



BANK OF ENGLAND

Financial Stability in Retrospect and Prospect

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Banco de Portugal Financial Stability Conference

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Plan

- What have we done?
- What have we learned?
- What is still to do or learn?



Story So Far

- A lot has been done practically
- A huge shift has taken place ideologically
 - Liquidity, as well as capital
 - Systemic, as well as idiosyncratic
 - Non-bank, as well as banks' resilience



Pre-Crisis International Regulatory Architecture

	Banks	Non-Bank Financial Firms
Capital	✓	
Liquidity	?	
Systemic	x	
Resolution	x	



Post-Crisis International Regulatory Architecture

	Banks	Non-Bank Financial Firms
Capital	✓	✓
Liquidity	✓	✓
Systemic	✓	?
Resolution	✓	✓

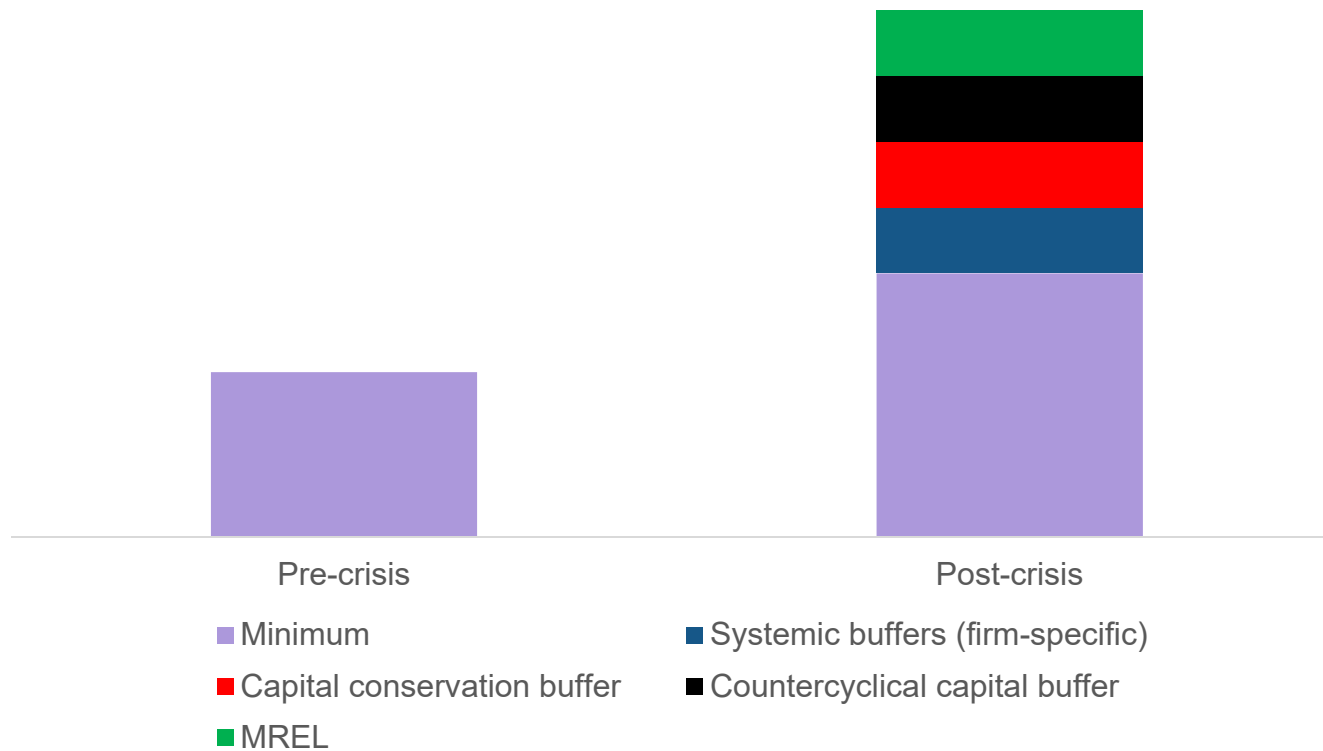


Micropru reform



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Capital Stack Schematic



Leverage

Implementation of Leverage Ratio

LR status	% of FSB jurisdictions	% of market size
Final rule in force	~65%	~65%
Final rule or draft regulation published	~35%	~35%
Draft regulation not published	<1%	<1%

Source: FSB.



Liquidity

Implementation of NSFR

NSFR status	% of FSB jurisdictions	% of market size
Final rule in force	~45%	~35%
Final rule or draft regulation published	~55%	~65%
Draft regulation not published	<1%	<1%

Source: FSB.



Resolution

Implementation of Bank Resolution

Resolution powers	% of FSB jurisdictions	% of market size
Fully implemented / in place	~40%	~50%
Partially implemented / in place	~50%	~45%
Not implemented	~10%	~5%

Source: FSB.



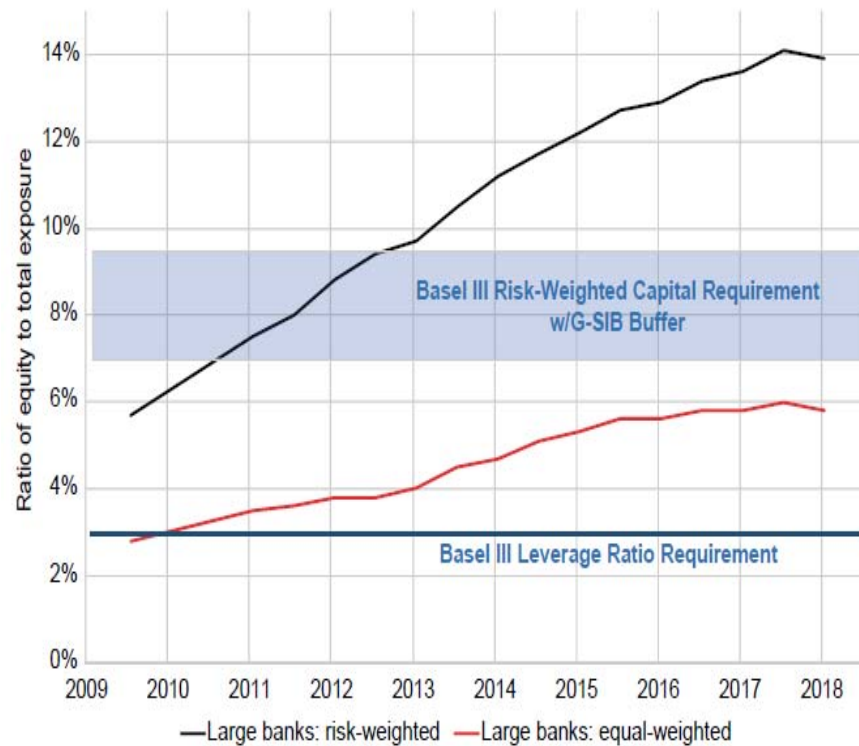
What impact has this had?



