Macroprudential policy and Black Swans

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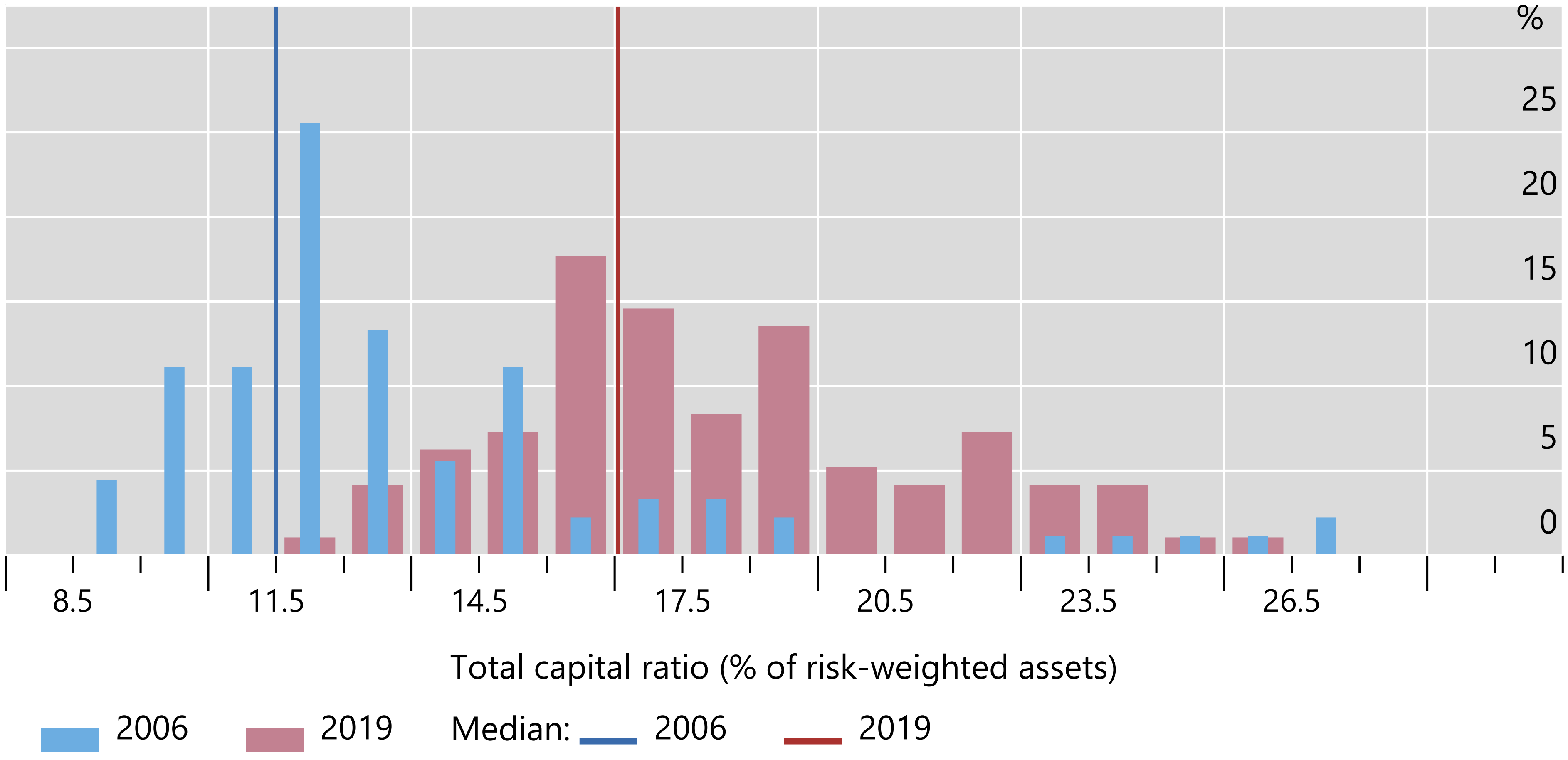
*The views expressed are those of the author and not necessarily those of the BIS.

