



EUROPEAN CENTRAL BANK

EUROSYSTEM

Comments on keynote on macroprudential policy

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Disclaimer: The views expressed here are my own and not those of the ECB or the Eurosystem



Celebrating ESRB@15: Congratulations!!!



No comments

“I agree with Hélène!”

Comments

- 1 Origins of macroprudential policy
- 2 AI boom or bubble
- 3 European exposure to AI boom
- 4 Booms in household versus firm credit

1

Origins of macroprudential policy

Origins and evolution of macroprudential policy and research

- Term coined in 1979 by Cooke committee
- Intellectual leadership of BIS, but also FSB and IMF (esp. for emerging markets)
- Research on advanced economies started in earnest only after GFC—first macroprudential database by Lim et al. (IMF, 2011), followed by Shim et al. (BIS, 2013)
- Initial excitement is wearing off
- Key remaining question for central banks is how to combine macroprudential and monetary policies

2

AI boom or bubble

Will AI boom lead to boom-bust cycle in stock prices?

- Technological revolutions often lead to a boom-bust in stock prices
 - Railroads in the 19th Century; Electricity and Radio in the 1920s; Internet in the 1990s
- Fundamentals-driven boom-bust (Pastor and Veronesi, 2006, 2009)
 - High stock valuations can be a rational response to extreme uncertainty surrounding the potential of a new technology
- Speculative bubbles (Scheinkman et al., 2003, 2014; Hong and Stein, 2007)
 - High stock valuations are driven by investors who are overconfident about the potential upside of new technology

Key ingredients for a bad boom

- Booms may generate benefits for the real economy
 - Provides funding for risky innovative activities and raises productivity
- But booms often lead to:
- Over-investment financed with leverage (Schularick and Taylor, 2012)
 - Low leverage for Mag7 so far but rising for AI infrastructure build-out
- Concentrated exposure in banks and NBFIs
 - Private credit only small proportion of AI debt financing, but rising for AI infrastructure build-out

Policy tradeoff in managing booms

- “Only” 1-in-3 credit booms are bad, i.e., end up in financial crises or below-trend economic performance (Dell’Ariccia, Igan, Laeven and Tong, 2015)
- Cost of intervening too early and running the risk of stopping a good boom have to be carefully weighted against the desire to prevent financial crises

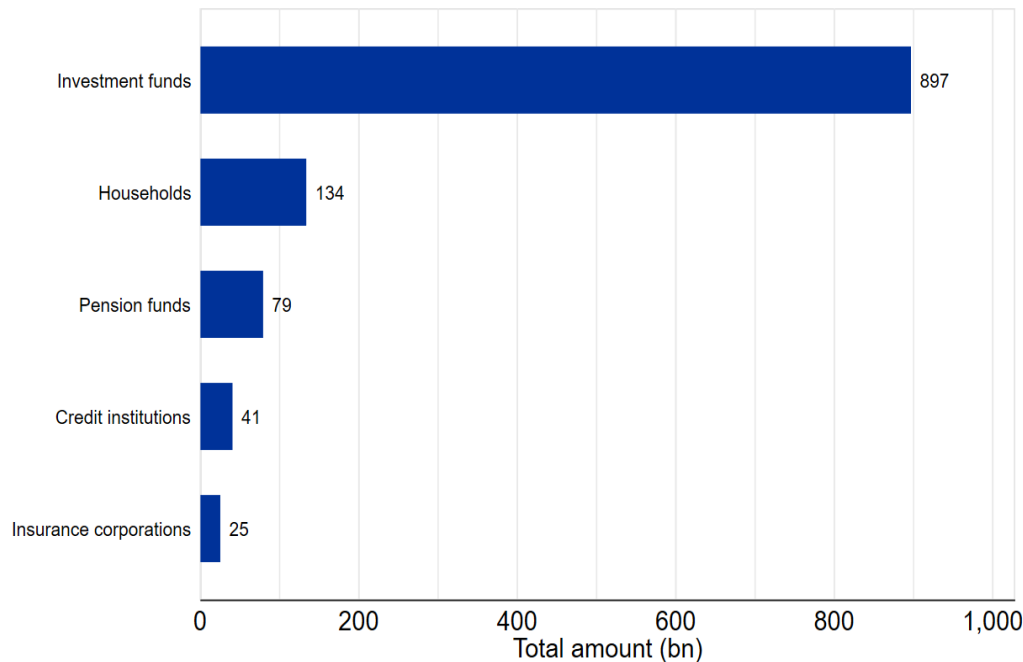
3

European exposure to AI boom

European exposure to AI boom a financial stability risk?

