

## RBI's Financial Stability Report (FSR) 2026

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### Financial Stability Report (FSR) Latest News

- The RBI released its latest Financial Stability Report (**FSR**), highlighting that **geopolitical fragmentation** and rapid advances in **AI** are emerging as the two most significant forces reshaping the global economy and financial system.
- The report also underscores the **resilience** of India's banking sector despite an uncertain global environment.

### Financial Stability Report (FSR)

- It is a comprehensive **biannual** publication released by the RBI since 2010.
- It evaluates the **overall health**, resilience, and potential risks within the Indian financial system, by compiling insights from the Financial Stability and Development Council (**FSDC**) subcommittee.
  - Founded in 2010 to improve financial stability mechanisms, **FSDC** is the Ministry of Finance's apex non-statutory body, chaired by the Union Finance Minister.

- The RBI Governor chairs the FSDC **Subcommittee**, which discusses systemic risks and provides inputs to FSR.
- It acts as an **early-warning system** to identify systemic issues before they escalate into crises.
- It provides a trusted **baseline metric** to gauge the stability of India's banking, insurance, and non-banking (NBFC) sectors.

## Key Global Risks Identified by Reserve Bank of India (RBI)

- **Geopolitical fragmentation:**
  - Rising geopolitical conflicts and fragmentation have increased the risk of adverse external shocks.
  - These developments pose significant challenges for policymakers by affecting the global trade and investment flows, **supply chains**, and financial market stability.
- **Technological disruption through AI:**
  - Rapid advancements in Artificial Intelligence (AI) are transforming economic activity and financial systems.
  - While AI promises productivity gains and long-term growth, it also introduces **uncertainties** regarding employment, financial markets and regulatory oversight.
- **Global financial stability concerns:** The RBI identified several vulnerabilities that could amplify **future crises**:
  - Persistently high public debt across major economies.
  - Fragile global bond markets.
  - Elevated asset valuations.
  - Expanding role of leveraged non-bank financial intermediaries (NBFIs).
  - Possibility of advanced economy central banks maintaining a **hawkish monetary policy** due to inflation, leading to tighter global financial conditions.

## India's Macro-Financial Resilience

- The RBI observed that the Indian economy has remained resilient despite significant external shocks because of:
  - Strong economic growth.
  - **Moderating inflation.**
    - Healthy balance sheets of financial and non-financial firms.
    - Adequate capital and liquidity buffers.
  - The central bank reaffirmed its commitment to strengthening institutional safeguards to protect the economy from future domestic and external risks.

## Health of India's Banking and Financial Sector

- **Improvement in asset quality:**
  - The Gross Non-Performing Asset (**GNPA**) ratio of banks declined to a multi-decadal low of 1.8% in March 2026.

- Improvement was broad-based across the Public Sector Banks (PSBs), private sector banks, and other banking groups.
- **Future stress assessment:** Stress tests suggest –
  - **Baseline scenario:** GNPA may rise marginally from 1.8% (March 2026) to 1.9% (March 2028).
  - **Adverse scenarios:** GNPA could increase to 3.8%–4.1%, indicating resilience even under severe stress.
- **Strong financial institutions:**
  - According to the RBI, banks and non-banking financial companies (NBFCs) maintain strong capital adequacy, comfortable liquidity, healthy profitability, low NPAs, and robust credit growth.
  - Stress tests indicate that the financial sector is well-equipped to absorb adverse shocks.

## Trends in Asset Quality

- **Declining loan defaults:** The annual slippage ratio declined steadily over the last four financial years to 1.2% in FY 2025-26, reflecting reduced fresh NPAs, especially among public and private sector banks.
- **Sector-wise performance:** Credit quality improved across all major sectors. However, agriculture continued to remain the weakest segment despite improvement –
  - **GNPA ratio:** 5.1% (highest among sectors).
  - Accounted for 37.2% of Scheduled Commercial Banks' total GNPA.
- **Large borrowers:**
  - The share of large borrowers in total bank credit increased marginally to 44.5%.
  - However, their asset quality improved significantly, **for example**, aggregate GNPA ratio declined from 2.4% (September 2024) to 1.2% (March 2026).
  - This indicates better credit management and recovery among large corporate borrowers.

## Growth Outlook and Broader Vision

- Despite global uncertainties and market volatility, the Indian financial markets have functioned in an orderly manner.
- The financial system continues to support investment, credit expansion, and economic growth.
- Globally, despite ongoing geopolitical conflicts and supply-chain disruptions, economic resilience has been aided partly by expectations of **AI-driven productivity improvements**.
- The RBI emphasized that financial stability extends beyond prudential regulation. Sustained public confidence requires:
  - Fair business conduct.
  - Improved customer experience.
  - Efficient financial services.
- **Greater financial inclusion.**
  - A dynamic and resilient financial ecosystem that supports households, businesses and long-term economic growth.

## Conclusion

- The Financial Stability Report (FSR) 2026 portrays India's financial system as fundamentally strong. However, the RBI cautions that the vulnerabilities in international financial markets remain key risks.
- Going forward, strengthening financial resilience while ensuring efficiency, inclusion and consumer confidence will be critical for sustaining India's macro-financial stability.

**Source: IE**

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