Annual Report 2025- RBI (Part 1)

Introduction

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ℹ️ **Legal Framework:**

As per **Section 53(2) of the Reserve Bank of India Act, 1934**, it is **mandatory** for the RBI to submit its Annual Accounts and Annual Report to the Central Government.

This is a statutory report that means it is required by the Law to be submitted by RBI to

inform the Government of India about:

- RBI's financial performance (Annual Accounts)
- RBI's overall functioning (Annual Report) for the financial year ending **March 31, 2025**

The report is submitted to **Finance Secretary**, Ministry of Finance, Government of India, after the report is certified by RBI's **Auditors** and signed by:

- Chief General Manager-in-Charge
- Deputy Governors
- Governor

Part I: The Economy: Review and Prospects

I. Assessment and Prospects

ℹ️ This chapter covers the macroeconomic assessment of the global economy and the domestic economy, considering assessments for 2024-25 and projections for 2025-26.

A. Global Economy

1. Broad Outlook (2024 - 25)

- **In 2024,** the global economy is growing but slowly, amidst geopolitical tensions, trade barriers, and high public debt.
- **Central banks shifted to an accommodative monetary policy** by mid-2024, which resulted in **eased financial conditions** despite some market volatility caused by shifting policies.
- According to a **report by the International Monetary Fund (IMF)**, the world economy grew by **3.3% in 2024, slightly less than 3.5% in 2023. But this is still low from the 2000–2019 (2 decades) average of 3.7%.** Due to structural challenges like:
  - **Weak investment**
  - **Slow productivity growth**
  - **High debt levels.**
- **Other reasons for slow growth was:**
  - **Asian and European countries grew slowly**
  - **Geopolitical tensions**
  - **Sluggish recovery in China's consumption demand and property market.**
- Output growth in **AEs** increased slightly from **1.7% in 2023 to 1.8% in 2024.**
- Output growth in **EMDEs** slowed down from **4.7% in 2023 to 4.3% in 2024.**
- The **US dollar** stayed **strong** throughout the year, which made currencies of many developed and developing countries **weaker**.
- Global financial markets were **unstable** in 2024–25 due to:
  - High inflation in services
  - Ongoing geopolitical tensions
  - Economic fragmentation between countries.
- As inflation slowly came down from very high levels, some central banks began reducing interest rates, while others either paused or continued increasing rates due to inflation concerns.

- Global forex reserves also **increased** in 2024. This rise in reserves was partly due to valuation gains from an increase in gold prices
- The **global public debt** compared to GDP is rising due to spending during the pandemic and a slow reduction in fiscal deficits. It may reach **around 100% by 2030**.
    - It implies that many countries borrowed heavily during the pandemic to support their economies. Since there was an excess of spending over income, slowly, their **debt levels continue to grow**.
    - If global public debt reaches **100% of GDP**, it means that, on average, countries will owe as much as they earn in a whole year. It raises concerns about **repayment ability**, especially for low-income and developing countries.

Fiscal Deficit:

Fiscal Deficit is the shortfall when the government's total expenditure is more than its total income (excluding borrowings) in a financial year.

Formula:

Fiscal Deficit = Total Expenditure – (Revenue Receipts + Non-Debt Capital Receipts)

2. Inflation (2024 - 25)

- **Global inflation moderated** at **5.7% in 2024 from 6.6% in 2023**, due to falling commodity prices and delayed effects of earlier monetary tightening.
    - Global commodity prices due to **weak global demand** and **better supply conditions**.
    - **But, t**his is still **remained above pre-pandemic levels**, largely driven by **Persistent price pressures in the services sector.**
- **Food prices fell** during 2024, supported by **strong agricultural output** and **increased availability**.

- In contrast, **beverage prices rose sharply**, mainly due to **supply disruptions** in **cocoa and coffee** caused by **adverse weather**.
- **Advanced Economies** may reach their inflation targets before **emerging market economies** (EMEs). So, many central banks have started **lowering interest rates** to **support the economy**.
- **Energy prices went down in 2024** because countries outside OPEC produced more oil. This made up for the oil supply cuts by OPEC+ countries, and global oil demand was also low.
- **Metal and mineral prices went up** in 2024. This was mainly because of more demand for **copper and aluminium**, which are used in **green energy projects**, **electric vehicles**, and **power grids**.
- **Gold and silver prices also increased** in 2024. Many people invested in these metals as **safe options** during uncertain global conditions.

ℹ️ **Key term:**

- **Organization of the Petroleum Exporting Countries (OPEC):** A group of 13 oil-exporting countries, mostly from the Middle East and Africa.

  Example: Saudi Arabia, Iraq, Iran, UAE, Venezuela, etc.

- **Non-OPEC oil producers:** 10 other major oil-producing countries that are not part of OPEC but cooperate with them.

  Example: **Russia**, Mexico, Kazakhstan, etc.

So, **OPEC + Non-OPEC = OPEC+** (Total 23 countries).

3. Trade (2024 - 25)

- **Global merchandise trade recovered** modestly despite continued geopolitical issues; capital flows to emerging market economies (EMEs) remained volatile.
- Global trade volume (goods and services) growth recovered from **1% in 2023 to 3.8% in 2024.**

- **Goods**: Global trade in goods grew by **2.9% in 2024 after shrinking by 1% in 2023**, as supply chain issues reduced. However, Global trade flows are still confronted by:
    - Geo-economic fragmentation
    - Restrictive trade policies.
- **Services: Trade in services (**like tourism and online services) stayed **strong** because **people are travelling more after COVID and are still using digital services.**

ℹ️ **Key term:**

Output growth means the increase in the total production of goods and services by a country's economy over a period, usually a year. It shows how much more (or less) the economy produced compared to before.

4. Financial Market (2024 - 25)

1. **Sovereign Bond Market:** After **fall** in the H1 2024, sovereign bond yields rose again in AEs during the H2 2024 due to:
    a. Renewed inflation concerns
    b. Divergent monetary policy trajectories of major central banks.
    c. **Sovereign bond yields** in EMDEs generally **lowered due to the global rate cut cycle.**
2. **Global Equity Market:** Global equity markets inched up higher in 2024 even after volatility driven by:
    a. Concerns over **stretched valuations**
    b. **Divergent monetary policies**
    c. **Slower** pace of **disinflation**
    d. **Geopolitical** risks
    e. **Uncertainty** on the evolution of **tariff** policies

3. **Emerging Market Economies (EMEs)** received **net portfolio inflows** of **US$ 255.7 billion in 2024-25.** This amount increased compared to **US$ 220.1 billion in 2023-24.**

> ℹ️ **Key term:**
>
> **Bond yield** is the amount of money you earn from a bond, usually shown as a percentage of the bond's price. It tells you how much return or profit you get by holding that bond.

5. Brazil's G20 Presidency (2023–24)

- Brazil took over the **G20 leadership from India** and formed a trio of leadership with other countries from the Global South.
- The theme was **"Building a Just World and a Sustainable Planet."**
- Brazil's Presidency **prioritized 3 key areas:**
  - **Combating hunger, poverty, and inequality;**
  - Reforming **global governance** structures."
  - Advancing the 3 dimensions of **sustainable development –** economic, social, and environmental
- The **Brazilian** Presidency **worked on** initiatives such as:
  - Strengthening **international financial institutions**
  - Advancing **financial inclusion**
  - Enhancing **cross-border payments**
  - Promoting **cybersecurity**
  - Addressing vulnerabilities in **non-banking financial institutions (NBFIs**)
  - **Climate-related financial risks**
  - Ensuring **stability of the global financial system**.

6. Global Economy Prospects (2025-26)

- Global growth is expected to be **2.8% in 2025** and **3.0% in 2026** (down from **3.3% in 2024).**
- Developing countries (EMDEs) will grow a bit faster (around **3.7% in 2025 and 3.9% in 2026).**
- Advanced economies (AEs) will grow slower (about **1.4% in 2025, slightly better at 1.5% in 2026).**
- Inflation is expected to come down from **5.7% in 2024** to **4.3% in 2025** and **3.6% in 2026**, but some prices (like services) may stay high in some places.
- Global trade might decrease slightly in 2025 due to taxes on imports, but recent trade agreements between the US, UK, and China give hope for better trade in the future.
- High government debt by multiple countries can make financial markets unstable. This is especially risky for big economies and could affect smaller ones too.
- Other big risks include ongoing political tensions, disruptions from new technologies (like AI and cryptocurrencies), climate change, and cyberattacks. (These risks exist for domestic economy as well.)

Global Economic Outlook (Assessment + Projection):

Indicator	2023	2024	2025 (Projected)	2026 (Projected)
Global GDP Growth	3.5%	3.3%	2.8%	3.0%
AEs Output Growth	1.7%	1.8%	1.4%	1.5%
EMDEs Output Growth	4.7%	4.3%	3.7%	3.9%
Global Inflation	6.6%	5.7%	4.3%	3.6%

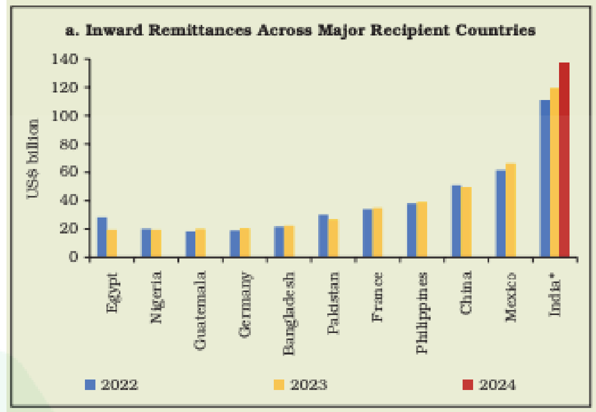
B. Indian Economy

Considering every sector below, assessment is provided for 2024-25, then prospects for 2025-26.

