Sanjay Malhotra: Inaugural address - "FIBAC 2025"

Inaugural address by Mr Sanjay Malhotra, Governor of the Reserve Bank of India, at the Annual Financial Institution Benchmarking and Calibration (FIBAC) 2025 Conference, organised jointly by the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Indian Banks' Association (IBA), Mumbai, 25 August 2025.

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It gives me immense pleasure to participate in the FIBAC annual conference for this year. It brings together distinguished thought leaders and stakeholders of the Indian economy and our financial ecosystem to deliberate on critical and contemporary issues facing the economic landscape of our country. The topic of the Conference "Charting New Frontiers" is very relevant and topical as we respond to the new challenges of tariffs and geopolitical uncertainties. I am sure that the discussions in this conference will be very fruitful and provide deeper insights and guidance to all stakeholders, especially businesses, regulators and governments. This is all the more important as we strive to contribute in our journey for a *Viksit Bharat* by 2047. I compliment FICCI and IBA for organising this annual conference.

I. India's' Story of Resilience and Stability

We celebrated our 79th Independence Day ten days ago. We have made huge progress since our independence. Our advancement spreads across sectors – education, health, agriculture, industries, infrastructure, science and technology, defence, governance, finance, etc. The Indian economy has expanded manifold. It continues to be a symbol of resilience and hope. The achievements of the Indian economy despite unprecedented challenges in the last few years are undoubtedly creditable and widely recognised.

The Indian economy today is characterised by robust macroeconomic fundamentals. Indian economy rebounded strongly post-COVID and recorded an average annual growth of around 8 per cent during the last four years (2021-22 to 2024-25), supported by strong domestic demand – both private consumption and fixed investment - amidst challenging global economic conditions. The IMF has projected that India will be the fastest growing major economy. We are all set to become the third-largest economy in the coming years. Inflation levels have generally reduced after implementation of the inflation targeting. Headline inflation recorded an eight year low of 1.6 per cent in July this year.

India's fiscal situation too has seen significant improvement after the post-COVID counter-cyclical fiscal response with a focus on the quality of expenditure. The union government's fiscal deficit to GDP ratio is budgeted to moderate from a high of 9.2 per cent to 4.4 per cent of GDP in 2025-26. Quality of expenditure has improved. Central government's effective capital expenditure which includes capital grants-in-aid to the states is budgeted at 4.3 per cent of GDP for 2025-26. Corporate balance-sheets are healthy. Banks are well capitalised, with sufficient liquidity buffers, robust asset quality and reasonable profitability. My compliments to the industry, especially the banking sector for this impressive performance.

India's external sector has also strengthened considerably over the last decade. The current account deficit (CAD) has remained well within the sustainable limit in recent years - it was 0.6 per cent of GDP in 2024-25. This is due to robust services exports and strong remittance receipts despite higher merchandise trade deficit. Capital flows have generally exceeded the CAD, adding to our foreign exchange reserves which stood at 695 billion USD as on August 15, 2025, providing merchandise imports cover of over 11 months.

Proactive fiscal and monetary policies, structural reforms, massive upscaling of both physical and digital infrastructure, improved governance and enhanced productivity and competitiveness, have all contributed to this impressive performance.

We are at a critical juncture as we navigate the choppy global economic environment characterised by heightened trade uncertainty and persisting geopolitical tensions. We need to push the frontiers of growth. We all must step up our efforts to address the emerging challenges and capitalise on the opportunities ahead. Generations of freedom fighters gave us a free India, a Swatantra Bharat. We need to now work for a Samridh Bharat, a prosperous India. In this backdrop, I thought it appropriate to speak on what we need to do together to further build on our economic development. I have divided this into five major areas - monetary policy, regulation, financial inclusion, customer service and technology.

II. Monetary Policy

The role of monetary policy in economic prosperity is critical. One of the major conduits of macroeconomic stability in India during recent years despite multiple shocks, has been the decline of inflation. Sharp spikes in food prices, volatile oil prices, global supply chain disruptions, and geopolitical tensions could have significantly stoked inflation. However, proactive policy measures by the Reserve Bank, including timely interest rate adjustments and liquidity management, alongside prudent supply side measures by the government, have helped contain generalisation of price pressures. Anchored inflation expectations too have supported stable consumption patterns and improved investor confidence. The primary objective of monetary policy in terms of price stability has significantly contributed to the strength of India's macroeconomic fundamentals. At the same time, the Reserve Bank has not lost sight of the objective of growth. For example, before covid, when growth was slowing, and in recent months, when inflation was benign and growth needed to be supported, the Monetary Policy Committee (MPC) reduced the policy repo rate. We will continue to conduct monetary policy with the primary objective of price stability keeping in view the objective of growth.

III. Regulation of Banks and NBFCs

Importance of regulation

Despite increase in other sources of credit, the banks, NBFCs, HFCs and AIFIs regulated by RBI still provide about 73 per cent of the credit needs of the real economy with banks providing about 53 per cent. This shows the continued importance of RBI regulated entities in meeting the credit needs of the economy.

