

# Confidence is high, outlook is bright: Malhotra on economy

But stress tests show GNPA ratio of banks may rise under baseline scenario

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The prospects of the Indian economy are expected to improve following the recent slowdown in GDP growth, with consumer and business confidence remaining high, said Sanjay Malhotra, governor of the Reserve Bank of India.

“Notwithstanding the uncertainties shrouding the global macro-financial ethos as it unfolds, prospects for the Indian economy are expected to improve after the slowdown in the pace of economic activity in the first half of 2024-25,” said Malhotra in the foreword of the December 2024 edition of the RBI’s Financial Stability Report, published on Monday.

This was Malhotra’s first commentary on the Indian economy since

assuming the charge as RBI governor earlier this month. GDP growth in the second quarter (July-September) of the current financial year decelerated to 5.4 per cent, significantly below market expectations.

“Consumer and business confidence for the year ahead remains high, and the investment scenario is brighter as corporations step into 2025 with robust balance sheets and high profitability,” he said.

The report highlighted that, despite the recent deceleration, structural growth drivers remain robust. It said real GDP growth is expected to recover in Q3 and Q4 of 2024-25 supported by pick up in domestic drivers, mainly public consumption and investment, strong service exports and easy financial conditions.

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## WHAT RBI SAID



- Structural growth drivers remain intact
- GDP growth likely to recover in Q3 and Q4 of FY25 amid pickup in domestic drivers, especially public consumption and

investment

- Disinflationary effect of a bumper kharif harvest and rabi crop prospects likely to soften foodgrain prices
- Near-term risks have eased, but stretched valuations, high debt, geopolitical tensions, and emerging tech risks persist for the medium term

“Consumer and business confidence for the year ahead remains high and the investment scenario is brighter”

**SANJAY MALHOTRA**  
Governor, Reserve Bank of India



# RBI's focus remains firmly on maintaining the stability of financial institutions

Among the downside risks, the report cited softness in industrial activity, particularly in the manufacturing sector, moderation in urban demand, global spillovers, and protective trade and industrial policies.

On inflation, the report noted that softening food prices and base effects had brought the headline inflation rate down to 5.5 per cent in November, although core inflation rose by 64 basis points since May 2024, reaching 3.7 per cent in November. "Going forward, the disinflationary effect of a bumper kharif harvest and positive rabi crop prospects are expected to soften foodgrain prices," it stated, while also warning that the rising frequency of extreme weather events could pose risks to inflation dynamics.

Malhotra stressed that the RBI's focus remains firmly on maintaining the stability of financial institutions and ensuring systemic stability to support a higher growth trajectory for the Indian economy. "We continue to secure and anchor public trust and confidence to support India's aspirational goals. We remain committed to developing a



**RBI Governor Sanjay Malhotra stressed that the bank's focus is on ensuring systemic stability to support a higher growth trajectory for the economy**

modern financial system that is customer-centric, technologically leveraged, and financially inclusive," he said.

On the Indian financial sector, Malhotra noted that the financial system is bolstered by robust earnings, low levels of impaired assets, and strong capital buffers. Stress test results, he

said, indicate that the capital levels of both the banking system and the non-banking financial companies (NBFCs) sector will remain well above the regulatory minimum, even under adverse stress scenarios.

The stress test results of banks on asset quality indicated that the aggregate GNPA (gross non-performing assets) ratio of 46 banks may rise from 2.6 per cent in September 2024 to 3 per cent in March 2026 under the baseline scenario, and further to 5.0 per cent and 5.3 per cent, respectively, under adverse scenario 1 and adverse scenario 2. Stress tests in the previous edition of FSR showed gross NPA from all SCBs may improve to 2.5 per cent by March 2025 under the baseline scenario.

Commenting on the global landscape, Malhotra observed that the global economy demonstrates resilience in the face of formidable headwinds stemming from political and economic policy uncertainties, ongoing conflicts, and an increasingly fragmented international trade and tariff environment.