1. Broad Outlook (2024 - 25)

- Despite global challenges, in 2024-25, Indian economy showed resilience supported by:
    - Strong macroeconomic fundamentals
    - P**roactive policy measures**
    - **Sustained government capital expenditure**.
    - Higher household spending (consumption)
    - Better export performance.
    - **Buoyant services sector**
    - **Recovery in agricultural production (supply side)**
- Real gross domestic product (GDP) growth moderated to **6.5% in 2024-25.**
- The financial sector remained robust with double-digit credit growth and strong bank and non-bank balance sheets.
- India’s financial markets stayed **strong and stable** in 2024–25, even though the global environment was uncertain.
- The government kept working to reduce its fiscal deficit by spending money wisely and earning more through taxes. At the same time, it managed to keep the **Current Account Deficit (CAD)** low and maintained good levels of forex reserves.
- India’s foreign sector stayed strong, helped by a small trade gap and good forex reserves, even though money coming from foreign investors went up and down.
- Overall, the CAD is expected to remain well under control in 2025–26.
- Overall, liquidity in the banking system improved compared to last year.
- Global coordination on climate action is uncertain but India stayed focused on tackling climate change through both **prevention** and **adjustment**.

- India secured **39th** position among **133 economies in the Global Innovation Index 2024.**
- India remained the **top remittance recipient in 2024.** India's total **remittance** receipts stood at **US$ 137.7 billion during 2024 (on a calendar year basis).**
- Globally, India was placed **4th in terms of greenfield FDI capital investments** announced during 2024-25 after the US, France and the UK, according to FDI Markets.



*: Based on India's BoP statistics.
Source: RBI and World Bank.

ℹ️ **Key term:**

A. Current Account Deficit:

If a country **imports more than it exports** and also sends more money abroad (like interest payments or remittances out) than it receives, it ends up with a **current account deficit**.

1. **Trade Balance** = Exports – Imports of **goods and services**
2. **Net Income** = Earnings from abroad – Payments made to foreigners (like dividends, interest)
3. **Net Transfers** = Remittances received – Remittances sent

Current Account=Trade Balance+Net Income+Net Transfers

If the result is negative → **Current Account Deficit (CAD)**

If positive → **Current Account Surplus**

B. Global Innovation Index (GII)

It is an **annual ranking** that measures the **innovation performance** of countries and economies around the world.

1. **It is published by t**he **World Intellectual Property Organization (WIPO)** in collaboration with other partners like Cornell University and INSEAD.
2. To provide a **comprehensive framework** for assessing the **innovation capabilities** and **outputs** of countries.
3. It helps policymakers understand how well their countries are doing in fostering innovation.
4. **Scoring and Ranking:**
    - Countries are scored on a **scale of 0 to 100**.
    - Higher scores and rankings indicate **stronger innovation ecosystems**.

1.2 Prospects for 2025-26:

- The Indian economy looks strong and promising in 2025-26. India's real GDP growth is projected at **6.5%** for 2025-26.
- Growth is supported by:
    - Consumption demand.
    - Government investing in big projects that is capital expenditure while managing finances carefully.
    - Banks and companies having good financial health.
    - Easier access to money and credit (financial conditions).
    - The services sector staying strong.
    - More confidence among consumers and businesses.
    - Macroeconomic fundamentals.

2. Agriculture Sector (2024 - 25)

- Agriculture and allied sectors grew by **4.6%** in 2024–25, compared to **2.7%** the previous year. This improvement was due to **record foodgrain production**, full reservoirs and good weather. The **horticulture sector** (fruits and vegetables) also did better, especially onion and potato.
    - The government launched the **Digital Agriculture Mission (2021-25)** to offer modern digital services for farmers, making processes faster, more transparent, and efficient.
    - Government is promoting the use of **high-quality seeds** through various schemes to improve crop yields and make farming more climate-resilient.
    - In 2024–25, **credit to agriculture** and allied activities continued to grow in **double digits**.

2.1 Prospects for 2025-26:

- Agriculture looks positive because of expected good monsoon rains and government policies to improve productivity.
- Important government initiatives include:
    - Prime Minister Dhan-Dhaanya Krishi Yojana (support for farmers).

    - Mission to make India self-reliant in pulses (beans and lentils).
    - Program to improve vegetable and fruit production and processing.
    - National Mission on High Yielding Seeds to increase crop output.
    - Mission for Cotton Productivity.
    - Increased loan limit for farmers under the Kisan Credit Card (KCC).
- Efforts are also on to promote **organic and sustainable farming**, helping climate resilience, soil health, and biodiversity. **1 crore (10 million) farmers** will be covered under the **National Mission on Natural Farming.**

(Schemes and missions which are mentioned in Annual report, cover all of them thoroughly through scheme's pdf and PIB document. These schemes becomes highly important from ESI's perspective.)

3. Industrial Sector (2024 - 25)

- The industrial sector grew by **4.3%** in 2024–25, which is slower than before.
    - Manufacturing Accounts for **80%** of the industrial sector, its growth also slowed to **4.3%** from a high **12.3%** last year.
    - The **mining sector remained weak**, especially in the second quarter, because a longer monsoon affected mining activities.
    - **Electricity production** grew only a little, as the above-average monsoon and mild winter reduced electricity usage.
    - The **public sector** led the way in boosting investments during the year.
- The **Production Linked Incentive (PLI)** scheme supported key industries in manufacturing.
    - By November 2024, investment under PLI had reached **57%** of the total promised amount.
    - In **January 2025**, the second PLI scheme was launched for **specialty steel**.
- Growth in the **Index of Industrial Production (IIP)** also **slowed down**. Out of 23 industry groups, **17 showed growth**.

- **Industrial credit stayed strong**, mainly due to higher lending to **medium and large industries**.
  - Credit to **micro and small industries** also grew, though at a **slightly slower pace**.
  - By usage, all types of industries grew **except consumer non-durables** (i.e., products used for short periods, like food, toiletries, etc.)

3.1 Prospects for 2025 - 26

- **The industrial sector** is expected to grow well because of:
  - Increased demand
  - Effective utilization of production capacity
  - Healthy finances of companies and banks.
- Govt. support in policies like the **Production Linked Incentive (PLI) scheme** and the **National Manufacturing Mission** will help strengthen the **Make in India** initiative.
- **Construction sector** will keep doing well, helped by increased funds for housing schemes like **Pradhan Mantri Awas Yojana (PMAY)**.
- The government's **second Asset Monetization Plan (2025-30)** aims to raise **₹10 lakh crore** by selling or leasing public assets, boosting infrastructure development.

4. Services Sector (2024 - 25)

- The **services sector** made up **64.1%** of the economy's total output (GVA) and grew by **7.5%** in 2024–25.
  - **Construction work** stayed strong, reaching its highest share since 2012–13, even though overall growth slowed a bit.
  - Public administration, defence and other services (PADO) saw their highest growth in the **past 8 years** due to increased spending by both central and state governments.
  - Other private services also kept growing steadily. However, Trade and telecom growth slowed a bit.

5. Employment & Labour Market (2024 - 25)

- According to the **Periodic Labour Force Survey (PLFS)**, India's job market stayed strong during January to December 2024.
    - The share of people working in **agriculture decreased** in 2024, reversing the increase seen after the COVID-19 pandemic.
    - At the same time, **more jobs were created** in **services, construction, and trade** compared to 2023.
    - The share of **self-employed** in the workforce has been **rising steadily** since 2018-19, and the share of **casual labourers** is **declining**.
- **Labour Force Participation Rate (LFPR)** and **Worker Population Ratio (WPR)** increased to their highest levels during 2023-24 (June-July), since the PLFS began.
- LFPR rose in both **rural** and **urban** areas, mainly due to an increase in **female LFPR.**
- WPR also followed a similar pattern of increase in both rural and urban areas.
- The **Unemployment Rate (UR)** remained unchanged in 2023-24 compared to 2022-23.
- The **employment index** in the **Purchasing Managers' Index (PMI)** remained **above 50** throughout **2024-25,** for both the **manufacturing sector** and the **services sector**.
    - An index value **above 50** indicates an **expansion** in employment levels, i.e., **more jobs being create**
- The share of **regular wage/salaried employees** increased to **21.7% in 2023-24**, up from **20.9% in 2022-23**, but still lower than **23.8% in 2018-19**.

6. India's Climate Action & Green Growth (2024 - 25)

- India was ranked in the **top 10 countries** for climate action for the **6th year in a row** in the **Climate Change Performance Index (CCPI) 2025.**
- In 2024–25, India added a large amount of **renewable energy capacity**, led by **solar power**.

- Over **10 lakh households** installed **rooftop solar panels** under the **Pradhan Mantri Surya Ghar Muft Bijli Yojana**.
- The government launched major green initiatives like the **Green Steel Mission**, **Critical Minerals Mission**, and made progress under the **National Green Hydrogen Mission**.

