exports contracted by 9.3 per cent (y-o-y) to US$ 34.7 billion mainly due to unfavourable base effect, while imports rose by 3.3 per cent to US$ 64.3 billion in August 2024. Non-oil non-gold imports expanded by 5.4 per cent during August 2024. Services exports grew by 10.9 per cent and services imports expanded by 12.1 per cent, in July-August 2024.

Inflation

11. As anticipated, headline CPI inflation softened significantly in July and August [29], with base effect playing a major role in July. Food inflation experienced a certain degree of correction during these two months.[30] Considerable divergence, however, was observed within the food sub-groups.[31] Deflation in fuel group deepened on softening electricity and LPG prices.[32] Core inflation, on the other hand, edged up in July and August.[33]

12. The CPI print for the month of September is expected to see a big jump due to unfavourable base effects[34] and pick up in food price momentum,[35] caused by the lingering effects of a shortfall in the production of onion, potato and chana dal (gram) in 2023-24, among other factors.[36] The headline inflation trajectory, however, is projected to sequentially moderate in Q4 of this year due to good *kharif* harvest, ample buffer stocks of cereals and a likely good crop in the ensuing *rabi* season. Unexpected weather events and worsening of geopolitical conflicts constitute major upside risks to inflation. International crude oil prices have become volatile in October.[37] The recent uptick in food and metal prices, as seen in the Food and Agricultural Organisation (FAO) and the World Bank price indices for September, if sustained, can add to the upside risks.[38] Taking into account all these factors, CPI inflation for 2024-25 is projected at 4.5 per cent, with Q2 at 4.1 per cent; Q3 at 4.8 per cent; and Q4 at 4.2

[29] Headline inflation moderated sharply to 3.6 per cent in July from 5.1 per cent in June by 1.5 percentage points due to base effect of 2.9 per cent, which more than offset a momentum (month-over-month) increase of 1.5 per cent. Headline inflation edged up by 5 bps to 3.65 per cent in August from 3.60 per cent in July. With index remaining flat (zero momentum), a modest unfavourable base effect of 5 bps pushed up headline inflation.

[30] Food inflation moderated to an average of 5.2 per cent during July-August from an average of 8.0 per cent during the previous 8 months (November 2023 to June 2024). Vegetable price inflation corrected to 6.8 per cent in July from 29.3 per cent in June. Vegetables inflation, however, increased to 10.7 per cent in August. As a result, the contribution of food to headline inflation fell to an average of around 68 per cent during July and August as compared to 76.3 per cent in June.

[31] Price inflation in vegetables at 10.7 per cent and pulses inflation at 13.6 per cent (in double-digits since June 2023) in August was in sharp contrast to a deflation of (-)4.4 per cent in spices and (-)0.9 per cent in oils and fats.

[32] Deflation in fuel group was at (-)5.3 per cent in August, with LPG and electricity prices, on a year-on-year basis, at (-)24.6 per cent and per cent 4.9 per cent, respectively.

[33] Core inflation from an all-time low of 3.1 per cent in the 2012=100 series in June edged up to 3.4 per cent in July. In August, core inflation was at 3.3 per cent. Services inflation from a historic low of 2.7 per cent in June increased to 3.4 per cent in August 2024. CPI 'telephone charges: mobile', on a year-on-year basis, increased from 1.0 per cent in June 2024 to 10.5 per cent in August 2024.

[34] CPI headline inflation would experience an unfavourable base effect of 1.1 percentage points in September 2024.

[35] Sharp increase in edible oil prices was seen since the second half of September. Firmness in prices was also seen in wheat, gram and key vegetables like onion and tomato.

[36] As per the third advance estimate of horticultural production for 2023-24 released on September 20, 2024, vegetables production declined by (-) 3.2 per cent over 2022-23, majorly due to decline in production of onions by (-) 19.7 per cent and potatoes by (-) 5.1 per cent, while production of tomatoes and non-TOP vegetables increased by 4.4 per cent and 1.4 per cent, respectively. As per final crop production estimates for 2023-24, the *rabi* chana dal (gram) production registered a decline by (-) 10.0 per cent over 2022-23.

