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RBI's Financial Stability Report[1]

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Abstract

The report expects improvement in the trajectory of global GDP. Medium term outlook remains chalenging with downside risk from possible intensification of geopolitical conflicts, sporadic financial market turmoil, extreme climate events and rising indebtness. The near term risks have receded, vulnerabilities such as streched asset valuations, high public debt, prolonged geopolitical risk and risk from emerging technologies pose threat to financial stability in near term. Network analysis indicates that total outstanding inlateral exposures in financial institutions is expanding with SCB being the largest. Repondents express confidence in domestic financial system stability and assessed geopolitical conflicts, evolution of global growth, inflation and capital outflows, rupee depreciation as major near term risk. India's banking and financial system is resilent and has shown robustness given global and domestic challenges.

JEL Code : E44, E52, E58, G2, G21, G28
Keywords : RBI; Financial Stability; Public Debt; Technology; SCB; Conflict; Turmoil; Risk; India

I. Introduction

AS THE YEAR 2024 draws to a close and a new year dawns, the global economy exhibits resilience in the face of formidable headwinds from political and economic policy uncertainty, persisting conflicts and an environment of fragmenting international trade and tariffs. Brightening the global prospects is the likelihood that the decline in inflation will continue and align with targets during the year ahead, allowing purchasing power to recover. As monetary policy gains headroom to further support economic activity, financial conditions can be expected to remain easy and contribute to an improvement in the trajectory of global GDP from a prolonged phase of low growth. Robust labour market and sound financial system too provide congenial conditions for this turnaround.

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2.5 *Assessment of Systemic Risk*

In the latest round of the systemic risk survey (SRS) carried out in November 2024, respondents categorised all major risk groups in the 'medium' risk category. Majority of respondents expressed confidence in domestic financial system stability and assessed geopolitical conflicts, evolution of global growth and inflation, and capital outflows/ rupee depreciation as major near-term risks. Nearly 95 per cent of the respondents perceived 'medium' to 'limited' near-term impact of global spillovers on domestic financial stability. 60 per cent of the respondents assessed better or similar prospects for the Indian banking sector over a one-year horizon.

III. Key Highlights

The Reserve Bank December 2024 issue of the FSR reflects the collective assessment of the Sub-Committee of the Financial Stability and Development Council (FSDC) on the resilience of the Indian financial system and risks to financial stability of India as

i. The global economy and the financial system remain resilient. While near-term risks have receded, vulnerabilities such as stretched asset valuations, high public debt, prolonged geopolitical conflicts and risks from emerging technologies pose medium term risks to financial stability.
ii. Indian economy and domestic financial system are underpinned by strong macroeconomic fundamentals, healthy balance sheets of banks & non-banks.
iii. The soundness of scheduled commercial banks (SCBs) has been bolstered by strong profitability, declining non-performing assets and adequate capital and liquidity buffers. Return on assets (RoA) and return on equity (RoE) are at decadal highs while the gross non-performing asset (GNPA) ratio has fallen to a multi-year low.
iv. Macro stress tests demonstrate that most SCBs have adequate capital buffers relative to the regulatory minimum even under adverse stress scenarios. Stress tests also validate the resilience of mutual funds and clearing corporations.
v. Non-banking financial companies remain healthy with sizable capital buffers, robust interest margins & earnings and improving asset quality.
vi. The consolidated solvency ratio of the insurance sector also remains above the minimum threshold limit.

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