  (Cover these missions in detail, very important for the exam)
- Clean transport was promoted through the **E-DRIVE scheme**, which supports green mobility and aims to achieve **30% electric vehicle (EV) adoption by 2030**.
- Other green steps included issuing **sovereign green bonds**, starting a **green deposits scheme**, and updating **Priority Sector Lending (PSL)** rules to give more financial support to renewable energy.

  (Cover these steps in detail, very important for the exam)

6.1 Prospects for 2025-26

- India aims to reach **100 GW of nuclear power by 2047.** Focus is on **Small Modular Reactors (SMRs)** which are smaller and cheaper to build, helping reach this goal faster.
- States are allowed extra borrowing to improve power distribution and transmission.
- More funds are allocated for the **Pradhan Mantri Surya Ghar Muft Bijli Yojana** to promote renewable energy adoption.

7. Inflation (2024 - 25)

- Inflation moved closer to RBI's target in 2024–25 due to lower production costs, better government supply management, and the delayed impact of earlier interest rate hikes.
- **Headline inflation** (overall) averaged **4.6% in 2024-25**, down from **5.4%** the year from **2023-24.**

Table II.3.1: CPI Headline Inflation – Key Summary Statistics

(Per cent)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	2	3	4	5	6	7	8	9	10	11
Mean	4.9	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.4	4.6

- **Core inflation** (excluding food and fuel) dropped to **3.5%**, during 2024-25 from 4.3% a year ago.
- In the second half of the year, **core inflation rose a bit** due to higher **international gold prices** and **increased mobile charges**.
- **Food inflation stayed high** at **6.7% in 2024-25**, because of bad weather affecting supply. It peaked at **9.7% in October 2024**, but dropped to **2.9% by March 2025**.
- Food and beverages inflation averaged **6.7%**, and it **contributed 68% to overall inflation in 2024-25**, up from 61% the year before.
- Prices of **vegetables, cereals, fruits, oils, and meat** remained **high** due to tight supply.
- **Import duty hikes** in India and **export restrictions by Indonesia** on edible oils also kept food prices increased.
- Inflation in fuel and light averaged (-) 2.5% during 2024-25, significantly lower than 1.2% a year ago.
- Electricity prices, however, increased by 6.4 per cent during 2024-25 due to tariff hikes in some states.
- Housing inflation fell from 3.9% during 2023-24 to 2.8% during 2024-25 due to subdued house rent inflation.

Sector-wise Inflation and Wage Trends (2024–25)

Inflation Type	2023–24 (%)	2024–25 (%)	Reason/Notes
A. CPI-based Inflation			
CPI for Industrial Workers (CPI-IW)	5.2	3.4	Fell due to lower fuel and core inflation
CPI for Agricultural Labourers (CPI-AL)	7.1	5.7	Declined due to lower food inflation

Inflation Type	2023–24 (%)	2024–25 (%)	Reason/Notes
CPI for Rural Labourers (CPI-RL)	6.9	5.7	Declined due to lower food inflation
B. WPI-based Inflation			
Overall WPI Inflation	-0.7 (deflation)	2.3	Rose due to higher food inflation and global metal prices
Primary Articles (22.6% weight)	3.5	5.1	Increase due to weather-driven food price pressures
Fuel and Power	—	-1.3 (deflation)	Fell because of dropping global energy prices
Manufactured Products (64.2% weight)	-1.7 (deflation)	1.7	Rose due to food products, non-ferrous metals, precious metals

C. Minimum Support Prices (MSPs)

1. In 2024–25, **MSP hikes** were:
    - **1.5% to 12.7%** for **kharif crops**
    - **2.4% to 7.0%** for **rabi crops**

7.1 Prospects for 2025-26:

- Inflation (CPI) is expected to further ease to **4.0% in 2025-26**.
- Factors which will help are the inflation outlook, **better supply chains, lower global commodity prices and expected good agricultural output.**
- Inflation falling below the target in early 2025 has increased confidence that inflation will stay near **4.0%** over the next year.

8. Monetary Policy, Interest Rate & Liquidity (2024 - 25)

- The **Monetary Policy Committee (MPC)** changed its stance from "withdrawal of accommodation" to **"neutral"** in **October 2024**.
- This allowed the RBI to be more flexible and adjust policy depending on how inflation and growth were behaving.

- In **February 2025**, the MPC cut the **repo rate** by **25 basis points (bps)** from **6.50% to 6.25%**, after keeping it unchanged for a year.

> ℹ️ **Why**
>
> Because during July–November 2024, there was more liquidity (surplus), while from December 2024–March 2025, there was a liquidity shortage (deficit).
>
> - The shortage happened due to a rise in currency in circulation (people withdrawing more cash) and the RBI's foreign exchange operations.

- On average for the year, the system stayed in **surplus**, shown by higher net absorption under the **Liquidity Adjustment Facility (LAF)** – ₹1,605 crore in 2024–25 vs ₹485 crore in 2023–24.
- To manage liquidity, the **RBI took several steps**, such as:
  - Buying and selling government bonds (**OMO** operations),
  - Doing **USD/INR swap deals**,
  - Conducting longer-term **Variable Rate Repo (VRR)** auctions,
  - **Reducing the Cash Reserve Ratio (CRR)** by **50 bps** in two steps.
- The **Weighted Average Call Rate (WACR)** – the rate at which banks lend to each other overnight – stayed about **6 basis points above the repo rate** on average during the year.

8.1 Prospects for 2025-26:

- The reduced the policy repo rate by 0.25% (25 basis points) to **6.0%** in April 2025 to support economic growth.
- The policy stance changed from **neutral to accommodative**, meaning the RBI will support easier money conditions to help growth.
- RBI will manage liquidity carefully to keep interest rates stable and ensure enough money is available for the economy's needs.

9. Fiscal Performance of Centre (2024 - 25)

- The **central government reduced its fiscal deficit** to **4.7% of GDP** in 2024–25 (revised estimate), down from **5.5% in 2023–24**, showing strong efforts toward **fiscal discipline**.
- On the **spending side**:
    - **Capital expenditure** was 3.1% of GDP in 2024-25, slightly lower than 3.2% of GDP in 2023-24.
    - **Effective Capital expenditure** grew by **5.2%**, and stood at 4.0% of GDP, on top of a **19.8% rise** last year.
        - Capex = What was planned or budgeted to spend.
        - Effective Capex = What was actually spent or achieved.
    - **Revenue expenditure** increased by **5.8%** in 2024–25.
- **Interest payments** and **outgoing on major subsidies** as % of GDP declined by **0.1% and 0.2%,** respectively, as compared to **2023-24.**
- The expenditure on **pensions and retirement benefits increased** to **0.83% of GDP in 2024-25 (RE) from 0.79%** in the previous year.
- **Grants-in-aid** to states **declined** to **1.6 % of GDP from 1.8%** during the same period.
- On the **earnings side**:
    - Gross tax revenue rose to **11.6% of GDP** in 2024-25 from 11.5% in 2023-24.
        - This increase was mainly due to strong income tax and GST collections.
    - Growth in customs duty slowed down, but Union excise duty collections improved.
    - The **net tax revenue** to the central government grew by **9.9%**, which was lower than the growth in gross tax revenue.
        - The slower growth in net tax revenue was because more tax revenue was shared with the states (tax devolution).

- **Non-tax revenue** (income from sources other than taxes) **grew by 32.2%**, helped by the Reserve Bank's surplus transfer to the government.
- Overall, **total non-debt receipts** of the Centre **grew by 12.8%, following a 13.6%** growth in 2023-24.

9.1 Prospects for 2025-26

- **Central Government Capex** is set to rise to **4.3% of GDP** in 2025–26 (from 4.0% in 2024–25).
- The **fiscal deficit** is targeted at **4.4% of GDP** for 2025–26, aiming to go below **4.5%** as per the medium-term goal.
- The government plans to reduce the **public debt-to-GDP ratio** to about **50% by March 2031**. (very important data)
- **Revenue expenditure** is budgeted to **decline to 11.0% of GDP** in 2025–26 (BE), down from **11.2%** in 2024–25 (RE), contributing to the fiscal consolidation.
- **Interest payments** are projected to rise by **12.2%**, continuing to be a major component of revenue expenditure.
- **Pension and retirement benefit expenditure** is expected to **decline by 0.06% of GDP** in 2025–26 (BE) over 2024–25 (RE).
- **Capital expenditure** is budgeted to grow by **10.1%** in 2025–26 (BE), maintaining a level of **3.1% of GDP**.
- **Grants for creation of capital assets** are estimated at **1.2% of GDP** in 2025–26 (BE), up from the previous year.
- The **Revenue Expenditure to Capital Outlay (RECO) ratio** is **4.4**, indicating improved quality of expenditure with greater focus on asset creation.
- **Gross tax revenue** is expected to reach **12.0% of GDP** in 2025–26 (BE), the **highest since 2007–08**.
- **Gross market borrowings as a percentage of GDP** are expected to **decline slightly** in 2025–26 (BE).
- **Market borrowings** and **small savings** remain the **primary sources** for financing the GFD.

