The outlook for macroprudential policy in the new environment

SK perspective
Macroprudential decisions during the period of risk accumulation

- Strong financial cycle, loosening of the lending standards, too-big-to-fail
- Comprehensive set of BBMs
- CCyB, Buffers for systemic banks
- Significant capital buffers have been built in the past years
- „Tightening culture“ already present
- In general, we are much better prepared for the crises than we were in the past (overall framework, resolution, cooperation within the EU ...)

BBMs – LTV, DSTI, DTI, maturity cap, IR shock …
So far limited experience with period of uncertainty
Pandemic period

- Pandemic - uncertainty, potential credit losses, credit rationing ...
  - Many countries fully released CCyB and other capital buffers
- NBS revoked an increase (from 1.5% to 2%) and decreased to 1%
- Too fast and too radical easing of macroprudential tools can have a negative impact on resilience and would not materially support the lending market

Reasons for not easing
- Just minimum credit losses
- High management buffers in banks and good prospects for profitability
- Supportive fiscal measures
- No signs of credit rationing
- Potential outflow of capital
- Flexibility of the CCyB – can be revoked anytime
- Consistency of macroprudential policy (buffers should be released to cover losses)
- Targeted communication and monitoring

RISKS of not easing
- Potential credit losses
- Credit rationing
- Pressure on capital
- Being an outlier
How to tackle the new challenges?

- Major objective of macroprudential policy – resilient financial system
  
  *A state at which banking sector is able to withstand shocks of even severe scenarios*

- But what are the possible scenarios in the near future?
How to tackle the new challenges ...

- Quantification of the risk – what is a right level of capital to withstand new shocks?
- Scenario – high inflation, energy prices, increase in unemployment
- Between 30% - 50% of corporates in banks portfolios could end up with negative equity

**Increase in corporate loans in technical default at the end of 2024**

(% of total credit to corporates)
How to tackle the new challenges ...

- Macroprudential buffers (methodology and calibration) are targeted to traditional risk categories
- Macroprudential policy has built significant capital buffers – much better resilience than before GFC (2008)
- Just partial coverage of potential losses from new challenges by prudential buffers
- Potential losses vs. absorption capacity of capital
- Main responsibility for the tail risk of significant structural changes in in the hands of fiscal policy
- Close coordination with other policies – microprudential, macroprudential, resolution ....
Thank you for your attention