Financial Stability Report

December 2025

Reserve Bank of India

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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

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List of Select Abbreviations

3-MMA	3-Month Moving Average
AEs	Advanced Economies
AFS	Available for Sale
AI	Artificial Intelligence
AIFs	Alternative Investment Funds
AIFIs	All-India Financial Institutions
AMCs	Asset Management Companies
AMFI	Association of Mutual Funds in India
APY	Atal Pension Yojana
AUC	Assets Under Custody
AUM	Assets Under Management
BCBS	Basel Committee on Banking Supervision
BCs	Business Correspondents
BIFR	Board for Industrial and Financial Reconstruction
BIS	Bank for International Settlements
BPS	Basis Points
BSI	Banking Stability Indicator
BTs	Bankruptcy Trustees
CAD	Current Account Deficit
CASA	Current Account and Savings Account
CBDCs	Central Bank Digital Currencies
CCB	Capital Conservation Buffer
CCIL	Clearing Corporation of India Ltd.
CCPs	Central Counterparties
CCRI	Credit Concentration Risk Index
CCs	Clearing Corporations
CD	Credit-to-Deposit
CDs	Certificate of Deposits
CDS	Credit Default Swap
CDSL	Central Depository Services Limited
CET1	Common Equity Tier 1
CFMs	Capital Flow Management Frameworks
CICs	Core Investment Companies
CIRP	Corporate Insolvency Resolution Process
CLA	Co-Lending Arrangements
CMs	Clearing Members
CoC	Committee of Creditors
Core SGF	Core Settlement Guarantee Fund
CPs	Commercial Papers
CPI	Consumer Price Index
CRAR	Capital to Risk-Weighted Assets Ratio
CRAs	Central Recordkeeping Agencies
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
D-SIBs	Domestic Systemically Important Banks
DeFi	Decentralised Finance
DEPs	Digital Engagement Practices
DGA	Duration Gap Analysis
DICGC	Deposit Insurance and Credit Guarantee Corporation
DIIs	Domestic Institutional Investors
DIF	Deposit Insurance Fund
DISSA	Diploma in Information System Security Audit
DPD	Days Past Due
DSR	Debt Service Ratio
EAR	Earnings At Risk
EBPT	Earnings Before Profit and Tax
ECB	External Commercial Borrowings
EMDEs	Emerging Markets and Developing Economies
EMEs	Emerging Market Economies
EPS	Earnings per Share
ERP	Equity Risk Premium
ESG	Environmental, Social, and Governance
ETF	Exchange-Traded Funds
F&O	Futures and Options

FAR	Fully Accessible Route
FBs	Foreign Banks
FCI	Financial Conditions Index
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999
FMEs	Fund Management Entities
FPI	Foreign Portfolio Investment
FREE-AI	Framework for Responsible and Ethical Enablement of Artificial Intelligence
FSB	Financial Stability Board
FSDC	Financial Stability and Development Council
FSDC-SC	Sub-Committee of Financial Stability and Development Council
FSR	Financial Stability Report
FSSI	Financial System Stress Indicator
FVTPL	Fair Value Through Profit and Loss
FY	Financial Year
G-SIB	Globally Systemically Important Banks
G20	Group of Twenty
GAP	Global Access Provider
GAOs	Global Administrative Offices
GDP	Gross Domestic Product
GENIUS Act	Guiding and Establishing National Innovation for U.S Act
GNPAs	Gross Non-Performing Assets
GRCTCs	Global/ Regional Corporate Treasury Centres
G-Sec	Government Securities
GST	Goods and Services Tax
HFCs	Housing Finance Companies
HFT	Held for Trading
HQLA	High Quality Liquid Assets
HTM	Held to Maturity
I-SCAN	International Securities and Commodities Alerts Network
IAAP	International Association of Accessibility Professionals
IAIS	International Association of Insurance Supervisors
IBBI	Insolvency and Bankruptcy Board of India
ICMA	International Capital Market Association
ICMAI	Institute of Cost Accounts of India
ICR	Interest Coverage Ratio
ID	Insured Deposits
IFSC	International Financial Services Centre
IFSCA	International Financial Services Centres Authority
IIBX	India International Bullion Exchange
IIF	Institute of International Finance
IIP	International Investment Position
IM	Information Memorandum
IMF	International Monetary Fund
INR	Indian Rupee
InvITs	Infrastructure Investment Trusts
IOSCO	International Organization of Securities Commission
IPA	Insolvency Professional Agency
IPO	Initial Public Offerings
IPs	Insolvency Professionals
IRD	Interest Rate Derivatives
IRDAI	Insurance Regulatory and Development Authority of India
IRPs	Interim Resolution Professionals
ISSB	International Sustainability Standards Board
KFS	Key Facts Statements
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LR-CRaR	Liquidity Ratios - Conditional Redemption At Risk

LR-RaR	Liquidity Ratios - Redemption At Risk
LT	Long-term
MD	Modified Duration
MDG	Modified Duration Gap
MDs	Master Directions
MFDs	Mutual Fund Distributors
MFs	Mutual Funds
MiCAR	Markets in Crypto-Assets Regulation
MIIs	Market Infrastructure Institutions
MRC	Minimum Required Corpus
MSF	Multiple Scheme Framework
MSME	Micro, Small And Medium Enterprises
MTM	Mark-To-Market
MVE	Market Value of Equity
NABARD	National Bank for Agriculture and Rural Development
NAV	Net Asset Value
NaBFID	National Bank for Financing Infrastructure and Development
NBFCs	Non-Banking Financial Companies
NBFC-ML	Middle layer NBFCs
NBFC-UL	Upper layer NBFCs
NBFI	Non-bank Financial Intermediaries
NBSI	Non-banking stability indicator
NDCF	Net Distributable Cash Flows
NDTL	Net Demand and Time Liabilities
NFB	Non-Fund Based
NGFS	Network for Greening the Financial System
NGNF	Non-Government Non-Financial Vompanies
NGS	Non-Government Sector
NHB	National Housing Bank
NIC	National Industrial Classification
NII	Net Interest Income
NIM	Net Interest Margin
NNPA	Net Non-performing Assets
NOI	Net Operating Income
NPL	Non-Performing Loans
NPS	National Pension System
NSDL	National Securities Depository Limited
NSE IX	NSE International Exchange
NSFI	National Strategy for Financial Inclusion
NSFR	Net Stable Funding Ratio
NSUCBs	Non-Scheduled UCBs
OECD	Organisation for Economic Co-operation and Development
OEFs	Open-Ended Funds
OFS	Offer for Sale
OIS	Overnight Indexed Swap
OOI	Other Operating Income
ORBIOs	Offices of the Reserve Bank of India Ombudsman
P/E	Price-to-Earnings
PaRRVA	Past Risk and Return Verification Agency
PAs	Payment Aggregators
PAT	Profit After Tax
PCE	Partial Credit Enhancement
PCR	Provisioning Coverage Ratio
PDs	Primary Dealers
PFRDA	Pension Fund Regulatory and Development Authority
PML	Prevention of Money Laundering
PRAN	Permanent Retirement Account Number
PSBs	Public Sector Banks
PSL	Priority Sector Lending
PSOs	Payment System Operators
PSP	Payment Service Provider
PVBs	Private Sector Banks
PwDs	Persons with Disabilities
QIS	Quantitative Impact Study

RBC	Risk Based Capital
RBI	Reserve Bank of India
RB-IOS, 2021	Reserve Bank - Integrated Ombudsman Scheme, 2021
REITs	Real Estate Investment Trusts
REER	Real Effective Exchange Rate
REPO	Repurchase Transactions
REs	Regulated Entities
RFQ	Request for Quote
RoA	Return on Assets
RoE	Return on Equity
RP	Resolution Professional
RRBs	Regional Rural Banks
RSA	Rate-Sensitive Assets
RSL	Rate-Sensitive Liabilities
RWA	Risk Weighted Assets
SCBs	Scheduled Commercial Banks
SD	Standard Deviation
SDI	Securitised Debt Instrument
SDLs	State Development Loans
SEBI	Securities and Exchange Board of India
SFBs	Small Finance Banks
SGF	Settlement Guarantee Fund
SGS	State Government Securities
SIPs	Systematic Investment Plans
SIS	Systemic Importance Scores
SLR	Statutory Liquidity Ratio
SMA	Special Mention Account
SM REIT	Small and Medium Real Estate Investment Trust
SPDs	Standalone Primary Dealers
SRA's	Successful Resolution Applicant's
SRO	Self-Regulatory Organization
SRPA	Self-Regulated Payment System Operator Association
SRVAs	Special Rupee Vostro Accounts
SSA	Securitization of Standard Assets
SSE	Social Stock Exchange
ST	Short Term
SUCBs	Scheduled UCBs
TGA	Traditional Gap Analysis
UCBs	Urban Cooperative Banks
UNFCCC	UN Framework Convention on Climate Change
UPS	Unified Pension Scheme
US	United States
USD	US Dollar
VARX	Vector Auto Regression with Exogenous Variables
VIX	Volatility Index

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

Global growth has proven more resilient than expected despite trade tensions, geopolitical risks, and uncertainty around economic policy, supported by front-loaded trade, fiscal measures, and strong AI-related investment. Nonetheless, risks to the outlook remain skewed to the downside due to still elevated uncertainty, high public debt, and the risk of a disorderly market correction.

Financial markets appear strong on the surface but show growing underlying vulnerabilities. Sharp rise in equities and other risk assets, high hedge funds' leverage, expanding opaque private credit markets and growth of stablecoins all heighten global financial system fragilities. Ample liquidity is supporting risk-on sentiment across asset classes, but a sharp correction - especially if AI optimism fades - could spill over to the broader financial system, given rising interconnectedness.

Domestic Macrofinancial Risks

Despite persistent global challenges, India's economy continues to grow strongly on the back of robust domestic demand. Benign inflation, fiscal consolidation, and prudent macroeconomic policies have enhanced economic resilience. The domestic financial system remains sound, supported by strong balance sheets, easy financial conditions, and low market volatility.

The economy and the financial system, however, faces near-term risks from external uncertainties - geopolitical and trade related. These factors could increase exchange rate volatility, dampen trade, reduce corporate earnings, and lower foreign investment. A sharp correction in US equities could influence domestic equities and tighten financial conditions. However, the economy and financial system have strong buffers to withstand adverse shocks.

Financial Institutions: Soundness and Resilience

The health of the scheduled commercial banks (SCBs) continued to remain robust with strong capital and liquidity buffers, improving asset quality and stable profitability. Stress tests results reaffirmed the resilience of banks to withstand losses under adverse scenarios and maintain capital buffers well above the regulatory minimum.

The primary (urban) cooperative banks (UCBs), with some exceptions, remain healthy with sound capital buffers and continued strength in profitability, despite softening in net interest margin. Overall, the sector was found to be resilient under stress tests.

Capital position of the non-banking financial companies (NBFCs) remained strong, and their asset quality continued to improve while profitability stayed stable. Stress tests results showed, barring a few outlier NBFCs, aggregate capital position would remain well above regulatory requirements under adverse shocks. Stress tests results for mutual funds and clearing corporations affirmed their resilience to adverse shocks. The insurance sector continues to display balance sheet resilience, supported by adequate capital buffers, steady capital accretion and solvency ratios that remain above prescribed regulatory thresholds at the aggregate level.

Regulatory Initiatives in the Financial Sector

Amid persistent economic uncertainty and ongoing structural transformations in global finance, financial sector regulators have continued to strengthen regulatory frameworks and enhance supervisory attention, particularly with respect to G-SIBs, the interconnectedness between banks and NBFIs, and liquidity risk management. International standard-setting bodies are also advancing measures for the regulation of crypto and digital assets, with a focus on addressing emerging financial stability risks arising from the interlinkages between tokenised asset classes and crypto-asset markets, and the reserve holdings of stablecoin issuers.

At the domestic level, financial sector regulators have continued to focus on strengthening the resilience of the system by enhancing transparency frameworks, improving governance and accountability standards, strengthening customer and investor protection, and improving the ease of doing business. Another key initiative has been a fundamental reorganisation of the regulatory instructions that is expected to enhance clarity, ease of access, and reduce compliance burden for regulated entities.

Chapter I

Chapter I: Macrofinancial Risks

Global growth has been resilient, supported by fiscal measures, front-loaded trade, and strong AI-related investment, but downside risks persist due to high public debt, elevated asset valuations, and rising financial vulnerabilities. The Indian economy continues to grow strongly supported by robust domestic demand, easing inflation, and prudent macroeconomic policies. Though the economy and the financial system remain stable, external uncertainties and global market volatility could pose near-term vulnerabilities. Strong buffers, nonetheless, enhance the economy's ability to withstand adverse shocks.

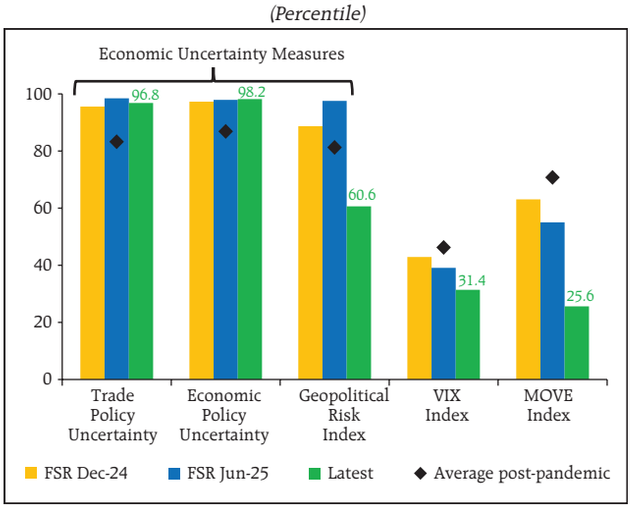
Introduction

1.1 The global economy and the financial system have proven more resilient than anticipated since the June 2025 Financial Stability Report (FSR), despite elevated policy uncertainty, persistent geopolitical tensions, and growing trade fragmentation. Global financial markets remain upbeat, with equity markets in particular scaling new peaks driven by optimism about artificial intelligence (AI) and strong corporate earnings.

1.2 The apparent resilience and risk-on sentiment, however, mask key vulnerabilities that have global financial stability implications. They include, but are not limited to, the risk of a sharp market correction amid stretched valuations, high and rising public debt, the expanding role of non-bank financial intermediaries and their deepening interconnectedness with banks, risks in the private credit market, and the rapid growth of stablecoins (see Special Feature on *'Financial Stability Implications of Stablecoins'*). The disconnect between uncertainty and volatility also remains wide (Chart 1.1). Overall, global financial stability risks stay elevated even as the world economy is exhibiting both resilience and fragility.

Chart 1.1: Disconnect between Uncertainty and Financial Market Volatility

(Percentile)



Notes: (1) Trade policy uncertainty is the index constructed by Caldara, Iacoviello, Molligo, Prestipino and Raffo (November 2019) counting the frequency of joint occurrences of trade policy and uncertainty terms across newspaper articles (such as 'tariff', 'import barrier', 'uncertain', *etc.*)

(2) Economic policy uncertainty is the index constructed by Baker, Bloom and Davis (March 2016) taking GDP-weighted average of national EPU indices for 20 countries, where each national EPU index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy, uncertainty and policy-related matters (such as 'uncertain', 'economic', 'regulation', *etc.*)

(3) Geopolitical risk is the index constructed by Caldara and Iacoviello (April 2022) using automated text-search results from newspaper articles (using words relevant to their definition of geopolitical risk, such as 'crisis', 'terrorism', 'war', *etc.)*

(4) The CBOE Volatility Index (VIX Index) is an index that measures United States (US) equity market volatility, derived from the prices of S&P 500 index options with expirations within the next 30 days.

(5) The Merrill Lynch Option Volatility Estimate for interest rates (MOVE Index) is a yield curve weighted index of the normalised implied volatility on one-month US Treasury options of several different tenors. (6) Percentiles are based on monthly values from 1997. Post-pandemic average is the average percentile since 2022. VIX and MOVE indices data till December 10, 2025.

Sources: Policyuncertainty.com; and Bloomberg.

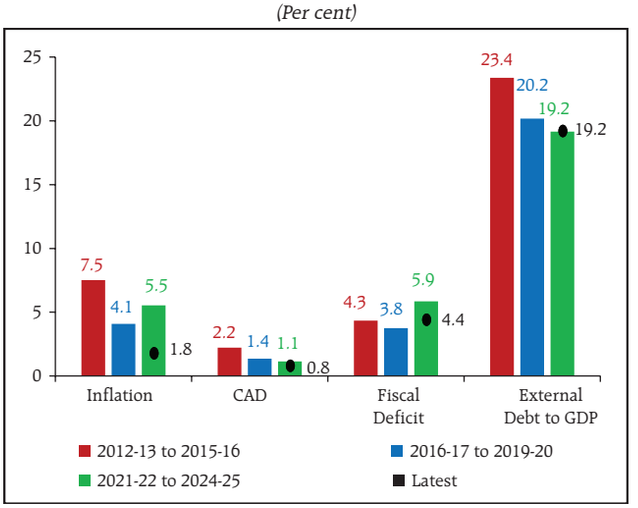
1.3 Against the backdrop of incessant global headwinds, the Indian economy is growing at a robust pace, driven by strong domestic demand. Alongside, a sharp moderation in inflation, commitment to fiscal consolidation and prudent macroeconomic policies are strengthening the resilience of the economy (Chart 1.2). The domestic financial system also remains resilient, bolstered by healthy balance sheets of bank and non-bank lenders, easy financial conditions and low volatility in financial markets (Chart 1.3).

1.4 There are, however, a few near-term risks to the Indian economy despite sound macroeconomic fundamentals and robust growth-inflation dynamics. Prominent among them are external uncertainties, further escalation in geopolitical and trade tensions and widening geoeconomic fragmentation. They could lead to higher volatility in exchange rate, weaker trade, lower corporate earnings and muted foreign direct investments. From a financial stability perspective, a sudden and sharp correction in the United States (US) equity market could cause a correction in domestic equities, affect investor confidence and wealth, trigger foreign portfolio outflows and tighten domestic financial conditions.

1.5 Importantly, the economy and the financial system have adequate buffers in terms of strong domestic growth drivers, sizeable foreign exchange reserves, and sufficient capital and liquidity buffers in the financial and corporate sectors to withstand adverse shocks. Moreover, the aggregate stress level in the Indian financial system, as indicated by the financial system stress indicator (FSSI), remains relatively low (Chart 1.4).

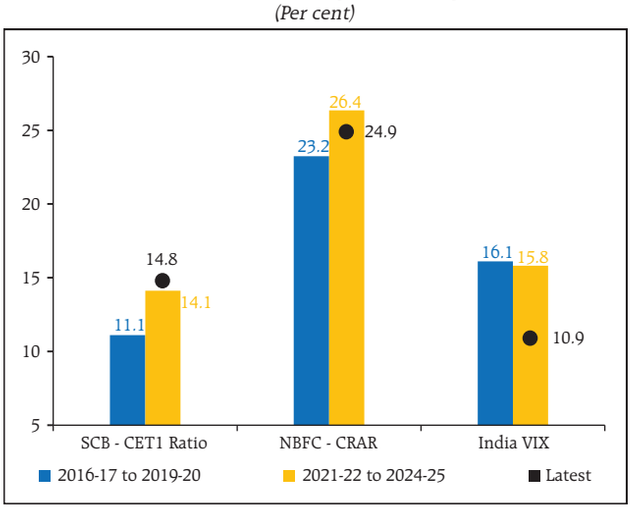
1.6 Against this backdrop, this chapter is structured into five sections. Section I.1 discusses evolving international and domestic macroeconomic developments and their implications for the near-term economic outlook. Section I.2 analyses key trends and financial conditions across equity, bond and foreign exchange markets, while Section I.3 provides an assessment of corporate and household

Chart 1.2: India - Sound Macroeconomic Fundamentals
(Per cent)



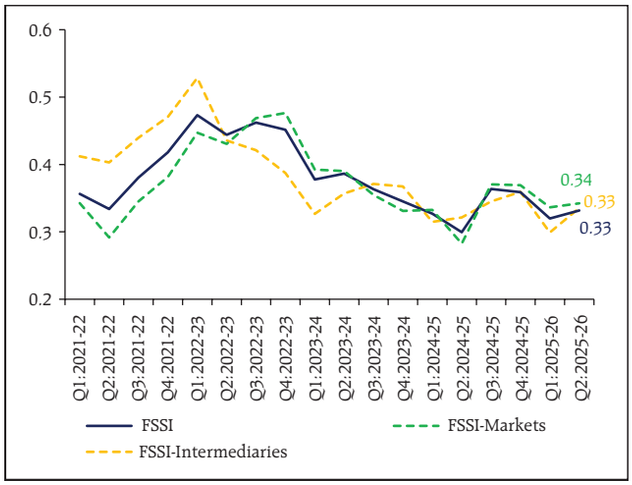
Note: Latest value for inflation is the monthly average between April and November 2025; CAD is for H1:2025-26; External debt to GDP ratio as of September 2025; and fiscal deficit based on budget estimates for 2025-26.
Sources: National Statistics Office (NSO); Union Budget Documents; and RBI.

Chart 1.3: India - Healthy Financial System
(Per cent)



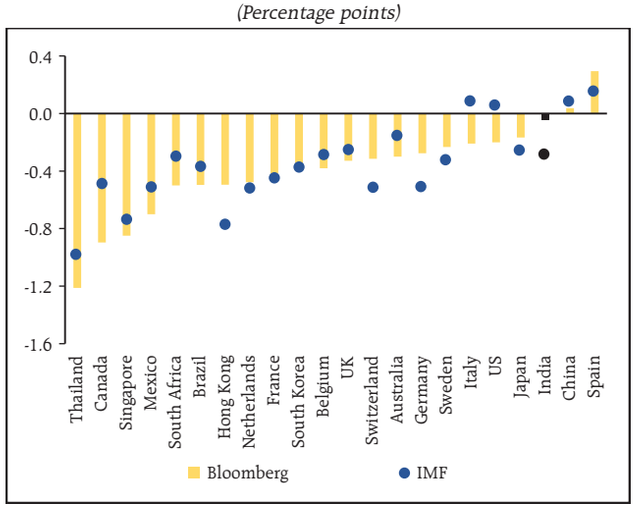
Notes: (1) The pandemic year 2020-21 is excluded.
(2) Upper layer and middle layer NBFCs are considered.
(3) Latest value for India VIX as on December 10, 2025. The other two indicators as at end-September 2025.
Sources: RBI supervisory returns; and Bloomberg.

Chart 1.4: Indian Financial System Stress Remains Low
(Index)



Note: Detailed methodology is provided in Annex 1.
Sources: DBIE; Bloomberg; RBI supervisory returns; and staff estimates.

Chart 1.5: 2026 Growth Forecast Revised Downwards
(Percentage points)



Notes: (1) IMF - Difference between IMF WEO GDP growth forecast for 2026 in October 2024 and in October 2025.
(2) Forecasts derived from the median of private sector economist surveys conducted by Bloomberg - difference between the GDP growth forecast for 2026 in October 2024 and October 2025.
Sources: IMF WEO Oct-24 and Oct-25; and Bloomberg.

sector vulnerabilities. Sections I.4 and I.5 examine the stability of the banking and non-bank financial sectors, respectively. The chapter also includes a special feature on stablecoins and its implications for financial stability.

I.1 Macroeconomic Outlook

I.1.1 Global Outlook

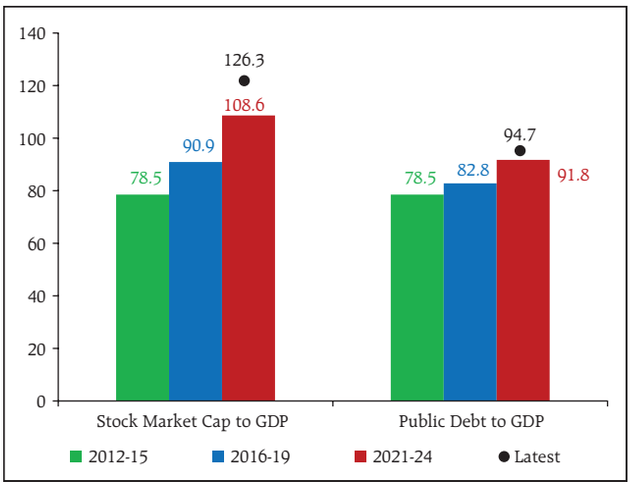
1.7 Global growth has surprisingly held up better than expected amid the US government's decision to impose tariffs on most of its trading partners and prolonged global economic and trade policy uncertainties. A combination of front-loading of trade, alacrity in finalising bilateral trade deals, some fiscal expansion, limited impact of tariffs on inflation, and huge AI-related investments has contributed to global growth resilience. Accordingly, the International Monetary Fund (IMF) revised its 2025 global growth projection upwards relative to its April 2025 forecast – from 2.8 per cent to 3.2 per cent.

1.8 Even as global growth has been steady, risks to the outlook in 2026 remain tilted to the downside (Chart 1.5). In the near-term, there are risks from further escalation in geopolitical tensions and trade barriers, prolonged policy uncertainty and AI not delivering its promise of a transformational economic impact. These risks, alongside fiscal vulnerabilities stemming from elevated levels of public debt and a disorderly market correction, could dampen consumption and investment, and lower global growth (Chart 1.6).

1.9 Fiscal strains in advanced economies (AEs) are likely to continue as borrowing needs remain well above the pre-pandemic levels, with no signs of a meaningful reversal. Rising interest expenses, growing healthcare costs from demographic shifts and higher defense spending have contributed to higher long-term borrowing costs. This is also reflected in the widening of swap spreads[1],

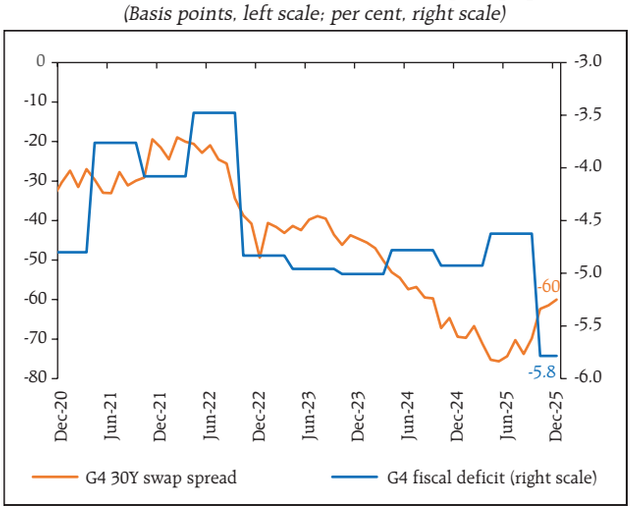
[1] Swap spreads measure the gap between swap rates and government bond yields of the same maturity. A negative spread indicates that government bond yields are trading higher than corresponding swap rates.

Chart 1.6: Rising Stock Market Capitalisation and Public Debt
(Per cent of GDP)



Notes: (1) The pandemic year 2020-21 is excluded.
(2) Latest value for stock market cap as on December 10, 2025. Public debt and GDP based on IMF projections for 2025.
Sources: IMF WEO October 2025; and Bloomberg.

Chart 1.7: Fiscal Strains Reflected in Widening Swap Spreads
(Basis points, left scale; per cent, right scale)

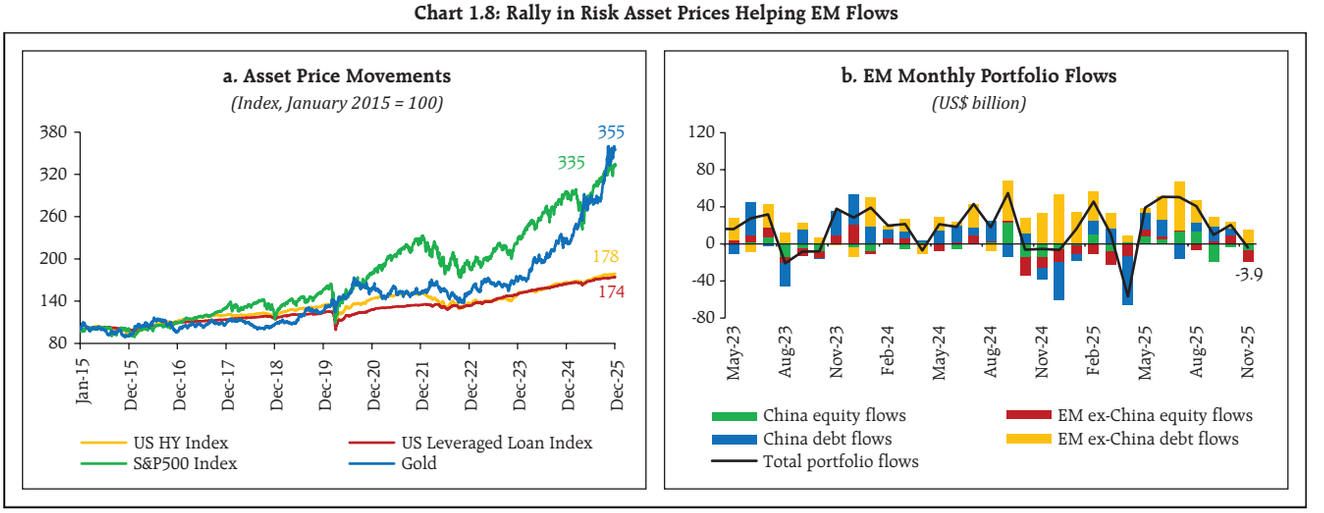


Notes: (1) G4 30Y swap spread calculated as GDP weighted average of US, UK, Euro Area and Japan.
(2) G4 fiscal deficit calculated as GDP weighted average of net lending/borrowing estimates over the next five years as per IMF World Economic Outlook.
Source: Bloomberg.

signalling a lack of appetite among investors for long-term sovereign exposure as well as a premium they require to invest (Chart 1.7). In the US, this is seen notwithstanding the increasing reliance on short-term issuances to finance the majority of incremental borrowing.

1.10 Increase in risk appetite alongside easy financial conditions and abundant liquidity is driving the prices of risk assets and gold, which is traditionally seen as a hedge against risk and uncertainty, to lofty levels (Chart 1.8 a). Emerging markets (EM) have also been a beneficiary of risk-

Chart 1.8: Rally in Risk Asset Prices Helping EM Flows



Sources: Bloomberg; and IIF.

on sentiment among investors, with both equity and debt flows remaining positive for most of the year (Chart 1.8 b). A sharp correction in asset prices, however, could be amplified by shifting asset correlations, leading to fire sales across market segments.

I.1.2 Domestic Outlook

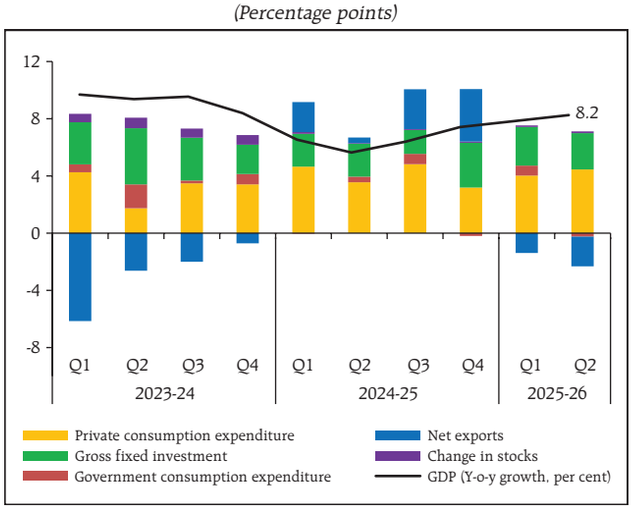
1.11 Domestic economic activity remained robust despite an unfavourable global backdrop. The real gross domestic product (GDP) growth surprised on the upside in both Q1:2025-26 and Q2:2025-26 at 7.8 per cent and 8.2 per cent, respectively, supported by strong private consumption and public investment (Chart 1.9).

1.12 Growth outlook remains positive, aided by low inflation, easy financial conditions, above normal monsoon, direct and indirect tax reforms, and the ongoing expansion of digital public infrastructure. This is also reflected in the upward revision of India's growth forecast by multilateral agencies such as the IMF, the Organisation for Economic Co-operation and Development (OECD) and the World Bank. The RBI has also revised its forecast for real GDP growth for 2025-26 upwards from 6.8 per cent to 7.3 per cent (Chart 1.10). Spillovers from geopolitical and trade tensions and a sell-off in global financial markets pose downside risks to the growth outlook.

1.13 India's fiscal dynamics remain healthy, supported by sustained improvement in the quality of spending with higher allocation for capital expenditure and commitment to fiscal consolidation. This was reflected in the S&P Global Ratings upgrade of India's sovereign rating from 'BBB-' to 'BBB' in August 2025. Moreover, India's debt remains sustainable because of the favourable interest rate-growth rate differential, the low level of foreign currency liabilities, the high average maturity of the debt portfolio, and very low level of floating-rate liabilities, together mitigating rollover and currency risks.

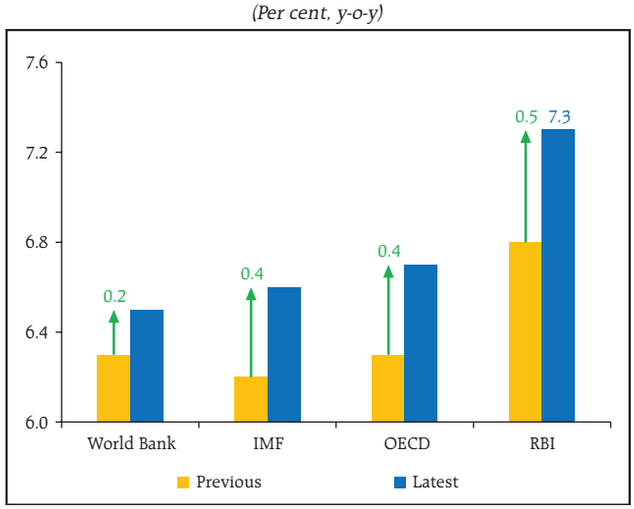
1.14 The weighted-average maturity (WAM) of outstanding debt and annual issuances of both central and state government debt have risen (Chart 1.11 a and b), and the yield curve has steepened

Chart 1.9: India – Contribution to Real GDP Growth
(Percentage points)



Source: National Statistics Office (NSO).

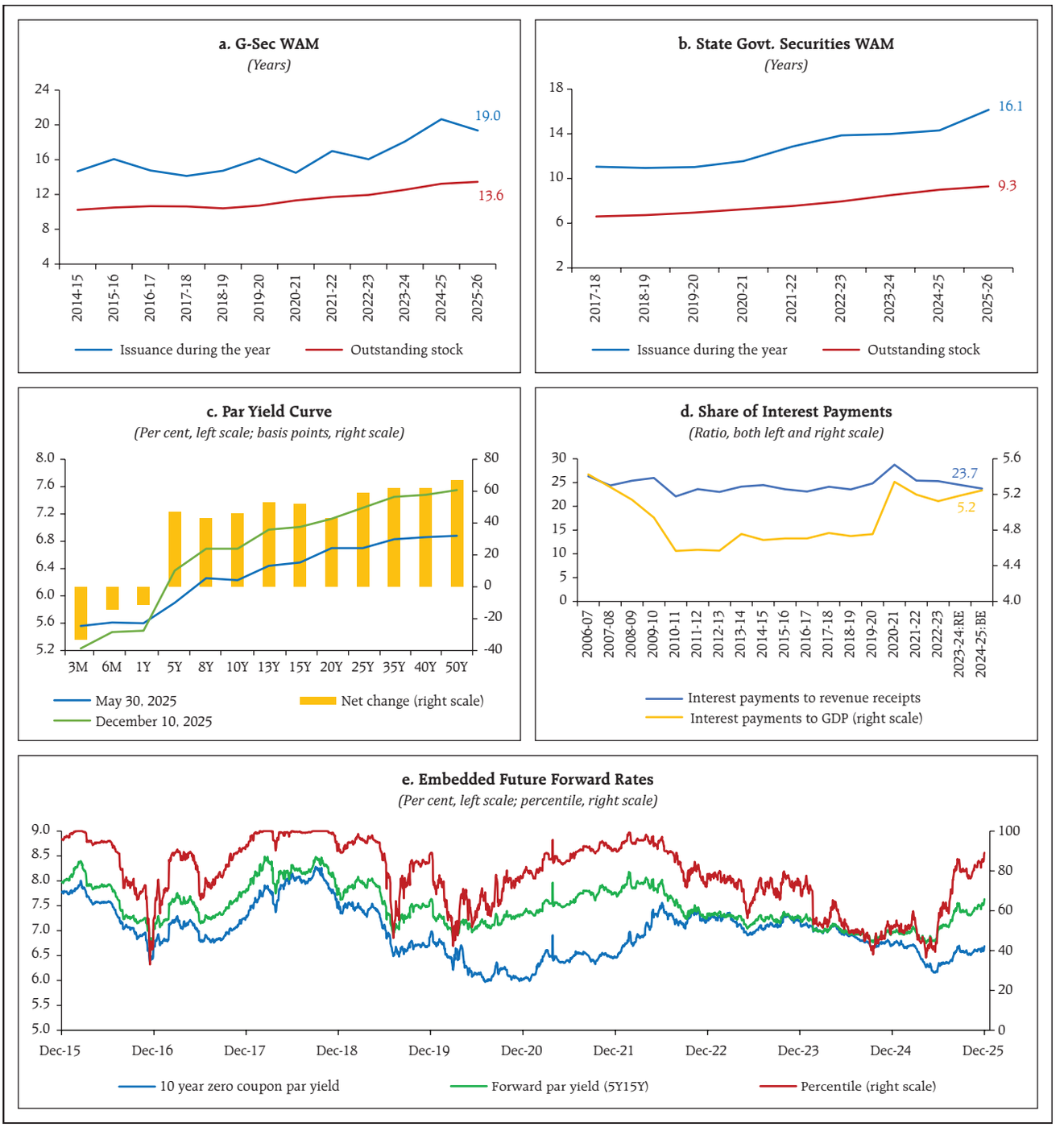
Chart 1.10: India – Real GDP Projections 2025-26 Revised Upwards
(Per cent, y-o-y)



Note: World Bank forecasts - Jun-25 and Oct-25; IMF forecasts - Apr-25 and Oct-25; OECD forecasts - Jun-25 and Sep-25; and RBI forecasts - Oct-25 and Dec-25.
Sources: World Bank Global Economic Prospects; IMF WEO; OECD Economic Outlook; and RBI Monetary Policy Statement.

(Chart 1.11 c). The share of interest payments has shown improvement (Chart 1.11 d). The steepness of the yield curve also illustrates that the embedded future forward rates are much higher (Chart 1.11 e).

Chart 1.11: Elongation of Weighted Average Maturity of Sovereign Bonds and Yield Curve Steepening



Notes: (1) In chart (a) and (b), data for 2025-26 updated till December 10, 2025.
(2) In chart (d), BE - budget estimates; RE - revised estimates.
(3) In chart (e), the forward par yield denotes the market pricing for a 10-year bond to be issued 5 years from now. The rates are derived from the zero-coupon yield curve built using the daily parameters published by CCIL. The percentile score is based on the number of days recorded from December 10, 2015 to December 10, 2025. The score shows the relative rank of the number of days when the current 10-year forward par yield is higher than the zero-coupon par yields seen during the said period.

Sources: CCIL; Budget Documents of Centre and States; RBI; and staff estimates.

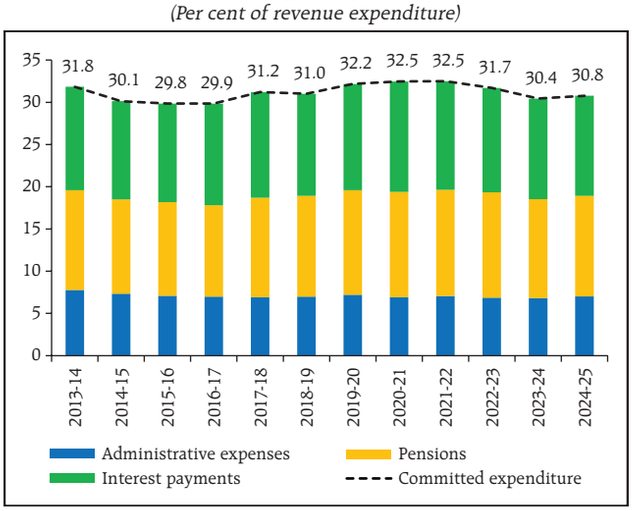
1.15 The supply of Central Government Securities (G-Sec) and State Government Securities (SGS) has risen considerably, with net issuance of G-Sec and SGS in the current fiscal year outpacing last year.[2] However, the demand for long-term sovereign debt among the largest investors, *viz.*, scheduled commercial banks, insurance companies and pension funds has declined. Even as banks accumulate more SGS and scale back on G-Sec, insurance and pension funds have shown a shift towards equity exposure (Table 1.1 and 1.2).

1.16 The overall debt-to-GDP ratio remains at around 82 per cent. This is largely due to elevated state government debt. Moreover, committed expenditure of states at around one-third of revenue expenditure remains high, which is likely to keep their market borrowing elevated along with the yield on their debt (Chart 1.12).

1.17 External sector stability has been a key pillar of India's overall macroeconomic stability. Despite a sequence of formidable external headwinds, the external sector has remained resilient. Although the current account deficit (CAD) has widened from 0.3 per cent of GDP in Q1:2025-26 to 1.3 per cent in Q2:2025-26, it remains eminently manageable with buoyant service exports and inward remittances expected to offset widening merchandise trade balance (Chart 1.13).

Chart 1.12: Higher Share of Committed Expenditure in States' Spending

(Per cent of revenue expenditure)



Note: BE – budget estimates.
Source: RBI.

Table 1.1: AUM of Pension Funds

₹ crore

	Mar-24	Mar-25	Sep-25
G-Sec	4,68,105	5,74,712	5,86,772
SGS	1,55,595	2,00,743	2,11,285
Equity	2,21,856	2,75,309	3,59,444
Corporate Bond	2,90,880	3,44,107	3,70,834
Others	37,100	49,883	52,214
Total	11,73,536	14,44,753	15,80,549
G-Sec *(per cent)*	39.9	39.8	37.1
SGS *(per cent)*	13.3	13.9	13.4
G-Sec + SGS *(HQLA, per cent)*	**53.1**	**53.7**	**50.5**
Equity *(per cent)*	18.9	19.1	22.7
Corporate Bond *(per cent)*	24.8	23.8	23.5

Note: The values mentioned above are at Market Value.
Source: PFRDA.

Table 1.2: AUM of Insurance Companies

₹ crore

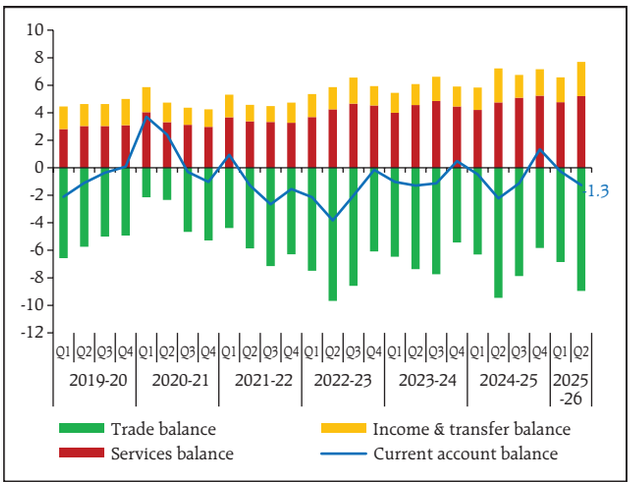
	Mar-24	Mar-25
G-Sec	27,24,749	29,39,658
SGS	14,45,597	15,07,310
Equity + Mutual Funds	14,25,947	16,62,359
Corporate Bond	10,04,470	11,61,967
Others	1,57,197	1,72,222
Total	67,57,960	74,43,516
G-Sec *(per cent)*	40.3	39.5
SGS *(per cent)*	21.4	20.2
G-Sec + SGS *(HQLA, per cent)*	**61.7**	**59.7**
Equity + Mutual Funds *(per cent)*	21.1	22.3
Corporate Bond *(per cent)*	14.9	15.6

Note: The values mentioned above are at Book Value except for the funds in respect of Unit Linked Life Insurance Products, which are at Market Value.
Source: IRDAI.

[2] The supply of G-sec and SGS, both high-quality liquid assets, has increased from ₹13.56 lakh crore in 2021-22 to ₹17.93 lakh crore in 2024-25. Alongside, the share of SGS rose from 36 per cent of total HQLAs issued in 2021-22 to 42 per cent in 2024-25.

Chart 1.13: Manageable Current Account Balance

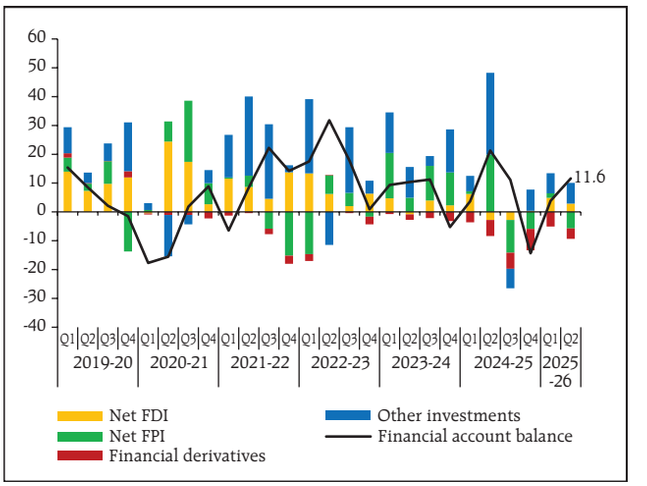
(Per cent of GDP)



Source: RBI.

Chart 1.15: Financial Account Turns Positive

(US$ billion)

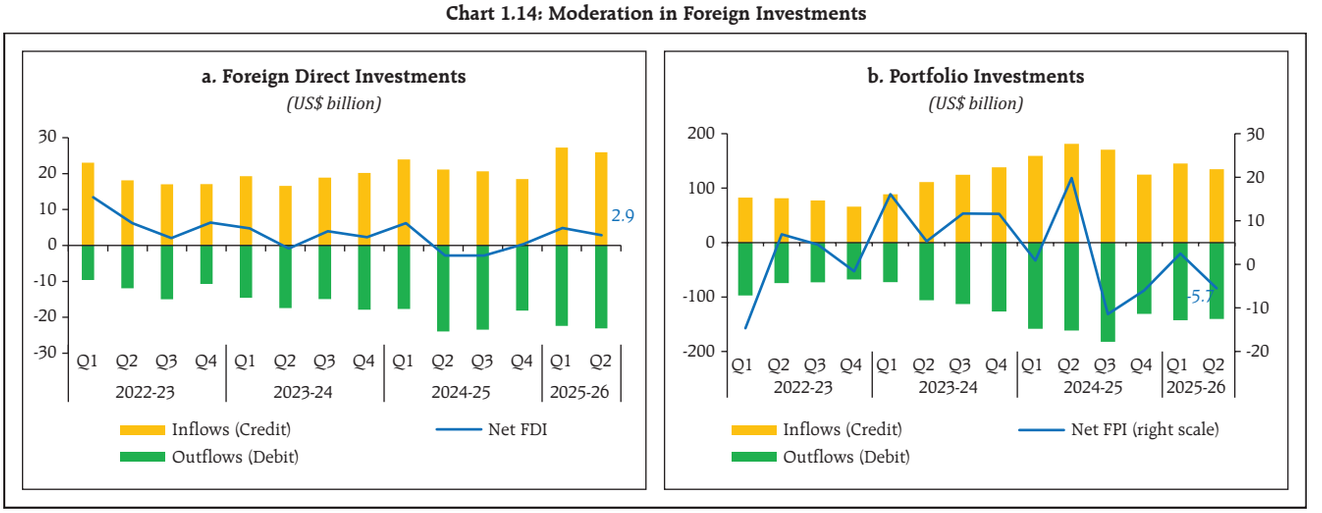


Source: RBI.

1.18 On the capital and financial accounts, net foreign direct investment (FDI) flows, after moderating in 2024-25 due to rising repatriation and outward FDI, have improved in H1:2025-26. Net portfolio investments have declined, driven by large equity outflows. India's inclusion in global bond indices attracted sizeable bond inflows, offsetting some of the overall impact (Chart 1.14 a and b). Steady external commercial borrowings (ECB) and non-resident deposits also contributed to capital inflows, though these flows have moderated compared to last year. Overall, the financial account balance turned positive in H1:2025-26 (Chart 1.15).

1.19 Notwithstanding the uncertainty surrounding the trade outlook, India's external vulnerability indicators remain robust and continue to show improvement. Foreign exchange reserves at US$ 693.3 billion, as on December 19, 2025, are sufficient to cover around 11 months of actual

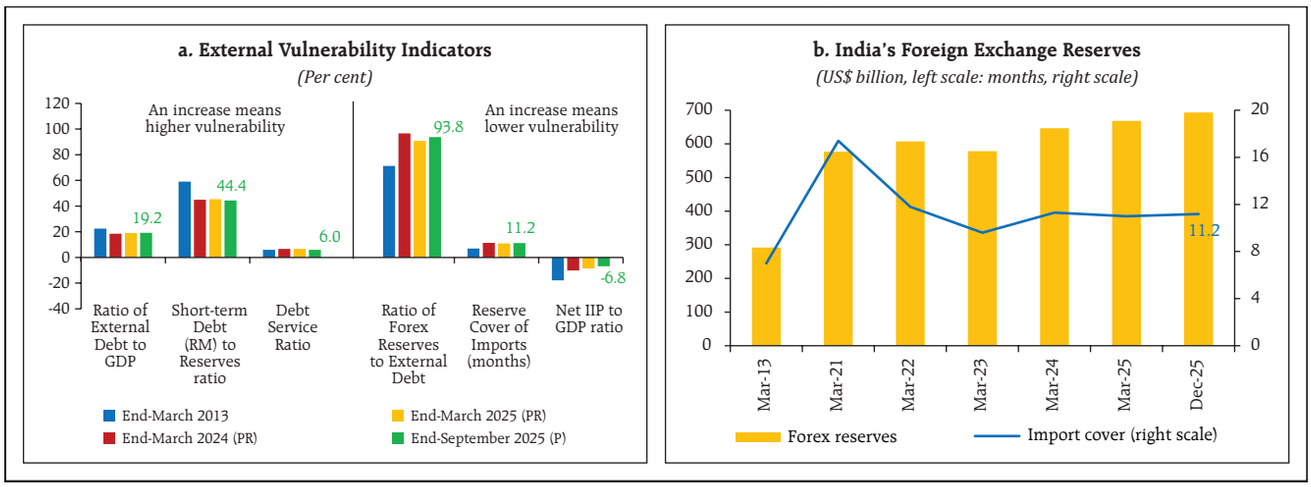
Chart 1.14: Moderation in Foreign Investments



Note: Data is based on BoP where credit is total inflows to India (including investment to India and sale of investment by India) and debit is total outflows from India (including sale of investment in India and investment by India).

Source: RBI.

Chart 1.16: Limited External Vulnerability and Adequate Reserves



Note: In chart (a), RM: Residual Maturity; R: Revised; P: Provisional; PR: Partially Revised. Reserve cover of imports is as on December 19, 2025.
Sources: RBI; and Ministry of Finance.

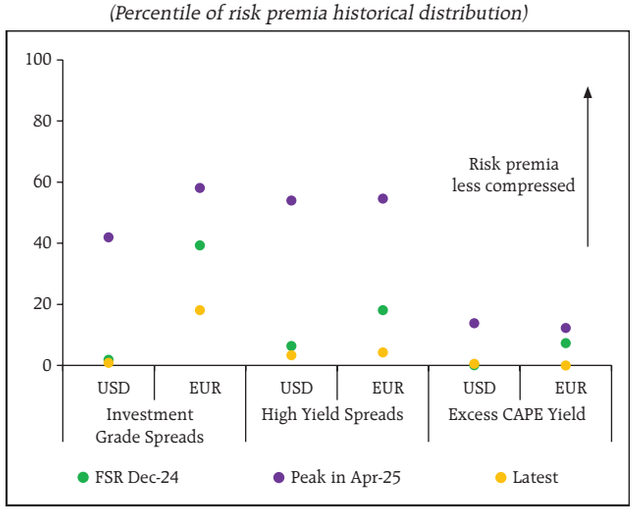
merchandise imports on a BoP basis; external debt stood at 19.2 per cent of GDP at end-September 2025; the share of short-term debt on residual maturity basis became more favourable at 44.4 per cent of foreign exchange reserves at end-September 2025; and net international investment position (IIP) also recorded improvement (Chart 1.16 a and b).

I.2 Financial Markets

I.2.1 Global Financial Markets

1.20 Since June 2025 FSR, despite persistent uncertainty around trade and economic policies and geopolitical tensions, risk-asset valuations have increased, volatility has declined, and credit spreads have compressed. Risk premia across a range of asset classes have tightened since the spike seen after the April 2025 tariff shock (Chart 1.17). Measures of equity valuations remain at the high end of the historical range, with stock prices of companies focused on AI particularly stretched and concentration within the stock index elevated

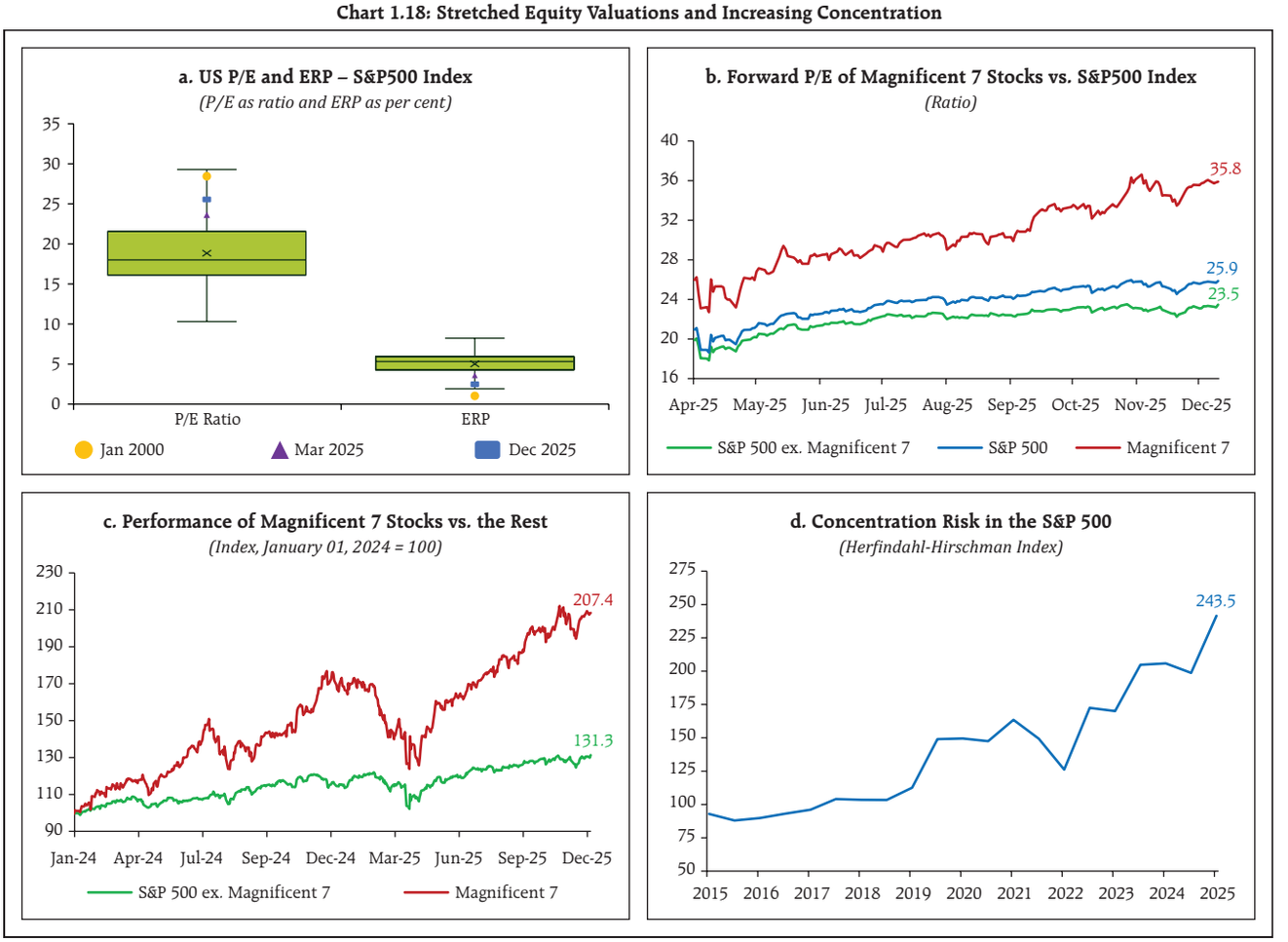
Chart 1.17: Valuations in a Range of Asset Classes at Historically Stretched Levels
(Percentile of risk premia historical distribution)



Notes: (1) Excess CAPE yield measures the additional real return expected from equities over risk-free asset. Percentile based on 3-day rolling average of daily data since 2002 for credit spreads (option-adjusted). For the excess cyclically adjusted price-to-earnings (CAPE) yield, the percentile based on 3-day rolling average of daily data since 2010 for the S&P 500 and STOXX Europe 600 indices.
(2) Latest value as of December 10, 2025.
Source: Bloomberg.

(Chart 1.18 a, b, c and d). Consequently, the likelihood of outsized price declines has risen, and markets remain especially vulnerable if expectations about AI's impact fade away.

Chart 1.18: Stretched Equity Valuations and Increasing Concentration



Notes: (1) In chart (a), the forward price-to-earnings (P/E) ratio is the ratio of equity prices to expected 12-month earnings and the equity risk premium (ERP) is the additional return that investors require for holding stocks relative to risk-free bonds. The chart shows the distribution of monthly P/E and ERP data of US S&P 500 Index for last 25 years, with each box denoting the interquartile range of a variable, with cross marks and lines inside the boxes being the average and median value, respectively. The whiskers represent the data's spread from the interquartile range to the lowest and highest values that are not considered outliers.

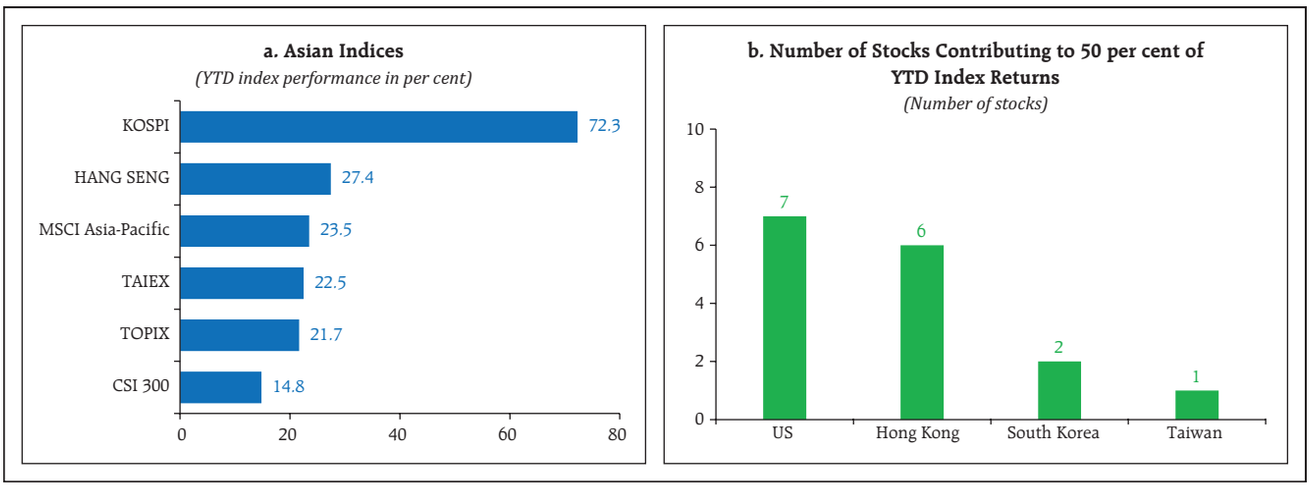
(2) In chart (b) and (c), the Magnificent 7 stocks are Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

Sources: Bloomberg; and RBI staff estimates.

1.21 The optimism around AI is also evident in Asian indices with big technology stocks driving most of the gains (Chart 1.19 a). A small number of stocks that are expected to benefit from AI now account for almost half of the returns in Hong Kong, South Korea and Taiwan, similar to the US (Chart 1.19 b). Thus, a major correction in US equities could become a global systemic risk, dragging down these markets with implications for equities in the region.

1.22 Another area of concern is the huge capital spending requirement to drive AI-related investments and their financing. So far, major firms have relied on their sizeable free cash flows to fund investments. However, with the spending on AI infrastructure estimated at trillions of dollars, debt financing has risen, and it is expected to increase substantially in the coming years (Chart 1.20 a). Moreover, there are complex circular financing structures between these firms that are also driving the credit boom in the AI sector. There are signs that the market is already making distinctions among firms, with those with relatively weaker financial positions seeing their spread over equivalent treasuries and credit default swap (CDS) spread

Chart 1.19: Asian Stocks' Performance Mirroring US Stocks

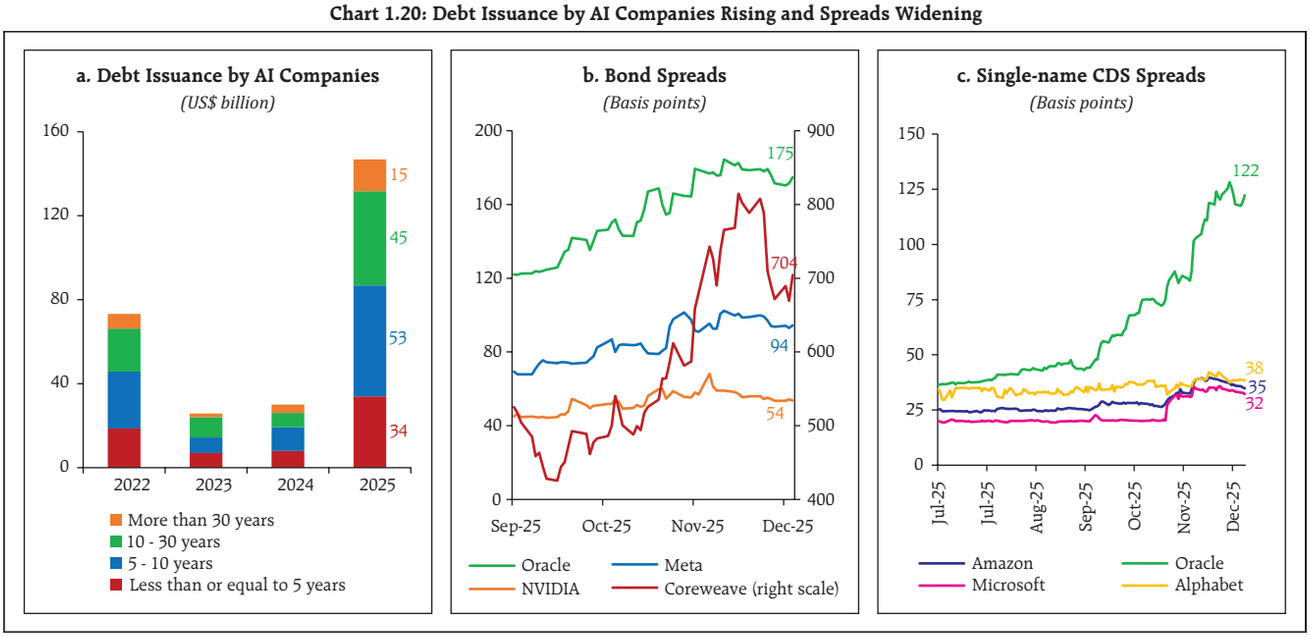


Notes: (1) In chart (a), data as of December 10, 2025.
(2) In chart (b), for each country, the representative equity index is being considered: US – S&P 500, Korea – KOSPI, Hong Kong – Hang Seng, Taiwan – TAIEX. The chart represents the number of stocks contributing at least ~50 per cent of the returns in the respective indices this year, which is estimated by multiplying each stock's weight at the beginning of the year by its year-to-date return.
Source: Bloomberg.

widening (Chart 1.20 b and c). Financial stability risks could materially increase if there is a deeper correction in AI-driven asset prices.

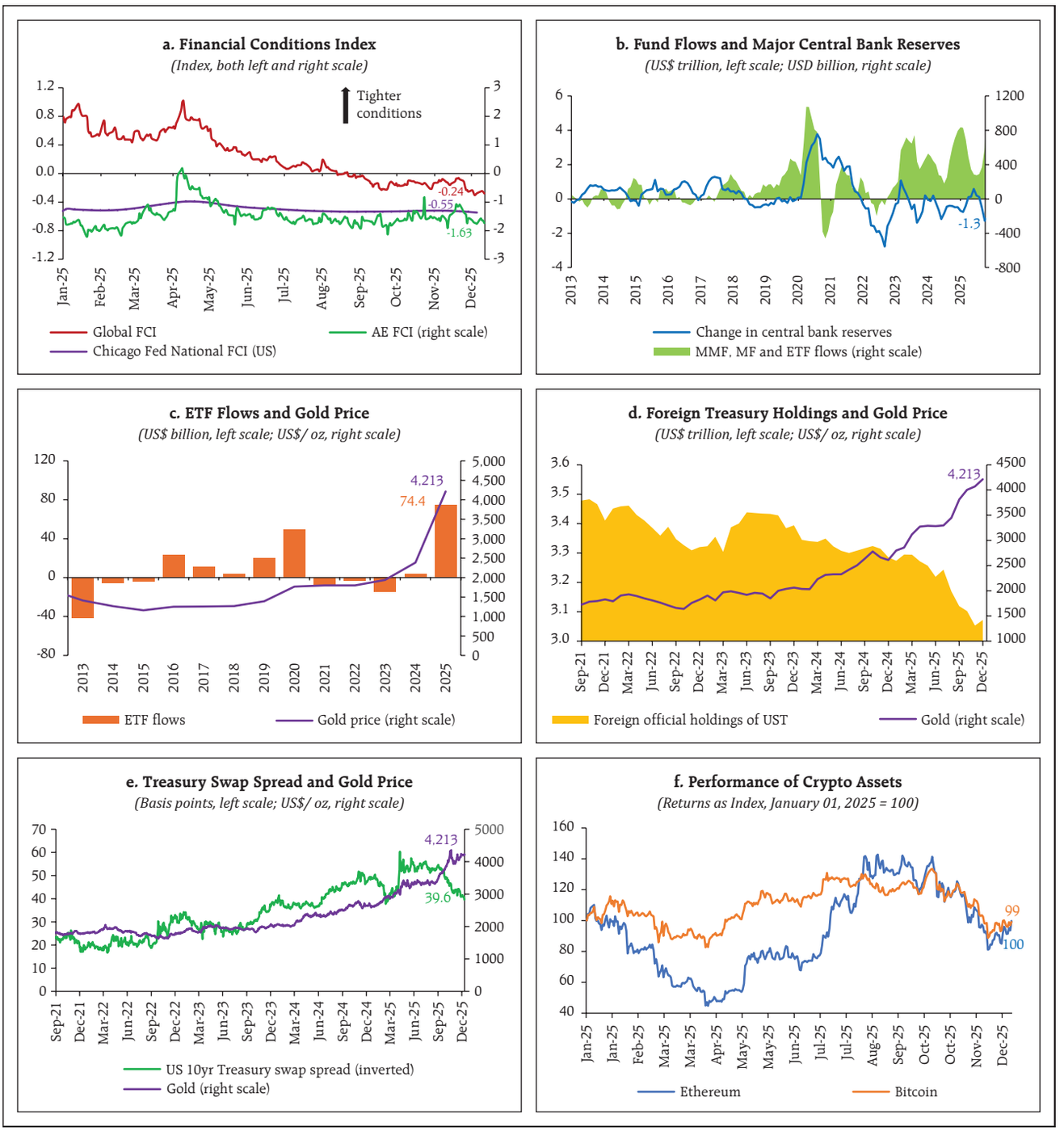
1.23 The rally in equities, compression in credit spreads, low volatility and decline in short-term rates have contributed to generally easing financial conditions (Chart 1.21 a). Alongside, ample liquidity, despite quantitative tightening by central banks, has continued to drive flows into mutual funds and exchange-traded funds (ETFs) supporting a range of asset classes (Chart 1.21 b). Gold prices have surged, driven by robust investor flows into the

Chart 1.20: Debt Issuance by AI Companies Rising and Spreads Widening



Notes: (1) In Chart 1.20a, the set of AI companies include Alphabet, Advanced Micro Devices, Amazon, Apple, Broadcom, Meta, Microsoft, NVIDIA, Oracle, Palantir, Tesla, and X.AI.
(2) In chart (b), bond spreads are estimated as spread over equivalent maturity treasury bond.
Source: Bloomberg.

Chart 1.21: Financial Conditions, Fund Flows and Asset Price Movements



Notes: (1) In chart (b), central banks reserves refer to data for US Federal Reserve, European Central Bank, Bank of England and Bank of Japan; MMF: Money Market Funds, MF: Mutual Funds, ETF: Exchange Traded Funds; US Fed data refers to reserve balances of depository institutions kept with Federal Reserve; Data for ECB refers to the excess liquidity defined as deposits at the ECB deposit facility net of funds availed in marginal standing facility; Data for Japan refers to the current deposits on Bank of Japan's balance sheet; Data for BoE refers to reserve balances on its balance sheet; Data for MMF, MF and ETF is from Investment Company Institute; Data is on 6-months rolling basis.

(2) In chart (c), data updated till end-September 2025.

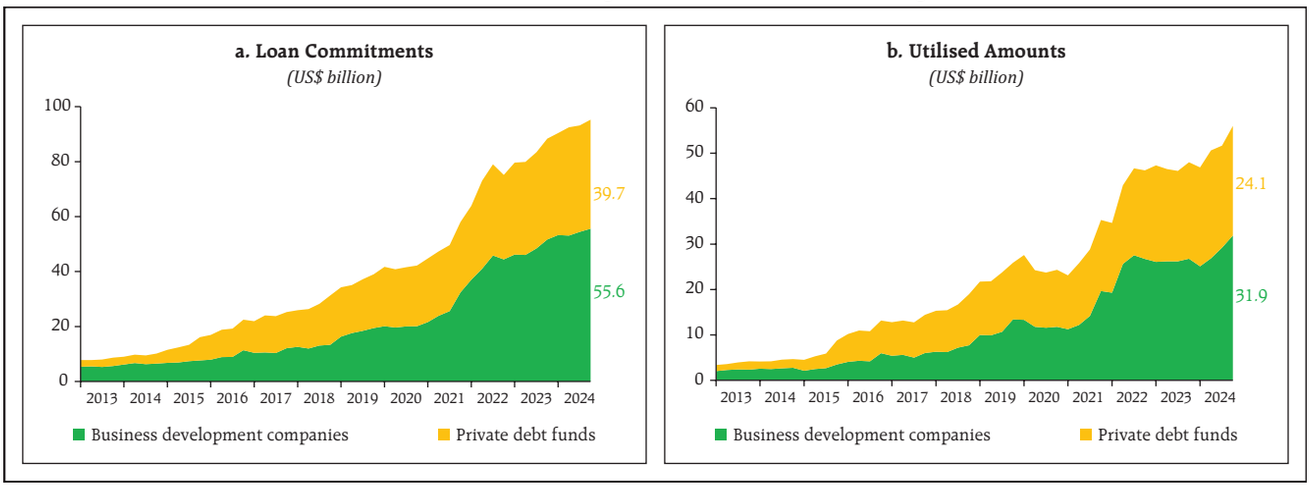
Sources: Goldman Sachs; World Gold Council; and Bloomberg.

ETFs, central bank diversification of their foreign exchange reserves and mounting fiscal concerns (Chart 1.21 c, d and e). In a sign of build-up in risk aversion, prices of crypto assets have fallen sharply from their record highs seen in the early part of the year (Chart 1.21 f).

1.24 Another potential source of vulnerability is the growth of private credit[3]. From a simple intermediation chain - where investors put money into a private credit fund or business development company (BDC) that then lends to businesses – the system has evolved in recent years into more complex chains that now include more leveraged institutions like banks and insurers.[4] Since they are private in nature and unregulated, there is considerable opacity regarding the size and riskiness of the private credit industry. Moreover, bank lending to private credit vehicles has increased significantly (Chart 1.22 a and b).[5] Thus, the interconnectedness between private credit and the broader financial system is increasing and the channels through which stress in private credit could transmit to the rest of the financial system are growing.

1.25 The growing footprint of hedge funds in the US treasury market, the largest and most liquid financial market in the world, along with their trading strategies, poses financial stability risks (see June 2025 FSR). Their holdings of treasury bills, notes, and bonds rose from 4.6 per cent of total treasuries in early 2021 to 10.3 per cent in the first quarter of this year, surpassing their pre-pandemic peak of 9.4 per cent.[6] Moreover, their leverage

Chart 1.22: Bank Lending to Private Credit Vehicles Growing



Source: Federal Reserve Y-14Q, Schedule H.1.

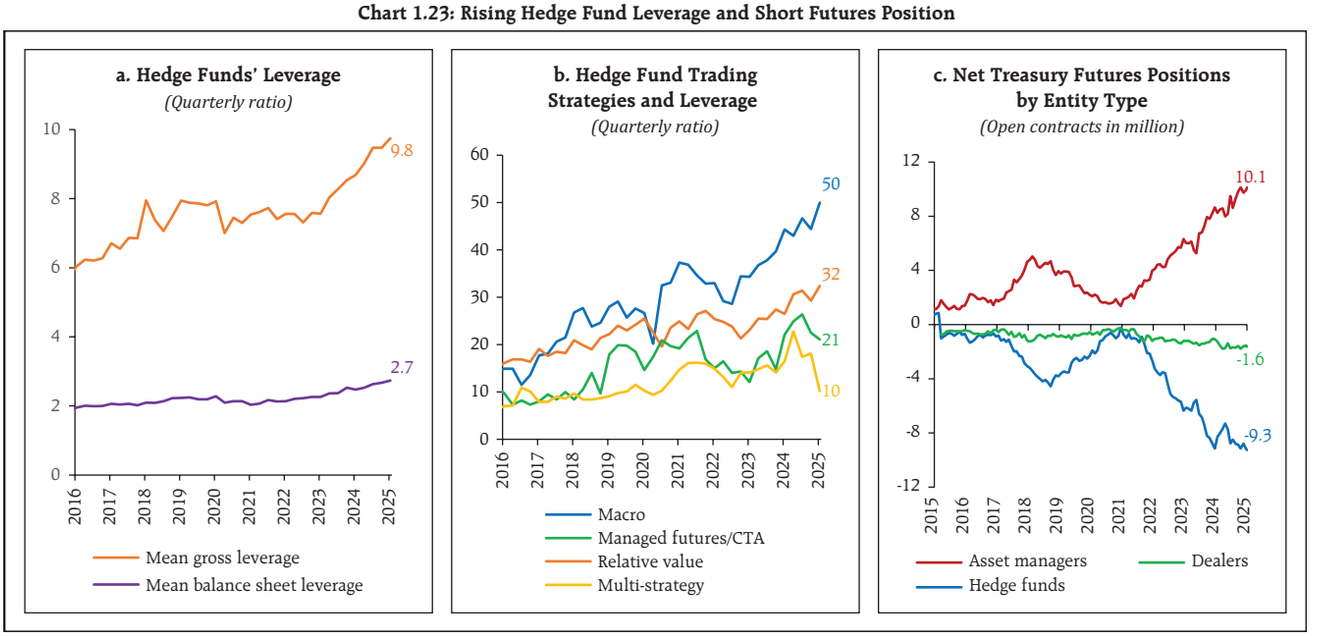
[3] Private credit generally refers to a loan that is negotiated directly between a borrower and a small group of nonbank lenders (source: Federal Reserve Bank of New York).

[4] Cook, Lisa D (2025), "A Policymaker's View of Financial Stability", Board of Governors of the Federal Reserve System, November 20.

[5] Berrospide, Jose, Cai, Fang, Lewis-Hayre, Siddhartha, and Zikes, Filip (2025), "Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications," FEDS Notes, May 3, https://www.federalreserve.gov/econres/notes/feds-notes/bank-lending-to-private-credit-size-characteristics-and-financial-stability-implications-20250523.html

[6] Cook, Lisa D (2025), "A Policymaker's View of Financial Stability", Board of Governors of the Federal Reserve System, November 20.

Chart 1.23: Rising Hedge Fund Leverage and Short Futures Position



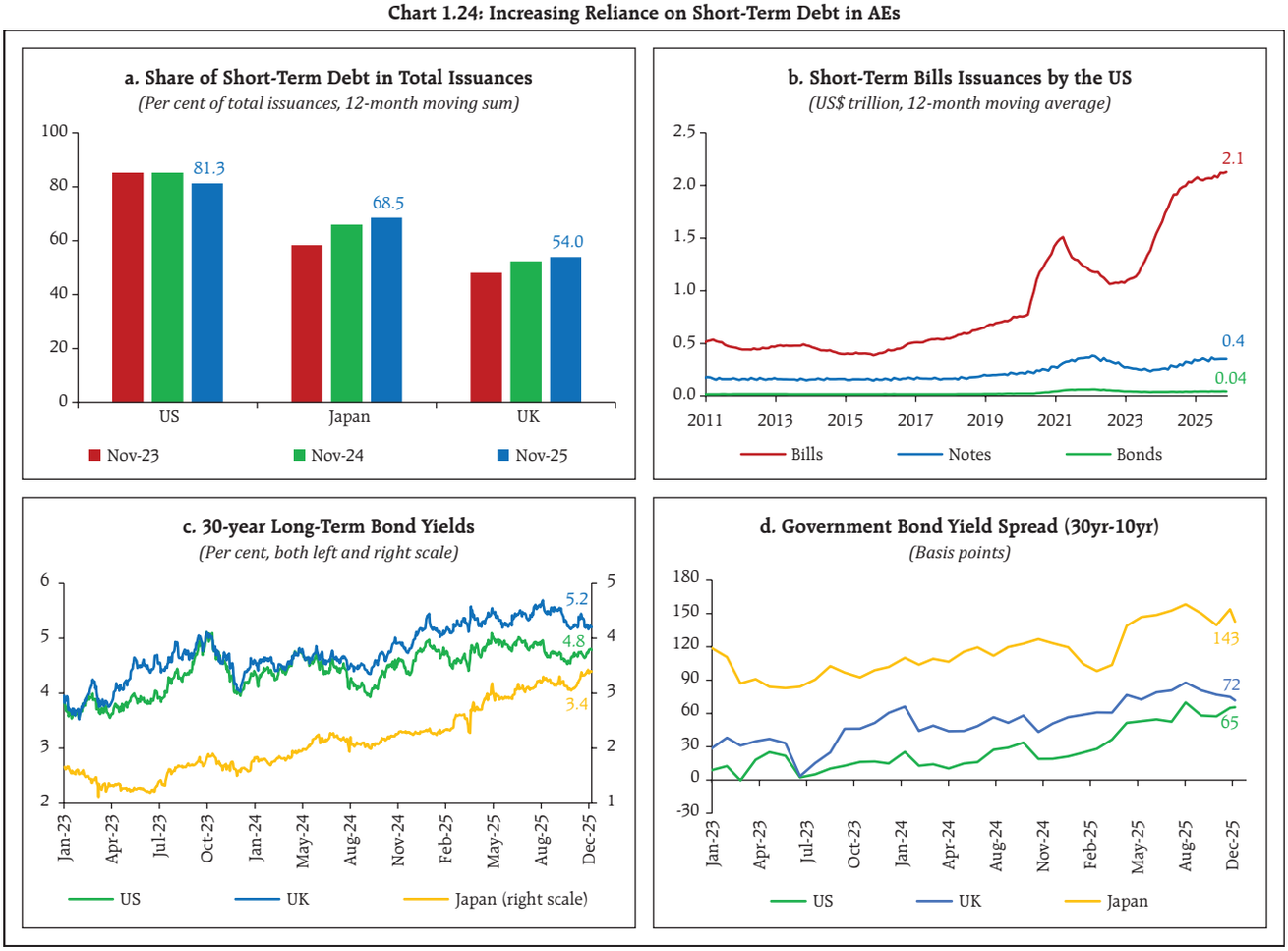
Note: In chart (a), gross leverage is the ratio of gross notional exposure to net asset value (NAV) and Balance sheet leverage is the ratio of gross asset value to NAV. Means are weighted by NAV.
Sources: Bloomberg; and US Securities and Exchange Commission.

remains elevated and continues to grow.[7] During past episodes of stress, hedge funds have abruptly unwound large leveraged positions in relative value trading strategies that they undertook to arbitrage between cash and derivatives markets using repo funding (Chart 1.23 a, b and c). These leveraged trades continue to remain a source of vulnerability.

1.26 Stretched public finances could impart volatility in core bond markets as some of the major AEs are increasingly relying on short-term debt to meet their funding requirements (Chart 1.24 a). In the US, although short-term debt makes up only about 20 per cent of total government debt, it represents roughly 80 per cent of all Treasury issuances (Chart 1.24 b). Simultaneously, long-term yields and spreads are trending higher (Chart 1.24 c and d). This will increase rollover risk by forcing countries to frequently refinance their short-term debt, and it may also pressure central banks to keep interest rates low, potentially undermining monetary policy independence.

[7] Board of Governors of the Federal Reserve System (2025), "Financial Stability Report", November.