[37] Indian basket crude oil prices registered a month-on-month decline of around (-) 7.0 per cent and (-) 5.8 per cent in August and September, respectively. However, in October so far, the Indian basket crude oil prices increased by 7.6 per cent and was at USD 78.84 per barrel as on October 7, 2024.

[38] The FAO food price index for September released on October 4, 2024showed an increase of 3.0 per cent (month-on-month) with all categories including meat, dairy, cereals, oils and sugar registering a pick up. Even though the World Bank's international commodity price index (released on October 2) for September declined by (-) 3.8 per cent over August, driven mainly by a decline in energy prices by (-)7.1 per cent, food prices increased by 3.1 per cent and metal prices by 1.8 per cent.

per cent. CPI inflation for Q1:2025-26 is projected at 4.3 per cent. The risks are evenly balanced.

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

13. The developments since the August meeting of the MPC indicate further progress towards realising a durable disinflation towards the target. Despite the near-term upsides to inflation from food prices, the evolving domestic price situation signals moderation in headline inflation thereafter. The agricultural crop outlook is turning out to be favourable, with improving prospects of *kharif* and *rabi* output. These factors could lead to an easing of food inflation pressures, but this optimism is subject to weather related shocks, if any. Core inflation is likely to remain broadly contained on continuing transmission of past monetary policy actions unless, of course, there are surprises in global commodity prices.

14. The prevailing and expected inflation-growth balance have created congenial conditions for a change in monetary policy stance to neutral. Even as there is greater confidence in navigating the last mile of disinflation, significant risks – I repeat significant risks – to inflation from adverse weather events, accentuating geopolitical conflicts and the very recent increase in certain commodity prices continue to stare at us. The adverse impact of these risks cannot be underestimated.

15. It is with a lot of effort that the inflation horse has been brought to the stable, *i.e.*, closer to the target within the tolerance band compared to its heightened levels two years ago. We have to be very careful about opening the gate as the horse may simply bolt again. We must keep the horse under tight leash, so that we do not lose control. Going forward, we need to closely monitor the evolving conditions for further confirmation of the disinflationary impulses.

Liquidity and Financial Market Conditions

16. System liquidity remained in surplus during August-September and early October, with a pickup in government spending and decline in currency in circulation.[39] Liquidity conditions, however, had turned into deficit for a brief period during the latter half of September with the build-up of government cash balances on account of tax related outflows.[40] In sync with the shifting liquidity conditions, the Reserve Bank

[39] Government cash balances with the Reserve Bank, on an average, declined to ₹2.8 lakh crore during August-October (up to October 7) from ₹3.6 lakh crore during June-July. Notes in circulation reduced by ₹0.19 lakh crore during the period August-October (up to October 7).

[40] System liquidity, as measured by the net position under the liquidity adjustment facility (net LAF) was, on an average, in surplus of about ₹1.3 lakh crore during August-September. System liquidity turned into deficit of about ₹0.18 lakh crore for a brief period during September 21-25, 2024. While higher government spending eased liquidity during August-September (up to September 15), the build-up of government cash balances because of advance tax payments and goods and services tax (GST) related outflows exerted pressure on liquidity in the latter half of September. Average system liquidity is in surplus of about ₹2.3 lakh crore in October (up to October 7).

proactively conducted two-way operations[41] to ensure alignment of inter-bank overnight rate with the policy repo rate.[42]

17. Across the term money market segments, the yields on 3-month treasury bills (T-bills) and commercial papers (CPs) issued by non-banking financial companies (NBFCs) eased, while that on certificates of deposit (CDs) firmed up marginally.[43] The 10 year G-Sec yield softened in August-September on global and domestic cues, including policy pivot in the US and in some major economies, improved global investor sentiment, benign domestic inflation and accelerated fiscal consolidation.[44] The term premium (10 year G-Sec yield *minus* 3-month T-bill yield) has remained stable in recent months.[45] Transmission to the credit market has been satisfactory.[46]

18. Moving forward, the Reserve Bank will continue to be nimble and flexible in its liquidity management operations. 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.

