

Annex 1

Systemic Risk Survey

The Systemic Risk Survey (SRS), the ninth in the series, was conducted in October 2015¹ to capture the perceptions of experts, including market participants, on the major risks the financial system is facing presently. The results indicate that global risks continued to be perceived as major risks affecting the financial system in a high risk category. The macroeconomic risks moved to the medium risk category. Market risks have been perceived to be elevated to high risk category from the low risk category, showing a cyclical nature with rise & fall observed in alternative rounds of survey. On the other hand, the Institutional risks remained in the medium risk category. General risks have decreased in this survey (Figure 1).

Within global risks, the risk of a global slowdown and sovereign risks increased in the current survey, whereas the global funding and global inflation risks indicated a downward shift. Within the macroeconomic risk category, risks from deterioration in the domestic economic outlook declined to the medium risk category in the current survey, while the risks on account of domestic inflation and current account deficit have declined considerably. The capital flows and corporate sector risks remained elevated in the high risk category. The respondents have rated the foreign exchange risk, equity price volatility and funding risk as having increased in the current survey. Among the institutional risks, while the asset quality of banks was still perceived as a high risk factor, the risk on account of low credit off-take has marginally receded (Figure 2).

Figure 1: Major Risk Groups Identified in Systemic Risk Survey (October 2015)

| Major Risk Groups | Oct-15 | Changes | Apr-15 | Changes | Oct-14 | Changes | Apr-14 | Changes | Oct-13 |
|-------------------------|--------|---------|--------|---------|--------|---------|--------|---------|--------|
| A. Global Risks | | ↑ | | ↔ | | ↑ | | ↓ | |
| B. Macro-economic Risks | | ↓ | | ↓ | | ↔ | | ↑ | |
| C. 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, the boxes with the same colour), the risk perception may also increase/ decrease or remain the same, which has been shown by the arrow. The shift in risk perception pertains to the comparative analysis of two consecutive surveys.

Source: RBI Systemic Risk Surveys (October 2013 to October 2015) (Half yearly).

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

Figure 2: Various Risks Identified in Systemic Risk Survey (October 2015)

| Risk Groups | Risk Items | Oct-15 | Changes | Apr-15 |
|---|--|----------------------------|---------|--------|
| A. Global Risks | Global slow down | High | ↑ | High |
| | Sovereign Risk / Contagion | High | ↑ | Medium |
| | Funding Risk (External Borrowings) | Low | ↓ | High |
| | Global Inflation / Commodity Price Risk (including crude oil prices) | Medium | ↓ | High |
| | Other Global Risks | High | ↔ | High |
| B. Macro-economic Risks | Deterioration in domestic economic outlook | Medium | ↓ | High |
| | Domestic Inflation | Low | ↓ | Medium |
| | Current Account Deficit | Low | ↓ | Low |
| | Capital inflows/ outflows (Reversal of FIIs, Slow down in FDI) | High | ↔ | High |
| | Sovereign rating downgrade | Low | ↔ | Low |
| | Fiscal Risk (High Fiscal deficit) | Low | ↔ | Low |
| | Corporate Sector Risk (High Leverage/ Low Profitability) | High | ↔ | High |
| | Lack / Slow pace of Infrastructure development | Medium | ↓ | High |
| | Real Estate Prices | Low | ↓ | Low |
| | Household savings | Low | ↓ | Low |
| | Political Risk | Low | ↔ | Low |
| | Other Macro-economic Risks | Medium | ↑ | Low |
| | C. Market Risks | Foreign Exchange Rate Risk | High | ↑ |
| Equity Price Volatility | | Low | ↑ | Low |
| Funding Risk / Liquidity Risk/ Interest Rate Risk | | Low | ↑ | Low |
| Other Market Risks | | Medium | ↑ | Low |
| D. Institutional Risks | Regulatory Risk | Low | ↓ | Medium |
| | Asset quality deterioration | High | ↑ | High |
| | Additional capital requirements of banks | Medium | ↓ | Medium |
| | Funding difficulties of banks | Medium | ↓ | High |
| | Low credit off-take | Medium | ↓ | Medium |
| | Excessive credit growth | Low | ↔ | Low |
| | Operational Risk | Low | ↑ | Low |
| Other Institutional Risks | Low | ↓ | Medium | |
| E. General Risks | Terrorism | Low | ↔ | Low |
| | Natural disaster/ Unfavorable Weather Conditions | Low | ↓ | Medium |
| | Social unrest (Increasing inequality) | Low | ↔ | Low |
| | Other General Risks | Low | ↔ | 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 (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 2015 and October 2015).

