EUROPEAN CENTRAL BANK

EUROSYSTEM

Knowledge for Europe: informing the public on financial stability

Panel on inequality and financial education -

The 14th Edition of the National Bank of

Romania Seminar on Financial Stability Issues

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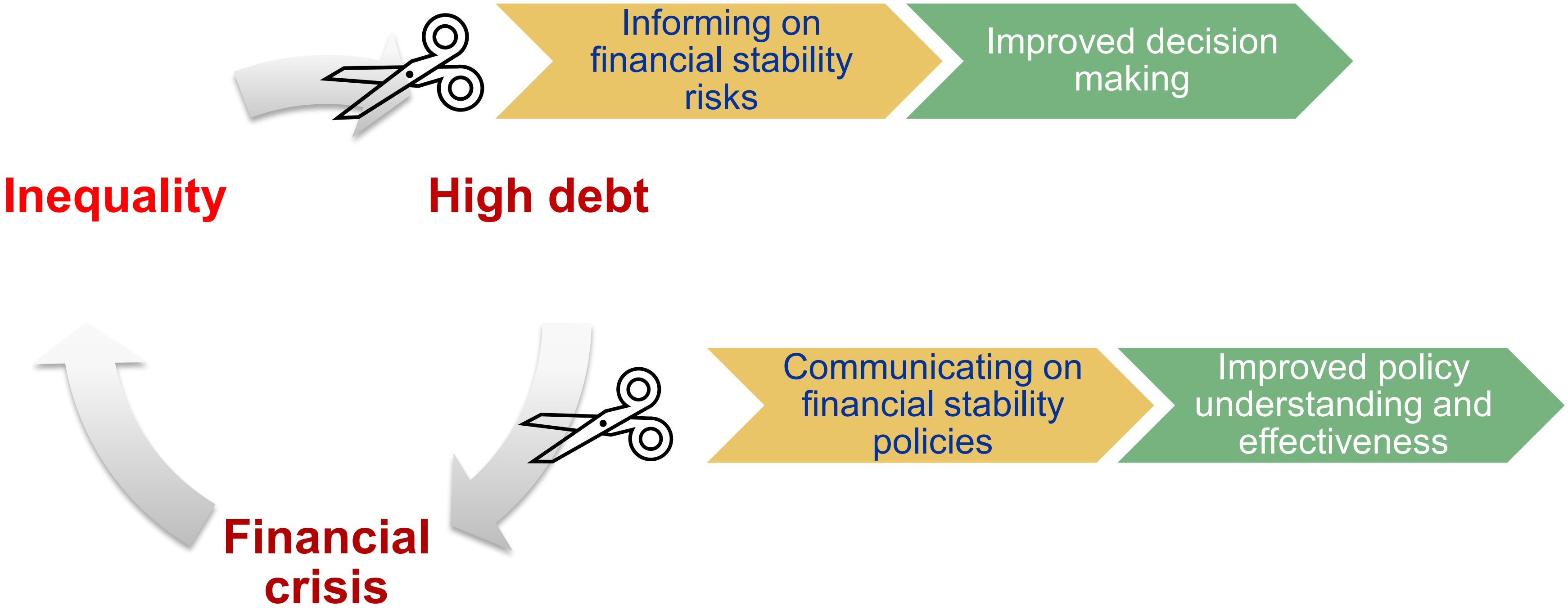
*The views expressed are personal and do not necessarily reflect those of the ECB

Financial education helps to break a vicious circle…



Institutional research and knowledge in the public domain

“Dedicated research to measure inequality around the globe and the analysis of its root causes is an established priority among major institutions”

Luis de Guindos, Vice-President of the ECB, remarks on the occasion of awarding the Bernácer Prize to Professor Gabriel Zucman. 2019

“The Financial Stability Review promotes awareness of systemic risks among policymakers, the financial industry and *the public at large*, with the ultimate goal of promoting financial stability”

Luis de Guindos, Vice-President of the ECB, foreword to the semi-annual ECB Financial Stability Review

Some of the communication tools…

ECB blog
(Posts authored by ECB staff and Executive Board members)

ECB Executive Board speeches

ECB explainers

ECB Macroprudential Bulletin

ECB Financial Stability Review

ECB Annual Reports

ECB Research Papers

Know your risk environment!

The latest ECB Financial Stability Review (May 2023)

Financial stability vulnerabilities remain elevated

Financial markets remain vulnerable to less favourable growth and inflation outcomes. Adverse market dynamics could be amplified by forced sales of securities by non-banks amid low liquidity buffers.

Tighter financial and credit conditions are testing the resilience of euro area firms, households and sovereigns. The correction in property markets could turn disorderly in the event of negative macro-financial surprises.

Euro area banks have had little exposure to the recent unexpected banking sector stress experienced in some mature economies, but funding and asset quality headwinds may weigh on future profitability.