19. During the current financial year (up to October 8), the exchange rate of the Indian rupee (INR) remained largely range-bound.[47] The INR also continued to be the least volatile among peer EME currencies. This was so even during the high volatility episode, following the unwinding of yen carry trade in early August 2024.[48] The lower volatility of the INR reflects India's strong macroeconomic fundamentals and improved external sector outlook.

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41 During August-October (up to October 7), four main and 30 fine-tuning variable rate reverse repo (VRRR) auctions (1 to 7 days maturity) mopped up surplus liquidity cumulatively amounting to ₹11.5 lakh crore. During September 17-24, 2024, one main and 3 fine-tuning variable rate repo (VRR) operations (1 to 3 days maturity) injected liquidity to the extent of ₹2.1 lakh crore.

42 The weighted average call rate (WACR) averaged 6.53 per cent during August – September as against 6.55 per cent during June – July. The weighted average call rate (WACR) averaged 6.44 per cent during October (up to October 7). Rates in the collateralised segment – the triparty and market repo rates – although relatively softer, moved in tandem with the WACR.

43 Average yields on T-bills and CPs moderated to 6.58 per cent and 7.67 per cent, respectively, in August-October (up to October 7) from 6.77 per cent and 7.77 per cent, respectively, during June - July, while that on CDs firmed up to 7.25 per cent from 7.13 per cent during the same period.

44 The 10-year G-Sec yield averaged 6.83 per cent during August – September 2024 as compared to 6.98 per cent during June – July 2024. The 10-year G-Sec yield further moderated to an average of 6.79 per cent in October (up to October 7).

45 On an average, the term premium was 25 bps during August-October (up to October 7) as compared to 21 bps during June-July.

46 In response to the cumulative policy repo rate hike of 250 bps since May 2022, the weighted average lending rates (WALRs) on fresh and outstanding rupee loans of SCBs have increased by 190 bps and 119 bps, respectively, during May 2022 to August 2024, while the weighted average domestic term deposit rate (WADTDR) on fresh and outstanding deposits of SCBs increased by 243 bps and 190 bps, respectively, during the same period.

47 On a financial year basis (up to October 8), the Indian rupee (INR) registered lower depreciation (-0.7 per cent) against the US dollar as compared to some of its emerging market peers like Philippine peso, Russian ruble, Turkish lira, Brazilian real, Argentine peso and Mexican peso. During 2024-25 (up to October 8), the INR was the least volatile (in terms of coefficient of variation) amongst peer EME currencies including Chinese yuan, Vietnamese dong, Philippine peso, Turkish lira and Chilean peso.

48 The Bank of Japan's decision to raise interest rates on July 31, 2024 resulted in a meltdown in US stocks followed by world-wide volatility; however, the turmoil was short-lived and financial markets recovered quickly.

Financial Stability

20. The health parameters of banks and NBFCs continue to be strong.[49] There has been some recent commentary on likelihood of stress buildup in a few unsecured loan segments like loans for consumption purposes, micro finance loans and credit card outstandings. The Reserve Bank is closely monitoring the incoming information and will take measures, as may be considered necessary. Banks and NBFCs, on their part, need to carefully assess their individual exposures in these areas, both in terms of size and quality. Their underwriting standards and post-sanction monitoring have to be robust. Continued attention also needs to be given to potential risks from inoperative deposit accounts, cybersecurity landscape, mule accounts, etc.

21. NBFCs, in particular, have registered an impressive growth over the last few years. This has resulted in more credit flow to the remote and underserved segments, bolstering financial inclusion. While the overall NBFC sector remains healthy, I have a few messages to the outliers.

(i) First, it is observed that some NBFCs are aggressively pursuing growth without building up sustainable business practices and risk management frameworks, commensurate with the scale and complexity of their portfolio. An imprudent 'growth at any cost' approach would be counter productive for their own health.

