

COVID NPLs: From “tsunami” to optimism & now to “wave”?

ADB-ECB NPL Book launch

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THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

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Phenomenal reading



NONPERFORMING LOANS IN ASIA AND EUROPE— CAUSES, IMPACTS, AND RESOLUTION STRATEGIES

Edited by

John Fell, Maciej Grodzicki, Junkyu Lee, Reiner Martin, Cyn-Young Park,
and Peter Rosenkranz

DECEMBER 2021

- Forensic yet still big-picture comparison from recent financial crises in Asia & Europe
- Could not be more timely
- A must-read for policy makers & business & students of financial crisis

COVID NPLs: “This time *is* different” *

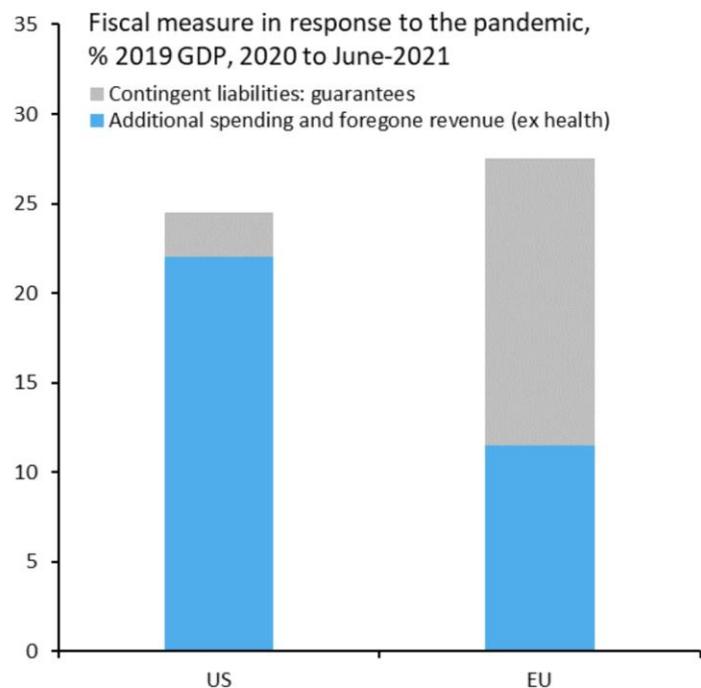


- Much better preparedness in Europe in the wake of the twin GFC and eurozone crisis (read the book)
- **“Whatever-it-takes”** policy mix with “European characteristics”:
 - ✓ Massive anti-cyclical policy mix that integrated, for the first time, macroprudential/regulatory policies in a systemic way
 - ✓ EU-level easing: suspension of the fiscal, state aid and completion rules – a real first, WELL DONE!
 - ✓ ECB’s enlightened monetary policy easing extended to non-euro countries through currency swaps, repos - BRAVO!

* Based on joint work by Reiner Martin, Piroska Nagy-Mohacsi, Elina Ribakova, Jonathan Vargas, in *Eurobook 2022* (forthcoming February 2022)

