## Annex 1

## Systemic Risk Survey

*In the latest round of the half yearly systemic risk survey (SRS), all major groups were in the medium risk category. Risk perceptions relating to global spillovers receded while macroeconomic risks declined marginally. Going forward, respondents' perceptions of risk to financial stability included: geopolitical risks; tight global financial conditions; and capital outflows and exchange rate pressures.*

The 26th round of the Reserve Bank's Systemic Risk Survey (SRS) was conducted during May 2024 to solicit perceptions of experts, including market participants, on major risks faced by the Indian financial system. In addition to its regular questions, this round of the survey also captures respondents' views on (i) impact of the 'higher for longer' policy rate scenario on macro-financial stability in H2:2024; and (ii) sustainability of the sharp increase in domestic credit growth witnessed in the last two years. The feedback from 44 respondents is presented below.

- The panellists perceived that global spillover risks have receded sharply to the 'medium' risk category. Assessment of macroeconomic risks witnessed a marginal decline whereas risks emanating from financial markets and institutional risks remained unchanged. Overall, all major risk groups are perceived to be in the 'medium' risk category (Figure 1).

**Figure 1: Systemic Risk Survey: Major Risk Groups**

| Major Risk Groups | November-23 | May-2024 | Change in Risk Perception[1] |
|---|---|---|---|
| A. Global risks | 6.0 | 5.6 | Decline |
| B. Macroeconomic risks | 5.4 | 5.2 | Decline |
| C. Financial market risks | 5.8 | 5.8 | Unchanged |
| D. Institutional risks | 5.4 | 5.4 | Unchanged |

**Source**: Systemic Risk Survey (May 2024 and November 2023).

**Risk Category**

| Above 8-10 | Above 6-8 | Above 4-6 | Above 2-4 | 0-2 |
|---|---|---|---|---|
| **Very high** | **High** | **Medium** | **Low** | **Very low** |

- In terms of global risks, global growth, funding risk, banking turmoil and risk emanating from monetary tightening in advanced economies were perceived to have moderated, whereas the perception on commodity price risk has remained at an elevated level (Figure 2).
- In case of domestic risks, climate risk has moved up within the 'high' risk category and risk to consumption demand inched up. Other key risks (viz., domestic inflation, current account balance, capital flows and fiscal deficit) are assessed to have declined and provided support to domestic macro-financial stability. Risk emerging from domestic growth and investment growth was perceived to have remained unaltered (Figure 2).

[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, 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, the shift being indicated accordingly through average numeric values.

- Among drivers of financial market risks, foreign exchange rate risk and liquidity risk were gauged to have moderated while risk emanating from equity price volatility and interest rate risk picked up (Figure 2). Risk from equity price volatility was perceived to have moved from the 'medium' to the 'high' risk category.

**Figure 2: Systemic Risk Survey: Risks Identified**

| Risk items | | November-23 | May-2024 | Change in Risk Perception |
|---|---|---|---|---|
| A. Global Risks | Global growth | 6.7 | 5.9 | Decline |
| | Funding risk (External borrowings) | 5.4 | 5.3 | Decline |
| | Commodity price risk (including crude oil prices) | 6.4 | 6.4 | Unchanged |
| | Banking turmoil | 5.2 | 4.9 | Decline |
| | Monetary tightening in advanced economies | 6.3 | 5.4 | Decline |
| B. Macroeconomic Risks | Domestic growth | 4.5 | 4.5 | Unchanged |
| | Domestic inflation | 5.5 | 5.2 | Decline |
| | Current account deficit | 5.2 | 4.5 | Decline |
| | Capital inflows/ outflows (Reversal of FPIs, Slowdown in FDI) | 5.9 | 5.3 | Decline |
| | Fiscal deficit | 5.3 | 4.7 | Decline |
| | Corporate sector risk | 4.7 | 4.6 | Decline |
| | Real estate prices | 5.0 | 5.1 | Increase |
| | Consumption Demand | 5.3 | 5.6 | Increase |
| | Investment Growth | 5.3 | 5.3 | Unchanged |
| | Household savings | 5.8 | 5.8 | Unchanged |
| | Climate risks | 6.4 | 6.9 | Increase |
| C. Financial Market Risks | Foreign exchange rate risk | 5.8 | 5.3 | Decline |
| | Equity price volatility | 6.0 | 6.5 | Increase |
| | Interest rate risk | 5.6 | 5.8 | Increase |
| | Liquidity Risk | 5.8 | 5.5 | Decline |
| D. Institutional Risks | Asset quality deterioration | 5.1 | 4.8 | Decline |
| | Banks' exposure to interest rate risk | 5.4 | 5.3 | Decline |
| | Cyber risk | 6.2 | 6.8 | Increase |
| | Operational risk | 5.3 | 5.6 | Increase |
| | Profitability | 5.0 | 4.7 | Decline |

