

Box 1: SBP's Systemic Risk Survey - 7th Wave (January 2021)

(Disclaimer: The results represent the opinion of the respondents of the survey and do not reflect the views of the State Bank of Pakistan.)

SBP completed the 7th wave of its biannual Systemic Risk Survey (SRS) in January 2021 to capture the risk perceptions of the market participants and evaluate their confidence in the stability of the financial system. As was the case in previous iterations, the core survey questions remained unchanged. However, to gauge the perceptions of the participants about the stability implications of ongoing COVID-19 pandemic, the survey questionnaire has been supplemented with a set of questions since the last conducted wave (sixth wave).

Besides risks emanating from the pandemic, the survey gauged the present and future (over the next six months) perceptions of the respondents related to five broad categories of risk i.e. global, macroeconomic, financial markets, institutional and general. The respondents for the current iteration included a broad spectrum of stakeholders⁷. One hundred and fifteen participants took part in the current wave yielding 53% response rate.

Summary of Results:

1. At present, on the aggregate level, respondents rank the “Domestic Macroeconomic Risks” category as the most vital, followed by “Global Risks”. Their perception about importance of risks to the financial system are exogenous to the system, and does not change for the next six months. **(Chart A & B)**
2. In terms of specific risks at present, highest rated are “deterioration in household income”, “slowdown in domestic growth”, and “volatility in commodity prices”. For the next six months, the respondents substitute the risk sources with “increase in domestic inflation”, “volatility in commodity prices” and “cyber security risks”. Apparently, in the near future, respondents are hopeful for the recovery in the domestic economy but remain cautious regarding rise in inflation. **(Chart C)**
3. Comparison of previous three waves indicates that the risk perception has slightly improved towards domestic inflation and slowdown in domestic growth. **(Chart E)**
4. The confidence on the stability of the financial and banking system has improved in comparison to previous waves. It manifests the effective handling of the economic and financial risks—in the wake of timely policy measures taken by the government and the State Bank of Pakistan—associated with the COVID-19. **(Chart D)**
5. It is encouraging to note that the respondents’ views—in the pandemic’s perspective—remain strongly positive about the efficacy of the SBP’s overall policy measures. **(Chart F1 & F2)**
6. Regarding COVID 19’s impact on financial industry, the survey results indicate that major adverse impact could be observed on advances growth followed by profitability and business operations. **(Chart G)**
7. In respondents’ views, the impact of COVID-19 on financial stability would gradually fade out from immediate term to medium term as the pandemic eases **(Chart H)**. Further, respondents’ perceptions have slightly improved in comparison to previous wave (6th wave).

⁷ 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.

Chart A: Perception on sources of systemic risk- present

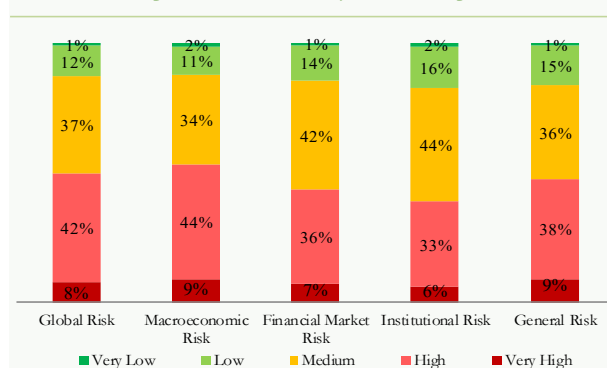


Chart B: Perception on sources of systemic risk- 6 months

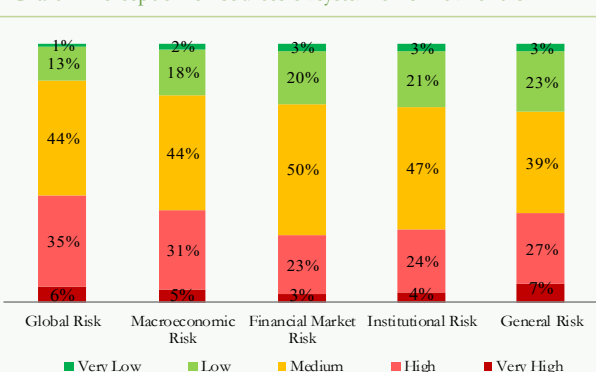


Chart C: Top 10 Risks Identified

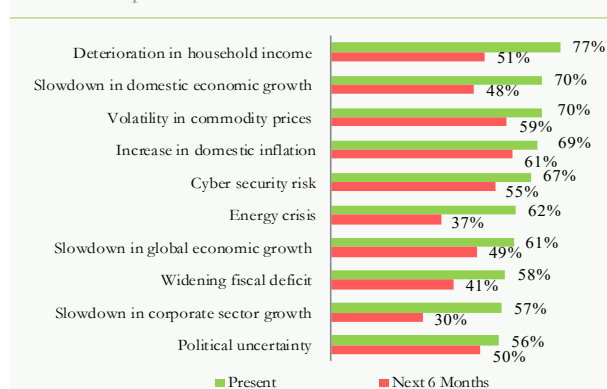


Chart D: Confidence in Financial Stability

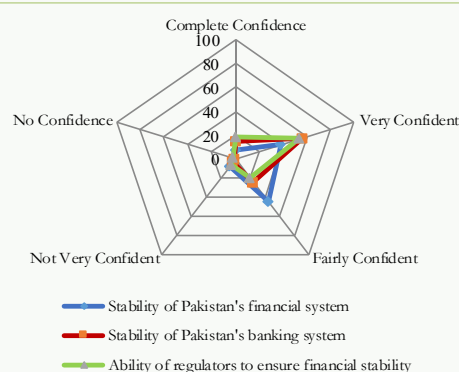


Chart E: Comparison of SBP's Systemic Risk Survey (SRS) Results (5th, 6th and 7th waves)

