

Getting ready for the new European macro-prudential instruments

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ESRB December 2011 recommendation is important

- Macro-prudential dimension is key.
- Danger of ‘excessive maximum harmonization’, especially within Euro area, where interest-rate and exchange-rate flexibility have disappeared.

Missions in Organizations

- James Q. Wilson: *Bureaucracy: What Government Agencies Do and Why They Do it.*
- Key idea: Successful Organizations are the ones that: (i) translate their broad mandates into “clear and focused” missions whose realization can be more easily measured; and (ii) are seen to be efficient at achieving these missions.

Challenging mission ...

- Very broad final objective
 - Five intermediate objectives
 - Fifteen instruments
 - All this with political constraints ...
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- Interesting contrast with inflation targeting as single mission of Central Banks (of course, revisited now ...).

Some thoughts

- Good that a variety of instruments is considered (no 'magic bullet'): same lesson as Basel III.
- Means that value of credit gap should not be overestimated (e.g. in Belgium, NOT predictive of the 2008 crisis).
- Remember also that indicators that become 'targeted' may become less reliable.

Some thoughts (2)

- Difficulty of the task means we should be modest.
- *Inaction bias* clearly a problem (IMF FSAP on Spain: “great assessment, little action”).
- Note: this while they were almost the only ones to have macro-prudential policy at the time of the crisis: dynamic provisioning (sizable, but not sufficiently effective, obviously).

Some thoughts (3)

- Other potential bias, given difficulty of the problem: *over-activism bias*?
- Anyway, in SSM, rather an attempt to counter *excessive softness bias*?
- Probably good idea on the upside: whether higher capital ratios help curb credit on the upside of the bubble or not, they do increase resiliency in the crisis.
- Question: will there be a risk of inaction bias on the downside?

National versus SSM versus EU

- One further advantage of national initiatives: learning by experimentation.
- SSM cases will be interesting.
- ESRB remains crucial: SSM versus non SSM, and banks versus shadow banks versus insurance companies.
- ESRB also potential 'natural place' to look at link with other policies (monetary policy, tax policy, ...).