

# Macroprudential instruments and how they work

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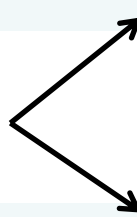
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# Outline

- 1) Why macroprudential policy?
- 2) What mandate and instruments?
- 3) How do instruments work?
- 4) Challenges ahead

# Policy Framework Financial System

Instruments	Objective	Level of impact
Monetary	Price stability	<u>Macro</u> : stable economic growth
Macroprudential	Stability of financial sector	
Microprudential	Stability of financial institutions	<u>Micro</u> : protection of consumers



The diagram illustrates the relationship between the objectives and levels of impact for different instruments. A branching arrow originates from the 'Stability of financial sector' objective, pointing to both the 'Macro' level of impact (stable economic growth) and the 'Micro' level of impact (protection of consumers).

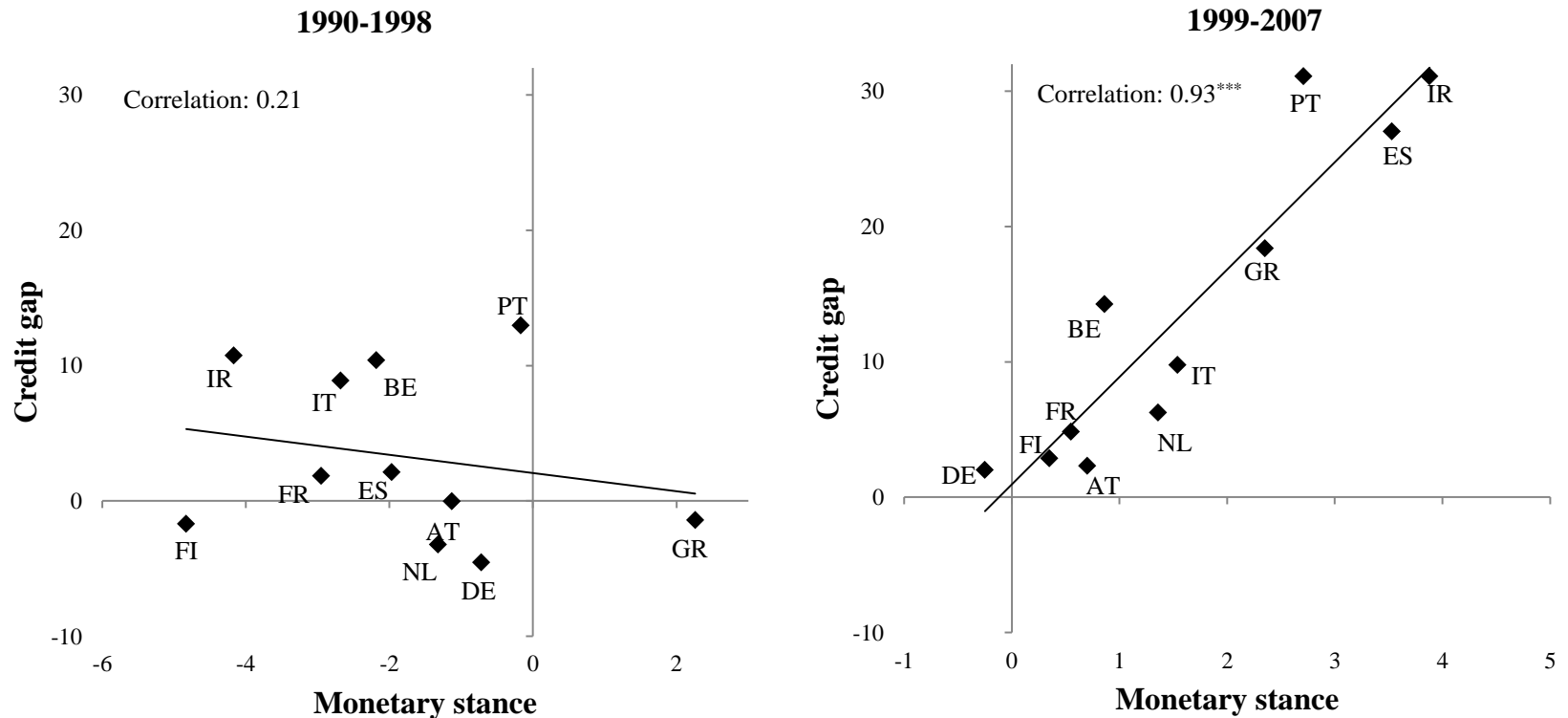
# Differing perspectives

	<b>Macroprudential</b>	<b>Microprudential</b>
Policy objective	<b>Limit financial system-wide distress</b>	<b>Limit distress of individual firms</b>
