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INSIDE

RBI FINANCIAL STABILITY REPORT JUNE 2026 – GIST

POLICY INITIATIVES BY THE RESERVE BANK

RBI FINANCIAL STABILITY REPORT – JUNE 2026 – GIST

Macro Financial Risks

Despite repeated shocks, the global financial system has thus far demonstrated notable resilience, with markets remaining orderly after an initial bout of volatility following the outbreak of the West Asia conflict. Market optimism has been supported by lower-than-anticipated increase in price of oil futures, strong corporate earnings, the AI-driven investment boom, and easy financial conditions.

Nevertheless, global financial stability risks remain elevated. Despite the interim peace deal to end the conflict, lingering supply chain uncertainties could tighten financial conditions and worsen inflationary pressures, prompting a reassessment of the monetary policy outlook. At the same time, vulnerabilities arising from elevated public debt, bond market fragilities, high asset valuations, and the growing role of leveraged non-bank financial intermediaries (NBFIs) could amplify future shocks.

Consequently, while markets remain resilient, the combination of elevated vulnerabilities and evolving macro-financial risks continue to pose challenges to global financial stability.

The conflict poses significant challenges to both the global and the domestic economy through a steep rise in energy and other commodity prices and disruption to global supply chains. Although the interim peace deal has mitigated uncertainty surrounding the outlook considerably, the exact impact will be contingent on the extent and pace of supply chain normalization.

The global financial system has displayed resilience despite successive shocks in the recentpast. The financial markets, which elicited strong initial reactions at the onset of the war, have since become more sanguine. A combination of lower than- anticipated rise in oil futures price, strong corporate earnings, the artificial intelligence (AI) driven boom, and supportive financial conditions has underpinned market optimism and kept volatility contained. Global financial stability risks, however, remain elevated. The rebuilding of inventories by countries could keep energy prices relatively elevated even as supply chain normalization gains pace.

An increase in market-implied inflation in advanced economies points to rising inflation risk. Consequently, market is pivoting from expectations of rate cuts to a future monetary policy path that is pricing either an extended pause or rate hikes. This could tighten global financial conditions. Alongside, vulnerabilities emanating from rising public debt, bond market fragilities, elevated asset valuations and concentrated exposures due to substantial investments in AI have become more pronounced. The growing footprint of leveraged and price-sensitive non-bank financial intermediaries (NBFIs) remains a major source of amplification channel. Thus, fresh shocks could trigger vulnerabilities and amplify them, leading to financial stability risks.

India's sound macroeconomic fundamentals provide ample buffers to deal with external shocks. However, the Indian economy remains exposed to energy price shocks and supply-chain disruptions given its high dependence on imported oil and other key commodities. The current account deficit (CAD) remained within manageable limit in 2025- 26, though overall balance of payments (BoP) stayed in deficit for the second year in a row mainly due to weak capital inflows.

The West Asia conflict and consequent increase in global uncertainty also impacted emerging market economies (EMEs) like India through the financial channel. The exchange rate came under sustained depreciation pressure due to weakening of capital inflows and higher hedging demand from importers and investors.

Notwithstanding sustained fiscal consolidation, government bond yields, especially at the longer end, came under pressure mainly reflecting geopolitical tensions and rising energy prices. However, the pressure on exchange rate and bond yields has eased post the measures taken by the Reserve Bank and the Government to attract capital flows, helping overall financial conditions to ease.

Notably, sound macroeconomic fundamentals and a healthy financial system helped the Indian economy to withstand spillovers from the West Asia crisis. Globally, India is still the fastest growing major economy supported by domestic demand, even as inflation remains within target. The balance sheet of banks and non-banks remain robust with adequate capital and liquidity buffers, limiting the risk of financial shocks spilling over to the real economy. Moreover, despite an uptick in the financial system stress indicator (FSSI), the stress in the domestic financial system remains relatively low compared to previous crisis episodes.

Domestic Macroeconomic Conditions

The Indian economy entered the recent bout of global turbulence triggered by the West Asia conflict with stronger macroeconomic fundamentals than in many earlier episodes of external stress. While India's resilience provides an important buffer against these shocks, some impact is inevitable given the country's substantial dependence on imported energy.

Indian economy recorded a strong growth of 7.7 per cent in 2025-26 (average growth of 7.3 per cent in the last three years), supported by strong private consumption and fixed investment. Most of the high-frequency indicators for April–May 2026 point to continued resilience in economic activity, suggesting that growth has remained firm in the first quarter of 2026–27 despite headwinds arising from the West Asia conflict. Nevertheless, elevated oil and other commodity prices and weaker global growth could adversely affect India's domestic growth in 2026-27. Against this backdrop, the monetary policy committee (MPC) has projected a growth of 6.6 per cent for 2026-27. Several measures undertaken by the Government, including support to MSME and export sectors, are expected to help sustain economic activity, while mitigating the impact of external shocks. In addition, the interim peace deal has laid the foundation for cessation of this conflict and normalization of supply chains, which could provide tailwinds to growth.

Inflation has remained contained and below the 4 per cent target, although it has inched up in the recent months. Headline inflation rose from 3.5 per cent in April 2026 to 3.9 per cent in May 2026, reflecting, inter alia, an increase in passthrough of oil prices. However, a combination of conflict-driven supply shock and projected weak monsoon due to El Niño could push inflation to the higher end of the tolerance band in Q3:2026-27 and worsen inflation expectations. Accordingly, the MPC revised its inflation projection upwards from 4.6 per cent to 5.1 per cent for 2026-27.

Financial Markets

The Indian Rupee (INR) has been under sustained depreciation pressure over the last several months due to elevated trade uncertainty, weakening of capital inflows and deteriorating investor sentiments.

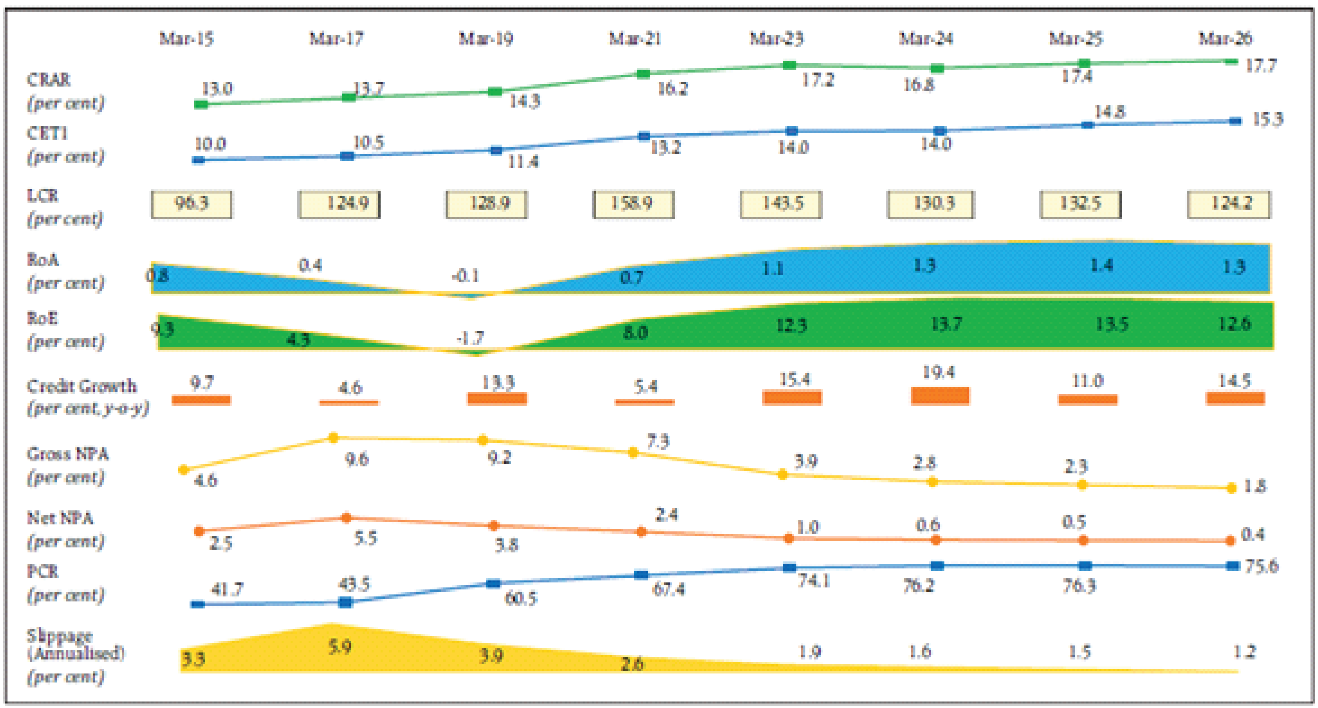
While the pressure on the INR predates the West Asia conflict, the outbreak of the conflict amplified depreciation pressure and volatility with importer hedging demand sharply outweighing exporter supply While the bearish sentiment on the INR is showing signs of revers), hedging through currency derivatives remains expensive compared to pre-conflict period . Recent measures undertaken by the Reserve Bank and the Government to attract capital inflows, together with the moderation in crude oil prices, are expected to improve market sentiments toward the Indian Rupee.

Money market continues to function in an orderly manner, supported by adequate banking system liquidity surplus. Transmission of policy repo rate has been robust at the shorter end of the money market, while it has been incomplete at the longer end and in the bond market.

