

Annex 1

Systemic Risk Survey

The Systemic Risk Survey (SRS), the 7th in the series was conducted in October 2014¹ to capture the perceptions of experts, including market participants, on the major risks that the financial system is facing. The results indicate that global risks and macroeconomic risks continue to be perceived as major risks affecting the financial system. Perceptions about global risks, which tapered a bit during the last survey rose once again while the same about market risks continued to be in the medium risk category, though they too looked up. General risks that had been viewed as high in the last survey mainly on account of the then prevailing uncertainties about weather conditions, were viewed as low in the current round of the survey. Institutional risks continued to fall in the medium risk category, though moderated (Figure 1).

Within global risks, sovereign risks remain unchanged, while the risk of a global slowdown increased marginally. Further, the global inflation risk showed a downward trend though global funding risks remained in an elevated mode.

Within the macroeconomic risk category, risks from deterioration in the domestic economic outlook receded into the medium risk category with a distinct improvement in the sovereign rating front against the backdrop of political stability being in place. Surprisingly, perceptions about risks on account of CAD and fiscal deficit remained unchanged while the same about risks from domestic inflation and household savings lowered. Though the overall outlook has improved, risks emanating from the slow pace of infrastructure development, capital flows, real estate prices and the corporate sector went up to the high risk category.

Among institutional risks, the asset quality of banks continued to be a concern while regulatory risk, operational risk and the risk of low credit-off-take increased comparatively. With regard to general risks, risk perceptions emanating from terrorism and social unrest have increased (Figure 2).

Figure 1: Major risk groups identified in Systemic Risk Surveys (October 2014)

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

Note:

Risk Category

Very high	High	Medium	Low	Very low
-----------	------	--------	-----	----------

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

Note: 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 has been shown by arrow. The shift in risk perception is between two consecutive surveys.

Source: RBI Systemic Risk Surveys (October 2012 to October 2014) (half yearly).

¹ These surveys are conducted on a half-yearly basis. The first survey was conducted in October 2011.

Figure 2: Various risks identified in the Systemic Risk Survey (October 2014)

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

Note:

Risk Category

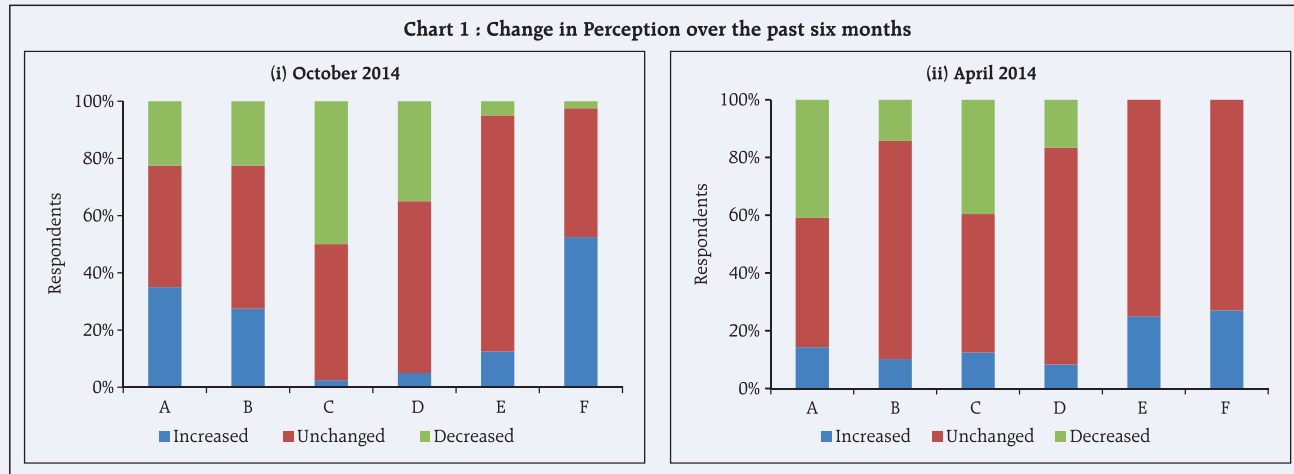
Very high	High	Medium	Low	Very low
-----------	------	--------	-----	----------

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

Note: 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 arrow. The shift in risk perception is between two consecutive surveys.

Source: RBI Systemic Risk Surveys (April 2014 and October 2014).

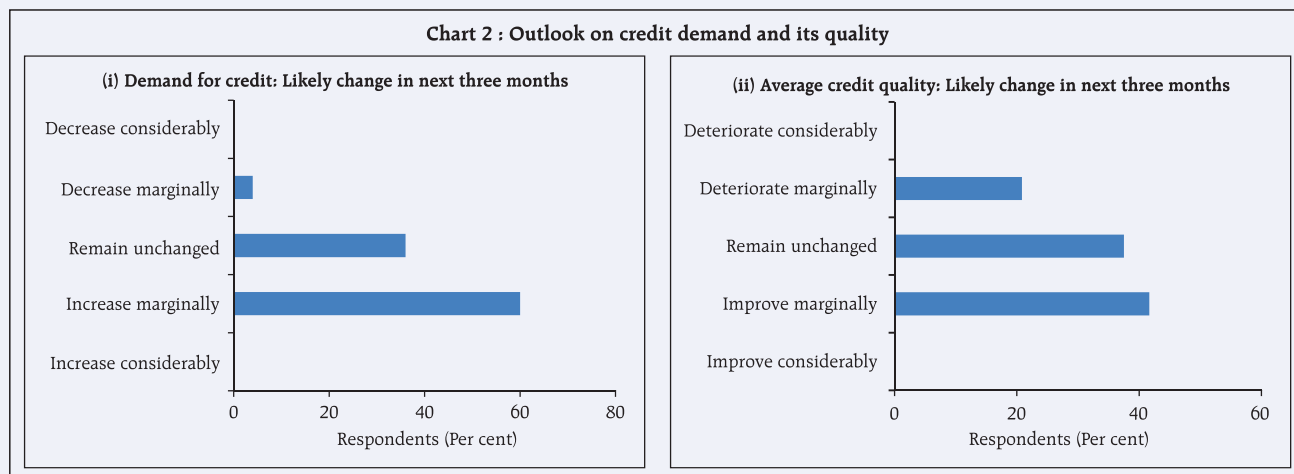
In the current survey, participants felt that there is an increased possibility of a high impact event occurring in the global financial system in the period ahead (short to medium term) while their confidence in the global financial system has marginally deteriorated. However, the possibility of an occurrence of a high impact event in the Indian financial system in the period ahead (short to medium term) is perceived to be low with survey participants expressing higher confidence in the Indian financial system (Chart 1).



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 Surveys (April 2014 and October 2014).

On the issue of likely changes in demand for credit in the next three months, a majority of the stakeholders were of the view that it may increase but marginally. A majority of the respondents felt that the average quality of credit may improve marginally or is likely to remain unchanged in the next three months (Chart 2).



Source: RBI Systemic Risk Survey (October 2014).