BANK FOR INTERNATIONAL SETTLEMENTS

Macroprudential frameworks: Experience, prospects and a way forward

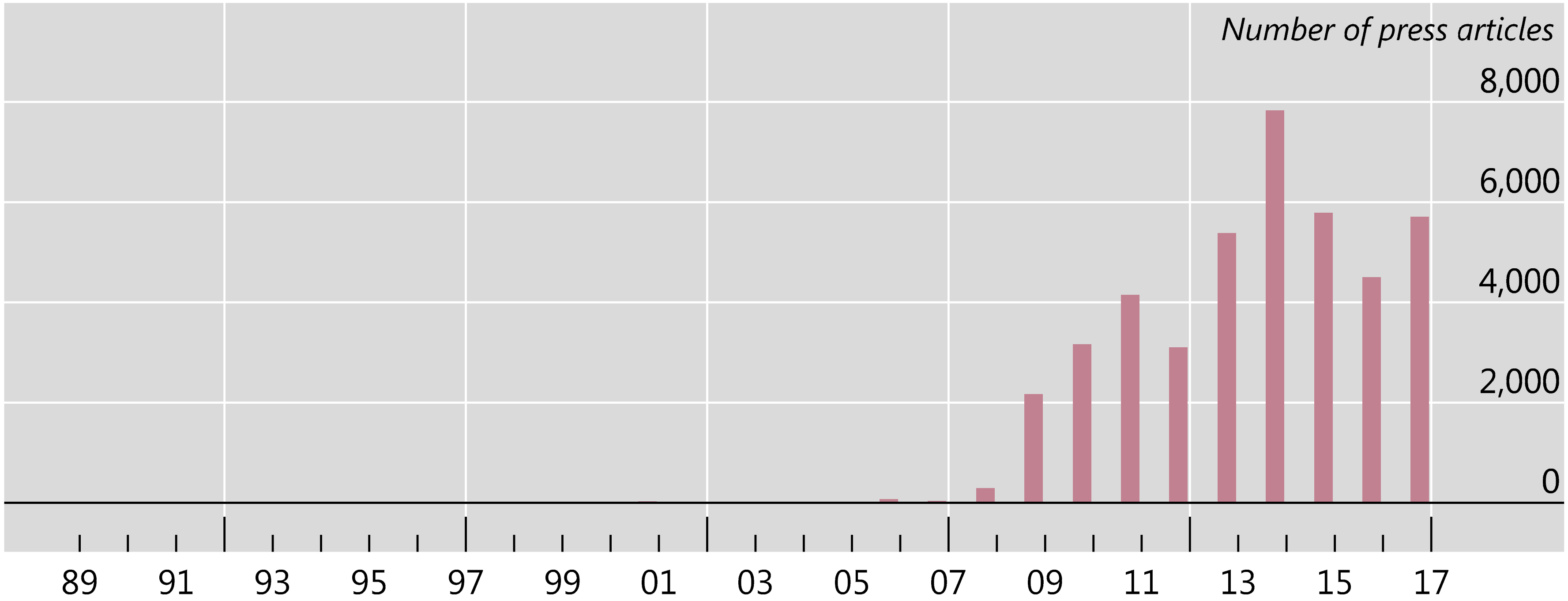
Claudio Borio
Head of the Monetary and Economic Department

9th biennial IFC Conference
BIS, Basel 31 August 2018

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?

