Annexure 1

Systemic Risk Survey

Respondents to the 21st round of Systemic Risk Survey perceived all broad groups of risks to the Indian financial system (viz., global spillovers; macroeconomic uncertainty; financial market volatility; institutional vulnerability; and general risks) as 'medium'. Their perception of risks to financial stability included: (a) new wave of the pandemic and new mutations of the coronavirus; (b) faltering of the uneven economic recovery; (c) elevated inflation driven by global energy crisis and supply-side disruptions; and (d) disorderly monetary policy exits. A majority of them expected better prospects for the domestic banking sector over the next one year.

The twenty first round of the Reserve Bank of India's Systemic Risk Survey (SRS) was conducted during November 2021 to capture perceptions on major risks faced by the Indian financial system. For the first time, views of the panellists were also solicited in this round on (i) the sectors/sub-sectors of the Indian economy which are likely to exhibit slower recovery from the impact of the COVID-19 pandemic; (ii) the segments of the financial markets, that are expected to experience higher volatility in the next six months to one year; and (iii) the time frame within which they expect the Indian economy to recover fully from the fallout of the pandemic. The survey results, which are based on feedback from 37 respondents, are encapsulated below.

- The respondents perceived all broad categories of risks to the financial system – global spillovers; macroeconomic uncertainty; financial market volatility; institutional vulnerability; and general risks – as 'medium' in magnitude, but assessed global and financial market risks to be higher *vis-a-vis* other parameters (Figure 1).
- Commodity prices, domestic inflation, equity price volatility, cyber risk, credit growth and asset quality were perceived as the major risk drivers (Figure 2).

Figure 1: Major risk groups identified in the Systemic Risk Survey

Major Risk Groups	Nov-21	Apr-21	Change in Risk Perception*
A. Global Risks			No Change
B. Macroeconomic Risks			Decline
C. Financial Market Risks			Increase
D. Institutional Risks			Decline
E. General Risks			Increase

Source: RBI's Systemic Risk Survey (April 2021 and November 2021).

Note:
Risk Category

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

* The risk perception, as it emanates from the half-yearly systemic risk survey may shift (increase/decrease) from one risk category to the other, which is reflected by the change in colour. The risk perception may also shift or remain unchanged within the same risk category (*i.e.*, boxes with the same colour in Figures 1 and 2).

Figure 2: Granular Risks identified in the Systemic Risk Survey

Risks		Nov-21	Apr-21	Change in Risk Perception*
A. Global Risks	Global growth			Increase
	Sovereign risk / contagion			Decline
	Funding risk (External borrowings)			Decline
	Commodity price risk			Increase
B. Macro-economic Risks	Domestic growth			Decline
	Domestic inflation			Increase
	Current account deficit			Increase
	Capital inflows/ outflows (Reversal of FIIs, Slowdown in FDI)			Decline
	Sovereign rating downgrade			Decline
	Fiscal deficit			Decline
	Corporate sector risk			Decline
	Pace of infrastructure development			Decline
	Real estate prices			Decline
	Household savings			Decline
	Political uncertainty/ governance /policy implementation			Decline
C. Financial Market Risks	Foreign exchange rate risk			No Change
	Equity price volatility			Increase
	Interest rate risk			Increase
	Liquidity risk			Increase
D. Institutional Risks	Regulatory risk			Decline
	Asset quality deterioration			Decline
	Additional capital requirements of banks			Decline
	Access to funding by banks			Decline
	Level of credit growth			Decline
	Cyber risk			Increase
	Operational risk			No Change
E. General Risks	Terrorism			Increase
	Climate related risks			Increase
	Social unrest (Increasing inequality)			Decline

Note:
Risk Category

Very high	High	Medium	Low	Very low

* see footnote in Figure 1.

- Risk perception on global growth, the current account deficit, interest rates, liquidity, terrorism and climate change increased, but remained in the medium risk category.
- Risks posed to domestic growth, capital requirements of banks, the fiscal deficit, and corporate sector vulnerabilities were perceived to have declined.

- Over half of the respondents expected better prospects for the Indian banking sector over the next one year (Chart 1).
- Most respondents assigned medium probability to the occurrence of a high impact event in the global and domestic financial systems up to one to three years ahead (Chart 2), with the share of panellists assigning a low probability to such an event in the domestic financial system rising (Charts 2c, 2d, 2e and 2f).