Chart 1.24: Increasing Reliance on Short-Term Debt in AEs



Sources: Bloomberg; and RBI staff estimates.

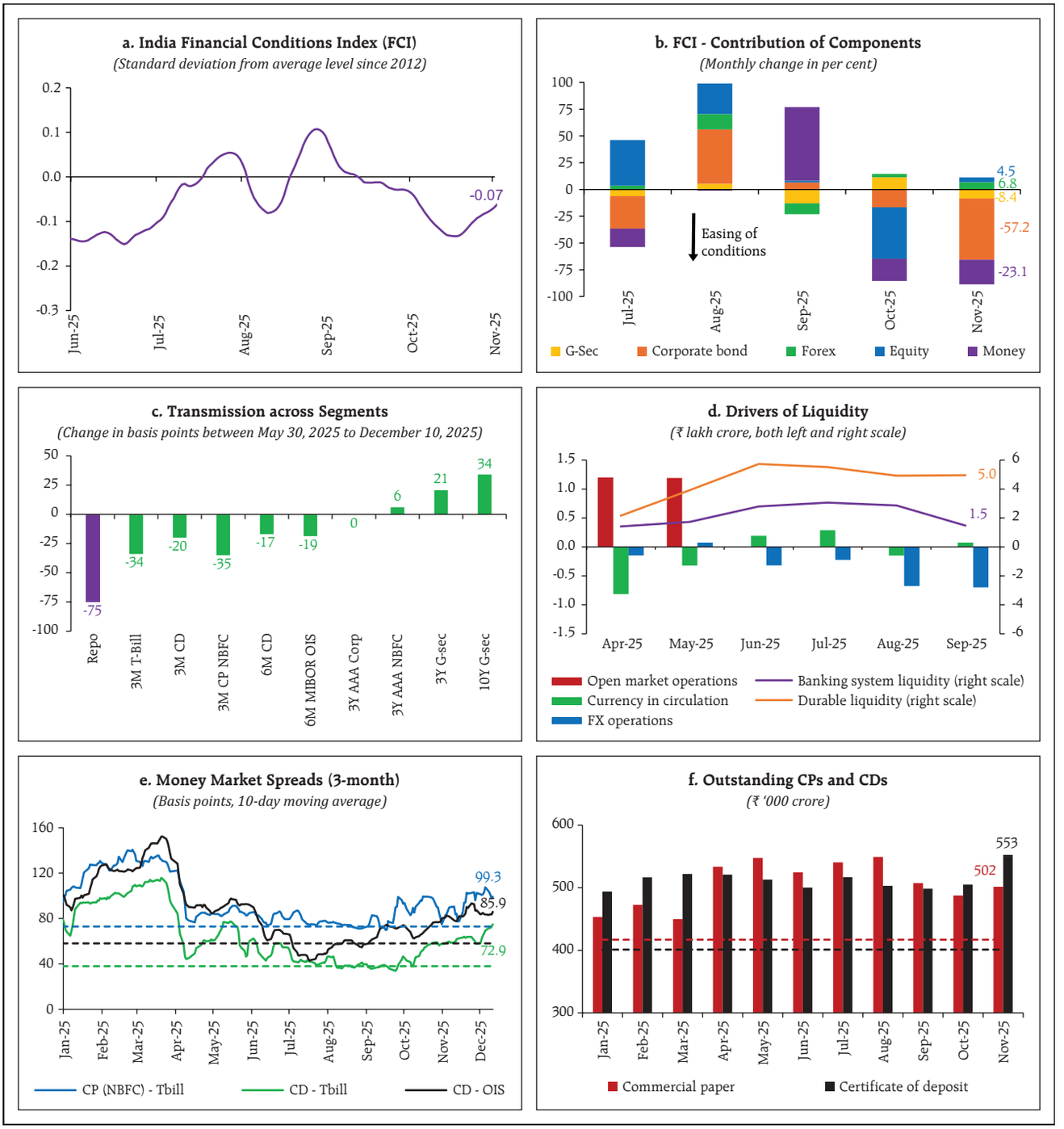
I.2.2 Domestic Financial Markets

1.27 Domestic financial conditions have remained easy since the June 2025 FSR, supported by gains in equity prices and compression in credit spreads (Chart 1.25 a and b). Robust monetary policy transmission, especially in short-term markets, and surplus banking system liquidity have also helped ease financial conditions (Chart 1.25 c and d). Consequently, money market spreads have retreated from the highs seen in Q1:2025-26 (Chart 1.25 e), and issuance of commercial papers (CPs) and certificates of deposit (CDs) has risen (Chart 1.25 f).[8]

1.28 The sovereign yield curve steepened, driven by monetary easing and declining inflation expectations. Short-term rates continued to decline, tracking rate cuts by the RBI and easy liquidity conditions, whereas long-term yields remained under pressure due to persistent supply. Consequently, term spreads rose and remained

[8] Net issuance of treasury bills by the government has been negative this year. This has enabled private sector to raise more resources from the short-term money market through CP and CD issuances.

Chart 1.25: Domestic Financial Conditions Eased



Notes: (1) In chart (a), the financial conditions index is constructed using twenty financial market indicators at daily frequency. A standardised index is used to present the results. The financial conditions index, when at zero, corresponds to a financial system operating at the historical average level of all the financial indicators included in the index. For further details, please refer to article "Financial Conditions Index for India: A High-Frequency Approach", RBI Monthly Bulletin (June 2025).

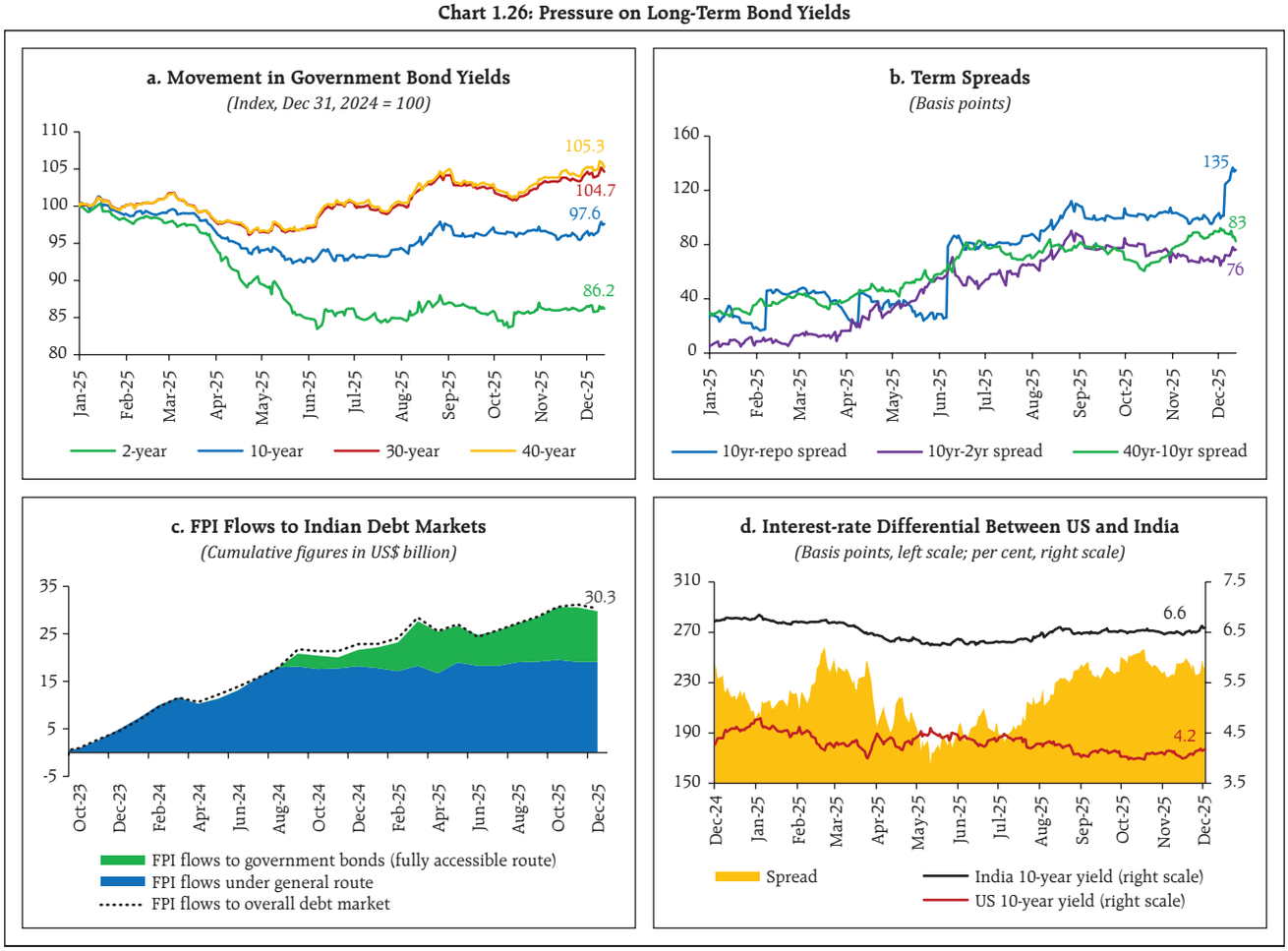
(2) In chart (d), positive figure on right scale denotes surplus liquidity.

(3) In chart (e), dotted lines indicate the average spread from 2018.

(4) In chart (f), dotted lines indicate the average outstanding of the last three years.

Sources: Bloomberg; DBIE; FBIL; LSEG Workspace; RBI; and staff estimates.

Chart 1.26: Pressure on Long-Term Bond Yields



Sources: Bloomberg; and CCIL.

elevated (Chart 1.26 a and b). Meanwhile, FPI flows to Indian government bonds, which saw a sharp rise following bond index inclusion last year, remained robust partly aided by the widening interest-rate differential between the US and India yields (Chart 1.26 c and d).[9]

1.29 The Indian rupee (INR) depreciated against the US dollar (USD), reflecting falling terms of trade due to the impact of tariffs and slowdown in capital flows (Chart 1.27 a and b). With the effective US tariff rate on India being the highest compared to its trading partners, the INR depreciated despite the broad weakening of the USD against other major and Asian currencies. The exchange market pressure index[10] indicates the rising depreciation pressure on the INR (Chart 1.27 c). Importantly, the exchange

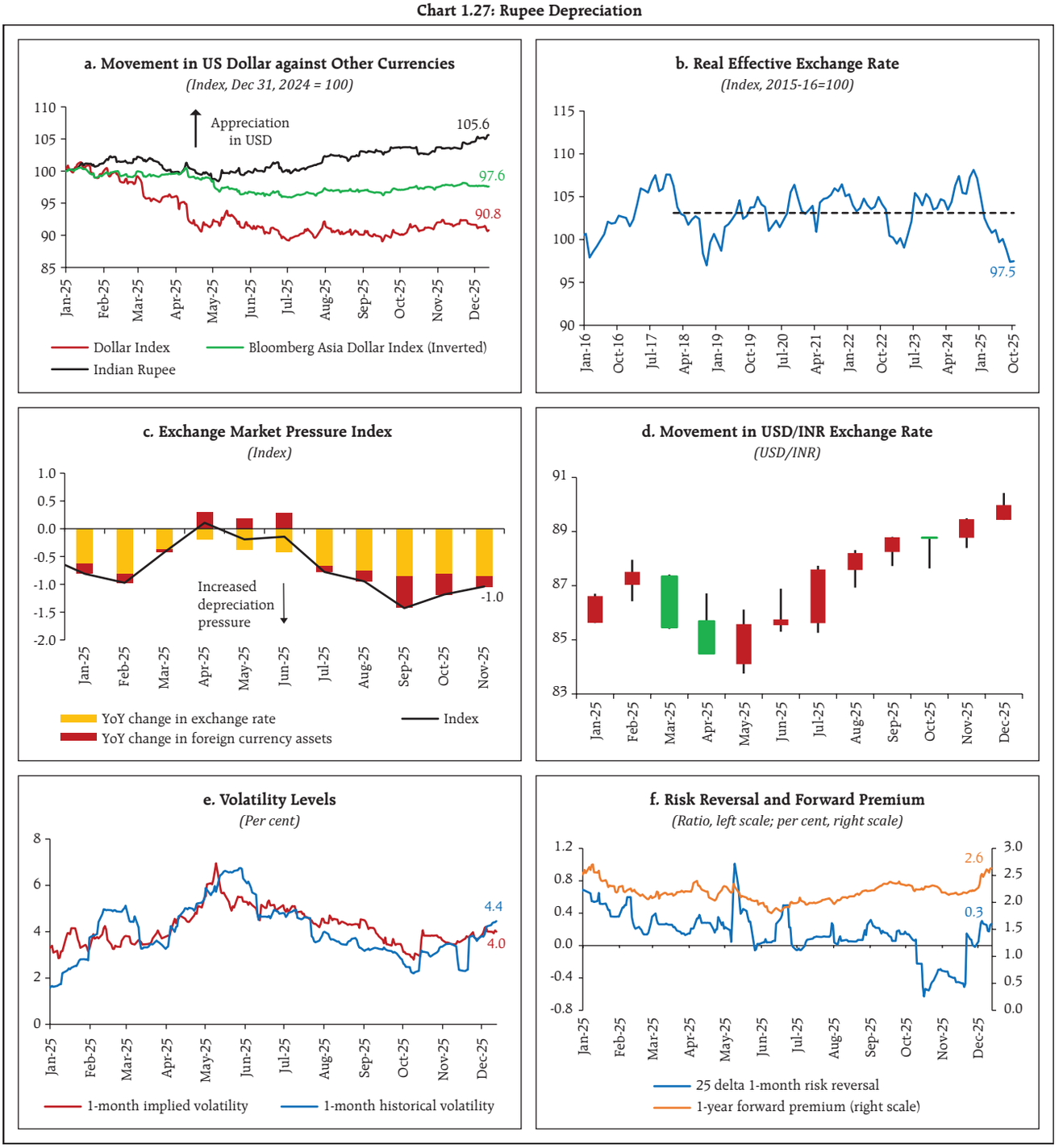
[9] J.P. Morgan announced on September 21, 2023, that it would include Indian government bonds in its Government Bond Index-Emerging Markets (GBI-EM), with the phased inclusion beginning on June 28, 2024. Subsequently, other index providers also announced inclusion. FPI inflows under General and FAR route stand at $8.2 bn for 2025 (till December 10, 2025), as against $16.7 bn in 2024.

[10] Exchange market pressure index (EMP) is used to measure external pressures on the currency and is constructed as a weighted average of exchange rate movements and changes in forex reserves.

$$EMP_t = \frac{1}{\sigma \Delta e_t} \Delta e_t + \frac{1}{\sigma \Delta r_t} \Delta r_t$$

where Δe_t is the y-o-y percentage change in exchange rate relative to the US dollar at time t, and Δr_t is the y-o-y percentage change of foreign exchange reserves at time t as a fraction of the monetary base (M3) at time t-1. $\sigma \Delta e_t$ and $\sigma \Delta r_t$ are the historical standard deviations of the two variables respectively. For more details, see Appendix 3.1 of IMF World Economic Outlook (October 2007, page no. 129-130). Since foreign exchange reserves capture valuation gains, the change in foreign currency assets is taken to provide a more accurate estimate of currency intervention.

Chart 1.27: Rupee Depreciation



Notes: (1) In chart (a), the dollar index measures the performance of the US Dollar against a weighted basket of six major currencies. The Bloomberg Asia Dollar Index replicates the performance of the 9 most liquid Asian currencies, such as the Chinese Renminbi, Korean Won, Singapore Dollar, and Indian Rupee, with weightings determined by trade flows and liquidity. Values above 100 denote appreciation of US Dollar against the respective currency basket.

(2) In chart (b), the trade weighted REER Index is based on 40-currency basket.

(3) In chart (c), the exchange market pressure index uses standardised changes in exchange rates and foreign currency assets to measure net pressure on exchange rate.

(4) In chart (d), black vertical lines show the price range for the month. Green bars denote appreciation in Rupee over the month. Data till December 10, 2025.

(5) In chart (e), the implied volatility is measured using the Black-Scholes model and is widely used as forward-looking metric that indicates the market's expectation of future price swings. Historical volatility is measured by annualising the variance of periodic logarithmic returns over the selected period.

(6) In chart (f), the risk reversal is calculated as the implied volatility for the call option minus the implied volatility for put option on the base currency with the same delta. A positive risk reversal indicates that the implied volatility and thus demand/price of call options is greater than that of put options and suggests a bearish outlook on the Indian rupee.

Sources: Bloomberg; DBIE; and RBI staff estimates.

rate has displayed wider trading range, which in turn has imparted higher volatility (Chart 1.27 d and e). Currency derivatives markets also point to the likelihood of increased volatility going forward as trade tensions continue to weigh on market sentiments. Risk reversal has moved to positive territory, signalling bearish near-term outlook on the Indian Rupee. (Chart 1.27 f).

1.30 Resource mobilisation through capital markets remained steady and grew by 3.3 per cent in H1:2025-26 compared to H1:2024-25 (Table 1.3), with almost two-thirds raised through debt and slightly above one-fourth through equity. The initial public offering (IPO) segment in the Indian equity market, which is vital not only for capital formation but also for bridging the demand-supply gap, remained one of the most active IPO destinations globally. Within this segment, the share of Offer for Sale (OFS), which accounted for 61.3 per cent of the IPO resource mobilisation in H1:2024-25, declined to 56.9 per cent in 2025-26 till November 2025, although on an absolute basis OFS has been steadily increasing (Chart 1.28 a and b).

Table 1.3: Resource Mobilisation through the Indian Securities Market

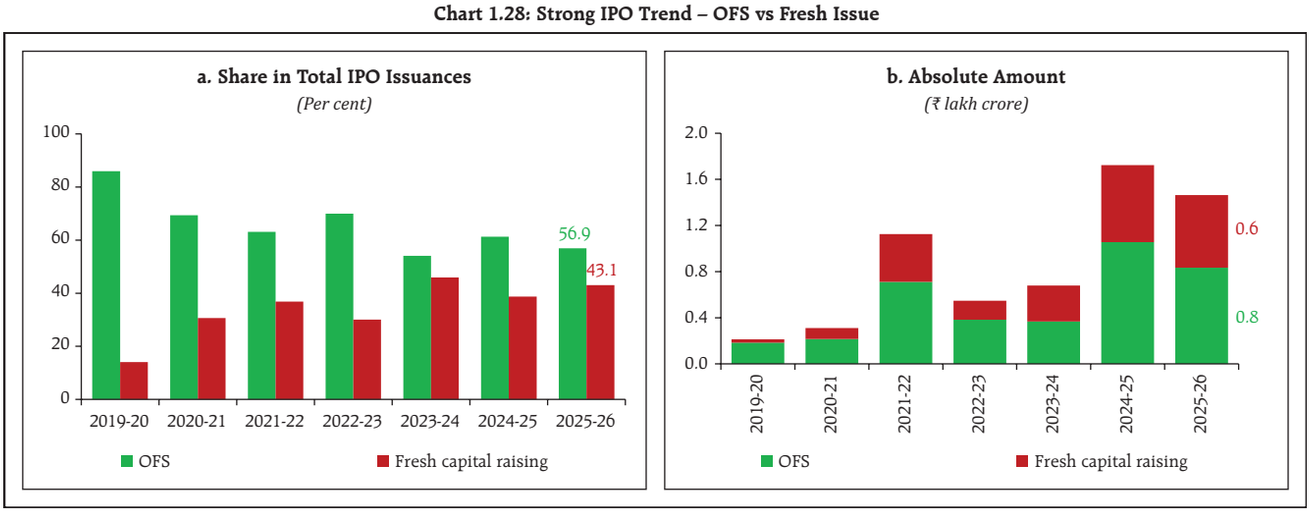
(₹ lakh crore)

Category	2023-24	2024-25	H1:2025-26
Equity-Public	0.8	2.1	0.9
Equity-Private	1.1	2.2	1.2
Debt-Public	0.19	0.08	0.05
Debt-Private on listed basis	8.4	9.9	4.7
REITs	0.06	0.05	0.06
InvITs	0.3	0.3	0.01
AIFs	0.9	1.1	0.7
Total Resource Mobilisation	**11.8**	**15.7**	**7.5**

Note: H1:2025-26 is from April 2025 to September 2025.
Source: SEBI.

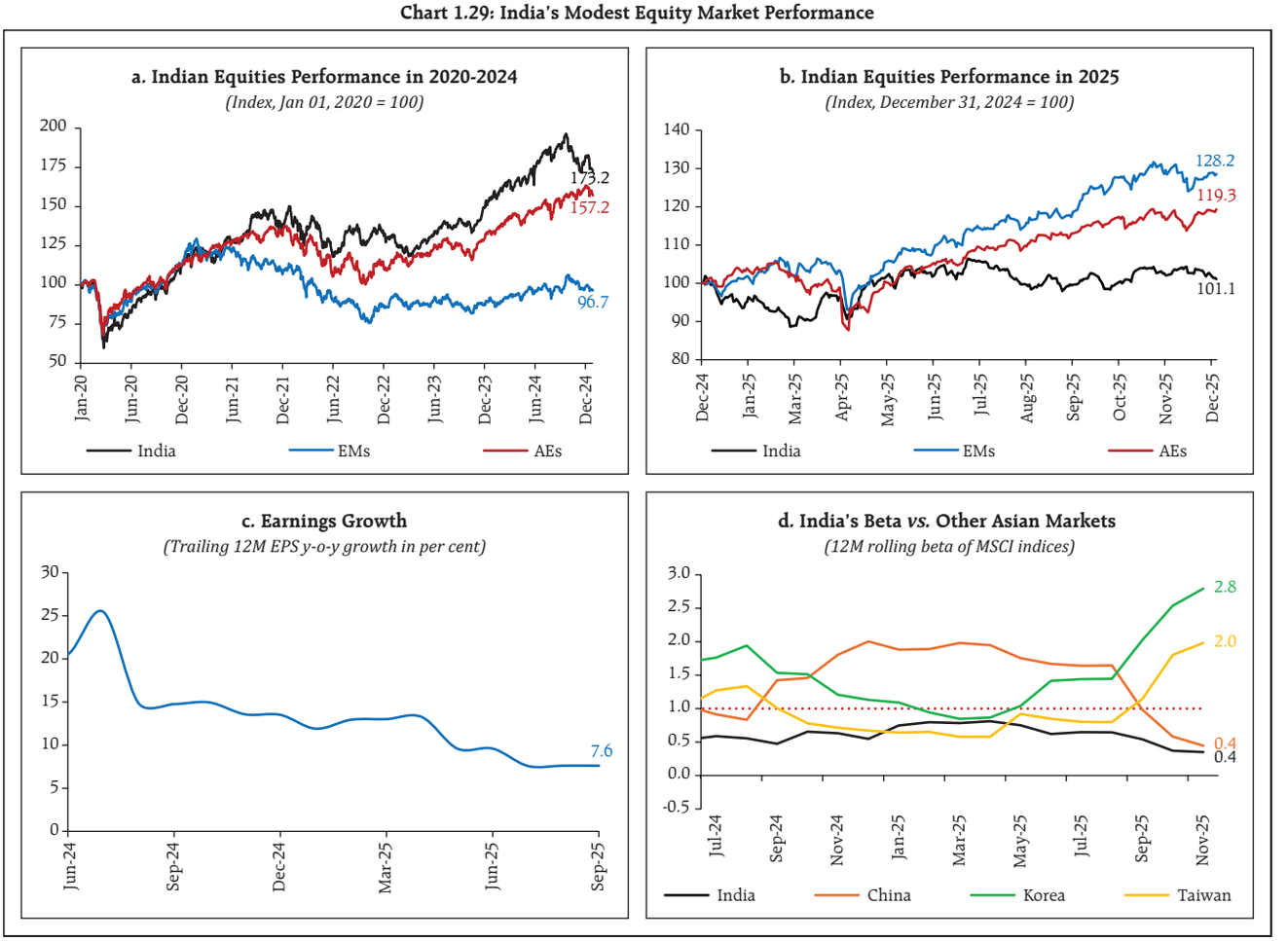
1.31 Indian equity market performance has been modest compared to its emerging market peers this year, following a five-year period of outperformance since 2020 (Chart 1.29 a and b). Tepid corporate earnings growth amid relatively slow nominal GDP growth, higher valuations, sustained FPI outflows, adverse tariff outcomes, and depreciation in INR have weighed on equities' modest performance

Chart 1.28: Strong IPO Trend – OFS vs Fresh Issue



Note: 2025-26 data till November 2025.
Source: SEBI.

Chart 1.29: India's Modest Equity Market Performance



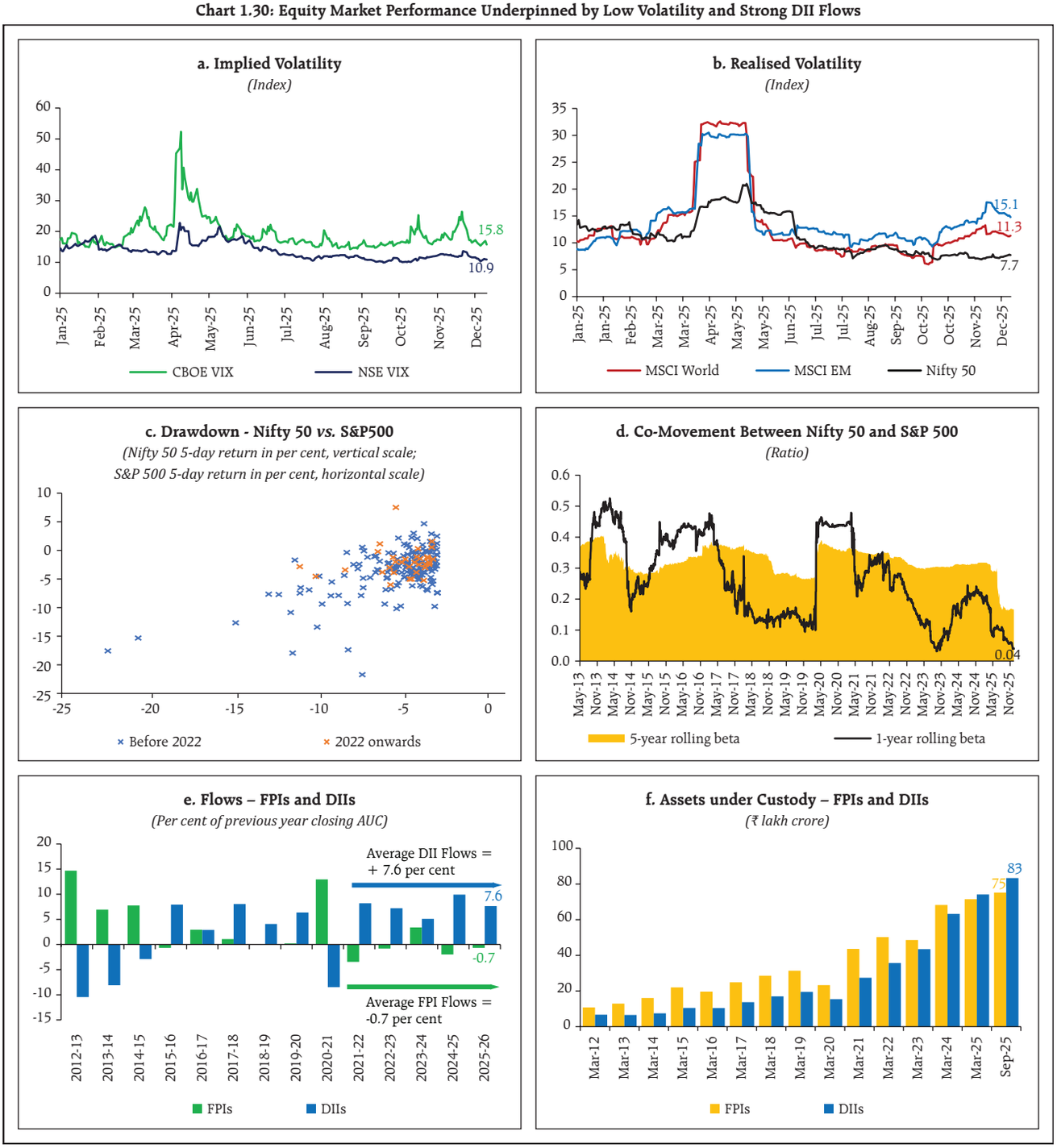
Notes: (1) In chart (a) and (b), equity performance based on dollar returns. MSCI India, MSCI EM and MSCI World have been taken as representative indices for India, EMs and AEs. Data as of December 10, 2025.
(2) In chart (d), the dotted line denotes beta of the benchmark index (MSCI-EM).
Sources: Bloomberg; and RBI staff estimates

(Chart 1.29 c). India's relative performance has also been dragged down by limited AI-driven trades and a lower beta[11] compared with other Asian markets (Chart 1.29 d).

1.32 Notwithstanding the relative underperformance of Indian equities, steady foreign investor outflows, and persistent global economic uncertainty, the Indian equity market has displayed remarkable resilience. Volatility remained subdued compared to other markets (Chart 1.30 a and b). Moreover, the impact of sharp corrections in the US markets, which have historically been outsized on Indian markets, has remained muted with recent data indicating reduced co-movement and declining beta of the Indian market with the US (Chart 1.30 c and d). The stability of the Indian equity market has been underpinned by strong demand from domestic institutional investors (DIIs). Their ownership of Indian stocks has not only surpassed that of foreign investors but also continues to grow (Chart 1.30 e and f). During the calendar year (till December 10, 2025), ₹7.4 lakh crore inflows from DIIs sharply outpaced ₹1.6 lakh crore outflows from foreign portfolio investors.

[11] Beta measures the covariability of Indian markets' returns with the returns of other markets.

Chart 1.30: Equity Market Performance Underpinned by Low Volatility and Strong DII Flows

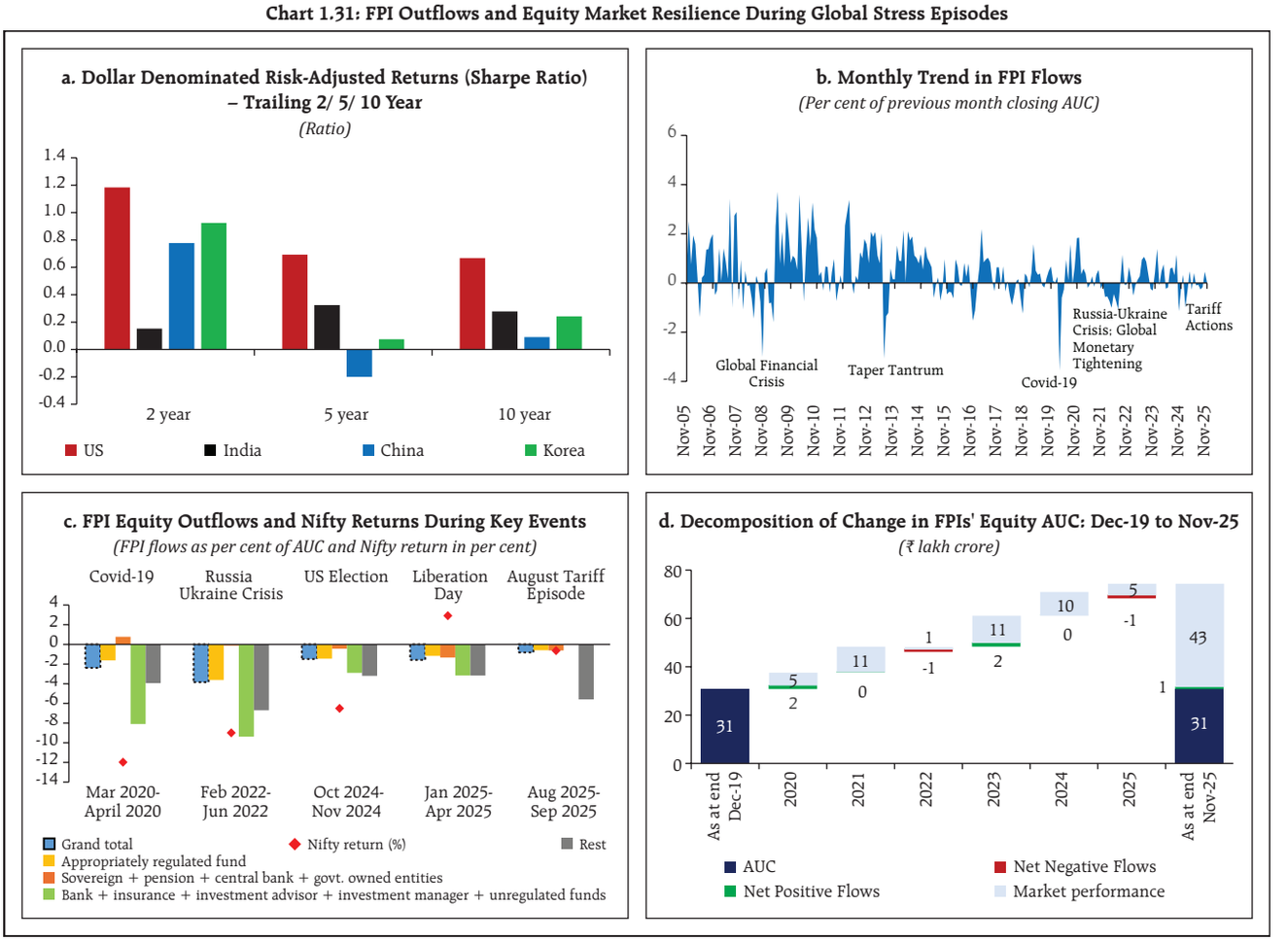


Note: (1) In chart (c), drawdown episodes with US 5-day rolling return decline of more than 3 per cent are considered.
(2) In chart (e), DII flows have increased at an average of ~7.6 per cent per year while FPI flows have reduced at an average of ~0.7 per cent per year between 2021-22 and 2025-26. Data updated till December 10, 2025.

Sources: BSE; NSDL; and SEBI.

1.33 FPIs remained net sellers of Indian equities cumulatively for the fifth year in a row as India has been a relative underperformer *vis-à-vis* EM peers in terms of risk-adjusted dollar returns during the last two years. However, India has performed better over a longer-term horizon (Chart 1.31 a). Nonetheless, their influence on domestic equity movements has been diminishing, and even during risk events—such as the recent tariff shock—capital outflows have been lower compared to past stress episodes. (Chart 1.31 b). Analysis of historical risk-off events indicates that the resilience of the Indian equity market improved despite foreign investor selling pressures during identified episodes. Within the FPI categories, banks, investment advisors and unregulated funds have shown relatively higher

Chart 1.31: FPI Outflows and Equity Market Resilience During Global Stress Episodes



Notes: (1) In chart (b), FPI Flows as a percentage of assets under custody (AUC) is estimated as total FPI flows (equity and debt combined) during the month as a percentage of FPI AUC (equity and debt combined) as of the end of the previous month. Over the period between January 2012 and November 2025, equities accounted for an average of about 90 per cent of total FPI assets (equity and debt combined).

(2) In chart (c), the grand total represents all FPIs; all categories of FPI owners have been put into four buckets – appropriately regulated funds (~55 per cent of total FPI AUC), sovereign + pension fund + central bank + government owned entities (~25 per cent of total FPI AUC), banks, insurance, investment advisors, investment managers, unregulated funds (~15 per cent of total FPI AUC), and rest of the categories (~5 per cent of total FPI AUC); Nifty returns are estimated on end-of-month basis.

(3) In chart (d), the change in the AUC of FPIs from Dec-19 to Nov-25 has been decomposed into market performance (valuation changes) and flows for each year.

(4) Constituent items may not add up to the total due to rounding off.

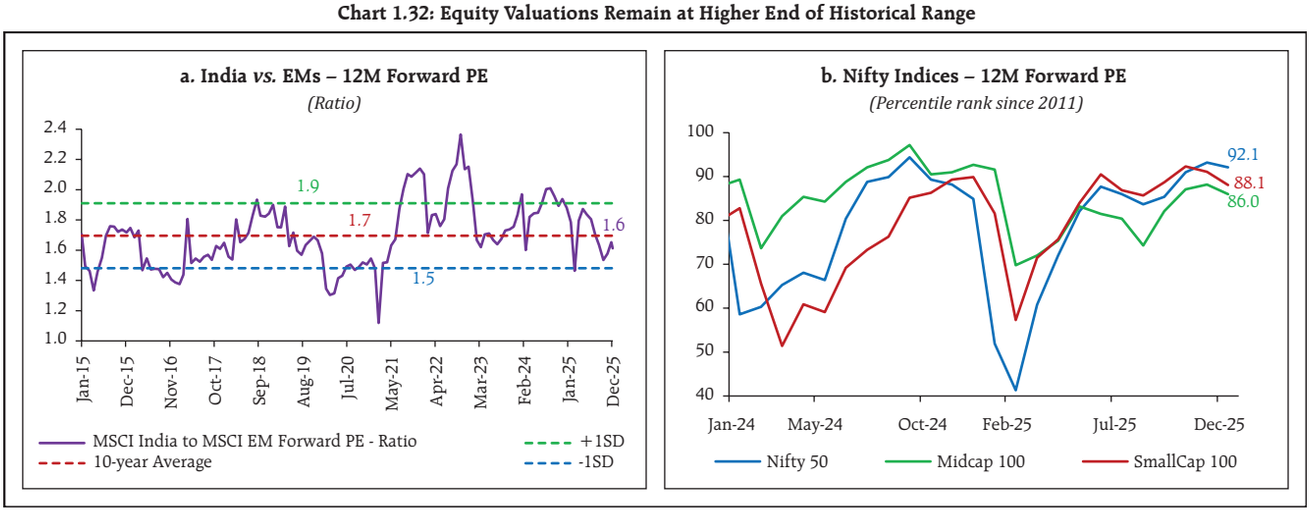
Sources: SEBI; NSDL; Bloomberg; and RBI staff estimates.

sensitivity to global risk sentiment, recording larger outflows as a share of their AUC during stress episodes (Chart 1.31 c). Importantly, the decomposition of FPIs' AUC shows that the changes in AUC have been primarily driven by valuation gains, which indicate that the recent outflows could be attributed to cyclical profit booking rather than structural shift in FPIs' outlook for Indian equities (Chart 1.31 d).

1.34 Indian equities have been trading at a premium relative to other emerging markets. Recent market corrections, however, have narrowed the valuation gap bringing it closer to the 10-year average of 70 per cent from 100 per cent in September 2024 (Chart 1.32 a). Nonetheless, valuations have returned to the high end of the historical range with markets recovering from the tariff shock and trading near their lifetime highs (Chart 1.32 b).

1.35 The implied equity risk premium (ERP)[12] demanded by investors, a key barometer of the price of risk in equity markets, has increased since September 2024 for all Nifty indices (Chart 1.33 a). Although, Nifty 50 cumulative returns since March 2022 have been primarily driven by earnings, returns of midcaps and smallcaps are driven more by compression of ERP[13] than by earnings growth (Chart

Chart 1.32: Equity Valuations Remain at Higher End of Historical Range

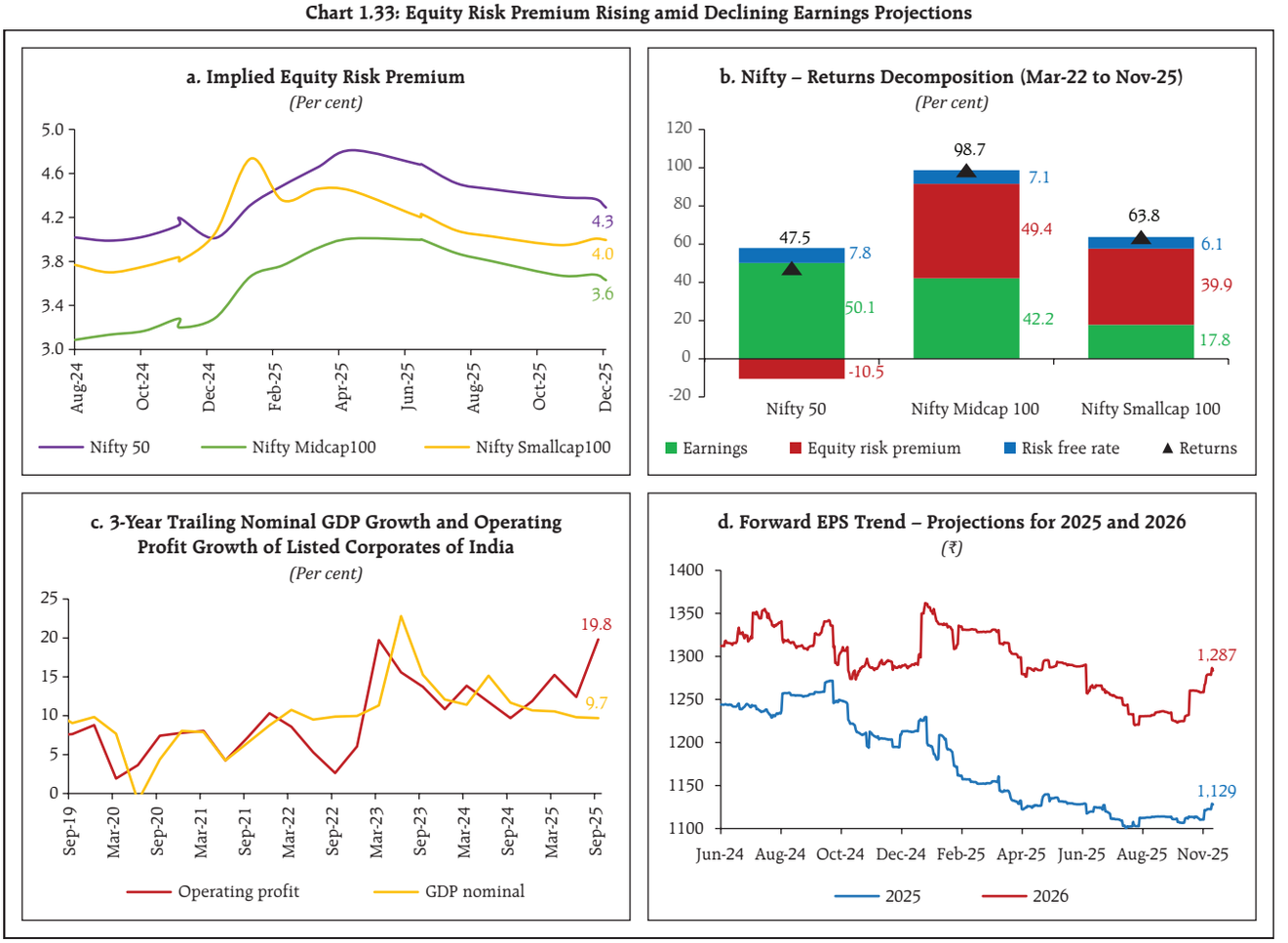


Note: Data as on December 10, 2025.
Sources: Bloomberg; and RBI staff estimates.

[12] The implied equity risk premium (ERP) is a forward-looking measure of the extra return investors expect from stocks over a risk-free rate, like government bonds. Instead of using historical returns, it is derived from current stock prices, estimated future cash flows (like earnings or dividends) and growth rate assumptions. The calculation for the implied ERP works backward from current market prices to determine the discount rate that justifies those prices. If investors' risk appetite increases, they demand less premium over risk-free rate, thereby decreasing the cost of equity and increasing the present value of equity.

[13] A lower implied ERP can suggest that stocks are becoming less attractive relative to bonds, or that investor confidence is high, driving stock prices up and compressing the premium.

Chart 1.33: Equity Risk Premium Rising amid Declining Earnings Projections



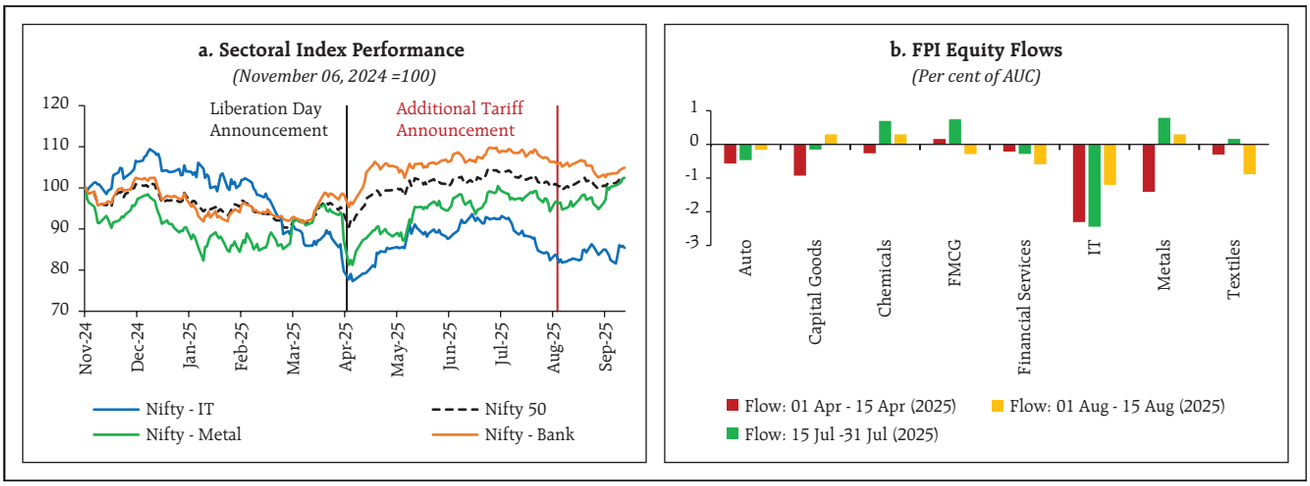
Notes: (1) In chart (b), data updated till December 10, 2025.
(2) In chart (d), lines show the time series of the projected yearly EPS of the Nifty 50 index for 2025 and 2026.
Sources: Bloomberg; and RBI staff estimates.

1.33 b). Moreover, risk to earnings growth remains in an environment of relatively slow nominal GDP growth, with forward earnings per share (EPS) consensus estimates for Nifty 50 for 2025 and 2026 showing a decline (Chart 1.33 c and d).

1.36 An assessment of the impact of the recent U.S. tariffs on domestic equity market showed heterogenous responses in equity sectoral indices, both during the April and August 2025 episodes (Chart 1.34 a and b), even as broad market indices remained resilient.

1.37 Furthermore, an event-study analysis revealed that while aggregate Bank Nifty Index exhibited limited volatility around the liberation day announcement, there was substantial variation among individual bank stocks with those having higher exposure to trade-sensitive corporates recording larger negative returns (Chart 1.35). The dispersion of returns across other banks was narrower, highlighting that market reactions were not systemic, but concentrated among few trade-exposed banks.

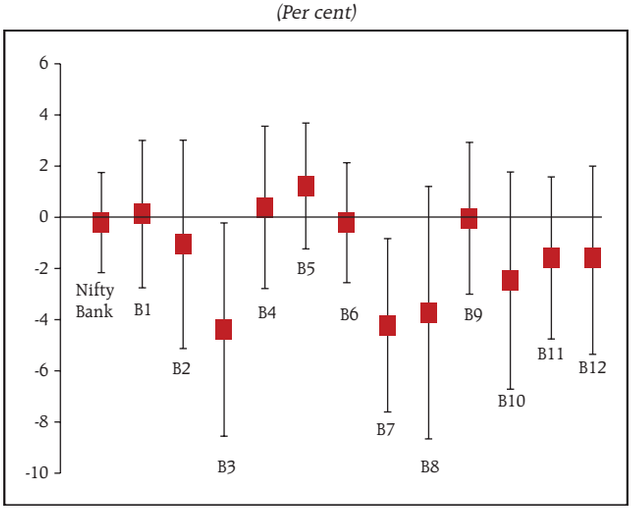
Chart 1.34: Impact of US Tariffs - Sectoral Indices Performance



Notes: (1) In chart (a), November 06, 2024 is taken as the base date corresponding to the announcement of the US election results. FPI sectoral flows are disclosed on a fortnightly basis.
(2) In chart (b), the FPI equity flows is shown as a per cent of AUC at the beginning of the fortnight.
Sources: Bloomberg; CDSL; NSDL; and RBI staff estimates.

1.38 Corporate debt market continued to witness growth, with net outstanding of bonds (listed and unlisted) increasing to ₹57.5 lakh crore as at end-November 2025. However, secondary market turnover remained low (Chart 1.36 a). AAA-rated companies continued to dominate the issuance even as issuance by firms rated below AA has increased (Chart 1.36 b). Listed private placements remained the preferred route for resource mobilisation led by NBFCs (Chart 1.36 c). More than 90 per cent of the bonds issued were fixed coupon bonds, with floating rate instruments largely linked to money market, government securities and equity-linked benchmarks (Chart 1.36 d). NBFCs and non-financial corporates remained the prime mobilisers of funds, whereas insurance companies and mutual funds remained the major providers in the listed corporate bond market category. Unlisted corporate bonds are mainly held by non-financial corporates and newer investment vehicles such as alternative investment funds (Chart 1.36 e and f).

Chart 1.35: Bank Stock Performance Around Liberation Day Announcement
(Per cent)



Note: The chart presents the estimated β_0 coefficients from the regression specification: $\ln(R_t) = \alpha + \sum_{[s=-5]}^{(s=4)} \beta_s D_{s,t} + \varepsilon_t$. Where $\ln(R_t)$ is the log daily returns of Bank Nifty (or specific bank stocks). $D_{s,t}$ =1 if day t is s days relative to the tariff announcement (ranging from 5 days before to 4 days after), and 0 otherwise. β_s captures the average return impact 's' days from the event, ε_t, is the error term. The dotted vertical lines represent the 95 per cent confidence intervals around the point estimates. B_i represents individual bank stocks.
Sources: Bloomberg; and RBI staff estimates.

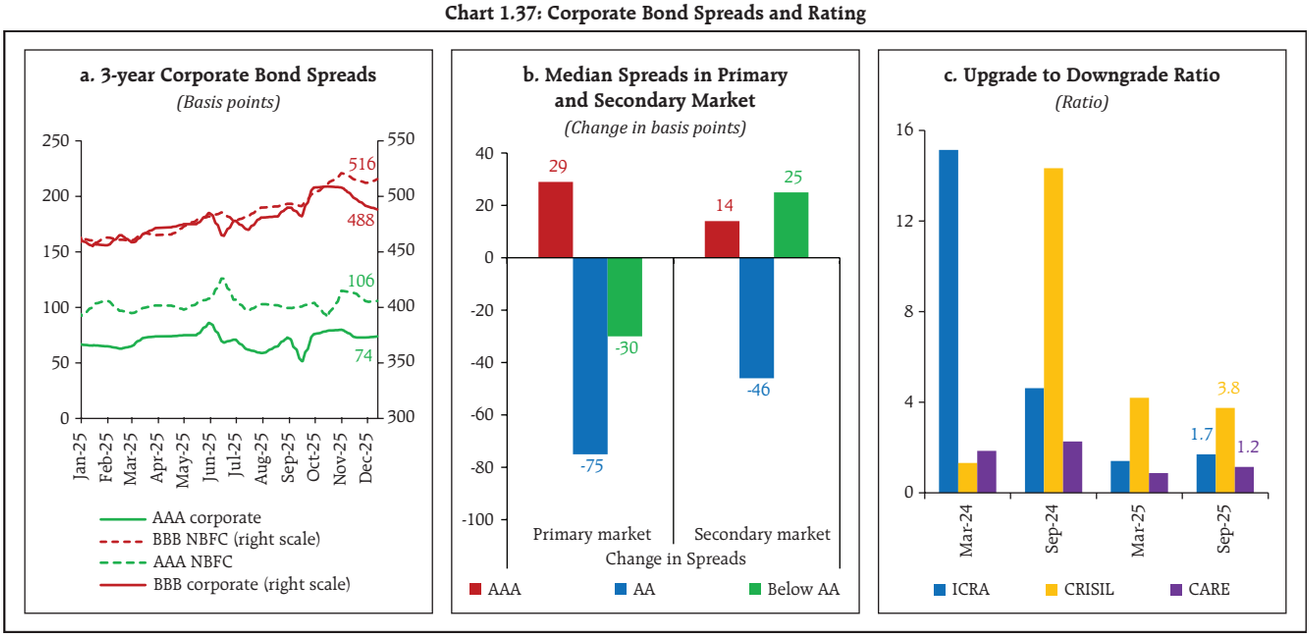
1.39 Corporate bond spreads have remained stable, with AAA-rated bonds trading 80 to 100 basis points above similar-maturity government securities. Median spreads for AA and lower-rated

Chart 1.36: Corporate Bond Market Trends

Notes: (1) In chart (a), average monthly turnover is a percentage of total outstanding. Data for 2025-26 till November 2025.
(2) In chart (b), below AA category includes bonds for which the rating is not available. Data updated till December 10, 2025.
(3) In chart (c), only major categories are shown. Data pertains to April-November 2025.
(4) In chart (d), data updated till December 10, 2025.
(5) In chart (e) and (f), data as of end-November 2025. NBFC: Non-Banking Finance Company; PSU: Public Sector Undertaking; HFC: Housing Finance Company; FPI: Foreign Portfolio Investor; AIF: Alternative Investment Fund.

Sources: SEBI; Prime database; NSDL; CDSL; and RBI staff estimates.

Chart 1.37: Corporate Bond Spreads and Rating



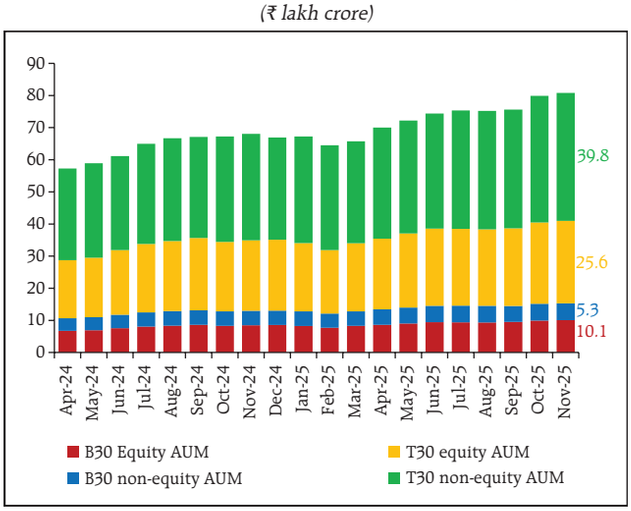
Notes: (1) In chart (b), the net change in median yields from June 2025 to November 2025.
(2) In chart (c), data for the respective half-year.
Sources: SEBI; NSDL; CDSL; and RBI staff estimates.

borrowers in the primary market fell as a sign of improving risk appetite among investors (Chart 1.37 a and b). The upgrade-to-downgrade ratio, known as the credit ratio, also indicates an improving credit environment (Chart 1.37 c).

1.40 The assets under management (AUM) of the domestic mutual fund industry increased to ₹80.8 lakh crore, recording a 18.7 per cent growth (y-o-y) as at end-November 2025 (Chart 1.38). Out of the total AUM, ₹35.7 lakh crore were in equity schemes and ₹45.1 lakh crore in non-equity schemes.[14]

1.41 Robust inflows through systematic investment plans (SIPs) continued as H1:2025-26 recording a net contribution of ₹1.0 lakh crore, up by

Chart 1.38: AUM of the Domestic Mutual Fund Industry Growing
(₹ lakh crore)

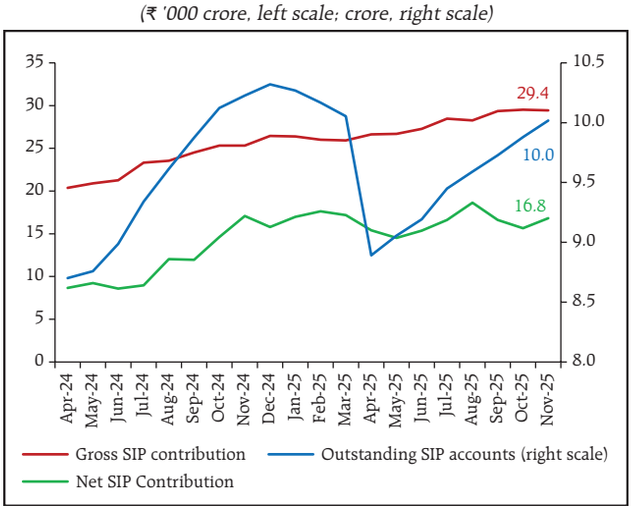


Note: T30 refers to the top 30 geographical locations in India and B30 refers to the locations beyond the top 30 cities.
Source: SEBI.

[14] Equity schemes include all growth/equity-oriented schemes, while non-equity schemes include hybrid schemes, income/debt-oriented schemes, solution-oriented schemes and other schemes.

Chart 1.39: Resilient SIP Flows

(₹ '000 crore, left scale; crore, right scale)



Note: Pursuant to a SEBI directive, AMCs are now considering failed SIPs as discontinued from the month of January 2025. The April 2025 data includes past legacy data on account of failed SIPs.

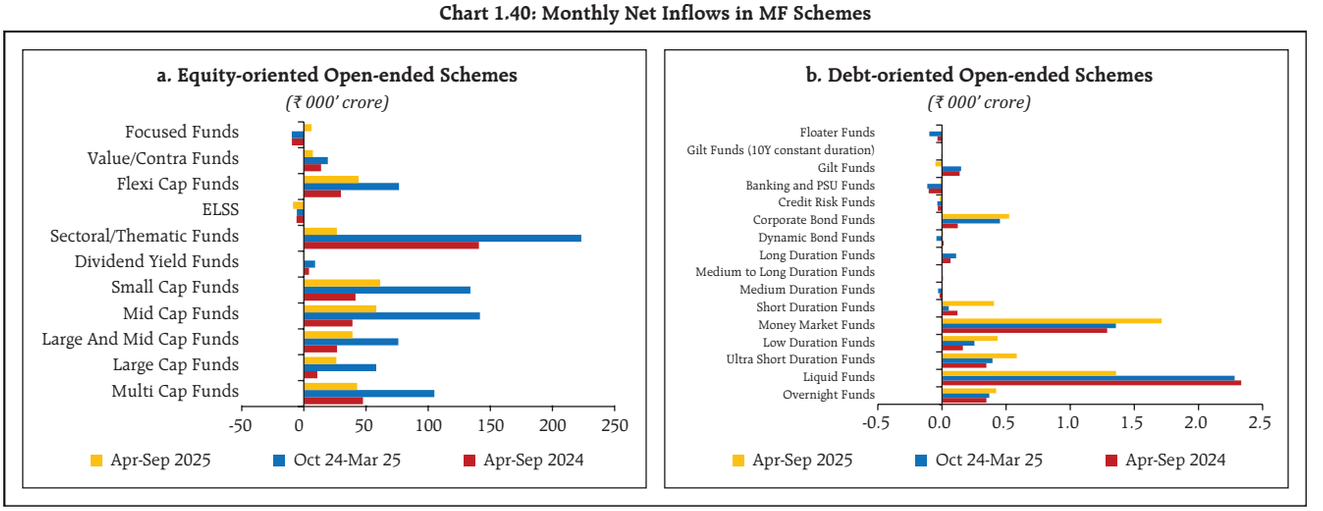
Source: SEBI.

63.4 per cent (y-o-y) and the number of outstanding SIP accounts, which sharply fell in April 2025, is also growing (Chart 1.39). The SIP AUM both as a share of the AUM of equity-oriented schemes and as a share of the total AUM of the domestic mutual fund industry has been increasing and currently stands at 54.4 per cent and 20.4 per cent as at end-November 2025, respectively, underlining the steady demand for equities exposure among retail investors.

1.42 Overall, however, equity-oriented schemes have seen a slowdown in net inflows in H1:2025-26 - down 10.6 per cent compared to H1:2024-25. Amongst the schemes, the highest inflows were in small-cap funds, mid-cap funds and flexi-cap funds, while thematic funds saw moderating inflows *vis-à-vis* the previous period (Chart 1.40 a). Cumulative net inflows into open-ended debt schemes rose 12.9 per cent during the same period, with money market and liquid funds recording the highest inflows (Chart 1.40 b).

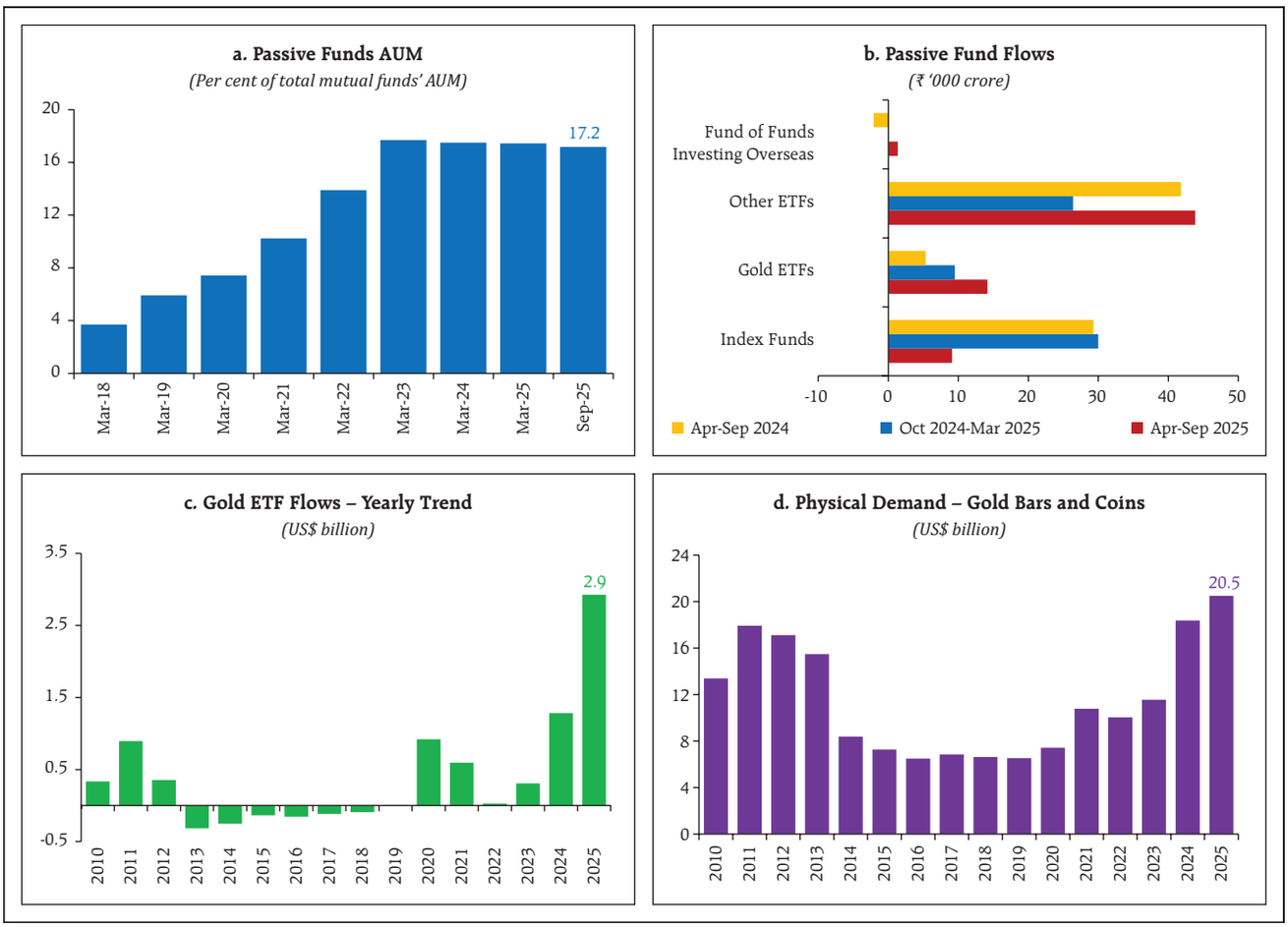
1.43 Flows to passive funds also slowed down by 7.9 per cent in H1:2025-26 compared to H1:2024-25, even though their AUM remained steady at 17 per cent of the total MF AUM (Chart 1.41 a). Inflows into ETFs and index funds were flat or declined, except for Gold ETFs, which surged 128 per cent year-on-year to a record US$ 2.9 billion in 2025 (Chart 1.41 b and c). Rising gold prices also increased demand for physical gold, which reached US$ 20 billion in value terms this year (Chart 1.41 d).

Chart 1.40: Monthly Net Inflows in MF Schemes



Source: SEBI.

Chart 1.41: Domestic Passive Fund Flows



Sources: AMFI; and World Gold Council.

I.3 Corporate and Household Sector

I.3.1 Corporate Sector

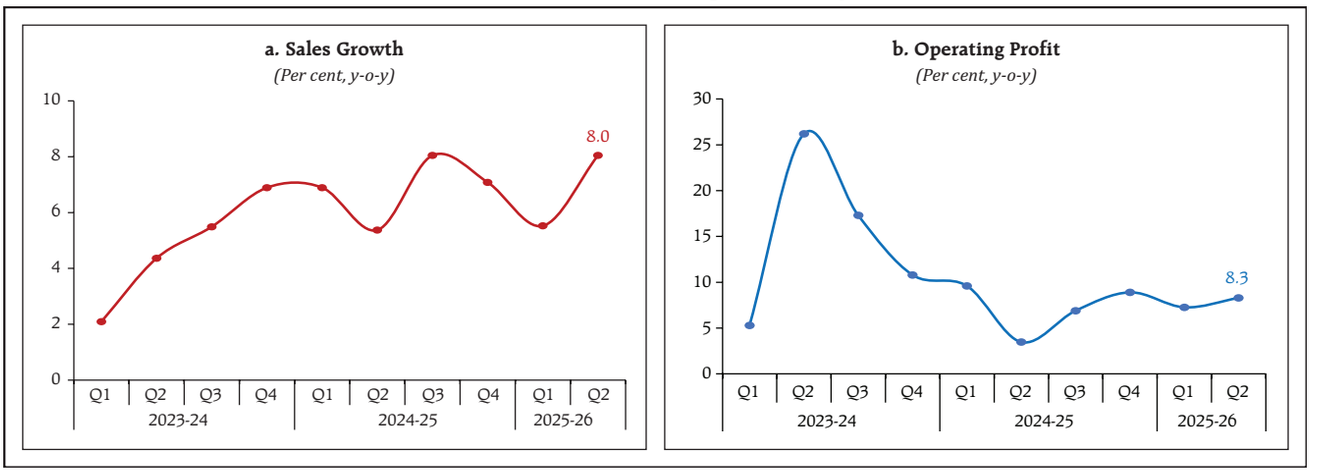
1.44 Private non-financial corporate sector remained healthy, supported by steady profitability and sales as well as stable firm-level risk metrics amid trade related disruption. Sales growth of listed non-government non-financial companies (NGNF) improved to 8.0 per cent (y-o-y) during Q2:2025-26 from 5.5 per cent growth in the previous quarter (Chart 1.42 a), led by improvement in sales growth across all the major sectors.[15] Operating profit rose by 8.3 per cent (y-o-y) during Q2:2025-26 (Chart 1.42 b) but remained flat sequentially from Q1:2025-26.

1.45 At the aggregate level, debt serviceability, as measured by the interest coverage ratio (ICR)[16], and the proportion of vulnerable firms – those with ICR<=1 – and debt held by those firms

[15] Based on quarterly results of 3,118 listed non-government non-financial companies for Q2:2025-26.

[16] ICR (*i.e.*, ratio of earnings before interest and tax to interest expenses) is a measure of debt servicing capacity of a company. The minimum value for ICR is 1 for a company to be viable.

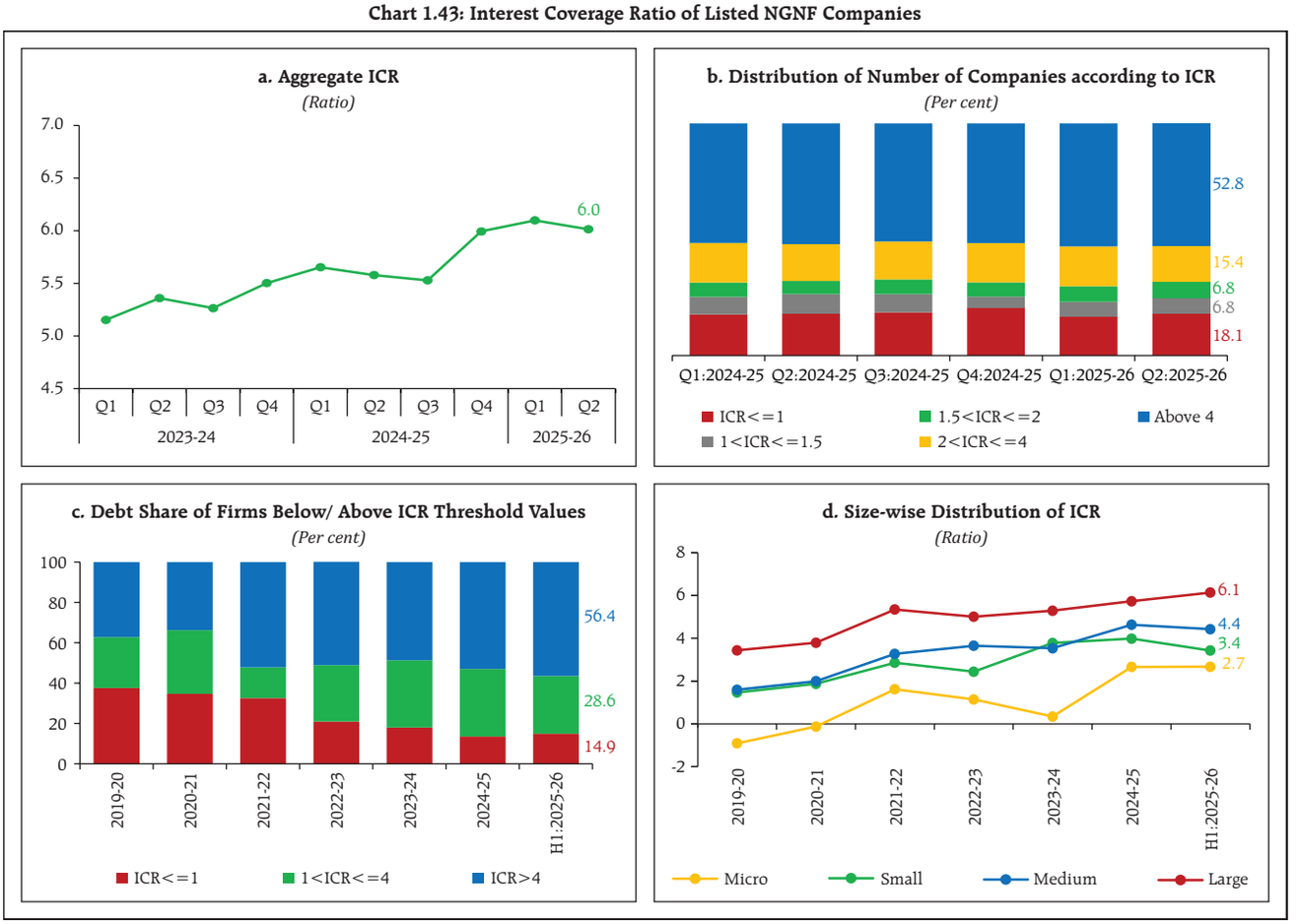
Chart 1.42: Listed Private Non-Financial Companies – Steady Sales and Profits



Note: The number of companies varies across quarters. For Q2:2025-26, results are based on 3,118 listed private non-financial companies.
Sources: Capitaline database; and RBI staff estimates.

broadly remained stable (Chart 1.43 a, b and c). At a disaggregated level, the ICR has moderated marginally across different enterprises, except for large firms (Chart 1.43 d).

Chart 1.43: Interest Coverage Ratio of Listed NGNF Companies



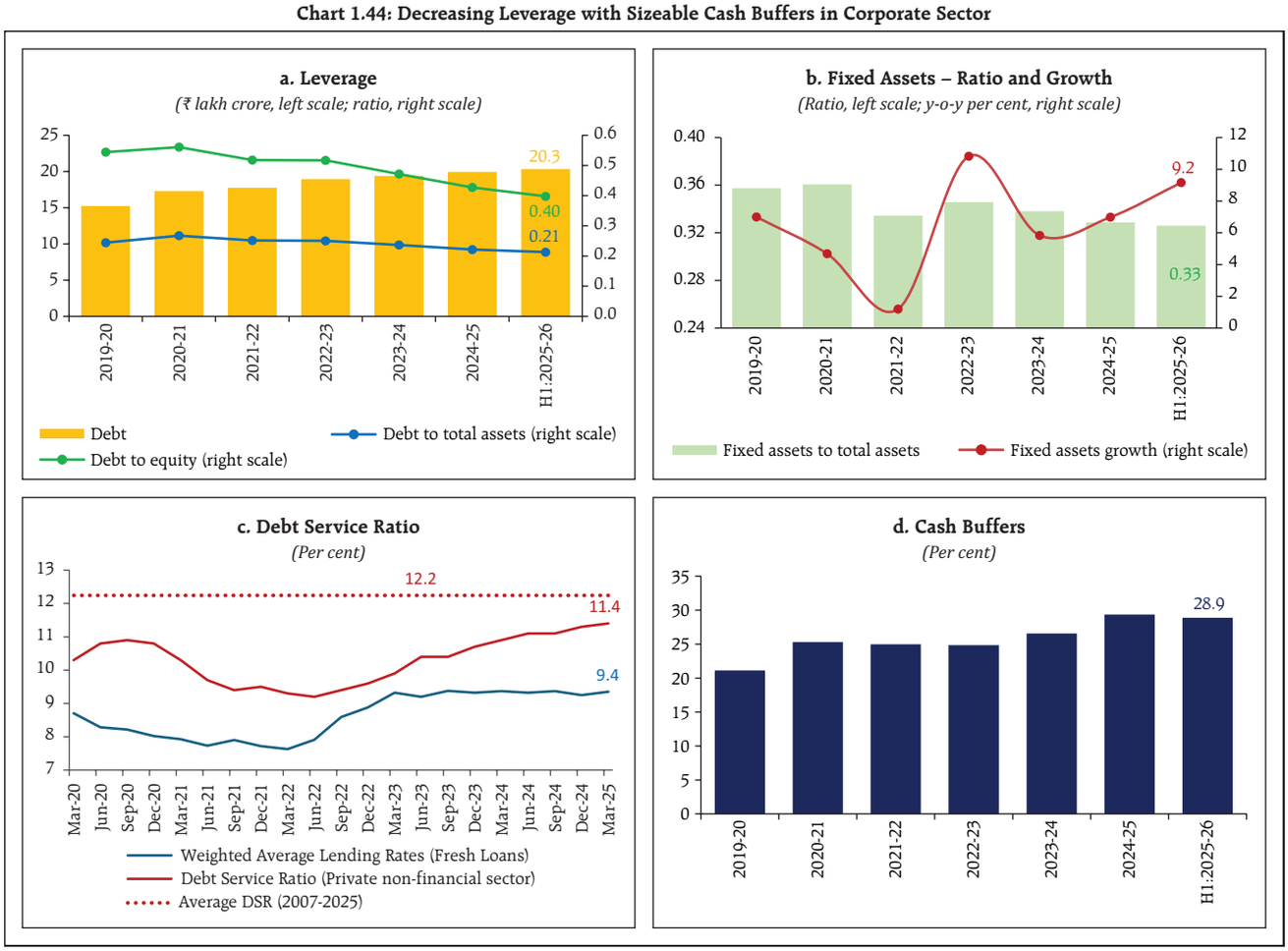
Notes: (1) The number of companies varies across periods. In chart (a) and (b), results are based on 2,725 listed NGNF companies for Q2:2025-26 that have non-zero interest expenses.
(2) In chart (c), debt is calculated as total liabilities less total equity. Results are based on 2,536 listed NGNF companies who have non-zero interest expenses for H1:2025-26.
(3) Chart (d) is based on data of 2,828 listed NGNF companies for H1:2025-26. The superset of companies for each period has been divided into four quartiles by size (total assets) – Micro (Quartile 1), Small (between Quartile 1 and Quartile 2), Medium (between Quartile 2 and Quartile 3) and Large Companies (above Quartile 3).
Sources: Capitaline database; and RBI staff estimates.

1.46 The balance sheet analysis of listed NGNF companies indicated that the gradual decline of leverage in terms of both debt-to-total assets and debt-to-equity has continued (Chart 1.44 a).[17] Fixed assets remained flat as a ratio of total assets although on an absolute basis they grew by 9.2 per cent (y-o-y) during H1:2025-26 as compared to 7 per cent in 2024-25 (Chart 1.44 b). The debt service ratio of non-financial sector remained below its historical average even as the weighted average lending rate has increased by 172 bps between March 2022 and March 2025. Moreover, corporate cash buffers remained substantial (Chart 1.44 c and d).

I.3.2 Household Sector

1.47 Household debt stood at 41.3 per cent of GDP as at end-March 2025, marking a sustained increase compared to its 5-year average of 38.3 per cent. However, relative to most of the peer EMEs, India's household debt remained lower (Chart 1.45 a and b).

Chart 1.44: Decreasing Leverage with Sizeable Cash Buffers in Corporate Sector

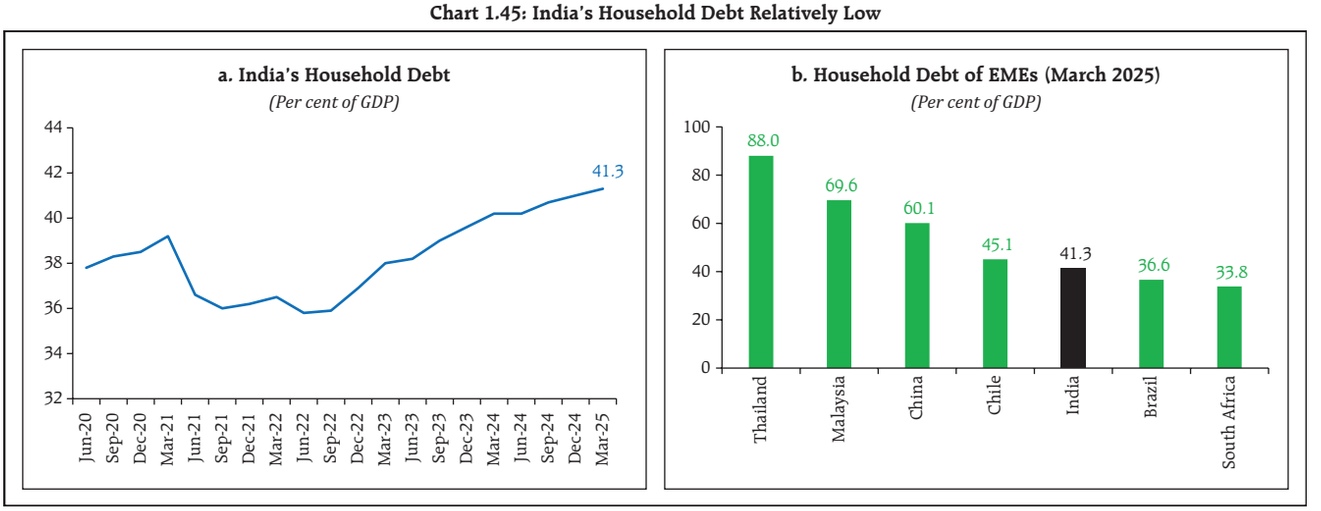


Notes: (1) In chart (a), leverage is defined as debt/equity and debt/total assets, wherein debt = sum of 'long-term borrowings' and 'short-term borrowings' and equity = sum of 'share capital' and 'reserves and surplus'.
(2) In chart (a), (b) and (d), annual data is based on 3,498 common listed NGNF companies, while half-yearly analysis is based on 3,449 listed NGNF companies.
(3) In chart (c), the BIS database on 'debt service ratio' reflects the share of income used to service debt for the total private non-financial sector.
(4) In chart (d), cash buffer is defined as cash/total liabilities*100, wherein cash = sum of 'cash and cash equivalents', 'short term loans and advances' and 'current investments'; and total liabilities = sum of 'total long-term borrowings' and 'total current liabilities' less 'short-term provisions'.

Sources: Capitaline; BIS; and RBI staff estimates.

[17] Half-yearly balance sheet analysis is based on abridged balance sheet of 3,449 listed non-government non-financial companies.

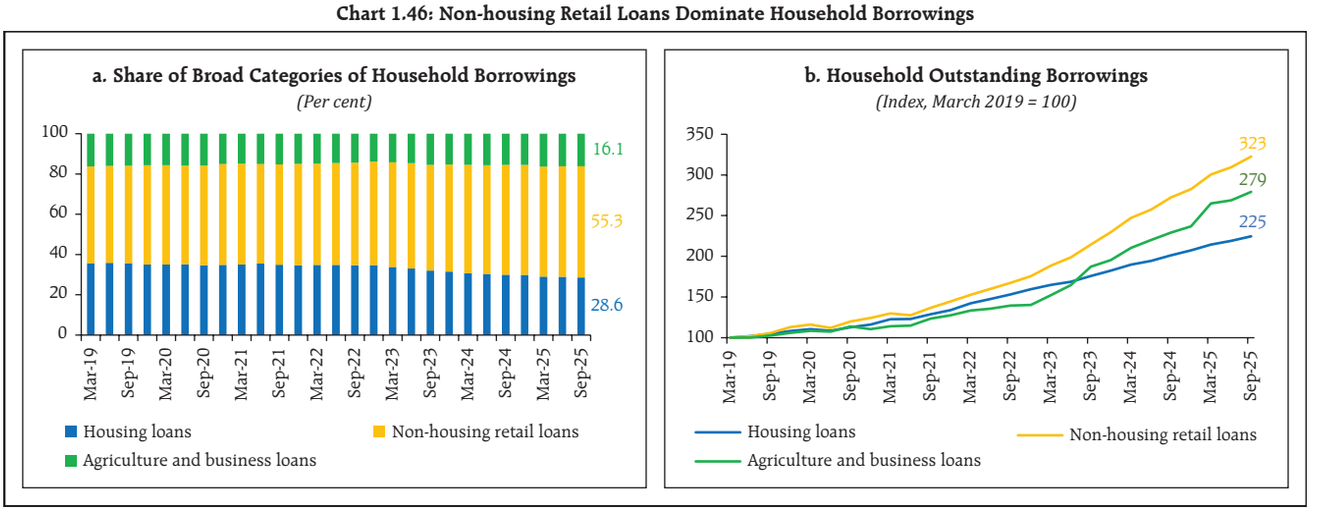
Chart 1.45: India's Household Debt Relatively Low



Note: Data for India is sourced from the RBI, while data for other countries is sourced from the BIS.
Sources: RBI; and BIS database.

