

Annex 1

Systemic Risk Survey

The systemic risk survey (SRS), the sixteenth in the series, was conducted during April-May 2019 to capture the perceptions of experts, including market participants, on the major risks presently faced by the financial system. According to the survey results financial market risks continue to be perceived as a high-risk category affecting the financial system while global risks, risk perception on macroeconomic conditions and institutional positions are perceived as medium risks affecting the financial system (Figure 1).

Within global risks, the risk on account of global growth and commodity prices (including crude oil prices) were categorised as high risk. Within the macroeconomic risks group, risks on account of corporate sector vulnerabilities continue to be in the high-risk category. Risks to domestic growth, domestic inflation, fiscal and current account deficits, pace of infrastructure development, real estate prices and household savings continued to be in medium risk category in the current survey. In the financial market risks category, equity price volatility and liquidity risk continued in the high-risk category. Among the institutional risks, the risk on account of additional capital requirement of banks and cyber risk continued to be perceived as high-risk factors (Figure 2).

Figure 1: Major risk groups identified in systemic risk survey (April 2019)*

Major Risk Groups	Oct-18	Changes	Apr-19
A. Global Risks		↑	
B. Macro-economic Risks		↑	
C. Financial Market Risks		↓	
D. Institutional Risks		↑	
E. General Risks		↑	

Source: RBI systemic risk survey (October 2018 & April 2019).

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 (April 2019)*

Risk items		Oct-18	Changes	Apr-19
A. Global Risks	Global growth	Medium	↑	High
	Sovereign risk / contagion	Low	↑	Medium
	Funding risk (External borrowings)	Medium	↑	Medium
	Commodity price risk (including crude oil prices)	High	↓	High
	Other global risks (Low	↑	Low
B. Macro-economic Risks	Domestic growth	Medium	↑	Medium
	Domestic inflation	Medium	↓	Medium
	Current account deficit	High	↓	Medium
	Capital inflows/ outflows (Reversal of FIIs, Slowdown in FDI)	High	↓	Medium
	Sovereign rating downgrade	Low	↑	Low
	Fiscal deficit	Medium	↑	Medium
	Corporate sector risk	High	↔	High
	Pace of infrastructure development	Medium	↑	Medium
	Real estate prices	Medium	↔	Medium
	Household savings	Medium	↑	Medium
	Political uncertainty/ governance /policy implementation	Medium	↓	Medium
	Other macroeconomic risks	Very low	↓	Very low
	C. Financial Market Risks	Foreign exchange rate risk	High	↓
Equity price volatility		High	↓	High
Interest rate risk		Medium	↓	Medium
Liquidity risk		High	↔	High
Other financial market risks		Low	↓	Very low
D. Institutional Risks	Regulatory risk	Medium	↑	Medium
	Asset quality deterioration	High	↓	Medium
	Additional capital requirements of banks	High	↓	High
	Access to funding by banks	Medium	↑	Medium
	Level of credit growth	Medium	↓	Medium
	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
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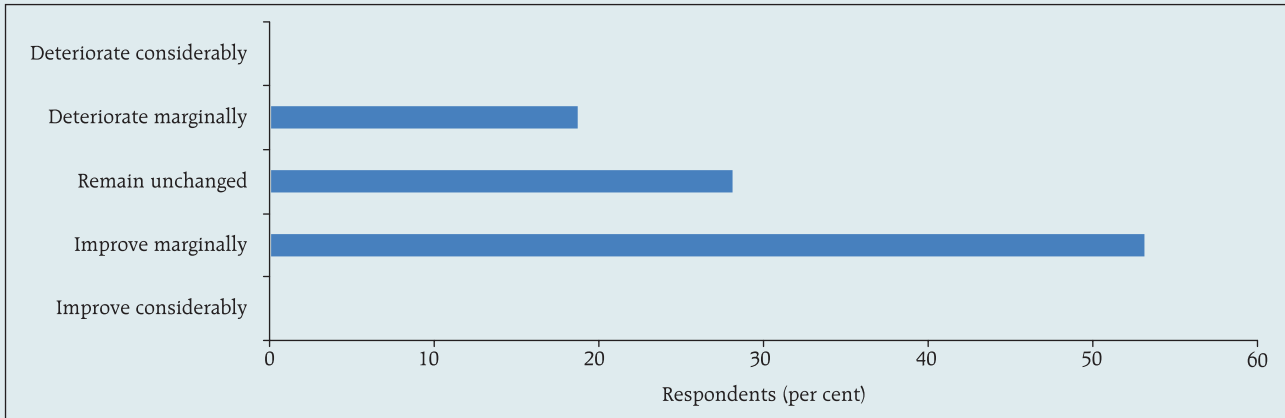
Source: RBI systemic risk survey (October 2018 & April 2019).

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.

