Foreword

As the world continues to grapple with uncertainties of various hues, higher expectations from monetary policy as a panacea for all economic problems also persist. Extraordinary monetary policy stimulus has driven global interest rates lower to 'never-seen-before' levels in some Advanced Economies and a significant pool of these resources is also chasing emerging market assets with consequent impact on the asset prices and corporate leverage, even as emerging market growth and corporate earnings outlook remains weak. Low and persistent inflation is the fulcrum around which systemically important central banks are taking comfort for their policy stances, though disruptions to multilateral trade and evolving geopolitical uncertainties may continue to have repercussions across global financial markets. The challenge is to ensure transmission of monetary policy impulses to the advantage of real economies and not to aid build-up of froth in financial markets. We need to be mindful of the 'cobra effect'.

On the domestic front, GDP growth has weakened reflecting domestic and global factors. The consumer credit segment, given the monetary stimulus and regulatory measures, has grown robustly even as wholesale credit growth nudges lower and firms and financial intermediaries are in the process of deleveraging and improving their business practices. The Reserve Bank has endeavoured to provide a responsive and proactive monetary policy in an economic environment wherein sources of vulnerabilities are continuously interacting.

SEBI has been initiating measures for improving the market integrity; IRDAI has been taking initiatives for strengthening insurers' corporate governance process; IBBI continues to make steady progress in improving the enabling framework for the resolution of stressed assets; and PFRDA continues to bring more citizens under the pension net.

Financial sector regulators under the aegis of the Financial Stability and Development Council (FSDC) are striving to buttress the trust in the financial system. Having said that, let me reemphasise the importance of good corporate governance across the board, which to my mind is the most significant factor that can lift the efficiency of our economy to its full potential.

Continuing the trend witnessed in the previous half-year, the banking sector has shown signs of stabilisation. That said, the performance of Public Sector Banks (PSBs) needs to improve and they need efforts to build buffers against disproportionate operational risk losses. Private sector banking space also needs to focus on aspects of corporate governance.

The non-banking financial intermediation space which took up a significant share in credit intermediation after the relative passivity of public sector banks due to their impaired balance sheets, continues to show signs of restructuring of their underlying business models. While credit markets are becoming more competitive following recapitalisation of PSBs, market funding for Non-Banking Financial Companies (NBFCs) is getting more discerning based on prudential concerns.

The 20th issue of Financial Stability Report documents some of the evolving features of credit intermediation, market developments and contagion/stress analysis so as to understand the contours of the emerging vulnerabilities.

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