



Institutional Arrangements for Macroprudential Policy

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MONETARY POLICY WORKSHOP ON STRENGTHENING MACROPRUDENTIAL FRAMEWORKS

March 22–23, 2012

Tokyo, Japan

Plan of Presentation

1. What are the defining elements of macroprudential policy and its role?
2. Which institutions/bodies are the holders of the macroprudential mandate and relevant responsibilities now? – *IMF survey results*
3. What are the key desirables of macroprudential policy arrangements and how different models meet them? - *stylized model analysis results*

What is Macroprudential Policy?

(Reported by % of respondents of 2010 IMF Survey)

Tasks		Objectives		Nature of risks		Tools	
identify, measure, monitor risks	23.3%	prevent, mitigate, limit, avoid, reduce risks	63.3%	aggregate, contagious, spreading, systemwide	66.7%	prudential tools	23.3%
collect, analyze, share information	16.7%	strengthen financial system resilience	16.7%	size, interconnectedness, systemically important	43.3%	monetary tools	6.7%
make recommendations for remedial action	6.7%	lean against financial cycle	3.3%	serious negative consequences on markets and economy	33.3%	fiscal tools	6.7%
implement corrective measures	6.7%			procyclical, over time, through the cycle	20.0%	exchange rate	6.7%
issue warnings	3.3%			imbalances, i.e. leverage, indebtedness, asset price bubble	16.7%	capital flows management	6.7%
						regulation by size	3.3%
						competition policy/M&A	3.3%
						accounting rules	3.3%

