

INDIA

FINANCIAL SECTOR ASSESSMENT

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Prepared By
Finance, Competitiveness,
and Investment Global
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and South Asia Regional
Vice Presidency

A joint World Bank-IMF team led by Eva Gutierrez, World Bank, and Hiroko Houra, IMF, visited India in 2024 to update the findings of the Financial Sector Assessment Program (FSAP), which took place in 2017. This report summarizes the main findings of the mission, identifies key financial development issues, and provides policy recommendations.

CONTENTS

EXECUTIVE SUMMARY	6
BACKGROUND	13
A. Macroeconomic Background	13
B. Financial Sector Overview	13
C. Macro-financial Developments	15
RISK ANALYSIS	17
D. Authorities' views	20
FINANCIAL SECTOR OVERSIGHT	20
A. Systemic Risk Oversight and Macroprudential Framework	20
B. Common themes of Supervision and Regulation	21
C. Banking Sector Supervision and Regulation	22
D. Capital Markets Regulation and Supervision	23
E. Insurance Sector Regulation and Supervision	24
F. Cybersecurity Risk	25
G. Financial integrity (AML/CFT)	25
H. Authorities' views	26
FINANCIAL CRISIS MANAGEMENT AND RESOLUTION	26
A. Systemic Liquidity Management	26
B. Crisis Management and Financial Safety Net	27
C. Authorities' views	28
FINANCIAL SECTOR DEVELOPMENT	28
A. Financial Inclusion	29
B. Fintech and Digital Financial Services	30
C. Role of the State	32
D. Credit Infrastructure	34
E. MSME Access to Finance	37
F. Capital Market Development	38
G. Finance for Climate Action	41
H. Authorities' views	42
ANNEXES	
Annex I. Selected Figures	44
Annex II. Selected Tables	54

Preface

An IMF and a World Bank team visited India during March and June 2024 to conduct an assessment under the Financial Sector Assessment Program (FSAP). The mission concluded virtually on October 4, 2024. The team was led by Hiroko Oura, IMF and Eva Gutierrez, World Bank. The World Bank team included Laurent Gonnet (deputy mission chief), Sebastian Boitreaud, Tushar Arora, Giovanni Bandi, Sergio Merino Gomez, Emma Dalhuijsen, Martin Luis Alton, Natalie Nicolau, Antonia Preciosa Menezes, Venkat Bhargav Sreedhara, Charles Michael Grist, Srinivas Gynedi, Fredesvinda F. Montes Herraiz, Rekha Reddy, Davit Babasyan, Juan Ortiz, Guillermo Galicia Rabadan, Pasquale Di Benedetta and Tanushree Chandra. The IMF team included Siphon Makamba (deputy mission chief), Ebru Sonbul Iskender, Tanai Khiaonarong, Vina Nguyen, Tracy Richardson, Béatrice Sagna, Thierry Tressel, Suzette Jeanne Vogelsang, Sha Yu, Yuchen Zhang, Nujin Suphaphiphat, Diarmuid Murphy, Francisca Fernando and Kathleen Kao.

The WB's Financial Sector Assessment (FSA) should be read alongside the IMF's Financial Sector Stability Assessment (FSSA) and the FSAP Update's Detailed Assessment Report (DAR) and Technical Notes (TNs).

The FSAP team met a wide range of stakeholders as part of the assessment. The meetings (close to 200 meetings) included the Ministry of Finance, regulators, bankruptcy courts, banks, insurance companies, pension funds, mutual funds, NBFCs and others. The team met with various regulatory and supervisory departments of the RBI, SEBI, IRDAI and PFRDA, along with the Financial Inclusion and Development Department of the RBI. Meetings were also held with various industry associations in the financial sector. The team met around 20 banks including public sector, private sector, cooperative banks etc. The team also met non-bank players including insurance firms, NBFCs, asset managers, pension funds and others.

Glossary

AML/CFT	Anti-money laundering and counter financing of terrorism	ICAAP	Internal Capital Adequacy Assessment Process
AMFI	Association of Mutual Funds in India	IBCB	Insolvency and Bankruptcy Code
AMC	Asset management company	ICC	Investment and credit company
AUM	Assets under management	ICP	Insurance Core Principle
BR	Bank regulation	ICR	Interest coverage ratio
BR Act	The Banking Regulation Act, 1949	IDF	Infrastructure debt fund
BBA	Borrower-based measures	IFC	Infrastructure finance company
BRICS	Brazil, Russia, India, China, and South Africa	IFRS	International Financial Reporting Standard
BSA	Balance sheet approach	IOSCO	International Organization of Securities Commissions
(T) CAR	(Total) Capital adequacy ratio		
CET 1	Common equity tier 1	IRDAI	Insurance Regulatory and Development Authority of India
CRILIC	Central Repository of Information on Large Credit	IT	Information technology
CICRA	Credit Information Companies Regulatory Act	KA	Key Attributes
CIC	Credit information companies	LCR	Liquidity coverage ratio
CCoB	Capital conservation buffer	LTRO	Long-term refinancing operations
(PN)CCyB	(Positive neutral) countercyclical capital buffer	MF	Mutual fund
CD	Certificate of deposit	MC	Market conduct
CDMDF	Corporate Debt Market Development Fund	MFI	Micro-finance institution
CIRP	Corporate Insolvency Resolution Process	MoF	Ministry of Finance
CP	Commercial paper	MoU	Memorandum of understanding
CRA	Credit Rating Agency	MSME	Micro- small- and medium-sized enterprise
CRS	Credit Reporting System	NBFC	Non-banking financial company
CRSP	Credit Reporting System Provider	NBFI	Nonbank financial institution
DFC	Depository financial corporations	NFC	Nonfinancial corporate
DICGC	Deposit Insurance and Credit Guarantee Corporation	NFIR	National Financial Information Registry
DRF	Disaster risk finance	NHB	National Housing Bank
DRT	Debt Resolution Tribunal	NGFS	Network of Greening Financial System
DPI	Digital public infrastructure	(N)NII	(Non-) Net interest income
DSTI	Debt service to income	NPL	Nonperforming loans
DSGE	Dynamic stochastic general equilibrium	NSFR	Net stable funding ratio
ELA	Emergency Liquidity Assistance	OTC	Over the counter
EM(E)	Emerging market (economy)	PCA	Prompt corrective action
ESG	Environmental, social, and governance	PMFBY	Pradhan Mantri Fasal Bima Yojana
		PSB	Public sector bank
		PSL	Priority sector lending
		PVB	Private sector bank
		RBI	Reserve Bank of India
		RBS	Risk-based supervision

FATF	Financial Action Task Force	RTGS	Real Time Gross Settlement
FC	Financial conglomerate	ROA	Return on asset
FMI	Financial market infrastructure	RSE	Registered securities exchanges
FSB	Financial Stability Board	RWA	Risk Weighted Assets
FSDC	Financial Stability and Development Council	SBR	Scale-based regulation
FSDR	Financial Sector Development and Regulation Bill	SCB	Scheduled commercial bank
FY	Fiscal Year	SEBI	Securities and Exchange Board of India
GFSR	Global Financial Stability Report	SRO	Self-regulatory organizations
GhG	Greenhouse gas	SLR	Statutory liquidity ratio
GOI	Government of India	SOFIs	State-owned financial institutions
G-SEC	Government securities	SPARC	Supervisory Program for Assessment of Risk and Capital
GST	Global Bank Stress Test	WEO	World Economic Outlook
HFC	Housing Finance Company	UCB	Urban cooperative bank
HQLA	High-quality liquid asset	UPI	Unified payments interface
HtM	Held to maturity		

EXECUTIVE SUMMARY

Since the last FSAP, India's financial system has become more resilient, diversified, and inclusive, with the State still playing a prevalent role. Financial sector reforms helped recover from episodes of distress in the late 2010s and withstand the pandemic. Total financial sector assets reached 187 percent of GDP, with Non-Banking Financial Institutions (NBFI)s and market financing growing at a much faster pace than banks, accounting for 44 percent of financial sector assets in 2024 (compared to 35 percent in 2017). Account ownership is high and access to credit, insurance and pensions has improved, supported by the public digital infrastructure and government programs. However, account usage remains low when compared with peers. State-Owned Financial Institutions (SOFIs) including Public Sector Banks (PSBs), Development Financial Institutions (DFIs), Rural Regional Banks (RRBs), state-owned Non-Banking Financial Companies (NBFCs) and public insurers, play a significant albeit declining role. Besides SOFIs' interventions, public credit support programs such as Priority Sector Lending (PSL), also influence credit allocation. Stress tests suggest that credit institutions are broadly resilient to macro-financial shocks, despite some weak tails.

Achieving India's vision for 2047 to become a USD 30 trillion economy requires further modernization of the financial sector involving comprehensive reform to boost private capital mobilization. Achieving India's growth ambitions will require more effective intermediation of both foreign and domestic savings toward productive investments, while reducing regional and social disparities. This calls for a comprehensive agenda to deepen financial markets, attract sustained foreign investment into government securities and greenfield infrastructure, and foster financial innovation—including the expansion of digital lending channels to better serve small enterprises. The State would need to redefine its role in the financial sector, reducing its footprint to increase efficiency and mobilize private capital. To preserve financial sector soundness, the authorities will need to continue strengthening the legal and oversight framework that spans prudential issues, market conduct, and financial safety net to manage risks arising from the increasing size and complexity of the financial system.

Strengthening financial stability frameworks

As systemic risk evolves, reflecting increased financial sector diversification and interconnectedness as well as emerging risks, it is essential to continue strengthening monitoring and further deploy macroprudential tools. The existing framework has allowed the authorities to act quickly in addressing emerging financial stability risks. However, additional data collection, sharing and risk monitoring covering liquidity risks, intersectoral contagion, household credit risks, and climate-related financial risks would be beneficial. The largest NBFCs have substantial exposure to the energy sector. Stress tests indicate that distress in major NBFCs could spill over to NBFCs' lenders (banks and mutual funds) and corporate bond markets. Applying borrower-based measures and introducing Debt Service to Income (DSTI) limits across banks and NBFCs would enhance policy effectiveness. Counter-cyclical capital buffers (CCyBs) for banks could be built now.

Despite a broadly robust oversight framework, for banks, insurers, and securities markets, some longstanding as well as new challenges remain to be addressed. Clarity regarding the primacy of the supervisor's safety and soundness mandate (and investor protection mandate for securities

regulators) would help manage potential conflicts of interest arising from developmental mandates. The government has control over senior management and the boards of the regulators while the MoF is also the appellate authority for contested RBI's supervisory decisions. Supervisory agencies lack powers regarding corporate governance in SOFIs while regulated entities' governance and internal control requirements should be strengthened. On new challenges, including conglomerate supervision, cybersecurity risks and climate-related financial risks, efforts should be continued to better coordinate regulators and extend the scope of the regulatory and supervisory frameworks.

The Reserve Bank of India (RBI) should continue its efforts to further strengthen banking and NBFC regulation and supervision. Since the last FSAP, the RBI expanded its regulatory authority cooperative banks, tightened key prudential rules, and reorganized regulatory and supervisory departments to enhance effectiveness. A new regulation setting different requirements across four regulatory "layers" of NBFCs has helped oversee the diverse industry. Critical areas for immediate attention include strengthening the credit risk management framework by adopting IFRS 9 and enforcing Pillar 2 capital add-ons for banks. Exemptions for state-owned NBFCs from prudential standards should be eliminated. The RBI should ensure compliance with liquidity rules and consider additional liquidity requirements tailored to different business models.

The Insurance Core Principles (ICP) assessment found a sound level of observance, with a few but important remaining gaps. Areas of strength include licensing, suitability requirements, enforcement powers, and public disclosure. The Insurance Regulatory and Development Authority of India (IRDAI) should be granted legal powers to supervise insurance groups. Ensuring the sector's soundness requires adopting a risk-based supervisory approach, especially regarding solvency requirements with economic valuation of assets and liabilities. Progress in this area, recommended in previous FSAPs, has been notably slow.

Oversight of securities markets shows sound practices but still needs improvements. Recent reforms included enhancing collateral management and business continuity for investors, and introducing a framework for sustainable investments, mutual fund liquidity requirements, and the Corporate Debt Market Development Fund. In the coming years, the Securities and Exchange Board of India (SEBI) should incorporate risk-based analysis of emerging risks, develop an integrated approach to monitoring conduct risks, (especially for mutual funds), and strengthen standards of self-regulatory organizations.

India still lacks a resolution framework aligned with international standards, and the range of systemic and emergency liquidity instruments could be expanded. The deposit insurance framework should be strengthened by streamlining and shortening the payout process, and by ensuring backup government funding. It is critical that the compliance gaps with the Key Attributes for Effective Resolution, particularly regarding establishment of an independent resolution authority and comprehensive set of resolution tools be closed through the upcoming Financial Sector Development and Regulation (Resolution) Bill. Insurers with business sustainability challenges should be allowed to exit voluntarily in an orderly manner. Given the importance of NBFI and market financing, the RBI could include corporate bonds, subject to haircuts, as eligible collateral for its crisis-time facilities. Such inclusion would also support corporate bond market development.

Localized climate risks, prolonged agricultural shocks, and a challenging low-carbon transition could heighten financial sector vulnerabilities, requiring granular data and adaptive measures to mitigate systemic impact. Extreme cyclones pose localized but not systemic risks to commercial banks (SCBs), though a comprehensive assessment requires more granular data. While the agricultural sector is resilient to short-term climate shocks, consecutive extreme events could significantly raise default probabilities, particularly affecting RRBs with high exposure. Transitioning to a low-carbon economy is feasible while sustaining growth, but the Net-Zero 2070 scenario may result in a 5 percent GDP loss by 2040, with mining, heavy industry, refining, and electricity most affected. Although SCB capital remains largely stable, vulnerabilities in the power sector—amplified by NBFC exposures—could trigger wider financial stress, with losses concentrated in PSBs.

Enhanced financial sector intermediation

Increasing account usage and reaching the “last mile individuals”, including through digital payment adoption, will require data-informed demand side interventions. Access to a wider range of financial services improved for both men and women thanks to government programs and India’s world class Digital Public Infrastructure (DPI). India’s DPI, known as India Stack, enables seamless digital identity verification, fast payments, and data exchange. However, about 20 percent of the population do not have accounts and many accounts are inactive.¹ Encouraging higher digital payment adoption --through customer-centric measures--, could boost account usage especially for women, and facilitate access to wider range of financial products for individuals and MSMEs by leveraging transactional and alternative data. However, new providers and products also introduce consumer risks, such as miss-selling of products and unsustainable lending. Strengthening market conduct oversight would help mitigate emerging risks.

Reforms to increase competition in digital payments and enhance the open finance framework can further support financial inclusion and development. The growth in digital payments has been driven by the success of the payment DPI, which accounts for more than 80 percent of all digital payments made in India. However, concentration in this ecosystem hampers competition and raises operational risks. Regulatory, subsidy, and fee reforms are required to provide a level playing field for all participants and to enhance market contestability. Operational risks should be mitigated through more comprehensive business continuity planning measures and should also address emerging fraud risk scenarios. India’s promising open finance framework could be further developed by introducing a direct payment initiation mode to complement the existing indirect payment initiation method. This needs to be accompanied by a regulatory framework for authorizing Payment Initiation Service Providers, supplemented by robust data governance and customer consent framework. A roadmap to enhance the existing Open Finance framework should be developed. The framework should contemplate the integration of additional information into Account Aggregators and expanding the range of financial information users to foster development of value-added services. A consent mechanism for MSMEs should also be implemented.

¹ Data published after the reference period for the FSAP indicates that account ownership has improved to 89 percent in 2024, as per the World Bank Findex.

Reforming the State's role in the financial sector—from a provider to a catalyzer of finance—is essential for enhancing efficiency and bigger financing volumes. SOFIs, and government programs with mandatory investment and lending requirements, including PSL, play an important role supporting underserved sectors and channeling savings towards public securities. SOFIs often show weaker financial performance than private counterparts occasioning important fiscal costs. However, the cost-benefit and impacts of these state interventions are not thoroughly assessed by the Authorities. PSL has several market-friendly features such as freely determined interest rates and the possibility of meeting PSL targets through cofinancing and trading of PSL certificates. Such features reduce distortions and have supported the development of specialized financial providers. Reforms should focus on i) pursuing the announced plans to privatize selected PSBs; ii) further aligning SOFIs' corporate governance with international standards, especially regarding number of independent directors, hiring and compensation policies; iii) attracting private capital through credit enhancements; and iv) rigorously monitor and evaluate SOFIs and government programs' developmental impacts. PSL should be rigorously evaluated and continuously revised to support credit constrained sectors key to achieve India's growth goals. The program should also be refined further to reduce compliance costs for smaller institutions with higher targets.

The authorities made a concerted effort to strengthen the credit infrastructure, yet challenges persist. Key initiatives included implementing and strengthening the Insolvency and Bankruptcy Code 2016 (IBC), developing an out of court framework led by RBI and ongoing efforts to create a National Financial Information Registry (NFIR). However, the framework for securing immovable and movable properties should be improved. Capacity and efficiency should be enhanced for the courts across all debt recovery channels, the out-of-court (SARFAESI), and IBC processes. The scope of data that Credit information companies (CICs), Credit Rating Agencies (CRAs) and commercial credit reporting companies can process should be expanded.

The authorities should boost MSME access to finance through specialized financial providers, alternative products, and the partial credit guarantee system. MSMEs are a major driver of employment, export and regional development, but they remain financially underserved with 27 percent indicating access to credit as the highest ranked obstacle. NBFCs, including fintech, can expand MSME access to finance through asset-based finance and digital lending. Reforms to the MSME development bank (SIDBI) facilities and government guarantees could expand access to funding for NBFCs. Factoring is growing rapidly under the RBI-regulated factoring platform (TReDS), but further reforms should scale up its use. Reforms to MSME- KYC procedures could enable end-to-end digital lending. As the partial credit guarantee system continues to grow, product design, financial management, risk management, and regulation should be aligned with best practices. The development of alternative lending products and partial credit guarantee schemes would particularly benefit women-owned MSMEs which face additional credit-constraints often due to insufficient collateral.

India's capital markets, though growing, need further reforms to develop corporate bond issuance and infrastructure financing. Capital markets (equity, government bonds and corporate bonds) have increased from 144 percent to about 175 percent of GDP since the last FSAP. These gains have been supported by a robust capital market infrastructure. The investor base is diverse and segmented across asset classes. Yet key barriers continue to limit their role in financing long-term

investments and infrastructure. Domestic institutional investors are still excessively risk averse and need to enhance their risk assessment capabilities. A stringent regulatory framework requiring institutional investors to allocate funds predominantly to high-rated bonds (AA and above) has constrained market depth and the development of a more diverse, deeper corporate bond market. Reforms aimed at enhancing risk assessment capabilities and incentives for institutional investors, addressing tax disparities between equities and bonds as well as between direct and indirect bond holdings through mutual funds, and enabling new instruments such as mini-bonds and covered bonds would support capital market activity. Developing credit enhancements mechanisms, risk sharing facilities, and securitization platforms would further mobilize capital. In parallel, it would be critical to generate foreign exchange hedging mechanisms for infrastructure foreign debt.

Expanding finance for climate action is critical for India to achieve its sustainability goals, but significant gaps remain in regulatory frameworks and market development. Scaling up climate-related investment requires regulatory and policy clarity, including the development of a Sustainable Finance Roadmap, the finalization of a national Climate Finance taxonomy and incentives for domestic investors. National DFIs could provide de-risking instruments and enhance coordination between public and private entities to mobilize capital for India's green transition. India's subsidized crop insurance scheme, while providing resilience to millions of farmers, faces rising risks due to anti-selection and increasing claims in high-risk regions. Reassessing the scheme's risk-sharing mechanisms and exploring macro-level parametric insurance could help mitigate these challenges and limit the government's fiscal exposure.