It is essential to complete the banking union and strengthen policies for the non-bank financial sector to further enhance the resilience of the euro area financial sector.

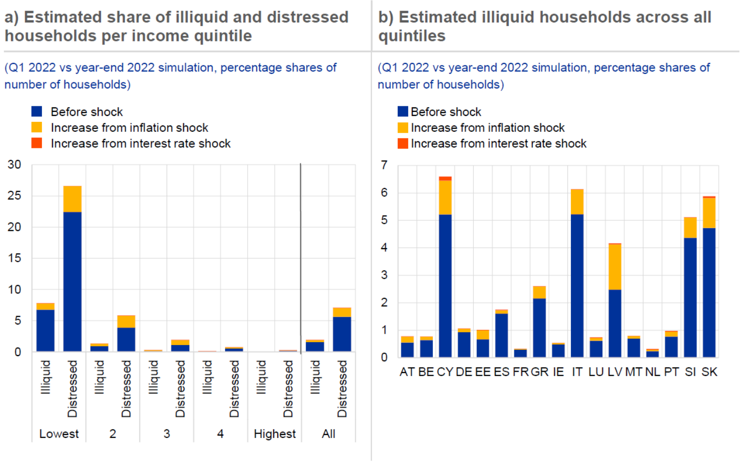
How do inflation and interest rates affect your finances!

Exploring the impact of changes in consumer prices and interest rates (ECB FSR Special Feature November 2022)

…"Simulations of the impact of rising consumer prices and interest rates on the near-term financial health of households reveal a more pronounced risk of default in lower income quintiles" …

Chart B.3

Lower-income households could be disproportionately squeezed by inflation and to a lesser extent by higher interest rates from the end of 2022 onwards



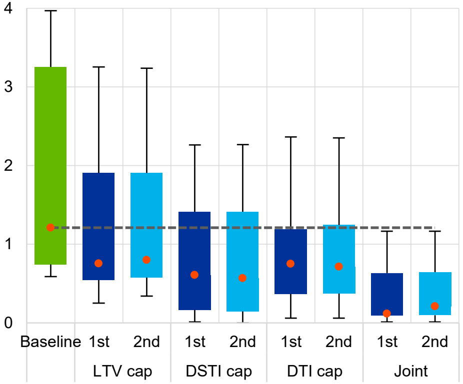
Sources: HFCS and ECB staff calculations.
Notes: Data are extrapolated forward to the first quarter of 2022. Lithuania and Finland are excluded because of insufficient data coverage. "Shock" refers to the impact of changes in consumer prices and interest rates on household finances between the first quarter of 2022 and the end of 2022.

Macroprudential policies protect your finances!

The transmission and effectiveness of macroprudential policies for residential real estate (ECB Macroprudential Bulletin Oct 2022)

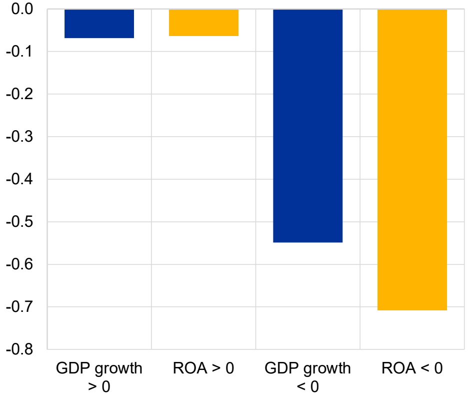
…"Macroprudential measures can effectively support the resilience of households and banks and help tame the build-up of residential real estate (RRE) vulnerabilities. By capping the riskiness of new loans, borrower-based measures contribute to moderating RRE vulnerabilities in the short-term and to increasing the resilience of households over the medium term. By inducing banks to use more equity financing, capital-based measures increase bank resilience in the short and medium term but are unlikely to have a significant dampening effect on RRE vulnerabilities during the upswing phase of a financial cycle. The two categories of measures are mainly complementary and many European countries have therefore implemented them in combination in recent years."…

How do borrower-based measures impact loan risk?



Source: Chart 1a, ECB MPB Oct 2022; Giannoulakis, et al. (2022), "The Effectiveness of Borrower-Based Macroprudential Policies: A Cross-Country Perspective," ECB WP 2795/2023
Notes: Median and interquartile range across countries of the simulated aggregate household PDs in 19 EU countries. The green bar refers to the PDs without BBMs in place, the dark blue bars refer to the first-round (1st) impact of BBMs on simulated PDs (i.e. PD reduction via safer loan characteristics), while the light blue bars also take into account second-round (2nd) macroeconomic effects from the policy induced negative credit demand shock.