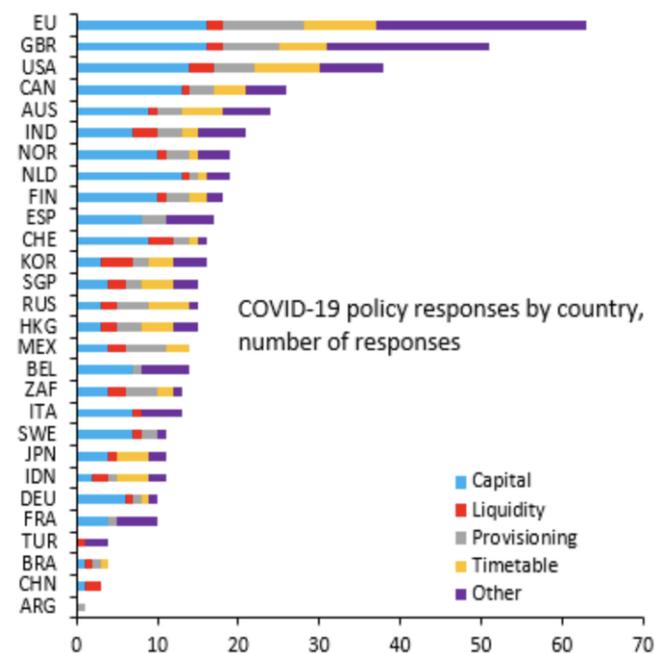
Policy elements

Figure 5: Fiscal support measures in the EU and the US, 2020-21



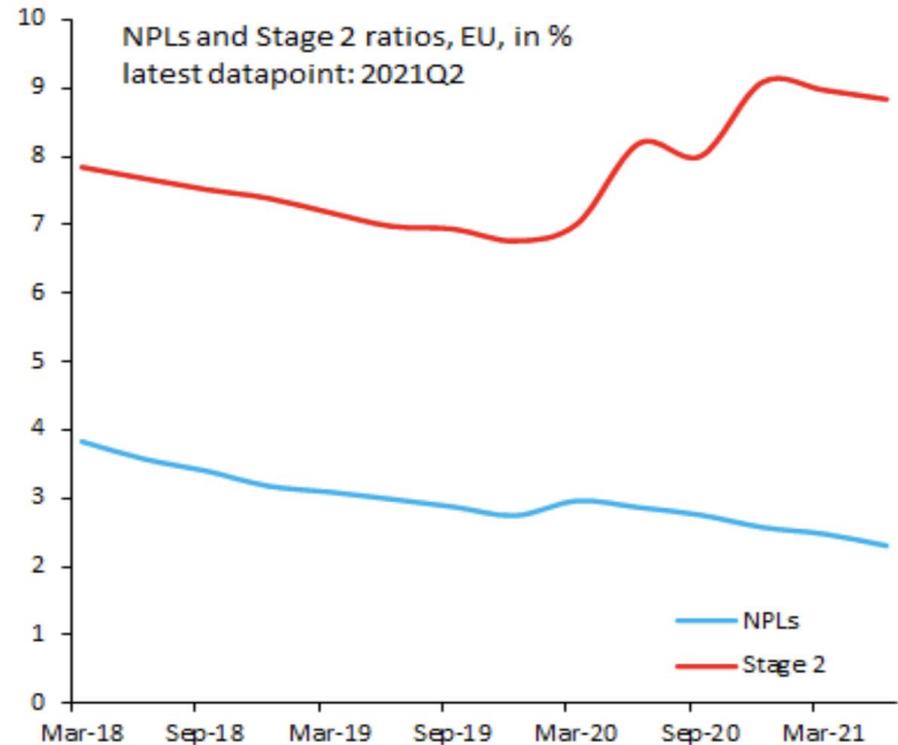
Sources: IMF Fiscal database June 2021 and EIB data.

Figure 6: Total number of bank regulatory measures by jurisdiction and type



Results to date: no tsunami ... but change is coming

- Divergence between reducing NPLs but rising Stage 2 loans
- Stimulus measures to be wound-down
- Clear risks in a few areas:
 - Asset prices soaring
 - Household and corporate sector debt rising
 - Some risks of “zombification”
- In EMs potential negative spillovers from QE reversal



Source: EBA and authors.

Policies to avoid an “NPL Wave”



- Speed is of the essence to deal with any material NPL rise
- “Benefit of the doubt” principle
- Fast-track approach on calls on guarantees
- Secondary NPL markets to be strengthened
- Asset management companies (AMCs) need more flexible state aid rules. In case of an NPL wave re-consider EU-level AMC
- “Forward guidance” on NPL management in the coming uncertain times
- For emerging Europe, continued ECB currency swaps/repos are needed to mitigate market overreaction during forthcoming tapering