- European institutional investors, especially insurance companies, (in)directly hold sizeable amounts of equity in US AI sector
- European institutional investors, notable insurance companies, also have sizeable equity exposure to US private credit funds, that in turn fund tech companies
- European banks' direct exposure to AI sector is limited

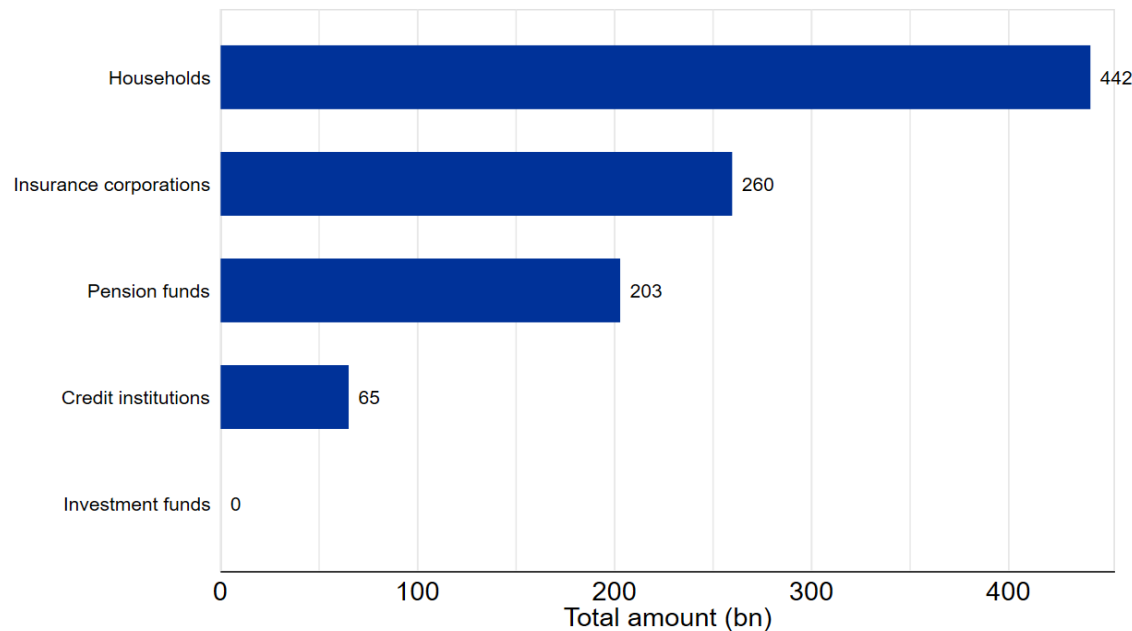
Exposure to Mag7 equity is mainly via investment funds



- Over 1 trillion euro total equity exposure to Mag7
- Most of the exposures through funds, resulting in redemption risk
- When funds face redemptions:
 - Use cash buffers and sell liquid assets (e.g. sovereign bonds)
 - Forced sales of distressed assets in a prolonged bust (cliff effect)

Note: Holding amounts in the euro area by the five largest investors (market values, Q3 2025). Source: ECB SHSS database.

“Look-through” the fund holdings



Exposure to Mag7 equity:

- Households, Insurance Corporations and Pension Funds most exposed
- Approximately 30% of their total exposures to US equities

Note: Holding amounts in the euro area by the largest investors (market values, Q3 2025). Source: ECB SHSS database.

4

Booms in household versus firm credit

Role of household debt in business cycles

- Since 2007-08 crisis, household debt seen as important from a macroeconomic perspective—US subprime crisis originated in mortgage market and household sector
- Micro evidence on household debt-fueled boom-bust cycles (e.g., Mian-Sufi, 2009, 2010)
- Complementary macro evidence (e.g., Mian-Sufi-Verner, 2015; Jordà et al., 2016)
- Heterogeneity in macroeconomic research (e.g. HANK models) has focused on household heterogeneity (e.g. “hand-to-mouth” consumers)
- Macroprudential policy has largely focused on regulating banks and households (e.g. CCyB, LTV, DTI)—Tendency to regulate the last crisis

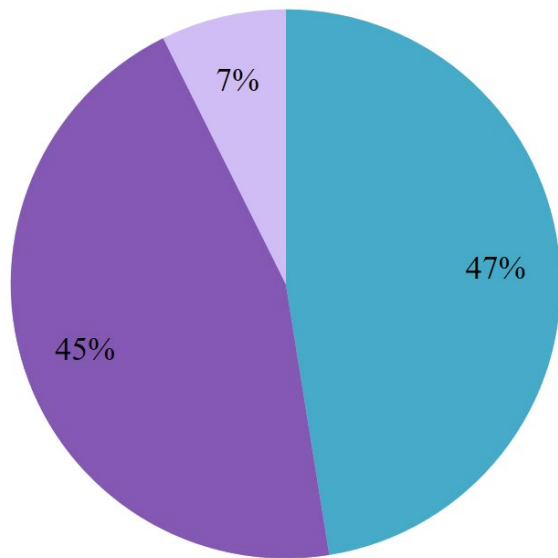
Does firm debt play a role in business cycles? *