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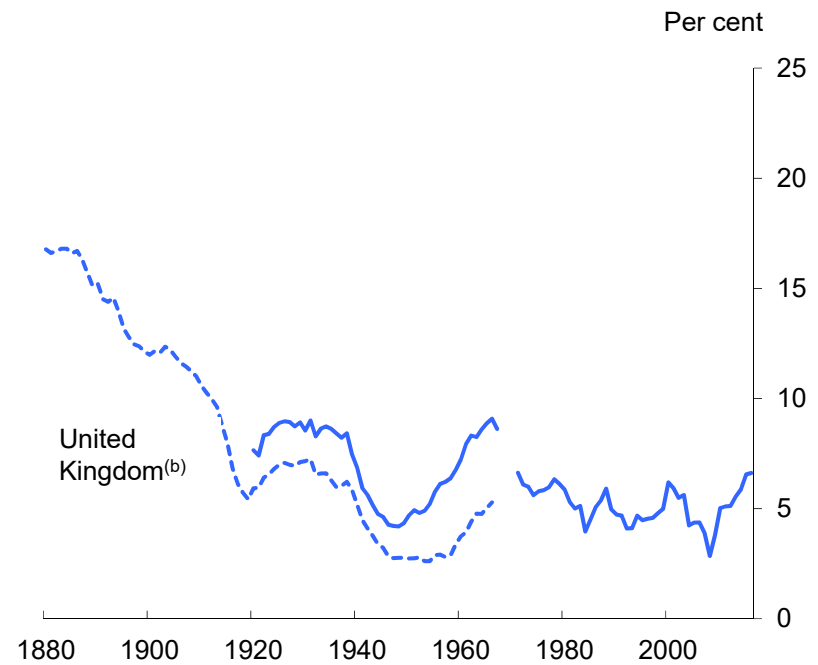
Capital

Capital/Leverage Ratios



Source: Bolton et al (2019) using Basel Committee on Banking Supervision (2010a and 2019).

Leverage Ratio

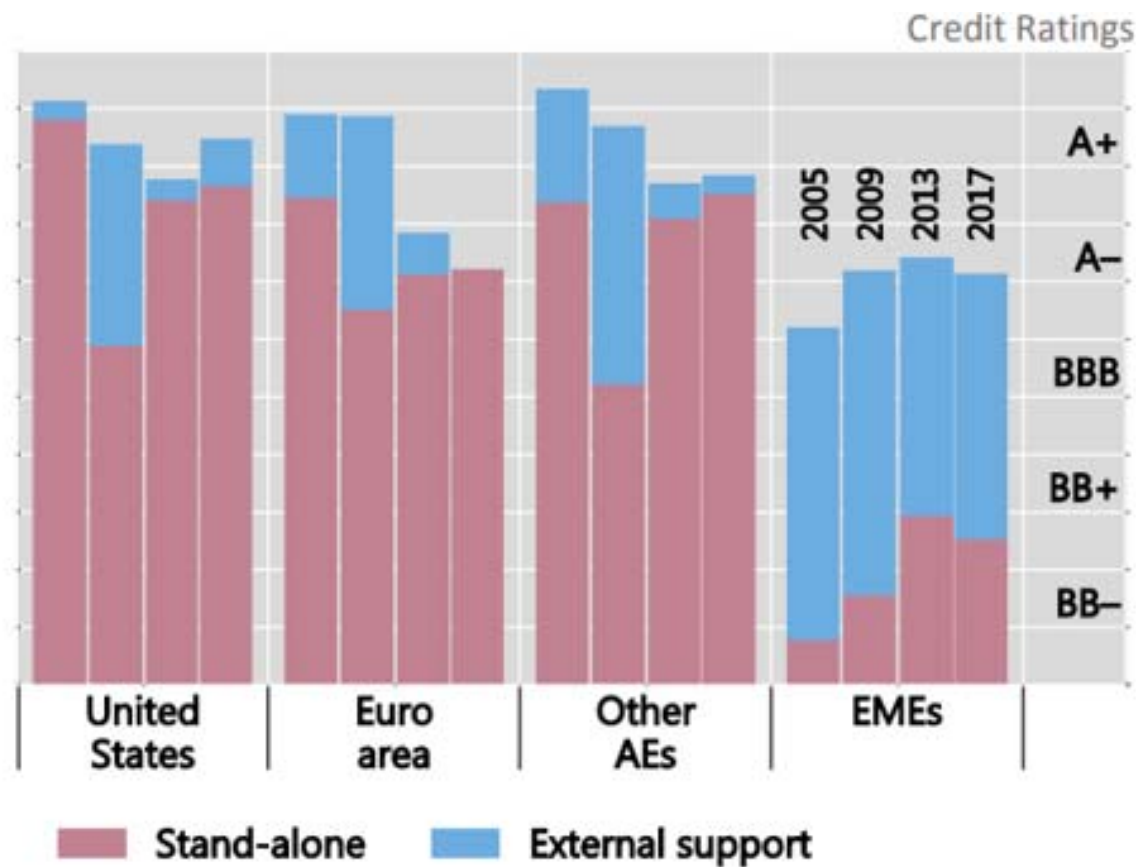


Source: Bank of England.



