



Financial crisis?

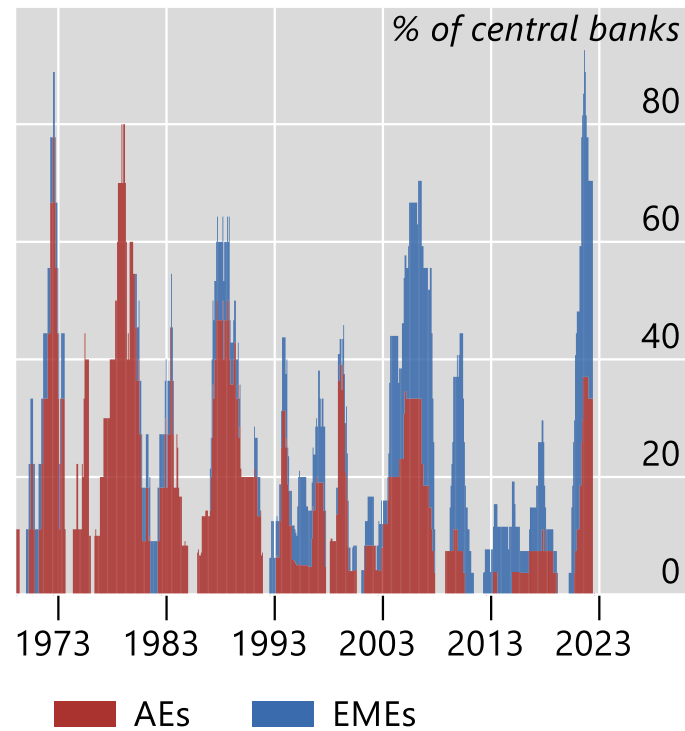
Deniz Igan

September 28, 2023

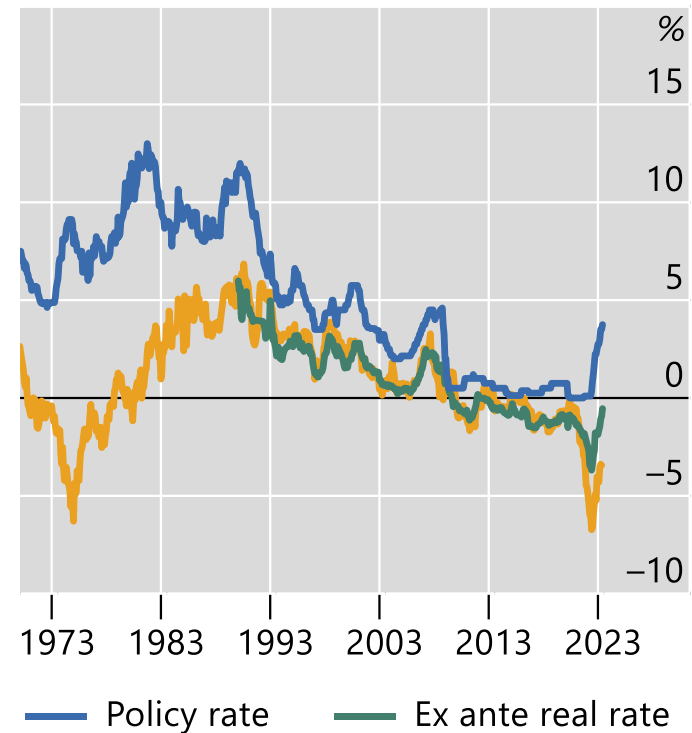
The views expressed are those of the presenter and do not necessarily represent those of the BIS.

