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April 5, 2024

Governor's Statement: April 5, 2024

Earlier this week on April 1, we commemorated the 90th year of the Reserve Bank of India. The journey of this august institution is closely related to the evolution of the Indian economy. Numerous historic events have occurred during these nine decades: nationalisation of the Reserve Bank (1949), the planning era, bank nationalisation, wars, droughts, the fall of the Bretton Woods system, oil shocks, a precarious balance of payments situation and the subsequent market reforms, the Asian and the Global Financial crises, the taper tantrum and finally the COVID-19 pandemic and the geo-political hostilities of the recent years. During this journey, the Reserve Bank was always at the forefront, combining its developmental and regulatory roles, in steering the Indian financial system and the economy towards stability. While doing so, it has discharged its responsibilities with integrity and professionalism.

2. Compared to many other central banks, the Reserve Bank has a much broader range of functions which is vital for ensuring macro-financial stability of a modern and complex economy like India. There are functional complementarities among these responsibilities. Being a full-service central bank, the Reserve Bank is well positioned to take a holistic view of various critical issues confronting the financial sector and the larger economy, and take appropriate steps in the best interest of the economy. We continuously strive to learn, adapt and innovate while performing our multiple responsibilities.

Decisions and Deliberations of the Monetary Policy Committee (MPC)

3. The Monetary Policy Committee (MPC) met on 3rd, 4th and 5th April 2024. After a detailed assessment of the evolving macroeconomic and financial developments and the outlook, it decided by a 5 to 1 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 5 out of 6 members to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.

4. I shall now briefly set out the rationale for these decisions. Since the last policy, the growth-inflation dynamics have played out favourably. Growth has continued to sustain its momentum surpassing all projections. Headline inflation has eased to 5.1 per cent during January and February 2024 from 5.7 per cent in December 2023, with core inflation declining steadily over the past nine months to its lowest level in the series.[1] Fuel component of the CPI remained in deflation for six consecutive months.[2] Food inflation pressures, however, accentuated in February. [3]

5. Looking ahead, robust growth prospects provide the policy space to remain focused on inflation and ensure its descent to the target of 4.0 per cent. As the uncertainties in food prices continue to pose challenges, the MPC remains vigilant to the upside risks to inflation that might derail the path of disinflation. Under these circumstances, monetary policy must continue to be actively disinflationary to ensure anchoring of inflation expectations and fuller transmission of the past actions. The MPC, therefore, decided to keep the policy rate unchanged at 6.50 per cent in this meeting and remain focused on withdrawal of accommodation. The MPC will remain resolute in its commitment to aligning inflation to the target.

Assessment of Growth and Inflation

Global Growth

6. The global economy has remained resilient with a stable outlook as reflected in various high frequency indicators.[4] Global trade is expected to grow faster in 2024,

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[1] Core inflation is defined as headline CPI excluding food and fuel groups. The softening of core inflation to 3.4 per cent in February 2024 (same as in October 2019) marks the lowest print in the current CPI series (2012=100) and it was broad based across all categories. Core services inflation at 3.1 per cent in February was the lowest print in the current CPI series (2012=100). Core goods at 3.6 per cent in February is the lowest since January 2020.

[2] Deflation in fuel which was (-) 0.1 in September 2023 deepened to (-) 1.0 per cent in December and was at (-) 0.8 per cent in February 2024.

[3] Food inflation after moderating to 7.6 per cent in January 2024 from 8.7 per cent in December 2023, edged up to 7.8 per cent in February 2024.

[4] Global composite purchasing managers' index (PMI) increased to a nine-month high of 52.3 in March 2024, up from 52.1 in February – supported by continued expansion in both services and manufacturing. Global manufacturing PMI returned to expansion zone in February 2024 in 18 months and expanded further in March to 50.6, its highest reading since July 2022. World merchandise trade volume growth (y-o-y) turned positive in January 2024, after nine months of contraction. World industrial production growth (y-o-y) has also been positive since October 2023, following several months of contraction.

although weaker than its historical average.[5] Inflation is moving closer to targets, but the last mile of disinflation is turning out to be challenging. Services inflation in advanced economies remains sticky amidst tight labour markets. Accordingly, central banks are cautious in their communications, thereby tempering market expectations about the timing and magnitude of interest rate cuts later during this year. Equity markets have gained while bond yields and US dollar have remained volatile. The overall outlook is challenged by continuing geopolitical conflicts, disruptions in trade routes and high public debt burden.