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Reduced market perception of gov't support

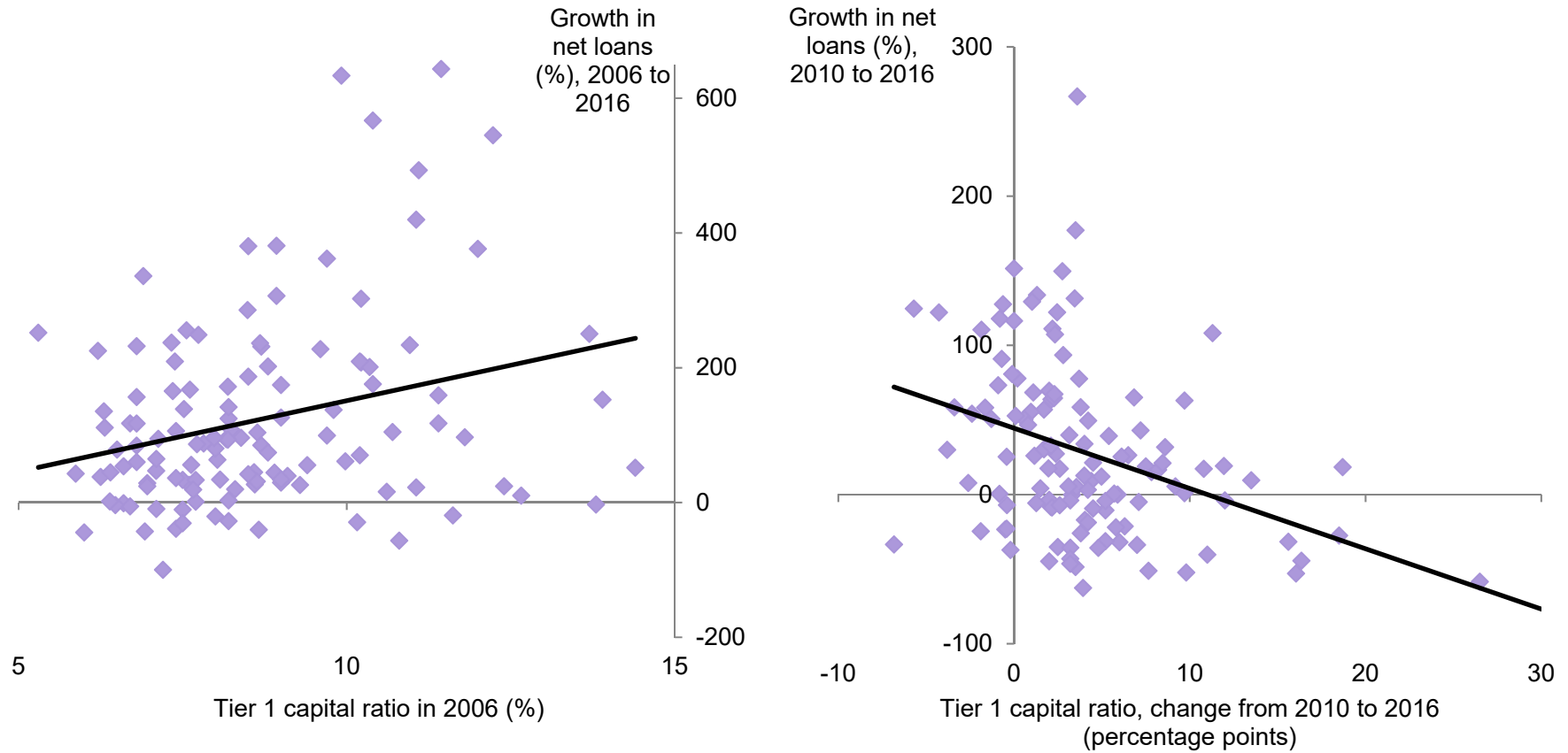


Source: BIS.



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Capital and lending



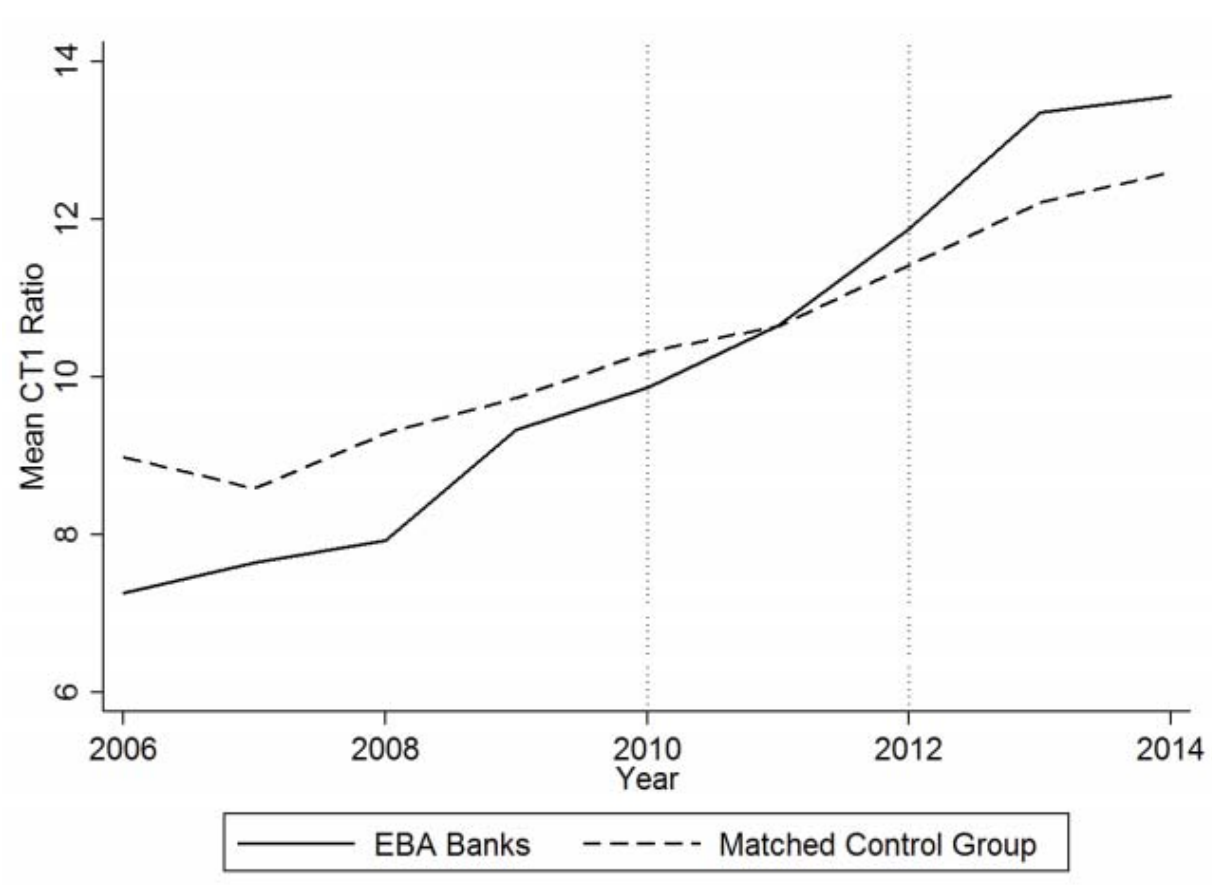
Source: Haldane et al (2018).



