

Annexure 1

Systemic Risk Survey

In the 24th round of the Systemic Risk Survey, risk perception from global, macroeconomic and financial market categories of systemic risk receded. Global spillovers remained in the 'high' risk category. Financial market risk declined from 'high' to 'medium' risk category. Macroeconomic risk remained in the 'medium' risk category and was perceived to have moderated. Going forward, respondents' perception of risk to financial stability included: tightness of global financial conditions; global growth slowdown; rise in commodity prices; reversal of capital flows; increase in climate risks and geo-political risks.

The 24th round of the Reserve Bank's Systemic Risk Survey (SRS) was conducted in May 2023 to capture the perceptions of experts, including market participants and academicians, on major risks faced by the Indian financial system. In addition to its regular format, this round of the survey also tries to capture the risk of global recession from the recent banking sector turmoil in key advanced economies.

The feedback from 50 respondents is encapsulated below:

- Risk perception across global, macroeconomic and financial market categories of systemic risk receded whereas it recorded a marginal uptick for institutional risks. Risks from global spillovers remained in the 'high' risk category. Financial market risks declined from 'high' risk to the 'medium' risk category. Macroeconomic risks remained in the 'medium' category, and were perceived to have moderated (Figure 1).
- Major drivers of global risks such as risks to global growth, commodity price risk and risk emanating from monetary tightening in advanced economies were perceived to have declined (Figure 2).
- All the drivers of financial market risk, i.e., foreign exchange rate risk, equity price volatility, interest rate risk and liquidity risk were gauged to have decelerated from 'high' to 'medium' risk category (Figure 2).

Figure 1: Systemic Risk Survey: Major Risk Groups

Major Risk Groups	November- 2022	May-23	Change in Risk Perception ¹
A. Global Risks	6.9	6.2	Decline
B. Macroeconomic Risks	5.4	5.3	Decline
C. Financial Market Risks	6.5	5.8	Decline
D. Institutional Risks	5.3	5.4	Increase

Source: Systemic Risk Survey (November 2022 and May 2023).

Note:

Risk Category

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

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.

Figure 2: Systemic Risk Survey: Risks Identified

Risk items		November 2022	May 2023	Change in Risk Perception
A. Global Risks	Global Growth	7.6	7.1	Decline
	Funding Risk (External Borrowings)	5.9	5.6	Decline
	Commodity Price Risk (including Crude Oil Prices)	6.9	5.7	Decline
	Banking Turmoil	NA	6.1	NA
	Monetary Tightening in Advanced Economies	7.9	6.5	Decline
B. Macroeconomic Risks	Domestic Growth	5.7	5.3	Decline
	Domestic Inflation	6.4	4.9	Decline
	Current Account Deficit	6.7	4.8	Decline
	Capital Inflows/ Outflows (Reversal of FIIs, Slowdown in FDI)	6.4	5.7	Decline
	Fiscal Deficit	5.5	5.3	Decline
	Corporate Sector Risk	5.2	4.8	Decline
	Real Estate Prices	4.9	5.0	Increase
	Consumption Demand	NA	5.5	NA
	Investment Growth	NA	5.6	NA
	Household Savings	5.4	5.2	Decline
	Climate Risks	5.9	6.3	Increase
C. Financial Market Risks	Foreign Exchange Rate Risk	6.6	5.6	Decline
	Equity Price Volatility	6.5	5.8	Decline
	Interest Rate Risk	6.5	5.9	Decline
	Liquidity Risk	6.2	5.8	Decline
D. Institutional Risks	Asset Quality Deterioration	5.4	5.1	Decline
	Banks' Exposure to Interest Rate Risk	NA	5.5	NA
	Cyber Risk	6.5	6.0	Decline
	Operational Risk	5.6	5.3	Decline
	Profitability	NA	5.0	NA

Note: NA – Not Available.

Source: Systemic Risk Survey (November 2022 and May 2023).