7. In the last monetary policy statement, I had expressed concerns about the high levels of public debt in both advanced and emerging market economies (EMEs). These are dormant risks which could erupt abruptly. Debt to GDP ratios, which rose during the pandemic, remain elevated and are projected to increase further with rising interest burden and cost of borrowing, thus raising debt sustainability concerns.[6] Worsening debt situation in advanced economies (AEs) can generate spillovers for EMEs in the form of swings in capital flows and volatility in financial markets. EMEs with rising levels of public debt, in particular, would be vulnerable to these spillover effects. Credible fiscal consolidation plans, particularly in major advanced economies, focusing on growth enhancing investment would be necessary to address this challenge. India, however, presents a different picture on account of its fiscal consolidation and faster GDP growth.[7]

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[5] According to the World Economic Outlook Update of the IMF, January 2024, world trade volume is projected to grow from 0.4 per cent in 2023 to 3.3 per cent in 2024, below its historical average growth rate of 4.9 per cent (2000-2019).

[6] According to the IMF, the gross public debt to GDP ratio of AEs increased from 104.1 per cent in 2019 to 122.9 per cent in 2020. This ratio came down to 112.3 per cent in 2022 and is projected to increase to 116.3 per cent in 2028. For EMEs, the gross public debt to GDP ratio increased from 55.9 per cent in 2019 to 65.9 per cent in 2020. This ratio came down marginally to 65.3 per cent in 2022 and is projected to rise to 78.1 per cent in 2028 (Fiscal Monitor, October 2023).

[7] According to the IMF, the general government debt to GDP ratio of India increased from 75.0 per cent in 2019 to 88.5 per cent during the pandemic year 2020. This ratio came down to 81.0 per cent in 2022 and is projected to decline to 80.5 per cent in 2028 (IMF Fiscal Monitor, October 2023).

Domestic Growth

8. Domestic economic activity continues to expand at an accelerated pace, supported by fixed investment[8] and improving global environment. The second advance estimates (SAE) placed real GDP growth at 7.6 per cent for 2023-24, the third successive year of 7 per cent or higher growth.[9]

9. From the supply side, industrial activity led by manufacturing continued its momentum.[10] The purchasing managers' index (PMI) for manufacturing displayed a sustained expansion in February-March, touching a 16-year high in March.[11] Services sector exhibited broad based buoyancy with all sectors registering strong growth.[12] The PMI services remained above 60 during February-March, suggesting sustained healthy expansion.[13]

10. With rural demand catching up, consumption is expected to support economic growth in 2024-25.[14] Urban consumption stayed buoyant as evident from various indicators.[15] The resilience in cement production, together with strong growth in steel consumption and production and import of capital goods, augur well for the

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[8] Gross fixed capital formation (GFCF) increased at a double-digit pace of 10.2 per cent in 2023-24, with an expansion of 11.6 per cent in Q1; 10.6 per cent in Q2; and 10.2 per cent in Q3.

[9] GDP expanded by 9.7 per cent and 7.0 per cent in 2021-22 and 2022-23, respectively. GDP growth for first three quarters of 2023-24 was estimated at 8.2 per cent, 8.1 per cent and 8.4 per cent, respectively.

[10] On the supply side, sustained buoyancy in manufacturing and construction led to a growth of 6.9 per cent in gross value added (GVA) for 2023-24. Core industries recorded a growth of 6.7 per cent during February.

[11] PMI manufacturing strengthened to 59.1 in March 2024 from 56.9 in February.

[12] Amongst high frequency indicators - e-way bills and freight traffic posted double-digit growth of 18.9 per cent and 10.1 per cent, respectively, during February 2024. Toll collections; GST collections; and international air cargo expanded at a robust pace of 10.2 per cent, 11.5 per cent and 15.2 per cent, respectively in March.

[13] PMI services accelerated further to 61.2 in March from 60.6 in February 2024.

