प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
इ-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001
DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001
फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

June 28, 2012

RBI releases Financial Stability Report : June 2012

The Reserve Bank of India today released the fifth issue of the Financial Stability Report (FSR) against the backdrop of worrisome global and domestic macroeconomic developments. Through these half-yearly FSRs, the Reserve Bank attempts to share the results of its macro prudential surveillance with the market, to encourage debate and to create awareness of the vulnerabilities in the system and even to suggest prompt corrective action. As in the case of the previous FSRs, this issue of the Report reflects the collective assessment of the Sub Committee of the Financial Stability and Development Council (FSDC) on potential risks to financial stability.

Highlights:

(1) The financial system of the country remains robust despite increase in risks to stability primarily due to global risks and domestic macroeconomic conditions.

(Overview: Para 1)

(2) The Reserve Bank's second Systemic Risk Survey revealed concerns about the evolving global risks and a host of domestic factors. Respondents, however, remained confident about the stability of the domestic financial system.

(Overview: Para 2; Chapter 5:para 5.1 – 5.6)

(3) Risks to domestic growth are accentuated by fiscal and external sector imbalances. Inflationary pressures have moderated but inflation risks remain.

(Overview: Para 7-11; Chapter 1: para 1.7 – 1.30)

(4) Foreign exchange and equity markets have corrected and continue to experience heightened volatility.

(Overview: Para 12;14; Chapter 2: para 2.12 and 2.15))

(5) Banks remain resilient to credit, market and liquidity risks and would be able to withstand macroeconomic shocks, given their comfortable capital adequacy positions.

(Overview: Para 22; Chapter 3: Para 3.41-3.49; Chapter 5: Para 5.29-5.33)

(6) Asset quality concerns, however, persist and liquidity pressures have intensified. Credit and deposit growth in the banking sector have decelerated while banks' reliance on borrowed funds has increased.

(Overview: Para 16, 17; Chapter 3: Para 3.6-3.11;3.13-3.20)

(7) Distress dependencies between banks have risen. The analysis of the network of the Indian banking system reveals that the systemic importance of the 'most connected' banks has increased, warranting a closer monitoring of the banks.

(Overview: Para 18;Chapter 5: para 5.16-5.18 and para 5.22-5.28))

(8) The policy framework for reforms, started after the global financial crisis, has crystalised. Several countries have announced their respective national policy frameworks for implementation of the reforms, e.g. migration to Basel III. Differences between such policy frameworks have led to concerns about cross border consistency.

(Overview: Para 24; Chapter 4: 4.1-4.2)

(9) There could be unintended consequences of the implementation of the reform measures for emerging economies, like India, e.g. due to the deleveraging induced by the new capital and liquidity standards.

(Overview: Para 24; Chapter 4: 4.1-4.2)

(10) Banks in India will migrate to Basel III from a position of relative strength but there could be challenges in the form of higher cost of capital.

(Overview: 25; Chapter 4: para 4.3-4.5)

(11) The new Principles for Financial Market Infrastructure, issued by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO), propose stringent risk management requirements, which could necessitate a relook at the risk management practices of domestic central counterparties.

(Overview: 29; Chapter 4: para 4.36 –4.37)

(12) Clearing Corporation of India Limited (CCIL)'s financial resources and its liquidity as well as credit risk management framework needs to be fine-tuned to take cognisance of the significant un-collateralised intraday exposures to its designated settlement banks.

(Overview: Para 29; Chapter 4: para 4.25-4.28)

The next FSR is scheduled to be published in December 2012.

Alpana Killawala
Chief General Manager

Press Release : 2011-2012/2089