(ii) Second, driven by the significant accretion to their capital from both domestic and overseas sources, and sometimes under pressure from their investors, some NBFCs – including microfinance institutions (MFIs) and housing finance companies (HFCs) – are chasing excessive returns on their equity. While such pursuits are in the domain of the Boards and Managements of NBFCs, concerns arise when the interest rates charged by them become usurious and get combined with unreasonably high processing fees and frivolous penalties. These practices are sometimes further accentuated by what appears to be a 'push effect', as business targets drive retail credit growth rather than its actual demand. The consequent high-cost and high indebtedness could pose financial stability risks, if not addressed by these NBFCs.

(iii) Third, the NBFCs may review their prevailing compensation practices, variable pay and incentive structures some of which appear to be purely target driven in certain NBFCs. Such practices may result in adverse work culture and poor customer service.

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[49] Gross non-performing assets (GNPA) ratio of banks was 2.7 per cent as at end-June 2024, the lowest since end-March 2011. The annualised slippage ratio, which measures new NPA accretions as a percentage of standard advances, was at 1.3 per cent as at end-June 2024, as against 1.6 per cent a year ago. The provision coverage ratio, capital to risk-weighted assets ratio, and liquidity coverage ratio were 76.5 per cent, 16.8 per cent, and 130.1 per cent, respectively in June 2024. The annualized return on assets (RoA) and return on equity (RoE) stood at 1.4 per cent and 14.5 per cent, respectively, in June 2024. The net interest margin moderated to 3.5 per cent in June 2024 vis-à-vis 3.7 per cent in June 2023.

Key health parameters of NBFC sector are also moving in tandem with the banking sector. GNPA and NNPA ratios of NBFC sector (excluding NBFCs under resolution) in June 2024 were 2.6 per cent and 1.1 per cent, respectively, as compared with 3.2 per cent and 1.2 per cent in the same quarter of the previous year.

22. To sum up, it is important that NBFCs, including MFIs and HFCs, follow sustainable business goals; a ‘compliance first’ culture; a strong risk management framework; a strict adherence to fair practices code; and a sincere approach to customer grievances. The Reserve Bank is closely monitoring these areas and will not hesitate to take appropriate action, if necessary. Self-correction by the NBFCs would, however, be the desired option.

External Sector

23. India’s current account deficit (CAD) widened to 1.1 per cent of GDP in Q1:2024-25 on account of a higher trade deficit.[50] Buoyancy in services exports[51] and strong remittance receipts[52] are expected to keep CAD within the sustainable level.

24. On the external financing side, foreign portfolio investment (FPI) flows have seen a turnaround from net outflows of US$ 4.2 billion in April-May 2024 to net inflows of US$ 19.2 billion during June-October (till October 7, 2024). Foreign direct investment (FDI) flows remain strong in 2024-25 as both gross and net FDI inflows improved in April-July 2024.[53] While external commercial borrowings moderated, non-resident deposits recorded higher net inflows compared to last year.[54] India’s foreign exchange reserves have already crossed a new milestone of US$ 700 billion. Overall, India’s external sector remains resilient as key external sector vulnerability indicators continue to improve.[55] We remain confident of meeting our external financing requirements comfortably.

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[50] India’s current account deficit (CAD) widened to US$ 9.7 billion (1.1 per cent of GDP) in Q1:2024-25 from US$ 8.9 billion (1.0 per cent of GDP) in Q1:2023-24 and against a surplus of US$ 4.6 billion (0.5 per cent of GDP) in Q4:2023-24.

[51] As per provisional figures, India’s services exports grew by 10.9 per cent during July-August 2024. Net services exports grew by 9.6 per cent during July-August 2024.

[52] Inward remittances to India increased by 8.9 per cent in Q1:2024-25 to US$ 29.5 billion from US$ 27.1 billion in Q1:2023-24.

[53] Gross foreign direct investment (FDI) inflows grew by around 23 per cent to US$ 27.5 billion in April-July 2024-25 from US$ 22.4 billion during the same period a year ago. Net FDI inflows increased by 28.9 per cent to US$ 4.9 billion in April-July 2024-25 from US$ 3.8 billion a year ago.