Participants in the current round of survey felt that there is an increased possibility of a high impact event occurring in the global financial system in the period ahead (short to medium term). Their confidence in the global financial system was moderate, and a greater number participants indicated that their confidence has marginally reduced during the past six months. However, according to participants, there is 'medium' possibility of an occurrence of a high impact event in the Indian financial system in the period ahead (short to medium term) even though the respondents continued to show their confidence in the Indian financial system (Figure 3 and Chart 1).

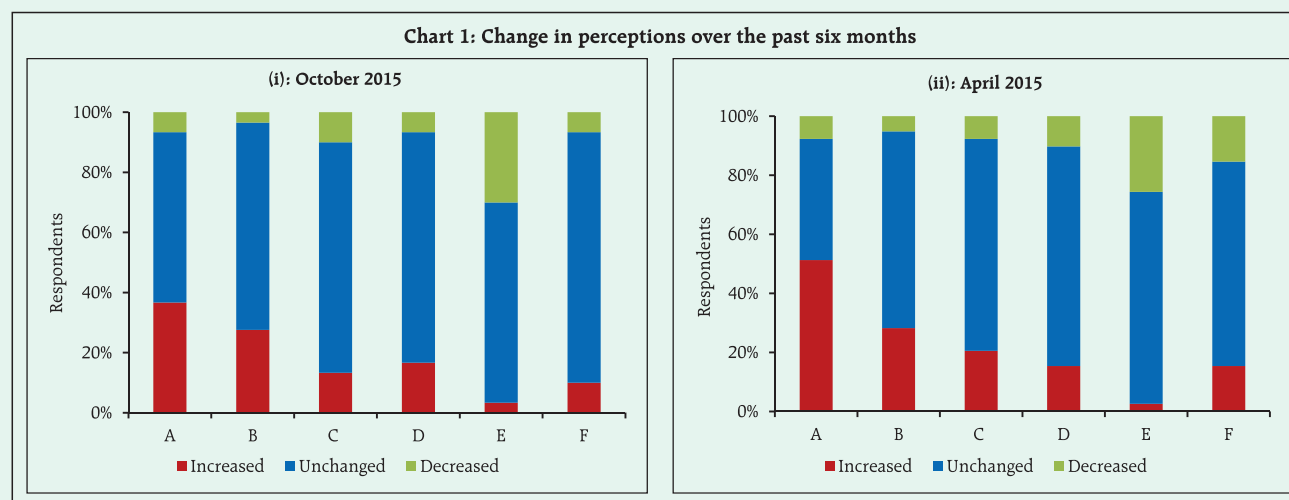
| Impact | Oct-15 | Apr-15 |
|---|--------|--------|
| A: High impact event occurring in the global financial system in the period ahead (In Short Term : upto 1 year) | | |
| B: High impact event occurring in the global financial system in the period ahead (In Medium Term : 1 to 3 years) | | |
| C: High impact event occurring in the Indian financial system in the period ahead (In Short Term : upto 1 year) | | |
| D: High impact event occurring in the Indian financial system in the period ahead (In Medium Term : 1 to 3 years) | | |
| E: Confidence in the stability of the global financial system as a whole | | |
| F: Confidence in the stability of the Indian financial system | | |

Note:

Risk Category

| Risk | Very high | High | Medium | Low | Very low |
|-------|------------------|-----------|------------------|--------------------|---------------|
| A - D | | | | | |
| E - F | Highly confident | Confident | Fairly confident | Not very confident | Not confident |

Source: RBI Systemic Risk Surveys (April 2015 and October 2015).



Note: A : A high impact event occurring in the global financial system in the period ahead (in the short term: up to 1 year)
 B : A high impact event occurring in the global financial system in the period ahead (In the medium term: 1 to 3 years)
 C : A high impact event occurring in the Indian financial system in the period ahead (in the short term: up to 1 year)
 D : A high impact event occurring in the Indian financial system in the period ahead (in the medium term: 1 to 3 years)
 E : Confidence in the stability of the global financial system as a whole
 F : Confidence in the stability of the Indian financial system

Source: RBI, Systemic Risk Surveys (April 2015 and October 2015).

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 might increase marginally. A majority of the respondents indicated that the average quality of credit could improve in the next three months. However, a group of respondents also perceived that it is likely to deteriorate marginally (Chart 2).

