Macroprudential policy so far

Slovak experience

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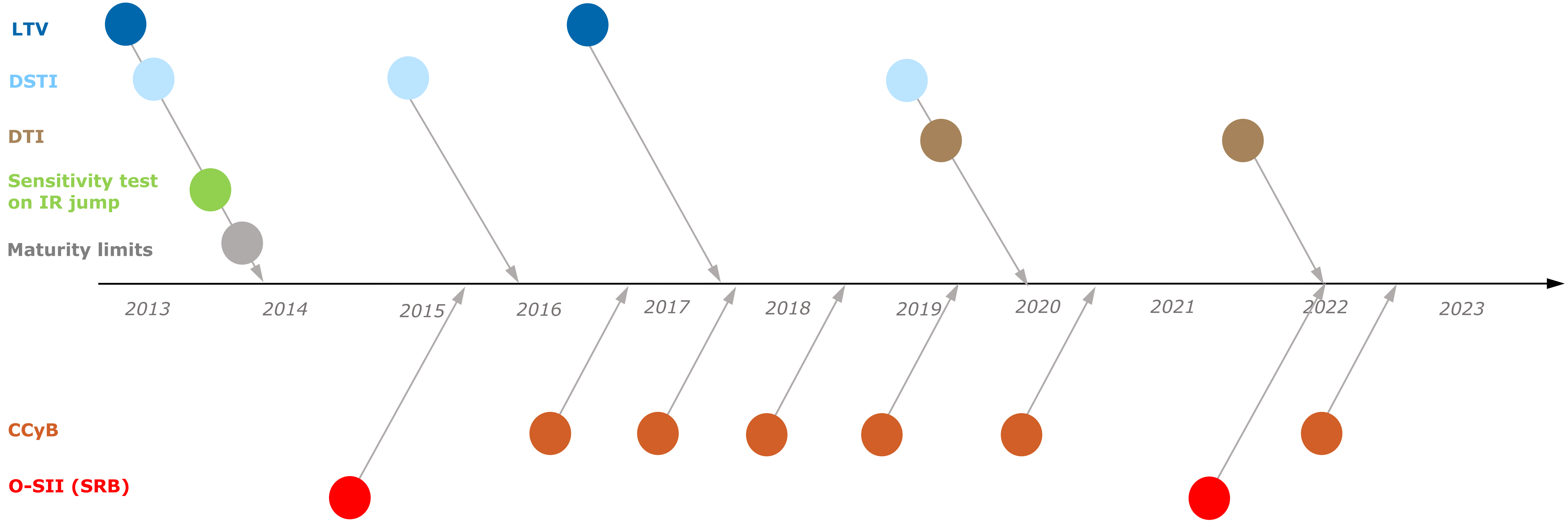
Macroprudential policy - new kid in the block

- 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



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

From analysis to policy - communication and complex view

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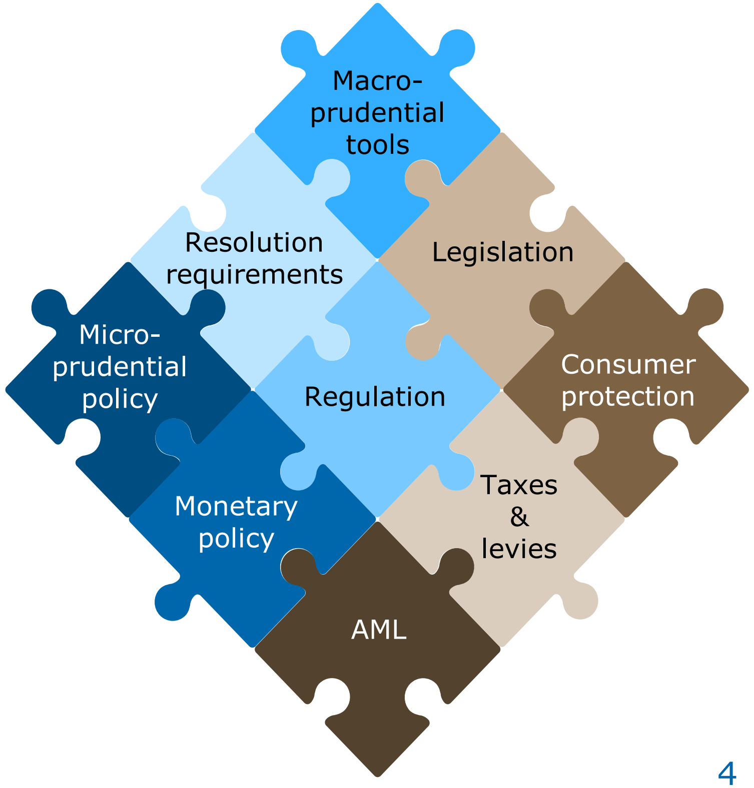
Policy-makers should be able to sell their ideas

- 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

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

Shock to economy as in the GFC

Capital buffers

Shock to income as in Covid pandemics

DSTI limits

Rising debt service costs due to higher interest rates

DTI limit

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

Challenges ahead - capital buffers framework

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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