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Capital and Lending

Capital ratio



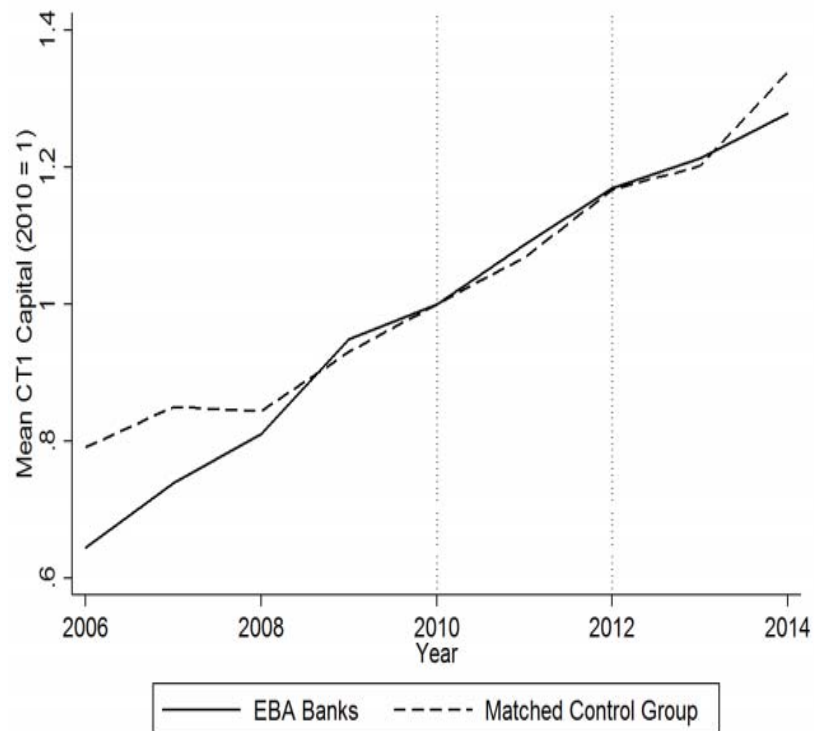
Source: Gropp, Mosk, Ongena and Wix (2018).



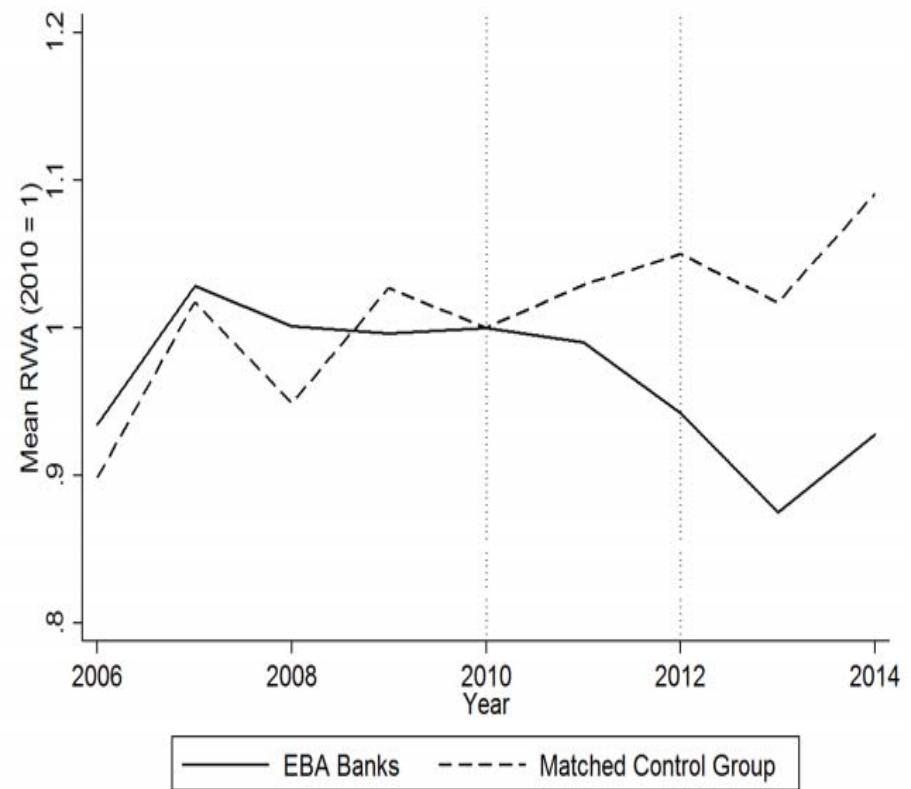
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Capital and Lending

