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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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December 06, 2024

Governor's Statement: December 6, 2024

As we stand at the threshold of 2025, let me reflect upon the eventful journey of 2024. In line with the trend in the last few years, central banks were once again put to the ultimate test to stabilise their economies against continuous, colossal and complex shocks. Central banks are constantly adapting to the new global economic and financial landscape created by geopolitical conflicts, geoeconomic fragmentation, financial market volatility and continuing uncertainties, all of which are testing the resilience of the global economy. The last mile of disinflation is turning out to be prolonged and arduous, both for advanced and emerging market economies (EMEs). Maintaining macroeconomic and financial stability, and building buffers, continue to be the lodestar for the EMEs.

2. In India, notwithstanding the recent aberration in the growth and inflation trajectories, the economy continues its journey on a sustained and balanced path towards progress. Amidst the reshaping of the global economy, India is well-positioned to benefit from the emerging trends as it forges ahead on a transformative journey.

Decisions and Deliberations of the Monetary Policy Committee (MPC)

3. The Monetary Policy Committee (MPC) met on 4th, 5th and 6th December, 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 unanimously to continue with the 'neutral' stance and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth.

4. I shall now briefly set out the rationale for these decisions. The MPC took note of the recent slowdown in the growth momentum, which translates into a downward revision in the growth forecast for the current year. Going forward into the second half of this year and the next year, the MPC assessed the growth outlook to be resilient, but warranting close monitoring. Inflation, on the other hand, surged above the upper tolerance band of 6.0 per cent in October, driven by a sharp uptick in food inflation. Food inflation pressures are likely to linger in Q3 of this financial year and start easing only from Q4:2024-25, backed by seasonal correction in vegetables prices, *kharif* harvest arrivals, likely good *rabi* output and adequate cereal buffer stocks.

5. High inflation reduces the disposable income in the hands of consumers and dents private consumption, which negatively impacts the real Gross Domestic Product (GDP) growth. The increasing incidence of adverse weather events, heightened geo-political uncertainties and financial market volatility pose upside risks to inflation. The MPC believes that only with durable price stability can strong foundations be secured for high growth. The MPC remains committed to restoring the inflation growth balance in the overall interest of the economy. Accordingly, the MPC decided to keep the policy repo rate unchanged at 6.50 per cent in this meeting and continue with the neutral stance of monetary policy as it provides flexibility to monitor and assess the outlook on inflation and growth, and act appropriately.

Assessment of Growth and Inflation

Global Growth

6. The global economy has shown unusual resilience in 2024 despite several headwinds.[1] Inflation is gradually moving towards target from its multi-decadal highs, prompting several central banks to embark on policy pivots.[2] Global trade remains resilient[3] with increasing volumes confined within geopolitical blocs.[4] Since the last MPC meeting, financial markets have remained edgy amidst rising US dollar and hardening bond yields, resulting in large capital outflows from emerging markets and volatility in equity markets. Going forward, the outlook is clouded by rising tendencies of protectionism which have the potential to undermine global growth and push inflation higher.

Domestic Growth

7. Growth in real GDP in Q2 at 5.4 per cent turned out to be much lower than anticipated.[5] This decline in growth was led mainly by a substantial deceleration in

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[1] The global composite purchasing managers' index (PMI) further improved to 52.4 and remained in the expansionary zone for the thirteenth consecutive month in November 2024. The global manufacturing PMI improved in November and returned to the neutral mark of 50.0. The global services sector continued to expand with the PMI remaining in the expansion zone for the twenty second consecutive month at 53.1 in November. The OECD, in its December 2024 outlook retained the GDP growth forecast for 2024 at 3.2 per cent. The IMF also retained the growth projection in its latest October 2024 World Economic Outlook (WEO) Report for 2024 at 3.2 per cent.

