

Foreword

This issue of financial stability report (FSR), the 14th in the series, is being released at a time when global uncertainties are on the rise. The uptick in interest rates in the US and rise in some commodity prices, particularly crude oil, increase the risk of spillover to emerging markets. Domestic macroeconomic conditions remain stable with significant moderation in inflation, though growth momentum has slackened recently. The current account deficit remains modest. Moreover, structural reforms such as the move to a nationwide goods and services tax and legislation of bankruptcy code should impart resilience to the economy. The withdrawal of specified bank notes will impart far reaching changes going forward. It is expected to significantly transform the domestic economy in due course in terms of greater intermediation, efficiency gains, accountability and transparency through increasing adoption of digital modes of payments, notwithstanding the short-term disruptions in certain segments of the economy and public hardship. Overall, there is little room for complacency and it is important to guard against sporadic volatility in financial markets.

Meanwhile, we are adhering to global regulatory standards without losing sight of domestic compulsions. There are various regulatory changes underway globally to strengthen financial stability. At the same time, the global financial crisis has prompted regulators to require banks to undertake stress tests to see if their risk appetite matches their risk taking capacity. The asset quality review of Indian banks and the subsequent corrective actions are steps in this direction. While the domestic banking sector continues to face significant levels of stress partly reflecting legacy issues, on balance, enhanced transparency has helped to reinforce the stability of India's financial system.

Against this backdrop, this FSR reviews the health of the financial system and focuses on some emerging issues of systemic importance while outlining regulatory and consumer protection measures taken in the recent past.

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