Annex 1

Systemic Risk Survey

The systemic risk survey (SRS), the twelfth in the series, was conducted during April-May 2017[1] to capture the perceptions of experts, including market participants, on the major risks presently faced by the financial system. The survey results indicated that global risks were perceived as medium risks affecting the financial system. The risk perception on macroeconomic conditions, institutional positions and other general risks have also been categorised in the medium risk category in the current survey. Market risks, however, have been perceived to be in low risk category in this survey. Except the macro-economic risks, perception about other risks in this survey have increased as compared to the last survey (Figure A.1.1).

Within global risks, the risks on account of global growth, sovereign contagion and commodity prices remained as medium risk. In the last half-year, the risk of global slowdown receded considerably. Within the macroeconomic risks group, risks on account of domestic growth, domestic inflation, capital flows, corporate sector, pace of infrastructure development, real estate prices and household savings were considered to be in medium risk category in the current survey. According to the respondents the risk from corporate sector, infrastructure development and fiscal deficit moved to the lower category. The respondents have rated the foreign exchange risk, equity price volatility and interest rate risk under medium risk category as part of the financial market risks. Among the institutional risks, the asset quality of banks, risk on account of capital requirement, credit growth and cyber risk were perceived as high risk factors (Figure A.1.2).

Figure A.1.1: Major risk groups identified in systemic risk survey (April 2017)

Major Risk Groups	Apr-17	Changes	Oct-16
A. Global Risks		↑	
B. Macro-economic Risks		↓	
C. Financial Market Risks		↑	
D. Institutional Risks		↑	
E. General Risks		↑	

Note:

Risk Category

Very high	**High**	**Medium**	**Low**	**Very low**

Change in risk since last survey		
↑	↔	↓
Increased	Same	Decreased

The risk perception, as it emanates from the systemic risk survey conducted at different time points (on a half yearly basis in April and October), may shift (increase/decrease) from one category to the other, which is reflected by the change in colour. However, within the same risk category (that is, boxes with the same colour), the risk perception may also increase/decrease or remain the same, which has been shown by arrows. The shift in risk perception pertains to the comparative analysis of two consecutive surveys.

Source: RBI systemic risk surveys (April 2017 and October 2016) (Half-yearly).

[1] These surveys are conducted on a half-yearly basis. The first survey was conducted in October 2011.

Figure A.1.2: Various risks identified in systemic risk survey (April 2017)

Risk Groups	Risk Items	Apr-17	Changes	Oct-16
A. Global Risks	Global growth	Medium	⇩	Medium
	Sovereign risk / contagion	Medium	⇧	Medium
	Funding risk (External borrowings)	Low	⇩	Low
	Commodity price risk (including crude oil prices)	Medium	⇩	Medium
	Other global risks	Low	⇧	Very low
B. Macro-economic Risks	Domestic growth	Medium	⇧	Medium
	Domestic inflation	Medium	⇔	Medium
	Current account deficit	Low	⇩	Low
	Capital inflows/ outflows (Reversal of FIIs, Slowdown in FDI)	Medium	⇩	Medium
	Sovereign rating downgrade	Low	⇩	Low
	Fiscal deficit	Low	⇩	Medium
	Corporate sector risk	Medium	⇩	High
	Pace of infrastructure development	Medium	⇩	High
	Real estate prices	Medium	⇩	Medium
	Household savings	Medium	⇩	Medium
	Political uncertainty/ governance /policy implementation	Low	⇩	Low
	Other macroeconomic risks	Very low	⇧	Very low
C. Financial Market Risks	Foreign exchange rate risk	Medium	⇩	Medium
	Equity price volatility	Medium	⇩	Medium
	Interest rate risk	Medium	⇧	Medium
	Liquidity risk	Low	⇩	Low
	Other financial market risks	Very low	⇧	Very low
D. Institutional Risks	Regulatory risk	Medium	⇩	Medium
	Asset quality deterioration	High	⇩	High
	Additional capital requirements of banks	High	⇧	High
	Access to funding by banks	Medium	⇩	Medium
	Level of credit growth	High	⇧	High
	Cyber risk	High	⇧	High
	Operational risk	Medium	⇧	Medium
	Other institutional risks	Very low	⇧	Very low
E. General Risks	Terrorism	Medium	⇧	Medium
	Climate related risks	Medium	⇧	Medium
	Social unrest (Increasing inequality)	Medium	⇩	Medium
	Other general risks	Very low	⇧	Very low

Note:

Risk Category

Very high	**High**	**Medium**	**Low**	**Very low**

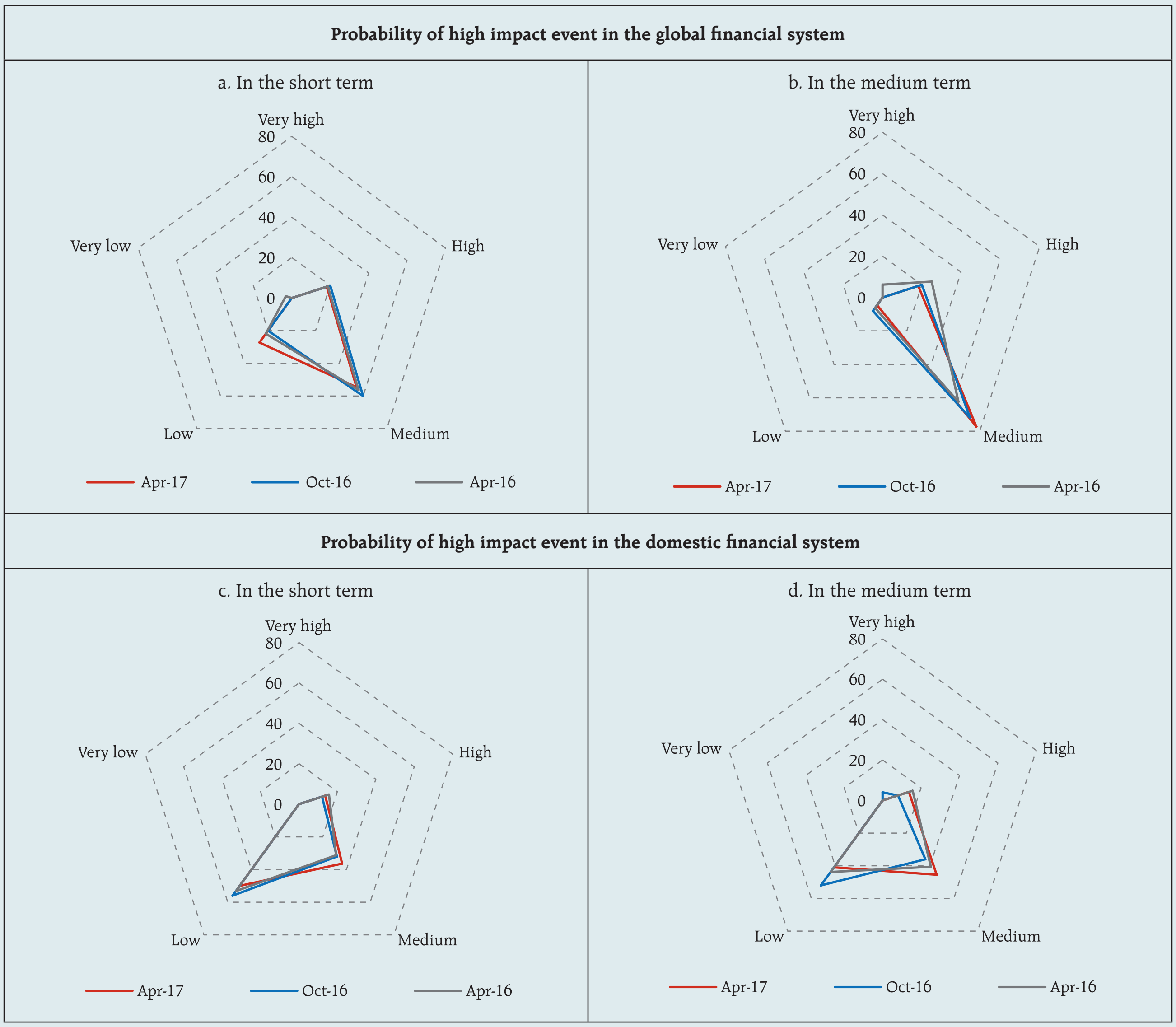
Change in risk since last survey		
⇧	⇔	⇩
Increased	Same	Decreased

The risk perception, as it emanates from the systemic risk survey conducted at different time points (on a half yearly basis in April and October), may shift (increase/decrease) from one category to the other, which is reflected by the change in colour. However, within the same risk category (*i.e.*, boxes with the same colour), the risk perception may also increase/decrease or remain the same, which has been shown by arrows. The shift in risk perception pertains to the comparative analysis of two consecutive surveys.

Source: RBI systemic risk surveys (April 2017 and October 2016).