10. State Finances (2024)

Provisional Data from Comptroller and Auditor General (CAG) of India (CAG – 20) States

- As per CAG data (April 2024–Feb 2025) for 20 states, the actual GFD reached 64.2% of the full-year BE, which is higher than 58% in the same period last year, indicating a faster fiscal expansion.
- For **state governments** (based on April 2024 to Feb 2025 data):
    - Their revenue growth slowed due to **lower tax income** and **fewer grants from the centre**.
    - **Spending on daily operations** (revenue expenditure) increased, but **capital spending** remained **modest**.
    - Still, overall **state fiscal deficits** are expected to stay within the target of **3.2% of GDP**.
- **RBI Support to States**
    - The **RBI increased the short-term borrowing limit (WMA)** for states and union territories from ₹47,010 crore to **₹60,118 crore** from **July 1, 2024**, based on expert recommendations.
    - RBI also revised limits under **special drawing facility (SDF)** to help states better manage **temporary cash shortages**.
    - These steps give **more flexibility to states** in handling their day-to-day finances smoothly.

10.1 Projection for 2025–26 (All States/UTs)

- **Grants-in-aid to states** are expected to grow substantially by **23.5%**, reaching **1.8% of GDP** in 2025–26 (BE).
- **States' fiscal deficit i**s expected to be **3.3% of GDP in 2025-26**, and central transfers to states are rising by **12.5%.**
- The **central assistance scheme for states' capex** is extended with a budget of ₹1.5 lakh crore.

Table II.6.3: State Government Finances 2025-26*: Key Deficit Indicators

(Per cent of GDP)

Item	2023-24	2024-25 (RE)	2025-26 (BE)
1	2	3	4
Revenue Deficit	0.3	0.6	0.2
Gross Fiscal Deficit	3.0	3.6	3.3
Primary Deficit	1.3	1.8	1.5

*: Data pertain to all states/UTs that have presented their final budgets for 2025-26.
Source: Budget documents of state governments.

- **Gross transfers to states from the Centre** are budgeted to **increase by 12.5%**, driven largely by:
  - **Centrally Sponsored Schemes**, and **Special assistance for capital expenditure**.
- The 50-year interest-free loan scheme for capex to states will continue in 2025–26, with a total outlay of ₹1.5 lakh crore.
- This represents a **20% increase** over the ₹1.3 lakh crore allocated in 2024–25 (RE), showing continued central support for state-level infrastructure investment.

11. External Trade, Capital Flows & Forex Reserves (2024 - 25)

a. External Trade:

- **Exports of goods** grew **slightly by 0.1%** in 2024–25, after falling by **3.1%** the previous year.
- **Imports**, however, rose by **6.2%**, compared to a **5.3% fall** last year.
- As a result, India's **trade deficit widened** to **US$ 282.8 billion**, up from **US$ 241.1 billion** in 2023–24. Oil deficit accounted for 43.3 per cent of the total trade deficit.

ℹ️ **Key term:**

Trade Deficit: It happens when a country **imports more goods and services than it exports**. Formula: Import - Export

- Despite this, strong **services exports** (like IT) and **remittances** (money sent home by Indians abroad) helped keep the **current account deficit (CAD)** under control at **1.3% of GDP** (compared to 1.1% a year ago).
- The expansion in merchandise exports in 2024-25 was led by growth in electronic goods; engineering goods; drugs and pharmaceuticals; rice; and readymade garments (RMG) of all textiles; while petroleum products; and gems and jewellery witnessed a contraction.
  - Exports of engineering goods accounts for 26.7% of the total merchandise exports in 2024-25.
  - Exports of drugs and pharmaceuticals, accounts for 7% of India's merchandise
    exports.
  - Petroleum, Oil and Lubric imports (25.8% of total merchandise imports).

b. **Capital Infows and Forex Reserve:**

- **Foreign investment** was volatile in 2024–25:
  - **Foreign Direct Investment (FDI)** dropped sharply to **US$ 0.4 billion** from **US$ 10.1 billion**.
  - **Foreign Portfolio Investment (FPI)** also dropped to **US$ 1.7 billion** from **US$ 41.6 billion** last year.
- Still, **FPI investments in bonds (debt segment)** were stable, with **US$ 17.4 billion inflows**.
- Foreign portfolio investors invested more in corporate bonds in 2024-25.
- But FPIs used only **15.8% of their total approved investment limits in corporate bonds by March 2025, down from 16.2% in March 2024,** because the total limits were increased.

- Around **32% of the trade credit** was raised for imports of crude oil, gold, coal and copper.
- Net inflows under **Non-Resident Deposits** increased to **US$ 16.2 billion during 2024-25 from US$ 14.7 billion a year ago.**

Table II.7.3: Flows under Non-Resident Deposit Accounts

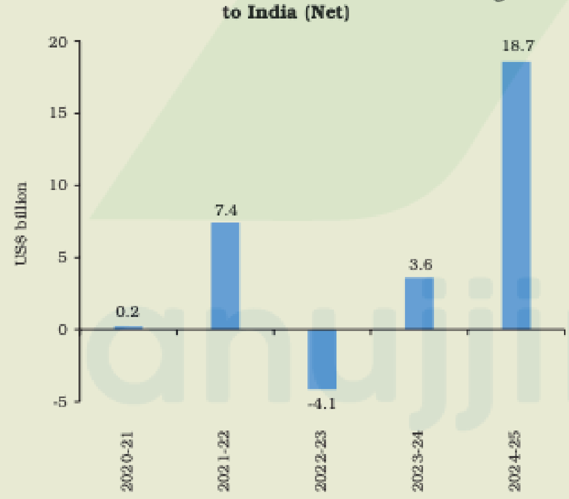
(US$ billion)

Item	2021-22	2022-23	2023-24	2024-25
1	2	3	4	6
1. Non-Resident External (Rupee) Account	3.3	2.5	4.2	4.7
2. Non-Resident Ordinary Account	3.5	4.0	4.2	4.4
3. Foreign Currency Non-Resident (B) Account	-3.6	2.4	6.4	7.1
Non-Resident Deposits (1+2+3)	**3.2**	**9.0**	**14.7**	**16.2**

Source: RBI.

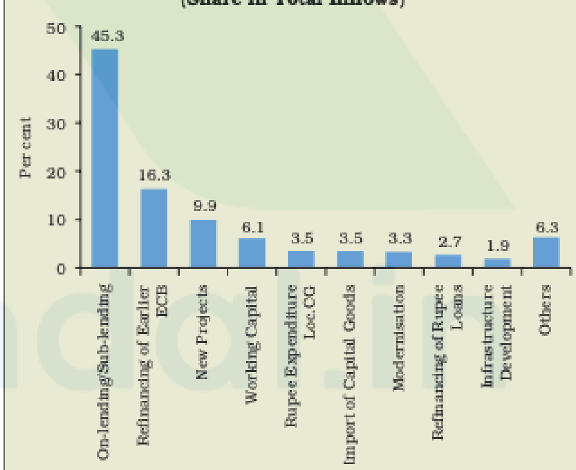
- During 2024-25, net **External Commercial Borrowings (ECBs)** inflows to India rose significantly to **US$ 18.7 billion in 2024-25 from US$ 3.6 billion in 2023-24.**

Chart II.7.26: External Commercial Borrowings to India (Net)



Source: RBI.

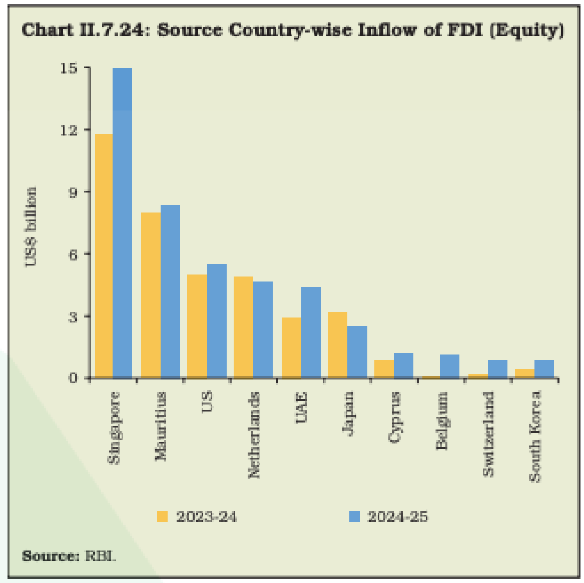
Chart II.7.27: End Use of ECBs during 2024-25 (Share in Total Inflows)



Loc. CG: Local Capital Goods.
Source: RBI.

- Still, India had **strong reserve buffers — (Forex Reserve) US$ 668.3 billion** at the end of March 2025, enough to cover **11 months of imports**, which helped handle external pressures.

- **Services sector** accounted for a major share of **FDI equity flows into India during 2024-25**, followed by **manufacturing, electricity and other energy, retail and wholesale trade, and transport.**
    - Major **source** countries: **Singapore, Mauritius, the US, the Netherlands**, and the **UAE contributed 3/4th of the FDI flows.**



- **India's outward investment** has witnessed a shift towards **developed economies**, with the average share rising to **51.1%** during 2019-2024.