- Corporate debt at least as important as household debt for understanding crises
 - Firms account for 2/3 of credit growth before crises
 - Firms account for 3/4 of non-performing loans after crises
- Differentiating firm debt by industry matters for the likelihood of crises
 - Credit to non-bank financial sector highly predictive of crises
 - For non-financial firms, what matters most are industries relying on real estate collateral
 - Dispersion of credit growth across industries goes up during credit booms, predicts crises

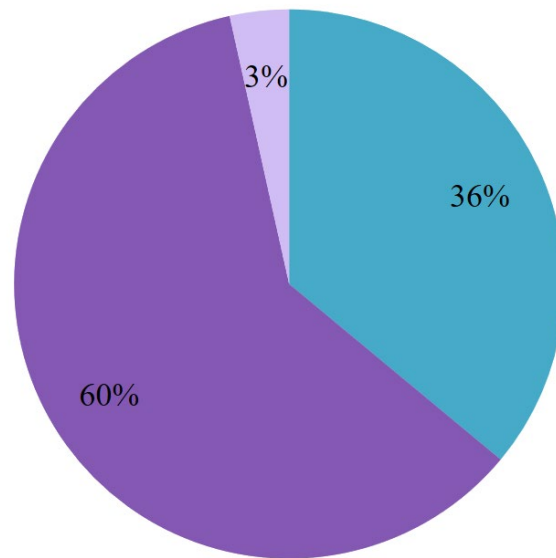
* Based on new research by Ivashina, Kalemli-Ozcan, Laeven and Mueller (2025)

Composition of credit to the private sector

Advanced economies



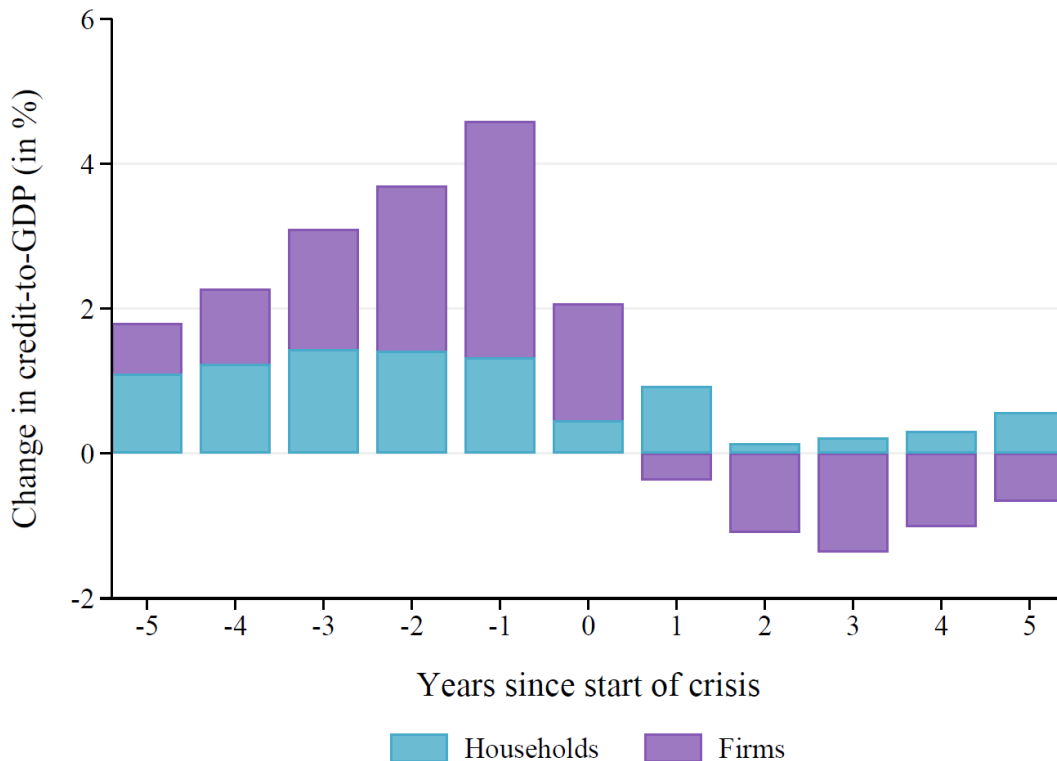
Emerging economies



Households Non-financial firms Non-bank financial firms

Firm debt accounts for 2/3 of credit growth before crises

Decomposition of credit growth around 90 crises



Implication for macroprudential policy

- Firm debt plays a key role in boom-bust cycles
- Important role for firm debt secured by real estate
 - Current stress in commercial real estate (CRE) markets could have macroeconomic consequences
- Macroprudential policy: Focus on household debt not necessarily warranted

Thank you!