Synchronised monetary tightening lifts rates from historic lows

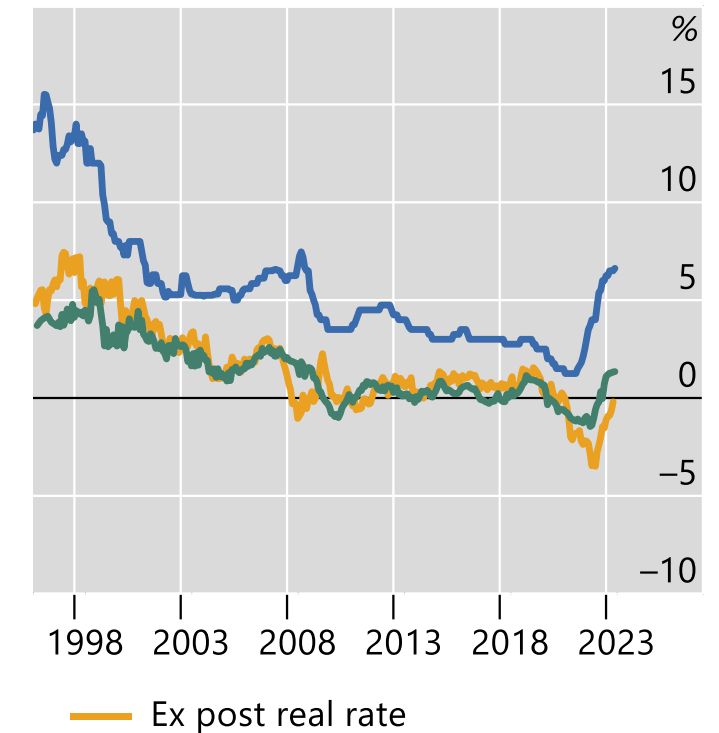
Monetary tightening episodes



Policy rates in AEs



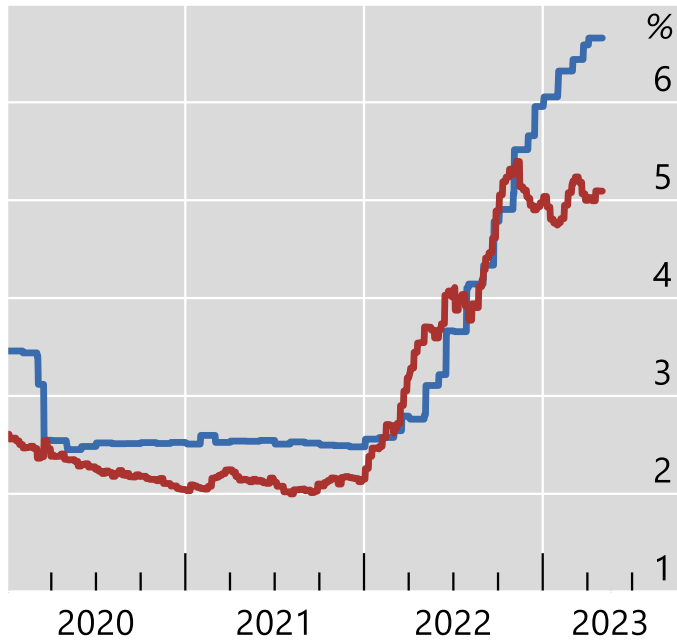
Policy rates in EMEs



Source: *BIS Annual Economic Report, 2023*

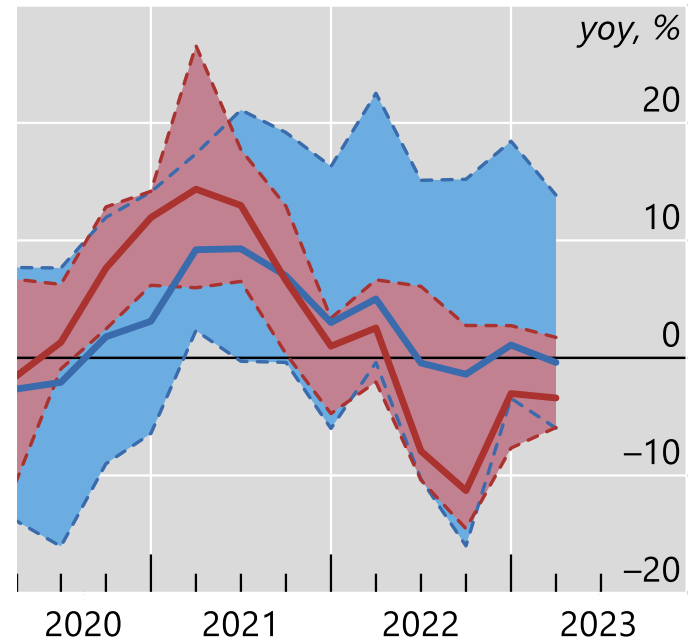
Monetary tightening raises borrowing costs and slows demand

New mortgage and lending rates in major AEs rise...