[14] Rural demand, which was lagging urban demand earlier, picked up since Q2 2023-24. This is also suggested by performance of indicators such as two-wheeler sales (30.3 per cent growth during January-February), MNREGA demand (declined by 9.8 per cent y-o-y during February-March 2024) and retail tractor sales (increased by 16.1 per cent in January-February).

[15] Domestic air passenger traffic rose by 5.8 per cent y-o-y in February 2024 and 4.1 per cent y-o-y in March 2024, while retail passenger vehicle sales posted a growth of 12.4 per cent y-o-y during February 2024.

investment cycle to gain further traction.[16] The total flow of resources to the commercial sector from banks and other sources at ₹ 31.2 lakh crore during 2023-24 is significantly higher than that of last year (₹26.4 lakh crore). External demand improved in February with exports registering double digit expansion. Trade deficit, however, widened in February as imports also accelerated.[17]

11. Going forward, the outlook for agriculture and rural activity appears bright, with good *rabi wheat* crop and improved prospects of *kharif* crops, due to expected normal south-west monsoon.[18] Strengthening of rural demand, improving employment conditions and informal sector activity,[19] moderating inflationary pressures and sustained momentum in manufacturing and services sector should boost private consumption. As per our survey, consumer confidence one year ahead reached a new high. The prospects of investment activity remain bright owing to upturn in the private capex cycle becoming steadily broad-based[20]; persisting and robust government capital expenditure; healthy balance sheets of banks and corporates; rising capacity utilisation;[21] and strengthening business optimism as reflected in our surveys. Improving global growth and trade prospects, coupled with our rising integration in global supply chains, are expected to propel external demand for goods and services. The headwinds from protracted geopolitical tensions and increasing disruptions in trade routes, however, pose risks to the outlook. Taking all

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[16] Steel consumption rose by 9.7 per cent, while cement production jumped by 7.9 per cent in January-February 2024. Imports of capital goods expanded by 6.9 per cent during January-February 2024, while capital goods production increased by 4.1 per cent in January 2024.

[17] India's merchandise exports expanded by 11.9 per cent to $41.4 billion, and imports increased by 12.2 per cent to $60.1 billion in February. India's trade deficit widened to $18.7 billion in February from $16.6 billion last year.

[18] Decaying El Nino and a forecast of developing La Nina during June-August provides positive outlook for the upcoming agriculture season. As per the preliminary reports (as of March 28, 2024), 51.4 lakh hectares of the summer crop area have been sown so far, registering an increase of 10.1 per cent over a year ago, with higher acreage under rice (9.8 per cent), pulses (23.6 per cent) and oilseeds (4.2 per cent). The procurement for the new rabi marketing season (RMS) (2024-25) has started in advance of its schedule (April 01) in Rajasthan and Madhya Pradesh. As of April 2, 2024, 4.6 lakh tonnes of wheat have been procured.

[19] According to Periodic Labour Force Survey (PLFS), the unemployment rate fell to its lowest in the series at 3.1 per cent (usual status) in calendar year 2023.Similarly, labour force participation rate for 15 years of age and above in 2023 at 59.8 per cent was the highest since the inception of the survey.

[20] Several sectors are seeing improvement in investment activities viz., food processing, beverages and tobacco, textiles, chemicals and chemical products, cement and cement products, iron and steel, electronics, construction, telecommunications, roads and railways.

[21] Capacity utilisation (CU) in the manufacturing sector rose to 74.7 per cent in Q3:2023-24 from 74.0 per cent recorded in the previous quarter. The seasonally adjusted CU also improved marginally to 74.6 per cent in Q3:2023-24 and persisted above the long-period average.

these factors into consideration, real GDP growth for 2024-25 is projected at 7.0 per cent with Q1 at 7.1 per cent; Q2 at 6.9 per cent; Q3 at 7.0 per cent; and Q4 also at 7.0 per cent. The risks are evenly balanced.

