

RBI's Financial Stability Report

January 4, 2022

In news- The RBI released the 24th Financial Stability Report (FSR) recently.

What is the Financial Stability report (FSR)?

- The FSR **published twice each year** reflects the collective assessment of the sub-committee of the Financial Stability and Development Council (FSDC) on risks to financial stability and the resilience of the financial system.
- It includes contributions from all the financial sector regulators.
- In other words, 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.
- To arrive at these conclusions, the RBI looks at the state of both the global as well as domestic economy.

Key highlights of the recent report-

- The **global economic recovery has been losing momentum in the second half of 2021** in the face of resurfacing COVID-19 infections, the new variant **Omicron**.
- **On the domestic front, progress in vaccination has enabled the recovery** to regain traction after the debilitating second wave of the pandemic, notwithstanding signs of slowing pace more recently.
- The corporate sector is gaining strength and bank credit growth is improving.
- **The capital to risk-weighted assets ratio (CRAR) of**

scheduled commercial banks (SCBs) rose to a new peak of 16.6 percent and their provisioning coverage ratio (PCR) stood at 68.1 per cent in September 2021.

- **Macro stress tests for credit risk indicate that the gross non-performing asset (GNPA) ratio of SCBs may increase from 6.9 percent** in September 2021 to 8.1 percent by September 2022.
- SCBs would, however, have sufficient capital, both at the aggregate and individual levels, even under stress conditions.
- **Emerging signs of stress in micro, small and medium enterprises (MSME) as also in the microfinance** segment call for close monitoring of these portfolios going forward.
- The report further noted that **financial institutions in India have remained resilient amidst the pandemic** and stability prevails in the financial markets, cushioned by policy and regulatory support.