

Annex 1

Systemic Risk Survey

The systemic risk survey (SRS), the thirteenth in the series, was conducted during October-November 2017 to capture the perceptions of experts, including market participants, on the major risks presently faced by the financial system. According to the survey results, global risks were perceived as medium risks affecting the financial system. The risk perception on macroeconomic conditions and institutional positions have also been categorised in the medium risk category in the current survey. Market risks and other general risk, however, have been perceived to be in low risk category in this survey (Figure 1).

Within global risks, the risk on account of global growth and commodity prices were categorised as medium risk. Within the macroeconomic risks group, risks on account of domestic growth, domestic inflation, current account deficit, 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. The respondents have rated the foreign exchange risk, equity price volatility, liquidity and interest rate risk in 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 2).

Geo-political risks continued to be on the watch list of every class of participants. Market participants specifically stressed a correction in domestic equity markets, volatility in foreign exchange markets consequent to evolving US trade/ tax policy outlook and swings in international commodity prices as risk factors. Most of the participants feel that while the pace of Insolvency and Bankruptcy code in resolving the

Figure 1: Major risk groups identified in systemic risk survey (October 2017)

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

Source: RBI systemic risk survey (October 2017 & April 2017).

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.

Figure 2: Various risks identified in systemic risk survey (October 2017)

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

Source: RBI systemic risk survey (October 2017 & April 2017).

Note:

Risk Category

Very high	High	Medium	Low	Very low
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Change in risk since last survey		
↑	↔	↓
Increased	Same	Decreased

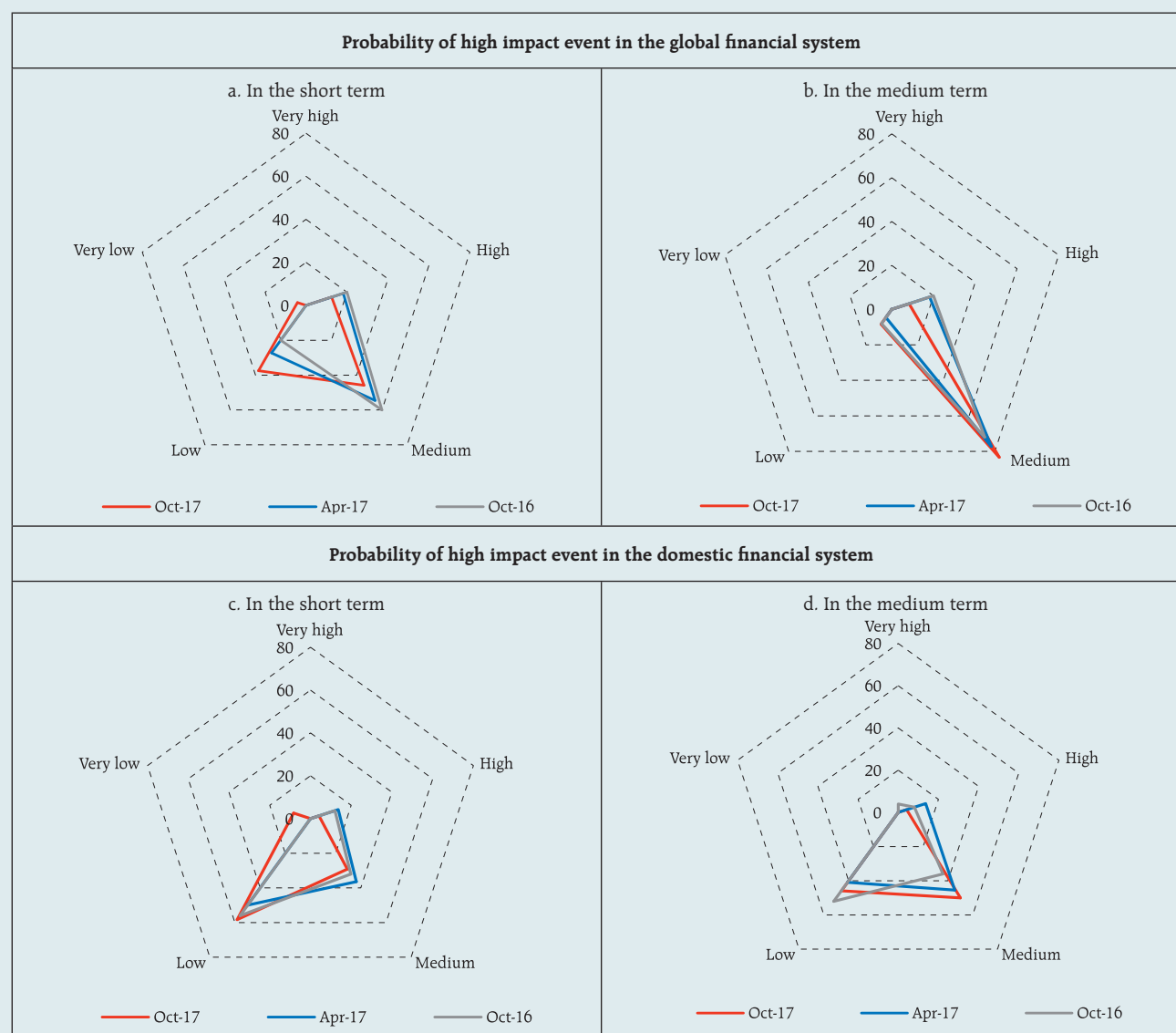
The risk perception, as it emanates from the systemic risk survey conducted at different time points (on a half yearly basis in April and October), may shift (increase/decrease) from one category to the other, which is reflected by the change in colour. However, within the same risk category (that is, 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.