Banking System

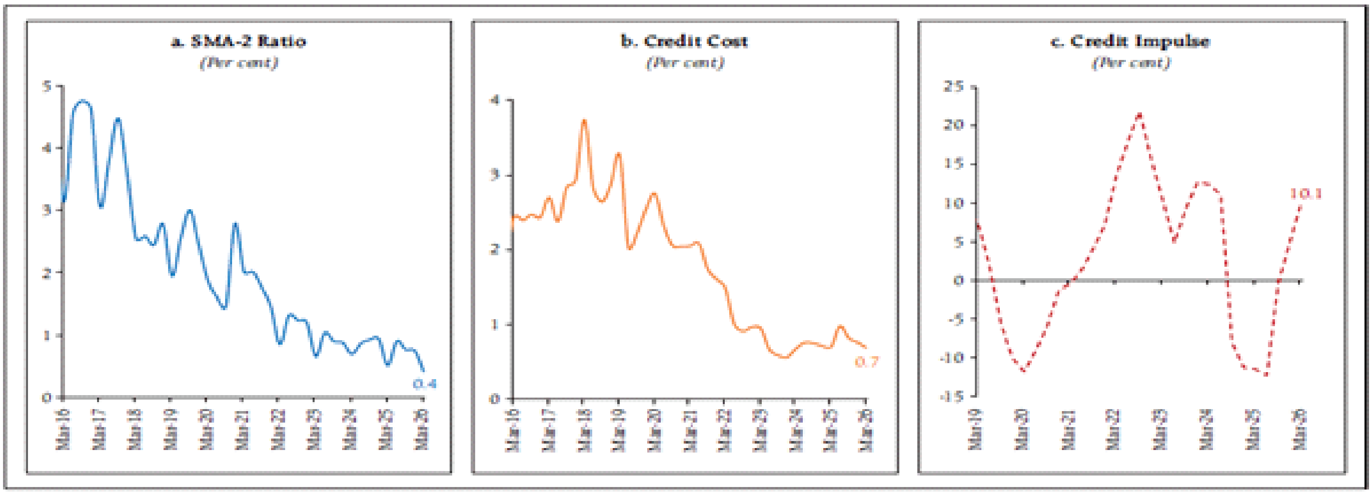
India's financial system remains bank centric, and therefore, the resilience of the banking sector is key to ensuring overall financial stability. The banking sector's health has been constantly improving over the past several years, thereby strengthening financial stability. This is reflected across key metrics, viz., capital and liquidity buffers, profitability, asset quality, and loan-loss provisions (Chart 1.37). Notably, there are no signs of incipient stress as the ratio of SMA-2 accounts and credit costs are declining. The overall strength of banks' balance sheets is driving credit growth, especially new credit as measured by credit impulse18 (Chart 1.38 a, b and c).

Chart 1.37: Sound Financials Strengthen the Banking System



Note: Data based on domestic operations of SCBs, including SFBs (except for CRAR) as on June 11, 2026.
Source: RBI supervisory returns.

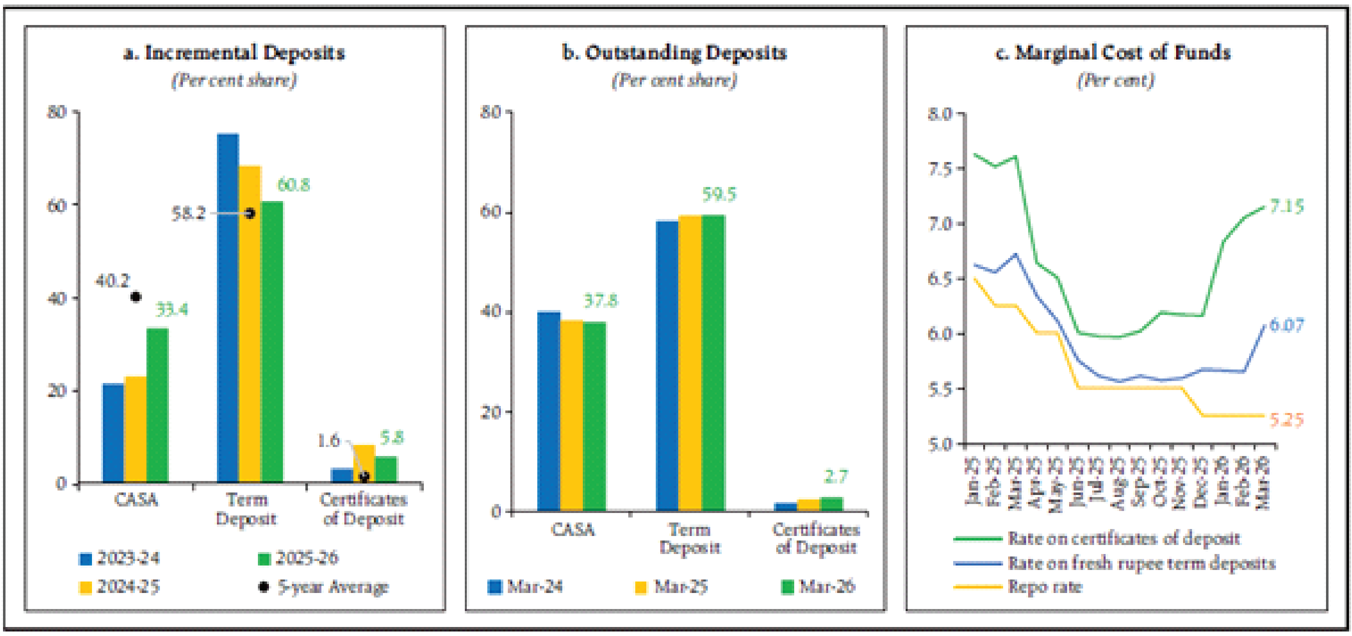
Chart 1.38: Improving Asset Quality and Credit Cost Driving Credit Growth



Note: In chart (b), Credit Cost = Annualised (Risk provisions + write-offs) / Average gross loans and advances.
Source: NSO; RBI supervisory returns; and RBI Staff Estimates.

Even as the banking system's resilience remains intact, funding is emerging as a key challenge. Banks' liability profile is shifting from low-cost current and savings account (CASA) to higher-cost term deposits and CDs, pushing up the marginal cost of funds (Chart 1.39 a, b and c). Thisshift reflects change in investment preferences of savers towards higher-yielding equities and mutual funds, altering the composition of bank deposits that attract higher run-offs.

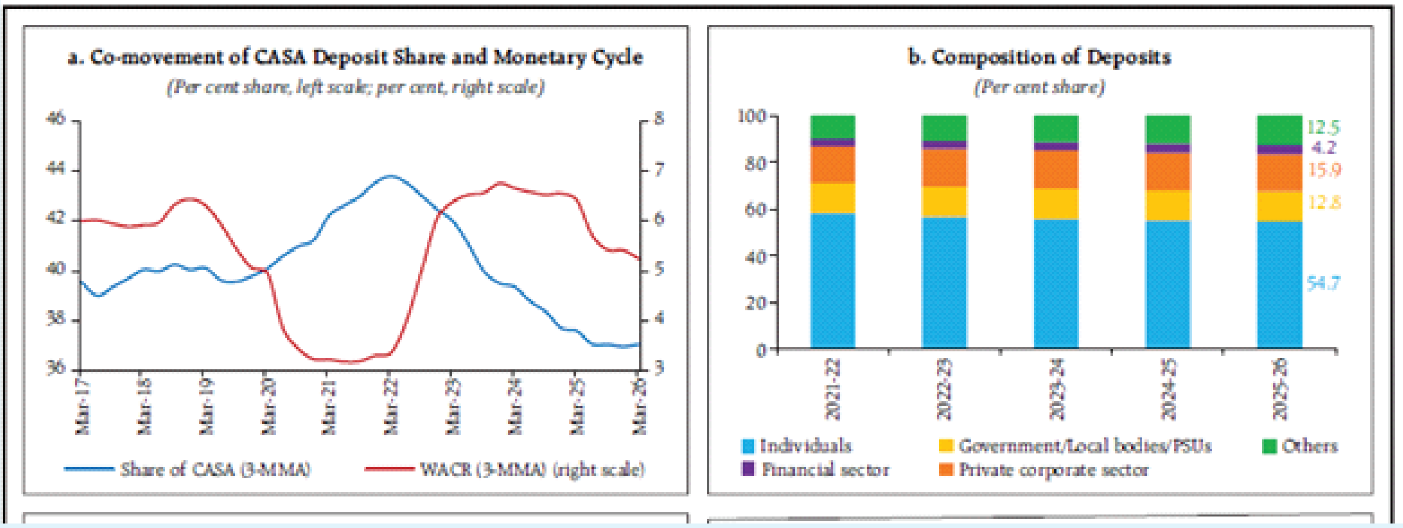
Chart 1.39: Evolving Liability Profile and Impact on Cost of Funds



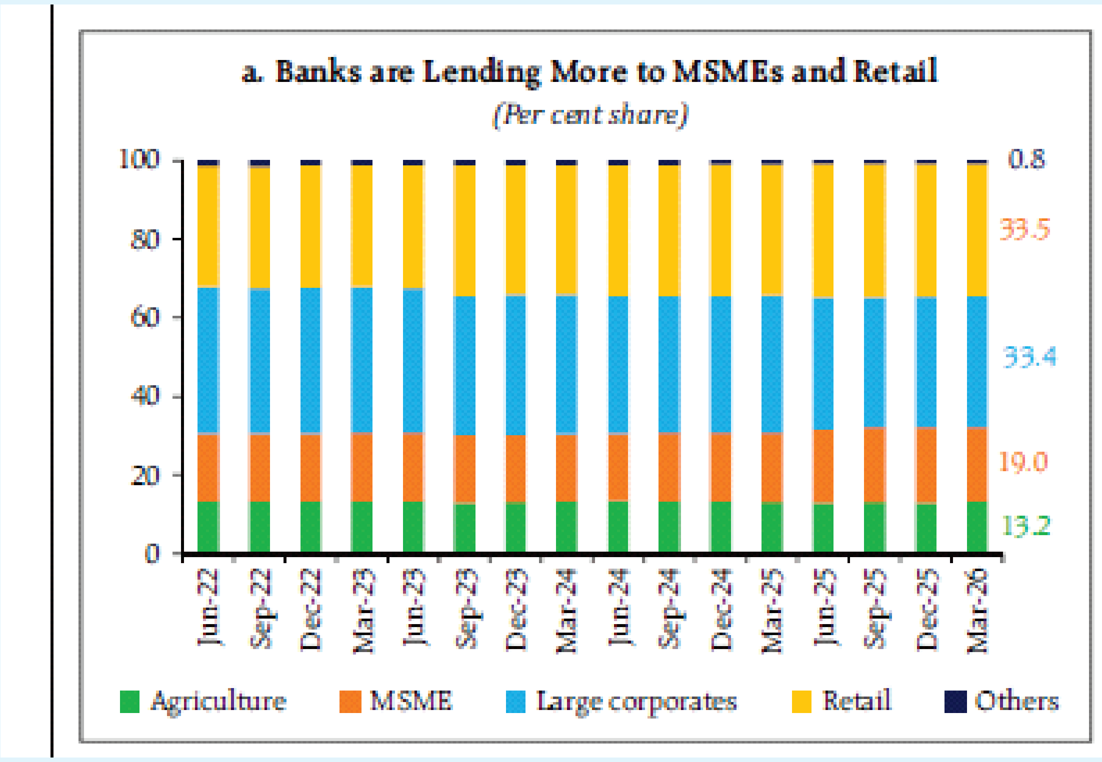
Sources: RBI supervisory returns; and DBIE.