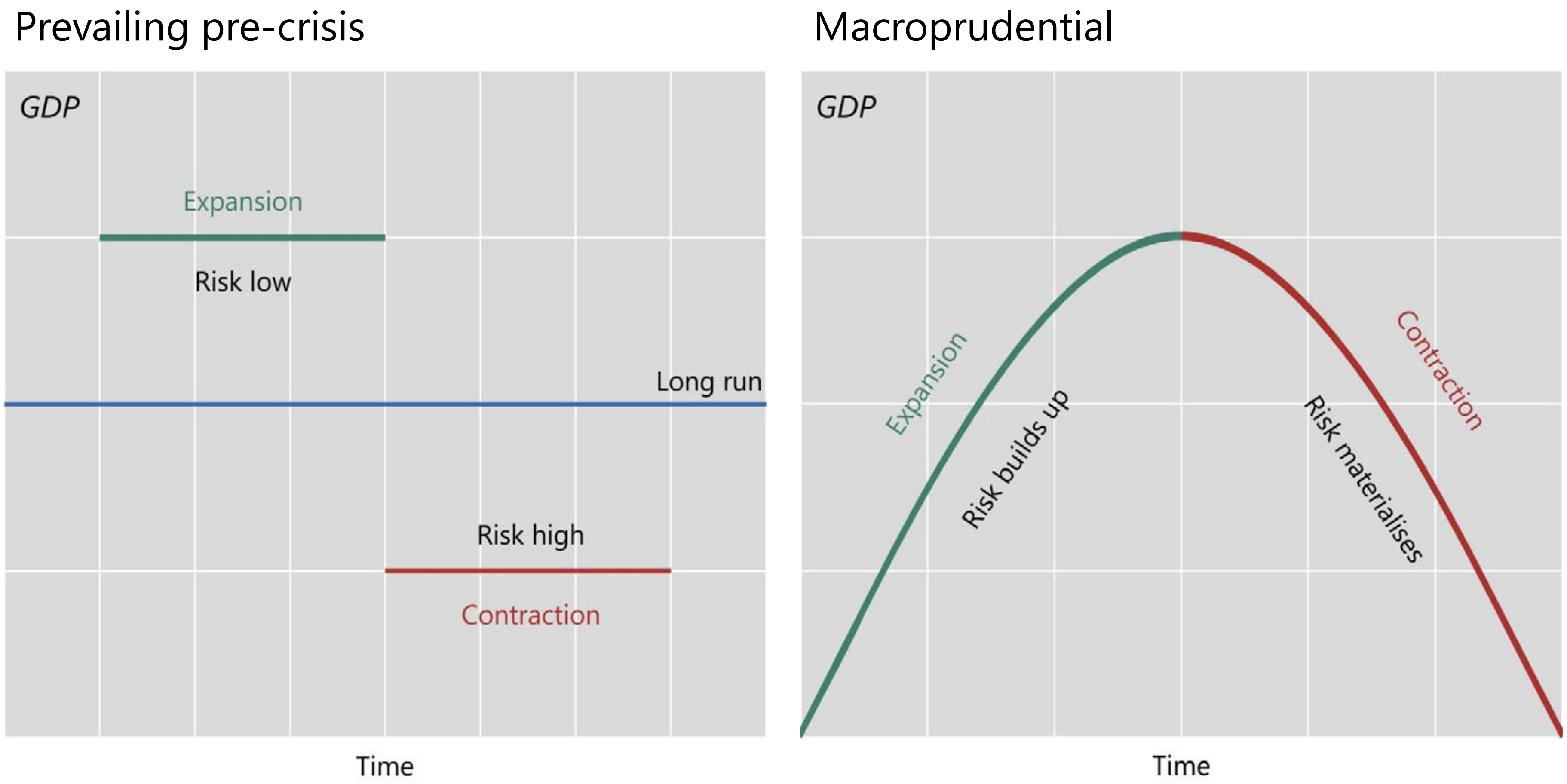
- Definition: use of (primarily) prudential tools targeting systemic risk
- Focus: time dimension (procyclicality)

- 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

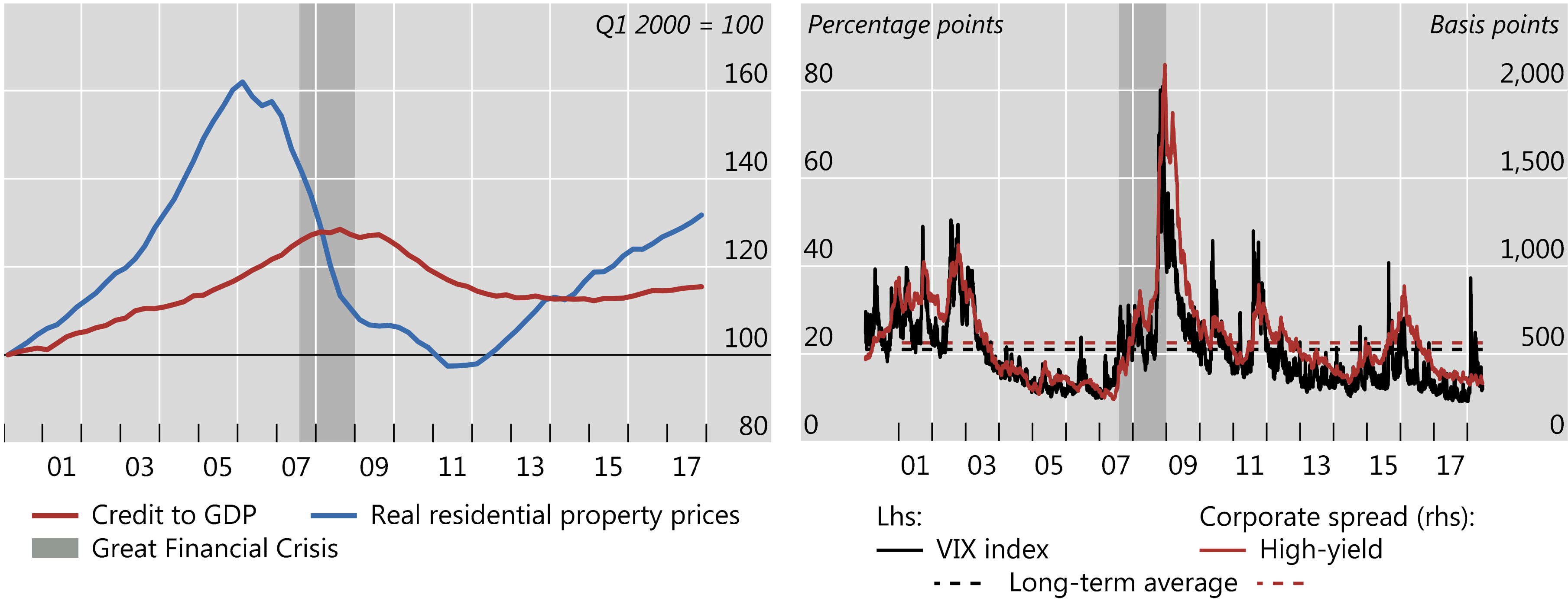
- The MaP intellectual shift
  - A major enduring gain
- Implementing MaP framework
  - Good progress, but more needed
- Beyond MaP frameworks
  - Towards a more holistic macro-financial stability framework

