

Annex-1

Systemic Risk Survey

The Systemic Risk Survey (SRS) was initiated by the Reserve Bank in October 2011 to capture the views of market participants and other stakeholders on the aggregate risks facing the financial system. The present Survey was conducted in April 2013.

As the factors driving the on-going turmoil in global financial markets have been changing, the perception of market participants has also changed from the first round of SRS conducted in October 2011 to the latest round conducted in April 2013. Deterioration in asset quality and market volatility were perceived to be important factors affecting the financial system during the first SRS. As per the latest survey, market participants perceive global and macro-economic risks to be the most important factors affecting the financial system. Majority of respondents feel that there is medium chance of a high impact event occurring in the global financial system, whereas, in the first SRS, the chance of occurrence of high impact event in the global financial system was high. The participants, however, continued to have fair confidence in the stability of the Indian financial system (Table 1).

Among the global risks, declining global growth, sovereign risk/contagion and global inflation are polled as prominent factors. Deterioration of the domestic outlook, domestic inflation, elevated current account deficit, high fiscal deficit and lack / slow pace of infrastructure development are major macroeconomic risks identified by participants. The foreign exchange risk, funding risk, asset quality deterioration and low credit off-take have also been mentioned as risks facing the Indian financial system (Table 2).

Survey respondents felt that there was a medium chance of a high impact event occurring in the Indian financial system in the next half-year period. The stakeholders had medium level of confidence in the stability of the global financial system as a whole. There is a perception that if instability in the global financial system escalates in the next six months, the stability of the Indian economy would be impacted strongly. However, the survey also indicates that the participants are fairly confident of the stability of the Indian financial system (Table 3). Further, the perception has remained mostly unchanged during the past half-year (Chart 1).

Table 1: Major Risk Groups identified in Systemic Risk Survey – April 2013

Major Risk Groups	Apr-13	Shift	Oct-12	Shift	Apr-12	Shift	Oct-11
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
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Change in risk since last survey		
↑	↔	↓
Increased	Same	Decreased

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

Source: RBI, Systemic Risk Surveys – October 2011 to April 2013

Table 2: Various Risks identified in Systemic Risk Survey – April 2013

Risk Item	Apr-13	Changes	Oct-12
A. Global Risks	Global slow down	↓	
	Sovereign Risk / Contagion	↓	
	Funding Risk (External Borrowings)	↑	
	Global Inflation / Commodity Price Risk (including crude oil prices)	↑	
	Other Global Risks	↓	
B. Macro-economic Risks	Deterioration in domestic economic outlook	↓	
	Domestic Inflation	↑	
	Current Account Deficit	↑	
	Capital inflows/ outflows (Reversal of FIIs, Slow down in FDI)	↔	
	Sovereign rating downgrade	↑	
	Fiscal Risk (High Fiscal deficit)	↔	
	Corporate Sector Risk (High Leverage/ Low Profitability)	↓	
	Lack / Slow pace of Infrastructure development	↓	
	Real Estate Prices	↓	
	Household savings	↑	
	Political Risk	↓	
	Other Macroeconomic Risks	↑	
	C. Market Risks	Foreign Exchange Rate Risk	↓
Equity Price Volatility		↓	
Funding Risk / Liquidity Risk/ Interest Rate Risk		↑	
Other Market Risks		↔	
D. Institutional Risks	Regulatory Risk	↔	
	Asset quality deterioration	↑	
	Additional capital requirements of banks	↓	
	Funding difficulties of banks	↑	
	Low credit off-take	↑	
	Excessive credit growth	↔	
	Operational Risk	↑	
Other Institutional Risks	↔		
E. General Risks	Terrorism	↔	
	Natural disaster	↓	
	Social unrest (Increasing inequality)	↔	
	Other General Risks	↔	

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

Source: RBI, Systemic Risk Surveys – October 2012 and April 2013

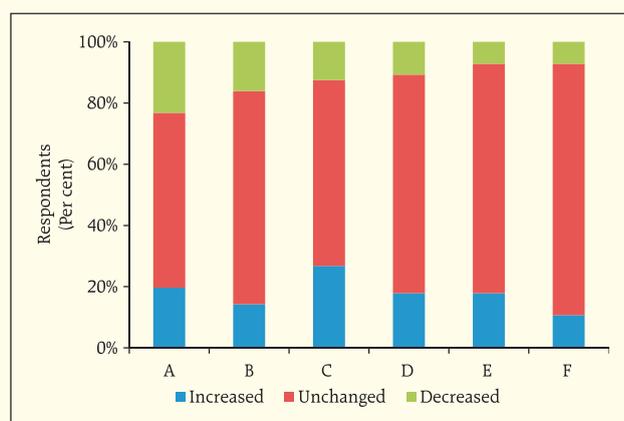
Table 3: Perception on occurrence of high impact events and their impact on Indian financial system

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 : Expectation that instability in the global financial system, if it escalates in the next six months, would affect the stability of the Indian economy	
G : Confidence in the stability of the Indian financial system	

Note:

Risks					
A - D	Very high	High	Medium	Low	Very low
E & G	No confidence	Not very confident	Fairly confident	Very confident	Complete confidence
F	Affect significantly	Affect to a large extent	Affect somewhat	Affect to a limited extent	No impact

Source: RBI, Systemic Risk Survey – April 2013

Chart 1: Change in Perception over the past six months

- 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

Source: RBI, Systemic Risk Survey – April 2013