Getting ready for the new European macro-prudential instruments

An Economic Perspective

Bruegel, 15 July 2013

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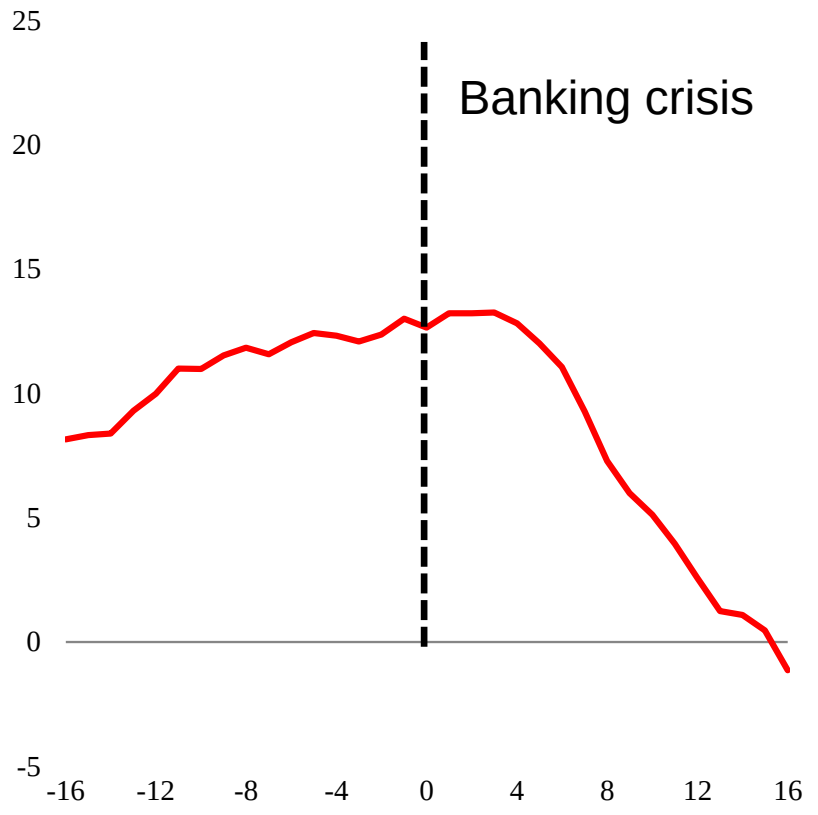
Outline

- What is the problem?
- Which tools are available to address it?
- What is needed to do the job?
- Getting ready