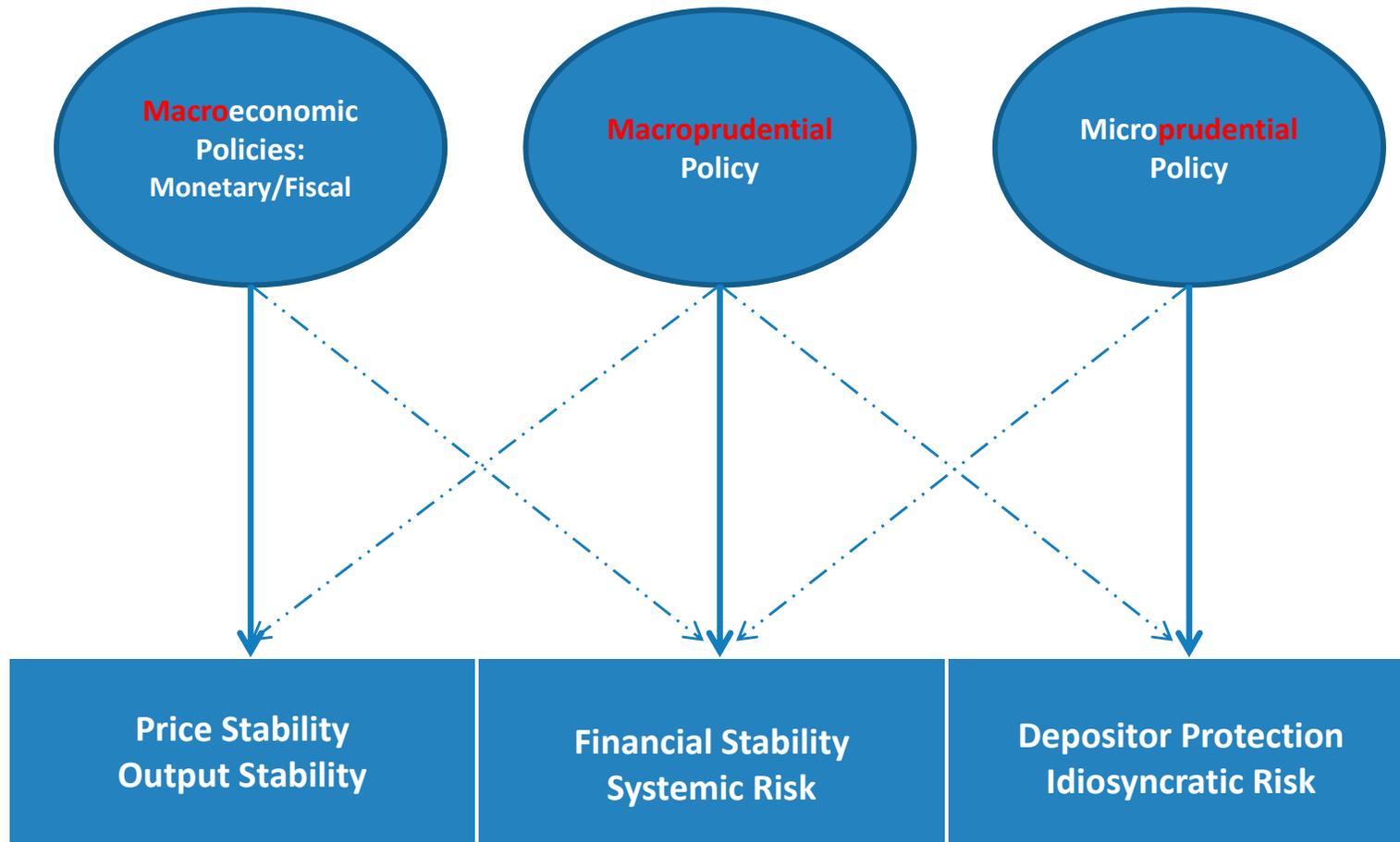
Elements Defining the Policy

- **The objective** of macroprudential policy is to identify, monitor, and limit *systemic or system-wide financial risk* in both time and cross-sectional dimensions.
- **Its analysis** should cover *all potential sources of systemic risk* no matter where they emerge.
- Macroprudential policy should **focus** on risks arising primarily *within the financial system*, or risks *amplified by the financial system*, leaving other identified sources of systemic risk to be dealt with by other public policies (however –possible *gray areas*).
- **Toolkit:**
 - *Prudential-type instruments* should be *the core*, constructed or calibrated to deal specifically with systemic risk;
 - *Other instruments can be added, if*: target explicitly and specifically systemic risk; and placed at the disposal of an authority with a clear macroprudential mandate, accountability, and operational independence;
 - *advice or recommendation* to activate or change the calibration of *other policies' tools* to address systemic risks residing in other policies' domains,
 - But ... autonomy of the policies should be preserved!).