India FSAP 2024: Table of Recommendations

Recommendations	Agency	Timing
Financial Sector Oversight		
<i>System-wide oversight and macroprudential policy</i> - Develop a centralized risk dashboard and assess systemwide risks periodically to manage inter-sectoral contagion and the uneven impact of climate change through FSDC leveraging data. ¶33 - Expand the use of borrower-based measures and include DSTI limits. - Start building the (positive neutral) CCyBs. ¶34	FSDC, RBI, SEBI, MoF, IRDAI RBI RBI	MT ST ST
<i>Common themes for Regulation and supervision</i> - Amend legislation to clearly prioritize financial stability and investor protection objectives over developmental objectives of the key regulators. ¶36 - Strengthen powers and programs for supervising conglomerates and insurance groups. ¶39 - Amend legislation to limit/redesignate the MoF's power to intervene in regulatory and supervisory decisions of the RBI and IRDAI ¶36-37 - Provide supervisory guidance on the management of climate-related financial risks. ¶40	RBI, IRDAI, SEBI, MoF	MT
<i>Banks, Non-bank Financial Companies, Insurers and Securities</i> - Enforce bank-specific Pillar-2 capital add-ons and introduce IFRS 9. ¶43-44 - Align the regulations for state-owned and private-sector-owned NBFCs and enhance liquidity regulation and supervision for all NBFCs. ¶45-46 - Transfer oversight functions of NHB to RBI; ¶47 - Complete the transition to a risk-based solvency regime and supervisory approach. ¶53 - Incorporate risk-based analysis of emerging risks and develop an integrated approach to monitoring conduct risks and internal capacity to undertake systemic mutual fund stress tests. ¶49	RBI RBI NHB, RBI IRDAI SEBI	ST ST ST ST ST
Crisis Management and Resolution		
- Finalize the FSDR (resolution) bill in line with the Key Attributes and implement it. ¶64	MoF, regulators	MT
Financial System Development		
<i>Financial Inclusion</i> - Conduct demand surveys and customer journey mappings exercises to better understand barriers to the adoption of digital payments and usage of account differentiating by gender; ¶72 - Establish a dedicated Market Conduct supervision unit to monitor market developments, distinct from those associated with supervised entities, posing consumer risk. ¶73	RBI	MT
<i>Fintech and Digital Financial Services</i> - Address competition challenges by providing a level playing field for Prepaid Payment Instrument issuers by allowing them to onboard customers of other financial institutions, and address interchange fee imbalances. ¶74 - Review subsidy distribution framework to include nonbank prepaid payment instrument issuers. - Establish a regulatory framework for transitioning Third-Party Application Providers to a direct third-party payment initiation mode, as Payment Initiation Service Providers, with transparent payment data governance and accessibility with consumer consent. ¶76 - Mitigate operational risks through comprehensive business continuity planning measures and address emerging fraud risk scenarios in line with international standards. RBI should also take policy measures to classify "significant Third-Party Application Providers" as "critical service providers" to enhance operational reliability in line with international standards. M. ¶75 - Develop a roadmap for open finance including (i) integration of additional information, (ii) expand range of information users (e.g. credit bureaus) to develop value added services, (iii) implement a consent mechanism for MSMEs. ¶77	RBI, PDO RBI, PDO RBI, PDO RBI/PDO RBI	ST ST ST ST

Role of the State - Conduct cost-benefit analysis and rigorous impact evaluations of government credit support policies and programs such as PSL including capital investments in SOFIs. ¶183 - Increase private sector participation, by amending legislation needed to execute the Budget 2022 announcement to privatize two PSBs and a general insurance company, and removing the 20% foreign investment cap. ¶184 - Revise the legal framework for PSBs and public insurers to align governance with OECD standards, BCP and IAIS. ¶138, ¶186. - Issue regulation allowing AIFIs to offer Credit Enhancement products. ¶185 - Enhance flexibility of achieving PSL objectives, by expanding co-lending to include SFBs, UCBs, and RRBs with NBFCs, and increasing use of PCGs to support priority sectors. ¶187	MOF/RBI MoF, RBI, IRDAI MoF, RBI, IRDAI MoF, RBI RBI	MT ST ST ST ST
Credit Infrastructure - Consider the adoption of a CRS law that could cover all types of CRSPs and broaden the scope of data that CICs, CRAs and commercial credit reporting companies can process. ¶188 - Enact a unified secured transactions law, abolish the use of equitable mortgages, centralize the registry for security over all movable assets and digitize all registries for security interests. ¶190 - Improve the SARFAESI Act (e.g. reviewing adjournments, summary procedures and dispute resolution processes) and the IBC (e.g. notifying personal bankruptcy provisions, “prepack” procedure for debtor-in-possession restructuring, simplified procedure for MSME financial distress with simplification of the PPIRP, provisions for domestic group insolvency and provisions for cross-border insolvency). ¶192-93	RBI RBI MoF, RBI, MCA	ST ST MT
SME Finance - Facilitate NBFCs finance to MSMEs by i) rebalancing SIDBI’s refinancing portfolio towards NBFCs, including NBFC factors, ii) introducing a risk-sharing facility for lending to NBFCs from banks and NBFC bonds, and ii) Removing interest cap on NBFCs’ loans guaranteed by CGTMSE ¶196 - Scale up TReDS by i) operationalizing second window and the credit guarantee scheme for factoring, ii) providing incentives to large buyers to upload invoices and mandating the uploading for SOEs. ¶197 - Leverage CGTMSE by introducing a first-loss portfolio scheme in alignment with best practices, and ensuring robust financial modelling, risk management and regulation by RBI. ¶197	SIDBI, CGTMSE MoF, RBI NCGTC CGTMSE, MoF	MT MT MT
Capital Market Development - Revise investment regulations for institutional investors to invest in assets below AA rating; ¶1103 - Develop capacity and incentives for institutional investors to support investment in a larger set of instruments, with a wider range of credit ratings. ¶1103 - Review and homogenize the tax treatment of equities and bonds. ¶1103 - Introduce covered bond law and implement securitization platforms with standardized features. ¶1104 - Develop a subsidized foreign exchange hedging mechanisms for infrastructure foreign debt to tap international debt markets for greenfield infrastructure financing, ¶1106	Regulators MoF, Regulators MoF RBI	ST MT MT MT
Finance for climate action - Finalize Climate Finance taxonomy and develop a Sustainable Finance Roadmap, including formalization of NDFI’s role in finance for climate action agenda. ¶1111-¶1109, - Commission detailed actuarial risk assessment of the subsidized agricultural insurance scheme and analyse the risk of anti-selection within states. ¶1112	MoF PMFBY, NTSU	ST ST

Note: 1/ I: immediate (less than one year), ST: short term (1–2 years), MT: medium term (3–5 years).

BACKGROUND

A. Macroeconomic Background

1. The FSAP took place against a backdrop of robust economic growth in India. GDP growth in FY2023/24 reached over 8 percent before moderating to 6 percent in the first half of FY2024/25 (Table 1). Headline inflation has moderated and remained in the Reserve Bank of India's (RBI) target band of 4.0 ± 2 percent for several months, while food inflation remained elevated during the review period. The external balance is relatively strong, with small current account deficits and low external debt. After remaining relatively stable since end-2022, the rupee has gradually depreciated. Public debt remains elevated—a key factor behind India's sovereign rating of BBB- but remains manageable thanks to a large domestic investor base². The share of non-resident holdings in government securities remains limited, reducing external vulnerabilities but reinforcing domestic sovereign-bank interlinkages.

2. Risks to the near-term economic outlook are broadly balanced and manageable. External factors dominate these risks. On the upside, stronger-than-expected recovery in key trading partners, particularly the United States and China, could boost exports. A faster decline in global inflation could prompt earlier-than-anticipated easing of monetary policy in advanced economies, improving global financial conditions and supporting capital inflows to India. On the downside, unexpected climate shocks can also delay agricultural production impacting commodities prices while a sharper-than-expected slowdown in China or adverse geopolitical developments including shifts in trade policy could weigh on trade and commodity prices, impacting India's external accounts. Heightened geopolitical tensions or supply chain disruptions could lead to renewed inflationary pressures, necessitating further policy tightening.

B. Financial Sector Overview

3. India's financial sector is well developed and diverse, with total assets at nearly 187 percent of Gross Domestic Product (GDP) (Table 2). Overall financial development is on par with peers (Figure 1). India's banking system includes scheduled commercial banks (SCBs), regional and rural banks (RRBs), and cooperative banks (UCBs), constituting about 56 percent of the system's assets (Table 2). Nonbank financial institutions (NBFIs) include non-bank finance companies (NBFCs), insurers, investment funds, and pension funds. The equity market dominates capital markets, followed by the government securities, and a small corporate bond market (100, about 60, and 16 percent of GDP respectively) (Figure 2). The Indian banking sector shows overall good competition and efficiency indicators (Figure 3).

4. India's bank lending is mostly directed towards productive activities, short and medium-term, and funded with retail deposits. Bank retail loans (including consumer loans, mortgages and car loans) amounted to about one third of total credit in March 2024. Housing loans amounted to about half of retail bank loans. The other two thirds were allocated to services, industry and agriculture. About 75 percent of bank lending is secured. Deposits (73 percent of GDP, in line with peers) amount

² India's sovereign rating was upgraded to 'BBB' by S&P in August 2025.

to 78 percent of total loans and mostly up to 3 years maturity (almost 65 percent of total deposits), in line with the share of short- and medium-term loans. For the NBFC sector, retail loans accounted also for about one third of total loans and are mostly funded wholesale (deposits accounted only for 2 percent of NBFC liabilities).

5. State-Owned Financial Institutions (SOFIs) and government interventions play a significant, albeit declining, role. In 2023, SOFIs held about 55 percent of total financial sector assets, down from 63 percent in 2017, largely due to declining share of public sector banks (PSBs) and insurers (Figure 4). In addition to PSB consolidation, PSBs' credit growth in recent years has been lower than private banks' (PVBs) but state ownership in the banking sector remains high. RRBs, development banks (AIFIs), and government programs focus on underserved segments such as small business (MSMEs), rural population, and infrastructure. Mandatory credit and investment requirements like Priority Sector Lending (PSL), result in financial institutions allocating 40-75 percent of adjusted net credit to targeted sectors such as agriculture and MSME. The Statutory Liquidity Ratio (SLR) requires banks to hold 18 percent in government securities while insurance companies must invest more than half of their assets in government securities and 15 percent in infrastructure and housing sectors.

6. NBFIs extended their footprint in recent years, resulting in higher financial interconnectedness. The market share of nonbanks grew (Table 2), and nearly half of the credit to the private sector now comes from sources other than banks. Banks, NBFIs, nonfinancial corporates (NFCs), and households have a roughly comparative footprint in the system and are interconnected. India's restrictions on portfolio debt investment by nonresidents limits the role of foreign investors in the system. Domestic financial institutions—banks, NBFC, and mutual funds—are highly interlinked. Also, banks and NBFCs have a co-lending model where the banks co-lend to priority sector with NBFCs, splitting the exposures on their balance sheet.

7. The NBFC sector is diverse, but assets are concentrated in the largest state-owned infrastructure financing companies (IFCs). The sector has a distinctive business model and regulatory framework. The top three NBFCs are state-owned IFCs, holding one-third of the sector's assets. Excluding housing finance companies (HFCs), the main NBFC business models include investment and credit companies (ICCs), IFCs, microfinance institutions (MFIs), and infrastructure debt funds (IDFs). Legacy deposit-taking NBFCs (term uninsured deposits only) —all licensed before 1997— are mostly ICCs and hold about 15.4 percent of NBFC assets. NBFCs are not part of the RBI's payment and settlement system and do not have access to RBI's liquidity facilities. NBFCs are not subject to PSL, SLR, and cash reserve requirements. Selected NBFCs are subject to some forms of liquidity requirements. Industrial conglomerates are allowed to own NBFCs, but not banks.

8. The insurance sector development is comparable to peers. India's insurance market is the world's tenth largest in 2023. Insurance penetration (4 percent in premiums to GDP) is comparable to Brazil, China, Malaysia, and Thailand but lower than Singapore and South Africa (9 and 11 percent respectively). Life insurers account for three-quarters of insurance premiums, of which about 60 percent go to the largest state-owned life insurer. Private insurers dominate the general insurance markets.

9. Capital market development is uneven, and the rise of NBFIs has changed the structure of some segments (Figure 2). Equities, overnight index swaps (OIS) and, to some extent, G-SECs segments are well-developed, while the still developing corporate bond market is less liquid. Foreign and retail investors primarily invest in equities, owing to tax considerations and limits on capital inflows. In the past several years, retail investors increased trading of equity options on indexes, placing India at the top of this market globally. Domestic banks and NBFIs invest mostly in high-rated fixed income assets, especially G-SECs, due to their risk preferences and, in some cases, regulatory requirements. Financial institutions are major issuers of corporate bonds, and NBFIs are particularly active in the commercial paper (CP) markets. The securitization market is nascent, comprising less than one percent of GDP.

10. The mutual fund industry has grown consistently in the past decade, offering plain-vanilla open-end funds. Assets under management (AUM) have grown from about 6 to 16 percent of GDP in the 10 years up to 2024. Since the NBFC and corporate bond market distress event in 2018, bond funds' AUM declined relative to GDP, and instead equity funds took off. Investors are mostly institutional in the case of liquid and debt funds and exchange-traded funds (ETFs). Retail investors are active in equity funds.

11. Account ownership is high, supported by government programs and a well-developed digital public infrastructure (DPI). Nearly 80 percent of adults have financial accounts (Figure 1), thanks to a government initiative providing basic accounts, and it drove the creation of 500 million accounts³. The PSBs' extensive branch network supports these efforts. Household credit is moderate compared with other EMEs, at nearly 40 percent of GDP and growing. The authorities have developed a world-class DPI (India Stack) consisting of a biometric digital identity, unified payments interface (UPI) that offers instant mobile payments, and a data exchange. The UPI accounts for nearly 70 percent of all payment transactions, but there remains a significant opportunity for further growth in digital payments adoption.

12. The fintech market is one of the fastest growing markets globally, supported by policy initiatives, with an estimated market value of US\$114 billion.⁴ India's fintech ecosystem ranks third behind the USA and the UK. In addition to the development of DPI, policy initiatives include regulatory sandboxes by financial regulators and the RBI innovation hub. Digital payments, peer-to-peer lending, open finance, Insurtech and robo-advisory have emerged in recent years. Fintech companies often partner with financial sector incumbents to develop and provide digital finance solutions.

C. Macro-financial Developments

13. Despite additional stress from COVID-19, bank health has improved significantly since the last FSAP, when large corporate loan defaults led to distress in PSBs (Table 3, Figures 5 and 6). Partly thanks to government action to recapitalize and consolidate PSBs, from FY18/19 to FY23/24,

³ Data published after the reference period for the FSAP indicates that account ownership has improved to 89 percent in 2024, as per the World Bank Findex.

⁴ According to Invest India.

the capital adequacy ratio (CAR) for the banking system gained nearly 300 bps to reach over 17 percent and nonperforming loans (NPLs) declined from over 9 percent of total loans to below 4 percent. SCBs' liquidity buffers, albeit declining in recent years, are also comfortable, with the liquidity coverage ratio (LCR) above 100 percent. PSBs exhibit weaker financial performance than PVBs, except for liquidity indicators.

14. The NBFC sector has also recovered from the 2018 distress episode (Figure 7). The sector's CAR rose from 23⅓ percent in FY19/20 to nearly 26.9 percent in FY23/24, well above the 15 percent minimum requirement. NPLs declined from 6.8 percent to 4 percent for the same period.

15. While the insurance sector has a high solvency ratio, state-owned general insurers suffer from structural solvency challenges (Figure 7). State-owned general insurers (nearly 40 percent of this market, and about 8 percent of the whole insurance market by premiums) are more vulnerable than private ones.⁵ In 2023, the average solvency ratios were over 200 percent for life insurers and the private general insurers but 32 percent for the four public general insurers, because three of them had negative solvency ratios despite capital injection by the government. These three continue to operate and take on new business.

16. The credit cycle appears broadly neutral with solid borrower health (Figure 8). Private sector credit-to-GDP amounts to 90 percent of GDP. Some credit gap measures have been negative for over a decade. Banks shifted their credit portfolio toward personal loans since 2017, partly to reduce concentration of exposures to large corporates. As a precaution, the RBI has increased risk weights for some unsecured personal loans, which effectively slowed credit growth in those sectors. Corporates' interest rate coverage ratio (ICR) improved since 2023 despite higher interest rates, thanks to solid earnings and deleveraging. Household leverage relative to disposable income has remained broadly stable since the 2017 FSAP and is moderate compared to EM peers.

17. Despite strong growth, asset market valuations appear broadly in line with underlying earnings growth. Since 2021, the equity market has outperformed many peers, supported by higher earnings per share growth despite some temporary volatilities. Foreign and individual investors contributed to this surge. Individual investors have also brought India's equity option trading volume to the largest in the world, prompting the regulator (SEBI) to announce several investor protection measures. House prices have steadily rebounded after COVID-19. Nonetheless, affordability metrics, such as the price-to-income ratio and overvaluation indicators, have remained stable.

18. India is subject to climate-related risks (Figure 9). Some projections (for example, [Kahn and others](#), 2019, and [Kompas](#) and others, 2018) indicate that by 2100, India could face annual GDP losses of 3 to 10 percent due to climate change, including extreme heat and humidity and the resulting lost labor hours. Specifically:

⁵ State-owned general insurers are more active in loss-making business areas with regulated premiums that underprice insurance risks and high uncertainty over payout amount (e.g., broad financial damage from the injury or death of a person in a car accident without deadlines to file a claim). The 2024 reforms with compulsory third-party motor liability business should help improve their profitability.

- **Physical risk:** The country ranks fifth of 188 countries assessed in terms of climate-driven hazard and exposure ([INFORM Risk Index](#)). Cyclones have a concentrated impact in many coastal states where banks have half of the credits.⁶ Global warming is projected to alter India's monsoon patterns with decreased overall rainfall, heightened frequency and intensity of extreme rainfall, and an escalating vulnerability to drought. It increases risks to the monsoon-dependent agricultural sector,⁷ to which 13 percent of SCB loans and about 66 percent of regional and rural bank (RRB) loans go, partly because of PSL requirements.
- **Transition risk:** India was the world's third-largest greenhouse gas (GHG) emitter in 2022, though it had one of the lowest per-capita emissions. The coal-dependent power sector contributes to half of India's total CO₂ and nearly 40 percent of total GHG emissions. Banks lend 30–35 percent of loans directly to carbon-intensive sectors.⁸

RISK ANALYSIS

Solvency Stress Testing

19. The SCB sector retains enough aggregate capital to sustain moderate credit growth even in severe adverse scenarios, although PSBs' capacity to do so would be more limited.

Assuming credit growth at the same rate as nominal GDP, in adverse scenarios, private and foreign banks maintain CARs well above the 9 percent minimum requirement and the capital conservation buffer (CCB).⁹ However, PSBs need to dip into CCBs in a stagflation scenario and their CAR falls below 9 percent in the recession scenario. Assuming zero growth to their loan portfolio, PSBs can maintain barely the 9 percent CAR in the recession scenarios. This means that PSBs should strengthen their capital base, including by retaining their earnings instead of paying dividends to the government as they have been doing in the past few years, to ensure they can support economic recovery in a potential future downturn. PSBs are relatively more vulnerable because they have lower initial CARs and are more sensitive to credit risk. By comparison, foreign banks suffer relatively less from credit risk but more from market risk, as they have smaller loan books and a higher share of securities.

20. Although SCBs appear generally resilient, stress tests highlight a weak tail. About 10 PSBs and PVBs (with market share of 24–36 percent of SCBs total assets, depending on scenarios) would have CAR below 9 percent the adverse scenarios. Most of these banks need additional capital with or without positive credit growth assumption (although the capital needs are only about 0.2 percent of GDP). This means that these banks are likely to deleverage during future downturns if they do not build up additional capital buffers.

⁶ Staff estimate based on the [cyclone hazard map](#) from the National Disaster Management Authority and RBI's state credit exposure data.

⁷ India produces about ¼ of rice and over 10 percent of wheat production globally. The agricultural sector's share in India's GDP is about 18 percent, and it employs over half of the workforce.

⁸ Staff estimate based on data from the [Ministry of Environment, Forest and Climate Change](#) (MoEFCC) and RBI.

⁹ Adverse stagflation and recession scenarios reflect extreme tail events, including less than 1 percent likelihood shocks to GDP. In the stagflation scenario interest rates increase while in the recession scenario envisions monetary easing

21. The UCB sector remains well-capitalized in stress scenarios; however, some are currently undercapitalized. The sector currently maintains 31 percent CAR on aggregate, supporting its resilience under the adverse scenarios. Yet, some UCBs were undercapitalized as of June 2024, and several additional banks become undercapitalized or have negative capital under the baseline, indicating challenges to their viability. In the adverse scenarios, there are about 20-22 UCBs depending on the scenario (about 10 percent of the UCB sector's assets) that would have their CARs falling below the minimum requirements. Loan loss provisions are the main driver of the impact on capital.

22. NBFCs demonstrate resilience to macro-financial shocks, supported by high initial capital buffers, though results mask vulnerabilities arising from concentrated exposures. Most segments maintain comfortable capital buffers above minimum requirements under stress scenarios to continue lending. Nonetheless, up to 27 NBFCs need additional capital (0.4 percent of GDP) in the adverse scenarios. However, the macro scenario tests mask critical vulnerabilities from concentration risks to the power sector, which has shifted from banks to NBFCs. These companies are largely state-owned and carry explicit or implicit state guarantees. Still, NPL problems could emerge from such exposures. Payout from guarantees usually takes time to determine losses, reducing the present value of future recovery.

Liquidity Stress Testing

23. Supported by ample investments in sovereign securities, most banks would be resilient to liquidity shocks. In the severe adverse scenarios, the LCRs of a few large PSBs and PVBs (70 percent of the system) fall below 100 percent, but all maintain 80 percent or more LCRs. The cash flow analysis shows that all SCBs can withstand cash outflows for up to two months. Reverse stress tests show that banks' LCRs are less vulnerable to valuation shocks to high-quality liquid assets (HQLAs) compared to shocks to run-off rates. Compared to public and foreign banks, PVBs are relatively more vulnerable to higher run-off rates to retail or wholesale funding.

24. NBFCs appear resilient against short-lived liquidity stress, but reduced debt service inflows from higher NPLs for over three months could trigger liquidity shortages. NBFCs' liquid assets are only 5½ percent of total assets. The main liquidity risks for NBFCs stem from loan defaults and reduced debt service inflows, as seen during the 2018 NBFC distress episode, while funding losses have only a moderate impact. Wholesale funding is mostly term, though creditors may trigger covenants to front load repayments.

25. Bond Mutual Funds are generally resilient against redemption shocks. All funds maintain liquid assets (after haircuts)¹⁰ to withstand historically calibrated redemption stress. The relative vulnerability of liquid funds stems from historically large redemption experiences, partly because of seasonal cash demand for tax payments, which are not related to stability concerns.

26. The current Corporate Debt Market Development Fund (CDMDF) resources can offset NBFCs bond fire sales but not from broad-based corporate bond market dislocation. In stress

¹⁰ Concentrated trading on a few representative G-SECs and infrequent corporate bond trading with stale pricing data limits the quality of asset haircut calibration.

scenarios, mutual funds may sell INR70-260 billion worth NBFI bonds. With net assets of INR38 billion and a government backstop of up to INR300 billion (as of September 2024), the CDMDF can offset mutual funds' fire sales pressures if stress is limited to NBFC bonds. However, if dislocation spreads to other corporate bonds, additional support may be necessary to limit sharp price falls.