Ultimate goal	<b>Avoid output (GDP) costs linked to financial instability</b>	<b>Consumer (depositor/ investor/ policyholder) protection</b>
Characterisation of risk	<b>Dependent on collective behaviour; endogenous</b>	<b>Independent of individual agents' behaviour; exogenous</b>
Correlations and common exposures across firms	<b>Important</b>	<b>Irrelevant</b>
Calibration of prudential controls	<b>In terms of system-wide risk; top-down</b>	<b>In terms of firm risks; bottom-up</b>

Source: Borio (2003)

# Macroprudential policy even more relevant in monetary union

## EMU countries



# Mandate

- ESRB 2011: Create national financial stability mandates & authorities:
  - Formal responsibility for financial stability
  - Obligation to act
  - Address inaction bias
  - Leading role central bank
- The '*designated*' macroprudential authority will be the central bank in most Member States (ESRB survey, 2013)

# Instruments: ESRB 2013

## Macroprudential toolkit CRR/ CRD-IV 2014:

Countercyclical  
capital buffer

Pillar II - stress testing



Systemic risk buffers

Sectoral risk weights

+

Prioritise:

Liquidity

&

Real estate

# How instruments work

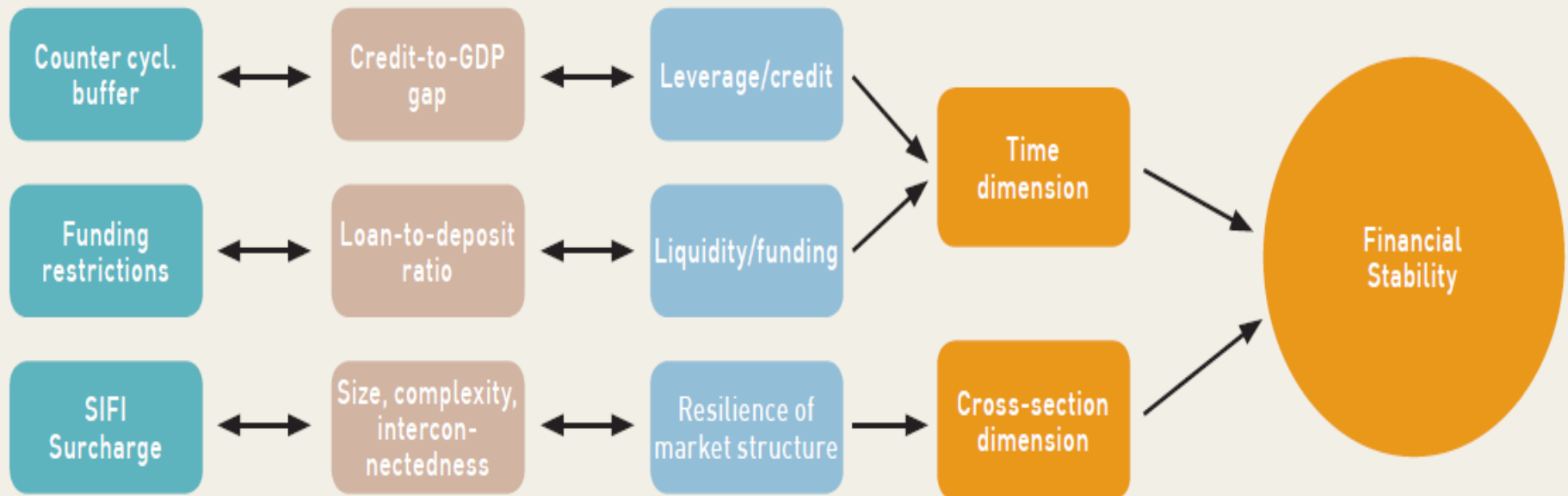
## Presumptive indicators and instruments