Inflation

12. Turning to inflation, food price uncertainties continue to weigh on the inflation trajectory going forward. A record *rabi* wheat production would help temper price pressure and replenish the buffer stocks. Moreover, early indication of a normal monsoon augurs well for the *kharif* season. International food prices also remain benign.[22] The tight demand supply situation in certain categories of pulses and the production outcomes of key vegetables warrant close monitoring, given the forecast of above normal temperatures in the coming months. Frequent and overlapping adverse climate shocks pose key upside risks to the outlook on international and domestic food prices.

13. Cost push pressures faced by firms are seeing an upward bias after a period of sustained moderation. Deflation in fuel is likely to deepen in the near term, following the cut in LPG prices in March.[23] Notwithstanding the cut in petrol and diesel prices in mid-March,[24] the recent uptick in crude oil prices needs to be closely monitored. Continuing geo-political tensions also pose upside risk to commodity prices and supply chains. 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.

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[22] The World Bank commodities price data for March 2024 indicate that agriculture food prices, though registering a sequential pick-up, remain in deflation, with a y-o-y decline of 8.1 per cent in March 2024.

[23] The price of Liquified Petroleum Gas (LPG) for households was reduced by ₹ 100 per cylinder effective March 9, 2024.

[24] Prices of petrol and diesel were reduced by ₹ 2 per litre each effective March 15, 2024.

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

14. Inflation has come down significantly but remains above the 4 per cent target. Food inflation continues to exhibit considerable volatility impeding the ongoing disinflation process.[25] High and persistent food inflation could unhinge anchoring of inflation expectations which is underway.[26] Our ongoing effort is to ensure fuller transmission of policy actions and anchoring of household inflation expectations. The strong growth momentum, together with our GDP projections for 2024-25, give us the policy space to unwaveringly focus on price stability.

15. Two years ago, around this time, when CPI inflation had peaked at 7.8 per cent in April 2022, the elephant in the room was inflation. The elephant has now gone out for a walk and appears to be returning to the forest. We would like the elephant to return to the forest and remain there on a durable basis. In other words, it is essential, in the best interest of the economy, that CPI inflation continues to moderate and aligns to the target on a durable basis. Till this is achieved, our task remains unfinished.

16. The success in the disinflation process so far should not distract us from the vulnerability of the inflation trajectory to the frequent incidence of supply side shocks. Our effort is to ensure price stability on an enduring basis, paving the way for a sustained period of high growth.

Liquidity and Financial Market Conditions

17. In the February monetary policy statement, I had mentioned that liquidity conditions were driven by exogenous factors, which were likely to correct in the foreseeable future. Liquidity conditions eased during February and March[27] in the wake of increased government spending, the Reserve Bank's market operations and

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[25] Food inflation moved in a wide range of 3.3 per cent in May 2023 to 10.6 per cent in July and averaged 7.0 per cent in 2023-24 (April-February). In February 2024, food inflation at 7.8 per cent, contributed around 70 per cent to the headline inflation.

[26] Since September 2022 the one year ahead inflation expectations of households cumulatively declined by 120 bps.

[27] System liquidity deficit – as measured by net injections under the liquidity adjustment facility (net LAF) – was much lower at ₹1.0 lakh crore during February-March as compared to ₹1.61 lakh crore in December-January.

the return-leg of a USD-INR sell buy swap auction.[28] In particular, the liquidity situation improved in March with system liquidity turning intermittently surplus in the first half of the month. In these circumstances, the Reserve Bank conducted fourteen fine tuning variable rate reverse repo (VRRR) operations during February and early March to absorb intermittent surplus liquidity.[29]

18. Anticipating the seasonal tightening of liquidity at end-March, the Reserve Bank injected liquidity through variable rate repo (VRR) operations – both main and fine-tuning operations.[30] Consequently, the average borrowings under the MSF window moderated.[31] Liquidity conditions have again turned surplus from March 30, necessitating VRRR auctions from April 2.

19. Reflecting these liquidity developments, the weighted average call rate (WACR) exhibited a softening bias and has hovered near the repo rate since the last policy meeting.[32] In tandem, rates in the collateralised segment of the call money market have also softened. Financial conditions remained conducive as reflected in reduced term spread in the G-sec market and stable risk premium in the bond market.[33] In the credit market, monetary transmission continues to be work in progress.[34]

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[28] The return-leg of a USD/INR sell buy swap auction for US$ 5 billion conducted by the Reserve Bank on March 8, 2022 injected liquidity amounting to ₹42,800 crore on March 11, 2024.