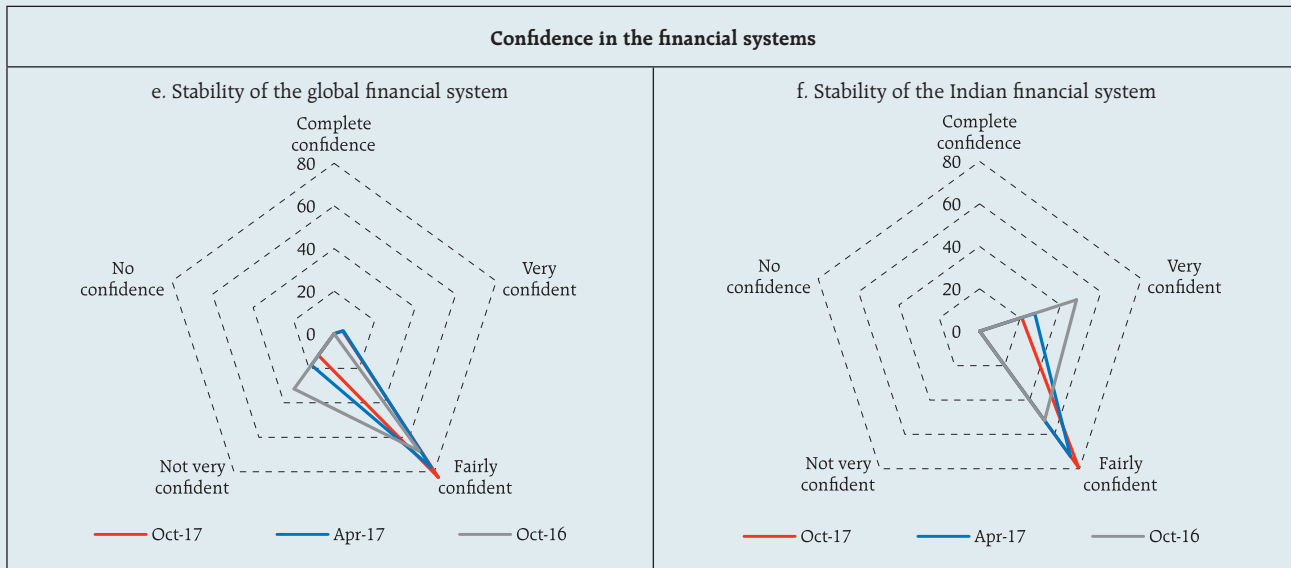
bad assets in the Indian banking system has picked up, the final outcome and the level of haircut is critical to resolve the asset impairment crisis and improve the confidence in the domestic financial system. A majority of the participants acknowledged the various efforts of the government to improve the investment demand but maintained that it is now critical for private investment to pick up to support growth.

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 and the Indian financial system in the short term (upto 1 year) as well as in the medium term(1 to 3 years) is medium. However, close to half of the participants assigned a medium probability to the occurrence of a high impact event occurring in the domestic financial system in the medium term. There was a significant increase in the respondents in the current survey who reflected that they were fairly confident of the stability of the global and Indian financial system (Chart 1).

Chart 1: Perception on occurrence of high impact events and confidence in the financial systems

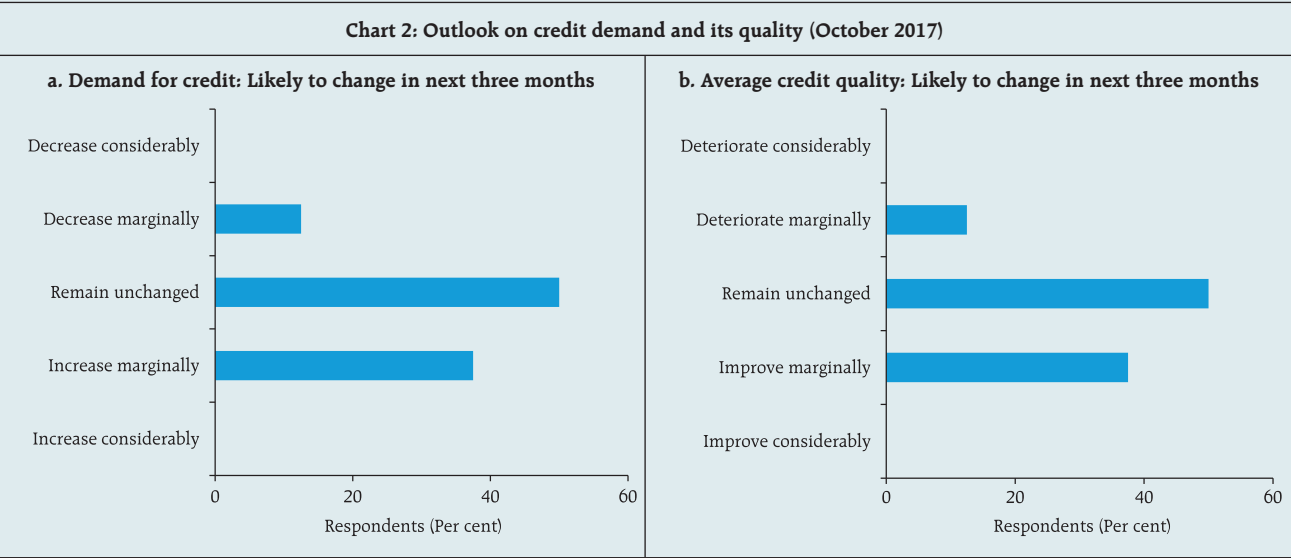
Respondents (per cent)





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

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 remain unchanged. A majority of the respondents indicated that the average quality of credit would remain unchanged in the next three months. (Chart 2).



Source: RBI systemic risk survey (October 2017).