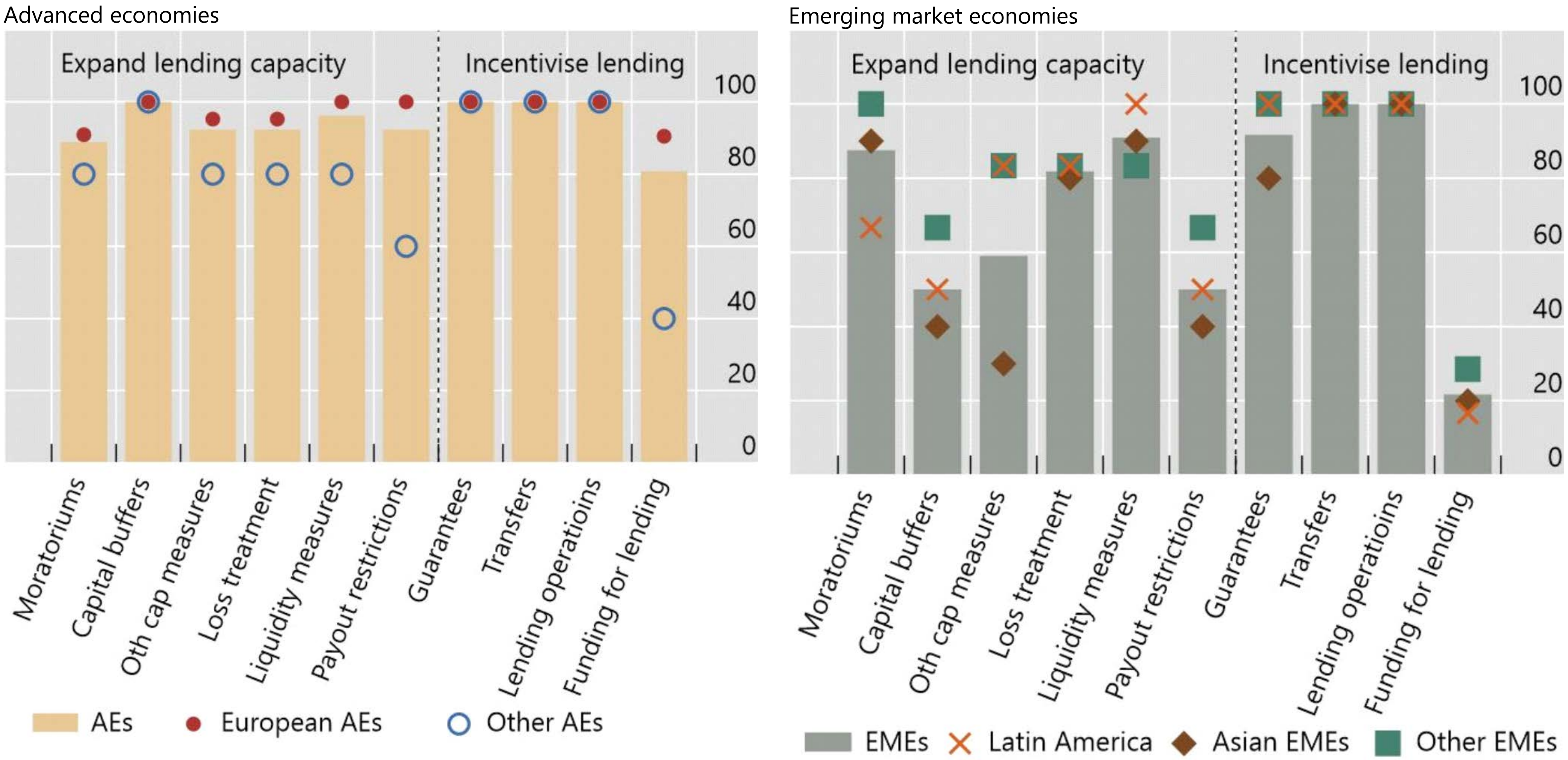
Banks entered the crisis with higher capital

Capitalisation of major international banks



Policy measures implemented during the Covid crisis to support bank lending[1]

