



Financial Stability Report : RBI

The [Reserve Bank of India](#) has released the 19th issue of the [Financial Stability Report \(FSR\)](#).

- The report assessed that India's financial system remains stable in the backdrop of improving resilience of the banking sector. However, the emerging trends in the global economy and geopolitical environment pose challenges.

Major Global and Domestic Macro-Financial Risks

- Lower global growth forecast by international institutions like [World Bank](#) and [IMF](#).
- Adverse geopolitical developments and [trade tensions](#).
- Eased monetary policy stance undertaken by the central banks of Advanced economies' (AEs) and the need for emerging and developing economies to adjust to it.
- Subdued new investment.
- A widening [current account deficit](#).
- The challenge of reviving private investment demand while being vigilant about the spillover from global financial markets.

Financial Institutions: Performance and Risks

- Credit growth of scheduled commercial banks (SCBs) picked up, with public sector banks (PSBs) registering near double digit growth.
- Capital adequacy of the SCBs improved after the recapitalisation of PSBs. [The non-performing asset \(NPA\) cycle](#) seems to have turned around.
- **Provision coverage ratio (PCR)** of all SCBs rose sharply to 60.6% in March 2019 from 52.4% in September 2018, increasing the resilience of the banking sector.

Provision coverage ratio (PCR)

- The Provisioning Coverage Ratio is the percentage of bad assets that the bank has to provide for from their own funds. In other words, it is the ability of banks to service its debt and meet its financial obligations such as interest payments or dividends.
- The higher the coverage ratio, the easier it is to make interest payments on debt or pay dividends.
- Recent [developments in the Non-banking financial companies \(NBFC\)](#) sector have brought the sector under greater market discipline.
- There is need for greater surveillance over large [Housing Finance Companies \(HFCs\)](#) or NBFCs, as the failure of such companies can cause losses comparable to those caused by the big banks.

Financial Sector: Regulation and Developments

- In order to finetune the supervisory mechanism for the banks, the Reserve Bank has recently reviewed the structure of supervision in the context of the growing diversity, complexities and interconnectedness within the Indian financial sector.
- The [revised prudential framework on stressed assets](#) issued by the Reserve Bank further incentivize early adoption of a resolution plan.

- To further **enhance the quality of disclosures made by Credit Rating Agencies (CRAs)** and strengthen the rating framework, the **Securities and Exchange Board of India (SEBI)** has introduced Guidelines for Enhanced Disclosures by CRAs.
- To provide flexibility to pension funds to improve fund performance depending on market conditions, the **Pension Fund Regulatory and Development Authority (PFRDA)** amended the investment guidelines.
- The **Insolvency and Bankruptcy Board of India (IBBI)** is showing steady progress in the resolution of stressed assets.

PDF Refernece URL: <https://www.drishtiiias.com/printpdf/financial-stability-report-rbi>

