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RBI Governor Outlines Five Priorities to Strengthen India's Financial Stability Amid Emerging Global and Domestic Risks

Published On: 07-10-2026

Recent Developments:

- **Reserve Bank of India Governor Sanjay Malhotra** outlined five priorities for safeguarding financial stability while delivering a special address at the **5th Kautilya Economic Conclave** in New Delhi on **3 October 2026**, organised under the theme **"Resilience in an Age of Flux"**.
- The Governor emphasised that financial stability should not be understood merely as the **absence of shocks**; the financial system must possess sufficient resilience to **absorb shocks, contain their amplification and continue providing essential financial services** even under severe stress.
- The RBI's approach reflects a shift from conventional crisis prevention towards **system-wide shock absorption**, covering banks, non-bank financial intermediaries, financial markets, payment systems, technology infrastructure and critical third-party service providers.

RBI's Five Priorities for Financial Stability:

1. Strengthening Systemic Resilience:

- Financial stability cannot depend on eliminating every possible shock because geopolitical events, commodity-price movements and technological disruptions can originate outside the financial system.
- The policy objective should therefore be to maintain **well-capitalised, liquid and well-governed financial institutions** capable of continuing critical services during severe stress.
- The RBI uses **prudential regulation, risk-based supervision, macroprudential measures, liquidity support and resolution mechanisms** to strengthen the financial system's shock-absorbing capacity.

2. Understanding New-Generation Systemic Risks:

- Emerging systemic risks are increasingly **exogenous, cross-border and interconnected**, meaning that financial instability can originate outside conventional banking channels and spread rapidly through multiple networks.
- Future crises could be triggered by **geopolitical conflicts, cyberattacks or technological failures**, with financial markets transmitting the shock through trade, capital flows, payment systems and institutional exposures.
- Risk management therefore requires **scenario analysis, network mapping and identification of contagion channels**, rather than focusing only on individual financial institutions.

3. Improving Risk Assessment Through Granular Data:

- Effective financial-risk assessment depends on the **quality, timeliness and granularity of data**, particularly as financial interconnections become more complex.

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- Regulators need better information on **NBFIs, interconnected exposures, cross-border positions and technology dependencies** because fragmented data can conceal concentrations of risk and transmission channels.
- Greater use of **data analytics, technology-enabled surveillance and stress testing** can help regulators identify vulnerabilities before they become systemic.

4. Ensuring System-Wide Resilience:

- A resilient banking sector alone is insufficient because financial instability can originate in **NBFIs, securities markets, payment systems, technology infrastructure, critical third parties or cross-border financial networks**.
- System-wide resilience therefore requires coordination among financial-sector regulators and institutions through mechanisms such as the **Financial Stability and Development Council (FSDC)** and its sub-committee.
- The central principle is that **instability in one segment can transmit rapidly across the financial system**, making cross-sector surveillance and inter-regulatory coordination essential.

5. Preserving Trust Amid Financial Innovation:

- Technologies such as **Artificial Intelligence, tokenisation and new forms of financial intermediation** can improve efficiency, reduce transaction costs and expand access to financial services.
- However, technological innovation must preserve the foundations of financial trust, including **sound institutions, settlement finality, singleness of money and financial integrity**.
- Regulation must therefore balance **innovation and risk management**, avoiding both excessive restrictions that suppress useful innovation and inadequate regulation that creates new systemic vulnerabilities.

Kautilya Economic Conclave: Institutional Context:

About the Conclave:

- The **Kautilya Economic Conclave** is an annual platform for discussion of contemporary economic and policy challenges, organised by the **Institute of Economic Growth (IEG)** in partnership with the **Ministry of Finance**.
- The first edition was organised in **2022**, and the 2026 edition brought together policymakers, economists, academics, financial experts and international participants to discuss resilience, global fragmentation, technology, trade, finance and India's economic priorities.

Emerging Risks to Global Financial Stability:

Sovereign Debt and Capital-Flow Risks:

- High **debt-to-GDP ratios**, elevated borrowing costs and shorter debt maturities in several advanced economies can increase sovereign refinancing risks and raise global financial-market volatility.
- Emerging markets such as India remain vulnerable to **capital outflows** when global investors rapidly unwind carry trades, particularly during periods of tighter monetary conditions or heightened risk aversion.

Shadow Banking and Leverage:

- **Non-bank financial intermediaries**, including investment funds and private-credit institutions, have expanded their role in global financial markets, increasing the importance of monitoring leverage outside traditional banks.
- Highly leveraged positions can amplify market corrections and transmit stress to banks through **counterparty exposures, funding relationships and asset-price channels**.

Private Credit Vulnerabilities:

- Rapid growth of private credit can create risks where lending standards weaken, transparency is limited or borrowers become dependent on arrangements such as **Payment-in-Kind financing**.
- Deteriorating asset quality in less-regulated credit markets can become systemic when such institutions are closely connected with banks and capital markets.

Geopolitical and Cyber Risks:

- **Geopolitical fragmentation, trade disruptions, technological decoupling and sophisticated cyberattacks** can affect financial stability by disrupting payment systems, supply chains, market infrastructure and cross-border capital flows.
- Financial-sector cyber resilience has therefore become an important component of **macro-financial stability**, rather than merely an information-technology concern.

Emerging Risks in India:

Unsecured Retail Credit:

- Rapid expansion of **unsecured personal loans, digital lending and buy-now-pay-later products** can increase household vulnerability because such credit lacks conventional collateral protection.
- A sudden deterioration in employment or household income can increase delinquencies and **non-performing assets**, particularly among borrowers with limited repayment capacity.

