

Foreword

The prospects for the global economy are overcast by the war in Europe even as they continue to be shaped by the evolution of the COVID-19 pandemic. Global recovery, which was navigating multiple waves of infections and new mutations, is once again being tested by a stormy environment of military conflict and retaliatory sanctions. The risks of stagflation are rising. With no resolution visible in the near future, the need of the hour for every economy is to combat mounting inflation while factoring in the growth requirements of the economy. The balancing game has become even more delicate. Amidst all these, central banks need to remain focussed on their perennial responsibility of maintaining financial stability.

Like most other emerging market economies (EMEs) and even some advanced economies (AEs), the Indian economy is facing significant spillovers from the evolving global conditions. The innate strength and resilience of our macro fundamentals is catalysing a steady recovery. The financial system is well-capitalised and returning to profitability. The corporate sector is deleveraged with stronger bottom lines. The external sector is well-buffered to withstand the ongoing terms of trade shocks and portfolio outflows.

In a dynamic environment with considerable uncertainty, we have been proactive and nimble footed in our policy responses. We have been calibrating our actions to the need of the hour and striving to preserve macroeconomic and financial stability to ensure sustainable and inclusive growth.

A noteworthy feature of the current situation is the overall resilience of Indian financial institutions, which should stand the economy in good stead as it strengthens its prospects. This reflects a combination of good governance and risk management practices, as highlighted in this issue of the Financial Stability Report (FSR). Stress test results presented in this FSR demonstrate that banks are well positioned to withstand even severe stress scenarios without falling below the minimum capital requirement.

Even so, we must be mindful of the emerging risks on the horizon. Cryptocurrencies are a clear danger. Anything that derives value based on make believe, without any underlying, is just speculation under a sophisticated name. While technology has supported the reach of the financial sector and its benefits must be fully harnessed, its potential to disrupt financial stability has to be guarded against. As the financial system gets increasingly digitalised, cyber risks are growing and need special attention.

Overall, the financial stability risks to the Indian economy are skewed towards global spillovers and geopolitical tensions. Nevertheless, the Indian financial system exhibits underlying robustness and resilience to withstand these shocks.

Our endeavour is to face all challenges, external and internal, with strength and innovative solutions for the Indian financial system. The Reserve Bank and other financial sector regulators stand firm in their commitment to ensure financial stability and promote inclusive economic growth.

Shaktikanta Das

Governor

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