It has been our endeavour to regulate these entities with an aim to ensure that the financial system remains healthy and grows sustainably. Here I would like to mention that regulations are akin to friction. If friction is too less, one will fall while walking and if it is too much, progress will be impeded. Regulations provide the necessary friction to promote financial stability and safety of depositors hard-earned money. However, stringent regulations may impede growth of the economy. The art of regulation-making lies in finding the right balance between safety and growth - "the right amount of friction". Pursuit of this balance, or optimal regulation, is indeed our constant endeavour in the RBI.

Our approach to regulation making

Our regulatory framework is based on five principles or characteristics:

a. First, we have gradually pivoted from being prescriptive to largely principle based.

b. Second, we have espoused the idea of proportionality to strike a fine balance between costs and benefits of regulation. Impact analysis is an integral component of this.

c. Third, we are consultative in our approach. We realise that we need to understand the perspectives of all stakeholders. We organise outreach with industry, associations, banks, NBFCs and other regulated entities. We have also operationalised 'connect to regulate' for direct connection with our stakeholders. We seek your active support in giving feedback and suggestions for better regulation-making.

d. Fourth, we attempt to be evidence based. We gather information through our interaction and outreach as also through our supervisory teams. Some of the REs may be feeling the burden of our information seek from them. But, information is important for regulation-making. We seek your assistance in this regard.

e. Fifth, we are agile and we adapt with change in context, availability of new information, and the evolving landscape. We have not hesitated in relaxing a stringent rule, once deemed necessary, if the context changes and the cost-benefit balance reverses.

What we do as a matter of practice, has now been institutionalised through the recently released "Framework for Formulation of Regulations" which codifies this approach, that I just highlighted.

Regulatory Developments in Recent Past

Entering into this calendar year, we have rationalised the applicable prudential norms for Urban Cooperative Banks (UCBs) to accord flexibility in their operations; we restored the applicable risk weights for lending to NBFCs as risks abated. Similarly, the provisioning requirement for government guaranteed security receipts were reviewed in view of their sovereign nature. We have updated the priority sector lending (PSL) guidelines to boost credit to underserved segments. We rationalised run-off factors, which will potentially lead to a cumulative improvement in LCR of about 6 percentage points for the system as a whole. Similarly, we have come out with comprehensively rationalised regulatory framework for investments in Alternative Investment Funds (AIFs), co-lending, non-fund-based facilities, project finance, and gold loans to name a few. These are examples of how we have been agile, consultative, evidence-oriented, principle-based, and proportional in our regulation-making.

Proposed regulations

Going forward, we will continue this approach. Our focus will be three-fold. First and foremost, we will continue strengthening financial stability. We intend to implement Basel III guidelines for market, credit and operational risk from 1.4.2027, for which credit risk and ECL related draft guidelines are proposed to be issued soon. The Forms of Business circular is also planned to be finalised quickly.

Second, we will endeavour to enhance ease of doing business. We have already rationalised the returns that regulated entities have to submit to us. We are in the process of consolidating all the regulations for various categories of regulated entities. In our pursuit of making principle-based framework, we have given autonomy to the board of the respective entities to frame policies. While the intent was to leave detailed policy-making to the judgement of the bank, it has resulted in overburdening the boards of the regulated entities. Therefore, we are trying to rationalise the macro-policies that need to be approved by the Boards of the regulated entities, and leave the procedural and routine matters with the management so that the Board gets quality time to deliberate on strategic and important matters.

Third, we are examining measures to expand bank credit towards productive sectors and reduce cost of intermediation.

As announced earlier, we propose to set up a Regulatory Review Cell with the mandate to review each regulation in a comprehensive, objective, systematic and structured manner. The objective of the review shall be to assess each regulation with focus on efficiency; its impact in terms of cost and benefit; its requirement in the current context and market realities; consistency and clarity especially across different regulations; and potential of unaddressed or emerging risks, among other things. The Cell shall organise its work in such a manner that each regulation is reviewed at least once in every 5-7 years. The Cell will interact with major financial sector industry bodies.

IV. Financial Inclusion

Economic development is incomplete if it is not inclusive. We believe in the adage *"if you want to go fast, go alone; if you want to go far, go together"*. We need to take everyone together and especially those at the bottom of the pyramid. We have made considerable progress in financial inclusion over the years as reflected in the Financial Inclusion (FI)-Index constructed by the RBI which is based on the three dimensions of financial inclusion, 'Access', 'Usage' and 'Quality'. Notwithstanding the considerable progress, FI-Index point towards scope for further improvement in usage and quality while also addressing gaps in access.

