

Foreword

It has been a little over two years since the US Federal Reserve (Fed) triggered the so called "taper tantrum" but global financial markets have since recovered, albeit with greater volatility. A combination of global factors and concerted domestic policy decisions have helped, to a considerable extent, in improving the macro-economic fundamentals of our economy as also in building additional buffers against future uncertainties. However, with the back to back quantitative easing (QE) stimulus programmes by other major central banks, alongside possible tightening by Fed, what we have seen might be only one of a series of such 'tantrums' that the global financial markets are likely to witness. Hence, even as efforts continue on building a consensus around the need for a greater degree of coordination among policy makers across the globe, there is a need to be vigilant about the spillovers. At the same time the relative advantage for EMDEs can come from finding new moorings, and for India what matters is reduction in inefficiencies as also improvements in non-price competitiveness.

Against this backdrop, the 11th issue of the Financial Stability Report (FSR) carries out the usual health check of the Indian financial system. While India's banking landscape is poised to change with the introduction of new types of entities like 'small finance banks' and 'payment banks', the role of public sector banks (PSBs) will continue to remain substantial in terms of supporting the needs of a sustainable and equitable economic growth. In this context the continued stress on asset quality of PSBs and consequent pressure on capital adequacy is a matter of increasing concern. Hence, actions on part of the Government, as also the Reserve Bank, in helping them overcome legacy issues, strengthening their governance structures, processes and improving their performance, are important.

Keeping in tune with current needs, changes are also being brought about in the overall regulatory framework for the financial markets in such a way that regulations enable market access as also healthy innovation while ensuring financial stability. Accordingly, this issue of FSR is redesigned to reflect a vision for the overall regulatory framework for the entire financial system, which envisages a *balanced, predictable, institution-neutral, ownership-neutral and technology-neutral regulatory regime* for the entire financial system.

While efforts are on to reduce vulnerabilities, the regulators have to closely monitor domestic and global developments and be prepared for prompt and effective response as and when required.

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Governor

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