[2] Since the last MPC meeting, US, UK, Euro area, Canada, New Zealand, Sweden, Iceland, Czech Republic and South Korea among advanced economies (AEs) and China, South Africa, Mexico, Philippines, Sri Lanka, Thailand, Peru and Chile among emerging market economies (EMEs) have cut their policy rates. Russia and Brazil, on the other hand, raised their benchmark rates. Australia, Norway, Japan, Israel, Hungary, Indonesia, Malaysia, Poland, Romania and Turkey have not changed rates during this period.

[3] World merchandise trade volume growth grew by 2.4 per cent (y-o-y) in September as per CPB Netherlands, World Trade Monitor.

[4] World Economic Outlook (WEO) Report, IMF, October 2024.

[5] On the supply side, gross value added (GVA) expanded at a higher rate by 5.6 per cent, aided by agricultural and services sector activities.

industrial growth from 7.4 per cent in Q1 to 2.1 per cent in Q2 due to subdued performance of manufacturing companies,[6] contraction in mining activity and lower electricity demand.[7] The weakness in the manufacturing sector, however, was not broad-based but was limited to specific sectors such as petroleum products, iron and steel and cement.[8]

8. Going forward, high frequency indicators available so far suggest that the slowdown in domestic economic activity bottomed out in Q2:2024-25, and has since recovered, aided by strong festive demand and pick up in rural activities. Agricultural growth is supported by healthy *kharif* crop production,[9] higher reservoir levels[10] and better *rabi* sowing.[11] Industrial activity is expected to normalise and recover from the lows of the previous quarter.[12] The end of the monsoon season and the expected pick up in government capital expenditure may provide some impetus to cement and iron and steel sectors. Mining and electricity are also expected to normalise post the monsoon-related disruptions. The purchasing managers' index (PMI) for manufacturing at 56.5 for November remained elevated. The supply chain pressures

[6] Manufacturing GVA growth decelerated on account of subdued corporate results. Operating profit of 1679 listed private manufacturing companies contracted by 0.3 per cent (y-o-y) during Q2:2024-25.

[7] While mining activity contracted by 0.1 per cent, electricity sector grew modestly by 3.3 per cent due to excess rains and adverse base.

[8] While oil companies suffered due to inventory losses and lower refining margins, steel companies faced domestic price pressures owing to oversupply from China and lower global prices. Cement companies faced weak demand in Q2 due to heavy rains in addition to lower selling prices.

[9] As per the first advance estimates for 2024-25, *kharif* foodgrain production is estimated at a record 164.7 million tonnes, 5.7 per cent higher than the final estimates of 2023-24. Production of rice, a major *kharif* crop is estimated to be 5.9 per cent higher than previous year.

[10] All-India water storage in 155 major reservoirs stands at 82 per cent of the total capacity as of November 28, 2024, as against 65 per cent a year ago and decadal average of 70 per cent.

[11] As on November 29, 2024, *rabi* crop sowing is higher by 4.1 per cent when compared to the same period last year. Wheat and pulses sowing are higher by 6.6 per cent and 3.6 per cent, respectively.

[12] As per the early results of Industrial Outlook Survey (IOS) of RBI, manufacturing firms assessed improvement in demand conditions in Q3:2024-25; and expect further improvement in Q4:2024-25 and H1:2025-26. Eight core industries output expanded by 3.1 per cent in October.

eased in October-November and fell below the historical average.[13] The services sector continues to grow at a strong pace.[14] PMI services remained steady at 58.4 in November, indicating continued expansion.[15]

9. On the demand side, rural demand[16] is trending upwards while urban demand shows some moderation on a high base.[17] Government consumption is improving.[18] Investment activity is also expected to improve.[19] On the external front, merchandise exports expanded by 17.2 per cent in October 2024, while services exports continue to post upbeat growth (22.3 per cent in October).[20] Taking all these factors into consideration, real GDP growth for 2024-25 is now projected at 6.6 per cent, with Q3

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[13] Index of supply chain pressures for India (ISPI) eased in October and November and remained below its historical average despite heightened geopolitical risks. Source: Reserve Bank of India

[14] E-way bills increased by 16.9 per cent in October 2024. GST revenues at Rs. 1.82 lakh crore rose by 8.5 per cent and toll collections expanded by 11.9 per cent during November. Petroleum products consumption growth turned positive in October after contracting for two consecutive months. Aggregate bank credit and deposits registered growth of 12.4 per cent and 11.6 per cent, respectively, as on November 15, 2024.