[29] Fourteen VRRR operations of 1-4 days maturity were conducted cumulatively mopping up ₹4.44 lakh crore during February to early March.

[30] Between February-March, fourteen fine tuning VRR operations of 1-7 days maturity were conducted amounting to ₹8.0 lakh crore of which six fine tuning VRR operations were conducted cumulatively injecting ₹3.9 lakh crore in the second half of March. During February-March, four main operations cumulatively injected ₹3.5 lakh crore into the system.

[31] Recourse to MSF came down from ₹0.74 lakh crore in December-January to ₹0.24 lakh crore in February-March.

[32] During February-March, the WACR averaged 6.61 per cent as against 6.76 per cent in December-January.

[33] During February-March, the average term spread (10-year *minus* 91-day Treasury Bills) softened to 11 basis points (bps) from 24 bps in December-January. During February-March, the risk premium (AAA 5-year corporate bond *minus* 5-year G-sec rate) was at 60 bps, same as in December-January.

[34] The weighted average lending rate (WALR) on fresh rupee loans rose by 185 bps while that on outstanding loans rose by 111 bps during the current tightening cycle (May 2022 – February 2024). During the same period, the weighted average domestic term deposit rates (WADTDR) on fresh deposits and outstanding deposits rose by 241 basis points and 183 bps, respectively.

20. Looking ahead, the Reserve Bank will remain nimble and flexible in its liquidity management through main and fine-tuning operations in both 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 that preserves financial stability.

21. The Indian rupee (INR) has remained largely range-bound as compared to both its emerging market peers and a few advanced economies during 2023-24.[35] The INR was the most stable among major currencies during this period. As compared to the previous three years, the INR exhibited the lowest volatility in 2023-24.[36] The relative stability of the INR reflects India's sound macroeconomic fundamentals, financial stability and improvements in the external position.

Financial Stability

22. Latest data as at end-December 2023 show that the key indicators of capital and asset quality of scheduled commercial banks (SCBs) continued to be healthy.[37] The financial indicators of non-banking financial companies (NBFCs) are also in line with that of the banking system as per the latest available data.

23. Let me emphasise here that banks, NBFCs and other financial entities must continue to give the highest priority to quality of governance and adherence to regulatory guidelines. Financial sector players, by and large, operate with public

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[35] The depreciation of Indian rupee (INR) at 1.4 per cent against the US dollar in 2023-24 was lower as compared to emerging market peers like Chinese yuan, Thailand baht, Indonesian rupiah, Vietnamese dong and Malaysian ringgit and a few advanced economy currencies like Japanese yen, Korean won and New Zealand dollar.

[36] The coefficients of variation (CV) of the INR were 1.6 per cent, 1.2 per cent, 2.7 per cent, and 0.6 per cent for the years 2020-21, 2021-22, 2022-23 and 2023-24, respectively. During 2022-23 and 2023-24, the INR was one of the least volatile in terms of CV among various peer EME currencies including the Chinese yuan, the Thailand baht, Malaysian ringgit and Brazilian real.

[37] The capital adequacy ratio (CRAR) and the liquidity coverage ratio (LCR) of SCBs were well above the regulatory threshold. As per provisional data, the CRAR ratio of SCBs stood at 15.9 per cent in December 2023. The provision coverage ratio increased to 75.6 per cent. The LCR of SCBs was comfortable at 131.4 per cent, much above the minimum stipulation of 100 per cent. GNPA ratio dipped to 3.0 per cent in December 2023 from 3.3 per cent in September 2023 and 3.8 per cent in March 2023. The net NPA ratio of SCBs further dipped to 0.7 per cent. The net interest margin (NIM) of SCBs at 3.7 per cent showed slight moderation *vis-à-vis* 3.8 per cent recorded in the last three quarters. Headline profitability indicators, however, *viz*., return on asset (RoA) at 1.3 per cent in December 2023, and return on equity (RoE) at 13.2 per cent hovered around their decadal-high levels.

money – be it of depositors in banks and select NBFCs or investors in bonds and other financial instruments. They should always be mindful of this. The Reserve Bank will continue to constructively engage with financial entities in this regard. It needs to be recognised that financial stability is a joint responsibility of all stakeholders.