### Macroprudential instruments

### Presumptive indicators

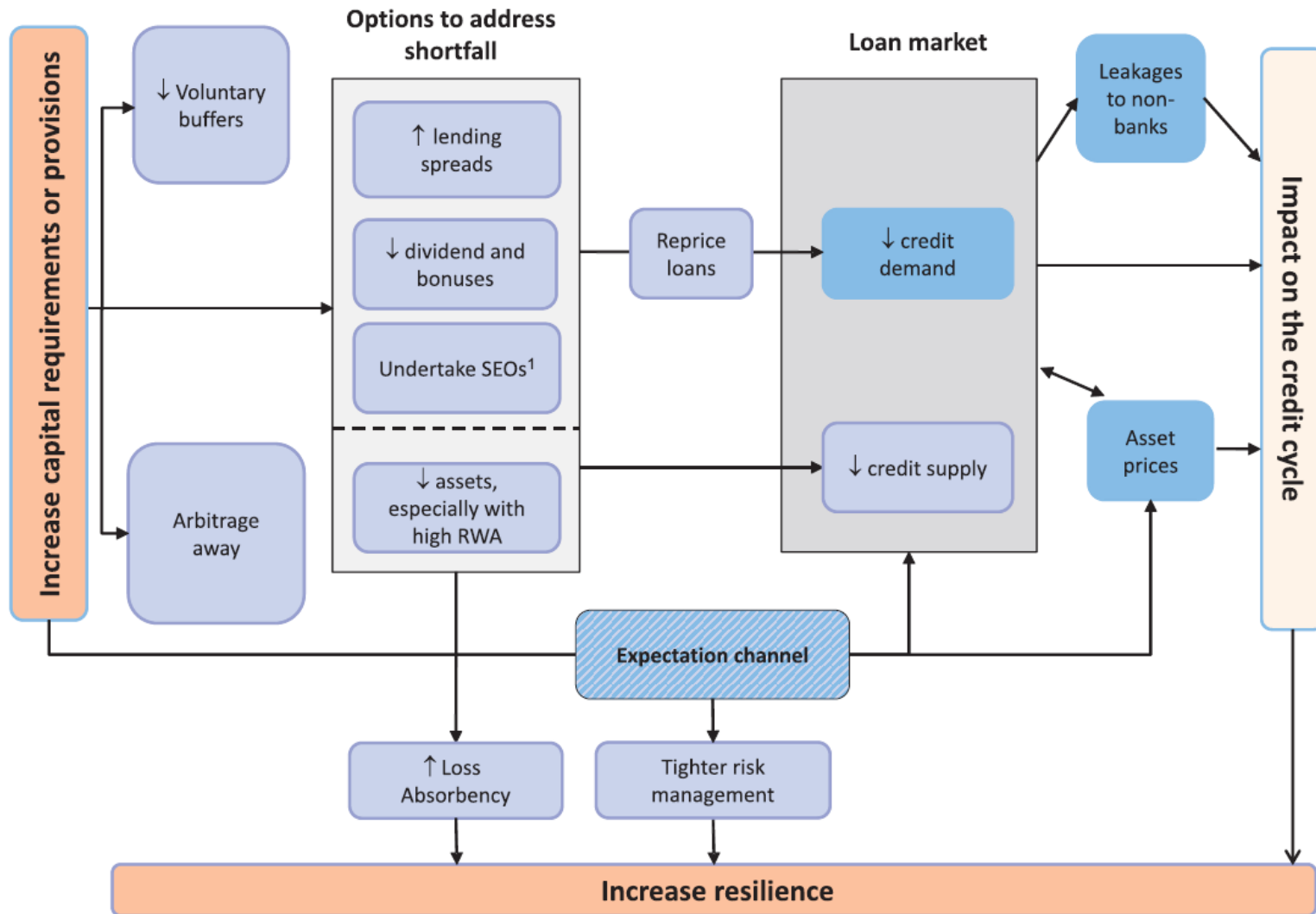
