RBI's Financial Stability Report

Why in news?

RBI released the 25th issue of the Financial Stability Report (FSR), which reflected the collective assessment on risks to financial stability and the resilience of the financial system.

What is Financial Stability Report about?

- The Financial Stability Report (FSR) is published twice each year by the RBI.
- It presents an assessment of the health of the financial system.
- It details the current status of different financial institutions such as all the different types of banks and non-banking lending institutions.
- It also maps the state of credit growth and the rate at which borrowers are defaulting on paying back loans.
- The RBI looks at the state of both the global as well as domestic economy and conducts certain tests to figure out how different variables may be affected if the economy does not grow as anticipated.
- The RBI conducts a **Systemic Risk Survey (SRS)** to assess the financial system on five different types of risks — global, financial, macroeconomic, institutional and general.

The Global Financial Stability Report (GFSR) is a semiannual report by the International Monetary Fund (IMF) that assesses the stability of global financial markets and emerging-market financing.

What are the key takeaways from the RBI’s recent FSR 2022?

- **Global growth-** The outlook for the global economy is covered by uncertainty on account of the war in Ukraine, elevated commodity prices, supply chain disruptions and darkening growth prospects.
- Stagflation risks are mounting for emerging and advanced economies alike as tightening financial conditions threaten to prevent the pace of growth with inflationary pressures.
- **Domestic economy and markets**- In the Indian economy, high-frequency indicators point to a gradual but unevenly strengthening recovery in the first quarter of 2022-23.
- Bank credit growth is showing signs of gradual recovery while Non-banking financial companies (NBFCs) remain well capitalized.
- **Financial Institutions**- The Capital to Risk Weighted Assets Ratio (CRAR) and Common Equity Tier 1 Ratio of Scheduled commercial banks (SCBs) are as high as 16.7% and 13.6%, respectively in March 2022 improving returns on assets (RoA) and returns on equity (RoE).
- SCBs’ gross non-performing assets (GNPA) ratio slipped to a six-year low of 5.9% and net non-performing assets (NNPA) ratio fell to 1.7% in March 2022.
- The provisioning coverage ratio (PCR) increased to 70.9% in March 2022 from 67.6% in March

2021.

- The stress test results reveal that the SCBs are well-capitalised and capable of absorbing macroeconomic shocks even in the absence of further capital infusion.
- **Assessment of Systemic Risk**- In the latest systemic risk survey (SRS) conducted by the RBI, global spillovers and financial market volatility moved to the 'high' risk category.
- Macroeconomic, institutional and general risks were perceived as 'medium'.
- **Disconnect between real economy and India's equity markets-** Lifted by the bull run in equity markets across the globe, the Indian equity market surged on strong rallies with intermittent corrections.
- **Crypto and cyber risks**- The report describes some emerging risks to financial stability emanate from cryptocurrencies (although limited as the overall size is 0.4% of global financial assets) and cyber risks that requires special attention.

References

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