Compared to previous cycles, the inverse relationship between CASA deposits' share and interest rate cycle appears to have weakened (Chart 1.40 a). With the fall in convenience yield on deposits20, banks' deposit franchise21 is getting affected (Chart 1.40 b). This could weigh on their profitability as competition for household savings intensifies, even as credit demand remains strong (Chart 1.40 c). This is also reflected in banks' running down their excess SLR investments to fund credit growth, resulting in declining LCR buffers (Chart 1.40 d). The recent measures to boost capital flows, however, are expected to ease funding pressures on banks by improving their access to less-costly Rupee liquidity.

Chart 1.40: Impact of Waning Deposit Franchise on Profitability and Liquidity



Banks are expanding credit to higher yielding segments, such as micro, small, and medium enterprises (MSME) and retail, which is helping to protect their margins (Chart 1.41 a). Banks that meaningfully increased their MSME and retail lending experienced relatively muted pressure on net interest margins, even as CASA shares declined, indicating that higher yields from these segments partly compensated for rising funding costs.



Despite above-average loan growth in the MSME and retail sectors, asset quality remains benign (Chart 1.42 a and b). In the MSME segment, while some nascent stress is visible in micro enterprises, the overall gross NPA ratio has shown improvement (Chart 1.42 c and d). This segment, however, remains vulnerable to the impact from the West Asia conflict, although the situation currently appears contained (Chart 1.42 e and f). Similar asset quality trend is seen in the retail segment also with gross NPA ratios in secured and unsecured retail loans at 0.7 per cent and 1.7 per cent, respectively as at end-March 2026. Nonetheless, exposure to these sectors requires close monitoring as risks to asset quality could increase, especially if overall economic conditions weaken due to the West Asia conflict and impact borrower cash flows.

Chart 1.42: Strong Credit Growth Alongside Benign Asset Quality *(Contd.)*

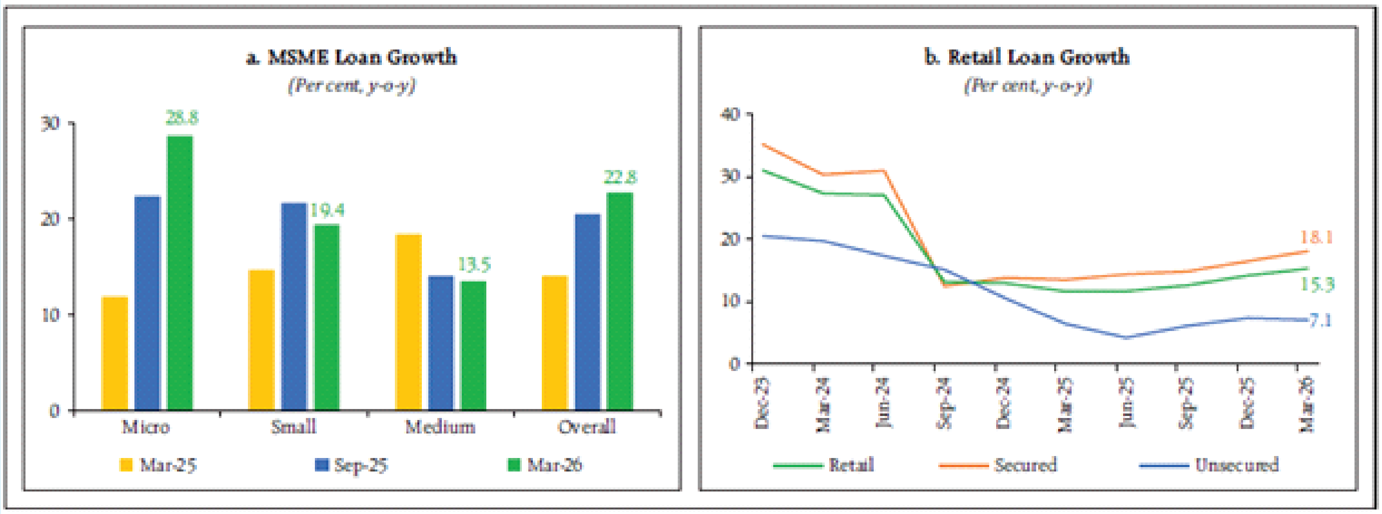
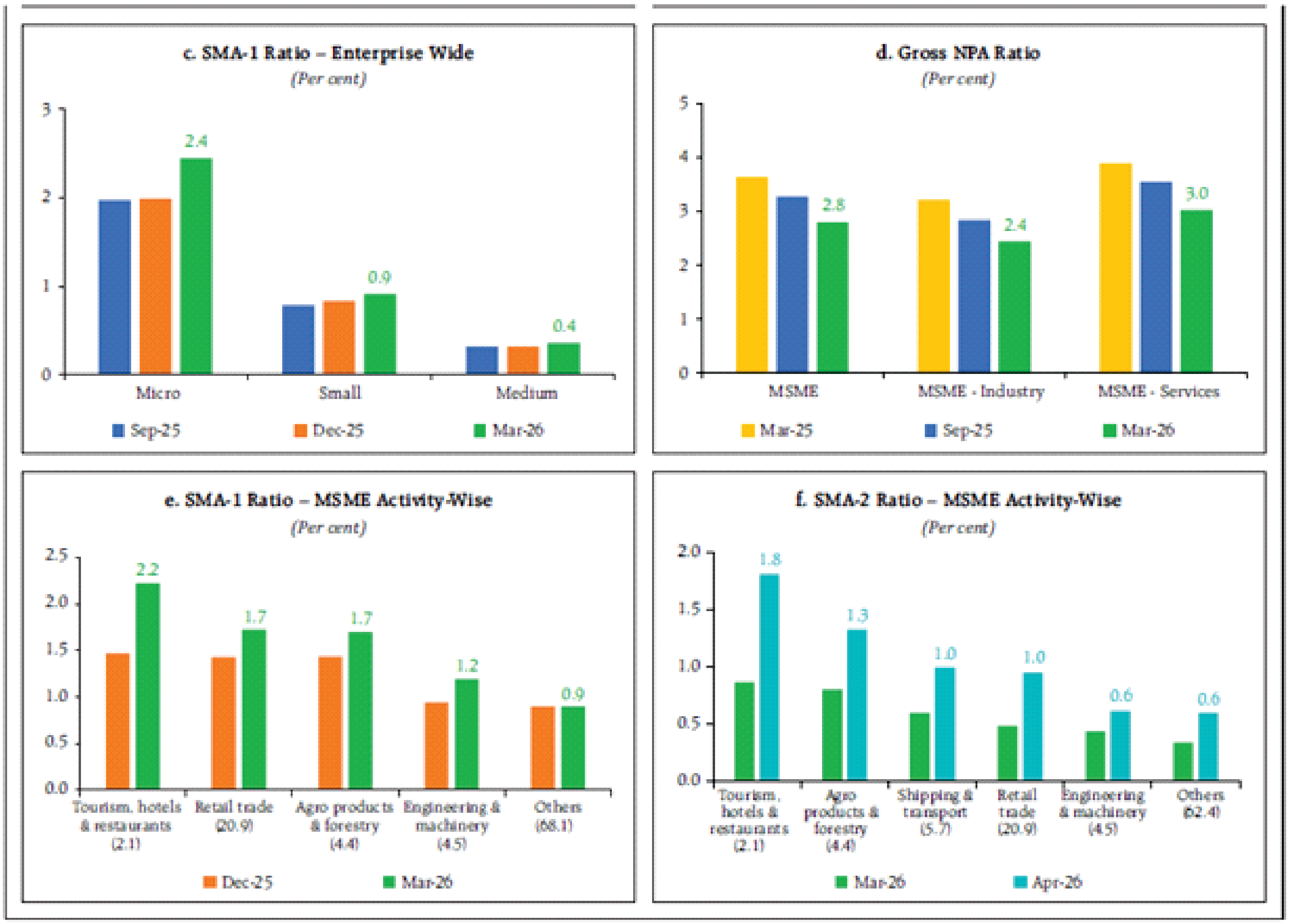


Chart 1.42: Strong Credit Growth Alongside Benign Asset Quality *(Concld.)*



Note: MSME activities as provided by CRIF HighMark based on the data submitted to its commercial bureau. Numbers in parentheses represent the activity-wise share in total portfolio outstanding of PSBs and PVBs to MSMEs.
Sources: RBI supervisory returns; and CRIF HighMark.