- According to the **United Nations Conference on Trade and Development (UNCTAD)**, India is emerging as a major source of global FDI, ranking among the **top 20 source countries in 2023.**
    - Major **destinations** for India's outward FDI were **Singapore, the US, the UAE, Mauritius, and the Netherlands.** Financial, insurance and business services, manufacturing, and wholesale, retail trade, restaurants and hotels were main sectors for India's overseas direct investment during **2024-25.**

Table II.7.2: Foreign Direct Investment Flows

(US$ billion)

Item	2021-22	2022-23	2023-24	2024-25
1	2	3	4	6
1. Net FDI (1.1 - 1.2)	38.6	28.0	10.1	0.4
1.1 Net Inward FDI (1.1.1 - 1.1.2)	56.2	42.0	26.8	29.6
1.1.1 Gross Inflows	84.8	71.4	71.3	81.0
1.1.2 Repatriation/Disinvestment	28.6	29.3	44.5	51.5
1.2 Net Outward FDI	17.6	14.0	16.7	29.2

Source: RBI.

- During 2024-25, FPI registered a net inflow amounting to US$ 1.7 billion as compared to net inflows of US$ 41.6 billion during FY24.
- The debt segment witnessed steady FPI inflows amounting to US$ 17.4 billion.
- Equity FPI flows, however, recorded net outflows of US$ 15.7 billion during the same period as against net inflows of US$ 25.3 billion in 2023-24.
  - FPI equity outflows were largely contributed by oil, gas and consumable fuels, FMCG, automobile, and power sectors, while inflows were primarily recorded in the financial services, telecommunication, healthcare, and consumer services sectors.
- Even as investment by FPIs in the debt market increased, the utilisation remains below the available investment limits.
- As at end-March 2025, 15.7% of the limits in central government securities (G-secs) were utilised (18.5 per cent as at end-March 2024).
- India's **external debt to GDP ratio** remained modest at **19.1% as at end December 2024 (18.5 per cent as at end-March 2024), the lowest among emerging market peers.**
  - The share of short-term debt (residual maturity) in total external debt declined to 42.4% as at end-December 2024.

Table II.7.4: External Vulnerability Indicators (End-March)

(Per cent, unless indicated otherwise)

Indicator	2013	2022	2023	2024	End-December 2024
1	2	3	4	5	6
1. External Debt to GDP Ratio	22.4	19.9	19.1	18.5	19.1
2. Ratio of Short-term Debt (Original Maturity) to Total Debt	23.6	19.7	20.6	19.1	19.4
3. Ratio of Short-term Debt (Residual Maturity) to Total Debt	42.1	43.2	44.0	43.4	42.4
4. Ratio of Concessional Debt to Total Debt	11.1	8.3	8.2	7.4	6.8
5. Ratio of Reserves to Total Debt	71.3	98.1	92.7	96.7	88.6
6. Ratio of Short-term Debt (Original Maturity) to Reserves	33.1	20.0	22.2	19.7	22.0
7. Ratio of Short-term Debt (Residual Maturity) to Reserves	59.0	44.0	47.4	44.9	47.8
8. Reserve Cover of Imports (in Months)*	7.0	11.8	9.6	11.3	10.5
9. Debt Service Ratio (Debt Service to Current Receipts)	5.9	5.2	5.3	6.7	6.6
10. External Debt (US$ billion)	409.4	618.8	623.9	668.8	717.9
11. Net International Investment Position (NIIP) [US$ billion]	-326.7	-358.1	-367.1	-361.2	-364.5
12. NIIP/GDP Ratio	-17.8	-11.6	-11.3	-10.1	-9.8
13. CAB/GDP Ratio	-4.8	-1.2	-2.0	-0.7	-1.3

*: Based on merchandise imports of latest four quarters, published in BoP statistics.
Source: RBI and Government of India.

- Forex reserves continue to provide a strong buffer for mitigating external risks and spillovers.
- As at end-December 2024, forex reserves were more than two times of short-term external debt.
- Moreover, forex reserves as at end March 2025 provided a cover of 11 months of merchandise imports for 2024- 25.
- Net international investment position (IIP) to GDP ratio also recorded an improvement as at end-December 2024.

11.1 Prospects for 2025-26

- **India's exports** face uncertainty due to a **global trade slowdown**, triggered by geopolitical conflicts, geoeconomic fragmentation (splitting of the global economy into regional blocks) and policy uncertainty globally.
- As trade barrier rises globally, India is continuing efforts to **promote the use of INR** in **international trade**.
- **Export Growth Drivers** are Electronics, pharma, engineering goods, and agriculture.

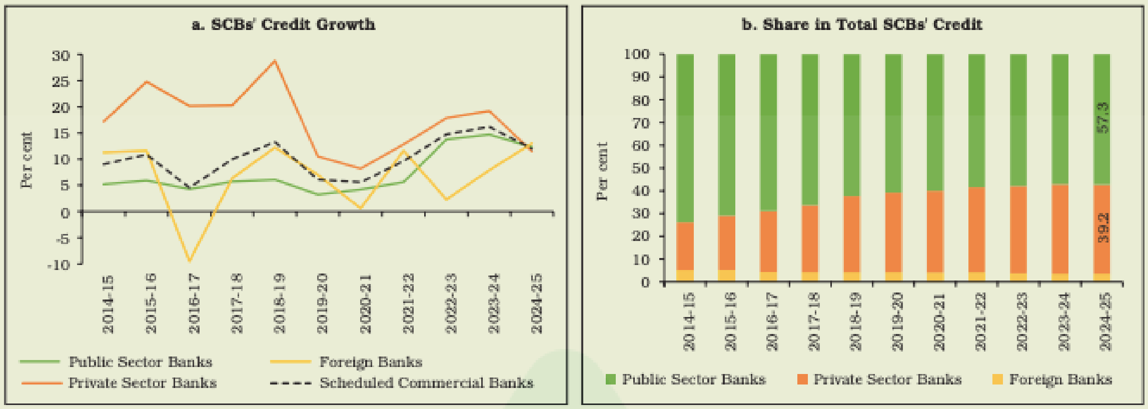
- Growth may get boost from **e-commerce and digital trade innovations.**
- **CAD is e**xpected to remain **within sustainable levels** in 2025–26, supported by **services, trade surplus** and **inward remittances.**
- **External Capital Flows** are expected to strengthen further with the inclusion of Indian government bonds in global bond indices.
- The enhancement of FDI limits in the insurance sector, raised from **74% to 100% i**n the Union Budget 2025–26.
- In 2024–25, India signed MoUs for **local currency settlement** with the **Maldives** and **Mauritius**, showing progress in making INR more usable for global transactions. Also, increasing participation in global value chains (GVCs),

12. Banking Sector, NBFCs, UCBs & Regulations (2024 - 25)

a. **Scheduled Commercial Banks (SCBs)**

- The **credit-to-deposit ratio** of banks slightly increased, meaning banks gave out more loans compared to the deposits they received.
- **Credit growth (loans given)** was faster than **deposit growth**, though the gap between them narrowed as banks offered **higher interest rates on term deposits.**
- Banks issued more **certificates of deposit (CDs)** because loans grew strongly, though the difference between how much banks lent and how much they received in deposits became smaller.
- Total CDs issued in 2024-25 were **₹11.9 lakh crore,** more than **₹8.7 lakh crore** in the previous year.
- Overall, bank credit grew in double digits in 2024–25, mainly driven by the **retail and services sectors.**
- Among bank groups, **public sector banks (PSBs)** showed **higher credit growth** than **private banks**, and **PSBs continued to hold the largest share of total bank credit**.

Chart II.4.10: Bank Group-wise Credit



Source: RBI.

- The **quality of bank assets improved**:
  - Both **gross NPA (GNPA)** and **net NPA (NNPA)** ratios decreased.
- Banks' **provision coverage ratio (PCR)** remained high, showing they have enough buffers against bad loans.
- Profitability indicators like **Return on Assets (RoA)** and **Return on Equity (RoE)** were strong.
- **Net Interest Margin (NIM)** became lower. **Capital and liquidity levels** stayed well above regulatory limits.
- **Stress tests** showed that even in bad situations, banks would still meet the required capital levels.
- **Personal loans** grew by **14%** down from 17.6% the previous year, with **housing loans,** making up about **half** the personal loan segment—leading the growth.
- **Vehicle loans** and **other personal loans** grew by **8.6%** and **8.4%**, respectively, by end-March 2025.

b. **Non-Banking Financial Companies (NBFCs)**

- **NBFC credit grew in double digits** by the end of December 2024, though **unsecured loan growth slowed**.
- NBFCs showed **better asset quality**, stronger profits, and maintained a **good capital adequacy ratio**.

- From **April 1, 2025**, the **RBI reduced risk weights** on bank lending to NBFCs, making it easier and cheaper for them to get funds.
- Fresh Commercial Papers (CP) issuances rose to ₹15.7 lakh crore during 2024-25 from ₹13.8 lakh crore, last year. This increase happened because of steady demand and new RBI rules on NBFCs.

c. **Urban Cooperative Banks (UCBs)**

- Credit growth of UCBs improved in 2024.
- UCBs' financial performance also got better due to **stronger capital** and **lower GNPA** compared to last year.

12.1 Prospects for 2025-26

Banking Sector

- There is a growing need for active **interest rate risk management**, covering both **trading** and **banking book risks**, due to the **moderation in Net Interest Margins (NIMs)**.
- The RBI will also focus on ensuring the **availability of accessible and affordable banking services** for all sections of society, particularly targeting the **agriculture sector and MSMEs**.
- A **Unified Lending Interface (ULI)** has been started through the **RBIH** to enhance credit access, and lower costs for borrowers in agriculture, dairy, and MSME segments.