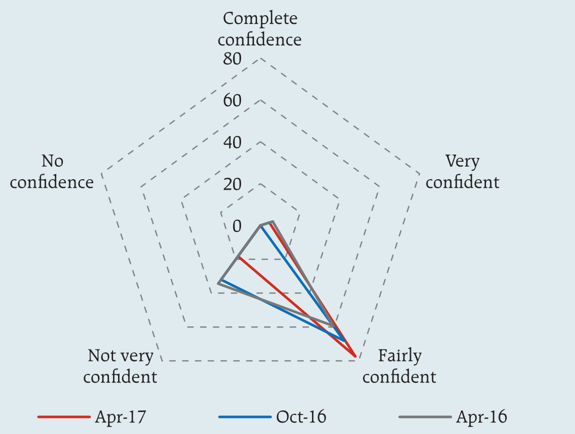
Majority of the participants in the current round of survey felt that the possibility of a high impact event occurring in the global financial system in the short term as well as in the medium term period is medium, while majority felt that possibility of occurrence of such event in the domestic financial system in the short term is low. However, close to half of the participants assign a medium probability to the occurrence of a high impact event occurring in the domestic financial system in the medium term. Most respondents continued to be fairly confident in the global financial system. There was a significant increase in the proportion of respondents in the current survey who were fairly confident of the stability of Indian financial system, while many had reflected in the last survey that they were very confident about the system (Chart A.1.1).

Chart A.1.1: Perception on occurrence of high impact events and confidence in the financial systems

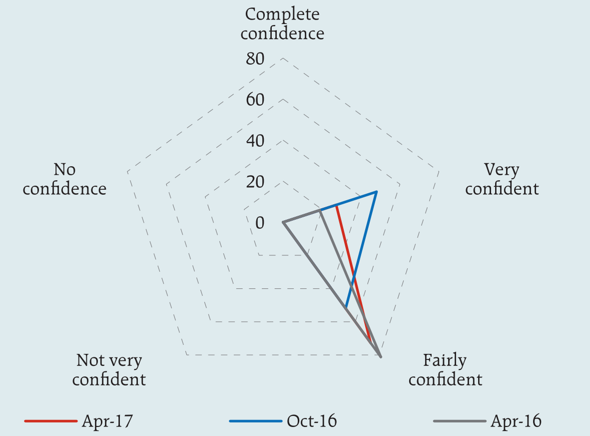


Confidence in the financial systems

e. Stability of the global financial system



f. Stability of the Indian financial system

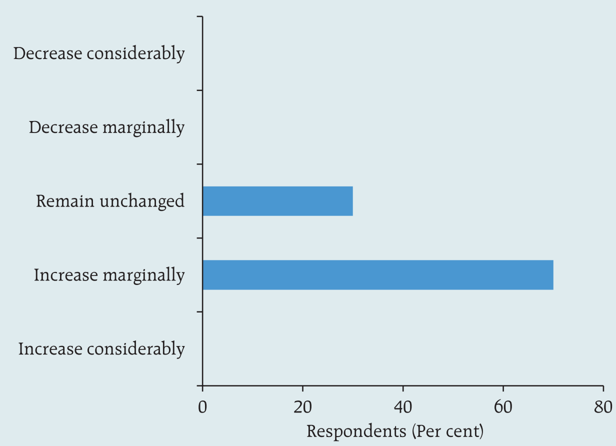


Source: RBI systemic risk surveys (April 2017, October 2016 and April 2016).

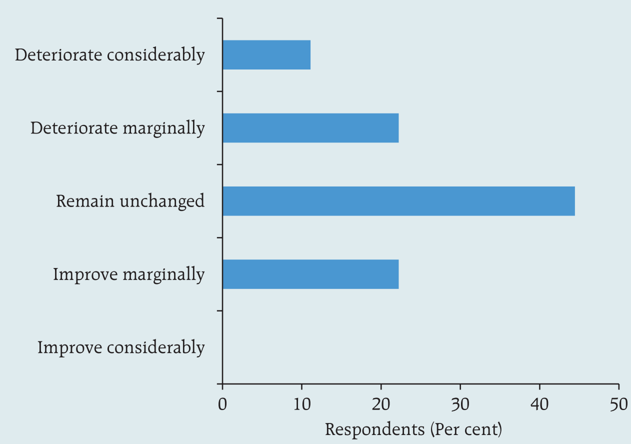
On the issue of likely changes in demand for credit in the next three months, the majority of the respondents were of the view that it will increase marginally. A majority of the respondents indicated that the average quality of credit would remain unchanged in the next three months (Chart A.1.2).

Chart A.1.2: Outlook on credit demand and its quality (April 2017)

a. Demand for credit: Likely to change in next three months



b. Average credit quality: Likely to change in next three months



Source: RBI systemic risk survey (April 2017).