

All Members,

RBI releases Financial Stability Report- December 2018

India's financial system remains stable and the banking sector shows signs of improvement, even though the global economic environment and the emerging trends in financial sector pose challenges.

The Reserve Bank of India has released the eighteenth issue of the Financial Stability Report (FSR). 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. The Report also discusses issues relating to development and regulation of the financial sector.

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Global and domestic macro-financial risks

- The global growth outlook for 2018 and 2019 remains steady although the underlying downside risks have risen.
- Spill-over risk to emerging economies engendered by tightening of financial conditions in Advanced Economies, protectionist trade policies and global geopolitical tension has significantly increased.
- The gradual monetary policy normalisation in advanced economies (AEs) as also the uncertainty in global trade regime may adversely affect capital flows to emerging markets (EMs) and exert upward pressure on EM interest rates and corporate spreads.
- On the domestic front, growth of gross domestic product (GDP) showed slight moderation in Q2:2018-19 while inflation remains contained.
- In domestic financial markets, structural shifts in credit intermediation and the evolving interconnectivity between banks and the non-banks call for greater vigilance.

Financial Institutions: Performance and risks

- Credit growth of scheduled commercial banks (SCBs) has improved between March 2018 and September 2018, driven largely by private sector banks (PVBs).
- The asset quality of banks showed an improvement with the gross non-performing assets (GNPA) ratio of SCBs declining from 11.5 per cent in March 2018 to 10.8 per cent in September 2018.
- Under the baseline scenario, GNPA ratio may decline from 10.8 per cent in September 2018 to 10.3 per cent in March 2019.

- Analysis of the financial network structure for the period September 2017 - September 2018 reveals a shrinking inter-bank market and increasing bank linkages with asset management companies-mutual funds (AMC-MFs) for raising funds and with NBFCs/Housing Finance Companies (HFCs) for lending.

Please find enclosed Financial Stability Report- December 2018 released by RBI for your kind reference.

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Warm Regards,

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