MAY FSR DISCUSSION

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Disclaimers apply.
Financial market plumbing, so far, does well:
- Price formation, though ex crypto and subject to volatile expectations, and liquidity (tapering)
- Credit supply
- Risk capital more discriminating
- Margin call stress outside financial sector

Speed of globalization wind-down and decoupling:
- (too) much sunk investment?
- Optimising inefficiency: Investment opportunities in onshoring, but also risks
- FX risk
- Substitutability: time horizon and indirect effects through limiting production factors? Cost convexity

Trend towards ever increasing spending needs (given the intense chain of extreme fiscal events) may test funding while liquidity is reduced.

Sovereign financing needs and hence debt pressures may reach credit spread determination again

Financial stability worries: Where are the hidden exits?
- Derisking: eerily orderly corrections – have we seen it all?
- Interest rate hikes – Ultimate unhedged counterparty of IR swaps? Households variable rate exposure?
- Inflation and nowhere to hide: energy prices; cash vs market corrections; bond valuation volatility?

Role of macroprudential policy vs fiscal and monetary policy