The outlook for macroprudential policy in the new environment

SK perspective

Marek Ličák
Director of Financial Stability Department

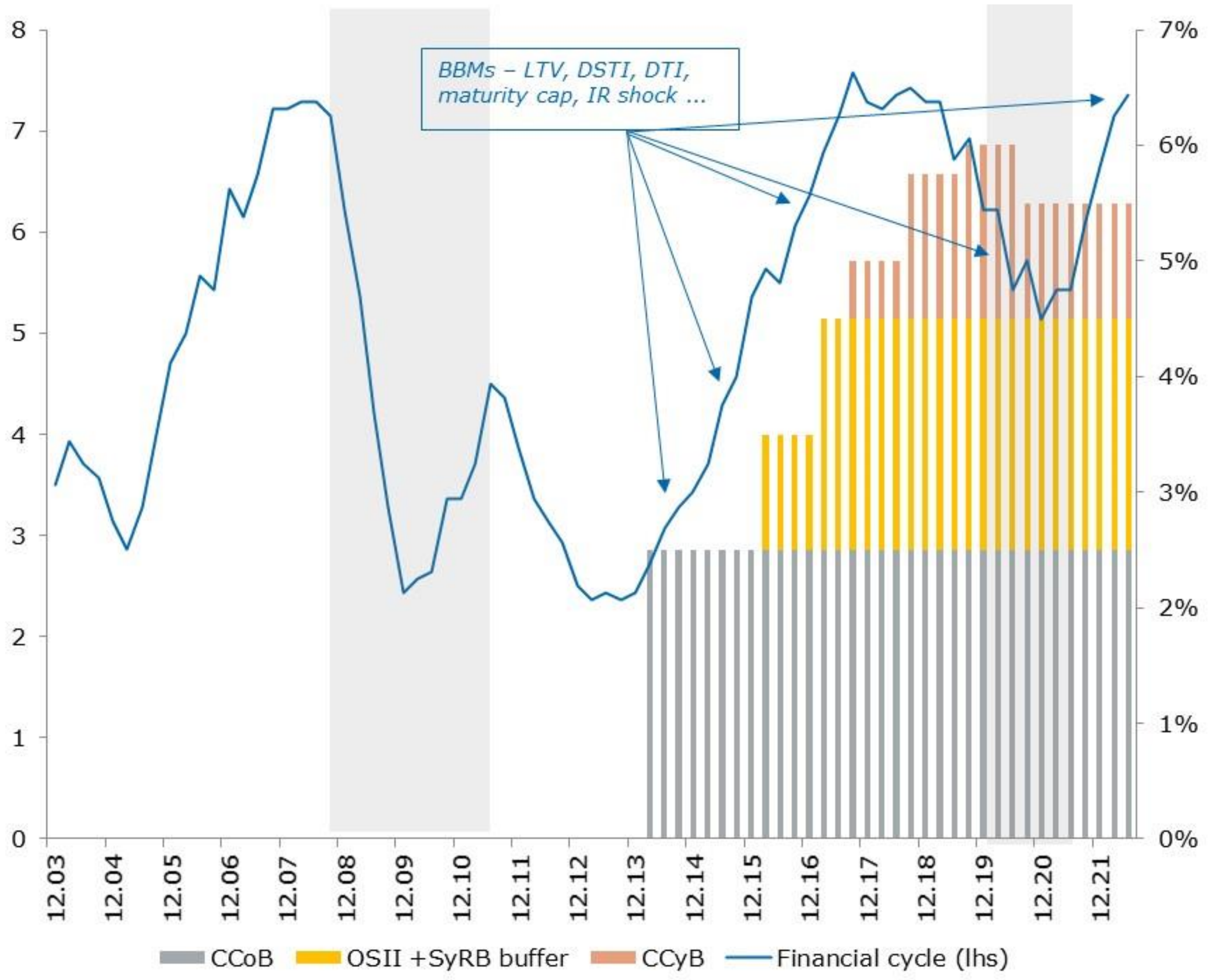
NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

Macroprudential Policy and the End of the Zero-Interest-Rate Environment

5 October 2022

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 ...)