1.48 Among broad categories of household borrowings[18], non-housing retail loans extended mostly for consumption purposes continue to be the dominant segment, accounting for 55.3 per cent of total household borrowing from financial institutions as of September 2025 (Chart 1.46 a). Their share has risen over the years, with growth consistently surpassing that of housing loans, and agriculture and business loans (Chart 1.46 b). From a risk perspective, the share of better-rated customers, *viz.*, prime and above, has increased both in terms of the outstanding amount and number of borrowers, indicating that the overall resilience of the household sector remains sound (Chart 1.47 a and b).

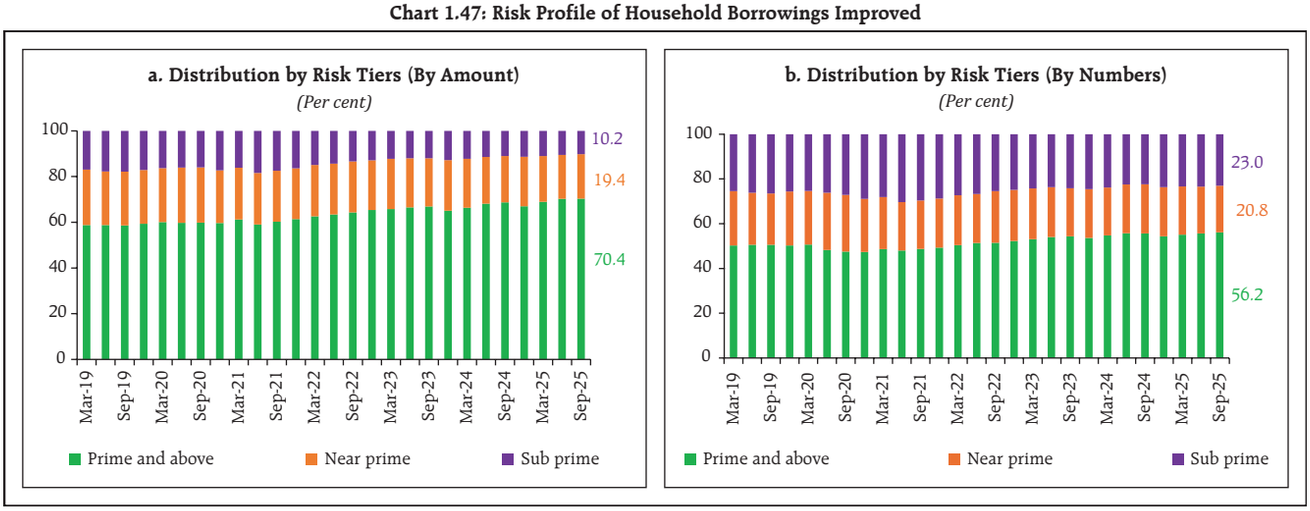
Chart 1.46: Non-housing Retail Loans Dominate Household Borrowings



Source: TransUnion CIBIL.

[18] In this analysis, consumer segment loans are used as a proxy for the total household debt. Consumer segment loans refer to credit that is extended to individuals in their personal capacity, utilised for either personal or business purposes, and is recorded in the consumer repository of credit bureau(s).

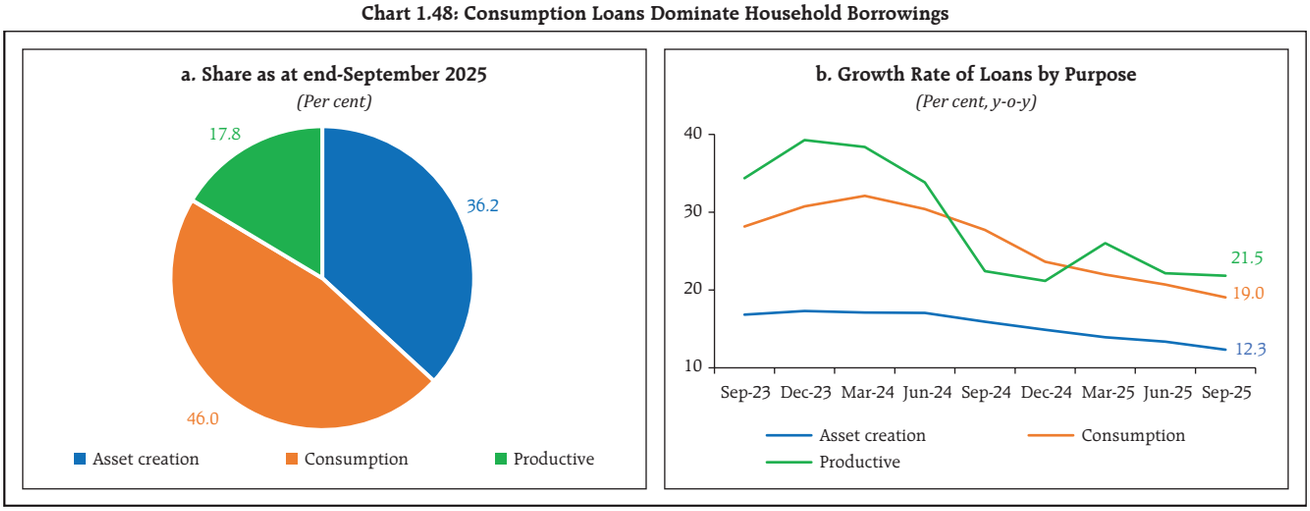
Chart 1.47: Risk Profile of Household Borrowings Improved



Note: The segregation of risk tiers based on CIBIL scores is as follows – Super Prime:791-900; Prime Plus: 771-790, Prime: 731-770; Near Prime: 681-730; and Sub-Prime: 300-680.
Source: Transunion CIBIL.

1.49 The decomposition of household borrowings shows a dominant share of loans taken for consumption purposes[19] followed by asset creation[20] and productive purposes[21] (Chart 1.48 a). The growth rate of these loans has moderated (Chart 1.48 b). Risk profile of borrowers availing loans for consumption and productive purposes has shown improvement, with the share of prime and above borrowers in outstanding loans showing an increasing trend (Chart 1.49 a and b).

Chart 1.48: Consumption Loans Dominate Household Borrowings



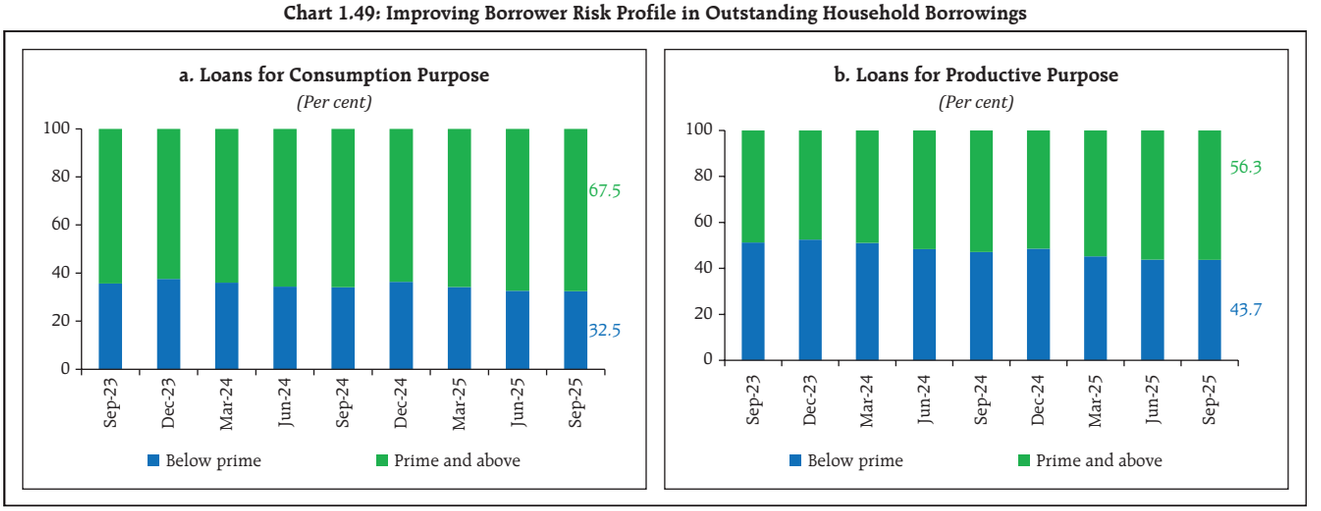
Sources: Transunion CIBIL; and RBI staff estimates.

[19] Includes personal loans, credit cards, consumer durable loans, other personal loans, *etc.*

[20] Includes housing loans, vehicle loans and two-wheeler loans.

[21] Includes agriculture loan - individual, business loan - individual and education loans.

Chart 1.49: Improving Borrower Risk Profile in Outstanding Household Borrowings



Sources: Transunion CIBIL; and RBI staff estimates.

1.50 Personal loans formed 22.3 per cent of consumption purpose loans as at end-September 2025. The risk-tier migration matrix for personal loans shows that a higher percentage of borrowers retained their risk tier categories in the September 2024-2025 period than in the September 2023-2024 period. Near prime and prime borrowers saw higher upgrades while prime plus and super prime borrowers witnessed a higher share of downgrades, but a large part of these borrowers remained in the prime and above category (Table 1.4).

1.51 Net household financial savings improved to 7.6 per cent of GDP in Q4:2024-25 on account of rise in financial assets and stabilisation of liabilities,

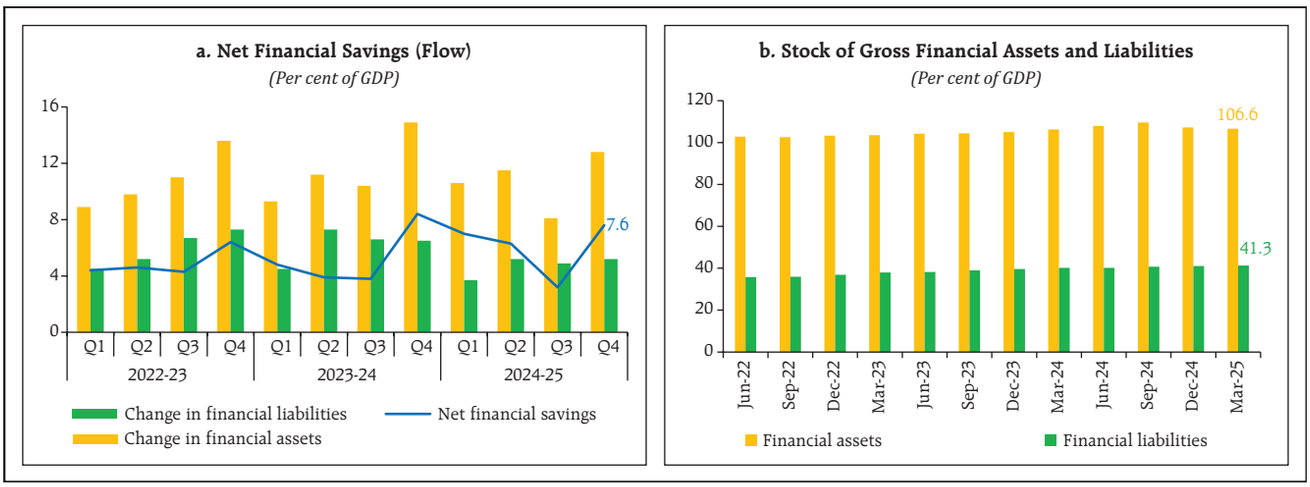
Table 1.4: Personal Loans - Score Migration for Risk Categories

(Per cent)

		Subprime	Near prime	Prime	Prime plus	Super prime	Score tier downgrade	Score tier upgrade
Live Borrowers - Score Movement (Sep 2023 to Sep 2024)								
		Risk Tier (Sep 2024)						
Risk Tier (Sep 2023)	**Subprime**	**75.9**	15.5	6.8	1.6	0.2		**24.1**
	Near prime	20.7	**31.7**	35.0	11.9	0.7	**20.7**	**47.6**
	Prime	9.5	15.2	**43.6**	30.0	1.8	**24.6**	**31.8**
	Prime plus	4.2	8.5	25.4	**54.8**	7.1	**38.1**	**7.1**
	Super prime	2.5	7.3	19.3	26.9	**44.1**	**55.9**	
Live Borrowers - Score Movement (Sep 2024 to Sep 2025) *(Per cent)*								
		Risk Tier (Sep 2025)						
Risk Tier (Sep 2024)	**Subprime**	**79.2**	13.7	5.5	1.4	0.3		**20.8**
	Near prime	22.4	**31.9**	33.6	11.3	0.8	**22.4**	**45.8**
	Prime	9.5	15.5	**45.0**	28.7	1.3	**25.0**	**30.0**
	Prime plus	4.3	8.7	24.4	**57.3**	5.3	**37.4**	**5.3**
	Super prime	2.1	6.9	18.3	27.2	**45.4**	**54.6**	

Sources: Transunion CIBIL; and RBI staff estimates.

Chart 1.50: Household Financial Assets and Liabilities



Source: RBI.

while stock of gross financial assets remained steady above 100 per cent of GDP (Chart 1.50 a and b). As per the latest data, growth in the financial wealth of households moderated, reflecting a correction in equity and investment funds (Chart 1.51 a and b). In terms of asset allocation, deposits and insurance

Chart 1.51: Household Financial Wealth *(Contd.)*

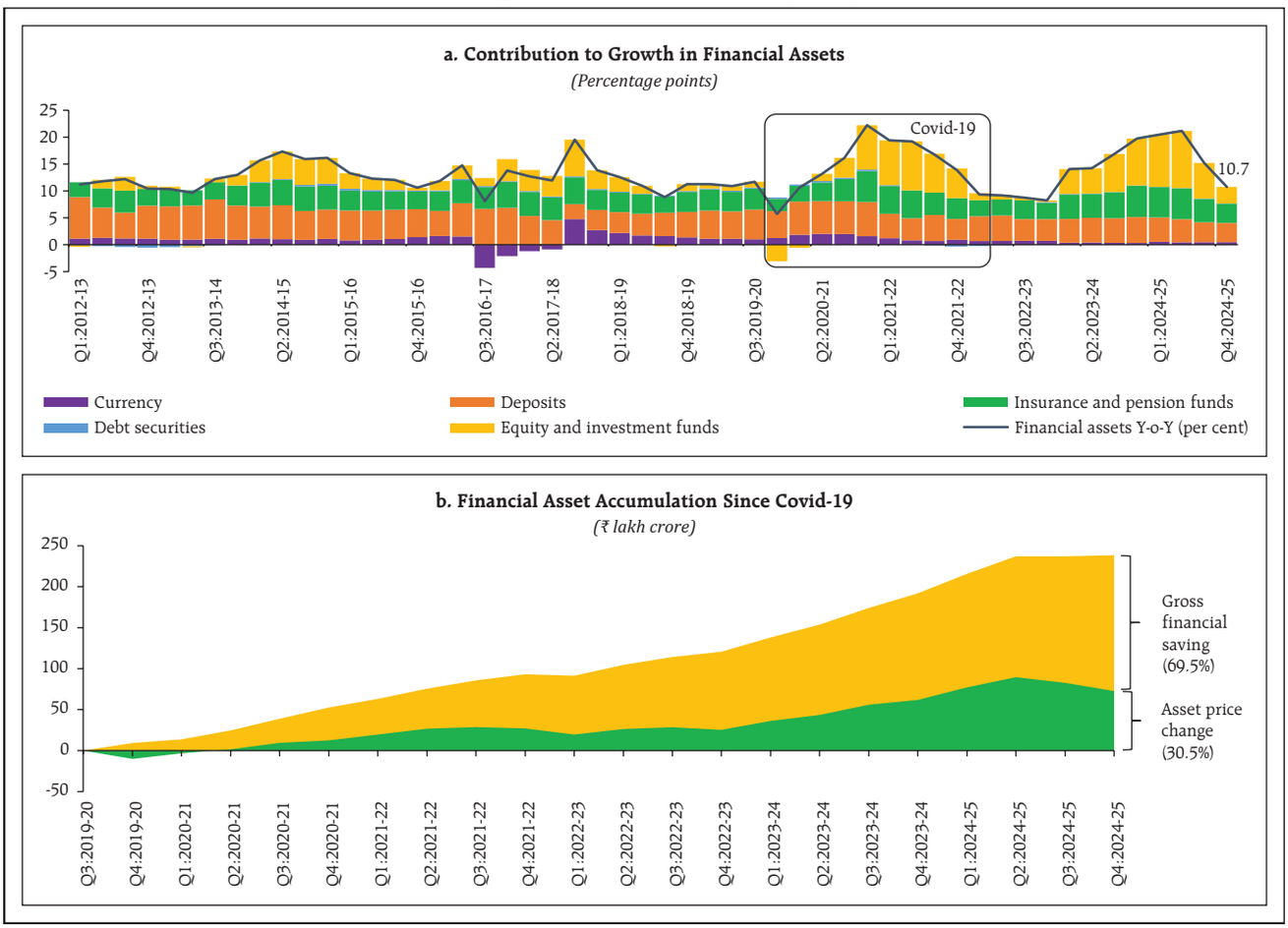
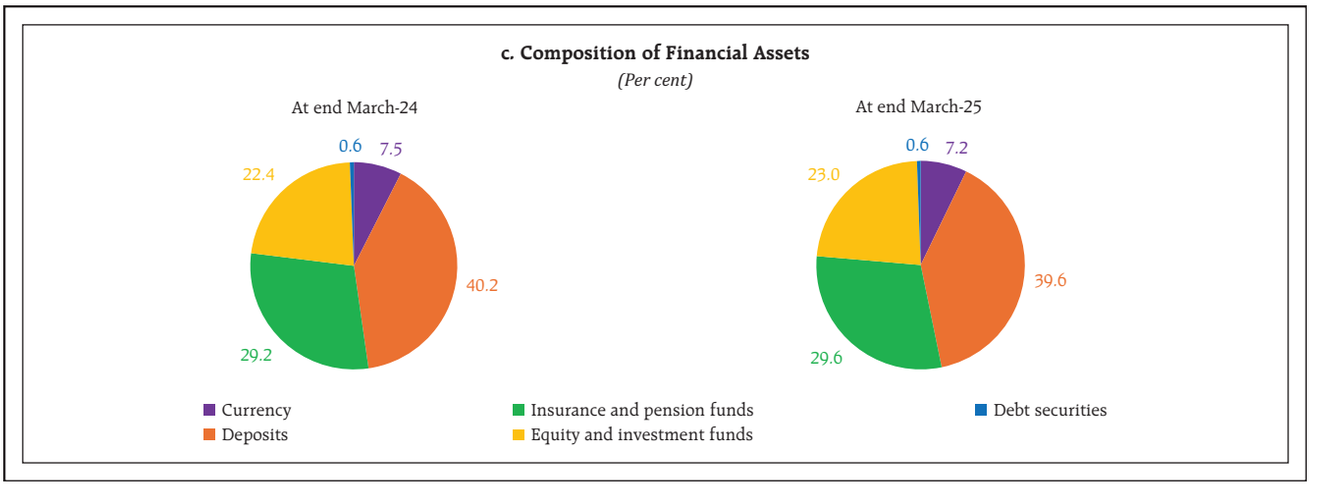


Chart 1.51: Household Financial Wealth *(Concld.)*



Sources: RBI; and staff estimates.

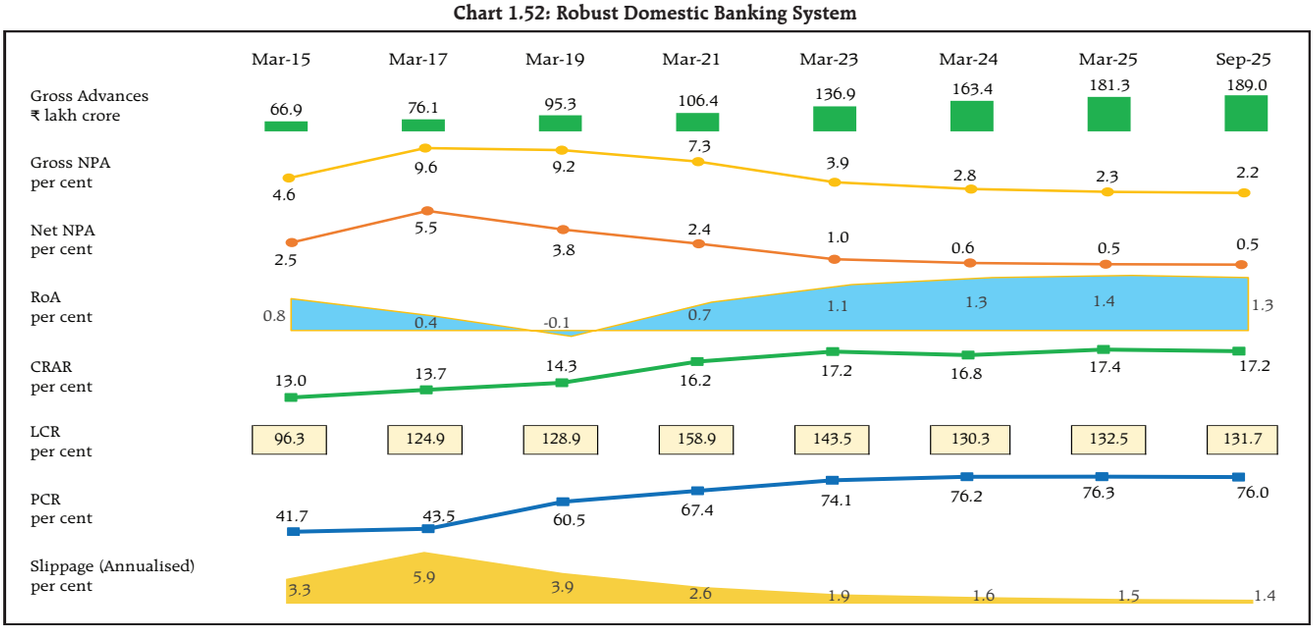
and pension funds accounted for nearly 69.2 per cent of household financial wealth as at end-March 2025 even as the share of equities and investment funds has increased marginally (Chart 1.51 c). As per the latest survey conducted by the SEBI, despite growing awareness about securities market products, overall household penetration remained at 9.5 per cent (out of the 337.2 million total households), mainly arising from urban centres. Within the securities market, however, equity remains the dominant asset class for households. Therefore, diversification of household savings to asset classes other than equity and bank deposits, has the potential to aid financialisation of savings and long-term capital formation.

I.4 Banking System

1.52 The resilience of the banking system[22] is paramount in preserving financial stability. The Indian banking system, led by scheduled commercial banks (SCBs), remains healthy with strong capital, liquidity and profitability positions. Alongside, declining non-performing loan ratios and steady slippage are improving overall asset quality (Chart 1.52). Robust common equity tier 1 (CET1) capital, lower loan losses and credit costs, and healthy return-on-equity reinforce banking system's strong performance (Chart 1.53 a, b and c).

[22] The analyses done in this section are based on domestic operations of SCBs (including SFBs), unless otherwise stated.

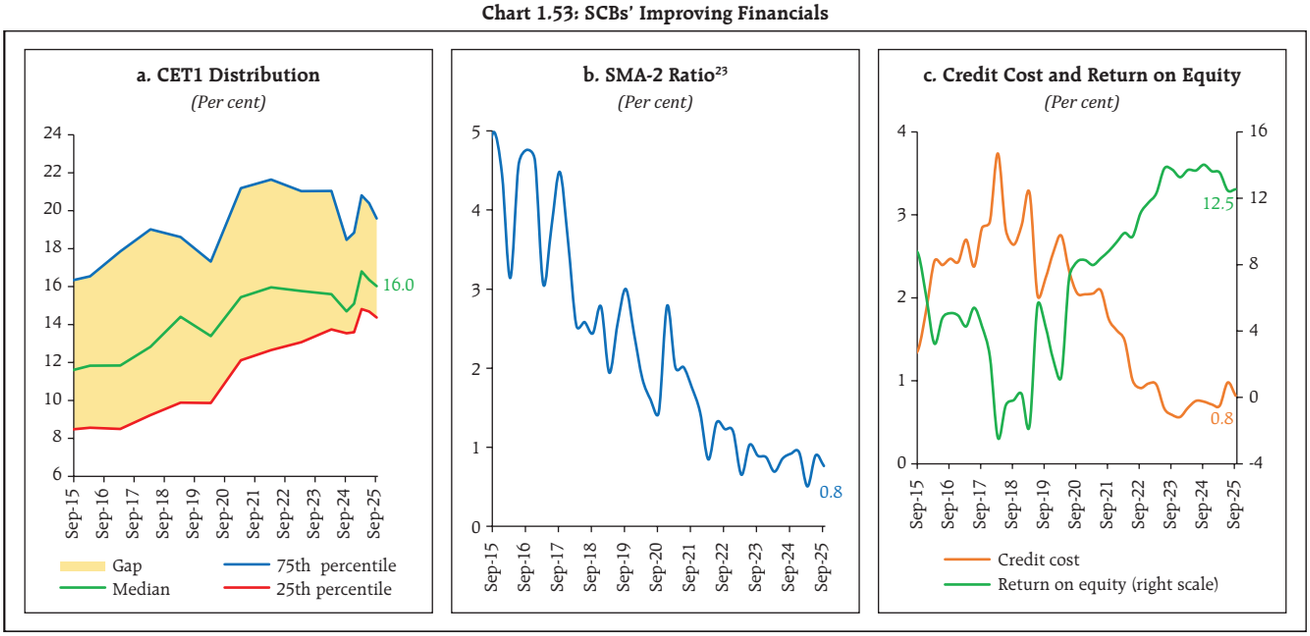
Chart 1.52: Robust Domestic Banking System



Notes: (1) Domestic operations of SCBs, including SFBs (except for CRAR, whose minimum regulatory requirement is higher for SFBs).
(2) Data as of December 10, 2025.
Source: RBI supervisory returns.

1.53 Year-on-year change in bank funding composition shows that over the past year, equity capital has seen a strong increase even as the primary source of funding, *viz.*, deposits from

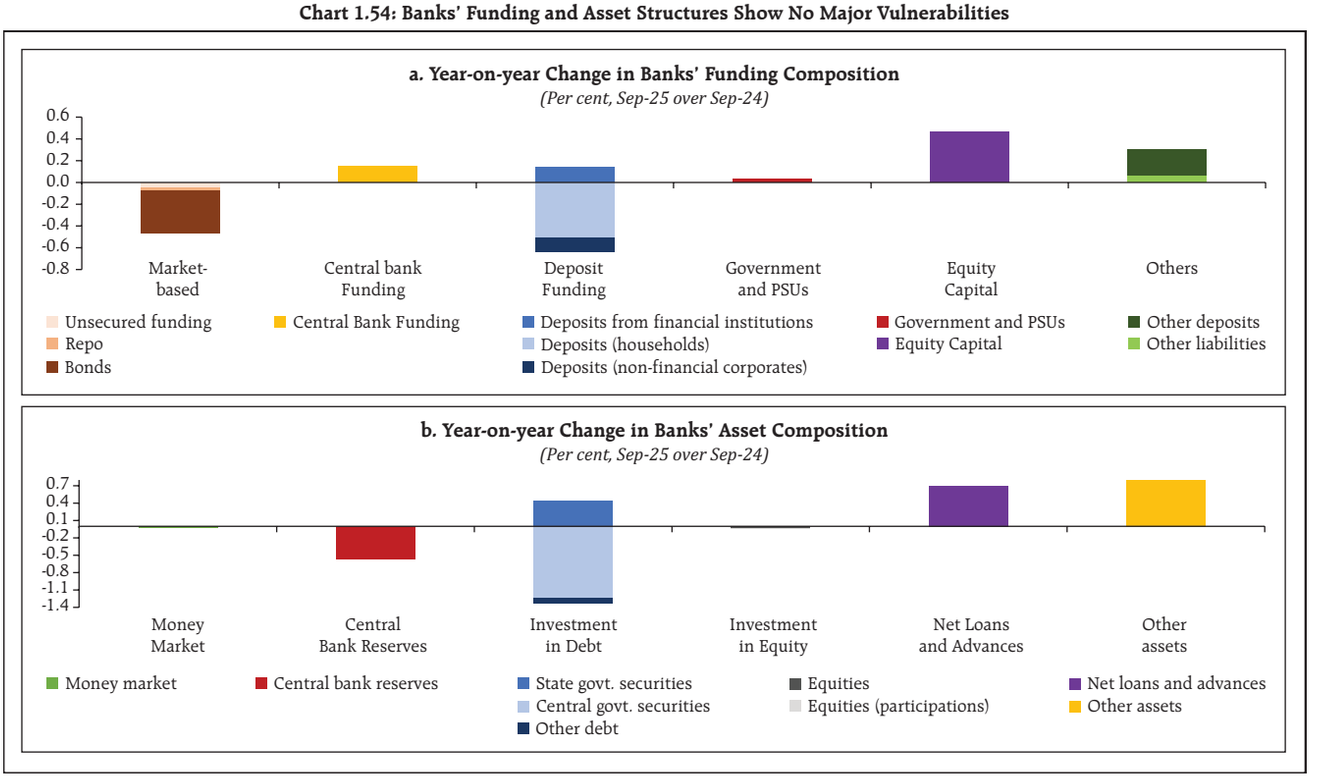
Chart 1.53: SCBs' Improving Financials



Note: In chart (c), Credit Cost = Annualised (Risk provisions + write-offs) / Average gross loans and advances.
Sources: RBI supervisory returns; and staff estimates.

[23] Special mention account (SMA) is defined as:
a) For loans with revolving facilities (*e.g.* cash credit/ overdraft): if the outstanding balance remains continuously more than the sanctioned limit or drawing power, whichever is lower, for a period of 31-60 days - SMA-1; 61-90 days - SMA-2.
b) For loans other than revolving facilities: if principal or interest payment or any other amount wholly or partly overdue remains outstanding up to 30 days - SMA-0; 31-60 days - SMA-1; 61-90 days - SMA-2.

Chart 1.54: Banks' Funding and Asset Structures Show No Major Vulnerabilities



Sources: RBI supervisory returns; and staff estimates.

households decreased (Chart 1.54 a).[24] A similar change in asset composition shows an increase in net loans and advances, investments in state government securities and other assets (Chart 1.54 b).[25] Consequently, the credit-to-deposit (CD) ratio has increased from 78.0 per cent in September 2024 to 78.9 per cent in September 2025. Importantly, the increase in the CD ratio is driven by the substitution of funding from deposits with an increase in equity capital.

1.54 The recent pickup in bank credit growth alongside a recovery in credit impulse[26] reflects a more supportive credit environment for economic activity (Chart 1.55 a). Furthermore, the growth in bank lending to NBFCs and unsecured retail, in which risk weights were increased in November 2023, is showing signs of revival (Chart 1.55 b). Credit to large corporates, however, remains subdued. Alongside, the yield curve has steepened and the spread between state government securities and G-sec yields have risen. This is driving demand away from loans (except MSMEs), especially in respect of PVBs, as these investments are offering better returns on a risk-adjusted basis (Chart 1.55 c, d and e).[27]

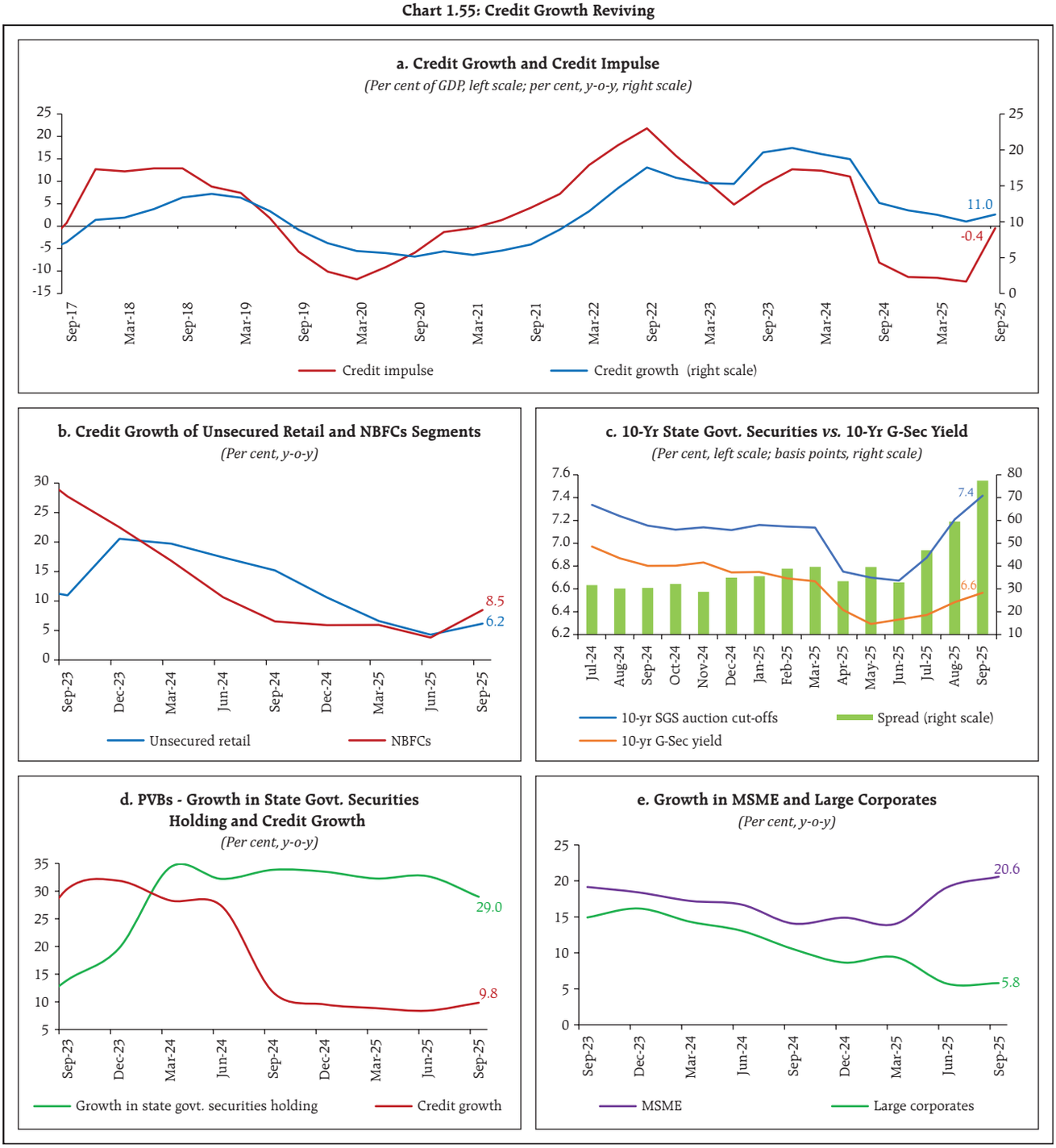
[24] Household deposits formed 47.2 per cent of total liabilities as at end-September 2025, down from 47.7 per cent in September 2024. The other major sources of funding are deposits from non-financial corporates (12.6 per cent), equity capital (10.6 per cent) and deposits from government and public sector undertakings (10.0 per cent).

[25] Net loans and advances form 60.9 per cent of total assets. Other major assets include central government securities (14.3 per cent), state government securities (7.3 per cent), other assets (9.3 per cent) and central bank reserves (3.7 per cent).

[26] Credit impulse is the change in new credit issued as a percentage of GDP. Essentially, it captures the change in growth rate of credit between time t and (t-1) and (t-1) and (t-2), as a percentage of four-period rolling average of quarterly GDP at time (t-1).

[27] Compared to investments in state government securities, banks have to incorporate costs associated with expected credit loss, capital requirements and priority sector lending when they lend to corporates.

Chart 1.55: Credit Growth Reviving

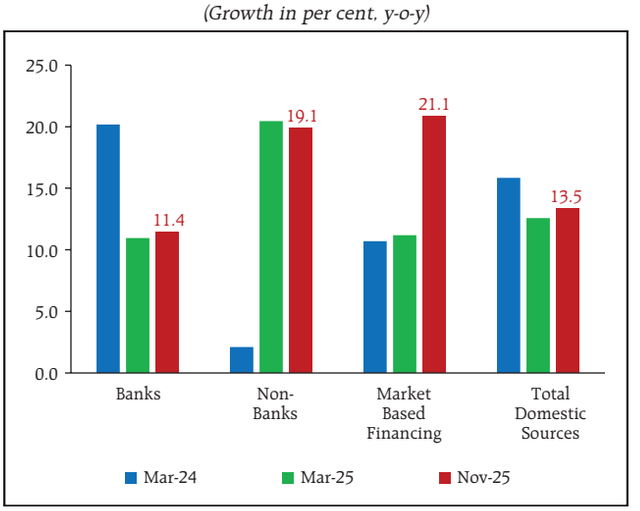


Sources: Bloomberg; CCIL; RBI supervisory returns; and staff estimates.

1.55 However, there is significant diversification among sources of credit to the commercial sector with lending from non-banks and market-based financing growing steadily. Thus, credit from these sources have not only substituted bank credit, but also ensured steady flow of funds to the commercial sector (Chart 1.56).

Chart 1.56: Outstanding Credit to Commercial Sector from Domestic Sources

(Growth in per cent, y-o-y)



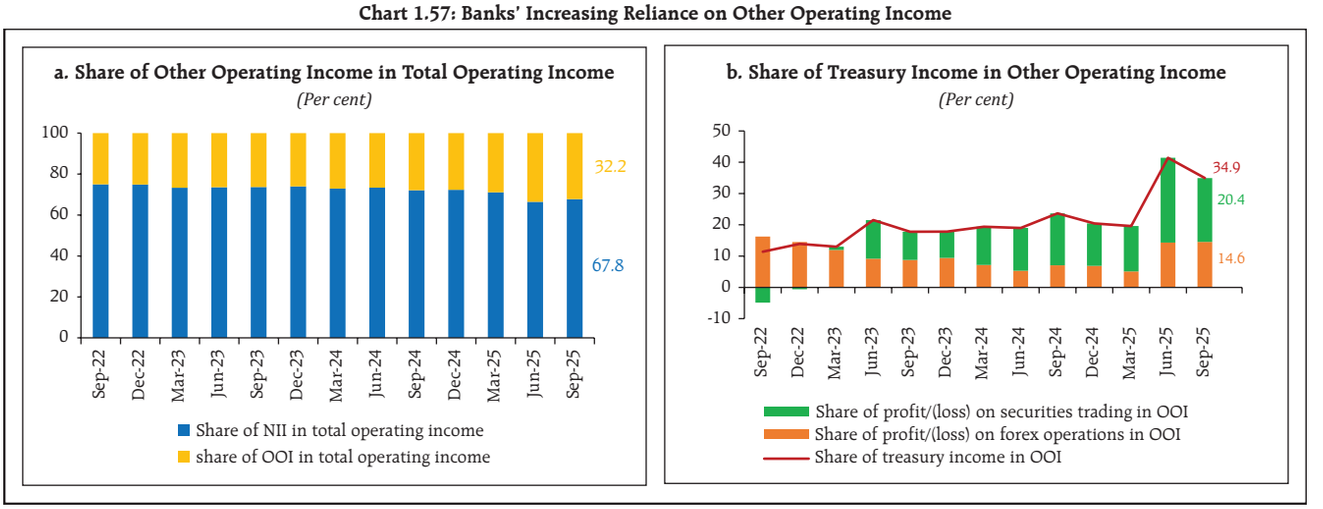
Note: Non-banks include NBFCs, HFCs and AIFIs. Market-based financing refers to corporate bond and commercial paper issuances by non-financial entities.
Sources: RBI; and staff estimates.

1.56 The share of other operating income (OOI) has increased over the years in the bank's overall earnings, with income generated out of treasury operations emerging as a key source of other operating income, especially in the last two quarters (Chart 1.57 a and b). The current steepening of the yield curve and relatively higher exchange rate volatility, if sustained, could impact treasury income. Thus, even as earnings-at-risk associated with net interest income (NII) have not changed significantly since the last FSR (see section on *Interest Rate Risk* in Chapter 2), the overall impact on banks' earnings could be higher in the future.

1.57 Unsecured retail lending, a key driver of bank loan growth during the post-pandemic period, declined sharply after the RBI increased risk weights on certain consumer segment loans in November 2023. Even as asset quality in aggregate remains stable - GNPA ratio at 1.8 per cent *vis-à-vis* 1.1 per cent for retail advances - slippages in unsecured retail loans constituted 53.1 per cent of the total retail loan slippages of SCBs. Among bank groups, the share of PVBs in fresh slippages of unsecured loans was higher, and their write-offs continue to remain elevated (Chart 1.58 a, b, c and d).

1.58 Bank credit to the Micro, Small and Medium Enterprises (MSME) rose sharply, aided partly by a change in classification criteria[28], registering a

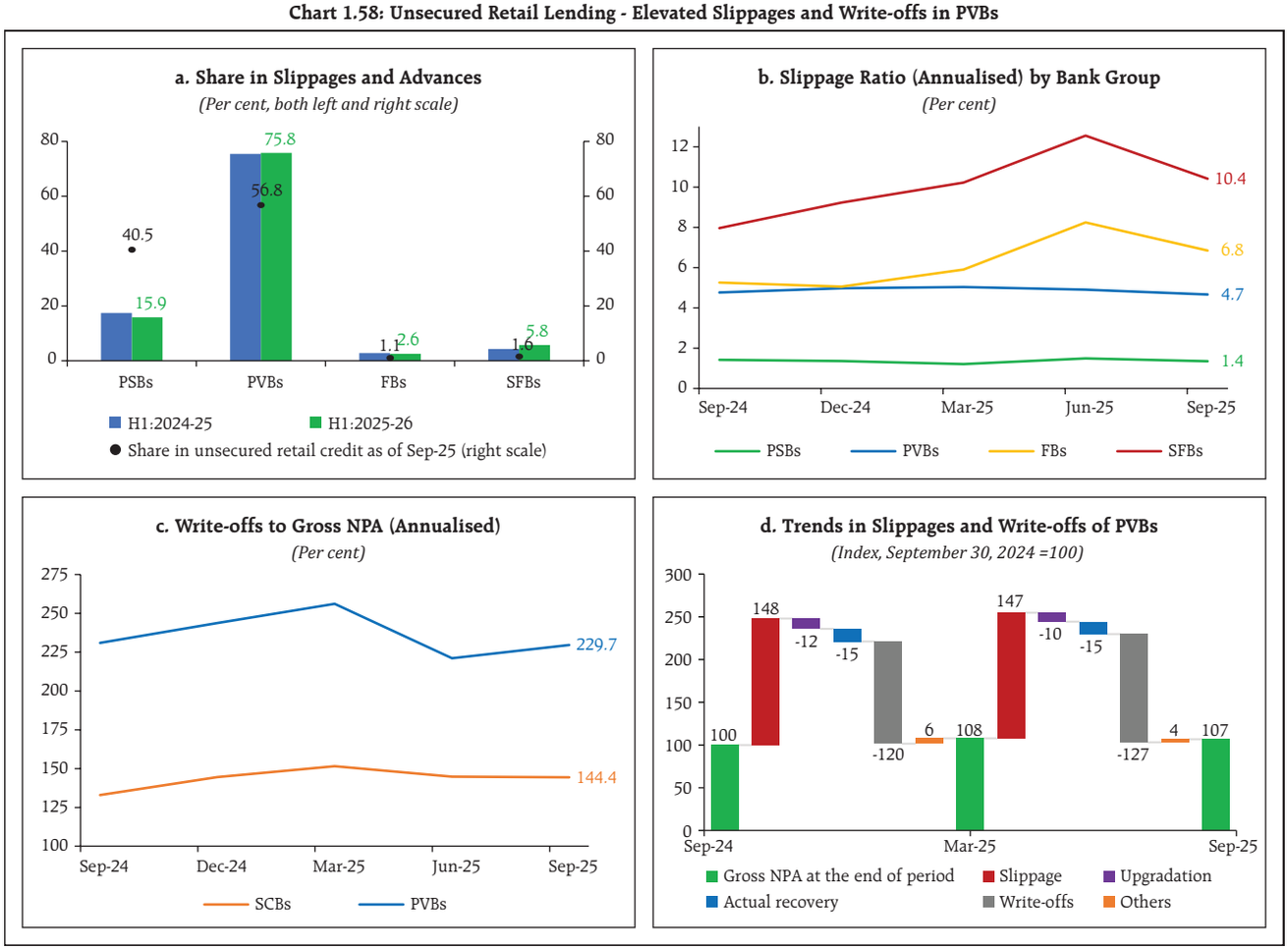
Chart 1.57: Banks' Increasing Reliance on Other Operating Income



Sources: RBI supervisory returns; and staff estimates.

[28] In terms of Gazette Notification S.O. 1364 (E) dated March 21, 2025, an enterprise shall be classified as a micro, small or medium enterprise on the basis of the following criteria *viz.*, (i) a micro enterprise, where the investment in plant and machinery or equipment does not exceed ₹2.5 crore and turnover does not exceed ₹10 crore; (ii)a small enterprise, where the investment in plant and machinery or equipment does not exceed ₹25 crore and turnover does not exceed ₹100 crore; and (iii) a medium enterprise, where the investment in plant and machinery or equipment does not exceed ₹125 crore and turnover does not exceed ₹500 crore.

Chart 1.58: Unsecured Retail Lending - Elevated Slippages and Write-offs in PVBs



Sources: RBI supervisory returns; and staff estimates.

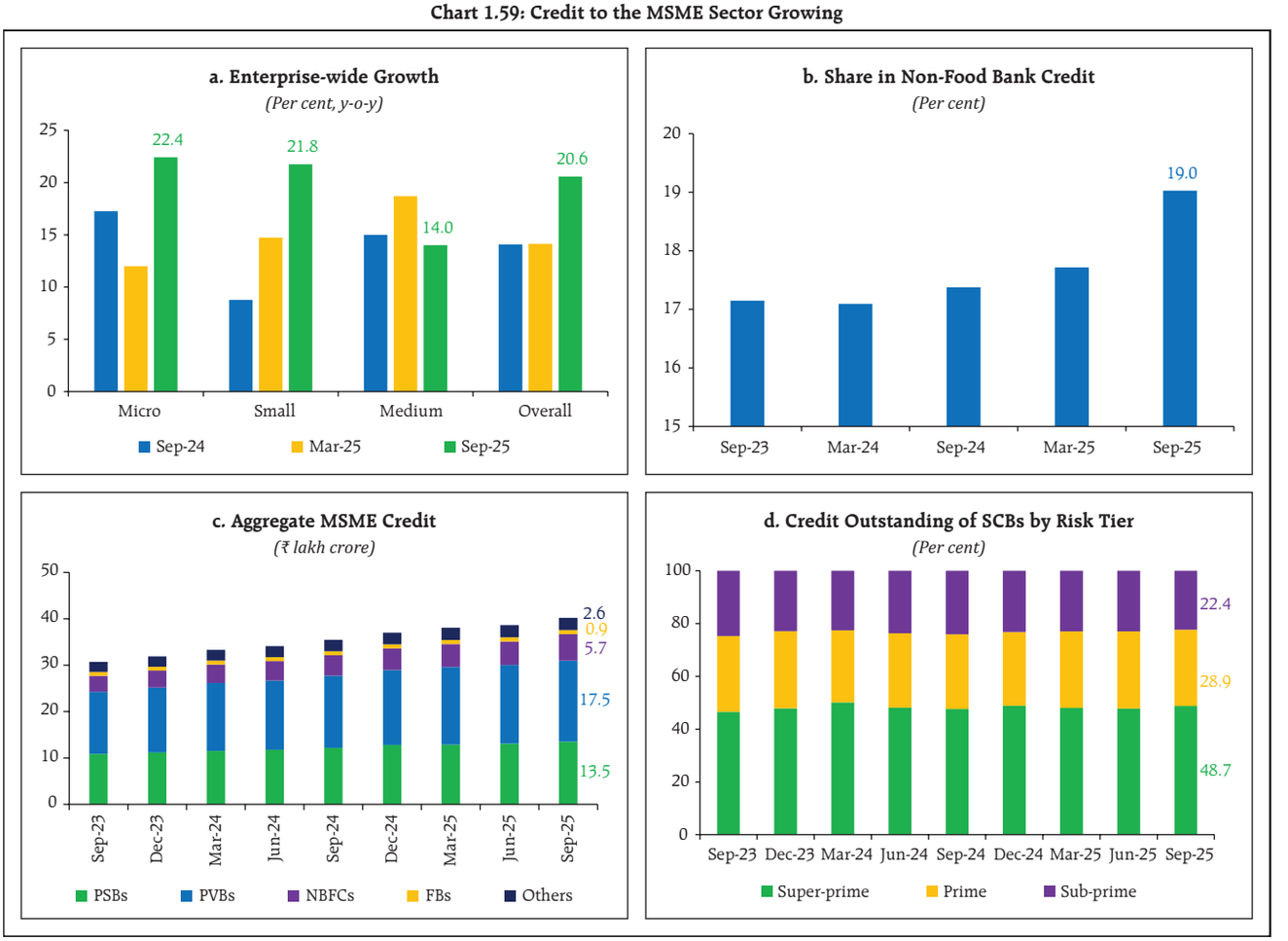
growth of 20.6 per cent (y-o-y) in September 2025 and taking the share of MSME credit to 19 per cent in total non-food bank credit.[29] Importantly, advances to the super prime borrower category remained dominant, contributing almost 49 per cent of total MSME advances (Chart 1.59 a, b, c and d). Moreover, their asset quality remained sound with the aggregate gross NPA ratio showing further improvement - it fell from 5.2 per cent in September 2023 to 3.3 per cent in September 2025. The improvement is seen across sectors, even though the default rate for micro enterprises remained a tad elevated (Chart 1.60 a and b).

1.59 Analysis of sectors[30] that were potentially exposed to higher US tariffs showed that the share of banks' lending to these sectors remained

[29] Based on constant sample definition using TransUnion CIBIL data, aggregate lending to the MSME industry grew at 13.4 per cent (y-o-y) in September 2025. Micro, Small and Medium segments grew at 9.0 per cent (y-o-y), 15.8 per cent (y-o-y) and 13.5 per cent (y-o-y), respectively.

[30] US tariff exposed sectors considered for analysis include Gems and Jewelry, Textiles, Rubber, Plastics and their products, Marine products, Leather and Leather products, Electronic Goods, Drugs and Pharmaceuticals.

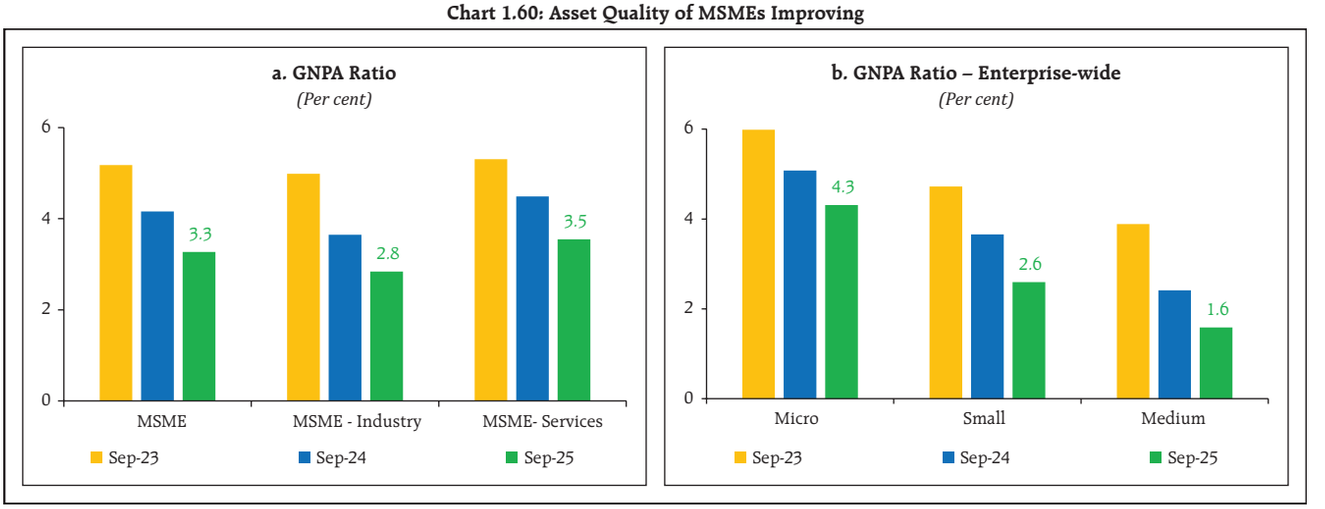
Chart 1.59: Credit to the MSME Sector Growing



Note: CIBIL MSME Ranks by Risk Tier are: Super-Prime: CMR 1-3, Prime: CMR 4-6, Sub-Prime: CMR 7-10.
Sources: RBI supervisory returns; TransUnion CIBIL; and staff estimates.

steady at 12.6 per cent as at end-September 2025 - with advances to the textiles sector forming the largest share (Chart 1.61 a and b).[31] In terms of asset quality, while the SMA ratio in these sectors

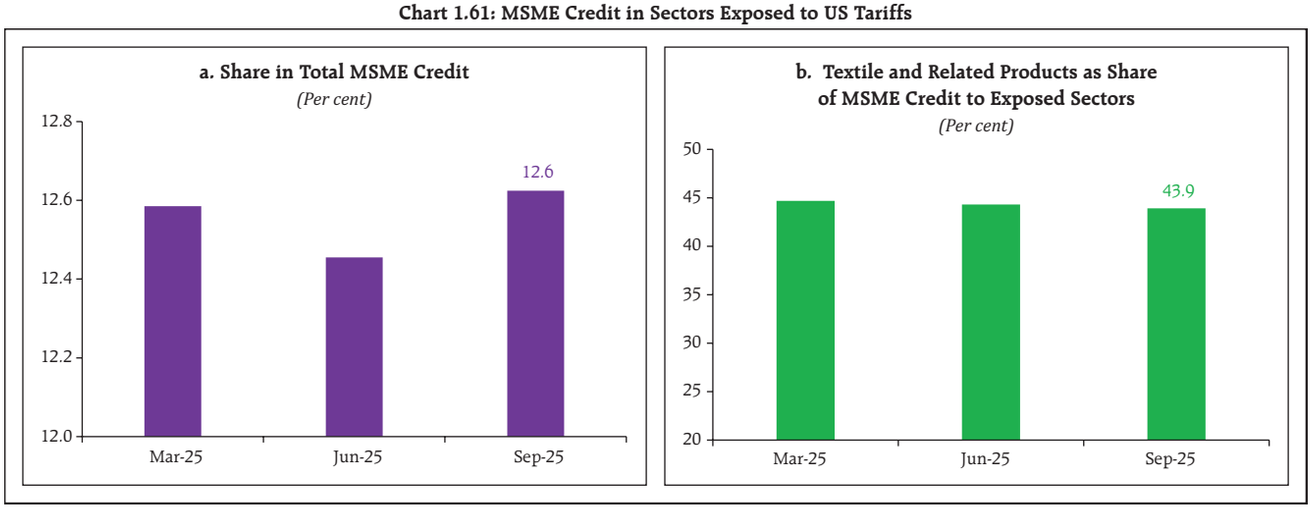
Chart 1.60: Asset Quality of MSMEs Improving



Sources: RBI supervisory returns; and staff estimates.

[31] Based on survey of seven banks (PSBs and PVBs) with a total share of 61 per cent of gross MSME credit.

Chart 1.61: MSME Credit in Sectors Exposed to US Tariffs



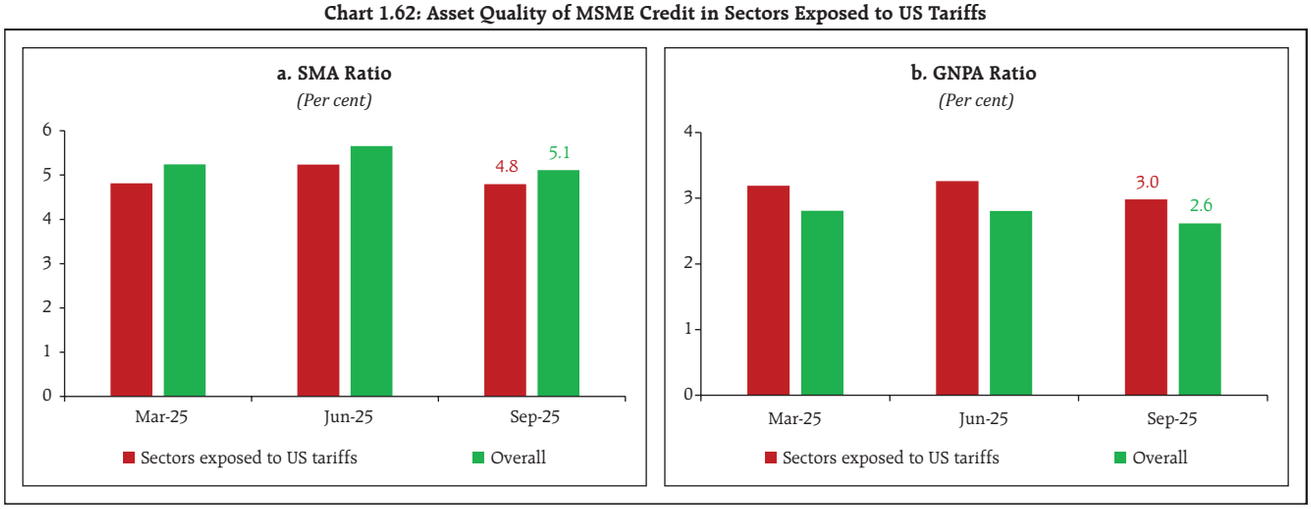
Note: In chart (b), textiles and related products include cotton yarn/ fabs/ madeups, handloom products, etc.
Sources: Survey of select banks; and RBI staff estimates.

remained broadly stable, the GNPA ratio remained higher (Chart 1.62 a and b). Overall, these sectors are showing resilience despite the unfavourable external environment.

1.60 Small Finance Banks' (SFBs) footprint has been growing in the Indian banking system with their share in total banking sector credit and deposits gradually increasing from 1.3 per cent and 0.9 per cent in September 2022 to 1.6 per cent and 1.4 per cent in September 2025, respectively. Their credit and deposit growth were higher than the banking sector average at 17.2 per cent and 19.3 per cent (y-o-y) in September 2025, respectively. However, profitability remained under pressure even as loan losses, funding costs and slippages remain elevated (Chart 1.63 a, b, c and d).

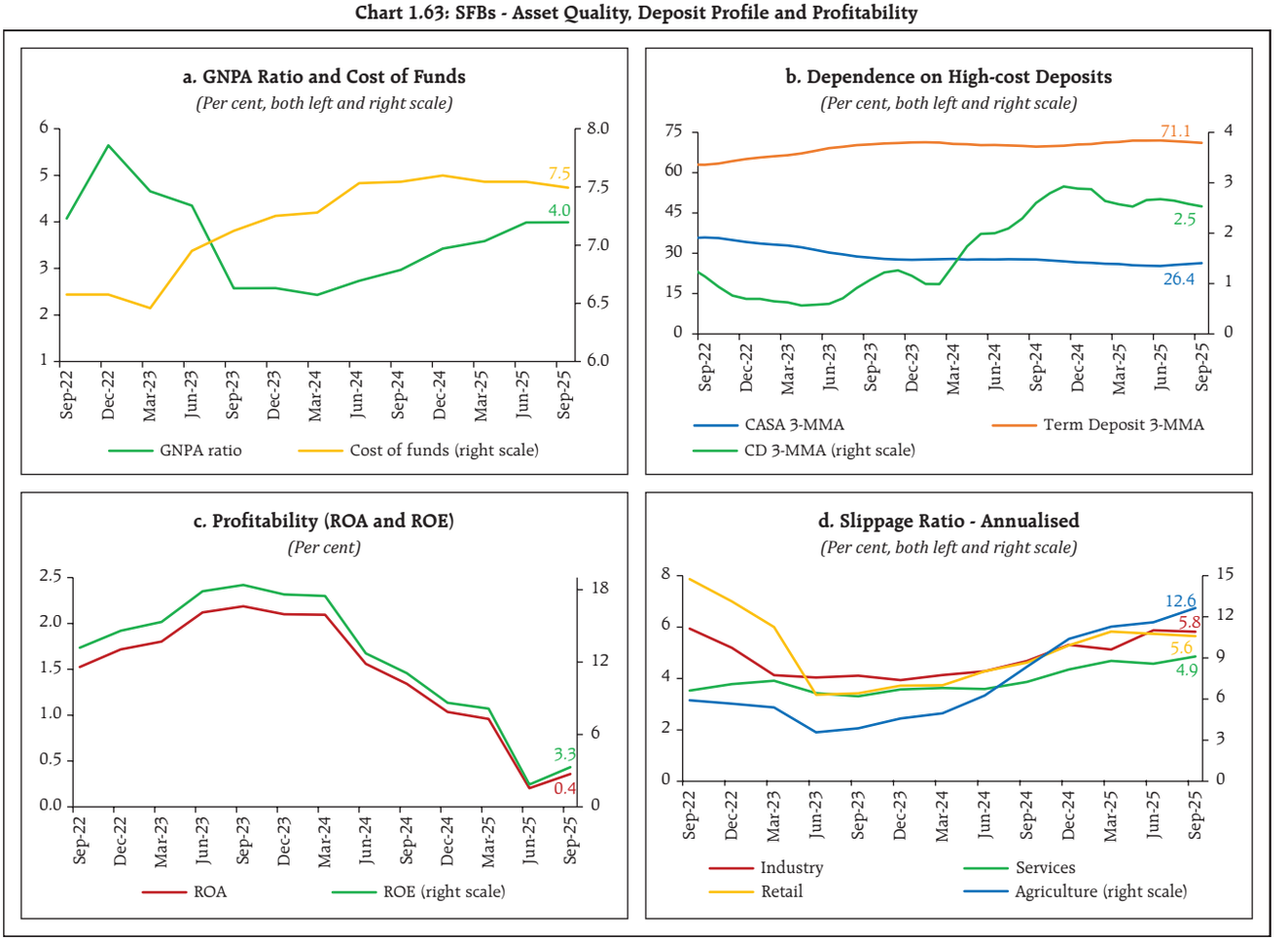
1.61 Credit to the microfinance sector declined for the sixth consecutive quarter with a 9.3 per cent

Chart 1.62: Asset Quality of MSME Credit in Sectors Exposed to US Tariffs



Sources: Survey of select banks; and RBI staff estimates.

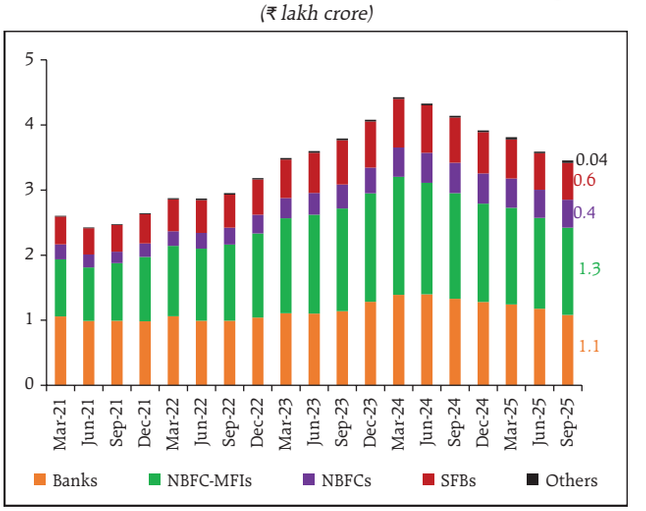
Chart 1.63: SFBs - Asset Quality, Deposit Profile and Profitability



Note: In chart (b), 3-MMA = 3-month moving average.
Sources: RBI supervisory returns; and staff estimates.

fall in H1:2025-26 (Chart 1.64) with the total active borrowers in the sector decreasing by 78 lakh. Bank credit[32] to the sector, which forms 47.7 per cent of total credit outstanding to the sector, contracted by 10.6 per cent during the same period. Asset quality is showing signs of improvement with the ratio of stressed assets declining in three successive quarters (Chart 1.65 a). Borrower indebtedness, measured by the share of borrowers availing loans from three or more lenders, rose marginally in September 2025 after declining consistently over the last two years

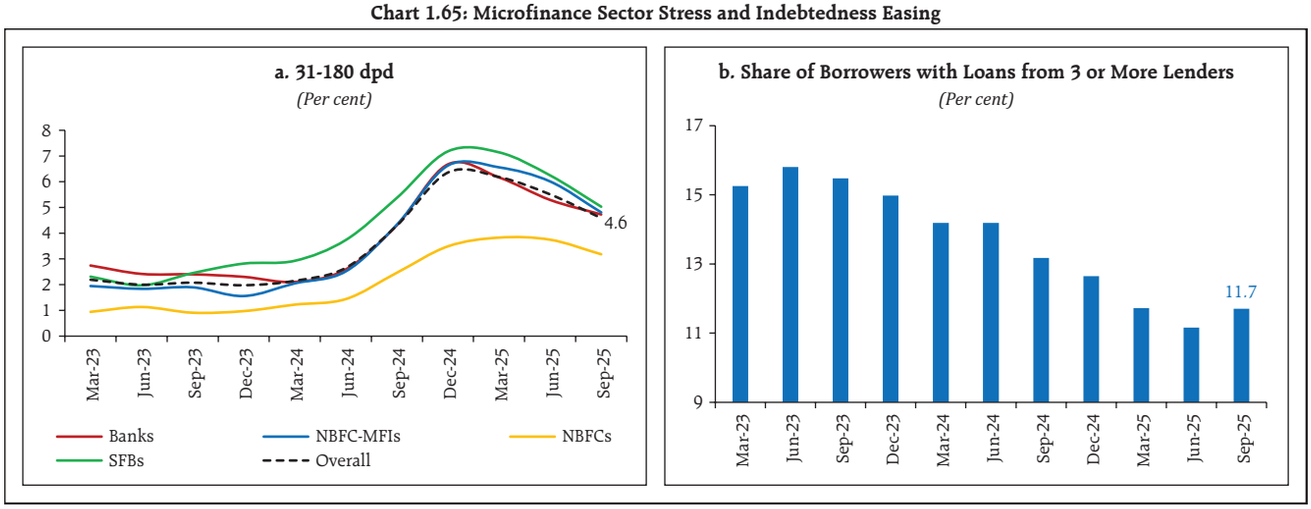
Chart 1.64: Credit to the Microfinance Sector Declining
(₹ lakh crore)



Note: Lender category as reported by financial institutions to the credit information company.
Source: CRIF High Mark.

[32] Including SFBs.

Chart 1.65: Microfinance Sector Stress and Indebtedness Easing



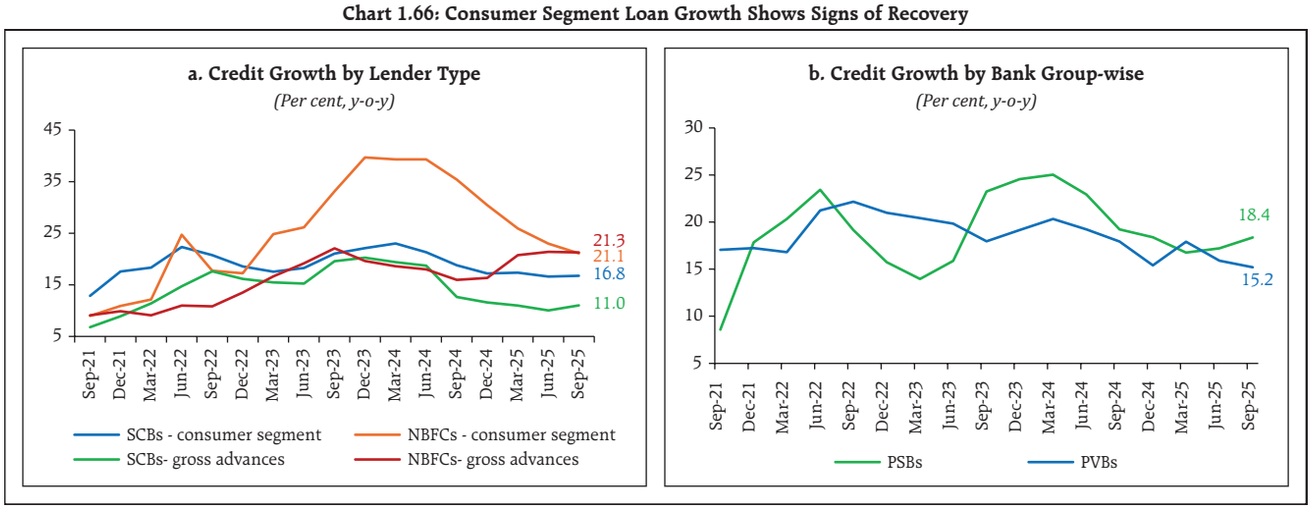
Source: CRIF High Mark.

(Chart 1.65 b). Though there has been consolidation in the microfinance sector, some stress persists and requires close monitoring.

1.62 Consumer segment loans remain a key driver of loan demand for both banks and non-bank finance companies (NBFCs). After registering sharp growth post-pandemic, loans to consumer segment declined following countercyclical regulatory measures by the RBI to arrest the rapid growth in this segment. There are signs of stabilisation in the segment (Chart 1.66 a and b). Enquiry volumes have picked up in the month of September 2025, reflecting a rebound in demand post-GST rate cuts, even as the slowdown in the growth of credit active consumers appears to have bottomed out (Chart 1.67 a and b).

1.63 Among different product types, gold loans saw sharp growth across SCBs and NBFCs.[33] Similarly, unsecured business loans also grew quickly led by SCBs (Chart 1.68 a, b, c and d). The share of outstanding loans held by below prime borrowers in the NBFCs' gold loan portfolio reduced but remained

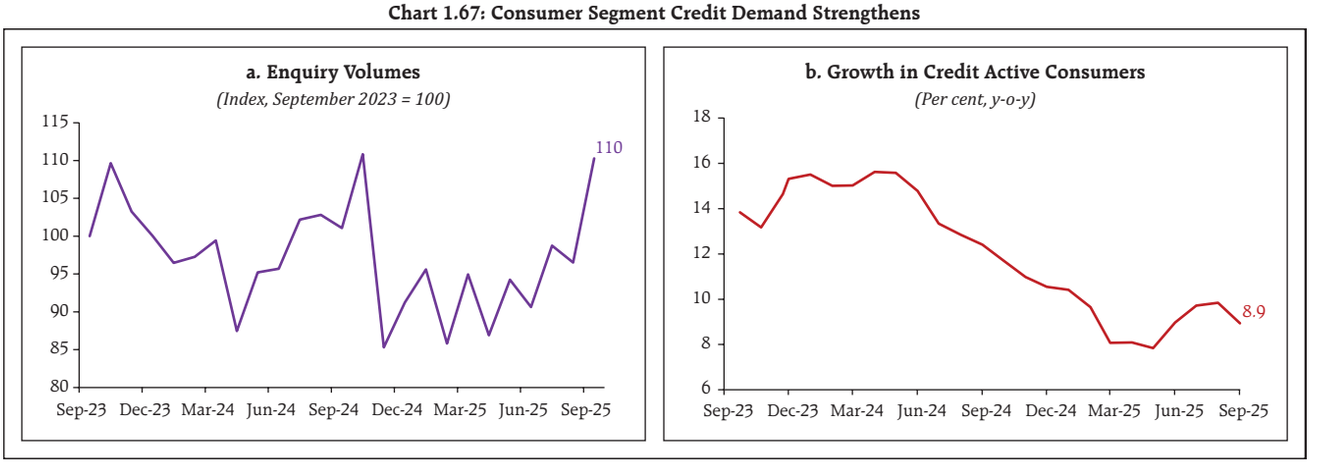
Chart 1.66: Consumer Segment Loan Growth Shows Signs of Recovery



Sources: TransUnion CIBIL; and RBI supervisory returns.

[33] Gold loans form 5.8 per cent of total advances of SCBs and NBFCs.

Chart 1.67: Consumer Segment Credit Demand Strengthens



Source: TransUnion CIBIL.

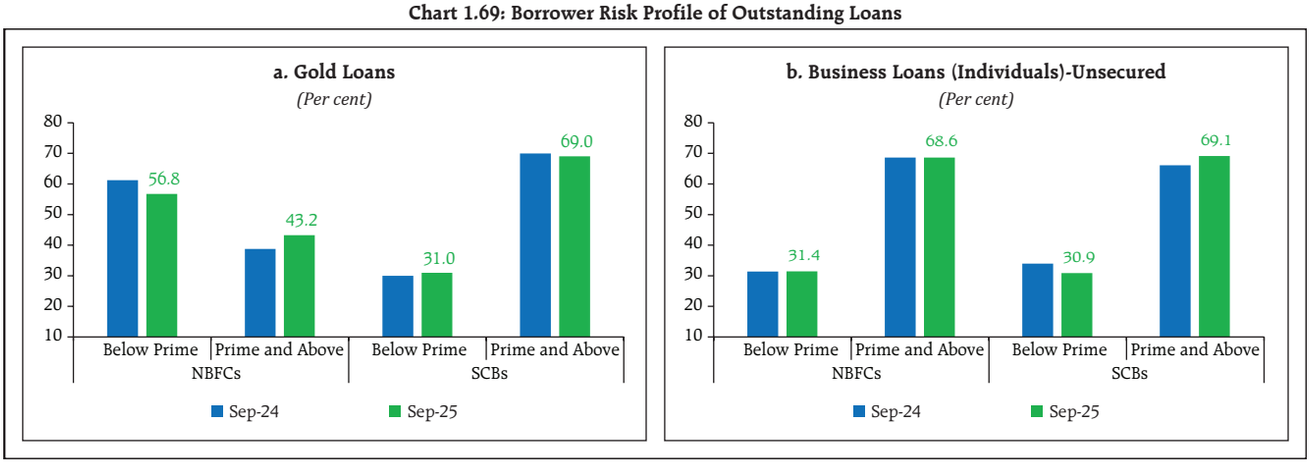
sizeable (Chart 1.69 a). In both banks and NBFCs, the outstanding loans held by higher quality borrowers dominated the unsecured business loans category (Chart 1.69 b).

1.64 The asset quality of the consumer segment loans remained sound across lender and product types with declining levels of non-performing loans (Chart 1.70 a and b). Slippages from SMA-2

Chart 1.68: Consumer Segment Credit Growth

Note: LAP stands for loan against property; BL stands for business loans.
Source: TransUnion CIBIL.

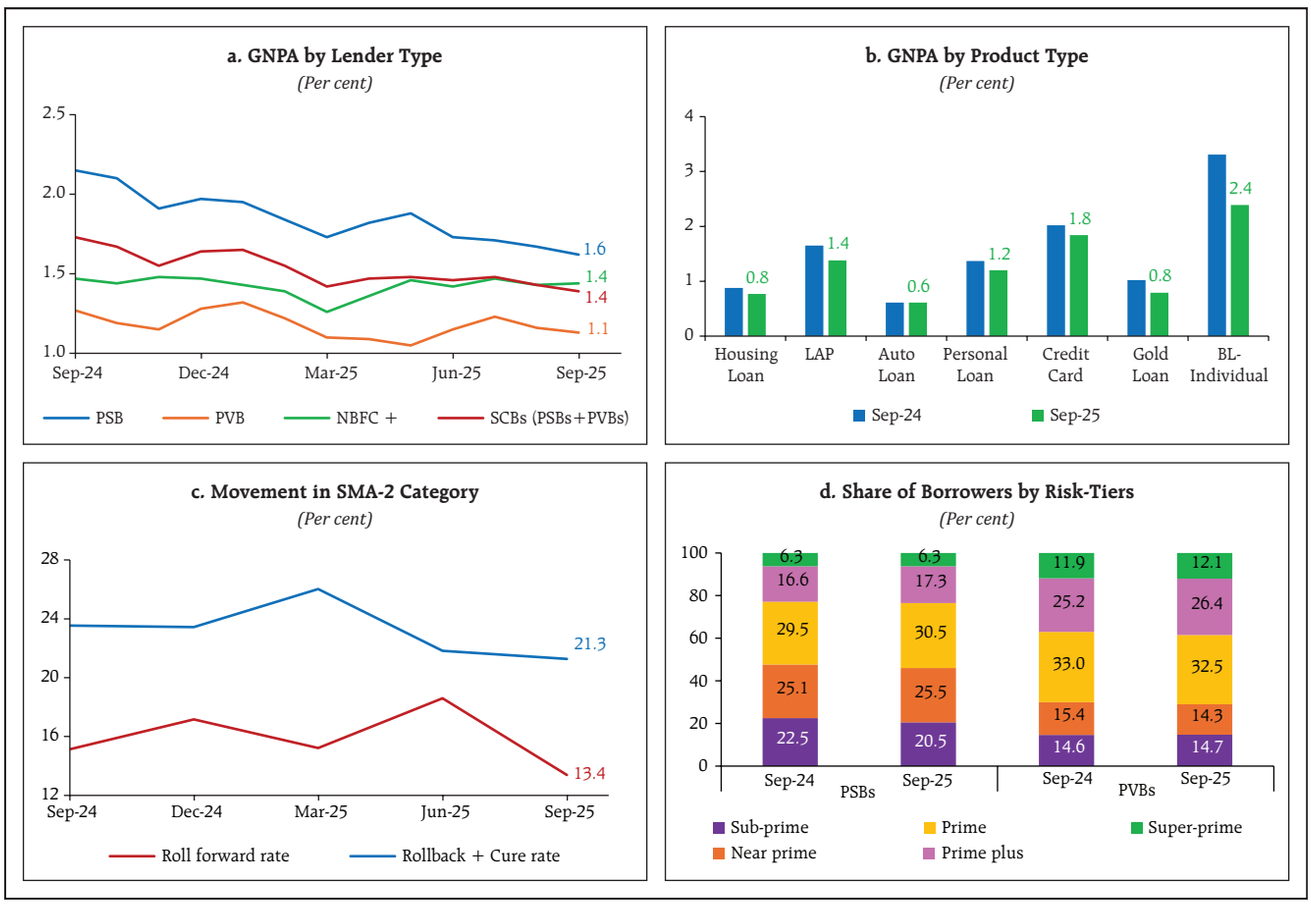
Chart 1.69: Borrower Risk Profile of Outstanding Loans



Source: TransUnion CIBIL.

accounts also decreased. However, upgradations which saw a jump in Q4:2024-25, are trending lower (Chart 1.70 c). Overall, the high share of better-quality borrowers – prime and above categories – augur well for consumer loan performance (Chart 1.70 d).

Chart 1.70: Asset Quality of Consumer Segment Loans Improving



Notes: (1) In chart (a), NBFC+ represents NBFCs including HFCs.
(2) In chart (b), LAP stands for loans against property and BL stands for business loans.
(3) In chart (c), the roll forward rate is the percentage change (by amount) from the SMA-2 category (61-90 dpd) in the current month, which moved to the NPA category (90+dpd) in the next month (aggregated quarterly). Rollback + cure rate is the percentage change (in amount) in the SMA-2 category in the current month, which rolled back to SMA-1/ SMA-0/ 0 dpd in the next month (aggregated quarterly).

Source: TransUnion CIBIL.

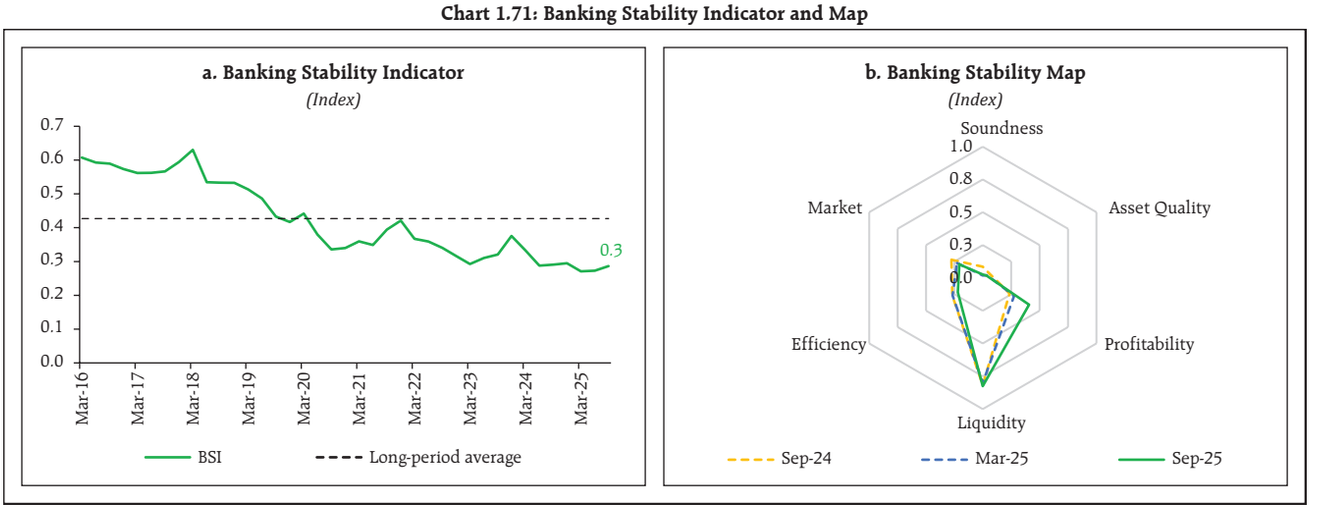
1.65 The resilience of the banking system remained strong, as reflected in the Banking Stability Indicator (BSI)[34], an aggregate indicator of the banking system's robustness, which remained well below the long-term average.[35] Improved soundness and asset quality, along with easing market risk, have partly offset the weakening in liquidity and profitability indicators (Chart 1.71 a and b).