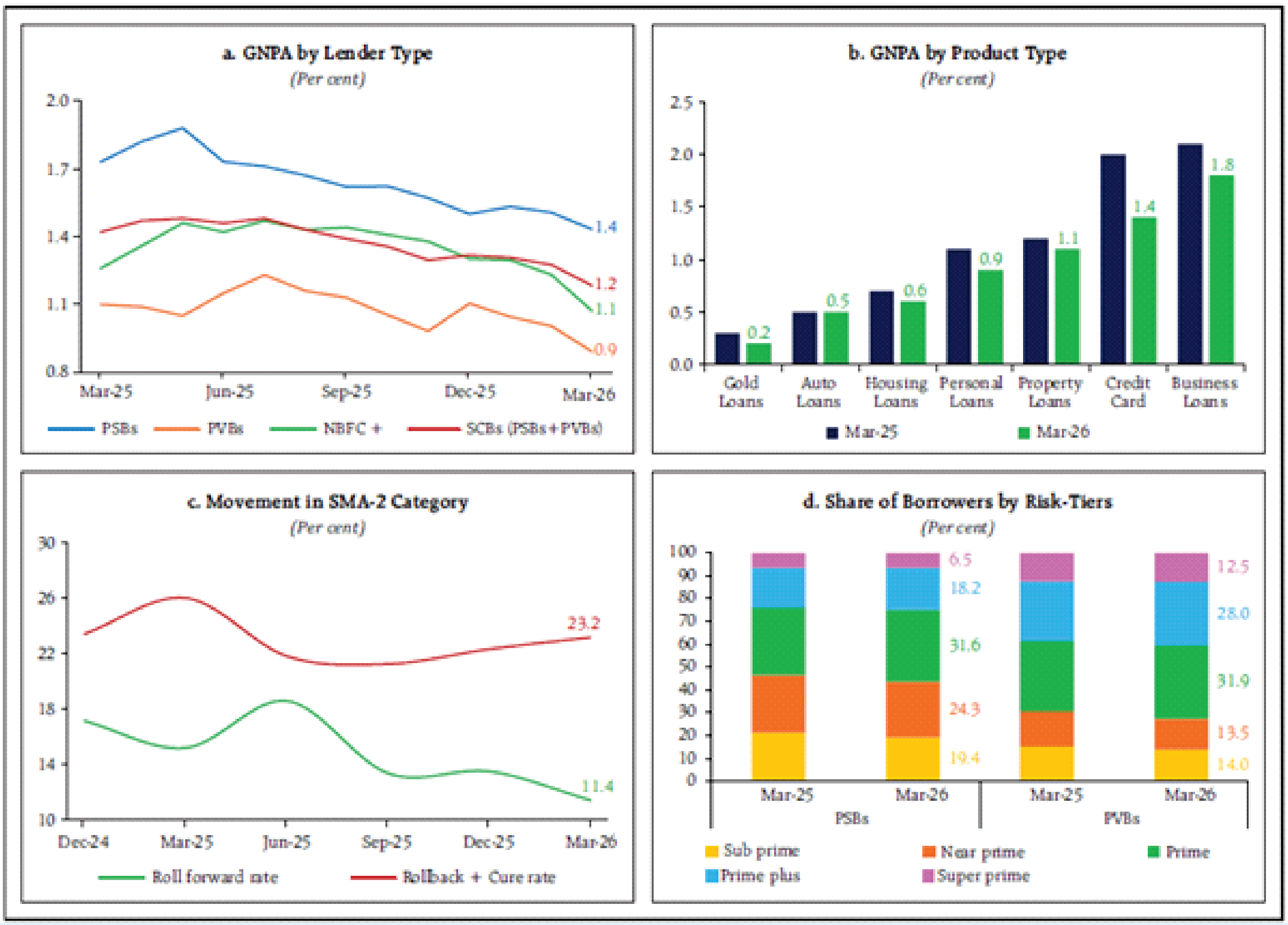
Cyber risk is increasingly recognized as a source of financial system vulnerability with the potential to create financial instability. Globally, substantial work is being done to understand systemic threat posed by cyber risk. In this context, a survey was conducted to assess the awareness and preparedness of Indian financial institutions against cyber threats in a challenging landscape. The survey found that while financial institutions have established robust practices in key areas of cyber risk management, AI-enabled cyberattacks emerged as the most important near-term challenge.

Consumer Credit Segment

Consumer segment loans continued to be a key driver of credit growth across banks and NBFCs, expanding at a faster pace than overall advances. Among SCBs, PSBs exhibited stronger growth momentum compared to PVBs. Both enquiry volumes and the growth of credit-active consumers remain robust.

Asset quality in the consumer lending segment continued to improve across lender categories and loan products, as reflected in the moderation of non-performing loans (Chart 1.61 a and b). Slippages from SMA-2 accounts declined at a faster pace, while loan upgradations continued to increase gradually (Chart 1.61 c). Moreover, the high proportion of prime and above-rated borrowers further strengthens the credit outlook for the segment (Chart 1.61 d).

Chart 1.61: Asset Quality of Consumer Segment Loans Improving



Gold loans have emerged as the largest segment within non-housing retail loans, growing at a CAGR of 42.4 per cent since March 2024 – nearly twice the pace of overall non-housing retail loans (CAGR of 23.0 per cent) during the same period. Both banks and NBFCs have significantly expanded their gold loan portfolios in 2025–26, outpacing growth in other retail loan categories, including housing loans. This trend has been supported by a sharp increase in gold prices.

The recent increase in gold loans is driven primarily by existing borrowers, who are using higher gold prices to secure larger loans and roll over existing debt, as indicated by the gap between fresh originations and loan outstanding. This is particularly visible in NBFC loan originations, which have far exceeded those by public and private sector banks.

Financial Institutions: Soundness and Resilience

The Indian financial sector remained resilient amid a challenging global environment. Banks and non-banking financial companies (NBFCs) continued to strengthen their balance sheets, supported by healthy capital ratios as well as comfortable liquidity buffers, and non-performing assets ratios at multi-decadal lows. Bank credit growth remained strong and continued to outpace deposit growth. Credit expansion by NBFCs moderated, especially in the industry and services sectors, while asset quality improved further.

Stress test results reaffirmed the resilience of these institutions to withstand losses under adverse scenarios, and to maintain capital ratios well above the regulatory minimum, at aggregate level. Other segments of the financial sector, including asset management companies, clearing corporations, and the insurance sector, also remained sound.

This chapter presents stylized facts and 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 scheduled commercial banks (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 assess the resilience of SCBs under adverse scenarios are also presented.

II.1 Scheduled Commercial Banks (SCBs)

The consolidated balance sheet of SCBs continued to remain resilient, with ongoing improvement in asset quality and capital ratios, and comfortable liquidity buffers. Credit and deposit growth gained momentum during the second half of 2025-26. Net interest margins (NIMs) remained broadly stable during the financial year. Growth in earnings before provisions and tax (EBPT) moderated as the growth in other operating income lost some traction in March 2026 (Table 2.1).

Table 2.1: Health Tracker – Scheduled Commercial Banks (SCBs)

	(Per cent)	10-year median	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26
Credit and Deposit	Credit Growth	11.0	15.4	19.4	11.0	14.5
	Deposit Growth	10.1	10.1	13.8	10.7	11.5
Asset Quality and Pro-visioning	GNPA Ratio	7.3	3.9	2.8	2.3	1.8
	NNPA Ratio	2.4	1.0	0.6	0.5	0.4
	Slippage Ratio	2.8	1.9	1.6	1.5	1.2
	PCR	67.4	74.1	76.2	76.3	75.6
Liquidity	LCR	130.3	143.5	130.3	132.5	124.2
	NSFR	126.4	128.8	126.9	126.4	122.1
Earnings	NII Growth	10.1	21.6	15.4	7.9	4.0
	OOI Growth	7.9	7.7	17.9	18.0	14.5
	EBPT Growth	12.3	16.1	12.3	14.9	7.9
	PAT Growth	16.8	39.7	31.5	16.8	7.2
Profit-ability	NIM	3.3	3.7	3.7	3.5	3.3
	ROA	0.7	1.1	1.3	1.4	1.3
	ROE	8.0	12.3	13.7	13.5	12.6
Capital	CET 1 Ratio	13.2	14.0	14.0	14.8	15.3
	CRAR	16.2	17.2	16.8	17.4	17.7

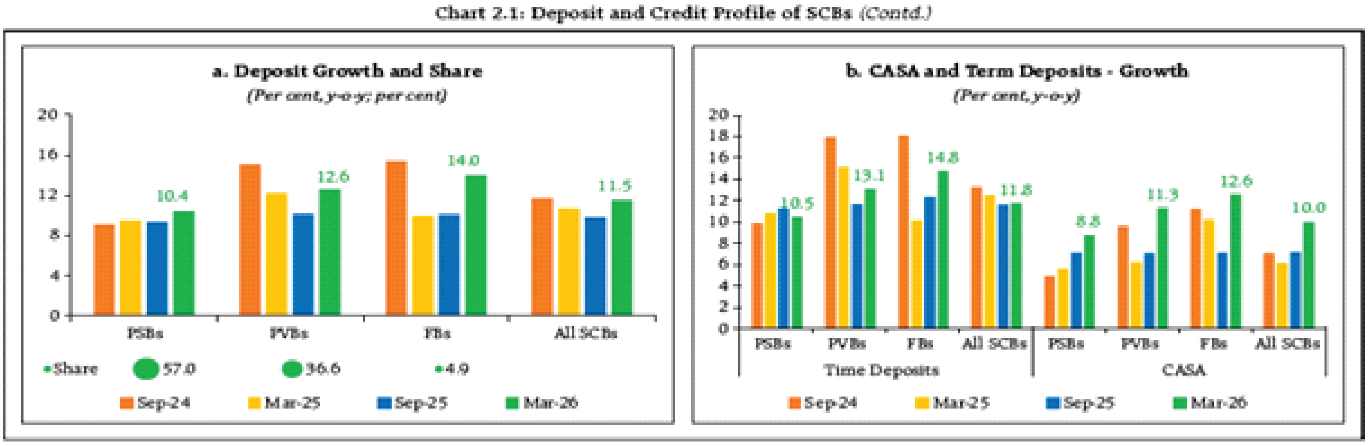
Best ⟶ Worst

Note: This table provides relative health of the sector based on the last 10 years' data. For colour to represent appropriate status; a 10-year minimum/ maximum (depending on the indicator) is considered the best/ worst. Midpoint is 50th percentile, except for LCR and NSFR (Min 100 and Midpoint 120). For CET1 ratio and CRAR, the minimum regulatory capital is considered as the worst. PAT growth: Minimum and maximum are considered as (-)100 and 100, respectively.
Sources: RBI Supervisory Returns; and RBI Staff Estimates.

