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Overview and discussion

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"Monetary policy, financial stability and the business cycle"

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* These comments reflect the views of the author and not necessarily those of the BIS or of central banks participating in the meeting.

BANK FOR INTERNATIONAL SETTLEMENTS

Second BIS Consultative Council for the Americas Conference
“Monetary policy, financial stability and the business cycle”
Bank of Canada, Ottawa, 12-13 May 2011

A Macro-financial stability framework

by Stephen G Cecchetti
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13 May 2011

The views expressed in this presentation are those of the author and do not necessarily reflect the position of the Bank for International Settlements.

Objectives

- Macroeconomic Stability
  - Price stability
  - Maximum sustainable growth and employment
- Financial stability:
  reducing the frequency and severity of crises

Policy components

- Monetary:
  inflation targeting, emergency lending & market making
- Fiscal:
  automatic stabilisers, buffers for bad times
- Regulatory:
  adopt a system-wide perspectives

Complications and interactions

- Transmission mechanisms depends on financial structure
  – Bank-based vs. market-based
- Conflicts among the objectives
  – macroprudential policies and monetary policy
- Globalisation:
  – Cross-border flows, cross-border resolution, foreign currency transactions
- Assessing vulnerabilities
  – Interconnectedness, feedback and procyclicality

Policy components

- Monetary: **[3,7]**
  inflation targeting, emergency lending & market making
- Fiscal: **[7]**
  automatic stabilisers, buffers for bad times
- Regulatory: **[4,5,7]**
  adopt a system-wide perspectives

Complications and interactions

- Transmission mechanisms depends on financial structure
  - Bank-based vs. market-based **[1,2,8]**
- Conflicts among the objectives
  - macroprudential policies and monetary policy
- Globalisation:
  - Cross-border flows, cross-border resolution, foreign currency transactions **[6,7,9]**
- Assessing vulnerabilities
  - Interconnectedness, feedback and procyclicality **[4,5]**

Questions

- Transmission Mechanism:
  - What are the consequences of low interest rates for a long time?
  - What will be the impact of changes in the regulatory environment?
- Emergency lending and emergency market making
  - To whom should you be lending?
  - How can you make markets?
- Conflict among goals
  - What is the best way to organise the governance?
  - How can inflation targeting & financial stability policy work together?
- Measurement
  - How can we measure the different aspects of systemic risk?