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

[16] Retail two-wheeler sales expanded by 24.2 per cent in October-November 2024. The demand under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) declined by 7.5 per cent in October, reflecting improvement in farm sector employment. Rural areas are recording higher FMCG sales growth than the urban areas since Q4:2023-24.

[17] Retail passenger vehicle sales increased by 11.2 per cent (y-o-y) in October-November on the back of festive demand. Domestic air passengers rose by 9.6 per cent in October 2024 and 13.6 per cent in November.

[18] Central government revenue expenditure (net of interest payments and subsidies) grew by 7.2 per cent in Q2:2024-25 and 47.1 per cent in October 2024, after contracting by 1.5 per cent in Q1:2024-25.

[19] As per the abridged half-yearly balance sheets of 1,689 listed companies, fixed assets of private manufacturing companies improved to Rs. 18.6 lakh crore (7.8 per cent y-o-y) as on end-September 2024 from Rs.18.1 lakh crore (7.0 per cent y-o-y) as on end-March 2024. As per the early results of quarterly order books, inventories, and capacity utilisation (OBICUS) survey of RBI, seasonally adjusted capacity utilisation (CU) of manufacturing sector at 74.7 per cent in Q2:2024-25 is above the long-term average of 73.8 per cent. Steel consumption rose by 9.0 per cent in October 2024, while cement production increased by 3.3 per cent. Imports of capital goods expanded by 4.1 per cent during October 2024.

[20] India's merchandise exports expanded by 17.2 per cent (y-o-y) to US$ 39.2 billion, while imports rose by 3.6 per cent to US$ 66.2 billion in October 2024. Services exports grew by 22.3 per cent and services imports expanded by 27.9 per cent in October 2024.

at 6.8 per cent; and Q4 at 7.2 per cent. Real GDP growth for Q1:2025-26 is projected at 6.9 per cent; and Q2 at 7.3 per cent. The risks are evenly balanced.

Inflation

10. Inflation increased sharply in September and October 2024[21] led by an unanticipated increase in food prices.[22] Core inflation, though at subdued levels, also registered a pick-up in October.[23] Fuel group remained in deflation for the 14th consecutive month in October.[24] In the near term, despite some softening, lingering food price pressures are likely to keep headline inflation elevated in Q3.

11. Going ahead, a good *rabi* season would be critical to the softening of the food inflation pressures. Early indications point to adequate soil moisture content and reservoir levels, conducive for *rabi* sowing. The estimates of a record *kharif* production should bring relief to the elevated prices of rice and *tur dal*.[25] Vegetable prices are also

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[21] The CPI headline inflation increased from average 3.6 per cent during July-August to 5.5 per cent in September and further to 6.2 per cent in October 2024, which was the highest in more than a year, since September 2023.

[22] The CPI food inflation surged to 8.4 per cent in September and firmed up further to 9.7 per cent in October 2024 from an average of 5.2 per cent in during July-August. As a result, the contribution of food group (with a weight of 45.9 per cent in the CPI basket) to headline inflation increased from around 68 per cent during July-August to around 74 per cent in October. A sharp pick-up in price momentum across vegetables, and oils and fats in a scenario of rising inflation in cereals, meat and fish, and fruits led the upsurge in food inflation. The price momentum in oils and fats firmed up sharply to 3 per cent in September and further to 6 per cent in October. Alongside, the momentum in vegetables increased to 3.5 per cent in September and further 8.2 per cent in October.

[23] CPI Core inflation recorded the lowest inflation of 3.1 per cent in the current series during May-June before edging up to 3.5 per cent in September and further to 3.8 per cent in October 2024. The inflation in housing increased to 2.8 per cent in October after remaining steady at 2.7 per cent since June 2024, while the inflation in personal care and effects edged up to 9 per cent in September and further to 11 per cent in October from an average of 8.2 per cent during July-August 2024.

