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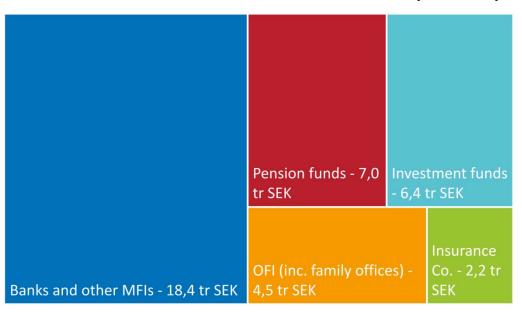
September 22, 2023

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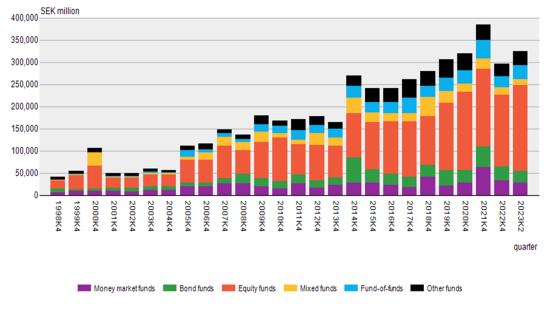
Why should we think about MPP beyond banks? (I)



Total assets in the Swedish financial sector (2023Q1)



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

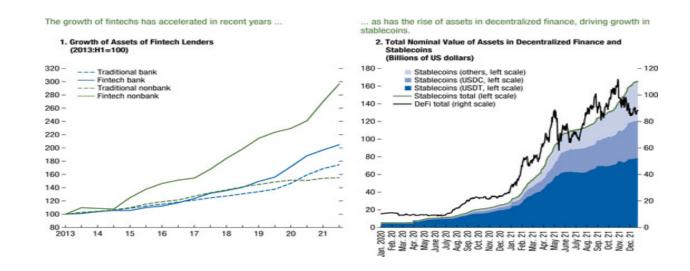


Source: Swedish Financial Supervisory Authority



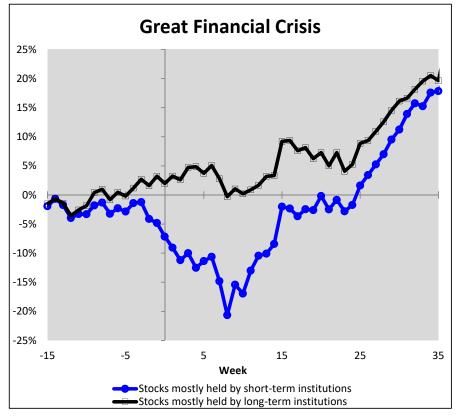


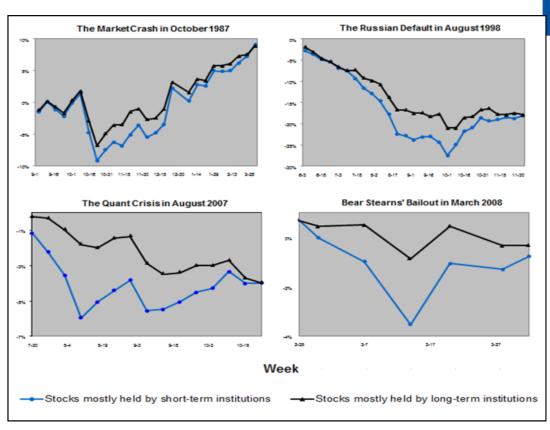
And NBFI are not the only one growing in importance (IMF, 2022)



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

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Figure 4: Risks and vulnerabilities in the NBFI sector

2022 economic outlook for investment funds and other financial institutions challenging amid global policy tightening

Economy

Uncertainty around pace and extent of economic recovery in the EU and globally

Credit risk

High indebtedness levels due to COVID-19 pandemic; expected rise of defaults

Disorderly correction

Risk of abrupt market correction due to stretched asset valuations and/or inflation and rate risk

Liquidity

Market structure remains fragile for some asset classes

Structural risks and potential vulnerabilities in the EU non-bank financial sector

Liquidity transformation; leverage

Liquidity risk, pricing uncertainty, and risks associated with leverage among some types of investment funds and other financial institutions

Interconnectedness

Interconnectedness and the risk of contagion across sectors and within the non-bank financial sector, including domestic and cross-border linkages

Search for yield

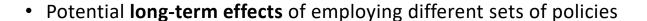
Risk-taking behaviour affected by deteriorating growth prospects alongside rising nominal rates and markets expecting real rates to stay low for longer

Data gaps Remaining gaps in data and risk metrics prevent a more complete risk analysis

Source: ESRB (2022)

Vulnerabilities

Thinking back to think ahead...





- 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