27. The results should be taken as partial and illustrative with a large margin of error due to data limitation, including market illiquidity discounts. Moreover, the approach assumes that all assets can be liquidated at lower prevailing market prices. If the market completely freezes, funds with sufficient securities may struggle to pay out redeeming investors. Detailed repo data will be necessary to gauge the impact on repo markets where mutual funds are key cash providers.

28. Systemwide liquidity stress in India is characterized by the uneven allocation of liquidity rather than an aggregate loss. NBFCs, facing liquidity stress from rising NPLs, could default on their liabilities, prompting mutual funds to redeem NBFC debt which would intensify market dislocations. Although banks possess the capacity to bridge liquidity gaps, their support may be limited by concerns over counterparty risks and borrowers' lack of G-SECs as collateral. Mitigating factors include India's largely closed debt markets, which prevent significant liquidity loss abroad, and the investors' willingness to hold rupees.

Climate-Related Risk Analysis

29. Extreme cyclones may give localized, though not systemic, capital impact on SCBs, but comprehensive assessment needs more granular data. The geographically diverse economy limits nation-wide damage to physical capital. Still, the once-in-500-year likelihood cyclone can notably reduce bank capital ratios, though aggregate CARs remain well above the hurdle rates. A caveat is that this macro-level analysis may underestimate collateral damage. More granular data showing loan and collateral information by location is necessary to properly assess concentrated impact to some banks.

30. Although the agricultural sector is resilient to small, single-year climate events, compounding climate shocks—without adequate adaptation and protection measures—can result in cascading effects and significant financial losses. In the most severe scenario, where climate shocks occur over three consecutive years, the agricultural sector's default probability could increase by over 30 percentage points, with expected losses surpassing 25 percent of total SCB agricultural loans. The impact on RRBs that have much higher exposures to the sector could be significantly higher. The absence of geolocation and loan-level data may underestimate tail risks, while adaptation measures and crop insurance—factors not explicitly included in the analysis—can mitigate the impact. However, higher risk of extreme weather could increase premiums and make crop insurance unaffordable in the future (see section G of chapter on Financial Sector Development).

31. India can transition to a low-carbon economy while sustaining moderate to high economic growth. The exercise considered five transition scenarios up to 2040 aligned with the Network for Greening the Financial System (NGFS) Phase IV scenarios, including Current Policies, Nationally Determined Contributions (NDC), Below 2°C, Delayed Transition, and Net-Zero 2070. Estimates suggest that India can maintain high GDP growth in all scenarios, although the Net-Zero

2070 transition may lead to 5 percent loss in GDP by 2040 compared to Current Policies. The mining, heavy industry, refining, and electricity sectors see greater output reductions.

32. While the aggregate impact on SCB capital appears relatively benign, the concentrated impact on the structurally vulnerable power sector could potentially trigger a systemwide impact. SCBs continue to have large exposures to the power sector despite major cuts. While not formally assessed, NBFCs, especially IFCs, could also incur extensive losses given their sectoral loan concentration. The impact on SCBs could be higher if indirect exposures to the power sector through NBFCs are included: annual expected losses relative to Current Policies would increase by approximately 50 percent by 2040 under Net-Zero 2070. The expected losses are more concentrated in PSBs: five banks could account for 60 percent of additional expected losses in 2040.

D. Authorities' views

33. The authorities noted that India's financial system recovered well from past distress and became resilient, including PSBs, though there are weak tails like UCBs and many mitigating factors. They highlighted that risks arising from the concentration of exposure to the power companies appear overstated. These companies are mainly state-owned, and their borrowings accompany explicit and implicit state guarantees. As for climate change risk analysis, they noted that the role of mitigating factors should be incorporated explicitly. Many losses to the agricultural sector can be mitigated through effective adaptation strategies, advanced technologies, government programs, and insurance coverage. Also, scenarios with faster transition paths than net zero 2070 will have different impacts.

FINANCIAL SECTOR OVERSIGHT

A. Systemic Risk Oversight and Macroprudential Framework

34. The growth of NBFIs and market finance has transformed financial linkages, necessitating robust systemwide risk monitoring and cross-sectoral collaboration. Authorities should establish a centralized systemic risk dashboard and develop advanced risk assessment tools, integrating findings into periodic discussions within the Financial Stability and Development Council (FSDC). A dedicated interagency working group on climate-related risks under the FSDC Subcommittee is also recommended. To enhance risk analysis, authorities should close data gaps through a central depository for automatic data sharing and expand data collection, including household surveys, NBFCs' liquidity metrics, and granular credit and flow of funds data. Additionally, priorities include strengthening solvency and liquidity stress tests across financial entities, developing systemic liquidity risk tools, and enhancing climate risk analysis capacity to align with evolving global standards,

35. Countercyclical capital buffers (CCyBs) and borrower-based measures (BBMs) could help strengthen the set of macroprudential toolbox. India's CCyB is currently zero, as in other BRICS. The currently favorable macro-financial conditions make this an opportune time to start building a positive neutral CCyB as insurance against future stress. Indeed, solvency stress tests suggest PSBs need additional capital to ensure they can continue lending to support economic recovery in severe adverse scenarios. By prescribing limits for loans to more at-risk borrowers BBMs

can mitigate vulnerabilities to high-risk borrowers. Income-based measures can also stabilize consumption better during recessions than loan-to-value (LTV) caps. Consistent BBMs applied across key lenders can prevent regulatory leakages. The RBI could apply a Debt Service to Income (DSTI) limit (for example 50 percent), already required for microfinance loans, to all household loans¹¹.

B. Common themes of Supervision and Regulation

36. Despite a broadly robust oversight framework, there have been long-standing challenges in the oversight of banks and insurers due to state influence and the pursuit of developmental objectives. Key regulators have stability and development objectives without clear prioritization, and the government pursues social policies through financial institutions.¹² These are long-standing issues, given the historical roles of the financial system and SOFIs to mobilize savings for economic growth. Easing these constraints by modifying legislation to clearly prioritize financial stability over development objectives will be important. As the economy and financial system mature, the private sector can mobilize savings and allocate them efficiently and inclusively (see the developmental issues section).

37. Regulators' power and independence should be strengthened with legislative and institutional changes. The RBI, Banking Regulation (BR), IRDAI, and SEBI Acts allow the government to have control over senior managements and the boards of the regulators.¹³ The MoF is also the appellate authority for the RBI and has the power to overturn RBI's supervisory decisions. The power had not been used until 2019, when the MoF took the appeal of an UCB and overturn the RBI's decision to revoke its license. Staff recommend transferring the appellate authority power from the MoF to an independent agency. Additionally, state-owned banks and some insurers are governed by their statutes, limiting regulators' powers over them.¹⁴

38. Regulated entities' governance and internal control requirements should be strengthened. The RBI has taken steps to strengthen the corporate governance of PVBs and PSBs.¹⁵ Nevertheless, the RBI has limited power to compel PSB mergers, pre-approve and remove board members, and supersede boards. Similarly, the IRDAI should have the power to take critical supervisory actions against the dominant state-owned life insurer. In addition, the RBI should issue more guidance on banks' boards' oversight function, ongoing suitability of the board, roles of independent members, and the management of conflicts of interest. It should discontinue the practice of placing RBI staff in the boards of banks to avoid conflicts of interest. Corporate governance

¹¹ DSTI limits would also help address issues related to over-indebtedness of consumers and support consumers' financial resilience to shocks.

¹² International standards allow regulators to pursue multiple objectives if the financial stability objective is clearly prioritized.

¹³ The MoF is represented in the RBI board. The government can remove the governor, deputy governor, and directors without justification; give directions to the RBI; supersede its board; request an inspection of banks; and exempt banks from applying for the BR Act, among others. The government can remove IRDAI's chair and the members of its board and appoint an insurance comptroller.

¹⁴ For example, the RBI has authority to remove shareholder elected directors, but not other senior officers nor board members of state-owned banks.

¹⁵ The RBI increased independent board members and tightening their qualifications for PVBs. The qualifications of some board members of PSBs were strengthened, and the agency to recommend candidates for PSBs' executive board members and chairperson was reformed.

requirements for insurers should separate the role and the functions of an insurer's board from those of executive management, which is essential for the transition to risk-based supervision.

39. Conglomerate supervision should be augmented. India has 12 financial conglomerates (FCs). However, not all de facto FCs are designated as such for supervisory purposes. Although the Inter Regulatory Forum (IRF) is an effective platform for domestic supervisors to cooperate, there are no legal powers to set and enforce group-level requirements. The assessment of several Insurance Core Principles (ICPs) was affected by the lack of comprehensive legal requirements, supervisory mandates, and powers over insurance groups. Establishing a legal framework for group-level standards in corporate governance, risk management, and internal control, along with enforcement powers over FCs, is essential for effective group-level supervision.

40. Regulators and FIs should enhance their capacity to better understand climate-related financial risks. FIs recognize the potential implications of climate change, but climate risk analyses are nascent due to insufficient data and guidance provided by regulators. The RBI has mapped climate risk for the banking sector, providing non-binding guidance on governance, strategy, [announced the establishment of a climate risk information system](#), and risk management, and issued a draft disclosure framework. The IRDAI and SEBI included climate and environmental, social, and governance (ESG) considerations in revised regulations and disclosure requirements. Regulatory authorities could provide further guidance on the management of climate-related financial risks in alignment with international best practices.

C. Banking Sector Supervision and Regulation

Banks

41. The RBI has continued to enhance its regulatory authority and supervisory functions since the last FSAP. It unified regulation and supervision departments covering all types of entities. It also established an enforcement department to apply fines to violations consistently. Basel III liquidity requirements are phased in, and large exposure limits have been tightened to address excessive exposures to large corporates—a major contributor to the last banking sector distress. Moreover, the RBI has expanded its regulatory authority over cooperative banks.

42. The consolidated supervision framework for banks needs improvement. The RBI's risk-based supervision (RBS) framework for SCBs, Supervisory Program for Assessment of Risk and Capital (SPARC), is performed on a solo-basis. The prompt corrective action (PCA) framework also does not specify whether triggers apply at the solo or consolidated level. The RBI would benefit from a systematic framework to evaluate risks from group structures, including parent and affiliated companies, especially if subsidiaries are not RBI-regulated or the bank is not designated as an FC.

43. The credit risk management framework should continue to be enhanced to support sustainable credit deepening. The RBI improved banks' compliance with NPL classification through automation requirements—a notable achievement. However, provisions may not be adequate because of the still narrow definition of NPLs, exemptions and special treatments for certain exposures, and relatively low minimum provisioning rates. The adoption of IFRS 9 with prudential

backstops would be critical to ensure forward-looking loan classification and provisioning rules so that credit costs do not jump drastically in a downturn as seen in the past. The RBI should also upgrade its supervision over individual loans, collateral valuation, connected borrower groups, large exposure limits, and related-party transactions.

44. The RBI should enforce Basel III Pillar 2 add-on charges. Currently, capital surcharges are set to zero for all banks. The RBI has all the essential toolkits to determine the surcharges, including supervisory risk profile assessments, supervisory stress tests assessing capital requirements under baseline scenarios, and banks' Internal Capital Adequacy Assessment Process (ICAAP).

NBFCs

45. The RBI should apply the same rules to state-owned and private NBFCs. Several large NBFCs, including the top three, are in the middle supervisory layer because they are state-owned. Therefore, they are subject to less stringent requirements than those applied for NBFCs in the upper layer, including large exposure limits and corporate governance rules. The NBFC risk analysis underscores the importance of establishing ownership-neutral oversight. Recent efforts to withdraw some exemptions from large exposure limits helped reducing vulnerability to concentration risks.

46. Given the distinct liquidity risks to NBFCs, it is critical to strengthen and tailor liquidity regulations and oversight. Although the RBI introduced bank-like LCR for large NBFCs, these entities can make optimistic assumptions, including credit line inflows, which often become unreliable in distress. The RBI should start collecting the LCR returns, analyze them, and recalibrate key behavioral parameters to better reflect NBFCs' risk profile. In particular, the RBI should start collecting information on covenants (common with NBFCs' borrowings). Also, the RBI could consider additional liquidity indicators more suited to NBFCs' business models.

47. The RBI should assume supervision of HFCs in addition to regulation. The regulation was transferred to the RBI in 2019; however, supervision remained with the National Housing Bank (NHB). The NHB's supervisory framework is primarily compliance-based, hampered by limited resources, and missing the frameworks and capacity for supervisory actions, PCA, and stress testing despite training efforts. Moving supervisory function to the RBI would also eliminate the conflicts of interests arising from the NHB being the promoter, refinancer, and the supervisor of the HFCs.

D. Capital Markets Regulation and Supervision

48. The SEBI continues developing a regulatory framework aligned with international practice to manage and prevent emerging risks in securities markets. Notable improvements include the enhanced management of collateral, measures to ensure business continuity for investors even in the event of exchange disruptions, and the establishment of the CDMDF. The SEBI has also expanded its regulatory scope over emerging areas such as sustainability, with initiatives aimed at preventing greenwashing and establishing frameworks for social exchanges. The regulator has also made progress on some recommendations from the previous FSAP regarding commodities regulation and the oversight of listed companies reporting. While these measures have bolstered the overall regulatory structure, there are concerns within the industry that the increasing volume of regulations

may reduce market competitiveness. Specifically, there is apprehension that overly prescriptive designating rules could limit the flexibility of collective investment schemes and standardized credit rating systems.

49. The SEBI should incorporate risk-based analyses of emerging risks and develop an integrated approach to monitoring conduct risks and system wide risk analysis. While the SEBI has addressed some sectorial risks—such as those related to ESG—it should have a holistic view of emerging risks that often stem from business conducts and new securities formats. Since excessive reliance on disclosures may result in poor outcomes, the SEBI should focus on substantial analysis of risks impacting consumers. The SEBI should establish a risk-based supervisory approach focusing on sales practices, particularly for retail investors, and consider developing a methodology to integrate emerging risks across various supervision divisions. This approach would help ensure that financial institutions operate with integrity, prioritize customer interests, and maintain market confidence, thereby mitigating potential conduct-related risks. Moreover, only supervisors can incorporate a systemic perspective such as contagion effects from mutual funds. Collaborating with other agencies in the context of macroprudential oversight would be useful.

50. The SEBI should enhance suitability policies and conduct risk oversight for mutual funds and review the standards and adoption of self-regulatory organizations (SROs). The SEBI should simplify explanatory documentation to clearly outline key investments, risk levels, and fee breakdowns for retail customers. Additionally, the SEBI needs a comprehensive strategy to monitor risks from mutual fund distributors acting as agents for multiple funds at the point of sale, enforcing policies against mis-selling, and enhancing the supervisory model for mutual fund managers. Furthermore, SEBI's reliance on first-level regulators, while effective for Registered Securities Exchanges (RSEs), poses risks when applied to unsupervised entities like the Association of Mutual Funds in India (AMFI), which manages a large register of mutual fund distributors. The SEBI should have the authority to designate first-level regulators as SROs when appropriate.

E. Insurance Sector Regulation and Supervision

51. The government and IRDAI have taken major steps towards building a robust regulatory and supervisory framework. The graded assessment found an overall sound level of observance of ICPs. Strengths include robust licensing and certification processes, suitability requirements for key persons and beneficial owners, and strong intervention and enforcement powers. The IRDAI has also established several information-sharing mechanisms with other domestic and foreign supervisors. Public disclosure requirements are comprehensive. Moreover, there are extensive requirements relating to intermediaries, business conduct, insurance fraud, and anti-money laundering. However, several sections of the 1938 Insurance Act do not apply to the largest state-owned life insurer, including the ability to remove directors and officers, appoint an administrator, issue directions concerning reinsurance, and apply for full or partial liquidation.

52. The supervision framework is mainly compliance based affecting several ICPs. The IRDAI recognizes the limitations of their current framework and is proceeding with the transition towards a risk-based supervisory approach.

53. Solvency-related requirements should also be strengthened in line with the standard.

For example, valuation requirements should provide a consistent approach in all areas, and assets and liabilities should be valued on an economic basis. The current capital regime contains some risk-based elements, which should be adopted coherently throughout the balance sheet and appropriately calibrated. IRDAI's plan to transition to a new risk-based capital framework by the end of 2025 is welcomed. Directed investment requirements should be reviewed for potential conflict with the objective of policyholder protection. The enterprise risk management requirements should also be dynamic and complete (e.g., with insurers' own risk solvency assessment requirements).

F. Cybersecurity Risk

54. Indian authorities have noticeably advanced cybersecurity risk oversight, especially for banks. Cybersecurity resilience could be enhanced by extending the framework beyond banks.

The authorities have made early efforts to map the cyber and financial sectors and identified over 100 critical services (information and communication infrastructures and information technology (IT), and service providers). Cyber mapping could additionally consider the critical functions provided by systemically important NBFIs, including FMIs. The RBI has conducted a thematic exercise to assess concentration risk in respect of outsourced entities IT service providers. Cybersecurity-related circulars were issued to banks in 2016. Subsequent RBI regulations set rules on IT, governance, risk controls, assurance practices, outsourcing, and digital payment security controls. Regulatory frameworks have also been tailored to smaller cooperative banks because of their digital depth and interconnectedness to payment systems. RBI has also conducted phishing simulation, cyber reconnaissance and cyber drill exercise to assess and enhance cyber resilience of supervised entities. Extensive cybersecurity crisis simulation exercises and stress tests for banks could be expanded for cross-sectoral and market-wide events. Banks and some FMI response and recovery could be made closer to international standards by setting explicit benchmarking metrics, particularly recovery time objectives.

G. Financial integrity (AML/CFT)

55. The 2024 mutual evaluation by the Financial Action Task Force (FATF) guides reform areas for the future.

The report says that the authorities have a good money laundering (ML) and terrorism financing (TF) risk understanding; engagement by the law enforcement authority; and strength regarding transparency of legal entities, confiscation, and international cooperation. The financial sector has a generally good understanding of risks and mitigating measures, too. Key reform areas include preventive measures, supervision, and enforcement, in particular regarding obligations for reporting entities for domestic politically exposed persons (as also identified in the previous FSAP); targeted financial sanctions for TF; mitigating the misuse of nonprofit organizations from TF; criminals' participation in key sectors such as dealers of precious metals and stones; enhancing supervision, especially for high risk designated non-financial businesses and professions and the money transfer services schemes; improving suspicious transaction reporting by high-risk sectors. Authorities should also enhance the beneficial ownership registry and strengthen ML/TF prosecutions, given the current backlog of court cases.

H. Authorities' views

56. The authorities noted that the risk assessment tools shared by the FSAP, and preceding technical assistance have helped advance India's capacity in this area as the global goalpost moves forward. The RBI adopted the model for its latest Financial Stability Report.

57. The authorities viewed many recommendations to be agreeable and noted that preparatory work for implementation has been ongoing. Key work programs include introducing IFSR 9 for banks, tightening NBFC regulations and supervision, especially for state-owned ones, and implementing risk-based supervision for insurers.

58. However, they argued that the financial system should help pursue high economic growth in an EM like India, and, separately, regulators should be held accountable for their mandates. They noted that State-owned financial institutions have been critical for financial inclusion and development. Further, the mandates of the FSDC and sectoral regulators are complementary to each other, and there has been no occasion when a trade-off was observed. Regulators should be accountable for their mandates, as their heads are not elected officials.

59. As for positive CCyBs, the authorities see the global views are still divided. There is limited evidence that releasing CCyB can enhance credit growth. Also, the responses of credit growth to CCyB changes could be asymmetric between the build-up and release phases, leading to a net negative impact on long-term growth. An EM like India needs to weigh these options more holistically. Moreover, macrofinancial conditions have evolved, and the timing does not appear conducive to introducing a new buffer.

60. Regarding observation on paragraph no. 46, Authorities have stated that the LCR framework for NBFCs was a proactive prudential measure, which was never intended to be 'bank-like'. Accordingly, the key assumptions on inflows/outflows have been suitably customized considering the business profile and funding sources of NBFCs, with suitable in-built safeguards, and cannot be considered as 'optimistic'. The RBI has also prescribed appropriate alternative liquidity indicators (stock ratios) for NBFCs and feel that there is no immediate need for prescribing additional liquidity indicators for NBFCs.

FINANCIAL CRISIS MANAGEMENT AND RESOLUTION

A. Systemic Liquidity Management

61. Authorities should continue reforms to make key markets more resilient to liquidity stress as the capital market develops. The legacy SLR should be reduced further as it has been historically a fiscal financing mechanism and limits bond trading volumes. Such reforms appear less disruptive now, as the introduction of prudential LCR is likely to maintain the demand for G-SECs. The RBI should review the haircuts for its G-SEC repo, as they are far lower than those applied in repos between private-sector institutions. Additional daily margining in line with market valuation for the life of longer-term facilities should be implemented, too.

62. While the RBI's have effectively addressed recent systemic liquidity episodes, it should consider broadening policy options. To date, RBI crisis measures have been implemented indirectly through banks and the G-SEC purchase program. As the nature of systemic liquidity risks evolve, it's vital to continually refine crisis-time liquidity management tools.¹⁶ In this context, the RBI should be operationally prepared to accept corporate bonds, subject to appropriate haircuts, as collateral. As part of its systemic response toolkit, the RBI should also consider asset purchase programs (along with repos) when there is systemic dysfunction in key markets such as corporate bond market in collaboration with other agencies as needed.

63. The RBI should improve its approach to emergency liquidity assistance (ELA). The RBI Act should be modified to address existing ambiguity and strengthen the legal basis for ELA. Furthermore, the RBI should develop an internal policy that clearly separates monetary operations from ELA. Publicly communicating some high-level summary of the ELA framework, differentiating it from normal operations, would be beneficial in bringing clarity to the arrangement.

