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ABC of FSR -Financial stability Report (June 2025)

A. Macro Financial Risks

Global Outlook:

- ✓ The global macroeconomic outlook has deteriorated markedly amidst headwinds from persistent trade frictions, heightened policy uncertainty, and weak consumer sentiment.
- ✓ Citing escalation in trade tensions and elevated policy uncertainty, the International Monetary Fund (IMF) in its April 2025 World Economic Outlook has revised global growth projection downwards to 2.8 per cent in 2025 and 3.0 per cent in 2026.
- ✓ Inflation in emerging market economies (EMEs), on the other hand, is mostly ruling below the targets.
- ✓ According to the IMF, global public debt as a percentage of GDP is projected to reach above 95 per cent this year and 100 per cent by the end of the decade while it may reach 117 per cent by 2027 in a severely adverse scenario.

Domestic Outlook:

- ✓ RBI has projected the real GDP to grow at 6.5 per cent in 2025-26, same as in 2024-25, supported by buoyant rural demand, revival in urban demand, an uptick in investment activity on the back of above-average capacity utilization, government's continued thrust on capex and congenial financial conditions.
- ✓ Domestic inflation has been steadily declining with the headline consumer price index (CPI) inflation recording a six-year low of 2.8 per cent in May 2025.
- ✓ India's fiscal position and credibility has enhanced significantly in recent years on account of ongoing fiscal consolidation, improvement in the quality of expenditure and earmarking of debt-to-GDP as the nominal anchor for the central government's fiscal policy.
- ✓ The weighted average maturity of outstanding stock of central government market borrowings has risen from 10.4 years in 2018-19 to 13.2 years in 2024-25 and around 97 per cent are issued at fixed rate.
- ✓ CAD at 0.6 per cent of GDP during 2024-25 remains eminently manageable, supported by sustained buoyancy in services exports and remittances. Moreover, current account balance turned into a surplus of 1.3 per cent of GDP in Q4:2024-25.
- ✓ Expected FPI outflows could reach 6 per cent of the GDP, while total capital outflows, that is, FPI and FDI, could be in the magnitude of about 7 per cent of GDP.
- ✓ Foreign exchange reserves at US$ 697.9 billion (June 20, 2025), are sufficient to cover more than 11 months of merchandise imports on BoP basis. External debt stood at a moderate 19.1 per cent of GDP at end- March 2025.Also the share of short-term debt on residual maturity basis stood at 45.4 per cent of foreign exchange reserves at end-March 2025.

Global Financial Markets:

- ✓ Equity markets, especially in the US, that have outperformed most global peers in the last five years, saw a sharp sell-off after the reciprocal tariff.
- ✓ Valuations of US stocks, which form nearly 55 per cent of global equity market, remain stretched by historical standards. The forward price-to-earnings (P/E) ratio – the ratio of equity prices to expected 12-month earnings – is well above the historical median.
- ✓ Equity risk premium – a measure of additional return investors requires to buy stocks relative to risk-free bonds – has declined to decadal low levels

- ✓ Core government bond markets, which are integral to the efficient functioning of global capital markets and the financial system, are exhibiting vulnerabilities driven by deterioration in market liquidity increasing footprint of highly leveraged and price-sensitive NBFIs, and elevated volatility amid high levels of global public debt

Domestic Financial Markets

- ✓ The Reserve Bank has injected durable liquidity amounting to about ₹9.5 lakh crore through suite of liquidity measures.
- ✓ Decision to cut CRR by 100 bps in a staggered phase will release ₹2.5 lakh crore of primary liquidity starting September till December 2025. Cumulatively, these measures have not only turned durable liquidity into surplus but will also contribute to faster transmission of monetary policy to the financial and credit markets.
- ✓ Money market spreads have eased from the highs seen during January-March 2025, remaining near their long-term averages Certificate of deposit (CD) spreads widened in the initial part of 2025 due to the tightness in system liquidity and large issuances of CDs by banks to bridge asset-liability mismatches.
- ✓ The foreign exchange market witnessed bouts of volatility even as the USD/INR exchange rate recorded sharp two-way movements during January-May 2025.
- ✓ Resource mobilization through capital markets grew by 32.9 per cent to ₹15.7 lakh crore in 2024-25. Debt markets had the dominant share (63.5 per cent) in resource mobilization, of which 99.2 per cent was raised through listed private placements.
- ✓ Under Household Sector, as on end-December 2024, India's household debt at 41.9 per cent of GDP (at current market prices) was relatively low compared to other EMEs (Emerging Market Economies).

