Foreword

As the year 2024 draws to a close and a new year dawns, the global economy exhibits resilience in the face of formidable headwinds from political and economic policy uncertainty, persisting conflicts and an environment of fragmenting international trade and tariffs. Brightening the global prospects is the likelihood that the decline in inflation will continue and align with targets during the year ahead, allowing purchasing power to recover. As monetary policy gains headroom to further support economic activity, financial conditions can be expected to remain easy and contribute to an improvement in the trajectory of global GDP from a prolonged phase of low growth. Robust labour market and sound financial system too provide congenial conditions for this turnaround.

The medium-term outlook, however, remains challenging, with downside risks from possible intensification of geopolitical conflicts, sporadic financial market turmoil, extreme climate events and rising indebtedness. Stretched asset valuations, fragilities in the less regulated non-bank financial intermediaries, and threats from new and emerging technologies also add to the evolving uncertain outlook.

The resilience of financial systems can be tested if these risks materialise. Prudently, therefore, even as near-term risks to financial stability appear to be receding, the national financial regulators and supervisors across the globe remain on guard, scarred by the lessons drawn from experiences of black swan events such as the global financial crisis and the pandemic as well as from episodic visitations of financial market volatility. Further, they are maintaining their focus on strengthening the financial institutions while collaborating with international standard-setting bodies to deepen regulatory reforms, especially in areas of possible vulnerabilities in the global financial system.

Financial sector regulators in India too are intensifying reforms and sharpening their surveillance against the backdrop of the soundness of the financial system bolstered by robust earnings, low levels of impaired assets and strong capital buffers, as this report highlights. Stress test results reveal that capital levels of the banking system as well as of the non-banking financial companies (NBFCs) sector will remain well above the regulatory minimum even under adverse stress scenarios.

Notwithstanding the uncertainties shrouding the global macrofinancial ethos as it unfolds, prospects for the Indian economy are expected to improve after the slowdown in the pace of economic activity in the first half of 2024-25. Consumer and business confidence for the year ahead remain high and the investment scenario is brighter as corporations step into 2025 with robust balance sheets and high profitability.

As we strive to preserve financial stability to support a higher growth path for the Indian economy, our focus remains steadfast on maintaining stability of financial institutions and, more broadly, systemic stability. We continue to secure and anchor public trust and confidence to support India's aspirational goals. We remain committed to developing a modern financial system that is customer-centric, technologically leveraged and financially inclusive.

Sanjay Malhotra
Governor

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