Chart 1: Prospects for the Indian banking sector - One Year Ahead

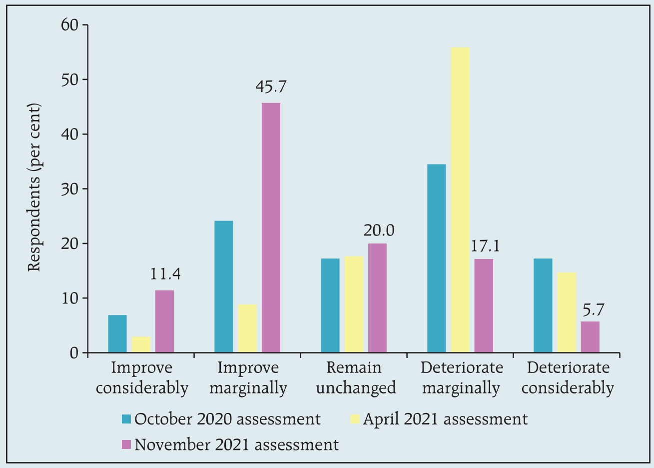
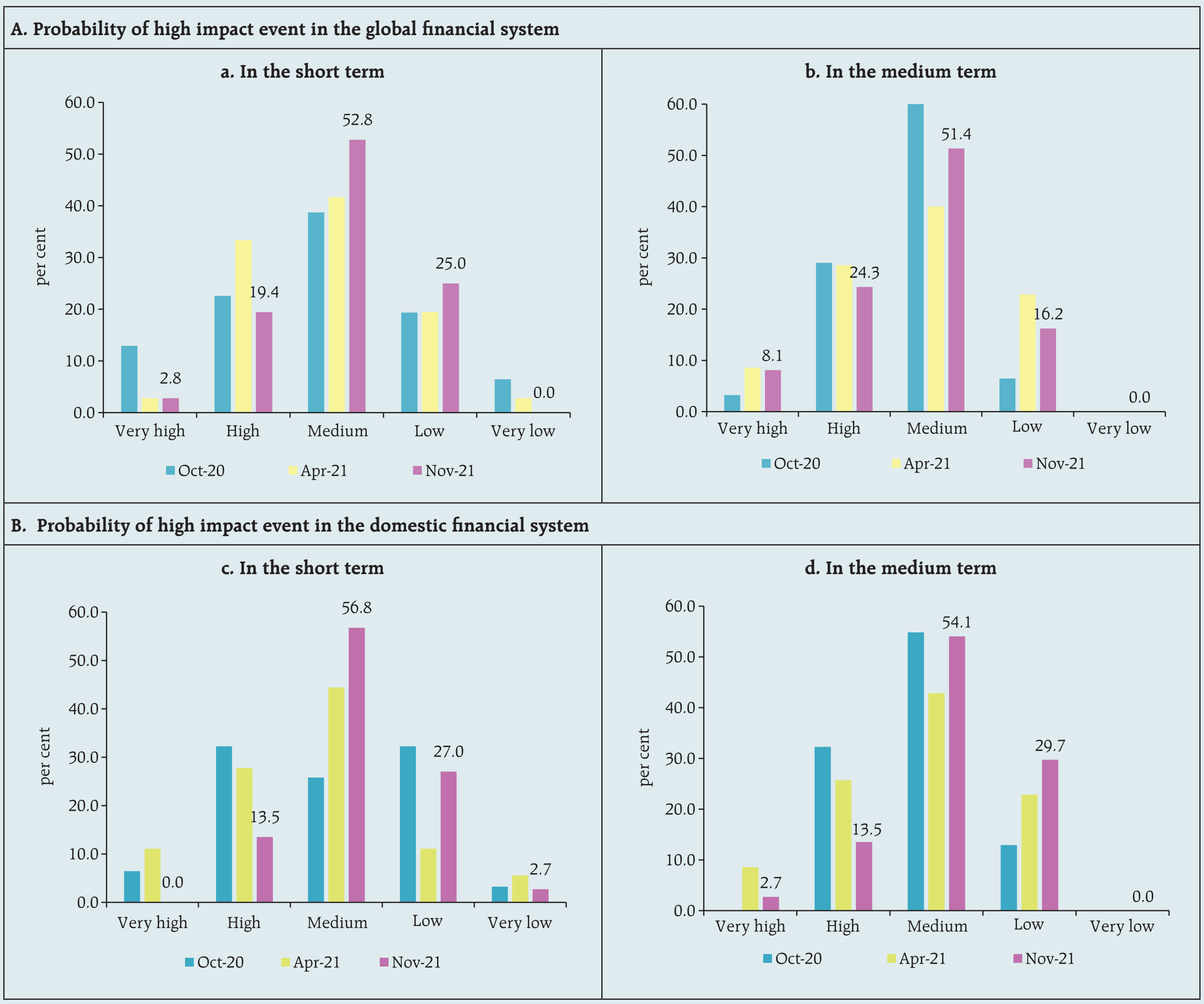


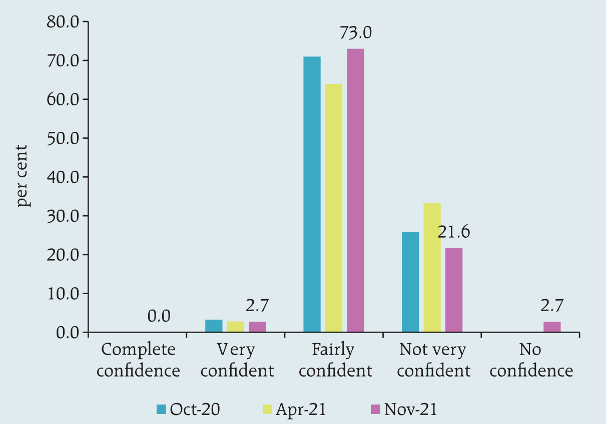
Chart 2: Perception on occurrence of high impact events and confidence in the financial systems

share of respondents (per cent)

