Foreword

The world has traversed through multiple high impact shocks over the past four years. The overall international outlook is still shrouded by uncertainty. The balance of risks for global financial stability, however, has improved since the last issue of the Financial Stability Report (FSR) in December 2023. The risks of a hard landing for the global economy have abated, even though progress in disinflation has been slow and world trade continues to face fragmentation and realignment of supply chains. Financial markets have been adjusting to these shifts, including pivots in monetary policy stances of certain central banks.

In this environment, the global financial system faces major risks which include alarming levels of public debt; stretched asset valuations; increasing economic and financial fragmentation; frequent geopolitical conflicts; and risks associated with financial technologies and climate change.

Amidst these headwinds, the Indian economy is exhibiting strength and resilience, with strong macroeconomic fundamentals and buffers. Economic activity is expanding at a steady pace, with the financial system being stronger and more vibrant than what it was before the onset of the recent period of crises. Our approach of balancing growth and stability, with willingness to take proactive and prudent actions to prevent accumulation of risks, is promoting long-term resilience and stability of the financial system. It is vital that we consolidate these gains and nurture a financial system that is future ready and supports the needs of India's growing economy. Furthermore, as India's contribution to global growth rises, our financial system must also modernise and deepen as it prepares to go more global.

This issue of the FSR highlights the strengthening of balance sheets of financial institutions with low levels of impairments, robust earnings and strong buffers that render the financial system resilient to shocks. The results of stress tests demonstrate that capital levels of banks and non-banking financial companies (NBFCs) will remain above the regulatory minimum even under severe stress scenarios.

Even in this stable environment, we are watchful of the emerging risks, including those from cyber hazards, climate change and global spillovers. The highest priority must be assigned to governance – strong governance is at the core of resilience of stakeholders in the financial system.

The regulators, including the Reserve Bank, remain committed to promote innovation, financial inclusion, efficient payment and settlement systems, and a robust financial system. New technologies offer gains in efficiency and customer experience, but they can also bring with them sudden and widespread disruptions to the financial system. This requires that all stakeholders not only invest adequately to take full advantage of technological advancements, but also take steps to safeguard the security and soundness of their systems.

Efforts must be made to develop an ecosystem that puts the interests of the customer at the forefront. Ultimately, preserving the trust of the customer is the cornerstone of safeguarding systemic stability.

Today, the matrix of financial stability is perhaps at its best, but the real challenge is to maintain it and improve upon it further. The regulators, on their part, remain committed to these goals. We are focused on having in place an ecosystem that is adaptive and proactive in safeguarding the stability of the financial system.

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Governor

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