Discussion of: "Extending bank stress test results for macroprudential purposes"

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SUERF BAFFI Bocconi e-Lecture
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The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Board, or its management.

Several key innovations…

… with respect to 2025 EU-wide stress test:

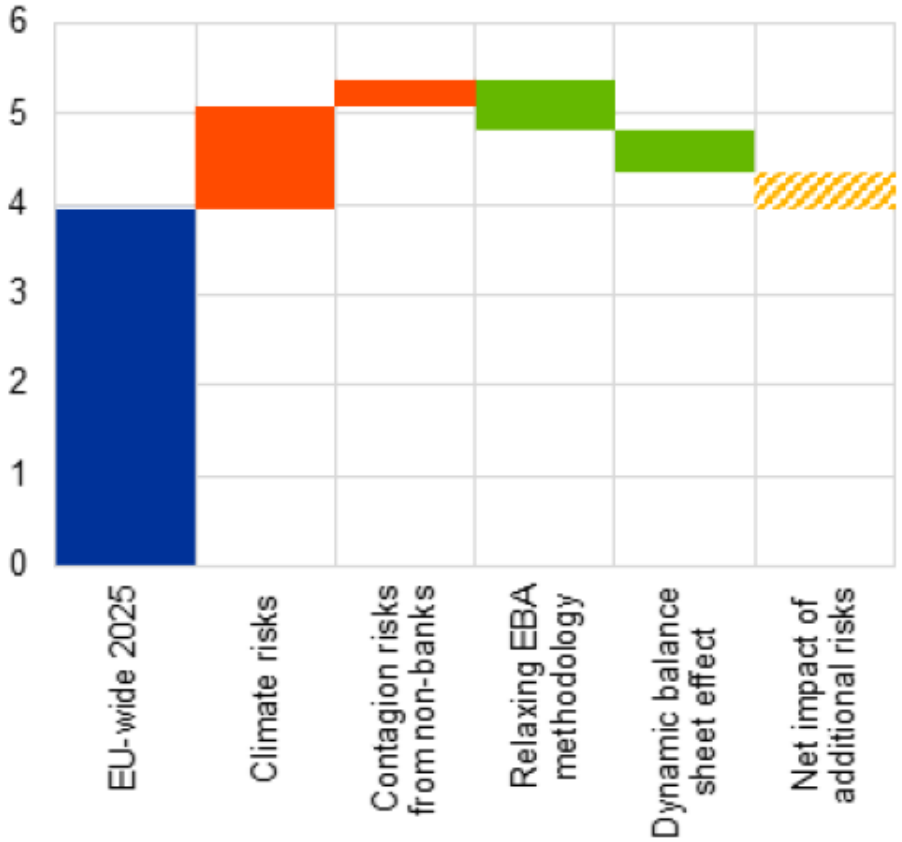
- Scope
  - Includes banks and non-banks
  - Integrates large granular datasets
  - Assesses impact of policy interventions

- Channels
  - Climate risk
  - Fire sales, intersectoral exposures
  - CCP member default

- Methodology
  - Relaxes EBA methodology
  - Considers dynamic balance sheets
  - Evaluates correlated defaults

… but aggregate impact small

CET1 Depletion
(Percentage Points)