1.66 The growth in non-bank financial intermediaries (NBFIs)[36] and their increasing interlinkages with the banking system is a key concern globally. In India too, banks asset exposures to NBFIs are rising. PSBs predominantly hold funded exposures, whereas PVBs have nearly half of their total exposure in non-funded facilities[37], which may be invoked by NBFIs during periods of liquidity stress (Chart 1.72 a and b).

I.5 NBFC Sector

1.67 The NBFC sector[38] remained broadly resilient, supported by strong capital buffers, robust net interest margin, healthy profitability and low

Chart 1.71: Banking Stability Indicator and Map



Notes: (1) In chart (a), average of the last 40 quarters considered.
(2) In chart (b), away from the centre indicates an increase in risk.
Sources: RBI supervisory returns; and staff estimates.

[34] See Annex 1 for detailed methodology and variables used.

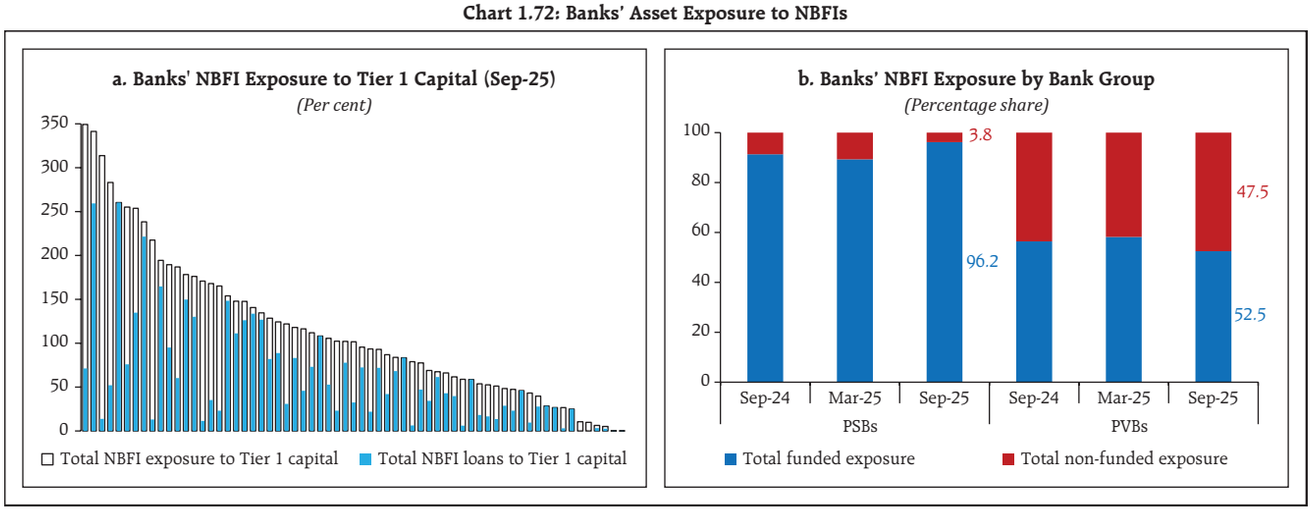
[35] Lower values indicate improvement in BSI.

[36] NBFIs constitute NBFCs (including MFIs and HFCs), (2) mutual funds, (3) insurance and pension funds, (4) DFIs and (5) other financial intermediation activities.

[37] Non-funded facilities are essentially off-balance sheet and include Letters of Credit, Guarantees, Acceptances and endorsements, Underwriting and standby commitments, Undrawn binding commitments to extend credits over 1 year, Sale and repurchase agreements/asset sales with recourse, Contracts (Forex Forwards Contracts, Forward rate agreements) and Derivatives (Futures, Options, Swaps, CDS).

[38] The analyses done in this section are based on NBFCs in upper and middle layers but excludes housing finance companies (HFCs), core investment companies (CICs) and standalone primary dealers (SPDs), but includes NBFCs presently under resolution; The analyses is based on provisional data available as of December 10, 2025.

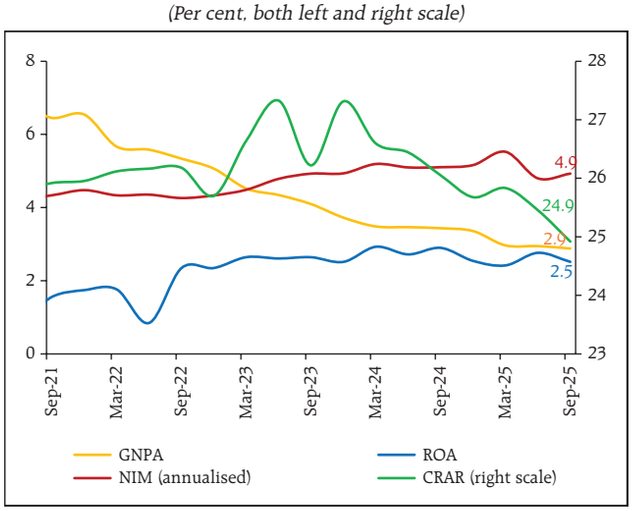
Chart 1.72: Banks' Asset Exposure to NBFIs



Note: (1) In chart (a), banks' exposure to NBFI includes total credit exposure (funded + non-funded) and total investment exposure. Each bar in the chart represents a bank.
(2) In chart (b), total funded exposure includes total investment.
Sources: RBI supervisory returns; and staff estimates.

asset impairments (Chart 1.73). Credit growth steadied, supported by improved funding conditions - bank lending to NBFCs increased - and lending to retail borrowers rose. Alongside, their credit costs continued to trend downward (Chart 1.74 a, b, c and d).

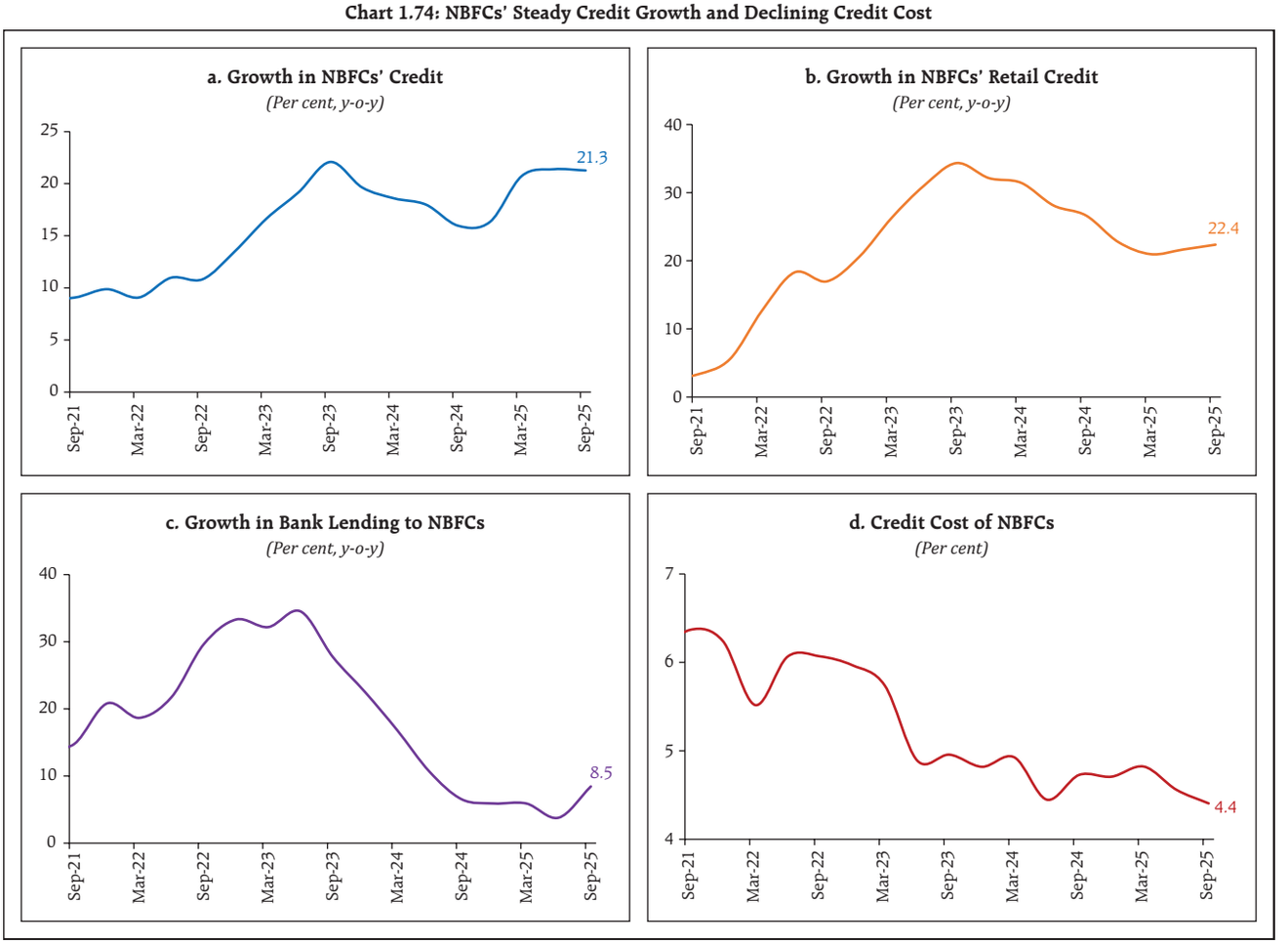
Chart 1.73: NBFC Sector Remains Robust
(Per cent, both left and right scale)



Sources: RBI supervisory returns; and staff estimates.

1.68 NBFCs continued to diversify their funding profile, as reflected in the moderation in borrowings from banks, even as they remained the dominant source of funding (Chart 1.75 a). Easing money market rates and an increase in foreign currency borrowings have helped NBFCs steady the rise in the cost of funds. However, growing reliance on external funding has increased the NBFC sector's susceptibility to exchange rate volatility, which could

Chart 1.74: NBFCs' Steady Credit Growth and Declining Credit Cost



Note: Credit Cost = (Provision for Standard Assets and Non-Performing Assets + Annualised Write-offs)/Average gross advances.
Sources: RBI supervisory returns; and staff estimates.

partly erode the benefits of lower funding costs in periods of stress (Chart 1.75 b and c). Notably, close to 86 per cent of the foreign currency borrowings are hedged.

Chart 1.75: NBFCs' Borrowing and Funding Profile *(Contd.)*

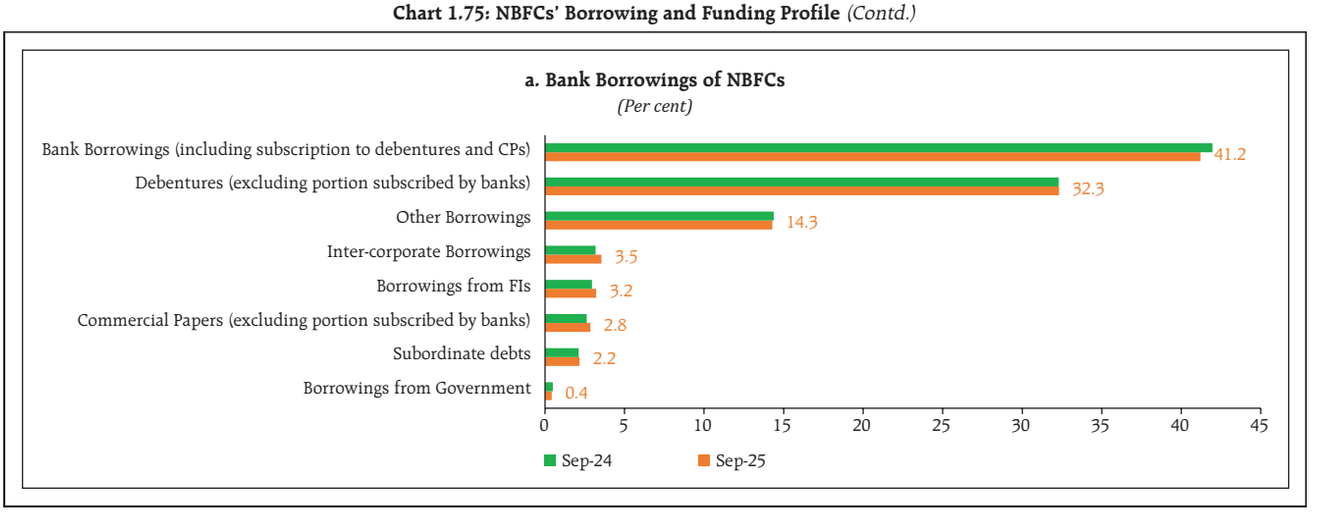
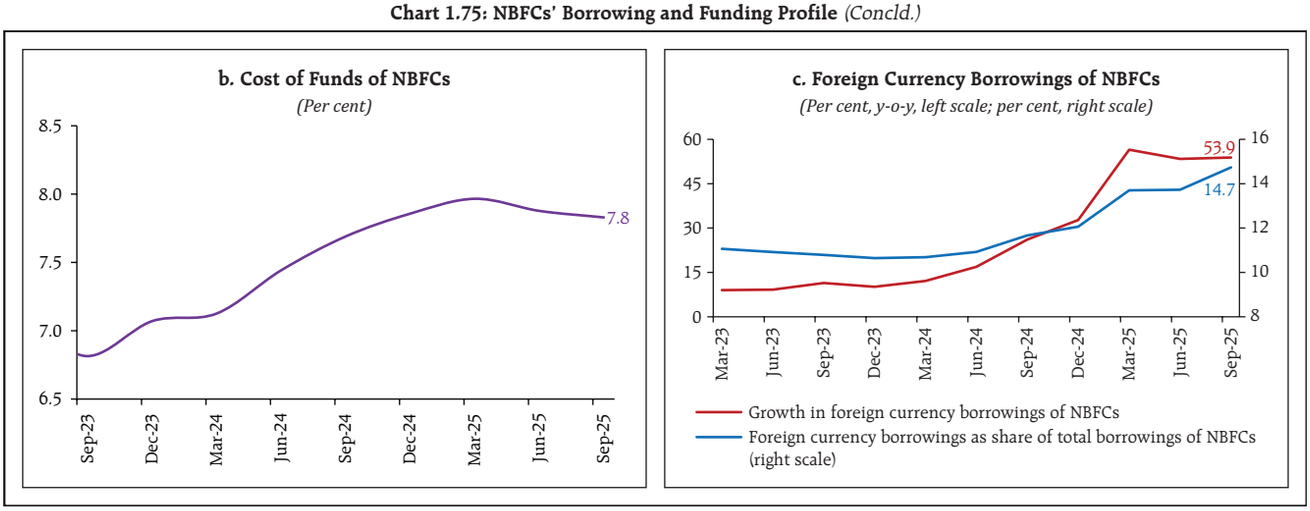


Chart 1.75: NBFCs' Borrowing and Funding Profile *(Concld.)*

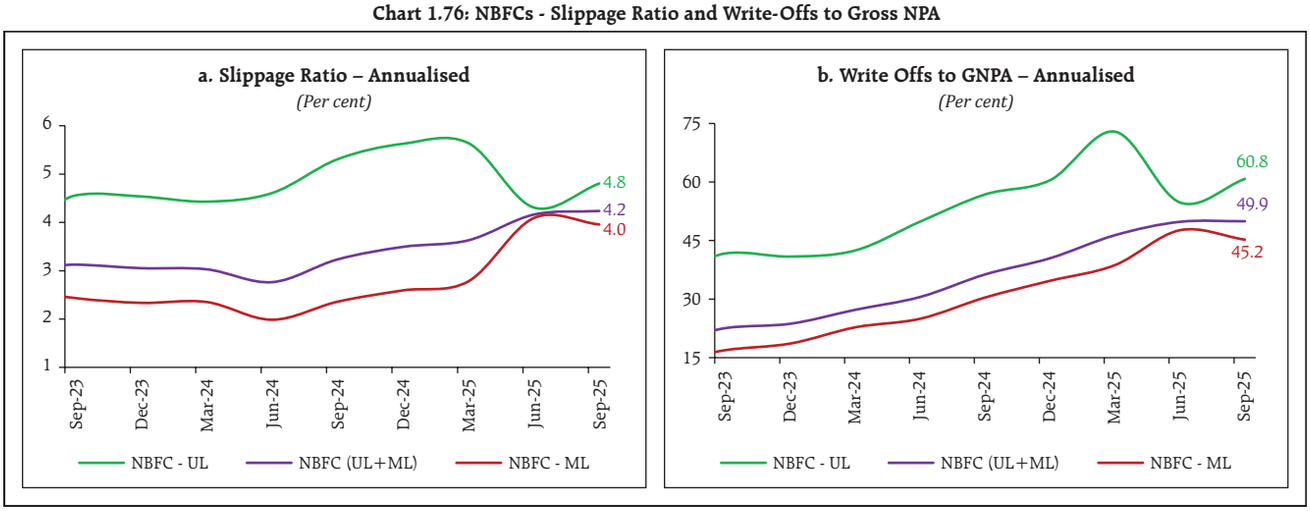


Notes: (1) In chart (b), Cost of funds = Annualised Interest Expense and Other Financing Cost/ (Average Total Borrowings + Average Public Deposits)
(2) In chart (c), foreign currency borrowings include borrowings through bonds and debentures.
Sources: RBI supervisory returns; and staff estimates.

1.69 Even as the GNPA ratio in NBFCs has declined, fresh accretions to NPAs are trending higher. Moreover, write-offs are also growing, indicating some build-up of stress in their loan portfolio (Chart 1.76 a and b).

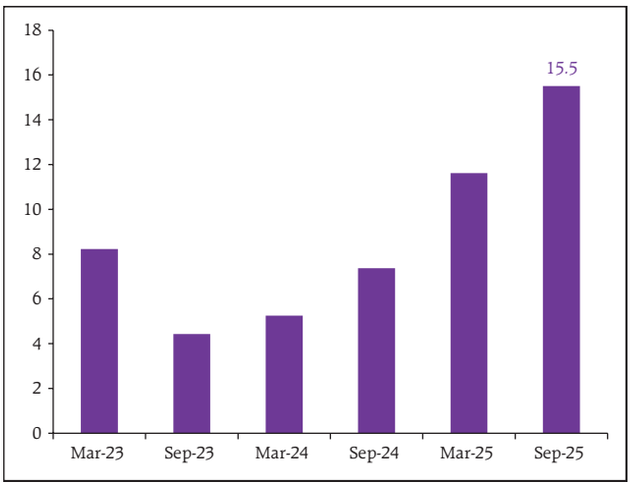
1.70 Combined credit from NBFCs and NBFC-MFIs to the microfinance sector, which comprises 51.2 per cent of total credit outstanding to the sector, contracted by 8.5 per cent in H1:2025-26. In terms of asset quality, the ratio of stressed assets (31-180 dpd) has been declining for three successive quarters. The credit cost of NBFC-MFIs, however, rose sharply from 4.4 per cent in September 2023 to 15.5 per cent in September 2025, due to higher risk provisions and write-offs (Chart 1.77).

Chart 1.76: NBFCs - Slippage Ratio and Write-Offs to Gross NPA



Sources: RBI supervisory returns; and staff estimates.

Chart 1.77: NBFC-MFIs' Credit Cost Rising
(Per cent)

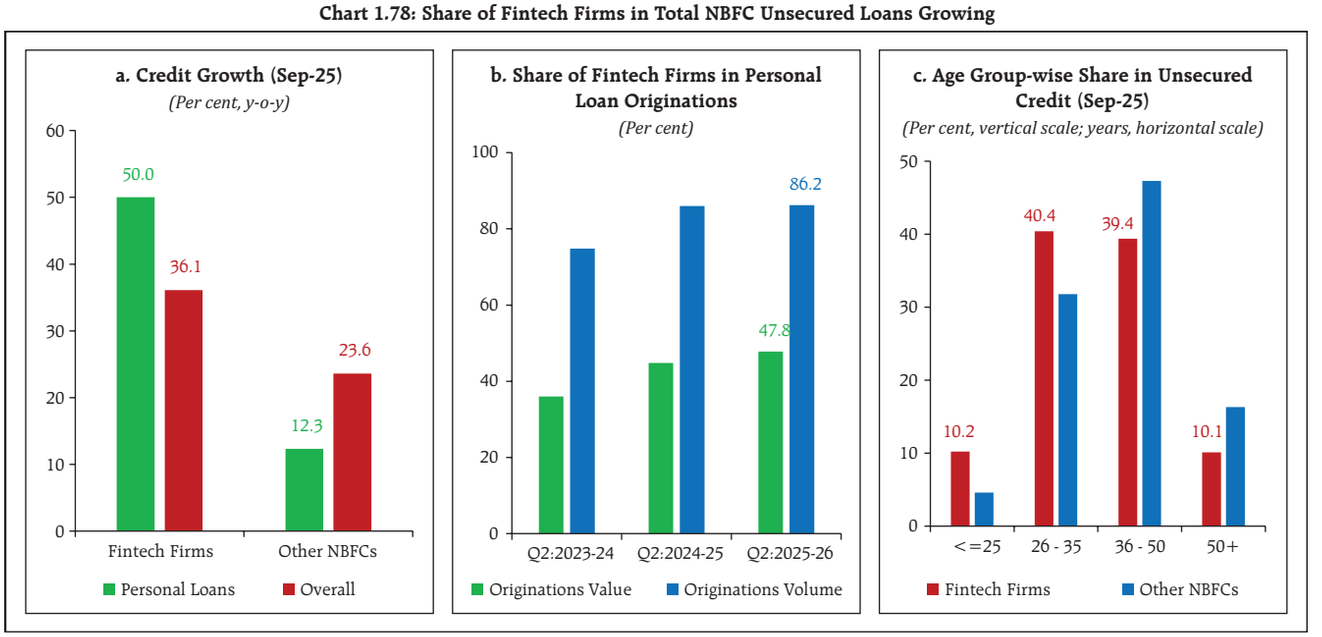


Notes: (1) Based on a common sample of middle-layer NBFC-MFIs.
(2) Credit Cost = (Provision for Standard Assets and Non-Performing Assets + Annualised Write-offs)/Average gross advances.
Sources: RBI supervisory returns; and staff estimates.

1.71 Fintech firms[39] have been increasing their footprint in retail lending which now forms 8.9 per cent of total NBFC consumer segment loans, up from 7.3 per cent in September 2023. Between September 2024 and September 2025, they registered a robust growth of 36.1 per cent, largely driven by personal loans that formed more than half of their outstanding loan portfolio and are rising both in terms of value and volume (Chart 1.78 a and b). Unsecured loans[40] form more than 70 per cent of their total loan book, and more than half of them were extended to borrowers under 35 years of age (Chart 1.78 c).

1.72 In terms of asset quality, the impairment[41] of personal loans in the fintech firms' portfolio has declined over the last one year even as credit has expanded rapidly (Chart 1.79 a). Compared to other NBFCs, however, the impairment in the small ticket loans (up to ₹50,000) were relatively higher (Chart 1.79 b). Furthermore, the impairment among borrowers who have availed unsecured loans from five or more lenders was also elevated (Chart 1.79 c).

Chart 1.78: Share of Fintech Firms in Total NBFC Unsecured Loans Growing



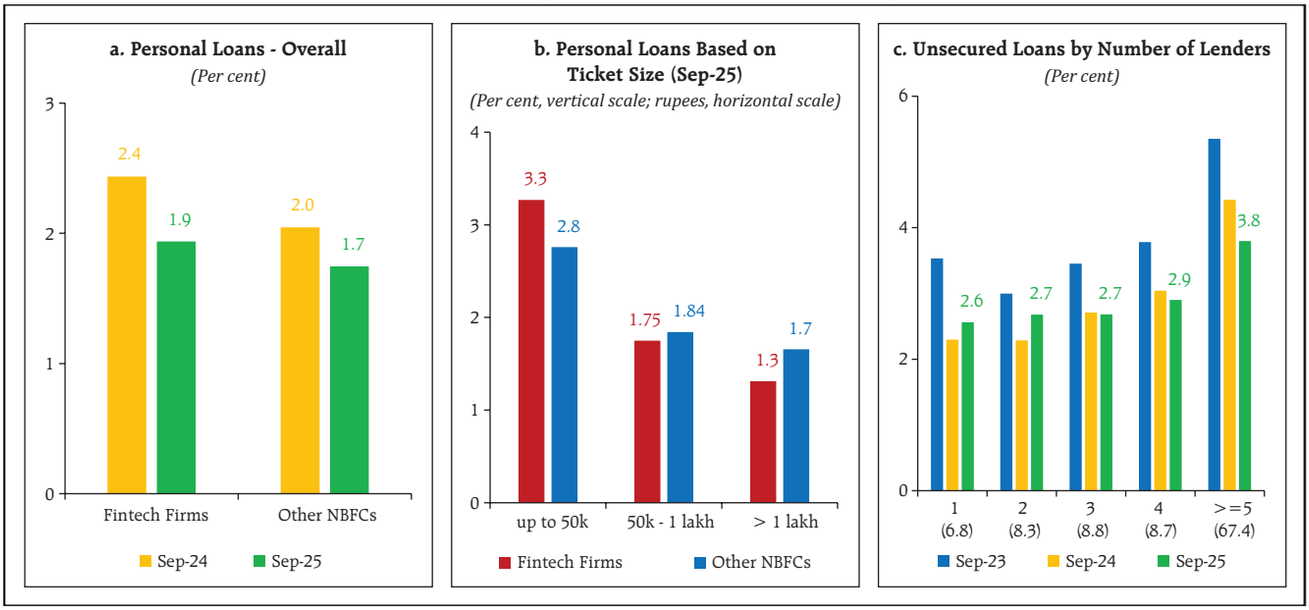
Sources: CRIF High Mark; and RBI staff estimates.

[39] Fintech firms, as classified by CRIF High Mark, are NBFCs which have digital lending as their core strategic focus. 'Other NBFCs' are NBFCs other than fintech firms.

[40] Unsecured loans comprise of personal loans and unsecured business loans.

[41] Measured as 91-180 days past due (dpd) portfolio to total balance outstanding.

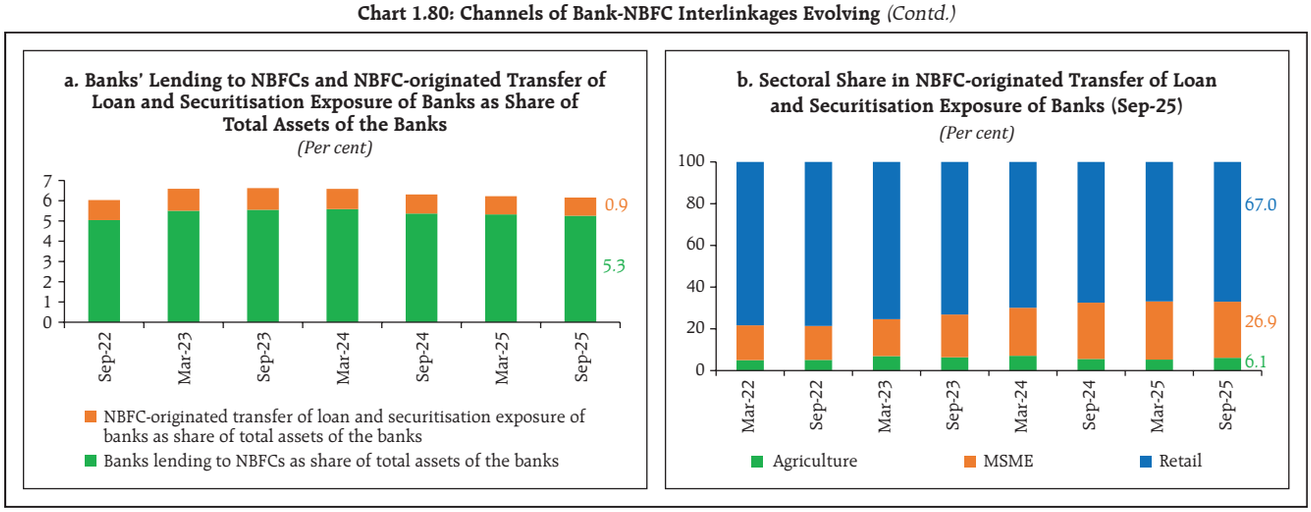
Chart 1.79: Impairment in Unsecured Loans Declining



Note: In chart (c), the borrower level worst DPD is considered. Numbers in parentheses represent the share of amount outstanding as at end-September 2025. Unsecured loans comprise of personal loans and unsecured business loans.
Sources: CRIF High Mark; and RBI staff estimates.

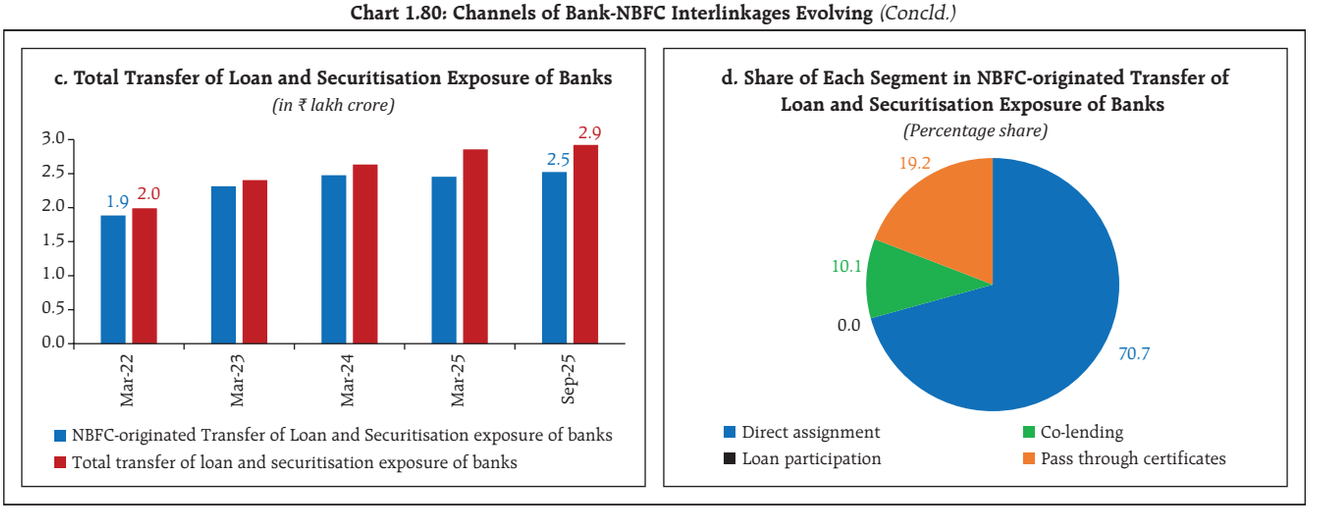
1.73 In recent years, however, bank–NBFC interlinkages have evolved beyond the traditional lending-borrowing channel (Chart 1.80 a). As NBFCs increasingly sell or securitise their retail and MSME loan portfolios (Chart 1.80 b), banks are not only extending credit to NBFCs but also acquiring NBFC-originated assets through transfer of loan and securitisation, including direct assignment, pass-through certificates, and co-lending arrangements (Chart 1.80 c and d).[42]

Chart 1.80: Channels of Bank-NBFC Interlinkages Evolving *(Contd.)*



[42] Based on survey of fifteen public and private sector banks, which form 73 per cent of total assets in the banking sector as at end-March 2025, around 86 per cent of total transfer of loan and securitisation exposures are NBFC-originated.

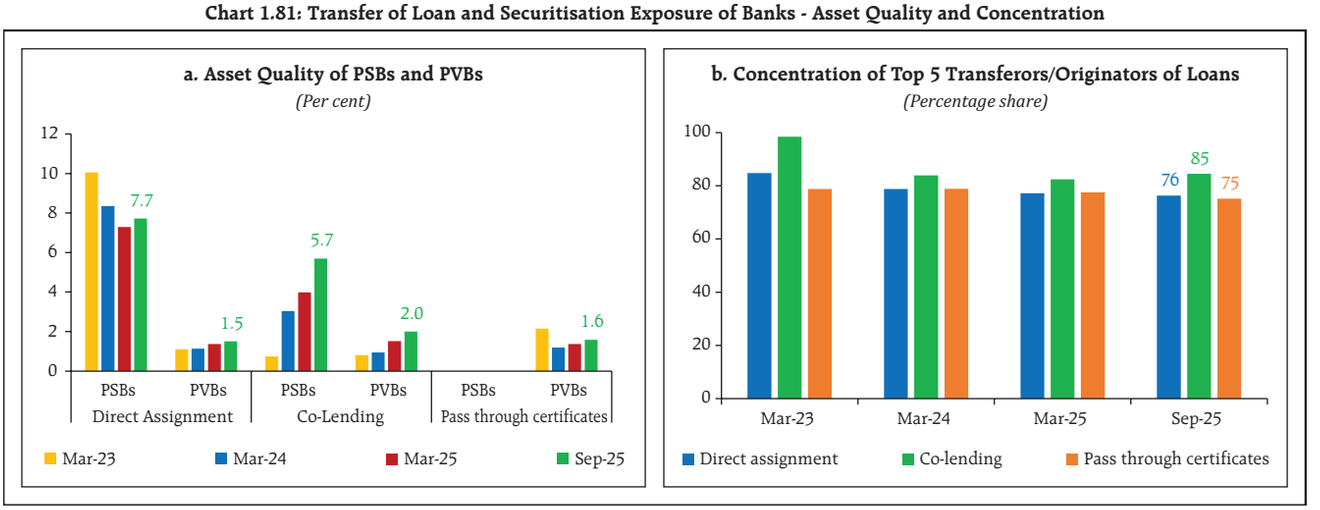
Chart 1.80: Channels of Bank-NBFC Interlinkages Evolving *(Concld.)*



Notes: (1) NBFCs include NBFCs, HFCs and MFIs.
(2) Banks include PSBs and PVBs.
Sources: Survey of select banks; RBI supervisory returns; and staff estimates.

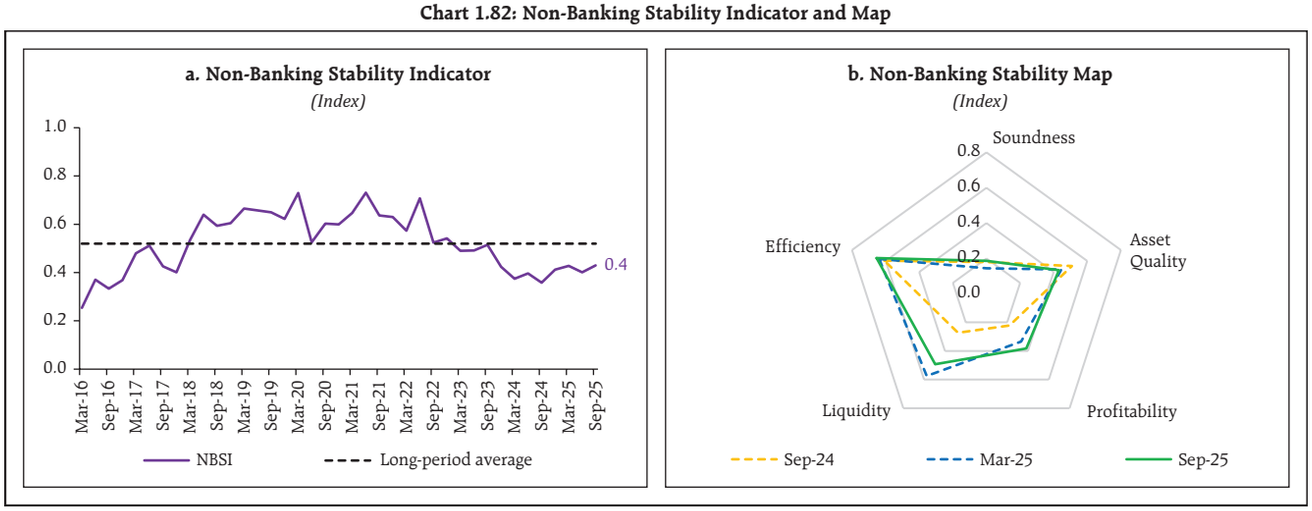
1.74 Banks are increasingly acquiring these assets to scale their retail portfolios, earn higher yields, and meet priority-sector targets. While the credit performance of acquired pools by PSBs has been weaker than their own originations, with direct assignment and co-lending pools showing higher loan losses, PVBs acquired pools that performed better (Chart 1.81 a). Moreover, banks are acquiring around 80 per cent of these assets through a limited number of NBFCs, which could create correlated risk and amplification of stress (Chart 1.81 b).

Chart 1.81: Transfer of Loan and Securitisation Exposure of Banks - Asset Quality and Concentration



Notes: (1) For Asset Quality, GNPA Ratio is considered for Direct Assignment and Co-Lending and Percentage of loans overdue more than 90 days in the underlying pools is considered for Pass-through certificates.
(2) Pass-through certificates asset quality data is not available for PSBs.
Sources: Survey of select banks; and RBI staff estimates.

Chart 1.82: Non-Banking Stability Indicator and Map



Notes: (1) In chart (a), lower values indicate improvement. Long-period average is average of NBSI since March 2016.
(2) In chart (b), away from the centre indicates increase in risk.
Sources: RBI supervisory returns; and staff estimates.

1.75 The overall risk in the NBFC sector, as reflected in the non-banking stability indicator (NBSI)[43] rose in September 2025 compared to its eight-year low in September 2024. The NBSI, however, remained below the long-term average and steady *vis-à-vis* the March 2025 position, aided by improvement in asset quality and liquidity (Chart 1.82 a and b).

[43] See Annex 1 for detailed methodology and variables used.

Special Feature

Financial Stability Implications of Stablecoins

Introduction

Stablecoins have emerged as a key component of the crypto asset ecosystem, and their prominence has risen following legal and regulatory clarity in select jurisdictions. By aiming to maintain a stable value, stablecoins claim to function as a reliable payment instrument and a safe store of value, unlike their unbacked counterparts like Bitcoin, as well as offer faster and cheaper payments. While they are currently mostly used in the crypto asset network, their wider application could pose significant risks, including risk to the '*singleness* of money', threat to monetary sovereignty, run and liquidity vulnerabilities, and potential credit disintermediation. This special feature examines the rapid evolution of stablecoins, their use cases, potential benefits and risks, and regulatory approach across jurisdictions.

Stablecoins are crypto assets issued by private entities denominated in currencies, such as the US dollar (USD) or Euro, which aims to maintain a stable value by pegging to a specific asset or basket of assets in those currencies.[1] They emerged to address the high volatility in unbacked crypto assets while serving as a medium of exchange within the crypto asset ecosystem. By providing a stable reference asset, they facilitate trading, borrowing, and lending of crypto assets and enable storage and transfer of value.

Over the past two years, the number of active stablecoins surged from around 60 in mid-2024 to over 170 by mid-2025.[2] Alongside, the market capitalisation rose from approximately US$ 120 billion to US$ 300 billion in the last two years (Chart 1 a). The stablecoin market, however, remains highly concentrated in terms of peg currency with almost 99 per cent of market capitalisation denominated in USD.[3] Moreover, two issuers, *viz.*, Tether (USDT) and Circle (USDC), account for around 85 per cent of the total market capitalisation. Despite their recent surge, the volatility remains high, especially for algorithmic stablecoins (Chart 1 b).

Purported Benefits and Use Cases

Stablecoins, with their combination of programmability, faster settlements, low-cost transactions and round the clock operability, have drawn attention as a possible means of improving the efficiency of financial transactions. Currently, by far the most dominant use case of stablecoins is in crypto trades – mainly to purchase crypto assets and provide liquidity in that market. Stablecoins currently account for over 80 per cent of trading volume on major centralised crypto exchanges.[4]

A frequently cited use case is cross-border payments, which is increasing (Chart 2). Conventional cross-border payments often involve multiple intermediaries, high transaction costs, and

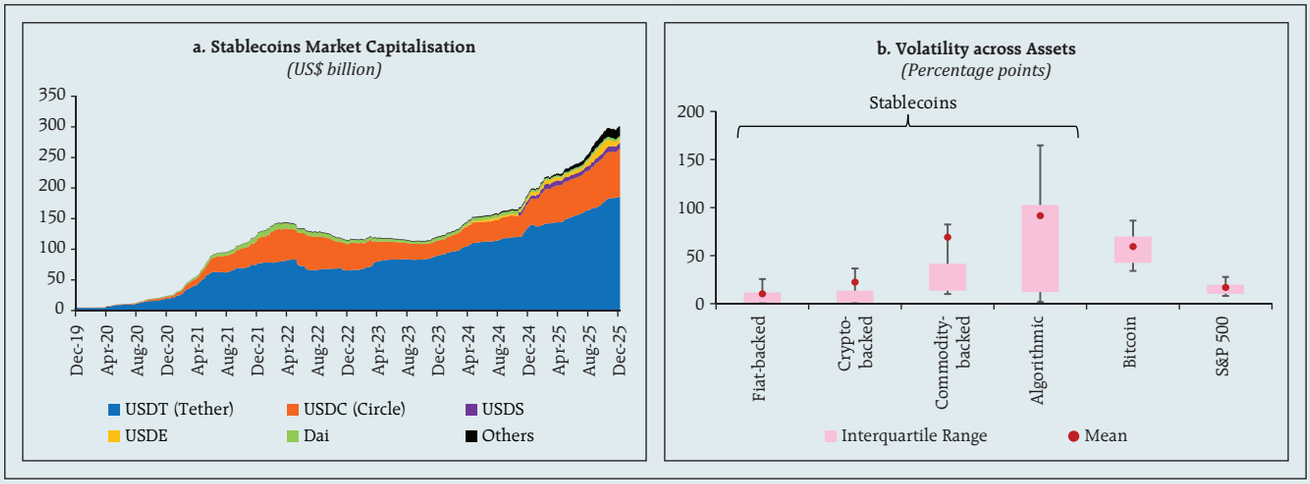
[1] Assets that back stablecoins range from financial assets to commodities and other crypto assets. Accordingly, there are different types of stablecoins. Fiat-backed stablecoins are backed by financial assets in the currency in which they are denominated. Commodity-backed and crypto-backed stablecoins are backed by commodities and other crypto assets. Another type of stablecoin, *viz.*, algorithmic stablecoin do not have asset backing and aims to maintain their stable value through trading in the market.

[2] Bank for International Settlements (2025), "Stablecoin growth – policy challenges and approaches", BIS Bulletin no 108, July.

[3] *Ibid.*

[4] Waller, Christopher J. (2025), "Reflections on a Maturing Stablecoin Market", Board of Governors of the Federal Reserve System, February.

Chart 1: Stablecoin Market Capitalisation and Volatility



Notes: (1) In chart (a), stablecoins with market capitalisation more than US$ 1 billion as on December 10, 2025 are considered. Others include PayPal USD, USD1, Tether Gold, Falcon USD, PAX Gold, BFUSD, Ripple USD and Global Dollar.

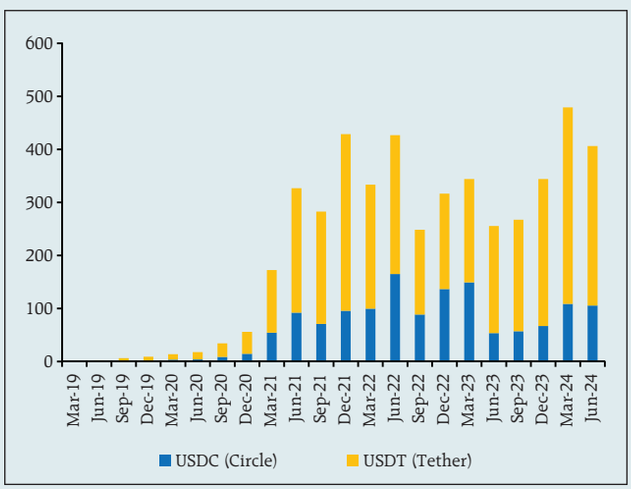
(2) In chart (b), volatility is defined as the annualised standard deviation of daily returns computed on 21-trading day moving windows. The whisker represents 10th-90th percentile range.

Sources: CoinGecko; and BIS.

multi-day settlement times. Stablecoins, by contrast, claim faster transfers of value on blockchain networks with lower costs, offering benefits for remittances.[5] Thus, stablecoins can enable faster and cheaper cross-border payment by bypassing the inefficiencies of traditional correspondent banking networks.[6]

Chart 2: Stablecoin Cross-Border Flows

(US$ billion)



Source: BIS.

With tokenisation of securities and real-world assets expected to expand rapidly, from US$ 600 million in 2025 to US$ 18.9 trillion in 2033[7], stablecoins claim to have the potential to become a key medium for on-chain clearing and settlement in an even larger digital ecosystem. They can be an appealing alternative for the users in countries with high inflation, tight capital controls and restricted access to dollar accounts.[8] Interestingly, their cross-border transaction volumes generally increase after episodes of high inflation and exchange rate fluctuations in sending and receiving economies (Chart 3).

Many of the claimed benefits suggest potential efficiency gains and wider applications - ranging from cross-border payments to future roles in tokenised asset ecosystems. However, they remain largely untested and unrealised at scale. The FSB

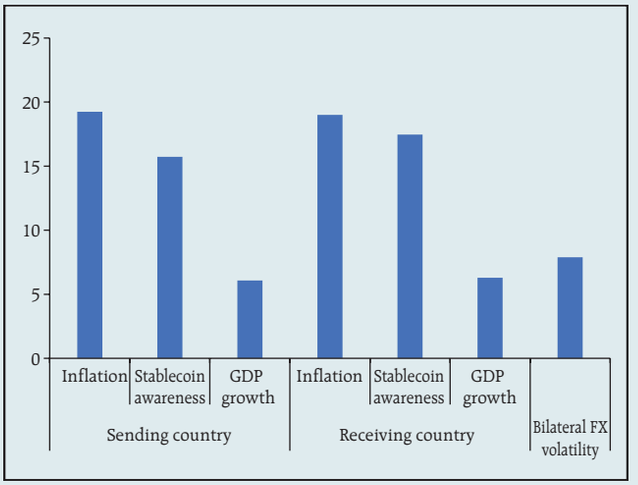
[5] Bank for International Settlements (2025), "Annual Economic Report 2025", June.

[6] Rey, Helene (2025), "Stablecoins, Tokens, and Global Dominance", IMF Finance and Development Magazine, September.

[7] Ripple and Boston Consulting Group (2025), "Approaching the Tokenization Tipping Point", April.

[8] Bank for International Settlements (2025), "Annual Economic Report 2025", June.

Chart 3: Stablecoin Cross-Border Flows - Country-Level Drivers
(Per cent)



Note: Estimated increase in bilateral cross-border tether flows for sending and receiving countries that experience high inflation (i.e., top quartile of a large sample of countries from 2017 to 2024), GDP growth, stablecoin awareness or bilateral exchange rate (FX) volatility.
Source: BIS.

in its review of real use cases of stablecoins also found that many of the anticipated benefits are yet to materialise.[9] Moreover, the claim that stablecoins can serve as settlement assets in a tokenised environment overlooks a key vulnerability, *i.e.*, stablecoins are tradable instruments whose prices can deviate from par.[10] Therefore, it remains unclear whether stablecoins would deliver lasting competitive advantages. Features often claimed as advantages, such as programmability, atomic settlement, and interoperability, stem from the underlying technologies (DLT, blockchain, tokenisation), and may not be unique to stablecoins. Unlike stablecoins, tokenised central bank reserves offer a stable and trusted settlement asset for wholesale transactions.[11]

Financial Stability Risks

Stablecoins can create important financial stability risks because of their inherent vulnerabilities. Trust in money is the foundation for maintaining financial stability. As stablecoins position as an alternative form of money, it is vital to recognise that they fall short of the foundational requirements expected from a sound monetary system – *singleness*, *elasticity* and *integrity*.[12,13] Stablecoins could undermine '*singleness* of money', which is the principle that all forms of money are freely interchangeable at par, *i.e.*, they trade at the same price and accepted everywhere. Since private stablecoins will involve multiple issuers of different credit worthiness with no central bank or government backing, their prices can deviate from par. Empirical evidence shows that stablecoins often fails to maintain their stable value and deviate from their peg both intraday and at the end of the day.[14] The recent downgrade of USDT (Tether), the largest stablecoin, to 'weak' category by the rating agency S&P Global Ratings due to increased exposure to high-risk assets in its reserves and continued gaps in disclosure underscore the challenges faced by stablecoins to maintain its stable value.[15] In the short history of stablecoins, there have been multiple episodes, such as the May 2022 collapse of TerraUSD and the March 2023 U.S. banking turmoil, wherein they saw significant price volatility (Chart 4). Such deviations from par convertibility could weaken stablecoins' role as reliable settlement

[9] Financial Stability Board (2024), "Cross-border Regulatory and Supervisory Issues of Global Stablecoin Arrangements in EMDEs", July 23.

[10] Bank for International Settlements (2025), "Annual Economic Report", June.

[11] *Ibid.*

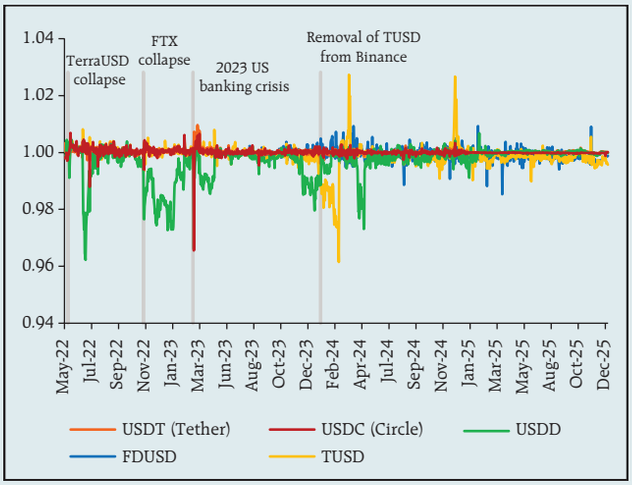
[12] *Ibid.*

[13] Elasticity refers to the ability to provide money flexibly to meet the need for large-value payments in the economy, so that obligations are discharged in a timely way without gridlock. Integrity refers to the ability of monetary system to prevent widespread abuse from fraud, financial crime and other illicit activities.

[14] Kosse, Anneke, Glowka, Marc, Mattei, Ilaria and Rice, Tara (2023), "Will the real stablecoin please stand up?", November.

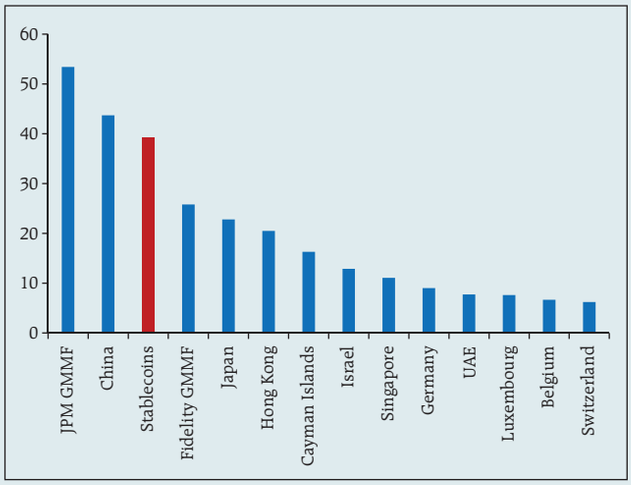
[15] S&P Global Ratings (2025), "Stablecoin Stability Assessment: Tether (USDT)", November 26.

Chart 4: Peg Stability of Stablecoins during Stress Episodes
Stablecoin Price vs. USD Peg (US$ 1.00)



Source: CoinGecko.

Chart 5: Stablecoin Issuers among Top Buyers of US T-bills in 2024
(US$ billion)



Note: GMMF stands for government money market fund.
Source: BIS.

assets, fragment the payment system, and ultimately heighten financial stability risks.

Stablecoins could experience destabilising runs if holders lose confidence in their ability to redeem at par. The perception of on-demand redemption creates funding risks from liquidity and asset maturity mismatches. These vulnerabilities can amplify shocks and spill over into other market segments and the traditional financial system by creating interconnections.[16] These risks are exacerbated by the demand for reserve assets, such as US treasuries from stablecoin issuers, which are also the mainstay for traditional financial institutions for funding and market liquidity (Chart 5). Thus, a run on stablecoins could trigger a fire-sale of their reserve assets. Moreover, these vulnerabilities are likely to persist since stablecoins are expected to grow rapidly, there is high concentration - two issuers account for roughly 90 per cent of USD-denominated stablecoins in circulation – and there are interchangeability issues across stablecoins.[17,18] Hence, instability in stablecoins could become a source of systemic risk.

Rapid growth of stablecoins could adversely affect credit intermediation and deposit flight. Although most jurisdictions prohibit stablecoin issuers from offering yield, third-parties or affiliates such as crypto asset service providers (CASPs) remain free of such restrictions, including in the US. These intermediaries may offer returns through lending, margin funding or other yield-generating mechanisms. The yield-bearing products based on stablecoins could compete with bank deposits and result in more expensive funding for banks, limit the credit available to the real economy and make deposit flows more volatile during periods of stress.[19] They could also pose funding risks to banks as at the aggregate level retail deposits will convert into wholesale deposits, which are less stable.[20]

[16] Pablo D. Azar and *et al.* (2024), "The Financial Stability Implications of Digital Assets", Federal Reserve Bank of New York, Economic Policy Review, November.
[17] European Central Bank (2025), "Financial Stability Review", November.
[18] Unlike bank deposits that are accepted by everyone even though they maintain different banking relationships, stablecoins are not currently freely interchangeable among holders.
[19] Ocampo, Denise Garcia (2025), "Stablecoin-related yields: some regulatory approaches", FSI Briefs No 27, October.
[20] This could happen directly if stablecoin issuers maintain some of their reserves in bank deposits or indirectly through deposits from entities from which reserve assets are bought.

Other Macrofinancial Risks

The rapid growth in foreign currency pegged stablecoins can lead to currency substitution and challenge a country's monetary sovereignty.[21] Easy access to dollar-denominated stablecoins can lead to 'digital dollarisation', a scenario where digital form of dollar-denominated or dollar-pegged currencies substitute local currency. Moreover, unlike traditional forms of dollarisation, the stablecoins have the potential to displace local currencies more rapidly through digital channels and network effects.[22]

Widespread adoption of foreign currency-denominated stablecoins can cause erosion of monetary control and weaken the transmission channels of domestic monetary policy.[23] Moreover, since the effectiveness of monetary policy is dependent on central bank's ability to influence interest rates and money supply, emergence of stablecoins and their impact on bank deposits and reserve assets could pose challenges for monetary policy implementation.

Stablecoins can circumvent controls on capital movement and complicate macroeconomic management for the central bank. This is especially important for emerging economies like India where capital flow management frameworks (CFM) play a key role in preserving external sector stability. Stablecoins, like other crypto assets, can be used to bypass the current system for transferring foreign exchange in and out of the country, impeding the effectiveness of CFMs, which aims to maintain macroeconomic stability, safeguard foreign exchange reserves, and manage the risks associated with sudden and volatile capital flows.

Purported benefits of stablecoins such as pseudonymity, low-transaction costs and cross-border usage also create risks to financial integrity. Evidently, since 2022, stablecoins have replaced bitcoin as the primary vehicle for illicit crypto flows.[24] Without adequate regulation, stablecoins—like other crypto assets—can be exploited for serious crimes, including money laundering, terrorism financing, and the financing of weapons proliferation.[25] In fact, their relative stability could make them more attractive for illicit activities. These risks intensify for emerging economies due to capacity constraints, including limited resources for oversight, enforcement, and cross-border coordination. Furthermore, lack of robust regulatory frameworks, advanced blockchain analytics, and tax enforcement mechanisms to track crypto flows create additional challenges.

Policy Approach

One of the drivers of stablecoin growth could be the emergence of legal/regulatory frameworks across major jurisdictions between 2023 and 2025, including the US, European Union, Singapore, Hong Kong and Japan. Emerging regulatory approaches have several common themes such as requiring issuers to be legal entities, maintaining full backing with high-quality liquid assets, providing statutory redemption rights to holders, mandating that reserves be separated and shielded from the issuer's creditors, and banning issuers from paying interest on stablecoins.[26]

[21] International Monetary Fund (2025), "Global Financial Stability Report: Shifting Ground beneath the Calm", October.

[22] International Monetary Fund (2025), "Understanding Stablecoins", December.

[23] Rey, Helene (2025), "Stablecoins, Tokens, and Global Dominance", September.

[24] Chainalysis (2025), "The Road to Crypto Regulation. Part 2: Stablecoins at the Crossroads of Financial Services and Crypto", August.

[25] International Monetary Fund (2025), "Understanding Stablecoins", December.

[26] *Ibid.*

However, there are significant divergence in policy approach across jurisdictions, including eligible issuers, approach towards foreign-currency stablecoins and differentiated treatment of systemically important issuers.[27] The Guiding and Establishing National Innovation for U.S (GENIUS Act) in the US and Markets in Crypto-Assets Regulation (MiCAR) in Europe has given a regulatory framework for issuing dollar and euro-backed stablecoins, including reserve requirements, audits, AML controls, and supervision. Similarly, the Hong Kong Stablecoins Bill, passed in May 2025, establishes a licensing regime for fiat-referenced stablecoins. While countries are in various phases of developing regulatory frameworks for stablecoins, some countries like China, Egypt, Nepal, *etc.*, have imposed a ban on crypto assets, including stablecoins. Such divergences in regulatory frameworks across jurisdictions leaves scope for regulatory arbitrage. Moreover, there has been limited progress in the effective implementation of Financial Stability Board's global regulatory framework for crypto asset activities among its members. In its thematic review, the Financial Stability Board has highlighted inconsistencies in cross-border regulatory cooperation which could pose risks to financial stability. The macrofinancial risks posed by stablecoins may be larger for EMDEs given weaker institutional frameworks, larger share of unbanked population, lower financial literacy and additional incentive to bypass capital flow restrictions. Accordingly, EMDEs may need to consider additional targeted measures to mitigate specific risks.[28]

Conclusion

Stablecoins have gained attention in recent years, and their issuance has grown rapidly. Their size, however, remain low relative to wider crypto asset market capitalisation. Currently, risks from stablecoins to macrofinancial stability outweigh their purported benefits. In their short history, stablecoins have proven to be volatile and vulnerable to confidence shocks and structural fragilities. Wider adoption of stablecoins can introduce new channels of financial stability risks, particularly during periods of market stress. To mitigate risks posed by their rapid growth, it is vital that jurisdictions carefully assess the attendant risks and determine policy responses appropriate to its financial system.

The Reserve Bank of India (RBI) has highlighted that widespread adoption of stablecoins could pose significant risks to India's monetary sovereignty and financial stability. The RBI maintains a cautious stance on crypto assets, including stablecoins, prioritising sovereign digital infrastructure to safeguard monetary sovereignty amid global shifts and preserve financial stability. Central bank money is what preserves the *singleness* of money and the *integrity* of the financial system. It must remain the ultimate settlement asset, and it should remain the anchor for trust in money. Central bank digital currencies (CBDCs) can achieve the benefits that stablecoins claim to offer, *i.e.*, efficiency, programmability, and instant settlement, but with the credibility and safety of central bank money. The RBI, therefore, strongly advocates that countries should prioritise central bank digital currencies (CBDCs) over privately issued stablecoins to maintain trust in money, preserve financial stability and design next generation payments infrastructure that is faster, cheaper and secure.

[27] International Monetary Fund (2025), "Understanding Stablecoins", December.

[28] Financial Stability Board (2023), "IMF-FSB Synthesis Paper: Policies for Crypto-Assets", September.

Chapter II

Financial Institutions: Soundness and Resilience

The Indian banking sector continued to remain robust with strong capital and liquidity buffers, improved asset quality and steady profitability. Macro stress test results reaffirmed the resilience of SCBs to adverse macroeconomic shocks. The NBFC sector remained resilient with improvement in asset quality alongside healthy capital and profitability ratios. Interconnectedness among different categories of financial entities, in terms of the outstanding bilateral exposures, continued to grow at a strong pace.

Introduction

2.1 The Indian financial sector remained strong and resilient amid global headwinds, as reflected by financial parameters. The scheduled commercial banks (SCBs), urban cooperative banks (UCBs) and non-banking financial companies (NBFCs) remained sound with robust capital and liquidity buffers, demonstrating ongoing improvement in asset quality, and maintaining steady profitability. Stress test results at the aggregate level reaffirmed the resilience of these financial entities to withstand losses under adverse scenarios and to maintain capital buffers well above regulatory minimum levels. Asset management companies, clearing corporations and insurance sector also remained sound.

2.2 This chapter presents stylised facts, analyses on the health of the domestic financial sector and stress tests conducted to assess the resilience of the financial system. Section II.1 outlines the performance of SCBs in India through various parameters, *viz.*, business mix; asset quality; credit concentration; earnings; profitability and capital adequacy. Results of macro stress tests, sensitivity analyses and bottom-up stress tests performed to evaluate the resilience of SCBs under adverse scenarios are also presented. Sections II.2 and II.3 describe the financial performance of UCBs and NBFCs, respectively, including their resilience under various stress scenarios. Sections II.4 and II.5 examine the soundness and resilience of mutual funds and clearing corporations, respectively. Section II.6 covers a detailed analysis of the network structure and connectivity of the Indian financial system as well as contagion analysis under stress scenarios. Section II.7 concludes the chapter with assessment of the insurance sector.

II.1 Scheduled Commercial Banks (SCBs)[1][2][3][4]

2.3 SCBs' asset quality continued to improve while they maintained stable capital and liquidity positions, as reflected in data as of September 2025. However, year-on-year growth in net interest income has remained muted over the first half of 2025-26, impacting the profit growth (Table 2.1).

[1] Analyses are mainly based on data reported by banks through RBI's supervisory returns covering only domestic operations of SCBs, except in the case of data on large borrowers, which are based on banks' global operations. SCBs include public sector banks, private sector banks, foreign banks and small finance banks.

[2] The analyses are based on the provisional data available as of December 10, 2025.

[3] Private sector banks' data for September 2023 quarter onwards are inclusive of the merger of a large housing finance company with a private bank and, the data may not be comparable to past periods before the merger (applicable for all charts and tables).

[4] Personal loans refer to loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creating/ enhancement of immovable assets (*e.g.*, housing, *etc.*) and (d) loans given for investment in financial assets (shares, debentures, *etc.*)

Table 2.1: Health Tracker Heat Map – Scheduled Commercial Banks (SCBs)
[Provides relative health of the sector based on last 10-year data]

			Best ← → Worst		
	(Per cent)	*10-year Average*	31-Mar-25	30-Jun-25	30-Sep-25
Credit and Deposit	Credit growth	*10.6*	11.0	10.0	11.0
	Deposit growth	*10.1*	10.7	11.2	9.8
Asset Quality and Provisioning	GNPA ratio	*6.9*	2.3	2.3	2.2
	NNPA ratio	*2.9*	0.5	0.5	0.5
	Slippage ratio (Q)	*1.3*	0.3	0.4	0.3
	PCR	*62.4*	76.3	75.9	76.0
Liquidity	LCR	*133.8*	132.5	132.7	131.7
	NSFR	*120.5*	126.4	127.0	124.7
Earnings	NII growth	*11.8*	7.9	2.0	2.3
	OOI growth	*11.6*	18.0	41.8	26.1
	EBPT growth	*11.5*	14.9	16.4	9.8
	PAT growth	*38.4*	16.8	6.1	3.8
Profitability	NIM	*3.3*	3.5	3.3	3.3
	ROA	*0.6*	1.4	1.3	1.3
	ROE	*6.1*	13.5	12.5	12.5
Capital	CET1 ratio	*12.5*	14.8	15.0	14.8
	CRAR	*15.4*	17.4	17.5	17.2

Note: For colour to represent appropriate status –
- 10-year minimum/maximum (depending on the indicator) is considered as the best/worst.
- Mid point is 50th percentile, except in LCR and NSFR (Min 100 and Mid point 120).
- For CET1 ratio and CRAR, minimum regulatory capital is considered as worst.
- PAT growth: Minimum and maximum are considered as (-)100 and 100, respectively.

Sources: RBI supervisory returns; and staff estimates.

II.1.1 Deposit and Credit

2.4 SCBs' aggregate deposit growth (y-o-y) continued to fall in successive half years since March 2024 and reached 9.8 per cent as of end-September 2025, led by sharp deceleration for private sector banks (PVBs) (Chart 2.1 a). The fall in share of CASA deposits and rise in share of time deposits across bank groups continued (Chart 2.1 b).

2.5 SCBs' credit growth remained steady at 11.0 per cent y-o-y at end-September 2025 (Chart 2.1 c). Credit growth of PSBs fell marginally but PVBs more than compensated with higher growth. However, growth of PSBs continued to outpace that of PVBs. In sectoral composition, the shares of agricultural and industrial loans in aggregate credit contracted, while those of services and personal loans expanded

Chart 2.1: Deposit and Credit Profile of SCBs *(Contd.)*

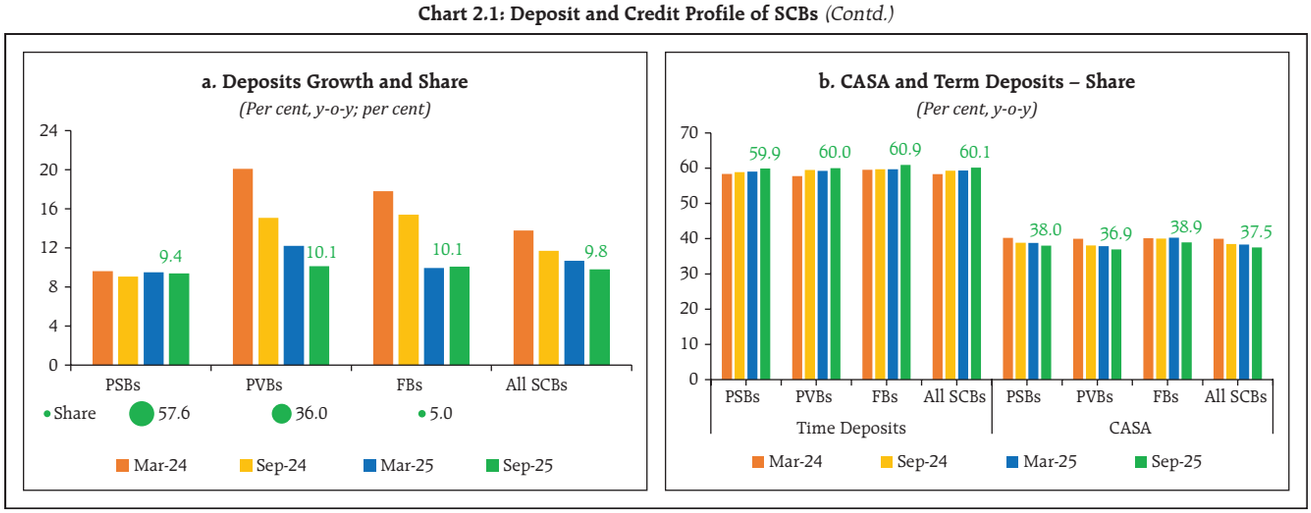


Chart 2.1: Deposit and Credit Profile of SCBs *(Concld)*

Note: The spurt in housing loans of PVBs in March 2024 is partly attributable to the merger of a large housing finance company with a private bank.
Sources: RBI supervisory returns; and staff estimates.

over the previous year (Chart 2.1 d). Industrial loans growth for PVBs and personal loans growth for PSBs showed a sharp rise in September 2025 (Chart 2.1 e).

2.6 Within personal loans, SCBs' credit growth (y-o-y) in *vehicle/ auto loans* and *other personal loans* increased in September 2025 as compared with March 2025, amid broad-based deceleration

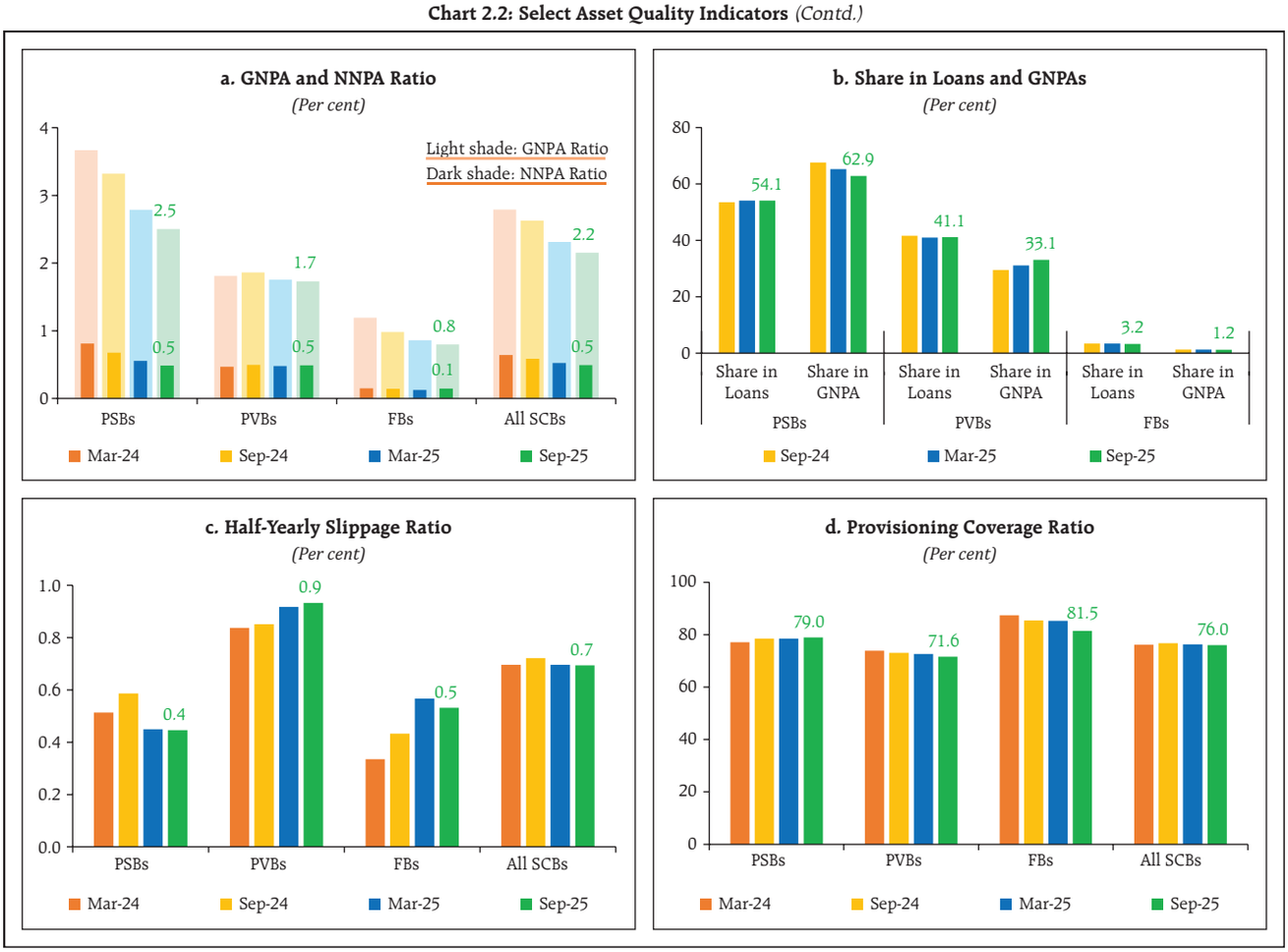
in other sub-segments (Chart 2.1 f). Personal loans continued to be dominated by *housing loans* (share 45.6 per cent) followed by *other personal loans* (37.3 per cent).

II.1.2 Asset Quality

2.7 PSBs and FBs led the continued improvement in asset quality. At the aggregate level, the GNPA ratio of SCBs declined to a fresh multi-decadal low of 2.2 per cent, and their NNPA ratio remained at a record low of 0.5 per cent (Chart 2.2 a). PSBs, who accounted for 54.1 per cent of SCBs' loans, continued to contribute more than three-fifth share in SCBs' GNPAs, though their share has continuously declined with corresponding rise in the share of PVBs over the last year (Chart 2.2 b).

2.8 The half-yearly slippage ratio, measuring new accretions to NPAs as a share of standard advances at the beginning of the period, remained stable at 0.7 per cent, though it increased marginally for PVBs (Chart 2.2 c). The provisioning coverage ratio (PCR) of PSBs continued to increase, while it declined for PVBs and FBs in September 2025 (Chart 2.2 d). Write-off ratio[5] decreased for PSBs, while it shot up in case of PVBs and FBs in the current financial year (Chart 2.2 e).

Chart 2.2: Select Asset Quality Indicators *(Contd.)*



[5] Write-off ratio is defined as the ratio of write-offs to GNPAs. Write-offs include technical/ prudential write-offs and compromise settlement and may be subject to future recovery.

Chart 2.2: Select Asset Quality Indicators *(Concld.)*

Note: Stock of GNPA, new accretions, reduction in NPAs due to upgradation, actual recoveries and write-offs have been derived as an index with GNPA stock as on 31st March 2020 as 100.

Sources: RBI supervisory returns; and staff estimates.

II.1.3 Sectoral Asset Quality

2.9 Credit quality continued to improve across broad economic sectors. The GNPA ratio for agriculture sector has been improving marginally in the recent period, although it remained much higher than those of the other sectors (Chart 2.3 a). In the personal loans category, asset quality of SCBs improved across all segments, except for *vehicle/ auto loans* (Chart 2.3 b). Within the industrial sub-sectors, asset quality exhibited sustained improvement across all sub-sectors barring *food processing* (Chart 2.3 c).

Chart 2.3: Sectoral Asset Quality Indicators

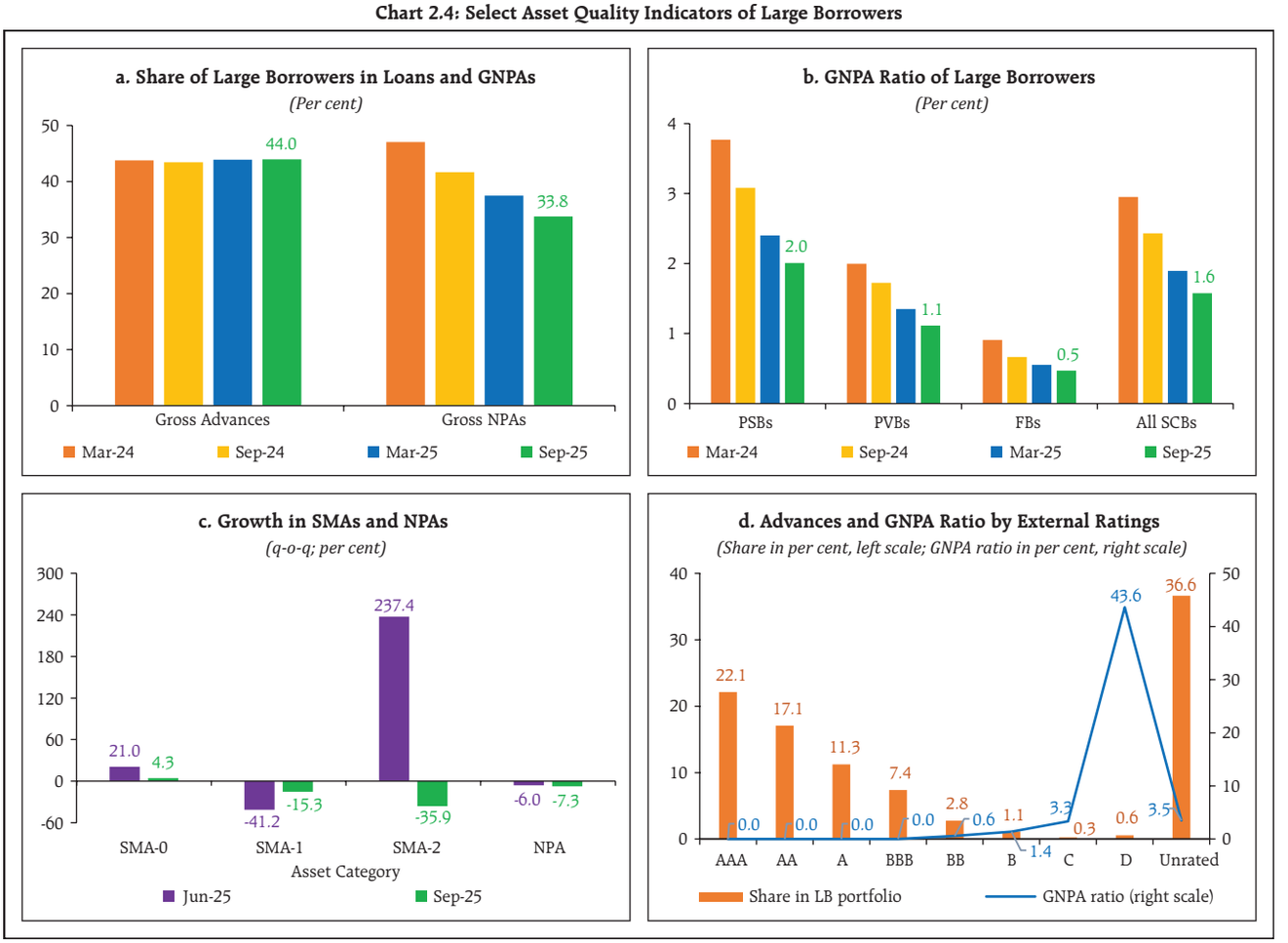
Sources: RBI supervisory returns; and staff estimates.

II.1.4 Credit Quality of Large Borrowers[6]

2.10 The share of large borrowers in total credit of SCBs remained steady at around 44.0 per cent but their share in gross NPAs declined significantly over the past few years to 33.8 per cent as on September 2025 (Chart 2.4 a). Asset quality exhibited considerable improvement across bank groups, with the aggregate GNPA ratio falling from 3.0 per cent in March 2024 to 1.6 per cent in September 2025 (Chart 2.4 b).

2.11 SMA-1 and SMA-2 loans saw contraction in volume at end-September over end-June 2025, while that of SMA-0[7] loans marginally increased (Chart 2.4 c). Credit quality of large borrowers was broadly in line with external ratings. A significant portion (36.6 per cent) of large borrowers' advances, with GNPA ratio at 3.5 per cent, had no external ratings (Chart 2.4 d).

Chart 2.4: Select Asset Quality Indicators of Large Borrowers



Sources: RBI supervisory returns; and staff estimates.

[6] A large borrower is defined as one who has aggregate fund-based and non-fund-based exposure of ₹5 crore and above with any bank. This analysis is based on SCBs' global operations.

[7] Special mention account (SMA) is defined as

a) Loans in the nature of revolving facilities like cash credit/ overdraft: if outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of 31-60 days - SMA-1 ;61-90 days - SMA-2.