[24] Deflation in CPI fuel narrowed to (-)1.3 per cent in September from (-)5.3 per cent in August driven by a year-on-year increase in electricity prices and a slower pace of deflation in LPG prices. In October, the rate of deflation in CPI fuel deepened to (-)1.6 per cent, reflecting a sharper decline, on a y-o-y basis, in kerosene prices.

[25] As per the 1st advance estimates of Kharif production for 2024-25 released on November 5, 2024, rice production is expected to increase by 5.9 per cent, while tur dal production is expected to be higher by 2.5 per cent in 2024-25.

expected to see a seasonal winter correction. On the upside, the evolving trajectory of domestic edible oil prices, following the hike in import duties and rise in their global prices, need to be closely monitored.[26] Manufacturing and services firms surveyed by the Reserve Bank point to firming up of input costs and selling prices in Q4:2024-25.[27] Taking all these factors into consideration, CPI inflation for 2024-25 is projected at 4.8 per cent, with Q3 at 5.7 per cent; and Q4 at 4.5 per cent. CPI inflation for Q1:2025-26 is projected at 4.6 per cent; and Q2 at 4.0 per cent. The risks are evenly balanced.

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

12. The near-term inflation and growth outcomes in India have turned somewhat adverse since the October policy. The medium-term prognosis on inflation suggests further alignment with the target, while growth is expected to pick up its momentum. Persistent high inflation reduces the purchasing power of consumers and adversely affects both consumption and investment demand. The overall implication of these factors for growth is negative. Therefore, price stability is essential for sustained growth. On the other hand, a growth slowdown – if it lingers beyond a point – may need policy support.

13. The Reserve Bank's anti-inflationary monetary policy stance has been a crucial factor in bringing about a significant disinflation. Going forward, as food price shocks wane, headline inflation is likely to ease and realign with the target as per our

[26] The FAO food price index edged up by 2 per cent on m-o-m basis in October 2024, primarily due to increase in the prices of vegetable oils, sugar, dairy and cereals. The vegetable oil price index increased (on a m-o-m basis) by 7.3 per cent in October from September, the highest pick up in prices after March 2024.

[27] Also in November, the PMI for manufacturing firms registered the fastest rate of expansion in output prices in last eleven years. Alongside, the services firms also recorded a fastest rate of expansion in output prices in close to 12 years.

projections. At present, it is necessary to draw on the flexibility provided by the neutral stance to wait for and monitor the incoming data for confirmation of the decline in inflation. The gains achieved so far in the broad direction of disinflation, notwithstanding the recent upticks, need to be preserved. At the same time, the growth trajectory and the evolving outlook also need to be monitored closely. At this critical juncture, prudence and practicality demand that we remain careful and sensitive to the dynamically evolving situation with all its complexities and ramifications. A *status quo* in monetary policy in this meeting of the MPC has thus become appropriate and essential.

Liquidity and Financial Market Conditions

14. System liquidity, as represented by the net position under the Liquidity Adjustment Facility (Net LAF), continued to remain in surplus during October-November[28] on account of higher government spending,[29] despite a significant increase in currency in circulation during the festive season and capital outflows.[30] Given these conditions, the Reserve Bank mainly conducted variable rate reverse repo (VRRR) operations to absorb surplus liquidity.[31] To alleviate temporary liquidity tightness because of large GST outflows,[32] however, fine-tuning variable rate

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[28] System liquidity, as measured by the net position under the liquidity adjustment facility (net LAF) was, on an average, in surplus of about ₹1.5 lakh crore during October-November as against ₹1.3 lakh crore during August-September 2024. In the last week of November, system liquidity was in deficit for a few days (November 26-28). As a result, banks' recourse to the marginal standing facility in October-November was lower at ₹4,794 crore than ₹6,944 crore during August-September 2024.