		5th Wave (Jan-20)	6th Wave (Aug-20)	7th Wave (Jan-21)			5th Wave (Jan-20)	6th Wave (Aug-20)	7th Wave (Jan-21)
		Present (Average)	Present (Average)	Present (Average)			Present (Average)	Present (Average)	Present (Average)
Global Risks	Slowdown in global growth	2.65	2.27	2.42	Institutional Risks	Regulatory risk	2.62	2.73	2.63
	Sovereign default risk	2.99	2.96	3.03		Legal risk	2.85	2.98	2.89
	Lack of funding from abroad	2.43	2.38	2.61		Asset quality deterioration	2.41	2.39	2.54
	Volatility in commodity prices	2.07	2.09	2.25		Shortfall in capital requirement	2.57	2.63	2.72
	Slowdown in domestic growth	2.10	2.16	2.26		Access to funding (deposit mobilization & borrowings)	2.72	2.77	2.92
Macroeconomic Risks	Increase in domestic inflation	1.79	2.26	2.19		Excessive private sector credit	3.03	2.80	2.98
	Widening fiscal deficit	2.24	2.32	2.40		Concentration risk in PSC	2.97	2.78	2.94
	Deterioration of BoP	2.43	2.47	2.58		Concentration risk in mutual fund	3.28	3.33	3.11
	Sovereign rating downgrade	2.68	2.81	2.77		Operational risk	2.78	2.65	2.77
	Slowdown in corporate sector growth	2.21	2.43	2.53		Cyber security risk	2.28	2.23	2.18
	Slowdown in infrastructure development	2.56	2.91	2.88		Disruption in financial market	2.78	2.66	2.84
	Deterioration in household savings	2.26	2.26	2.12		Terrorism	2.67	2.74	2.58
	Volatility in real estate prices	2.96	2.86	2.97		Geopolitical risk for Pakistan	2.25	2.48	2.44
	Energy crisis	2.50	2.49	2.39	General Risks	Natural disasters/ Increasing threat of climate change	2.68	2.59	2.88
	Political uncertainty	2.29	2.74	2.43		Social unrest	2.82	2.75	2.71
Financial Market risks	Foreign exchange rate risk	2.19	2.18	2.39					
	Equity price risk	2.67	2.69	2.79					
	Interest rate risk	2.32	2.72	2.62					
	Liquidity risk	2.66	2.72	2.79					

Very High

Medium

Very Low

Chart F1: Respondents confidence on the SBP's measures to mitigate the implications of Covid-19 Shock

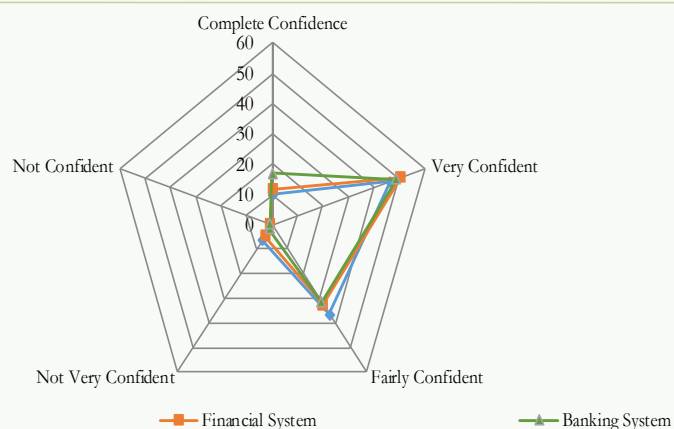


Chart F2: Respondents' views about the efficacy of SBP measures for the economy

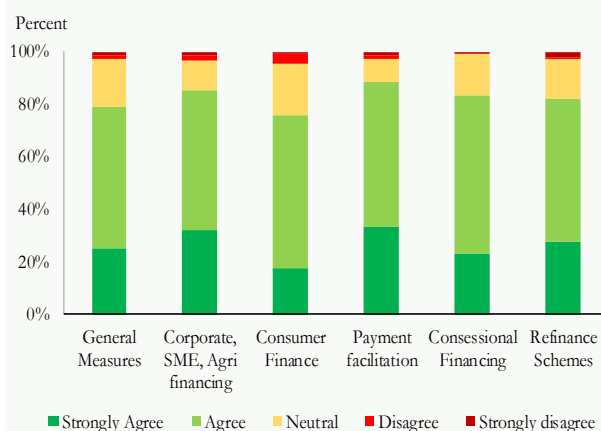


Chart G: Respondents views about the likely impact of COVID-19 on key areas of the financial industry

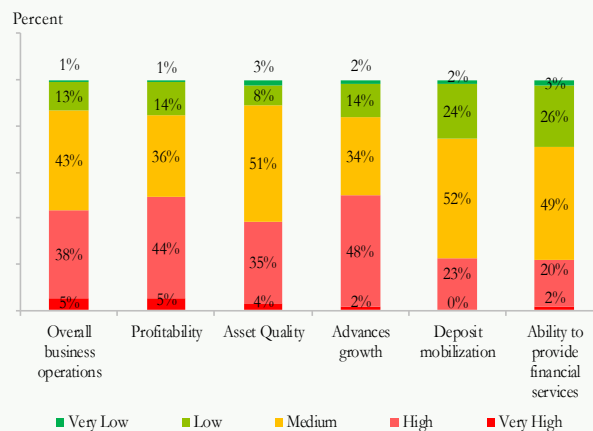


Chart H: Likelihood of COVID-19 pandemic undermining the stability of Pakistan's financial system - Comparison with SRS 6th wave