[54] Net inflows under external commercial borrowings to India moderated to US$ 3.6 billion during April-August 2024-25 as compared with US$ 4.3 billion a year ago. Non-resident deposits recorded a higher net inflow of US$ 5.8 billion in April-July 2024-25 than US$ 3.0 billion a year ago.

[55] India’s CAD/GDP ratio stood at 0.7 per cent in 2023-24 (2.0 per cent during 2022-23), and 1.1 per cent during Q1:2024-25 (1.0 per cent in Q1:2023-24). India’s external debt to GDP ratio declined marginally to 18.8 per cent at end-June 2024 from 18.9 per cent at end-March 2024.

Additional Measures

25. I shall now announce certain additional measures.

Responsible Lending Conduct – Levy of Foreclosure Charges/ Pre-payment Penalties on Loans

26. The Reserve Bank has taken several measures over the years to safeguard consumer's interest. As part of these measures, Banks and NBFCs are not permitted to levy foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned to individual borrowers for purposes, other than business. It is now proposed to broaden the scope of these guidelines to include loans to Micro and Small Enterprises (MSEs). A draft circular in this regard shall be issued for public consultation.

Discussion Paper on Capital Raising Avenues for Primary (Urban) Co-operative Banks

27. The Reserve Bank has undertaken several initiatives in recent years to strengthen the Urban Co-operative Banking (UCB) Sector. Such initiatives include issuance of regulatory guidelines in 2022 for issue and regulation of share capital and securities by UCBs. To provide more flexibility and avenues for UCBs to raise capital, a Discussion Paper on Capital Raising Avenues for UCBs will be issued for feedback and suggestions from stakeholders.

Creation of Reserve Bank Climate Risk Information System (RB-CRIS)

28. Climate change is emerging as a significant risk to the financial system world over. This makes it necessary for regulated entities to undertake robust climate risk assessment, which is sometimes hindered by gaps in high quality climate related data. To bridge these data gaps, the Reserve Bank proposes to create a data repository, namely, the Reserve Bank – Climate Risk Information System (RB-CRIS).

UPI - Enhancement of Limits

29. UPI has transformed India's financial landscape by making digital payments accessible and inclusive through continuous innovation and adaptation. To further encourage wider adoption of UPI and make it more inclusive, it has been decided to (i) enhance the per-transaction limit in UPI123Pay from ₹5,000 to ₹10,000; and (ii) increase the UPI Lite wallet limit from ₹2,000 to ₹5,000 and per-transaction limit from ₹500 to ₹1,000.

Introduction of Beneficiary Account Name Look-up Facility

30. At present, UPI and Immediate Payment Service (IMPS) provide a facility for the remitter of funds to verify the name of the receiver (beneficiary) before executing a payment transaction. It is now proposed to introduce such a facility for the Real Time

Gross Settlement System (RTGS) and the National Electronic Funds Transfer (NEFT) system. This facility will enable the remitter to verify the name of the account holder before effecting funds transfer to him/her through RTGS or NEFT. This will also reduce the possibility of wrong credits and frauds.

Conclusion

31. Today, the Indian economy presents a picture of stability and strength. The balance between inflation and growth is well-poised. India's growth story remains intact. Inflation is on a declining path, although we still have a distance to cover. The external sector demonstrates the strength of the economy. Forex reserves are scaling new peaks. Fiscal consolidation is underway. The financial sector remains sound and resilient. Global investor optimism in India's prospects is perhaps at its highest ever. We are, however, not complacent, especially amidst rapidly evolving global conditions.

32. The monetary policy action today reflects the MPC's assessment that, at the current juncture, it would be appropriate to have greater flexibility and optionality to act in sync with the evolving conditions and the outlook. We stand unambiguously committed to ensure durable alignment of inflation with the target, while supporting growth. In the prevailing macroeconomic conditions and the outlook, Mahatma Gandhi's words remain highly relevant: "*When the method is good, ... Success is bound to come in the end. …*"[56]

Thank you. Namaskar.

(Puneet Pancholy)
Chief General Manager

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[56] The Collected Works of Mahatma Gandhi, Volume 82; Harijan,19.04.1942