Annex 1

Systemic Risk Survey

In the latest round of the Systemic Risk Survey, all major groups continued to remain in the medium risk category. Global and institutional risks remained unchanged while financial market risks eased marginally. Domestic macroeconomic risks increased on concerns related to domestic growth, inflation and capital flows. Going forward, respondents' perceptions of key risks to financial stability included: geopolitical risks; concerns over domestic growth; cyber security; and climate risk.

The 27th round of the Reserve Bank's Systemic Risk Survey (SRS) was conducted in November 2024 to solicit perceptions of experts, including economists and market participants, on major risks faced by the Indian financial system. In addition to key global and macroeconomic factors, the current round of the survey also gauged sentiments on (i) impact of rising global economic uncertainty on India's macro-financial stability and (ii) revival of private capex cycle.

A summary of feedback received from 51 respondents is presented below.

- The panellists categorised all the major risk groups in medium risk category. Risk perception of macroeconomic risks increased marginally, led by growth and inflation concerns, volatility in capital flows and consumption demand outlook.
- Other major risk categories saw a decrease in/similar risk perception as compared to previous survey round (Figure 1).

Figure 1: Systemic Risk Survey: Major Risk Groups

Major Risk Groups	May-24	Nov-24	Change in Risk Perception[1]
A. Global risks	5.6	5.6	Unchanged
B. Macroeconomic risks	5.2	5.4	Increased
C. Financial market risks	5.8	5.7	Decreased
D. Institutional risks	5.4	5.4	Unchanged

Source: Systemic Risk Survey (May 2024 and November 2024).

Risk Category

8.1 - 10	6.1 - 8	4.1 - 6	2.1 - 4	0 - 2
Very high	**High**	**Medium**	**Low**	**Very low**

- Among global risks, geopolitical conflicts/geo-economic fragmentation is perceived as high risk to domestic financial system. The risk score of commodity price risk and monetary tightening in advanced economies has decreased significantly.
- Among macroeconomic factors, risk perception due to domestic growth, inflation and capital flows has increased substantially as compared to the last survey round. Panellists ranked climate risk in high risk category even though overall its risk score declined marginally.

[1] The risk perception, as it emanates from the systemic risk survey conducted at different time periods (on a half-yearly basis in May and November), may shift from one risk category to the other, reflected by the change in colour. However, within the same risk category (boxes with the same colour), the risk perception may also increase/decrease or remain the same, the shift being indicated accordingly through average numeric values.

- Financial market risks saw a decrease in risk perception in individual risk categories barring foreign exchange rate risks. Equity price volatility remained in high risk category.
- Among institutional risks, outlook on asset quality and profitability has deteriorated as compared to last survey round. Cyber risk continued to remain in high risk category (Figure 2).

Figure 2: Systemic Risk Survey: Risks Identified

Category	Sub-category	May-24	Nov-24	Change in Risk Perception
A. Global Risks	Global growth	5.9	5.9	Unchanged
	Funding risk (External borrowings)	5.3	5.2	Decline
	Commodity price risk (including crude oil prices)	6.4	5.7	Decline
	Monetary tightening in advanced economies	5.4	4.5	Decline
	Geo-political conflict/Geo-economic fragmentation (new addition)	NA	6.8	
B. Macroeconomic Risks	Domestic growth	4.5	5.7	Increase
	Domestic inflation	5.2	5.7	Increase
	Current account deficit	4.5	4.4	Decline
	Capital inflows/ outflows (Reversal of FIIs, Slowdown in FDI)	5.3	6.1	Increase
	Fiscal deficit	4.7	4.6	Decline
	Corporate sector risk	4.6	4.5	Decline
	Real estate prices	5.1	4.9	Decline
	Consumption demand	5.6	5.9	Increase
	Investment growth	5.3	5.5	Increase
	Household savings	5.8	5.6	Decline
	Climate risk	6.9	6.7	Decline
C. Financial Market Risks	Foreign exchange rate risk	5.3	5.9	Increase
	Equity price volatility	6.5	6.5	Unchanged
	Interest rate risk	5.8	5.4	Decline
	Liquidity risk	5.5	5.0	Decline
D. Institutional Risks	Asset quality deterioration	4.8	5.1	Increase
	Banks' exposure to interest rate risk	5.3	5.1	Decline
	Cyber risk	6.8	6.4	Decline
	Operational risk	5.6	5.3	Decline
	Profitability	4.7	5.2	Increase

