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GIST: Financial Stability Report (FSR) June 2025 released by the Reserve Bank of India (RBI)

PRESS RELEASES

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RBI releases the Financial Stability Report, June 2025

Today, the Reserve Bank released the June 2025 issue of the Financial Stability Report (FSR), which reflects the collective assessment of the Sub-Committee of the Financial Stability and Development Council (FSDC) on the resilience of the Indian financial system and risks to financial stability.

Highlights:

- Elevated economic and trade policy uncertainties are testing the resilience of the global economy and the financial system.
- 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 and elevated asset valuations have the potential to amplify fresh shocks.
- 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.
- 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.
- The soundness and resilience of scheduled commercial banks (SCBs) are bolstered by robust capital buffers, multi-decadal low non-performing loans ratio and strong earnings.
- Results of macro stress tests affirm that most SCBs have adequate capital buffers relative to the regulatory minimum even under adverse stress scenarios. Stress tests also validate the resilience of mutual funds and clearing corporations.
- Non-banking financial companies (NBFCs) remain healthy with sizable capital buffers, robust earnings and improving asset quality.
- The consolidated solvency ratio of the insurance sector also remains above the minimum threshold limit.

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1 Chapter I: Macro financial Risk

Based on the June 2025, here are the key highlights and insights related to India's macrofinancial risks and banking system resilience:

1.1 1. Global Spillover Risks

Elevated uncertainty due to trade tensions, geopolitical conflicts, and public debt remains a critical concern.

A 100 basis point slowdown in global growth could reduce India's growth by 30 bps, highlighting India's exposure to global shocks.

1.2 2. Domestic Macroeconomic Conditions

GDP growth for FY2025-26 is projected at 6.5%, same as FY2024-25, driven by rural/urban demand and robust capex.

CPI inflation reached a 6-year low of 2.8% in May 2025, and is expected to undershoot the 4% target at the margin, aided by easing food and commodity prices.

The current account deficit (CAD) was at 0.6% of GDP in FY2024-25, indicating manageable external vulnerability.

Forex reserves stood at USD 697.9 billion, covering over 11 months of imports.

1.3 3. Banking Sector Soundness

Gross NPA (GNPA) ratio of Scheduled Commercial Banks (SCBs) is at a multi-decadal low of 2.3%, and Net NPA at 0.5% as of March 2025.

RBI stress tests project:

GNPA could rise to 2.7% under baseline, and up to 5.6% under severe stress by March 2027.

Capital adequacy may decline from 17.2% to 14.2%, but remains above the regulatory 9% even in adverse scenarios.

Common Equity Tier-1 (CET1) ratio projected at 15.2% (baseline) and 12.5% (adverse) – again, comfortably above the minimum 5.5%.

1.4 4. Banking Sector Challenges

Net Interest Margins (NIMs) face pressure due to:

EBLR-linked loans resetting faster than deposit rates.

Rise in high-cost term deposits and certificates of deposit (CDs) relative to low-cost CASA deposits.

Credit growth has slowed to single digits, with unsecured personal loans and NBFC lending showing sharp deceleration.

Unsecured retail loan GNPAs rose to 1.8%, notably higher in private banks.

Slippages remain elevated, especially in credit cards and personal loans.

1.5 5. NBFCs, Mutual Funds, and Insurance

NBFCs continue to report strong capital buffers, improved asset quality, and robust earnings.

Stress tests confirm mutual funds and clearing corporations are resilient under adverse scenarios.

Insurance sector solvency remains well above regulatory threshold.

1.6 6. Capital Markets and Corporate Bonds

Corporate bond issuances touched a record ₹9.9 trillion in FY25, pushing the outstanding stock to ₹53.6 trillion.

Despite the primary surge, secondary market turnover was low, averaging 3.8% of outstanding value.

Spreads widened by 20–30 bps due to tight liquidity and global uncertainties, despite softening yields.

1.7 7. Forex and External Sector

INR witnessed two-way volatility, though exchange rate indicators suggest overall stability.

India's external indicators remain robust, with low short-term debt ratios, stable REER, and declining EMP (exchange market pressure).

