Annex 1

Systemic Risk Survey

The systemic risk survey (SRS), the fourteenth in the series, was conducted during April-May 2018 to capture the perceptions of experts on the major risks presently faced by the financial system. The experts include market participants at financial intermediaries, academicians and rating agencies. According to the survey results, global risks, risk perception on macroeconomic conditions and institutional positions as well as market risks are perceived as medium risks affecting the financial system. Other general risk, however, remain to be perceived in low risk category (Figure 1).

Within global risks, the risk on account of commodity prices (including crude oil prices) was categorised as high risk. Within the macroeconomic risks group, risk on account of political uncertainty/policy implementation moved from low to medium risk category. Risks on account of domestic growth, domestic inflation, current account deficit, capital flows, fiscal deficit, corporate sector, pace of infrastructure development, real estate prices and household savings continued to be in medium risk category in the current survey. Equity price volatility, interest rate risk and liquidity risk also continued to be in medium risk category within financial market risks. Foreign exchange risk, though still in the medium risk category, saw a substantial rise in the risk score in the current survey. Among the institutional risks, the asset quality deterioration of banks, risk on account of additional capital requirement and cyber risk continued to be perceived as high risk factors (Figure 2).

Figure 1: Major risk groups identified in systemic risk survey (April 2018)*

Major Risk Groups	Oct-17	Changes	Apr-18
A. Global Risks		⇧	
B. Macro-economic Risks		⇧	
C. Financial Market Risks		⇧	
D. Institutional Risks		⇩	
E. General Risks		⇩	

Source: RBI systemic risk survey (October 2017 & April 2018).

Note:

Risk Category

Very high	**High**	**Medium**	**Low**	**Very low**

Change in risk since last survey		
⇧	⇔	⇩
Increased	Same	Decreased

Figure 2: Various risks identified in systemic risk survey (April 2018)*				
Risk items		**Oct-17**	**Changes**	**Apr-18**
A. Global Risks	Global growth		⇩	
	Sovereign risk / contagion		⇩	
	Funding risk (External borrowings)		⇧	
	Commodity price risk (including crude oil prices)		⇧	
	Other global risks		⇧	
B. Macro-economic Risks	Domestic growth		⇩	
	Domestic inflation		⇧	
	Current account deficit		⇧	
	Capital inflows/ outflows (Reversal of FIIs, Slowdown in FDI)		⇧	
	Sovereign rating downgrade		⇧	
	Fiscal deficit		⇧	
	Corporate sector risk		⇩	
	Pace of infrastructure development		⇩	
	Real estate prices		⇩	
	Household savings		⇩	
	Political uncertainty/ governance /policy implementation		⇧	
	Other macroeconomic risks		⇧	
C. Financial Market Risks	Foreign exchange rate risk		⇧	
	Equity price volatility		⇧	
	Interest rate risk		⇧	
	Liquidity risk		⇧	
	Other financial market risks		⇧	
D. Institutional Risks	Regulatory risk		⇩	
	Asset quality deterioration		⇩	
	Additional capital requirements of banks		⇧	
	Access to funding by banks		⇩	
	Level of credit growth		⇩	
	Cyber risk		⇩	
	Operational risk		⇔	
	Other institutional risks		⇧	
E. General Risks	Terrorism		⇩	
	Climate related risks		⇩	
	Social unrest (Increasing inequality)		⇩	
	Other general risks		⇧	

Note:

Risk Category

Very high	**High**	**Medium**	**Low**	**Very low**

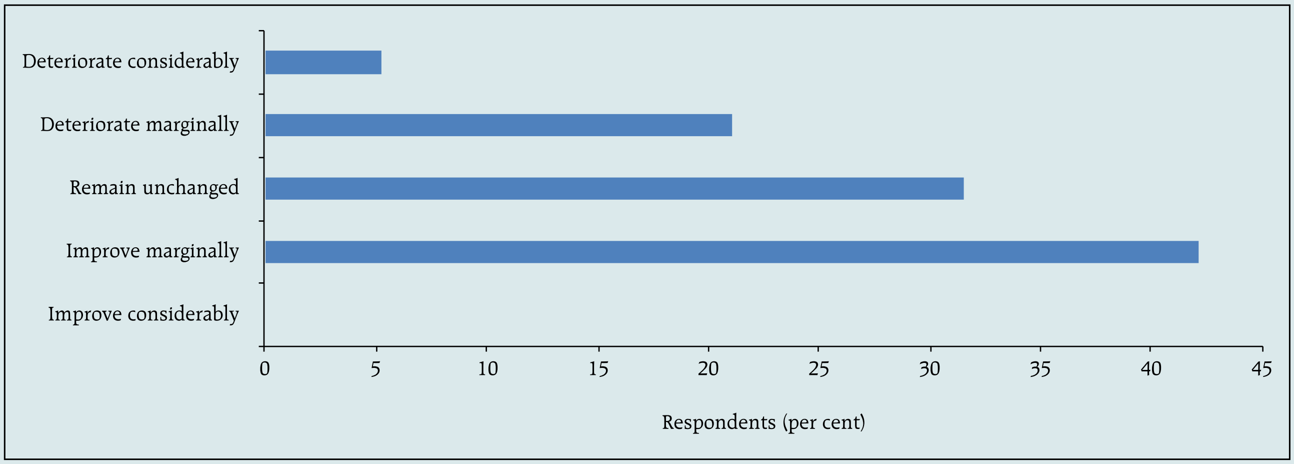
Source: RBI systemic risk survey (October 2017 & April 2018).

