

## Foreword

Economies around the world are experiencing fragile and uneven growth recoveries, deflationary pressures in some parts and uncertainties emanating from possible shifts in the direction of monetary policy stance in some jurisdictions. In addition, geopolitical risks loom large.

Policy making in this challenging global environment could result in decisions that can have negative spillovers to other countries. Although India stands out in terms of relatively stronger growth and improved economic fundamentals, we need to stay on the path of sound domestic policies and structural reforms. We need to deal with legacy issues that hold back growth and bring changes to enhance the efficacy of our business processes and conduct. The stress in the banking sector, which mirrors the stress in the corporate sector, has to be dealt with in order to revive credit growth.

The evolving framework for the domestic financial system needs to ensure efficient risk sharing, intermediation, as also effective transmission of monetary policy signals. Accordingly, this issue of the Financial Stability Report brings out a thematic discussion on 'banks versus markets' as we move towards a structure for the financial sector that best serves the real sector.

Against this backdrop, the Report presents the qualitative and quantitative assessment of the domestic financial system with regard to its strengths, weaknesses and resilience, and focuses on some topical issues.

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