### Intermediate objectives

### End objective

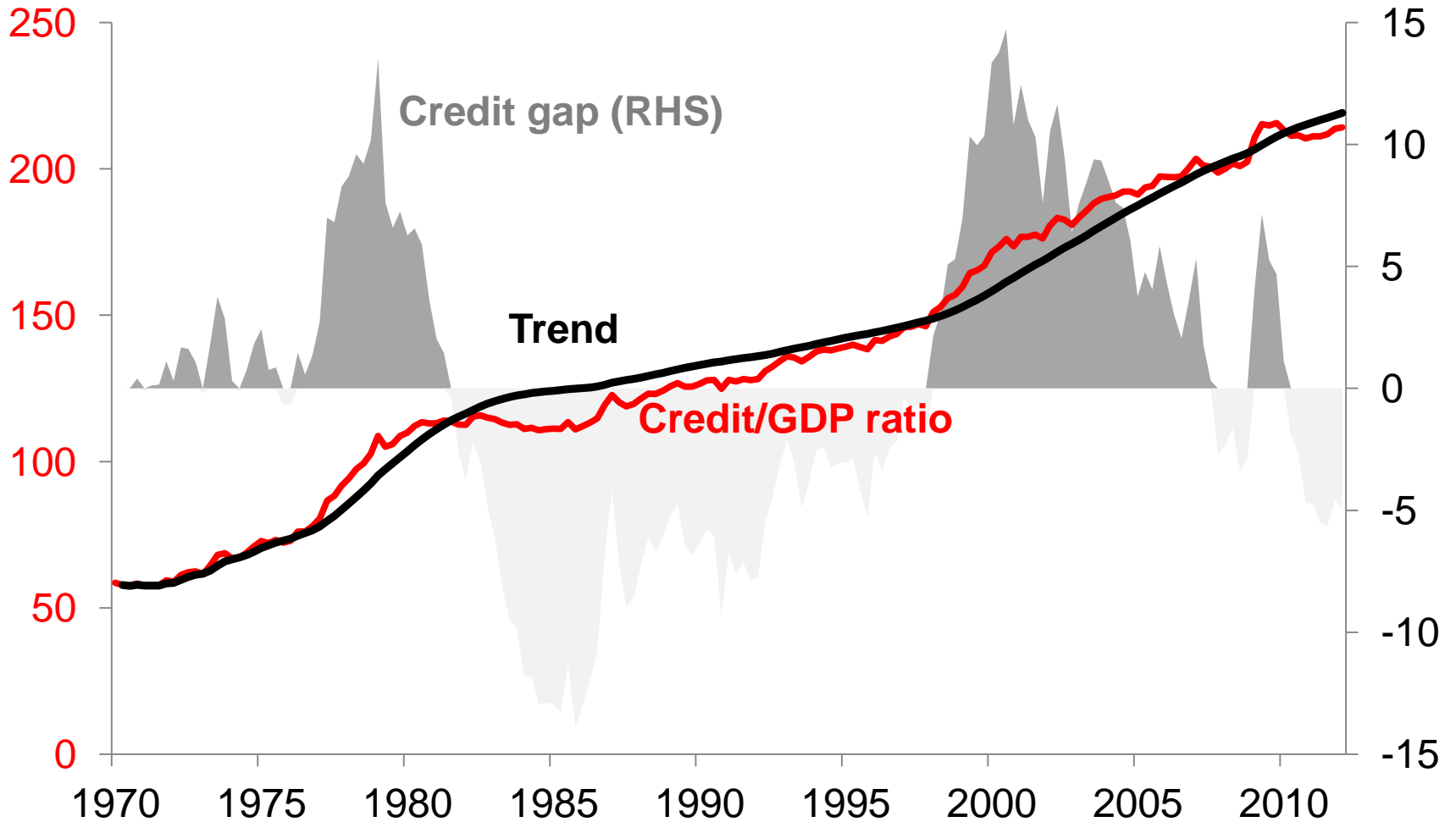