The impact of macroprudential capital buffers on growth is contingent on the state of the economy



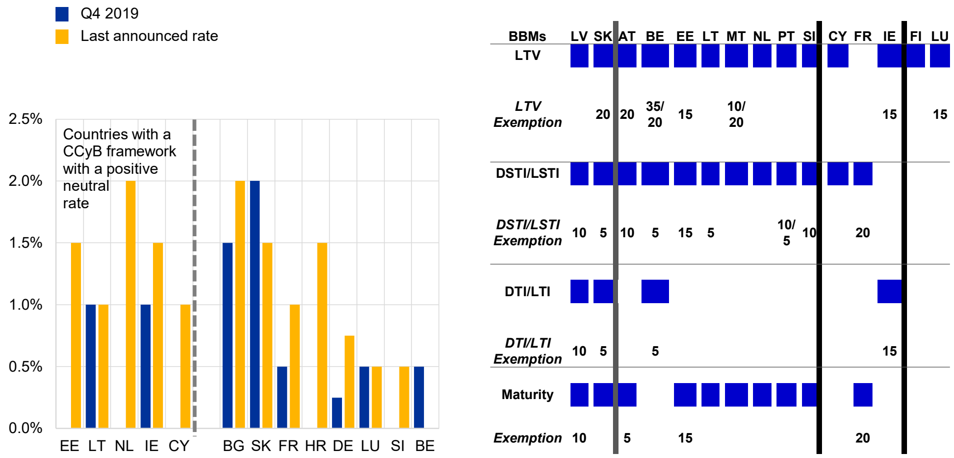
Source: Chart 2b, ECB MPB Oct 2022
Notes: The chart displays the state-contingent response of the one-year ahead real GDP growth rate to a 1 percentage point increase in the banking sector leverage ratio (measured as total capital divided by total assets), differentiated according to whether current real GDP growth and the banking sector return on assets are positive or negative. The results are based on panel local projections for euro area countries.

Understand what macroprudential policies should do today to support financial stability!

Implications for macroprudential policy as the financial cycle turns (ECB Macroprudential Bulletin July 2023)

…"Although the euro area financial cycle is turning, banks remain profitable, vulnerabilities are still elevated, and financial stability risks have not yet materialised. Against this backdrop, macroprudential policy should not be loosened but should instead focus on preserving the resilience of banks and borrowers."…

Implementation of capital and borrower-based measures in the euro area



Source: Charts 3a and 4a, ECB MPB July 2023;
Notes: LHS CCyB rates announced before the pandemic and latest announced CCyB rates; RHS Overview of borrower-based measures in the SSM area

A holistic view of ECB actions supporting financial stability!

(ECB Annual Report 2022)

Financial stability risks increased as macro-financial conditions weakened

Macroprudential policies are a key instrument to address financial stability vulnerabilities

Many countries introduced or increased macroprudential buffers in 2022

The euro area banking sector proved resilient to the macroeconomic and financial effects of Russia's war in Ukraine

The ECB made decisive progress towards its climate risk agenda with the first dedicated stress test and a thematic review

Work on banking regulation in the EU focused on Basel III, crisis management, the macroprudential framework and climate risks

For the non-bank financial sector, regulatory efforts focused on capital markets union, structural vulnerabilities and crypto-assets

Public trust is a foundation for policy!

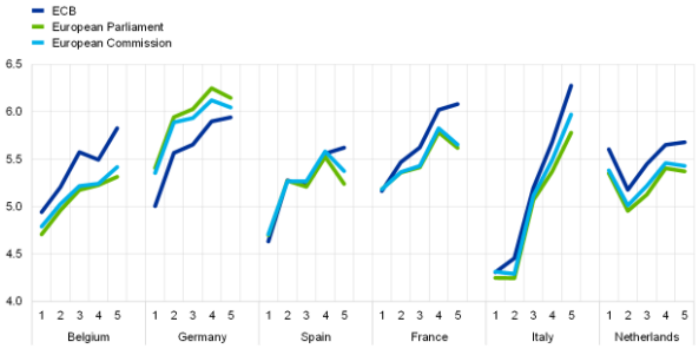
Economic inequality and public trust in the European Central Bank (ECB Economic Bulletin July 2023)

…"One aspect that has received less attention is how a perceived increase in inequality could affect public trust in central banks, and how this could affect the fulfilment of central banks' mandates. […] This may have an impact on the ECB, as public trust is of relevance both for the anchoring of inflation expectations, which increases the effectiveness of monetary policy, and to shield it from political pressures that could undermine its independence."…

Chart 3

Trust in EU institutions, by household income quintile

(average level of trust)



Source: ECB Consumer Expectations Survey.
Notes: The data include monthly waves from April 2020 to December 2021. The weighted average level of trust in the respective institution is measured on a scale from 0 to 10, where 0 is no trust at all in the institution and 10 is complete trust.

THANK YOU!