II.1.1 Deposit and Credit

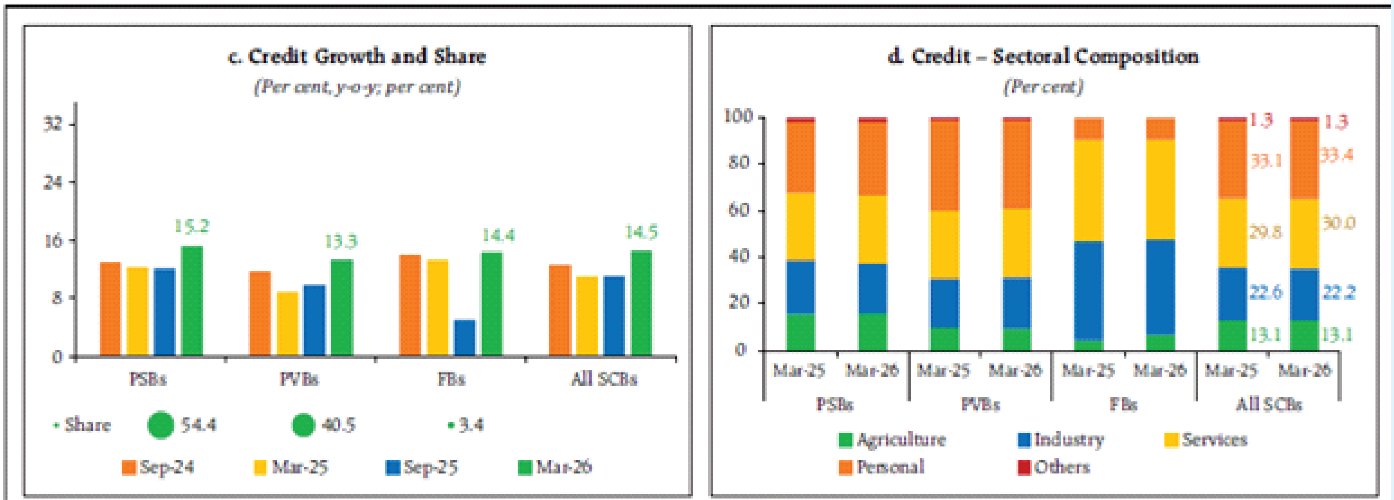
Aggregate deposits of SCBs grew at 11.5 per cent y-o-y during 2025-26. Private sector banks (PVBs) and foreign banks (FBs) recorded a surge in deposit mobilisation (Chart 2.1 a). The growth in term deposits continued to outpace that of current and savings account deposits, indicating sustained preference for interest-bearing term deposits (Chart 2.1 b).

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



SCBs' credit growth accelerated to 14.5 per cent y-o-y during 2025-26, with PSBs continuing to outpace PVBs (Chart 2.1 c). Among broad economic sectors, shares of lending to services and personal loans increased over the previous year, while the share of credit to industry moderated (Chart 2.1 d). Credit growth across all four major sectors increased in March 2026, indicative of broad-based strengthening of credit demand. A decomposition of aggregate credit growth reveals that personal loans and services loans continued to be the principal drivers of overall credit growth of SCBs. Within personal loans segment, all bank groups continued to record robust growth in the other personal loans category.

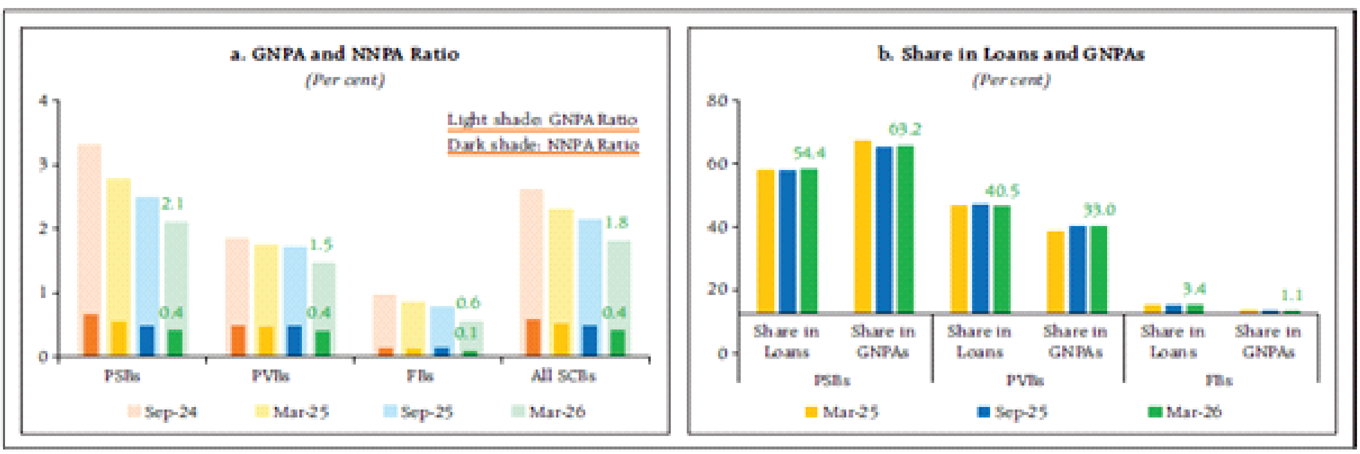
Chart 2.1: Deposit and Credit Profile of SCBs *(Contd.)*

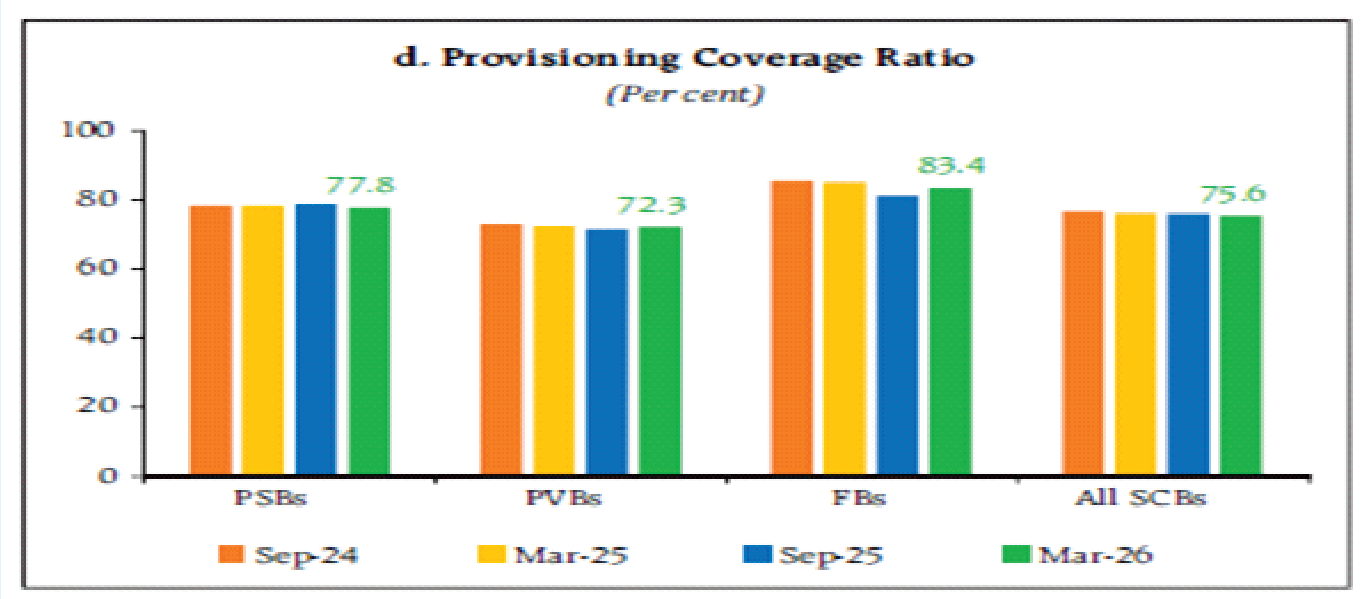


II.1.2 Asset Quality

Asset quality of SCBs improved further in March 2026, with GNPA ratio declining to a multidecadal low level of 1.8 per cent. The improvement in asset quality was broad-based across bank groups (Chart 2.2 a and b).The annual slippage ratio steadily moderated over the last four financial years to 1.2 per cent in 2025-26, driven by lower fresh accretions to impaired assets in PSBs and PVBs The provisioning coverage ratio (PCR) of SCBs remained broadly stable at 75.6 per cent, indicative of continued prudence in balance sheet management (Chart 2.2 d). Write-offs relative to gross non-performing assets (GNPAs), however, remained elevated during 2025-26, particularly in the case of PVBs and FBs.

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

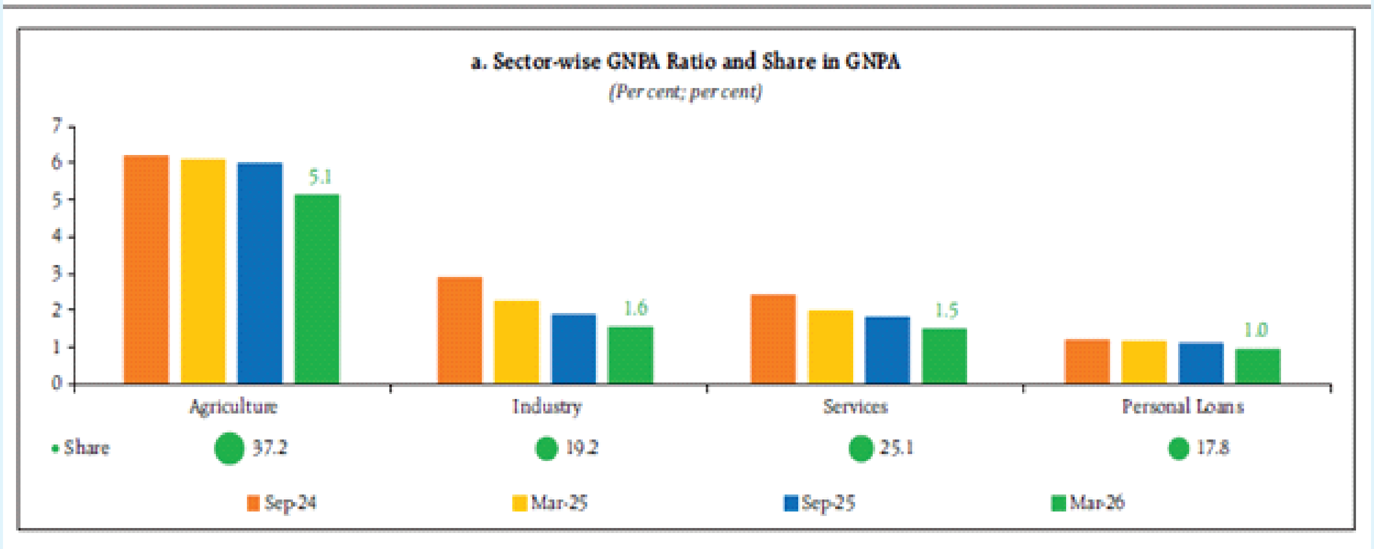




II.1.3 Sectoral Asset Quality

Credit quality improved across all broad economic sectors. Agriculture, despite improvement, continued to exhibit the highest GNPA ratio of 5.1 per cent and accounted for the largest share in SCBs' GNPAs at 37.2 per cent in March 2026 (Chart 2.3 a). Within industry subsectors and the personal loans category, asset quality broadly improved across all segments (Chart 2.3 b and c).