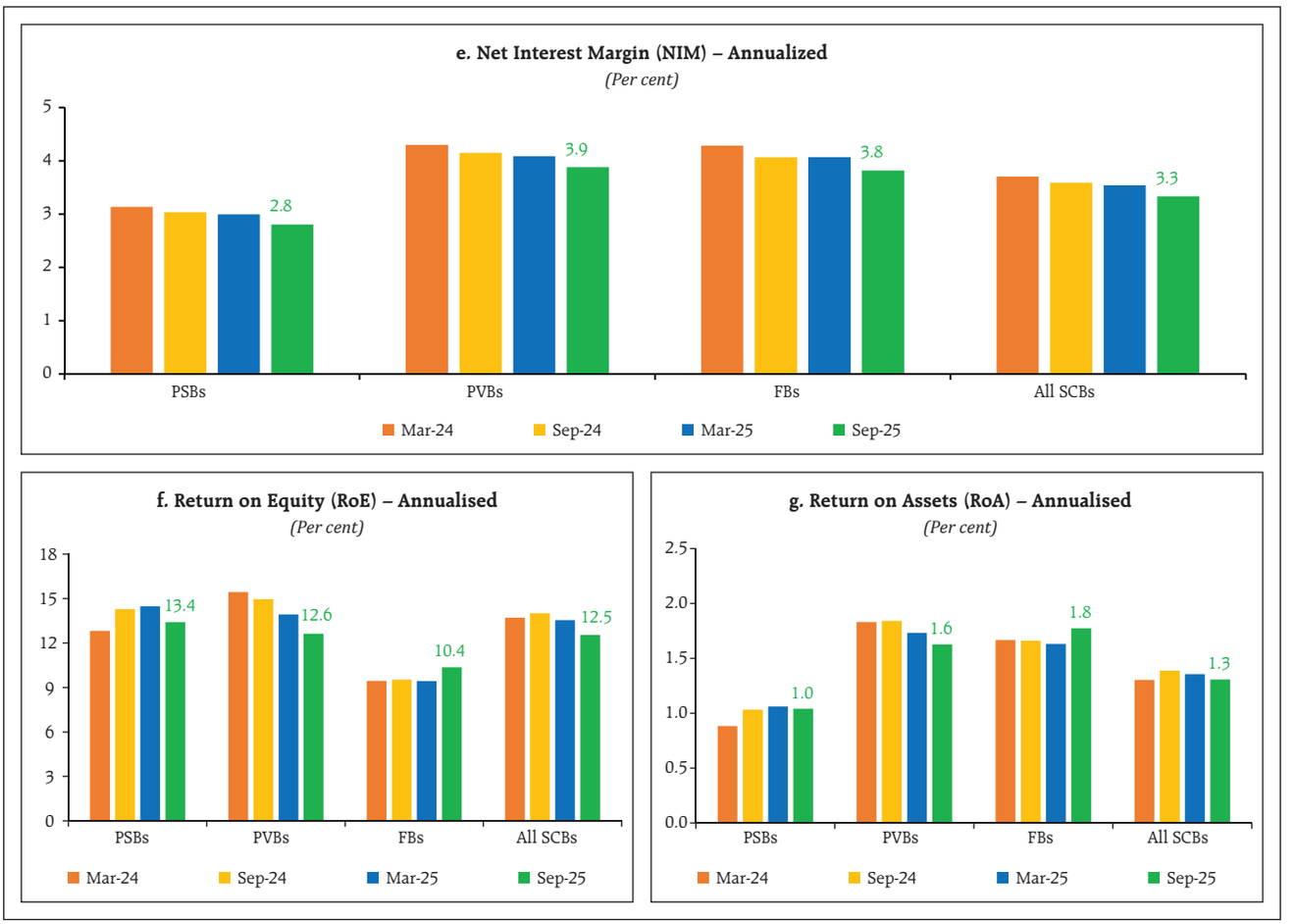
b) Loans other than revolving facilities: if principal or interest payment or any other amount wholly or partly overdue remains outstanding up to 30 days - SMA-0; 31-60 days - SMA-1; 61-90 days - SMA-2.

II.1.5 Earnings and Profitability

2.12 NII growth (y-o-y) of SCBs declined sharply to 2.3 per cent in September 2025 as compared with the earlier periods (Chart 2.5 a). The decline was seen across all bank groups. Consequently, the growth in profit of SCBs slowed further in September 2025, as indicated by profit after tax (PAT) growth at 3.8 per cent (y-o-y) compared to double digit growth in 2023-24 and 2024-25. Contribution of other operating income (OOI) to PAT increased in the current financial year (Chart 2.5 b).

Chart 2.5: Select Performance Indicators of SCBs *(Contd.)*

Chart 2.5: Select Performance Indicators of SCBs *(Concld.)*



Sources: RBI supervisory returns; and staff estimates.

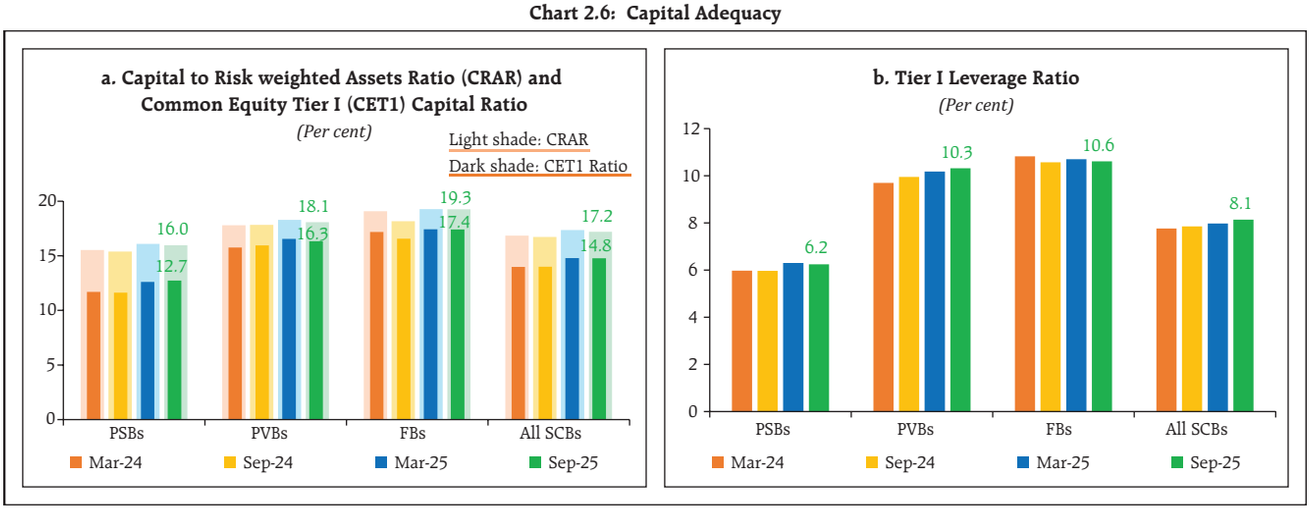
2.13 Net interest margin (NIM) recorded a broad-based 20 bps fall in September 2025 over March 2025 due to relatively higher decline in yield on assets than in cost of funds (Chart 2.5 c, d and e). Both return on equity (RoE) and return on assets (RoA) ratios have declined in the last two half years, but remained at comfortable levels (Chart 2.5 f and g).

II.1.6 Capital Adequacy

2.14 As of September 2025, the capital to risk weighted assets ratio (CRAR) across bank groups remained strong, PSBs at 16.0 per cent and PVBs at 18.1 per cent (Chart 2.6 a). CET1 capital ratio also remained high across bank groups, indicating accretion of high-quality capital by banks. The overall Tier 1 leverage ratio[8] increased in September 2025 (Chart 2.6 b).

[8] Tier I leverage ratio is the ratio of Tier I capital to total exposure.

Chart 2.6: Capital Adequacy



Note: SCBs in all panels of chart 2.6 exclude SFBs.
Sources: RBI supervisory returns; and staff estimates.

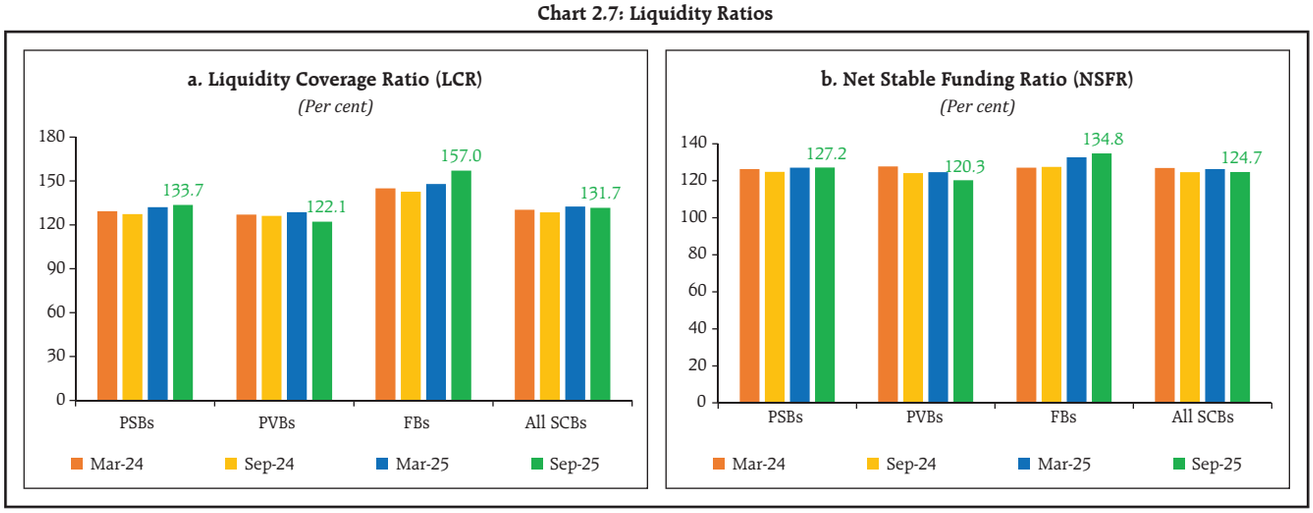
II.1.7 Liquidity

2.15 PSBs and FBs improved their liquidity positions further in September 2025, as evident from the strengthening of both liquidity coverage ratio (LCR)[9] and net stable funding ratio (NSFR)[10] over March 2025. Both LCR and NSFR have been above regulatory minimum across bank groups (Chart 2.7 a and b).

II.1.8 Resilience – Macro Stress Test

2.16 Macro stress test assesses the resilience of SCBs to withstand adverse macroeconomic shocks. The test attempts to project the capital ratios of banks over a one-and-half year horizon under three scenarios – a baseline and two adverse macro scenarios. While the baseline scenario was derived from the latest forecasted paths of the

Chart 2.7: Liquidity Ratios

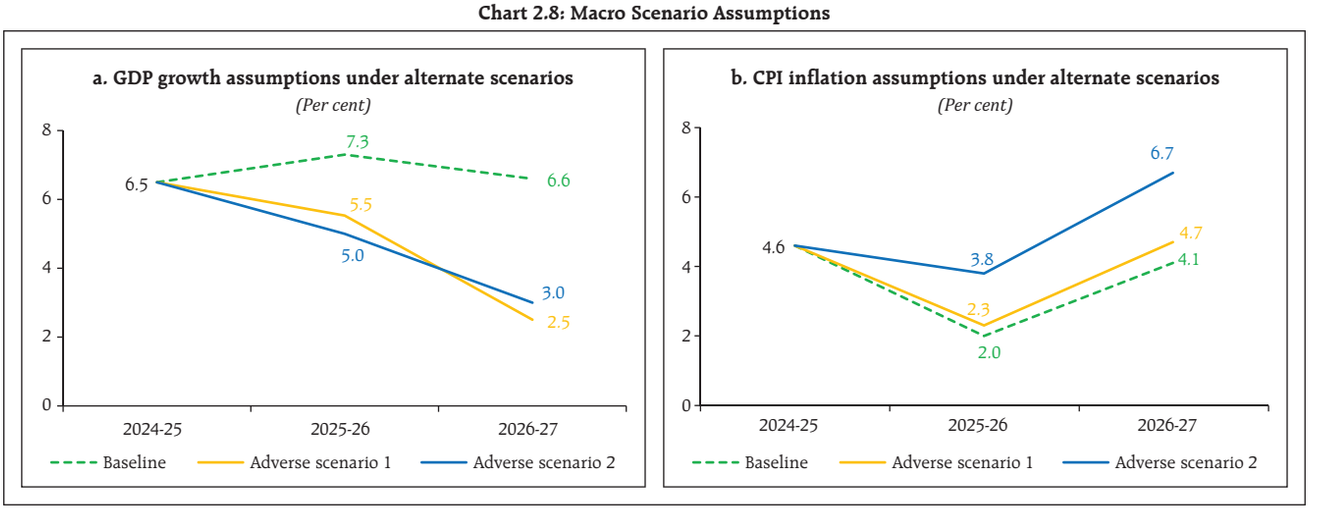


Sources: RBI supervisory returns; and staff estimates.

[9] Liquidity coverage ratio is defined as the ratio of stock of high-quality liquid assets (HQLA) to the total net cash outflow over the next 30 calendar days.

[10] Net stable funding ratio is defined as the ratio of available net stable funding to required net stable funding.

Chart 2.8: Macro Scenario Assumptions



Sources: RBI supervisory returns; and staff estimates.

macroeconomic variables, the two adverse scenarios are hypothetically stringent stress scenarios[11] (Chart 2.8).

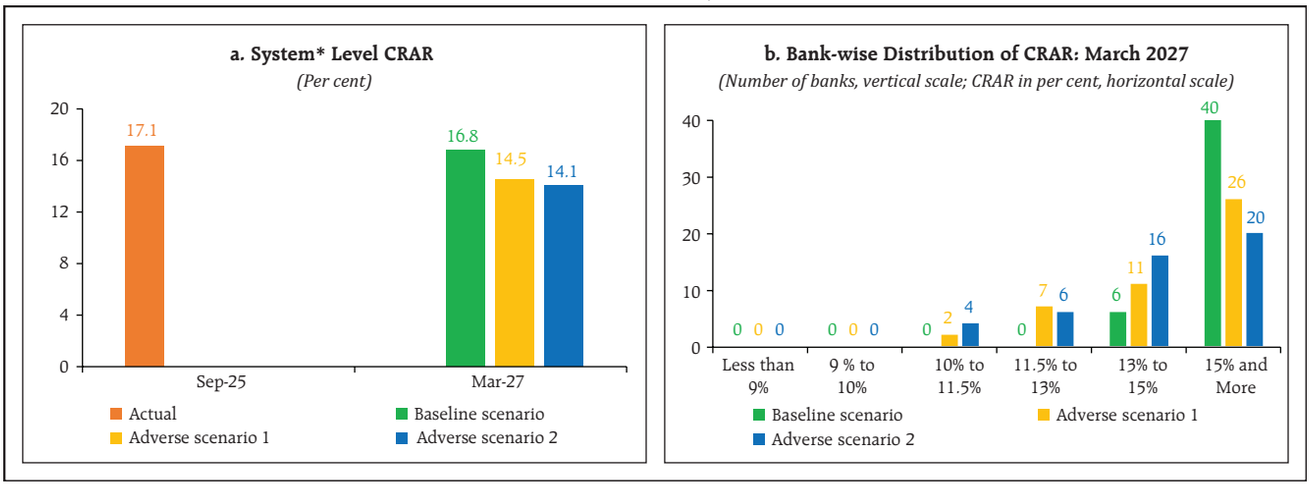
(i) ***Adverse Scenario 1:*** This scenario assumed that a gradual slowdown in global growth, on account of heightened economic uncertainty as well as lingering geopolitical conflicts, would lead to a gradual drop in domestic GDP growth and a moderate rise in domestic inflation over time. It is also assumed that central bank would have limited policy space to ease policy rate to boost growth.

(ii) ***Adverse Scenario 2:*** This scenario assumed that global trade uncertainties, unfavourable trade deals and higher trade gap would result in a sharp dent in the domestic GDP growth. Further, capital outflows, currency depreciation and supply dislocations would push up inflation beyond the tolerance band over time. The scenario further assumed that the central bank would tighten monetary policy.

2.17 The macro stress test results reaffirmed the resilience of SCBs to the assumed macroeconomic shocks. The results revealed that the aggregate CRAR of 46 major SCBs may drop from 17.1 per cent in September 2025 to 16.8 per cent by March 2027 under the baseline scenario. It may fall to 14.5 per cent and 14.1 per cent under the hypothetical adverse scenarios 1 and 2, respectively (Chart 2.9 a). However, none of the banks would fall short of the minimum CRAR requirement of 9 per cent even under the adverse scenarios. Two banks may require to dip into the capital conservation buffer (CCB) under adverse scenario 1, while four banks may require dipping into the CCB under adverse scenario 2, if stakeholders do not infuse any further capital into these banks (Chart 2.9 b).

[11] Based on assumption of stringent adverse shocks to macroeconomic variables and the values are derived by performing simulations using a Vector Autoregression with Exogenous variables (VARX) model.

Chart 2.9: CRAR Projections

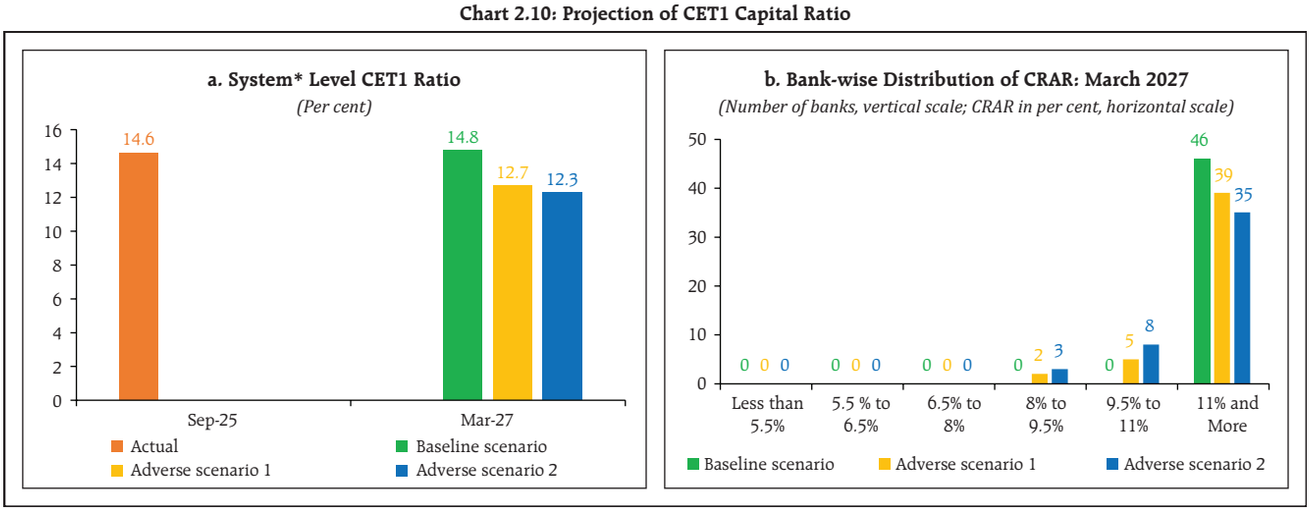


Note: For a system of 46 select banks.
Sources: RBI supervisory returns; and staff estimates.

2.18 The CET1 capital ratio of the select 46 banks may marginally improve from 14.6 per cent in September 2025 to 14.8 per cent by March 2027 under the baseline scenario. However, it may decrease to 12.7 per cent and 12.3 percent under adverse scenario 1 and adverse scenario 2, respectively. All banks would be able to meet the minimum CET1 ratio requirement including CCB of 8 per cent, under all these scenarios (Chart 2.10).

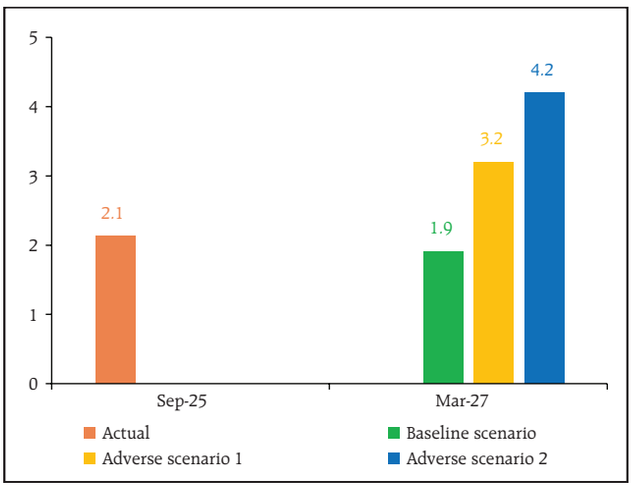
2.19 The aggregate GNPA ratio of the 46 banks may improve from 2.1 per cent in September 2025 to 1.9 per cent in March 2027 under the baseline scenario. It may rise to 3.2 per cent and 4.2 per cent, under adverse scenarios 1 and 2, respectively (Chart 2.11).

Chart 2.10: Projection of CET1 Capital Ratio



Note: * For a system of 46 select banks.
Sources: RBI supervisory returns; and staff estimates.

Chart 2.11: Projection of GNPA Ratio
(Per cent)



Note: For a system of 46 select banks.
Sources: RBI supervisory returns; and staff estimates.

II.1.9 Sensitivity Analysis[12]

2.20 Unlike macro stress tests, in which the shocks are applied in terms of adverse macroeconomic conditions, in sensitivity analyses[13], shocks are applied to single factors like GNPA, interest rate, *etc.*, one shock at a time. This sub-section presents the results of top-down sensitivity analyses involving several single-factor shocks to assess the vulnerabilities of SCBs towards simulated credit, interest rate, liquidity risks under various stress scenarios, based on data as of September 2025.

a. Credit Risk

2.21 In credit risk sensitivity analyses, the two assumed stress scenarios were - (i) one standard deviation (SD)[14] [Shock 1] and (ii) two SD [Shock 2] rise in the aggregate level GNPA ratio as of September 2025.

2.22 Under the more severe shock scenario *viz.*, Shock 2, the aggregate GNPA ratio of 46 select SCBs would move up from 2.1 per cent to 8.1 per cent, which would cause depletion in the CRAR and CET1 capital ratios by 380 bps and 370 bps, respectively. However, both the capital ratios would remain well above the respective regulatory minimum levels (Chart 2.12 a). The resultant capital impairment at the system level could be 23.5 per cent. The reverse stress test showed that shocks of 4.3 SD and 6.2 SD on the aggregate GNPA ratio would be required to bring down the system-level CRAR and the CET1 capital ratio, respectively, below their regulatory minimum.

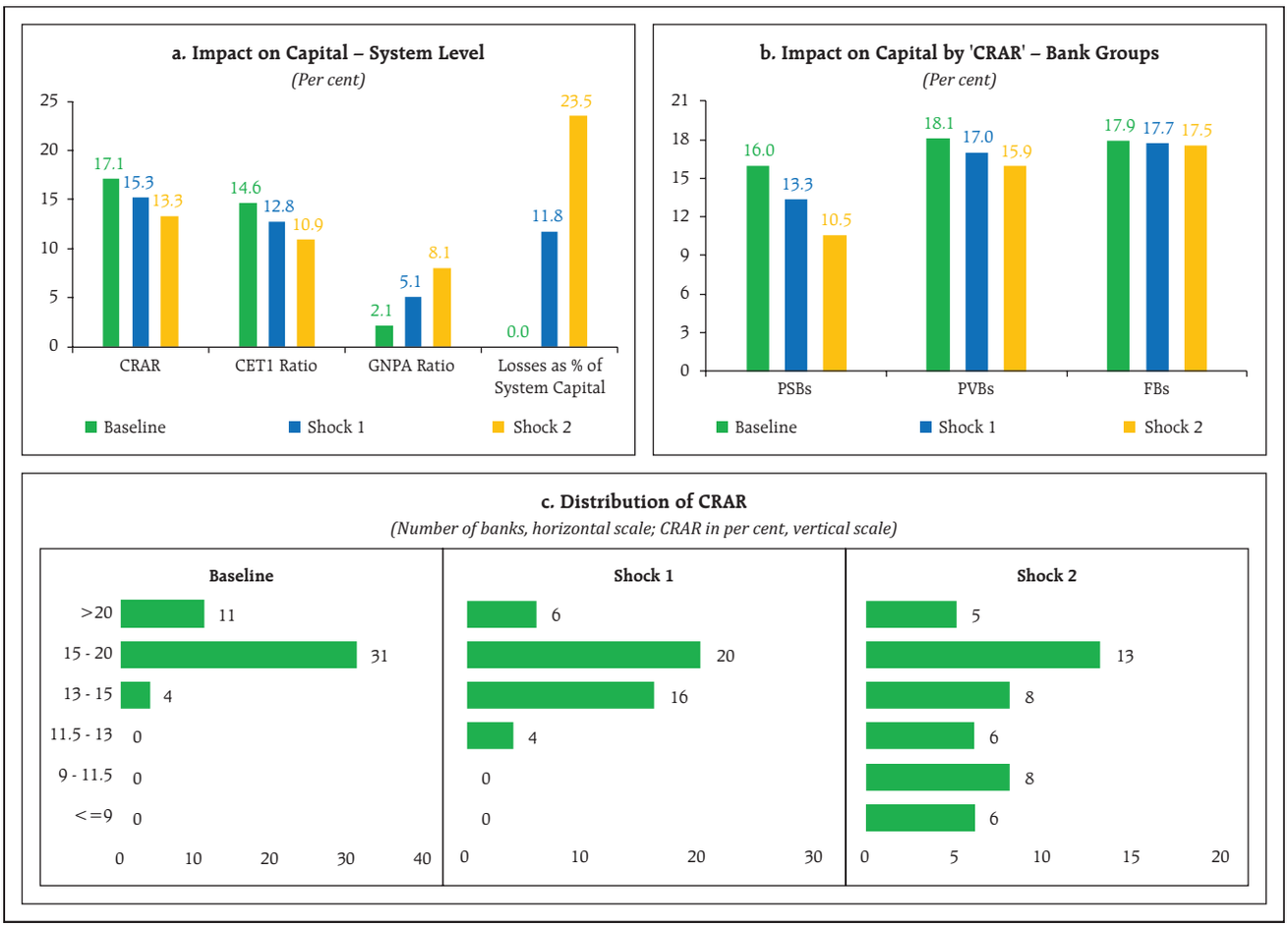
2.23 At bank group level, stress tests indicated relatively higher depletion in the capital of PSBs as compared to PVBs and FBs (Chart 2.12 b). At bank level, six banks with a share of 15 per cent in SCBs' total assets, would breach the regulatory minimum level of CRAR under Shock 2 (Chart 2.12 c).

[12] Detailed methodology is provided in Annex 1.

[13] Single factor sensitivity analyses are conducted for a sample of 46 SCBs accounting for 99 per cent of the total assets of SCBs (excluding RRBs). The shocks designed under various hypothetical scenarios are extreme but plausible.

[14] The SD of the GNPA ratio is estimated by using quarterly data for the last 10 years.

Chart 2.12: Credit Risk – Shocks and Outcomes



Notes: (1) For a system of select 46 SCBs.
(2) 1 SD and 2 SD shocks are applied on GNPA ratio under Shock 1 and Shock 2, respectively.
Sources: RBI supervisory returns; and staff estimates.

b. Credit Concentration Risk

2.24 Stress tests on banks' credit concentration showed that in the extreme scenario of default[15] in payment by the top three individual borrowers, in terms of standard exposure of respective banks, the system level GNPA ratio would rise by 350 bps, and CRAR and CET1 ratio would decline by 90 bps and 80 bps, respectively (Chart 2.13 a). Instead of individual borrowers, if top three group borrowers fail to repay, the impact would be more severe in the form of 520 bps rise in the GNPA ratio and 130 bps fall in both capital ratios (Chart 2.13 b). However, CRAR of none of the banks would fall below the regulatory minimum in both the cases.

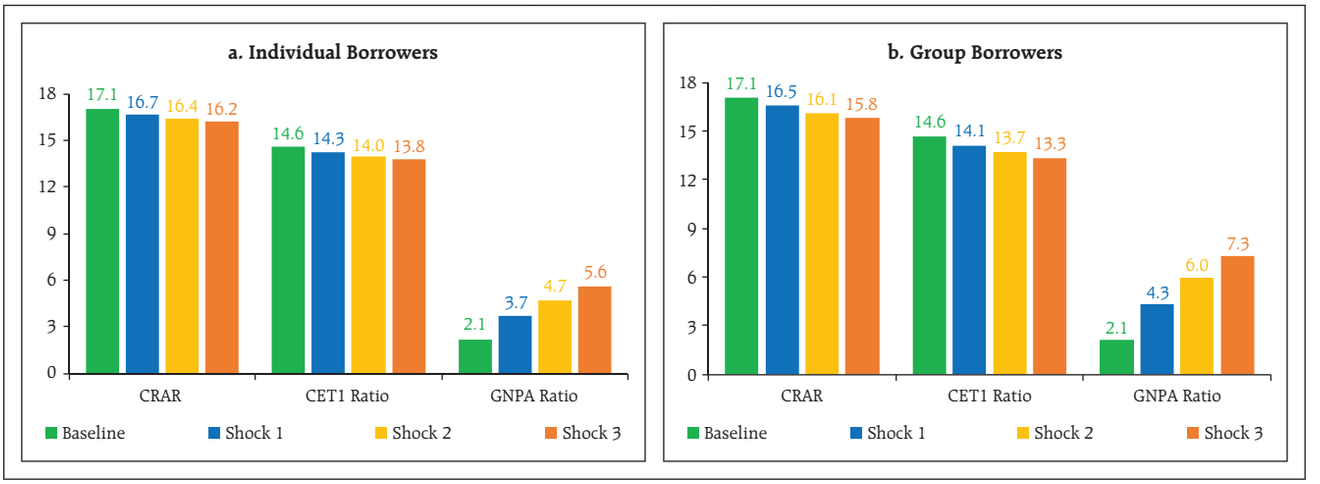
2.25 In assessing the system-wide impact of the large borrowers, the concentration of the top[16] hundred borrowers waned in the last two years, as reflected by the continuous decline in the *CR-100 ratio*[17]. The *Credit Concentration Risk Index (CCRI)*[18], estimated based on top 100 borrowers, also

[15] In the case of default, the individual borrower in the standard category is considered to move to the sub-standard category.

[16] In terms of total funded amount outstanding, as reported under CRILC.

[17] CR-100 ratio is the proportion of credit outstanding with the top 100 borrowers to the total outstanding credit of SCBs.

Chart 2.13: Credit Concentration Risk – Borrowers Exposure
(System level ratios in per cent)



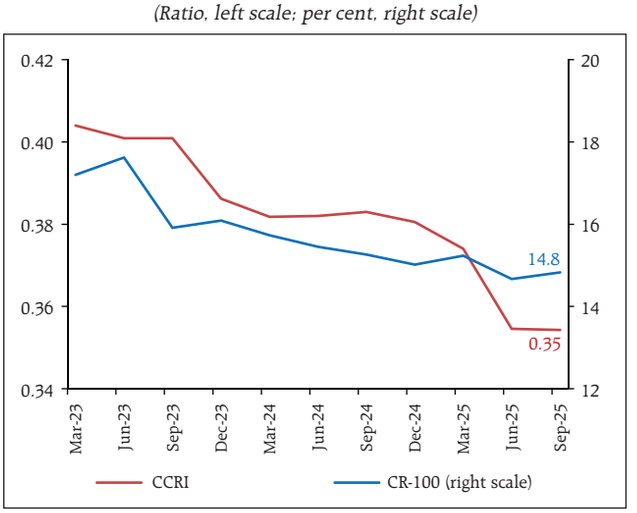
Notes: (1) For a system of select 46 SCBs.
(2) Default of top 1, 2 and 3 individual borrowers/ group borrowers to meet payment commitments are assumed under Shock 1, 2 and 3, respectively.
Sources: RBI supervisory returns; and staff estimates.

continued to decline sequentially over the past few quarters, affirming decrease in concentration risk among the top 100 borrowers (Chart 2.14).

c. Sectoral Credit Risk

2.26 Stress tests to assess credit risk of major industry sub-sectors, applying shocks (1 and 2 SD) to the respective sub-sector-wise GNPA ratios, indicated minimal impact on the capital of SCBs at aggregate level (Table 2.2).

Chart 2.14: Credit Concentration Risk posed by Top 100 Borrowers
(Ratio, left scale; per cent, right scale)



Sources: RBI supervisory returns; and staff estimates.

Table 2.2: Sensitivity Analysis – Industry sub-sector level
(Basis points, in descending order for top 10 most sensitive sub-sectors)

Industry	Movement of Slippage Ratio	Decline in CRAR (basis points)	
		1 SD Shock	2SD Shock
Basic Metal and Metal Products		9	17
Infrastructure - Energy		6	12
All Engineering		3	6
Infrastructure - Transport		3	6
Textiles		2	4
Construction		1	3
Vehicles, Vehicle Parts and Transport Equipments		1	2
Chemicals		1	2
Food Processing		1	2
Gems and Jewellery		1	2

Notes: (1) For a system of select 46 SCBs.
(2) Red lines represent the movement of slippage ratio in the recent five quarters from Sep-24 to Sep-25.
Sources: RBI supervisory returns; and staff estimates.

[18] CCRI is an index (ranging between 0 and 1) that measures the distribution of impact of the top 100 borrowers on the aggregate capital of all SCBs. This novel metric was introduced in the FSR June 2025 (Box 2.1).

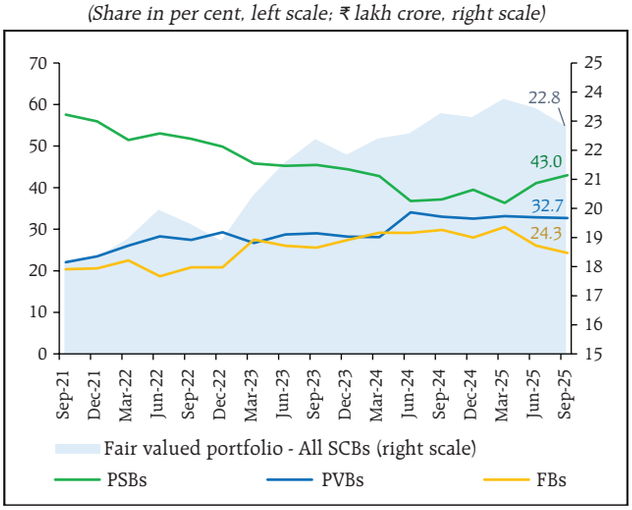
d. Interest Rate Risk[19 20]

2.27 For the sample of 46 SCBs under assessment, the market value of investments declined in successive quarters to ₹22.8 lakh crore in September 2025 from the peak of ₹23.8 lakh crore in March 2025 (Chart 2.15). PSBs' share was on a rise during the same period with corresponding fall in the share of FBs while the share of PVBs was observed to be broadly stagnant since the last five quarters.

2.28 The sensitivity (PV01[21]) of both the AFS and FVPTL (including HFT) portfolios of SCBs at aggregate level declined in September 2025, mainly due to fall in portfolio size and modified duration (Table 2.3). On the contrary, PV01 increased in both the portfolios for PSBs and in the AFS portfolio in case of PVBs.

Chart 2.15: AFS and FVTPL (including HFT) Portfolios and share of Bank-groups

(Share in per cent, left scale; ₹ lakh crore, right scale)



Sources: Individual bank submissions; and staff estimates.

Table 2.3: PV01 of AFS and FVTPL (including HFT) Portfolios

(in ₹ crore)

	AFS Portfolio		FVTPL (including HFT) Portfolio	
	Mar-25	Sep-25	Mar-25	Sep-25
PSBs	234.6	246.4	51.3	85.7
PVBs	90.3	95.5	107.5	86.9
FBs	56.4	18.9	330.3	232.2
All SCBs	**381.3**	**360.8**	**489.1**	**404.8**

Sources: Individual bank submissions and staff estimates.

2.29 In a stress scenario of a parallel upward shift of 250 bps in the yield curve, the impact on the fair-valued portfolio would reduce the system level CRAR and CET1 ratio by 96 bps and 97 bps, respectively (Table 2.4). At a disaggregated level, the CRAR of one foreign bank would fall below the regulatory minimum of 9 per cent.

2.30 The HTM portfolio continued to display the same trend - both the PSBs and PVBs increasing their holding of state government securities (SGSs) while paring their holdings in central government securities (G-Secs) and other HTM-eligible securities. FBs, in contrary, had minimal holding of SGSs and sizeable share of other securities. They continued to increase holding of G-Secs while reducing the share of the other securities (Chart 2.16).

2.31 As at end-September 2025, the notional MTM gains in the HTM books of PSBs and PVBs together decreased to ₹43,137 crore (₹64,148 crore as at end-March 2025). Unrealised gains declined across most categories of the HTM book. Unrealised gains of PSBs were predominantly in corporate securities and others (Chart 2.17).

[19] Prior period consistency and comparability may be limited as historical data has not been recast using the updated accounting standards.

[20] The analysis in this portion is restricted to investments in India by the domestic operations of SCBs. Only interest rate related instruments for HTM, AFS and FVTPL (including HFT) portfolios and both interest and non-interest related investments for "Investment in Subsidiaries, Associates and Joint Ventures" are taken into account.

[21] PV01 is a measure of sensitivity of the absolute value of the portfolio to a one basis point change in the interest rate.

Table 2.4: Interest Rate Risk – Impact of Stress Test on Bank-groups
(Shock: 250 basis points parallel upward shift of the INR yield curve)

	PSBs		PVBs		FBs		All SCBs	
	AFS	FVTPL (incl. HFT)	AFS	FVTPL (incl. HFT)	AFS	FVTPL (incl. HFT)	AFS	FVTPL (incl. HFT)
Modified Duration (year)	3.3	3.6	2.1	3.1	0.8	7.3	2.5	4.8
Share in total Investments (per cent)	18.2	5.8	17.9	10.9	35.9	48.0	19.7	11.4
Reduction in CRAR (bps)	91		51		372		96	
Reduction in CET1 (bps)	92		52		376		97	

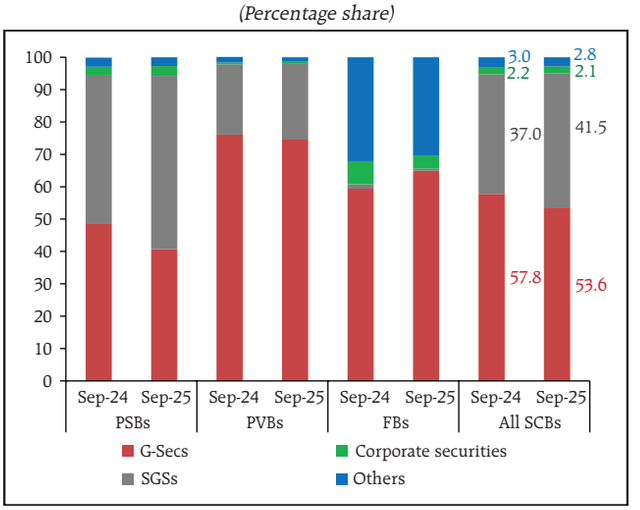
Note: Share of total investments has been computed excluding investment in associates, subsidiaries and JVs.
Sources: Individual bank submissions and staff estimates.

2.32 If a shock of 250 bps parallel upward shift in the yield curve is applied, the MTM impact on the HTM portfolio of banks excluding unrealised gains/ losses would reduce the system level CRAR and CET1 ratio by 302 bps each. However, no bank would fall short in maintaining respective regulatory minima.

2.33 An assessment of the interest rate risk of banks using traditional gap analysis (TGA) for rate sensitive global assets, liabilities and off-balance sheet items showed that for a 200 bps increase in interest rate, the earnings at risk (EAR) for time buckets up to one year for PSBs and PVBs would be at 13.1 per cent and 11.5 per cent of NII, respectively (Table 2.5). The impact would be minimal for FBs and SFBs. The impact of an interest rate rise (fall) on earnings would be positive (negative) for PSBs, PVBs and FBs, as the cumulative gap at bank group level was positive while the same for SFBs would be negative. The direction of impact for each bank group has remained the same as that of March 2025.

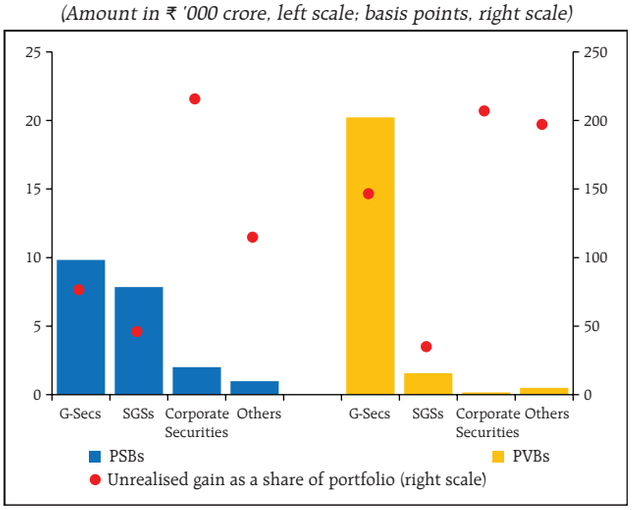
2.34 As per the duration gap analysis (DGA) of risk sensitive global assets, liabilities and off-balance sheet items, the market value of equity (MVE) for PVBs, FBs and SFBs would fall (rise) from an upward (downward) movement in the interest rate, while the impact on PSBs would be positive. The estimated impact of the shock for FBs and SFBs has risen since March 2025. The MVE of SFBs would be particularly weighed down by an interest rate rise (Table 2.6).

Chart 2.16: HTM Portfolio – Composition
(Percentage share)



Sources: Individual bank submissions; and staff estimates.

Chart 2.17: HTM Portfolio – Unrealised Gain/Loss as on September 30, 2025
(Amount in ₹ '000 crore, left scale; basis points, right scale)



Sources: Individual bank submissions; and staff estimates.

Table 2.5: Earnings at Risk (EAR) – Traditional Gap Analysis (TGA)

Bank Group	Earnings at Risk (till one year) as percentage of Net Interest Income (NII) as on September 2025	
	100 bps increase	200 bps increase
PSBs	6.5 (6.6)	13.1 (13.3)
PVBs	5.7 (5.7)	11.5 (11.4)
FBs	1.4 (1.3)	2.8 (2.6)
SFBs	-0.6 (-0.8)	-1.2 (-1.7)

Note: Figures in parenthesis represent the values as of March 2025.
Sources: RBI supervisory returns; and staff estimates.

Table 2.6: Market Value of Equity (MVE) – Duration Gap Analysis (DGA)

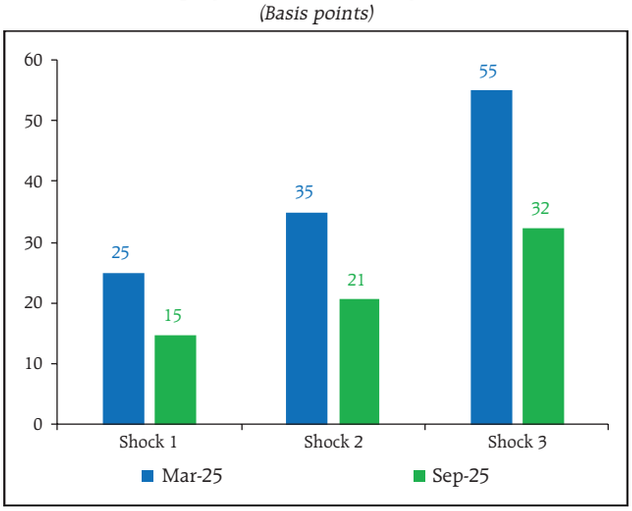
Bank Group	Market Value of Equity (MVE) as percentage of Equity as on September 2025	
	100 bps increase	200 bps increase
PSBs	0.8 (0.5)	1.7 (1.0)
PVBs	-1.3 (-1.3)	-2.7 (-2.5)
FBs	-2.6 (-3.2)	-5.1 (-6.4)
SFBs	-6.7 (-5.8)	-13.3 (-11.6)

Note: Figures in parenthesis represent the values as of March 2025.
Sources: RBI supervisory returns; and staff estimates.

e. Equity Price Risk

2.35 As banks have limited direct capital market exposures, any impact of a possible significant fall in equity market prices on banks' CRAR is expected to be minimal**.** Shocks due to correction in equity prices, in form of reduction of 25, 35 and 55 per cent on the capital market exposure of the select banks, indicated moderation of the impact on CRAR in September 2025 over March 2025 (Chart 2.18).

Chart 2.18: Equity Price Risk – Fall in System Level CRAR
(Basis points)



Note: (1) For a system of select 46 banks.
(2) Drop in equity prices by 25, 35 and 55 per cent is considered under shock 1, 2 and 3, respectively.
Sources: RBI supervisory returns; and staff estimates.

f. Liquidity Risk

2.36 Liquidity stress test attempts to assess the impact of shocks in terms of plausible run on deposits and higher demand for unutilised portions of committed credit and liquidity facilities on the liquidity positions of select 46 SCBs. The baseline scenario for the stress test applied weights to each component as prescribed by the RBI guidelines on LCR computation[22]. Two stress scenarios were designed by applying higher weights (run-off rates) to certain cash outflow components[23].

2.37 The results showed that the aggregate LCR of the select SCBs would fall from 131.0 per cent in the baseline scenario to 123.3 per cent in *stress scenario 1* and further to 116.8 per cent in *stress scenario 2* (Chart 2.19 a). Individually, under the more severe *stress scenario 2*, three banks would fail to meet the regulatory minimum LCR requirement (Chart 2.19 b). Among bank groups, the impact of liquidity stress is the highest for PSBs (decline of 16.1 percentage points under *stress scenario 2*).

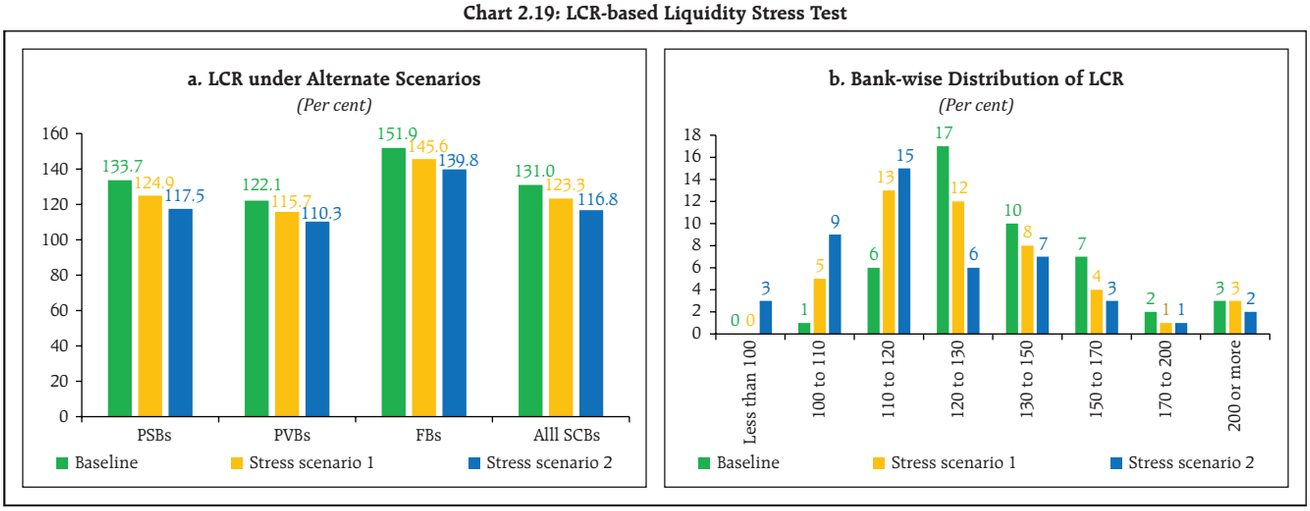
II.1.10 Sensitivity Analysis of Small Finance Banks – Credit Risk

2.38 Credit risk sensitivity analysis for SFBs under two similar scenarios as for the SCBs has been carried out separately, due to their smaller size and higher capital requirement. Under a more severe shock of two SD increase in the GNPA ratio, the aggregate GNPA ratio of SFBs would move up

[22] RBI circular no. RBI/2013-14/635 DBOD.BP.BC.No.120/21.04.098/2013-14 dated June 09, 2014, on "Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards".

[23] The stress scenarios are described in Annex 1.

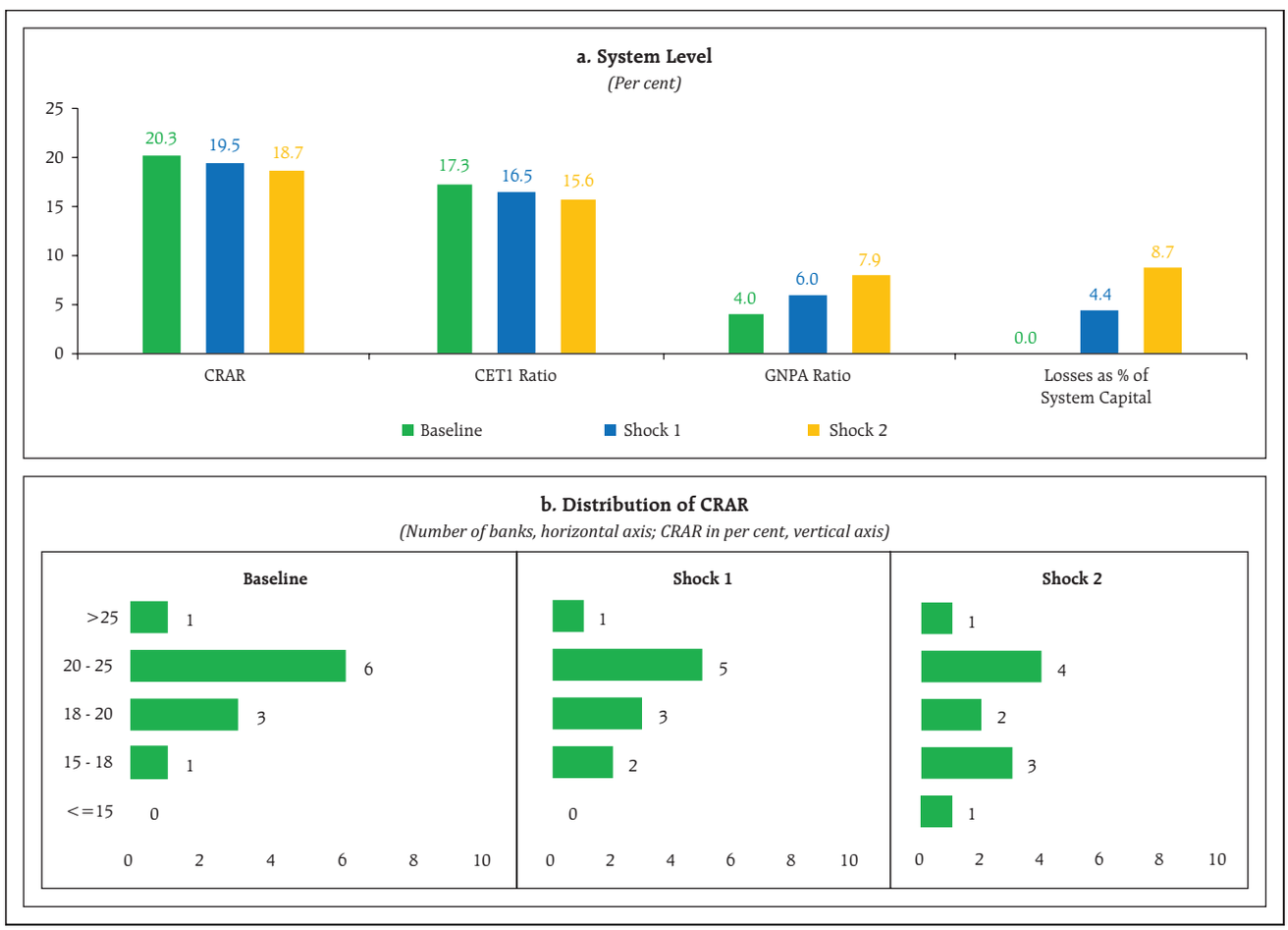
Chart 2.19: LCR-based Liquidity Stress Test



Sources: RBI supervisory returns; and staff estimates.

by 390 bps causing fall in CRAR and CET1 ratio by 160 bps and 170 bps, respectively, while one bank would breach the regulatory minimum level of CRAR (Chart 2.20 a and b).

Chart 2.20: Credit Risk for SFBs – Shocks and Outcomes



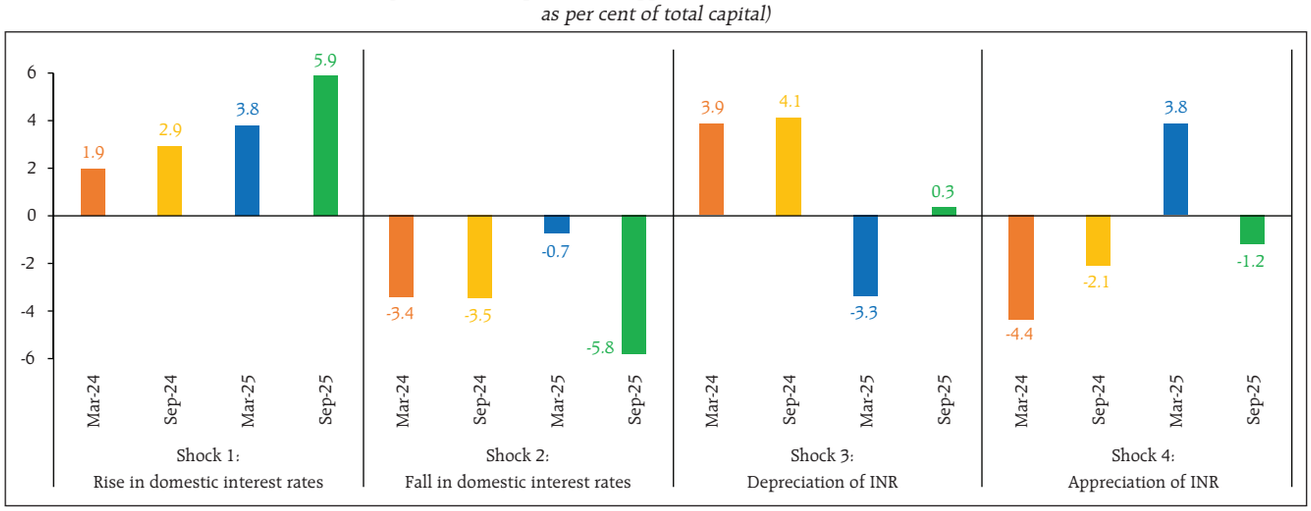
Notes: For a system of 11 SFBs
Shock 1: 1 SD shock on GNPA ratio
Shock 2: 2 SD shock on GNPA ratio
Sources: RBI supervisory returns; and staff estimates.

II.1.11 Bottom-up Stress Tests: Derivatives Portfolio

2.39 A series of bottom-up stress tests (sensitivity analyses) were undertaken by select banks[24], subjecting their derivatives portfolio as of September 2025 to four different shocks *viz.*, two each based on interest rates and foreign exchange rates. The impact of interest rate shocks on the derivatives portfolio of the select banks, in terms of change in the net MTM position, was found to increase in September 2025 over that in March 2025 with almost equal extent of gain (loss) on same degree of rise (fall) of interest rate (Chart 2.21). As regards shocks in terms of the rupee exchange rate, the direction of the net MTM impact in September 2025 reversed relative to that observed in March 2025, suggesting a shift in the underlying currency risk positions.

2.40 The income from the derivatives portfolio includes changes in net MTM positions and the realised income. Among bank groups, the contribution of the derivatives portfolio to the net operating income (NOI) was seen to increase sharply for FBs in the last one year. The share for PSBs and PVBs have been relatively lower than FBs – it turned negative for PSBs while it remained at similar level for PVBs (Chart 2.22). Based on the notional principal amount, FBs had more diversified counterparties while most of the positions taken by PVBs and PSBs were with other banks.

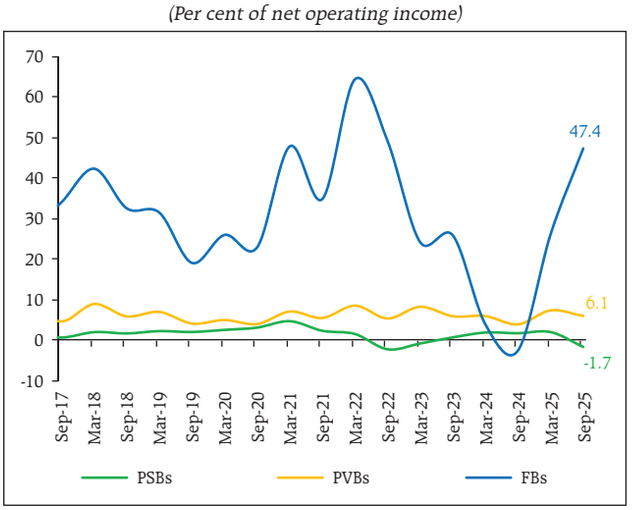
Chart 2.21: MTM Impact of Shocks on Derivatives Portfolio of Select Banks
(Change in net MTM position on application of a shock, vis-à-vis baseline as per cent of total capital)



Note: Change in net MTM due to an applied shock is with respect to the baseline.
Sources: Individual bank submissions; and staff estimates.

[24] Stress tests on derivatives portfolios are conducted by a sample of 36 banks constituting active authorised dealers and interest rate swap counterparties. Details of test scenarios are given in Annex 1.

Chart 2.22: Income from the Derivatives Portfolio
(Per cent of net operating income)



Sources: Individual bank submissions; and staff estimates.

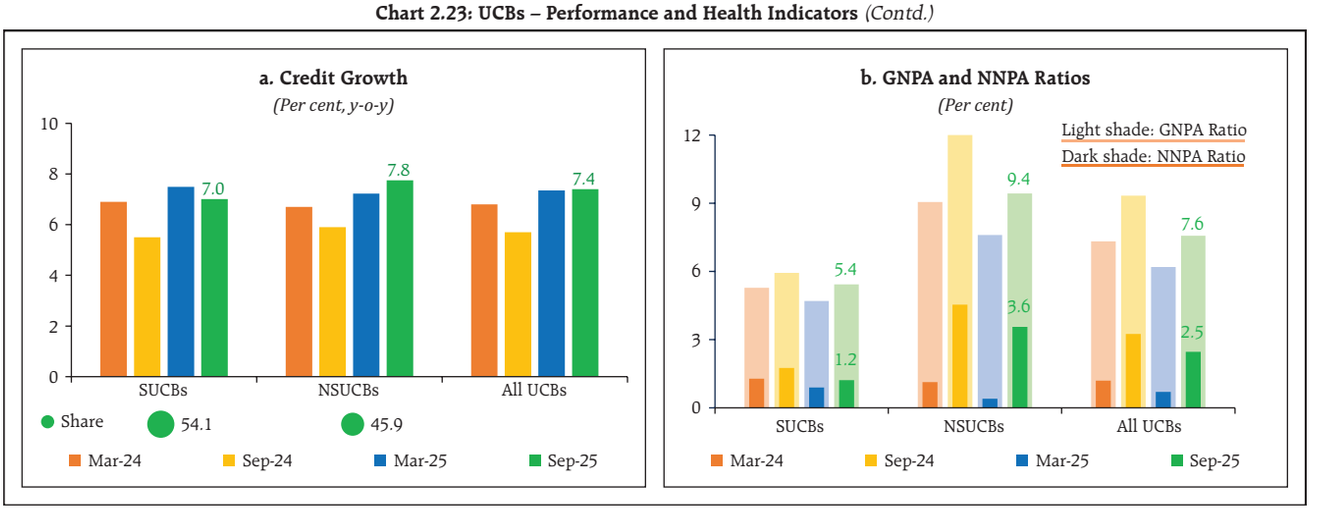
II.2 Primary (Urban) Cooperative Banks[25]

2.41 Credit extended by primary urban co-operative banks (UCBs)[26] recorded a y-o-y growth of 7.4 per cent in September 2025, contributed by both scheduled UCBs (SUCBs) and non-scheduled UCBs (NSUCBs) (Chart 2.23 a).

2.42 Asset quality, in terms of both GNPA ratio and NNPA ratio, improved in September 2025 as compared to a year ago (Chart 2.23 b). Similar pattern was evident in both SUCBs and NSUCBs and also in case of large borrowers, who account for 22.2 per cent of UCBs' loan book (Chart 2.23 c). The PCR remained above its level a year ago, though it declined sharply from the previous half year level driven primarily by NSUCBs (Chart 2.23 d). Asset quality also improved over previous year across all tiers of UCBs, along with higher PCR, barring Tier 1 UCBs (Chart 2.23 e).

2.43 After contraction for two consecutive half-years, the growth in aggregate net interest income (NII) of UCBs turned positive in the half year ending September 2025. The reversal was driven by NSUCBs, which recorded a positive growth in NII, more than offsetting the continuing contraction in SUCBs' NII for last three half years (Chart 2.23 f). The net interest margin (NIM), which was on a gradual decline across UCBs for the last three half

Chart 2.23: UCBs – Performance and Health Indicators *(Contd.)*



[25] Data are provisional and based on submission by UCBs through RBI supervisory returns.

[26] Based on common sample of 1,389 UCBs covering over 90 per cent of gross loans extended by all UCBs.

Chart 2.23: UCBs – Performance and Health Indicators *(Contd.)*

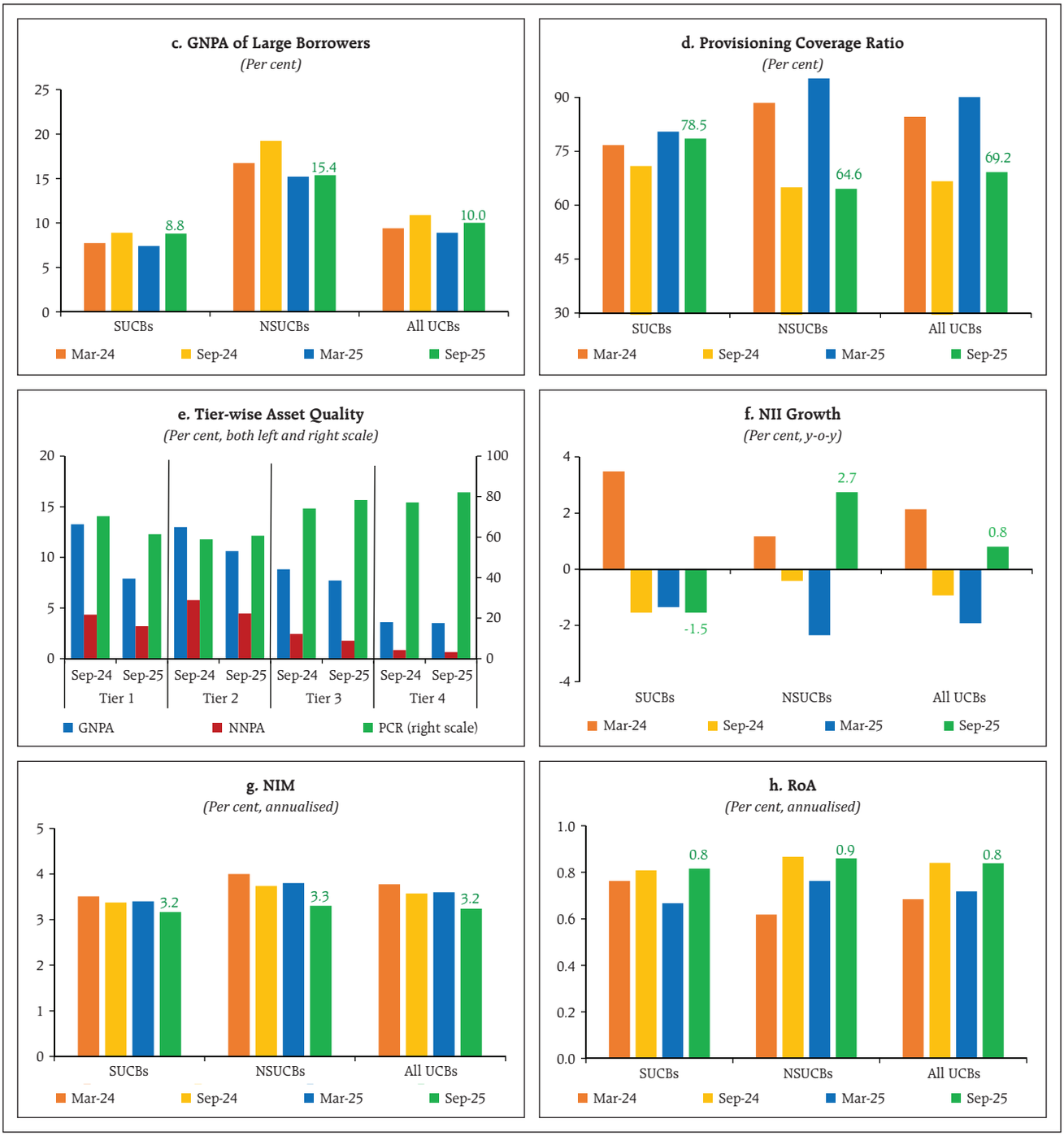
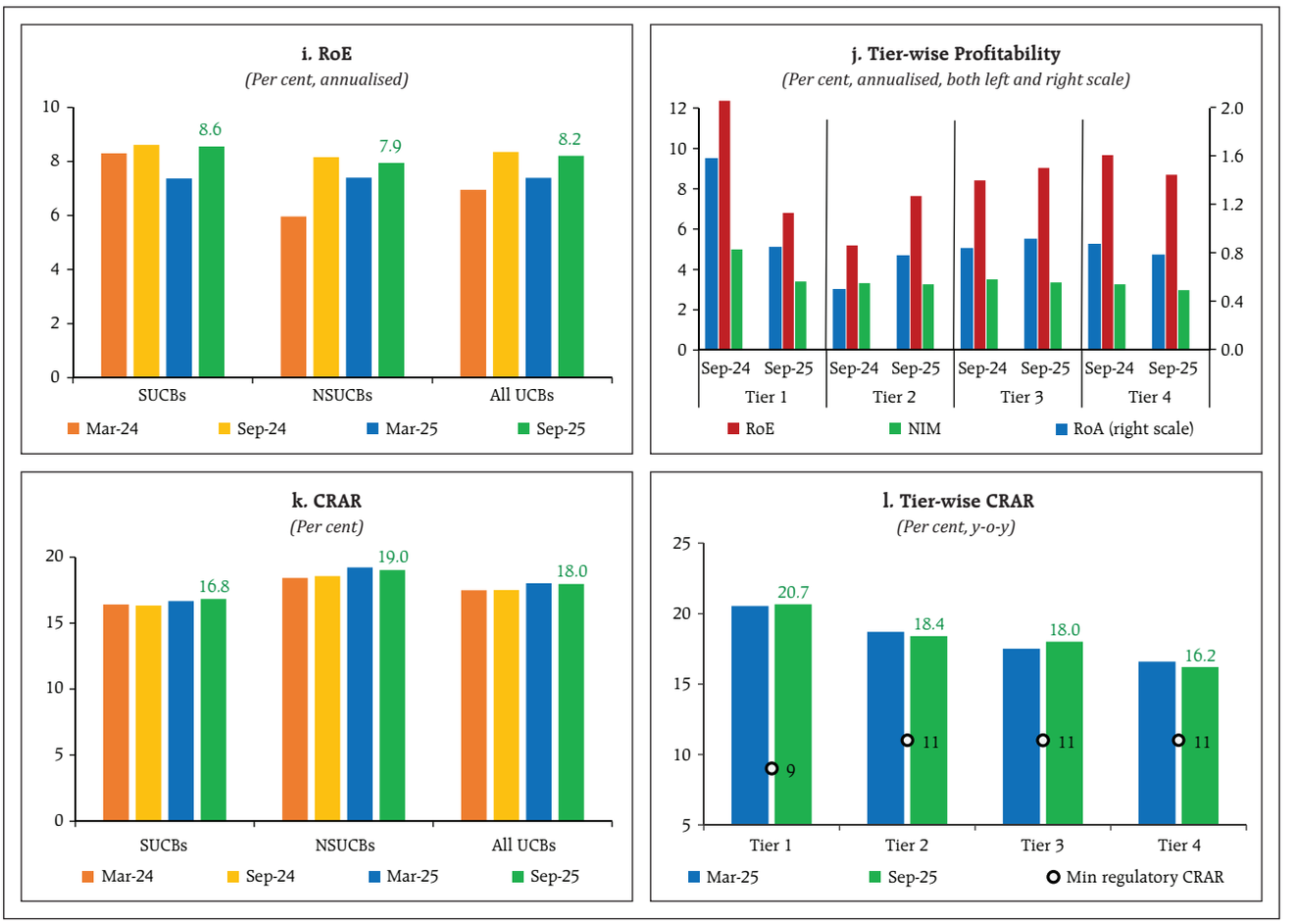


Chart 2.23: UCBs – Performance and Health Indicators *(Concld.)*



Sources: RBI supervisory returns; and staff estimates.

years, stayed at 3.2 per cent (Chart 2.23 g). RoA and RoE remained at around similar level compared to that a year ago (Chart 2.23 h and i). Tier-wise, RoA and RoE declined for Tier 1 and Tier 4 UCBs over the previous year while the ratios increased for UCBs in the other two tiers. NIM declined across all tiers of UCBs as compared to a year ago (Chart 2.23 j).

2.44 The capital position of UCBs continued to remain strong with CRAR remained stable at 18 per cent in September 2025. CRAR of Tier 1 and Tier 3 UCBs strengthened y-o-y while it fell a bit for UCBs in the other two tiers[27] (Chart 2.23 k and l).

II.2.1 Stress Testing

2.45 Stress tests were conducted on a select set of UCBs[28] to assess credit risk (default risk and concentration risk), market risk (interest rate risk in trading book and banking book) and liquidity risk, based on their reported financial positions as at end-September 2025.

[27] Revised Regulatory Framework for Urban Co-operative Banks (UCBs) – Net Worth and Capital Adequacy (circular DOR.CAP.REC.No.86/09.18.201/2022-23 dated December 01, 2022 and DOR.CAP.REC. No.109/09.18.201/2022-23 dated March 28, 2023).

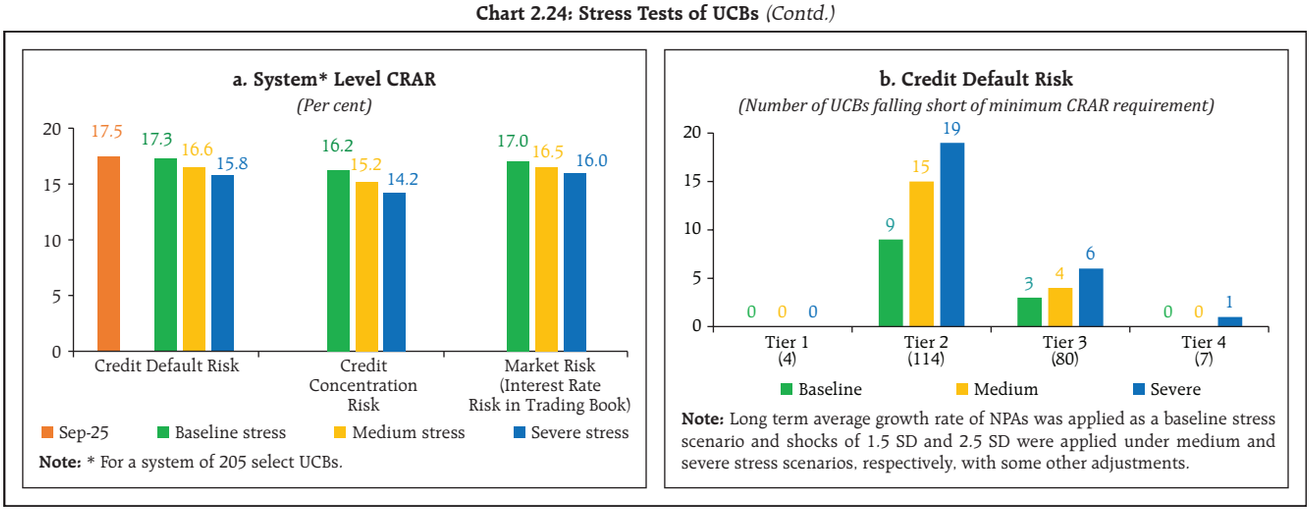
[28] The stress test is conducted with reference to the financial position of September 2025 for select 205 UCBs with asset size of more than ₹500 crore, excluding banks under the Reserve Bank's All Inclusive Directions (AID). These 205 UCBs together cover around 72 per cent of the total assets of the UCB sector. The detailed methodology used for stress test is given in Annex 1.

2.46 Under the severe stress scenarios of credit default risk, credit concentration risk and interest rate risk in the trading book, the consolidated CRAR of the select UCBs would fall from the pre-shock level of 17.5 per cent to 15.8 per cent, 14.2 per cent and 16.0 per cent, respectively (Chart 2.24 a). A severe interest rate shock in the banking book would lower the consolidated NII by 7.4 per cent. In case of liquidity stress test, the consolidated cumulative liquidity mismatch in the 1–28 days' time bucket was positive, under all the three stress scenarios.

2.47 At individual UCB level, Tier 1 UCBs were found to fulfil the regulatory minimum CRAR under all shocks across risk categories. Within the Tier 4 UCB cohort – the largest segment with deposits above ₹10,000 crore each – one UCB would fail to meet the regulatory minimum CRAR requirement[29] of 11 per cent under severe stress scenarios for both credit default risk and credit concentration risk (Chart 2.24 b and c).

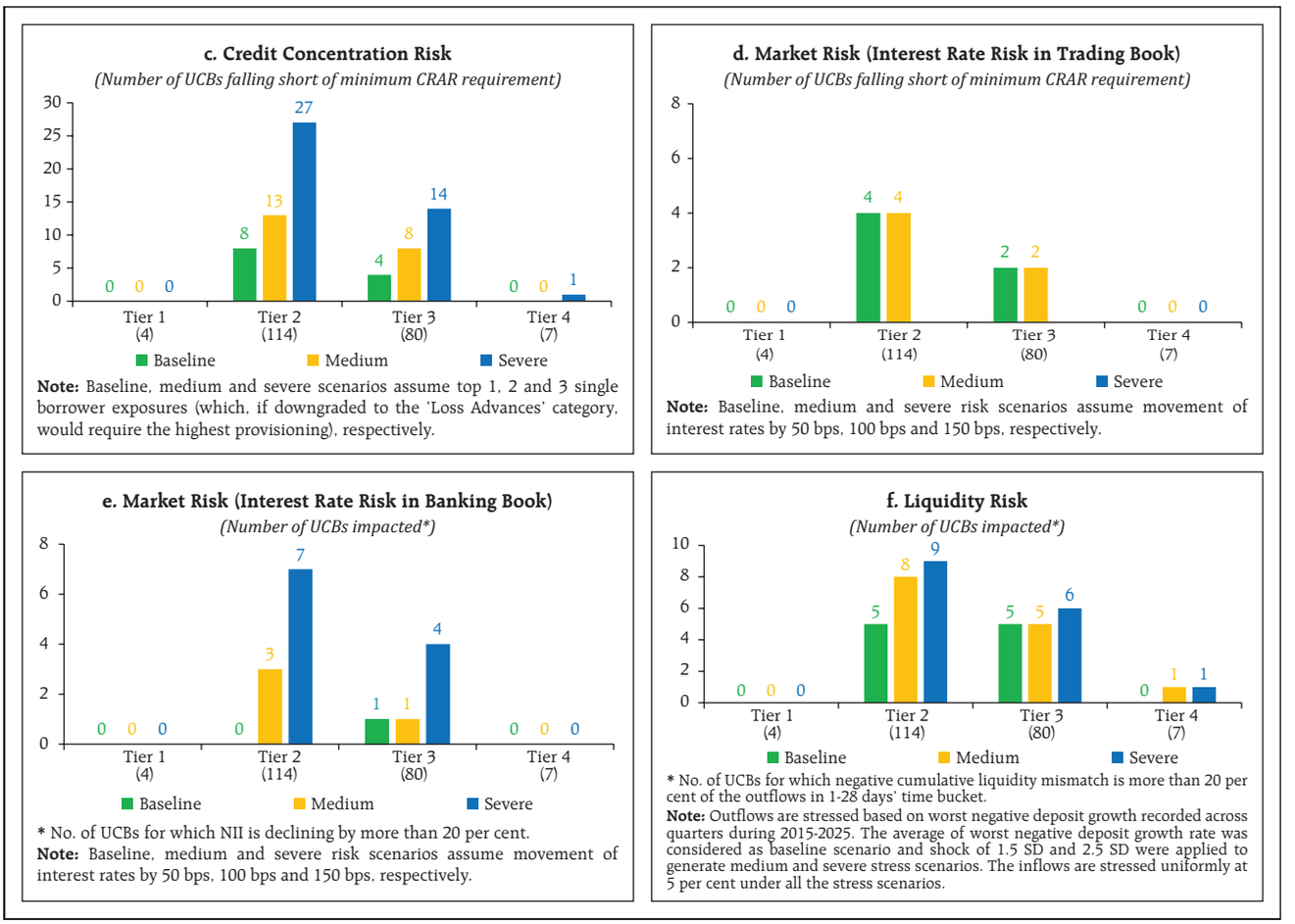
2.48 In case of stress test for market risk, none of the Tier 4 UCBs would breach the regulatory minimum CRAR threshold due to the impact of interest rate shocks on their trading books or experience a decline of more than 20 per cent in NII in their banking books under any stress scenario. However, a few Tier 2 and Tier 3 UCBs may fall short of these requirements in the severe stress scenarios. A few UCBs in the weaker tail would face negative liquidity mismatch of more than 20 per cent in the 1-28 days' time bucket under the severe stress scenario (Chart 2.24 d, e and f).

Chart 2.24: Stress Tests of UCBs *(Contd.)*



[29] The regulatory minimum CRAR for Tier 1 UCBs is 9 per cent and for the UCBs in Tier 2, Tier 3 and Tier 4 is 11 per cent. Further, UCBs in Tier 2, Tier 3 and Tier 4 shall achieve the CRAR of at least 12 per cent by March 31, 2026.

Chart 2.24: Stress Tests of UCBs *(Concld.)*



Note: Figures in brackets represent sample size of the Tier.
Sources: RBI supervisory returns; and staff estimates.

II.3 Non-Banking Financial Companies (NBFCs)[30]

2.49 The credit growth of NBFCs at aggregate level (Upper and Middle Layers) accelerated since March 2025 and was at 21.3 per cent[31] (y-o-y) in September 2025, primarily due to the conversion of two housing finance companies (HFCs) into upper layer NBFCs in March 2025 and June 2025, while credit growth of middle layer (ML) NBFCs continued to decline (Chart 2.25 a).

2.50 Considering activity-based classification, credit growth for both NBFC-ICCs and NBFC-IFCs, which cover almost 98 per cent of aggregate credit, were strong (above 20.0 per cent). NBFC-MFI's portfolio continued to contract in H1:2025-26 (Chart 2.25 b).

2.51 Credit growth accelerated and asset quality improved across broad economic sectors (*viz.*, industry, services and retail segments) except for

[30] The analyses done in this section are based on the provisional data available for NBFCs in Upper Layer and Middle Layer excluding CICs, HFCs and SPDs, but includes companies presently under resolution as of September 22, 2025. Prior period consistency and comparability may be limited as NBFC data has been reclassified based on scale-based regulation. The effect of mergers and reclassifications, if any, has not been considered for recasting historical data.

[31] For a common sample of NBFCs, the y-o-y growth rate was 14.7 per cent at end-September 2025 (14.6 per cent at end-March 2025).

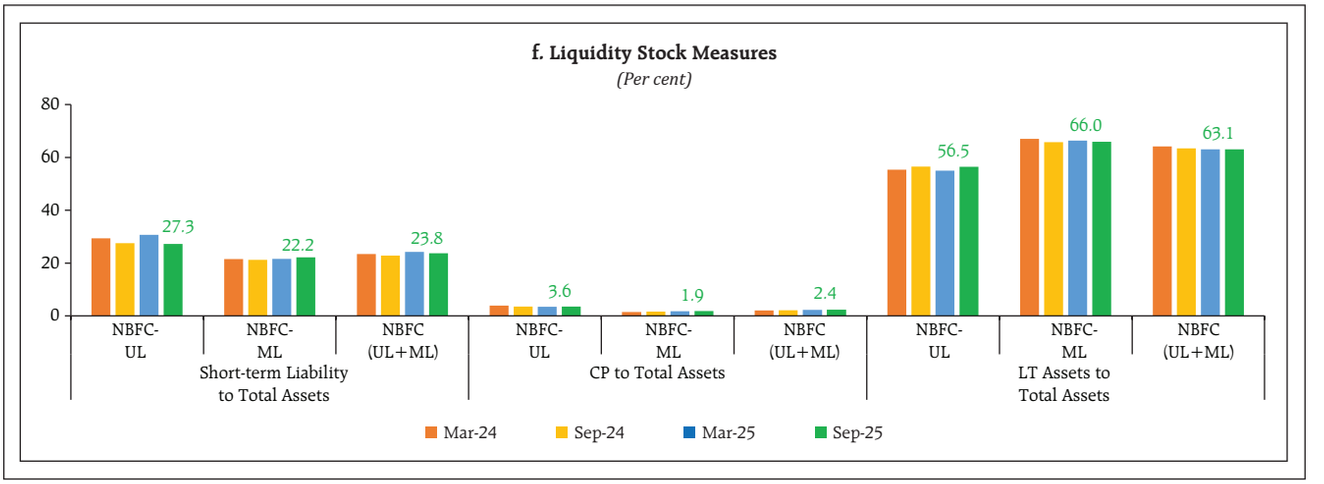
agriculture where NBFCs have minimal exposure (Chart 2.25 c and 2.25 d). Within retail segment, growth in microfinance/ SHG loans contracted in the last two half years (Chart 2.25 e).

2.52 On liquidity stock measures, despite increased CP issuances, NBFC-UL improved upon their short-term liabilities to total assets ratio (Chart 2.25 f). However, they continued to be more

Chart 2.25: NBFC – Key Financial Parameters *(Contd.)*

Figures in parenthesis are share in Retail Loans as on Sep-2025.