B. Crisis Management and Financial Safety Net

64. Finalizing and enacting the resolution legislation for banks and key NBFIs, aligned with the Key Attributes (KAs), is essential for establishing a modern, comprehensive resolution regime. Resolution powers and tools are limited mostly to compulsory mergers or liquidation and could entail contingent fiscal risks. Although the draft Financial Sector Development and Regulation (Resolution) Bill (FSDR) has been under discussion for several years, progress has been slow due to concerns regarding the scope of the power of the proposed resolution authority and certain resolution tools, such as bail-in. Staff did not have the opportunity to examine the latest version of the bill in details to see how it compares with the KAs.

65. The existing PCA framework should be refined to ensure well-coordinated and expedited actions in a crisis. The PCA framework should include clear guidance about the timeframe (but not a hard deadline) for taking an FI out of the PCA to avoid keeping nonviable firms in PCA for unreasonably extended periods. Currently, the RBI can trigger resolution as a supervisory action under the PCA or resolution-focused measure under the BR Act. Consolidating the triggers into a crisis intervention-focused trigger is desirable. Moreover, there should be resolution-specific coordination and cooperation mechanisms with more encompassing memberships, especially the Deposit Insurance and Credit Guarantee Corporation (DICGC).

66. The insurance resolution framework also needs to be overhauled. In addition to mergers and liquidation, insurers with fundamental challenges with business viability should be allowed to voluntary exit in an orderly manner with clear and specific criteria to minimize liquidation costs to policyholders. In addition, the supervisor should require insurers to develop recovery and resolution plans and then establish its own plan based on insurers' inputs.

67. The deposit insurance framework requires significant refinements. International best practice expects the DICGC to have credible (prearranged, rule-based, and automatic) and sufficient

¹⁶ See [October 2020 GFSR](#) and [MCM's note](#).

backup funding from the government. The DICGC can borrow up to INR 50 million (about USD 580,000) from the RBI, which is small compared to the insurance limit of INR ½ million. The payout process should be streamlined and shortened to align with international guidance with a single customer view and should discontinue disbursing settled claims through a liquidator. When using deposit insurance funds' money to support mergers, there should be limit to the DICGC's power to delay repayment deadlines from the acquiring bank.

C. Authorities' views

68. The authorities noted that while the work on the new resolution bill is ongoing, existing legislation provides the RBI effective resolution powers and tools. They believe provisions in the Insolvency and Bankruptcy Code (IBC), the BR, and the DICGC Act allow the RBI to take various resolution actions, including mergers, moratoriums, suspension of management, and liquidations. They also highlighted that recapitalization by existing shareholders also played a critical role in some cases.

69. The RBI strongly feels that the existing liquidity regulations and support frameworks have served India well, and there is little need for further action. They noted that there is little harm in keeping the SLR as it is far less constraining than decades ago, and the securities held for SLR could be fully used to obtain cash if needed. Since banks have sufficient G-SECs, the RBI feels little need to expand eligible collaterals and is concerned over taking on credit risks by accepting private securities.

FINANCIAL SECTOR DEVELOPMENT

70. Further financial sector development will require enhanced savings mobilization, supported by stronger state capacity to crowd in private capital, deeper capital markets, financial innovation, and improved financial infrastructure. Funding investment needs to attain India's socioeconomic goals require additional saving mobilization and intermediation. Foreign capital can be mobilized to invest in government bonds, building on recent reforms to include India's government securities in global indexes. Instruments can also be developed to support foreign capital mobilization towards greenfield infrastructure. Further financial inclusion and account usage as well as further capital market development will support domestic saving mobilization. Development of private sector securities and non-traditional lending products (including digital lending, factoring leasing, etc.) would support allocation of increased saving volumes to investment priorities. To support financial development, the State should continue its divestment from the financial sector and focus on strengthening its "enabling" role by leveraging the National DFIs and other State-Owned financial institutions (in the insurance and pension fund sector) more effectively to mobilize private capital. Government interventions to support credit and investment should be rigorously evaluated and refined as needed. There is still ample room for improvement regarding foundational credit infrastructure including collateral and insolvency frameworks as well as for continued development of the open finance architecture. Financial sector diversification poses new challenges regarding protection of financial consumers.

A. Financial Inclusion

71. Reaching the “last mile” of unbanked individuals and increasing account usage, especially for women, are the main challenges on the financial inclusion front. Account ownership is relatively high at 80 percent but reaching the ‘last mile’ of unbanked individuals is increasingly complex (figure 1).¹⁷ Despite continuous improvement, a significant share of accounts remains inactive. Half of those with inactive accounts cite lack of trust¹⁸ in financial institutions or large distances to branches as reasons. Access to credit, insurance and pension for individuals have shown notable progress supported by improved infrastructure and government programs.¹⁹ About 15 percent of the population report borrowing from financial institutions or savings groups according to FINDEX²⁰ data for 2021, in line with income peers but well below levels in other BRICS. There is no significant gender gap in account ownership or access to credit and government insurance and pension supported products, but the gender gap in account utilization has widened to 8 percentage points (up to 13 percentage points in digital payment adoption). The RBI Innovation Hub's data observatory initiative aims to provide gender-disaggregated data, which will help address gender disparities.

72. Demand side interventions to address behavioral patterns, informed by research and disaggregated data, would be needed to address existing gaps in financial inclusion, including through digital payment adoption. Continuing the observed trajectory of increased digital payments adoption would boost account usage. Understanding the reasons for low account usage and barriers to digital payment adoption requires insights on individual preferences and behavioral patterns. A survey, along with feedback received after consultation with relevant stakeholders would inform the formulation of the next iteration of the National Strategy for Financial Inclusion (NSFI 2.0). Periodic surveys could inform future NSFI and monitor results, keeping in view evolving circumstances. In addition, customer journey mapping exercises using focus groups to understand practical barriers to usage of digital payments and other financial services could be conducted to design targeted financial education interventions and revise design features of offered services.

73. Risks to financial consumers and to overall financial deepening are emerging amid recent market and technology developments, warranting a revision of the approach to market conduct (MC) oversight. Lack of transparency of loan conditions; unsuitable and unsolicited credits offered to consumers; mis-selling of insurance with credit, and several harms arising from illegal digital lending apps have been identified by the RBI as key raising consumer protection concerns. Several of these practices are undertaken by lending service providers which, through web-based aggregation

¹⁷ Data published after the reference period for the FSAP indicates that account ownership has improved to 89 percent in 2024, as per the World Bank Findex.

¹⁸ According to the Global Findex Database, 2021, in addition to a lack of trust, other common reasons for account inactivity include: i) distance to financial institutions, ii) perceived lack of need, iii) insufficient funds, iv) high costs, v) documentation barriers, and vi) religious reasons.

¹⁹ Half a billion of low-cost life and accident insurance accounts have been opened under government sponsored programs with a goal of “insurance for all by 2047.” Enrollment under the pension scheme for informal workers more than doubled since 2020, covering more than 50 million individuals.

²⁰ Issued in 2022.

services, offer loans from regulated entities. Within the RBI, the Market Conduct Section (MCS), Department of Regulation (DoR) is responsible for formulation of regulatory policies on conduct of REs towards their customers, such as those related to fostering responsible conduct, improvement in customer service etc. Consumer Education and Protection Department (CEPD) frames policy guidelines for consumer protection and administers the Reserve Bank – Integrated Ombudsman Scheme (RB-IOS), 2021, a form of alternate grievance redressal for customers of RBI REs. MC is undertaken by supervisory departments as part of overall risk-based supervision of banks and non-banks. This approach requires supervisors to combine risks to consumers and risks to supervised entities in the same assessment. Consequently, this limits how supervisors can perceive, and address, consumer risks and leads to potential conflicts in risk perspectives, impacting supervisory planning and priority setting. The India MC approach also places substantial focus on disclosure, which may not be most effective for vulnerable consumers. This fragmented regulatory approach can present compliance challenges for the industry and make supervision and consumer understanding more complex. To address these issues and make the supervision more effective, the RBI could (i) establish a dedicated market conduct supervision unit that monitors market developments through a dedicated risk assessment methodology focused on consumer risks, distinct from those associated with supervised entities, and (ii) revise the regulatory framework approach to address any fragmentation and overlaps, ensure consistent treatment of activities across provider types, and reflect only the most effective requirements to address consumer issues (such as avoiding over-reliance on disclosure and consumer onus).

B. Fintech and Digital Financial Services

74. Concentration in the Payments DPI²¹ ecosystem hampers competition in the provision of digital financial services. Majority of the payments in the Payments DPI are initiated and received through Third Party Application Providers (TPAPs). Two TPAPs handle more than 80 percent of customer-initiated transactions. The TPAPs are required to submit and receive transactions through a Payment System Provider (PSP) bank. These two TPAPs seem to have gravitated towards four PSP banks, though there are 572 participants in the Payment DPI ecosystem. High costs of customer and merchant acquisition, comprising incentives (cashback, rewards, and discounts) to retain end-user loyalty, and a zero-fee structure model for end-users of payments have contributed to this concentrated market. The dominant TPAPs are able to use adjacent revenue streams to aggressively price their payment services and leverage payment data to cross-sell services, without a robust data governance framework covering all aspects of customer consent. The dominant PSP banks lead in QR code merchant payments acceptance infrastructure, deterring the interest of other participants to further expand the digital payments acceptance network. Government subsidies support the system, and the Ministry of Finance has issued guidelines for the calculation and allocation of subsidies and requires a stakeholder consultation. However, to date, there is no public disclosure of the stakeholder consultation and calculation and allocation of subsidies. Furthermore, non-bank pre-paid payment

²¹ The Unified Payments Interface (UPI) is considered a Payments Digital Public Infrastructure, as it provides society-wide foundational digital payment services. The growth in digital payments has been driven by the success of the Payments DPI, which accounts for more than 80 percent of all digital payments made in India. Though, there are other retail payment systems in operation in India, given the overarching role of the Payments DPI the analysis is focused on UPI.

instrument issuers (PPIs) are not covered under the subsidy allocation. In addition, PPIs are subject to a higher interchange fee and are unable to onboard customers from other financial institutions.

75. There is scope to strengthen the operational risk management of the Payments DPI. The concentrated payments market impacts operational resilience and as such requires business continuity arrangements covering all stakeholders in line with Principle 17 of the PFMI. In addition, while in relative terms fraud remains low, the number of fraud incidents is increasing and could potentially erode customer confidence in digital payments and exacerbate operational risks. The Payments DPI Operator along with the regulator should address emerging fraud risk scenarios in consultation with all relevant stakeholders including the Government and other regulators. The RBI should also take policy measures to classify “significant TPAPs” as “critical service providers” to enhance operational reliability in line with Annex F of the PFMI.

76. The RBI could consider transitioning from the current TPAP framework to a direct third-party payment initiation mode to enhance efficiency and contestability. The adoption of direct third-party payment initiation mode would lead to greater efficiency by reducing the existing multiple hops in the transaction chain. A suitable regulatory framework will need to be developed including requiring TPAPs to be directly regulated by the RBI. In addition, the regulatory framework should also lay down rules on transparent payment data accessibility and sharing with consumer consent. Changes to the regulatory framework should also include revisions to the interchange fee structure and, in consultation with Ministry of Finance, to the allocation of subsidies to all the participants in the Payments DPI ecosystem.

77. Authorities should continue developing India’s promising open finance framework for improving access to finance. India’s open finance framework currently only facilitates access to customer’s investments, deposits, savings and current account data from regulated financial information providers (FIPs) and Goods and Services Tax (GST) information. This helps in lowering customer onboarding costs and provides inputs for credit risk assessments to be complemented with credit bureau data. However, additional services like personal financial management which require access to customers’ liabilities or payment initiation services, cannot be offered. Account Aggregators (AAs) licensed by the RBI also manage consent unlike in other countries where consent is provided directly by the consumer to data user. AAs transfer data to financial information users (FIUs) and are able to charge FIPs, FIUs and consumers but there are no guidelines on eligible charges or free data exclusions. The AA framework allows a free-market pricing model that varies by AA, with charges based on data access or revenue percentage. The RBI’s sole requirement is Board approval and publication of the pricing model. AAs can charge FIPs, FIUs, and consumers. Bilateral arrangements between each AA and data users are necessary, which could increase costs. The current technological solution for consent – consisting of account discovery through mobile number associated to the account- is only valid for individuals but not for legal entities until digital signature is implemented. So far 66 million accounts have been linked, and 199 million consents have been recorded.²² To further develop the system, data on customer liability products could be integrated. Authorities may also consider implications of dominant position of market players when applying for AA licenses.

²² Data obtained from Sahamati (August 2024). Several consents can be provided for a single customer.

78. A coordination framework involving all regulators could assess the current competitive landscape and robustness of the digital payments and financial services market with a view to promoting competition, innovation, and orderly market development. A coordinated policy framework that covers all financial services being provided by fintechs needs to be evolved by the financial sector regulators. The increasing integration of various financial services falling under the ambit of different regulators in a single app could potentially lead to regulatory arbitrage. A clear stance from authorities on the need to regulate bigtech in the digital financial services space is also required. In addition, interconnectedness risks and spillover effects would need to be addressed in a coordinated and comprehensive manner by the regulators. The existing FSDC-SC and downstream committees such as IRTG could provide the venue and institutional arrangement for such co-ordination.

C. Role of the State

79. SOFIs and government interventions play an important role supporting access to finance and financing the public deficit (figure 4). Even commercial SOFIs have targets regarding implementation of public financial inclusion programs (i.e., opening of basic accounts, MSME credit, basic insurance, and pension products). While SOFIs played a crucial countercyclical role during the global financial crisis, the trends during the COVID-19 period were mixed - PSBs and PVBs demonstrated some countercyclical lending tendencies, as highlighted in an RBI paper (2022), whereas AIFIs showed no notable countercyclical credit growth. PSL and investment requirements on insurance companies' assets channel funds to underserved segments. PSBs traditionally invest a higher share of assets than PSVBs in government securities. Research indicates that PSBs lend to less productive firms than PSVs.²³ The SLR primarily serves as a tool to direct funds toward government securities, while prudential liquidity aspects are addressed through Basel III requirements.

80. SOFIs and government inclusion programs have caused substantial fiscal costs. The GOI has spent 1.1 percent of 2023 GDP (US\$38.8 billion) to recapitalize 21 PSBs from FY18 to FY21, while stock market performance shows limited financial returns (over a medium-term timeframe). In 2023, 14 percent of the RRBs were unprofitable despite a US\$1.3 billion recapitalization between FY18 and FY24.²⁴ State-owned insurers are expected to continue receiving government capital due to viability concerns. The GOI has also injected substantial funds in the public credit guarantee system and subsidizes the interest rate in several programs through budgetary allocation.

81. No significant competitive neutrality issues between SOFIs and private institutions arise in credit markets. However, the public re-insurer benefits from compulsory cessions. PSBs funding costs (5.3 p.p.) are like those of PSVs (5.5 p.p.) and both charge similar markups with few differences in the Lerner index for both groups. The Regulatory framework for public and private credit institutions (tax, permissible activities and prudential) is broadly similar. Development financial institutions largely operate through financial intermediaries and when lending directly private institutions perceive that AIFs complement them rather than compete with them. There is an obligatory cession, at 4 percent

²³ See [George, S. and others.](#)

²⁴ To be consistent with the data reported, we have confined to annual data available until 2022-2023. The latest data for 2023-24 suggests that profitability has improved further. During 2024, 7 percent of RRBs were unprofitable.

of the annual business in favor of General Insurance Corporation of India (GIC Re), as is the practice, followed in many countries (primarily emerging markets). In addition, every cedant must offer the best terms obtained first to Indian reinsurers (currently only GIC Re) and then to foreign ones.

82. Priority Sector Lending (PSL) in India is a distinctive policy with several market friendly characteristics, relatively unique among nations transitioning to high income status, that mandates banks to allocate a specific share of their total lending to credit constrained sectors critical for inclusive growth. Under RBI regulations, scheduled commercial banks must direct at least 40 percent of their Adjusted Net Bank Credit (ANBC) toward priority sectors, which include agriculture, micro, small, and medium enterprises (MSMEs), export credit, education, housing, social infrastructure, and renewable energy. This approach aims to enhance financial inclusion, support rural development, and bridge credit gaps in underserved segments. The PSL program has several market-friendly features that reduce potential distortions observed in mandatory credit requirement policies applied in emerging and developing economies. PSL interest rates are freely determined by lenders. Several modalities to meet PSL targets (e.g. purchasing PSL certificates at market prices, co-lending with NBFCs or purchasing portfolios) have increased program flexibility. Overall, PSBs are net buyers of PSL certificates and PVBs net sellers. The smaller institutions like UCBs and RRBs have greater outreach and have been achieving their higher PSLs targets (up to 75 percent of total loans). However, some of them reported high compliance costs.

83. PSL is periodically reviewed to adjust targets and include new sectors, but further revisions are needed to increase flexibility for the smaller institutions. Comprehensive impact analysis of the PSL program is still required. Recent changes include eligibility of renewable energy projects and higher weight for loans granted in districts with lower credit flows. PSBs (since 2018) and RRBs have higher NPLs in PSL loans than in the rest of the portfolio, while the opposite is true for PVBs. Despite high PSL targets, the banking sector showed resilience during the COVID pandemic, and the most recent episode of credit distress did not originate in PSL loans. PSL has encouraged the development of an ecosystem of specialized financial providers catering to traditionally underserved segments. Research indicates that PSL recipient firms are credit constrained and the marginal rate of return to capital was very high for these firms.²⁵ However, the implications of the PSL design on credit risk accumulation and allocative efficiency need to be further studied, particularly as India progresses toward high-income status.

84. Advancing the privatization agenda of PSBs and addressing SOFIs solvency issues would help improve financial sector efficiency and reduce fiscal costs. To that end, the GOI should enact the 2022 budget announcement to privatize select PSBs and insurance companies and increase private ownership on SOFIs removing the 20 percent foreign investment cap. Any potential GOI SOFI recapitalization, especially for RRBs, should be explicitly tied to the implementation of restructuring and sustainability plans.

85. Reforms could be implemented to increase private capital mobilization through remaining SOFIs and public schemes. AIFIs mandates and performance indicators should focus on

²⁵ Banerjee, A. V., & Duflo, E. (2014). Do firms want to borrow more? Testing credit constraints using a directed lending program. *Review of Economic Studies*, 81(2), 572-607.

mobilizing private capital. While AIFs vary in their use of direct versus indirect financing, none have a clear mandate to mobilize private capital. The RBI should issue guidelines allowing AIFs to offer risk-sharing mechanisms (including credit enhancement products) to catalyze private finance. Allowing co-lending for PSL compliance among all institutions and gradually reducing the SLR below 18 percent, can enhance funding opportunities for the private sector.

86. Governance reforms and enhanced monitoring and evaluation would further improve efficiency. There have been improvements in the procedure of appointment of SOFI board members, but more qualified independent directors should be appointed to boards as recommended by OECD guidelines. SOFI employment compensation should be reformed to increase performance-based incentives and rules hindering managerial continuity and hiring for scarce skills revised. Comprehensive and rigorous monitoring and evaluation systems for government interventions and programs in the financial sector (including the PSL) should be introduced to assess value-for money. Evaluation results should be publicly disclosed.

87. Greater flexibility should be introduced in the PSL framework. Flexibility on compliance with PSL should also be increased by allowing co-lending and direct assignment for all banks to facilitate partnering with specialized credit providers. The RBI should clarify co-lending for non-PSL loans and between NBFCs and allow all banks to co-lend to facilitate sustainable compliance to PSL norms. Partial credit guarantees (see MSME access to finance section) could be increasingly used to support priority sectors while lowering PSL requirements.

D. Credit Infrastructure

Credit Information System

88. Consider the adoption of a CRS law that could cover all types of CRSPs and broaden the scope of data that CICs, CRAs and commercial credit reporting companies can process enabling innovation in product offering. The law could allow for the collection of relevant data by the different CRSPs based on the specific purpose they serve and not limited to credit only. The legal reform can also consider the following: (i) a clear scope of CRSPs, data and services, (ii) consumers rights and data protection measures, (iii) security and confidentiality, (iv) rules to access third party data including data held by government agencies, (v) clear oversight framework and identification of supervisory role for RBI and other potential authorities (i.e., SEBI, MeITY). Alignment with the Digital Personal Data Protection Act (DPDP) will be necessary. In addition, a comprehensive legal framework could allow exchange of information between relevant other data sources and CRSPs (e.g., CERSAI, CICs could exchange data with commercial credit reporting companies, GST, Companies Registry).

89. Authorities should consider the adoption of a formal oversight framework led by the RBI that would include under its scope all types of CRSPs and information services. The oversight framework should identify the potential authorities involved considering their respective mandates. It is important to identify a primary overseer which could be the RBI and develop a coordination mechanism with other authorities (e.g., MeITY, CCI) clearly specifying the role of each of them vis a vis CRS. To do so, RBI could clearly define their oversight objectives (e.g., ensure effective flow of relevant data for creditworthiness evaluation of MSMEs, ensure consumer rights, foster competition in the

credit information market, enhanced data quality) beyond legal compliance. The oversight framework should encompass all potential CRSs, not just CICs. Authorities must be equipped with sufficient resources to conduct oversight effectively, aligned with policy objectives. The CRILC should also fall under the CRS oversight framework, with a clear distinction made between the RBI's operational role and its oversight responsibilities. Furthermore, this framework should include supervision of CRSPs and their participants, ensuring proper data submission and its appropriate use for evaluating creditworthiness, fraud prevention, and compliance with AML/CFT regulations.

