

## Foreword

**T**he Financial Stability Report (FSR) reflects the collective assessment and view of the Sub Committee of the Financial Stability and Development Council (FSDC), on the current stability of, and systemic risks facing, the Indian financial system in the context of the prevailing global economic and financial environment. The ninth issue of the FSR is coming out during a period when global financial markets are showing signs of improved stability as compared to the period of release of the last issue of FSR in December 2013. Nevertheless new risks such as the escalating conflict in Iraq are constantly emerging.

The report, essentially, analyses the risks faced by the financial system in both global and domestic environment, with specific reference to various segments of the Indian Financial System. An attempt has been also made to assess the soundness and resilience of the financial institutions through banking stability measures. Further, the report gives an overview of financial sector regulation and infrastructure. The report also reflects the views and assessment of various regulators and stake holders of the Indian Financial System.

Economic growth in advanced economies is still some distance from a full fledged recovery, even as the easy monetary policy stance continues in major jurisdictions, in one form or another. Emerging geo-political risks may unravel hidden vulnerabilities and emerging market and developing economies (EMDEs) like India need to bolster their defences against the impact of uncertainties. The need for credible arrangements for international coordination on globally important monetary policy actions assumes even greater significance during such periods.

India's financial system remains stable, although the public sector banks (PSBs) face challenges in coming quarters in terms of their capital needs, asset quality, profitability and more importantly, their governance and management processes. While India remains committed to implement global regulatory reforms, priorities may differ as the Indian financial system faces a different set of challenges as compared to those jurisdictions which faced financial / banking crises. As hoped for in the previous FSR, the country has chosen a politically stable government. Markets expect more decisiveness in government policy formulation, as well as greater efficiency in implementation. Further progress on fiscal consolidation, a predictable tax and policy regime, and low and stable inflation rates will be the key anchors in promoting India's macroeconomic as well as financial stability.

**Raghuram G. Rajan**

Governor

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