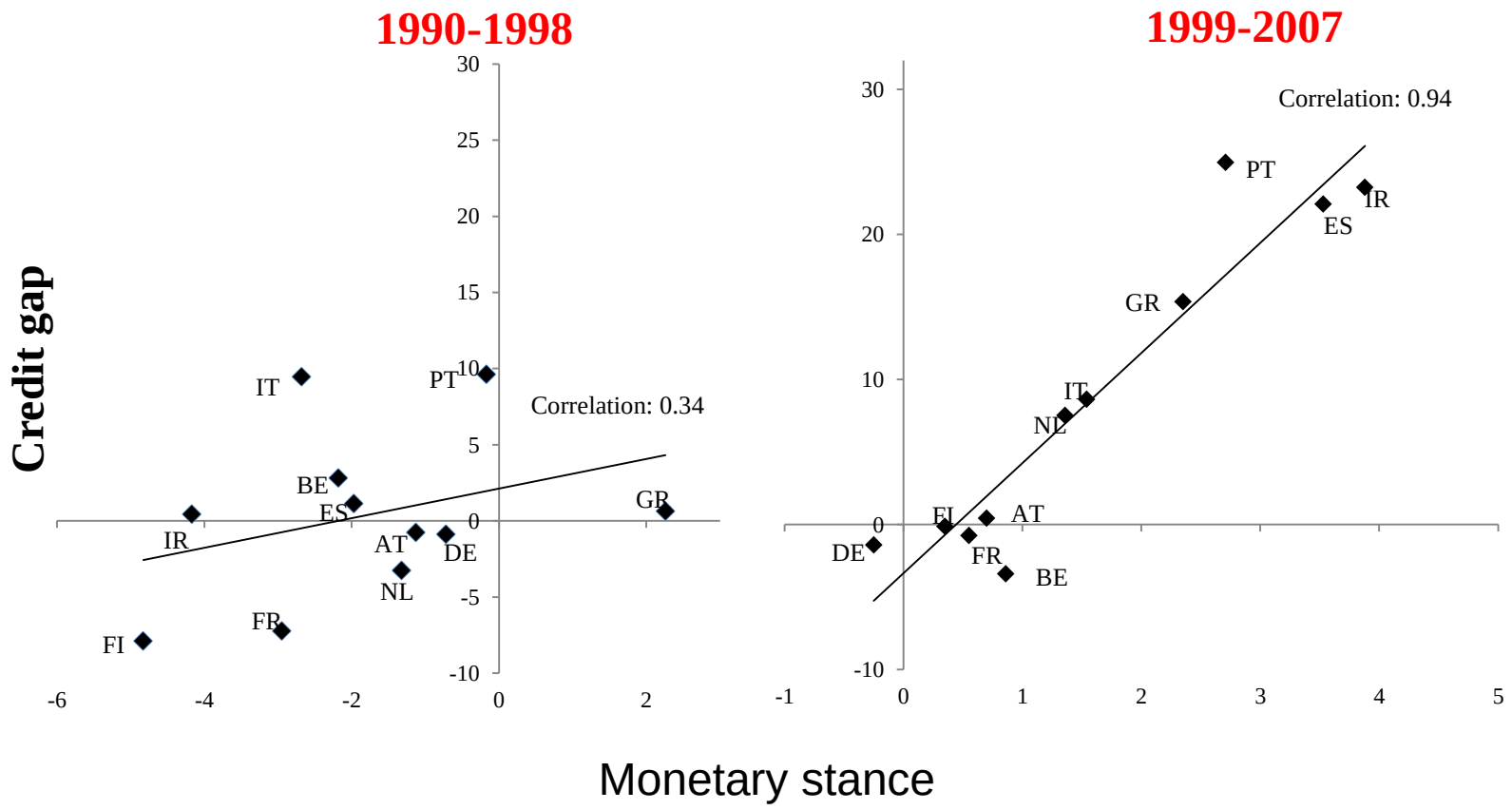
Why we need macroprudential policy…

Credit gaps around initial crisis quarters, EU countries
Percentages



Source: ESRB Expert Group on Countercyclical Capital Buffer

… and even more so in the Euro area



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ESRB Recommendation 2011

- Create national financial stability mandates & authorities:
  - Create formal responsibility for financial stability
  - Create an obligation to act

→ Address inaction bias

ESRB Recommendation 2013

Macroprudential toolkit CRR/ CRD-IV 2014:

Countercyclical capital buffer

Pillar II - stress testing

Systemic risk buffers

Sectoral risk weights

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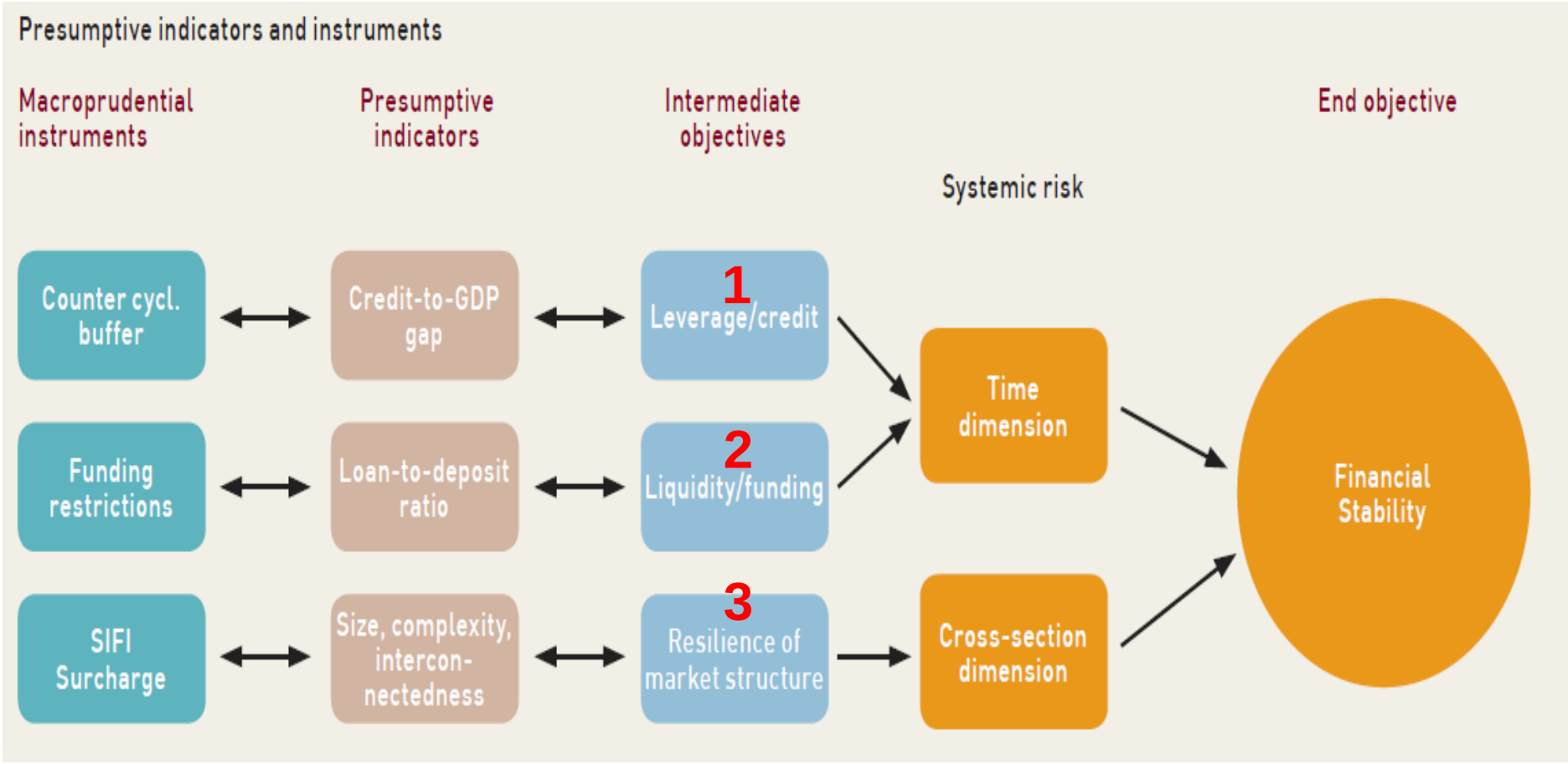
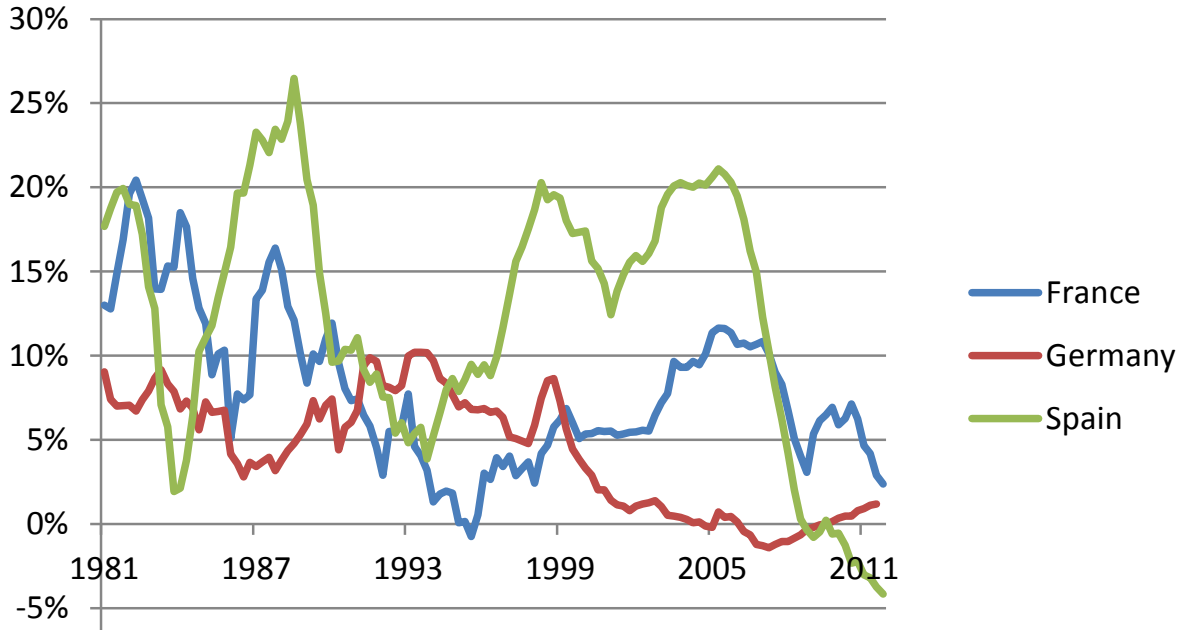
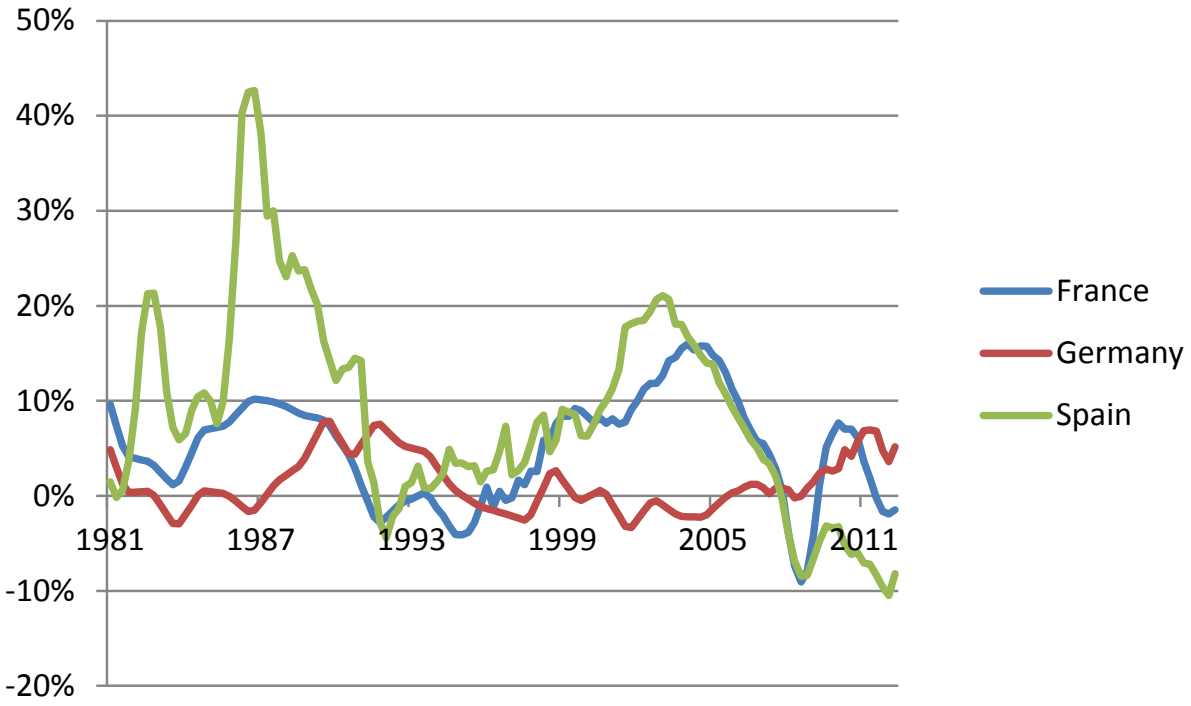
Policy Framework