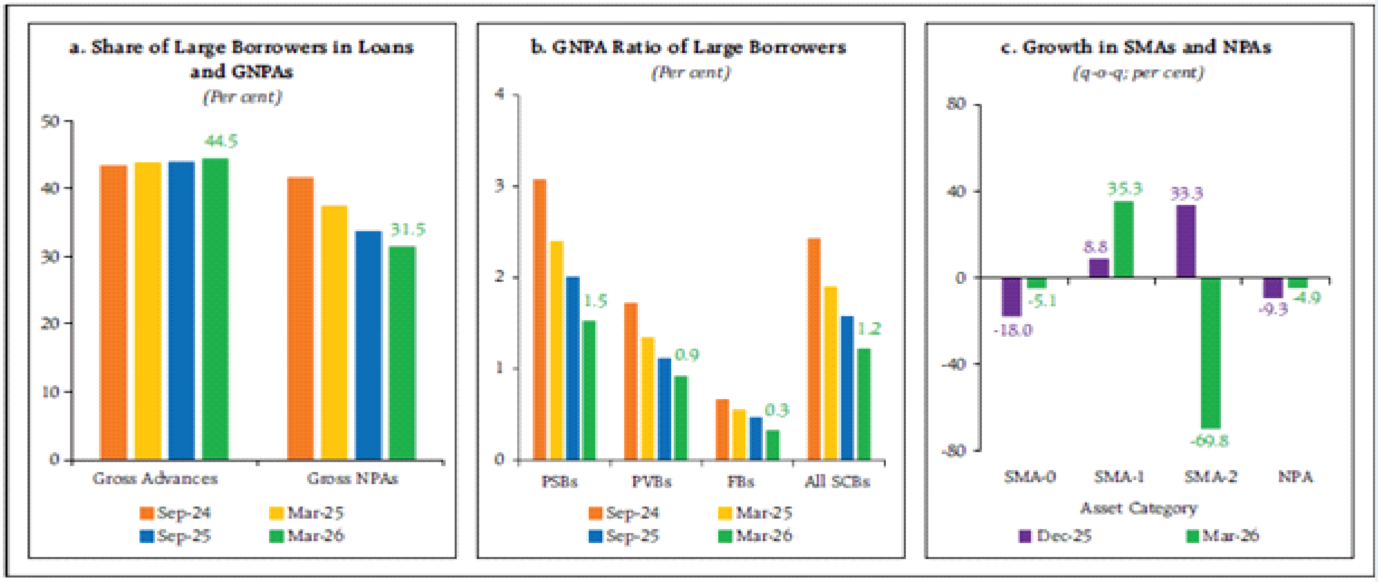
Chart 2.3: Sectoral Asset Quality Indicators



II.1.4 Credit Quality of Large Borrowers

The share of large borrowers in total credit of SCBs increased marginally to 44.5 per cent as at March 2026, however their share in gross NPAs declined steadily (Chart 2.4 a). Asset quality of large borrowers improved across bank groups, with the aggregate GNPA ratio declining sequentially to 1.2 per cent as at end-March 2026 from 2.4 per cent as at end-September 2024 (Chart 2.4 b). The volume of SMA-0, SMA-2 loans contracted, while that of SMA-1 loans increased in March 2026 (Chart 2.4 c).

Chart 2.4: Select Asset Quality Indicators of Large Borrowers

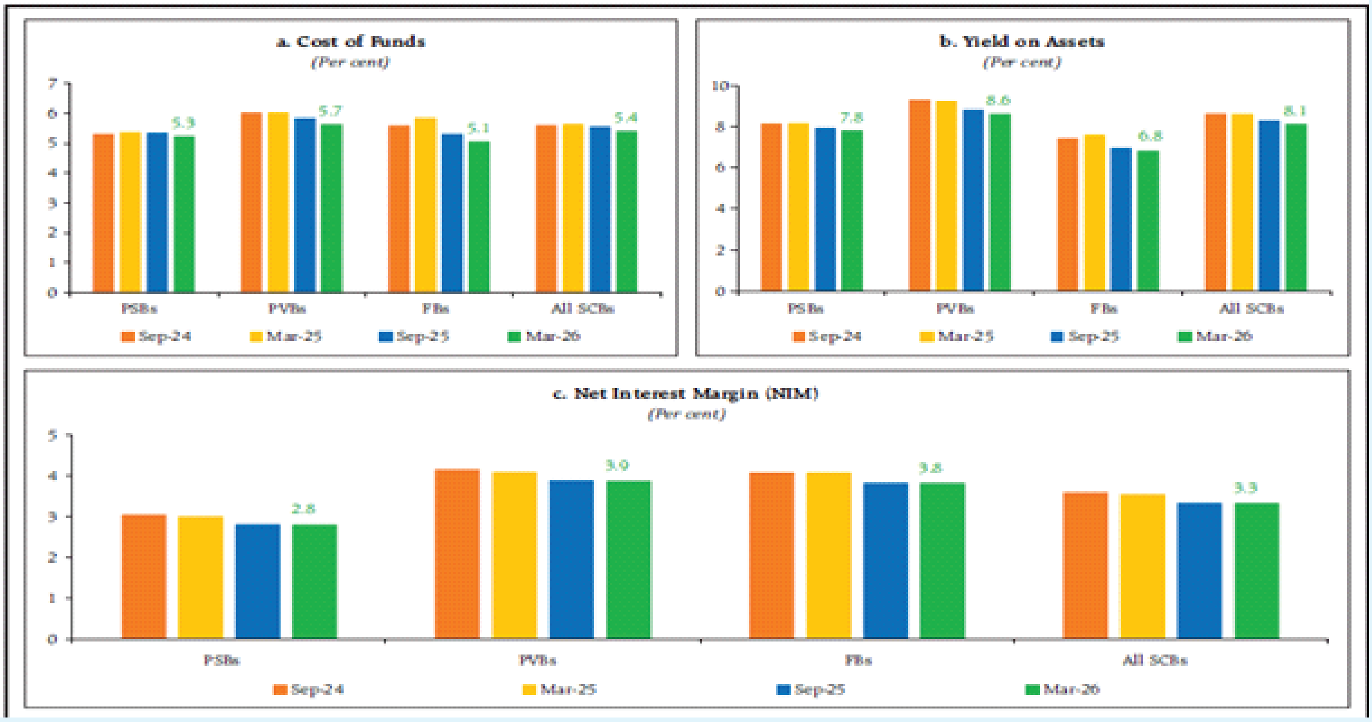


Sources: RBI Supervisory Returns and RBI Staff Estimates.

II.1.5 Earnings and Profitability

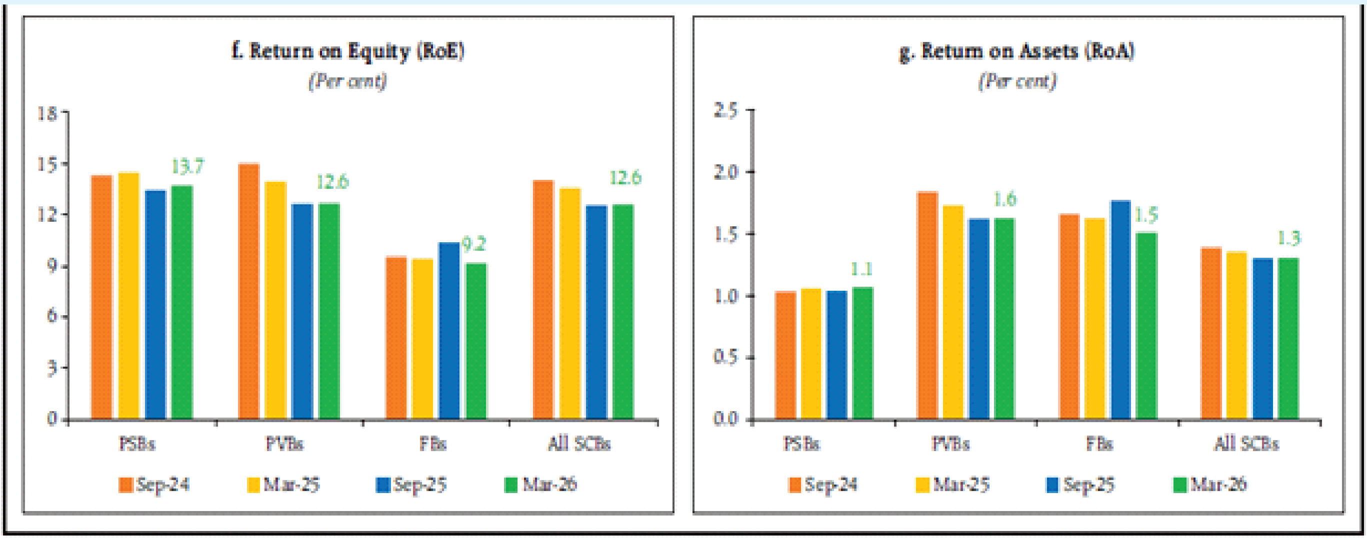
As monetary policy easing transmitted progressively through the banking system during 2025-26, both the cost of funds and the yield on assets declined sequentially across bank groups in a largely synchronized manner, leaving net interest margins (NIMs) broadly unchanged over the period (Chart 2.5 a, b and c). Nevertheless, supported by higher credit volumes, growth in net interest income (NII) of SCBs recorded a modest improvement of 4.0 per cent y-o-y in March 2026.