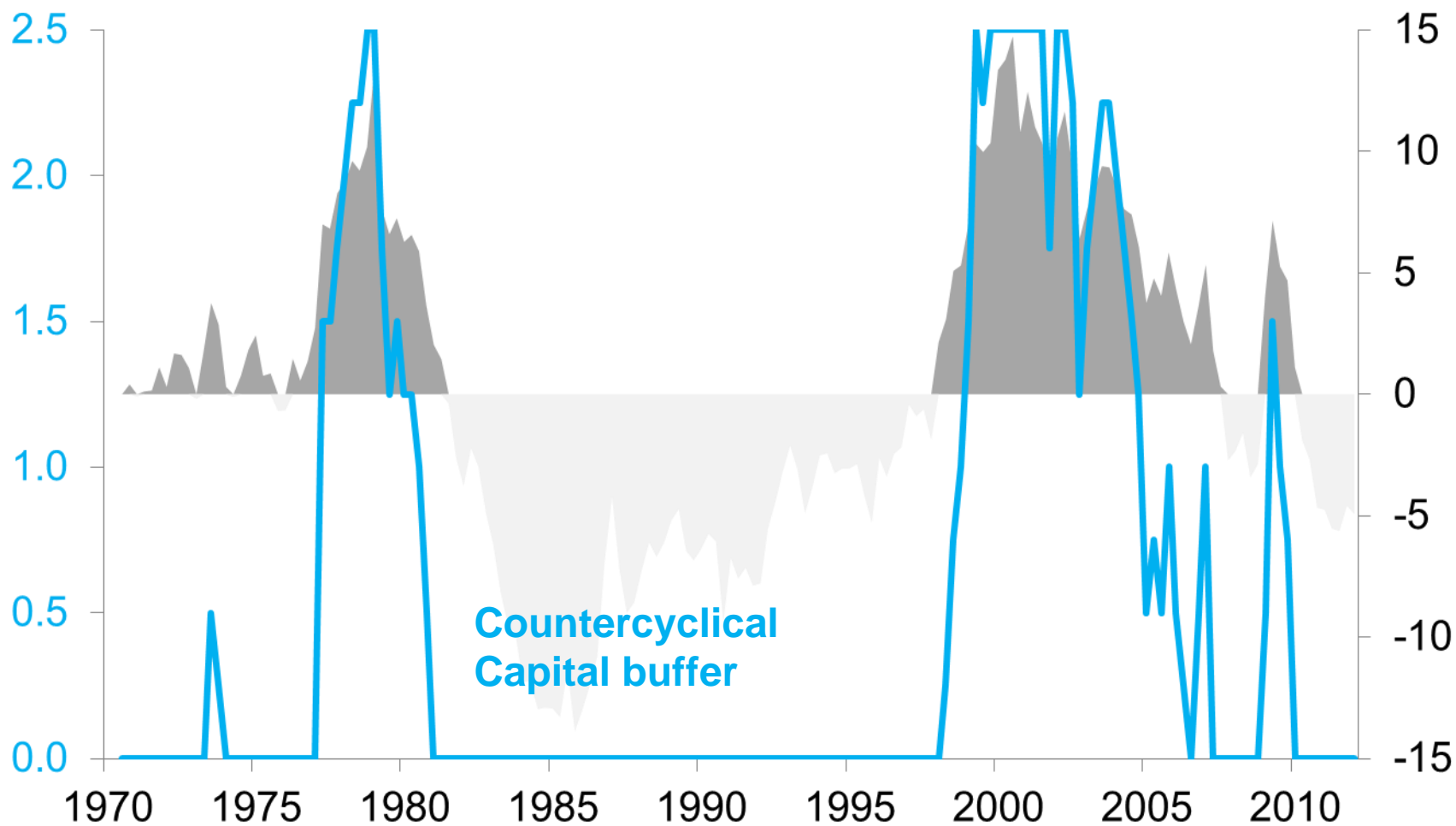
# Countercyclical capital buffer: transmission map



