Financial Stability Report
Issue No. 18

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further coordination among the regulators so as to identify possible regulatory arbitrage opportunities on account of regulatory gaps or perceived and real informational asymmetries amongst the regulators. On the other hand, the balance between market development and a desirable level of investor and credit discipline and greater oversight becomes crucial for a sustainable and stable financial system and to maintain inter-generational equity.

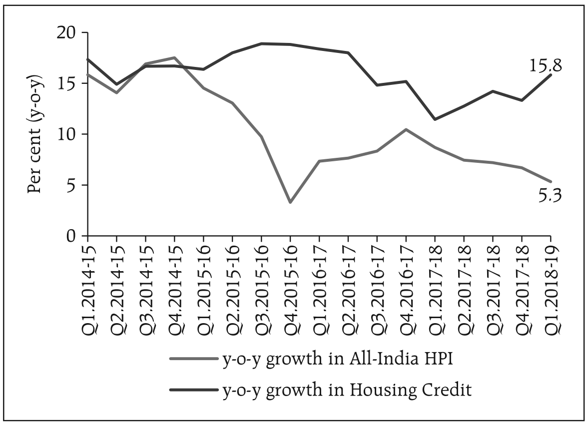
Housing Market

1.26 House prices have been cooling in the last five quarters, despite accelerated housing credit growth and favourable bank lending rates (Chart 1.29). The large pile of unsold homes resulting from tepid demand conditions gradually led to moderation in price increase. There has, however, been a pick- up in house sales in H1:2018-19 leading to a reduction in unsold inventory, thereby improving the house sales-to-inventory ratio for major cities (Chart 1.30). Notwithstanding improved consumer sentiments consequent to stabilisation of disruptions in the implementation of GST and RERA[10], the recent spike in launches is mostly driven by government schemes to promote affordable housing.

Systemic Risk Survey[11]

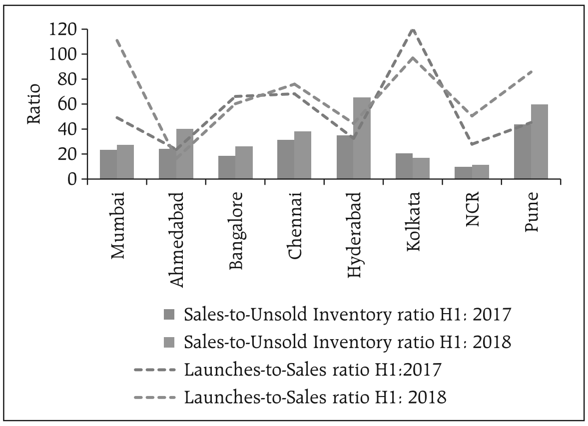
1.27 In the latest systemic risk survey (SRS), participants perceived financial market risks as a high-risk category affecting the financial system while global risks, risk perception on macroeconomic conditions and institutional positions are perceived as medium risks affecting the financial system. About 50 per cent of the respondents felt that the prospects of domestic banking sector are going to improve marginally in the next one year supported by stabilisation of the insolvency and bankruptcy process.

Chart 1.29: Developments in Housing market



Source: RBI.

Chart 1.30: House sales-to-unsold inventory ratio and launches-to-sales ratio



Source: Knight Frank.

[10] GST : Goods and Services Tax; RERA : Real Estate Regulatory Authority

[11] The systemic risk survey (SRS) intends to capture the perceptions of experts on the major risks presently faced by the financial system on a ten point scale. The experts include market participants at financial intermediaries, academicians and rating agencies. It is conducted on a half-yearly basis and reported in the FSR. Please refer to Annex 1 for detailed analysis on the survey.

Annex 1

Systemic Risk Survey

The systemic risk survey (SRS), the fifteenth in the series, was conducted during October-November 2018 to capture the perceptions of experts, including market participants, on the major risks presently faced by the financial system. According to the survey results while financial market risks are perceived as a high-risk category affecting the financial system global risks, risk perception on macroeconomic conditions and institutional positions are perceived as medium risks affecting the financial system (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, risks on account of decreasing capital inflows, higher current account deficit[1] and corporate sector vulnerabilities moved from medium to high risk category. Risks to domestic growth, domestic inflation, fiscal deficit, pace of infrastructure development, real estate prices and household savings continued to be in medium risk category in the current survey. In the financial market risks category equity price volatility, foreign exchange risk and liquidity risk moved from medium to high risk category. 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).