Participants opined that spillovers from a global trade war and the attendant geo-political tensions may impact domestic markets. Some opined that improvements in data quality and dissemination by themselves could buttress the cause of financial stability. Market participants posit that stock market correction and a possible deterioration in collateral values are important risks to financial market stability. About 50 per cent of the respondents feel that the prospects of Indian banking sector are going to improve marginally in the next one year aided by the stabilisation of the IBC process which will also play a key role in improving the confidence in the domestic financial system (Chart 1).

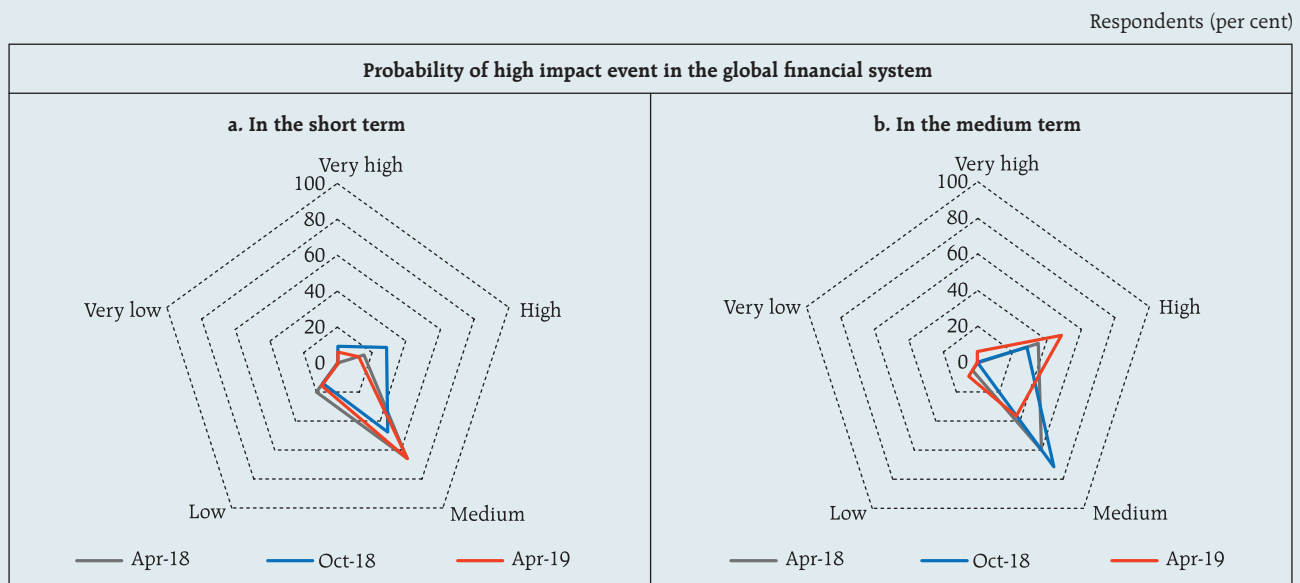
Chart 1: Prospects of Indian banking sector in the next one year.