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



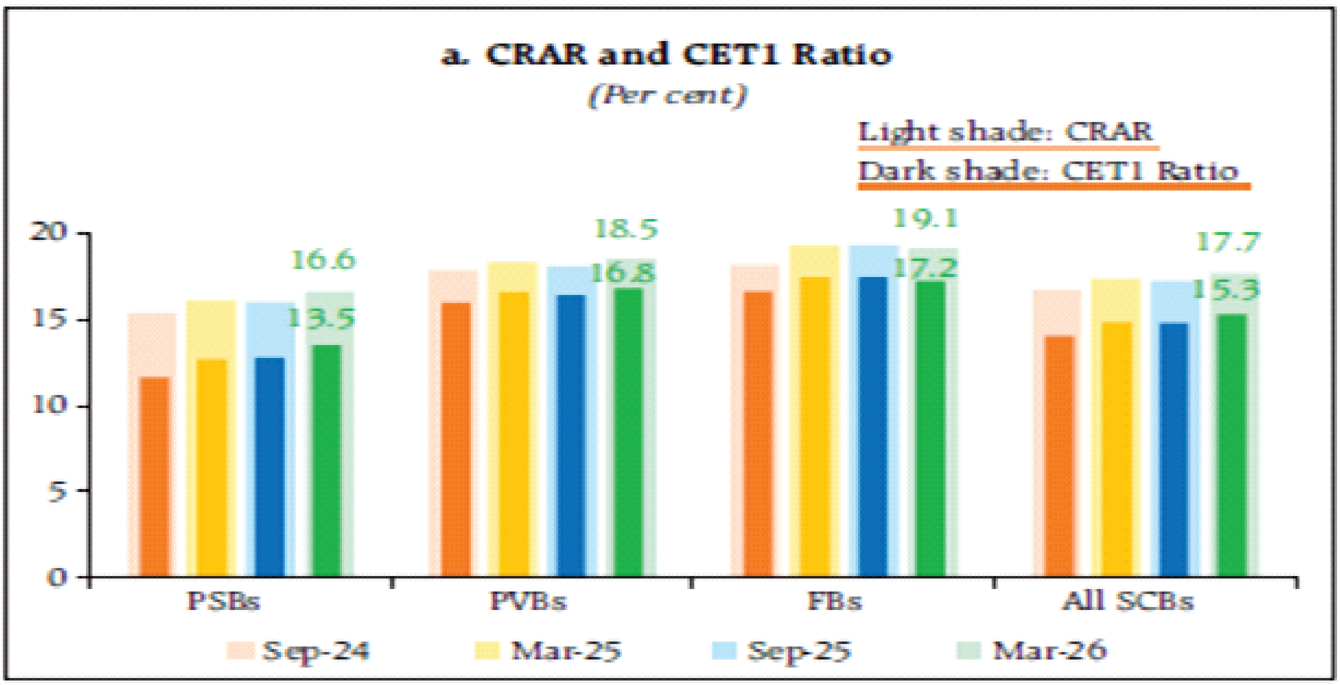
Growth in other operating income, although remaining robust at 14.5 per cent, lost some momentum in the quarter ending March 2026, resulting in a moderation in the growth of EBPT). Profit after tax (PAT) of SCBs increased to Rs 4,05,268 crore during 2025-26 from Rs 3,78,163 crore a year ago, driven by sustained credit expansion, stable interest margins and robust growth in other operating income.

Profitability indicators, namely RoE and RoA, remained broadly stable at the system level. Across bank groups, however, some divergence was observed beneath the aggregate picture. PSBs recorded a marginal improvement in both ratios during H2:2025-26, whereas FBs witnessed some moderation in profitability ratios.

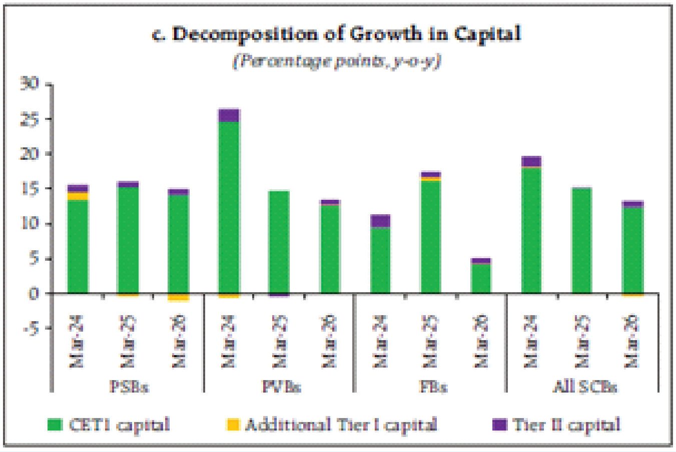


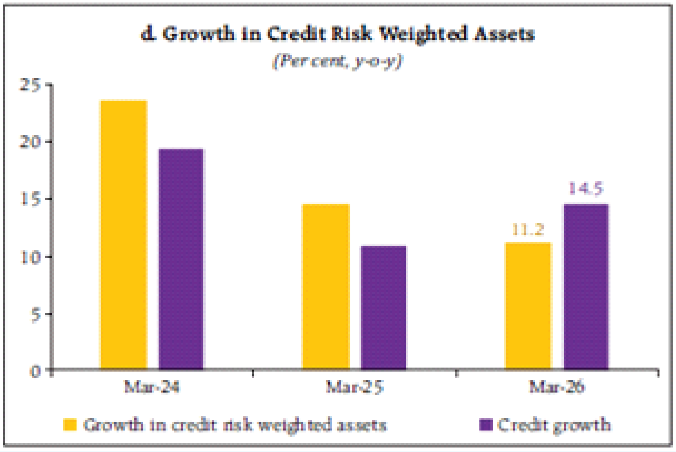
II.1.6 Capital Adequacy

SCBs replenished their capital buffers, recording multi-decadal high capital to risk weighted assets ratio (CRAR) and common equity tier 1 (CET1) ratio of 17.7 per cent and 15.3 per cent, respectively, as at end March 2026 (Chart 2.6 a). Both PSBs and PVBs reported higher CRAR in March 2026. The increase in CRAR in March 2026 can be attributed to higher growth in capital relative to the growth in risk-weighted assets (RWAs) during this period.



The evolving composition of capital suggests that the increase in total capital was driven almost entirely by CET1 capital (constituting 86 per cent of total capital), underscoring the increasing stock of high-quality capital within the banking system (Chart 2.6 c). Beneath the aggregate expansion in credit, the growth in credit risk-weighted assets (which account for nearly 86 per cent of total RWA) was lower than overall credit growth during 2025-26 for the first time in three years (Chart 2.6 d). This indicates a broad-based shift towards lower risk-weighted credit exposures and an improving risk profile of incremental lending.





The overall Tier I leverage ratio increased marginally to 8.2 per cent as at end-March 2026

II.1.7 Liquidity

At the aggregate level, the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) of SCBs moderated to 124.2 per cent and 122.1per cent, respectively, though all bank groups continued to maintain liquidity buffers well above the respective regulatory minimum levels.

II.1.8 Resilience – Macro Stress Test

Macro stress test assesses the resilience of SCBs to adverse macroeconomic shocks. It attempts to project capital ratios of banks under a baseline and two adverse macro scenarios over a two-year horizon. While the baseline scenario was derived from the latest forecasted paths of the macroeconomic variables, the two adverse scenarios are hypothetically stringent stress scenarios

(i) Adverse Scenario 1: This scenario assumes further intensification of geopolitical risks, elevated energy prices and exchange rate pressures, leading to rise in domestic inflation and growth slowdown during 2026-27, followed by a gradual improvement in the situation during 2027-28.

(ii) Adverse Scenario 2: This scenario assumes prolonged and more widespread geopolitical conflicts extending to 2027-28, leading to disruptions in domestic inflation and growth in both the years.

The macro stress test results suggest the resilience of SCBs to macroeconomic shocks. The aggregate CET1 capital ratio of the select 46 banks may decline from 15.2 per cent in March 2026 to 13.9 per cent by March 2028 under the baseline scenario. It may decrease to 11.6 per cent and 11.4 per cent under adverse scenarios 1 and 2, respectively. Nonetheless, all banks would continue to meet the minimum CET1 capital ratio requirement of 5.5 per cent under all the scenarios.

The aggregate CRAR of 46 major SCBs may decline from 17.5 per cent in March 2026 to 15.6 per cent by March 2028 under the baseline scenario. It may fall to 13.3 per cent and 13.0 per cent under adverse scenarios 1 and 2, respectively.

At the bank level, no bank would breach the minimum CRAR requirement of 9 per cent under the baseline scenario, while one and two banks may fall below the requirement under adverse scenarios 1 and 2, respectively.

The aggregate GNPA ratio of 46 banks may edge up from 1.8 per cent in March 2026 to 1.9 per cent by March 2028 under the baseline scenario. It may rise to 3.8 per cent and 4.1 per cent under adverse scenarios 1 and 2, respectively

II.1.9 Sensitivity Analysis

In sensitivity analyses, shocks are applied to single factors like GNPA ratio, interest rate, etc., one at a time. This sub-section presents the results of top-down sensitivity analyses to assess the resilience of SCBs towards simulated credit, interest rate, liquidity risks, etc. under various stress scenarios, based on data as at end March 2026.

a. Credit Risk

The resilience of SCBs to credit risk was assessed under two assumed stress scenarios - (i) one standard deviation (SD)11 [Shock 1] and (ii) two SD [Shock 2] rise in the aggregate level GNPA ratio as of March 2026.

Under the more severe shock scenario, viz., Shock 2, where the aggregate GNPA ratio of 46 select SCBs is assumed to move up to 8.1 per cent, there would be depletion in the CRAR and CET1 capital ratios by 400 bps and 420 bps, respectively (Chart 2.12 a). However, both the capital ratios would remain well above the respective regulatory minimum levels. The resultant capital impairment at the system level could be 25.2 per cent. The results of reverse stress test showed that shocks of 4.4 SD and 5.9 SD increase on the aggregate GNPA ratio would be required to bring down the system level CRAR and the CET1 capital ratio, respectively, below their respective regulatory minima. 2.25 At bank group level, stress tests indicated relatively higher depletion in the capital of PSBs as compared to PVBs and FBs. At banklevel, four banks with a share of 12 per cent in total assets of SCBs, would breach the regulatory minimum level of CRAR under Shock 2

b. Credit Concentration Risk

Stress tests on banks' credit concentration showed that in the extreme scenario of the top three individual borrowers of respective banks defaulting, the system level GNPA ratio would rise by 340 bps, and consequently, the CRAR and CET1 ratios would fall by 80 bps and 90 bps, respectively Similarly, if the top three group borrowers' default, the GNPA ratio would rise by 510 bps, and the CRAR and CET1 ratios would decline by 120 and 130 bps, respectively. However, even under such extreme scenarios, all banks would be able to maintain their capital ratios above the respective regulatory minimum levels.

c. Sectoral Credit Risk

Sectoral credit risk of SCBs was assessed under two hypothetical stress scenarios - (i) one SD14 [Shock 1] and (ii) two SD [Shock 2] increase in GNPA ratios of the respective sectors as of March 2026. The results of stress tests indicate only a marginal impact of such shocks on the aggregate capital of SCBs, underscoring the resilience of the banking system to sector-specific credit risk

RBI Governor's Speech on the Inauguration of Week-long celebration of International MSME Day 2026 Kochi, Kerala, June 22, 2026

I am indeed very happy to be here among all of you as we enter the week which celebrates International MSME Day on 27th later in the week.

