Annex 1

Systemic Risk Survey

The Systemic Risk Survey (SRS), the sixth in the series was conducted in April 2014[1] to capture the perceptions of experts, including market participants, on the major risks facing the financial system. The results indicate that global risks and domestic macroeconomic risks are perceived to be major risks affecting the financial system. While the intensity of global risks, which remained unchanged for the last two rounds of the survey, receded during the current round of the survey, macroeconomic risks remained at an elevated level in this round as they did in the two preceding surveys. Survey further revealed that while market risks receded, general risks increased (Figure 1).

Within global risks, though the risk of a global slowdown increased marginally, sovereign risks moved to 'low risk' from 'medium risk' category. While the global inflation risk remained at the same level, global funding risks receded along with other global risks.

Within the macroeconomic risk category, risks from deterioration in the domestic economic outlook and those on the fiscal side remained in the 'medium risk' category though their intensity reduced in the current survey. Interestingly, the risk on account of CAD, in the medium category, is perceived to be at an elevated level despite significant improvements actually witnessed on the external front. Perceptions about elevated political risks can be ignored since the survey was conducted just before the general elections. Other important highlights on the macroeconomic front are risks arising from a slowdown in FDI, a downgrade in sovereign rating, slow pace of infrastructure development and low growth in household savings.

Asset quality deterioration, additional capital requirements of banks and funding/liquidity/interest risks remained elevated in the current round of the survey. Risk perceptions emanating from general risks have moved upward since the last round of survey mainly on account of perceived uncertainties about weather conditions (Figure 2).

Figure 1: Major Risk Groups Identified in Systemic Risk Surveys (April 2014)

Major Risk Groups	Apr-14	Change	Oct-13	Change	Apr-13	Change	Oct-12	Change	Apr-12
A. Global Risks	Medium	⇩	High	⇔	High	⇔	High	⇧	Medium
B. Macro-economic Risks	High	⇧	High	⇧	High	⇧	Medium	⇩	High
C. Market Risks	Medium	⇩	Medium	⇧	Medium	⇩	Medium	⇩	High
D. Institutional Risks	Medium	⇔	Medium	⇔	Medium	⇧	Low	⇔	Low
E. General Risks	Medium	⇧	Low	⇔	Low	⇩	Low	⇔	Low

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, the boxes with the same colour), the risk perception may also increase/ decrease or remain the same, which have has been shown by the arrows. The shift in risk perception is between two consecutive surveys.

Source: RBI, Systemic Risk Surveys – April 2012 to April 2014 (half yearly).

[1] The first survey was conducted in October 2011.

Figure 2 :Various Risks Identified in Systemic Risk Survey (April 2014)

Risk Item		Apr-14	Changes	Oct-13
A. Global Risks	Global slow down	High	↑	High
	Sovereign Risk / Contagion	Low	↓	Medium
	Funding Risk (External Borrowings)	High	↓	High
	Global Inflation / Commodity Price Risk (including crude oil prices)	High	↔	High
	Other Global Risks	Medium	↓	High
B. Macro-economic Risks	Deterioration in domestic economic outlook	High	↓	Very high
	Domestic Inflation	High	↓	High
	Current Account Deficit	High	↑	High
	Capital inflows/ outflows (Reversal of FIIs, Slow down in FDI)	Medium	↑	Medium
	Sovereign rating downgrade	Medium	↑	Medium
	Fiscal Risk (High Fiscal deficit)	High	↓	High
	Corporate Sector Risk (High Leverage/ Low Profitability)	Medium	↓	Medium
	Lack / Slow pace of Infrastructure development	Medium	↑	Medium
	Real Estate Prices	Low	↑	Very low
	Household savings	Medium	↑	Medium
	Political Risk	High	↑	Medium
	Other Macroeconomic Risks	High	↑	Medium
C. Market Risks	Foreign Exchange Rate Risk	Low	↓	Medium
	Equity Price Volatility	Very low	↔	Very low
	Funding Risk / Liquidity Risk/ Interest Rate Risk	Medium	↑	Medium
	Other Market Risks	Very low	↓	Very low
D. Institutional Risks	Regulatory Risk	Low	↑	Very low
	Asset quality deterioration	High	↑	Medium
	Additional capital requirements of banks	Medium	↑	Medium
	Funding difficulties of banks	Very low	↔	Very low
	Low credit off-take	Low	↓	Medium
	Excessive credit growth	Very low	↔	Very low
	Operational Risk	Very low	↔	Very low
	Other Institutional Risks	Very low	↓	Medium
E. General Risks	Terrorism	Very low	↔	Very low
	Natural Disaster/Weather Conditions	Medium	↑	Very low
	Social unrest (Increasing inequality)	Very low	↓	Very low
	Other General Risks	Very low	↓	Low

Note:

Risk Category

Very high	High	Medium	Low	Very low

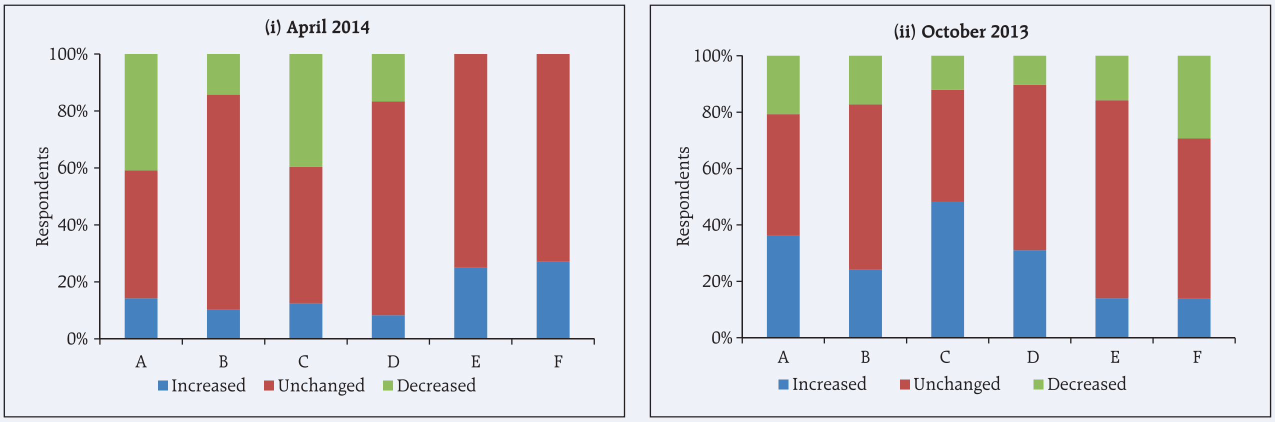
Change in risk since last survey		
↑	↔	↓
Increased	Same	Decreased

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 is between two consecutive surveys.

Source: RBI, Systemic Risk Surveys October 2013 and April 2014.

Perceptions about confidence in the global financial system as well as in the Indian financial system improved during the past six months (Chart 1).

Chart 1 : Change in Perception over the past six months



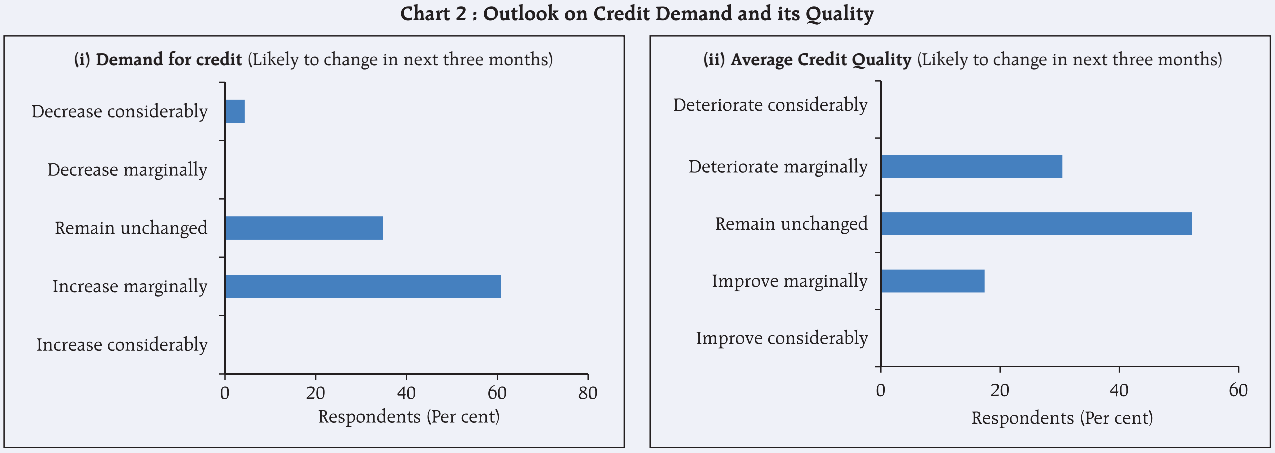
Source: RBI, Systemic Risk Survey – April 2014

Note: A: A high impact event occurring in the global financial system in the period ahead (in the short term: up to 1 year)
B: A high impact event occurring in the global financial system in the period ahead (In the medium term: 1 to 3 years)
C: A high impact event occurring in the Indian financial system in the period ahead (in the short term: up to 1 year)
D: A high impact event occurring in the Indian financial system in the period ahead (in the 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 – October 2013 and April 2014.

On the issue of likely changes in demand for credit in the next three months, the stakeholders felt that this may increase marginally or may remain the same. A majority of the respondents had the impression that the average quality of credit may remain unchanged or is likely to deteriorate further, though marginally, while some others felt that it may also improve marginally in the next three months (Chart 2).

Chart 2 : Outlook on Credit Demand and its Quality



Source: RBI, Systemic Risk Survey – April 2014