Retail Speculation in Derivatives:

- Growing retail participation in **Futures and Options** can increase household exposure to leveraged and complex financial instruments.
- Sharp market corrections can generate substantial retail losses, weaken investor confidence and potentially affect household financial savings.

Fintech and Cyber Dependencies:

- High digitalisation of financial services has increased dependence on **fintech platforms, application programming interfaces, cloud infrastructure and third-party technology providers**.
- Cyberattacks, data breaches, technological failures and concentration in critical service providers can therefore create risks capable of spreading across multiple financial institutions.

Deposit-Mix and Funding Risks:

- A declining proportion of relatively low-cost **Current Account and Savings Account deposits** can increase banks' dependence on more expensive term deposits and raise their overall funding costs.
- Higher funding costs can put pressure on **Net Interest Margins**, potentially encouraging riskier lending as banks seek higher-yielding assets.

Gold-Loan Vulnerability:

- Rapid growth in gold-backed lending increases the importance of collateral-price movements for lenders because a sharp fall in gold prices can reduce the value of pledged assets.
- Lower collateral coverage can increase **credit risk, recovery risk and loss-given-default** for banks and NBFCs during periods of financial stress.

Measures Needed to Strengthen Financial Stability:

Strengthening Macprudential Regulation:

- Regulators should continue using **countercyclical macroprudential tools**, including appropriate risk weights, capital requirements and sector-specific measures, to prevent excessive credit growth from becoming a systemic vulnerability.
- Macroprudential regulation differs from conventional microprudential supervision because its objective is to contain **system-wide risks and procyclical amplification**, rather than only protecting individual institutions.

Improving Liquidity and Funding Resilience:

- Banks should strengthen stable deposit mobilisation and maintain adequate **Liquidity Coverage Ratio** buffers to withstand short-term liquidity stress.
- Effective liquidity management is essential because even fundamentally solvent institutions can face instability when they cannot meet immediate funding obligations.

Strengthening Cyber and Technology Resilience:

- Financial institutions should develop stronger **cybersecurity, fraud-detection, incident-response and third-party-risk management systems**.
- Technology-based tools for identifying fraudulent accounts and transaction networks can complement conventional supervision as digital financial fraud becomes increasingly sophisticated.

Building External Buffers:

- Adequate **foreign-exchange reserves** provide protection against sudden capital outflows, external financing stress and disorderly exchange-rate movements.
- Diversification of international settlement mechanisms and greater use of **local-currency trade settlement** can reduce excessive dependence on external currencies and strengthen resilience against global monetary shocks.

India's Institutional Framework for Financial Stability:

Role of the RBI and FSDC:

- The **RBI** contributes to financial stability through regulation and supervision of banks, NBFCs and payment systems, monetary and liquidity management, lender-of-last-resort functions and financial-sector surveillance.
- The **Financial Stability and Development Council** provides an institutional mechanism for coordination among financial-sector regulators and the government on financial stability, financial-sector development, inter-regulatory coordination and macroprudential supervision.
- The RBI's **Financial Stability Reports** and stress-testing framework help assess the resilience of banks and NBFCs under adverse scenarios and identify emerging vulnerabilities.

Way Forward:

- India should move from institution-specific risk monitoring towards **network-based systemic-risk surveillance**, mapping financial, technological and cross-border dependencies.
- Regulators should combine **granular data, stress testing, artificial-intelligence-enabled analytics and scenario analysis** to detect risks before they become systemic.
- Financial regulation should remain **proportionate and forward-looking**, allowing productive innovation while ensuring that new technologies do not weaken financial integrity, consumer protection or systemic resilience.
- Stronger coordination among the **RBI, SEBI, IRDAI, PFRDA, FSDC and government agencies** is necessary because financial risks increasingly cross traditional regulatory boundaries.

Value Addition for UPSC:

Key Concepts:

- **Financial Stability:** A condition in which the financial system can perform its core functions of financial intermediation, payments and risk transfer without severe disruption.
- **Systemic Risk:** The possibility that distress in one institution, market or infrastructure can spread through interconnected channels and threaten the functioning of the wider financial system.
- **Macroprudential Regulation:** Regulatory measures aimed at containing system-wide financial risks and preventing excessive credit, leverage and interconnectedness from amplifying economic shocks.
- **NBFIs:** Financial intermediaries other than traditional banks that perform credit, investment or financial-market functions and can create systemic risks through interconnected exposures.
- **Financial Contagion:** The transmission of financial stress from one institution, market or country to another through trade, funding, asset prices, confidence or interconnected balance sheets.
- **Shock Absorption:** The capacity of financial institutions and infrastructure to continue functioning and providing essential services despite severe economic, financial, geopolitical or technological disruptions.

UPSC Linkages:

- **GS-III:** Indian economy, banking and financial-sector reforms, capital markets, fintech, cybersecurity, external-sector vulnerabilities and economic stability.
- **Financial Inclusion:** Digital finance can expand access to financial services, but rapid unsecured digital lending can create new forms of household indebtedness and consumer vulnerability.
- **Technology and Governance:** AI, tokenisation and digital financial infrastructure require a regulatory framework that combines innovation with accountability, transparency and financial integrity.
- **External Sector:** Global interest rates, sovereign debt, carry trades and capital flows can transmit international financial shocks into emerging economies.
- **Core UPSC Insight:** The modern financial-stability challenge is shifting from **preventing every individual shock** to building a financial system capable of **absorbing unpredictable shocks without allowing them to become systemic crises**.