Per cent of countries implementing within each region



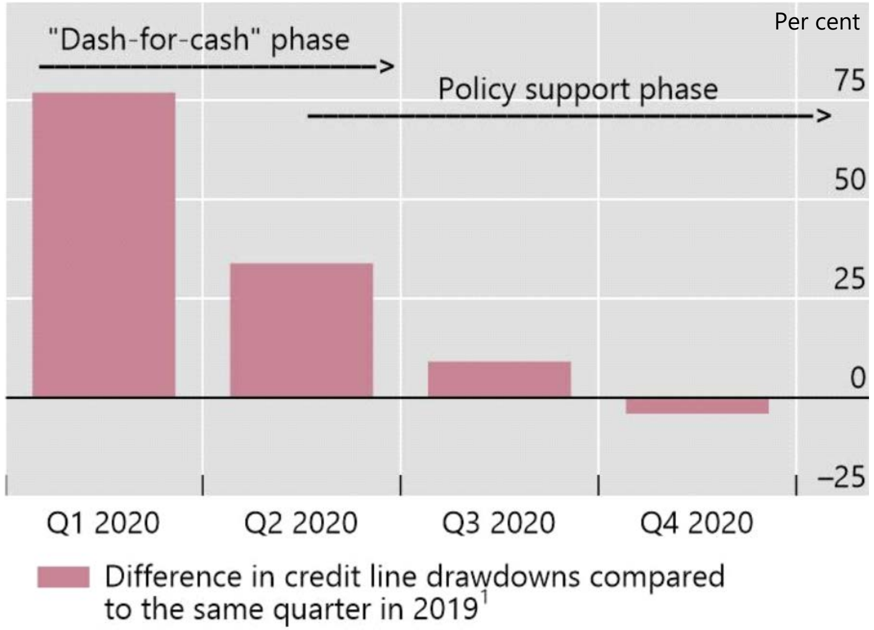
Asian EMEs = CN, HK, ID, IN, KR, MY, PH, SG, TH and VN; European AEs = AT, BE, CH, DE, DK, EE, ES, FI, FR, GB, GR, IE, IS, IT, LT, LU, LV, NL, NO, PT, SE, and SK; Latin America = AR, BR, CL, CO, MX and PE; Other AEs= AU, CA, NZ, JP and US; Other EMEs = CZ, HU, IL, PL, RU, SA, TR and ZA.

[1] The sample covers 48 countries for prudential policies, 49 countries for monetary policies and 51 countries for fiscal or other policies. For prudential and monetary policies, European Union and euro area-level measures are also counted in individual countries. For instance, the ECB's TLTRO III programme is attributed to each country within the euro area, under funding for lending. The ECB's measures typically apply to the largest banks in the euro area. See Table 1 in the Annex for details on groupings of measures.

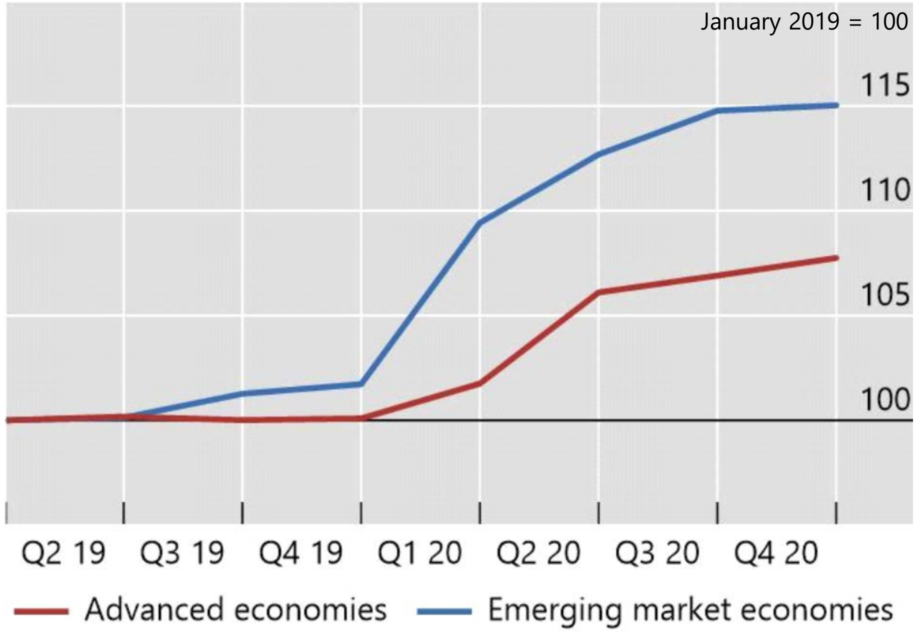
Source: Casanova, C, B Hardy, and M Onen (2021): "Covid-19 policy measures to support bank lending", *BIS Quarterly Review*, September.

