

Financial Stability Report

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Why in News?

- What's in today's article:
- About FSR (Purpose, Components, Significance, etc.)
- Key takeaways from latest FSR

Why in news?

- Recently, the Reserve Bank of India (RBI) released its biannual Financial Stability Report.
- As per the report, asset quality of the banking system has improved with Gross Non-Performing Assets (GNPA) ratio declining to the lowest in 7 years.

What is the Financial Stability Report?

- Financial Stability Report is released by the RBI twice a year.
- As the name suggests, details the state of financial stability in the country, and it is prepared after taking into account the contributions from all financial sector regulators.
- As part of the FSR, the RBI also conducts a Systemic Risk Survey (SRS), wherein it asks experts and market participants to assess the financial system on five different types of risks – Global, Financial, Macroeconomic, Institutional, General.

Significance

- Reading the FSR tells us how robust or vulnerable our financial system — especially our banking system — is to the changes in the economy.
- As a corollary, it also tells us whether and to what extent will our banks and other lending institutions (such as Non-Banking Finance Companies and Housing Finance Companies) be able to support future growth.
- For instance, if the FSR reveals that the percentage of NPAs or bad loans in the banking system is high and also shows that the government fiscal deficit is also high then it means that not only will the banks struggle to function effectively (and fund future growth) but also that if banks were to falter then the government may find it tough to bail them out.

Key Highlights of the Report

- **Gross NPA –**
 - Non-Performing Assets (NPA) are loans and arrears lent by banks or financial institutions whose principal and interests are delayed beyond 90 days.
 - As per the report, the **GNPA ratio has declined to a seven-year low of 5 per cent in September, 2022.**
 - The GNPA ratio estimate is based on the macro-stress test performed to assess the resilience of banks' balance sheets to unforeseen shocks.
- **Capital to Risk (Weighted) Assets Ratio –**
 - CRAR is the ratio of a bank's capital to its risk-weighted assets and current liabilities.
 - The higher a bank's CAR, **the more likely it is to be able to withstand a financial downturn or other unforeseen losses.**
 - As per the report, the **CRAR of 46 major banks is 15.8 per cent which is way higher than the minimum capital requirement which is 9 per cent.**
- **Performance of NBFCs –**

- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances.
 - As per the report, the NBFC sector too has recovered strongly in the wake of the second wave of Covid, with asset quality showing a continuous improvement.
 - **Financial Markets -**
 - As a result of the interplay of multiple shocks, financial conditions have tightened and there is a heightened volatility in the financial markets.
 - **Insurance Sector -**
 - For both life and non-life insurance companies, the consolidated solvency ratio remained above the prescribed minimum level.
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Q1) How many times a year is financial stability report released?

The Reserve Bank of India publishes a financial stability report twice a year.

Q2) What does a low capital to asset ratio mean?

A lower capital to asset ratio indicates that the company is using more debt to finance its assets. This makes the company riskier because it is more dependent on debt to finance its operations.

Source: [Banks Pass Rbi's Stress Tests On Low Bad Loans, Adequate Capital](#) | [Sansad TV](#)

Video: <https://www.youtube.com/watch?v=2ueP0iBA0Co>

Source: <https://vajiramandravi.com/current-affairs/financial-stability-report/>

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