MPP beyond banks

20 years of Macroprudential Policy in Europe – Looking back and looking ahead

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Why should we think about MPP beyond banks? (I)

Total assets in the Swedish financial sector (2023Q1)

- Banks and other MFIs: 18.4 tr SEK
- OFI (inc. family offices): 4.5 tr SEK
- Pension funds: 7.0 tr SEK
- Investment funds: 6.4 tr SEK

Ownership of investment fund, SEK million by type of fund and quarter, gross savings in funds, sales, all sectors.

Source: Swedish Financial Supervisory Authority
Why should we think about MPP beyond banks? (II)

And NBFI are not the only one growing in importance (IMF, 2022)
Different funds react differently to market shocks
Cella et al. (2013)

- During market turmoil, the selling pressure experienced by different stocks may vary depending on the length of their shareholders’ investment horizons
- Evidence that investors’ short trading horizons amplify negative shocks, after controlling for firm characteristics, investors’ trading styles, and the contemporaneous net flows experienced by investors
Figure 4: Risks and vulnerabilities in the NBFI sector

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<th>Risks</th>
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<td><strong>2022 economic outlook for investment funds and other financial institutions challenging amid global policy tightening</strong></td>
<td><strong>Structural risks and potential vulnerabilities in the EU non-bank financial sector</strong></td>
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<td>Economy</td>
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<td>Uncertainty around pace and extent of economic recovery in the EU and globally</td>
<td>Liquidity risk, pricing uncertainty, and risks associated with leverage among some types of investment funds and other financial institutions</td>
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<td>Credit risk</td>
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<td>High indebtedness levels due to COVID-19 pandemic; expected rise of defaults</td>
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<td>Risk of abrupt market correction due to stretched asset valuations and/or inflation and rate risk</td>
<td>Risk-taking behaviour affected by deteriorating growth prospects alongside rising nominal rates and markets expecting real rates to stay low for longer</td>
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<td>Liquidity</td>
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<td>Market structure remains fragile for some asset classes</td>
<td>Remaining gaps in data and risk metrics prevent a more complete risk analysis</td>
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Source: ESRB (2022)
Thinking back to think ahead...

- Potential **long-term effects** of employing different sets of policies

- Better supervision could help reducing ex-post interventions to stabilize financial markets, yet **problems will still remain**
  - Unsustainable business models, inadequate risk management, poor corporate governance
  - Lack of coordination in the applications of policies across countries
  - Even less regulated and “more opaque” institutions could gain additional ground

- Where could we start then?
  - Effective supervision requires better **data** (quality, availability and accessibility) and more resources
  - Think more carefully about whether making ex-post intervention more costly could already be an **effective deterrent** for excessive risk-taking