Collateral framework

90. The legal and operational frameworks for securing both immovable and movable property in India require significant upgrades. The absence of a centralized, digital land registry and uneven digital reforms at the district level requires in person due diligence at various land registries. Banks still use equitable mortgages, where debtors deposit the original title deeds without requiring registration, limiting the debtor to a single creditor thereby making second mortgages unfeasible. Additionally, India lacks a unified secured transactions law, resulting in multiple registries and complex registration requirements for security interests over moveable assets. Despite banks accepting a wide range of moveable collateral, there is still an excessive reliance on real estate and personal guarantees. Secured creditors can seize and auction the collateral through an out-of-court enforcement process (SARFAESI).²⁶ However, borrower objections can delay the auction process by 3-4 years in the Debt Resolution Tribunals (DRTs). Physical possession of the assets is often problematic as the district magistrates' courts often require lengthy legal arguments to be presented ahead of issuing the attachment order.

Recovery and insolvency

91. The out-of-court workout process should be reviewed to simplify some compliance requirements. The RBI "June 7 Circular" of 2019 aimed at enabling debt restructuring "in the shadow" of the Insolvency and Bankruptcy Code (IBC). Reportedly, the biggest obstacle relates to hold-out creditors. While the legal provisions make entering into the Inter-Creditor Agreement, where resolution is determined as the outcome during the review period, stakeholder experiences show a disconnect between the language of the circular and its practical application. Additionally, hold-out creditors could stall decisions under the Inter-Creditor Agreement if the required majority thresholds for decision-making are not reached. Certain compliance and reporting requirements in the Circular are seen as cumbersome by the practitioners conducting the restructuring. Additionally, the broader tax rules and practices to ensure a tax-neutral treatment of restructurings disincentivizes restructurings. The Inter-Creditor Agreement could be replaced with a Framework Agreement, in which banks commit upfront to utilizing the workout process for all restructurings. This approach would help minimize the issue of hold-out creditors and streamline the restructuring process.

92. The IBC enacted in 2016 strongly improved the collective recovery procedures and changed credit culture, but some gaps remain regarding MSMEs. The Corporate Insolvency Resolution Process (CIRP) provides a structured, time-bound, and transparent process for insolvency

²⁶ Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest.

resolution. Nevertheless, the recovery process is still slow, and recovery values are relatively low.²⁷ Promoters of companies that have been classified as NPAs for over a year are barred from bidding for their own businesses. While this measure has instilled discipline in credit repayment, it can be overly punitive for debtors who, despite acting in good faith, missed repayment deadlines due to business or financial setbacks. Recognizing that MSMEs might struggle to find alternative buyers and could be forced into liquidation, lawmakers have exempted MSMEs from this restriction under the IBC. Also, provisions should be introduced under the IBC for an additional debtor-in-possession focused procedure that is applicable to all corporates. The IBC personal bankruptcy provisions, except those for personal guarantors to the corporate debtor, are not yet notified, so consumers and most small businesses (unincorporated sole proprietorships) have no modern framework for dealing with financial distress. There are no pre-insolvency processes in the legislation or other effective procedures for MSMEs other than the pre-packaged insolvency resolution process (PPIRP), which has seen very limited use.

93. Significant gaps persist in the insolvency framework regarding domestic enterprise group and cross-border insolvency, as well as the limited role and voting rights of operational creditors in the resolution process. Domestic enterprise group insolvency is not covered by the legal framework and the proposed framework for cross-border insolvency has not yet been adopted, although it is acknowledged that the NCLTs and NCLATs have taken initiatives to address these gaps, for instance in the insolvency of Jet Airways and the Videocon group of companies. Operational creditors (OCs) cannot participate in the meetings of the committee of creditors (CoC), except when the aggregate amount of their dues is at least 10 percent of the total debt of the debtor company. However, even in such cases, operational creditors are not permitted to vote in the CoC meetings. In cases where there are no financial creditors (FCs) or FCs are related parties, the CoC comprises OCs, who then have restructuring voting rights in the resolution process.

94. Reform is required for the institutions supporting debtor and creditor rights. The National Company Law Tribunals (NCLT), specialized tribunals on company and insolvency matters, reportedly have delays for up to a year in the pre-admission stage as well as extensive adjournments and stays of proceedings (the latter also in the High Courts and Debt Recovery Tribunals), especially due to the creditor-in-control model prevalent in India. This has led to higher number of litigations, due to which the process gets delayed. Specialized commercial knowledge, especially regarding insolvency proceedings could be further improved. Alternative dispute resolution processes, particularly in the context of debt and insolvency matters, are still very nascent and rarely used in practice. To address these issues, the performance incentives of NCLTs and DRTs should be strengthened, and additional training provided to judges. Private sector practitioners should be better incentivized to join the NCLTs. It is noted that an integrated platform, connecting all stake holders is under development. This, coupled with specialized rules and technological improvements should be further considered to facilitate case management, and a specialized bench could be considered just

²⁷ The recovery rate is only roughly one-third of the original loan amount as reported by the Indian Institute of Management Ahmedabad in August 2023. According to data published by the Indian insolvency regulator, recovery of creditors against their admitted claims (the standard reporting for creditor recovery) is around 32 percent, 161 percent against the liquidation value, and 86 percent against fair value (the value of the debtor company as on the insolvency commencement date).

for insolvency applications/dealing with pre-admission matters in the NCLTs to improve the efficiency of cases progressing through the system.

E. MSME Access to Finance

95. Despite credit growth, there is a sizeable MSME finance gap. MSME credit²⁸ is growing, accounting for 15 percent of total nonfood credit, supported by government programs, increased MSME digitalization and formalization (Figure 10). However, only 11 percent of small businesses have a bank loan, 27 percent are credit constrained and access to finance is their highest ranked obstacle ([survey](#)). Collateralization averages 185 percent of loan amount.²⁹ Other reasons for not borrowing include high interest rates and a complex application process. The women-owned MSMEs accounts for a small fraction of commercial banks outstanding credit to MSMEs reflecting higher perceived risks and lack of collateral. However, PSBs were advised to allocate at least 5 percent of credit for lending to women, and the share of women in total credit by PSBs was 15.42 percent in March 2024. Factoring and leasing are under-developed, albeit the former is growing catalyzed by an RBI regulated Trade Receivables Discounting System (TReDS) - a digital platform that facilitates both factoring and reverse factoring..³⁰ Fintech NBFCs are pioneering digital lending products including through partnerships with e-commerce platforms. SIDBI's has developed a digital loan that uses bank account data, firm level tax data, and individual tax information of the proprietor to develop a score (FIT rank, which is also shared with the industry) to provide small ticket and uncollateralized digital loans to new borrowers. Various sources estimate the credit gap for MSMEs to be between 11 and 16 percent of GDP.³¹

96. Policies should support diversification of MSME financing including asset-based financing and cash-flow based digital lending, suitable for women-owned and collateral poor SMEs. Commercial Banks provide 81 percent of the MSME credit, but NBFCs' share (11 percent) is growing. Lending rates range 9-11 percent at banks and 14-16 percent at NBFCs, who cater more to informal firms and new borrowers. To diversify MSME finance the tax treatment of leasing should be reviewed to ensure an equal treatment between lease and debt transactions while e-KYC solutions for firms should be developed. TReDS growth could be fostered by enabling the discounting of MSMEs on MSME receivables (second window). Securitization of invoices with SIDBI credit enhancement, the use of trade credit insurance [and the operationalization and scaling up of the credit guarantee fund for factoring would support expansion of factoring](#). Large buyers should be incentivized to upload invoices in TReDs to ensure faster disbursement, and consideration should be given to make it mandatory for SOEs. Ultimately, TReDS could be integrated with the e-invoicing portal leading to automatic uploading of all e-invoices onto the TReDS. SIDBI's funding to NBFCs should be expanded, including NBFC factors. Over the medium term, guarantees for bank loans to NBFCs and credit enhancement facilities for NBFC bonds and MSME loan securitization could be developed.

²⁸ Commercial Banks based on PSL reporting and NBFCs.

²⁹ Indonesia (2023): 177 percent, Mexico (2023): 155 percent, South Africa (2020): 115 percent.

³⁰ SIDBI was involved with the setting up of one of the TReDS platforms. There are 5 authorised TReDS platforms, which cumulatively discounted invoices worth US\$ 27.14 billion in FY 2024-25.

³¹ See [SME finance forum](#) and a [World Bank report](#). The report of the RBI expert committee on MSMEs (2019) estimated the MSME credit gap to be 10-12 percent of GDP.

97. As guarantee funds continue to grow, financial management, risk management, monitoring and evaluation and regulation should be upgraded in line with best practices. To meet PSL targets, banks increasingly rely on CGTMSE and NCCGTC (13 percent of MSME loans or 1.4 percent of GDP in 2022, at par with peers.³² Banks report using guarantees to increase loan amount for existing borrowers facing collateral constraints, and project greater use. CGTMSE's bank scheme only provides guarantees on an individual loan basis (up to 85 percent), and several features deviate from best practices, including below break-even risk-based premiums. To enhance guarantee effectiveness, several reforms are needed including (i) calculate fees to ensure the financial sustainability of the scheme, or at the minimum to inform discussions with the GOI on the subsidies needed to continue operations; (ii) develop a financial model and risk management process, including lender assessment process; (iii) adopt and publish performance indicators to measure additionality (both financial and economic); (iv) develop a regulatory framework for the guarantee funds in line with recommendations of Principles for public [credit guarantees for SMEs](#); (v) introduce a portfolio scheme for banks, and; (vi) pay the guarantee in full at 90 days to increase use while disciplining lenders by calibrating guarantee fees and access according to their performance, and; (vii) develop windows for new borrowers and climate related investments while revising overlaps among existing schemes.

98. Regular and consistent MSME credit data should be collected and monitored. While reporting on MSMEs credit by lenders to RBI is based on the legal definition of MSMEs, reporting by lenders to CICs is based on loan size. Data on NBFC credit excludes trade MSMEs. A consistent definition for MSME credit should be used for loan classification and reporting purposes. The RBI should monitor and publish comprehensive MSME credit data, including demand side data. Establishing a MSME data observatory would support policy formulation for MSMEs.

F. Capital Market Development

99. The investor base in India is diverse, segmented across asset classes and still excessively risk averse. Foreign investors, households, and mutual funds dominate the equity market, whereas domestic institutional investors such as insurance companies and pension funds primarily invest in fixed income products, favoring highly rated (AA and above) and public sector issuers (figure 6). This reflects strict investment regulations and a lack of financial expertise (in certain asset classes) as well as incentives, particularly in the public sector. The CDS market is extremely small. RBI has issued a draft revised framework for partial credit enhancement in April 2025 that allows banks, NBFCs and DFIs to provide partial credit enhancement for lower rated bonds, with lower capital requirements as compared to the previous framework. However, the impact of the new framework remains to be seen.

100. Robust capital market infrastructures are supportive of market development. They provide a safe environment for transactions, ensuring pre- and post-trade transparency, reduced counterparty credit risks through central counterparties and delivery versus payment. Settlement for exchange-traded securities recently moved to T+1.

³² Indonesia (1.5 percent), Mexico (0.6 percent), Brazil (0.5 percent). Source: CGTMSE, NCCGTC, REGAR.

101. Further development in money markets could come by exploring a change in the benchmark reference rate and expansion of eligible collateral. Money market activity is dominated by bilateral and triparty repurchase agreements (repos), cleared centrally and typically executed overnight via electronic trading platforms. Unsecured interbank transactions ('call market') comprise less than 3 percent of daily volume but are widely used in the monetary policy framework and serve as underlying reference for the most actively traded OTC derivative, the Overnight Index Swap - Mumbai Interbank Offered Rate (MIBOR). The RBI should assess whether the market repo rate would be a more reliable and robust reference for OTC derivatives, as well as accepting highly rated corporate bonds and securitization instruments as collateral for interbank repo transactions and its own refinancing operations (with well calibrated haircuts).

102. Measures to support a larger participation of foreign and retail investors in the government securities market should be pursued. India's recent inclusion in the JP Morgan Government Bond Index – Emerging Markets (GBI-EM) has started attracting increased foreign participation, currently at 2 percent of outstanding securities. The MoF and RBI should monitor and assess the impact of the inclusion and, if warranted, introduce additional measures to simplify the onboarding of foreign investors. Household participation remains minimal as retail investors prefer the government-supported Small Savings Scheme (equivalent to 17 percent of government securities outstanding) for higher returns and favorable tax treatment. The MoF should better align the returns of the Scheme with the marketable government securities and explore ways to make the G-sec market the main channel for households to lend to the government.

103. To develop corporate bond markets, the issuance framework could be simplified, new instruments considered, institutional investors incentivized, and tax treatment homogenized. In addition to previous measures facilitating issuance of securities, SEBI could make the Electronic Bidding Platform optional for issuers below AA ratings and further clarify the regulatory framework for voluntary market-making and covered short selling of corporate bonds. Minibonds could be operationalized to facilitate bond issuance by SMEs. Enhancing risk assessment capabilities and aligning incentives for domestic institutional investors, especially those in the public sector, could unlock additional long-term for private sector and lower-rated issuers. Flexibility in regulations to encourage investments in bonds below AA ratings could be considered alongside the move to risk-based capital. Addressing tax disparities between equities and bonds as well as direct and indirect bond holdings through mutual funds should also be a priority for the MoF.

104. A covered bonds Law for India should be introduced, and securitization market development supported through platforms and credit enhancements. The RBI 2021 securitization guidelines introduced reforms to foster the market. Nevertheless, securitization amounts to only 7.5 percent of the credit extended by banks and NBFCs (lower than 16 percent in FY17). The 2021 Guidelines halted the issuance of contractual covered bonds as assets can no longer be transferred to SPVs. Introducing legislation to develop covered bonds on the lines of the EU Covered Bond Directive would reduce long-term funding costs for lenders and help support housing finance. The NHB is spearheading an initiative to launch a platform for multi-originator standardized securitization transactions. This initiative could be replicated by SIDBI to support securitization of SME loans. Additionally, the NHB and SIDBI could provide guarantees on loans to NBFCs and/or their securities,

through credit enhancement, to improve access to funding and mobilize institutional investors at scale.

105. To optimally utilize the potential of Private Equity and Venture Capital (PE-VC) funds and diversify its sectoral impact, a regulatory review is warranted. The PE-VC market in India is the second largest in Asia-Pacific. Exit activity dipped during the pandemic but has since surpassed pre-COVID levels, with open market exits dominating. However, block/bulk deals remain significant, and IPO exits are small. Recommendations to further develop the market include diversifying sponsor types, allowing Corporate Social Responsibility (CSR) funds to be invested in AIFs with social mandates (Social Impact Funds), support private credit funds to fill the financing gap for smaller and lower-rated companies, and enabling blended finance structuring (waterfall mechanisms) of AIF deals which is currently restricted under the SEBI guidelines for impact investors other than governments, multilaterals and DFIs. In addition, since the single party investment limits are defined based on investable funds and not as a share of actual investments made, it is important for the authorities to examine if the AIFs are trying to take higher commitments to invest beyond the reasonable levels.

106. Infrastructure finance could be mobilized at a much larger scale from the capital market by developing risk-sharing products. India's infrastructure spending has hovered around 4-5 percent of GDP annually, largely funded by SOFIs. The development of credit enhancement mechanisms, including partial guaranties, first loss guaranties and liquidity support, could mobilize private investments for greenfield financing and help scale up the market for infrastructure and municipal bonds. In parallel, it would be critical to generate foreign exchange hedging mechanisms for infrastructure foreign debt. These mechanisms could be either project embedded (rates or tariffs adjusted according to the exchange rate) or pure subsidized financial hedging mechanisms, that cover the entire debt tenor. To promote sharing of risks among banks and NBFCs, the RBI could consider reviewing regulations to promote co-lending between Banks, NBFC and Institutional Investors for greenfield projects.

107. A market for municipal infrastructure loans secured with central government transfers could be developed through demonstration effects by public institutions. Many infrastructure projects are executed by municipalities and funded with short-term budgetary resources given the lack of revenue generating capacity. The municipalities often borrow as the expenditure profile of the projects does not match their revenue profile. NaBFID, the new infra AIFI, could develop a market for municipal loans secured with future central government transfers, as done for example Banobras in Mexico and now also offered by commercial banks.

108. Substandard project preparation, PPP contracting issues, and investment limits also hamper capital market infrastructure financing. For PPP contracting, the GOI has addressed some of the issues that led to road PPPs troubles in the past, like i) setting up new schemes (including Viability Gap Funding and Hybrid Annuity Model, in which the GOI or the State Government covers totally or partially the project capital expenditures, diminishing or eliminating commercial risks); and ii) launching the projects for bidding only once at least 80 percent of the required land is secured. There are still some open issues, like effectiveness of single window clearance systems and permits, and force majeure events risk sharing, that needs to be worked out to boost PPPs. Setting up the

Project Monitoring Group to address issues in PPP projects is a positive step, but it doesn't intervene prior to tendering the projects to the market.

G. Finance for Climate Action

109. Finance flows for climate action in India have increased in recent years, but the gap remains significant. Coordinated regulatory action would be needed. Achieving India's net-zero goal by 2070 could require US\$10 trillion in investments, but only about a quarter of this funding is currently being met.³³ Despite regulatory initiatives (e.g., Green Deposits and Green Debt Securities frameworks), credit to renewable energy, categorized as PSL, is less than 1 percent of total credit.³⁴ Developing a Sustainable Finance Roadmap will be crucial to develop finance for climate action in India. Strengthening domestic labelled bond markets requires targeted policy reforms including tax breaks, subsidies, guidance on sustainability-linked bonds, and promoting sub-sovereign labelled issuance. To grow the blended finance market, authorities should clarify regulatory and tax treatments and reform the CSR legal framework to attract private capital. The PFRDA and IRDAI could update investment guidelines to allow more green finance opportunities. The RBI should consider including more green sectors in PSL and monitor international practices to enhance finance for climate action

³⁵

110. The potential of AIFIs should be further leveraged to drive finance for climate action market development and scale the availability of de-risking instruments. Finance for climate action objectives could be included in their mandate or mission and results monitored. Operational focus could be shifted from lending to the provision of de-risking instruments and blended financing mechanisms such as public-private green debt or equity funds.

111. Interventions to scale finance for climate action need to be supported by a transparent and comprehensive climate information architecture. The MoF should expedite the issuance of a unified finance for climate action taxonomy to guide financial market participants in labeling green products, identifying green finance opportunities and curbing green washing. The RBI and SEBI should enhance disclosure practices by providing guidance on the comparability and scope of different requirements, ensuring alignment with global standards.³⁶ The SEBI should monitor the convergence of ESG ratings and evaluate the comparability and standardization of ratings from different providers.

112. India's subsidized crop insurance scheme (PFMBY) has bolstered financial resilience for millions of farmers, but increasing fiscal risks call for an actuarial assessment. Most Indian states have adopted the 'cup and cap model' reinsurance agreement to address premium subsidy burdens and insurer disinterest, accepting unlimited liability for losses over 110 percent of gross net premium income. Also, since PMFBY became voluntary for all farmers, some evidence of anti-selection within

³³ See Climate Policy Initiative (2022). The US\$10 trillion estimate is based on calculations by the Council on Energy, Environment and Water (CEEW) Centre for Energy Finance.

³⁴ RBI data on sectoral deployment of credit.

³⁵ Tools under consideration by central banks globally include central bank credit operations, collateral frameworks, asset purchasing programs, differential reserve requirements, and refinancing operations.

³⁶ Notably the IFRS S2 on Climate-related Disclosures and the final guidance by the BCBS on a Pillar 3 disclosure framework for climate-related financial risks.

states is emerging. The PMFBY National Technical Support Unit (NTSU) should commission detailed actuarial risk assessment of the cup and cap model. Also, the NTSU, with State Departments of Agriculture should assess if PMFBY portfolios are shifting towards higher climate risk districts and if current guidelines manage anti-selection adequately. Alternative risk transfer options for high-risk regions, potentially using macro-level parametric climate risk insurance instead of micro-level options, should be explored.

113. National and state-level risk modelling studies to quantify catastrophe exposure should be commissioned to better articulate disaster relief from the State Disaster Risk Funds (SDRFs) and the National Disaster Risk Fund (NDRF) with the PMFBY. A comprehensive suite of disaster risk finance (DRF) instruments to pre-fund climate and catastrophe risks is not available in India. Disaster risk financing comes mainly from state and national funds, but there are often financing gaps in the event of extreme natural catastrophes. Insurance options at micro, meso, and macro-levels are non-existent or extremely limited to manage natural disasters. In addition, there is a lack of alignment between government-subsidized crop insurance and DRF. Several disaster risk insurance and risk pooling mechanisms (including one synergizing Relief Assistance with Crop Insurance) are being explored. Better articulation among interventions would help to improve coverage and improve efficiency.

H. Authorities' views

114. The authorities noted that concentration of transaction volumes in select TPAPs and select dominant PSP banks (in terms of relationships with large TPAPs and share of merchant acquisition) does not impact the operational resilience of the Payments DPI. Authorities consider that existing regulations and mechanisms are sufficient to mitigate operational risks and market dominance arising from such concentration issues and noted that it is a phenomenon in platform-based business models across industries and geographies. Authorities consider that TPAPs are not Critical Service Providers. They view TPAPs as providers of an interface for users to access the system and assert that TPAPs should not be categorized as Critical Service Providers as they do not handle customer funds. Further, they assert that in the event of failure of a TPAP, customers can always resort to using other available TPAPs.

115. Authorities consider that subsidies provided to payment institutions are distributed through a transparent process. They view the consultation process adopted by the Payments DPI Operator as a mechanism that ensures transparency in subsidy allocation.

116. The authorities highlighted the over-achievement of PSL targets by the SFBs and RRBs, justifying their exclusion from the co-lending framework of the RBI or any need for further flexibility for them in the PSL policy. Going by the recent data on the PSL, authorities consider that SFBs and RRBs have good outreach and thus do not require more flexibility to achieve the PSL targets. In addition, the authorities pointed out that the PSL policy provisions are subject to comprehensive review periodically and until now have been well serving the goal of financial inclusion for the under-served segments. Even though the reports of such a review are not publicly available.

