Annex 1

Systemic Risk Survey

The systemic risk survey (SRS), the eleventh in the series, was conducted during October-November 2016[1] 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 been categorised in the medium risk category in the current survey. Market risks as well as general risks have been perceived to be in low risk category in this survey (Figure 1).

Figure 1: Major risk groups identified in systemic risk survey (October 2016)

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

Source: RBI systemic risk survey (October 2016).

Within global risks, the risk on account of global growth, sovereign contagion and commodity prices were categorised as medium risk. Within the macroeconomic risks group, corporate sector risk and pace of infrastructure development were perceived to be in high risk category, while risk on account of domestic growth, domestic inflation, capital flows 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 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).

[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 2016)		
Risk items		
A. Global Risks	Global growth	
	Sovereign risk / contagion	
	Funding risk (External borrowings)	
	Commodity price risk (including crude oil prices)	
	Other global risks	
B. Macro-economic Risks	Domestic growth	
	Domestic inflation	
	Current account deficit	
	Capital inflows/ outflows (Reversal of FIIs, Slowdown in FDI)	
	Sovereign rating downgrade	
	Fiscal deficit	
	Corporate sector risk	
	Pace of infrastructure development	
	Real estate prices	
	Household savings	
	Political uncertainty/ governance /policy implementation	
	Other macroeconomic risks	
C. Financial Market Risks	Foreign exchange rate risk	
	Equity price volatility	
	Interest rate risk	
	Liquidity risk	
	Other financial market risks	
D. Institutional Risks	Regulatory risk	
	Asset quality deterioration	
	Additional capital requirements of banks	
	Access to funding by banks	
	Level of credit growth	
	Cyber risk	
	Operational risk	
	Other institutional risks	
E. General Risks	Terrorism	
	Climate related risks	
	Social unrest (Increasing inequality)	
	Other general risks	