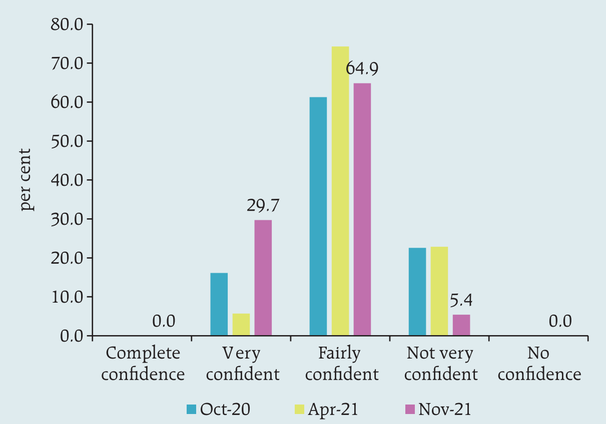


C. Confidence in the financial systems

e. Stability of Global financial system



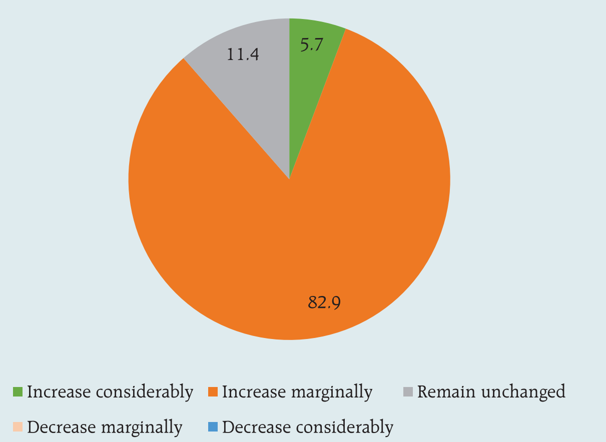
f. Stability of Indian financial system



- Over 80 per cent of the respondents expected a pick-up in credit demand over the next three months, with 43 per cent of them also expecting the quality of banks' assets to improve on account of better macroeconomic prospects, improving financial health of borrowers, setting up of the NARCL and ongoing restructuring of assets (Charts 3 a and 3 b).
- Majority of the respondents expected the Indian economy to recover completely from the fallout of the COVID-19 pandemic in a span of 1-2 years (Chart 4), but contact intensive sectors (tourism and hospitality; aviation; automobiles; MSMEs; retail trade; real estate; and entertainment) could lag over the year ahead.

Chart 3: Indian Banking Sector – Outlook (share in per cent)

a. Demand for credit: Likely change in next three months



b. Average credit quality: Likely change in next three months

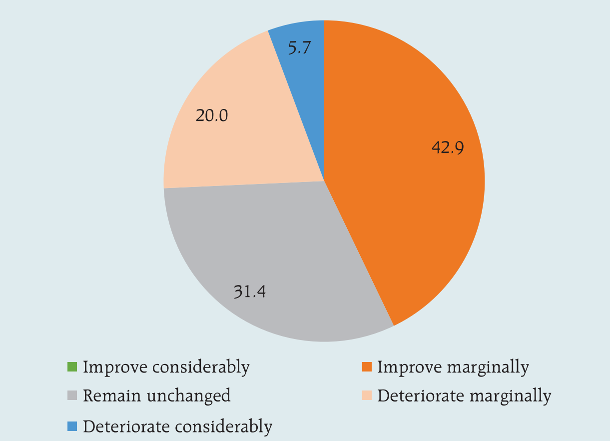
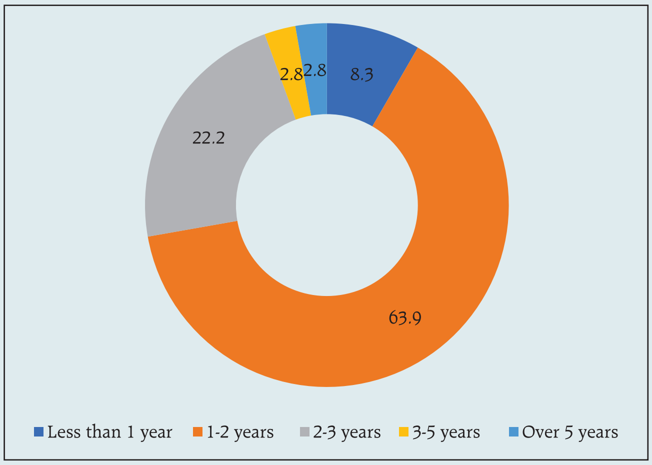


Chart 4: Timeframe for Full Recovery of Indian Economy
(share in per cent)



Risks to Financial Stability

Panellists in the 21st round of the Reserve Bank of India's Systemic Risk Survey identified the following major risk factors for financial stability:

- new wave of the pandemic and new mutations of the coronavirus;
- faltering of the uneven recovery, global and domestic;
- rise in and persistence of elevated inflation driven by global energy crisis and supply-side disruptions including reasons of emission control; and
- disorderly monetary policy exits.