Note:

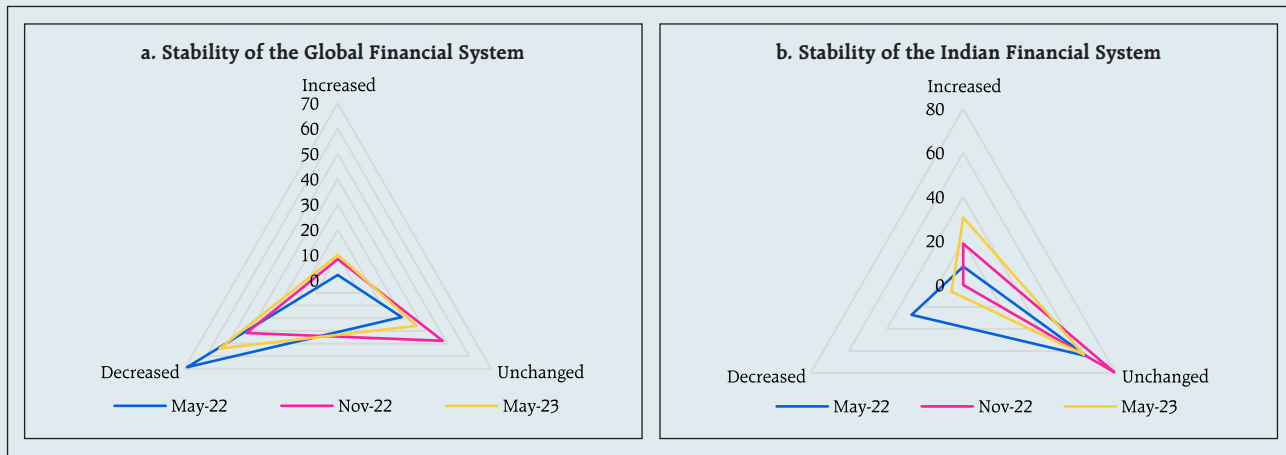
Risk Category

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

- Decline in risk perception on domestic growth and inflation, fiscal deficit, current account deficit, and capital flows resulted in moderation in overall macroeconomic risks. However, macroeconomic risk resulting from climate change was perceived to have amplified (Figure 2).
- Cyber risk, a major institutional risk declined from 'high' risk category to 'medium' risk category.
- 54 per cent of the respondents reported that their confidence in the stability of the global financial system has declined over the last six months (Chart 1 a). In contrast, 94 per cent of the respondents placed similar or higher confidence in the Indian financial system (Chart 1 b).

Chart 1: Confidence in the Stability of the Financial System

(share of respondents, per cent)



- Around three-fourths of the respondents expected some impact or a limited impact on the Indian economy from global spillovers (Chart 2).
- More than 50 per cent of the respondents assessed that the prospects of the Indian banking sector have improved marginally or considerably and another 35 per cent of the respondents expected it to remain unchanged over a one-year horizon (Chart 3).
- 43 per cent of the respondents expected marginal to considerable improvement in asset quality of the Indian banking sector over the next six months, and another 34 per cent expected it to remain unchanged. Improved corporate earnings in major sectors, improvement in credit profile of corporates, prospects of economic recovery, and improved monitoring and risk assessment by banks were considered as contributing factors (Chart 4 a).
- A majority (53 per cent) of the respondents expected marginal to considerable improvement in credit demand and another 12 per cent of the respondents expected it to remain unchanged over the next six months, owing to factors, such as, public investment in the infrastructure sector, improvement in

Chart 2: Expectation of Instability in Global Financial System Affecting Indian Economy