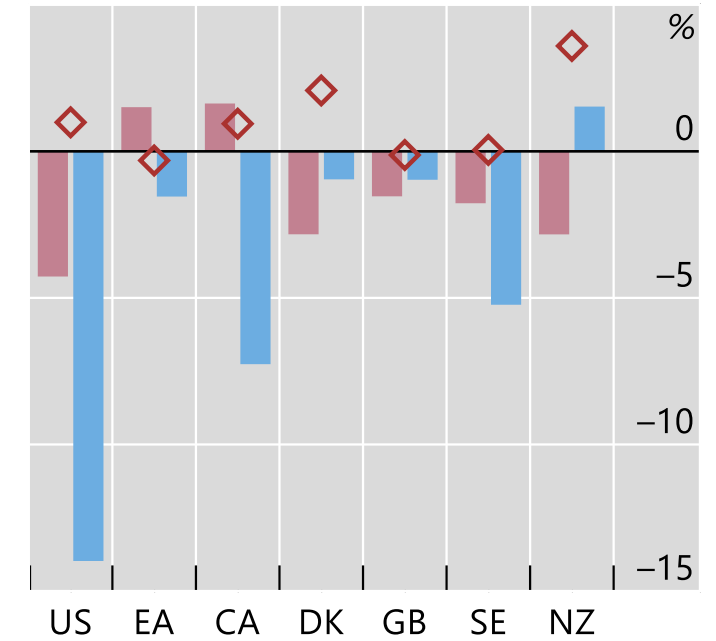
— Mortgage rate
— Non-financial corporations loans rate

...and bank credit growth drops...



AEs: — Median — 10th–90th percentiles
EMEs: —

...while durables and residential investment growth slows down



Change from start of tightening:
— Consumer durables
— Residential investment
◇ Other components of aggregate demand (excl public spending)

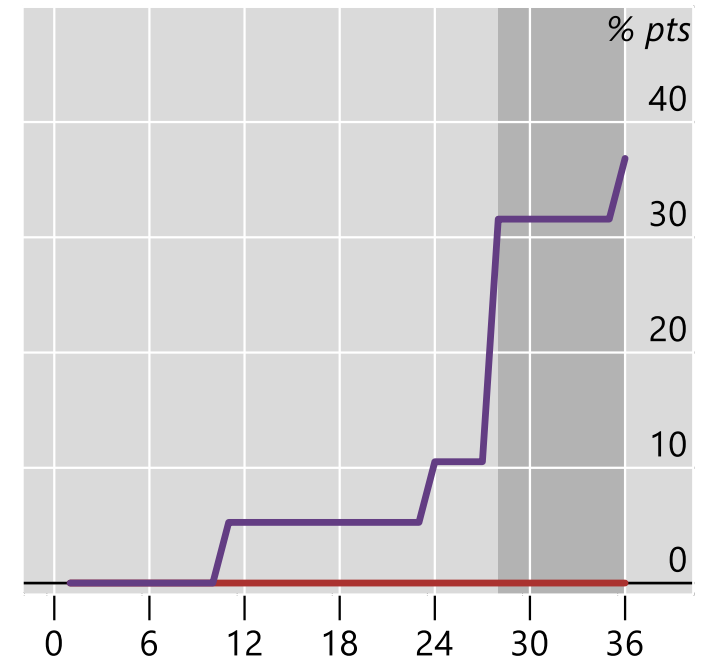
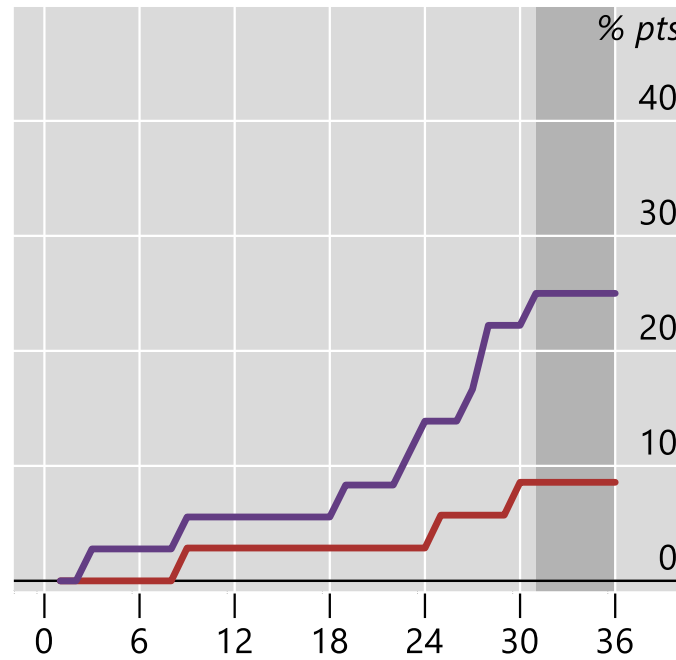
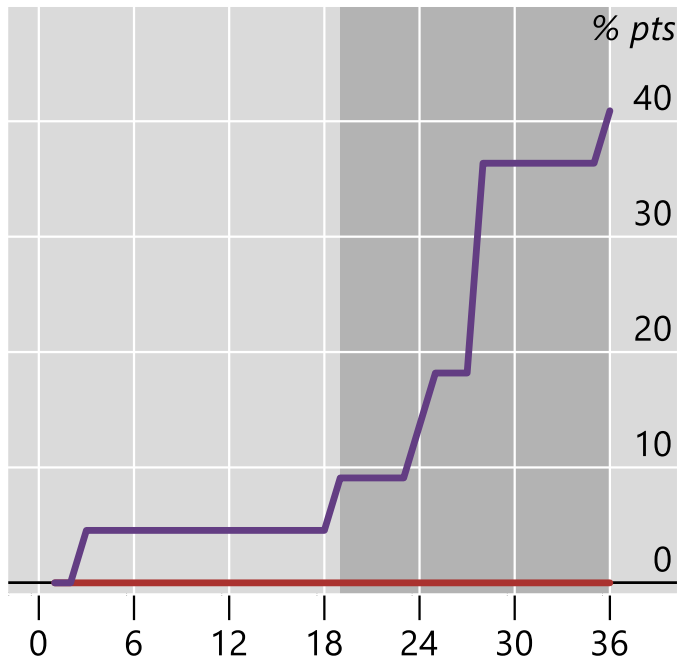
Source: BIS Annual Economic Report, 2023