Chart 2.25: NBFC – Key Financial Parameters *(Concld.)*

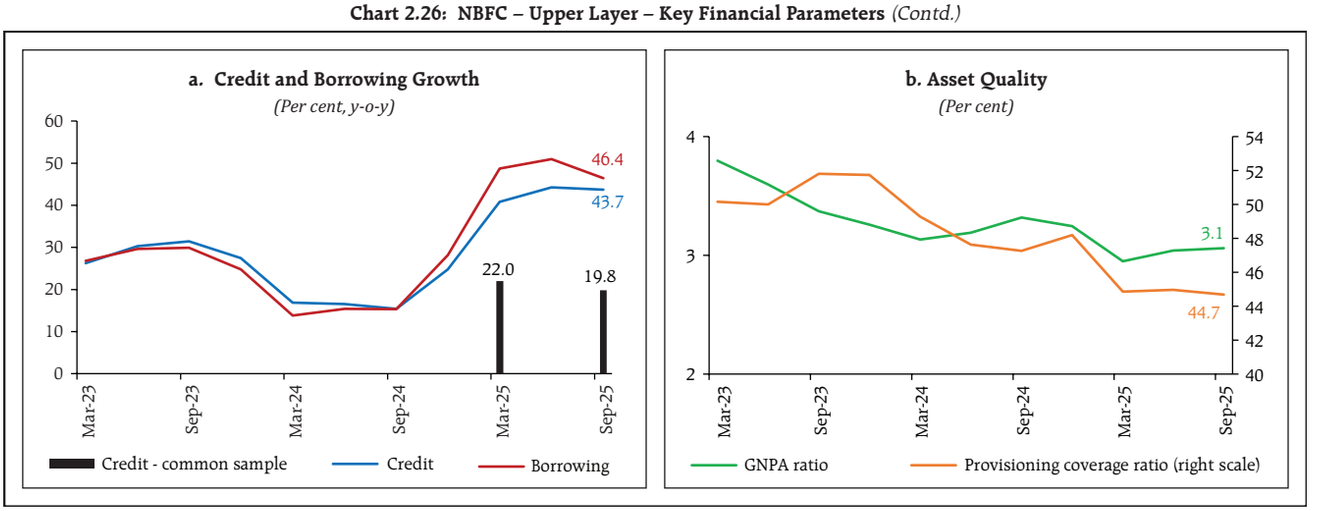


Note: *Increase in share of Industrial advances is following the correction and reclassification of advances as Industrial advances for a few NBFC-MLs.
Sources: RBI supervisory returns; and staff estimates.

vulnerable on this front compared to NBFC-ML. Higher long-term assets to total assets ratio of NBFC-ML compared to NBFC-UL was due to the presence of NBFC-IFCs which mostly lend for longer term projects and account for more than half of NBFC-ML's loans.

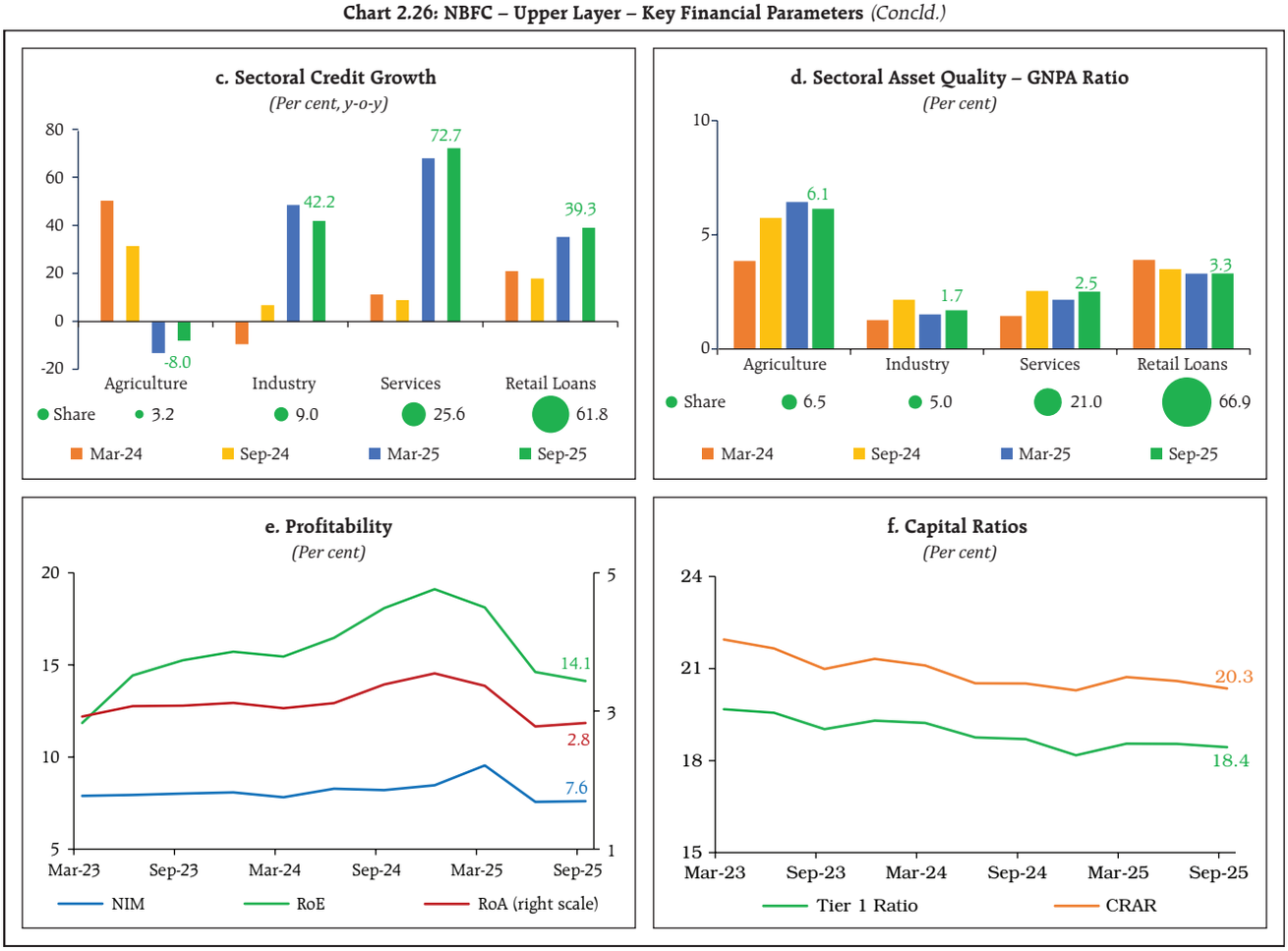
2.53 The credit growth of the upper layer NBFCs (NBFC-UL) remained strong. For the common set of NBFC-UL[32], the credit growth showed some deceleration (Chart 2.26 a). The growth in funding through borrowing continued to outpace credit growth while GNPA ratio and PCR remained stable at March 2025 levels (Chart 2.26 b).

Chart 2.26: NBFC – Upper Layer – Key Financial Parameters *(Contd.)*



[32] For March 2025, the common set of NBFC-ULs consists of common NBFCs in Upper Layer in March 2024 and March 2025. Similarly for September 2025, the common set of NBFC-ULs consists of common NBFCs in Upper Layer in September 2024 and September 2025.

Chart 2.26: NBFC – Upper Layer – Key Financial Parameters *(Concld.)*



Sources: RBI supervisory returns; and staff estimates.

2.54 Credit by NBFC-UL accelerated towards the two dominant sectors *viz.*, retail (loan share of 61.8 per cent) and services sectors (25.6 per cent) in September 2025 (Chart 2.26 c). At sectoral level, asset quality of retail loans, having 66.9 per cent of GNPA share, remained steady while those of services and industry sectors showed marginal deterioration (Chart 2.26 d).

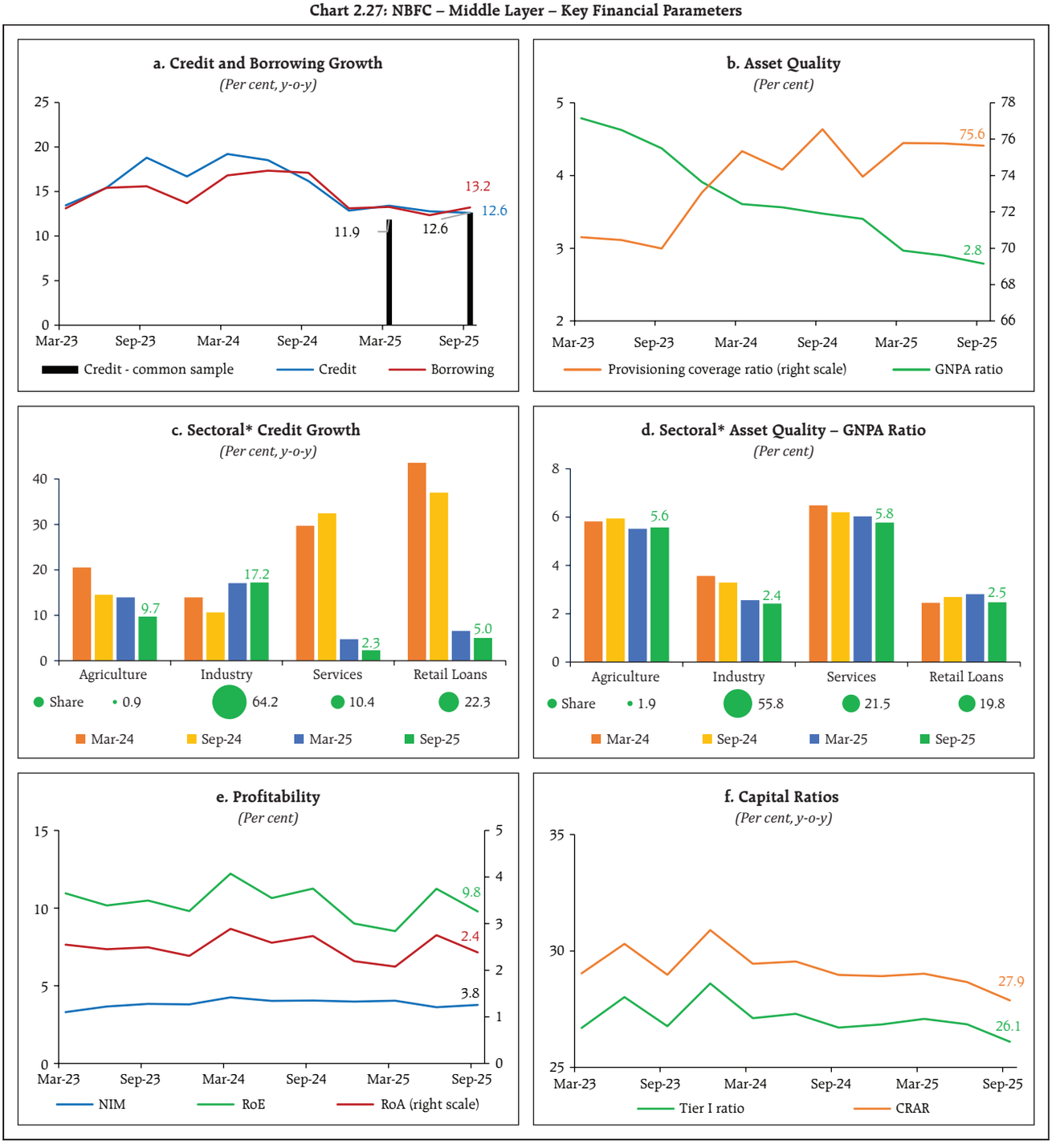
2.55 NIM, RoA, RoE and the capital ratios, despite a declining trend, remained healthy (Chart 2.26 e and f).

2.56 On the basis of a common set[33], there has been a slight acceleration in the credit growth of NBFC-ML from 11.9 per cent in March 2025 to 12.6 per cent in September 2025 (Chart 2.27 a). At an overall level, borrowing growth of NBFC-ML continued to keep pace with the credit growth. NBFC-ML has shown significant improvement in their asset quality since March 2023, while improving provision coverage (Chart 2.27 b).

2.57 Contrary to the NBFC-UL, NBFC-ML provided almost two-third (64.2 per cent) of their credit to the

[33] For March 2025, the common set of NBFC-MLs consists of NBFCs in Middle Layer in March 2024 and March 2025. Similarly for September 2025, the common set of NBFC-MLs consists of NBFCs in Middle Layer in September 2024 and September 2025.

Chart 2.27: NBFC – Middle Layer – Key Financial Parameters



Note: * Increase in share of Industrial advances is following the correction and reclassification of advances as Industrial advances for a few NBFC-MLs.
Sources: RBI supervisory returns; and staff estimates

industry sector and it grew at around 17.0 per cent in the last two half years. Credit growth to other broad sectors, however, continued their declining trend (Chart 2.27 c). Asset quality, in terms of GNPA ratio, improved for all sectors (Chart 2.27 d).

2.58 The NIM continued to stay healthy at 3.8 per cent (Chart 2.27 e). The RoA and RoE fell in September 2025 but stayed above the recent lows. The capital ratios of NBFC-ML, despite their declining trend, stood at a much higher level relative to NBFC-UL (Chart 2.27 f).

2.59 While funding pattern for NBFCs at aggregate level remained similar to that a year ago, NBFC-UL's share of borrowing from bank fell a tad with corresponding increase in debentures (non-bank) (Table 2.7). Dependence of NBFC-UL on bank borrowings was higher than NBFC-ML and the reverse in case of debentures (non-banks). More than 85 per cent of borrowings of NBFC-UL was secured while the same for NBFC-ML was around 45 per cent, translating to higher cost of funds for NBFC-ML.

2.60 Large borrowers' share in GNPAs of NBFCs improved significantly while their share in overall credit remained steady (Chart 2.28 a). As credit growth continued to grow sharply, their asset quality has also improved steadily (Chart 2.28 b).

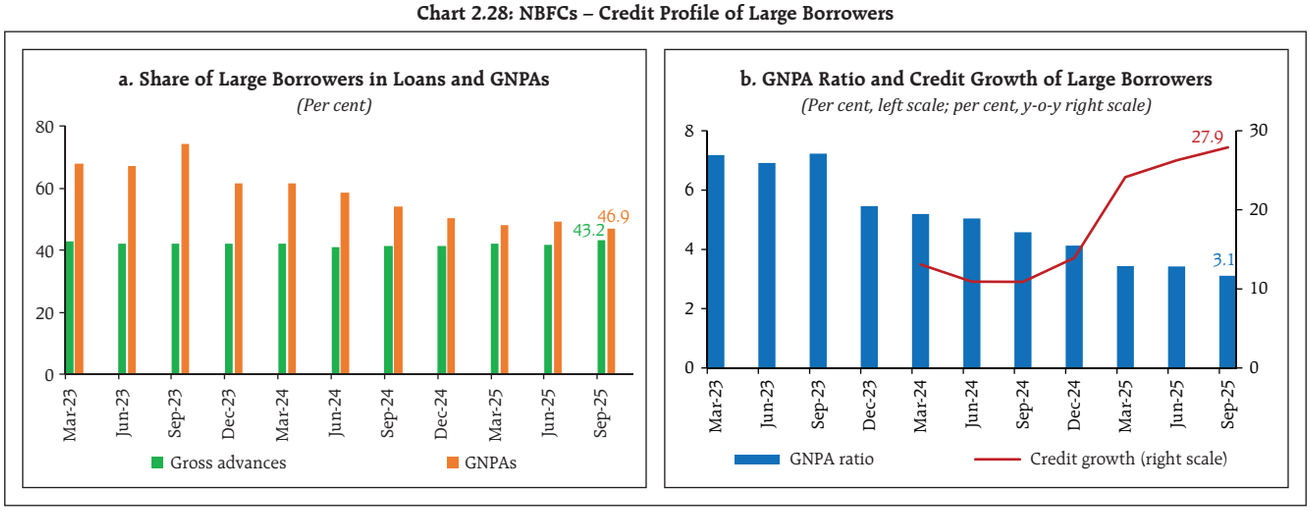
Table 2.7: NBFCs' Sources of Funds

(Per cent)

Item Description	NBFC-UL		NBFC-ML		NBFC-(UL+ML)	
	Sep-24	Sep-25	Sep-24	Sep-25	Sep-24	Sep-25
1. Share Capital, Reserves and Surplus	18.4	19.3	24.2	23.8	22.8	22.4
2. Total Borrowings	69.9	70.3	67.0	68.0	67.7	68.7
Of which: (i) Secured	60.8	61.4	32.5	30.8	39.6	40.1
(ii) Unsecured	9.1	8.9	34.5	37.1	28.1	28.5
(1) From banks	34.6	33.2	26.3	26.1	28.4	28.3
(a) Borrowings (Secured + Unsecured)	30.0	29.0	24.1	23.7	25.6	25.3
(b) Debentures subscribed	3.8	3.4	2.1	2.2	2.5	2.5
(c) CPs subscribed	0.8	0.9	0.2	0.2	0.4	0.4
(2) Debentures (excluding 2(1)(b))	16.4	17.7	23.7	24.2	21.9	22.2
(3) Commercial paper (excluding 2(1)(c))	2.7	2.7	1.4	1.6	1.8	2.0
3. Public Deposits	7.2	5.9	0.5	0.5	2.2	2.1
4. Provisions	3.2	3.0	3.3	2.8	3.3	2.9
5. Other Liabilities	1.3	1.4	5.0	5.0	4.1	3.9
Total	100	100	100	100	100	100

Sources: RBI supervisory returns; and staff estimates.

Chart 2.28: NBFCs – Credit Profile of Large Borrowers



Sources: RBI supervisory returns; and staff estimates.

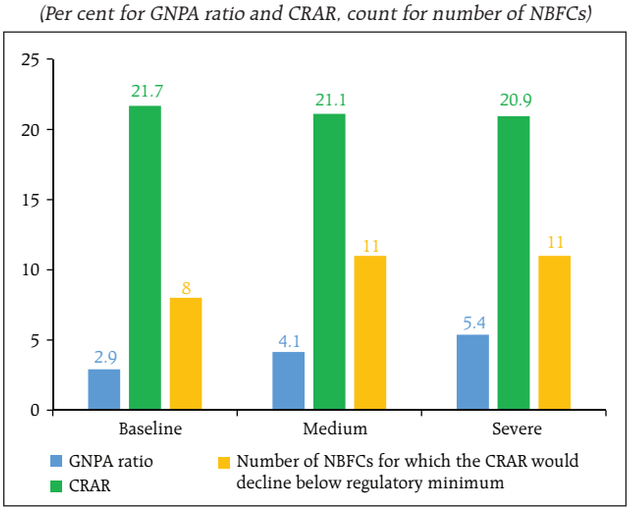
II.3.1 Stress Test[34] – Credit Risk

2.61 System level stress test under a baseline and two stress scenarios was conducted on a sample of 174 NBFCs[35] over a one-year horizon for assessing the resilience of NBFC sector to credit risk shocks. While the baseline scenario was based on assumptions of business as usual, the medium and severe risk scenarios were derived by applying 1 SD and 2 SD shocks, respectively, to GNPA ratio.

2.62 Under the baseline scenario, the system-level GNPA ratio of the sample NBFCs may rise from 2.3 per cent in September 2025 to 2.9 percent in September 2026. Consequently, their aggregate CRAR may dip from 22.8 per cent to 21.7 per cent during the same period (Chart 2.29). Under the baseline scenario, 8 NBFCs may breach the minimum regulatory capital requirement of 15 per cent. Under the medium and severe stress scenarios, income loss and additional provisioning requirements may further reduce the aggregate CRAR by additional 58 bps and 75 bps, respectively. Under both the medium and severe stress scenarios, 11 NBFCs may not be able to meet the regulatory minimum CRAR.

Chart 2.29: Credit Risk in NBFCs – System Level

(Per cent for GNPA ratio and CRAR, count for number of NBFCs)



Note: Baseline scenario is based on assumptions of business continuing under usual conditions for one year ahead, whereas medium risk and high risk scenarios assume GNPA ratio increasing by 1 SD and 2 SD, respectively, over one year horizon.
Sources: RBI supervisory returns; and staff estimates.

II.3.2 Stress Test[36] – Concentration Risk

2.63 Stress test on NBFCs' credit concentration showed that in the extreme scenario of the top three individual borrowers of respective NBFCs defaulting[37], the system level CRAR would decline by 223 bps (Chart 2.30 a) and an additional 9 NBFCs would face a situation of a drop in CRAR below the regulatory minimum of 15 per cent.

2.64 Under the extreme scenario of the top three group borrowers in the standard category failing to repay[38], the system level CRAR would decline by 243 bps. Additional 8 NBFCs would witness a drop in CRAR below the regulatory minimum of 15 per cent (Chart 2.30 b).

[34] The detailed methodology used for stress tests of NBFCs is provided in Annex 1.

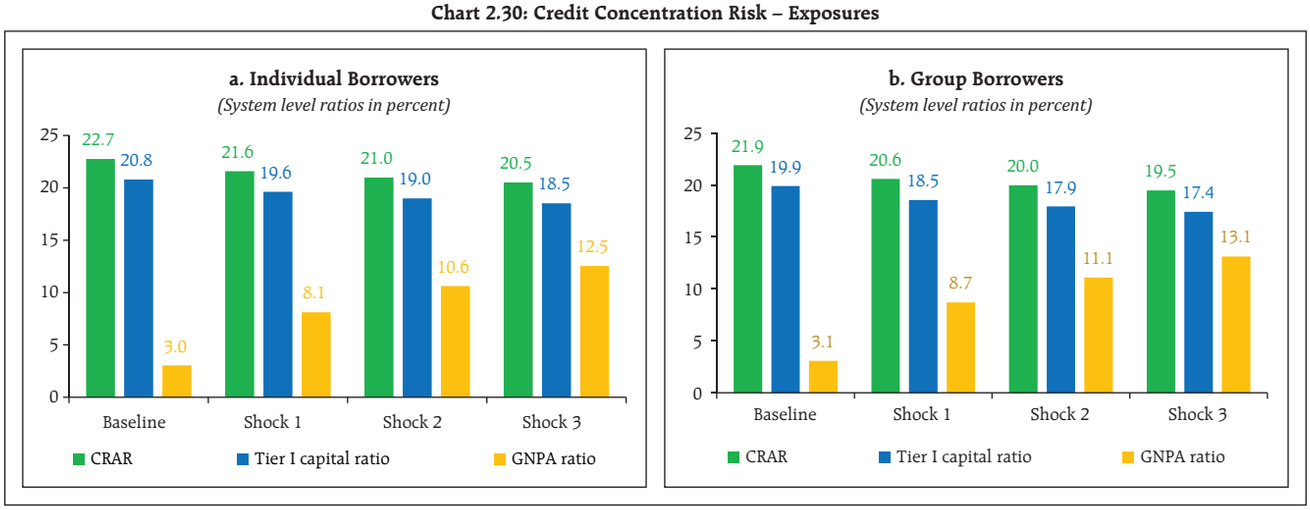
[35] The sample comprised of 174 NBFCs in the Upper Layer and Middle Layer with total advances of ₹30.74 lakh crore as of September 2025, which form around 95 per cent of total advances of non-Government NBFCs. The sample for stress tests excluded Government NBFCs, companies presently under resolution, stand-alone primary dealers and investment focused companies.

[36] The detailed methodology used for stress tests of NBFCs is provided in Annex 1.

[37] In the case of default, the individual borrower in the standard category is considered to move to the sub-standard category.

[38] In the case of default, the group borrower in the standard category is considered to move to the sub-standard category.

Chart 2.30: Credit Concentration Risk – Exposures



Note: For a system of 202 Upper and Middle Layer NBFCs.
Default of top 1, 2 and 3 individual borrowers to meet payment commitments are assumed under Shock 1, 2 and 3, respectively.
Source: RBI supervisory returns; and staff estimates.

Note: For a system of 124 Upper and Middle Layer NBFCs.
Default of top 1, 2 and 3 group borrowers to meet payment commitments are assumed under Shock 1, 2 and 3, respectively.
Source: RBI supervisory returns; and staff estimates.

II.3.3 Stress Test[39] – Liquidity Risk

2.65 The resilience of the NBFC sector to liquidity shocks was assessed by estimating the impact of assumed increase in cash outflows coupled with decline in cash inflows[40] on liquidity. The results revealed that the number of NBFCs which may experience negative cumulative liquidity mismatch of over 20 per cent in the next one year would be 3, 4 and 7 under the three scenarios, respectively (Table 2.8).

Table 2.8: Liquidity Risk in NBFCs

Cumulative Mismatch as percentage of Outflows over the next one year	No. of NBFCs having Negative Mismatch		
	Baseline	Medium	High
Over 50 per cent	1 (0.04)	1 (0.04)	2 (0.07)
Between 20 to 50 per cent	2 (0.07)	3 (0.44)	5 (0.80)
Up to 20 per cent	4 (0.77)	21 (10.49)	41 (20.87)

Note: (i) Baseline scenario is based on projected outflows and inflows over the next one year; medium risk scenario assumes 5 per cent decrease in inflows and 5 per cent increase in outflows while high risk scenario assumes 10 per cent decrease in inflows and 10 per cent increase in outflows.
(ii) Figures in parentheses represent percentage share in asset size of the sample.
Sources: RBI supervisory returns; and staff estimates.

[39] The detailed methodology used for stress tests of NBFCs is provided in Annex 1.

[40] Stress testing based on liquidity risk was performed on a sample of 261 NBFCs in the Upper Layer and the Middle Layer. The total asset size of the sample was ₹ 41.22 lakh crore, comprising around 99 per cent of total assets of non-government, non- CIC NBFCs in the sector.

II.4 Stress Testing of Mutual Funds[41]

2.66 In November 2025, 18 open-ended debt schemes with total assets under management (AUM) of ₹1.68 lakh crore breached the AMFI or AMC prescribed threshold (Table 2.9). However, all the MFs have either cured the breach or reported initiation of remedial action to complete the same within the prescribed timeframe.

2.67 The liquidity ratios - redemption at risk (LR-RaR[42]) and conditional redemption at risk (LR-CRaR[43]) under the stress tests by top 10 AMCs (based on AUM) for 13 categories of open-ended debt schemes for September 2025 were mostly well above the respective threshold limits. A few instances of the ratios falling below the threshold limits were addressed by the respective AMCs in a timely manner (Chart 2.31).

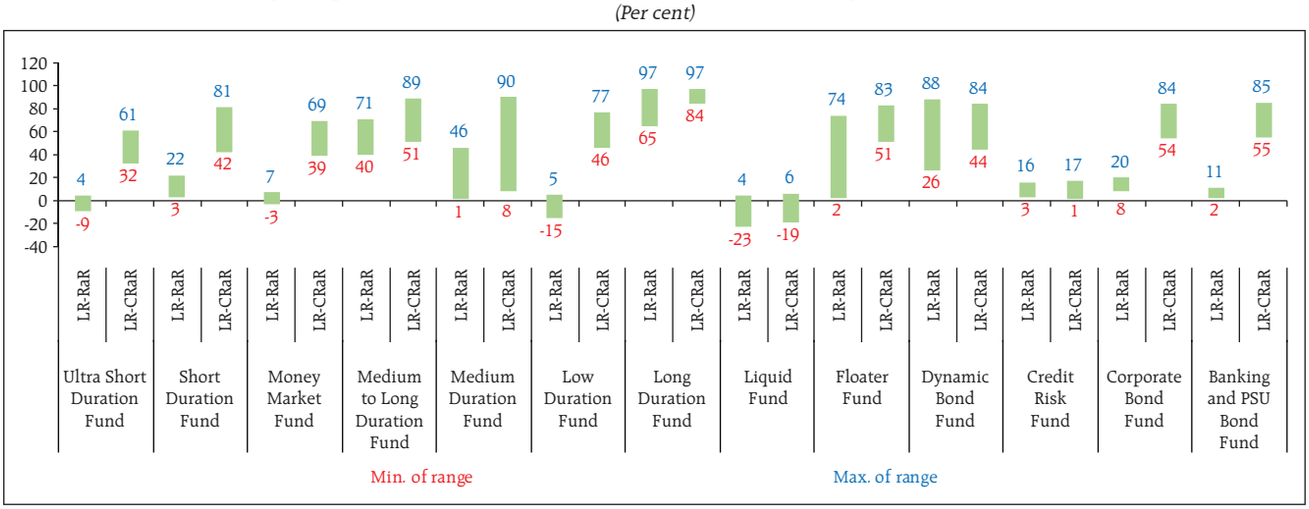
Table 2.9: Stress Testing of Open-Ended Debt Schemes of Mutual Funds – Summary Findings – November 2025

	Risk above Threshold	Risk below Threshold	Total
No. of AMCs	13	38	51
No. of Schemes	18*	305	323
AUM (₹ lakh crore)	1.68	17.10	18.78

Note: * The number of schemes showing interest rate risk, credit risk and liquidity risk above the prescribed threshold is 12, 5 and one, respectively, while total number of unique schemes showing risk is 18.
Source: SEBI.

2.68 Stress test results and liquidity analysis of midcap and smallcap equity schemes of all MFs, published by AMFI, revealed that in November 2025, the number of days to liquidate 25 per cent of the portfolio for the top 5 schemes (in terms of AUM) ranged from 4 to 22 days for midcap schemes and 12 to 36 days for smallcap schemes (Table 2.10).

Chart 2.31: Range (Surplus (+)/ Deficit (-)) of LR-RaR and LR-CRaR Maintained by AMCs over AMFI Prescribed Limits
(Per cent)



Note: Data pertains to top 10 AMCs based on AUM as on September 30, 2025.
Source: SEBI

[41] The detailed methodology used for stress tests of Mutual Funds is provided in Annex 1.

[42] Represents likely outflows at a given confidence interval.

[43] Represents the behaviour of the tail at the given confidence interval.

Table 2.10: Summary of Stress Tests and Liquidity Analysis of MF Midcap and Smallcap Schemes

Schemes/ Month		Midcap Schemes							Smallcap Schemes						
		May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
No. of days to liquidate 25 per cent of portfolio - range for top 5 schemes w.r.t. AUM		4 to 16	4 to 16	5 to 19	5 to 19	5 to 22	5 to 22	4 to 22	11 to 30	12 to 29	10 to 29	9 to 35	12 to 36	11 to 32	12 to 36
Concentration-Assets side (AUM held in per cent)	Largecap	11.3	11.8	13.4	14	13.8	13.5	13.2	8.1	8.3	7.9	8.0	8.3	8.6	8.5
	Midcap	67.6	69.1	67.8	68.3	68.3	68.9	69.6	10.7	10.8	12.6	12.5	12.6	12.5	12.8
	Smallcap	13.8	13.7	13.4	13.3	13.3	13.1	13.0	74.2	74.7	73.3	72.8	72.4	72.8	72.8
	Cash	7.3	5.3	5.4	4.4	4.5	4.5	4.2	7	6.2	6.2	6.8	6.7	6.1	5.9

Source: AMFI.

II.5 Stress Testing Analysis at Clearing Corporations[44]

2.69 Stress testing was carried out at clearing corporations (CCs) in the Indian securities market to determine the segment-wise minimum required corpus (MRC) of the core settlement guarantee fund (Core SGF). Stress test analysis for the period April 2025 to November 2025 indicated that the actual MRC requirement remained the same for most of the segments, except for the commodity derivatives segment wherein the requirement increased for CCs 1 and 3 and equity derivatives segment wherein the requirement increased for CCs 2 during the period (Table 2.11).

II.6 Financial Network and Contagion Analysis

2.70 Interconnections among financial institutions stem from funding relationships, liquidity mismatches and maturity transformation, payment and settlement processes and risk transfer mechanisms. The financial system can be visualised as a network where financial institutions act as nodes and the bilateral exposures among them serve as links connecting these nodes. These links could be in the form of loans to, investments in, or deposits with each other, which act as a source of funding, liquidity, investment and risk diversification. While these links enable gains in efficiency and diversification of risks, they can become conduits of risk transmission and amplification in a crisis. Understanding the nuances in propagation of risks through these networks is useful for devising appropriate policy responses for safeguarding financial and macroeconomic stability.

II.6.1 Financial System Network[45] [46]

2.71 The total outstanding bilateral exposures[47] among the select 282 entities expanded at a growth rate of 20.1 per cent in September 2025. SCBs continued to hold the largest share (42.6 per cent) in

[44] Details on the conduct and methodology of the stress tests are given in Annex 1.

[45] The network model used in the analysis has been developed by Professor Sheri Markose (University of Essex) and Dr. Simone Giansante (Bath University) in collaboration with the Financial Stability Department, Reserve Bank of India.

[46] Number of entities under the analysis is increased to 282 (from 229 in last FSR June 2025) considering increasing size for more comprehensive analysis. The entities are from the following eight categories: [88 SCBs, 33 scheduled UCBs (SUCBs); 31 AMC-MFs (covering about 99 per cent of the total AUM of the domestic mutual fund industry); 52 NBFCs (both deposit taking and non-deposit taking systemically important companies, covering about 80 per cent of total NBFC assets); 36 insurance companies (covering around 98 per cent of assets of the sector); 26 HFCs (covering around 94 per cent of total HFC assets); 11 PFs and 5 AIFIs (NABARD, EXIM, NHB, SIDBI and NaBFID)].

[47] Bilateral exposures include exposures between entities of the same group. Exposures are outstanding position as on September 30, 2025 and are broadly divided into fund-based (viz., money market instruments, deposits, loans and advances, long-term debt instruments and equity investments) and non-fund-based exposure (viz., letter of credit, bank guarantee and derivatives instruments (excluding settlement guaranteed by CCIL)).

Table 2.11: Minimum Required Corpus of Core SGF Based on Stress Testing Analysis at Clearing Corporations

(₹ crore)

Segment	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
Clearing Corporation 1								
Average Stress Test Loss								
Equity Cash Segment	71	255	200	50	205	82	67	196
Equity Derivatives Segment	6,266	7,389	7,890	8,241	7,638	9,063	8,942	9,289
Currency Derivatives Segment	81	54	58	44	42	54	101	89
Debt Segment	0	0	0	0	0	0	0	0
Tri-Party Repo Segment	0	0	0	0	0	0	0	0
Commodity Derivatives Segment	2	1	1	2	9	15	7	7
Total	**6,420**	**7,699**	**8,149**	**8,337**	**7,894**	**9,214**	**9,117**	**9,581**
Actual MRC Requirement								
Equity Cash Segment	388	388	388	388	388	388	388	388
Equity Derivatives Segment	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500
Currency Derivatives Segment	242	161	161	161	161	161	161	161
Debt Segment	4	4	4	4	4	4	4	4
Tri-Party Repo Segment	17	17	17	17	17	17	17	17
Commodity Derivatives Segment	10	10	10	10	10	10	10	15
Total	**11,161**	**11,080**	**11,080**	**11,080**	**11,080**	**11,080**	**11,080**	**11,085**
Clearing Corporation 2								
Average Stress Test Loss								
Equity Cash Segment	35	25	49	23	25	51	44	31
Equity Derivatives Segment	350	402	431	469	673	683	723	733
Currency Derivatives Segment	1	0	1	0	0	0	1	0
Debt Segment	0	0	0	0	0	0	0	0
Tri-Party Repo Segment	0	0	0	0	0	0	0	0
Commodity Derivatives Segment	0	0	0	0	0	0	0	0
Total	**385**	**427**	**480**	**493**	**698**	**734**	**768**	**763**
Actual MRC Requirement								
Equity Cash Segment	194	194	194	194	194	194	194	194
Equity Derivatives Segment	555	555	555	555	555	555	673	683
Currency Derivatives Segment	10	10	10	10	10	10	10	10
Debt Segment	0	0	0	0	0	0	0	0
Tri-Party Repo Segment	0	0	0	0	0	0	0	0
Commodity Derivatives Segment	14	14	14	14	14	14	14	14
Total	**773**	**773**	**773**	**773**	**773**	**773**	**891**	**901**
Clearing Corporation 3 (Commodity Derivatives Segment)								
Average Stress Test Loss	433	426	717	653	761	935	990	653
Actual MRC requirement	626	626	626	626	717	717	761	935
Clearing Corporation 4 (Commodity Derivatives Segment)								
Average Stress Test Loss	64	63	63	61	60	46	43	42
Actual MRC requirement	124	124	124	124	124	124	124	124

Notes: (1) Average Stress Test Loss calculated for a month M is applicable, as MRC, from the month M+2.

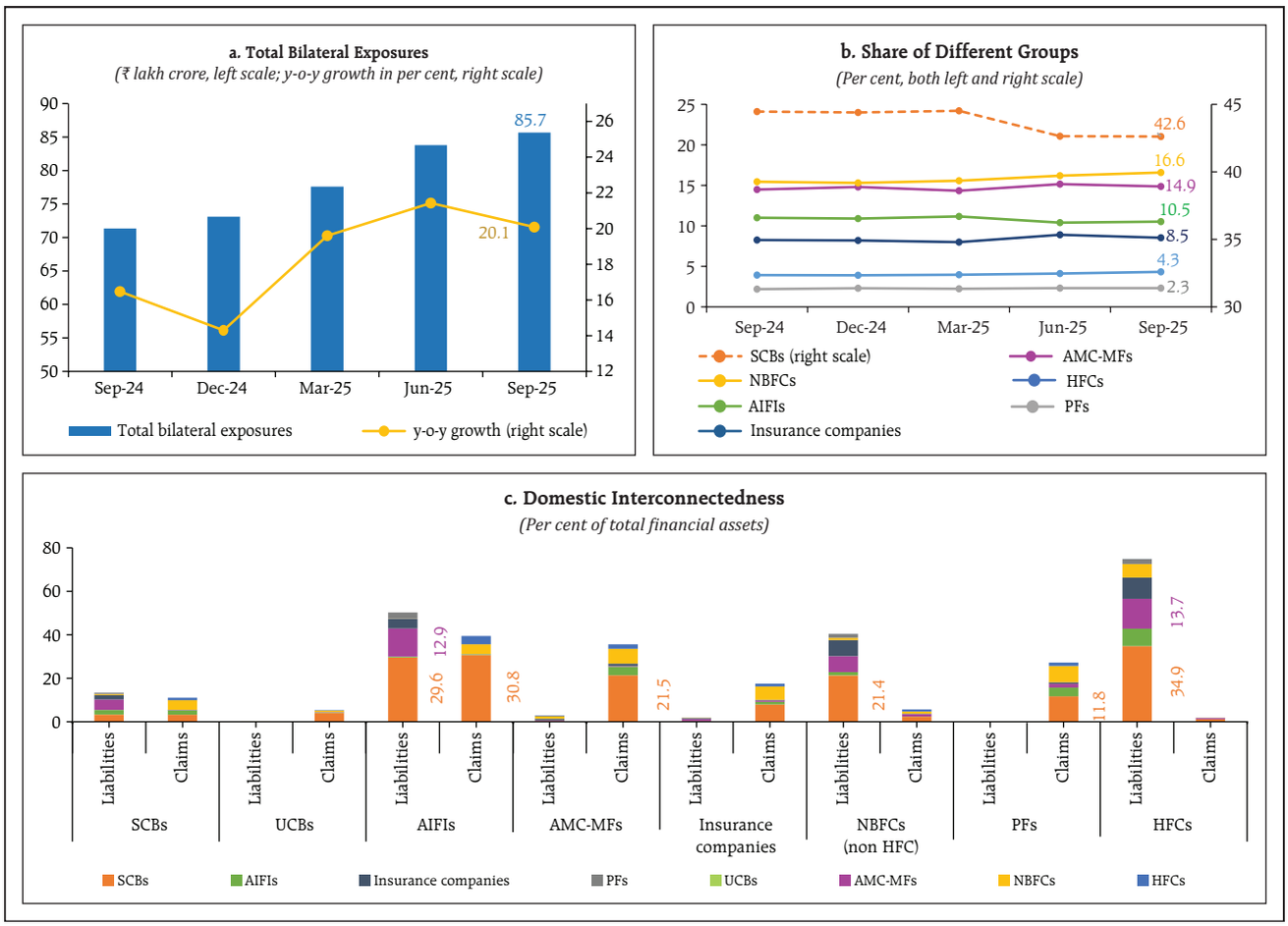
(2) SEBI, vide letter dated March 27, 2025, has permitted Clearing Corporations 1 and 2 for the resetting of Minimum Required Corpus (MRC) of the currency derivatives segment and subsequent transfer of funds to the core SGF of the equity derivatives segment. Accordingly, MRC for the core SGF of currency derivatives segment has been reset based on the highest stress losses observed since May 2024, subject to a minimum threshold of ₹10 crore. Hence, there is a decrease in the MRC value for currency derivatives segment for Clearing Corporation 1 from May 2025 onwards on account of reduced volumes in currency derivatives segment.

Source: Clearing Corporations.

the network followed by NBFCs (16.6 per cent) and AMC-MFs (14.9 per cent) (Chart 2.32 a and b).

2.72 The interconnections of AIFIs, NBFCs, HFCs and AMC-MFs are skewed towards SCBs revealing bank-led interconnectedness in the financial system. AIFIs are very closely connected to SCBs through both liabilities and assets (Chart 2.32 c).

Chart 2.32: Bilateral Exposures between Entities in the Financial System

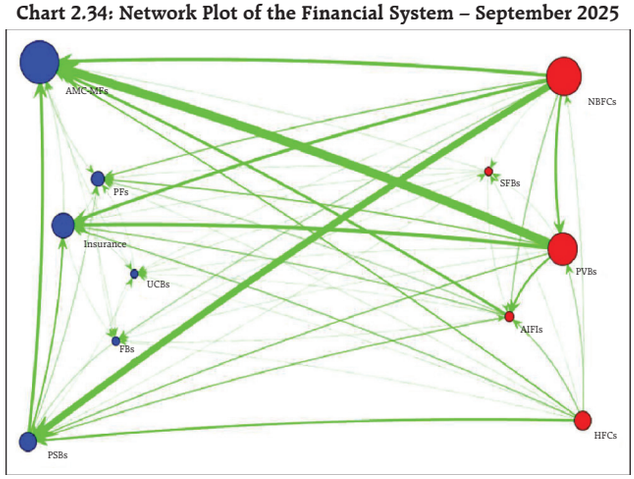


Note: Exposures between entities of the same group are included.
Sources: Supervisory returns of various regulators; and RBI staff estimates.

2.73 Loans and advances, capital/ equity investments and long-term (LT) debt instruments remained the leading instruments in bilateral exposure (Chart 2.33). Long-term (LT) funding out of these instruments continued to dominate with around 66.0 per cent share in the total bilateral exposures as at end-September 2025. The share of loans and advances decreased year-on-year while that of equity and short-term (ST) loans increased moderately.

2.74 In terms of inter-sectoral exposures[48], AMC-MFs, insurance companies and PSBs remained the largest fund providers in the system while NBFCs, PVBs and HFCs were the largest receivers of funds. Among bank groups, PSBs, UCBs and FBs had net receivable positions whereas PVBs and SFBs had net payable positions (Chart 2.34).

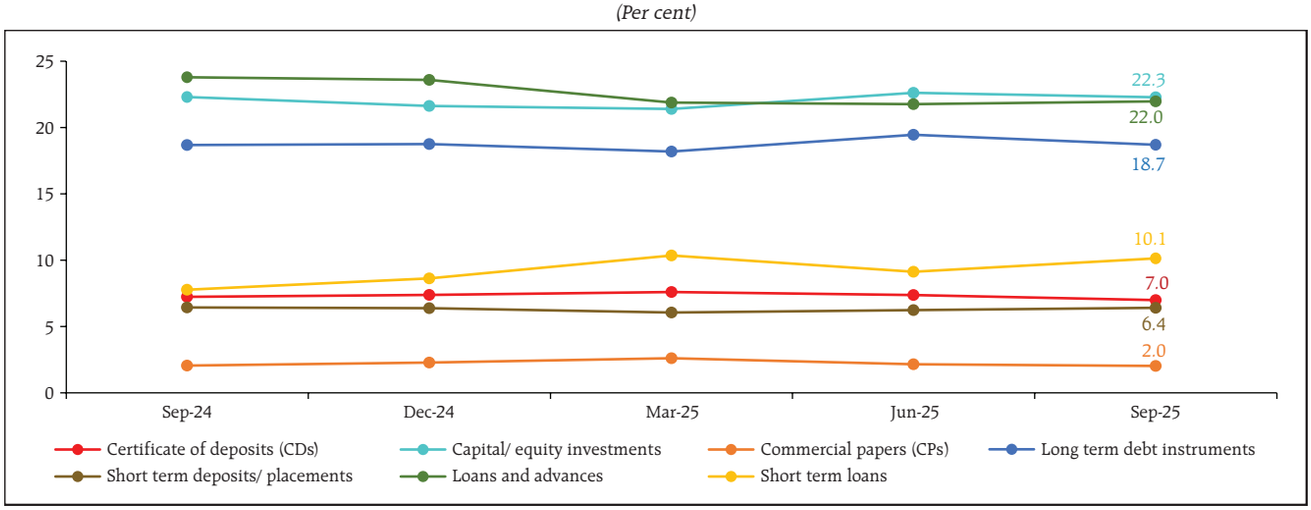
Chart 2.34: Network Plot of the Financial System – September 2025



Note: Receivables and payables do not include transactions among entities of the same group. Red circles are net payable institutions, and the blue ones are net receivable institutions.
Sources: Supervisory returns of various regulators; and RBI staff estimates.

2.75 The net receivable and net payable positions of all leading fund providers and receivers, except PVBs, increased in September 2025 over a year ago (Chart 2.35).

Chart 2.33: Instrument-wise Exposure among Entities in the Financial System
(Per cent)

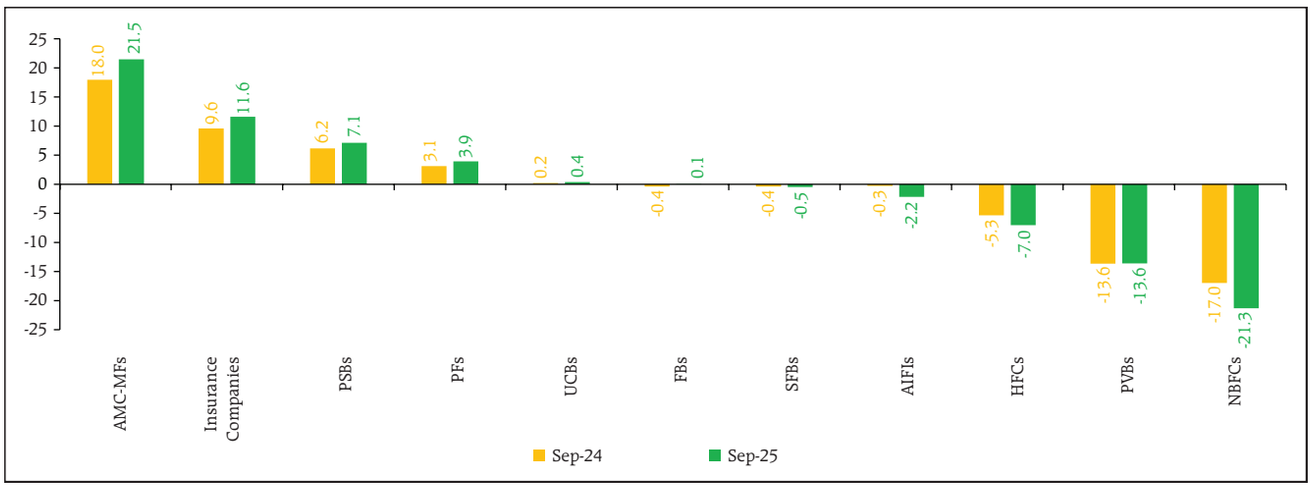


Note: Exposures between entities of the same group as well as different groups are included.
Sources: Supervisory returns of various regulators; and RBI staff estimates.

[48] Inter-sectoral exposures do not include transactions among entities of the same sector in the financial system.

Chart 2.35: Net Receivables (+ve)/ Payables (-ve) by Categories of Institutions

(Amount in ₹ lakh crore)



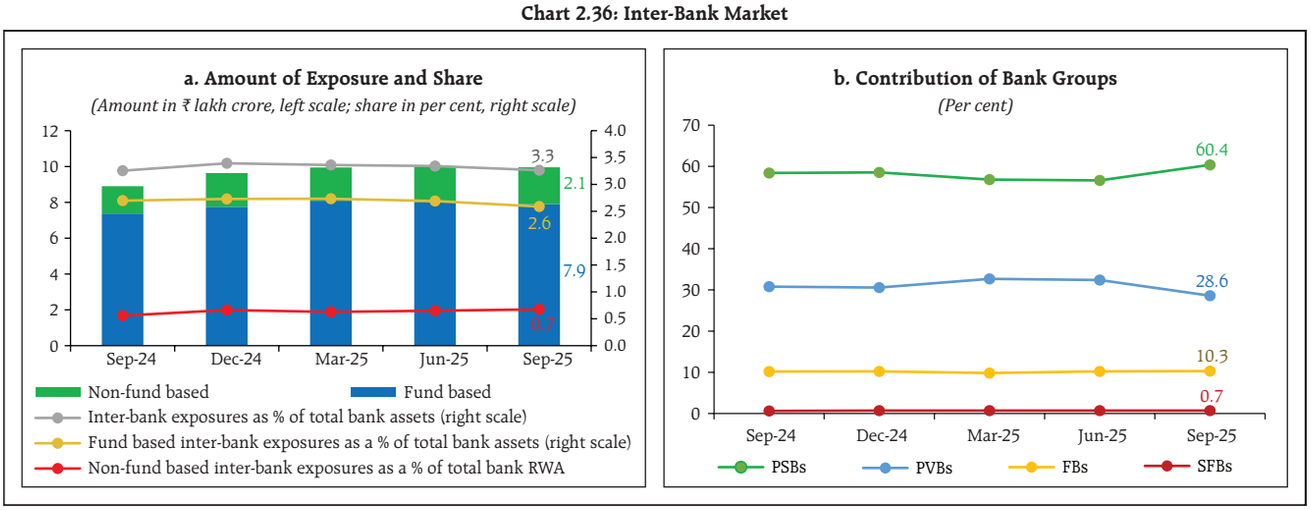
Note: Receivables and payables do not include transactions among entities of the same group.
Sources: Supervisory returns of various regulators; and RBI staff estimates.

a. Inter-Bank Market

2.76 Inter-bank exposures as percent of the total assets of the banking system fell a bit in the last two quarters and stood at 3.3 per cent, along with similar decline in fund-based exposures[49] while non-fund-based exposures[50] remained steady (Chart 2.36 a).

2.77 PSBs' dominance in the inter-bank market increased during the quarter ended September 2025 to 60.4 per cent share while the share of PVBs witnessed corresponding decrease, reversing the trend in recent quarters (Chart 2.36 b).

Chart 2.36: Inter-Bank Market



Sources: RBI supervisory returns; and staff estimates.

[49] Fund-based exposures include both short-term exposures (covering data in seven categories – repos (non-centrally cleared); call money; commercial papers; certificates of deposits; short-term loans; short-term deposits and other short-term exposures) and long-term exposures (covering data in five categories – Equity; Long-term Debt; Long-term loans; Long-term deposits and Other long-term liabilities).

[50] Non-Fund based exposures include - outstanding bank guarantees, outstanding Letters of Credit, and positive mark-to-market positions in the derivatives market (except those exposures for which settlement is guaranteed by the CCIL).

2.78 Dominance of ST funding increased to 79 per cent of the fund-based inter-bank market as at end-September 2025 compared to 77 per cent at end-March 2025. At the sub-components level, ST deposits and ST loans constituted more than 70 per cent of ST funds while LT loans and LT debt comprised a major share of LT funds. (Chart 2.37 a and b).

b. Inter-Bank Market: Network Structure and Connectivity

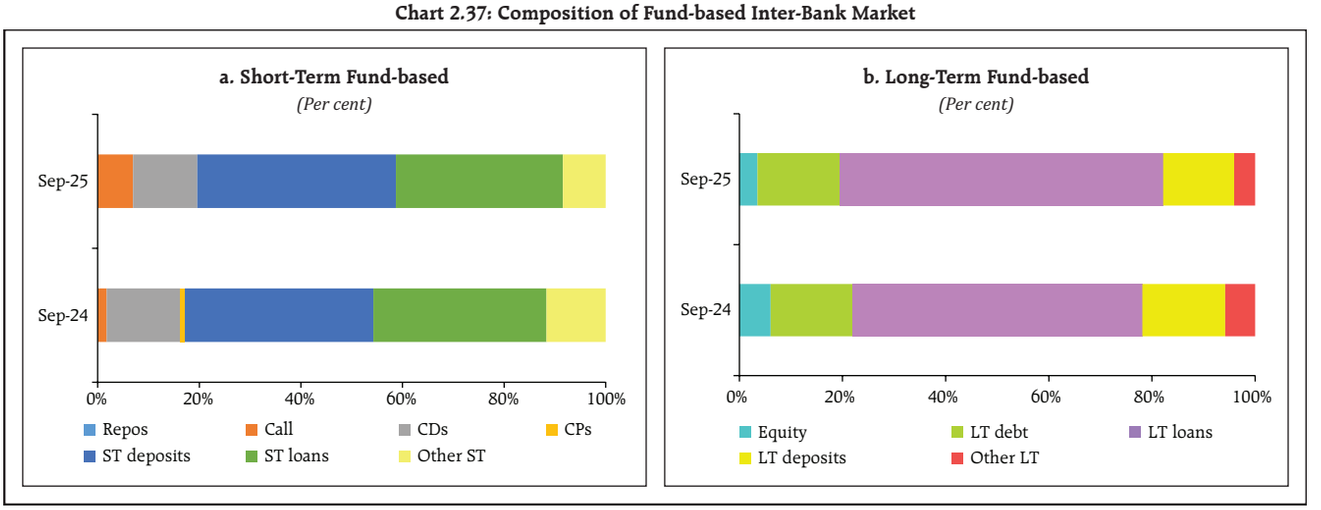
2.79 The interconnections between entities in the inter-bank market network was highly skewed, with majority of banks having few links and a few banks having many links, as reflected by the typical core-periphery network structure[51] [52]. As of end-September 2025, four banks were in the inner-most core and six banks were in the mid-core circle, consisting of PSBs and PVBs (Chart 2.38).

2.80 The degree of interconnectedness among SCBs, measured by the connectivity ratio[53], decreased marginally as at end-September 2025 and the local interconnectedness in terms of the cluster coefficient[54] also decreased (Chart 2.39).

c. Exposure of AMC-MFs

2.81 Gross receivables of AMC-MFs, the largest fund providers, increased to ₹23.27 lakh crore in September 2025, from ₹20.68 lakh crore in March

Chart 2.37: Composition of Fund-based Inter-Bank Market



Sources: RBI supervisory returns; and staff estimates.

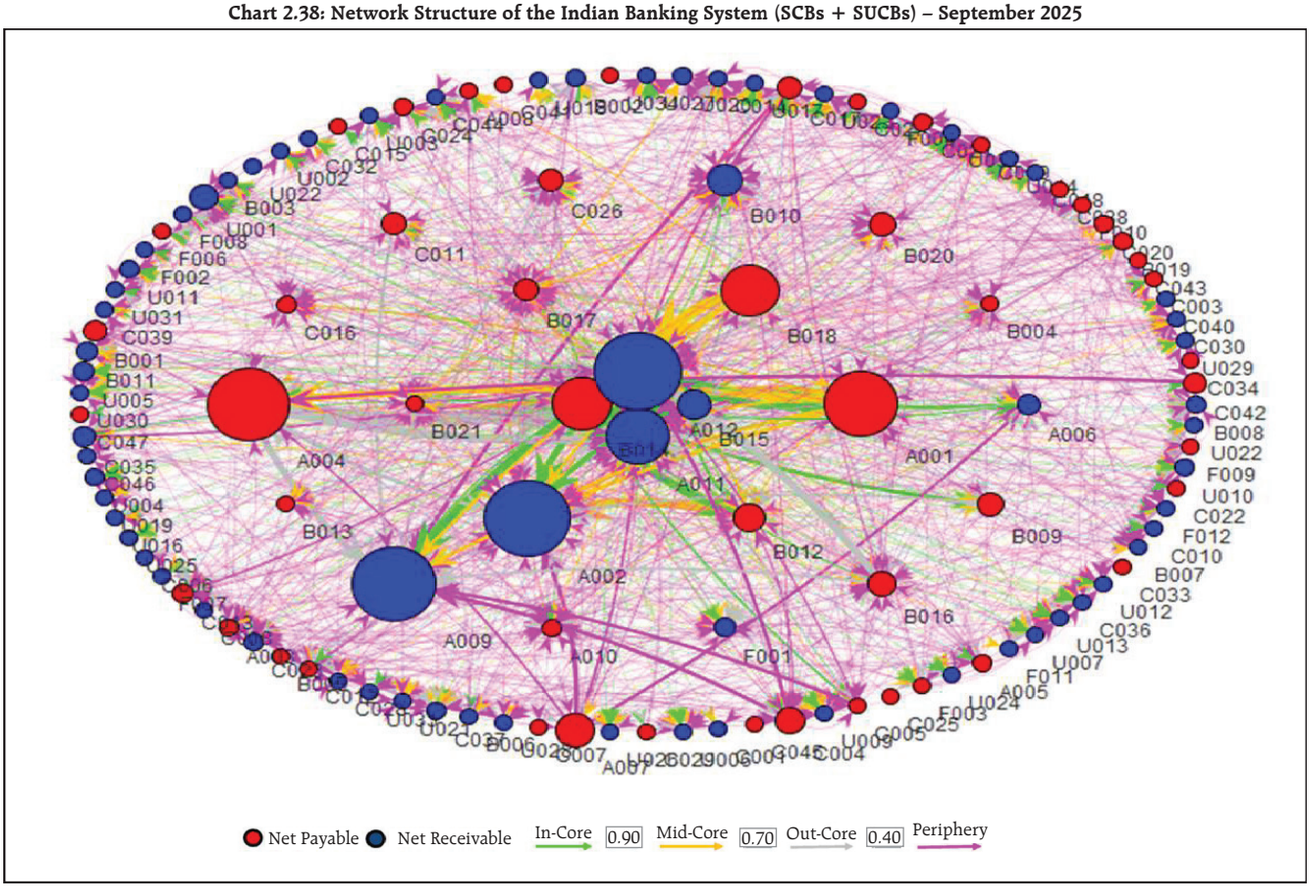
[51] The diagrammatic representation of the network of the banking system is that of a tiered structure, in which different banks have different degrees or levels of connectivity with others in the network. The most connected banks are in the inner-most core (at the centre of the network diagram). Banks are then placed in the mid-core, outer core and the periphery (concentric circles around the centre in the diagram), based on their level of relative connectivity. The colour coding of the links in the tiered network diagram represents borrowings from different tiers in the network (for example, the green links represent borrowings from the banks in the inner core). Each ball represents a bank and they are weighted according to their net positions vis-à-vis all other banks in the system. The lines linking each bank are weighted on the basis of outstanding exposures.

[52] 77 SCBs, 11 SFBs and 33 SUCBs were considered for this analysis.

[53] The Connectivity ratio measures the actual number of links between the nodes relative to all possible links in a complete network.

[54] Cluster Coefficient: Clustering in networks measures how interconnected each node is. Specifically, there should be an increased probability that two of a node's neighbours (banks' counterparties in case of the financial network) are also neighbours themselves. A high cluster coefficient for the network corresponds with high local interconnectedness prevailing in the system.

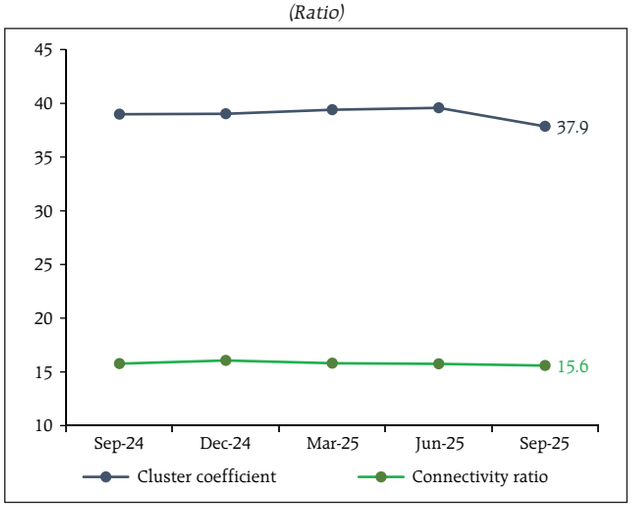
Chart 2.38: Network Structure of the Indian Banking System (SCBs + SUCBs) – September 2025



Sources: RBI supervisory returns; and staff estimates.

Chart 2.39: Connectivity Statistics of the Banking System (SCBs)

(Ratio)

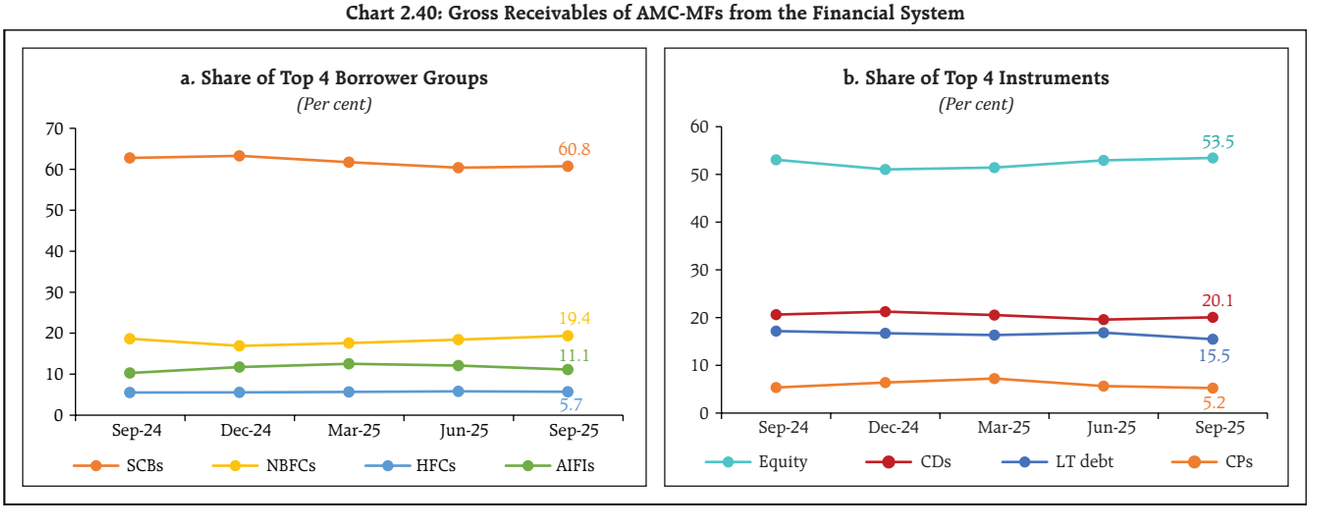


Sources: RBI supervisory returns; and staff estimates.

2025, against their gross payables of ₹1.79 lakh crore. SCBs (primarily PVBs) remained the major recipients of funds from AMC-MFs, followed by NBFCs, AIFIs and HFCs (Chart 2.40 a).

2.82 More than half of the funding by the AMC-MFs continued to be in form of equity holdings. Funding through CDs, LT debt and CPs marginally decreased over the positions a year ago (Chart 2.40 b).

Chart 2.40: Gross Receivables of AMC-MFs from the Financial System



Sources: Supervisory returns of various regulators; and RBI staff estimates.

d. Exposure of Insurance Companies

2.83 With gross receivables at ₹12.85 lakh crore against gross payables at ₹1.25 lakh crore, insurance companies were the second largest net providers of funds to the financial system as at end-September 2025. SCBs (primarily PVBs) were the largest recipients of their funds, followed by NBFCs and HFCs.

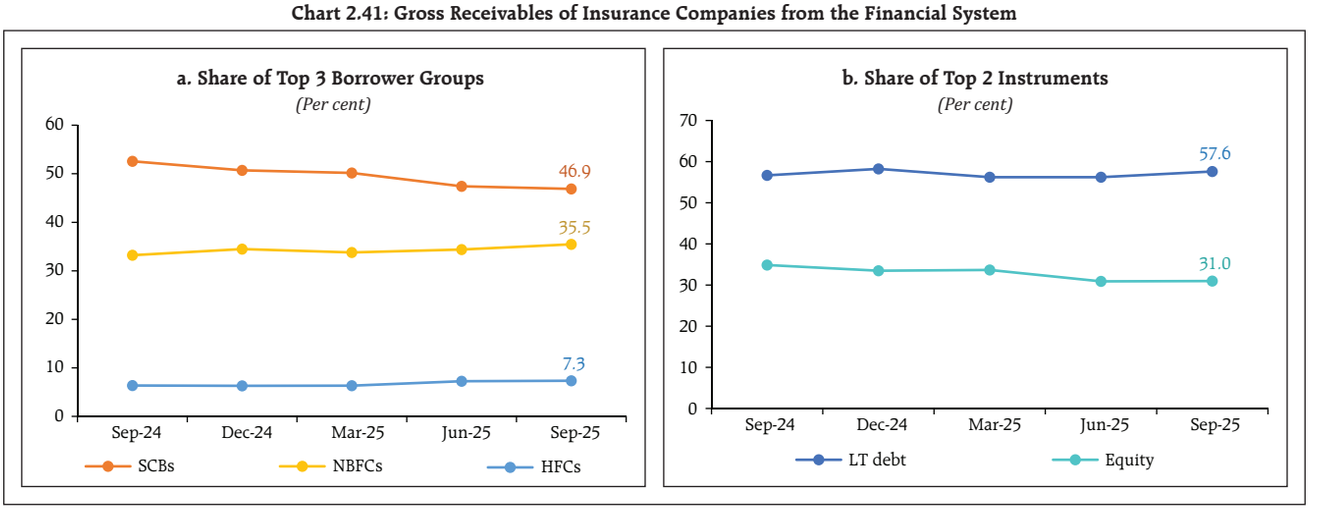
2.84 Insurance companies provided funds mostly though LT debt and equity, accounting for 88 per cent of receivables, with limited exposure to ST instruments (Charts 2.41 a and b).

e. Exposure to NBFCs (Non-HFCs)

2.85 NBFCs (Non-HFCs) were the largest net borrowers of funds from the financial system, with higher gross payables at ₹24.25 lakh crore against gross receivables at ₹2.94 lakh crore as at end-September 2025. More than half of their funds continued to be sourced from SCBs, followed by insurance companies and AMC-MFs (Chart 2.42 a).

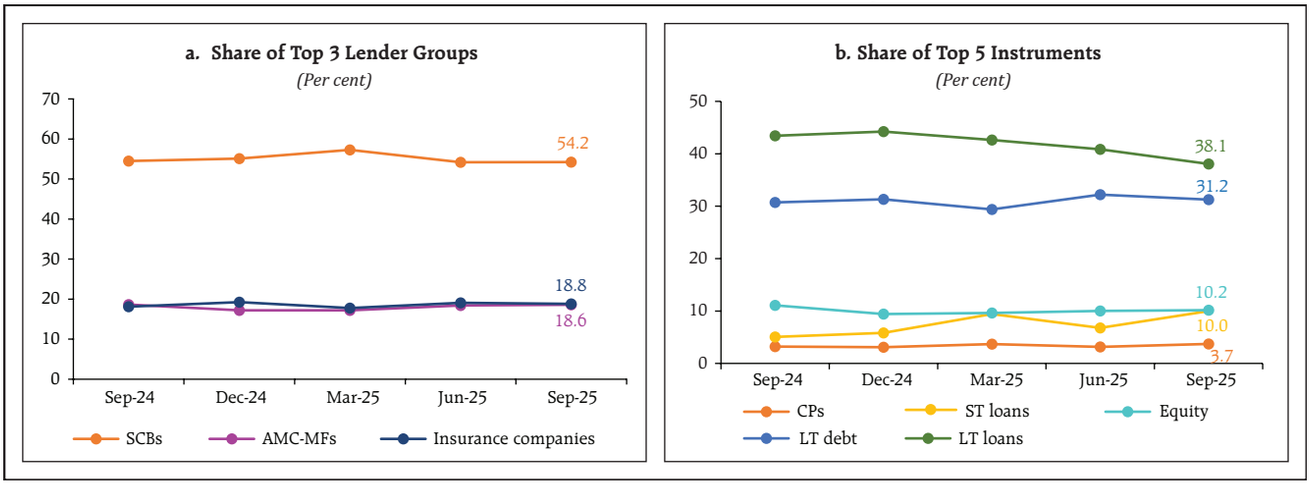
2.86 LT loans and LT debt continued to be the preferred mode of funding for NBFCs (Non-HFCs). The share of ST funding instruments (ST loans and CPs) also increased during the same period (Chart 2.42 b).

Chart 2.41: Gross Receivables of Insurance Companies from the Financial System



Sources: Supervisory returns of various regulators; and RBI staff estimates.

Chart 2.42: Gross Payables of NBFCs to the Financial System



Sources: Supervisory returns of various regulators; and RBI staff estimates.

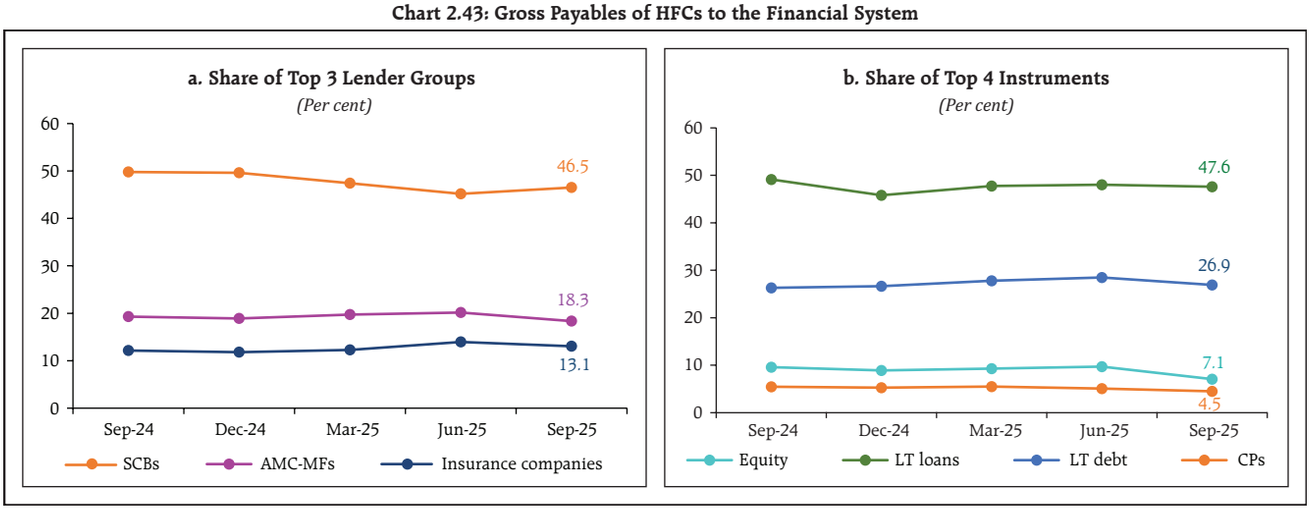
f. Exposure to HFCs

2.87 HFCs, the third largest net borrowers, had gross payables at ₹7.21 lakh crore against gross receivables of ₹0.19 lakh crore in September 2025. SCBs continued to be the top fund providers although their share was seen to increase with corresponding decrease in funding from AMC-MFs and insurance companies. About 74.5 per cent of HFCs' funds was sourced through LT loans and LT debt instruments (Chart 2.43 a and b).

g. Exposure of AIFIs

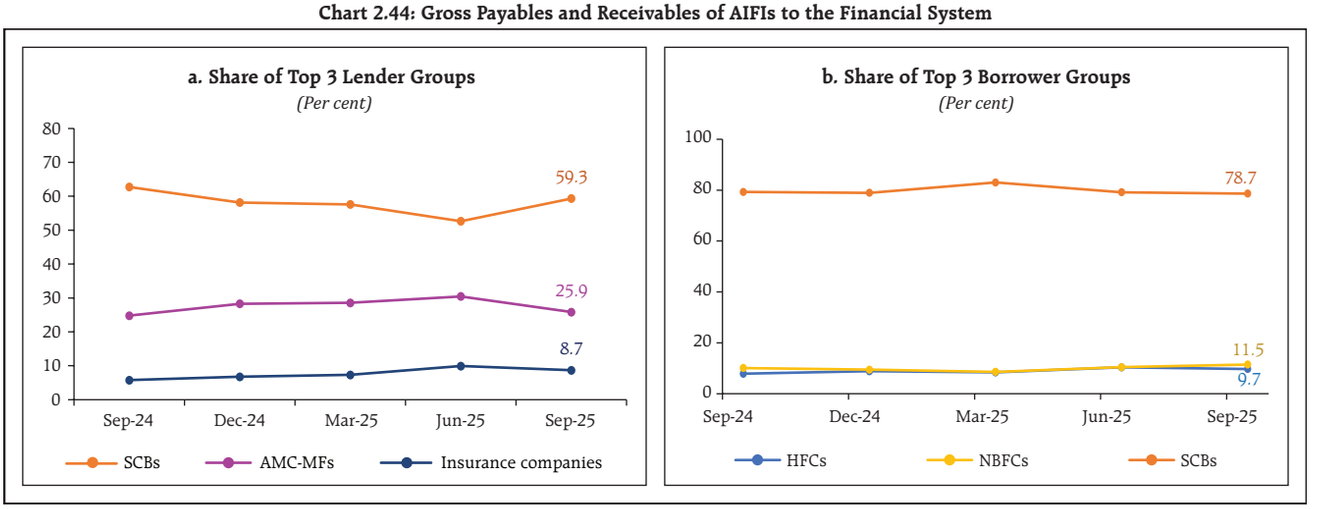
2.88 With gross payables and receivables at ₹10.02 lakh crore and ₹7.85 lakh crore, respectively, AIFIs were both active borrowers and lenders in the financial system and had net payables position of around ₹2 lakh crore in September 2025. While the AIFIs raised funds mainly from SCBs, AMC-MFs and insurance companies, they were observed to lend to SCBs predominantly (78.7 per cent in September 2025). (Chart 2.44 a and b).

Chart 2.43: Gross Payables of HFCs to the Financial System



Sources: Supervisory returns of various regulators; and RBI staff estimates.

Chart 2.44: Gross Payables and Receivables of AIFIs to the Financial System



Sources: Supervisory returns of various regulators; and RBI staff estimates.

II.6.2 Contagion Analysis

2.89 Contagion analysis uses network technology to estimate the systemic importance of different financial institutions. The failure of a bank due to solvency and/ or liquidity losses would lead to contagion impact on the banking system along with the financial system. The failure of the bank would depend on the initial capital and liquidity position along with the number, nature (whether it is a lender or a borrower) and magnitude of the interconnections that it has with the rest of the banking system.

a. Joint Solvency[55] – Liquidity[56] Contagion Impact on SCBs due to Bank Failure

2.90 A contagion analysis of the banking network as at the end-September 2025 position indicated that if the bank with the maximum capacity to cause contagion losses failed, it would cause a solvency loss of 2.3 per cent (as compared to 3.4 per cent in March 2025) of the total Tier 1 capital of SCBs and a liquidity loss of 0.4 per cent (0.3 per cent in March 2025) of the total HQLA of the banking system. (Table 2.12).

b. Solvency Contagion Impact on SCBs due to NBFC/ HFC Failure

2.91 NBFCs (Non-HFCs) and HFCs are among the largest borrowers of funds from the financial system, with a substantial part of funding from banks. Therefore, failure of any NBFC or HFC would act as a solvency shock to their lenders which can spread through contagion.

Table 2.12: Contagion Losses due to Bank Failure – September 2025

Name of Bank	Solvency Losses as per cent of Tier 1 Capital of the Banking System	Liquidity Losses as per cent of HQLA	Number of Banks Defaulting due to Solvency	Number of Banks Defaulting due to Liquidity
Bank 1	2.3	0.4	0	0
Bank 2	1.9	0.3	0	0
Bank 3	1.9	0.3	0	0
Bank 4	1.7	0.1	0	0
Bank 5	1.1	0.0	0	0

Note: Top five 'Trigger banks' have been selected based on solvency losses caused to the banking system.
Sources: RBI supervisory returns; and staff estimates.

[55] In solvency contagion analysis, gross loss to the banking system owing to a domino effect of hypothetical failure of one or more borrower banks is ascertained. Failure criterion for contagion analysis has been taken as Tier 1 capital falling below 7 per cent.

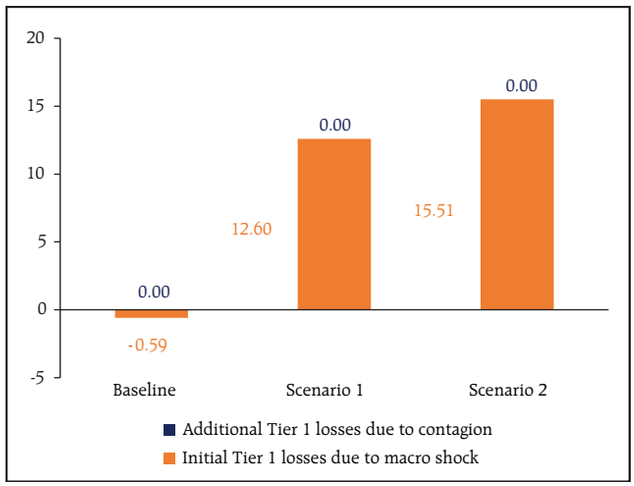
[56] In liquidity contagion analysis, a bank is considered to have failed when its liquid assets are not enough to tide over a liquidity stress caused by the hypothetical failure of large net lender. Liquid assets are measured as: 18 per cent of NDTL + excess SLR + excess CRR.

2.92 As at end-September 2025, the hypothetical failure of the NBFC with the maximum capacity to cause solvency losses to the banking system would have knocked off 3.0 per cent (2.9 per cent in March 2025) of the latter's total Tier 1 capital and hypothetical failure of such top HFC would have knocked off 3.6 per cent (3.7 per cent in March 2025) (Tables 2.13 and 2.14). However, in both the cases, it would not lead to any bank falling short in maintaining regulatory minimum capital.

2.93 Further, in terms of the impact and vulnerability metrics developed for identification of the impactful and vulnerable bank, one bank was found to be both impactful and vulnerable in September 2025.

Chart 2.45: Solvency Contagion Impact of Macroeconomic Shocks

(Per cent)



Sources: RBI supervisory returns; and staff estimates.

c. Solvency Contagion Impact after Macroeconomic Shocks to SCBs

2.94 On the application of the hypothetical stress scenarios considered under the macro stress test[57], the capital gain(-)/ loss(+) at aggregate level stood at (-) 0.6 per cent, 12.6 per cent and 15.5 per cent of Tier I capital under the baseline, adverse scenario 1 and adverse scenario 2, respectively. Each of the banks would be able to maintain the Tier 1 capital ratio of 7 per cent under all three scenarios. Consequently, there would be no additional solvency losses to the banking system due to contagion (over and above the initial loss of capital due to the macro shocks) (Chart 2.45).

Table 2.13: Contagion Losses due to NBFCs Failure – September 2025

NBFC Name	Solvency Losses as per cent of Tier 1 Capital of the Banking System	Number of Banks Defaulting due to Solvency
NBFC 1	3.0	0
NBFC 2	2.6	0
NBFC 3	2.2	0
NBFC 4	1.8	0
NBFC 5	1.8	0

Note: Only Private NBFCs are considered. Top five 'Trigger NBFCs' have been selected on the basis of solvency losses caused to the banking system.
Sources: RBI supervisory returns; and staff estimates.

Table 2.14: Contagion Losses due to HFC Failure – September 2025

HFC Name	Solvency Losses as per cent of Tier 1 Capital of the Banking System	Number of Banks Defaulting due to Solvency
HFC 1	3.6	0
HFC 2	1.4	0
HFC 3	1.1	0
HFC 4	0.8	0
HFC 5	0.5	0

Note: Top five 'Trigger HFCs' have been selected on the basis of solvency losses caused to the banking system.
Sources: RBI supervisory returns; and staff estimates.

[57] The contagion analysis used the results of the macro-stress tests and made the following assumptions:
(a) The projected losses under a macro scenario (calculated as reduction in projected Tier 1 CRAR, in percentage terms, in March 2027 with respect to the actual value in September 2025) were applied to the September 2025 capital position assuming proportionally similar balance sheet structures for both September 2025 and March 2027.
(b) Bilateral exposures between financial entities are assumed to be similar for September 2025 and March 2027.

II.7 Insurance Sector

2.95 India's insurance sector remains a systemically significant component of the financial system owing to its scale, investment footprint, and interconnectedness. Moreover, it facilitates risk transfer and mobilisation of long-term savings.

