

Financial Stability Report

Financial Stability Report (FSR) is a biannual report released by the Reserve Bank of India (RBI). The 20th FSR report was released in December 2019. The Report discusses issues relating to development and regulation of the financial sector.

The FSR reflects the collective assessment of the Sub-Committee of the Financial Stability and Development Council (FSDC) on risks to financial stability, as also the resilience of the financial system. As per the report the country's financial system remains stable despite weakening domestic growth despite the risks from global economic uncertainties and geo political developments.

Financial Institutions: Performance and Risks

Banks

1. Credit growth of Private banks is in double digit at 16.5%
2. Credit growth of Scheduled Commercial Banks (SCB) has slowed at 8.7%
3. Gross Non Performing Assets (GNPA) of Scheduled Commercial Banks remained unchanged at 9.3% between March and September 2019.
4. Provision Coverage Ratio (PCR) of all Scheduled Commercial Banks rose to 61.5%. It is an indicator of resilience of the Banking sector.
5. There is improvement in capital adequacy in state run lenders after recapitalisation.
6. The size of the inter-bank market continued to shrink.
7. Reduction in the contagion losses of the banking sector due to better capitalisation of Public Sector Banks (PSB's) and reduction in inter-bank market.

Non Banking Finance Companies (NBFC's) and Housing Finance Companies (HFC's)

1. The above two are relying more on long term bank loans for their funding.
2. Bad loan ratio of NBFC's increased.
3. Mutual Funds reduced their investment in commercial papers

Increase in Fraud Reporting

1. 21 fraud cases reported were above Rs 1000 crores. It was reported in the 1st half of 2019-20.

2. Total Fraud reported was worth Rs 1.13 lakhs.

Financial Sector: Regulations and Developments

1. The Insolvency and Bankruptcy Board of India (IBBI) is making steady progress in the resolution of stressed assets.
2. Insurance Regulatory and Development Authority (IRDA) has taken initiatives for strengthening corporate governance.
3. More citizens have been brought under Pension net by the Pension Fund Regulatory and Development Authority.
4. For development of payment infrastructure, to improve banks governance culture, for resolution of stressed assets RBI has initiated measures to introduce liquidity management regime.

Major Causes of Significant Slowdown in Global Growth

As per the report following causes are contributing factors to the slowdown in global growth.

1. Trade tensions
2. Delay in Brexit deal
3. Oil Market Disruptions
4. Geo-Political Risks
5. Impending Recession

Domestic Macro-Financial Risks

1. Reduction in aggregate demand in Quarter 2 of 2019-20.
2. Outlook for capital inflows appears positive.
3. Due to sustained global slowdown exports from India could be impacted.
4. Current Account Deficit would be under control due to muted energy price outlook

Major Challenge for Domestic Economy

Reviving the twin engines of

- 1. Consumption**
- 2. Investment**

The above factors have played a significant role in dampening the business sentiment and consumer confidence.