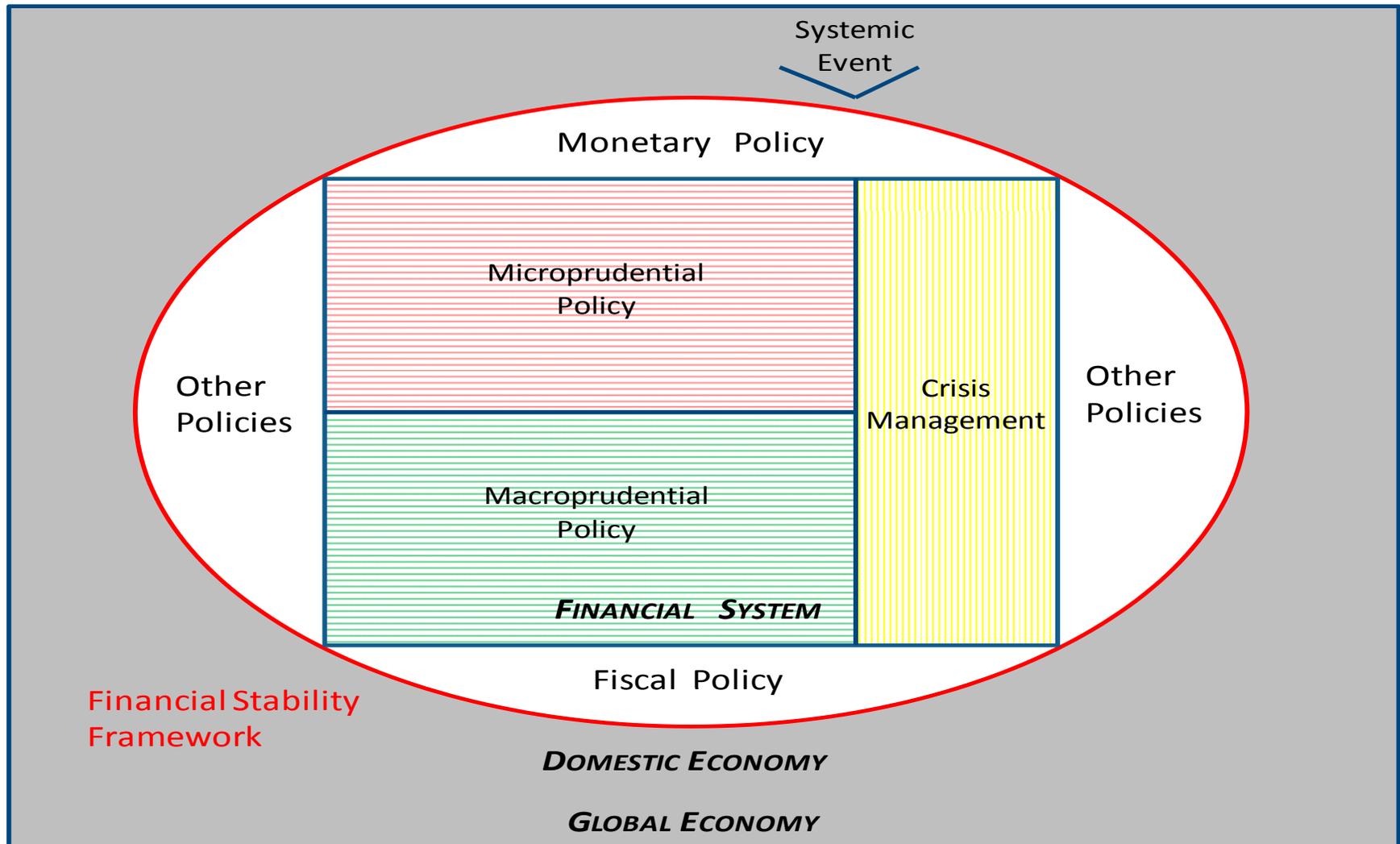
Challenges in Defining the Policy

- However, views of countries still vary on e.g. :
 - to whether macroprudential is a particular perspective of prudential policy or a new policy area in its own right.
 - Some argue that prudential policy (without making a distinction between micro and macro) has always sought to strengthen the stability of the financial system as a whole.
 - Many others emphasise that the philosophies behind micro- and macroprudential policies differ, noting the possibility of occasional tensions between them.
 - if they differ, where are boundaries between macroprudential and microprudential (e.g. in context of a toolkit and governance framework),
 - what to do if they are in conflict?