[29] Average government cash balances held with the Reserve Bank declined from ₹2.9 lakh crore during August-September 2024 to ₹1.65 lakh crore during October-November. The Central Government availed ways and means advances (WMA) during November 14-17, 2024

[30] Notes in circulation increased by ₹0.65 lakh crore during the period October-November.

[31] During October-November, five main and 23 fine-tuning variable rate reverse repo (VRRR) auctions (1 to 4 days maturity) mopped up surplus liquidity cumulatively amounting to ₹11.7 lakh crore.

[32] GST collection for October and November 2024 at ₹1.87 lakh crore and ₹1.82 lakh crore, respectively, were high.

repo (VRR) operations were conducted intermittently during October and November.[33] The two-way liquidity operations of the Reserve Bank ensured close alignment of the inter-bank overnight rate with the policy repo rate.[34] Transmission to the credit market has been satisfactory.[35]

15. Even as liquidity in the banking system remains adequate, systemic liquidity may tighten in the coming months due to tax outflows, increase in currency in circulation and volatility in capital flows. To ease the potential liquidity stress, it has now been decided to reduce the cash reserve ratio (CRR) of all banks to 4.0 per cent of net demand and time liabilities (NDTL) in two equal tranches of 25 bps each with effect from the fortnight beginning December 14, 2024 and December 28, 2024. This will restore the CRR to 4.0 per cent of NDTL, which was prevailing before the commencement of the policy tightening cycle in April 2022. This reduction in the CRR is consistent with the neutral policy stance and would release primary liquidity of about ₹ 1.16 lakh crore to the banking system.

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[33] During October 25 to end-November, 5 fine-tuning variable rate repo (VRR) operations of 1-6 days maturity were conducted that cumulatively injected ₹1.25 lakh crore into the banking system.

[34] The weighted average call rate (WACR) averaged 6.51 per cent during October-November as against 6.53 per cent during August-September. Rates in the collateralised segment – the triparty and market repo – was, however, much softer at 6.38 per cent and 6.40 per cent, respectively. Across the term money market segments, the yields on 3-month treasury bills (T-bills), certificates of deposit (CDs), and commercial papers (CPs) issued by non-banking financial companies (NBFCs) eased. Average yields on T-bills, CDs and CPs moderated to 6.46 per cent, 7.18 per cent and 7.54 per cent, respectively, in October-November from 6.60 per cent, 7.26 per cent and 7.68 per cent, respectively, during August - September. The 10 year G-Sec yield remained stable in October and November, despite higher domestic inflation prints and hardening US yields.

[35] 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 203 bps and 118 bps, respectively, during May 2022 to October 2024, while the weighted average domestic term deposit rate (WADTDR) on fresh and outstanding deposits of SCBs increased by 241 bps and 193 bps, respectively, during the same period.

16. Going forward, the Reserve Bank will continue to be nimble and proactive in its liquidity management operations to ensure that money market interest rates evolve in an orderly manner and the productive requirements of the economy are met.

17. During 2024-25 (April-November), the Indian rupee (INR) depreciated by 1.3 per cent largely due to pressure from strengthening US Dollar and selling pressure by foreign portfolio investors in October and November. Nevertheless, both the depreciation of the INR and its volatility was less as compared to its EME peers, reflecting India's strong macroeconomic fundamentals and improvement in external sector outlook.[36]

18. The Reserve Bank's exchange rate policy has remained consistent over the years, and it is market-determined. Its central tenet is to maintain orderliness and stability, without compromising market efficiency. Foreign exchange reserves are deployed judiciously to mitigate undue volatility, maintain market confidence, anchor expectations and preserve overall financial stability. These interventions focus on smoothening excessive and disruptive volatility rather than targeting any specific exchange rate level or band. At the same time, our efforts to deepen and modernise the foreign exchange market have yielded significant results in terms of (i) widening access and participation; and (ii) ensuring efficient price discovery.