Participants opined that ability of Centre and State governments to maintain fiscal discipline in the wake of the upcoming general elections would be essential in uplifting market sentiments. Tightening global liquidity with a further appreciation of the U.S. dollar could lead to a reversal of capital flows with attendant risks to the current account. Market participants expect the volatility to remain elevated ahead of the general elections accentuated by the uncertain global environment due to trade tensions. About 50 per cent of the respondents feel that the prospects of Indian banking sector are going to

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

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

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

Note:
Risk Category

Very high	High	Medium	Low	Very low

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.

[1] The survey was launched on October 10, 2018 and concluded before the decline in oil prices and moderation of strength of US dollar.

Figure 2: Various risks identified in systemic risk survey (October 2018)*

Risk Groups	Risk Items	Apr-18	Changes	Oct-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		↑	

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

Note:

Risk Category

Very high	High	Medium	Low	Very low

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.

improve marginally in the next one year supported by stabilisation of the IBC process (Chart 1).

Majority of the participants in the current round of survey expect the possibility of occurrence of a high impact event in the global financial system or in the Indian financial system to be medium in the short term (upto 1 year) as well as in the medium term (1 to 3 years). There was a decrease in the number of respondents in the current survey who were fairly confident of the stability of the global financial system (Chart 2).

Majority of the respondents were of the view

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

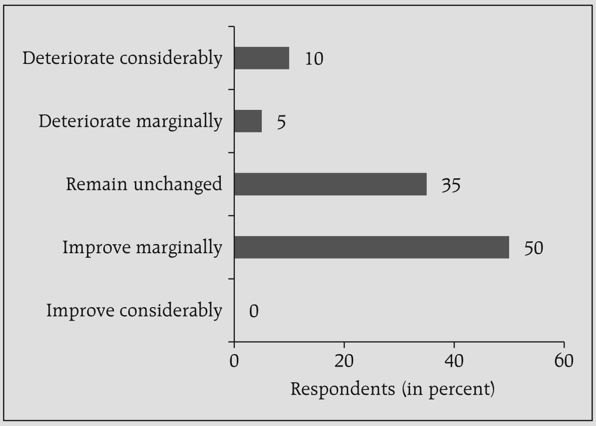
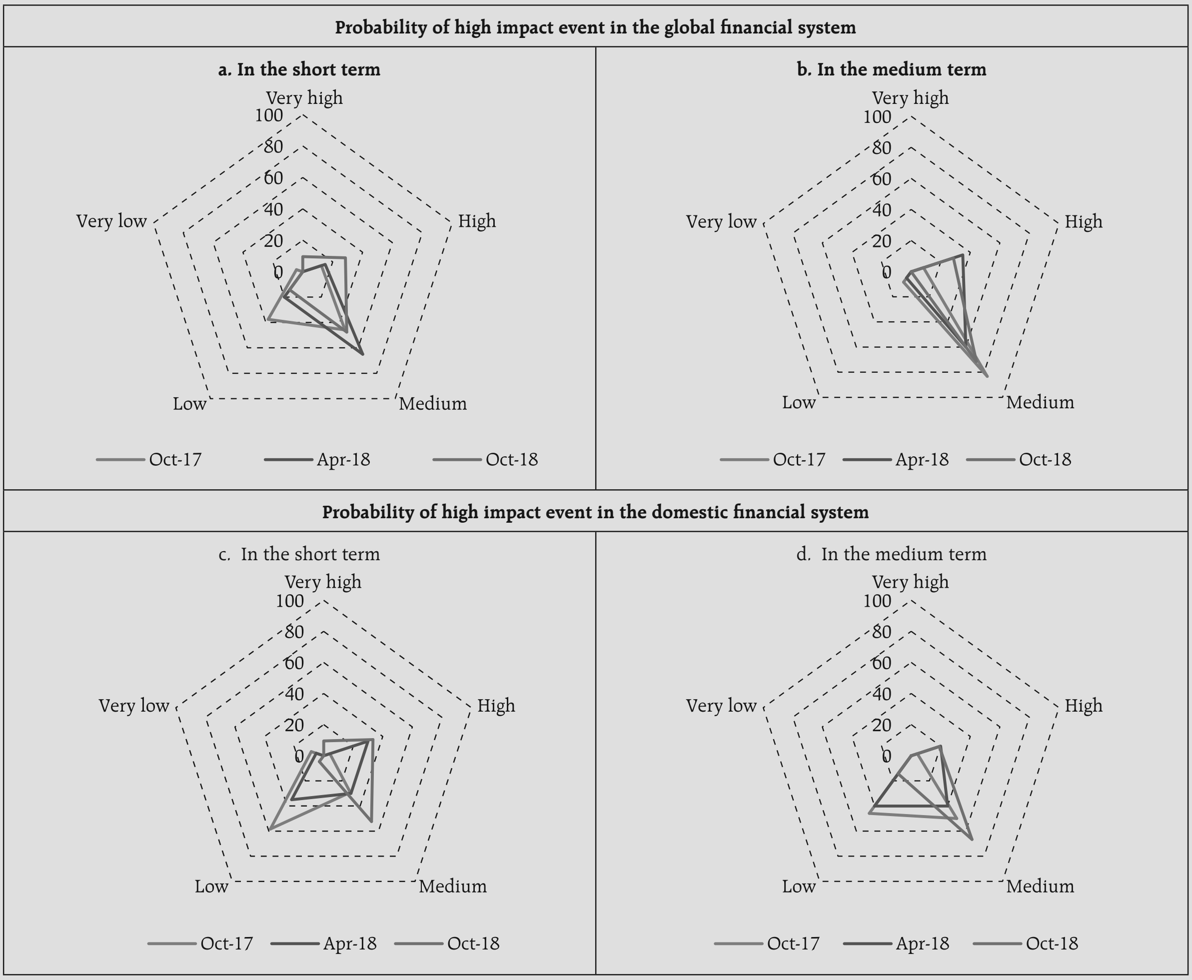
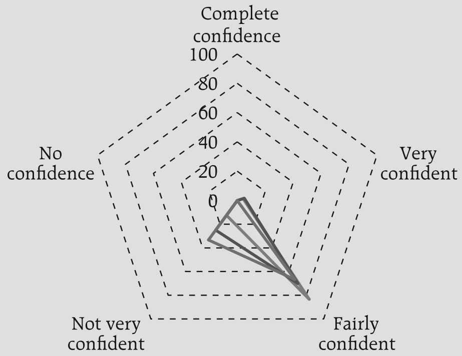