The Role of Macroprudential Policy in Public Policy Framework

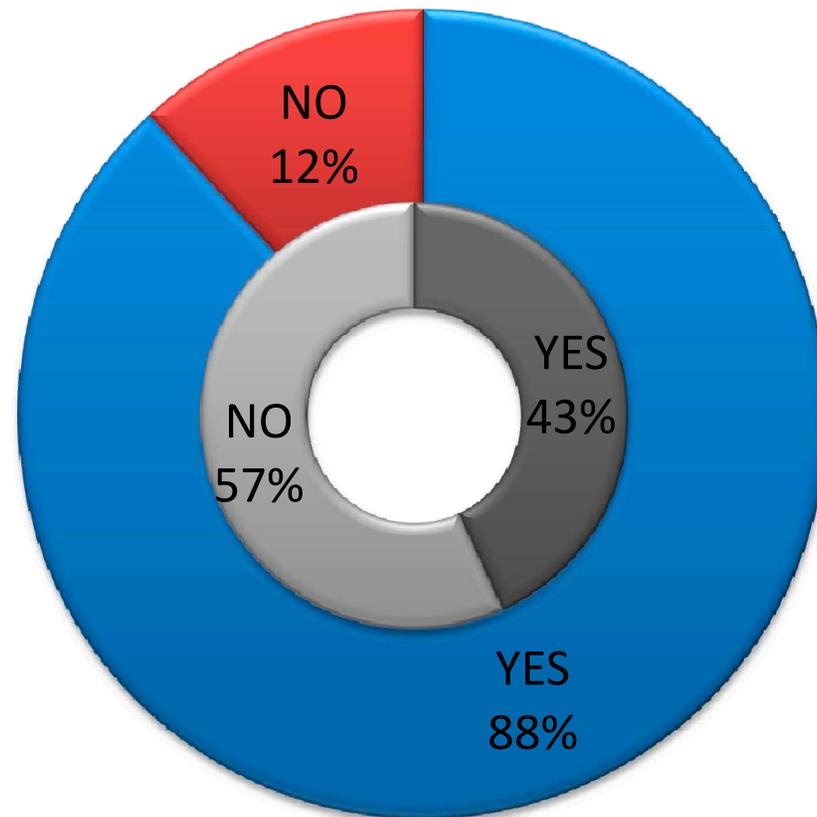


The Role of Macroprudential Policy in Financial Stability Framework



Other policies involve, e.g., policies related to business conduct, consumer protection, accounting rules, and competition, but also an infrastructure like a resolution framework.

Financial Stability vs. Macroprudential Policy Mandates



Financial stability mandate (outside circle)

MaPP mandate (inside circle)

Which institution holds MaPP mandate?

(21 respondent countries, where explicit or implicit mandate existed)