Note:
Risk Category

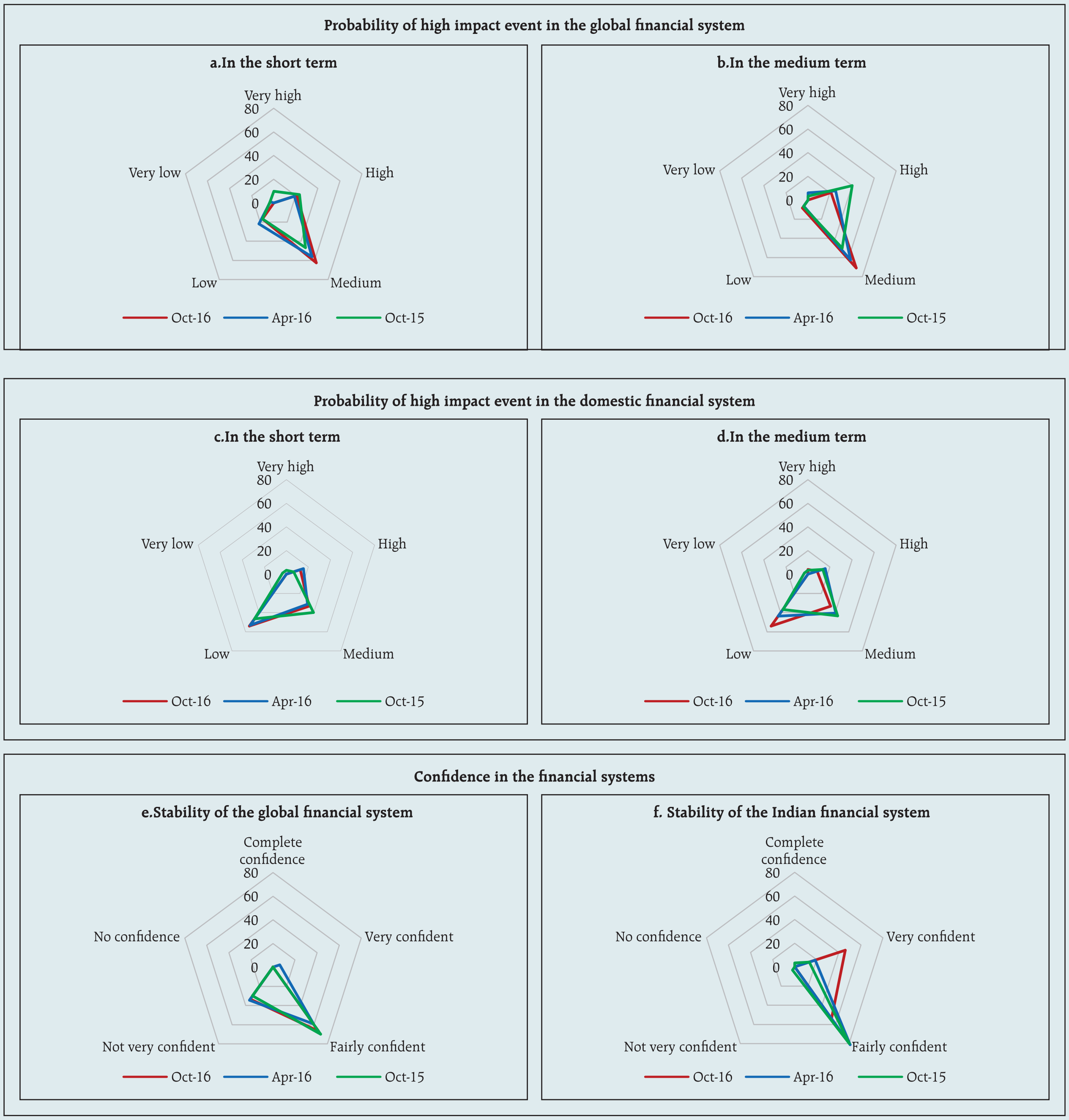
Very high	High	Medium	Low	Very low

Source: RBI systemic risk survey (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 is low. Most respondents continued to be fairly confident in the global financial system, while there was a significant increase in the respondents in the current survey who reflected their high confidence in the Indian financial system (Chart 1).

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

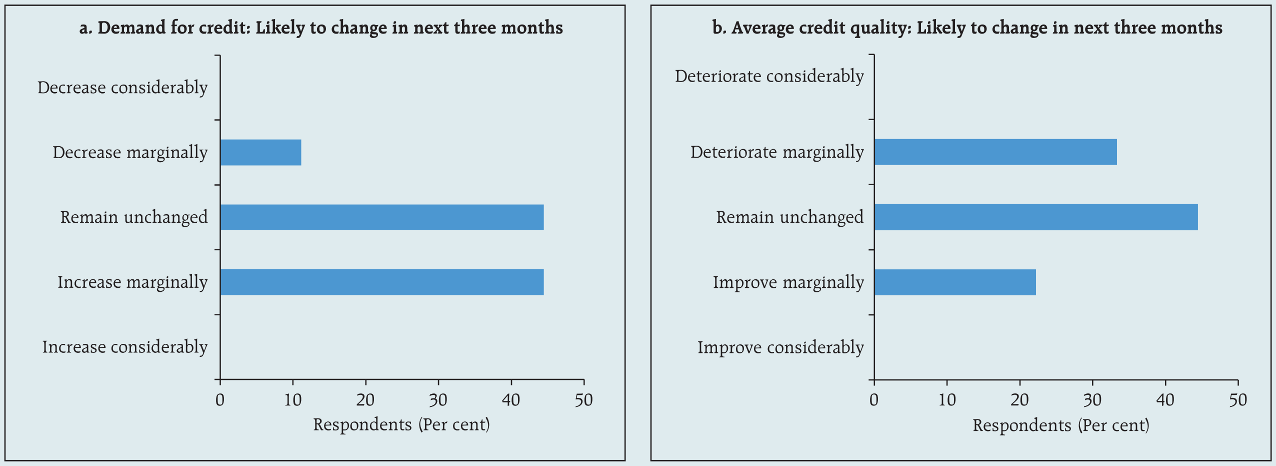
Respondents (per cent)



Source: RBI systemic risk surveys (October 2015, April 2016 and October 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 might either increase marginally or remain unchanged. A majority of the respondents indicated that the average quality of credit would remain unchanged in the next three months, though, a number of respondents also perceived that it is likely to deteriorate (Chart 2).

Chart 2: Outlook on credit demand and its quality (October 2016)



Source: RBI systemic risk survey (October 2016).