

Foreword

The year 2025 was challenging as geopolitical conflicts, trade tensions, and persistent policy uncertainty cast a shadow over the global economy and the financial system. Amidst these developments, the world economy has proven to be more resilient than anticipated and the financial system has remained steady. The outlook for 2026 and beyond, however, is shrouded in uncertainty as the contours of policies that are reshaping the global economic landscape remain fluid and untested.

The global financial system in this challenging backdrop remains vulnerable to stretched valuations of risk assets, expanding public debt and growing interconnectedness among banks and non-bank financial institutions (NBFIs). Alongside, the financial landscape is evolving rapidly, driven by profound technological advances and the continued rise of non-bank financial intermediation. While they bring immense opportunities, they are also adding new layers of risks, such as the rise of stablecoins and private credit.

The Indian economy and the financial system, in contrast, remain robust and resilient supported by strong growth, benign inflation, healthy balance sheets of financial and non-financial firms, sizeable buffers and prudent policy reforms. Despite a volatile and unfavourable external environment, the Indian economy is projected to register high growth, driven by strong domestic consumption and investment. Nonetheless, we recognise the near-term challenges from external spillovers and continue to build strong guardrails to safeguard the economy and the financial system from potential shocks.

This edition of the Financial Stability Report underscores the stability of the domestic financial system in terms of both institutional soundness and systemic resilience. Banks and NBFIs remain healthy, bolstered by strong capital and liquidity buffers, robust earnings and improved asset quality. Stress tests also endorse the resilience of banks and non-banking financial companies. Financial markets, however, remain susceptible to global spillovers.

Maintaining financial stability and strengthening the financial system remains our north star. But financial sector regulators recognise that financial stability is not an end in itself. Promoting innovation and growth, protecting consumers, and a pragmatic approach to regulation and supervision that improves financial system efficiency are equally important. These objectives are mutually reinforcing and vital for increasing productivity and long-term economic growth. The most important contribution the policymakers can make is to foster a financial system that is robust and resilient to shocks, efficient in providing financial services and promotes responsible innovation.

Sanjay Malhotra

Governor

December 31, 2025