MSMEs have a special place in my heart. I got an opportunity to work in this very dynamic sector early in my career way back in 2000 when a dedicated Ministry had just been set up for this sector in the year 1999. It used to be known as the Ministry of SSI & ARI then.

The MSME sector is vital for the global economy. Globally, MSMEs make up 90 per cent of the businesses and contribute about 50 per cent of the total global employment. Even in India, their contribution is immense. The MSME entrepreneurs present here, may be individually small, but collectively contribute 31% of GDP, account for approximately 35% of manufacturing output, and represent close to half of India's merchandise exports, while sustaining livelihoods for over 32 crore people. These are not just numbers, but a testament to the ambition, dynamism, and industry of our MSMEs.

No city reflects the dynamic and vibrant spirit of MSMEs better than Kochi. This is a city whose business instincts run deep — for centuries, the spice trade that connected Kerala's shores to the world passed through this port. That same spirit now expresses itself in tourism in God's own country; Ayurveda and wellness ventures that have turned a traditional strength into a modern industry; in IT and electronics enterprises; in marine and seafood processing units that feed export markets across the globe; and in start- ups and a new generation of entrepreneurs focusing on diverse areas from fintech to clean energy solutions.

Kochi's MSMEs carry forward a centuries-old instinct for trade and enterprise.

Thank you for providing me this opportunity to speak on a sector so critical for our economy in a city that so naturally embodies the spirit of this sector.

Policy Initiatives by the Reserve Bank

We in the RBI recognise that our aspiration of Viksit Bharat will be realised not only in our metros and large enterprises, but also in the workshops, factories, and service enterprises that MSMEs like you run in every district and state of this country. We believe that a financial system that does not serve its smallest, most numerous participants well, is not truly serving the economy well. We appreciate that if we have to go far, we have to take everyone along, especially the smallest ones. We acknowledge that this sector is the nursery of entrepreneurship - which is so vital for the economy.

We have been playing a supporting role in the development of this critical sector.

Let me enlist some of the regulatory measures which have played a facilitative role in expanding access to finance for MSMEs in India.

• One, Priority Sector Lending classification covers all MSME loans, with a dedicated sub-target for micro enterprises, ensuring directed credit flow to the most underserved segment of the sector.

• Two, we have mandated banks to provide collateral-free loans for small amounts to MSEs. The limit of collateral-free loans for MSME was recently doubled from ₹10 lakh to ₹20 lakh. This can be extended to ₹25 lakh for businesses showing consistent financial track record.

• Three, through the Credit Guarantee Fund Trust for Micro and Small Enterprises, we have worked with the Government to expand guarantee cover for MSEs substantially. The guarantee reduces the risk perception that has historically made banks cautious about lending to smaller borrowers who are unable to provide collateral. Moreover, zero risk weight for capital charge on the CGTMSE-guaranteed portion of MSE loans creates meaningful capital incentives for banks to extend credit to enterprises that are creditworthy but collateral-deficient.

• Four, we enabled the Trade Receivables Discounting System. It allows MSMEs to convert their receivables into immediate liquidity by discounting invoices on a transparent, competitive electronic platform. We have steadily lowered the threshold at which large buyers are required to onboard onto TReDS. I would urge every enterprise in this room that has not yet done so, to register and to actively encourage your buyers to do the same.

• Five, we have provided simplified working capital norms for MSEs thereby facilitating ease of availing finance.

• Six, PSL recognition for NBFC on-lending and co-lending arrangements, has broadened the institutional channels through which MSMEs can access credit.

• Seven, we enabled the Account Aggregator framework. It has facilitated lending to the tune of ₹3.5 lakh crore in FY 2025-26 and has the potential to scale up manifold.

• Eight, recently, we prohibited commercial banks from levying pre-payment charges on floating-rate loans granted to individuals and MSEs, regardless of the source of repayment funds.

• There are many more.

Structured engagement with the sector

Moreover, as a regulator, and as a partner in our collective aspiration of nation-building, we also realise that constant engagement with all stakeholders is necessary. Some of our regulatory measures are actually the outcome of valuable insights and suggestions received from you. Therefore, we have established an institutional mechanism for structured engagements with the MSMEs. Our Regional Offices have been conducting MSME Town Hall Meetings, providing a dedicated platform for direct dialogue with entrepreneurs, lenders, and ecosystem stakeholders. I too meet the MSME associations from time to time.

We are also conducting a special capacity building program of NAMCABS through our Regional Offices. The objective of this program is to familiarize bankers with the entire gamut of credit related issues of the MSME sector and develop entrepreneurial sensitivity amongst them.

In the same vein, we have constituted Empowered Committees on MSMEs (EC-MSME) to periodically review the progress in MSME financing and resolution of stressed MSMEs. We have recently broadened the agenda items of this meeting to include various pertinent items such as monitoring of credit linkage and pendency of MSME credit applications. These measures, no matter how small they appear, can have transformational impact on the entire ecosystem.

Building a resilient future

Our regulatory and facilitative measures along with several Government schemes including MUDRA and CGTMSE have led to significant improvement in formal credit to MSMEs. Consequently, the credit outstanding by SCBs to the MSME sector stood at ₹ 36.79 lakh crore as on December 31, 2025, with a healthy CAGR of around 15% during the past five financial years. In the state of Kerala too, SCBs' credit to MSMEs grew at a healthy CAGR of 13.5% during the past five financial years, with credit outstanding at ₹ 1 lakh crore as on December 31, 2025.

While considerable progress has been made in, I would not stand here and say that we have covered the credit gap. We have not. But I would certainly say that we have made considerable progress in meeting the financing needs of the MSME sector in the last few years. I would confidently claim that we have covered a lot of the gap. Moreover, we have covered the gap at a fast pace. Bank credit to MSMEs in the last five years grew at a CAGR of 15 per cent, while overall bank credit grew at a CAGR of 13.7 per cent during the same period.

Simultaneously, we are also trying to smoothen the credit flow by removing frictions. Development of Unified Lending Interface is one such example in that direction. If I may draw an analogy that will resonate with many of you: just as UPI transformed how this country moves money — instantly, digitally, and without friction — we believe that Unified Lending Interface has the potential to do the same for how this country accesses credit.

ULI allows lenders to assess an MSME borrower with the help of digital data — GST filings, bank statements, utility records, land records, and more — pulled together through a single interface based on borrower consent, rather than through weeks of paperwork and physical verification.

For an enterprise with a thin credit history but a genuinely strong business, this is transformative: it allows you to be judged on the true, current state of your business, quickly and with far less friction.

We will continue to work with all stakeholders to ensure that the financing needs of the MSMEs are met fully. We are together with you in this journey. We shall continue to strive to create a conducive financial system for your growth and prosperity. In this regard, I expect our financial institutions to step up in a number of ways.

One, financial institutions – public and private - must invest in our enviable DPI stack including the Account Aggregator framework, ULI, TReDS, GST data trails, and Aadhaar-enabled authentication. This will help create conditions for a fundamentally more inclusive credit ecosystem.

Two, they must accelerate the implementation of various schemes like Priority Sector Lending, MUDRA, PM-SWANIDHI, PM Vishwakarma, Credit Guarantee Scheme for MSEs, etc.

Three, we look to banks and lending institutions to internalise a fundamental reorientation in their approach. MSMEs should not be considered as a regulatory obligation alone, but as long-term business partners whose sustained growth generates durable financial returns and broad social value. Relationship banking, deepened and informed by digital data, can be a powerful and humanising complement to technology-led credit delivery.

Similarly, I also expect the MSMEs to seize the opportunity. My ask from the MSMEs is simple and straightforward.

One, take ownership of your growth by investing in technology, R&D and innovation as consumer preferences and expectations evolve.

Two, engage actively with us through all our instruments — TReDS, ULI, the Account Aggregator framework, co-lending, etc — that have been built for you, through all our entities – banks and NBFCs - and continue to bring your concerns to forums like our townhalls. Benefits of Government schemes can be availed only for units registered under URC. I request all of you to register which is entirely online and free of charge relying on PAN and Aadhaar.

Three, I would also like to highlight that businesses are built on the foundation of trust. It is important to build and sustain relationships with your stakeholders – creditors, suppliers and customers. Just like quality and timely delivery are essential to build trust for long relationship with customers; just like honouring contracts are important for retaining the trust of reliable suppliers and service providers; similarly, formalisation, digital adoption and financial discipline are vital for securing and sustaining the trust of financiers.

As for the Reserve Bank, our commitment to you is equally simple: we will continue to build the rails, reduce the friction, and stay in the room with you as this sector grows.

Today, as we approach MSME Day, let this be our shared resolve — not merely to mark the contribution of this sector once a year, but to keep building, every single day, a financial system worthy of the enterprise and resilience you bring to it. To every entrepreneur in this hall, and to the millions like you across this country: I commend you for what you build, often quietly, often without commensurate reward or recognition, every single day.

RBI POLICY RATES (07.07.2026)

Bank Rate	5.50%
CRR	3.00%
SLR	18.00%
Repo	5.25 %
Reverse Repo	3.35%
Marginal Standing Facility Rate	5.50 %
Standing Deposit Facility Rate	5.00%

SOUTHERN INDIA BANKS' STAFF TRAINING COLLEGE

No.9, Shankara Math Road, Shankarapuram, Bangalore-560 004.
E-mail: contactus@sibstc.edu.in, principal@sibstc.edu.in
Phone Nos: Principal (D): 080-2667 0574, Office: Telefax: 080-26670591 /594