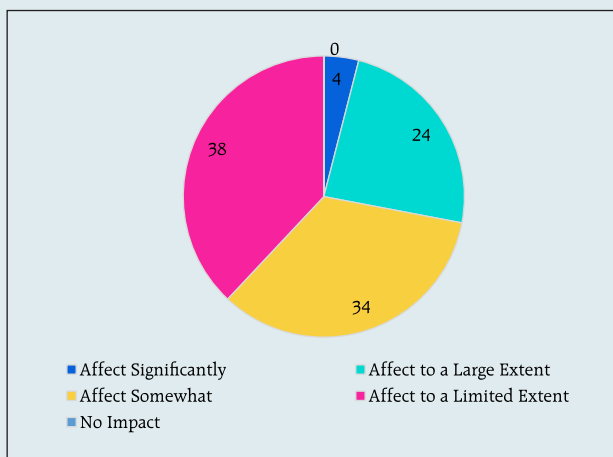


Chart 3: Prospects of Indian Banking Sector - Next One Year

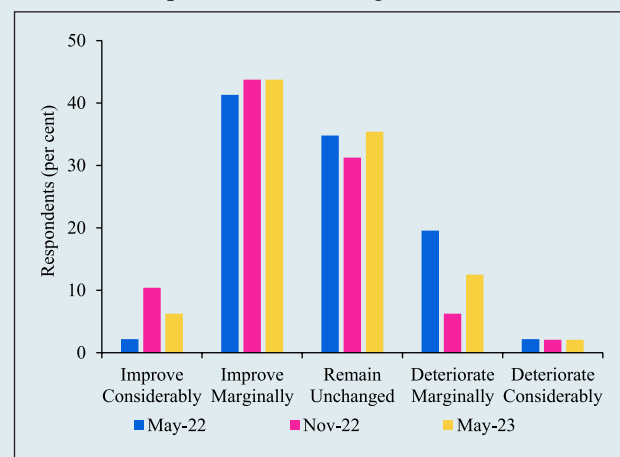
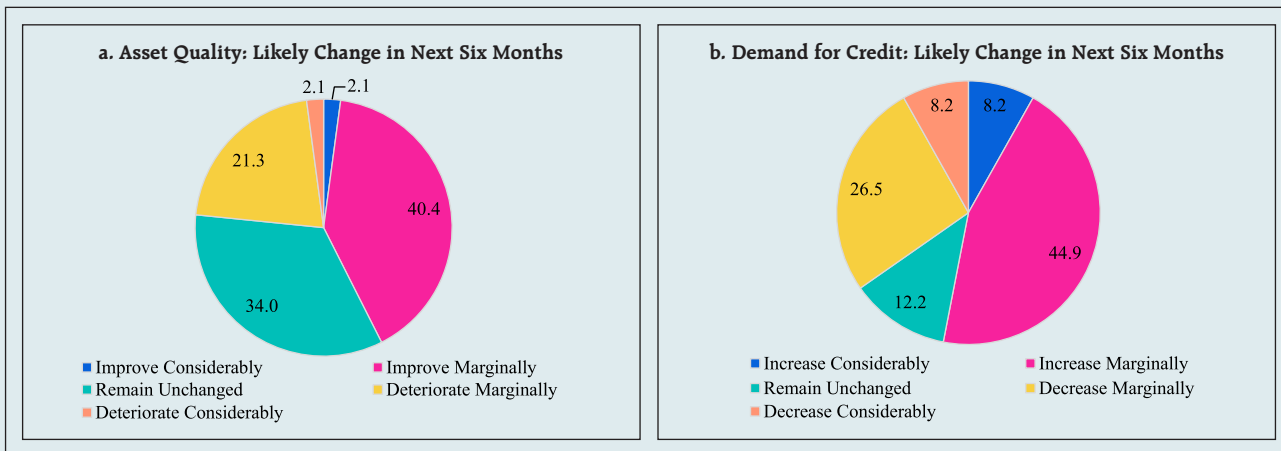


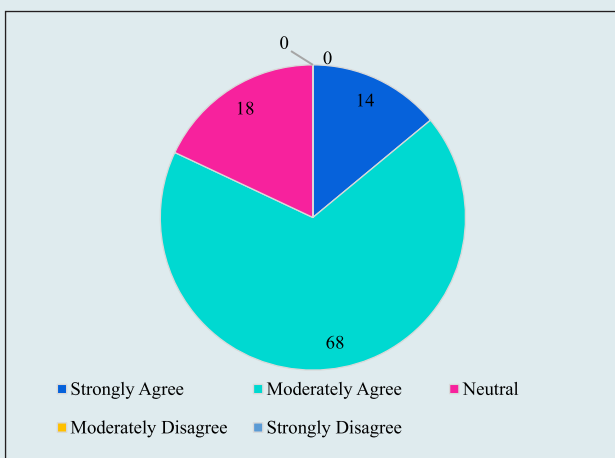
Chart 4: Indian Banking Sector – Outlook



corporate lending, increase in working capital demand by corporates, increase in consumption and investment demand, pick up in domestic economy particularly manufacturing sector, and decline in inflation (Chart 4 b).

- 82.0 per cent of the respondents either strongly or moderately agreed that the recent banking sector turmoil in advanced economies has aggravated risks to global recession (Chart 5).

Chart 5: Risk of Global Recession due to Banking Sector Turmoil in Advanced Economies



Risks to Financial Stability

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

- Global growth slowdown;
- Tightness of financial conditions and interest rate risk;
- Rise in commodity (including oil) prices;
- Slowdown in FDI flows and reversal of FII flows;
- Geo-political risk; and
- Increase in climate risk.