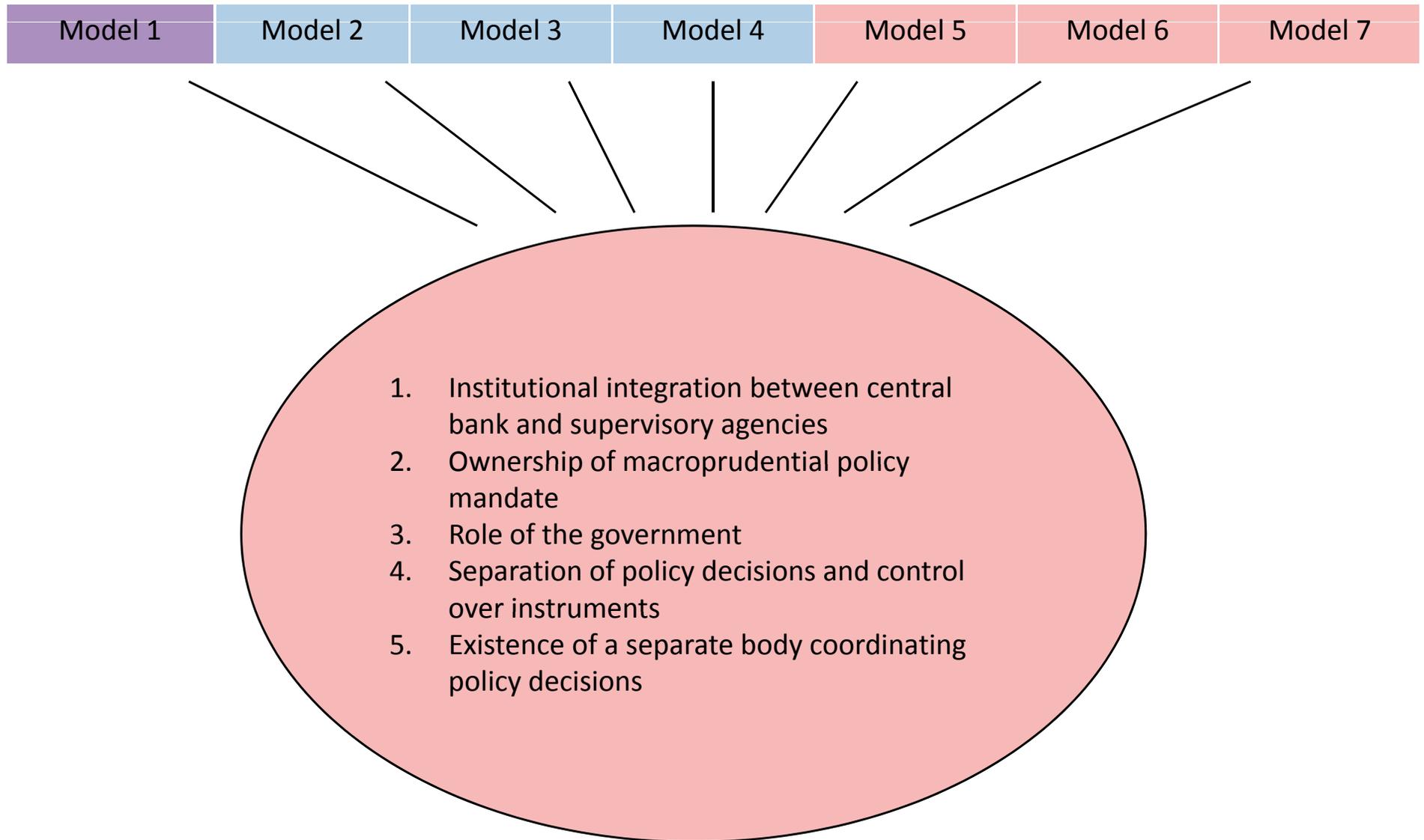
Allocation of MaPP Responsibility

					(# of countries)	
<i>Institution</i>	<i>Risk Identification</i>	<i>Systemic Impact Assessment</i>	<i>Lead Institution/Coordinator</i>	<i>Decision to Take Action</i>	<i>Implementation and Enforcement</i>	<i>Reporting to Executive or Parliament</i>
Central Bank	47	44	28	40	36	38
Integrated Financial Regulator/Supervisor	14	7	5	12	11	13
Banking Regulator/Supervisor	14	10	7	14	15	10
Insurance Regulator/Supervisor	5	4	3	8	7	3
Securities Regulator/Supervisor	5	3	1	8	8	4
Ministry of Finance	9	5	9	20	15	18
Deposit Insurance Agency	4	3	1	6	8	3
Financial Stability Council/Committee	17	16	16	10	6	10

Focus on stylized models

- “Real-life” institutional models for macroprudential policies are new and emerging. Hence, it is not possible to assess the effectiveness of these models empirically.
- We therefore identify “stylized” institutional models for macroprudential policies, drawing on existing financial stability frameworks, and in light of key dimensions that differentiate them.
- We assess the strengths and weaknesses of these models conceptually, based upon criteria that are important for successful mitigation of systemic risks.