24. The Reserve Bank has also been engaging with the regulated entities and various stakeholders for simplifying its regulations and reducing compliance burden. As part of this endeavour, the recommendations of the Regulations Review Authority (RRA 2.0) constituted by the Reserve Bank have been largely implemented. RRA 2.0 has set a new benchmark for meaningful engagement between the Regulator and the Regulated Entities.[38] Moving further in the same direction, Internal Review Groups were formed in 2023 to rationalise, simplify and remove obsolete regulations and streamline reporting mechanism. In pursuance of recommendations of RRA 2.0 and the Internal Review Groups, more than one thousand circulars have been withdrawn. A Master Direction for rationalising and harmonising supervisory returns has also been issued. The Reserve Bank will continue to follow a consultative approach and undertake review of regulations in line with the evolving financial landscape.

External Sector

25. During the first three quarters of 2023-24, India's current account deficit (CAD) narrowed significantly on account of a moderation in merchandise trade deficit coupled with robust growth in services exports and strong remittances.[39] India's merchandise and services exports have grown at a healthy pace in Q4:2023-24. [40]

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[38] The RRA 2.0 had constituted an Advisory Group under the chairmanship of Shri Swaminathan J., the then Managing Director, State Bank of India with members representing regulated entities, including compliance officers, to support the RRA 2.0 in achieving its objectives. The Group invited feedback and suggestions from regulated entities, industry bodies and other stakeholders and assisted the RRA 2.0 in identifying areas/ regulations/ etc. which could be rationalised.

[39] During Q3: 2023-24, the CAD stood at US$ 10.5 billion (1.2 per cent of GDP) as compared to US$ 11.4 billion (1.3 per cent of GDP) in Q2. During April-December 2023-24, the CAD was placed at US$ 31.0 billion (1.2 per cent of GDP) as compared to 2.6 per cent during same period of 2022-23.

[40] India's merchandise exports rose for the third consecutive month on a y-o-y basis by 11.9 per cent in February 2024, whereas the growth in imports at 12.2 per cent remained in the positive territory for the second consecutive month. The average monthly trade deficit during January-February 2024 was also significantly lower (US$ 17.6 billion) than the previous nine-month average (US$ 21.1 billion). Services exports grew by 3.5 per cent in February 2024 on a y-o-y basis, whereas services imports largely remained flat, leading to a surplus in services trade.

India continues to be the largest recipient of remittances in the world. The cost of receiving remittances is gradually coming down.[41] Overall, the CAD for 2024-25 is expected to remain at a level that is both viable and eminently manageable.

26. On the external financing side, India's foreign portfolio investment (FPI) flows saw a significant turnaround in 2023-24. Net FPI inflows stood at US$ 41.6 billion during 2023-24, as against net outflows in the preceding two years (US$ 14.1 billion in 2021-22 and US$ 4.8 billion in 2022-23). This is the second highest level of FPI inflow after 2014-15.[42] Net foreign direct investment (FDI) moderated to US$ 14.2 billion in April-January 2023-24 from US$ 25.0 billion a year ago.[43] External commercial borrowings (ECBs) and non-resident deposits recorded higher net inflows compared to the previous year.[44] The amount of ECB agreements also grew markedly during 2023-24 (up to February 2024).[45] India's foreign exchange reserves reached an all-time high of US$ 645.6 billion as of March 29, 2024. Latest data on various external vulnerability indicators suggest improved resilience of India's external sector.[46] We remain confident of meeting our external financing requirements comfortably.

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[41] India's cost of receiving US$ 200 remittances stood at 4.9 per cent in Q3:2023, significantly lower than 9.6 per cent in Q1:2013 and also *vis-a-vis* the global average of 6.2 per cent; however, it is higher than the SDG target of 3 per cent to be achieved by 2030, which requires cooperation among countries.

[42] The net FPI inflow in 2014-15 was US$ 45.1 billion.