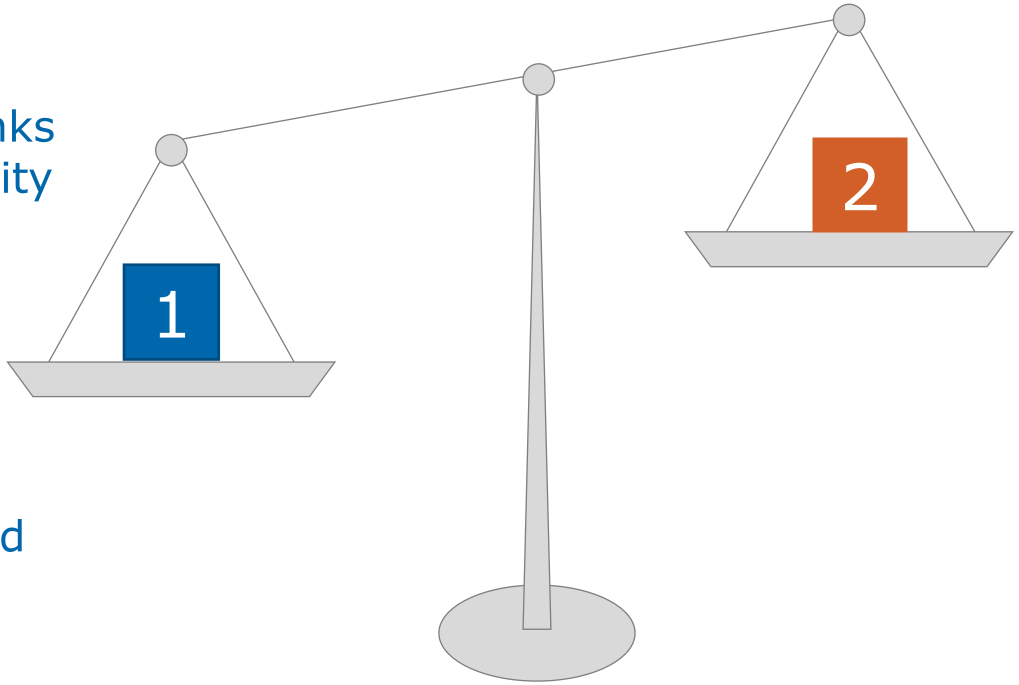


So far limited experience with period of uncertainty
Pandemic period

- 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?

Six months on, the war in Ukraine continues

European gas shortages likely to last several winters, says Shell chief

MONEY

Energy bills are soaring in Europe.

Ukraine war: Could Russia use tactical nuclear weapons?

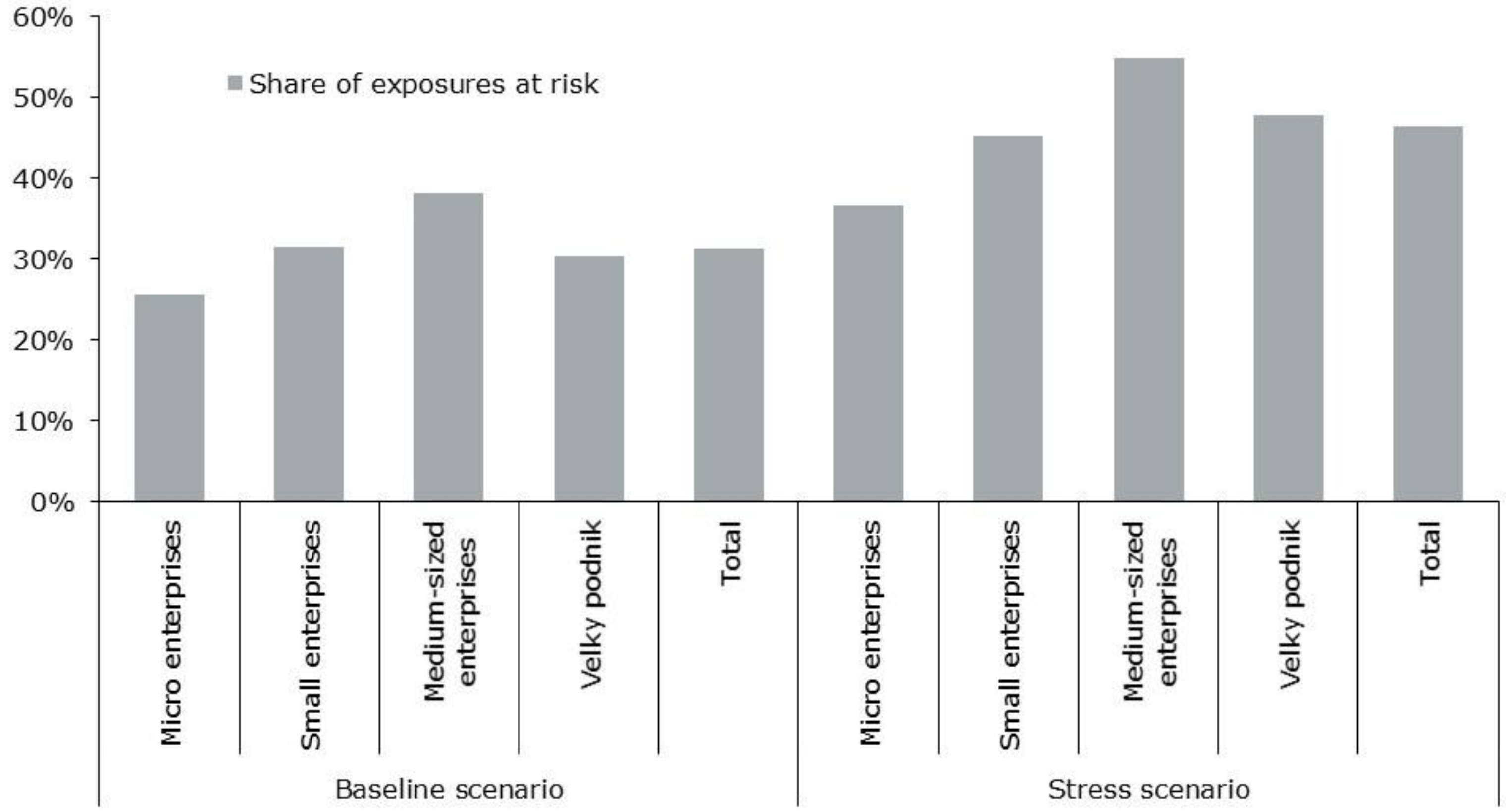
Is This the End of Globalization?

Chinese military exercises around Taiwan

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 ...

NÁRODNÁ BANKA SLOVENSKA EUROSYSTÉM

- Macruprudential 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