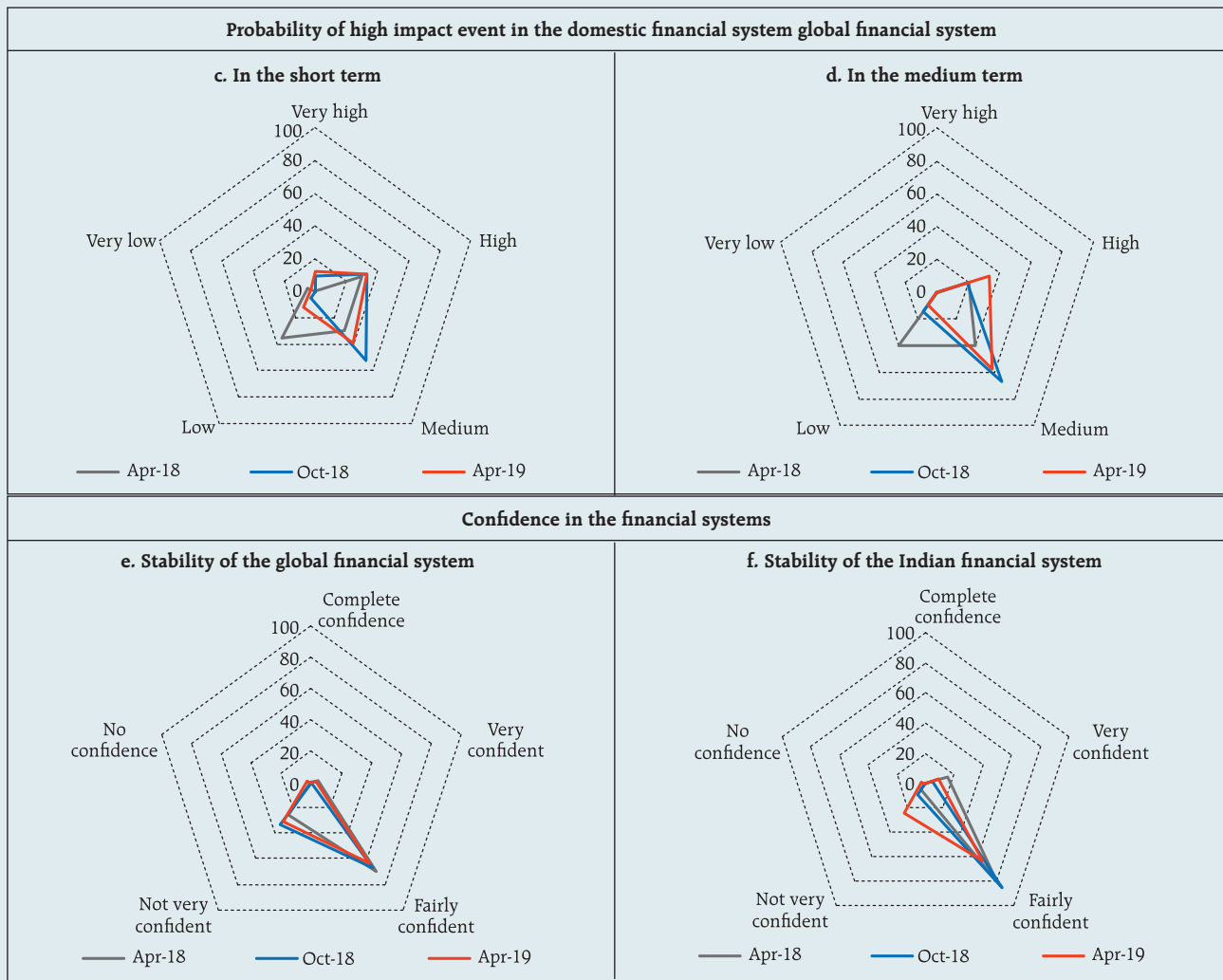


Source: RBI systemic risk survey (April 2019).

Majority of the participants in the current round of survey expect possibility of occurrence of a high impact event in the global financial system in the short term (upto 1 year) as medium. However, in the medium term (1 to 3 years) majority of the participants in the current round of survey assign a high probability to the occurrence of a high impact event in the global financial system. In the Indian financial system possibility of occurrence of a high impact event in the short-term as well as in the medium term has been assigned medium. There was a decrease in the share of respondents in the current survey who were fairly confident of the stability of the global financial system (Chart 2).

Chart 2: Perception on occurrence of high impact events and confidence in the financial systems

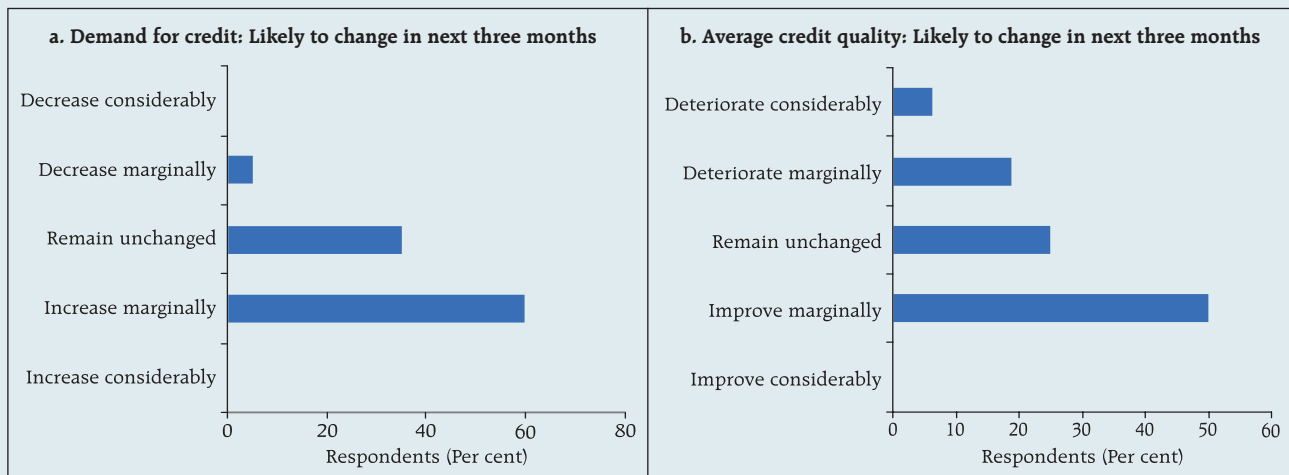




Source: RBI systemic risk surveys (April 2018, October 2018 and April 2019).

Majority of the respondents were of the view that the demand for credit in the next three months would increase marginally. Average credit quality is also expected to improve marginally in the next three months (Chart 3).

Chart 3: Outlook on credit demand and its quality (April 2019)



Source: RBI systemic risk survey (April 2019).