

Contents

	Page No.
Foreword	
List of Select Abbreviations	i-ii
Overview	1
Chapter I : Macro-Financial Risks	3
Introduction	3
Global Backdrop	4
Macrofinancial Developments and Outlook	4
Capital Flows and Exchange Rate Volatility	11
COVID-19 and Impact on Asset Quality of Banks	12
London Inter Bank Offered rate (LIBOR) Transition	14
Commodity Markets	15
Domestic Macrofinancial Risks	18
Public Finances	18
Developments in Government Securities and Fixed Income Derivatives Markets	20
Corporate Sector	22
Developments in External Sector and Foreign Exchange Derivative Market	23
Developments in Debt Mutual Funds (MFs)	25
Valuation of Perpetual Bonds	26
Banking Stability Indicator	28
Bank Credit	28
Wholesale Bank Credit	29
Bank Credit to MSME Sector	32
Bank Credit to NBFCs/HFCs	33
Heterogeneity in Credit Exposures across PVBs	34
Liquidity Risk in the Banking Sector	35
Consumer Credit	35
Housing Market	37
Systemic Risk Survey	38
Chapter II : Financial Institutions: Soundness and Resilience	40
Introduction	40
Scheduled Commercial Banks	41
Asset Quality and Capital Adequacy	44
Sectoral Asset Quality	46
Credit Quality of Large Borrowers	47

	Page No.
Resilience – Macro Stress Tests	49
Sensitivity Analysis	51
Bottom-up Stress Tests: Credit, Market and Liquidity Risk	57
Bottom-up Stress Tests: Derivatives Portfolio	59
Scheduled Primary (Urban) Cooperative Banks	60
Stress Test – Credit Risk	60
Stress Test - Liquidity Risk	60
Non-banking Financial Companies (NBFCs)	61
Stress Test – Credit Risk	61
Interconnectedness	62
Network of the financial system	62
Contagion Analysis	69
Chapter III: Regulatory Initiatives in the Financial Sector	72
Introduction	72
Global Regulatory Developments and Assessments	72
Regulatory Restrictions on Dividend Distribution - Calibrated Normalisation	73
Banking Sector Liquidity	73
Reform in Non-bank Financial Intermediation	73
COVID-19-related Loan Loss Provisioning by Banks	74
Operational Risk in Banks	74
Other International Regulatory Developments	74
Insurance Sector	75
Central Bank Digital Currency	75
Domestic Regulatory Developments	75
Initiatives from Regulators/Authorities	75
Credit Related Measures	75
Development of the Credit Risk Market	76
Pre-Packaged Insolvency For MSMEs	76
Bad Bank	77
Customer Protection	77
Centralised Payment Systems – Permitting Membership to Non-bank Entities	77
Innovation through Regulatory Sandbox	77
Strengthening of Cyber Security Preparedness in Supervised Entities	78
Amalgamation of Urban Co-operative Banks	78

	Page No.
Other Developments	78
Deposit Insurance	78
Corporate Insolvency Resolution Process (CIRP)	80
Mutual Funds	80
Capital Mobilisation - Equity and Corporate Bonds	81
Credit Ratings	82
Commodity Derivatives Market	82
Insurance	84
Pension Funds	85
International Financial Services Centres Authority (IFSCA)	85
Annex 1: Systemic Risk Survey	86
Annex 2: Methodologies	93
Annex 3: Important Regulatory Measures	106
 LIST OF BOXES	
1.1 Climate Change and Financial Stability: A Perspective	16
 LIST OF CHARTS	
1.1 Global Purchasing Managers' Indices	5
1.2 Baltic Dry Index	5
1.3 Banks' Loan Loss Provisions	8
1.4 Profitability and Capital Ratios of Banks	8
1.5 Equity Prices and CDS spreads	9
1.6 Global Debt	11
1.7 Total Portfolio Flows into Emerging Market Economies	11
1.8 Emerging Market Economies' Bond Portfolio Returns	11
1.9 JPY USD Cross Currency Basis Swaps	12
1.10 EURO USD Cross Currency Basis Swaps	12
1.11 Brent Crude Spot and Futures - Price Trends	15
1.12 Movement in Commodity Indices	15
1.13 FAO Monthly Food Price Index	16
1.14 Yield Curve Shifts between September 2020 and December 2020 / May 2021	20
1.15 Smoothened Government Securities and Overnight Index Swap (OIS) Turnover	20
1.16 Price Impact of ₹25 crore buy and sell order in 10-year benchmark	20
1.17 Spread between 3-month Unsecured and Risk-free Rate	21
1.18 Spread between 3-month Risk-free rate and OIS	21
1.19 Slope of Risk-free and OIS Curves	21