19. Our overall approach ensures that forex reserves act as shock absorbers, safeguarding the economy from external spillovers, while supporting competitive and orderly market conditions. The flexible or market determined exchange rate regime is

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[36] On a financial year basis (April-November), the Indian rupee (INR) registered lower depreciation (-1.3 per cent) against the US dollar as compared to higher depreciation of some of its emerging market peers like Vietnamese dong (-2.1 per cent), Philippine peso (-4.2 per cent), Turkish lira (-6.7 per cent), Russian ruble (-14.1 per cent), Brazilian real (-16.6 per cent), Argentine peso (-15.0 per cent) and Mexican peso (-19.0 per cent). During 2024-25 so far (April-November), the INR was the least volatile with coefficient of variation of 0.4 per cent amongst peer EME currencies, including - Chinese yuan, Vietnamese dong, Philippine peso, Indonesian rupiah, Chilean peso and Turkish lira.

not merely a tool for managing external shocks; it is an important element of our approach to macroeconomic and financial stability. By combining market discipline with prudent intervention, we have created a system that supports stability, resilience and growth.

Financial Stability

20. The financial parameters of banks and NBFCs continue to be strong.[37] The incoming data suggests that the gap between growth of credit and deposits of scheduled commercial banks (SCBs) has narrowed with deposits keeping pace with loan growth.[38]

21. The Reserve Bank's supervision of the financial sector and its entities continues to be vigilant and proactive. Incipient signs of stress, if any, either at the systemic or entity levels, are monitored closely and proactive action is initiated. The effort is always to resolve the issues non disruptively. Continuous engagement is held over several months with the regulated entities. Only in extreme cases where sufficient corrective action is not visible, the Reserve Bank resorts to imposition of business restrictions as a last resort in the interest of consumers and financial stability.

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[37] The gross non-performing assets (GNPA) ratio of SCBs improved further and was 2.54 per cent as at end-September 2024, the lowest since March 2011. The annualised slippage ratio, which measures new NPA accretions as a percentage of standard advances, was at 1.35 per cent as at end-September 2024, as against 1.70 per cent a year ago. SMA-2 ratio, a lead indicator of building of fresh stress in the banking book, was at 0.88 per cent in September 2024, similar to the previous year figure of 0.87 per cent. On the other hand, provision coverage ratio, capital to risk-weighted assets ratio, and liquidity coverage ratio were 76.79 per cent, 16.77 per cent, and 128.59 per cent, respectively in September 2024, much above the regulatory thresholds. The ratio of net NPAs to total equity was 3.57 per cent in September 2024, the lowest ever. The annualized return on assets (RoA), return on equity (RoE), and net interest margin (NIM) stood at 1.40 per cent, 14.58 per cent, and 3.52 per cent, respectively, in September 2024.

[38] The year-on-year (yoy) growth of outstanding credit and deposit were 12.4 per cent and 11.6 per cent, respectively as of November 15, 2024.

22. To address the issues of unclaimed deposits, inoperative accounts and frozen accounts due to pendency of KYC updation, banks have been advised[39] to take necessary steps urgently to bring down the number of such accounts and make the process hassle free. Further, banks have been advised to segregate the accounts of beneficiaries of various Central/ State Government schemes through direct benefit transfer (DBT) and facilitate uninterrupted credit and utilisation of DBT amounts, without inconveniencing such vulnerable segments of customers. Progress made by individual banks in this regard will be monitored by the Reserve Bank.

External Sector

23. India's merchandise exports expanded at a 28-month high pace in October. Merchandise imports also increased for the seventh consecutive month.[40] Services exports sustained buoyancy and posted double-digit growth in Q2:2024-25 as well as in October 2024.[41] The robust services exports, coupled with strong remittance receipts,[42] are expected to keep the current account deficit (CAD) within sustainable levels during 2024-25.

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[39] Please see circular on Inoperative Accounts / Unclaimed Deposits in banks issued by the Reserve Bank of India on December 2, 2024.
https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12750&Mode=0

[40] In October 2024, India's merchandise exports grew by 17.2 per cent on a y-o-y basis to US$ 39.2 billion, whereas merchandise imports rose by 3.6 per cent to reach an all-time high of US$ 66.2 billion, resulting in a widening of the merchandise trade deficit to US$ 27.0 billion in October 2024.