Boxes are ticked for financial stress during monetary tightening

Stress more likely when private credit-to-GDP is high...

when the surge in inflation is strong...

...when house prices grow rapidly



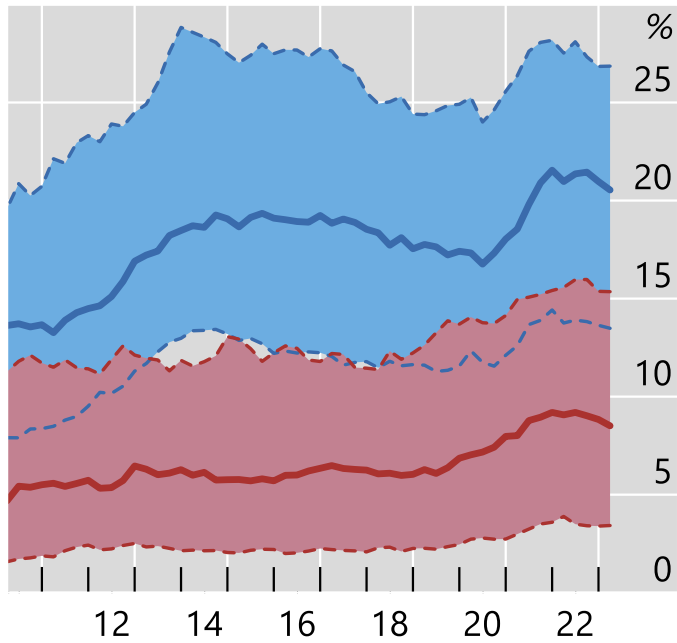
In the month of the first hike, the variable in the panel heading is in:

— First quartile — Fourth quartile

Source: BIS Annual Economic Report, 2023

The long shadow of low-for-long: duration mismatches and exposure to outflows

US banks reach for long-duration assets

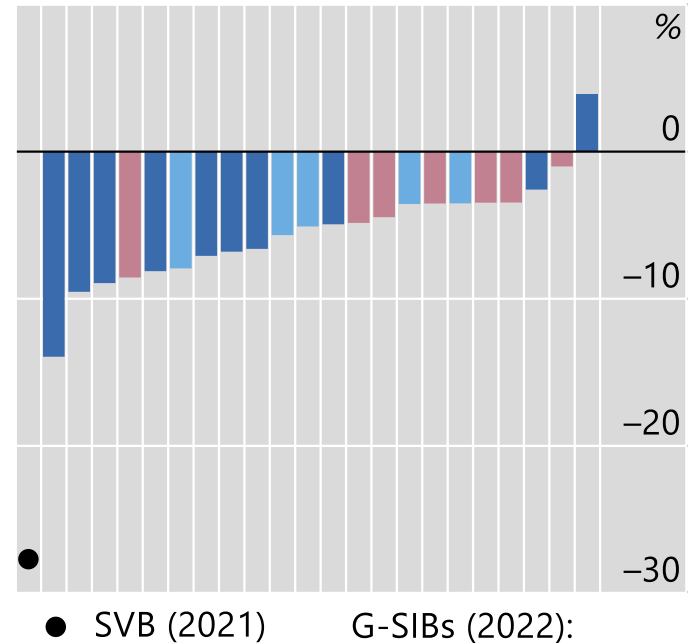


Remaining maturity or next repricing:

Median: Interquartile range:

- More than 15 years
- Five-15 years

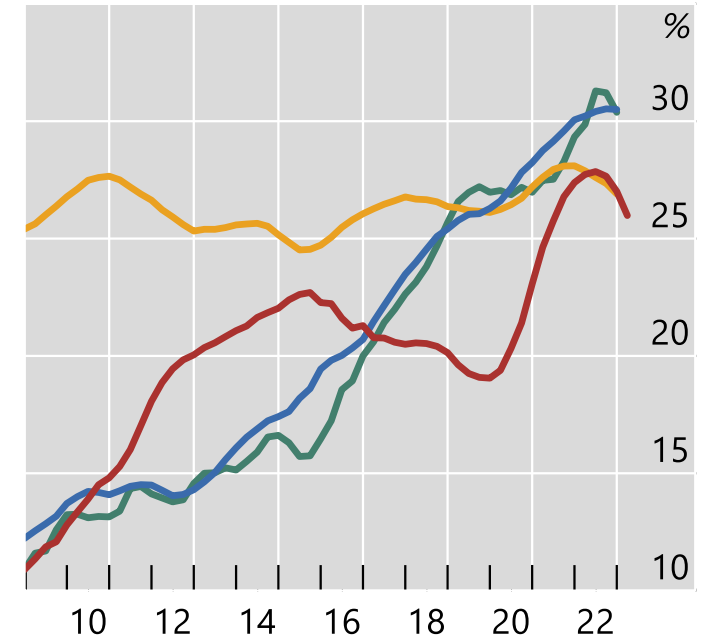
Projected decline in bank equity due to upward shift in yield curve



● SVB (2021) G-SIBs (2022):

- EA
- Other Europe
- Other

Funding shifts to short-term deposits during the low-for-long



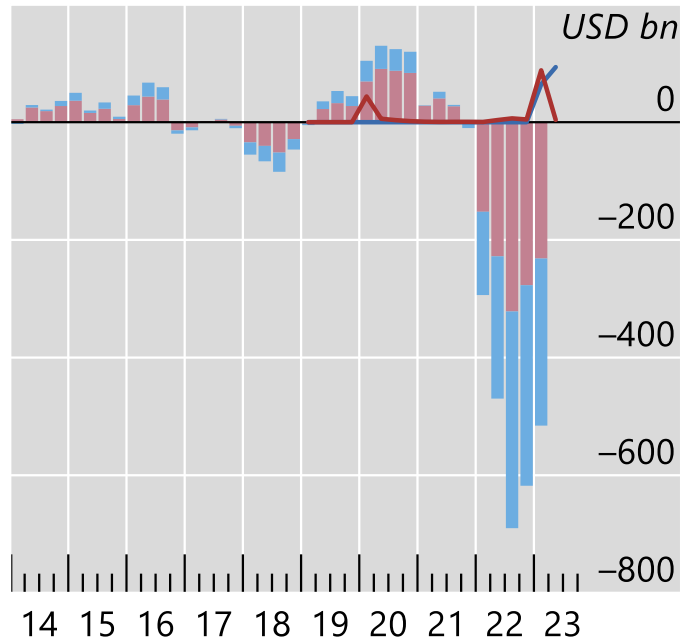
Transaction deposits as a share of total assets:

- US
- EA
- Other AEs
- EMEs

Source: BIS Annual Economic Report, 2023

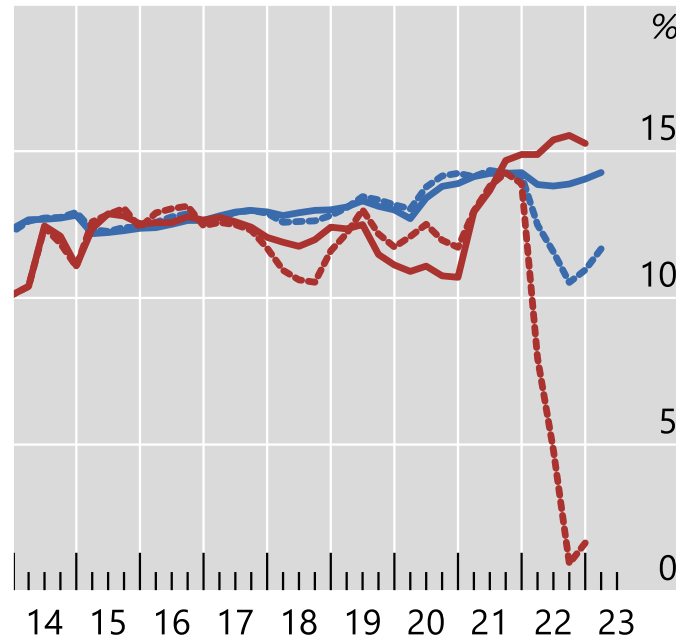
Rising interest rates test bank resilience