Chart 2: Perception on occurrence of high impact events and confidence in the financial systems

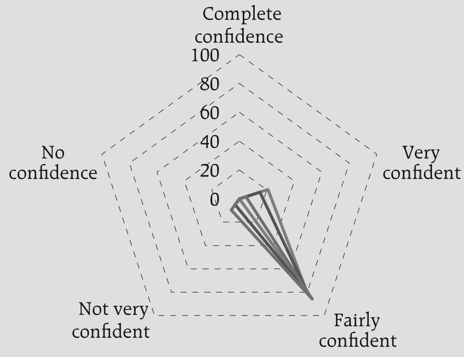


Confidence in the financial systems

e. Stability of the global financial system



f. Stability of the Indian financial system

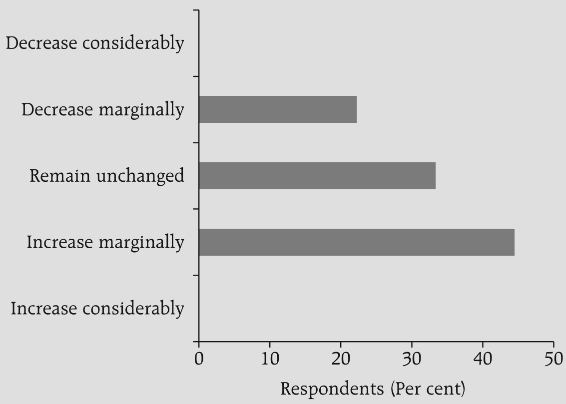


Source: RBI systemic risk surveys (October 2017, April 2018 and October 2018).

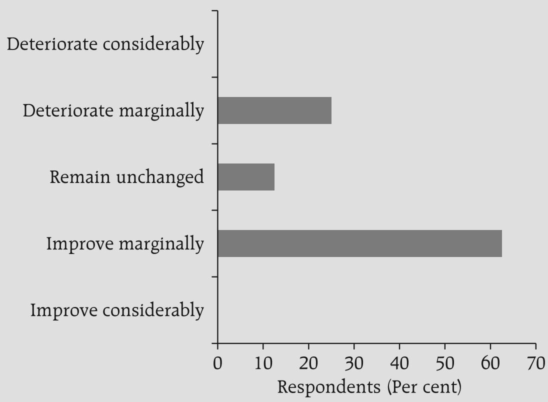
that the demand for credit in the next three months would increase marginally. Average credit quality is also expected to improve marginally in the next three months. (Chart 3).

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

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



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



Source: RBI systemic risk survey (October 2018).