Capital



Risk-weighted assets



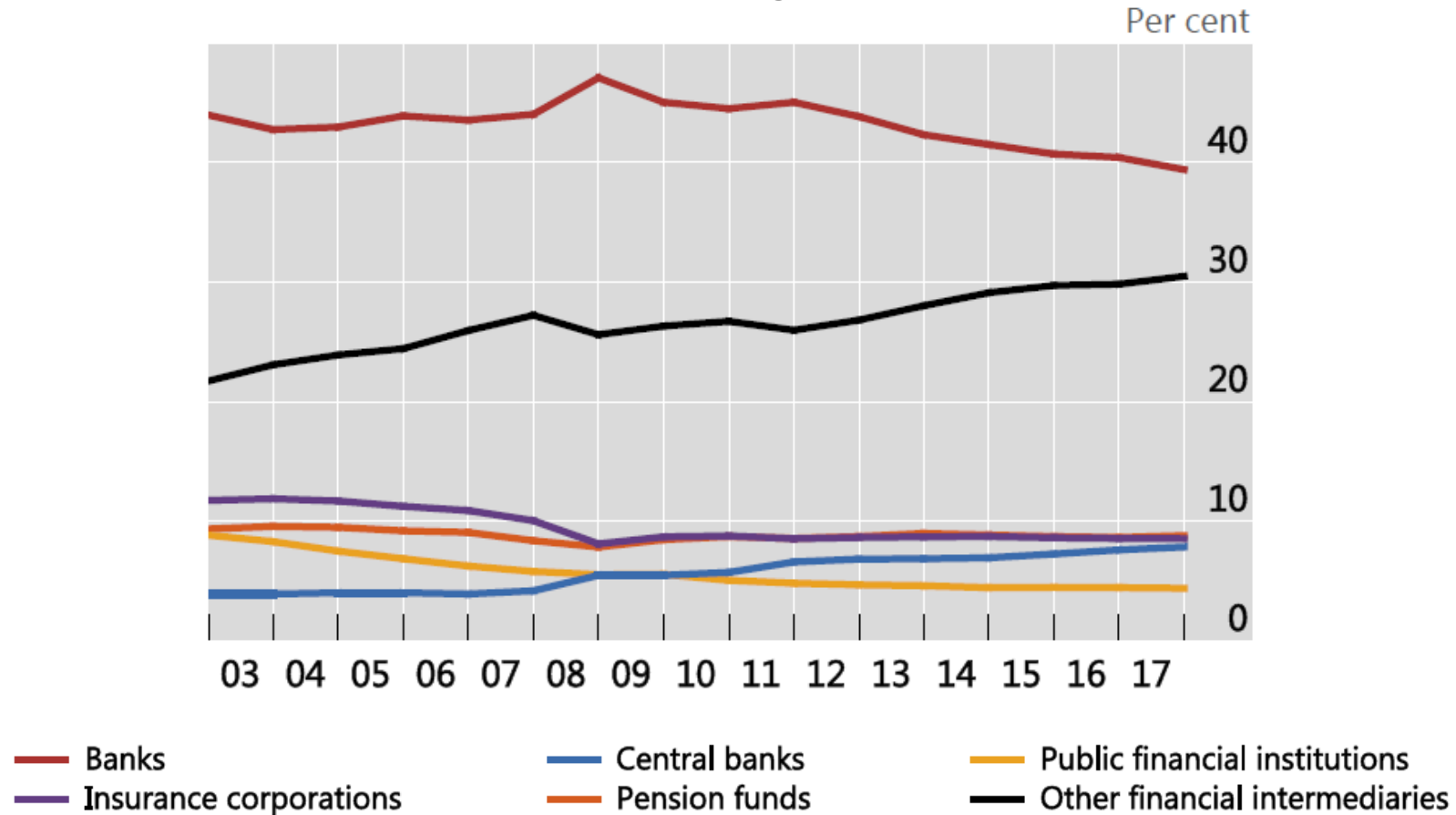
Source: Gropp, Mosk, Ongena and Wix (2018).



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Non-Banks

Institutions' share of global financial assets



Source: FSB.



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Macropu



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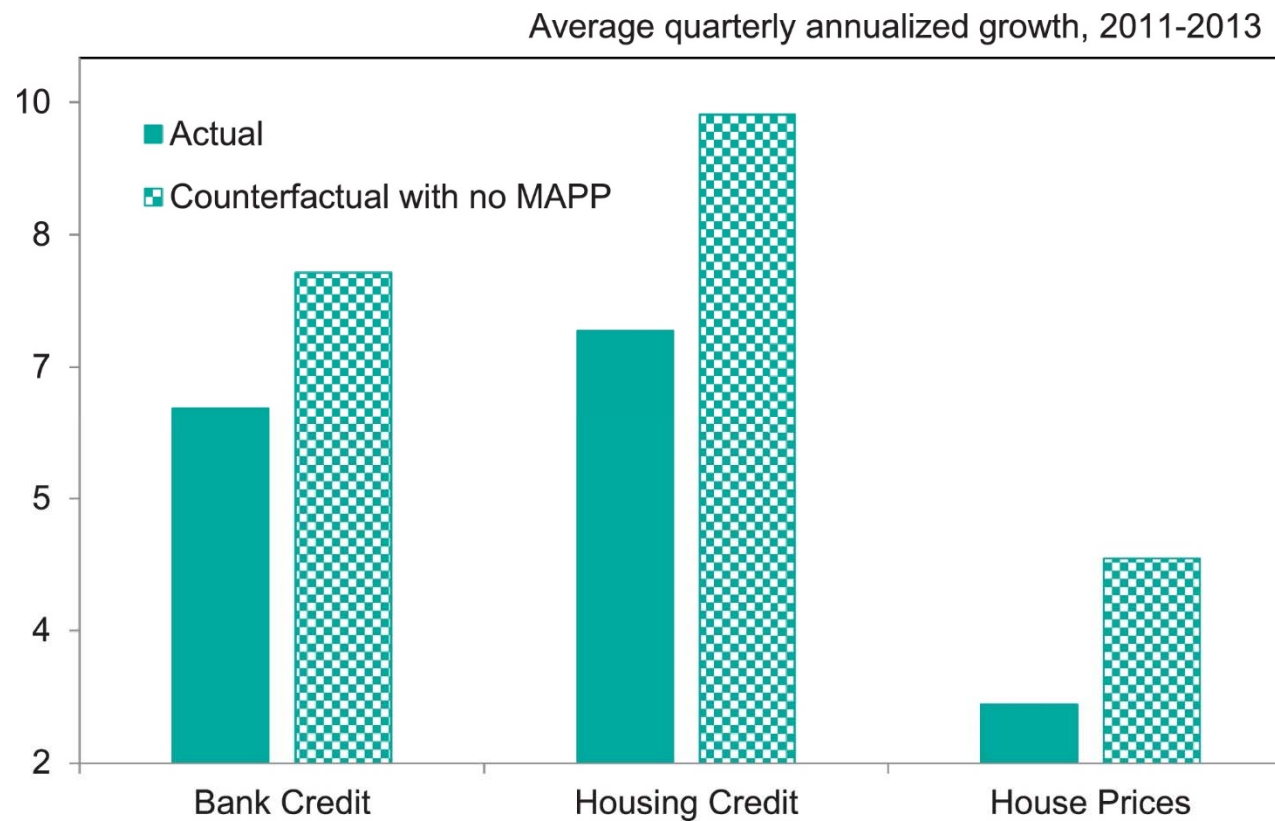
Macro-Prudential Tools

Country	Current CCyB	Effective since	Pending CCyB
Belgium	-	-	0.5% (Jul 2020)
Bulgaria	0.5%	Oct 2019	1% (Apr 2020)
Czech Republic	1.5%	Jul 2019	1.5% (Jan 2020) 1.75% (Jul 2020)
Denmark	1%	Sep 2019	1.5% (Jun 2020)
France	0.25%	Jul 2019	0.5% (Apr 2020)
Germany	-	-	0.25% (Jul 2020)
Hong Kong	2.5%	Jan 2019	-
Iceland	1.75%	May 2019	2% (Feb 2020)
Ireland	1%	Jul 2019	-
Lithuania	1%	Jun 2019	-
Luxembourg	-	-	0.25% (Jan 2020)
Norway	2%	Dec 2017	2.5% (Dec 2019)
Slovakia	1.5%	Aug 2019	2% (Aug 2020)
Sweden	2.5%	Sep 2019	-
UK	1%	Nov 2018	-



Effectiveness of Counter-Cyclical Capital

Counterfactuals with no macroprudential measures used



Source: Akinci and Olmstead-Rumsey (2018).



