Christian Noyer: Macroprudential policies – implementation and interactions

Introduction by Mr Christian Noyer, Governor of the Bank of France and Chairman of the Board of Directors of the Bank for International Settlements, before the Bank of France's Financial Stability Review Panel (Panel RSF), New York, 14 April 2014.

*   *   *

Dear Governors,

Dear colleagues,

Ladies and gentlemen,

I am very proud, today, to launch the 2014 issue of the Banque de France's Financial Stability Review on "Macroprudential policies: implementation and interactions".

Since 2002, our Review has brought together contributions from prominent academics, practitioners and policy-makers from all over the world on topical issues. This year, macroprudential policy has been one of the focuses of policy-thinking and policy-making and it is likely to be so for some time to come. I am sure that this issue of the Banque de France's FSR will provide food for thought and action.

I warmly thank all the experts who have contributed to this Review for their papers of exceptional quality and depth. I do not have time to mention all of them and only some authors are here with me today.

These contributions are very diverse in their assessment and experiences of macroprudential policies. Policy recommendations and proposals are sometimes difficult to reconcile but this is what we want to achieve in our FSR. Naturally, we don't necessarily share all the views expressed in all the articles, but we do believe in the exchange of ideas.

As an introduction to this FSR, we are extremely thankful to the roundtable participants that have accepted my invitation:

- A long-standing member of the Federal Reserve board: Governor Tarullo, thank you. It's a privilege to welcome you today given your active participation and role in setting international financial regulation;
- A Governor of one of the most advanced central bank in the area of macroprudential policy in Asia: Tae Soo Kang, Deputy Governor of the Bank of Korea, in charge of Financial Stability.
- A very active ambassador for macroprudential policy: José Viñals, Financial counselor and Director of the Monetary and Capital Markets Department of the IMF.
- A distinguished expert on the financial sector worldwide and its regulation: Douglas Elliott from the Brookings Institution.

Thank you all for being with us today.

As you know, for each issue of our FSR, we always try to pick topics that are both analytically complex and relevant to current policy-making. This is clearly the case with macroprudential policies.

Indeed, macroprudential policy is a critical dimension of the public policy response to the crises we have experienced since 2008 and has figured prominently in the lessons we have drawn from them. Let me mention three of these lessons.

- First, the oversight of individual components of the financial system is not enough to preserve financial stability. Having robust financial institutions is a prerequisite for ensuring financial stability but it is not in itself sufficient.
- Second, maintaining price stability does not guarantee financial stability. In the euro area, the inflation mandate has always been fulfilled, but has not prevented the emergence of crises in the region. These crises have forced central banks to broaden their mandates to include financial stability in order to ensure the functioning of the monetary policy transmission channel as well as to guarantee the smooth financing of the economy. Stable inflation and financial stability are therefore two objectives that monetary and macroprudential policies respectively seek to achieve.
- Third, the Lehman episode and the euro area crisis have confirmed that financial crises do not stop at borders. Consequently, financial system regulation must be the fruit of international cooperation.

These lessons, in the post-crisis world, are at the heart of policy-makers' actions. Financial crises have led us to renew our approach to financial system regulation, and notably to supplement it with a macroprudential perspective. But what is a macroprudential policy? How can we define clear objectives? What are the policy instruments? How can we organise it? What imbalances need to be redressed? These are only some of the numerous issues that contributors address in this *Review*.

In particular, the broad scope of policy action is a major challenge. We especially need to anticipate all possible conflicts with other economic policies, such as microprudential, monetary or fiscal policy.

I will now identify at least two prerequisites to ensure that macroprudential policy is effective:

First, if conflicts arise between microprudential and macroprudential policies, macroprudential policy should prevail.

We must be particularly vigilant about this point in order to ensure the overall macro-welfare of the economy and guarantee the smooth financing of the economy. For example, imposing stringent requirements on financial institutions during an economic downturn may not be an appropriate policy response. Although it would reinforce the individual robustness of financial institutions, it may further subdue economic activity by causing a credit crunch for example. We would then enter into a negative feedback loop where the social and economic costs of regulation have systemic repercussions.

There is thus a need under such circumstances for a clear prioritisation of macroprudential policy over microprudential policy in order to minimise the economic and social costs of the adopted measures and to guarantee the smooth financing of the economy, throughout the economic cycle.

My second point is that this need for prioritisation must be addressed in a wider and clear governance framework of the interplay between macroprudential policies and other public policies. *An optimal macroprudential policy framework must resolve such interaction issues by ensuring complementarity with monetary policy and consultation with fiscal policy.*

(i) First, macroprudential policy is complementary to monetary policy in so far as the two policies may reinforce or take over from each other, when one of them is constrained. For example, when monetary policy is at the zero lower bound, macroprudential policy can help to give the economy an additional policy impulse. Macroprudential policy can also prevent the build-up of asset bubbles in specific sectors in a context of low interest rates. This complementarity should not however jeopardise the independence of central bank monetary policy decision-making.

(ii) Second, the optimal framework must promote consultation with fiscal authorities in order to ensure the full effectiveness of macroprudential policy measures that are often designed as Pigouvian Taxes generating resource transfers. This requires cooperation and information-sharing among the authorities involved in macroprudential policy decisions. Such as many countries have already adopted, a collegiate macroprudential authority, with a clear division of responsibility between central banks, the ministry of finance, market authorities, and banking supervisors, can ensure this cooperation.

I will not dwell further on these topical issues, which am sure will give rise to fascinating discussions. It is my hope that we can collectively contribute to enlighten this policy debate.

Let me now give the floor to our panellists. I suggest that we start with Governor Daniel Tarullo, who will give us the vision of the United States on macroprudential issues.