117. Authorities expressed that the CICs were only able to collect credit information and that there is a new draft bill to develop a National Financial Information Registry to exchange of financial data by regulatory authorities and third parties. RBI considers that the role of CICs within the NFIR is not yet decided and that the Account Aggregators (AA) do not access data but just serve as pipes to transfer data from data holders to data users.

118. The authorities noted that a large number of MSMEs are presently resorting to other dispensations available for resolution of financial distress, as brought out by the Government/RBI/other agencies in the wake of the pandemic. As a result, the use of PPRIP under the IBC has been limited so far. PPRIP is on the lines of UNCITRAL recommendations and therefore this trend is not attributable to the PPRIP process being supposedly 'too complex'.

119. The Authorities feel that as per the extant regulatory framework for FX derivatives, any non-resident having an exposure to Indian Rupee can freely hedge such exposure, including for infrastructure financing, using any permitted FX derivative with market-makers in India. In terms of the aforesaid framework, non-residents can undertake deliverable INR derivatives to hedge their Contracted or Anticipated Exposure. Further, non-residents can undertake non-deliverable derivative contracts involving INR without any restriction in terms of purpose. The market for FX derivatives is sufficiently liquid to cater to the needs of non-resident investors. Further, the hedging costs are market-determined and as a matter of principle, RBI does not interfere in market pricing. Further, it is our considered view that subsidies by central bank is a regressive practice and goes against the objective of developing markets. RBI does not provide subsidies.

120. As per the RBI's Co-Lending circular dated November 05, 2020, the primary focus of the "Co-Lending Model" is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs. The SFBs, UCBs, and RRBs are considered to have greater reach, and thus excluded from the current prescription of co-lending and direct assignment (in case of UCBs and RRBs). In view of the above, a comprehensive impact analysis does not seem necessary.

121. In case of SOFIs, the Bank Boards are responsible for business strategy and risk management and RBI acts as an effective regulator. Improvements in the governance of SOFIs include the institution of non-executive chairpersons, setting up a Financial Services Institutions Bureau, having a non-official majority in its Board, for the purpose of recommending persons for appointment as whole-time directors and non-executive chairpersons, performance-based extension in the term of office of top management, increase in the strength of whole-time directors and top management, formulation of Code for Non-Official Directors (NODs) on Boards who perform role of independent directors under Company law and SEBI regulations and have practical experience in the fields of agriculture, rural economy banking, cooperation, economics, business management, human resource.

122. Recommendation on CSR. This recommendation cannot be implemented since the responsibility for CSR funds rests with the companies and the CSR funds cannot be treated as investment capital as per GOI's guidance/orders about the CSR funds.

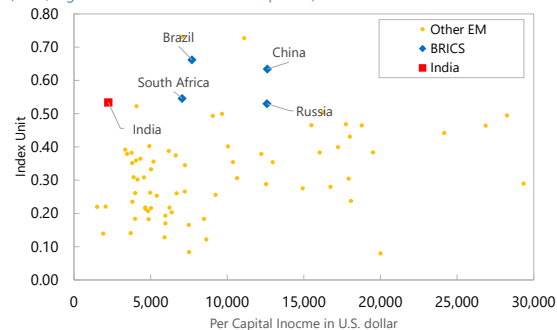
Annex I. Selected Figures

Figure 1. Financial Sector Development: India and Selected Economies

India's financial system is well developed given its income levels, though on the smaller side among BRICS...

Financial Development Index: Emerging Markets

(2021, higher index unit = more development)

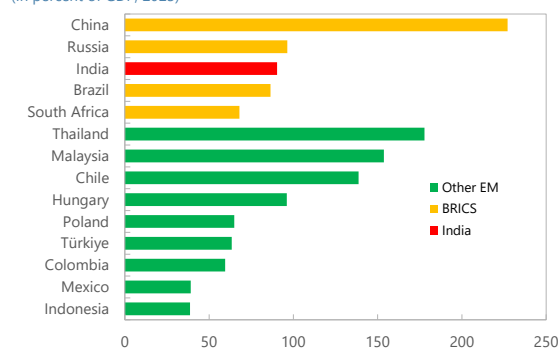


Sources: IMF Financial Development Index

...and provides significant credit to the private sector...

Credit to the Private Non-financial Sector from All Lenders

(In percent of GDP, 2023)

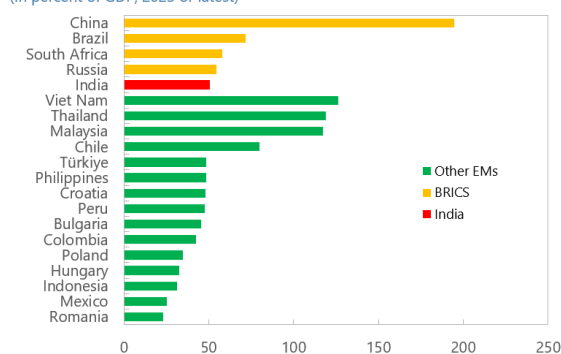


Sources: BIS.

...while bank credit to the private sector is relatively smaller among BRICS.

Bank Credit to the Private Sector

(In percent of GDP, 2023 or latest)

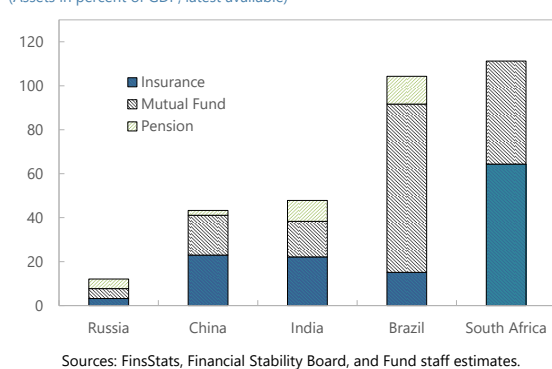


Sources: World Bank, World Development Indicators and IMF staff calculation.

Insurance, pensions, and mutual fund sectors are moderately developed among BRICS.

Nonbank Financial Institutions

(Assets in percent of GDP, latest available)

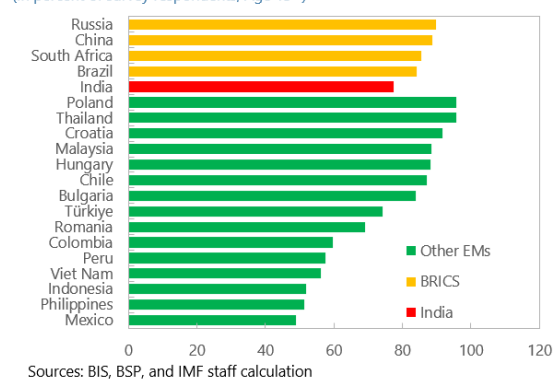


Sources: FinsStats, Financial Stability Board, and Fund staff estimates.

80 percent of adults have access to financial accounts.³⁷

Adults with Financial Accounts

(In percent of survey respondents, Age 15+)

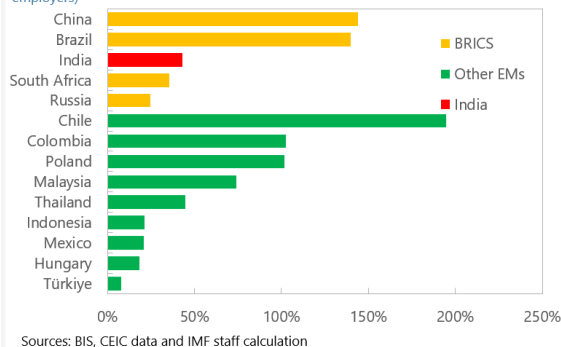


Sources: BIS, BSP, and IMF staff calculation

Household leverage is moderate among peers.

Household Credit

(In percent of Gross Disposable Income, 2024Q3, consumer, mortgage, and household as employers)



Sources: BIS, CEIC data and IMF staff calculation

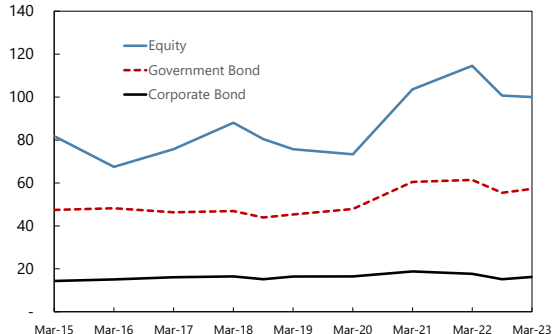
³⁷ Data published after the reference period for the FSAP indicates that account ownership has improved to 89 percent in 2024, as per the World Bank Findex.

Figure 2. India: Capital and Money Markets

Equity markets dominate domestic financial markets, followed by the G-SEC market.

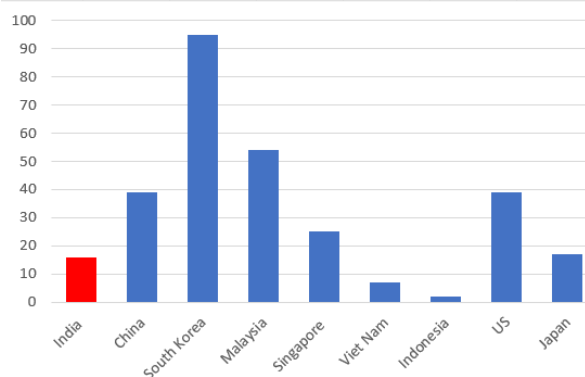
Size of Financial Markets

(In percent of GDP)

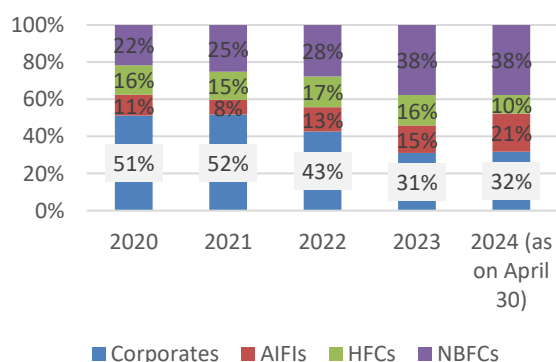


Sources: RBI; IMF World Economic Outlook; and IMF staff calculation.

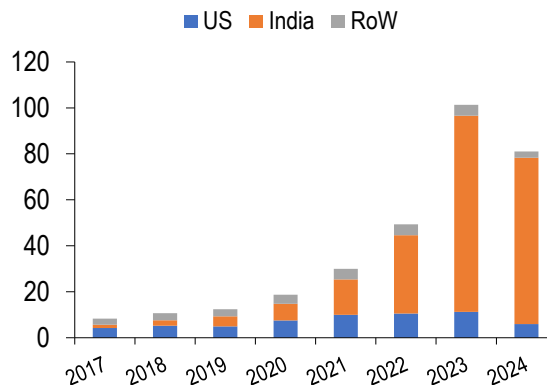
Corporate bond markets are relatively underdeveloped than peers...

Corporate bond outstanding in percent of GDP, 2024

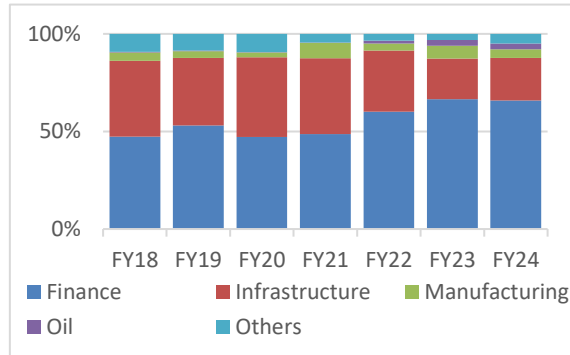
NBFIs are the most significant issuers of CPs.

Outstanding stock of CPs by issuer type: India 2020-24, source: RBI

Strong equity market led to surging option trades, mostly by retail investors purchase of puts and calls on equity indices.

Equity option volume (in bn USD?, exchange traded).

...and dominated by financial sector issuers, followed by infrastructure companies.

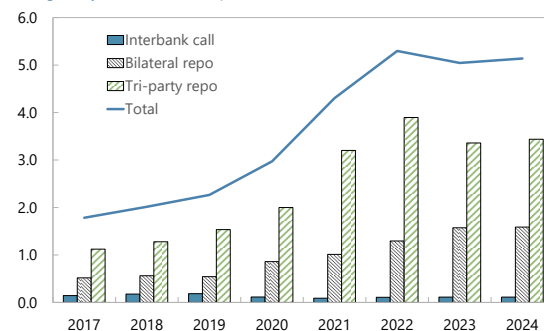
Annual corporate bond issuance by sector, in percent of total

Source: CCIL

With the growth of NBFIs, the structure of key money markets shifted away from bank-only uncollateralized call markets to repos with broader types of participants.

Selected Money Market Size

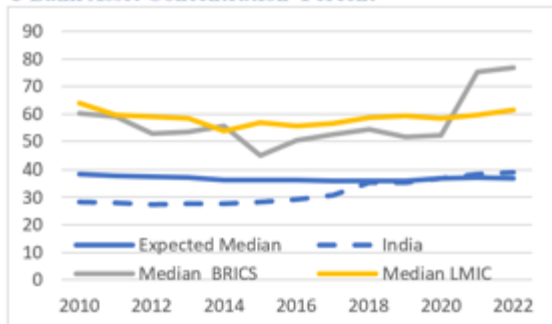
(Average daily volume, tn INR rupees)



Sources: RBI?

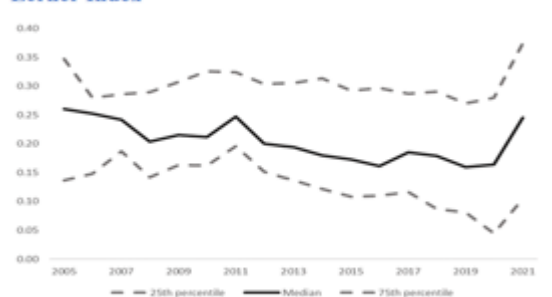
Figure 3. Competition and Efficiency Indicators

Market concentration has increased but remains well below levels in income peers and BRICS countries.

3 Bank Asset Concentration Percent

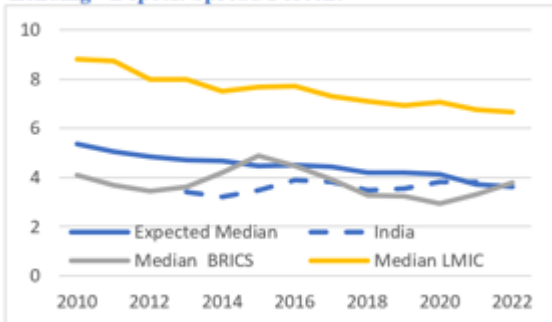
Source: FinStats, RBI

The Lerner index shows modest market power. It has not declined much in the last decade suggesting NBFCs and Fintechs complement rather than compete with banks...

Lerner Index

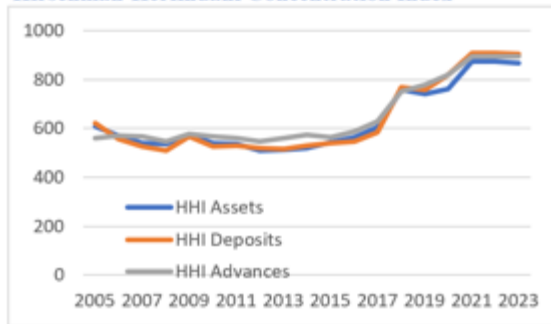
Source: RBI and FSAP team calculations

Lending deposit spreads are below 400 basis points, lower even than the average for advanced economies.

Lending - Deposit Spread Percent

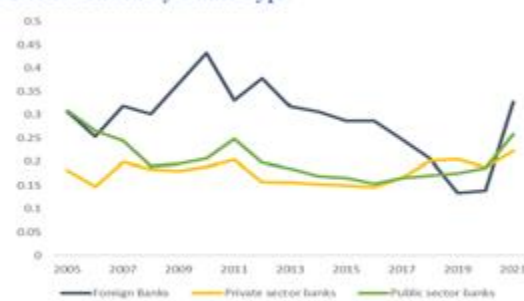
Source: FinStats, RBI

The Hirschman-Herfindahl concentration index has also grown but indicates competitive market.

Hirschman-Herfindahl Concentration Index

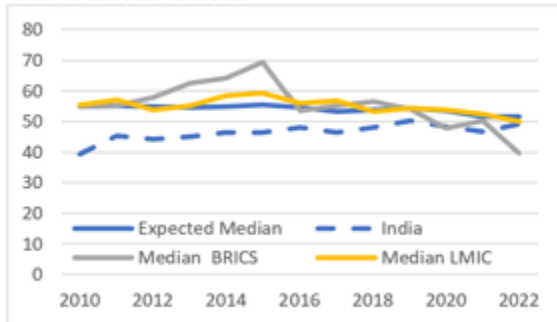
Source: RBI

...Lerner index for public and private banks are broadly similar.

Lerner Index by Bank Type

Source: RBI and FSAP team calculations

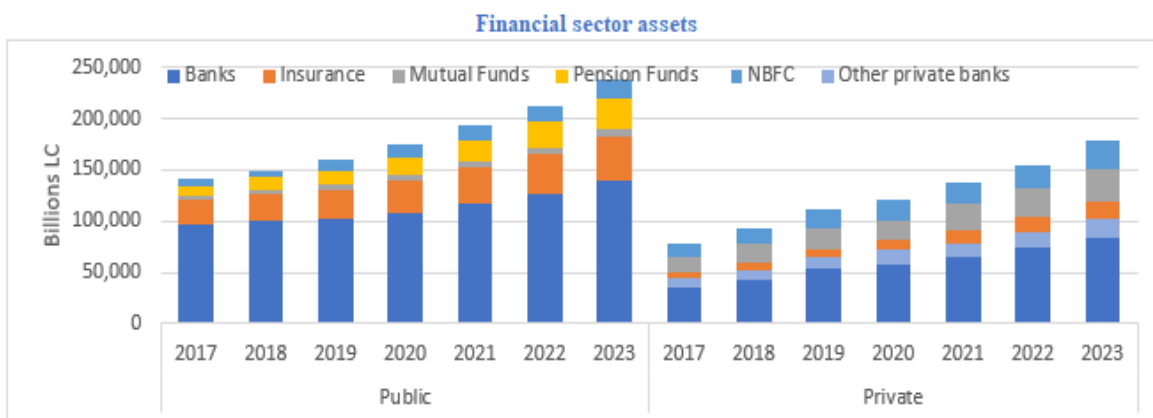
Cost to income ratio compare favorably to income peers and BRICS, but peers are closing the gap.

Cost to Income Percent

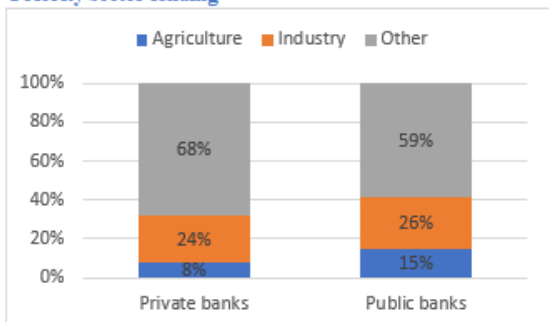
Source: FinStats, RBI

Figure 4: Role of the State

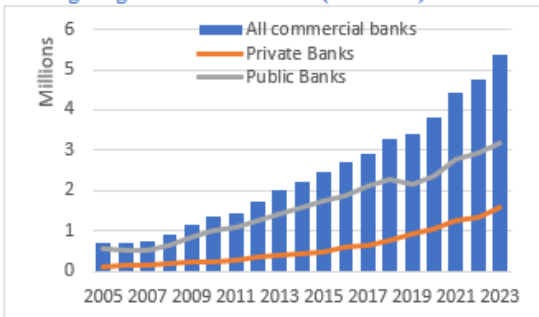
The State continues playing a large role in the financial system, public sector banks are still the largest in terms of assets but their share on total assets have decreased.



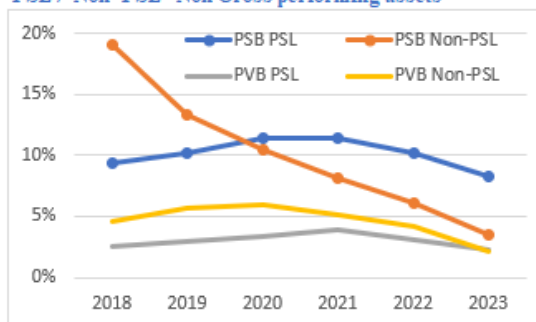
Public sector banks share of priority sector lending is larger than in private banks...

Priority sector lending

The holding of government securities by banks is high, representing around 18½ (22½) percent of total assets for private banks (public banks)

Holdings of government securities (INR cores)

... with higher non-performing loans ratios that have been diminishing.

PSL / Non-PSL Non Gross performing assets

Public banks have received large capital infusions since 2017, that contributed to narrow the gap between the private and public banks NIFTY indices in recent years.

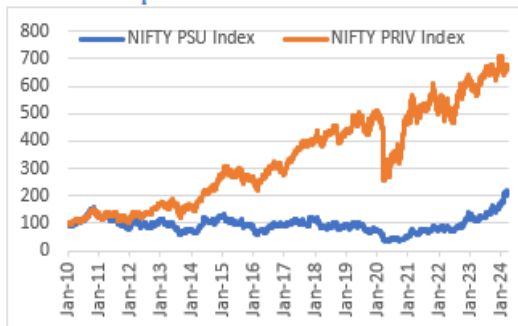
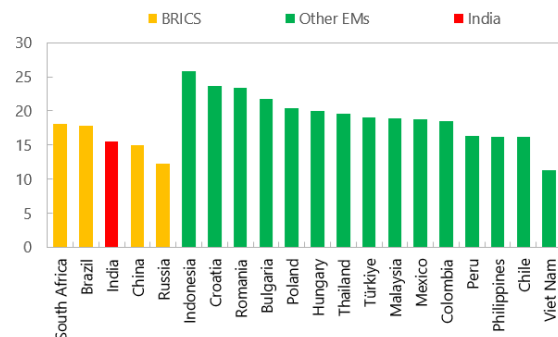
NIFTY indices prices Jan. 1st 2010=100

Figure 5. Financial Soundness Indicators, India and Selected Economies

India's solvency ratio fares well among BRICS but at the lower end among broader EMs.