Losses on debt securities accumulate, authorities intervene



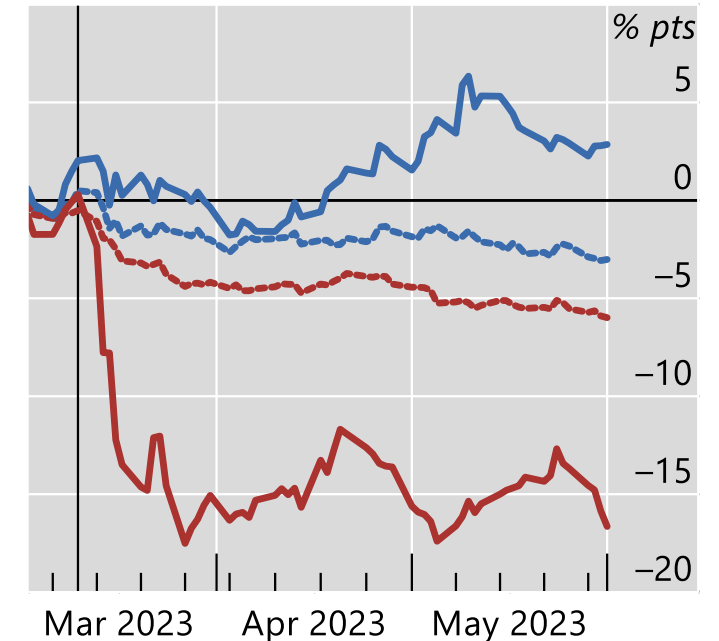
- AFS
- HTM
- Bank Term Funding Program
- Loans to domestic banks through the discount window

Recognition of unrealised losses would weigh on capital ratios



- CET1 capital ratio:
- SVB
- Other banks
- Adjusted for unrealised losses:
- - -
- - -