1.8 Conclusion

The RBI's FSR June 2025 underscores that India's financial system remains resilient, supported by strong capital buffers, improved asset quality, and sound macroeconomic fundamentals. However, external spillovers, credit deceleration, and liability-side shifts in banks remain key watchpoints over the medium term.

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2 Chapter II Financial Institutions: Soundness and ResilienceIGlobal Risks and Spillovers:

Elevated economic and policy uncertainties, geopolitical tensions, and trade disruptions are increasing global financial market volatility.

RBI estimates that a 100 bps global growth slowdown could reduce India's GDP growth by 30 bps.

2.1 India's Economic Resilience:

India remains a global growth driver with 6.5% projected GDP growth in FY26.

Sound macroeconomic fundamentals and prudent fiscal-monetary policies have supported stability.

2.2 Inflation Outlook:

Food inflation risk is favorable; imported inflation risk is low due to softening global prices.

Overall, headline inflation is expected to remain within target, though geopolitical risks remain a concern.

2.3 External Sector:

Current account deficit (CAD) is manageable at 0.6% of GDP.

FX reserves remain strong, contributing to macro-financial stability.

2.4 II. Banking Sector: Soundness and Resilience (Chapter 2 Highlights)

2.4.1 1. Capital, Credit, and Deposits

Deposit Growth:

SCBs' deposits grew at 10.7% YoY in FY25, driven largely by term deposits over CASA deposits.

Credit Growth:

Slowed to 9.6% YoY (as of June 13, 2025) vs. >20% in 2024.

Personal loans and services sectors are still the biggest drivers but have seen broad-based deceleration.

Public Sector Banks (PSBs) outpaced Private Banks in credit growth for the first time in over a decade.

2.4.2 2. Asset Quality

GNPA and NNPA Ratios:

GNPA: 2.3% (multi-decade low)

NNPA: 0.5%

Provision Coverage Ratio (PCR): 76.3%

Unsecured Retail Loans:

Showed weakening asset quality: GNPA at 1.8% for unsecured loans vs. 1.2% for overall retail.

Private banks faced higher slippages in unsecured personal loans.

2.4.3 3. Sectoral Asset Quality:

Agriculture sector remains the most stressed with highest GNPA and stressed advances.

Personal loan GNPAs remained stable across categories.

Large borrowers' GNPA share reduced to 37.5% of total GNPAs from 3.8% (Sept 2023) to 1.9% (March 2025).

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2.4.4 4. Capital Adequacy and Profitability

CRAR (Capital to Risk-Weighted Assets Ratio):
Rose to a record 17.3% (March 2025)
CET1 ratio: 14.6%
Profitability:
PAT (FY25): ↑16.9% YoY; led by PSBs (↑31.8%)
Net Interest Margin (NIM) declined slightly due to rising cost of funds and shift towards higher-cost term deposits.
RoA: 1.4%; RoE: 13.6%

2.4.5 5. Stress Test Results: Macro & Sensitivity

2.4.5.1 *a) Macro Stress Tests (2025–2027)*

Under baseline, CRAR expected at 17.0%, GNPA to rise marginally to 2.5%
Under adverse scenario 1 (geopolitical risk):
CRAR drops to 14.2%
GNPA increases to 5.6%
Under adverse scenario 2 (global slowdown):
CRAR at 14.6%, GNPA at 5.3%
No bank falls below regulatory minimum CRAR of 9% or CET1 of 5.5% under any scenario.

2.4.5.2 *b) Sensitivity Analysis*

Credit Shock (2 SD increase in GNPA):
GNPA jumps to 7.9%
CRAR drops to 13.5%; CET1 falls to 11.0%
3 banks (6.1% of system assets) may breach CRAR norms.
Credit Concentration Risk:
Default by top 3 borrowers causes 90–130 bps dip in CRAR.
System-wide CRAR remains above 9% in all simulations.
Interest Rate Risk:
A 250 bps rise in yields would cut CRAR by 115 bps.
Impact on HTM book could lead to 313 bps dip, yet no bank would breach minimum CRAR/CET1.
Equity Risk:
A 55% fall in stock markets would cause just 55 bps dip in CRAR.

2.5 Conclusion: Sectoral Stability Outlook

The Indian banking sector is well-capitalized, profitable, and resilient to multiple stress scenarios. Asset quality is at its best in decades, though retail unsecured loans pose some emerging risks.