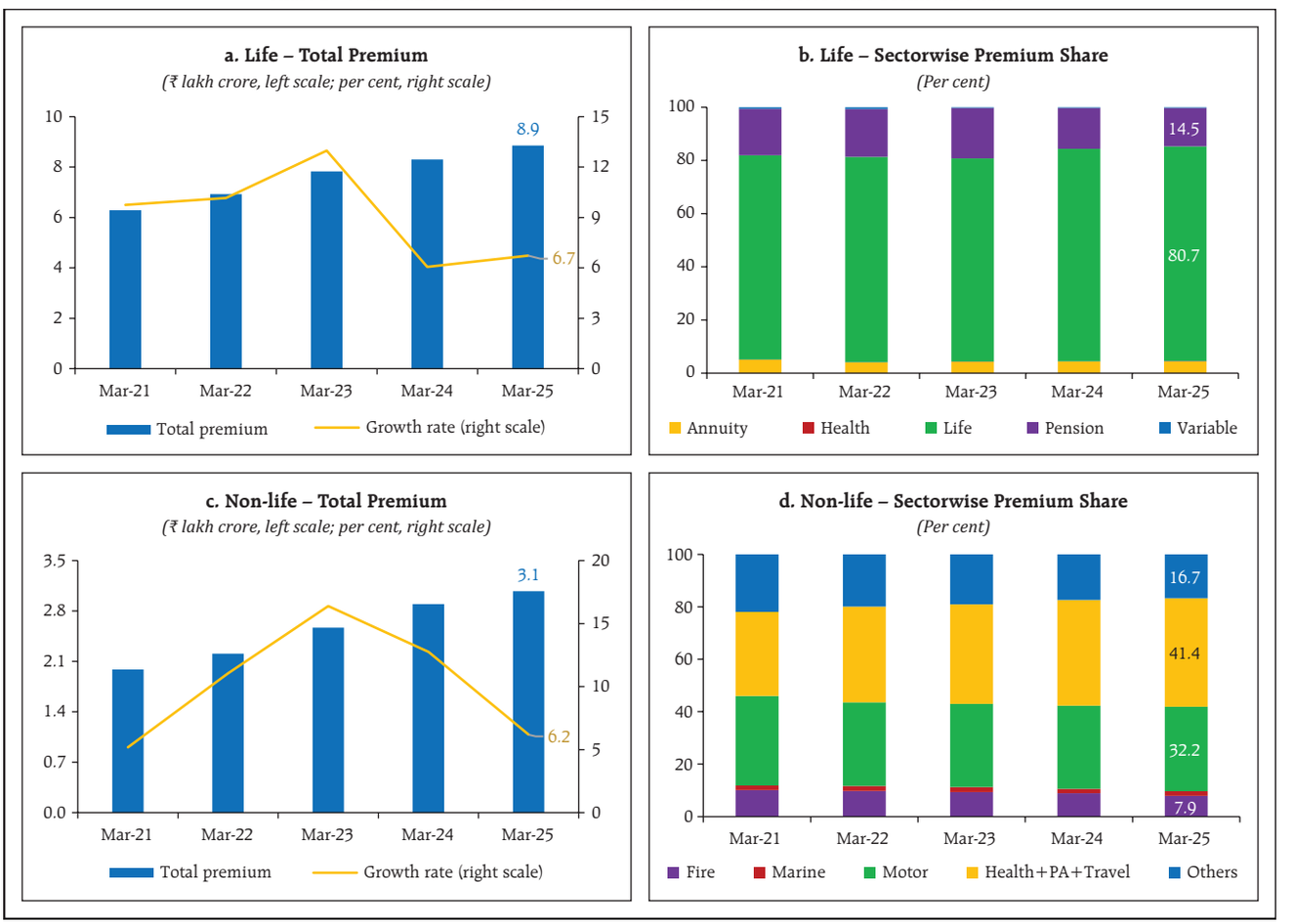
II.7.1 Premium Profile

2.96 Total premium income grew to ₹11.9 lakh crore in 2024-25 from ₹8.3 lakh crore in 2020-21, reflecting consistent market expansion and stable financial intermediation capacity. However, total insurance premium masks a significant growth moderation, as the growth rates for both life and non-life sectors have slowed sharply (Chart 2.46 a and c). This deceleration suggests that the post-COVID demand surge for risk mitigation may have subsided. At a sectoral level, the life (protection and savings) sector exhibits a high concentration risk, while the non-life sector has undergone a structural shift, with health emerging as the leading segment (Chart 2.46 b and d). Furthermore, product concentration in both life and non-life sectors indicates limited progress in diversification.

II.7.2 Assets under Management (AUM)

2.97 Total AUM of the insurance sector reached ₹74.4 lakh crore as on March 31, 2025 with life insurers accounting for 91 per cent of total investments, underscoring the sector's deepening

Chart 2.46: Life and Non-life sectors – Total Premium and Sector-wise Premium Share



Source: IRDAI Annual Reports.

financial footprint and its growing significance as a primary institutional investor in the economy. The investment portfolio remains structured, with around 59 per cent in government securities and 30 per cent in approved investments (Chart 2.47 a and b). As regards asset allocation, sovereign debt continue to be dominant. However, in a competitive financial landscape, this conservative allocation creates challenges in consistently meeting policyholders' reasonable expectations, potentially reducing the attractiveness of long-term insurance savings products relative to other financial instruments offering superior risk-adjusted returns. The heavy reliance on sovereign debt also reflects structural limitations within the domestic financial markets rather than discretionary caution. The stagnation in non-government investment shares suggests a shortage of "quality paper"—specifically high-rated, long-duration corporate bonds that match insurers' liability profiles.

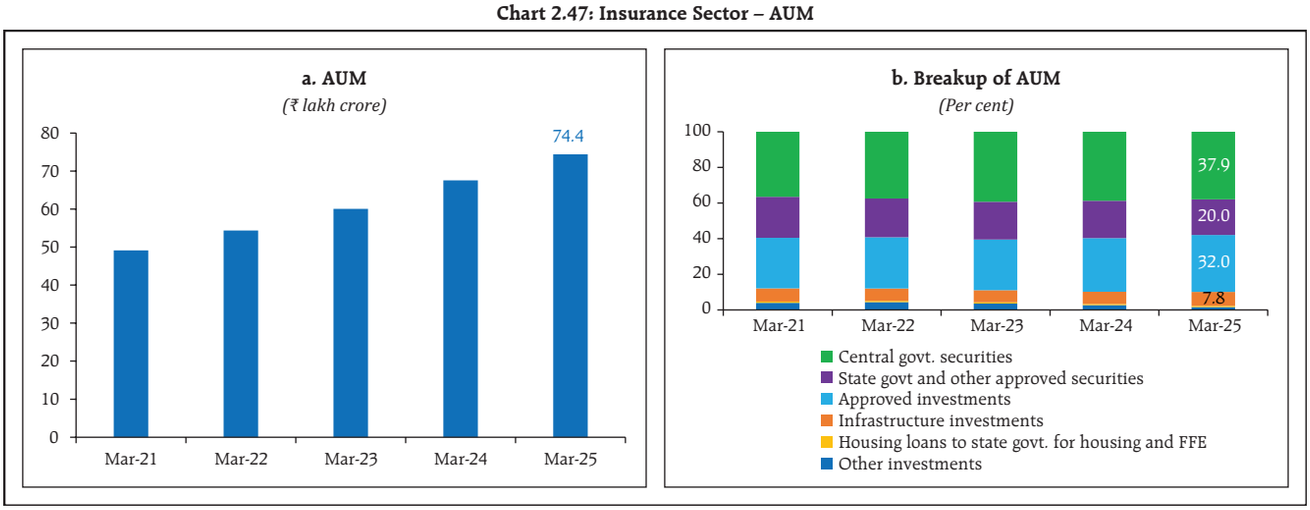
II.7.3 Insurance Penetration and Density[58]

2.98 Insurance density (premium per capita) shows a steady increase from US$ 78 in 2020-21 to US$ 97 in 2024-25 reflecting rising absolute spending on insurance by households and firms. In contrast, the simultaneous fall in penetration (premium as percentage of GDP) indicates that income and output are growing faster. The share of insurance in overall economic activity not increasing commensurately underscores the need for broadening inclusion through product innovation, distribution reforms and demand side measures. (Table 2.15).

II.7.4 Market structure and concentration

2.99 The life insurance sector remains highly concentrated (top-5 life insurers – 82 per cent), with the largest insurer retaining a dominant share of business, while private life insurers have steadily expanded their presence. The concentrated structure of the life insurance market anchors

Chart 2.47: Insurance Sector – AUM



Source: IRDAI Annual Reports.

[58] **Insurance Penetration** is the ratio of total insurance premiums (Life and Non-Life combined, unless specified otherwise) to a country's Gross Domestic Product (GDP), expressed as a percentage.
Insurance Density is the average per capita spending on insurance, calculated as total insurance premiums (Life and Non-Life combined, unless specified) divided by the total population of the country.

Table 2.15: Insurance Penetration and Density

Particulars	2020-21	2021-22	2022-23	2023-24	2024-25
Insurance Penetration (per cent)	4.2	4.2	4	3.7	3.7
Insurance Density (in $)	78	91	92	95	97

Source: IRDAI.

investors for long-term government securities but creates concentration risk as distress in any of the major players could have broad market effects. The non-life sector is more diversified, though public sector entities continue to hold a meaningful share (Chart 2.48 a and b).

II.7.5 Settlement of Claims

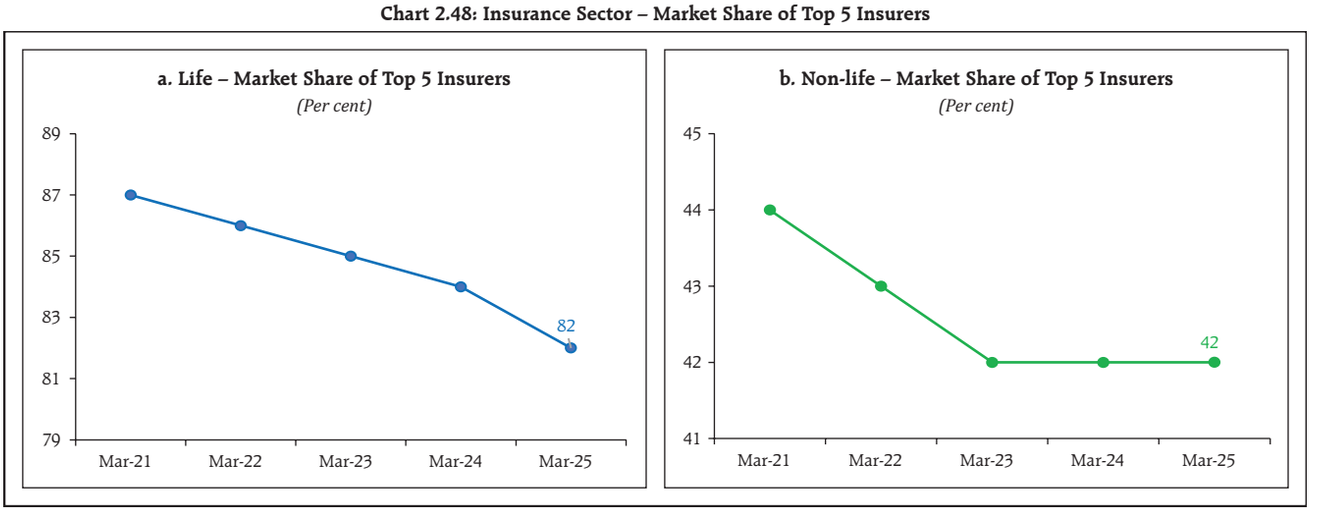
2.100 Total benefits paid by life insurers have registered a significant upward trajectory, rising from around ₹4 lakh crore in 2020-21 to ₹6.3 lakh crore in 2024-25. The composition of benefits signals a concerning shift from scheduled maturities to unscheduled exits. The rising proportion of surrenders and withdrawals poses a potential risk to asset liability management. (Chart 2.49 a and b).

2.101 The net incurred claims by non-life insurers have registered a consistent and significant upward trajectory, escalating from approximately ₹1.1 lakh crore in 2020-21 to nearly ₹1.9 lakh crore in 2024-25. The composition of claims underscores the dominance of two critical retail segments: health and motor. Together, they account for approximately 85 per cent of the total net incurred claims throughout the 2020-21 to 2024-25 periods (Chart 2.50 a and b). Medical cost escalation and rising claim frequency of health segment, and higher vehicle repair costs and claim awards of motor segment are putting significant pressure for premium enhancements to maintain underwriting stability.

II.7.6 Expenses

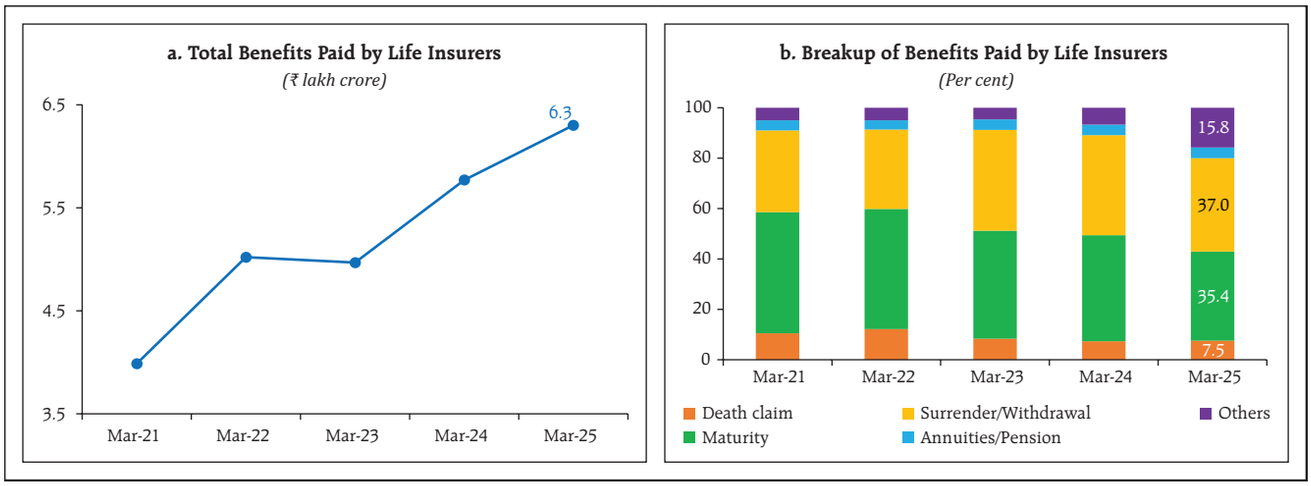
2.102 A distinct divergence in cost efficiency is evident between public and private life insurers. Public life insurers show a strong focus on expense management and potentially lower acquisition costs underlined by flat commission structure despite growing premiums. In contrast, private life insurers show a steep increase in commission pay-outs

Chart 2.48: Insurance Sector – Market Share of Top 5 Insurers



Source: IRDAI Annual Reports.

Chart 2.49: Benefits paid by Life Insurers



Source: IRDAI Annual Reports.

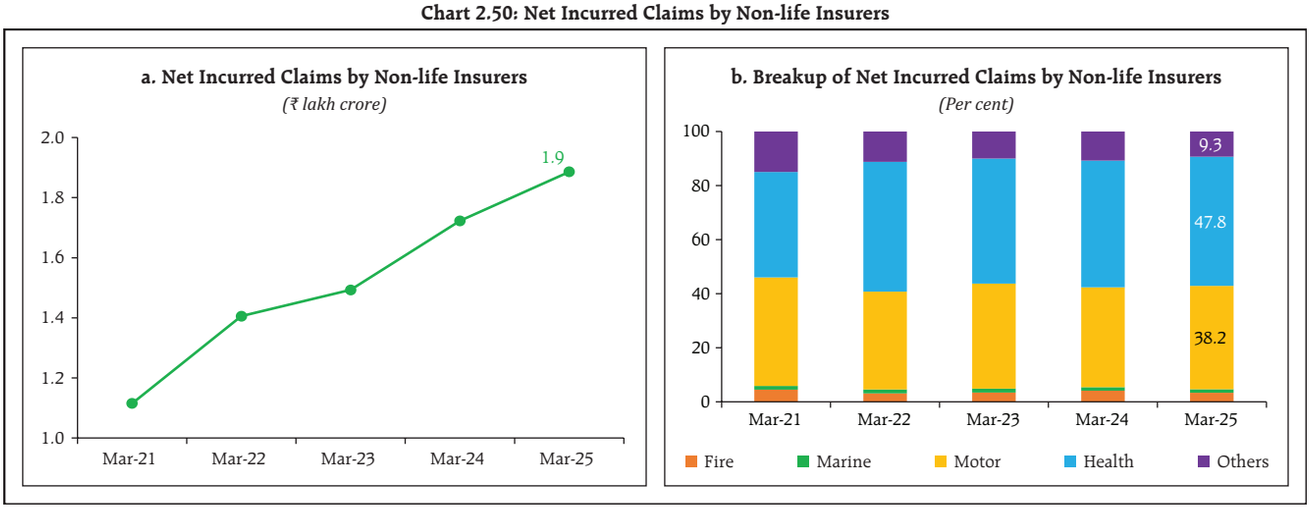
particularly surging from 2022-23 onwards indicating business acquisition at higher marginal cost. Their operating expenses have also remained higher and sticky (Chart 2.51 a and b).

2.103 In the non-life sector, public insurers demonstrate a stable but high expense base. While their premiums have grown steadily, operating expenses spiked in 2022-23 before moderating, and commission costs have remained low and flat, reflecting their reliance on established, lower-cost distribution channels. Conversely, private non-life insurers exhibit a more aggressive cost-growth dynamic. Their commission expenses have escalated sharply. This points to a high-cost distribution-led growth strategy, potentially impacting underwriting margins (Chart 2.52 a and b).

II.7.7 Reinsurance

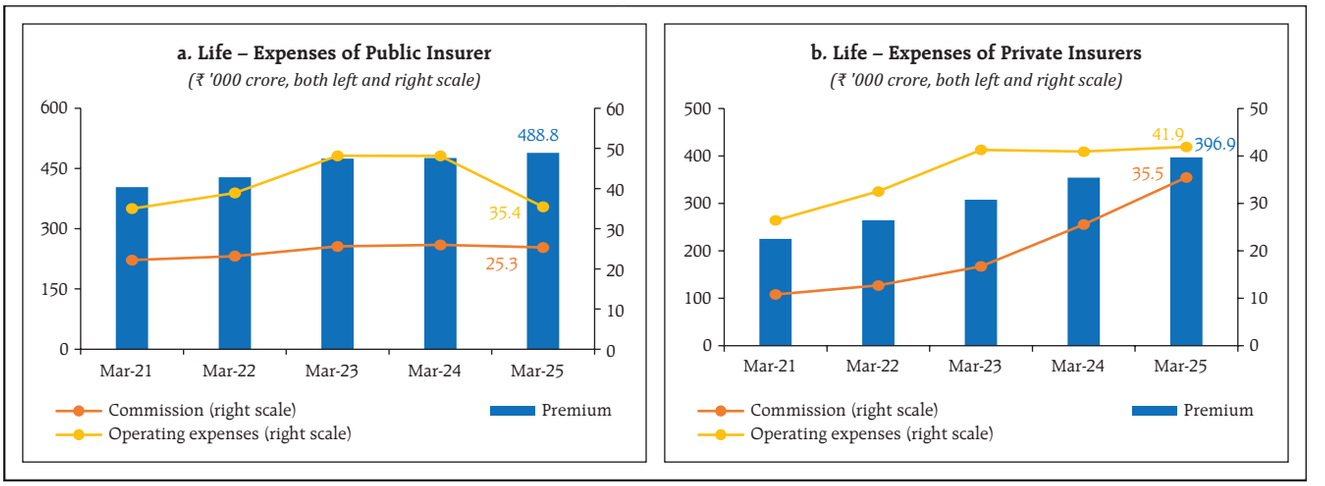
2.104 Total volume of reinsurance ceded by general and health insurers have expanded significantly from approximately ₹58,900 crore in 2020-21 to around ₹86,300 crore in 2024-25. This risk transfer accompanies a notable structural shift in placement of reinsurance. While the absolute amount ceded

Chart 2.50: Net Incurred Claims by Non-life Insurers



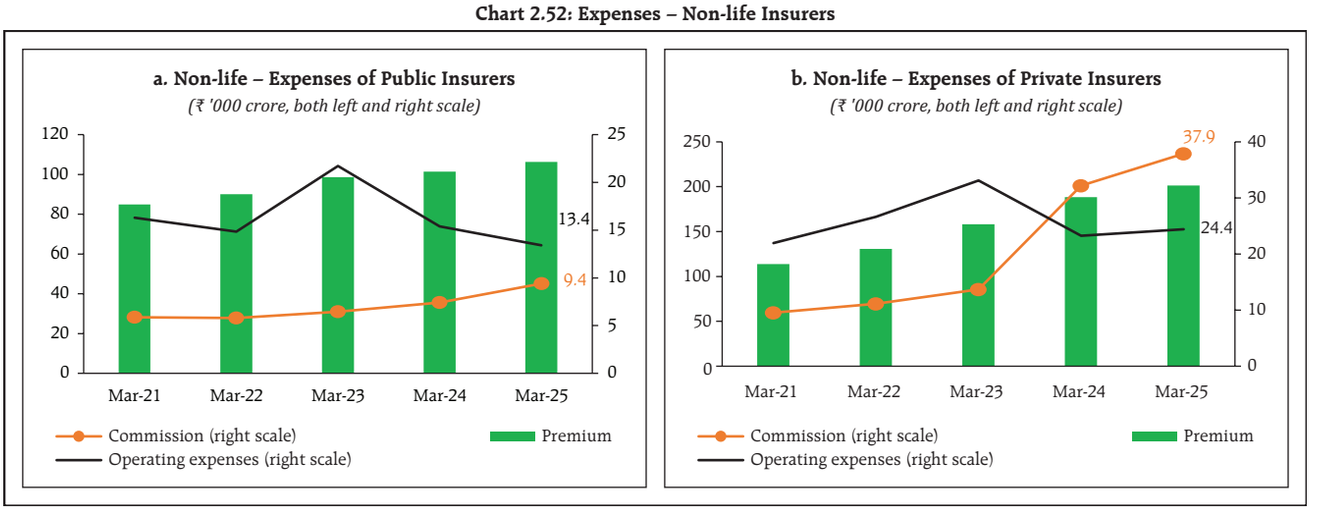
Source: IRDAI Annual Reports.

Chart 2.51: Expenses – Life Insurers



Source: IRDAI Annual Reports.

Chart 2.52: Expenses – Non-life Insurers

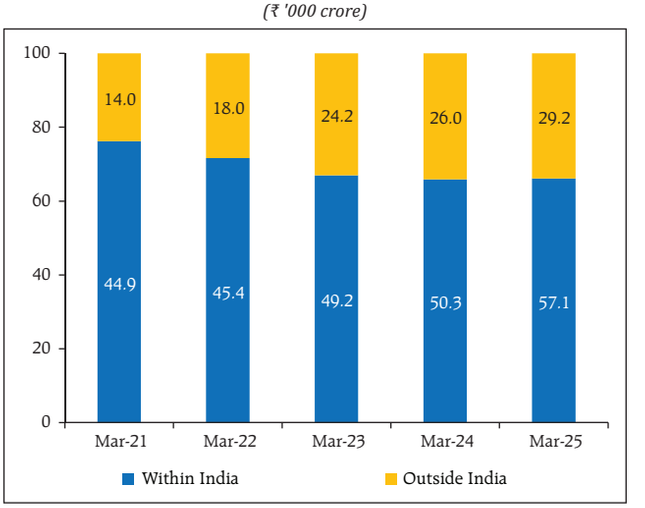


Source: IRDAI Annual Reports.

"Within India" has grown by 1.3 times from roughly ₹44,900 crore to ₹57,000 crore, reinsurance ceded "Outside India" has more than doubled, rising from around ₹14,000 crore in 2020-21 to over ₹29,000 crore in 2024-25. (Chart 2.53).

2.105 This growing reliance on cross-border reinsurance suggests that the domestic market's capacity may not be keeping pace with the specialized or large-scale risk transfer needs of Indian insurers, necessitating greater recourse to global markets. Strengthening domestic reinsurance capabilities through regulatory incentives or new entrants may help retain more premium within the national

Chart 2.53: Reinsurance
(₹ '000 crore)



Source: IRDAI Statistical Handbooks.

financial ecosystem, reduce the sector's vulnerability to external rate hardening, and mitigate the pressure on the balance of payments.

II.7.8 Profitability

2.106 Public life insurers demonstrate a robust and consistent upward trajectory, with investment income growing steadily while that of private insurers exhibit significant volatility. The public insurers saw their profit after tax (PAT) leap from a modest ₹2,901 crore in 2020-21 to ₹36,397 crore in 2022-23 driven predominantly by a one-time transfer and the private insurers, while consistently profitable, show much more modest growth. (Chart 2.54 a and b).

2.107 The non-life sector saw lower profitability, as underwriting losses persisted across most segments. Nonetheless, private insurers have demonstrated robust and growing profits, successfully leveraging investment returns to offset underwriting deficits. (Chart 2.55 a and b).

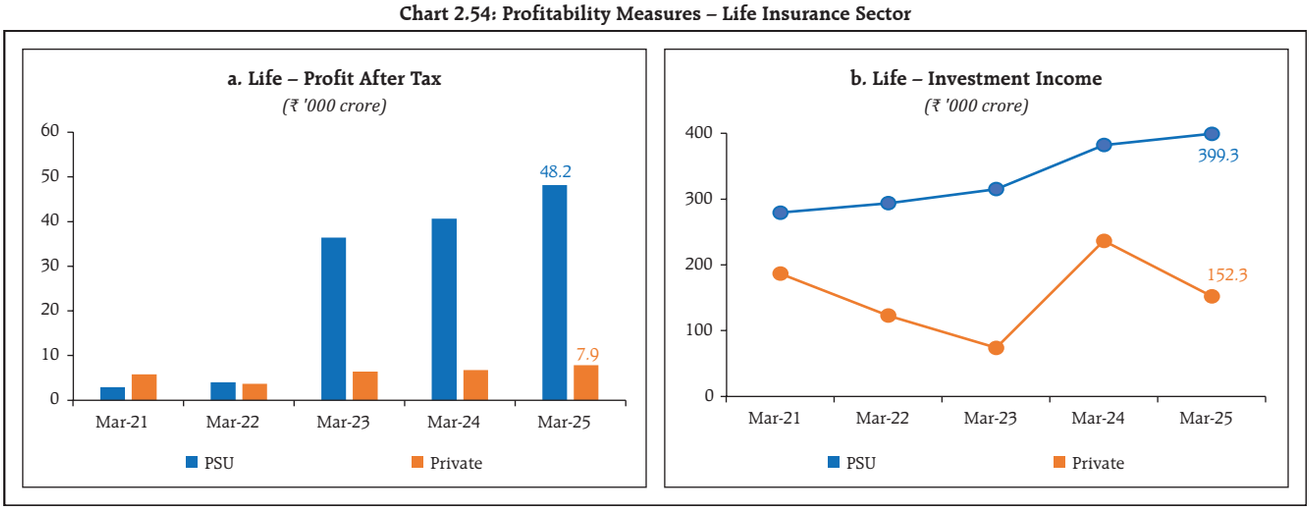
II.7.9 Equity Share Capital

2.108 The life insurance sector has witnessed a sustained, albeit fluctuating, expansion in its equity base while the non-life insurance sector demonstrates a more linear and aggressive capital fortification trend. Overall, comparing the two sectors reveals a convergence in total equity capital levels by 2024-25, with both sectors hovering around the ₹40,000–₹43,000 crore mark (Chart 2.56 a and b).

II.7.10 Solvency

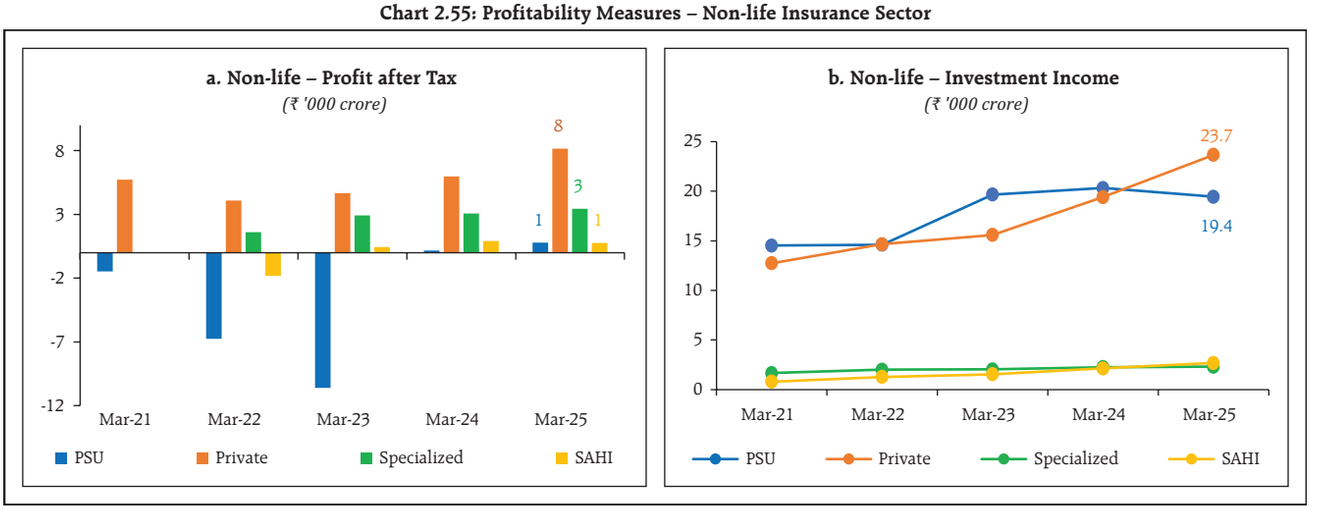
2.109 The life insurance sector's linear improvement offers a higher degree of predictability and resilience, whereas the non-life insurance sector's capital position appears more sensitive to quarterly operational and market shifts. The solvency ratio of the life insurance sector has steadily grown from 2.01 in Q2:2024-25 to 2.15 by Q1:2025-26, reflecting a clear trend of capital accumulation. This continuous improvement, with the ratio remaining

Chart 2.54: Profitability Measures – Life Insurance Sector



Source: IRDAI Annual Reports.

Chart 2.55: Profitability Measures – Non-life Insurance Sector



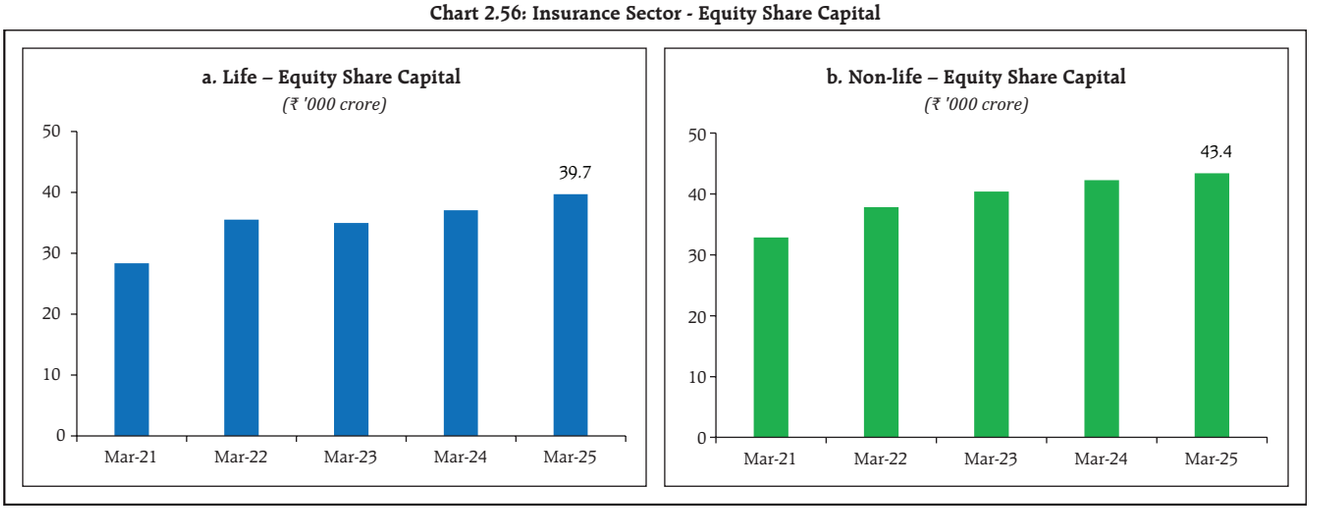
Source: IRDAI Annual Reports.

comfortably above the regulatory threshold of 1.50, indicates that life insurers are prioritizing balance sheet fortification alongside business growth (Chart 2.57 a).

2.110 The solvency ratio in the non-life insurance sector, rebounded during the period under review after a dip in Q3:2024-25, providing adequate coverage above the regulatory minimum. However, occasional volatility warrants continued monitoring of capital adequacy relative to risk exposure (Chart 2.57 b).

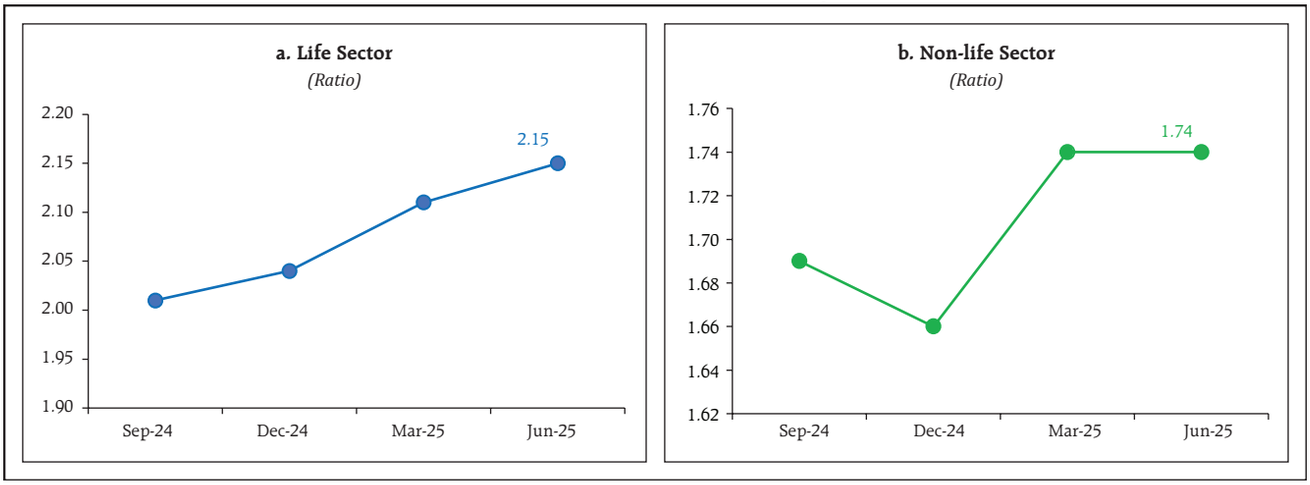
2.111 Overall, the insurance sector continues to display balance sheet resilience, supported by adequate capital buffers, steady capital accretion and solvency ratios that remain above prescribed regulatory thresholds at the aggregate level. The GST exemption introduced in September 2025 for all individual life and individual health insurance policies is likely to strengthen the sector's premium-generation trajectory, providing insurers with a larger pool of long-duration liabilities that can be channelled into sovereign and infrastructure assets.

Chart 2.56: Insurance Sector - Equity Share Capital



Source: IRDAI Annual Reports.

Chart 2.57: Insurance Sector – Solvency



Source: IRDAI Annual Reports.

Moreover, the enactment of Sabka Bima Sabki Raksha Act, 2025 and increase in FDI limit to 100 per cent are expected to transform the sector.

II.7.11 Emerging Areas of Stress

2.112 While posing no near-term systemic risks, the surface-level stability masks emerging structural pressures that could weigh on medium-term sustainability and coverage expansion.

2.113 A primary pressure is the persistence of a high expense structure, particularly the acquisition costs. Premium growth has been increasingly driven by high-cost distribution-led strategies rather than operating efficiency. In non-life sector, commission growth has significantly outpaced other operating expenses. While in life sector, front-loaded acquisition costs limited the extent to which scale efficiencies are passed on to policyholders. Furthermore, expected benefits from digitisation remain unrealised.

2.114 Underwriting outcomes are impacted adversely. In non-life sector, high acquisition costs and claims inflation contribute to persistent underwriting losses, increasing reliance on investment income and diluting technical pricing discipline. In life sector, front-loaded expenses compress early policy value, leading to higher surrenders and weaker persistency. These trends add uncertainty to liability profiles and cash flows, even as solvency remains comfortable.

2.115 A meaningful expansion of coverage is also constrained by the high expense structures. With high distribution costs embedded in pricing, affordability is reduced, leading to a divergence between insurance density and penetration. Growth largely reflects higher spending by existing policyholders rather than a broadening of the insured base.

2.116 From a financial stability perspective, continuously elevated expenses could weaken profitability buffers and amplify cyclical vulnerabilities. A reorientation towards cost rationalisation, aligning intermediary incentives with persistency and value to policyholders, and wider adoption of technology-enabled low-cost distribution models is essential. Supported by regulatory initiatives like risk-based capital framework, enhanced disclosures, and strengthened market conduct standards, a sustained moderation in expense intensity would improve consumer value, reinforce the sector's long-term resilience, and facilitate transition from the current "high-cost, low-inclusion" to "affordable-cost, broad inclusion and high quality" equilibrium.

Chapter III

Regulatory Initiatives in the Financial Sector

The global financial ecosystem is going through structural transformations marked by uncertainties surrounding tariffs, trade negotiations, and geopolitical frictions. In the backdrop of this, regulators worldwide are striving to strengthen regulatory frameworks in areas such as the assessment of globally systemically important banks, bank–NBFI interconnectedness, liquidity risk management, and the regulation of crypto and digital assets. Similarly in the domestic space, regulators have continued to reinforce transparency frameworks, enhance customer and investor protection, and improve the ease of doing business. The Financial Stability and Development Council and its Sub-Committee has also remained focused on financial sector resilience while maintaining a close watch on emerging risks and challenges.

Introduction

3.1 Amid escalating economic uncertainty and structural shifts in global finance, regulators worldwide continue to prioritise strengthening the resilience of the financial system. International standard-setting bodies are actively advancing measures to enhance the system's capacity to withstand rapid technological change, intensifying cyber threats, and evolving climate-related risks. Since the June 2025 Financial Stability Report, significant regulatory initiatives have been implemented in non-bank financial intermediation (NBFI), decentralised finance (DeFi), and climate risk management.

3.2 Against this backdrop, this chapter reviews the recent regulatory initiatives, both international and domestic, aimed at enhancing the stability and resilience of the financial system.

III.1 Global Regulatory Developments

III.1.1 Banking

3.3 The global systemically important banks (G-SIB) assessment framework is aimed at enhancing global financial stability, with identified banks facing stricter regulatory framework and supervisory attention given their systemic importance. The Financial Stability Board (FSB) published the 2025 list of G-SIBs based on the methodology designed by the Basel Committee on Banking Supervision (BCBS). Out of the 29 banks identified[1], two banks moved to a higher capital requirement bucket and one bank moved to a lower bucket. In conjunction, BCBS published further information[2] related to the 2025 assessment with the intention to improve transparency of the assessment methodology.

3.4 The Financial Stability Board (FSB) published an implementation status[3] of the main G20 financial reforms[4] along with initial assessment of how FSB's implementation monitoring could be improved. The interim report notes that the revised Basel guidelines issued in 2017 helped shield the global banking system from a more severe banking crisis during the 2023 banking turmoil. However, implementation differences across jurisdictions could pose risks and could be a source of vulnerability itself. On the positive side, several jurisdictions

[1] Financial Stability Board (2025) "2025 List of Global Systemically Important Banks", November.

[2] https://www.bis.org/press/p251127.htm

[3] Financial Stability Board (2025), "G20 Implementation Monitoring Review", October.

[4] The main G20 financial reforms that followed the global financial crises include the Basel III framework, policy measures for global systemically important financial institutions and over-the-counter derivatives market reforms.

have implemented legal and regulatory changes related to compensation practices in large financial institutions (one of the contributing factors to the excessive risk-taking seen in the run up to the 2008 crisis).

3.5 The Basel Committee on Banking Supervision (BCBS) issued a horizon scanning report aimed at investigating banks' interconnections with non-bank financial intermediaries (NBFI). The report[5] notes that expansion of the NBFI sector over the past decade has increased the mutual dependence of banks and NBFIs. Banks provide leverage, clearing, market-making and underwriting services to NBFIs and in some cases, even own NBFIs. These interconnections expose banks to credit, counterparty, liquidity, operational and market risks. However, their central role in providing these services to NBFIs may make the banking system vulnerable to procyclical reactions during market stress. The report builds on several case studies to formulate stylised scenarios of NBFI failures and the resultant impact on broader financial stability. In all the scenarios, it is found that distress in the NBFI sector may prompt banks to reduce their risk *via* margin calls, loan cutbacks and asset sales. While such actions reduce banks' risk and regulatory metrics in the short term, they may amplify shocks and transmit them across the financial system. The report suggests supervisors to collect granular, timely, high-frequency data to understand and monitor bank-NBFI linkages.

III.1.2 Non-Bank Financial Intermediation

3.6 The progress report[6] on non-bank financial intermediation (NBFI) by FSB indicated a shift from policy development to monitoring implementation after completing initial work following the March 2020 market turmoil. Key policy deliverables have focused on enhancing money market fund resilience (2021); addressing liquidity mismatch in open ended funds (2023); enhancing non-bank market participants' liquidity preparedness for margin and collateral calls (2024); and enhancing the monitoring of and addressing financial stability risks created by leverage in NBFI (2025). The report notes that future deliverables (planned from 2025–2028) will concentrate on ongoing monitoring and in-depth assessment, addressing data challenges, information sharing among authorities, and evaluating the implementation and effects of policies.

3.7 Further, FSB has set up a high-level task force[7] called the 'Non-bank Data Task Force' to enhance the monitoring of vulnerabilities in the non-bank financial intermediation (NBFI) sector. Key priority areas for the task force include (i) trading strategies, such as sovereign bond cash-futures basis trades and carry trades, which often rely on high leverage and (ii) private finance and private credit. The key deliverables of the task force include improving the ability of FSB member authorities to identify and assess vulnerabilities stemming from non-bank sectors, improve the ability of authorities to assess and calibrate related policies and explore information sharing mechanism, if feasible.

3.8 FSB also published policy recommendations[8] to address financial stability risks created by leverage in non-bank financial intermediation. The recommendations relate to risk identification and monitoring, leverage in core financial markets and counterparty credit risk management and have been

[5] Basel Committee on Banking Supervision (2025), "Banks' interconnections with non-bank financial intermediaries", July.
[6] Financial Stability Board (2025), "Enhancing the Resilience of Non-bank Financial Intermediation", July.
[7] Financial Stability Board (2025), "FSB Workplan to Address Non-bank Data Challenges", July.
[8] Financial Stability Board (2025), "Leverage in Non-bank Financial Intermediation", July.

designed keeping in mind the role played by non-banks in facilitating hedging, enhance efficiency and support liquidity in financial markets. For these reasons, the recommendations provide authorities with flexibility to tailor their policy response to the domestic circumstances.

III.1.3 Financial Markets

3.9 IOSCO has revised its 2018 liquidity risk management recommendations to provide a more robust global framework. Market events had demonstrated that many open-ended funds (OEFs) continued to offer daily redemptions against portfolios of illiquid assets, creating dilution effects, first-mover advantages, and systemic spillovers. The updated recommendations[9] strengthen requirements on fund design, encourage wider use of both anti-dilution and quantity-based liquidity management tools, and expand expectations for stress testing, governance, and disclosures. The aim is to better align redemption terms with actual asset liquidity and reduce liquidity mismatch risks.

3.10 IOSCO also issued a report[10] examining the global single-name credit default swaps[11] market in the context of episodes of volatility (such as during the 2023 banking sector stress) exposing weaknesses in market transparency and liquidity. The market for single-name CDS is illiquid, dominated by bilateral trading, with sparse post-trade data can lead to information asymmetries. IOSCO emphasises that increased post-trade transparency, including public access to transaction prices and volumes, would benefit market participants and observers. Importantly, IOSCO reports no evidence that current transparency requirements have harmed market liquidity. It recommends that regulators enhance post-trade transparency cautiously, taking into account the specific characteristics of their markets.

3.11 Recognising the surge of financial scams propagated through digital platforms, IOSCO has launched the IOSCO International Securities and Commodities Alerts Network (I-SCAN), a global database of unlicensed firms providing investment services or engaging in illegal financial activities. The objective is to create a global database of unlicensed entities, promote automated detection of fraudulent offerings, and encourage best practices in content moderation, advertiser verification and compliance with local regulatory obligations. Platform Providers now can play a crucial role in the protection of investors' interests by connecting automatically to I-SCAN to block, warn against or eliminate illegal investment offerings from their platforms.

3.12 IOSCO issued a report[12] on 'Finfluencers', recognising their dual role as educators and potential sources of biased, promotional, or misleading content. The key risks stem from inconsistent disclosure standards, cross-border enforcement challenges, and the blurring of lines between regulated advice and online commentary. The report tries to outline good practices for defining finfluencer frameworks, improving disclosure of conflicts, enhancing oversight of intermediaries engaging them, and strengthening investor education to help retail users critically assess online financial content. Similarly, IOSCO's report[13] on Digital Engagement Practices (DEPs) responds to the

[9] International Organisation of Securities Commissions (2025) "Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes", May.

[10] International Organisation of Securities Commissions (2025) "Single-Name Credit Default Swaps Market", November.

[11] Derivatives which transfer credit risk related to an entity or instrument, usually settled physically or *via* auction.

[12] International Organization of Securities Commissions (2025) "Finfluencers", May.

[13] International Organization of Securities Commissions (2025) "Digital Engagement Practices", May.

increased use of in-app nudges, gamification, and behavioural design techniques by intermediaries to influence investor decisions. The objective of the report is to build a common understanding of DEPs, identify conduct and conflict-of-interest concerns, and guide regulators in supervising their use to safeguard retail investors.

3.13 The rapid expansion of online imitation trading, such as copy trading, mirror trading and social trading, prompted IOSCO to publish a report[14] examining the resulting risks to retail investors. The report emphasises that although these trading strategies are frequently marketed to retail investors to help them participate in financial markets without needing extensive market knowledge or active management, they entail significant risks and involve complex, volatile products. The report is aimed at highlighting conduct and suitability risks, recommending good practices for intermediaries providing such services, and encouraging investor education initiatives to mitigate potential harm.

3.14 The report[15] on 'Neo-Brokers' issued by IOSCO notes that emergence of online trading platforms and mobile trading apps have made trading and stock markets more accessible to retail investors with minimal physical touch points. The aim of the report is to provide a comprehensive set of recommendations as guidance for securities regulators. The report acknowledges that while neo-brokers' main activities are the same as other broker dealers, their approach and the conflicts of interest that arise from their business model distinguish them from other broker-dealers. Key recommendations include upholding of honesty and fairness with their dealings with retail and appropriate disclosure of fees and charges to retail investors.

III.1.4 Decentralised Finance

3.15 The IOSCO published a report[16] on tokenisation of financial assets outlining the adoption and current use cases of asset tokenization in capital markets and identifying the potential implications from tokenisation activities on market integrity and investor protection. The report notes that most risks arising from asset tokenisation fall into existing risk taxonomies. However, risks which are unique to the technology itself may require special attention and necessitate introduction of new or additional controls. Regulators need to be cognisant of possible changes in market activities and market structure, and the possible spill-over effects from increased interlinkages of tokenised asset classes with the crypto asset markets.

3.16 A thematic review[17] of progress being made in implementation of the key elements of the 18 policy recommendations for the regulation of crypto and digital assets (CDA Recommendations) in accordance with principle of 'same activity, same risk, same regulation/regulatory outcome was published by IOSCO. Many jurisdictions were found to have made progress, yet gaps persisted in conflict of interest-management frameworks, disclosure practices, and the safeguarding of client assets. The review notes that new crypto-asset business models are being developed, existing risks are changing, and various new risks are emerging.

[14] International Organization of Securities Commissions (2025) "Online Imitative Trading Practices: Copy Trading, Mirror Trading and Social Trading", May.

[15] International Organization of Securities Commissions (2025) "Neo-brokers", March.

[16] International Organization of Securities Commissions (2025) "Tokenization of Financial Assets", November.

[17] International Organization of Securities Commissions (2025) "Thematic Review Assessing the Implementation of IOSCO Recommendations for Crypto and Digital Asset Markets", October.

3.17 FSB has also undertaken a thematic peer review focussing on financial stability risks of crypto assets and stablecoins. The FSB review[18] notes that gaps remain in addressing financial stability risks arising from crypto-asset activities, especially in case of potentially higher risk activities, such as borrowing, lending, and margin trading. While financial stability risks from crypto assets appear limited at present, growing interlinkages with the traditional financial system highlight the need for close monitoring of developments and activity and robust regulatory oversight. In case of stablecoins, the review notes that while stablecoins are not yet widely used to facilitate real economic activities, stablecoin issuers are becoming significant players in traditional financial markets via their substantial reserve holdings. Moreover, relatively few jurisdictions have established comprehensive regulatory frameworks for global stablecoins, leaving critical gaps in areas such as robust risk management practices, capital buffers, and recovery and resolution planning (including insolvency frameworks).

III.1.5 Climate Finance

3.18 The Network for Greening the Financial System (NGFS) "Declaration on the Economic Cost of Climate Inaction", issued at COP30[19], focused on renewing commitment to mitigating the impending economic and financial risks from climate inaction. The declaration, supported by a coalition of 146 central banks and financial supervisors estimates that the three-year delay in climate action could cause the costs of the transition to a low-carbon economy to rise from 0.5 per cent to 1.3 per cent of global GDP by 2030. It also highlights that vulnerable economies will be disproportionately affected. In an adverse scenario focused purely on physical risk, regional GDP losses could reach 6 per cent in Asia and up to 12.5 per cent in Africa. The NGFS calls for a whole-of-economy effort, with both public and private actors contributing. It urges financial institutions to integrate climate and nature-related risks into their operations and strategies through scenario analysis, climate disclosure standards and transition planning.

3.19 The BCBS released a report[20] outlining a voluntary disclosure framework for climate-related financial risks. The disclosure templates are designed as part of Pillar 3[21] of Basel framework and are expected to a provide a comprehensive picture of banks' exposure to climate related financial risks. The templates contain a mix of qualitative and quantitative disclosures regarding the physical and transition risks impacting banking sector. Transition risks include the societal changes arising from a transition to a low-carbon economy and arise through changes in public sector policies, innovation, and changes in the affordability of existing technologies or investor and consumer sentiment towards sustainable consumption and production practices. Physical risks result from acute and/or chronic climatic trends or events, such as rising sea levels, wildfires, storms, floods, and droughts.

3.20 The FSB published an update of its roadmap for addressing climate-related financial risks[22]. The

[18] Financial Stability Board (2025) "Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities", October.

[19] COP30 was the 2025 United Nations Climate Change Conference, the 30th meeting of the Conference of the Parties to the UN Framework Convention on Climate Change (UNFCCC). It took place in Belém, Brazil, from November 10 to 22, 2025.

[20] BCBS (2025), "A framework for the voluntary disclosure of climate-related financial risks", June.

[21] Pillar 3 disclosures aim to promote market discipline and enable market participants to access key information relating to a bank's regulatory capital and risk exposures to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.

[22] Financial Stability Board (2025) "FSB Roadmap for Addressing Financial Risks from Climate Change: 2025 Update", July.

report notes that companies are developing their climate-related disclosures using International Sustainability Standards Board (ISSB) Standards. Further, global data initiatives have sought to make available data, which is more forward-looking, to better account for the potential growing impacts of climate change, and to address limitations of historical data and past trends in capturing such dynamics. Climate risk dashboards such as IMF's climate change indicators dashboard have also been set up to disseminate data on the impact of climate change on the financial system. For improving vulnerability analysis, global regulatory bodies have been working to assess how climate shocks may transmit to the financial system and give rise to domestic stability risks. For *e.g.*, World Bank is actively supporting over 40 emerging market and developing economies, including low-income countries, and small island states, with climate risk assessments.

3.21 IOSCO published its report[23] on ESG indices used as financial benchmarks to address the issue of ESG indices being developed with highly divergent methodologies, inconsistent data inputs, insufficient transparency, and significant reliance on qualitative or forward-looking judgments. These inconsistencies risk confusing investors, enable greenwashing, and undermine confidence in sustainable products. The report notes that IOSCO's objective is to align ESG benchmark administration with its 'Principles for Financial Benchmarks', improve governance, ensure methodological clarity, enhance disclosures around data sources and expert judgment, and strengthen oversight of index providers to support credible ESG investing.

3.22 IOSCO published a report[24] on sustainable bonds outlining the key considerations, which are to improve clarity in the regulatory framework, better classify sustainable bonds, enhance transparency and ongoing disclosure requirements to promote public accountability, encourage the use of independent and credible external reviewers, and strengthen capacity building, collaboration, and knowledge sharing. The report also highlights India's initiatives, including the launch of a social stock exchange and the development of innovative financial instruments, such as zero-coupon zero-principal instruments and development impact bonds, which are outcome-oriented.

3.23 A report[25] released by the International Association of Insurance Supervisors (IAIS) noted that significant protection gaps exist in case of natural catastrophe events with at least 57 per cent of associated economic losses remaining uninsured in 2024. Protection gaps arise from a combination of factors, including the uninsurability of certain risks, affordability issues and lack of risk awareness. IAIS has recommended strengthening insurance markets, enhancing resilience and fostering collaboration among stakeholders to help mitigate the economic, financial and societal impacts of natural catastrophe events.

III.1.6 Artificial Intelligence

3.24 As a follow-up to its 2024 report on the 'Financial Stability Implications of Artificial Intelligence (AI)', FSB released a monitoring report[26] on how financial authorities can monitor AI adoption and assess related vulnerabilities. The report found that surveys remained the most used data collection approach which financial authorities

[23] International Organization of Securities Commissions (2025) "Report on ESG Indices as Benchmarks", November.
[24] International Organization of Securities Commissions (2025) "Sustainable Bonds Report", May.
[25] International Association of Insurance Supervisors (2025) "Global Insurance Market Report: Special Topic Edition", November.
[26] FSB (2025), "Monitoring Adoption of Artificial Intelligence and Related Vulnerabilities in the Financial Sector", October.

use to gather data on AI adoption, followed by research using publicly available data. The report encourages authorities to adopt a risk-based and proportionate approach to prioritising indicators most relevant for monitoring AI adoption. Further, mapping these indicators to specific vulnerabilities, ensuring regular data collection, and addressing gaps in monitoring critical areas such as third-party dependencies, market correlations, and cyber risks will help to manage financial stability risks arising from increased AI adoption in the financial sector.

3.25 FSB submitted a report[27] to G20 Finance Ministers and Central Bank Governors examining how central banks and other supervisory institutions are leveraging AI for policy purposes. The report states that central banks deploy AI in four main areas: (i) information collection and the compilation of official statistics; (ii) macroeconomic and financial analysis in support of monetary policy; (iii) oversight of payment systems; and (iv) supervision and financial stability analysis. However, the adoption of AI by central banks has been challenging due to concerns about interpretability and explainability of the models. Further, for generative AI[28] models, the issue of explainability is compounded by the risk of hallucinations. The report concludes that central banks must manage the trade-off between using external versus internal AI models while rethinking their traditional roles as compilers, users and providers of data pertaining to the financial system.

III.2 Initiatives from Domestic Regulators / Authorities

3.26 During the period under review, financial regulators undertook several initiatives to improve the resilience of the Indian financial system (major measures are listed in Annexure 2).

III.2.1 Consolidated Master Directions (MDs)

3.27 The Reserve Bank of India recently undertook a major exercise to consolidate all the banking/non-banking instructions issued to its regulated entities over several decades. More than 9,000 instructions were screened and consolidated into 244 function-wise Master Directions, including seven new Master Directions on digital banking channel authorisation, organized across 11 types of Regulated Entities including Commercial Banks, Urban Cooperative Banks, Non-Banking Financial Companies, *etc.* Following the consolidation, 9445 circulars were repealed. The consolidation and consequent repeal of circulars is expected to significantly improve the accessibility of regulatory instructions for the regulated entities, thereby reducing their compliance cost, as well as to improve the clarity on applicability of each instruction to each type of entity. This also serves as a major push towards ease of doing business.

III.2.2 Directions on Co-Lending Arrangements

3.28 The Reserve Bank has issued a comprehensive direction on co-lending arrangements (CLA) with the objective of providing specific regulatory clarity on the permissibility of such arrangements, while addressing some of the prudential as well as conduct related aspects. The directions have facilitated a more broad-based framework for co-lending with a wider participation of RBI's regulated entities in both priority sector lending (PSL) and non-PSL space. It mandates each RE to retain a minimum 10 per cent share of individual loans, requires blended interest rates reflecting proportional exposure, and stipulates that all transactions be routed through escrow accounts. The framework *inter alia* also mandates disclosures *via* Key Facts Statements

[27] FSB (2025), "The use of artificial intelligence for policy purposes", October.

[28] Generative AI is a type of artificial intelligence that creates new, original content by learning patterns from massive datasets.

(KFS) and robust grievance redressal mechanisms to safeguard borrowers.

III.2.3 Know Your Customer (KYC) Directions - Amendments

3.29 KYC (Know Your Customer) is mandated under the Prevention of Money Laundering (PML) Act, 2002, to prevent the misuse of financial systems for illegal activities such as money laundering, terrorist financing, and fraud. The Reserve Bank of India (RBI) amended the Know Your Customer (KYC) Directions, 2016 to enhance consumer protection, streamline compliances, and address evolving operational challenges in KYC management. The key changes include: (i) permitting banks to leverage Business Correspondents (BCs) for KYC updates; (ii) mandating REs to issue three advance intimations (including one physical letter) before the KYC due date and three reminders post-due date; and (iii) extending KYC updation deadlines for low-risk customers to June 30, 2026, or one year from the due date, whichever is later. It is likely to benefit stakeholders by reducing customer dependency on bank branches through use of BCs, improving transparency, ensures timely compliance while minimizing disruption for low-risk customers.

III.2.4 Non-Fund Based Credit Facilities

3.30 RBI has issued a comprehensive direction on non-fund based (NFB) facilities such as guarantees, letters of credit, co-acceptances, partial credit enhancement (PCE) *etc.* to harmonize and consolidate guidelines covering these facilities across the regulated entities (REs) and to broaden the funding sources for infrastructure financing. These directions lay down broad principles across regulated entities for assessment, issuance, monitoring, and disclosure of NFB facilities, with attendant prudential safeguards. Besides, it lays down detailed operational controls for issuance of electronic guarantees. Further, the norms related to issue of PCE have been rationalised to inter alia enable corporates access debt markets more efficiently. These measures are expected to broaden funding avenues for infrastructure and corporate financing, and ensure efficient credit flow in the economy.

III.2.5 Investment in Alternative Investment Funds (AIFs)

3.31 The Reserve Bank has issued comprehensive directions on investment in AIFs by REs aiming to enhance transparency, improve risk management practices, and prevent the potential misuse of AIF structures for evergreening or circumventing exposure norms. The key changes include limits on investment where an individual RE may not invest more than 10 per cent of the corpus of an AIF scheme and collective investment by all REs capped at 20 per cent. Further, mandatory 100 per cent provisioning has been prescribed when a RE contributes more than 5 per cent to an AIF scheme that has downstream investment (excluding equity instruments) in its debtor companies, along with capital deduction requirements for investment in subordinated units.

III.2.6 Framework for Responsible and Ethical Enablement of Artificial Intelligence (FREE-AI)

3.32 In order to encourage the responsible and ethical adoption of AI in the financial sector, the FREE-AI Committee was constituted by the Reserve Bank of India. The Committee formulated seven *Sutras* that represent the core principles to guide AI adoption in the financial sector. These are: (i) trust is the foundation; (ii) people first; (iii) innovation over restraint; (iv) fairness and equity; (v) accountability; (vi) understandable by design; and (vii) safety, resilience and sustainability. The Committee recommends an approach using the *Sutras* as

guidance that fosters innovation and mitigates risks, achieved through a unified vision spread across six strategic Pillars that address the dimensions of innovation enablement (Infrastructure, Policy and Capacity) and as well as risk mitigation (Governance, Protection and Assurance).

3.33 To foster innovation, it recommends (a) the establishment of shared infrastructure to democratise access to data and compute; (b) the creation of an AI Innovation Sandbox; (c) the development of indigenous financial sector-specific AI models; (d) the formulation of an AI policy to provide necessary regulatory guidance; (e) institutional capacity building at all levels, including the board and the workforce of REs and other stakeholders; (f) the sharing of best practices and learnings across the financial sector; and (g) a more tolerant approach to compliance for low-risk AI solutions to facilitate inclusion and other priorities. To mitigate AI risks, it recommends the formulation of a board-approved AI policy by REs, the expansion of product approval processes, consumer protection frameworks and audits to include AI related aspects, the augmentation of cybersecurity practices and incident reporting frameworks, the establishment of robust governance frameworks across the AI lifecycle and making consumers aware when they are dealing with AI.

III.2.7 Special Drive and Scheme to Refund Unclaimed Financial Assets to Rightful Owners

3.34 The Reserve Bank through its public awareness initiatives, has been encouraging members of public to activate their inoperative accounts and claim their unclaimed deposits from the banks. In this endeavour, to encourage the banks to actively pursue customers/ depositors for re-activation of their inoperative accounts and return of their unclaimed amounts lying with Depositor Education and Awareness (DEA) Fund, the Reserve Bank of India announced a 'Scheme for Facilitating Accelerated Payout - Inoperative Accounts and Unclaimed Deposits'. The Scheme aims to reduce both the stock of existing unclaimed deposits and fresh accretion of flows to the DEA Fund. It will run for a period of one year, *viz.*, October 01, 2025 to September 30, 2026. Inoperative accounts reactivated and the unclaimed deposits settled by the banks to rightful claimants during the period of the Scheme, are eligible for payout from RBI at a differential rate based on the period the account remained inoperative and the amount of deposits in such accounts.

3.35 Further, the Government of India has also launched a nationwide three months campaign (October–December 2025) titled "आपकी पूँजी, आपका अधिकार — Your Money, Your Right" to facilitate the settlement of unclaimed financial assets, including bank deposits to their rightful owners.

III.2.8 Measures for Enhancing Trading Convenience and Strengthening Risk Monitoring in Equity Derivatives

3.36 The SEBI has put in place measures to improve risk metrics in the equity futures and options (F&O) market for the objectives of better monitoring and disclosure of risks in F&O segment, reduction in instances of spurious F&O ban periods in single stocks and better oversight over the possibility of concentration or manipulation risk in index options. These measures include rationalisation of position creation for single stocks during ban period, intraday monitoring by stock exchange of market wide position limit utilization for single stocks, introduction of position limits for index futures and options, additional eligibility criteria for derivatives on non-benchmark indices and recalibration of individual entity-level position

limits for single stocks. Secondly, SEBI introduced a harmonised expiry-day framework that restricts all equity derivatives contracts' expiries on a stock exchange to either Tuesday or Thursday. By limiting excessive clustering of weekly expiries, which leads to expiry day hyperactivity, SEBI seeks to ensure orderly trading conditions while still allowing the stock exchanges product differentiation within a stable structure. Thirdly, SEBI prescribed the framework for 'Intraday Position Limits Monitoring for Equity Index Derivatives' in September 2025, specifying thresholds for intra-day position limits and manner of monitoring of the same by the stock exchanges. This further strengthens market stability by preventing outsized speculative build-ups during the trading day.

III.2.9 Framework for Environment, Social and Governance (ESG) Debt Securities (other than green debt securities)

3.37 To expand the scope of sustainable finance, SEBI introduced operational frameworks for social bonds[29], sustainability bonds[30], and sustainability-linked bonds[31] in June 2025, complementing the existing green bond framework. The new framework defines eligible project categories, aligns issuances with globally recognised principles, mandates detailed disclosures, and requires independent third-party reviews to ensure integrity. The debt securities shall be labelled as 'social bonds' or 'sustainability bonds' or 'sustainability-linked bonds' only if the funds raised through the issuance of such debt securities are proposed to be utilised for financing or refinancing projects and/or assets aligned with the recognized standards *viz.*, (a) International Capital Market Association (ICMA) Principles / Guidelines; (b) Climate Bonds Standard; (c) ASEAN Standards; (d) European Union Standards; and (e) any framework or methodology specified by any financial sector regulator in India or fall under the definitions specified in the guidelines.

III.2.10 Accessibility and Inclusiveness of Digital KYC to Persons with Disabilities

3.38 To ensure accessibility of Digital KYC processes for persons with disabilities (PwDs), SEBI issued comprehensive directions that emphasise the need for equal and accessible inclusion of persons with disabilities in availing financial services and directing the intermediaries to ensure that the process of digital KYC is accessible to persons with disabilities. Accordingly, FAQs on account opening process by persons with disabilities were revised and it was mandated that intermediaries shall be guided by the said FAQs. Further, it was mandated that all digital platforms of intermediaries and MIIs shall be compliant with the provisions of the Rights of Persons with Disabilities Act, 2016 and that their digital platforms and content published shall strictly adhere to the accessibility standards and guidelines and shall conduct annual accessibility audits of their digital platforms, including websites, mobile apps, portals through International Association of Accessibility Professionals (IAAP) certified accessibility professionals.

[29] Social Bonds are defined as a debt security issued for raising funds, subject to the conditions as may be specified by SEBI from time to time, to be utilised for social project(s) that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially but not exclusively, for a target population, falling under specified categories.

[30] Sustainability bonds are defined as a debt security issued for raising funds, subject to the conditions as may be specified by SEBI from time to time, to be utilised for finance or re-finance of a combination of eligible green project(s) and social project(s) as specified under the definition of green bonds and social bonds respectively.

[31] Sustainability-linked bonds are defined as a debt security which has its financial and/or structural characteristics linked to predefined sustainability objectives of the issuer, subject to the condition that such objectives are measured through predefined sustainability key performance indicators and assessed against predefined sustainability performance targets.

III.2.11 Review of the Regulatory Framework for Social Stock Exchange (SSE)

3.39 SEBI also undertook a major review of the Social Stock Exchange[32] (SSE) framework to widen its reach and enhance its operational effectiveness. The revised framework expands the definition of not-for-profit organisations, introduces empaneled social impact assessment organisations to strengthen credibility of impact reporting, mandates fundraising within a defined period to maintain active registration, aligns eligible activities with the Corporate Social Responsibility (CSR) framework under Schedule VII of the Companies Act 2013, and rationalises disclosure timelines. These measures would enhance the overall effectiveness and accountability of the SSE mechanism.

III.2.12 Investor Behaviour – Insights from SEBI Investor Survey

3.40 The Investor Survey 2025 commissioned by SEBI, revealed the following: (a) a vast majority of Indian households (80 per cent) are risk-averse, prioritizing capital preservation over returns. 79 per cent of Gen-Z households also display risk-averse behaviour; (b) 63 per cent of Indian households (~213 million) are aware of at least one securities market product, however, only 9.5 per cent (~32.1 million) have invested. Awareness and penetration are significantly higher in urban areas (15 per cent); (c) amongst securities, awareness is highest for mutual funds/ETFs (53 per cent) and stocks/shares (49 per cent), but penetration for these remains low at 6.7 per cent and 5.3 per cent, respectively. Products like corporate bonds, futures & options, REITs, and AIFs have awareness levels at or below 13 per cent and penetration below 1 per cent; (d) a significant knowledge gap exists as only 36 per cent of current investors possess moderate to high to moderate knowledge about the securities market; and (e) nearly 40 per cent of current investors are dormant. These insights have implications for public policies and financial education to further deepen a stable and sustainable securities market in India.

III.2.13 Measures to Strengthen Investor Protection in the Securities Market

3.41 SEBI has reinforced investor protection in the rapidly digitising securities market through a structured, multi-pronged framework. Key initiatives include the introduction of standardized, NPCI-validated UPI IDs ("@valid" format) with a distinctive verification icon, complemented by the SEBI Check tool for real-time authentication of intermediary accounts, effective October 2025, to secure fund transfers. The Past Risk and Return Verification Agency (PaRRVA) has been operationalized to validate risk-return metrics disclosed by investment advisers, research analysts, and other regulated entities, ensuring transparency and credibility in market performance claims. Concurrently, mandatory verification of financial advertisers on major platforms like Google and Meta via SEBI's Intermediary Portal has tightened oversight of online promotions, mitigated deceptive practices and reinforced digital market integrity.

III.2.14 Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025

3.42 The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025, has been enacted with the objective of accelerating the growth and development of the insurance sector, ensuring better protection of policyholders, improving the ease of doing business for insurance companies,

[32] The Social Stock Exchange (SSE) allows social enterprises (both non-profit and for-profit organizations) to raise funds from the public and private investors for social initiatives. Its primary goal is to channel capital towards the social sector with enhanced transparency and accountability. In India, the SSE functions as a separate segment of both the BSE and the National Stock Exchange of India Limited.

intermediaries and other stakeholders and bringing greater transparency to regulation making alongside strengthened regulatory oversight. The Act envisages a series of forward looking reforms aimed at modernising the sector's institutional, regulatory and operational frameworks. A key element is to create better awareness about insurance among citizens, ensuring that the benefits of protection are clearly understood and that products are accessible to a wider cross-section of the population. These efforts are intended to close the gap between the sector's underlying potential and actual levels of penetration.

3.43 Some of the key amendments introduced by the Act, *inter alia*, includes (i) increase in the Foreign Direct Investment (FDI) limit in Indian Insurance companies from 74 per cent to 100 per cent of the paid-up equity capital; (ii) provision for establishing digital public infrastructure for insurance; (iii) reduction in the net-owned fund requirements for foreign entities engaged in the re-insurance business from ₹5,000 crore to ₹1,000 crore; (iv) flexibility for investment of assets; and (v) empowering IRDAI to approve the scheme of arrangement between an insurer and a company not engaged in insurance business, to supersede the board of directors of an insurer where it appoints an administrator, to specify regulations on remuneration, commission, or reward payable to insurance agents or intermediaries and to inspect and investigate insurance intermediaries.

III.2.15 GST Reforms in the Insurance Sector

3.44 As part of the next generation reforms in the Goods and Services Tax (GST) framework, the premiums on individual health and life insurance policies, including reinsurance for those policies, have been exempted from GST. This measure of reduction in tax incidence from 18 per cent to *nil* effectively lowers the cost of risk protection and long-term savings products for households. Over time, it is expected to improve affordability and accessibility of such products enhancing insurance coverage. From a macro-financial perspective, the GST exemption is likely to strengthen the sector's premium-generation trajectory, providing insurers with a larger pool of long-duration liabilities that can be chanelled into sovereign and infrastructure assets.

III.2.16 Financial Sector Cybersecurity Strategy

3.45 Recognising the growing cyber threats to financial stability arising from rapid digitalisation and highly interconnected financial systems, the Financial Stability and Development Council (FSDC) constituted an Inter-Ministerial Group in August 2025 to formulate a comprehensive Financial Sector Cybersecurity Strategy. The Inter-Ministerial Group comprises senior representatives from the Government and the Regulators.[33]

3.46 The Strategy seeks to establish a unified governance framework across financial sector authorities with a view to strengthen sector-wide cyber resilience. The core focus areas include protection of critical financial infrastructure, harmonisation of cybersecurity standards and incident reporting frameworks, incorporation of IMF Financial Sector Assessment Programme recommendations, strengthening oversight of third-party service providers and supply-chain risks, and development of outcome-based resilience capabilities across the financial sector.

[33] The group comprises of Department of Economic Affairs, Department of Financial Services, Ministry of Electronics and Information Technology, Indian Computer Emergency Response Team, Ministry of Home Affairs, National Security Council Secretariat, National Critical Information Infrastructure Protection Centre, Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India, Pension Fund Regulatory and Development Authority, International Financial Services Centres Authority, Department of Telecommunications, and other relevant agencies.

III.3 Other Developments

III.3.1 Customer Protection

3.47 The number of complaints received by the Offices of the Reserve Bank of India Ombudsman (ORBIOs) for the previous two quarters indicates that majority of the complaints related to loans / advances and credit cards, constituting nearly 50 per cent of the complaints during Q1 and Q2 of 2025-26 (Table 3.1).

3.48 With respect to the Indian securities market, the number of complaints received during Jul-Sep 25 increased by 16.2 per cent over the previous quarter. Complaints related to stock brokers and listed companies (related to equity issue) accounted for 53.7 per cent of the total number of complaints received during the quarter (Table 3.2).

3.49 The status of the disputes on the Online Dispute Resolution portal set up by Market

Table 3.1: Category of Complaints Received under the RB-IOS, 2021

Sr. No.	Grounds of Complaint	Apr-Jun 2025		Jul-Sep 2025	
		Number	Share *(per cent)*	Number	Share *(per cent)*
1	Loans and Advances	26,058	32.86	27,198	33.06
2	Credit Card	13,551	17.09	14,843	18.04
3	Opening/Operation of Deposit accounts	13,640	17.20	13,024	15.83
4	Mobile / Electronic Banking	11,706	14.76	11,943	14.52
5	Other products and services*	7,668	9.67	8,980	10.92
6	ATM/CDM/Debit card	3,955	4.99	3,764	4.58
7	Remittance and Collection of instruments	1,012	1.28	952	1.16
8	Para-Banking	965	1.22	819	1.00
9	Pension related	641	0.81	645	0.78
10	Notes and Coins	103	0.13	103	0.13
Total		**79,299**	**100.00**	**82,271**	**100.00**

Note: * includes bank guarantee/ letter of credit, customer confidentiality, premises and staff, grievance redressal, *etc.*
Source: RBI.

Table 3.2: Type/Category of Complaints

Sr. No.	Category	Apr-Jun 2025	Jul-Sep 2025
1	Stock Broker	5,292	5,212
2	Listed Company- Equity Issue (Dividend/ Transfer/Transmission/Duplicate Shares/ Bonus Shares, *etc.*)	2,713	3,588
3	Registrar and Share Transfer Agent	2,205	3,113
4	Mutual Fund	763	927
5	Depository Participant	691	745
6	Research Analyst	602	668
7	Stock Exchange	448	418
8	Investment Advisers	246	272
9	Depository	232	253
10	Listed Company-IPO/Prelisting /Offer Document (Debenture and Bonds)	168	208
11	Listed Company-IPO/Prelisting/Offer document (shares)	161	305
12	Debenture Trustee	103	58
13	Listed Company- Debt Issue (Interest/ Redemption/Transfer/Transmission *etc.*)	72	76
14	Listed Company-Delisting of securities	63	65
15	KYC Registration Agency	57	66
16	Portfolio Manager	57	68
17	Banker to the issue	45	152
18	Clearing Corporation	34	19
19	Mutual Fund Trading on Stock Exchange Platform	26	19
20	Category 2 Alternative Investment Fund	24	26
21	Merchant Banker	19	39
22	Category 3 Alternative Investment Fund	14	11
23	Listed Company- Buy Back of Securities	14	12
24	Venture Capital Fund	12	11
25	Small and Medium Real Estate Investment Trust (SM REIT)	9	3
26	Category 1 Alternative Investment Fund	9	7
27	Credit Rating Agency	8	17
28	Infrastructure Investment Trust (InvIT)	3	2
29	Share based Employee benefit	1	6
30	Vault Manager	1	1
31	Securitised Debt Instrument (SDI)	1	3
32	Real Estate Investment Trust (REIT)	1	4
Total		**14,094**	**16,374**

Source: SEBI.

Table 3.3: Status of Disputes on SmartODR.in
(Value in ₹ crore)

Period (FY)	Opening Balance of Disputes		Disputes Received		Disputes Resolved		Outstanding Balance as at end of FY	
	No.	Value	No.	Value	No.	Value	No.	Value
Apr - Jun 2025	1,308	184.82	1,273	153.05	2,019	228.24	562	109.63
Jul - Sep 2025	562	109.63	1,252	102.80	1,244	148.61	570	63.82

Note: The above data pertains to net complaints across all MIIs.
Source: SEBI.

Infrastructure Institutions (MIIs) *vide* Circular dated July 31, 2023, on Smart Online Dispute Resolution is given in Table 3.3.

3.50 The Life insurance sector has witnessed a notable improvement in grievance volumes and resolution efficiency. After peaking at over 1.5 lakh complaints annually in 2021-22, the number of grievances reported has structurally declined to around 1.2 lakh during 2022-23 to 2024-25. This stabilization in grievance volumes suggests improved market conduct and better alignment between product sales and customer expectations. In contrast, the non-life insurance sector is facing a significant escalation in consumer grievances with the number of reported grievances nearly tripling, surging from around 48,000 in 2020-21 to nearly 1.4 lakh in 2024-25. This increasing number of grievances underscores growing friction between policyholders and insurers, necessitating urgent intervention to address the root causes.

III.3.2 Enforcement

3.51 During June 2025 – November 2025, the Reserve Bank undertook enforcement action against 134 REs (one PSBs; four PVBs; one PB; one foreign bank; one RRB; 113 co-operative banks; seven NBFCs; one PSO and five HFCs) and imposed an aggregate penalty of ₹6.99 crore for non-compliance with / contravention of statutory provisions and / or directions issued by the Reserve Bank.

3.52 During May 2025 - September 2025, prohibitive directions under Section 11 of the SEBI Act, 1992 were issued against 298 entities. Further, under SEBI (Intermediaries) Regulations, 2008, enforcement actions taken were cancellation of registration of 15 intermediaries, suspension of three intermediaries and warning issued against seven intermediaries. A total of 24 prosecution cases were filed during May 2025 - September 2025 against 90 entities. Penalties under Adjudication Proceedings have been imposed against 194 entities amounting to ₹10.8 crore during this period.

III.3.3 Deposit Insurance

3.53 The Deposit Insurance and Credit Guarantee Corporation (DICGC) extends insurance cover to depositors of all the banks operating in India. As on September 30, 2025, the number of banks registered with the DICGC was 1,957, comprising 124 commercial banks (including 11 small finance banks, six payment banks, 28 regional rural banks, two local area banks) and 1,833 co-operative banks.

3.54 With the present deposit insurance limit of ₹5 lakh, 97.3 per cent of the total number of deposit accounts (298.9 crore) were fully insured and 42.1 per cent of the total value of all assessable deposits (₹253 lakh crore) were insured as on September 30, 2025 (Table 3.4).

3.55 The insured deposits ratio (*i.e.*, the ratio of insured deposits to assessable deposits) was higher for co-operative banks (60.7 per cent) followed by commercial banks (41.2 per cent) (Table 3.5). Within commercial banks, PSBs had higher insured deposit ratio *vis-à-vis* PVBs.

Table 3.4: Coverage of Deposits
(Amount in ₹ crore and No. of Accounts in crore)

Sr. No.	Item	Sep 30, 2024	Mar 31, 2025	Sep 30, 2025*	Percentage Variation (y-o-y)	
					Sep 30, 2024	Sep 30, 2025
(A)	Number of Registered Banks	1,989	1,982	1,957		
(B)	Total Number of Accounts	293.7	293.8	298.9	2.0	1.8
(C)	Number of Fully Protected Accounts	286.9	286.6	290.9	1.8	1.4
(D)	**Percentage (C)/(B)**	**97.7**	**97.6**	**97.3**		
(E)	Total Assessable Deposits	2,27,26,914	2,41,06,042	2,52,80,389	11.3	11.2
(F)	Insured Deposits	96,74,623	1,00,12,065	1,06,54,673	7.1	10.1
(G)	**Percentage (F)/(E)**	**42.6**	**41.5**	**42.1**		

Note: *Provisional.
Source: DICGC.

3.56 Deposit insurance premium received by the DICGC grew by 9.6 per cent (y-o-y) to ₹14,382 crore during H1:2025-26 (Table 3.6), of which, commercial banks had a share of 94.8 per cent.

3.57 The Deposit Insurance Fund (DIF) with the DICGC is primarily built out of the premium paid by insured banks, investment income and recoveries from settled claims, net of income tax. DIF recorded a 15.4 per cent year on year increase to reach ₹2.46 lakh crore as on September 30, 2025. The reserve ratio (*i.e.*, ratio of DIF to insured deposits) increased to 2.31 per cent from 2.21 per cent a year ago (Table 3.7).

3.58 Deposit Insurance and Credit Guarantee Corporation (DICGC), under the DICGC Act, 1961 has been operating the deposit insurance scheme since 1962 on a flat rate premium basis. At present, the banks are charged a premium of 12 paise per ₹100 of assessable deposits. While the existing

Table 3.5: Bank Group-wise Deposit Protection Coverage
(as on September 30, 2025)

Bank Groups	As on March 31, 2025				As on September 30, 2025*			
	Insured Banks *(number)*	Insured Deposits *(₹ crore)*	Assessable Deposits *(₹ crore)*	IDR *(ID/AD, per cent)*	Insured Banks *(number)*	Insured Deposits *(₹ crore)*	Assessable Deposits *(₹ crore)*	IDR *(ID/AD, per cent)*
I. Commercial Banks	**139**	**92,39,260**	**2,28,57,103**	**40.4**	**124**	**98,86,939**	**2,40,16,485**	**41.2**
(i) PSBs	12	59,53,830	1,26,11,152	47.2	12	61,95,064	1,33,44,722	46.4
(ii) PVBs	21	25,71,103	81,93,195	31.4	21	29,54,161	84,66,191	34.9
(iii) FBs	44	52,084	10,91,743	4.8	44	51,686	12,02,752	4.3
(iv) SFBs	11	1,07,719	2,70,601	39.8	11	1,15,177	2,87,621	40.0
(v) PBs	6	26,142	26,294	99.4	6	29,465	29,676	99.3
(vi) RRBs	43	5,27,364	6,62,709	79.6	28	5,40,334	6,84,048	79.0
(vii) LABs	2	1,018	1,409	72.2	2	1,051	1,475	71.3
II. Co-operative Banks	**1,843**	**7,72,805**	**12,48,939**	**61.9**	**1,833**	**7,67,735**	**12,63,903**	**60.7**
(i) UCBs	1,457	3,80,142	5,84,450	65.0	1,447	3,80,862	5,93,324	64.2
(ii) StCBs	34	66,285	1,57,076	42.2	34	65,323	1,60,967	40.6
(iii) DCCBs	352	3,26,378	5,07,412	64.3	352	3,21,550	5,09,612	63.1
Total (I+II)	**1,982**	**1,00,12,065**	**2,41,06,042**	**41.5**	**1,957**	**1,06,54,673**	**2,52,80,389**	**42.1**

Notes: (1) IDR: Insured Deposit Ratio is calculated as Insured Deposit by Assessable Deposit.
(2) The insured deposits to assessable deposits ratio may not tally due to rounding off.
(3) *Provisional.
Source: DICGC

Table 3.6: Deposit Insurance Premium
(₹ crore)

Period	Commercial Banks	Co-operative Banks	Total
2024-25			
H1	12,419	707	13,127
H2	12,932	704	13,637
Total	**25,352**	**1,412**	**26,764**
2025-26			
H1	13,633	749	14,382

Note: Constituent items may not add up to the total due to rounding off.
Source: DICGC.

