Financial Stability Report (FSR) 2020 & 2019 - An Overview of Biannual RBI Report

Financial Stability Report (FSR) is a biannual report released by the Reserve Bank of India (RBI). The 21st FSR was released in July 2020 and the 20th FSR was issued in December 2019. The Report discusses issues relating to the development and regulation of the financial sector.

Financial Stability Report 2020

On July 24, 2020, the Reserve Bank of India released the 21st Issue of the Financial Stability Report (FSR). A collective assessment of the Sub-Committee of the Financial Stability and Development Council (FSDC) works this report.

In response to the outbreak of the Novel Coronavirus in India in the year 2020, a combination of fiscal, monetary and regulatory interventions on an unprecedented scale ensured normal functioning of financial markets.

Global Economic prospects faced a downfall in the first half of the year due to the pandemic.

Given below is an overview of the Financial Stability Report 2020. IAS Exam aspirants can refer to the following important points regarding the report:

- **Macro-Financial Risks**
    - The discovery of a vaccine shall impact the further development of financial markets
    - Global geopolitical tensions, overleveraged non-financial sectors, the ongoing losses of jobs and incomes impart heightened uncertainty to the outlook
- Credit growth of Scheduled Commercial Banks slid down to 5.9% by March 2020
- The capital to risk-weighted assets ratio (CRAR) of Scheduled Commercial Banks slid down to 14.8% in March 2020
- The gross non-performing assets (GNPA) ratio fell to 8.5%
- Overall provision coverage ratio (PCR) increased from 61.6% to 65.4%
- **Non-Banking Finance Companies (NBFC's) and Housing Finance Companies (HFC's)**
    - Asset Management Companies/Mutual Funds (AMC-MFs) were the biggest fund providers in the system
    - NBFCs and HFCs were the biggest fund receivers in the system
- To maintain market integrity and resilience in the face of severe risk aversion by market participants during the lockdown, major regulatory measures were taken up by the authorities
- According to the latest systemic risk survey, all major risk groups, viz., global risks, risk perceptions on macroeconomic conditions, financial market risks and institutional positions were perceived as 'high', affecting the financial system.
- Among macroeconomic risks, risks to domestic growth and fiscal housekeeping were perceived to be 'very high', while risks on account of reversal/slowdown in capital flows, corporate sector vulnerabilities, real estate prices and household savings were perceived to be 'high'
- Major Causes of Significant Slowdown in Global Growth
    - The biggest reason was the COVID-19 lockdown which massively slowed down the economic growth
    - Geo-Political Risks

- Trade tensions

Financial Stability Report 2019

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. The sturdiness of the Banking sector can be assessed by looking at the Provision Coverage Ratio (PCR) of all SCB's which rose to more than 60%.
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 the 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. To make corporate governance stronger the Insurance Regulatory and Development Authority (IRDA) has undertaken various measures.
3. For the development of payment infrastructure, to improve banks governance culture, for resolution of stressed assets RBI has initiated measures to introduce liquidity management regime.
4. More citizens have been brought under Pension net by the Pension Fund Regulatory and Development Authority.

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 business sentiment and consumer confidence.