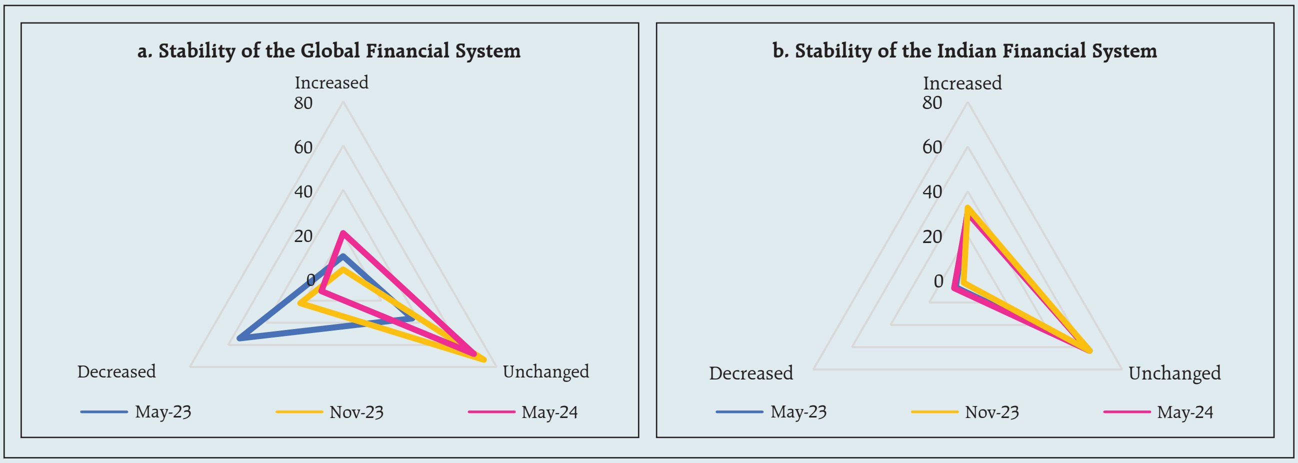
**Risk Category**

| Above 8-10 | Above 6-8 | Above 4-6 | Above 2-4 | 0-2 |
|---|---|---|---|---|
| **Very high** | **High** | **Medium** | **Low** | **Very low** |

- Among drivers of institutional risks, cyber risk is assessed to have risen within the 'high' risk category. Risk emanating from asset quality deterioration and banks' exposure to interest rate risk eased while operational risk increased.
- About one fifth of the respondents reported higher confidence in the stability of the global financial system from the previous survey round (Chart 1a).
- Around one third expressed higher confidence in the Indian financial system while another 63 per cent felt there was no change (Chart 1b).

**Chart 1: Confidence in the Stability of the Financial System**

(share of respondents, per cent)




- 75 per cent of the panellists expected that the Indian economy will be impacted somewhat/to a limited extent by instability in the global financial system in H2:2024 (Chart 2).
- Nearly 90 per cent of the respondents assessed better or similar prospects for the Indian banking sector over a one-year horizon (Chart 3).
- Most of the respondents (67.4 per cent) expected the quality of banking sector assets to remain unchanged over the next six months, whereas over 25.6 per cent expected it to marginally improve due to higher economic growth, healthy corporate balance sheet, slower increase in slippage ratio and recent prudential measures (Chart 4a).
- About 47.6 per cent of the respondents expected higher credit demand during H2:2024 owing to factors such as higher GDP growth, pickup in manufacturing sector activity, government spending and credit demand from real estate and infrastructure. Another one fourth of panellists assessed credit demand to remain unchanged (Chart 4b).

