

## Annex 1

## Systemic Risk Survey

The systemic risk survey (SRS), the seventeenth in the series, was conducted during October-November 2019 to capture the perceptions of experts, including market participants, on the major risks presently faced by the financial system. According to the survey results all major risk groups *viz.*, global risks, risk perception on macroeconomic conditions, financial market risks and institutional positions were perceived as medium risks affecting the financial system (Figure 1).

Within global risks, the risk on account of global growth was categorised as high risk. Within the macroeconomic risks group, risks to domestic growth, fiscal deficit, risks on account of corporate sector vulnerabilities and household savings were perceived to be in the high-risk category. Among the institutional risks, the risks on account of asset quality deterioration and level of credit growth were perceived as high risk factors (Figure 2).

**Figure 1: Major risk groups identified in systemic risk survey (October 2019)\***

Major Risk Groups	Apr-19	Changes	Oct-19
A. Global Risks		↓	
B. Macro-economic Risks		↑	
C. Financial Market Risks		↓	
D. Institutional Risks		↑	
E. General Risks		↓	

**Source:** RBI systemic risk survey (October 2019 & April 2019).

**Note:****Risk Category**

<b>Very high</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Very low</b>

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.

Figure 2: Various risks identified in systemic risk survey (October 2019)\*

Risk items		Apr-19	Changes	Oct-19
A. Global Risks	Global growth	High	↑	High
	Sovereign risk / contagion	Medium	↓	Medium
	Funding risk (External borrowings)	Medium	↓	Medium
	Commodity price risk (including crude oil prices)	High	↓	Medium
	Other global risks	Low	↓	Low
B. Macro-economic Risks	Domestic growth	Medium	↑	High
	Domestic inflation	Medium	↑	Medium
	Current account deficit	Medium	↓	Medium
	Capital inflows/ outflows (Reversal of FIIs, Slowdown in FDI)	Medium	↓	Medium
	Sovereign rating downgrade	Low	↑	Medium
	Fiscal deficit	Medium	↑	High
	Corporate sector risk	High	↑	High
	Pace of infrastructure development	Medium	↑	High
	Real estate prices	Medium	↑	Medium
	Household savings	Medium	↑	High
	Political uncertainty/ governance /policy implementation	Medium	↓	Medium
	Other macroeconomic risks	Very low	↑	Very low
	C. Financial Market Risks	Foreign exchange rate risk	Medium	↓
Equity price volatility		High	↓	Medium
Interest rate risk		Medium	↓	Medium
Liquidity risk		High	↓	Medium
Other financial market risks		Very low	↓	Very low
D. Institutional Risks	Regulatory risk	Medium	↓	Medium
	Asset quality deterioration	Medium	↑	High
	Additional capital requirements of banks	High	↓	High
	Access to funding by banks	Medium	↓	Medium
	Level of credit growth	Medium	↑	High
	Cyber risk	High	↓	Medium
	Operational risk	Medium	↑	Medium
	Other institutional risks	Very low	↑	Very low
E. General Risks	Terrorism	Medium	↓	Medium
	Climate related risks	Medium	↓	Medium
	Social unrest (Increasing inequality)	Medium	↓	Medium
	Other general risks	Very low	↔	Very low

Note:

Risk Category

Very high	High	Medium	Low	Very low
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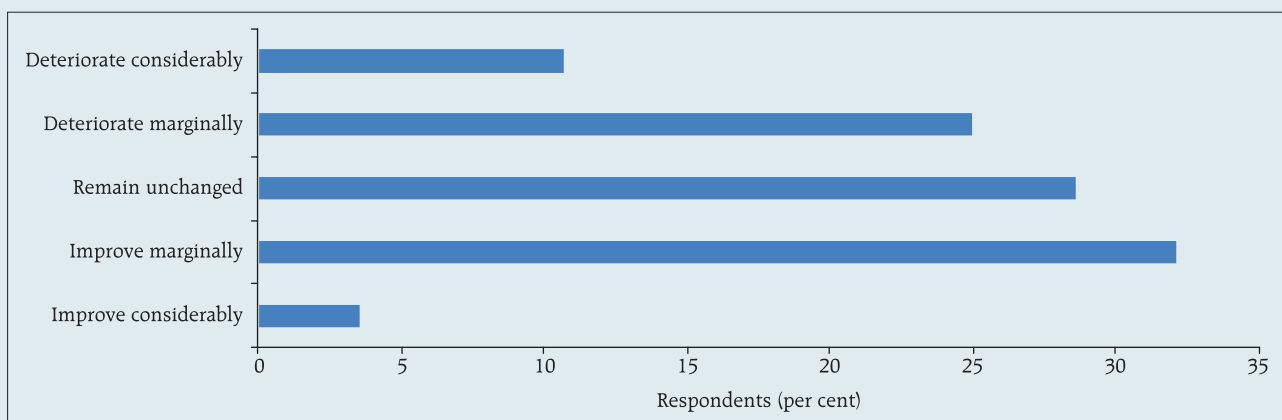
Source: RBI systemic risk survey (April 2019 &amp; October 2019).

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.

Participants opined that banks have become more prudent and have tightened their appraisal over the last couple of years substantially. Despite measures taken by the Reserve Bank, transmission of rate actions is still slow. This coupled with continued risk aversion, has thrown up challenges to the flow of credit to the productive sectors. Demand position for next 3 months may be lower on account of no trigger for fresh increase in demand for goods and services (such as festivals). Notwithstanding the persistent weakness in private investment activity, fiscal spending and better rural economy with a good monsoon should spur some consumption going forward. About 32 per cent of the respondents opine that the prospects of Indian banking sector are going to improve marginally in the next one year while 25 per cent of the respondents feel that the prospects are going to deteriorate marginally (Chart 1). Banking sector participants opine that unless the resolution of the legacy bad assets (especially NCLT1 and 2) are completed, the banking system may find it difficult to support the economic growth aspirations.