Non-Banking Financial Companies (NBFCs)

- NBFCs continue to exhibit **high dependence on bank funding** despite recent moderation.
- There is a need for **greater diversification of funding sources**.
- The **scale-based regulatory framework** is aimed at improving **governance and risk management** across the NBFC segment.

13. Regulatory and Supervisory Reforms (2024 - 25)

The RBI introduced **several new guidelines** to match global best practices and improve the governance and risk management with operational strength and resilience.

a. **Key changes included:**

- Rules for **small finance banks (SFBs)** to become **universal banks**,
- Aligning rules for **housing finance companies (HFCs)** and **NBFCs**,
- Enhancing **cyber and operational risk management**.

b. **Key supervisory steps taken by RBI included:**

- Creating an **Advanced Supervisory Analytics Group** to use **AI and machine learning** in monitoring financial entities.
- Strengthening **international cooperation** with foreign regulators to maintain global financial stability.
- Developing a **Supervisory Data Quality Index (sDQI)** to track and improve how well banks report risk-related data.
- Issuing a **Prompt Corrective Action (PCA)** framework for **Urban Cooperative Banks (UCBs)** to take early steps in case of financial stress.
- Increasing oversight of **cyber risks**, using both **onsite and offsite inspections**.

13.1 Prospects for 2025-26

- The RBI aims to make the financial system more **resilient, safe, sound, and inclusive** through initiatives in: Regulation, Supervision, FinTech, Payment systems, Customer protection and Financial inclusion.
- **Technology** will be leveraged to ensure the system is **secure, accessible, affordable, and efficient**.
- The **PRAVAAH portal**, launched in May 2024, has become **mandatory from May 1, 2025**, for regulated entities (REs) to submit applications to the RBI.
- **Supervisory Framework:**
    - Focus will be on **early identification of risks**, addressing **root causes of vulnerabilities**, and applying **consistent supervisory standards** across financial entities.

- The RBI will also implement recommendations of the **inter-regulatory Working Group** to enhance **cybersecurity** across supervised entities by standardising **cyber resilience guidelines.**

14. CBDC, Digital Payments, UPI, Cyber Security and Fraud (2024 - 25)

a. **Central Bank Digital Currency (CBDC)**

- The **CBDC-Retail (e₹-R)** pilot expanded during the year to include **offline payments** and **programmable features**.
- By **March 2025**, the pilot included **17 banks** and had reached **60 lakh users**.
- RBI also allowed **some non-banking companies** to provide **CBDC wallets**.
- The **CBDC-Wholesale (e₹-W)** version also expanded, now including **4 standalone primary dealers (SPDs)** for broader usage.

b. Growth in Digital Payments

- **Digital payments** in India grew significantly in 2024–25:
  - **34.8% growth** in the number of transactions (volume).
  - **17.9% growth** in the total money value of those transactions.
- The **Unified Payments Interface (UPI)** gave India a **global lead** with **48.5% share** in all **real-time digital payments** worldwide.

c. Payments Vision 2025

- The RBI followed its plan under the **Payments Vision 2025**, focusing on **inclusion and accessibility**.
- A new feature called **Delegated Payments** was launched: (UPI Circle)
  - It allows one person (primary user) to give permission to another person (secondary user) to make **UPI payments on their behalf**, within a set limit.
- To make payments **more accessible**, all payment providers were told to **adjust their systems** so that people with **disabilities** can use them more easily.

d. Cyber Security & Fraud Control

- The **Central Payments Fraud Information Registry (CPFIR)** was expanded to cover **more types of banks**, improving the tracking of fraud cases.
- **Non-bank payment system operators (Payment service providers)** were asked to put in place strong systems to identify risks, monitor cyber threats, and follow proper **governance and monitoring mechanisms**.
- To tackle rising digital payment frauds, the **RBI proposed a new secure internet domain** for Indian banks called **'bank.in'** to help detect cyber frauds and to reduce **losses** for users.
- The RBI also plans a similar domain for **non-bank financial entities** called **'fin.in'**.

14.1 Prospects for 2025-26

- The RBI will expand the scope of ongoing pilots in **e₹-Retail and e₹-Wholesale**, introducing new use cases and features.
- Technological enhancements will also be made to the **Account Aggregator Framework.**
- The RBI is exploring the launch of **CBDC pilots for cross-border payments** on both bilateral and multilateral bases.
- As **Payments Vision 2025** concludes in 2025-26, RBI will initiate the drafting of a **new Payments Vision document** to build on the progress of the past decade and provide a roadmap for further innovation in the payments ecosystem.
- A **survey on the usage of digital payments** will be conducted to support evidence-based policymaking and guide the development of digital payments landscape.
- To combat payment-related frauds, the RBI is planning to launch a **Digital Payments Intelligence Platform** that will use **advanced technologies** for detection and prevention.

15. India's AI Ecosystem Development (2024 - 25)

- India is actively building its own **AI ecosystem** to promote self-reliance and innovation.

- Key initiatives include the **IndiaAI Mission** and setting up **3 Centres of Excellence (CoEs)** focused on: **Healthcare, Agriculture and Sustainable cities.**
- India is also growing its **semiconductor manufacturing sector** through the **India Semiconductor Mission**, to support AI in electronics.

15.1 Prospects for 2025-26:

- The budget for Science and Technology has more than **doubled** in 2025-26.
- The government is also working on developing AI technologies like **large language models (LLMs)** and other specialized AI tools.

16. FinTech & Technology Monitoring (2024 - 25)

- RBI launched the **FinTech Repository**, which collects important details about **FinTech companies and their technologies**.
- Alongside, it launched the **EmTech Repository** for **regulated financial entities (REs)** to report how they use technologies like: AI and ML, Cloud computing etc.
- Both platforms are **secure, web-based tools** managed by the **Reserve Bank Innovation Hub (RBIH)**.

FinTech Repository: A centralized database capturing detailed information about FinTech companies operating in India, including both regulated and unregulated entities.

Purpose:

- To gather insights into FinTech activities, products, technologies, and financials.
- To assist in formulating informed regulatory policies.

EmTech Repository: A repository focusing on the adoption of emerging technologies by RBI-regulated entities such as banks and Non-Banking Financial Companies (NBFCs).

Purpose:

- To monitor the implementation of technologies like Artificial Intelligence (AI), Machine Learning (ML), Cloud Computing, Distributed Ledger Technology (DLT), and Quantum Computing.
- To support the development of appropriate regulatory frameworks.

Both repositories are managed by the **Reserve Bank Innovation Hub (RBIH)**,

17. Cross-Border Payments & Financial Inclusion (2024 - 25)

- India joined **Project Nexus**, a global project to enable **instant cross-border retail payments**.
    - The goal is to connect India's payment system with those of **Malaysia, the Philippines, Singapore, and Thailand**, making cross-country payments faster and easier.
- The RBI's **Financial Inclusion Index (FI-Index)** rose from **60.1 in March 2023** to **64.2 in March 2024**. This shows improved **access, usage, and quality** of financial services across India.
    - Most of the improvement came from higher **usage of financial services** by people.

ℹ️ Extra Info:

A direct question from Financial Inclusion Index was asked in phase 1 of 2024 examination, static, asking the 3 parameters and factual, considering the highest contribution. Cover such initiatives and indexes appropriately for both the phases.

- The **Financial Literacy Week (FLW) 2025** was held from **Feb 24–28**, focusing on the theme:

  👉 **"Financial Literacy – Women's Prosperity" -** It aimed to spread financial awareness, especially among **women**.

17.1 Prospects for 2025-26:

A review of the **FI-Index** will be conducted during **2025-26** to assess progress and inform future strategies for financial inclusion.

18. Financial Market

- India's financial markets stayed mostly **stable** in 2024–25.
- Government bond yields fell due to multiple factors such as the inclusion of Indian bonds in global bond indices, lower fiscal deficits, falling crude oil prices, and the start of the interest rate easing cycle.
- The stock market rose strongly in the first half but dropped in the second half.
- Interest rates in the money market stayed steady and moved in line with the availability of liquidity in the system.
- The **daily money market trading increased by 10% to ₹5.5 lakh crore in 2024-25**
- Most trading happened in the secured part (collateralised) of the money market, while the **unsecured call/notice money stayed at about 2%.**
- In 2024-25, corporate bond yields went down, similar to government bond yields.

- The average daily trading volume of corporate bonds in the secondary market increased to **₹7,645 crore in 2024-25 from ₹5,722 crore the previous year.**
- New corporate bonds issued on domestic stock exchanges increased during 2024-25.
- **More funds were also raised through overseas corporate bond issuances**.
- Most corporate bonds were issued through private placements, making up **99.2% of total funds raised domestically.**

18.1 Prospects for 2025-26

- Indian stock markets are expected to remain stable, helped by strong economic fundamentals and fair valuations.
- **Primary market activity** (IPOs, FPOs) is expected to grow again as investor sentiment improves, although short-term **volatility** may continue.

19. Consumer Protection & RBI's 90th Anniversary (2024 - 25)

- The **RBI-Integrated Ombudsman Scheme**, which handles customer complaints, was further **improved** to make it more **efficient and user-friendly**.
- The **RBI celebrated its 90th year** with a year-long series of **events and activities**.
- The celebration was called **RBI@90**, reflecting on the **legacy of the past nine decades** and preparing for the future vision, **RBI@100**.