Total Capital to Risk Weighted Asset

(In percent, 2023 or latest)

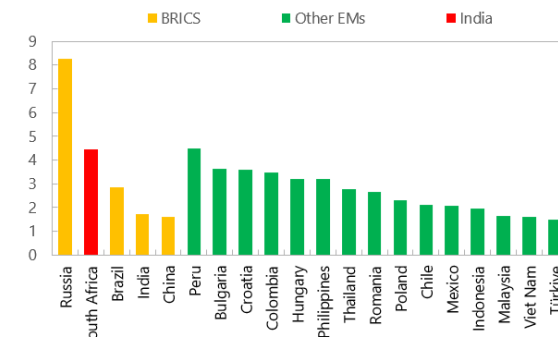


Sources: IMF, Financial Soundness Indicator.

NPL ratios are still high but rapidly declining.

Non-Performing Loan to Gross Loan

(In percent, 2023 or latest)

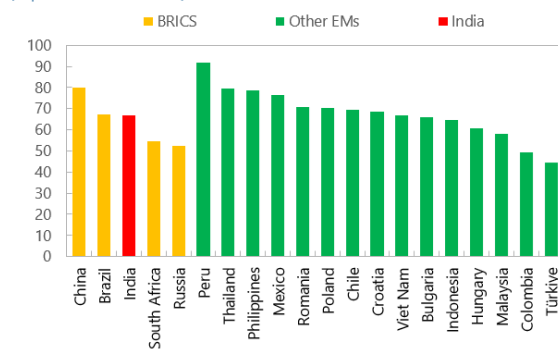


Sources: IMF, Financial Soundness Indicator.

Similar to other EMs, net interest income is the largest contributor to income...

Interest Margin to Gross Income

(In percent, 2023 or latest)

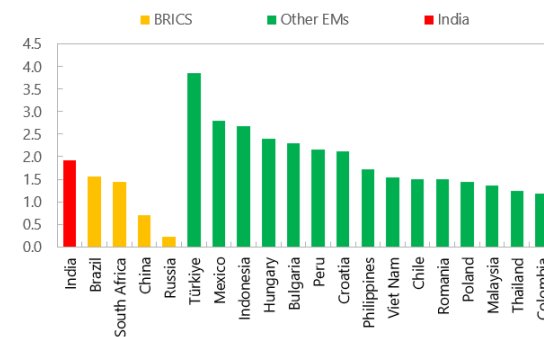


Sources: IMF, Financial Soundness Indicator.

... but profitability is relatively lower (though highest among BRICS).

Return on Assets

(In percent, 2023 or latest)

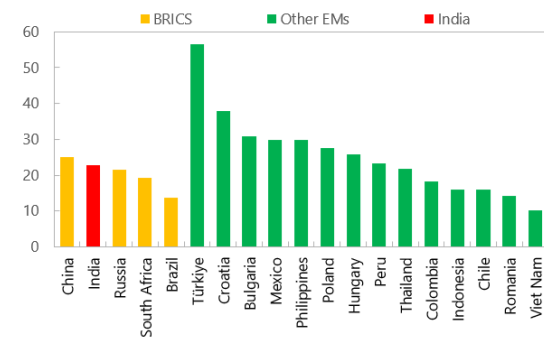


Sources: IMF, Financial Soundness Indicator.

Banks have good liquid asset buffers...

Liquid Assets to Total Assets

(In percent, 2023 or latest)

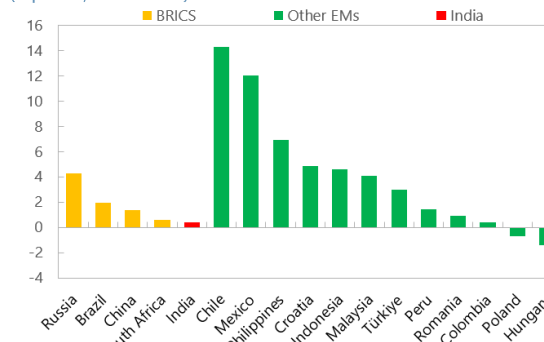


Sources: IMF, Financial Soundness Indicator.

...while exposures to FX risks are very limited.

Open FX Position to Capital

(In percent, 2022 or latest)

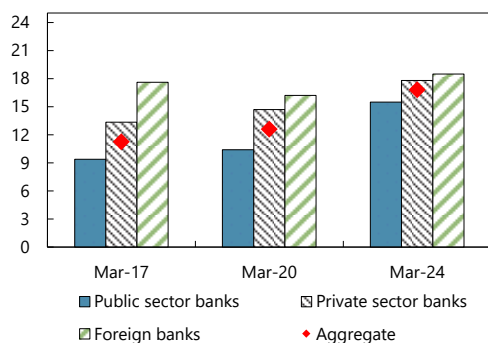


Sources: IMF, Financial Soundness Indicator.

Figure 6. India: Bank Resilience

Capital levels in banks, especially PSBs, have increased since the last FSAP....

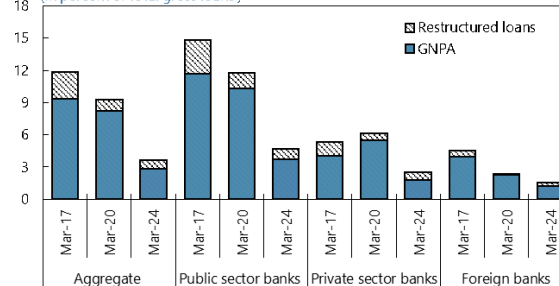
Regulatory Tier 1 Capital Adequacy Ratio (Percent)



...and PSBs' asset quality improved.

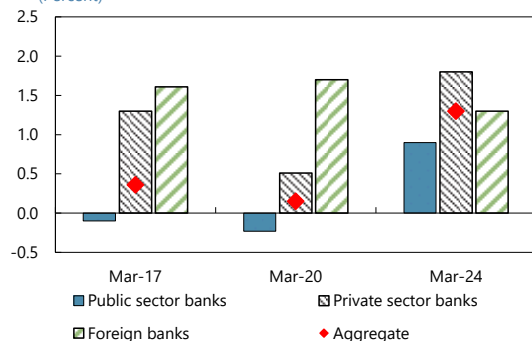
Asset Quality

(In percent of total gross loans)



However, PSBs continue to show much lower profitability than private and foreign banks...

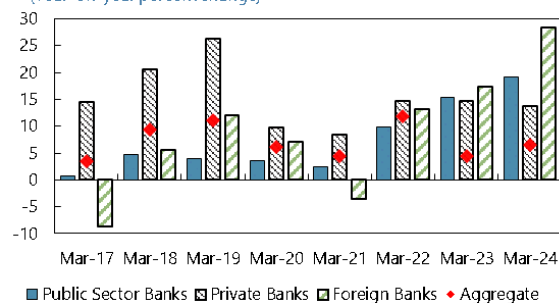
Return on Assets (Percent)



...and lagged the credit growth compared to other types of banks.

Credit Growth

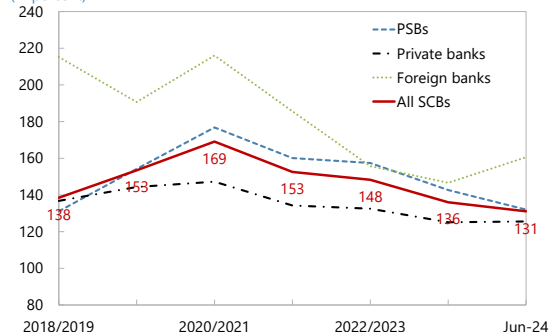
(Year-on-year percent change)



Aggregate liquidity coverage ratio (LCR) has declined since 2020 but remains well above the Basel III requirement.

Aggregate LCR by type of banks

(In percent)



Foreign banks, followed by PSBs, invest the largest share of assets in securities.

Fixed income securities holdings, by type of banks

(In percent of total assets)

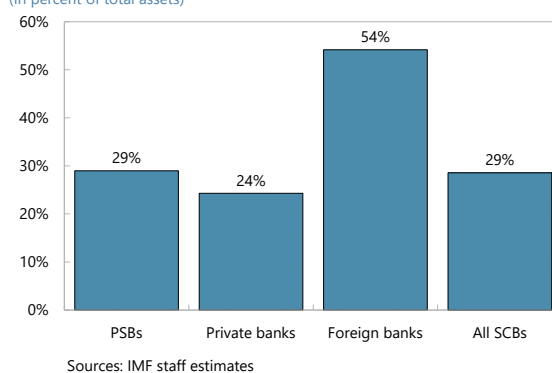
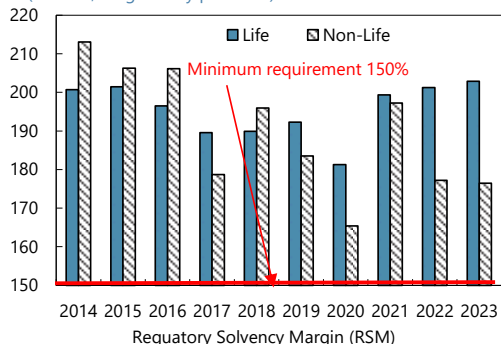


Figure 7. India: Nonbank Financial Institutions

Insurance companies have high solvency ratios...

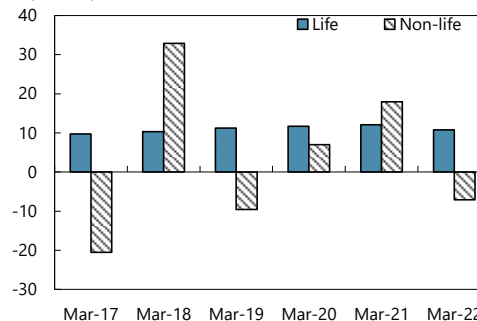
Aggregate Solvency Ratio
(Percent, weighted by premium)



Sources: IRDAI and IMF staff calculation.

...but profitability is modest and volatile for non-life insurers

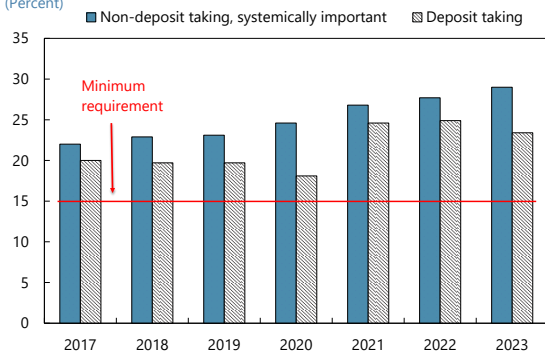
Insurance Companies Return on Equity
(Percent)



Sources: IRDAI and IMF staff calculation.

The largest NBFCs have strong and improving solvency ratios...

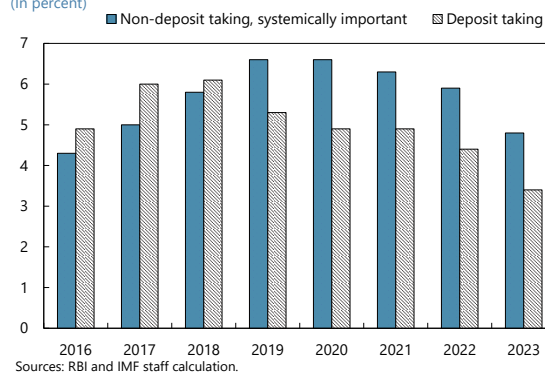
NBFCs Capital Adequacy Ratio
(Percent)



Sources: RBI and IMF staff calculation.

...and improving asset quality.

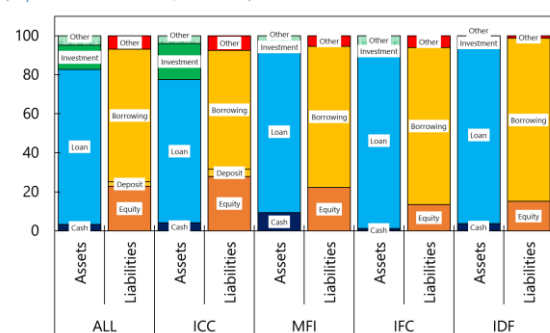
NBFCs Non-Performing Asset
(In percent)



Sources: RBI and IMF staff calculation.

Three quarters of NBFC assets are loans. NBFCs tend to hold far fewer liquid assets than banks and hold a notable amount of equity (for participation). NBFCs are financed mostly by banks and markets.

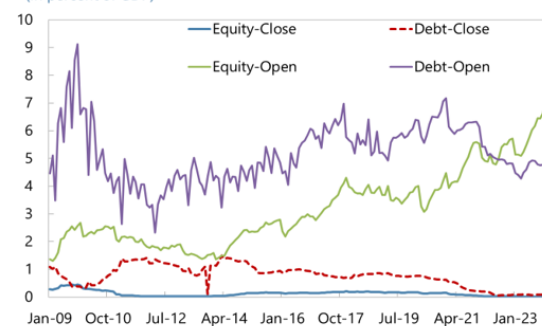
NBFCs Balance Sheet Structure
(In percent of total assets, June 2024)



Sources: RBI returns and IMF staff calculations.

The mutual fund industry offers primarily open-ended funds. Equity funds have grown strongly in the past few years, surpassing the AUM of bond funds.

Total AUM by Strategy
(In percent of GDP)



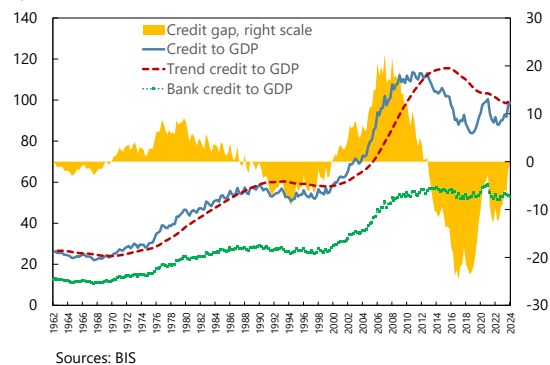
Sources: AMFI, WEO and IMF staff calculation.

Figure 8. India: Credit and Borrower Indicators

Private sector credit-to-GDP remained broadly flat in the past decade with no strong indication of a credit boom...

Total Credit to the Non-financial Private Sector

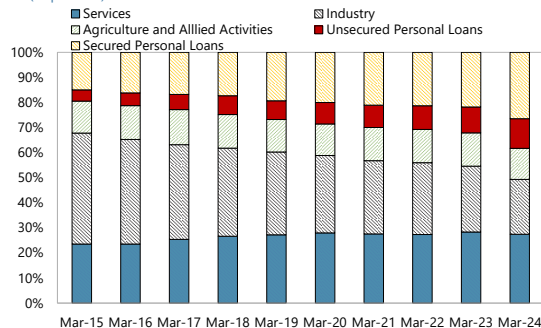
(In percent of GDP, total credit = bank + non-bank credit)



Banks extended credits to services and household sectors, while the share of agriculture remains high due to priority sector lending requirements.

Bank Credit Decomposition

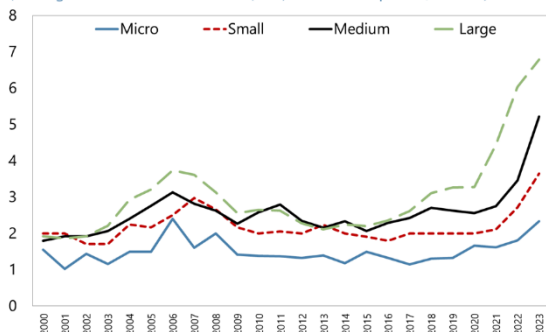
(In percent)



Despite higher interest rates, the corporate sector vulnerability improved with a sharp rise in ICR.

Interest Coverage Ratio

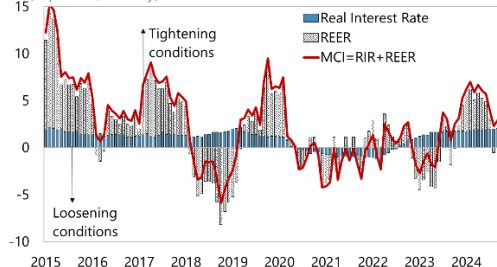
(Earnings before Interest and Taxes (EBIT) to Interest Expenses, median)



...under tightening monetary conditions.

Monetary Conditions Index (MCI)

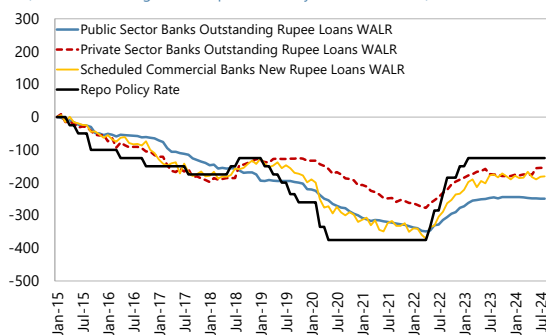
(In percent, monthly)



Banks have passed through a part of policy rate hikes to all loans on average.

Bank Lending Rates

(Cumulative change in basis point, January 2015 as baseline)



Overall household debt rose moderately compared to income despite the recent rapid growth of personal loans

Personal and Housing Loans to Disposable Income Ratios

(In percent of disposable income)

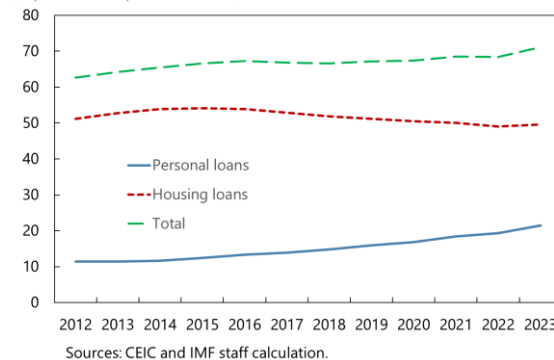
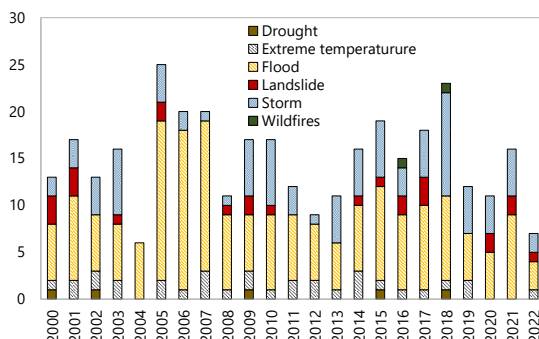


Figure 9. India: Climate Change

India faces various types of weather-related natural disasters...

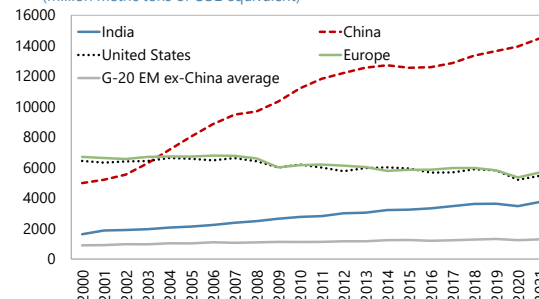
Climate-related Disaster Frequency



Sources: IMF, *Climate Change Indicators Dashboard*; CRED / UCLouvain, *EM-DAT*.

...and is an increasingly important contributor to global greenhouse gas emissions...

Total Greenhouse Gas Emissions 1/ (Million metric tons of CO₂ equivalent)

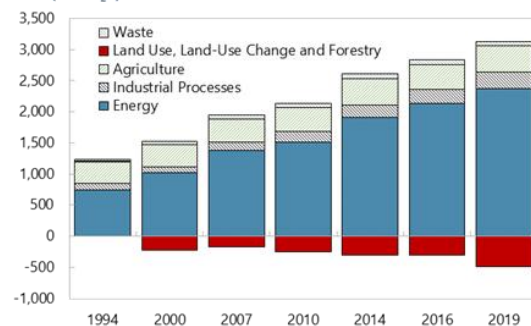


Sources: IMF, *Climate Change Indicators Dashboard*; UNFCCC; EDGARv7.0; EU; FAO; and IMF staff calculations.

1/ Including land-use, land-use change and forestry.

...with total GHG emissions growing by 40 percent between 2000 and 2019, mainly from the energy sector.

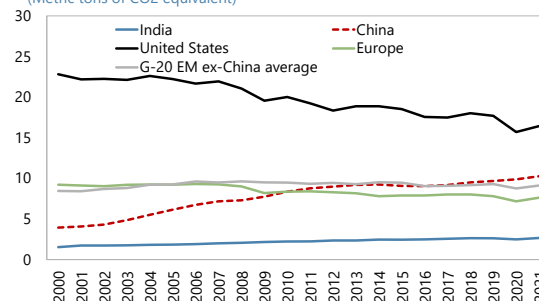
India's Total Greenhouse Gas Emissions (MtCO₂e)



Source: India Third Biennial Update Report to the United Nations Framework Convention on Climate Change.

...but remains one of the lowest per-capita emitters.

Total Greenhouse Gas Emissions Per Capita 1/ (Metric tons of CO₂ equivalent)

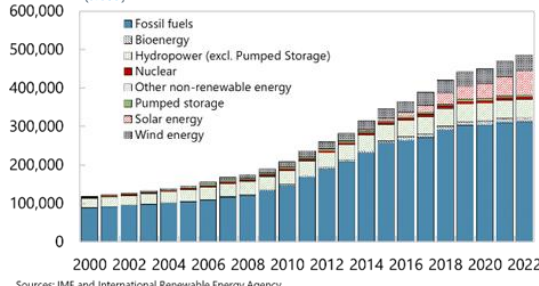


Sources: IMF, *Climate Change Indicators Dashboard*; UN; IMF, *World Economic Outlook*, July 2023; and IMF staff calculations.