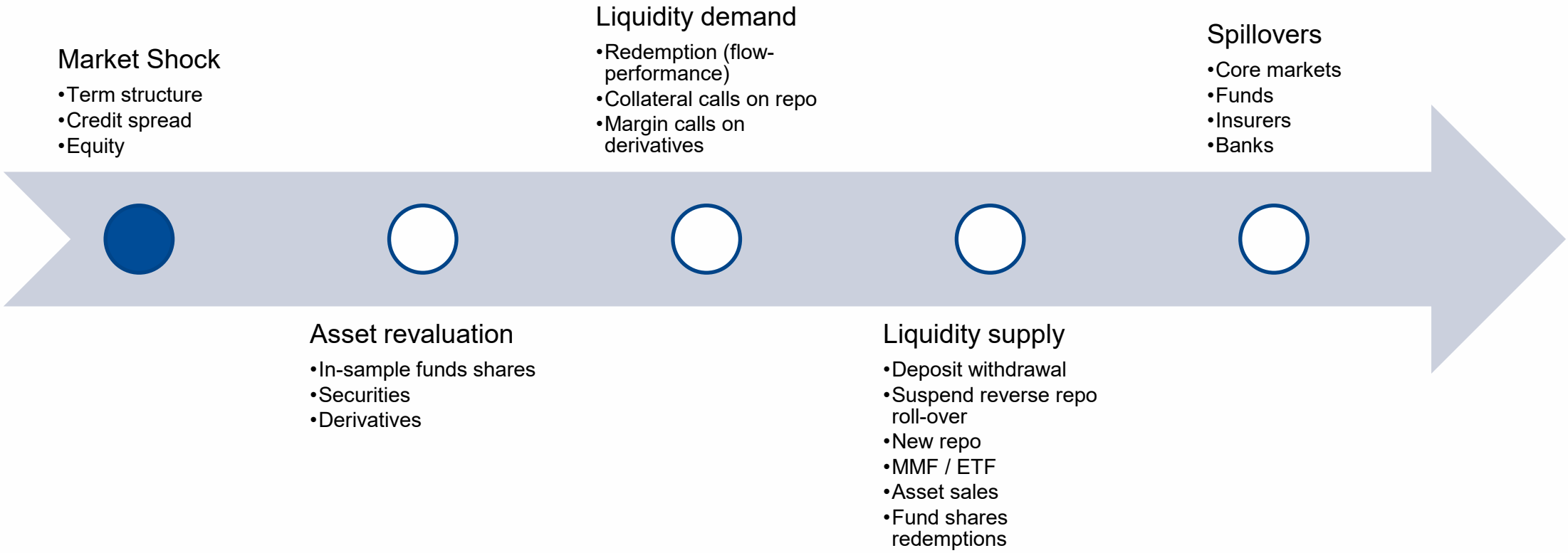
“Contagion risk from non-banks” – Main Comments

1. Include stressed counterparty credit risk (CCR) (relevant for banks)
   - ✓ *Positive correlation* between exposure and credit rating can amplify losses
2. Consider additional liquidity channels (margin call, collateral calls) – liquidity channel - (all institutions)
   - ✓ The *time horizon* affects both the magnitude of shocks and institutions’ mitigating actions
3. Explore alternative behavioral assumptions, for example, access to repo markets.
   - ✓ The *willingness* of agents to intermediate in the market

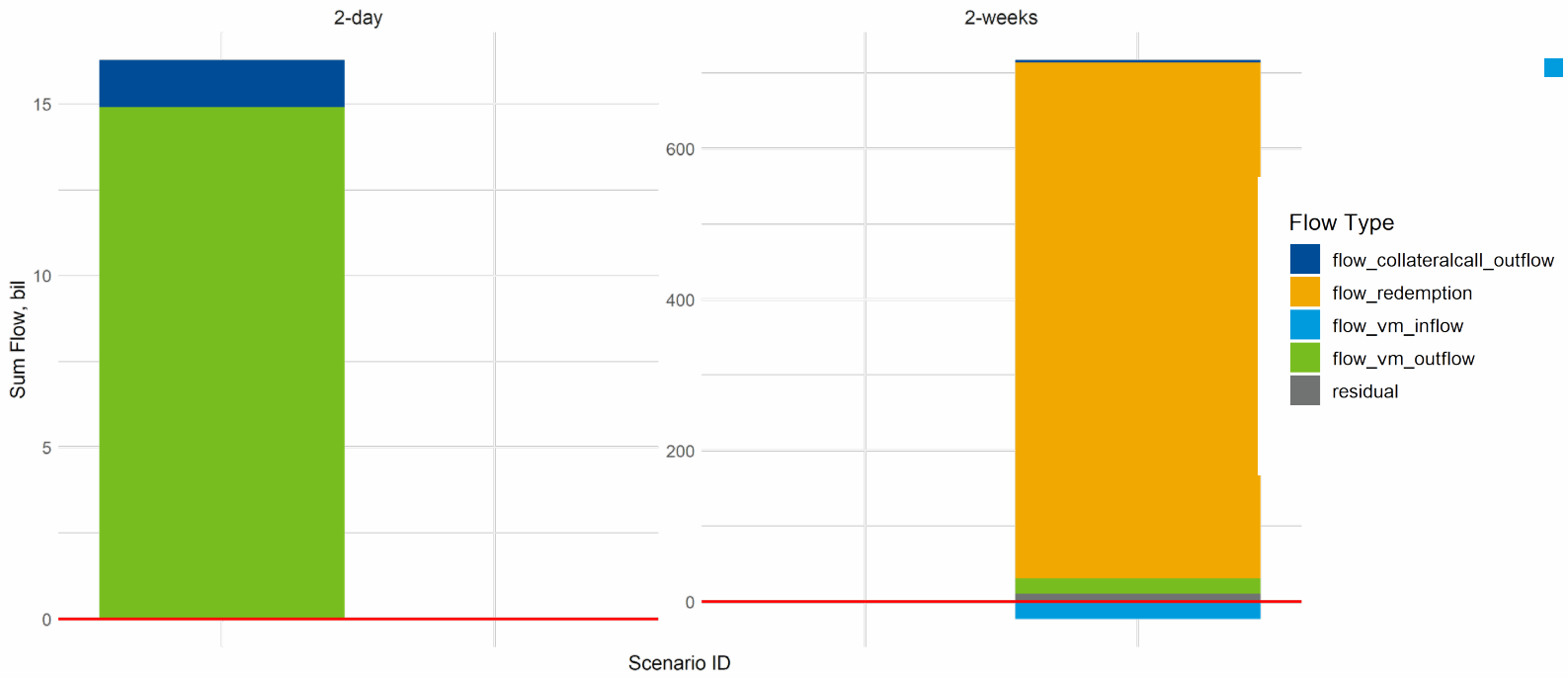
Contagion Risk from NBFIs
-2025 Euro Area FSAP-