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3 Chapter III Regulatory Initiatives in the Financial Sector

3.1 I. Global Regulatory Developments

3.1.1 Banking Regulations:

The Basel Committee on Banking Supervision (BCBS) continues implementation reviews of Basel III standards (e.g., LCR, NSFR).

Revised credit risk management principles issued in 2025 for better alignment with evolving frameworks.

3.1.2 Financial Markets:

FSB & IOSCO reviews found that while reforms improved securitisation markets' transparency, vulnerabilities in CLOs remain.

Need for monitoring synthetic risk transfers and risk retention in CLOs.

Cross-border surveillance frameworks updated for better technology-enabled oversight.

3.1.3 Cyber Resilience:

FSB's FIRE (Format for Incident Reporting Exchange) finalised for consistent cyber incident reporting.

Framework covers financial entities and third-party service providers.

3.1.4 Climate Finance:

FSB developed a climate risk assessment toolkit including climate beta, CRISK, carbon earnings-at-risk.

Transition plans and sustainability assurance standards (ISSA 5000) adopted for improved climate disclosures.

IAIS emphasized governance and disclosure standards for insurers on climate risks.

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3.2 II. Domestic Regulatory Initiatives

3.2.1 Cross-Border Settlements in INR:

Liberalisation of FEMA norms to allow INR usage in capital/current account transactions with several partner countries (e.g., UAE, Indonesia).

3.2.2 Fraud Prevention & Cybersecurity:

.bank.in domains introduced to prevent phishing.

Mandated use of specific number series (1600xx/140xx) for legitimate banking communication.

Implementation of Mobile Number Revocation List (MNRL) and Digital Intelligence Platform (DIP) for fraud tracking.

Digital Lending Reforms (2025):

New measures for multi-partner LSPs and digital lending app directory to ensure transparency and borrower trust.

3.2.3 Liquidity Risk Management:

LCR framework amended to introduce higher run-off rates for digital banking-enabled retail deposits.

Adjusted haircuts on HQLAs to reflect market stress scenarios.

Mutual Fund & Investment Reforms:

MF Lite framework launched for passive funds with lighter compliance.

Specialised Investment Funds (SIFs) introduced as an alternative between PMS and MFs.

Mandatory disclosure of Risk Adjusted Returns (RAR) for equity mutual funds.

3.2.4 Market Infrastructure:

SEBI mandates intraday monitoring of position limits in index derivatives.

Strengthened system audits of brokers with geolocation tracking and online portals.

3.2.5 Investor Protection:

Use of DigiLocker & MITRA platform to trace and reduce unclaimed assets.

SEBI's SmartODR portal operationalised for online dispute resolution.

3.2.6 Disclosure Requirements:

Additional norms for ODIs & segregated FPIs to prevent regulatory arbitrage.

FPIs issuing ODIs must register under a separate license and are prohibited from using derivatives as underlying.

3.3 III. Other Institutional Developments

3.3.1 Deposit Insurance (DICGC):

₹5 lakh insurance covers 97.6% of accounts; Reserve Ratio rose to 2.29% as on March 2025.

3.3.2 Corporate Insolvency (IBBI):

Out of 8,308 CIRPs, 1,194 ended in resolution, while 2,758 led to liquidation.

Resolution plans fetched 170.1% of liquidation value, with average resolution time of 597 days.

3.3.3 IFSC-GIFT City Growth:

229 AIFs with $50 billion corpus registered.

Monthly derivatives turnover hit $95.3 billion; banking assets at $88.7 billion.

3.3.4 Insurance & Pension Reforms:

Life insurance premiums up by 5.2% (FY25).

Bima-ASBA mechanism introduced for UPI-based policy payments.

NPS & APY subscriber base reached 8.4 crore; AUM at ₹14.4 lakh crore.

3.4 Conclusion

India's financial regulators are aligning domestic frameworks with global standards while focusing on systemic stability, cyber resilience, and consumer protection. The FSR June 2025 showcases India's proactive stance in addressing emerging risks such as climate change, digital fraud, and insolvency resolution while fostering financial inclusion and innovation.

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