

# FSDC for monitoring financial sector risks

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The Financial Stability & Development Council (FSDC), chaired by Finance Minister Nirmala Sitharaman, on Thursday highlighted the need to monitor financial sector risks and the steps needed to mitigate them at a time when interest rates are rising in many emerging and developed economies amid inflationary pressures.

“It was noted that there is a need to monitor the financial sector risks, the financial conditions, and market developments on a continuous basis by the government and the regulators so that appropriate and timely action can be taken so as to mitigate any vulnerability and strengthen financial stability,” said a statement from the government.

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rate increase in the US has led to outflows from the emerging markets. In India, the rupee has depreciated around 5 per cent this financial year and has prompted the Indian central bank to aggressively intervene in the foreign exchange market by selling dollars. As a result, the foreign exchange reserves have depleted by around \$50 billion in FY23 so far. Higher interest rates domestically could also mean a rise in bad loans for Indian banks, if risks



**(From left) RBI Governor Shaktikanta Das and Finance Minister Nirmala Sitharaman during a meeting of the FSDC in Mumbai on Thursday**

are not properly assessed. After peaking in March 2018, gross non-performing assets (NPAs) of Indian banks are declining which has now dropped below 6 per cent as on March 2022.

According to sources, the Council discussed several economic indicators, and on the need to look at anomalies if any.

An official aware of the discussions in the FSDC meeting said that while no specific financial system misdemeanour and governance issues were discussed, it is the endeavour of the regulators that some of the criminalities

that have taken place in the recent past do not occur again, like the National Stock Exchange colocation scam, and ways to deal with the fallout better. The official also said that regarding the early warning indicators of the economy, “it has been acknowledged that the Indian financial sector was very resilient during the Covid-19 pandemic. Steps have been taken to ensure this, and in the future as well, the financial system will have to be made

shock-proof to crises and black-swan events”.

Among other issues, the FSDC deliberated on the early warning indicators for the economy and preparedness to deal with them, the statement said. Some of the issues that were discussed were improving the efficiency of the existing financial/credit information systems, issues of governance and management in systemically important financial institutions, including financial market infrastructures. The meeting also discussed issues related to the strategic role of GIFT-IFSC in new Aatmanirbhar Bharat, inter-regulatory Issues of GIFT-IFSC, and need for utilisation of the services of registered valuers by all government departments.

Strengthening cyber security framework, common KYC for all financial services and related matters, update on account aggregator and next steps, issues relating to financing of Power Sector, were also deliberated. “The Council also took note of the preparation in respect of financial sector issues to be taken up during India’s G-20 Presidency in 2023,” the statement said.