[43] Gross inward FDI at US$ 59.9 billion during April-January, 2023-24 was marginally lower than US$ 61.7 billion during the same period of 2022-23. Net inflows were lower during April-January 2023-24 due to higher repatriation at US$ 34.8 billion as compared with US$ 25.0 billion during the same period of 2022-23.

[44] External commercial borrowings to India witnessed a turnaround with net inflows of US$ 3.7 billion during April-February 2023-24 as against net outflows of US$ 4.7 billion a year ago. Non-resident deposits recorded a higher net inflow of US$ 10.2 billion in April-January 2023-24 than US$ 6.0 billion a year ago.

[45] ECB agreement amount during April-February 2023-24 stood at US$ 41.5 billion as compared to US$ 22.8 billion during the same period of 2022-23.

[46] 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.

Additional Measures

27. I shall now announce certain additional measures.

Trading of Sovereign Green Bonds in International Financial Services Centre (IFSC)

28. With a view to facilitating wider non-resident participation in Sovereign Green Bonds, a scheme for investment and trading in these Bonds in the IFSC will be notified shortly.

RBI Retail Direct Scheme - Introduction of Mobile App

29. The RBI Retail Direct Scheme was launched in November 2021. It is now proposed to launch a mobile app for accessing the Retail Direct portal. This will be of greater convenience to retail investors and deepen the G-sec market.

Review of Liquidity Coverage Ratio (LCR) Framework

30. Technological developments have enabled bank customers to instantly withdraw or transfer money from their bank accounts. While improving customer convenience, this has also created challenges for banks to deal with potential situations when, due to certain factors, a large number of depositors decide to instantly and simultaneously withdraw their money from banks. The developments in certain jurisdictions last year demonstrated the difficulties it can create for banks to deal with such situations. A need has, therefore, arisen to undertake a comprehensive review of the LCR framework for banks. A draft circular will be issued shortly for stakeholder consultation.

Dealing in Rupee Interest Rate Derivative products – Small Finance Banks

31. At present, Small Finance Banks (SFBs) are permitted to use only Interest Rate Futures (IRFs) for proprietary hedging. It has now been decided to allow SFBs to use permissible rupee interest derivative products. This will allow further flexibility to SFBs for hedging their interest rate risk and enhance their resilience.

Enabling UPI for Cash Deposit Facility

32. Deposit of cash through Cash Deposit Machines (CDMs) is primarily being done through the use of debit cards. Given the experience gained from card-less cash withdrawal using UPI at the ATMs, it is now proposed to also facilitate deposit of cash in CDMs using UPI. This measure will further enhance customer convenience and make the currency handling process at banks more efficient.

UPI Access for Prepaid Payment Instruments (PPIs) through Third Party Apps

33. At present, UPI payments from Prepaid Payment Instruments (PPIs) can be made only by using the web or mobile app provided by the PPI issuer. It is now proposed to permit the use of third-party UPI apps for making UPI payments from PPI wallets. This will further enhance customer convenience and boost adoption of digital payments for small value transactions.

Distribution of Central Bank Digital Currency (CBDC) through Non-bank Payment System Operators

34. The CBDC pilots are currently in operation with increasing number of use-cases and participating banks. It is proposed to make CBDC-Retail accessible to a broader segment of users by enabling non-bank payment system operators to offer CBDC wallets. This will also facilitate testing of the resiliency of CBDC platform to handle multi-channel transactions.

Conclusion

35. As we progress towards RBI@100, the upcoming decade is going to be a transformational journey. The Reserve Bank will continue to focus on preserving financial stability and promoting a system that is robust, resilient and future-ready to support economic growth. Price stability will be a key component of this endeavour.

36. Turning to the present, inflation is on a declining trajectory and GDP growth is buoyant. At this juncture, we should not lower our guard but continue to work towards ensuring that inflation aligns durably and sustainably to the target. Our goal is in sight and we must remain vigilant. We are inspired by the profound words of Mahatma

Gandhi: "…*One must persevere and have patience. Success is the inevitable result of such effort*."[47]

Thank you. Namaskar.

(Yogesh Dayal)
Chief General Manager

Press Release: 2024-2025/41

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[47] Collected Works of Mahatma Gandhi, Volume 91.