

Foreword

We are now nearing two years of living with the pandemic. Many aspects of human life have been radically altered. The world has witnessed tragic loss of lives and livelihood, but we have also learnt a lot and adapted. In this period of swings between hope and despair, the indomitable human spirit has prevailed and humanity has undauntedly worked towards improving health and economic well being.

Across the world, economic activity has endured the waves of pandemic, buffered by exceptional policy support from governments, central banks and financial regulators. Challenges have also been brought on by sudden disruptions in supplies and logistics, shortages, job losses and destruction of businesses. The fallout of the pandemic on financial markets and institutions has been contained but the return to normalcy remains hesitant and uneven across regions and sectors.

After the destructive second wave of the pandemic in India in April-May 2021, which interrupted an economic recovery that was gaining a foothold in the second half of 2020-21, the Indian economy is regaining strength and resilience. Consumer confidence and business optimism are on the rise as the spread and scale of vaccination expands. The outlook is progressively improving, though there are headwinds from global developments and more recently from Omicron. Entrenching the recovery hinges on revival of private investment and shoring up private consumption, which remain below their pre-pandemic levels. Inflation remains a concern buffeted as it is by the build-up of cost-push pressures. Strong supply side measures to contain food and energy prices have, however, worked towards moderating these risks.

As highlighted in this issue of the Financial Stability Report, financial institutions in India have remained resilient amidst the pandemic and stability prevails in the financial markets, cushioned by policy and regulatory support. Balance sheets of banks remain strong and capital and liquidity buffers are being bolstered to mitigate future shocks, as reflected in the stress tests presented in this report. In the spectrum of financial markets that leverage on technology for their functioning, the need for robustness of infrastructure, data security and the soundness of rules and processes are of paramount importance, especially in the face of repeated and potentially crippling cyber attacks.

A strong, well-functioning and responsive financial sector fortifies the foundations of growth and the development of modern societies. While the pandemic induced bouts of volatility, spillovers and heightened uncertainty are challenging, the Indian financial system has stood up well and remains well prepared to meet the funding requirements of the economy. The process of capital augmentation and building up of liquidity buffers by financial entities through a combination of instruments is proceeding apace and needs to be sustained. The Reserve Bank of India remains resolute and committed in its endeavour to ensure a robust and efficient financial system that supports strong, sustainable and inclusive growth with macroeconomic and financial stability.

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Governor

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