

Maintaining resilience while seizing opportunities

*Boštjan Vasle**

In the past years, our economy and financial system have experienced severe external shocks, which have been weathered well, given the strong support from economic policies. More recently, they showed high resilience to a decisive tightening of our monetary policy in response to persistently high inflation that has been caused by supply shocks and a robust post-pandemic demand recovery. While inflation in the euro area is steadily approaching our target and as we are contemplating the start of a gradual reduction in our policy rates, the prospect of achieving a soft landing is globally becoming increasingly promising. However, uncertainties and risks persist, particularly those associated with geopolitics, exuberance in some asset markets and the effects of monetary tightening that might still be in the pipeline. Several structural changes are taking place in parallel, which will have transformative effects on our economy and financial system. Accelerated digitization, climate change, green transition and fragmentation of trade and investment along geopolitical lines may not advance in a linear manner. In addition to the opportunities some of them offer, they also pose risks. That said, it is important that we generate an environment, where we would be able to operate successfully despite increased uncertainty and more frequent shocks. For policymakers creating such conditions entails ramping up buffers in different policy areas: monetary, fiscal and macroprudential. We must regain or enhance our capacity to effectively respond to future shocks and bolster the resilience of the economy and financial system against climate, health, geopolitical and cyber risks. Related to the latter, the global rise in the number of cyber incidents,

along with recent cyber attacks on public infrastructure in Slovenia, underscores this imperative. Progress is underway in the banking sector. In the last few quarters, Slovene banks have been strengthening their capital ratios by reallocating a significant portion of their record high profits to capital. At the end of 2023, Banka Slovenije introduced a higher, so-called positive neutral rate for the countercyclical capital buffer. A buffer rate requirement of 1% instead of 0% in a “cyclically neutral risk environment” will further enhance the capital resilience of our banks. Additionally, at Banka Slovenije, we are increasingly focusing on cyber risks in the banking sector. We have recently developed a set of tools designed to identify and mitigate cyber risks. In collaboration with ECB, we will soon complete our first stress tests of cyber resilience of the banks. We are also advancing in the measurement, management and monitoring of climate-related risks to protect price stability and the safety of banks.

After years of operating in crisis mode, it is time to come to terms with higher uncertainty and devote more attention to structural challenges that have taken a back seat in recent years. These include low growth of labour productivity and aging of the population. In general, there is a growing need for investments to capitalize on advancements in IT and AI, facilitate green transition, fortify strategic autonomy and defence capabilities. The urgency to address the investment gap in the private sector is particularly evident. Meeting substantial funding needs will require a robust financial sector and its further development. While banks currently benefit from a competitive edge through digital transformation and fintech adoption, these advancements may eventually become essential for their survival.

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