Economy, financial system stable despite global headwinds: RBI

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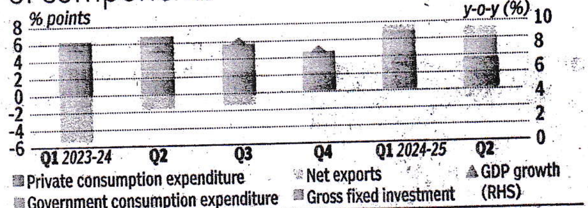
The Indian economy and the financial system remain strong and stable, underpinned by sound macroeconomic fundamentals, healthy balance sheets of banks and non-banks, and low volatility in financial markets despite some worries about global spillovers, according to the RBI's *Financial Stability Report*.

In his foreword to the FSR, RBI Governor Sanjay Malhotra said the economy's prospects are expected to improve after the slowdown in the pace of economic activity in the first half of 2024-25.

This is notwithstanding the uncertainties shrouding the global macro-financial environment.

GDP growth and weighted contribution of components



Source: National Statistical Office (NSO) and RBI staff calculations.

GROWTH DRIVERS

The report (a half-yearly publication, with contributions from all financial sector regulators) said that despite the deceleration in real GDP growth to 6 per cent in H1 (April-September) FY25 from 8.2 per cent and 8.1 per cent in H1 and H2 (October-March) of FY24 respectively, the structural growth drivers remain intact.

Real GDP growth is expected to recover in Q3 (October-December) and Q4 (January-March) of FY25, supported by a pick up in domestic drivers, mainly public consumption and investment, strong service exports and easy financial conditions, it added.

On the downside, the softness in industrial activity, especially in the manufacturing sector, moderation in urban demand, global spillovers and protective trade and industrial policies pose risks to the outlook.

On retail inflation, the report observed that with some softening of food prices and favourable base effect, it came down to 5.5 per cent in November (from 6.2 per cent in October). Going forward, the disinflationary effect of a bumper kharif harvest and the rabi crop prospects are expected to soften prices of foodgrains.

MACRO STRESS TESTS

The FSR said the soundness of scheduled commercial banks has been bolstered by strong profitability, lower NPAs and adequate capital & liquidity buffers. Further, returns on assets and equity are at decadal highs while the gross non-performing asset ratio is at multi-year lows.

Macro stress tests show that SCBs' aggregate capital would remain much higher than the minimum regulatory requirement of 9 per cent in March 2026 under adverse scenarios. For NBFCs, stress tests show that even under a high-risk scenario, their Capital to Risk-Weighted Assets Ratio would remain much above the regulatory minimum of 15 per cent.

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