A typology of stylized models

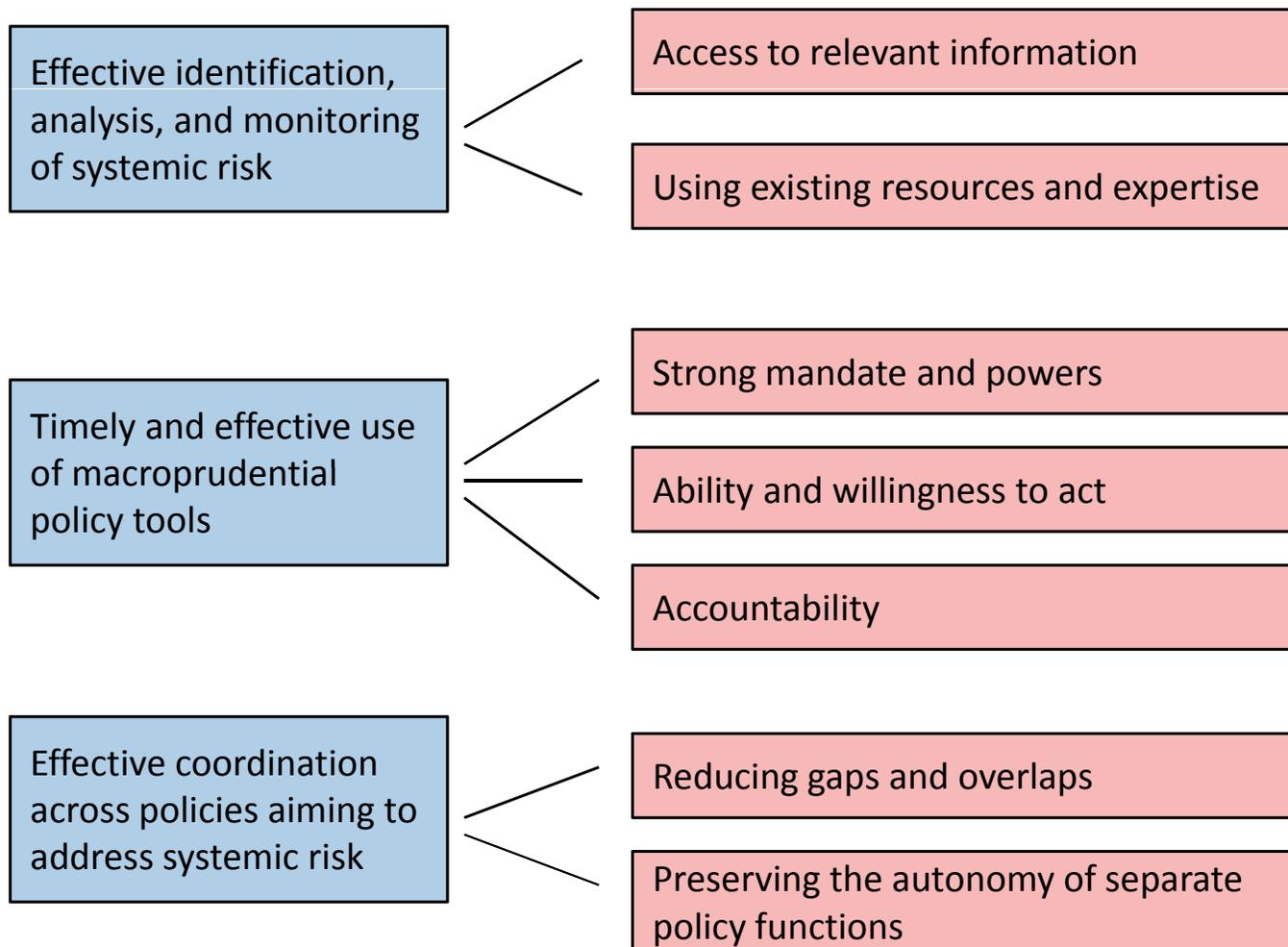


Stylized institutional models

Features of the model/Model	Model I	Model II	Model III	Model IV	Model V	Model VI	Model VII	Model R I
1. Degree of institutional integration of central bank and supervisory agencies	Full (at a central bank)	Partial	Partial	Partial	No	No (Partial*)	No	No
2. Ownership of macroprudential policy and financial stability mandate	Central bank	Committee “related” to central bank	Independent committee	Central bank	Multiple agencies	Multiple agencies	Multiple agencies	Committee (multinational regional)
3. Role of MOF/ treasury/government.	No (Active*)	Passive	Active	No	Passive	Active	No	Passive (EC; EFC)
4. Separation of policy decisions and control over instruments	No	In some areas	Yes	In some areas	No	No	No	Yes
5. Existence of separate body coordinating across policies	No	No	No (Yes**)	No	Yes	Yes (<i>de facto</i> **)	No	No
Examples of specific model countries/ regions	<i>Czech Republic Ireland*(new) Singapore*</i>	<i>Malaysia Romania Thailand United Kingdom (new)</i>	<i>Brazil** France United States</i>	<i>Belgium (new) Serbia The Netherlands</i>	<i>Australia</i>	<i>Canada Chile Hong Kong SAR* Korea** Lebanon Mexico</i>	<i>Iceland Japan Peru Switzerland</i>	<i>EU (ESRB)</i>

Criteria for an assessment of the models

- A desirable institutional model should be conducive to the mitigation of systemic risk. It should provide for:



Some key desirables

- The central bank should play a prominent role in every model.
- Fragmentation of institutions should be avoided, but if so, should be compensated with appropriate coordination mechanisms.
- Participation of the treasury in policy process is useful, but a leading role may pose risks.
- Systemic risk prevention and crisis management are different policy functions and should be supported by separate organizational arrangements.

Some key desirables

- At least one institution involved in assessing systemic risk should have access to all relevant data and information.
- Institutional mechanisms should support willingness to act against the buildup of systemic risk and reduce the risk of delay in policy actions.
- A leading macroprudential authority should be identified, vested with mandate and powers, and subject to formal accountability.
- Macroprudential policy frameworks should not compromise the autonomy of other established policies.

General Conclusions from Analysis

- All models have strengths and weaknesses, but not all models appear equally supportive of effective macroprudential policy making.
 - There are additional mechanisms to address potential weaknesses.
- However, *no one-size-fits-all*.
 - Countries' specificities are also important in building a macroprudential policy framework. For instance:
 - ✓ institutional factors (quality of existing institutional arrangements, legal traditions),
 - ✓ political economy considerations, cultural issues;
 - ✓ the availability of resources.

Thank you for attention!