[41] As per provisional figures, India's services exports grew (y-o-y) by 12.2 per cent and 22.3 per cent during Q2:2024-25 and October 2024, respectively, while services imports rose by 12.5 per cent and 27.9 per cent and net services exports grew by 11.8 per cent and 17.2 per cent, respectively, during the same period.

[42] India's inward remittances increased by 8.9 per cent (y-o-y) to US$ 29.5 billion in Q1:2024-25. Remittances to India are forecasted to reach $124 billion in 2024, up from US$ 120 billion in 2023 and are expected to rise to US$129 billion in 2025 (World Bank, June 2024).

24. On the external financing side, gross foreign direct investment (FDI) to India increased at a robust pace during the first half of the year. Net FDI, however, moderated during this period due to higher repatriations and rising outward FDI.[43] Foreign portfolio investment (FPI) inflows to EMEs have generally declined in October 2024.[44] Net FPI inflows to India stood at US$ 9.3 billion in 2024-25 so far (April-December 4), supported mainly by inflows in the debt segment. External commercial borrowings and non-resident deposits, on the other hand, witnessed higher net inflows compared to last year.[45] India's external sector remains resilient, as reflected in various key indicators where India has been consistently performing well.[46]

25. In order to attract more capital inflows, it has been decided to increase the interest rate ceilings on FCNR(B) deposits. Accordingly, effective from today, banks are permitted to raise fresh FCNR(B) deposits of 1 year to less than 3 years maturity at rates not exceeding the ceiling of overnight Alternative Reference Rate (ARR) plus

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[43] Gross foreign direct investment (FDI) inflows grew by 25.6 per cent to US$ 42.1 billion in April-September 2024-25 from US$ 33.5 billion during the same period a year ago. Net FDI inflows declined by 8.6 per cent to US$ 3.6 billion in April-September 2024-25 from US$ 3.9 billion a year ago.

[44] Net portfolio inflows into EMEs during October 2024 stood at US$ 1.9 billion as compared with US$ 33.9 billion and US$ 56.4 billion in August and September 2024, respectively (Source: Institute of International Finance). While the debt segment recorded a net inflow of US$ 27.4 billion in October 2024, there were net outflows from the equity segment to the tune of US$ 25.5 billion during the month amidst escalating geopolitical tensions, elevated policy uncertainty and rebalancing of portfolios.

[45] Net inflows under external commercial borrowings to India increased to US$ 9.2 billion during April-October 2024-25 as compared with US$ 2.8 billion a year ago. Non-resident deposits recorded a net inflow of US$ 10.2 billion in April-September 2024-25 than US$ 5.4 billion in the same period last year.

[46] 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. The import cover of reserves stood at around 11 months as on November 22, 2024, while the net international investment position (IIP) remained unchanged at 10.3 per cent of GDP at end-June 2024.

400 bps as against 250 bps at present. Similarly, for deposits of 3 to 5 years maturity, the ceiling has been increased to overnight ARR plus 500 bps as against 350 bps at present. This relaxation will be available till March 31, 2025.

Additional Measures

26. I shall now announce certain additional measures.

Expanding the reach of FX-Retail Platform through Linkages with Bharat Connect

27. The FX-Retail platform, which was launched in 2019, is now proposed to be linked with the Bharat Connect platform of NPCI. This would enable users to transact on the FX-Retail platform through mobile apps of banks and non-bank payment system providers. This will expand the reach of FX-Retail platform, enhance user experience and promote fairness and transparency in pricing with adequate safeguards.

Introduction of the Secured Overnight Rupee Rate (SORR) – a Benchmark based on the Secured Money Markets.

28. With a view to further develop the interest rate derivatives market in India and improve the credibility of interest rate benchmarks, the Reserve Bank proposes to introduce a new benchmark - the Secured Overnight Rupee Rate (SORR) - based on all secured money market transactions – overnight market repo as well as TREPS.

