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The Pursuit of Financial Stability and Tasks for Monetary, Regulatory, and Macro-Prudential Policies

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We all know it from the press briefings by the ECB in recent years: Whenever Mario Draghi was asked about the financial risks of monetary easing, he pointed to macroprudential policy. Or he passed on to Vitor Constancio.

Either way, the message from the ECB has always been pretty clear: „Macropru“ is expected to prevent or mitigate the financial risks from unconventional monetary policy.

In my view, however, this policy mix is not without problems.

First: As empirical evidence in macropru remains rather limited, it is very difficult to get the timing right for using time-varying instruments.

Second: Facing institutional complexity and fearing distributional effects, macroprudential authorities may be too slow or even unwilling to act.

If and when these problems are underestimated by central bankers, they might ease too much, based on high-flying expectations that macroprudential policy tightens tailor-made.

It´s kind of a „Paradox in Macropru“: The division of labour between monetary policy and macropru, designed to improve financial stability, could have adverse effects. It contributes to a monetary stance that could be too expansionary.

Against this backdrop, I´d like to ask the panelists, what could be done to reduce the risk that central bankers rely more on hope than on evidence in macropru? And what could be done to reduce complexity in macroprudential governance, which, in my view, is at the root of many problems?

As regards national macroprudential measures, let me quickly add two points:

First: How come that the countercyclical capital buffer has only been used by one country in the euro area, Slovakia? Or more generally: Would you agree that structural macroprudential buffers (buffer for gloabal systemically important institutions, systemic risk buffer) are more important than cyclical instruments?

Second: What lies behind the fact that typical macroprudential instruments for housing loans, such as limits to loan-to-value, loan-to-income and debt-service-to-income, have been activated in many smaller euro area countries, but not in Spain, Italy, France and Germany? In Germany, by the way, income-related instruments for housing loans were not even included in the New Financial Supervisory Law.

Or, to pose my final question in a different way: Is macroprudential diversity in the European housing market an indicator for country-specific risks or does it reflect an inaction-bias in one country or another?