

Macropru: Neglected Sectors & Monetary Policy

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Talk Outline

- Macroprudential Broad & Narrow
- Neglected Sectors: Insurance & Pensions
- Feedback mechanisms
- In Defence of Macro over Micro
- Conclusion

Narrow & Broad Macropru

- Narrow Objective: Enhance **Bank** Systemic Stability
- Broad Objective : Stabilize the **Economy** and the **Financial System** Through the Cycle
- Effects of Micropru Supervision on Stability of the Banking System controlled by Macropru
- Stabilize the two-way Procyclical Feedback between the Monetary Macro Economy and the Financial System, including Insurers & Pension Funds

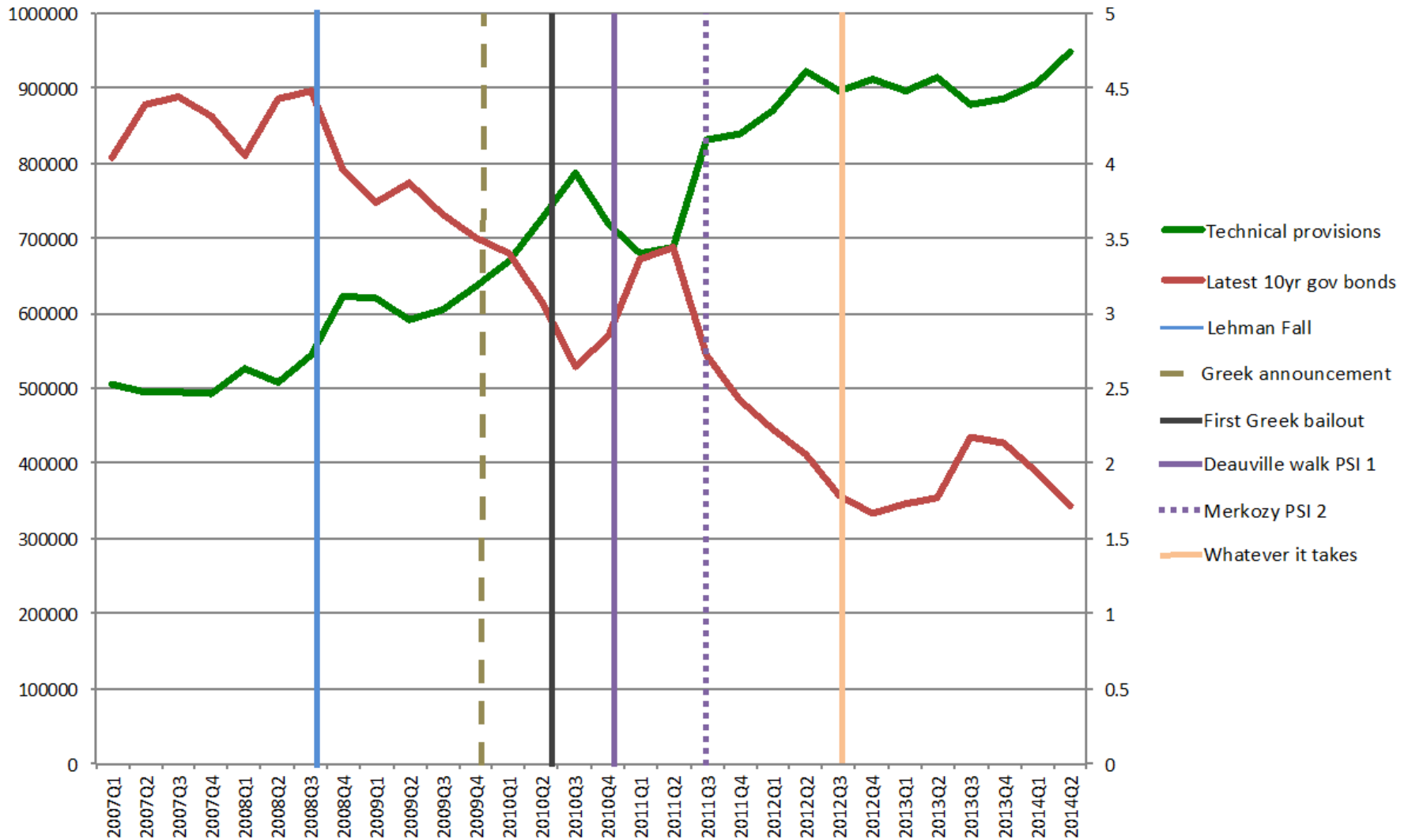
State Varying Countercyclical Instruments

- Capital & Liquidity Requirements (banks)
- Leverage Ratios
- Technical Provisions and Discount Rate
(pension funds & insurers)
- Margin Requirements
- Loan-to-Value Requirements

Feedback Loops

- QE depresses Interest Rates
- Reduces the funding costs of banks
- Increases Liabilities of Insurers & Pension Funds
- Net Effect on Aggregate Demand?