Table 3.7: Deposit Insurance Fund and Reserve Ratio
(₹ crore)

As on	Deposit Insurance Fund (DIF)	Insured Deposits (ID)	Reserve Ratio (DIF/ID) (Per cent)
Mar 31, 2024	1,98,753	94,12,705	2.11
Sep 30, 2024	2,13,513	96,74,623	2.21
Mar 31, 2025	2,28,933	1,00,12,065	2.29
Sep 30, 2025	2,46,292	1,06,54,673*	2.31*

Note: *Provisional.
Source: DICGC.

system is simple to understand and administer, it does not differentiate between banks based on their soundness. It is, therefore, proposed to introduce a Risk Based Premium model which will help banks that are more sound to save significantly on the premium paid.

III.3.4 Corporate Insolvency Resolution Process (CIRP)

3.59 Since the provisions relating to the corporate insolvency resolution process (CIRP) came into force in December 2016, a total of 8659 CIRPs have been initiated till September 30, 2025 (Table 3.8), out of which 6761 (78.1 per cent of total) have been closed. Out of the closed CIRPs, around 19.8 per cent have been closed on appeal or review or settled, 18.1 per cent have been withdrawn, around 42.8 per cent have ended in orders for liquidation and 19.2 per cent have ended in approval of resolution plans (RPs). A total of 1898 CIRPs (21.9 per cent of total) are ongoing. The sectoral distribution of corporate debtors (CDs) under CIRP is presented in Table 3.9.

Table 3.8: Status of Corporate Insolvency Resolution Process
(as on September 30, 2025)

Year/Quarter	CIRPs at the beginning of the Period	Admitted	Closure by				CIRPs at the end of the Period
			Appeal/ Review/ Settled	Withdrawal under Section 12A	Approval of RP	Commencement of Liquidation	
2016 - 17	0	37	1	0	0	0	36
2017 - 18	36	707	96	0	18	91	538
2018 - 19	538	1157	162	97	75	305	1056
2019 - 20	1056	1991	351	221	132	537	1806
2020 - 21	1806	536	92	168	119	348	1615
2021 - 22	1615	892	130	203	141	340	1693
2022 - 23	1693	1262	195	231	186	405	1938
2023 - 24	1938	1003	164	168	262	442	1905
2024 - 25	1905	733	118	86	262	291	1881
Apr – Jun, 2025	1881	187	14	28	63	75	1888
Jul – Sep, 2025	1888	154	19	21	42	62	1898
Total	**NA**	**8659**	**1342**	**1223**	**1300**	**2896**	**1898**

Notes: (1) The numbers are subject to change due to constant data updates and reconciliation.
(2) This excludes 1 CD which has moved directly from Board for Industrial and Financial Reconstruction (BIFR) to resolution.
Source: Insolvency and Bankruptcy Board of India (IBBI).

Table 3.9: Sectoral Distribution of CIRPs
(as on September 30, 2025)

Sector	No. of CIRPs						
	Admitted	Closed					Ongoing
		Appeal/ Review/ Settled	Withdrawal under Section 12 A	Approval of RP	Commencement of Liquidation	Total	
Manufacturing	**3183**	**447**	**454**	**574**	**1162**	**2637**	**546**
Food, Beverages & Tobacco Products	415	51	59	73	156	339	76
Chemicals & Chemical Products	350	56	68	60	109	293	57
Electrical Machinery & Apparatus	223	26	26	31	102	185	38
Fabricated Metal Products	172	26	28	28	52	134	38
Machinery & Equipment	345	64	59	43	115	281	64
Textiles, Leather & Apparel Products	538	64	79	74	235	452	86
Wood, Rubber, Plastic & Paper Products	374	49	54	75	132	310	64
Basic Metals	521	67	46	139	192	444	77
Others	245	44	35	51	69	199	46
Real Estate, Renting & Business Activities	**1903**	**348**	**296**	**223**	**540**	**1407**	**496**
Real Estate Activities	543	112	82	75	87	356	187
Computer and related activities	249	32	43	22	94	191	58
Research and Development	12	2	4	1	2	9	3
Other Business Activities	1099	202	167	125	357	851	248
Construction	**1052**	**206**	**173**	**157**	**228**	**764**	**288**
Wholesale & Retail Trade	**862**	**119**	**83**	**87**	**385**	**674**	**188**
Hotels & Restaurants	**176**	**37**	**30**	**32**	**43**	**142**	**34**
Electricity & Others	**234**	**30**	**25**	**55**	**92**	**202**	**32**
Transport, Storage & Communications	**236**	**26**	**27**	**24**	**99**	**176**	**60**
Others	**1013**	**129**	**135**	**148**	**347**	**759**	**254**
Total	**8659**	**1342**	**1223**	**1300**	**2896**	**6761**	**1898**

Note: The distribution is based on the CIN of corporate debtors and as per National Industrial Classification (NIC 2004).
Source: Insolvency and Bankruptcy Board of India (IBBI).

3.60 The outcome of CIRPs as on September 30, 2025, shows that out of the operational creditor initiated CIRPs that were closed, around 52 per cent were closed on appeal, review or withdrawal (Table 3.10). Such disclosures accounted for more than 68 per cent of all closures by appeal, review or withdrawal.

3.61 The primary objective of the Insolvency and Bankruptcy Code (hereinafter referred as "Code") is rescuing CDs in distress. The Code has rescued 187 CDs during the period of April to September 2025, totaling to 3865 CDs cumulatively (1300 through resolution plans, 1342 through appeal or review or settlement and 1223 through withdrawal) from inception till September 2025. Several initiatives are being taken to improve the outcomes of the Code. Cumulatively till September 30, 2025, creditors have realised ₹3.99 lakh crore under the resolution plans, which is around 170.1 per cent of liquidation value and 93.79 per cent of fair value (based on 1177 cases where fair value has been estimated). In terms of percentage of admitted claims, the creditors have realised more than 32.4 per cent.

3.62 Till September 2025, the total number of CIRPs ending in liquidation was 2896, of which final reports have been submitted for 1529 CDs. These corporate debtors together had outstanding claims of ₹4.44 lakh crore, but the assets were valued

Table 3.10: Outcome of CIRPs, Initiated Stakeholder-wise
(as on September 30, 2025)

Outcome	Description		CIRPs initiated by			
		Financial Creditor	Operational Creditor	Corporate Debtor	FiSPs	Total
Status of CIRPs	Closure by Appeal/Review/Settled	430	899	13	0	1342
	Closure by Withdrawal u/s 12A	378	837	8	0	1223
	Closure by Approval of RP	800	406	90	4	1300
	Closure by Commencement of Liquidation	1363	1218	315	0	2896
	Ongoing	1125	662	110	1	1898
	Total	**4096**	**4022**	**536**	**5**	**8659**
CIRPs yielding RPs	Realisation by Creditors as per cent of Liquidation Value	186.16	128.64	146.89	134.9	170.09
	Realisation by Creditors as per cent of their Claims	32.83	24.90	18.24	41.4	32.44
	Average time taken for Closure of CIRP (days)	729	739	627	677	725
CIRPs yielding Liquidations	Liquidation Value as per cent of Claims	5.42	8.33	7.48	-	6.08
	Average time taken for order of Liquidation (days)	526	527	454	-	518

Note: FiSPs = Financial service providers. A "Financial service provider" means a person engaged in the business of providing financial services (other than banks) in terms of authorisation issued or registration granted by a financial sector regulator.
Source: Insolvency and Bankruptcy Board of India (IBBI).

at only ₹0.17 lakh crore. The liquidation of these companies resulted in realisation of 90.7 per cent of the liquidation value. The 1300 CIRPs which have yielded resolution plans till September 2025 took an average of 603 days for conclusion of process, while incurring an average cost of 1.1 per cent of liquidation value and 0.6 per cent of resolution value. Similarly, the 2896 CIRPs, which ended up in orders for liquidation, took an average 518 days for conclusion.

III.3.5 Developments in International Financial Services Centre (IFSC)

3.63 The International Financial Services Centres Authority (IFSCA) has notified more than 30 new regulations and 15 frameworks since 2021 which are aligned with international best practices. As of end-September 2025, the total number of registrations/ authorisations given by IFSCA reached 1027 (865 as of end-March 2025).

3.64 Nearly 194 Fund Management Entities (FMEs) have registered in IFSC as on Sep-25, up 51.5 per cent y-o-y from Sep-24. These FMEs have launched 310 Funds (including AIFs and retail schemes) since inception with cumulative investments of US$ 13.1 billion till date, up 155 per cent since Sept-24. In terms of exchanges at IFSCA, the monthly turnover on GIFT IFSC Exchanges was US$ 88.7 billion in September 2025, whereas the average daily turnover of NIFTY derivative contracts on NSE International Exchange (NSE IX) was US$ 4.02 billion in the same period. A total of US$ 66.6 billion debt securities has been listed on the IFSC exchanges including US$ 15.73 billion of green bonds, social bonds, sustainable bonds and sustainability-linked bonds till September 2025.

3.65 The banking ecosystem at GIFT-IFSC comprises 32 banks (IFSC Banking Units), including 15 foreign banks and 17 domestic banks offering a wide spectrum of banking and financial services. In addition to the Banking Units, two Global Administrative Offices (GAOs) are already operational in IFSC. The total banking asset size has grown from US$ 14 billion in September 2020 to US$ 100.14 billion in September 2025. As on September 2025, a total of 12,517 retail deposit accounts have

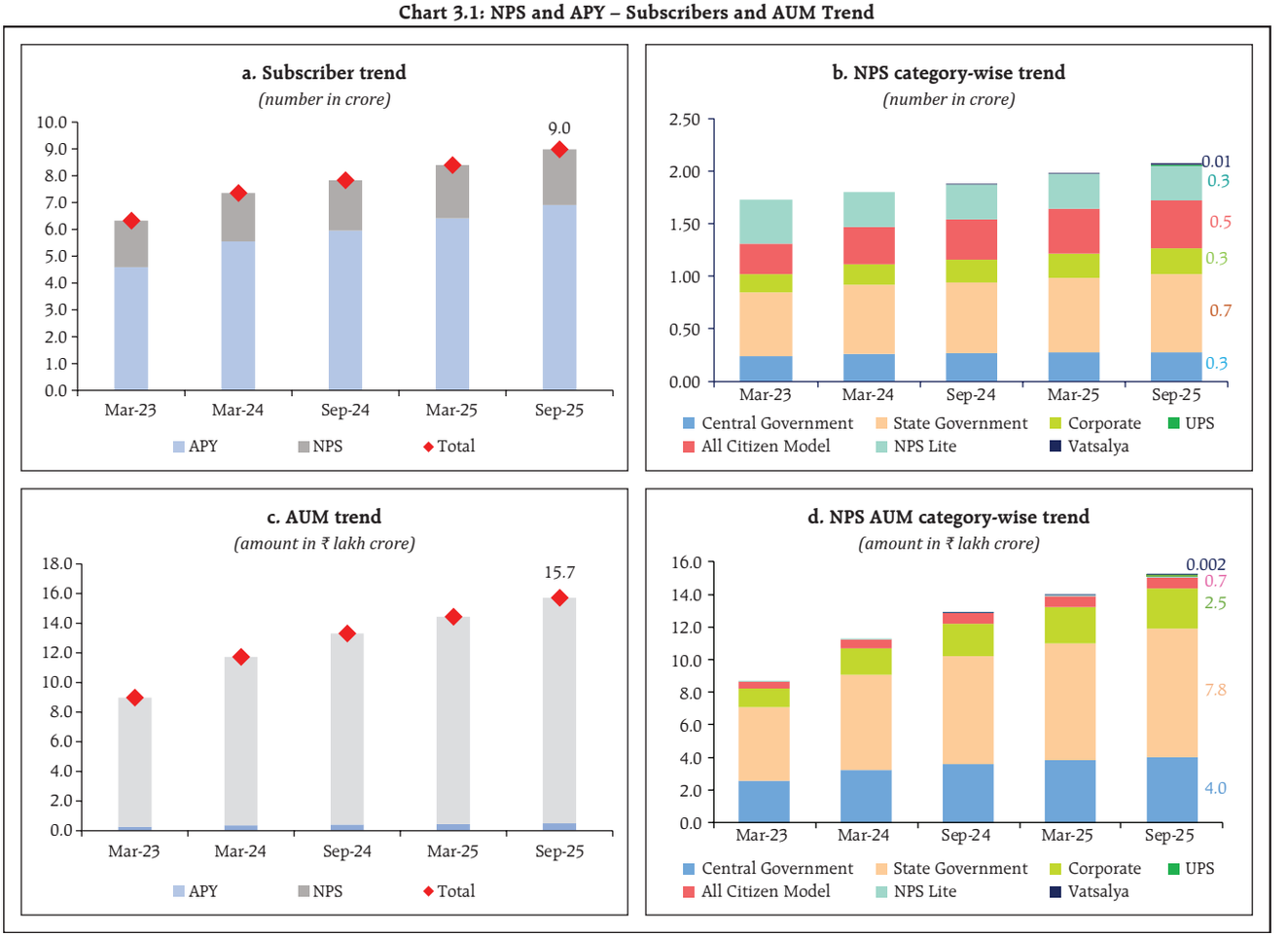
been opened with IBUs with a total deposit of US$ 1.22 billion in which majority of deposits were held by persons resident outside India.

3.66 The India International Bullion Exchange (IIBX), a vibrant gold trading hub, has seen transactions and imports amounting to 101.64 tonnes of Gold (equivalent to US$ 8.48 billion) and 1,147.98 Tonnes of Silver (equivalent to US$ 927 million). The registered aircraft leasing entities in GIFT-IFSC have grown to 37, which have leased a total of 303 assets till September 2025. The total registered ship leasing/ ship financing entities in GIFT IFSC has grown to 34 till September 2025.

III.3.6 Pension Funds

3.67 The National Pension System (NPS) and Atal Pension Yojana (APY) continued to grow in 2025 with the total number of subscribers under NPS & APY together reaching 8.98 Crore and the AUM touching ₹15.81 lakh crore. NPS and APY have witnessed a y-o-y growth both in the number of subscribers at 14.7 per cent as well as in assets under management at 18.2 per cent. The highest contribution is from the state govt sector (₹7.8 lakh crore) while the highest number of subscribers are under the APY (6.90 Crore) (Chart 3.1 a, b, c and d), which is primarily invested in fixed income instruments (Chart 3.2).

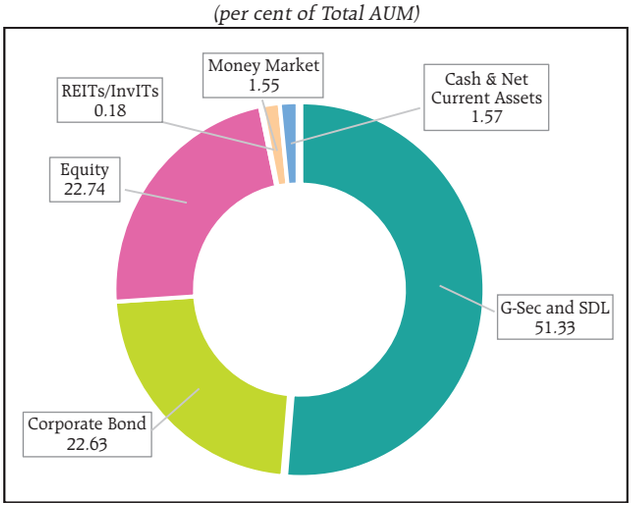
Chart 3.1: NPS and APY – Subscribers and AUM Trend



Source: PFRDA.

Chart 3.2: NPS and APY AUM: Asset Class-wise Bifurcation

(per cent of Total AUM)



Source: PFRDA.

3.68 Recognizing the need to strengthen India's pension landscape and to bring within its ambit a wider spectrum of contributors, the PFRDA introduced the Multiple Scheme Framework (MSF). MSF is built upon a new architecture where a subscriber, identified uniquely through the PAN across central recordkeeping agencies (CRAs), will be able to hold and manage multiple schemes within the NPS through permanent retirement account number (PRAN) at each CRA. This framework removes constraints on diversification and provides subscribers with greater scope for aligning their investments with their evolving retirement and wealth building goals. The reform is a significant step forward in expanding the outreach of NPS in the Non-Government Sector (NGS), allowing greater flexibility, more personalized retirement solutions, and alignment with global best practices in pension system design while building safeguards for subscribers.

Annex 1

Methodologies

1.1 Scheduled Commercial Banks

(a) Banking stability indicator (BSI) and map

The banking stability map and indicator present an overall assessment of changes in underlying conditions and risk factors that have a bearing on the stability of the banking sector during a period. The six composite indices represent risk in six dimensions - soundness, asset quality, profitability, liquidity, efficiency and sensitivity to market risk. Each composite index is a relative measure of risk during the sample period used for its construction, where a higher value would mean higher risk in that dimension.

The financial ratios used for constructing each composite index are given in Table 1. Each financial ratio is first normalised for the sample period using the following formula:

$$Y_t = \frac{X_t - min(X_t)}{max(X_t) - min(X_t)}$$

where X_t is the value of the ratio at time t. If a variable is negatively related to risk, then normalisation is done using 1-Y_t. Composite index of each dimension is then calculated as a simple average of the normalised ratios in that dimension. Finally, the banking stability indicator is constructed as a simple average of these six composite indices. Thus, each composite index and the overall banking stability indicator takes values between zero and one.

Table 1: Ratios used for constructing the Banking Stability Indicator and Map

Dimension	Ratios			
Soundness	CRAR #	Net NPAs to Capital	Tier 1 Capital to Assets #	
Asset Quality	Gross NPAs to Total Advances	Provisioning Coverage Ratio #	SMA-1 and SMA-2 Loans to Total Advances	Restructured Standard Advances to Standard Advances
Profitability	Return on Assets #	Net Interest Margin #	Growth in Earnings Before Provisions and Taxes #	Interest Margin to Gross Income #
Liquidity	Liquid Assets to Total Assets #	Liquidity Coverage Ratio #	Non-Bank Advances to Customer-Deposits	
Efficiency	Cost to Income	Business (Credit + Deposits) to Staff Expenses #	Staff Expenses to Operating Expenses	
Sensitivity to market risk	RWA (market risk) to Capital	PV01 of HFT and AFS Investments to Total Capital	Total Net Open Position in Forex to Total Capital	

Note: # Negatively related to risk.

(b) Macro stress test

Macro stress test evaluates the resilience of banks against adverse macroeconomic shocks. It attempts to assess the impact of such shocks on the capital ratios of banks[1] over a one-and-half to two-year horizon, under a baseline and two adverse scenarios. The test encompasses credit risk, market risk and interest rate risk in the banking book. The salient features are as below:

[1] The macro stress test is carried out for select 46 scheduled commercial banks (SCBs).

I. Macro-scenario design: The test envisages three scenarios - a baseline and two hypothetical adverse macro scenarios. While the baseline scenario is derived from the forecasted path of select macroeconomic variables, the two adverse scenarios are derived based on hypothetical stringent stress scenario narratives and by performing simulations using the following Vector Autoregression with Exogenous Variables (VARX) model,

$$Y_t = \sum_{p=1}^{P} A_p Y_{t-p} + \sum_{s=0}^{S} B_s X_{t-s} + u_t \quad \ldots\ldots\ldots (1)$$

with GDP growth, CPI inflation, repo rate and lending spread as the endogenous variables and US GDP growth and US-VIX as exogeneous variables.

II. Projection of key financial variables: Slippage ratio, interest income and interest expense are projected at bank-level using panel regression models for each bank group. GNPA ratio and provision are projected using structural models. Non-interest income [comprising of (a) fee income and (b) other operating income excluding fee income] and non-interest expense are projected based on assumed growth rate of these variables under each scenario.

(i) Projection of slippage ratio: The quarterly slippage ratios at bank level are projected using the following panel regression model;

$$Z_{i,t} = \beta_Z * Z_{i,t-1} + \beta'_X * X_{t-s} + \mu'_i + \lambda'_{it} + \varepsilon'_{i,t} \quad \ldots\ldots\ldots (2)$$
$$\text{for } t = 1,\ldots, T \text{ and } i = 1,\ldots,N$$

$Z_{i,t}$ is the quarterly slippage ratio of bank i during quarter t, X_t is a vector of macroeconomic variables including lending spread and GDP growth, μ'_i represents bank-specific fixed effects, λ'_{it} represents adjustments for specific quarters and $\varepsilon'_{i,t}$ is an i.i.d. error term. Subsequently, quarterly slippage ratios, $\hat{Z}_{i,t}'s$ are computed based on first differences of the regression equation (2) as,

$$\hat{Z}_{i,t} = \hat{Z}_{i,t-1} + \Delta\hat{Z}_{i,t} = \hat{Z}_{i,t-1} + \{\beta_Z \times \Delta\hat{Z}_{i,t-1} + \beta'_X \times \Delta\hat{X}_{i,t-1}\} \quad \ldots\ldots\ldots (3)$$

(ii) Projection of gross loans and advances: Bank level gross loans and advances are projected by applying growth rate equivalent to nominal GDP growth as,

$$L_{i,t} = L_{i,t-1}(1 + g_t) \quad \ldots\ldots\ldots (4)$$

where $L_{i,t}$ represents the gross loans and advances of bank i at the end of quarter t, and g_t represents the nominal GDP growth rate during quarter (t-1, t).

(iii) Projection of non-performing loans (NPL) or GNPAs: Bank-level GNPAs are projected using the equation,

$$NPL_{i,t} = NPL_{i,t-1}(1 - WRO_{i,t} - CURER_{i,t} - RECR_{i,t}) + PD_{i,t}.PL_{i,t-1} \quad \ldots\ldots\ldots (5)$$

where $NPL_{i,t}$ represents the stock of GNPA of bank i at the end of quarter t, $WRO_{i,t}$, $CURER_{i,t}$ and $RECR_{i,t}$ are write-off, upgradation and recovery rates of bank i during the quarter t respectively, $PD_{i,t}$ is the probability of default (slippage ratio) projected in (3) and $PL_{i,t-1}$ is the stock of performing loans at the end of quarter t-1.

(iv) Projection of performing loans (PL): The stock of performing loans for bank i at the end of quarter t, $PL_{i,t}$ is projected as,

$$PL_{i,t} = L_{i,t} - NPL_{i,t} \quad \ldots\ldots\ldots (6)$$

(v) Projection of provisions: Provisions of bank i for quarter t are projected as follows,

$$Provisions_{i,t} = PD_{i,t}.LGD_t.PL_{i,t-1}.PCR \quad \ldots\ldots\ldots (7)$$

where provisioning coverage ratio (PCR) is assumed at 75 per cent. The loss given default (LGD) during quarter t is derived based on the model of Frye and Jacobs (2012), as below

$$LGD_{i,t0+h} = \frac{\Phi\left(\Phi^{-1}\left(PD_{i,t0+h}\right)-k\right)}{PD_{i,t0+h}} \quad \ldots\ldots\ldots (8)$$

and the parameter k is derived as,

$$k = \frac{\Phi^{-1}\left(PD^{*}_{i,t0}\right)-\Phi^{-1}\left(PD^{*}_{i,t0}\times LGD^{*}_{i,t0}\right)}{\sqrt{1-\rho}} \quad \ldots\ldots\ldots (9)$$

PD* and LGD* are long-term average PDs and LGDs and Φ represents the cumulative normal distribution function.

(vi) Projection of interest income and expenses: Interest income (as share of interest-earning assets) and interest expenses (as share of interest-bearing liabilities) are modelled as functions of macroeconomic variables (GDP growth and call rate) and bank fixed effects with structure similar to equation (2). Bank-wise projections of these ratios are applied to derive shocks to yield on assets and cost of funds for each bank.

(vii) Projection of market risk: Market risk is estimated by applying MTM revaluation of bond exposures (AFS and HFT portfolio) of banks using three inputs, (i) bond exposure, (ii) Macaulay duration, and (iii) interest rate shock, using the bond revaluation formula:

$$\Delta V_{t+1} = -V_t \frac{D}{(1+r_t+s_t)}(\Delta r_{t+1} + \Delta s_{t+1}) \quad \ldots\ldots\ldots (10)$$

where D is the Macaulay duration, r is the risk-free rate, s is credit spread component, t is the time steps until maturity T, V is the market value, Δr_{t+1} represents the risk-free rate shift and Δs_{t+1} the credit spread shift. Further, equity and foreign exchange risk are also factored into market risk.

(viii) Projection of net profit: Net profit is projected as,

$$\begin{aligned} Net\ Profit = {} & (Interest\ Income - Interest\ Expenses) + (Non\text{-}interest\ income \\ & - Non\text{-}interest\ expenses) + Trading\ income - Loss\ Provisions \\ & - Provisions\ for\ Income\ Tax \end{aligned}$$

(ix) Projection of capital: Capital is projected as,

$$\begin{aligned} Capital_{t+1} = {} & Capital_t + Net\ Profit_{(t,t+1)} + Other\ Comprehensive\ Income\ _{(t,t+1)} \\ & - Dividend_{(t,t+1)} \end{aligned}$$

(x) Projection of risk weighted assets (RWA): RWA for Credit risk is projected as,

$$RWA_{t+1} = (RWA_t - Reduction\ in\ RWA_{(t,t+1)}\ due\ to\ new\ provisions).(1 + g_t) + Additional\ RWA\ due\ to\ new\ slippages_{(t,t+1)}$$

where g_t represents the nominal GDP growth rate during the period $(t, t+1)$.

RWA for market risk and RWA for operational risk are also projected to grow at nominal GDP growth rate.

III. Major assumptions: Provisions for income tax are assumed at 30 per cent, 30 per cent and 35 per cent of profit before tax for public sector banks (PSBs), private sector banks (PVBs) and foreign banks (FBs), respectively. Dividend payout ratio is assumed at 35 per cent of net profit. Balance sheet is projected to grow at the rate of nominal GDP growth.

(c) Single factor sensitivity analysis – Stress testing

As part of quarterly surveillance, stress tests are conducted covering credit risk, interest rate risk, liquidity risk, equity price risk, and the resilience of scheduled commercial banks (SCBs) in response to these shocks is studied. The analysis is done on individual SCBs as well as on the system level.

I. Credit risk (includes concentration risk)

To ascertain the resilience of banks, the credit portfolio was given a shock by increasing GNPA ratio for the entire portfolio. For testing the credit concentration risk, default of the top individual borrower(s) and the largest group borrower(s), in terms of credit outstanding, was assumed. The analysis was carried out both at the aggregate level as well as at the individual bank level. In case of credit risk, the assumed increase in GNPAs was distributed across sub-standard, doubtful and loss categories in the same proportion as prevailing in the existing stock of GNPAs at system level. However, for credit concentration risk (exposure based), the additional GNPAs under the assumed shocks were considered to fall into sub-standard category only and for credit concentration risk (stressed advances based), stressed advances were considered to fall into loss category. The provisioning requirements were taken as 25 per cent, 75 per cent and 100 per cent for sub-standard, doubtful and loss advances, respectively. These norms were applied on additional GNPAs calculated under a stress scenario. As a result of the assumed increase in GNPAs, loss of income on the additional GNPAs for one quarter was also included in total losses, in addition to the incremental provisioning requirements. The estimated provisioning requirements so derived were deducted from banks' capital and the capital adequacy ratios under stress scenarios were computed.

To assess the system-wide impact of concentration of borrowers, sequential default of the 100 largest individual borrowers is simulated, measuring the cumulative depletion in system-level CRAR at default of each borrower. To quantify the systemic risk due to borrower concentration, a novel metric viz. credit concentration risk index (CCRI) is constructed. Formally, CCRI is defined as the ratio of (i) the area between the empirical CRAR depletion curve and a straight line from the origin to its endpoint, to (ii) the total area above this straight line. A higher CCRI will indicate higher concentration among the large borrowers.

For Small Finance Banks (SFBs), the credit risk sensitivity analysis is carried out using same methodology and similar scenarios as for SCBs.

II. Sectoral credit risk

To ascertain the sectoral credit risk of individual banks, the credit portfolios of a particular sector was given a shock by increasing GNPA ratio for the sector, based on standard deviation (SD) of GNPA ratios of the sector. The additional GNPAs under the assumed shocks were considered to fall into sub-standard category only. Calculation of the impact on capital is similar to that of stress test for credit risk described above.

III. Interest rate risk

Under assumed shocks of shift in the INR yield curve, there could be losses on account of the fall in value of the portfolio or decline in income.

For interest rate risk in the investment portfolio: AFS, FVTPL (including HFT book) and HTM categories, a duration analysis approach was considered for computing the valuation impact (portfolio losses). The portfolio losses on these investments were calculated for each time bucket of AFS, FVTPL (including HFT book) and HTM categories based on the applied shocks. These estimated losses were reduced from banks' capital and market risk weighted losses from RWA to arrive at capital ratios under stress scenarios.

Interest rate risk of banks refers to the risk to a bank's capital and earnings arising from adverse movements in interest rates that affect bank's books. The impact on earnings is measured using the traditional gap analysis (TGA) and the capital impact is measured by duration gap analysis (DGA). The focus of TGA is to measure the level of a bank's exposure to interest rate risk in terms of the sensitivity of its net interest income (NII) to interest rate movements over one-year horizon. It involves bucketing of all rate-sensitive assets (RSA), rate-sensitive liabilities (RSL), and off-balance sheet items as per residual maturity / re-pricing date, in various time bands and computing earnings-at-risk (EAR) i.e., loss of income under different interest rate scenarios over a time horizon of one year. Advances, investments, swaps / forex swaps and reverse repos are the major contributors to RSA whereas deposits, swaps / forex swaps and repos are the main elements under RSL. The DGA involves bucketing of all RSA and RSL as per residual maturity / re-pricing dates in various time bands and computing the modified duration gap (MDG) to estimate the impact on the market value of equity. MDG is calculated with the following formula: MDG = [MDA - MDL * (RSL / RSA)], where MDA and MDL are the weighted averages of the modified duration (MD) of items of RSA and RSL, respectively. Thereafter, change in market value of equity (MVE) is computed as $\Delta E/ E = -[MDG]*RSA* \Delta i/ E$, where Δi is the change in interest rate and E is equity (i.e. net worth).

IV. Equity price risk

Under the equity price risk, the impact of the shock of a fall in the equity price index, by certain percentage points, on bank capital was examined. The loss due to the fall in the value of the portfolio on account of change in equity prices is deducted from the bank's capital to arrive at the capital under stress scenarios.

V. Liquidity risk

Liquidity stress test assesses the ability of a bank to withstand unexpected liquidity drain without taking recourse to any outside liquidity support. The stress test is based on the Liquidity Coverage Ratio (LCR) framework. The baseline scenario for the stress test depicts the extant LCR computation guidelines and accordingly applies weights used for LCR computation, to each component of cash outflows, inflows and liquid assets. The adverse stress scenarios are designed by applying higher run-off rates relative to the baseline scenario to certain cash outflows (Table 2). LCR for each bank is computed under each of these scenarios.

Table 2: Run-off Factors applied on Cash Outflow Components

(in per cent)

Scenarios	Baseline	Stress Scenario 1	Stress Scenario 2
Retail Deposits			
Stable deposits	5	6	7
Less stable retail deposits	10	11	12
Unsecured Wholesale Funding			
Demand and term deposits, residual maturity < 30 days, small business			
Stable deposits	5	6	7
Less stable deposits	10	11	12
Nonfinancial corporates, sovereigns, central banks, multilateral development banks, PSEs	40	42.5	45
Currently undrawn but committed Credit and Liquidity Facilities			
Retail and small business	5	10	12
Nonfinancial corporates, sovereigns, central banks, multilateral development banks, PSEs			
Credit facilities	10	12	15
Liquidity facilities	30	40	50

(d) Bottom-up stress testing: Derivatives portfolios of select banks

Stress tests on derivatives portfolio (in terms of notional value) were carried out by a sample of 36 banks, constituting the major active authorised dealers and interest rate swap counterparties. Each bank in the sample was asked to assess the impact of stress conditions on their respective derivatives portfolio.

In case of domestic banks, the derivatives portfolio of both domestic and overseas operations was included. In case of foreign banks, only the domestic (Indian) position was considered for the exercise. Derivatives trades where hedge effectiveness was established were exempted from the stress tests, while all other trades were included.

The stress scenarios incorporated four shocks consisting of the spot USD-INR rate and domestic interest rates as parameters (Table 3).

Table 3: Shocks for sensitivity analysis

	Domestic interest rates	
Shock 1	Overnight	**+2.5 percentage points**
	Up to 1-year	**+1.5 percentage points**
	Above 1-year	**+1.0 percentage points**
	Domestic interest rates	
Shock 2	Overnight	**-2.5 percentage points**
	Up to 1-year	**-1.5 percentage points**
	Above 1-year	**-1.0 percentage points**
	Exchange rates	
Shock 3	USD-INR	**+20 per cent**
	Exchange rates	
Shock 4	USD-INR	**-20 per cent**

1.2 Primary (Urban) Co-operative Banks

Single factor sensitivity analysis – Stress testing

Stress testing of UCBs was conducted with reference to the reported position as of September 2025. The banks were subjected to baseline, medium and severe stress scenarios in the areas of credit risk, market risk and liquidity risk as follows:

I. Credit Default Risk

- Under credit default risk, the model aims to assess the impact of stressed credit portfolio of a bank on its CRAR.
- The arithmetic mean of annual growth rate of GNPAs was calculated separately for each NPA class (sub-standard, doubtful 1 (D1), doubtful 2 (D2), doubtful 3 (D3) and loss assets) based on reported data between 2009 and 2025 for the UCB sector as a whole. This arithmetic mean of annual growth rate formed the baseline stress scenario, which was further stressed by applying shocks of 1.5 standard deviation (SD) and 2.5 SD to generate medium and severe stress scenarios for each category separately. These were further adjusted based on NPA divergence level.
- Based on the above methodology, the annual NPA growth rate matrix arrived at under the three scenarios are as below.

(per cent)

	Increase in Substandard Assets	**Increase in D1 assets**	**Increase in D2 assets**	**Increase in D3 assets**	**Increase in Loss assets**
Baseline	19.38	15.84	13.94	14.82	35.03
Medium Stress	58.55	43.67	37.41	48.84	167.60
Severe Stress	84.67	62.22	53.07	71.53	255.98

II. Credit Concentration Risk

- The impact of CRAR, under assumed scenarios of top 1, 2, 3 single borrower exposures moving to 'loss advances' category, requiring 100 per cent provisioning, was assessed. These exposures may not necessarily be 'standard advances' but are identified based on their potential to require higher provisioning, thereby reflecting more impactful stress scenario.

III. Interest Rate Risk in Trading Book

- Duration analysis approach was adopted for analysing the impact of upward movement of interest rates on the AFS and HFT portfolio of UCBs.
- Upward movement of interest rates by 50 bps, 100 bps and 150 bps were assumed under the three stress scenarios and consequent provisioning impact on CRAR was assessed.

IV. Interest Rate Risk in Banking Book

- The banking book of UCBs was subjected to interest rate shocks of 50 bps, 100 bps and 150 bps under three stress scenarios and its impact on net interest income was assessed.

V. Liquidity risk

- The stress test was conducted based on cumulative cash flows in the 1-28 days' time bucket. The cash inflows and outflows were stressed under baseline, medium, and severe scenarios.
- While the inflows are stressed uniformly at 5 per cent under all the stress scenarios, outflows are stressed based on worst negative deposit growth recorded across quarters for the periods ranging across past ten years (2015 - 2025). Since UCBs are primarily dependent on deposits as major source of funds, negative growth in deposits is considered as representative of stressed outflows. Further, three months period is considered as representative of 1-28 days' bucket as this is the closest short-term period for which deposits data is available for all the banks (given that all the banks submit quarterly returns). The average of worst negative deposit growth rate for ten years is considered as baseline scenario, which is further stressed by 1.5 SD and 2.5 SD to generate medium and severe stress scenarios for outflows.
- The banks with negative cumulative mismatch (cash inflow less cash outflow) exceeding 20 per cent of the outflows were considered to be under stress on the basis of the circular RBI/2008-09/174 UBD. PCB. Cir. No12/12.05.001/2008-09 dated September 17, 2008, which stipulates that the mismatches (negative gap between cash inflows and outflows) during 1-14 days and 15-28 days' time bands in the normal course should not exceed 20 per cent of the cash outflows in each time band.

1.3 Non-Banking Financial Companies (NBFCs)

(a) Non-banking stability indicator (NBSI) and map

The non-banking financial company (NBFC) stability indicator (NBSI) presents an overall assessment of changes in underlying conditions and risk factors that have a bearing on the stability of the NBFC sector during a period. In line with the scale-based regulatory structure, NBFCs falling in the upper and middle

layers (excluding the Core Investment Companies (CICs), Primary Dealers (PDs) and Housing Finance Companies (HFCs)) have been considered for construction of the indicator and a related stability map.

The NBSI constitutes five composite indices representing risks in five dimensions – soundness, asset-quality, profitability, liquidity and efficiency. Each composite index is a relative measure of risk and is constructed using multiple financial ratios in respective risk dimension (Table 4). A higher value of a composite index would mean higher risk in that dimension.

Each financial ratio is first normalized for the sample period using the following formula:

$$Y_t = \frac{X_t - min(X_t)}{max(X_t) - min(X_t)}$$

where X_t is the value of the financial ratio at time *t*. If a variable is negatively related to risk, then it is normalized using 1-Y_t. Composite index of each dimension is then calculated as a simple average of the normalized ratios in that dimension. Finally, the NBSI is constructed as a simple average of these five composite indices. Each composite index and the overall NBSI take values between zero and one.

Table 4: Ratios used for constructing the Non-Banking Stability Indicator and Map

	Dimension		
Soundness	CRAR #	Net NPAs to Capital	Tier 1 Capital to Assets #
Asset Quality	Gross NPAs to Total Advances	Provisioning Coverage Ratio #	Sub-Standard Advances to Gross NPAs#
Profitability	Return on Assets #	Net Interest Margin #	Return on Net Owned Funds #
Liquidity	Short-term Liability to Total Assets	Long-term Assets to Total Assets	Dynamic Liquidity#
Efficiency	Cost to Income	Staff Expense to Total Expense	Business to Staff Expense#

Note: # Negatively related to risk.

(b) Single factor sensitivity analysis - Stress testing

Credit and liquidity risk stress tests for NBFCs have been performed under baseline, medium and high risk scenarios.

I. Credit risk

Major items of the balance sheet of NBFCs over one year horizon were projected by applying moving average and smoothing techniques. Assets, advances to total assets ratio, earnings before profit and tax (EBPT) to total assets ratio, risk-weight density and slippage ratio were projected over the next one year; and thereafter, based on these projections – new slippages, provisions, EBPT, risk-weighted assets and capital were calculated for the baseline scenario. For the medium and high-risk scenarios, GNPA ratios under baseline scenario were increased by 1 SD and 2 SD and accordingly revised capital and CRAR were calculated.

II. Credit Concentration Risk

For testing the credit concentration risk, default of the top individual borrower(s) and the largest group borrower(s), in terms of credit outstanding, was assumed. The analysis was carried out both at the aggregate level as well as at the individual NBFC level. The additional GNPAs under the assumed

shocks were considered to fall into sub-standard category and the provisioning requirements were taken as 25 per cent. These norms were applied on additional GNPAs calculated under a stress scenario. In addition to the incremental provisioning requirements, loss of income on the additional GNPAs for one quarter was also included in total losses. The estimated losses so derived were deducted from banks' capital and the capital adequacy ratios under stress scenarios were computed.

III. Liquidity Risk

Cash flows under stress scenario and mismatch in liquidity position were calculated by assigning assumed percentage of stress to the overall cash inflows and outflows in different time buckets over the next one year. Projected outflows and inflows, as on September 2025, over the next one year were considered for calculating the liquidity mismatch under the baseline scenario. Outflows and inflows of the sample NBFCs were applied a shock of 5 per cent and 10 per cent for time buckets over the next one year for the medium and high-risk scenarios, respectively. Cumulative liquidity mismatch due to such shocks were calculated as per cent of cumulative outflows and, NBFCs with negative cumulative mismatch were identified.

1.4 Stress Testing Methodology of Mutual Funds

The SEBI has mandated all open-ended debt schemes (except overnight schemes) to conduct stress testing. Accordingly, Association of Mutual Funds in India (AMFI) prescribed the "Best Practice Guidelines on Stress Testing by Debt Schemes of Mutual Funds". The stress testing is carried out internally by all Asset Management Companies (AMCs) on a monthly basis (except overnight schemes) and when the market conditions require so. A uniform methodology is being followed across the industry for stress testing with a common outcome, *i.e.*, impact on NAV as a result of the stress testing. The Association of Mutual Funds in India (AMFI) and each AMC specify the thresholds of impact for the risk parameters: breach of either the AMFI or the AMC threshold requires reporting and remedial action.

Stress testing parameters

The stress testing is conducted on the three risk parameters, *viz.*, interest rate risk, credit risk and liquidity risk.

(a) Interest rate risk parameter

For interest rate risk parameter, AMCs subject the schemes at portfolio level to the following scenarios of interest rate movements and assess the impact on NAV.

1) The highest increase in G-Sec yield in the last 120 months (1-year G-Secs or 10-year G-Secs whichever is higher on month-on-month basis comparing maximum yield of a month to minimum yield of previous month).
2) Two-third of the highest increase in G-Sec yield in the last 120 months.
3) One-third of the highest increase in G-Sec yield in the last 120 months

(b) Credit risk parameter

For credit risk parameter, AMCs may subject the securities held by the scheme to the following:

1) Calculate the probability of downgrade of each security. In this regard, to incorporate all possible downgrade scenarios (notches) for each security, probability tables published by rating agencies are being used.

2) Further, each potential notched down rating will correspond to a change in valuation yield for the security corresponding to that change in rating. The change in valuation yields for the respective rating changes is derived from the valuation matrix used by the valuation agencies.

3) The sum product of probability of downgrade within investment grade and change in yield on that downgrade of a security, is then multiplied by the duration of that security and the weightage of that security in the portfolio. Separately, the sum product of probability of downgrade below investment grade with haircut applicable on that downgrade of any security, is multiplied with the weightage of that security in the portfolio. These two sum products are added to get the aggregate potential impact at a security level.

4) The summation of all these security level outputs is considered as the portfolio level credit impact.

(c) Liquidity risk parameter

For liquidity risk parameter, the following analysis is being undertaken:

1) Data for past periods of stress (viz. stress scenarios during the years 2008, 2013, 2018, 2020) along with rise in yields for a given credit rating, type of security, etc. in respective matrices for the relevant duration bucket is considered.

2) The change in median yield differential over G-Sec during stress period compared to the preceding normal period (normal period is a period starting 6 months prior to the start of the stress period and ending at the start of the stress period) is considered as rise in spread for the purpose of stress testing.

3) AMCs take yield spike as higher than the AMFI-specified values for stress testing based on market scenarios.

4) These calculations are again reiterated for individual securities based on respective ratings, matrix-based sector as provided in the matrix files and duration bucket and aggregated at the portfolio level to get the portfolio level output.

AMCs additionally consider extreme stress scenarios of time bound liquidation (viz 5 days, 3 days and 1 day) of full portfolios and its impact on NAV by applying suitable haircuts.

Furthermore, as part of liquidity risk management for open-ended debt schemes, two types of liquidity ratios, viz., (i) redemption at risk (LR-RaR), which represents likely outflows at a given confidence interval, and (ii) conditional redemption at risk (LR-CRaR), which represents the behaviour of the tail at the given confidence interval, have been used. All AMCs are mandated to maintain these liquidity ratios above the threshold limits which are derived from scheme type, scheme asset composition and potential outflows (modelled from investor concentration in the scheme). Mutual Funds (MFs) are required to carry out back-testing of these liquidity ratios for all open-ended debt schemes (except overnight funds, gilt funds and gilt funds with 10-year constant duration) on a monthly basis.

1.5 Methodology for Stress Testing Analysis at Clearing Corporations

The SEBI has specified the granular norms related to core settlement guarantee fund (SGF); stress testing and default procedures to create a core fund (called core SGF) within the SGF against which no exposure is given and which is readily and unconditionally available to meet settlement obligations of clearing corporation in case of clearing member(s) failing to honour settlement obligation; align stress testing practices of clearing corporations with Principles for Financial Market Infrastructures (norms for stress testing for credit risk, stress testing for liquidity risk and reverse stress testing including frequency and scenarios); capture the risk due to possible default in institutional trades in stress testing; harmonise default waterfalls across clearing corporations; limit the liability of non-defaulting members in view of the Basel capital adequacy requirements for exposure towards central counterparties (CCPs); ring-fence each segment of clearing corporation from defaults in other segments; and bring in uniformity in the stress testing and the risk management practices of different clearing corporations especially with regard to the default of members.

Stress testing is carried out at clearing corporations (CCs) to determine the minimum required corpus (MRC), which needs to be contributed by clearing members (CMs) to the core SGF. The MRC is determined separately for each segment (viz. cash market, equity derivatives, currency derivatives, commodity derivatives, debt and tri-party repo segment) every month based on stress testing subject to the following:

(a) The MRC is fixed for a month.

(b) By 15th of every month, CCs review and determine the MRC for next month based on the results of daily stress tests of the preceding month.

(c) For every day of the preceding month, uncovered loss numbers for each segment are estimated based on stress test and highest of such numbers is taken as worst-case loss number for the day.

(d) Average of all the daily worst case loss numbers determined in (iii) above is calculated.

(e) The MRC for next month is at least the higher of the average arrived in at step (iv) above and the segment MRC as per previous review.

For determining the MRC for cash, equity derivatives and currency derivatives segment, CCs calculate the credit exposure arising out of a presumed simultaneous default of top two CMs. The credit exposure for each CM is determined by assessing the close-out loss arising out of closing open positions (under stress testing scenarios) and the net pay-in/ pay-out requirement of the CM against the required margins and other mandatory deposits of the CM. The MRC or average stress test loss of the month is determined as the average of all daily worst case loss scenarios of the month. The actual MRC for any given month is determined as at least the higher of the average stress test loss of the month or the MRC arrived at any time in the past. For the debt segment, the trading volume is minimal, and hence the MRC for the core SGF is calculated as higher of ₹4 crore or aggregate losses of top two CMs, assuming close out of obligations at a loss of four per cent less required margins. The tri-party repo segment and commodity derivatives segment also follow the same stress testing guiding principles as prescribed for equity cash, equity derivatives and currency derivatives segments. For commodity derivatives segment, however, MRC is computed as

the maximum of either credit exposure on account of the default of top two CMs or 50 per cent of credit exposure due to simultaneous default of all CMs. Further, the minimum threshold value of MRC for commodity derivatives segment of any stock exchange is ₹10 crore.

CCs carry out daily stress testing for credit risk using at least the standardized stress testing methodology prescribed by SEBI for each segment. Apart from the stress scenarios prescribed for cash market and derivatives market segments, CCs also develop their own scenarios for a variety of 'extreme but plausible market conditions' (in terms of both defaulters' positions and possible price changes in liquidation periods, including the risk that liquidating such positions could have an impact on the market) and carry out stress testing using self-developed scenarios. Such scenarios include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Also, for products for which specific stress testing methodology has not been prescribed, CCs develop extreme but plausible market scenarios (both hypothetical and historical) and carry out stress tests based on such scenarios and enhance the corpus of SGF, as required by the results of such stress tests.

1.6 Interconnectedness – Network Analysis

Matrix algebra is at the core of the network analysis, which uses the bilateral exposures between entities in the financial sector. Each institution's lending to and borrowings from all other institutions in the system are plotted in a square matrix and are then mapped in a network graph. The network model uses various statistical measures to gauge the level of interconnectedness in the system. Some of the important measures are given below:

i) *Connectivity Ratio:* This statistic measures the extent of links between the nodes relative to all possible links in a complete graph. For a directed graph, denoting total number of out-degrees as $K = \sum_{i=1}^{N} k_i$ and the total number of nodes as N, connectivity ratio is given as $\frac{K}{N(N-1)}$.

ii) *Cluster coefficient:* Clustering in networks measures how interconnected each node is. Specifically, there should be an increased probability that two of a node's neighbours (banks' counterparties in case of a financial network) are neighbours to each other also. A high clustering coefficient for the network corresponds with high local interconnectedness prevailing in the system. For each bank with k_i neighbours the total number of all possible directed links between them is given by $k_i(k_i\text{-}1)$. Let E_i denote the actual number of links between bank i's k_i neighbours. The clustering coefficient C_i for bank i is given by the identity:

$$C_i = \frac{E_i}{k_i(k_i - 1)}$$

The clustering coefficient (C) of the network as a whole is the average of all C_i's:

$$C = \frac{\sum_{i=1}^{N} C_i}{N}$$

iii) *Tiered network structures:* Typically, financial networks tend to exhibit a tiered structure. A tiered structure is one where different institutions have different degrees or levels of connectivity with others in the network. In the present analysis, the most connected banks are in the innermost core. Banks are then placed in the mid-core, outer core and the periphery (the respective concentric

circles around the centre in the diagram), based on their level of relative connectivity. The range of connectivity of the banks is defined as a ratio of each bank's in-degree and out-degree divided by that of the most connected bank. Banks that are ranked in the top 10 percentile of this ratio constitute the inner core. This is followed by a mid-core of banks ranked between 90 and 70 percentile and a 3rd tier of banks ranked between the 70 and 40 percentile. Banks with a connectivity ratio of less than 40 per cent are categorised in the periphery.

iv) *Colour code of the network chart*: The blue balls and the red balls represent net lender and net borrower banks respectively in the network chart. The colour coding of the links in the tiered network diagram represents the borrowing from different tiers in the network (for example, the green links represent borrowings from the banks in the inner core).

(a) Solvency contagion analysis

The contagion analysis is in the nature of a stress test where the gross loss to the banking system owing to a domino effect of one or more banks failing is ascertained. We follow the round by round or sequential algorithm for simulating contagion that is now well known from Furfine (2003). Starting with a trigger bank i that fails at time 0, we denote the set of banks that go into distress at each round or iteration by Dq, q = 1,2, …For this analysis, a bank is considered to be in distress when its Tier I capital ratio goes below 7 per cent. The net receivables have been considered as loss for the receiving bank.

(b) Liquidity contagion analysis

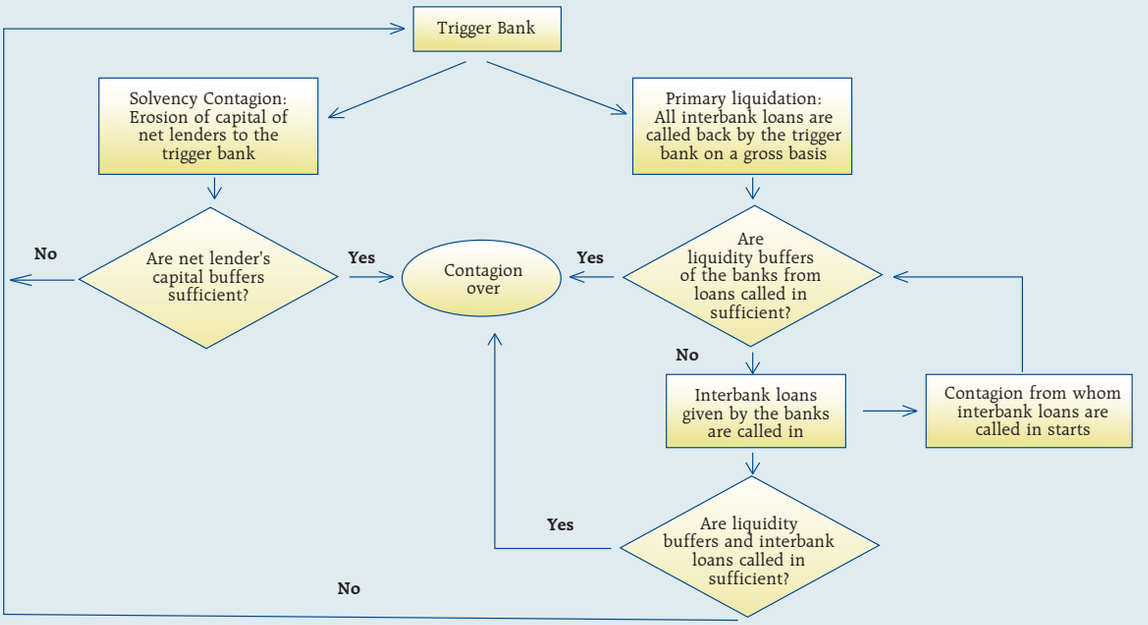
While the solvency contagion analysis assesses potential loss to the system owing to failure of a net borrower, liquidity contagion estimates potential loss to the system due to the failure of a net lender. The analysis is conducted on gross exposures between banks comprising both fund based exposures and derivatives. The basic assumption for the analysis is that a bank will initially dip into its liquidity reserves or buffers to tide over a liquidity stress caused by the failure of a large net lender. The items considered under liquidity reserves are: (a) excess CRR balance; (b) excess SLR balance; and (c) 18 per cent of NDTL. If a bank is able to meet the stress with liquidity buffers alone, then there is no further contagion.

However, if the liquidity buffers alone are not sufficient, then a bank will call in all loans that are 'callable', resulting in a contagion. For the analysis only short-term assets like money lent in the call market and other very short-term loans are taken as callable. Following this, a bank may survive or may be liquidated. In this case there might be instances where a bank may survive by calling in loans, but in turn might propagate a further contagion causing other banks to come under duress. The second assumption used is that when a bank is liquidated, the funds lent by the bank are called in on a gross basis (referred to as primary liquidation), whereas when a bank calls in a short-term loan without being liquidated, the loan is called in on a net basis (on the assumption that the counterparty is likely to first reduce its short-term lending against the same counterparty. This is referred to as secondary liquidation).

(c) Joint solvency-liquidity contagion analysis

A bank typically has both positive net lending positions against some banks while against some other banks it might have a negative net lending position. In the event of failure of such a bank, both solvency and liquidity contagion will happen concurrently. This mechanism is explained by the following flowchart:

Flowchart of Joint Liquidity-Solvency contagion due to a bank coming under distress



The trigger bank is assumed to have failed for some endogenous reason, *i.e.*, it becomes insolvent and thus impacts all its creditor banks. At the same time it starts to liquidate its assets to meet as much of its obligations as possible. This process of liquidation generates a liquidity contagion as the trigger bank starts to call back its loans.

Since equity and long-term loans may not crystallise in the form of liquidity outflows for the counterparties of failed entities, they are not considered as callable in case of primary liquidation. Also, as the RBI guideline dated March 30, 2021 permits the bilateral netting of the MTM values in case of derivatives at counterparty level, exposures pertaining to derivative markets are considered to be callable on net basis in case of primary liquidation.

The lender / creditor banks that are well capitalised will survive the shock and will generate no further contagion. On the other hand, those lender banks whose capital falls below the threshold will trigger a fresh contagion. Similarly, the borrowers whose liquidity buffers are sufficient will be able to tide over the stress without causing further contagion. But some banks may be able to address the liquidity stress only by calling in short term assets. This process of calling in short term assets will again propagate a contagion.

The contagion from both the solvency and liquidity side will stop / stabilise when the loss / shocks are fully absorbed by the system with no further failures.

(d) Identification of impactful and vulnerable banks

Data on bilateral exposures among entities of the financial system are leveraged to compute impact and vulnerability metrics to identify entities that are impactful (causing sizeable capital loss to others in the system upon their default) as well as vulnerable (their own capital loss susceptibility conditional on other entities' failures), using the following metrics and methodology (IMF, 2017):

(i) Index of contagion (impact) of a bank represents the average loss experienced by other banks (expressed as a percentage of their Tier 1 capital) due to failure of that bank. It is calculated, for bank *i*, as

$$100 * \left(\sum_{j \neq i} L_{ji} / K_j \right) / (N - 1)$$

where K_j is bank *j's* capital, L_{ji} is the loss to bank *j* due to the default of bank *i* and *N* is the total number of banks;

(ii) Index of vulnerability of a bank represents the average loss experienced by the bank (expressed as a percentage of its Tier 1 capital) across individually triggered failures of all other banks. It is calculated, for bank *i*, as

$$100 * \left(\sum_{j \neq i} L_{ij} / K_i \right) / (N - 1)$$

where K_i is bank *i's* capital, L_{ij} is the loss to bank *i* due to the default of bank *j* and *N* is the total number of banks;

(iii) To analyse the effects of a credit shock, the exercise simulates default of each bank with 100 per cent loss-given-default, where the counterparties' capitals absorb the losses. A bank is said to fail if its Tier 1 capital ratio falls below 7 per cent. In the subsequent rounds, if there are further failures, the losses are aggregated.

The results of indexes calculated can be analysed to identify entities that are common between the set of top highly impactful banks and the set of top highly vulnerable banks.

1.7 Financial System Stress Indicator (FSSI)

FSSI is compiled using risk factors spread across five financial market segments (equity, forex, money, government debt and corporate debt), three financial intermediary segments (banks, NBFCs and AMC-MFs) and the real sector (Table 5). FSSI lies between zero and unity, with higher value indicating more stress. For its construction, the risk factors pertaining to each component segment are first normalised using min-max method and thereafter aggregated based on simple average into a sub-indicator 'y_i' representing the i^{th} market / sector. Finally, the composite FSSI is obtained as,

$$FSSI_t = \sum_{i=1}^{9} w_i y_{it}$$

where the weight 'w_i' of each sub-indicator 'y_i' is determined from its sample standard deviation 's_i', as,

$$w_i = \frac{1/s_i}{\sum_{i=1}^{9} (1/s_i)}$$

Table 5: Risk factors constituting each component of FSSI

Equity Market	1. Difference between NIFTY 50 monthly returns and its maximum over a two-year rolling window 2. NIFTY 50 Market capitalisation-to-GDP ratio 3. NSE-VIX Index 4. Net Equity FPI flows	
Government Debt Market	5. Realised volatility in 10-year G-sec yield 6. Term Spread: Spread between 10-year G-sec yield and 3-month T-Bill rate 7. Increase in the 10-year G-sec yield compared to the minimum over a two-year rolling window 8. Net Debt FPI flows	
Forex Market	9. Difference between rupee dollar exchange rate and its maximum over a two-year rolling window. 10. m-o-m appreciation/depreciation of rupee dollar exchange rate 11. GARCH (1,1) volatility of rupee dollar exchange rate 12. Difference between 3-month forward premia and its historical maximum.	
Money/Short Term Market	13. Spread between weighted average call rate and weighted average market repo rate 14. Spread between 3-month CD rate and 3-month T-Bill rate 15. Spread between 3-month non-NBFC CP rate and 3-month T-Bill rate 16. Realised volatility of 3-month CP rate 17. Spread between 3-month OIS rate and 3-month T-Bill rate	
Corporate Bond Market	18. Yield spread between 3-year AAA corporate bonds and 3-year G-sec 19. Difference between 3-year BBB and 3-year AAA corporate bond yield 20. Difference between 3-year BBB corporate bond yield and its maximum	
Banking Sector	SCBs	21. CRAR (SCBs) 22. RoA (SCBs) 23. LCR (SCBs) 24. Cost-to-Income (SCBs) 25. Stressed Assets Ratio (SCBs) 26. Banking Beta: cov(r,m)/var(m), over 2-year moving window. r= Bank NIFTY y-o-y, m= NIFTY 50 y-o-y
	UCBs	27. GNPA ratio (UCBs) 28. CRAR (UCBs) 29. RoA (UCBs)
NBFC Sector	30. GNPA ratio 31. CRAR 32. RoA 33. Spread between 3-month NBFC CP rate and 3-month T-Bill rate	
AMC-MF Sector	34. Mutual fund redemptions: y-o-y 35. Mutual fund net inflows	
Real Sector	36. GDP growth 37. CPI inflation 38. Current account balance as a share of GDP 39. Gross fiscal deficit as a share of GDP	

Annex 2

Important Domestic Regulatory Measures

1. Reserve Bank of India (RBI)

Date	Regulation	Rationale
July 2, 2025	**Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025:** Under these Directions, the REs shall, *inter alia*, adhere, to the following Directions for floating rate loans and advances: (i) no pre-payment charges on loans granted to individuals for non-business purposes; and (ii) no pre-payment charges on loans granted by specified categories of REs for business purposes to individuals and MSEs subject to the threshold limit (*e.g.*, loans up to ₹50 lakh for SFBs, RRBs, RCBs, NBFCs-ML and Tier-3 UCBs).	To address the divergent practices by REs and to enhance transparency and fair treatment.
August 12 and October 3, 2025	**Investment avenues for Special Rupee Vostro Accounts (SRVAs) holders:** Authorised Dealer banks were permitted to open Special Rupee Vostro Account of correspondent bank/s for facilitating trade in Indian Rupee. The surplus balance held in these accounts were permitted to be invested in central government securities (including treasury bills) and non-convertible debentures/bonds and commercial papers (CPs) issued by Indian companies.	To expand the bouquet of investment avenues for SRVAs holders.
September 15, 2025	**Master Direction on Payment Aggregators (PAs):** The directions rationalise the definition of various categories of PAs and prescribes the process for conducting due diligence of merchants by PAs. With the issuance of these Directions, all the activities of PA (online, physical and cross-border) are brought under the regulatory ambit.	With these directions, PAs operating in physical space are also covered under the regulation.

Date	Regulation	Rationale
September 25, 2025	**Reserve Bank of India (Authentication mechanisms for digital payment transactions) Directions, 2025:** The directions provide the broad principles which shall be complied with by all the participants in the payment chain, while using a form of authentication. It is mandated that all digital payment transactions shall be authenticated by at least two distinct factors of authentication. Further, at least one of the factors of authentication is dynamically created and the factor of authentication shall be such that compromise of one factor does not affect reliability of the other.	To enable the payments ecosystem to leverage the technological advancements for implementing alternative authentication mechanisms.
October 07, 2025	**Reserve Bank - Integrated Ombudsman Scheme, 2021 (RB-IOS, 2021):** The Scheme is for resolving customer grievances in relation to services provided by entities regulated by Reserve Bank of India in an expeditious and cost-free manner. Now the scheme shall also be applicable to State and Central Co-operative Banks.	To increase the scope of Reserve Bank - Integrated Ombudsman Scheme and enable customers of rural co-operative banks to access the RBI Ombudsman mechanism.
November 11, 2025	**Master Direction – Reserve Bank of India (Repurchase Transactions (Repo)) Directions, 2025:** Municipal bonds were notified as eligible collateral for repo transactions.	To add to the liquidity of municipal debt securities and provide a fillip to the market while also adding to the suite of instruments available for the repo and reverse repo markets.

Date	Regulation	Rationale
November 11, 2025	**Recognition of Self-Regulatory Organisation (SRO) for Payment System Operators (PSOs):** As the payment ecosystem matures and the number of payments systems proliferate, it becomes necessary, in the interest of optimal use of regulatory resources, that the payments industry develops standards in respect of system security, pricing practices, customer protection measures, grievance redressal mechanisms, *etc.* In line with this objective, the Reserve Bank has formally recognised Self-Regulated Payment System Operator Association (SRPA) as an SRO for Payment System Operators.	To ensure PSOs adhere to behavioural, professional, and ethical standards.
November 14, 2025	**Reserve Bank of India (Trade Relief Measures) Directions, 2025:** With a view to mitigate the burden of debt servicing brought about by trade disruptions caused by global headwinds and to ensure the continuity of viable businesses, the RBI issued Directions on *Trade Relief Measures.* This framework constitutes a comprehensive set of temporary relief measures for export-oriented borrowers. It allows REs to grant a moratorium on payment of all instalments (principal and/or interest) falling due between September 1, 2025, and December 31, 2025 and extension in credit period for eligible export finance up to 450 days for pre- and post-shipment export credit disbursed up to 31 Mar 2026. For packing credit where dispatch was delayed, liquidation from legitimate alternate sources or substitution of contract is permitted.	To provide temporary relief through moratoriums to exporters impacted by global trade disruptions.

Date	Regulation	Rationale
December 1, 2025	**National Strategy for Financial Inclusion (NSFI): 2025-30:** The Sub-Committee of Financial Stability and Development Council (FSDC-SC) approved the NSFI 2025-30. NSFI: 2025-30 emphasises a synergistic ecosystem approach, improving the quality and consistency of last mile access and effective usage of financial services. It lays down five strategic objectives (Panch-Jyoti) towards elevating the state of financial inclusion in the country and a menu of 47 action points to achieve them.	To deepen financial inclusion for the well-being of people.
December 2, 2025	**Domestic Systemically Important Banks (D-SIBs):** The D-SIB framework requires the Reserve Bank to disclose the names of banks designated as D-SIBs starting from 2015 and place these banks in appropriate buckets depending upon their Systemic Importance Scores (SIS). Based on the bucket in which a DSIB is placed, an additional CET1 requirement has to be applied to it. As per the 2025 list of D-SIBs, State Bank of India, HDFC Bank, and ICICI Bank continue to be identified as Domestic Systemically Important Banks (D-SIBs) under the same bucketing structure as in the 2024 list of D-SIBs.	To mitigate systemic risks by imposing higher capital buffers on institutions whose failure could destabilise the financial system.
December 8, 2025	**Master Direction – Reserve Bank of India (Rupee Interest Rate Derivatives) Directions, 2025:** The Reserve Bank has issued the master direction on Rupee Interest Rate Derivatives (IRD). The Direction expands the product suite and market-maker base, revises the user classification criterion, facilitates non-resident participation in a larger suite of IRD products and strengthens transparency through reporting of Rupee IRD transactions undertaken globally to the trade repository.	To ensure orderly development of the rupee IRD market, support the risk management needs of the broader financial system while safeguarding participant interests through enhanced transparency and risk management frameworks.

2. Securities and Exchange Board of India (SEBI)

Date	Regulation	Rationale
April 29, 2025	**Clarificatory and procedural changes to aid and strengthen ESG Rating Providers:** (a) provisions related to withdrawal of ESG ratings for ESG rating providers following subscriber-pays business and issuer-pays business models; (b) formats for disclosure of ESG ratings on the websites of ESG rating providers and stock exchanges following a subscriber-pays business model; (c) composition of the internal audit team for ESG rating providers; and (d) requirement for conducting internal audit and constitution of ESG Ratings sub-committee and nomination and remuneration committee for Category-II ESG rating providers made effective after a period of two years from the date of issuance of the circular.	To review the various procedural/ disclosure requirements and obligations for ESG rating providers, based on representation received from ESG rating providers and feedback from various stakeholders through public consultation.
May 05, 2025	**Amendments to SEBI {Issue and Listing of Securitised Debt Instruments (SDI) and Security Receipts} Regulations, 2008.**	To refresh and restate the SDI Regulations in the backdrop of the revised directions issued by the RBI on Securitisation of Standard Assets (SSA) and feedback from market participants.
May 07, 2025	**Review of (a) disclosure of financial information in offer document / placement memorandum and (b) continuous disclosures and compliances by Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs).**	To align the disclosure requirements pertaining to financial results of REITs and InvITs with those of listed companies.
May 13, 2025	**Simplification of operational process and clarification regarding the cash flow disclosure in Corporate Bond Database pursuant to review of Request for Quote (RFQ) Platform framework.**	To simplify the operational process relating to yield to price computation on the RFQ platform.

Date	Regulation	Rationale
May 14, 2025	**Composition of the Internal Audit team for CRAs - Cost Accountant (ACMA/ FCMA) and Diploma in Information System Security Audit (DISSA) qualifications from the Institute of Cost Accounts of India (ICMAI) were included as eligible qualifications in the audit team of CRAs.**	To provide CRAs with a larger pool of eligible professionals with the relevant experience/ qualifications for conducting the internal audit.
June 03, 2025	**Changes in margin obligations to be given by way of pledge/re-pledge in the depository system –** It is now mandated that the invoked securities (other than the mutual fund units that are not traded on the exchanges) shall be blocked for early pay-in in the clients' demat account with a trail being maintained in demat account of stock broker/ clearing member.	To protect clients' securities from being misused by the stock brokers upon invocation of pledged securities.
June 05, 2025	**Limited relaxation from compliance with certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.**	For ease of doing business.
June 12, 2025	**Investor Charter for Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs).**	To enhance financial consumer protection alongside enhanced financial inclusion and financial literacy.
August 08, 2025	**Transaction charges paid to mutual fund distributors (MFDs) –** SEBI has decided to discontinue the practice of transaction charges and upfront commission being paid by investors to MFDs.	To ensure that distributors, being agents of AMCs, are entitled remuneration only from AMCs for the services rendered and not from investors.

Date	Regulation	Rationale
September 01, 2025	**Measures towards Ease of Doing Business for Infrastructure Investment Trusts and Real Estate Investment Trusts:** The amendments included (a) clarification on the definition of "public" for minimum public unitholding requirement; (b) adjustment of negative cash flows at holding company with distributions received from SPV in calculation of net distributable cash flows (NDCF); (c) alignment of timelines for submission of various reports with the timelines for submission of financial results; and (d) alignment of minimum allotment with trading lot for privately placed InvITs.	To promote ease of doing business.
September 09, 2025	**Simplified Format of Disclosure Document for Portfolio Managers.**	For ease of doing business.
September 09, 2025	**Amendment to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018:** The amendments included simplification and streamlining of placement document for Qualified Institutions Placement.	To reduce duplication of disclosures in the placement document by leveraging information already available in the public domain for listed entities.
September 09, 2025	**Revised regulatory framework for Angel Funds under AIF Regulations:** A review of the regulatory framework for Angel Funds indicated gaps in operational clarity and raised concerns about offering investment opportunities to a wide range of investors, some of whom may not have commensurate risk appetite for investment in illiquid assets. Accordingly, SEBI (Alternative Investment Funds) Regulations, 2012 were amended with respect to their fundraising processes, investment conditions, operational aspects, and governance.	To streamline and rationalise the fund-raising process, strengthen governance mechanisms, provide investment flexibility and operational clarity to Angel Funds.

Date	Regulation	Rationale
September 10, 2025	**Ease of regulatory compliances for FPIs investing only in Government Securities:** SEBI eased the regulatory compliances for FPIs investing only in G-Secs (called as GS-FPIs). Some of the key measures include harmonisation of periodicity of mandatory KYC review for GS-FPIs with RBI's requirements, exemption to FPIs that invest exclusively in G-Secs under the Fully Accessible Route (FAR) from furnishing investor group details, *etc.* Simplification of on-boarding process and rationalisation of ongoing regulatory compliances are expected to further help in facilitating investments by FPIs in G-Secs.	To enhance ease of doing business through a risk-based approach and optimum regulation.

3. Insurance Regulatory and Development Authority of India (IRDAI)

Date	Regulation	Rationale
July 31, 2025	**Master Circular on Rural, Social Sector and Motor Third Party Obligations:** The circular provides the methodology for arriving at the obligations for rural, social sectors and motor third party in terms of "what to measure, how to measure and when to measure the obligations".	To improve insurance accessibility for underserved and marginalised segments of society, while also supporting a sustained increase in overall insurance penetration.
August 14, 2025	**Transition towards a Risk Based Capital Framework:** IRDAI has initiated the Second Quantitative Impact Study (QIS 2) based on the findings and industry feedback arising from QIS 1 to further refine the framework and address identified issues. The impact study is aimed at ensuring capital adequacy commensurate with the underlying risk profile of insurers.	To implement a Risk Based Capital (RBC) framework for insurers in India with the objective of aligning the Indian insurance sector with international best practices.
December 19, 2025	**Investment in AT1 Bonds and Tier 2 Capital of All India Financial Institutions:** Such investments in AIFIs regulated by RBI have been permitted.	To facilitate meeting the capital needs of AIFIs and better risk adjusted returns for the insurers.

4. Pension Fund Regulatory and Development Authority (PFRDA)

Date	Regulation	Rationale
April 21, 2025	**Settlement of Corpus & Closure of NPS account in case NPS subscriber renounces Indian citizenship and does not hold OCI card:** Such subscribers are required to immediately intimate the NPS Trust of the change in their citizenship status, along with supporting proof. Upon verification, the PRAN/NPS account held by the subscriber shall be mandatorily closed and the entire accumulated pension corpus shall be transferred only to the subscriber's NRO account, in accordance with applicable FEMA and RBI guidelines.	To clarify the procedure to be followed in cases where an NPS subscriber validly renounces Indian citizenship and does not possess an OCI card.
September 04, 2025	**Guidelines on Classification of Cybersecurity Incidents:** Entities are required to categorize incidents as Critical, High, Medium or Low based on their impact on confidentiality, integrity and availability of systems and data. The circular mandates that all cyber incidents leading to disruption or variance in normal operations be classified as High or Critical, ensuring a consistent and effective response framework in line with operational resilience and business continuity principles. It supplements the earlier Information and Cyber Security Policy Guidelines – 2024 emphasising the importance of structured incident management.	To provide detailed guidelines for classification and prioritization of cybersecurity incidents by intermediaries and REs under PFRDA.

Date	Regulation	Rationale
September 12, 2025	**Corporate Model NPS - Revision in the provisions for exercising PF and investment choices & Bulk Authorisation of employees' NPS application by corporates:** The revisions provides that in cases where both employer and employee co-contribute or where the employer contributes solely or in higher proportion, decisions regarding choice of Pension Fund and investment scheme shall be based on a formal, mutual agreement between the management and employees. The agreement should be periodically reviewed, factoring in long-term investment horizons, performance of Pension Funds and employee risk profiles. The circular emphasises financial literacy, transparent communication and an internal grievance redressal mechanism for effective governance under the Corporate NPS framework.	To revise the framework governing choice of Pension Funds and investment options for subscribers under the Corporate Model of NPS.
September 15, 2025	**Guidelines on Price Discovery Process for the charges of Central Recordkeeping Agencies (CRAs) for the services rendered by them to the subscribers:** The revised framework prescribes the upper cap of charges for various segments which are Government Sector (NPS & UPS), APY & NPS-Lite and Private Sector (NPS & NPS Vatsalya).	To revise and rationalize the applicable charges for services rendered by CRAs through a price discovery process initiated by the Authority.

Date	Regulation	Rationale
September 23, 2025	**Permitting the Points of Presence for engagement of 'other persons' as Pension Agents for distribution of Pension Schemes under Regulation 2(1)(j)(iv) of Pension Fund Regulatory and Development Authority (Point of Presence) Regulations, 2018:** The Authority has permitted PoPs to engage "other persons" as Pension Agents for the distribution of pension schemes, subject to the approval of the Board of respective PoPs. Eligible entities include non-individual intermediaries registered with financial sector regulators, Government Departments related to Labour, Health, Education, Panchayati Raj, SRLMs under NRLM, and companies registered under the Ministry of Corporate Affairs including those engaged with Gig and Platform workers or FPOs.	To outlines the scope of activities of Pension Agents and mandate adherence to record-keeping, supervision, and audit provisions.

5. Insolvency and Bankruptcy Board of India (IBBI)

Date	Regulation	Rationale
April 03, 2025	**Amendments to CIRP Regulations:** The amendment provides for revised Form-H, the compliance certificate submitted by the Resolution Professional (RP) along with the application for approval of resolution plan to the Adjudicating Authority (NCLT), certifying compliance with the IBC and related regulations. The revised Form-H now, *inter alia*, captures detailed information on the Successful Resolution Applicant's (SRA's) business, financial capacity, implementation details, key financial metrics, carry-forward of losses under the Income Tax Act, and regulatory fees payable to the Board.	To streamline the format of Form H and facilitate quicker approvals by the NCLT through structured and comprehensive information.

Date	Regulation	Rationale
May 19, 2025	**Amendments to CIRP Regulations:** The amendment replaces the Regulation 40B of the CIRP Regulations, 2016 and introduces a revised framework for the electronic filing of forms by the IRPs/RPs. The revised framework replaces the existing nine forms (IP-1 and CIRP Forms 1 to 8) with five consolidated forms (CP-1 to CP-5) aligned with key stages of the CIRP, each with specific filing responsibilities and timelines based on a standardised monthly reporting cycle.	To streamline compliance for insolvency professionals, reducing their time and effort, while ensuring that the Board obtains all necessary information efficiently for effective monitoring.
May 26, 2025	**Amendments to CIRP Regulations:** The amendment regulations provide for the following, (i) the resolution professional, with the approval of the CoC, can invite expression of interest for submission of resolution plans for the corporate debtor as a whole, or for sale of one or more of assets of the corporate debtor, or for both; (ii) where a resolution plan provides for payment in stages, the financial creditors who did not vote in favour of the resolution plan shall be paid at least pro rata and in priority over financial creditors who voted in favour of the plan, in each stage; (iii) the CoC may direct the resolution professional to invite interim finance providers to CoC meetings as observers (without voting rights), enabling them to better assess the corporate debtor's operations and make informed funding decisions; and (iv) the resolution professionals are now required to present all resolution plans received, including those that are noncompliant, to the CoC along with relevant details.	To enhance efficiency, reduce delays, and maximise value along with enhancing stakeholder(s) confidence in the CIRP.

Date	Regulation	Rationale
May 19, 2025	**Amendment to PG to CD Regulations:** The amendment introduces Regulation 17B to address procedural gaps in cases where a debtor fails to submit a repayment plan under Section 105 of the Insolvency and Bankruptcy Code, 2016. It further provides that the resolution professional, with the approval of creditors, shall file an application with the Adjudicating Authority to report the non-submission and seek appropriate directions, thereby enhancing clarity and efficiency in the insolvency resolution process for personal guarantors to corporate debtors.	To ensure procedural clarity and continuity, prevent process delays in the insolvency resolution process for personal guarantors to corporate debtors.
May 26, 2025	**Launch of Revised Forms for Corporate Insolvency Resolution Process (CIRP):** The Circular provides for a revised framework that replaces the existing nine forms (IP-1 and CIRP Forms 1 to 8) with five consolidated forms (CP-1 to CP-5) to eliminate redundancies and enable auto population of data through the IBBI portal. The IP handling the CIRP assignment shall access the platform with a unique username and password provided by the IBBI and submit the Forms.	To streamline compliance for insolvency professionals, reducing their time and effort, while ensuring that the Board obtains all necessary information promptly and efficiently.
July 4, 2025	**Amendments to CIRP Regulations:** The amendment regulations provide for the following: (i) the resolution professional (RP) shall mandatorily include in the information memorandum (IM) details of all identified avoidance transactions or fraudulent or wrongful trading. Further, the RP is required to keep the IM updated and provide the same to the committee of creditors (CoC) periodically; (ii) the resolution plan shall not provide for assignment of any avoidance transactions or fraudulent or wrongful trading unless it was disclosed in the information memorandum; and intimated to all prospective resolution applicants under sub-regulation (3A) of regulation 35A before the last date for submission of resolution plans.	To strengthen transparency, disclosure, and the treatment of avoidance transactions in the corporate insolvency resolution process.

Date	Regulation	Rationale
July 14, 2025	**Withdrawal of Form IP-1 for assignments under IBC Processes:** The Circular withdraws the requirement to submit Form IP-1 for all processes under the Code, in view of the existing Assignment Module on IBBI's electronic portal and the introduction of revised CIRP forms (CP-1 to CP-5).	To remove duplication and improve regulatory efficiency and transparency.

6. International Financial Services Centres Authority (IFSCA)

Date	Regulation	Rationale
April 4, 2025	**Framework for Finance Company/ Finance Unit undertaking the activity of Global/ Regional Corporate Treasury Centres (GRCTCs):** GRCTC may be set up as a Finance Company or as a Finance Unit (branch) of a company incorporated in India or abroad and may perform a range of treasury activities and services exclusively for their group entities.[1] They may undertake various treasury activities including raising capital through different means, transacting in financial instruments both within and outside the IFSC, engaging in derivative and foreign exchange transactions, undertaking activities including factoring, forfaiting, acting as a re-invoicing centre, liquidity and cash management.	To update the earlier framework and permit Indian and Foreign companies to centralise treasury activities, manage liquidity, and mitigate risk through GRCTCs set up in GIFT IFSC.
July 10, 2025	**International Financial Services Centres Authority (TechFin and Ancillary Services) Regulations, 2025:** All TechFin and ancillary service providers to obtain a certificate of registration from the IFSCA before starting operations. The regulations cover entities that facilitate financial services through technology, including those leveraging AI, Big Data, Blockchain, Web3, and cybersecurity. Registered entities must comply with a code of conduct that emphasises transparency, fair practices, and client interests.	To consolidate the erstwhile frameworks and to streamline operations, ensure transparency and support innovation in the IFSC ecosystem.

[1] The term "group entity" is defined broadly encompassing parent-subsidiary, associate, joint venture, and related party relationships.

Date	Regulation	Rationale
July 30, 2025	**IFSCA (Fund Management) (Amendment) Regulations, 2025:** The amendment allows FMEs authorised by the IFSCA to manage schemes on behalf of another entity. FMEs providing these services must maintain an additional net worth of USD 500,000 and assign a separate Principal Officer for each third-party managed scheme. The FME remains fully liable for all obligations regardless of indemnity agreements. Third-party fund managers must meet "fit and proper" criteria and be incorporated in India, an IFSC, or a foreign jurisdiction with adequate resources.	To establish a framework for Third Party Fund Management Services which allows FMEs authorised by the IFSCA to manage schemes on behalf of another entity.
August 12, 2025	**Regulatory Framework for Global Access in the IFSC:** Entities must obtain specific authorisation from the IFSCA to operate as a Global Access Provider (GAP). GAPs can provide access to financial products listed on stock exchanges in foreign jurisdictions, provided these are also recognised as "financial products" in the IFSC. GAPs are explicitly prohibited from providing access to crypto-assets, trading on index or single-stock derivatives of Indian securities traded globally, or trading in INR pair currency contracts on any global market. All user, transaction, and trade data must be maintained within the IFSC. Client funds must be routed through a bank account in the IFSC or an authorised Payment Service Provider (PSP).	To facilitate cross-border financial transactions and investment in a transparent, competitive, and globally aligned environment.