# Illustration: credit gap Netherlands 1970-2012

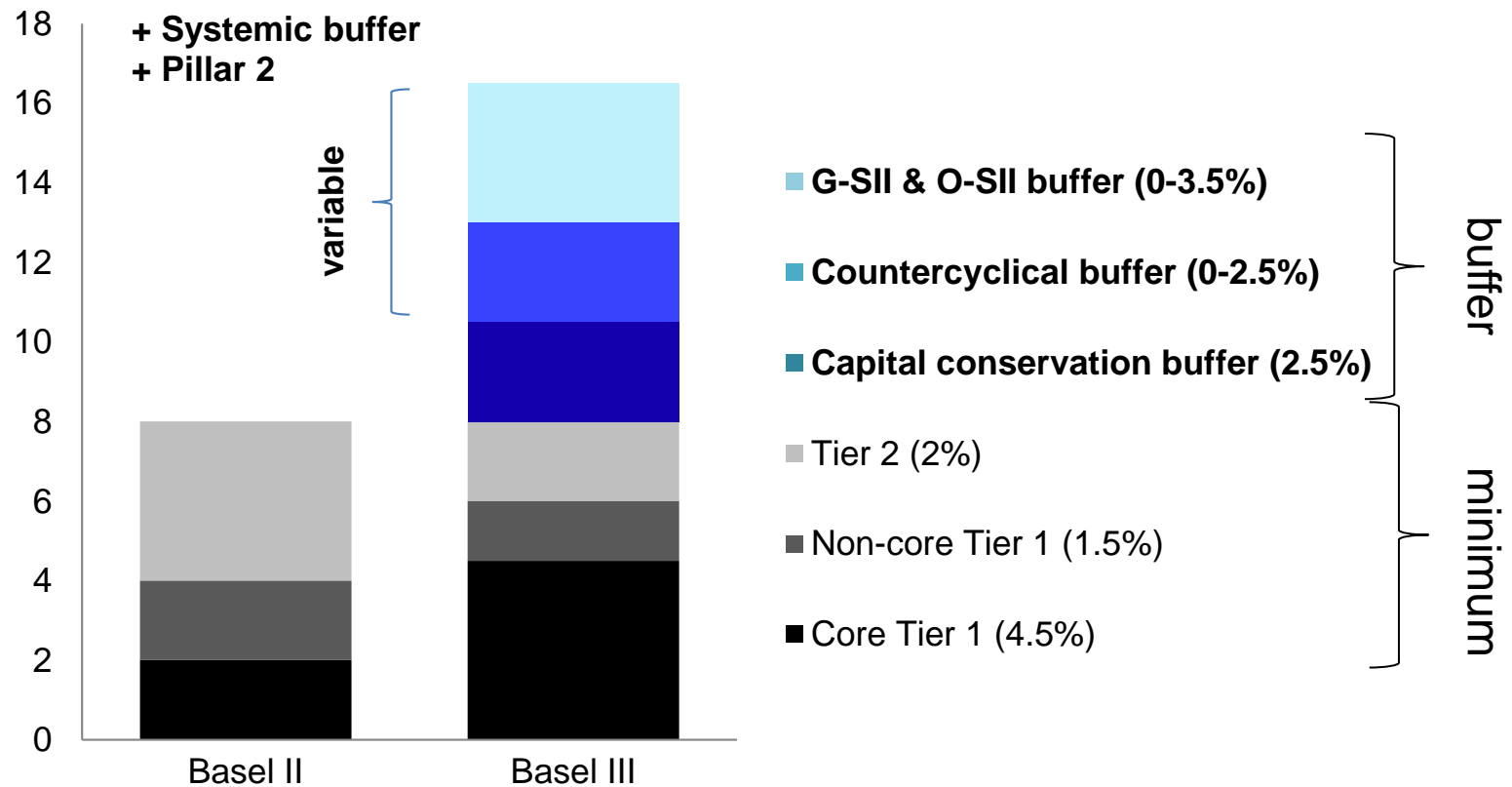


## CCB activated twice: 70s and 00s

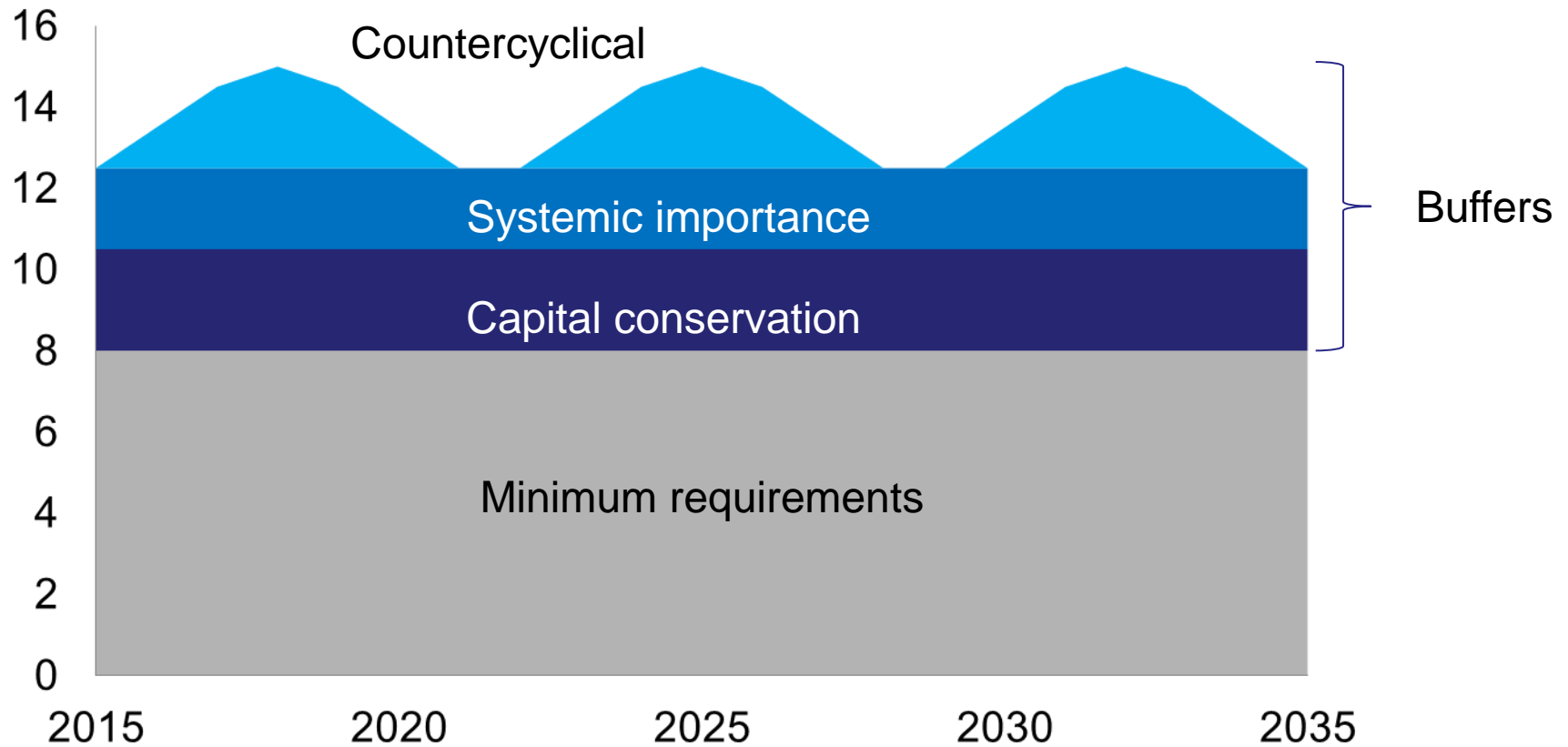


# Effect on capital buffer (CRR/CRD-IV)

Total buffer can be substantial



# Effect on capital buffer (CRR/CRD-IV)



# Challenges ahead

- Policy strategy: link objectives, instruments and indicators
  - Decisions by constrained discretion
- Counter inaction bias; smooth cooperation with other authorities
  - National authorities, ECB, ESRB, EBA, EC, Council
- Implement & evaluate