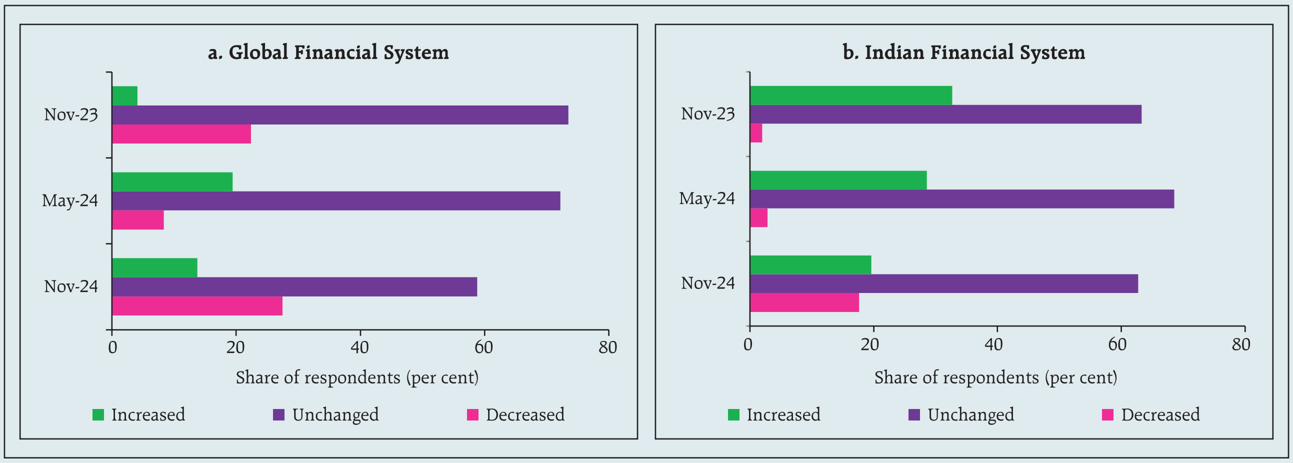
NA : Not Applicable as the risk was included in November round for the first time.

Risk Category

8.1 - 10	6.1 - 8	4.1 - 6	2.1 - 4	0 - 2
Very high	**High**	**Medium**	**Low**	**Very low**

- About three fourths of the respondents expressed higher or similar level of confidence in the stability of the global financial system.

Chart 1: Confidence in the Stability of the Financial System



- One fifth respondents showed higher level of confidence and three fifths showed similar level of confidence in the financial stability. Notably, a higher number of respondents have expressed decreased level of confidence in the stability of the global and domestic financial system from the previous survey rounds (Chart 1 a and b).
- 60 per cent of the respondents assessed better or similar prospects for the Indian banking sector over one year horizon, as compared to 88 per cent respondents in the previous survey round (Chart 2).
- Panellists were divided on the asset quality outlook of the banking sector. About 60 per cent of the respondents expected asset quality to remain stable/improve owing to strong domestic growth and likely reduction in interest rates. However, pockets of stress such as microfinance and personal loans remain key downside risks to asset quality with almost 39 per cent of the panellists seeing a marginal deterioration in the next six months (Chart 3 a).

