

## FINANCIAL STABILITY REPORT: ECONOMY

**NEWS:** Indian economy remains a key driver of global growth: RBI report

### WHAT'S IN THE NEWS?

The RBI's Financial Stability Report (July 2025) highlights India's strong macroeconomic fundamentals, low inflation, and resilient financial institutions despite global uncertainties. Stress tests and systemic surveys confirm that banks, NBFCs, and other sectors remain well-capitalized and stable.

### Context: Financial Stability Report (FSR), July 2025

- The **RBI's July 2025 FSR** highlights that **India continues to be a major global growth driver**, despite the challenges posed by **global economic uncertainties, geopolitical tensions, and climate-related risks**.
- The report reflects the **collective assessment** of the Indian financial system's **stability, risks, and resilience**.

### What is the Financial Stability Report (FSR)?

- **Published by:** Reserve Bank of India (RBI)
- **Frequency:** **Twice a year** – typically in **June** and **December**
- **Purpose:**
  - To assess the **current and emerging risks** to India's financial system.
  - To present findings of **stress tests, macro assessments, and expert surveys**.
- **Collaborative Input:** Prepared with inputs from all major **financial sector regulators** in India.

### Institutional Backbone: Financial Stability and Development Council (FSDC)

#### 1. Establishment and Structure

- **Formed in 2010** as a **non-statutory apex body** by the Government of India.
- Created in response to the **2008 global financial crisis** to ensure coordinated oversight.

#### 2. Chairperson

- **The Union Finance Minister**

#### 3. Key Members

- Heads of major financial regulators:
  - **RBI, SEBI, IRDAI, PFRDA**

- **FMC (Forward Markets Commission)** – now merged with SEBI
- **Finance Secretary**, Secretaries from the Ministry of Finance
- **Expanded in 2018** to include additional financial and regulatory officials for broader policy coordination.

#### 4. Key Functions

- **Maintain financial stability** and prevent systemic risk
- **Facilitate inter-regulatory coordination** across sectors
- Promote **financial inclusion** and **literacy**
- Oversee **macroprudential supervision** and address systemic vulnerabilities
- Encourage the **development of financial markets and institutions**

#### Key Highlights of the FSR July 2025

##### A. Macroeconomic Stability and Growth Prospects

- India continues to be a **key global growth driver**.
- **GDP growth projection** for FY 2025–26: **6.5%**, driven by:
  - Strong domestic demand
  - Prudent fiscal and monetary policies
  - Healthy corporate and banking fundamentals
- **Inflation Outlook:**
  - Consumer Price Index (CPI) fell to **2.8% in May 2025**, the **lowest since February 2019**
  - Down from **3.2% in April**, reflecting improved **price stability**

##### B. Strength of the Financial System

- **Banking and Non-Banking Financial Companies (NBFCs)** are financially sound:
  - **High capital buffers**
  - **Low NPA (Non-Performing Asset) ratios**
  - **Strong profitability**
- **Corporate Sector:**
  - Balance sheets are robust

- Debt levels are manageable
- Supporting overall **macroeconomic resilience**

## C. Stress Test Results and Sectoral Resilience

### 1. Scheduled Commercial Banks (SCBs)

- Results from **macro stress tests** show SCBs can **withstand adverse economic shocks**.
- They remain **well-capitalized** and **financially resilient** under stress scenarios.

### 2. Non-Banking Financial Companies (NBFCs)

- Continue to exhibit **improving asset quality** and **solid earnings**
- Maintain **sizable capital buffers**, reinforcing systemic stability

### 3. Mutual Funds, Clearing Corporations, and Insurance Sector

- These sectors show **regulatory compliance** and **strong solvency ratios**
- No signs of **systemic liquidity stress** observed

## D. Systemic Risk Survey (SRS) – July 2025 Findings

- The SRS is conducted as part of the FSR to gather expert views from:
  - Market participants
  - Financial institutions
  - Academics and policymakers

### 1. Risk Perception Categories Assessed

- Global Risks
- Financial Risks
- Macroeconomic Risks
- Institutional Risks
- General Risk

### 2. Confidence in the System

- **92% of respondents** expressed **high or unchanged confidence** in the domestic financial system

### 3. Identified Risk Concerns

- **Short-Term Risks:**

- **Geopolitical tensions** (e.g., war, trade disruptions)
- **Capital outflows** due to rising interest rates in developed economies
- **Global trade slowdowns** impacting exports
- **Persistent Risk:**
  - **Rising global public debt** flagged as a major long-term concern
  - Poses risks to **global financial stability** and interest rate environments

#### **Conclusion: Overall Financial Health**

- The report concludes that India's financial system is:
  - **Stable, well-regulated, and resilient**
  - Supported by **healthy macroeconomic fundamentals, robust financial institutions, and coordinated regulatory oversight**
- The RBI and FSDC remain vigilant to **emerging global and domestic risks** and are prepared to act with **macroprudential tools** as needed.

**Source:** <https://www.thehindu.com/business/indian-economy-remains-a-key-driver-of-global-growth-rbi-report/article69756308.ece>