Equity investors differentiate across banks

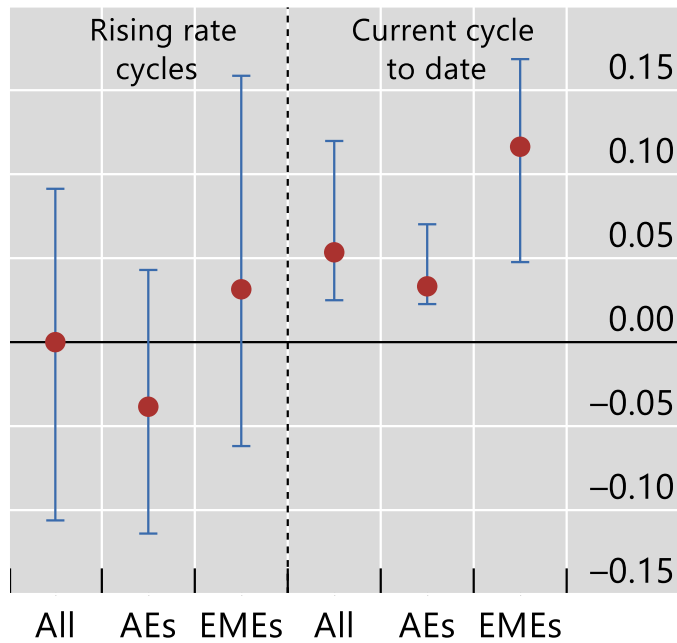


- AE banks:
- Low PBR
- - - High PBR
- EME banks:
-
- - -

Source: BIS Annual Economic Report, 2023

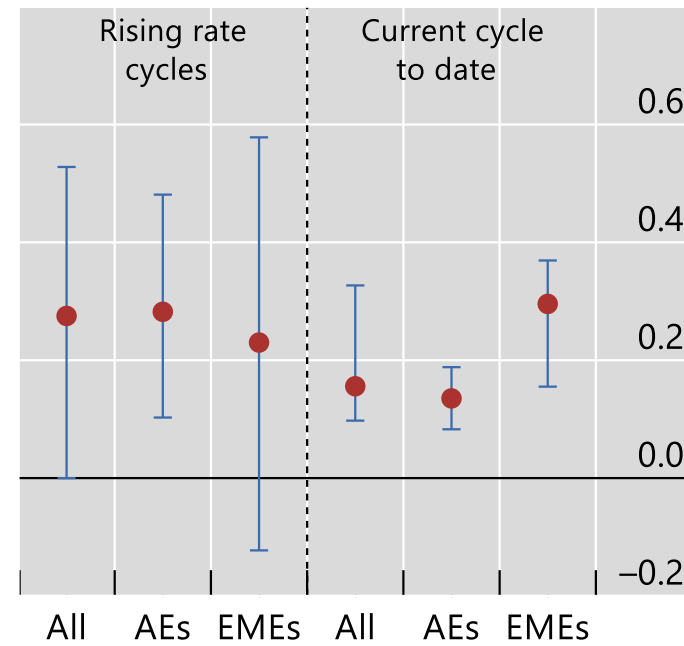
Sensitivity of bank interest margins to increase in policy rates looks different

NIMs have risen with policy rates in this cycle



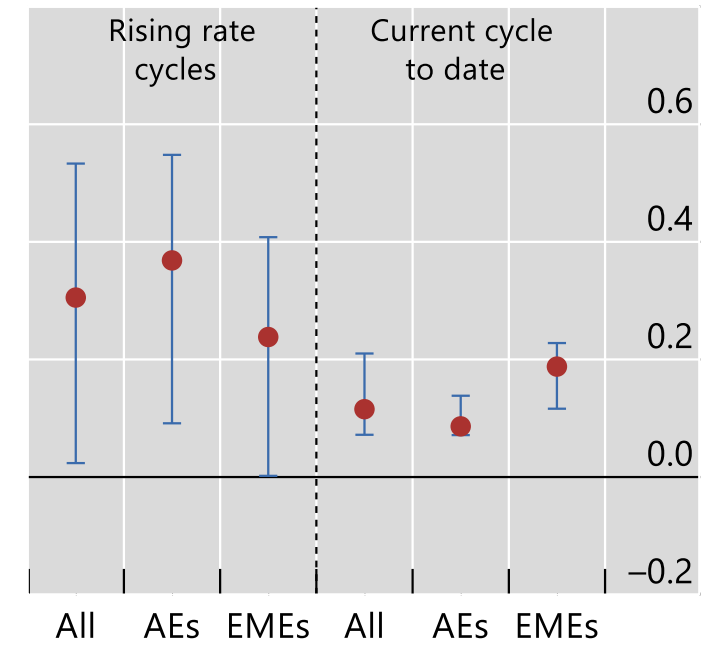
Cumulative change relative to change in policy rates over rising rate cycles:

Rise in asset yields to date suggests scope for further rise in AEs



● Median — Interquartile range

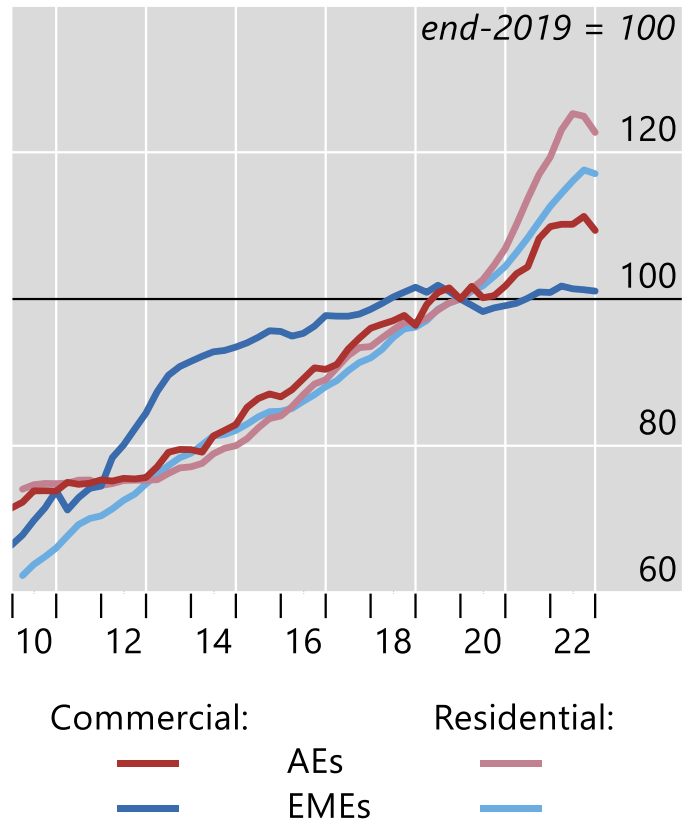
Debt funding costs lag adjustment to higher interest rate environment



