

Sanjay Malhotra: Indian financial markets - resilience and resurgence

Keynote address by Mr Sanjay Malhotra, Governor of the Reserve Bank of India, at the 25th Fixed Income Money Market and Derivatives Association of India - Primary Dealers Association of India (FIMMDA-PDAI) Annual Conference, Amsterdam, 1 May 2026.

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Distinguished participants, it gives me great pleasure in addressing the 25th FIMMDA¹-PDAI² Annual Conference. The development of India's fixed income and derivatives markets owes much to such conferences, which provide an opportunity for all stakeholders to get together and deliberate on not only the journey so far but more importantly the way forward. I am confident that this conference will give us many innovative ideas and suggestions for the further development of the markets.

We could not have met at a more appropriate city for this conference to deliberate on the challenges and the opportunities that the markets offer today. It was in Amsterdam where merchants started trading shares and bonds of the Dutch East India Company more than four centuries ago. What emerged in the 17th century was one of the earliest examples of a modern financial marketplace: an organised system where investors could pool capital, transfer risk, and finance ambitious commercial ventures across continents. The innovations that took root – tradable securities, secondary markets, and financial intermediation – in many ways, laid the foundations of modern global finance, as we know it today.

I. Challenges for the global economy & financial system

The conference could not have been at a more opportune time, when the global financial system is navigating through a period of elevated uncertainty and challenges. These have implications not just for the real sector but also for the financial markets.

Geo-economic fragmentation caused by tariffs, trade restrictions, and industrial policies are reshaping not only global supply chains, they are also affecting the free movement of capital and led to fragmentation of financial flows.

High levels of public debt in several major economies is another concern. Their continued fiscal expansion has made it difficult for them to return to the path of fiscal consolidation that was expected post the pandemic related stimulus. On the other hand, geopolitical pressures are compelling a significant rise in defence spending – a shift that could pose major challenges for fiscal sustainability.

Stretched valuations in certain asset classes, particularly equities including a few tech stocks, could also have implications across markets and geographies.

The rapid expansion of private credit markets globally has introduced new areas of opacity and potential systemic risk through increasing interconnectedness with regulated segments.

AI is another source of uncertainty. While AI holds promise to enhance productivity, concerns remain about viability of certain business propositions, the level of efficiency gains, the speed of change and its impact on jobs.

Overlaying these challenges is the recent escalation of geopolitical tensions in West Asia. Energy prices have risen sharply amidst damages to energy infrastructure and disruptions in supply chains. It has already affected economic activity. If the crisis persists longer, it may also translate into second order inflationary pressures.

II. India's Economic Resilience Amid Global Turbulence

Against this challenging global backdrop, the Indian economy has shown remarkable resilience. In view of this, the theme of this conference, "Indian Financial Markets – Resilience and Resurgence," is most apt and timely.

Since the pandemic, India has consistently been among the fastest-growing major economies in the world. This performance reflects a combination of strong macroeconomic fundamentals, structural reforms, and prudent macroeconomic management.

Growth impulses in the economy have remained robust. Domestic demand continues to be supported by strong consumption and public investment. The government's emphasis on capital expenditure has helped crowd-in private investment and improve productive capacity. Resultantly, we have recorded an average growth of 8.2 per cent during 2021-25. In 2025-26, the economy is estimated to have grown by 7.6 per cent. Growth in 2026-27 is projected at 6.9 per cent.

Inflation, although vulnerable to periodic supply shocks, has broadly remained within the tolerance band of the monetary policy framework. The flexible inflation targeting (FIT) regime has provided a credible anchor for managing inflation expectations, and reducing average inflation and volatility post its adoption. In the recent period, headline inflation has remained below the inflation target of 4 per cent. We have projected an average CPI inflation of 4.6 per cent for FY 27.

India is firmly on a path of fiscal consolidation. On the revenue side, adoption of GST and other sweeping tax reforms have helped improve tax buoyancy. On the expenditure side, targeted government spending has improved the quality of expenditure, while reducing revenue expenditure as a percentage of GDP.

India's banking and NBFC sectors have undergone a remarkable transformation in recent years. Their balance sheets have been strengthened significantly, with improvements in capital adequacy, asset quality and profitability.

Corporate balance sheets have also improved, supported by stronger earnings. The fund mobilisation by Indian corporates through public markets, especially corporate bond markets, has remained strong over the last two financial years, pointing to a steady broadening of financing channels beyond traditional bank credit.

On the external front,

- i. Our foreign exchange reserves remain comfortable, with 11 months of import cover.
- ii. The current account deficit (CAD) is sustainable; while elevated energy prices will exert upward pressure on the deficit, the recently concluded trade agreements should offset some of the impact.
- iii. On the capital account, gross FDI has been encouraging³. This will remain robust with the recent spree of greenfield FDI announcements especially in the finance and tech sectors.
- iv. With recent correction in financial asset valuations, we expect repatriations to moderate, improving the net capital account position going forward.

To sum up, India's strong macro-economic and macro-financial fundamentals remain strong, supported by continued focus on policy certainty, price stability, financial stability, and thrust on reforms, ease of doing business and inclusive growth.

III. Indian Financial Markets – Measures undertaken for development

Moving from the broader economy to financial markets, I must acknowledge that our financial markets have matured considerably over the past few years. This is an outcome of conscious policy choices over the years.

Money Market

Starting with money markets, which serve as the primary channel for monetary policy transmission, we have moved towards a more agile liquidity management framework to ensure adequate liquidity in the financial system.