Effectiveness of Macro-Prudential Tools

Reduction in GDP-at-Risk from raising CCyB

Country	CCyB at 2.5% by mid-2007	CCyB at 5% by mid-2007
Australia	25%	50%
Canada	36%	72%
France	21%	41%
Ireland	10%	19%
Italy	65%	131%
UK	15%	29%
US	21%	42%

Source: Aikman et al (2019).



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What is still to do/learn?



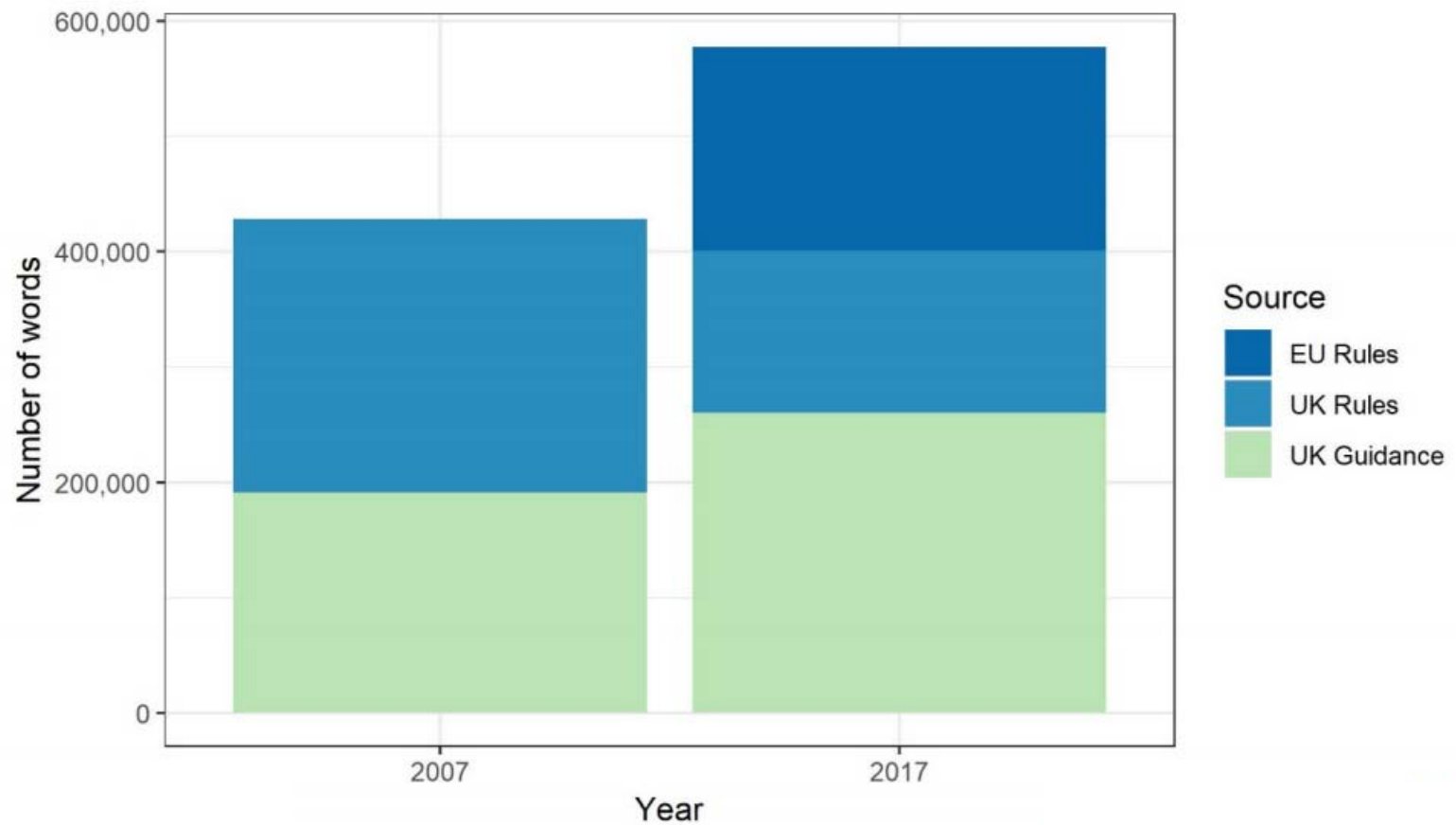
Open issues

- **Calibration:** Is TLAC as credible as equity?
- **Complexity / Multi-polarity:** Is the regime too complex?
- **Stress testing:** Beyond banking, to marked based finance?
- **Macro-pru:** Defining/refining the reaction function?
- **Political economy:** Where is the boundary of macropru?
- **Meta-questions:** Is finance too big?
Will fintech be disruptive?

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Regulatory Complexity



Source: Bank of England (forthcoming).