II Economic Review

A. Real Economy

The starting part of this chapter highlights the **"real economy"** which is covered above in broad outlook of both, Global and Domestic Economy. Here we will be digging into the deeper concepts with the help of charts, tables and figures.

1. **Aggregate Demand (Yearly) and Real GDP growth (Quarterly):**

India's total demand in the economy (measured by real GDP) grew by **6.5% in 2024–25**, compared to **9.2% in the previous year**. (At last in chart of Real GDP)

- People's spending and exports grew faster this year.
- But investment in things like buildings and machinery grew more slowly.

Looking at quarterly growth:

Q1 (April–June)	GDP grew by **6.5%**.
Q2 (July–Sep)	Growth slowed to **5.6%.**
Q3 (Oct–Dec)	Grew again by **6.2%**.

Table II.2.1: Real GDP Growth

(Per cent)

Component	2020-21	2021-22	2022-23	2023-24	2024-25
1	2	3	4	5	6
I. Total Consumption Expenditure	**-4.6**	**9.8**	**7.0**	**5.9**	**7.1**
Private	-5.3	11.7	7.5	5.6	7.6
Government	-0.8	0.0	4.3	8.1	3.8
II. Gross Capital Formation	**-10.6**	**25.4**	**3.5**	**7.3**	**5.8**
Gross Fixed Capital Formation	-7.1	17.5	8.4	8.8	6.1
Change in Stocks	-76.4	525.4	24.3	53.4	4.3
Valuables	29.9	32.5	-16.9	14.4	1.0
III. Net Exports					
Exports	-7.0	29.6	10.3	2.2	7.1
Imports	-12.6	22.1	8.9	13.8	-1.1
IV. GDP	**-5.8**	**9.7**	**7.6**	**9.2**	**6.5**

Source: NSO.

1.1 Consumption:

- Growth in **Private Final Consumption Expenditure (PFCE)**: The biggest part of total demand **grew** by **7.6% in 2024-25.** Most of this increase in spending came from rural areas.
- It means people are spending more compared to the previous year.
- Even though urban spending slowed down a bit. Private consumption now makes **up 56.7% of the real GDP**.
- Government spending **grew** by a modest **3.8% in 2024-25**, slower than the **strong 8.1% growth** seen in 2023-24.
- Exports grew faster than imports, so net exports added positively to GDP growth.

ℹ️ **PFCE** is basically how much people spend on goods and services for their use, and it's the largest part of the total demand in the economy.

1.2 Investment and Savings:

- The share of total investments in the economy (measured by Gross Capital Formation or GCF as % of GDP) **fell to 31.4% in 2023-24** from **32.6% in 2022-23**.

  👉 This decline happened **because foreign investment (net capital inflow)** reduced — it **dropped** from 2% to **0.7% of GDP.**

- In 2024-25, **gross fixed capital formation (GFCF)** — which includes investment in things like buildings, machinery, infrastructure — **grew by only 6.1%**, down from **8.8% in the previous year**.

  👉 This slowdown matched a **fall in government spending on capital projects**, which reduced by **2.7%** (after growing over 31% the previous year).

- Total saving in the country (as % of Gross National Disposable Income or GNDI) remained at **30.3% in 2023-24**, mainly due to lower fiscal deficit (less borrowing by the government).

ℹ️ **Key terms:**

Gross National Disposable Income (GNDI) is the **total income available to a country** for spending or saving.

It includes:

- **Gross National Income (GNI)** → income earned by residents (within and outside the country)

  plus

- **Net transfers from abroad** (like remittances, foreign aid)

It shows how much income the country's people and government can actually use.

- **Household debts increased** to **6.1% of GNDI**.

  👉 But their **gross financial savings** also rose to **11.2%**, leading to a small improvement in **net household financial savings** (now **5.1%** of GNDI from **4.9%** earlier).

- The **gap between savings and investment** got smaller in 2023-24.

  👉 This means India **relied less on foreign capital** to fund its investments.

Table II.2.2: Financial Saving of Household Sector

(Per cent of GNDI)

Item	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
1	2	3	4	5	6	7	8	9	10	11
A. Gross Financial Saving	**9.9**	**10.7**	**10.4**	**11.9**	**11.8**	**11.4**	**15.2**	**10.9**	**10.7**	**11.2**
of which:										
1. Currency	1.0	1.4	-2.1	2.8	1.4	1.4	1.9	1.1	0.9	0.4
2. Deposits	4.8	4.6	6.3	3.0	4.2	4.3	6.2	3.5	4.1	4.5
3. Shares and Debentures	0.2	0.2	1.1	1.0	0.9	0.5	0.5	0.9	0.8	0.9
4. Claims on Government	0.0	0.5	0.7	0.9	1.1	1.3	1.3	1.1	0.8	1.1
5. Insurance Funds	2.4	1.9	2.3	2.0	2.0	1.7	2.8	2.0	2.0	1.9
6. Provident and Pension Funds	1.5	2.1	2.1	2.1	2.1	2.2	2.5	2.3	2.3	2.4
B. Financial Liabilities	**3.0**	**2.7**	**3.0**	**4.3**	**4.0**	**3.8**	**3.7**	**3.8**	**5.8**	**6.1**
C. Net Financial Saving (A-B)	**6.9**	**7.9**	**7.3**	**7.5**	**7.8**	**7.6**	**11.6**	**7.2**	**4.9**	**5.1**

GNDI: Gross National Disposable Income.
Note: Figures may not add up to total due to rounding off of numbers.
Source: NSO and RBI staff estimates.

2. **Aggregate Supply (2024–25)**

- **Real Gross Value Added (GVA)** which measures the value of goods and services produced in the economy – **grew by 6.4%** in 2024–25. This is **lower than 8.6%** growth in the previous year.
- The govt. announced an increase in minimum support prices (MSP) for major kharif and rabi crops for 2024-25 in a range of **1.4 to 12.7%,** ensuring a return of at least 50% over the cost of production.
- The overall public stock of foodgrains held by the Food Corporation of India (FCI) stood
  at
  749 lakh tonne (as at end-March 2025).

2.1 Renewable Energy Sector

- Renewable power (including large hydro) now makes up **20% of total electricity generation**.
- As of **March 2025**, India's **renewable energy capacity** reached **220.1 GW** — that's **46.3% of total installed capacity**.

2.2 Research and Development (R&D) Expenditure Trends

- R&D spending is vital for **innovation**, **technological progress**, and **higher productivity** at both the firm and national level.
- In **India**, the **R&D expenditure as a percentage of GDP**:
    - Increased **marginally** from **0.61% in 1995–96** to **0.64% in 2020–21**.
- India's share in global R&D expenditure was 2.1% in 2000.
    - Increased to **2.6% in 2023**, as per the **World Intellectual Property Organization (WIPO), 2024**.
- **Prospects**: India wants to increase its R&D spending to catch up with countries like China (2.4%), Korea (4.8%), and Malaysia (1%).

B. Money and Credit

1. RBI Balance Sheet (B/S) & Reserve Money Trends:

ℹ️ **Key terms:**

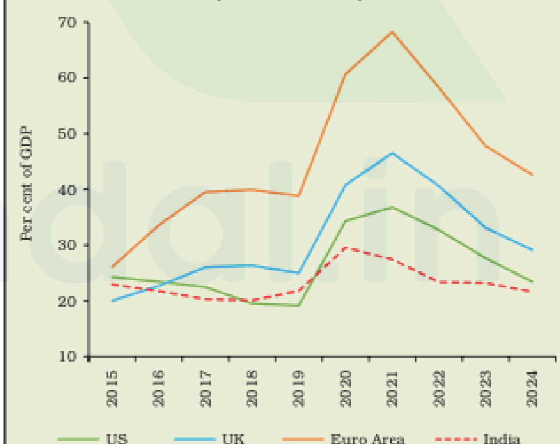
Reserve Money (RM) is the total amount of money liabilities shown in the RBI balance sheet.

Apart from monetary liabilities, the balance sheet also includes:

- **Risk buffers** and **revaluation accounts** which form the major part of **net non-monetary liabilities (NNML)**.
  - These are funds set aside by the RBI to absorb unexpected losses (like currency value changes or market shocks).
  - **Revaluation accounts** record gains/losses from changes in the value of foreign currency, gold, or securities.
  - **NNML =** Total liabilities – Monetary liabilities (like currency in circulation and bank deposits with RBI)
- **Surplus liquidity** kept by banks with the RBI using **reverse repo** and **Standing Deposit Facility (SDF)**.

