

Foreword

We are in the midst of an unprecedented situation brought on by the COVID-19 pandemic, which has extracted unconscionable human and economic casualties. Its spread, intensity and duration has imparted extreme uncertainty not experienced in our lifetime. The loss of livelihood has been particularly severe on the vulnerable and disadvantaged.

Governments, central banks and other public agencies across countries have made coordinated efforts to alleviate financial stress and build confidence. These policy responses have stabilised the financial system and markets, although the outlook remains highly uncertain.

This report coincides with a growing disconnect between the movements in certain segments of financial markets and real sector activity. The pandemic hit India in a period of growth moderation. The ensuing disruptions in demand conditions and supply chains have been aggravated by global spillovers. Of late, signs of a gradual recovery from the nationwide lockdown are becoming visible.

The challenges that lie ahead have to be addressed with the overarching objective of preserving long term stability of the financial system, which is critical for nurturing the recovery. Going forward, once we enter the post-pandemic phase, the focus would be on calibrated unwinding of regulatory and other dispensations. Financial intermediaries will have to undertake reappraisal of their business models. Asset markets have to adapt to a new normal in a non-disruptive manner. Contagion risks warrant constant vigilance by all stakeholders in the financial system.

The financial system in India remains sound; nonetheless, in the current environment, the need for financial intermediaries to proactively augment capital and improve their resilience has acquired top priority. In the evolving milieu, while risk management has to be prudent, extreme risk aversion would have adverse outcomes for all.

In the period of social distancing, information technology platforms have worked well and these gains need to be consolidated. There is no room for complacency on cyber security.

Financial sector stability is a prerequisite for giving confidence to businesses, investors and consumers. We need to remain extremely watchful and focused.

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Governor

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