Macroprudential policy so far

Slovak experience

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Intellectual change – preventive policy, cross-sectoral and complex policy
Cultural change – transformation from analysts to policy-makers (long journey)
Proactive and preventive approach by the NBS

Macroprudential policy - new kid in the block

LTV
DSTI
DTI
Sensitivity test on IR jump
Maturity limits


CCyB
O-SII (SRB)
Shift from analysts to policy-makers: the need for data

- Detailed understanding of risks
- Monitoring, calibration of tools, cost/benefit analysis, measuring effectiveness...
- Macroprudential policy in the NBS - before (BC) and after (AD) granular data

**Averages do not tell you the whole story**
Some individual agents might be exposed to much higher risk than the average ones

**Micro data reveal vulnerable groups -> tailored response**
Some agents behave differently and are exposed to different impact even under the same shocks

**Detailed data facilitate effective policy response**
Design, calibration and cost-benefit analysis is more precise and objective-oriented

**Focus on policy response and clear communication**
Data analysts transformed to policy makers
**Policy-makers should be able to sell their ideas**

- Explain our views on risks/trends – active public communication and meetings with banks, publications - influence market practices (soft macroprudential tool)
- Activation of macroprudential tools
  - Active communication based on data driven cost/benefit analysis
  - Forward guidance

**Macroprudential authorities should be responsible for putting all pieces together**

- MPP should be able to see the full picture
  - It is not only about pre-defined macropru measures
- Coordination is crucial
- Changes in different areas can have systemic impact
  - Impact on overall macroprudential stance
Lessons learned - the need for a complex package

- Complex package helps to limit potential leakages
- Macroprudential package consisting of a mix of tools is more robust to various shocks

There is (no) single ring to rule them all, Frodo.
Lessons learned - unintended consequences

- Market disruptions - BBMs can hamper credit availability on individual level
- Leakages - risk migration to less regulated sectors
- Market distortion - sudden policy changes or unexpected interventions might trigger market volatility
- Moral hazard - easing of banks’ own risk limits, encouraging risk-taking behavior

- Good understanding of all risks and trends
- Measures should target risks that are clearly identified (targeted on the riskiest groups)
- Use holistic approach (banks, non-banks, complex package of BBMs..)
- Establish feedback mechanism (monitoring, reporting) to adjust the policy dynamically
- React proactively, transparency

Use screwdriver instead of hammer
Release phase – should the buffer be released when there is a market/economic turmoil or decreasing credit but no losses?
- Response not always clear, but we should keep our focus on resilience
- Credit growth can be more driven by demand than supply
- Other relevant factors (level of banks’ management buffers, dividend policy, profitability outlook, level of cyclical risks)

Role of capital buffers in times when fiscal interventions tend to avoid banks’ losses
- Losses are lower, but other concerns are arising:
  - Moral hazard: Banks may learn that there will always be somebody to cover potential losses
  - Increasing sovereign risk as government debt is rising
Challenges ahead - changing landscape

**Size and speed of bank runs has increased significantly**
- Amplified by growing role of social media, fin-techs, crypto-assets
- Policy response
  - Focus on banks’ governance
  - Better understanding of the deposit side (granular data on deposits)

**Other challenges lying ahead**
- Climate and ESG risks
- Growing role of non-bank institutions
- Risk of digital disruptions
- Digital currencies
- Interest rate risk
- Changes in the monetary policy framework
Thank you for your attention