Government Securities Market

Government securities markets continue to be deep and liquid, but our efforts are to broaden the investor base, especially by encouraging retail and non-resident participation. The benchmark issuance strategy which has helped build a credible sovereign yield curve and improve price discovery in fixed-income markets, is now being extended to State Development Loans from FY27.

Derivatives Markets

The regulatory framework for derivatives markets too has evolved to facilitate ease-of-doing business, wider participation, and innovation.

We are facilitating greater product diversity through introduction of total returns swaps on corporate bonds and derivatives on corporate bond indices. These are intended for supporting a well-developed corporate bond market by management of credit risk.

We have also introduced forward contracts on government securities. It has been heartening to see long term investors especially insurance companies utilising this product instead of relying on synthetic financial constructs to manage their long-term interest rate risks.

Efficient Financial Market ecosystem

While taking measures for the development of various market segments, we have focussed on strengthening market infrastructure; enhancing transparency and ease of Investments for foreign investors across market segments.

Strengthening market infrastructure

I would like to highlight three recent initiatives for strengthening market infrastructure.

- First, Electronic trading platforms have been introduced for new products such as forex options and Modified MIFOR based derivatives for enhancing efficiency and transparency. Central clearing and settlement have also been expanded for these products.
- Second, FX forwards up to 36 months tenor are now being centrally cleared; earlier, forwards up to 13 months tenor only were centrally cleared.
- Third, the regulations for initial margin for non-centrally cleared derivatives have come into force. CCIL has put in place the necessary infrastructure for exchange of initial margin. I note that market participants are making use of the system by CCIL.

Enhancing transparency

To enhance transparency, we now have the reporting of:

- OTC Rupee foreign exchange and interest rate derivative contracts undertaken by the related parties of market-makers; and
- Cash, tom and spot trades in the foreign exchange market and OTC gold derivative transactions undertaken by banks and by residents.

Ease of Investments for foreign investors

Last, but definitely not the least, we have endeavoured to facilitate ease-of-investment for foreign investors:

- We have eased the macroprudential norms applicable for FPI investment in corporate bonds;
- We have expanded the space for investments under the Voluntary Retention Route and provided greater operational flexibility;

- Balances in Special Rupee Vostro Accounts have been permitted to be invested in corporate debt securities and government securities;
- Non-residents have been permitted to open Rupee accounts in their own geographical region and with the overseas branches of Authorised Dealers;
- Another important measure is to connect NDS-OM with global bond trading platforms for deepening secondary market in G-secs.

IV. Areas of improvement

While we have made considerable progress in deepening and strengthening our financial markets, more needs to be done. I am mentioning five areas of improvement for you to deliberate on:

- Although our central government securities market is liquid by most standards, there is scope to improve liquidity across all tenors and securities.
- OTC derivatives markets, especially interest rate derivatives, remain concentrated in just one or two few products. It needs to improve if efficient interest rate hedging options have to be made available to stakeholders.
- Indian banks are dealing only with offshore market-makers rather than with end-users. If the global INR market has to be on-shored, Indian banks will need to evolve as market-makers globally.
- Usage of the FX Retail platform remains limited. All banks should facilitate this as a priority, so that retail users get a fair deal.
- The development of credit derivatives is yet to take off in any meaningful way. This is largely an underutilised area.

At the same time, market participants must acknowledge that while a privilege bestows some benefits, it also entails responsibilities. For example, banks and primary dealers in G-Sec market have exclusive access to our liquidity facilities and to short term money markets. They are market-makers in the OTC derivative markets implying that every entity can only transact with you for hedging. Similarly, users must approach them to meet their market needs. These privileges accord immense market power to the PDs and banks, which is beneficial for their growth.

But there are corresponding responsibilities-

- Responsibilities to ensure that every user has easy access to financial markets;
- Responsibilities to ensure that every user can transact on fair and transparent terms, irrespective of size and sophistication;
- Responsibilities to ensure that broader regulatory objectives are met in letter and spirit even as organisational interests are pursued;
- And responsibilities to protect, promote and sustain market integrity.

I am sure you will discharge your responsibilities to the best of your abilities.

Conclusion

Let me conclude now.

This year marks the 250th anniversary of magnum opus - *The Wealth of Nations* by Adam Smith. The insight and wisdom of Smith, especially about the importance of markets, remain profoundly relevant in current tumultuous times.

Our priorities at RBI, therefore, remain clear. We will continue to deepen financial markets, broaden participation, and further strengthen institutional frameworks. We will continue to strive for efficiency, consumer protection, fairness, transparency, and ethical conduct. In this pursuit, we will continue to assess and meet the emerging market needs. We will also stand prepared to deploy appropriate policy measures, as warranted, to mitigate spillovers and ensure orderly market conditions.

But we cannot do it alone. Strengthening financial resilience is a collective and shared responsibility. Institutions such as trade repositories will have to improve data quality and availability to support risk assessment and effective policymaking. FIMMDA and PDAI will have to play a vital role in strengthening market conventions, standardisation, and discipline.

I am confident that with continued collaboration among all of us, Indian financial markets will mature further. I am sanguine they will become deeper, more efficient, and more dynamic in the years ahead.

With these words, I thank you all for your patience and wish this conference a great success. I look forward for your valuable suggestions and policy inputs.

Thank you.

¹ FIMMDA- Fixed Income Money Market and Derivatives Association

² PDAI - Primary Dealers' Association of India

³ Gross FDI grew from about USD 71 bn to more than USD 80 bn during 2024-25 and expected to have increased further to about 90 bn USD in 2025-26.