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

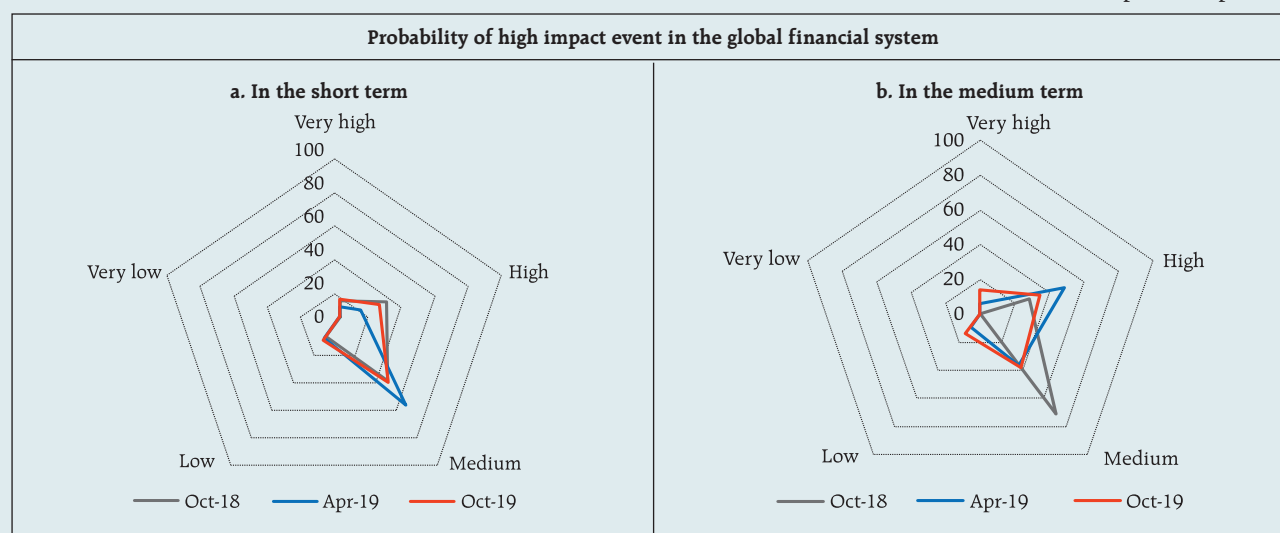


Source: RBI systemic risk survey (October 2019).

Majority of the participants in the current round of survey expect possibility of occurrence of a high impact event in the global financial system in the short term (upto 1 year) as medium. However, in the medium term (1 to 3 years) majority of the participants in the current round of survey assign a high probability to the occurrence of a high impact event in the global financial system. In the Indian financial system possibility of occurrence of a high impact event in the short-term as well as in the medium term has been assigned medium. There was a 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)

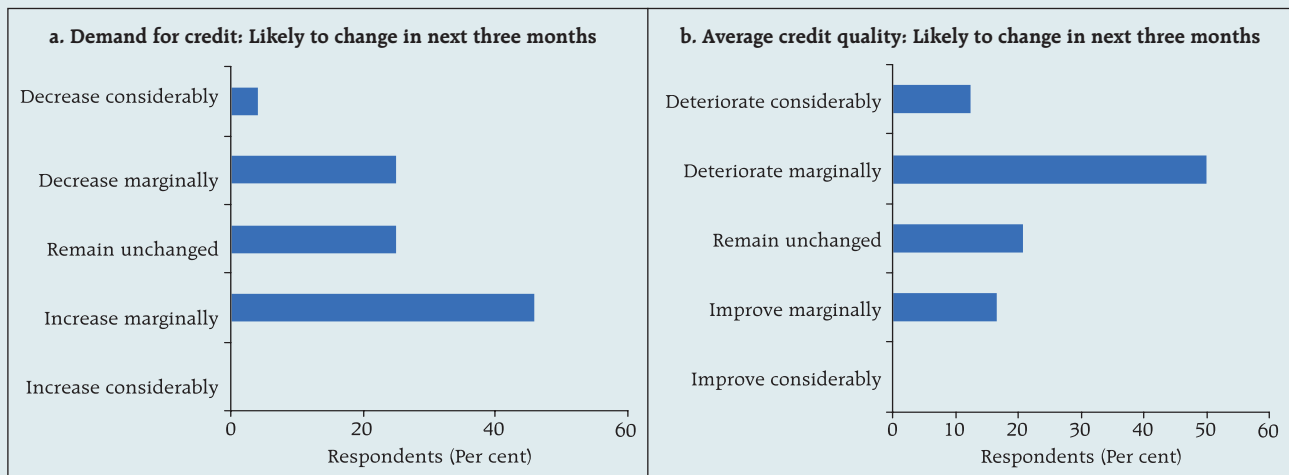




Source: RBI systemic risk surveys (October 2018, April 2019 and October 2019).

Majority of the respondents were of the view that the demand for credit in the next three months would increase marginally. Average credit quality is however expected to deteriorate marginally in the next three months (Chart 3).

**Chart 3: Outlook on credit demand and its quality (October 2019)**



Source: RBI systemic risk survey (October 2019).