Drawdown of credit lines and policy support boost overall credit volumes

Firms drew their credit lines as first response



Bank lending to the private non-financial sector surged[2]



Advanced economies = AT, AU, BE, CA, CH, DE, DK, ES, FI, FR, GB, GR, IE, IT, JP, LU, NL, NO, PT, SE and US; Emerging market economies = AR, BR, CL, CN, CO, CZ, HK, HU, ID, IN, KR, MY, MX, PL, RU, SA, TH, TR and ZA.

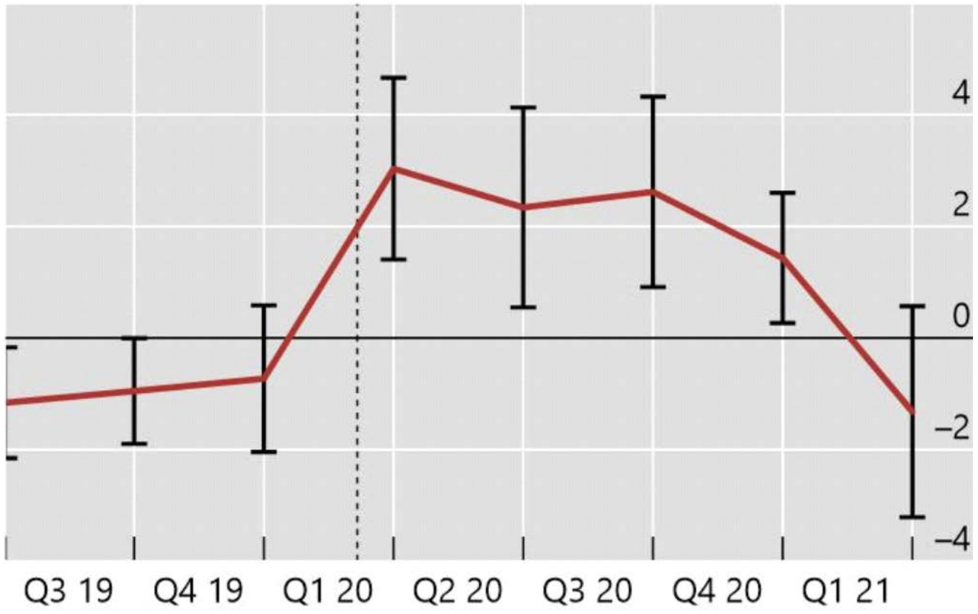
[1] Sum of credit line drawdowns by public non-financial firms in CA, DE, FR, GB, IT, JP and US. Balanced sample of companies across quarters in 2019 and 2020. [2] Bank credit to the private non-financial sector, relative to GDP.