	Page No.
1.20 Non-bank PDs' median risk limit utilisation (as a per cent of portfolio) and aggregate quarter end portfolio holdings	21
1.21 Sales of Listed Non-financial Private Companies – Growth (y-o-y)	22
1.22 Operating Profit Margin – Listed Non-financial Private Companies	22
1.23 Leverage, Fixed Assets and Cash Holdings of Listed Non-financial Private Companies – Growth (y-o-y)	22
1.24 Foreign portfolio investment (FPI) flows	23
1.25 India's Balance of Payments	23
1.26 Exchange Rate Movements and Volatility	24
1.27 Deliverable and Non-deliverable Daily Forward Trade Turnover	24
1.28 Offshore outstanding forwards at month ends	24
1.29 MIFOR-OIS spread of key tenors	25
1.30 Open-ended Debt Fund AUMs	25
1.31 MFs' Investment in G-Sec/T-Bills/ CBLO and Spread Products	25
1.32 Excess Returns in Money Market Funds	25
1.33 Evolution of Price of AT-1 and Tier-2 Instruments	27
1.34 Evolution of Yield of AT-1 and Tier-2 Instruments	27
1.35 Yield Differential between AT-1 Bonds of a PSB and PVB	28
1.36 Banking Stability Map	28
1.37 Credit growth in SCBs	29
1.38 Long term Loan ratings and Number of Obligors	31
1.39 Exposure distribution of Non-PSU Non-Financial Obligors	31
1.40 Loan Origination to Stressed MSMEs	33
1.41 Balances of Stressed MSMEs	33
1.42 Outstanding Funded Exposure of the Banking Sector to Private NBFCs/HFCs	34
1.43 Average Risk-weighted Assets (RWA) of Old and New PVBs	34
1.44 Interest Rate Movements - Old and New PVBs	35
1.45 Cash Inflows from Retail and Small Business Counterparties	35
1.46 Inquiry Volumes by Lender Category	36
1.47 Inquiry Volumes by Product	36
1.48 Approval Rates by Lender Category	36
1.49 Inquiry Volumes by Risk Tier	36
1.50 Growth in Outstanding Balances by Lender Category	37
1.51 House Launches and Sales	37
1.52 Unsold Inventory and Inventory Overhang	38
2.1 Select Performance Indicators	42
2.2 Select Asset Quality Indicators	45
2.3 Sectoral Asset Quality Indicators	47

	Page No.	
2.4	Select Asset Quality indicators of Large Borrowers	48
2.5	Macroeconomic Scenario Assumptions – FY:2021-22	49
2.6	Projection of SCBs' GNPA Ratios under Stressed Scenarios	50
2.7	CRAR Projections under Stressed Scenarios	50
2.8	Projection of CET-1 Capital Ratio under Stressed Scenarios	51
2.9	Credit Risk - Shocks and Outcomes	52
2.10	Credit Concentration Risk: Individual Borrowers' Exposure	53
2.11	Credit Concentration Risk: Group Borrowers' Exposure	53
2.12	Credit Concentration Risk: Individual Borrowers' Stressed Advances	54
2.13	Trading Book Portfolio: Bank-group wise	54
2.14	Yield Curves and Shift in Yields across tenors since September 2020	55
2.15	HTM Portfolio – Composition	56
2.16	HTM Portfolio – Unrealised Gains as on March 31, 2021	56
2.17	Equity Price Risk	57
2.18	Liquidity Risk – Shocks and Outcomes	57
2.19	Bottom-up Stress Tests – Credit and Market Risks – Impact on CRAR	58
2.20	Bottom-up Stress Tests – Liquidity Risk	58
2.21	MTM of Total Derivatives Portfolio – Select Banks – March 2021	59
2.22	Impact of Shocks on Derivatives Portfolio of Select Banks	59
2.23	Credit Risk in SUCBs	60
2.24	Credit Risk in NBFCs - System Level	61
2.25	Bilateral Exposures between Entities in the Financial System	62
2.26	Network Plot of the Financial System - March 2021	63
2.27	Net Receivables (+ve) / Payables (-ve) by Institutions	63
2.28	Inter-bank Market	64
2.29	Different Bank Groups in the Inter-Bank Market – March 2021	64
2.30	Composition of Fund based Inter-Bank Market	64
2.31	Network Structure of the Indian Banking System (SCBs + SFBs+ SUCBs) – March 2021	65
2.32	Connectivity Statistics of the Banking System (SCBs)	66
2.33	Gross Receivables of AMC-MFs from the Financial System	66
2.34	Gross Receivables of Insurance Companies from the Financial System	67
2.35	Gross Payables of AIFs to the Financial System	67
2.36	Gross payables of NBFCs to the Financial System	68
2.37	Gross payables of HFCs to the Financial System	68
2.38	Contagion Impact of Macroeconomic Shocks (Solvency Contagion)	71
3.1	Resource Mobilisation by Mutual Funds and AUM	81