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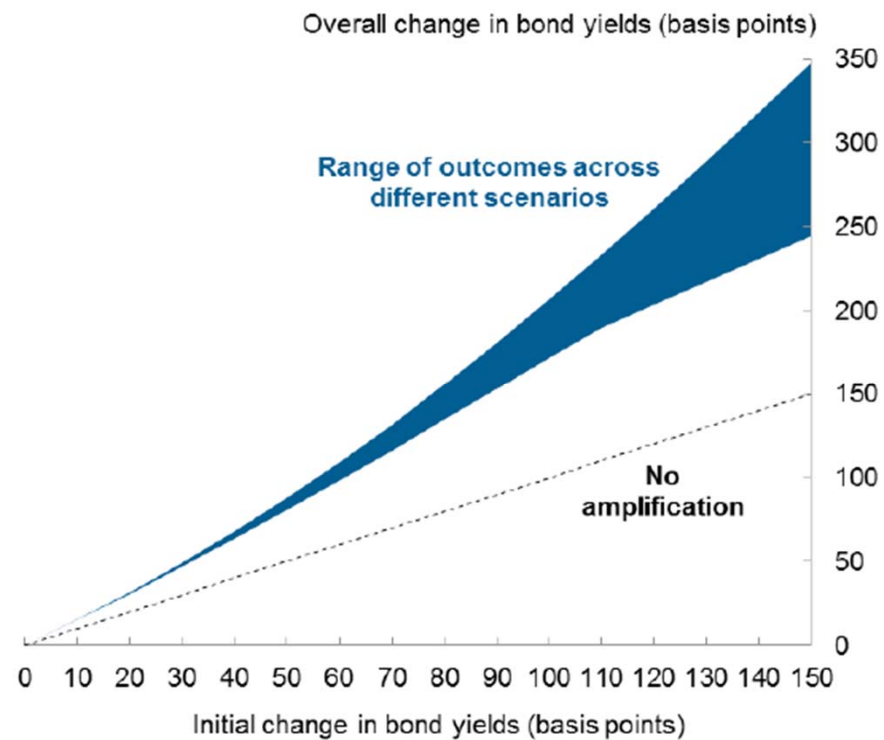
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How material could feedbacks in the wider financial system be?

Amplification of initial price shocks⁽¹⁾



(1) For UK investment-grade corporate bonds.

Source: Bank of England.



Source: Baranova et al. (2019)
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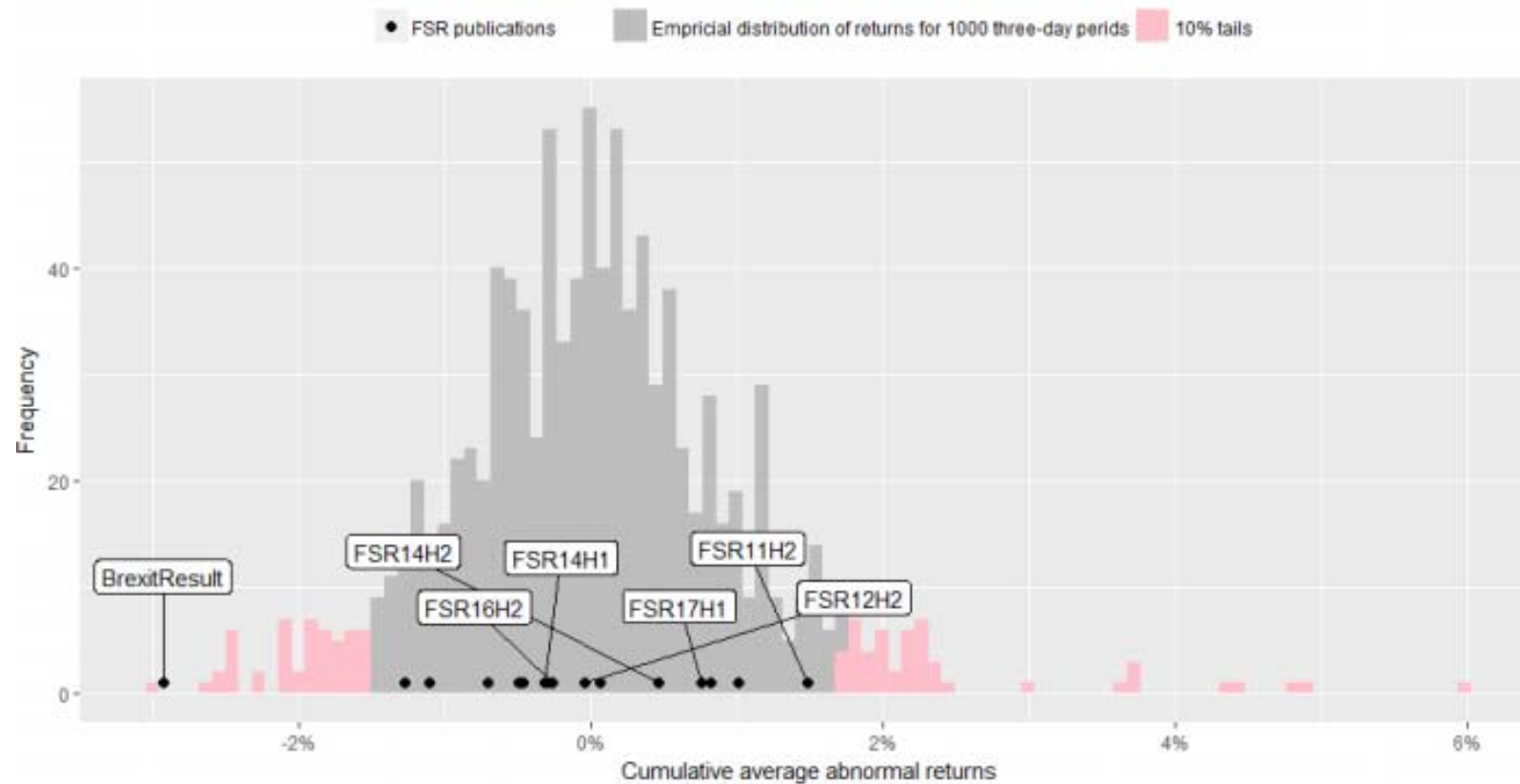
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Financial Stability Communication