1/ Including land-use, land-use change and forestry.

While modern renewables are the fastest-growing energy source, fossil fuels continue to dominate electricity production capacity.

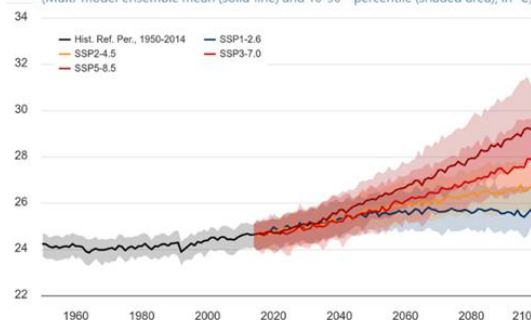
Electricity Installed Capacity (MW)



Sources: IMF and International Renewable Energy Agency.

The average temperature in India is projected to grow rapidly under high emissions scenarios.¹

Projected Average Mean Surface Air Temperature in India (Multi-model ensemble mean (solid line) and 10-90th percentile (shaded area), in °C)

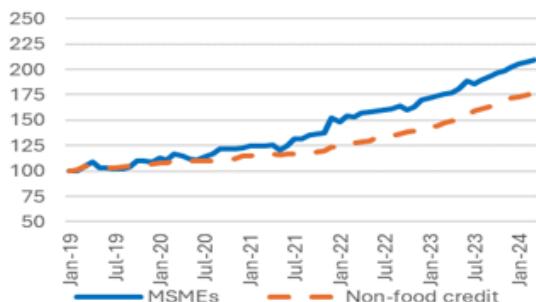


Sources: CMIP6 and World Bank Climate Change Knowledge Portal.

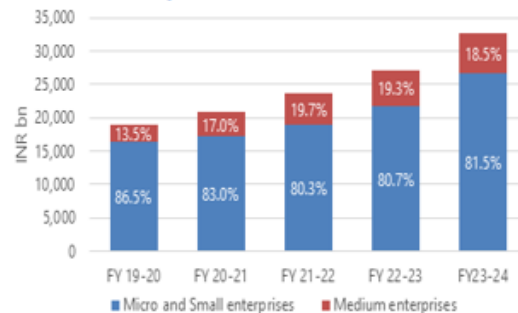
1/ Notes: Future projections of changes in global surface temperature are based on the Coupled Model Intercomparison Project Phase 6 (CMIP6) scenarios. The CMIP6 scenarios combine two frameworks: the Shared Socioeconomic Pathway (SSP) and the Representative Concentration Pathway (RCP). For example, SSP1-1.9 indicates the combination of SSP1 and RCP1.9.

Figure 10: Access to finance gaps for MSMEs

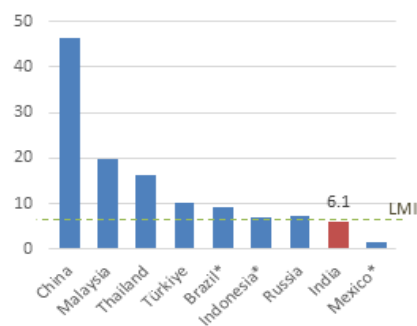
Credit to MSMEs has been growing faster than total rates on the back of supportive public policies

Evolution of MSME loans (indexed to 100)

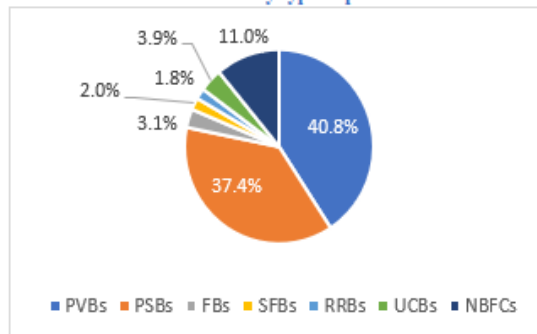
Growth has been faster for medium-sized firms.

Credit to MSMEs by firm size

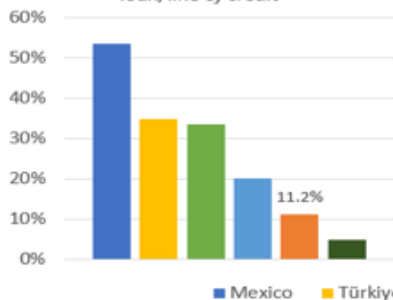
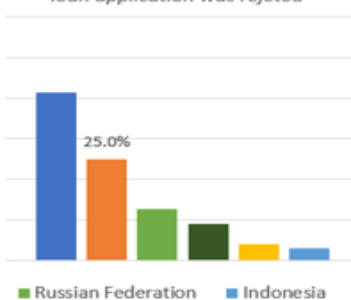
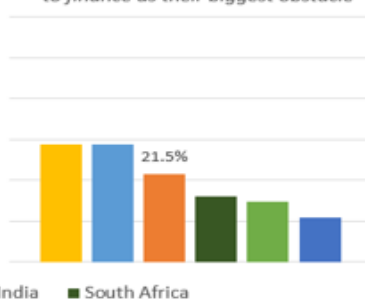
Penetration of MSME bank loans is lagging...

Outstanding SME loans from commercial banks to GDP, 2023

...but part of the gap has been filled by NBFCs

Share of credit to MSMEs by type of provider

Despite the growth in MSME credit, most Indian MSMEs are credit constrained.

Access to finance gaps for MSMEs**A. Percent of firms with a bank loan/line of credit****B. Percent of firms whose recent loan application was rejected****C. Percent of firms choosing access to finance as their biggest obstacle**

Source: World Bank staff calculations with RBI data, and Enterprise Surveys.

Annex II. Selected Tables

Table 1: India: Selected Economic Indicators, 2021/22-2025/26

(Annual percent change, unless otherwise indicated)

Population (2022/23): 1.41 billion					
Quota (current): SDR 13,114.4 millions/ 100 percent of quota					
Per capita GDP (2022/23 estimate): 2,348 USD					
Literacy rate (2022): 76.32%					
Poverty rate \$1.90 a day 2011 PPP (2021): 12.9					
Main products and exports: Petroleum, chemical and primary products, business and IT services.					
Key export markets: EU, USA, United Arab Emirates, China, Bangladesh, and Singapore.					
FISCAL YEAR 1/	2021/22	2022/23	2023/24	2024/25	2025/26
			Est.	Projections	
Output					
Real GDP growth (%)	9.7	7.0	8.2	7.0	6.5
Output gap (% of potential output)	-1.9	-0.8	-0.1	0.3	0.2
Prices					
Inflation, CPI-Combined (%)	5.5	6.7	5.4	4.6	4.1
General government finances					
Revenue (% of GDP)	20.4	20.0	20.7	20.9	20.7
Expenditure (% of GDP)	29.7	29.1	28.9	28.7	28.2
Fiscal balance (% of GDP)	-9.3	-9.2	-8.3	-7.8	-7.6
Public debt (% of GDP)	83.5	81.7	82.8	82.4	81.8
Money and credit					
Broad money (% change)	8.8	9.0	11.1	9.9	8.7
Domestic Credit (% change)	9.0	13.1	12.0	13.0	11.2
Credit to the private sector (% change)	8.1	14.4	15.5	14.1	11.9
Balance of payments					
Current account (% of GDP)	-1.2	-2.0	-0.7	-1.4	-1.5
FDI, Net Inflow (% of GDP)	1.2	0.8	0.3	0.5	0.6
Reserves (months of imports)	8.1	8.1	8.3	8.3	8.3
External debt (% of GDP)	19.5	18.6	18.6	18.4	18.1
Sources: Data provided by the Indian authorities; Haver Analytics; CEIC Data Company Ltd; Bloomberg L.P.; World Bank, World Development Indicators; and IMF staff estimates and projections.					
1/ Fiscal Year is April to March (e.g. 2021/22 = Apr-2021 - Mar-2022).					

Table 2. India: Financial System Structure

	Mar-17				Mar-24			
	No. of institutions	Assets in INR billion	Percent of total assets	Percent of GDP	No. of institutions	Assets in INR billion	Percent of total assets	Percent of GDP
Total	98,766	246,869	...	160	110,167	553,571	...	187
Banks 1/	2,113	159,481	65	104	1,996	308,839	56	105
Scheduled Commercial Banks (incl. RRBs)	156	146,690	59	95	137	289,207	52	98
Public Sector Banks (PSBs)	27	97,366	39	63	12	154,932	28	52
Private Sector Banks (PVBs)	21	36,014	15	23	21	105,214	19	36
Foreign Banks	44	8,246	3	5	45	17,060	3	6
Payments Banks	2	120	0	0	4	247	0	0
Small Finance Banks	6	276	0	0	12	3,353	1	1
Regional Rural Banks (RRBs)	56	4,660	2	3	43	8,401	2	3
Local Area Banks - Non Scheduled	3	8	0	0	2	16	0	0
Cooperative Credit Institutions	98,163	15,778	6	10	109,433	24,312	4	8
Urban Cooperative Banks	1,551	5,399	2	4	1,472	7,077	1	2
Rural Cooperative Credit Institutions	96,612	10,379	4	7	107,961	17,235	3	6
State Co-operative Banks	33	2,329	1	2	34	4,883	1	2
District Central Co-operative Banks	370	5,055	2	3	351	7,656	1	3
Primary Agricultural Credit Societies (PACS) 2/	95,595	2,400	1	2	106,955	4,094	1	1
State Co-operative Agricultural and Rural Development Banks (SCARD) 2/	13	304	0	0	13	278	0	0
Primary Co-operative Agricultural and Rural Development Banks (PCARDB) 2/	601	291	0	0	608	324	0	0
Non-bank Financial Institutions (NBFIs)	444	84,393	34	55	595	240,036	43	81
Non-banking Financial Institutions	356	26,018	11	17	436	80,892	15	27
Non-banking Financial Companies (NBFCs) 3/	345	19,672	8	13	331	50,686	9	17
Housing Finance Companies (HFCs)			-	-	93	10,744	2	4
All India Financial Institutions (AIFIs)	4	6,034	2	4	5	17,926	3	6
Standalone Primary Dealers (SPDs)	7	312	0	0	7	1,536	0	1
Real Estate Investment Trust (REIT)					5	971	0	0
Infrastructure Investment Trust (InvIT)					24	4,725	1	2
Employees' Provident Fund (EPFO) 4/	1	8,330	3	5	1	20,740	4	7
Pension (Assets) under National Pension System	7	1,740	1	1	11	11,727	2	4
Insurance Companies	62	30,765	12	20	73	67,579	12	23
Life-Insurance	24	28,541	12	19	26	61,568	11	21
Non-life Insurance	29	1,823	1	1	35	4,751	1	2
Reinsurance	9	401	0	0	12	1,260	0	0
Mutual Funds	45	17,540	7	11	45	53,402	10	18

Sources: Indian authorities and IMF staff calculations

1/ Excluding Primary Agricultural Credit Societies, State Cooperative Agricultural and Rural Development Banks and Primary Cooperative Agricultural and Rural Development banks as per the statute.

2/ Data for PACS, SCARDBs and PCARDBs pertain to end-March 2023. In case of payment banks, two non-scheduled banks are excluded at end-March 2024.

3/ NBFCs have been segregated into four layers, comprising Top, Upper, Middle or Bael Layers with the implementation of Scale Based Regulation from October 2022.

Accordingly data for NBFCs for 2023-24 are based on Upper Layer and Middle Layer and exclusive of core investment companies, HFCs and SPDs constituting 94 per cent of assets of NBFCs.

4/ Data for EPFO pertain to end-March 2023.

Table 3. India: Financial Soundness Indicators, 2018/19–2022/23

	2018/19	2019/20	2020/21	2021/22	2022/23
(In percent, unless indicated otherwise)					
I. Scheduled commercial banks					
Risk-weighted capital adequacy ratio (CAR)	14.3	14.8	16.3	16.9	17.1
Public sector banks	12.2	12.9	14.0	14.6	15.5
Private sector banks	16.1	16.5	18.4	18.8	18.6
Foreign banks	19.4	17.7	19.5	19.8	19.1
Number of institutions not meeting 9 percent CAR	2	2	1	0	..
Public sector banks	1	1	0	0	..
Private sector banks	1	1	1	0	..
Foreign banks	0	0	0	0	..
Net nonperforming assets (percent of outstanding net advances) 1/	3.7	2.8	2.4	1.7	1
Public sector banks	4.8	3.8	2.2	2.3	1.3
Private sector banks	2.0	1.5	1.4	1.0	0.6
Foreign banks	0.5	0.5	0.6	0.7	0.3
Gross nonperforming assets (percent of outstanding advances)	9.1	8.2	7.3	5.8	3.9
Public sector banks	11.6	10.3	9.1	7.3	5.2
Private sector banks	5.3	5.5	4.9	3.8	2.2
Foreign banks	3.0	2.3	2.4	2.9	1.9
Return on assets 2/	-0.2	0.1	0.7	0.9	1.1
Public sector banks	-0.7	-0.3	0.3	0.5	0.7
Private sector banks	0.6	0.4	0.1	1.4	1.6
Foreign banks	1.5	1.5	1.6	1.4	2.0
Balance sheet structure of all scheduled commercial banks					
Total assets (in percent of GDP)	87.3	88.6	99.2	92.3	..
Loan-to-deposit ratio	79.9	78.1	73.1	74.3	..
Government securities/total assets	19.8	20.1	21.6	20.8	..
II. Non-Banking Financial Companies 3/					
Total assets (in percent of GDP)	15.1	16.6	17.6	16.4	..
Risk-weighted capital adequacy ratio (CAR)	20.1	23.7	25.0	26.8	27.5
Gross nonperforming assets (percent of outstanding advances)	6.1	6.8	6.4	6.3	4.3
Net nonperforming assets (percent of outstanding net advances) 1/	3.3	3.4	2.7	2.3	1.3
Return on assets 2/	1.7	1.3	1.8	1.8	..

Source: Reserve Bank of India; Bankscope; and IMF staff estimates.

1/ Gross nonperforming assets less provisions.

2/ Net profit (+)/loss (-) in percent of total assets.

3/ As of July 31, 2022, there were 9640 NBFCs of which 49 were deposit taking (NBFCs-D) and 415 systemically non deposit taking NBFCs (NBFCs-ND-SI).

Table 4. Status of Key 2017 FSSA Recommendations—Staff Assessment

Key Recommendations	Authorities Actions	Status
Policies to address vulnerabilities		
Improve the governance and financial operations of PSBs and develop a strategic plan for their consolidation, divestment, and privatization.	The authorities have reported an improvement in the governance and financial operations of PSBs. The improvements include the extension of the Banks Board Bureau role to advise the government on the selection, appointment and all matters relating to of Board of Directors in PSBs as well as suitable training and development programs for management personnel in PSBs and the reduction of PSBs. However, gaps remain.	Partially implemented
Conduct granular assessments of banks' capital needs and require additional provisions and swift recapitalization and restructuring.	The Banks Board Bureau now conducts quarterly assessments of PSB capital requirements and reports to the government and the RBI.	Implemented
Redesign the corporate debt restructuring mechanisms to make them more flexible.	The flexible Prudential Framework for Resolution of Stressed Assets issued by RBI on June 7, 2019 (replaced guidelines issued on February 12, 2018) lays out the principles underlying the new regulatory approach for resolution of stressed assets, including early recognition, and reporting of default; discretion of lenders to design and implement resolution plans (RPs); and a system of disincentives for delays in implementation of RPs.	Partially implemented
Financial sector oversight framework		
<i>System-wide oversight and macroprudential policies</i> Retain regulators' role in collecting firm-level data.	India has implemented the recommendation by enhancing supervision and micro-prudential limits. Regulators continue to collect data directly from financial institutions and financial service providers in their respective domain and this may not be sufficient to address systemic risks that arise from the interconnectedness of the financial system. The rapidly expanding and diversifying financial system, particularly among nonbank financial companies (NBFCs), and the strong economic rebound with strong credit growth pose even more challenges for supervisors and regulators.	Partially implemented
<i>Banking supervision</i> Review loan classification and provisioning rules in the context of IFRS, and with respect to special loan categories.	A discussion paper on the introduction of Expected Credit Loss Framework for Provisioning by banks was released by RBI on January 16, 2023, for stakeholders' comments. The key requirement under the proposed framework shall be for the banks to classify financial assets - depending upon the assessed expected credit losses, at the time of initial recognition as well as on each subsequent reporting date and to make necessary provisions.	In progress

Table 4. Status of Key 2017 FSSA Recommendations—Staff Assessment

Key Recommendations	Authorities Actions	Status
Amend the legal framework to provide RBI with full supervisory powers over PSBs and clarify its legal independence.	No changes.	No changes
<i>Insurance supervision</i> Introduce a risk-based solvency regime and risk-based supervision.	The IRDAI has established two project teams to lead the work on the transition to risk-based solvency regime and risk-based supervision. For the risk-based solvency regime the IRDAI completed its first quantitative impact study (late in 2023) and was busy analyzing the results during the mission. A further quantitative impact study might be performed during 2024 to finalize the regime. In respect of the risk-based supervision approach the IRDAI has done some pilot testing, appointed an external provider for support and is in the process of developing its supervisory tools and guidance.	In progress. Authorities are planning to implement in 2025
<i>Securities regulation</i> Transfer legal authority over public listed company reporting to SEBI and introduce a risk-based review of company disclosures.	The Companies Act 2013 (CA-13) provides minimum requirements for a company with respect to preparation, circulation, filing and review of various disclosures through specified reports/returns. SEBI has developed an Early Warning System to aggregate financials filed by listed companies and other publicly available information.	Implemented
Adopt a strategy to unify regulation of commodities trading markets.	No changes	No changes.
<i>Financial markets infrastructure oversight</i> Improve stress testing scenarios and methodologies.	Several revisions have been made to the credit stress test model to improve testing scenarios and methodologies. MCM has provided TA on stress testing.	Partially implemented
<i>Crisis management framework</i> Resolution legislation should preserve RBI's full supervisory authority over going concern banks and promote equal treatment of domestic and foreign creditors.	The draft resolution bill is still under development. The authorities advised that issues relating to duplication of supervisory authority in the pre-resolution phase, strengthening of resolution tools and safeguards, recovery and resolution plans, treatment of domestic and foreign liability holders, and matter of crisis preparedness are expected to be adequately accommodated in the ongoing review of the Bill, in consultation with the RBI. The Deposit Insurance and Credit Guarantee Corporation Act, 1961 was amended on August 27, 2021, with a view to ensuring time bound interim payment of deposits to depositors, up to the amount insured, in case of banks with restrictions on withdrawal of deposits placed by the Reserve Bank.	No changes

Table 4. Status of Key 2017 FSSA Recommendations—Staff Assessment

Key Recommendations	Authorities Actions	Status
– Improve the frameworks for emergency liquidity assistance, deposit insurance, and crisis preparedness.	On crisis preparedness, the authorities are working to strengthen the 'Early Warning Group' and the frequency of its meetings has been increased from once in three months to at least every two months. No changes on ELA.	In progress
<i>Market integrity</i>		
– Subject domestic politically exposed persons to adequate due diligence and qualify domestic tax evasion as a predicate offense to money laundering.	The findings of the latest mutual evaluation support the conclusion that the recommendation has not yet been implemented.	No changes
Market development		
Progressively reduce the SLR to help deepen markets and encourage lending.	The SLR has been reduced from 22.5 percent in June 2014 to 18 percent of net demand and time liabilities (NDTL) since April 2020.	In progress
Undertake a cost-benefit and gap diagnostic of the PSL program and develop a plan to reduce its scope and ensure it targets underserved segments.	Revised guidelines on Priority Sector Lending (PSL) were issued on March 24, 2025 and major changes include reduction in PSL targets for UCBs to 60%, increasing limits for sectors such as housing, and allowing more renewable energy segments to be included in PSL.	In progress
Undertake a cascade diagnostic on overall infrastructure finance system.	Several studies have been conducted by industry forums and MDBs, but no formal initiative has been carried out by the GOI yet.	In progress
Establish an appropriate operational and prudential framework for the upcoming credit enhancement fund for infrastructure finance.	While the industry has been making requests, the RBI has not yet come up with revised guidelines.	In progress
Transfer oversight functions of NHB to RBI and NHB ownership to MOF.	Regulation of HFCs has been transferred to RBI. Supervision of HFCs remains with NHB. Ownership of NHB has been transferred to the government.	In progress
Ensure that the upcoming financial inclusion strategy focuses on access for all underserved segments and is preceded by a review of all relevant government programs and assign responsibility for implementation to Financial Inclusion Advisory Committee (FIAC) under Financial Stability and Development Council (FSDC).	RBI framed the National Strategy for Financial Inclusion 2019-2024 under the aegis of the Financial Inclusion Advisory Committee (FIAC) and is based on the inputs and suggestions from Government of India and other financial sector regulator, and financial inclusion is also overseen by the Technical Group on Financial Inclusion and Financial Literacy (TGFIFL) in the FSDC. The Strategy reviewed existing efforts for financial inclusion and focused on six pillars viz universal access to financial services, providing basic financial services, access to livelihood, financial literacy, customer protection and effective coordination.	Implemented
Shift to electronic platforms large payment flows like salary payments; government payments beyond cash transfers to areas like agricultural procurement; and payments across business value chains.	The government uses the Direct Benefit Transfer (DBT) scheme for benefits and cash transfers covering 315 schemes across 53 ministries, with over Rs. 39 trillion transferred since the introduction of this scheme in 2015.	Implemented