

Financial Stability in Unstable Times

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Financial Stability in Unstable Times: RBI's Assessment of the Indian Economy

Context:

The **Reserve Bank of India (RBI)** released its **Financial Stability Report (FSR)** for June 2025 amid ongoing global economic uncertainty. The report assesses the **resilience of India's financial system**, evaluates potential risks, and provides insights for policymakers. Despite global headwinds, India continues to act as a key driver of global growth.

About Financial Stability Report (FSR)

- **Published by:** Reserve Bank of India (RBI)
- **Frequency:** Twice a year - in **June and December**
- **Purpose:**
 - To assess the **health and stability** of the Indian financial system
 - To identify and monitor **systemic risks**
 - To guide **policy actions** for ensuring financial resilience

Key Features:

- **Covers:** Banks, NBFCs, cooperative banks, mutual funds, and other intermediaries
- **Stress Testing:** Assesses banks' ability to withstand adverse economic scenarios

- **Policy Guidance:** Offers inputs for maintaining macro-financial stability
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Key Highlights from June 2025 Report

1. India: A Global Growth Engine

- Despite global challenges, **India continues to drive global economic growth**
 - Growth is supported by:
 - **Strong domestic demand**
 - **Sound macroeconomic fundamentals**
 - **Prudent fiscal and monetary policies**
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2. GDP Growth Outlook

- **Real GDP growth for FY2026** is projected at **6.5%**
 - However, growth is slightly constrained due to:
 - **Global economic uncertainty**
 - **Disruptions in international trade**
 - **Elevated geopolitical tensions**
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3. External and Climate-Linked Risks

- Rising external threats include:
 - **US tariffs**

- **Fragmentation of global trade**
 - Climate-related risks:
 - Weather shocks affecting agriculture, inflation, and growth
 - **Geopolitical unpredictability** further intensifies global economic volatility
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Inflation and Monetary Policy

- **May 2025 CPI inflation** stood at **2.8%** – **lowest since February 2019**
 - Well within the RBI's target range of **4% ± 2%**
 - RBI expresses confidence in maintaining **durable price stability** under the **Flexible Inflation Targeting (FIT)** framework
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Resilience of Indian Financial System

1. Scheduled Commercial Banks (SCBs)

- SCBs are in **strong health**, backed by:
 - **Multi-decadal low NPAs**
 - **Robust capital adequacy**
 - **Healthy earnings**
 - **Stress tests** confirm banks can withstand severe economic shocks
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2. Non-Banking Financial Companies (NBFCs)

- Exhibit:

- **Sizable capital buffers**
 - **Improving asset quality**
 - **Strong profitability**
 - Contribute positively to credit flow and financial inclusion
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3. Insurance and Mutual Funds

- **Insurance sector** maintains a **solvency ratio** well above regulatory minimum
 - **Mutual funds and clearing corporations** show high resilience to market stress
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4. Corporate Sector

- Indian corporates have:
 - **Deleveraged balance sheets**
 - **Sustainable profitability**
 - Remain a pillar of **macroeconomic and financial stability**
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Supportive Financial Conditions

- **Favourable monetary policy stance** has eased financial conditions
 - **Low market volatility** supports credit flow and investment
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Global Financial Risks

- **Global financial system faces elevated risks**, including:
 - **High public debt burdens**
 - **Tech-driven disruptions**
 - **Climate change vulnerabilities**
 - **Ongoing geopolitical conflicts**
 - **April 2025 market turbulence** exposed fragile asset markets and high sensitivity to shocks
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Systemic Risk Assessment

- **Systemic Risk Survey (May 2025)** findings:
 - All major risk categories assessed as '**medium**'
 - **92% of respondents** expressed **confidence** in India's financial system
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Conclusion: Need for Vigilance

- The RBI emphasizes:
 - **Policy vigilance and regulatory agility**
 - Need to adapt to **structural economic shifts**
 - Continuous monitoring of **emerging global and domestic risks**
- As global uncertainty rises, preserving **India's financial stability** is crucial for sustaining growth and investor confidence