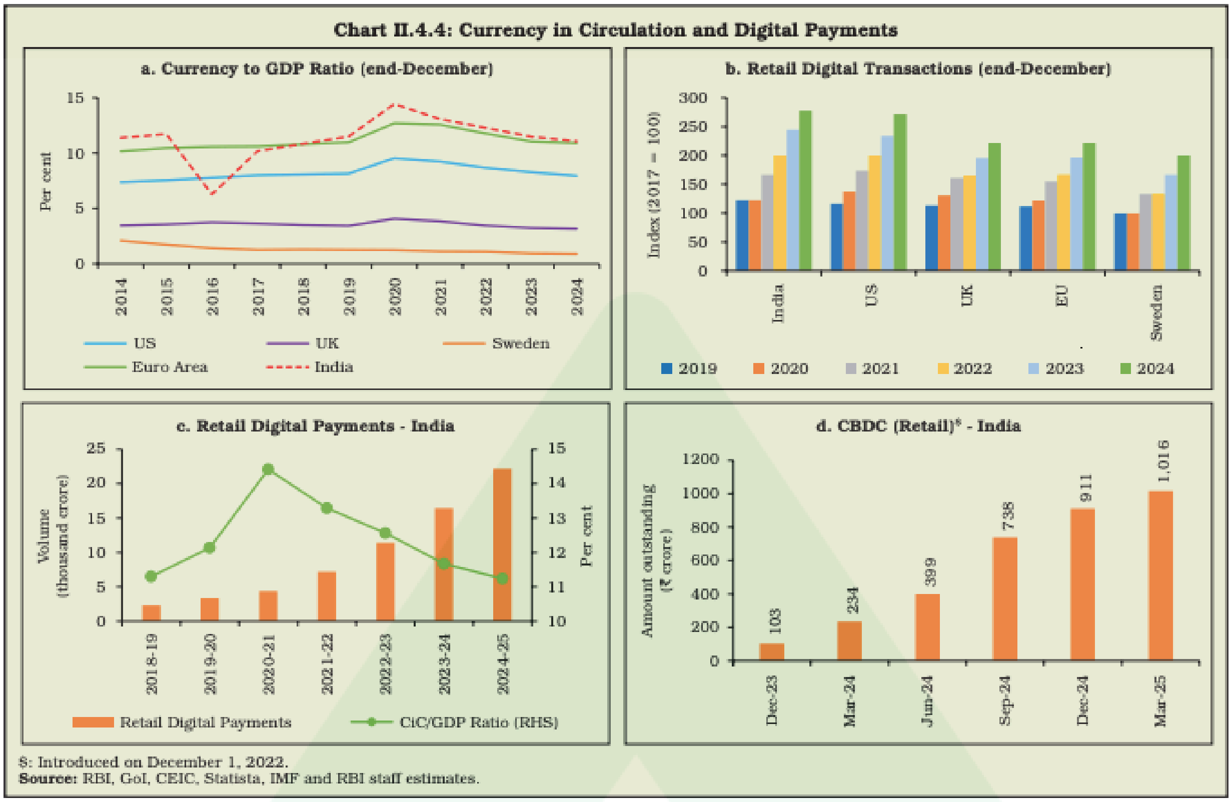
- The RBI's balance sheet size declined to **22.8% of GDP by end-March 2025**, down from **23.5% a year earlier**, reflecting a trend seen in other major economies. (Chart at right)
- Reserve Money (RM) **grew** by **5.8% in 2024–25**, after adjusting for the first-round impact of the **Cash Reserve Ratio (CRR) change**, compared to **6.7% in the previous year.**

Chart II.4.2: Central Bank Balance Sheet Size (end-December)



Source: RBI, FRED (St. Louis Fed), BoE, IMF, CEIC, GoI and RBI staff estimates.

1.1 Currency in Circulation and Digital Payments



- The **Currency in Circulation (CiC)**, which accounts for **76.9% of RM**, grew by **5.8%** in 2024–25, up from **4.1% a year earlier**, largely because of the withdrawal of ₹2000 notes.
- **Bankers' deposits with the RBI** (CRR) comprise **20.8% of RM,** declined by **6.5%.**
  - However, when adjusted for the CRR cut, these deposits **increased by 4.4%**.
- The **currency-to-GDP ratio** declined further with the rising adoption of **digital payments** and **central bank digital currency (CBDC)**.
- During 2024–25, **retail digital payments** increased by **17.9% in value** and **35% in volume**.

1.2 On the asset side of Reserve Money (RM), there are two main parts:

- **Net Foreign Assets (NFA)** – money held from foreign sources

- **Net Domestic Assets (NDA) –** money from inside the country
  - In **2024–25**, the RBI's **NFA went up by ₹2.8 lakh crore**.
  - In **2024–25**, the **RBI gave foreign currency (like US dollars)** to authorised dealers (such as banks and money changers) by **selling ₹2.9 lakh crore worth** of it.
  - This helps in controlling the **rupee's value** if it is weakening (falling) against the dollar. Selling dollars can **support the rupee**.
  - In the previous year (2023–24), the RBI had instead **bought foreign currency worth ₹3.4 lakh crore—**that means it took dollars from the market and gave rupees. This usually helps **prevent the rupee from getting too strong**.
  - The **gold share in NFA increased** from **8.3% to 12%** by March 2025, because **global gold prices rose**.
  - Also, the RBI gave **more money to the government** by **buying government bonds (G-secs)** in early 2025. This was done to **add liquidity** (cash) into the system.

1.3 Money Supply

Table II.4.1: Monetary Aggregates

Item	Outstanding as on March 21, 2025 (₹ lakh crore)	Growth Rate^ (per cent, y-o-y)		
		2022-23	2023-24	2024-25
1	2	3	4	5
I. Reserve Money (RM)	48.4*	9.7 (7.4)	6.7 (6.7)	3.3 (5.8)
II. Money Supply (M_3)	272.1	9.0	11.2	9.6
III. Major Components of M_3				
III.1. Currency with the Public	36.2	7.9	4.3	5.9
III.2. Aggregate Deposits	234.8	9.1	12.3	10.1
IV. Major Sources of M_3				
IV.1. Net Bank Credit to Government	81.4	11.5	5.7	11.2
IV.2. Bank Credit to Commercial Sector	186.4	14.4	15.6	11.8
IV.3. Net Foreign Assets of the Banking Sector	59.8	-0.6	12.2	8.0
V. Money Multiplier (Ratio)	5.7			

*: Data for RM pertain to March 28, 2025.
^: Data for RM and M_3 relate to last Friday and last reporting Friday of the financial year, respectively.
Note: 1. Figures in parentheses indicate growth in RM adjusted for the first-round impact of CRR changes.
2. Data are provisional.
Source: RBI.

- **Broad money (M3)** includes currency with the public and bank deposits.
- It grew by **9.6%** by March 21, 2025, slower than **11.2%** last year.
- This growth mainly came from an increase in **bank deposits**, which rose faster than cash with the public for the third year in a row.
- The **M3 to GDP ratio** stayed nearly the same as last year.
- On the sources side, the main reason for M3 growth was the rise in **bank credit to the commercial sector**, which increased by **11.8% in 2024-25**.
- **Bank credit to the government** also rose by **11.2% in 2024-25**, up from 5.7% last year.
- Banks held **10.3% extra SLR securities** (government bonds) as of March 21, 2025.
- **Net foreign assets** of the banking system also increased, following RBI's rise in foreign assets.

C. General Government Finances

ℹ️ **General Government** is the combined financial entity of the **Central Government** (Union government) and all the **State Governments** plus local bodies (like municipalities and panchayats) and other government-controlled entities.

- In 2024-25 (BE), the general government's Gross Fiscal Deficit (GFD) moderated to **7.6% of GDP**, down from **8.8% in 2023-24 (RE)**.
- The general government debt stood almost steady at **81.9% of GDP in 2024-25 (BE)** compared to **81.8% in 2023-24 (RE)**.
- External liabilities of the Centre remained low, at **2.5% of GDP** in 2024-25.
- Fiscal consolidation was supported by an increase in tax revenues, which rose to **18.8% of GDP in 2024-25 (BE)** from **18.1% in 2023-24**.
- Total expenditure as a % of GDP moderated slightly to **30.0% in 2024-25 (BE)** from **30.2% in 2023-24**.
- Despite containing overall expenditure, capex increased marginally to **5.9% of GDP in 2024-25 (BE)** compared to **5.8% in 2023-24**.
- According to IMF projections for 2025 to 2030, India's general government debt is expected to **decline over time**, in contrast to many emerging market and advanced economies.
- The overall fiscal balance of the general government is also projected to **improve significantly** during this period.

Question:

Q.1) Recently, the RBI released its Annual Report, for the year 2024-25, As per Section 53(2) of the Reserve Bank of India Act, 1934, it is mandatory for the RBI to submit its Annual Accounts and Annual Report to the Central Government. Consider the following statements regarding domestic economy as per the Annual Statement and mark the correct option as right answer:

1. **Real gross domestic product (GDP) growth moderated to 6.5% in 2024-25.**
2. **India secured 39th position among 133 economies in the Global Innovation Index 2024.**
3. **India was ranked in the top 10 countries for climate action for the 6th year in a row in the Climate Change Performance Index (CCPI) 2025.**
4. **The central government reduced its fiscal deficit to 2% of GDP in 2024–25 (revised estimate), down from 5.5% in 2023–24,**
   [a] 1 Only
   [b] 2 Only
   [c] 1 and 2
   [d] 3 and 4
   [e] 1, 2 and 3

Solution: [e]

The central government reduced its fiscal deficit to 4.7% of GDP in 2024–25 (revised estimate), down from 5.5% in 2023–24, showing strong efforts toward fiscal discipline.

Q.2) The RBI's Financial Inclusion Index (FI-Index) rose from 60.1 in March 2023 to ____ in March 2024. This shows improved access, usage, and quality of financial services across India. Which component of the Financial Inclusion Index contributed majorly in the growth?

[a] 64.2; Usage
[b] 78; Access
[c] 100; Quality
[d] 90; Usage
[e] 87; Quality

Solution: [a]

Answer: Most of the improvement came from higher usage of financial services by people.