

Foreword

Over the last three years, the global economy has been navigating successive high-amplitude shocks: the COVID-19 pandemic waves; protracted geopolitical hostilities; rapid monetary policy tightening; and the recent banking turmoil. Economic fragmentation is threatening macroeconomic prospects, especially among emerging market and developing economies (EMDEs).

Despite these heightened uncertainties and formidable headwinds, the Indian economy has made a solid recovery and is among the fastest growing large economies. In this fragile global milieu, balancing the policy trade-offs, preserving macroeconomic and financial stability, shoring up confidence and supporting sustainable growth are top priorities for policymakers world over.

Since the last issue of the Financial Stability Report (FSR) in December 2022, the global and Indian financial systems have charted somewhat different trajectories. The global financial system has been impacted by significant strains since early March 2023 from the banking turmoil in the U.S. and Europe. In contrast, the financial sector in India has been stable and resilient, as reflected in sustained growth in bank credit, low levels of non-performing assets and adequate capital and liquidity buffers. Both banking and corporate sector balance sheets have been strengthened, engendering a 'twin balance sheet advantage' for growth¹. The reach and depth of financial intermediation is being aided by technology and growing digitalisation, which provide new opportunities for growth and financial inclusion.

As the recent banking turmoil in certain advanced economies (AEs) suggests, new risks have necessitated reassessment of global standards on financial sector regulations. While international cooperation among regulators on these issues is of paramount importance, so far as India is concerned, both regulators and regulated entities need to stay the course with an unwavering commitment to ensuring a stable financial system. It has to be remembered that seeds of vulnerability often get sown during good times when risks tend to get overlooked².

International cooperation and regulatory focus are also needed to tackle other challenges such as cyber risks and climate change. Through its G20 presidency, India is striving to improve the efficacy of multilateralism in several such areas. These efforts are fittingly captured in India's theme for G20: *One Earth, One Family, One Future*.

Financial stability is non-negotiable and all stakeholders in the financial system must work to preserve this at all times. The Reserve Bank and the other financial regulators remain steadfast in their commitment to safeguard financial stability in the face of potential and emerging challenges.

Shaktikanta Das

Governor

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¹ Das, Shaktikanta (2023), Minutes of the Monetary Policy Committee Meeting, June 6 to 8.

² Das, Shaktikanta (2023), "Governance in Banks: Driving Sustainable Growth and Stability", Inaugural Address at the Conference of Directors of Banks organised by the Reserve Bank of India for Public Sector and Private Sector Banks, May.