Source: Casanova, C, B Hardy, and M Onen (2021): "Covid-19 policy measures to support bank lending", *BIS Quarterly Review*, September

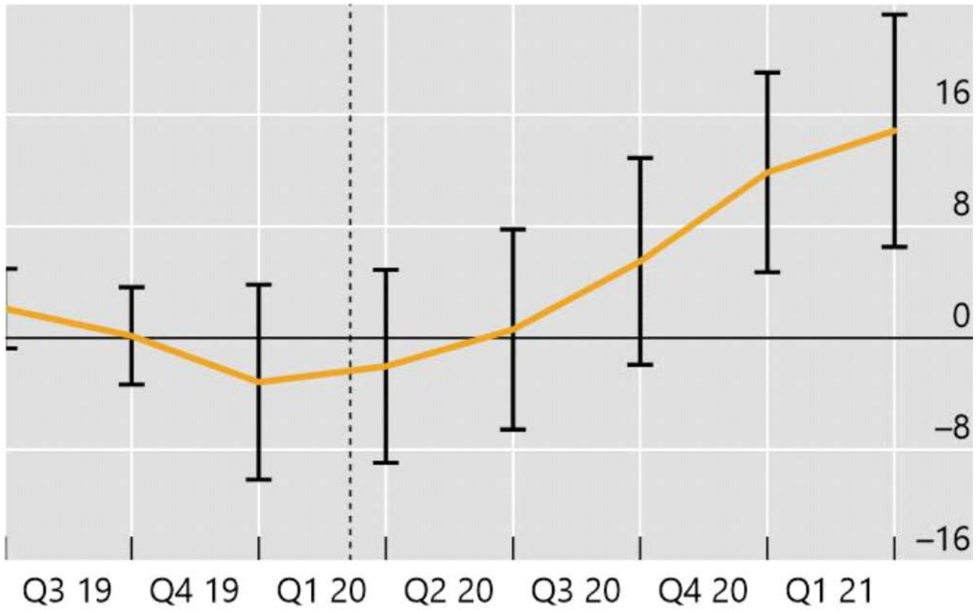
Effect of increasing banks' lending capacity on loan growth[1]

Estimated impact on year-on-year loan growth, in per cent

Boosting capital went with more lending...



... and so did smaller increases in the loan loss reserves ratio



The dotted vertical lines indicate 5 March 2020, which marks the initial market turmoil in response to Covid-19, followed by forceful policy actions.

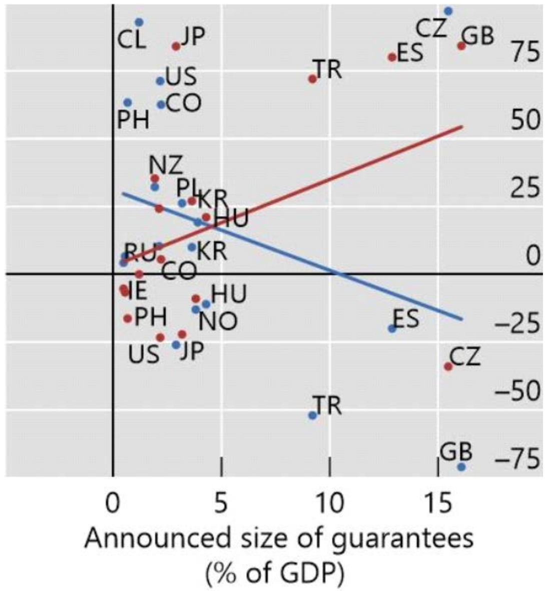
[1] Lines plot the evolution of the estimates of β_t^j – where *t* indicates a quarter and *j* an explanatory variable – and whiskers the corresponding 95% confidence intervals stemming from the following regression: $[(LNS_{it} - LNS_{it-4})/LNS_{it-4}] * 100 = \alpha_i + T_t + \sum_{k=2019Q2}^{2021Q1} \sum_j \beta_k^j (T_k * X_i^j) + \varepsilon_{it}$, where *i* denotes the bank, *t* denotes a quarter from Q2 2019 to Q1 2021, α_i are bank fixed effects, T_t are time fixed effects and *j* indexes other explanatory variables. The left-hand side variable is the year-on-year growth in gross loans, winsorised at 1%. The explanatory variables X_i^j include the following: the normalised change in bank capital, $[(Cap_{2020Q2} - Cap_{2019Q4})/RWA_{2019Q4}] * 100$, where *Cap* stands for total capital and *RWA* for the risk weighted assets (left-hand panel); change in the ratio of loan loss reserves (LLR) to total assets (TA), $[(LLR_{2019Q4}/TA_{2019Q4}) - (LLR_{2020Q2}/TA_{2020Q2})] * 100$ (right-hand panel); as well as end-2019 bank-level characteristics, which serve as controls: cash share of assets, loan share of assets, average return on assets and total regulatory capital ratio. Sample of 112 large banks across 24 countries. Errors are clustered at the bank level.

