

Box 1: SBP's Systemic Risk Survey-3rd Wave (January, 2019)

SBP launched the 3rd wave of its biannual Systemic Risk Survey in January, 2019 to capture the risk perceptions of market participants and evaluate their confidence in the stability of the financial system. The respondents of the survey included senior executives of financial institutions, financial journalists and academia.¹⁵

The survey intends to gauge the present and future (over the next six months) risk perceptions of the respondents related to five broad categories i.e. global, macroeconomic, financial markets, institutional and general risks. The overall response rate to the survey stands at 40 percent¹⁶

Summary of Results¹⁷:

1. At aggregate level, financial market and macroeconomic risks are perceived to be critical for financial stability both in current scenario as well as over the next six months (**Chart A & B**).
2. Among all the risks, the highest cited risks at present are deterioration in balance of payment, foreign exchange rate risk and the widening fiscal deficit. In addition, increase in domestic inflation,

slowdown in domestic growth, volatility in commodity prices and cyber security risks are other high risk¹⁸ sources having the potential to undermine financial stability (**Chart C**).

3. Over the next six months foreign exchange rate risk, balance of payment pressures, widening fiscal deficit and increase in domestic inflation were reported as key risks (**Chart C**).

4. The likelihood of occurrence of a high risk event in Pakistan's financial system over the short term is slightly higher than medium term according to survey results.

5. A higher proportion of respondents show confidence in the ability of regulators to ensure financial stability and felt confident about the stability of the overall financial system (**Chart D**).

6. A comparison of the results of the past three waves of the survey depict that risk perceptions of the respondents relating to external sector, rising domestic inflation and slowdown in growth have firmed up. On the other hand, risk of political uncertainty has subsided after the conduct of general elections (**Chart E**).

¹⁵ The respondents included executives from commercial banks, insurance companies, exchange companies, MFBS, DFIs, major financial market infrastructures, financial journalists, members of academia, SECP officials and think tanks.

¹⁶ The 3rd wave of the survey was sent to 230 respondents out of which 92 responded.

¹⁷ The results presented here are based on responses to the survey and do not necessarily reflect the State Bank of Pakistan views on risks to the financial system

¹⁸ High risk is identified by aggregating percentage of respondents by clubbing together percentage of respondents choosing either high or very high as response to a particular risk category or type in the survey questionnaire.

Chart A: Perception on sources of systemic risk- present

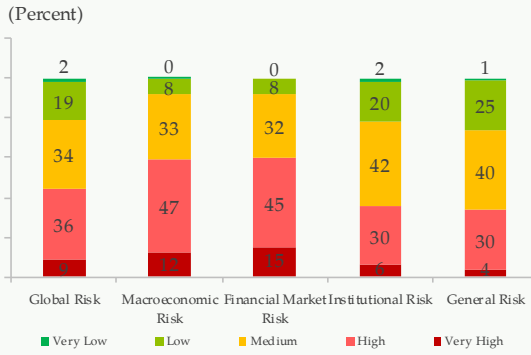


Chart B: Perception on sources of systemic risk- next 6 months

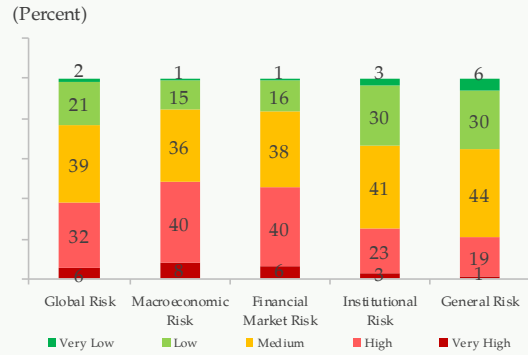


Chart C: Top 10 risks identified

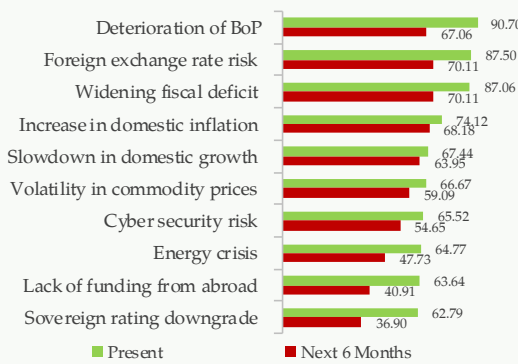


Chart D: Confidence in financial stability

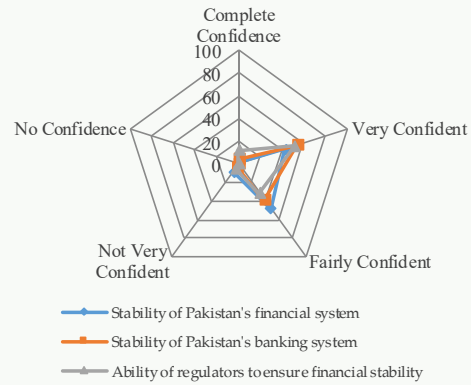


Chart E: Comparison of results (1st, 2nd and 3rd waves)

	1st Wave (Jan-18)	2nd Wave (Aug-18)	3rd Wave (Jan-19)		1st Wave (Jan-18)	2nd Wave (Aug-18)	3rd Wave (Jan-19)
Slowdown in global growth	2.94	2.63	2.85	Interest rate risk	2.82	2.52	2.40
Sovereign default risk	3.16	2.95	3.29	Liquidity risk	2.84	2.67	2.67
Lack of funding from abroad	2.41	2.14	2.34	Regulatory risk	2.68	2.69	2.55
Volatility in commodity prices	2.13	2.22	2.28	Legal risk	2.93	2.98	2.94
Slowdown in domestic growth	2.54	2.42	2.27	Asset quality deterioration	2.72	2.52	2.55
Increase in domestic inflation	2.56	2.32	2.16	Shortfall in capital requirement	2.81	2.67	2.77
Widening fiscal deficit	2.00	1.89	1.84	Access to funding (deposit mobilization & borrowings)	2.93	2.78	2.87
Deterioration of BoP	1.78	1.70	1.71	Excessive private sector credit	2.95	2.97	3.11
Sovereign rating downgrade	2.60	2.36	2.29	Concentration risk in private	2.84	2.93	2.95
Slowdown in corporate sector growth	2.90	2.64	2.47	Concentration risk in mutual fund	3.23	3.32	3.35
Slowdown in infrastructure development	2.96	2.86	2.88	Operational risk	2.65	2.75	2.78
Deterioration in household savings	2.57	2.66	2.60	Cyber security risk	2.18	2.43	2.23
Volatility in real estate prices	2.95	3.11	3.01	Disruption in financial market	2.74	2.80	2.92
Energy crisis	2.26	2.39	2.36	Terrorism	2.19	2.26	2.78
Political uncertainty	1.90	2.44	2.41	Geopolitical risk for Pakistan	2.22	2.28	2.63
Foreign exchange rate risk	1.92	1.79	1.80	Natural disasters/ Increasing threat of climate change	2.97	2.79	3.09
Equity price risk	2.59	2.62	2.44	Social unrest	2.68	2.93	3.07