2025 EA FSAP - Technical Note - Systemic Risk Analysis

High-level Set Up



Aggregated liquidity demand depends on the horizon of the shock

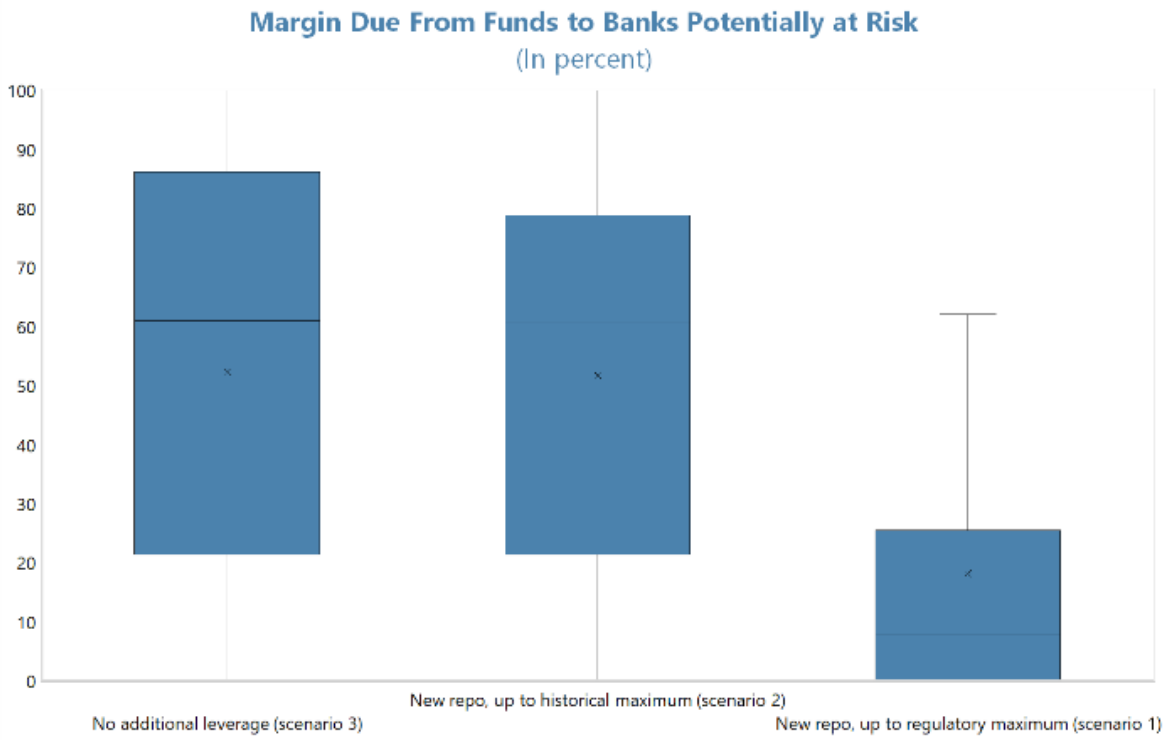


- In the 2-day scenario, VM is the main draw on liquidity for funds in the sample.
- In the 2-weeks scenario, fund redemptions are the dominating factor.

  For insurers, VM amounts to ~34 billion Euros (2-week scenario).

Source: ESMA, Lipper, ESMA and IMF staff calculations.