Let us remember we have a responsibility to all the people of our country, almost two-thirds, of which resides in rural areas. While, we have provided banking access to almost all villages within a radius of 5 kilometres, there is scope to further enhance it. Business Correspondents (BCs) are an effective channel for providing services in sparsely populated areas of our country. This channel needs to be strengthened to improve the quality, consistency and reach of financial services. Not only is there is a scope to augment them, but there is also a need to train them and expand the number of services they can provide. On one hand, this will make the BCs financially viable and sustainable; on the other hand, it will improve quality and reach of services.

Towards the objective of financial inclusion and to ensure uninterrupted access to the financial services, banks have launched a country-wide campaign from July 1, 2025 to September 30, 2025 at Gram Panchayat level. I urge all the banks to step up their efforts through these camps towards enhancing the coverage of re-KYC and the social security schemes. I also seek your support to Financial Literacy Centres (FLCs) and Centres for Financial Literacy (CFLs), being operated under our aegis.

Another area of focus is the Micro, Small, and Medium Enterprises (MSME) sector which contributes significantly to employment, exports and output. There is a significant credit gap to MSMEs. Banks and NBFCs should make special efforts to boost formal credit to them. They should leverage the public digital infrastructure like the Unified Lending Interface (ULI), in this endeavour.

V. Customer Service

Consumers are the raison detre or the purpose of our being. Customer-centricity is fundamental for sustainable growth of any business.

Conduct related regulations

At the Reserve Bank, we are passionately driven by the objective of customer-centricity. Key Fact Statement and integrating explicit conduct related aspects in our regulations are some examples in this regard. Recently released revised guidelines on pre-payment charges and draft guidelines on settlement of claims in respect of deceased customers also reflect our customer-first approach.

Consumer service by REs

Similarly, regulated entities must focus on excellent and seamless service and experience, creating customer delight. They need to be transparent, fair, and responsive. While digitalization is a key, the human aspect too cannot be neglected, for which training, especially on behavioural aspects, needs to be emphasized.

I had on an earlier occasion urged the Banks to enable the use of CKYCR at KYC touch points. I had also highlighted that the number of grievances escalating to the RBI Ombudsman is very high. It was also expected that each RE has an effective grievance redressal mechanism, where officers are suitably empowered to take decisions in consumer interest. I exhort the regulated entities to make further improvements in these areas.

Further, we are in the process of reviewing the Internal Ombudsman framework at the level of REs to further strengthen it and ensure that complaints get resolved effectively within the institution itself. We are also reviewing the RB-IOS to enhance its effectiveness, transparency and customer-centricity as an alternate grievance redressal mechanism. Further, we intend to enhance the consistency and adequacy of compensation awarded under the Ombudsman framework. We also plan to expand the set of services, non-timely provision of which may be liable for payment of penalty.

Consumer's trust is vital not only for the regulated entity but also for the stability and resilience of the banking system. To build and maintain trust, it is essential that regulated entities (REs) put in place a robust and effective mechanism to redress the grievances of aggrieved customers proactively in a just, transparent, timely and affordable manner. They should periodically assess the types of complaints, conduct a root cause analysis and implement systemic corrective measures in product design, processes, and employee conduct. It is further suggested that customer satisfaction related KPIs are included in performance appraisal and variable pay of key functionaries.

VI. Technology to enhance credit and efficiency

Use of technology is a sine quo non for any business. It has become the core engine for improving decision making and customer service, moving far beyond its traditional role of driving efficiency. Regulated entities need to accelerate its adoption as they strive to enhance credit and reduce costs.

RBI too has adopted technology in all its functions. The Account Aggregator (AA) ecosystem is empowering customers with control over their financial data. ULI is making credit delivery seamless, making it truly transformative. We will further strengthen these platforms. We have implemented PRAVAAH platform for improving services to regulated entities. We will continue to embrace technology including AI and ML and expect our regulated entities too invest in it.

VII. Concluding remarks

To conclude, I would like to emphasise that while we might seem to be on opposite sides – with the regulated entities trying to accelerate growth and the regulators focusing on stability, we actually have the same objectives. We are in the same team with a shared vision of a *Viksit Bharat*. There is no tussle between financial stability and growth. Financial stability and price stability do not inhibit growth. Far from it, they are essential for sustainable growth.

I look forward to working together with the regulated entities to improve the efficiency and effectiveness of financial intermediation to ensure that the due benefits reach the people of our nation. Likewise, on the demand side, I urge the industry to invest boldly and champion the entrepreneurial spirit that defines our nation. At a time, when balance sheet of banks and corporates are at their best, they should come together and drive the animal spirits to create an investment cycle which is so important at this juncture.

Lastly, in your respective roles, I urge you not to ever lose sight of the people you are serving. At the cost of sounding a bit sermonic, I must say that if there is any doubt in your mind, espouse the philosophies of Gandhi's Talisman*, or Antyodaya*. Take decisions keeping in mind how your actions will impact the most vulnerable person of our country.

I wish the conference a huge success.

Thank you. Namaskar. Jai Hind.