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

JVI-ADB-ECB NPL Webinar 
Joint Vienna Institute (JVI) 
December 15, 2021 

Piroska Nagy-Mohacsi 
Visiting Professor 
LSE Firoz Lalji Global Hub
Phenomenal reading

- 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”*

- Crisis not from the financial sector
- 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 competition 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)
Figure 5: Fiscal support measures in the EU and the US, 2020-21

Fiscal measure in response to the pandemic, % 2019 GDP, 2020 to June-2021
- Contingent liabilities: guarantees
- Additional spending and foregone revenue (ex health)

Sources: IMF Fiscal database June 2021 and EIB data.

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

COVID-19 policy responses by country, number of responses
Results to date: policies have worked ... 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 (including crypto)
  - Household and corporate sector debt rising
  - Some risks of “zombification”
- In EMs potential negative spillovers from QE reversal

Source: EBA and authors.
Particular risks for emerging markets

• NPLs are generally higher than in ADs:
  ✓ weaker starting position; smaller COVID stimulus packages; higher inflation already

• Monetary policy tightening is underway in many EMs (Brazil, Turkey, Hungary, Russia,…) due to inflation, which however maybe premature for growth —> direct risks to bank asset quality

• Negative spillovers from AD stimulus withdrawal
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” also on macro-pru/NPL management as uncertainty continues (Omicron)
- For emerging markets in Europe, ECB currency swaps/repos need to remain in place to mitigate market overreaction during forthcoming tapering