

Foreword

Amidst global trade tensions and geopolitical risks, the global economic growth prospects encounter significant headwinds. These developments have implications for financial stability in Emerging Markets and Developing Economies (EMDEs). On the domestic front, economic activity turned paler in Q4:2018-19. Dip in consumption and private investment have exerted pressure on the fisc. However, as the current inflation outlook remains moderate, growth could help alleviate fiscal constraints to some extent. This will require concerted efforts to revive private investment and continue with economic reforms. Overall, the situation warrants greater cooperation internationally as well as monetary and fiscal coordination domestically to ensure systemic stability.

Indian banking sector continues to show improvement as impairment ratios decline and credit growth picks up. The Public Sector Banks (PSBs) showed a noticeable improvement with recapitalisation. Both provision coverage as well as capital adequacy improved. Understandably, the significant rise in provisioning has impacted the bottomlines of PSBs. Efforts to improve the balance sheets of banks should therefor continue. Among others, there should be special focus on governance reforms in banks. As far as PSBs are concerned, the proof of the pudding lies in the PSBs' ability to attract private capital through market discipline rather than being overly dependent on the Government for capital.

Previous issues of Financial Stability Report (FSR) have highlighted the shift in credit intermediation from banks to non-bank financial intermediaries. The growth in non-bank credit intermediation has largely happened against the background of weakly capitalised and impairment laden PSBs. As the banks are on the mend, the structure of non-banking credit intermediation should focus on developing on more prudent lines. This will require harnessing niche expertise at their disposal and ensuring better asset liability management, so that balance sheet growth is sustainable. In the Reserve Bank of India, the regulatory and supervisory framework is being reinforced to better adapt to the evolving scenario.

This 19th issue of the Financial Stability Report (FSR), discusses some of the nuances and developments that impinge upon financial stability along with a thematic study on the developments in the non-banking space. The report also assesses the systemic resilience through stress tests and contagion analysis so as to look at the emerging vulnerabilities and ensure timely action by all stakeholders.

Shaktikanta Das

Governor

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