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.

Geopolitical risks and the prospects of trade war turning into reality continued to be on the watch list of the participants of the survey. Participants opined that rise in commodity prices including crude oil price will impact inflation, current account deficit, as well as fiscal deficit and could impact domestic financial stability. Market participants expect increase in the volatility due to upcoming general elections and rise in FED rate. About 40 per cent of the respondents feel that the prospects of Indian banking sector are going to improve marginally in the next one year, while the other respondents still feel that the continuous rise in NPAs and faltering governance standards in banks continue to be a cause of concern (Chart 1).

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



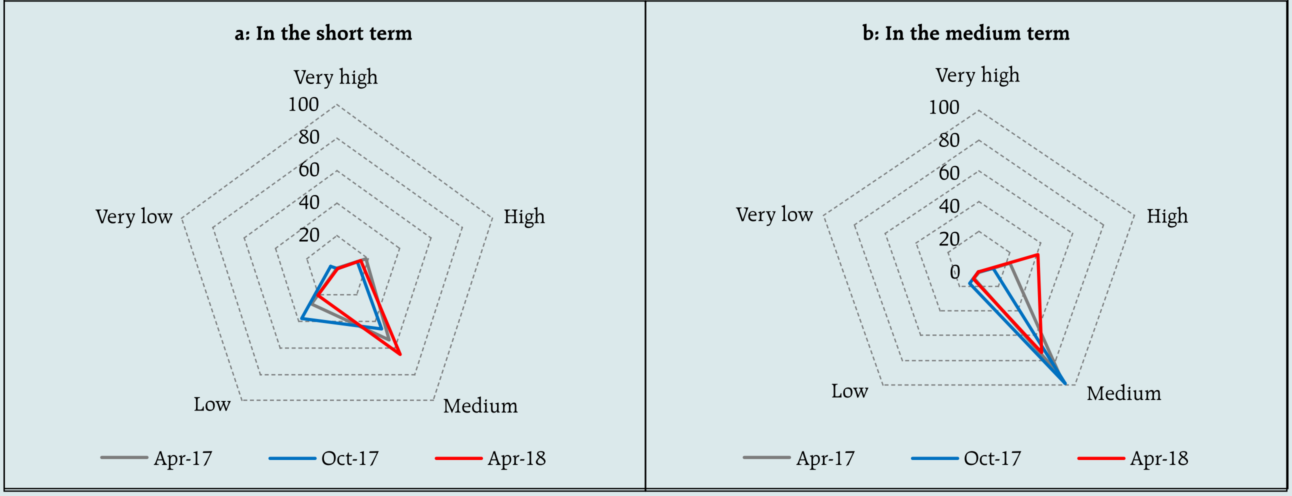
Source: RBI systemic risk survey (April 2018).

Majority of the participants in the current round of survey expect possibility of occurrence of a high impact event in the global financial system and the Indian financial system in the short term (upto 1 year) as well as in the medium term (1 to 3 years) to be medium. There was a significant decrease in the 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

Respondents (per cent)