'Connect 2 Regulate' – An Initiative for Open Regulation

29. As part of the Reserve Bank's consultative approach in framing regulations, a new programme, namely, 'Connect 2 Regulate' will be launched under the ongoing RBI@90 commemorative events. A dedicated section in the Reserve Bank's website

will be made available for stakeholders to share their ideas and inputs on specific topics.

Introduction of Podcast Facility as an Additional Medium of Communication

30. Over the years, the Reserve Bank has expanded its communication toolkit and techniques to enhance transparency and better connect with the people. In continuance of this endeavour, the Reserve Bank proposes to add ‘podcasts’ to its communication toolkit for wider dissemination of information.

Collateral-free Agriculture Loan – Enhancement of Limit

31. The limit for collateral-free agriculture loans was last revised in 2019. Taking into account the rise in agricultural input costs and overall inflation, it has been decided to increase the limit for collateral-free agriculture loans from ₹1.6 lakh to ₹2 lakh per borrower. This will further enhance credit availability for small and marginal farmers.

Pre-sanctioned Credit Lines through UPI – Extending the Scope to Small Finance Banks

32. Credit line on UPI was launched in September 2023 and was made available through Scheduled Commercial Banks (SCBs). It has now been decided to permit Small Finance Banks also to extend pre-sanctioned credit lines through the UPI. This will further deepen financial inclusion and enhance formal credit, particularly for ‘new to credit’ customers.

Framework for Responsible and Ethical Enablement of Artificial Intelligence (FREE-AI) in the Financial Sector – Setting up of a Committee

33. The financial sector landscape is witnessing rapid transformation, enabled by technologies such as AI, tokenisation, Cloud Computing, etc. In order to harness the

benefits from these technologies, while addressing the associated risks such as algorithmic bias, explainability, data privacy, etc., a committee comprising of experts from diverse fields will be set up to recommend a Framework for Responsible and Ethical Enablement of AI (FREE-AI) in the financial sector.

AI Solutions to Identify Mule Bank Accounts – MuleHunter.AI™

34. As part of the Reserve Bank's continued efforts to prevent and mitigate digital frauds, an innovative AI / ML based model, namely, MuleHunter.AI™ has been developed by the Reserve Bank Innovation Hub (RBIH), Bengaluru. This will help the banks to deal with the issue of mule bank accounts expeditiously and reduce digital frauds.

Conclusion

35. Let me now conclude. The world today is characterised by intricate complexities and profound uncertainties. As a central bank, our job is that of an anchor of stability and confidence, which would ensure that the economy achieves sustained high growth.

36. Since the last policy, inflation has been on the upside, while there has been a moderation in growth. Accordingly, the MPC has adopted a prudent and cautious approach in this meeting to wait for better visibility on the growth and inflation outlook. At such a critical juncture, prudence, practicality and timing of decisions become even more critical. Our endeavour in the Reserve Bank has always been to implement timely and carefully calibrated measures to derive maximum impact. This will continue

to be the guiding principle for all future actions also. As Mahatma Gandhi had said and I quote: "*There is nothing that cannot be attained by patience and equanimity*". [47]

37. In the last few years, we have traversed one of the most difficult periods in the history of the Indian economy, and perhaps, in the global economy also. It was a period of relentless turbulence and jolts. As a country, we can derive satisfaction that the Indian economy has not just navigated this period of trials successfully but also emerged stronger. As we strive together towards making India a developed economy, I recall what I had said in my statement of February 8, 2023 wherein I had quoted Netaji Subhas Chandra Bose: "……..*never lose your faith in the destiny of India*".[48]

Thank you. Namaskar.

(Puneet Pancholy)
Chief General Manager

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[47] The Collected Works of Mahatma Gandhi, Volume 86.

[48] "India will be free"- Message of August 17, 1945 to Indians in East Asia - Selected Speeches of Subhas Chandra Bose, Publications Division, Ministry of Information and Broadcasting, Government of India.