Chart 2: Prospects of Indian Banking Sector in the Next One Year

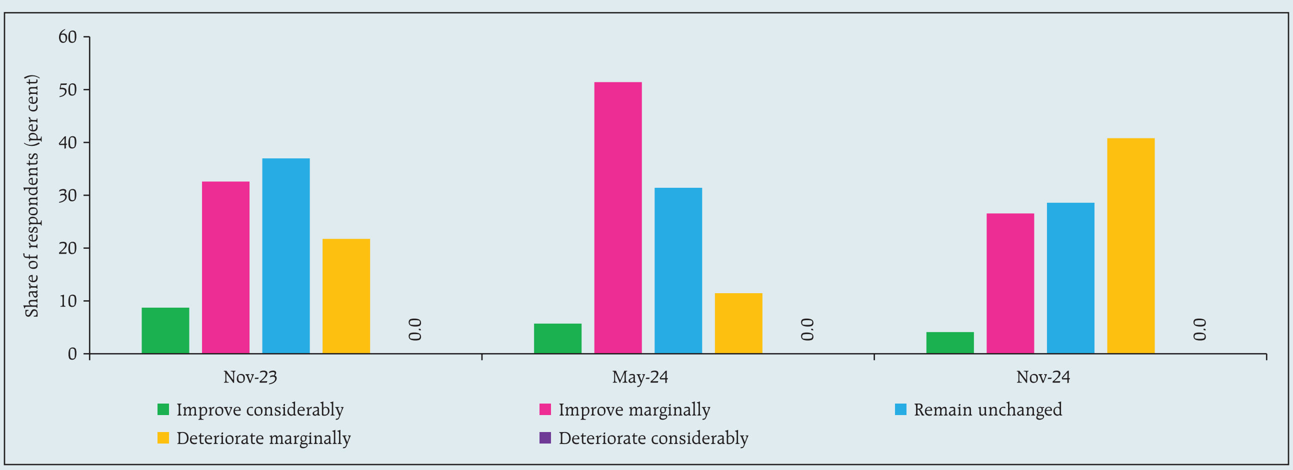
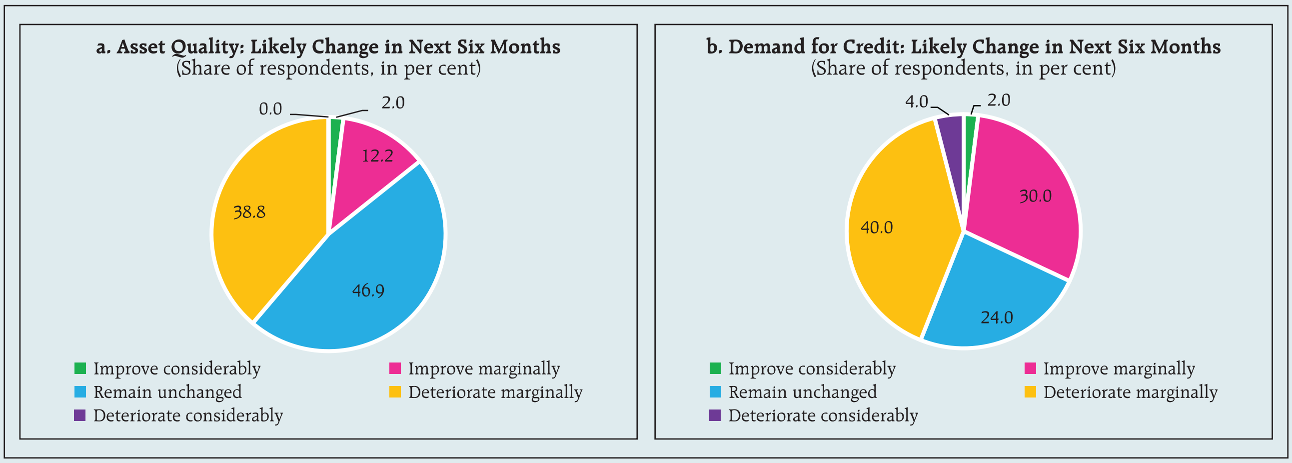


Chart 3: Indian Banking Sector – Outlook



- On credit growth, 40 per cent of the respondents expected credit demand to deteriorate marginally in the near term attributable to subdued urban demand, regulatory focus on unsecured loan growth and stricter underwriting amid rising delinquency levels in select loan segments. Nearly one fourth of the respondents assessed credit demand to remain unchanged (Chart 3 b).
- Respondents were asked for their views on the probable spillover impact of instability in global financial system on India's macro-economic and financial stability. Nearly 95 per cent of the respondents perceived medium/limited impact of such global events on Indian financial stability in the near term (Chart 4).
- About three fifths of the respondents expected high/medium impact of global economic uncertainty on domestic macroeconomic stability (Chart 5).
- Around half of the panellists perceived that revival of private capex cycle is unlikely to materialise in the coming one year (Chart 6).