Market impact of Financial Stability Report



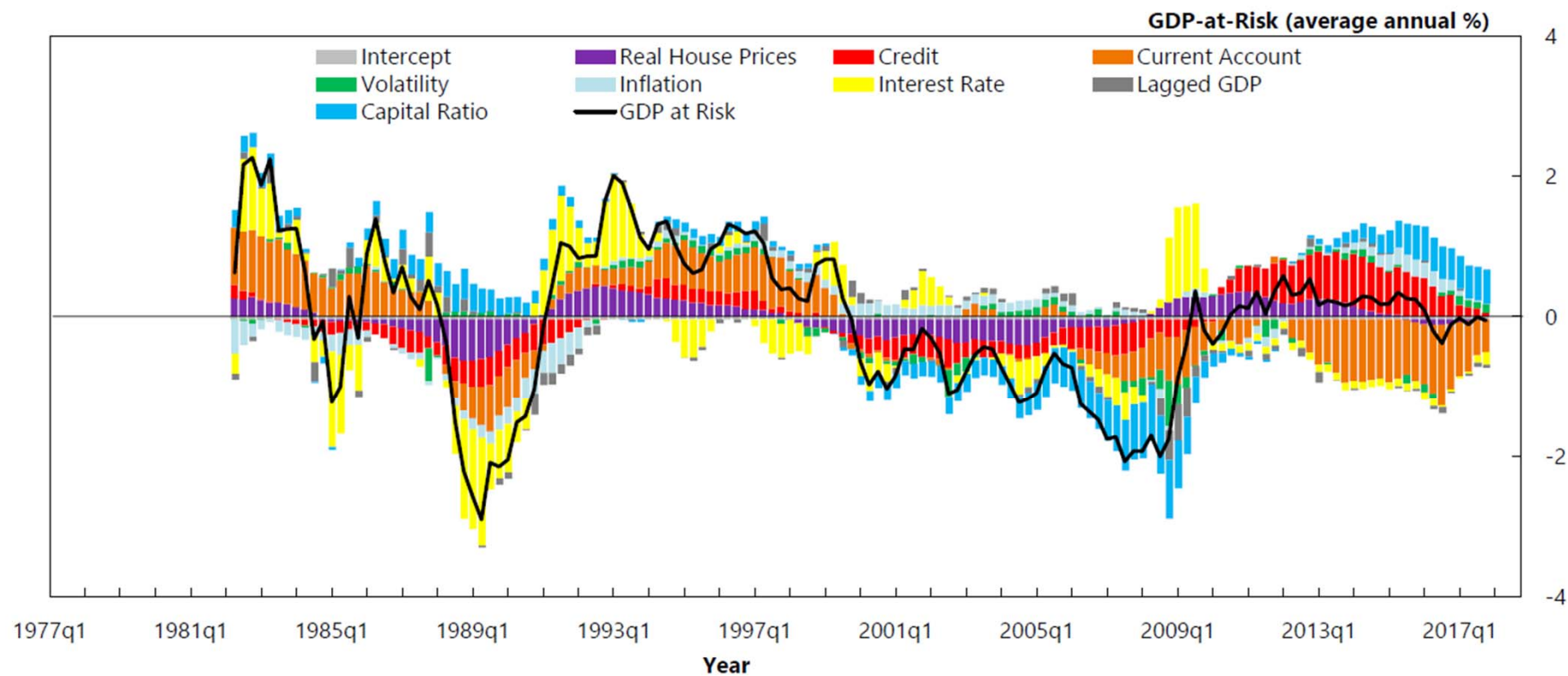
Source: Harris et al (2019).



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FIGURE 5: Decomposition of GDP-at-Risk at 3 year horizon

(A) UK – 3 years ahead



Source: Aikman et al. (2019)



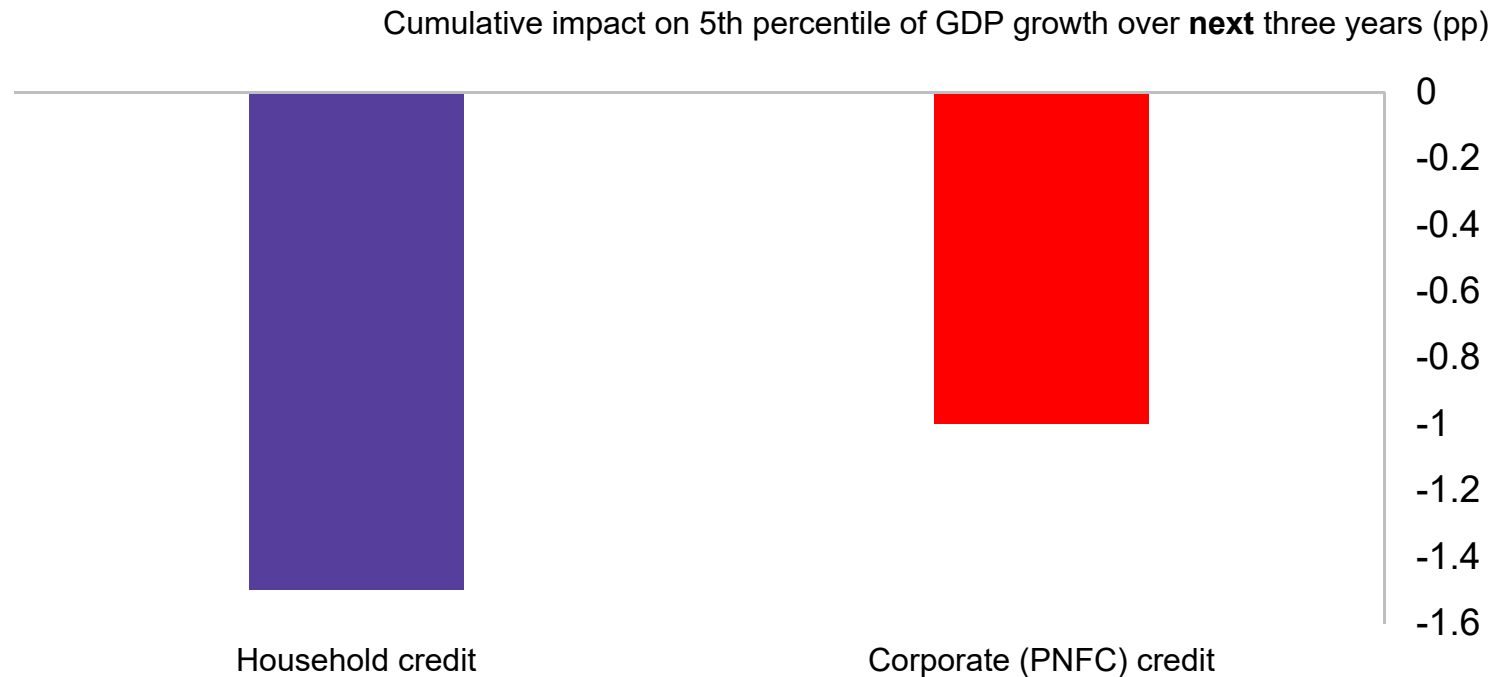
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Aggregate Demand Externalities



Source: Aikman et al (2019).

- Increasing household or corporate debt shift the *distribution* of future GDP growth to the left, making any subsequent downturns more severe



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Conclusion

- A lot of progress, practically and conceptually
- Much more energetic academic debate and illuminating research
- Unfinished business, practically and academically