	Page No.	
3.2	Listed Debt Issues by Rating Actions	82
3.3	Distribution of Rating Downgrades- Sector wise	82
3.4	Domestic and International Commodity Futures Indices	82
3.5	Movement in Select Sectoral indices in Commodity Derivatives	83
3.6	Snapshot of Commodity Derivatives Turnover at Exchanges	83
3.7	New Business Premium Growth – Life Insurance	84
3.8	Growth in Total Premia – Life Insurance	84
LIST OF TABLES		
1.1	Growth Projections for 2021 and 2022	6
1.2	Channels for Policy Measures to Support Bank Lending	7
1.3	General Government Fiscal Balance and Gross Debt, 2019-22	10
1.4	Default Rate by Country of Counterparty for EU IRB Banks – Corporate Obligors	12
1.5	Default Rate by Country of Counterparty for EU IRB Banks – Retail Obligors	13
1.6	Adjusted probability of default (PD) by Country of the Counterparty for EU IRB Banks - Corporate Obligors	13
1.7	Adjusted probability of default (PD) by Country of the Counterparty for EU IRB Banks - Retail Obligors	14
1.8	Percentage DV01 contributed by RFRs - Currency wise	14
1.9	Percentage DV01 contributed by RFRs for tenors greater than 2 years - Currency wise	15
1.10	Fiscal Indicators	18
1.11	Market Borrowings by the Central and State Governments	18
1.12	Central Government Securities and State Development Loans – Key Investor Profile	19
1.13	Change in Holdings of G-Secs and SDLs, H2: 2020-21	19
1.14	Bank-group wise increase in HTM holdings, H2: 2020-21	19
1.15	Glide Path for Valuation	26
1.16	Sectoral share in credit by SCBs	28
1.17	Aggregate Mobilisation of Funds	29
1.18	Growth in Wholesale Credit to Companies	30
1.19	Growth in Wholesale Credit to Non-PSU Obligors	30
1.20	Growth in Wholesale Credit to Non-PSU Non-financial Obligors	30
1.21	SMA Transition Matrix for Wholesale Portfolio of a Constant Sample of Non-PSU Non-Financial Obligors between September 2020 and April 2021	31
1.22	Growth in Bank Credit to MSME sector - March 2021	32
1.23	Restructuring of MSME portfolios – Bank Group wise	32
1.24	SMA Distribution of MSME Portfolio – Bank Group wise	32
1.25	Borrower Transition Matrix	33

	Page No.	
1.26	Asset Growth: Old and New PVB Cohorts	34
1.27	Growth in Credit Active Consumers (number) by Product Type	36
1.28	Score Migration for Risk Categories	37
1.29	Delinquency Rates in Aggregate Consumer Credit	37
2.1	Stress Test Results of COVID-19 pandemic by Central Banks	40
2.2	Growth in New Loans by SCBs: Economic Sectors and Organisations	44
2.3	Decline in System Level CRAR	54
2.4	Tenor-wise PV01 Distribution of AFS Portfolio	55
2.5	OOI- Profit/(loss) on Securities Trading	55
2.6	Tenor-wise PV01 Distribution of HFT portfolio	55
2.7	Interest Rate Risk – Bank-groups - Shocks and Impacts	56
2.8	Asset Quality and CRARs of NBFCs	61
2.9	Contagion Losses due to Bank failure – March 2021	69
2.10	Contagion Losses due to NBFC failure – March 2021	70
2.11	Contagion Losses due to HFC failure – March 2021	70
3.1	Corporate Insolvency Resolution Process	79
3.2	Sectoral Distribution of CIRPs as on March 31, 2021	79
3.3	CIRPs Ending with Orders for Liquidation till March 31, 2021	80
3.4	Outcome of CIRPs, initiated Stakeholder-wise, as on March 31, 2021	80
3.5	SIPs in 2020-21	81
3.6	Capital/Debt Mobilisation modes	81
3.7	Segment-wise aggregate turnover (Futures + Options) in Commodity Derivatives	83
3.8	Business in COVID-19-specific Insurance Products	84
3.9	Subscriber and AUM Growth: NPS and APY	85