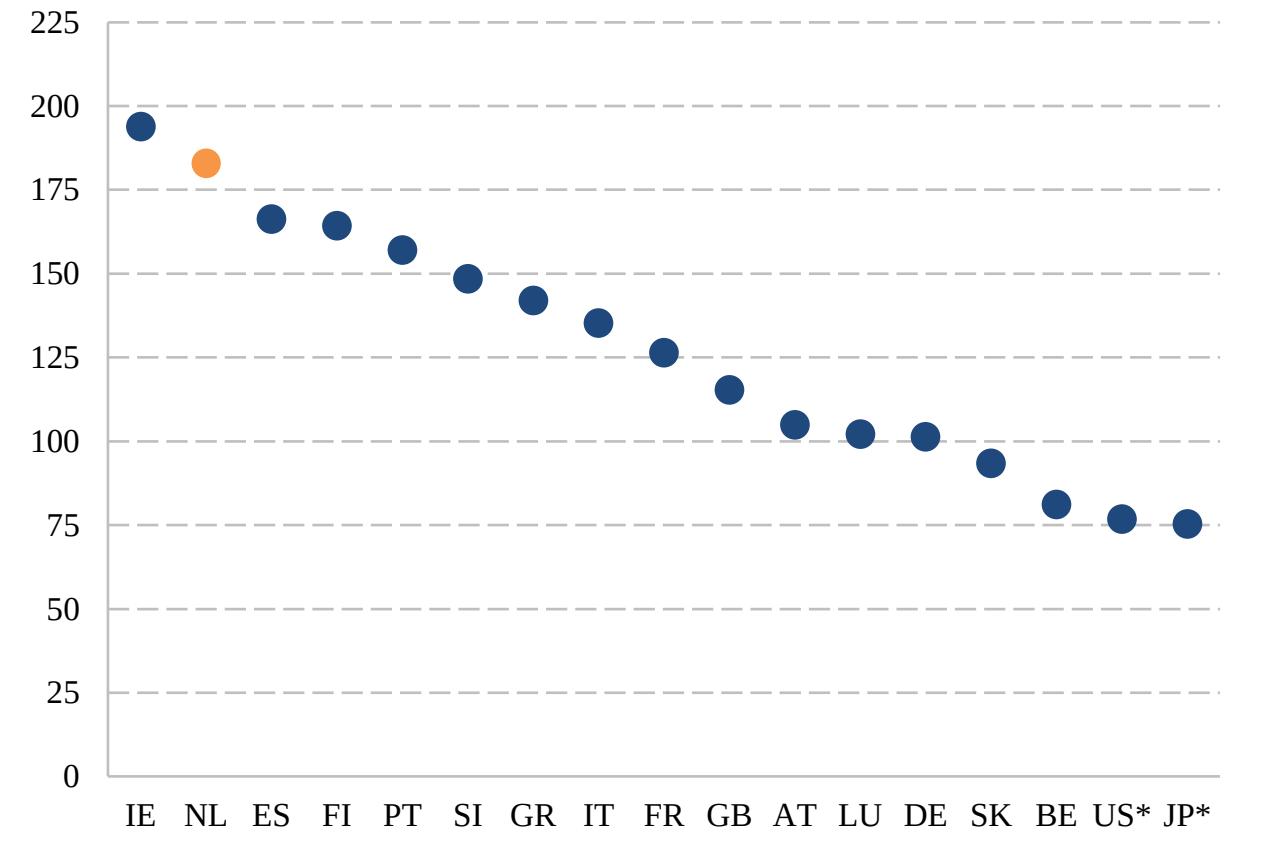
1:
Differences in credit cycles
(nominal growth; credit to households)