Source: Casanova, C, B Hardy, and M Onen (2021): "Covid-19 policy measures to support bank lending", *BIS Quarterly Review*, September.

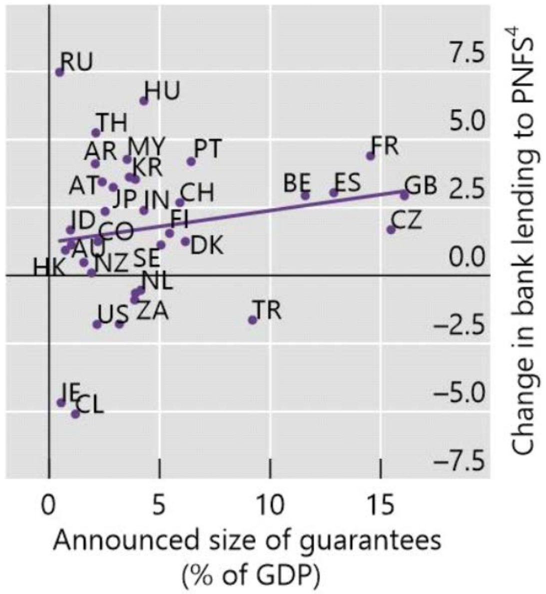
More generous guarantee programmes seemed to support lending

Lending standards were looser, demand was higher[1]

Net percentage

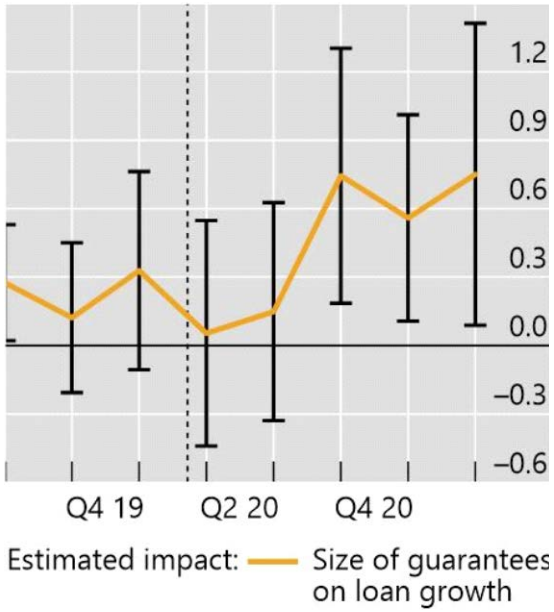


Lending to the private non-financial sector grew faster[1]



Lending grew faster in the second phase[5]

Per cent



• Loan demand[2] • Lending standards[3]

The dotted vertical line in the right-hand panel indicates 5 March 2020, which marks the initial market turmoil in response to Covid-19, followed by forceful policy actions.

[1] DE and IT are excluded as outliers. Their inclusion would not change the direction of the fitted lines. [2] Based on banks' responses to surveys on demand for loans from non-financial corporates between 31 March and 30 June 2020. Net percentage of banks indicating an increase vs a decrease; smaller values indicate weaker demand. [3] Based on banks' responses to surveys on their lending standards for loans to non-financial corporates between 31 March and 30 June 2020. Net percentage of banks indicating that they tightened their standards vs loosened them; negative values indicate a loosening and positive values indicate a tightening. [4] Growth rate of bank lending to the private non-financial sector (households and non-financial corporations) as a percentage of GDP from end-Q2 to end-Q4 2020. [5] For an interpretation of the panel, see Graph 4. In the underlying regression, the announced size of the guarantee package in the country of the bank's headquarters replaces the capacity change measures.

Source: Casanova, C, B Hardy, and M Onen (2021): "Covid-19 policy measures to support bank lending", *BIS Quarterly Review*, September.