Indian Banking System:

- ✓ The resilience of the banking system has been pivotal to the strength of the Indian financial system. This is evident in scheduled commercial bank's (SCBs) strong capital and liquidity buffers, improved asset quality and robust earnings.
- ✓ However, Banks would face some pressure in the near-term due to easing monetary policy impacting the net interest margin (NIM).
- ✓ Credit growth has slowed, and credit impulse has turned negative. Economic slowdown, if any, amidst heightened uncertainty could drag credit demand lower, which may impact asset quality and profitability.
- ✓ Banks' liability profile is changing with the share of higher-cost term deposits and CDs growing compared to low-cost current account and savings account (CASA) deposit.

B. Financial Institutions: Soundness and Resilience

Scheduled Commercial Banks (SCBs)

- ✓ SCB's aggregate deposits grew at 10.7 per cent (y-o-y) during 2024-25, notwithstanding a deceleration in respect of private sector banks (PVBs) and foreign banks (FBs). As on June 13, 2025, SCB's y-o-y deposits growth stood at 10.5 per cent.
- ✓ SCB's credit growth decelerated in 2024-25 across bank groups Credit growth of public sector banks (PSBs) outpaced that of PVBs during the year, after more than a decade. As on June 13, 2025, y-o-y credit growth of SCBs moderated to 9.6 per cent. The shares of agricultural and industrial loans in aggregate credit have contracted, while those of services and personal loans have expanded over the last fiscal year.
- ✓ SCB's continued to record improvement in their asset quality, with the GNPA ratio and NNPA ratio declining to multi-decadal lows of 2.3 per cent and 0.5 per cent, respectively half-yearly slippage ratio, measuring new accretions to NPAs as a share of standard advances at

the beginning of the half-year, remained stable at 0.7 per cent.

- ✓ The profitability of SCB's remained strong in 2024-25, with profit after tax (PAT) increasing by 16.9 per cent (y-o-y). PAT of PSBs recorded a robust growth of 31.8 per cent, compared to much lower growth (9.2 per cent) for PVBs.
- ✓ PSB's higher profitability was primarily driven by a rise in their other operating income. On the other hand, higher growth in operating expenses was the key contributor to the relatively lower profitability of PVBs expanded over the last fiscal year.
- ✓ Inter-bank exposures stood at 3.4 per cent of the total assets of the banking system in March 2025, at around the same level as in the past quarters. PSBs continued to dominate the inter-bank market with more than 50 per cent share. The share of PSBs and FBs moderated with corresponding increase in the share of PVBs in H2:2024-25.
- ✓ NBFCs (non-HFCs) were the largest net borrowers of funds from the financial system, with gross payables at ₹21.15 lakh crore against gross receivables at ₹2.26 lakh crore as at end-March 2025.

C. Regulatory Initiatives and Other Developments in the Financial Sector

- ✓ Use of Indian Rupee for Cross Border Settlements.
- ✓ RBI, in consultation with the Government of India, has further liberalized the FEMA framework.
- ✓ Calibrated amendments to the LCR framework by introducing additional run-off rate factors for internet and mobile banking enabled retail deposits (recognizing their higher propensity for withdrawal). Haircuts on market value of Level 1 High-Quality Liquid Assets (HQLA) have also been calibrated to capture their liquidity generating capacity during periods of stress.
- ✓ Central Bank has issued Reserve Bank of India (Digital Lending) Directions, 2025 consolidating the previous instructions on Digital Lending and introduced two new measures for arrangements involving Lending Service Providers (LSPs) partnering with multiple regulated entities and for creation of a directory of digital lending apps (DLAs).
- ✓ Central Bank under Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025, forward contracts in government securities have now been permitted. Such forward contracts will enable long- term investors such as insurance funds to manage their interest rate risk across interest rate cycles.
- ✓ A light-touch regulation regime for passively managed mutual fund schemes, 'MF Lite Framework' was introduced by SEBI with an intent to promote ease of entry, encourage new players, reduce compliance requirements, increase penetration, facilitate investment diversification, increase market liquidity and foster innovation.
- ✓ SEBI introduced a comprehensive regulatory framework for Specialized Investment Funds (SIF) aimed at bridging the gap between mutual funds and portfolio management services.
- ✓ SEBI issued a regulatory framework to facilitate safer participation of retail investors in algorithmic trading through brokers, which has outlined the rights and responsibilities of the main stakeholders of the trading ecosystem, viz., investors, stockbrokers, model providers/ vendors.
- ✓ SEBI has put in place a framework in collaboration with National e-Governance Division (NeGD), Ministry of Electronics and Information Technology (MeitY) for 'Harnessing DigiLocker as a Digital Public Infrastructure for reducing unclaimed assets in the Indian Securities Market'.

Unified Pension Scheme (UPS) as an option under NPS, was issued by the Department of Financial Services vide Notification dated January.

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