Differences in housing prices
(nominal growth)

2: Differences in macro-prudential funding risk

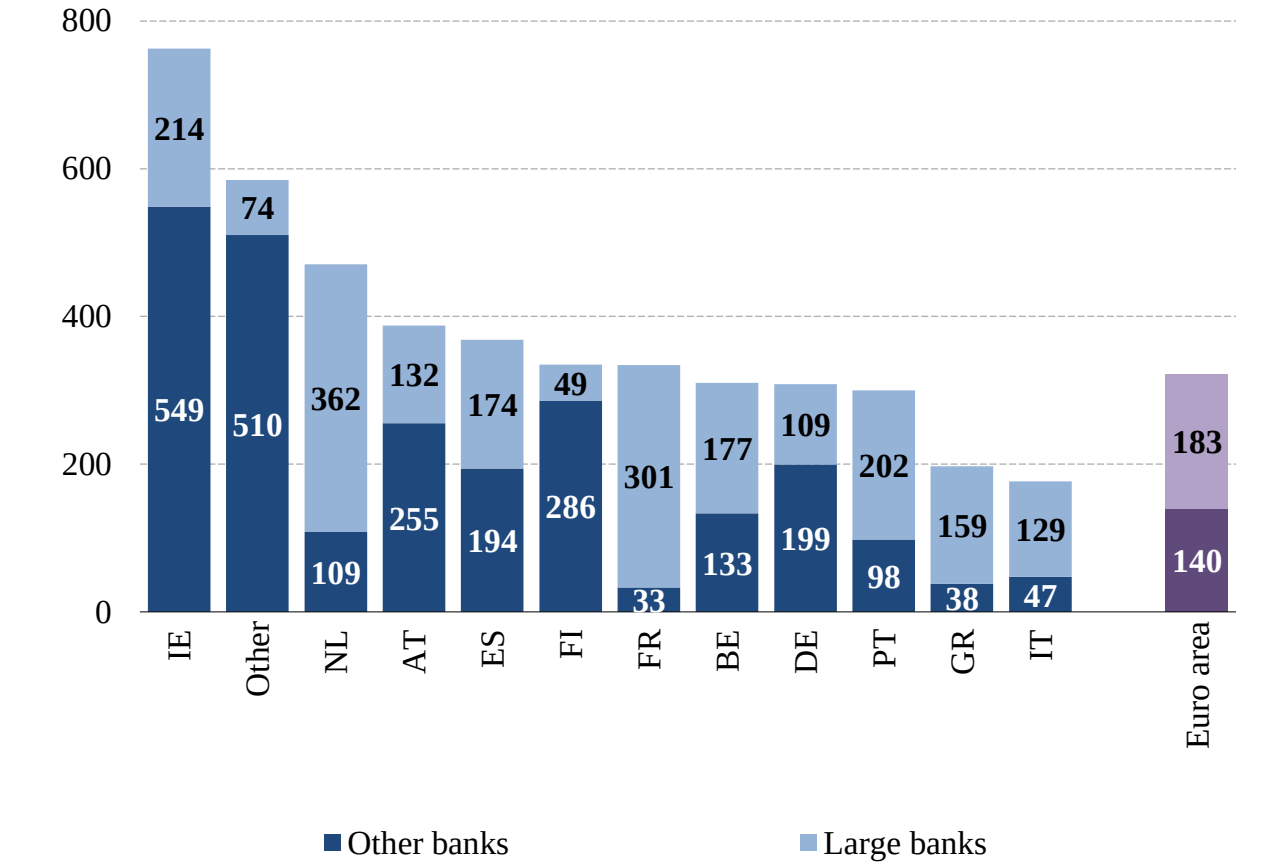
Loan-to-deposit ratio
In per cent of deposits, end 2012



3: Differences in financial structures

Concentration and size banking sector, Euro area

In per cent of GDP, end 2011



In sum

- Strong differences in financial cycles and structures

- Related to differences in:
  - Historical evolution (path dependence)
  - Fiscal incentives
  - Regulation, especially housing
  - …

Addressing risks: instrument selection & application

Bottom up

- Risks from national financial cycles & structures
- Leading role & policy action at national level

Top down

- Power to tighten measures (ECB, banking union)
- Risk warnings & recommendations (ESRB)
- Improve toolbox (EU)

Challenges

- Need for differentiation (national financial cycles) versus harmonisation (single market)
- Addressing inaction bias versus involvement of stakeholders

Getting ready

- Leading indicators; constrained discretion
- National process
  - *Designated* authority; financial stability committee
- International co-ordination process
  - ECB, ESRB, EBA, EC, Council, national MP authorities
- Communication; implementation

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