Probability of high impact event in the global financial system



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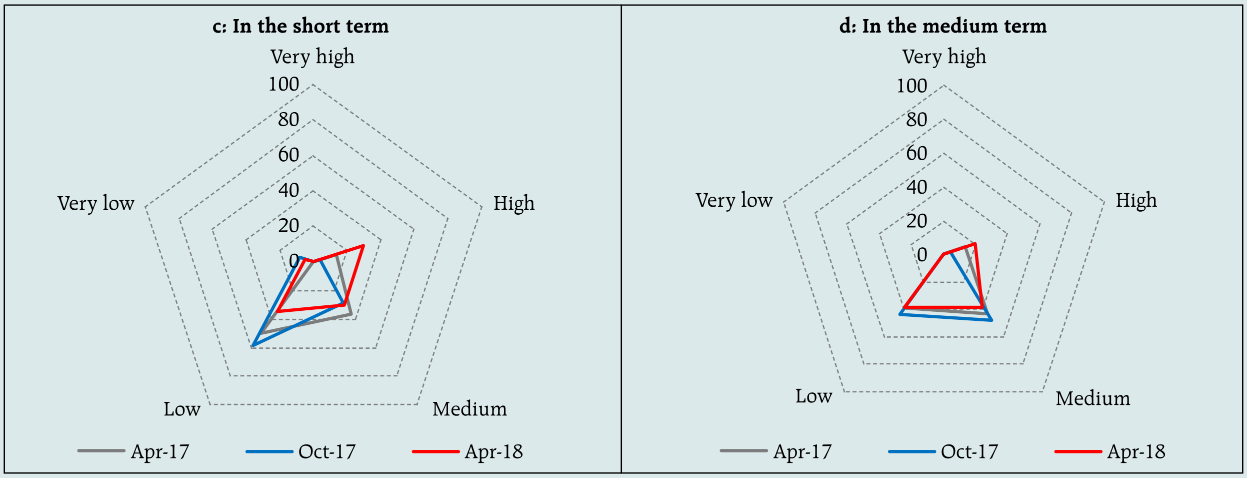
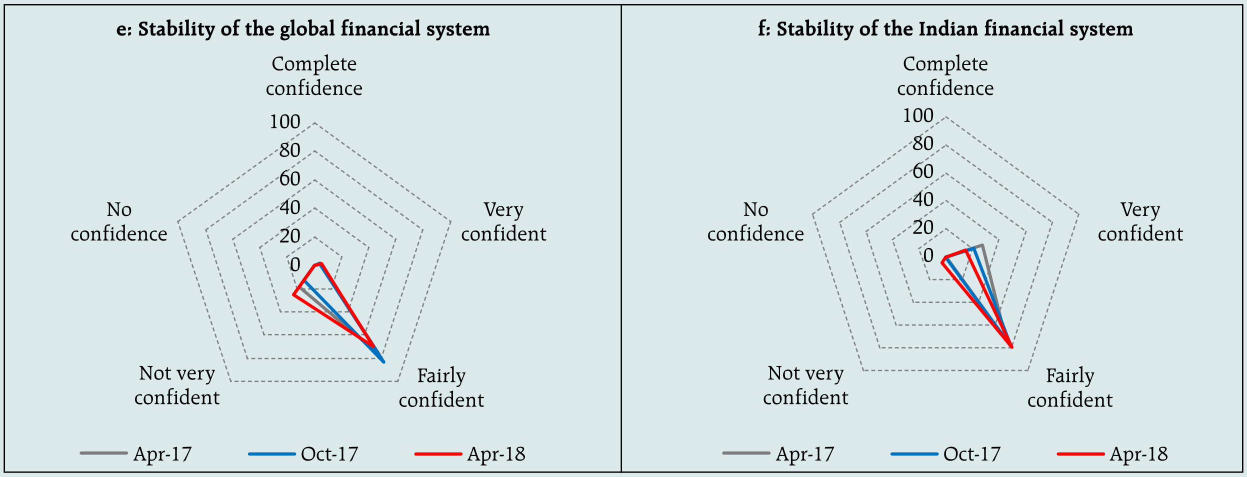
Probability of high impact event in the global financial system



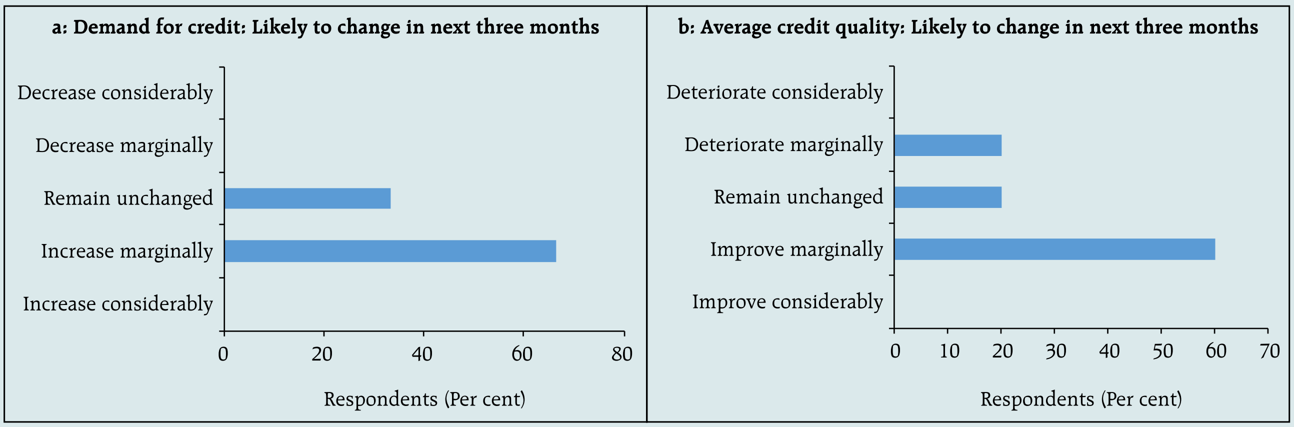
Confidence in the financial systems



Source: RBI systemic risk surveys (April 2017, October 2017 and April 2018).

Majority of the respondents were of the view that the demand for credit in the next three months would 'increase marginally' and average credit quality could 'improve marginally' in the next three months (Chart 3).

Chart 3: Outlook on credit demand and its quality (April 2018)



Source: RBI systemic risk survey (April 2018).