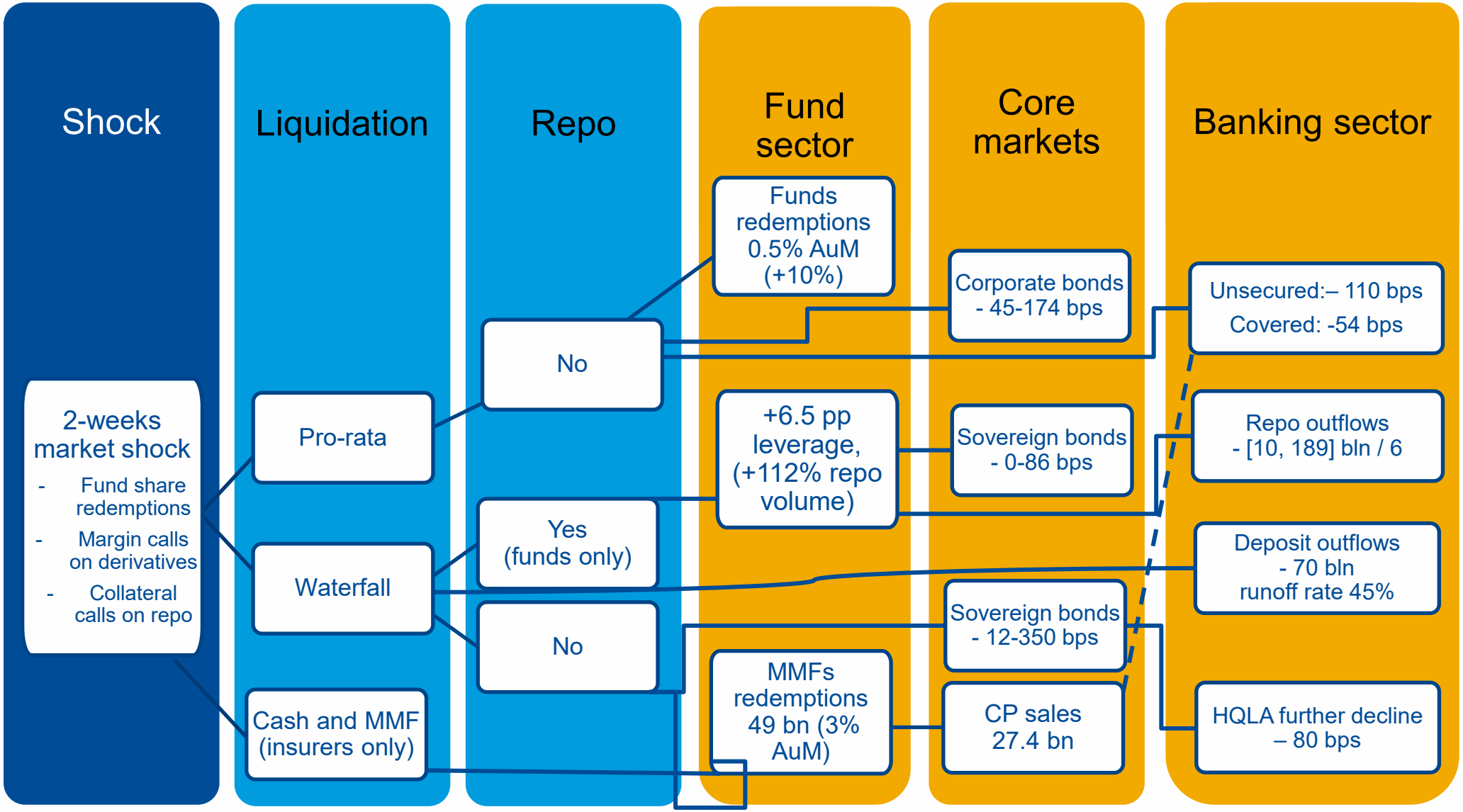
2-day scenario: Spillovers – CCR



Sources: AIFMD, Bloomberg, EMIR, Haver, Lipper IM, SFTR; ESMA and IMF staff calculations.

- **CCR** in derivatives transactions:
  - Banks are more likely to maintain neutral market positions as dealers. Therefore, missed margin calls can create liquidity pressures, since banks must still post variation margin on the trades that mirror the funds' positions.
  - If banks liquidate the funds' positions due to missed variation margin calls, this could trigger CCR losses (e.g., Archegos)
  - On average (median) 52 (65) percent of variation margin is at risk.
    - When this solvency-liquidity spiral is taken into account, large EA banks become more vulnerable under a less severe market shock (reverse stress test)

2-week scenario: Spillovers – Core markets / Other FIs



Key Takeaways

- **System-wide stress tests can help calibrate CCR losses from banks' exposures to NBFIs using a consistent scenario.**

- **Taking a system-wide perspective in liquidity stress testing helps reveal intersectoral dependencies in terms of funding and liquidity.**

Thank You