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Macroeconomic frameworks:
Experience, prospects and a way forward

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Introduction

- Macroprudential (MaP) frameworks
  - A key new element of the post-crisis financial reforms
Growing popularity of the term “macroprudential”
Themes and takeaways

- Macroprudential (MaP) frameworks
  - A key new element of the post-crisis financial reforms

- Two questions:
  - What has been the experience so far?
  - What is the way forward?

- Definition: use of (primarily) prudential tools targeting systemic risk
- Focus: time dimension (procyclicality)

- Three takeaways
  - MaP frameworks have brought about a welcome major intellectual shift
  - Substantial progress has been made, but more needs to be done
  - MaP to be embedded in broader macro-financial stability frameworks
Structure of the remarks

- The MaP intellectual shift
  - A major enduring gain

- Implementing MaP framework
  - Good progress, but more needed

- Beyond MaP frameworks
  - Towards a more holistic macro-financial stability framework
Two conceptions of risk

Prevailing pre-crisis

Macroprudential

GDP

Expansion

Risk low

Long run

Risk high

Contraction

Time

GDP

Expansion

Risk builds up

Risk materialises

Contraction

Time
Financial booms, low spreads and volatility are signs of high risk-taking

US example
Growing popularity of the terms “macroprudential” and “financial cycle”
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Macro stress tests: strengths and limitations
Macroprudential: growing use of measures over time

Number of measures taken in every 10 countries per year

- 1995–2000
- 2001–06
- 2007–12
- 2013–18

- Advanced economies
- Emerging market economies
## Impact of macroprudential measures on bank credit

### Impact of tightening

<table>
<thead>
<tr>
<th>Measure</th>
<th>One-year effect, % pts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum loan-to-value ratios</td>
<td>-1.25</td>
</tr>
<tr>
<td>Maximum debt service-to-income ratios</td>
<td>-1.00</td>
</tr>
<tr>
<td>Loan provisioning rules</td>
<td>-0.75</td>
</tr>
<tr>
<td>Countercyclical capital buffers</td>
<td>-0.50</td>
</tr>
</tbody>
</table>

No statistical significance

*Statistical significance at the 5% level*
Some signs of financial imbalances even where measures used actively

Lhs:
- Number of measures
  (+1/–1) tightening/loosening action

Rhs:
- Credit-to-GDP gap
- 10% threshold for the BCBS countercyclical capital buffer
Who is responsible for macroprudential measures?

- **2008: Different agencies**
  - Without inter-agency committees
  - With inter-agency committees

- **2017: Central bank with regulation and supervision**
  - Without inter-agency committees
  - With inter-agency committees

- **2008: Central bank without regulation and supervision**
  - Without inter-agency committees
  - With inter-agency committees

- **2017: Central bank without regulation and supervision**
  - Without inter-agency committees
  - With inter-agency committees

- **2008: Integrated supervisor**
  - Without inter-agency committees
  - With inter-agency committees

- **2017: Integrated supervisor**
  - Without inter-agency committees
  - With inter-agency committees

**Percentage of 51 countries and territories**

- 80%
- 60%
- 40%
- 20%
- 0%
A case for autonomy in MaP frameworks
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Towards a macro-financial stability framework

Macro-financial stability framework

- Monetary policy
- Macroprudential orientation
- Fiscal policy
- Microprudential orientation
- Structural policies

Macroeconomic policy

Prudential policy
Conclusion

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Thank you!