Dutch 10 yr. Yield & Technical Provisions of Pension Funds



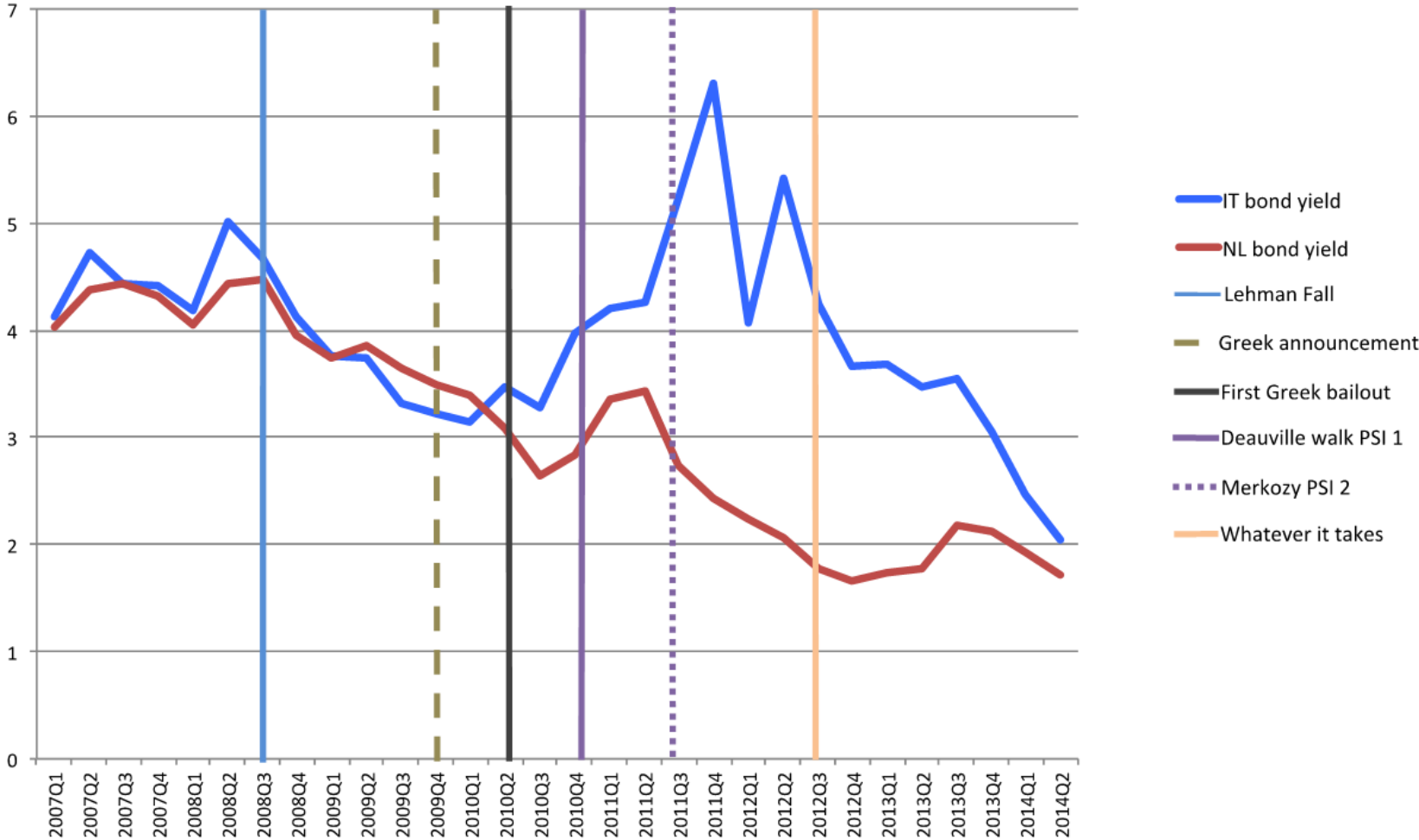
Negative Feedback Loop

- As interest rates decline:
- Increase in Pension Premiums, Reductions in Benefits to support Technical Provisions
- Pushes Insurers into costly Interest Rate Hedges or risky gambles for resurrection
- Feeds Negatively into Aggregate Demand

- Right balance between the sectors?
- Need for proper evaluation framework

see: M. Dirks, F. van der Lecq and C.G. de Vries, Macroprudential policy: The neglected sectors, in Macroprudentialism by D. Schoemaker (ed.), A VoxEU.org ebook, 2014, 73-85

Were Greek or Italian Insurers Saver?



Macro Interpretation

- Micropru Requires Proper Macro Assessment:
- Will low interest rate environment persists?
- Is it due to temporary monetary policy stance?
- Or is it due to the PSI requirement?
- Or did we hit the sink of secular stag?

- **Macro view is required for proper micropru and macropru actions**

Broad Interpretation & The Current Situation

- QE is highly distortionary:
- Depresses interest rates
- Jacks up equity
- Reduces budgetary pressure
- Sits uneasily with Maastricht Treaty
- **Empirical Research:**
- Main effect of QE is through the Exchange Rate
- Official Intervention as an alternative?

Conclusion

- Require Overarching Macro Pru Policy Frame
- Includes: Insurers, Pension Funds & Banks
- Necessary Condition for Capital Market Union
- Build an Insurance Union to level the field
- Monetary policy, macropru and micropru all interact