Chart 4: Spillover Impact of Instability in Global Financial System
(Share of respondents, in per cent)

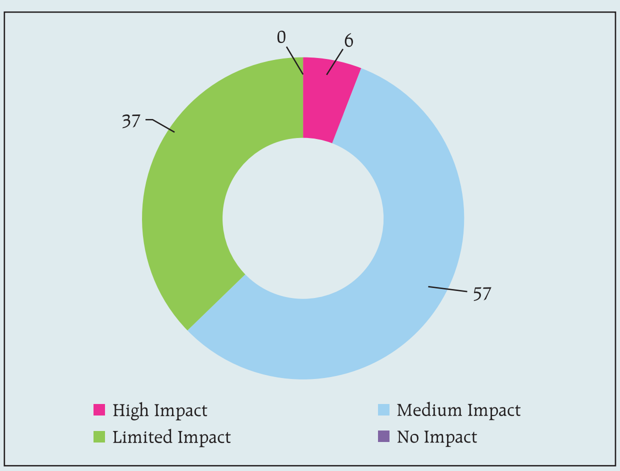


Chart 5: Impact of Rising Global Economic Uncertainty on Domestic Macroeconomic Stability
(Share of respondents, per cent)

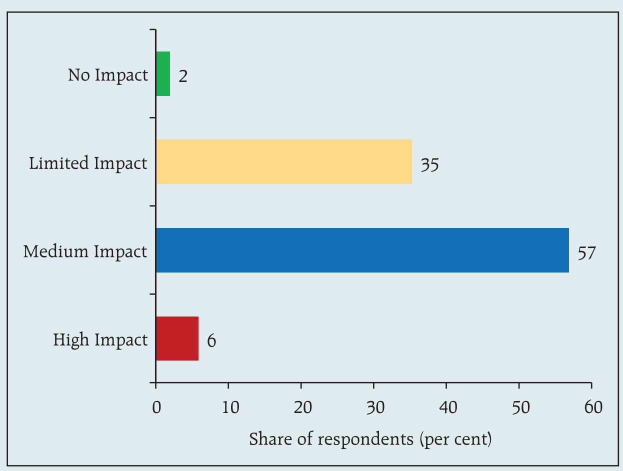


Chart 6: Possibility of Revival of Private Capex Cycle in India
(Share of respondents, in per cent)

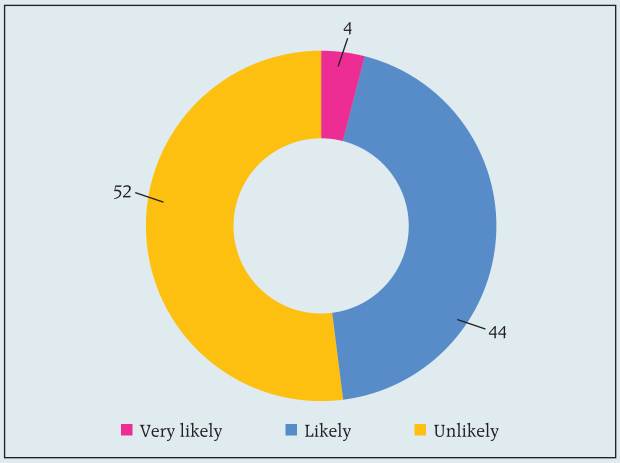
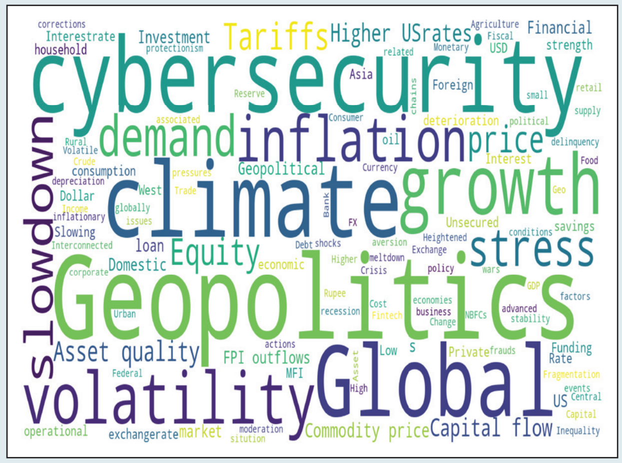


Figure 3: Word Cloud of Key Risks
(Next 6-12 Months)



Risks to Financial Stability

Going forward, respondents identified the following risks to domestic financial stability (Figure 3):

- Geopolitical conflicts
- Global growth and inflation concerns
- Capital outflows and impact on Indian Rupee
- Increase in trade tariffs and impact on global trade
- Slowdown in domestic growth and consumption demand
- Climate risks
- Cybersecurity concerns