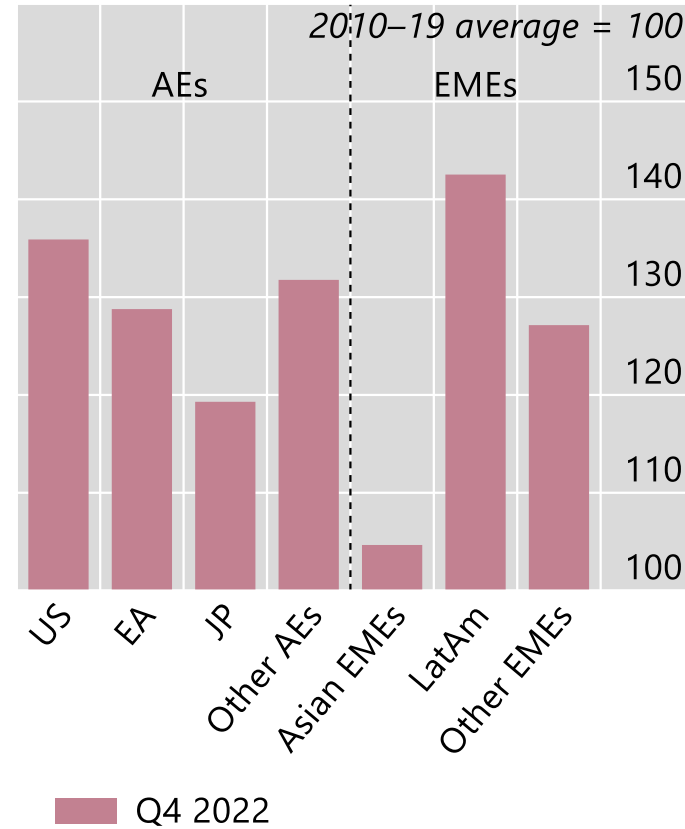
Source: BIS Annual Economic Report, 2023

Corrections in real estate markets pose downside risks

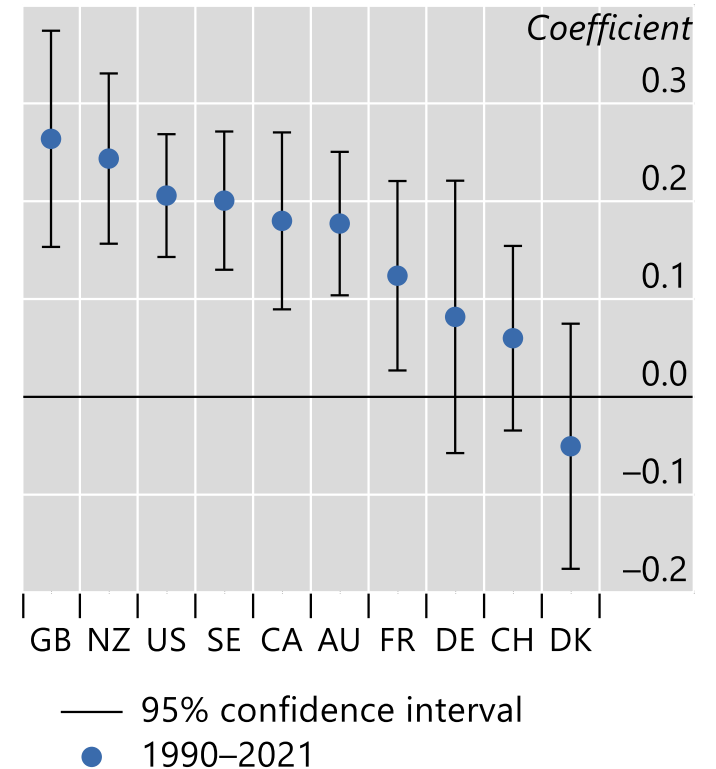
Commercial and residential property prices



House price-to-rent ratios



Effects of house price changes on consumption growth



Source: BIS Annual Economic Report, 2023



Thanks go to the team:

Pongpitch Amatyakul, Miguel Ampudia, Alessandro Barbera, John Caparusso, Gabriele Freo, Emanuel Kohlscheen, Nicolas Lemercier, Cristina Leonte, Ulf Lewrick, Marco Lombardi, Nikola Tarashev, Karamfil Todorov

Read the full report at bis.org