Overview

The Financial Stability Report (FSR) is a half-yearly publication, with contributions from all financial sector regulators. It presents the collective assessment of the Sub Committee of the Financial Stability and Development Council on current and emerging risks to the stability of the Indian financial system.

Global Macrofinancial Risks

Elevated economic and trade policy uncertainties are testing the resilience of the global economy and the financial system. Multilateral agencies have downgraded global growth forecasts largely reflecting trade disruptions and heightened volatility. Financial markets remain volatile, especially core government bond markets, driven by shifting policy and geopolitical environment. Alongside, existing vulnerabilities such as soaring public debt levels, excessive risk taking in the non-banking financial sector[1] and elevated asset valuations have the potential to amplify fresh shocks. As countries confront varying trade-offs between growth and inflation, monetary authorities are charting divergent policy trajectory. Emerging market economies face significant challenges from headwinds emanating from escalating trade tensions, prolonged and intensified geopolitical tensions, and spillovers from advanced economies.

Domestic Macrofinancial Risks

Despite an uncertain and challenging global economic backdrop, the Indian economy remains a key driver of global growth, underpinned by sound macroeconomic fundamentals and prudent macroeconomic policies. Since India's growth is mainly driven by buoyant domestic demand, it remains relatively insulated from the global headwinds. The Indian economy continues to grow at a healthy pace, which coupled with steadily moderating inflation, is aiding macroeconomic and financial stability. The domestic financial system is exhibiting resilience fortified by healthy balance sheets of banks and non-banks. Financial conditions have eased supported by accommodative monetary policy and low volatility in financial markets. The strength of the corporate balance sheets also lends support to overall macroeconomic stability. While the economy and the financial system are relatively well positioned to withstand tariff-induced shocks, risks from global spillovers and escalation in geopolitical conflicts remain a key concern.

Financial Institutions: Soundness and Resilience

The soundness and resilience of scheduled commercial banks (SCBs) are bolstered by robust capital buffers, multi-decadal low non-performing loans and strong earnings. Furthermore, macro stress test results showed that SCBs' aggregate capital levels will continue to remain above the regulatory minimum even under adverse stress scenarios.

The capital position of the urban cooperative banks (UCBs) strengthened, while that of the non-banking financial companies (NBFCs) remained well above the regulatory minimum. The consolidated solvency ratio of the insurance sector, both life and non-life segments, remained above the minimum prescribed threshold limit. Stress test results of mutual funds and clearing corporations affirm their resilience to shocks.

[1] International Monetary Fund (2025), "Global Financial Stability Report: Enhancing Resilience amid Uncertainty", April.

Regulatory Initiatives and Other Developments in the Financial Sector

Globally, financial sector regulators in most major economies have implemented measures to strengthen the financial system by bringing key reforms in liquidity management, credit risk regulation and securitisation practices. Furthermore, they are stepping up efforts to safeguard the financial network against cyberattacks and technological failures by enhancing surveillance mechanisms and establishing standardised incident-reporting frameworks. Regulators continue to assess climate-related risks to the financial system by developing standards to integrate climate objectives into broader financial stability assessments.

Domestic regulators are actively implementing a series of regulatory reforms aimed at enhancing the stability, transparency and inclusiveness of the financial system in line with global best practices. These initiatives focus on combating financial and digital fraud, promoting liquidity resilience, regulating digital lending and safeguarding retail investors.

Assessment of Systemic Risk

According to the latest round of the Reserve Bank's systemic risk survey (SRS) conducted in May 2025, all major risk groups remain in the 'medium risk' category. Respondents remained optimistic about the soundness of the domestic financial system, with 92 per cent expressing higher or similar level of confidence in the Indian financial system. Around two-thirds of the respondents expressed decreasing confidence in the stability of the global financial system. Geopolitical conflicts, capital outflows and reciprocal tariff/trade slowdown were identified as major near-term risks to domestic financial stability.