**Chart 2: Impact from Global Spillover on Indian Economy**

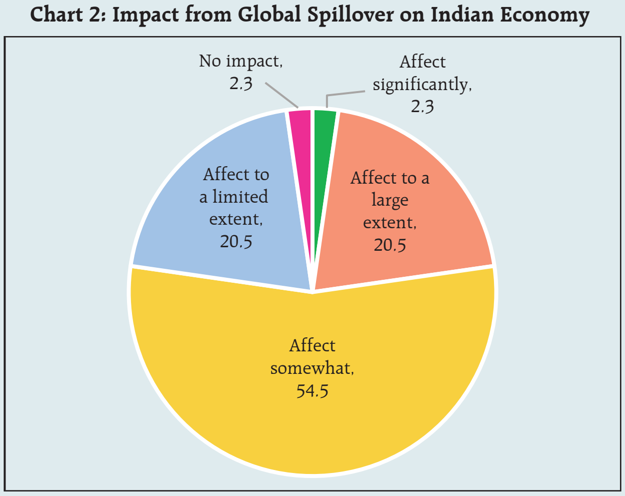



**Chart 3: Prospects of Indian Banking Sector- Next One Year**

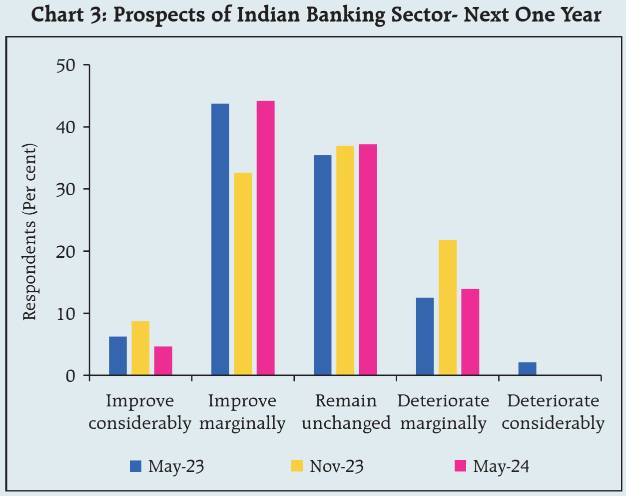
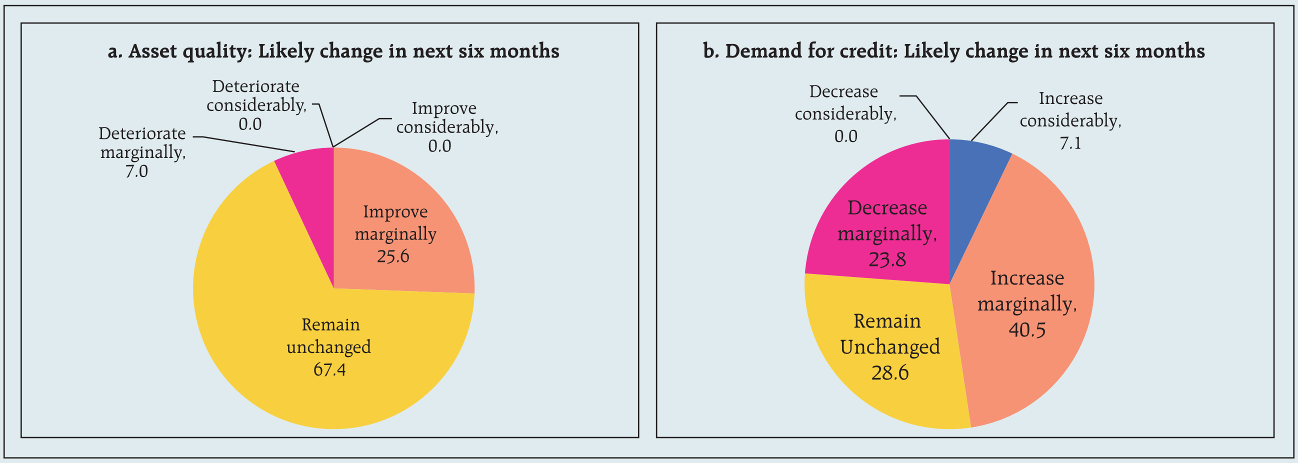


**Chart 4: Indian Banking Sector – Outlook**




- Nearly three fourths of the panellists expected that the Indian economy will be impacted somewhat/to a limited extent by the 'higher for longer' policy rate stance of systemic central banks (Chart 5).
- 27.3 per cent of the panellists perceived credit acceleration witnessed in the last two years as largely sustainable and another 52.3 per cent felt that it was somewhat sustainable (Chart 6). Some of the respondents, however, expressed concerns over consumer loan quality, cost of funds and asset quality.

## Risks to Financial Stability

Going forward, respondents identified the following major risks to financial stability in the near term:

- Geopolitical risks;
- Tightening of global financial conditions and interest rate risk;
- Capital outflows and exchange rate;
- Rise in commodity (including oil) prices;
- Increase in climate risks;
- Cyber risk; and
- Global growth slowdown.

**Chart 5: Impact of 'Higher for Longer' Policy Rate in H2:2024**

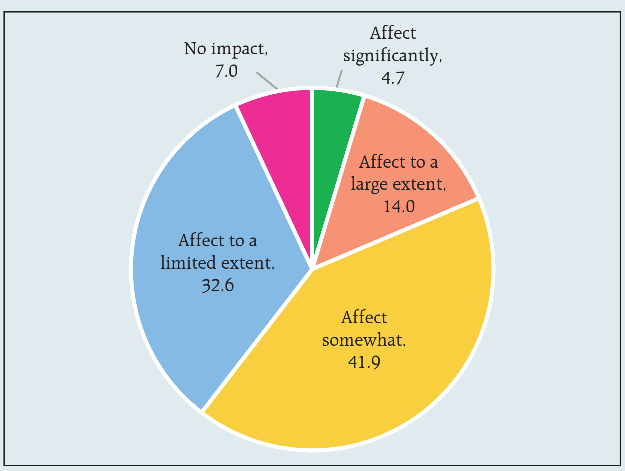



**Chart 6: Sustainability of Domestic Credit Growth**