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RBI releases June 2017 Financial Stability Report

The Reserve Bank of India today released the [Financial Stability Report \(FSR\) June 2017](#), a biannual publication and the 15th in the series.

The FSR reflects the overall assessment on the stability of India's financial system and its resilience to risks emanating from global and domestic factors. The Report also discusses issues relating to development and regulation of the financial sector. Highlights of FSR- June 2017 are summarised below:

Overall assessment of systemic risks

- India's financial system remains stable, even though the banking sector continues to face significant challenges. While the global growth outlook and market sentiments have improved, political stability on the domestic front has further reinforced expectations of accelerated reforms, overall positive business sentiment and macroeconomic stability.

Global and domestic macro-financial risks

- After years of sluggish growth, the global economy seems poised for a turnaround. Even though there are uncertainties, the underlying feeling of a stable transition from a global accommodative monetary policy regime to a normal rate cycle is evident in equity and fixed income markets.
- Unlike past business cycles wherein credit growth acceleration preceded an uptick in GDP growth, growth in private credit to non-financial corporations is muted.
- The divergence in 'interest rate outlook' between the US Federal Reserve (FED) and other advanced economies (AEs), coupled with prospect of soft commodity prices may have implications for some of the commodity-centric currencies.
- Domestically macroeconomic conditions remained stable and the expectations of accelerated reforms and political stability further reinforced the overall positive business sentiment. While the retail inflation witnessed significant decline during the recent quarters, the real gross value added (GVA) growth declined to 6.6 per cent in 2016-17 as compared with 7.9 per cent in 2015-16.
- Going forward, reforms in foreign direct investment, implementation of goods and services tax (GST), and revival in external demand are likely to contribute to a better growth outlook. The capital market indices moved to a higher territory reflecting these positive sentiments.

- Under asset quality pressures, credit intermediation by banks has retrenched and that by NBFCs and mutual funds has increased significantly.
- The half-yearly positions of select non-government non-financial (NGNF) listed companies indicated improvement in the performance of the corporate sector, especially growth in sales.

Financial Institutions: Soundness and resilience

- During 2016-17, while deposit growth of scheduled commercial banks (SCBs) picked up, credit growth remained sluggish putting pressure on net interest income (NII), particularly of the public sector banks (PSBs).
- While, profitability ratios of SCBs showed a marginal increase, PSBs continue to show a negative return on assets (RoA).
- The gross non-performing advances (GNPAs) of the banking sector rose but the stressed advances ratio declined between September 2016 and March 2017 due to fall in restructured standard advances.
- Overall, capital to risk-weighted assets ratio (CRAR) improved from 13.4 per cent to 13.6 per cent between September 2016 and March 2017.
- The share of large borrowers, both in SCBs' total loans portfolio as well as GNPAs, showed a reduction between September 2016 and March 2017.
- At the system level, the CRAR of scheduled urban co-operative banks (SUCBs) increased from 13.0 per cent to 13.6 per cent between September 2016 and March 2017.
- While the aggregate balance sheet of the NBFC sector expanded by 14.5 per cent during 2016-17, their net profit was down by 2.9 per cent.
- Assets under management by Mutual Funds (AUM) touched an all-time high of more than ₹ 17.5 trillion by end-March 2017.
- From the perspective of larger financial system, SCBs continued to be the dominant players accounting for nearly 51 per cent of the bilateral exposure followed by asset management companies managing mutual funds (AMC-MFs), non-banking financial companies (NBFCs), all-India financial institutions (AIFIs), insurance companies and housing finance companies (HFCs).

Financial sector: Regulation and development

- Imminent transition to Ind AS will be challenging for Indian banks in terms of skills as well as the requirement of higher amount of provisioning.
- RBI tightened its disclosure and standard assets provisioning requirements, while adopting a more pro-active approach in resolution of stressed assets.
- The Reserve Bank also tightened its supervisory and enforcement frameworks by revising the prompt corrective action (PCA) framework and establishing an Enforcement Department.
- Lower impairment in home loans and overall weak credit growth have facilitated the RBI to take a counter-cyclical measure of reducing risk weights and standard asset provisioning for individual housing loans.
- The prudential norms on masala bonds have been harmonised broadly with that for external commercial borrowing (ECB).
- SEBI, along with the RBI, allowed derivative transactions in the International Financial Services Centres (IFSCs), while making the disclosure requirements for top listed entities more comprehensive. Investor protection measures were further enhanced by SEBI.

- To enhance the effectiveness of grievance redressal mechanism at Market Infrastructure Institutions (MIIs), SEBI has comprehensively reviewed the existing framework in consultation with the Stock Exchanges and Depositories
- PFRDA allowed the second record keeping agency to bring down operating charges and enhancing long-term returns to the investors.
- Concerns arising from frauds and cyber-attacks remain elevated with the recent global ransomware attacks. Various responses by the regulators in this regard include setting up of an Inter-disciplinary Standing Committee on Cyber Security by the RBI.

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