Two conceptions of risk

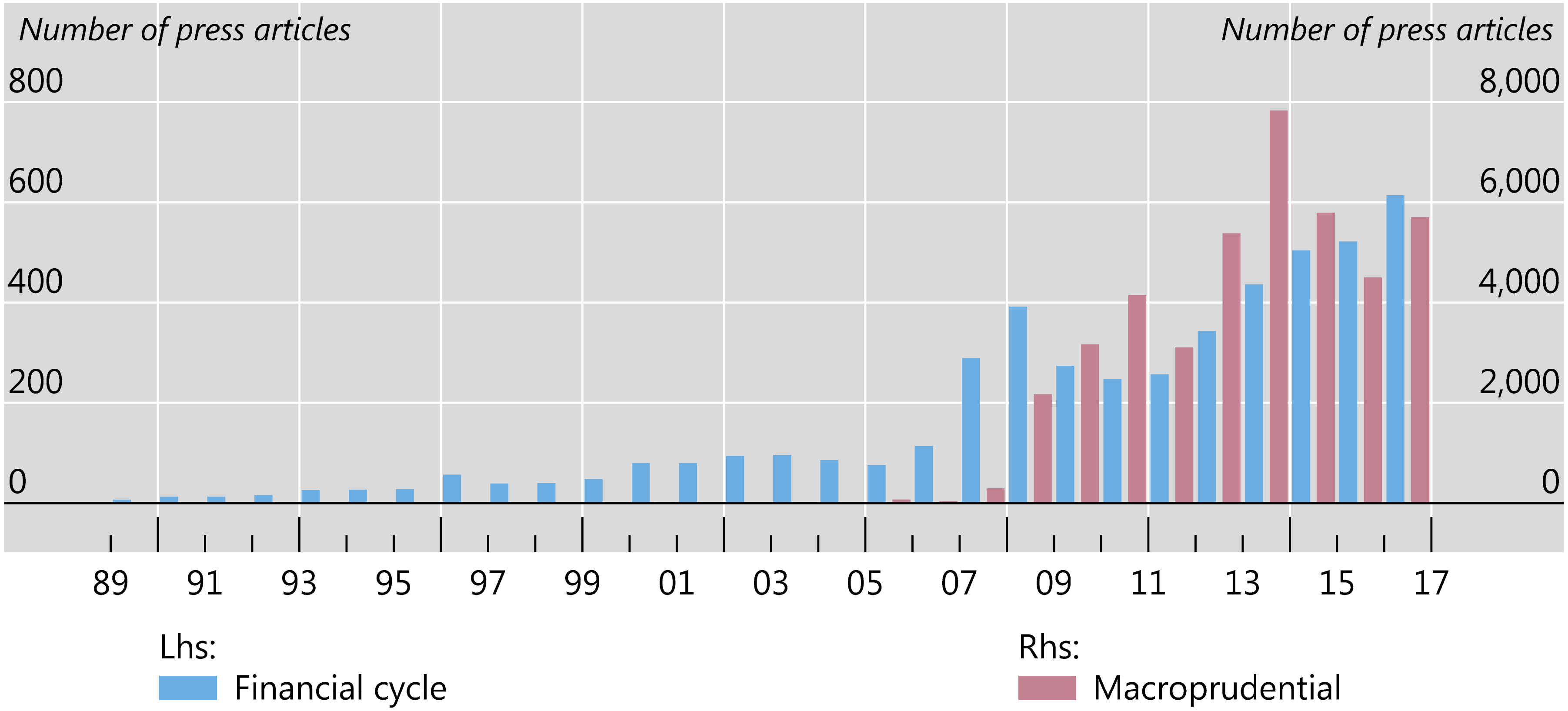


Financial booms, low spreads and volatility are signs of high risk-taking

US example



Growing popularity of the terms “macroprudential” and “financial cycle”

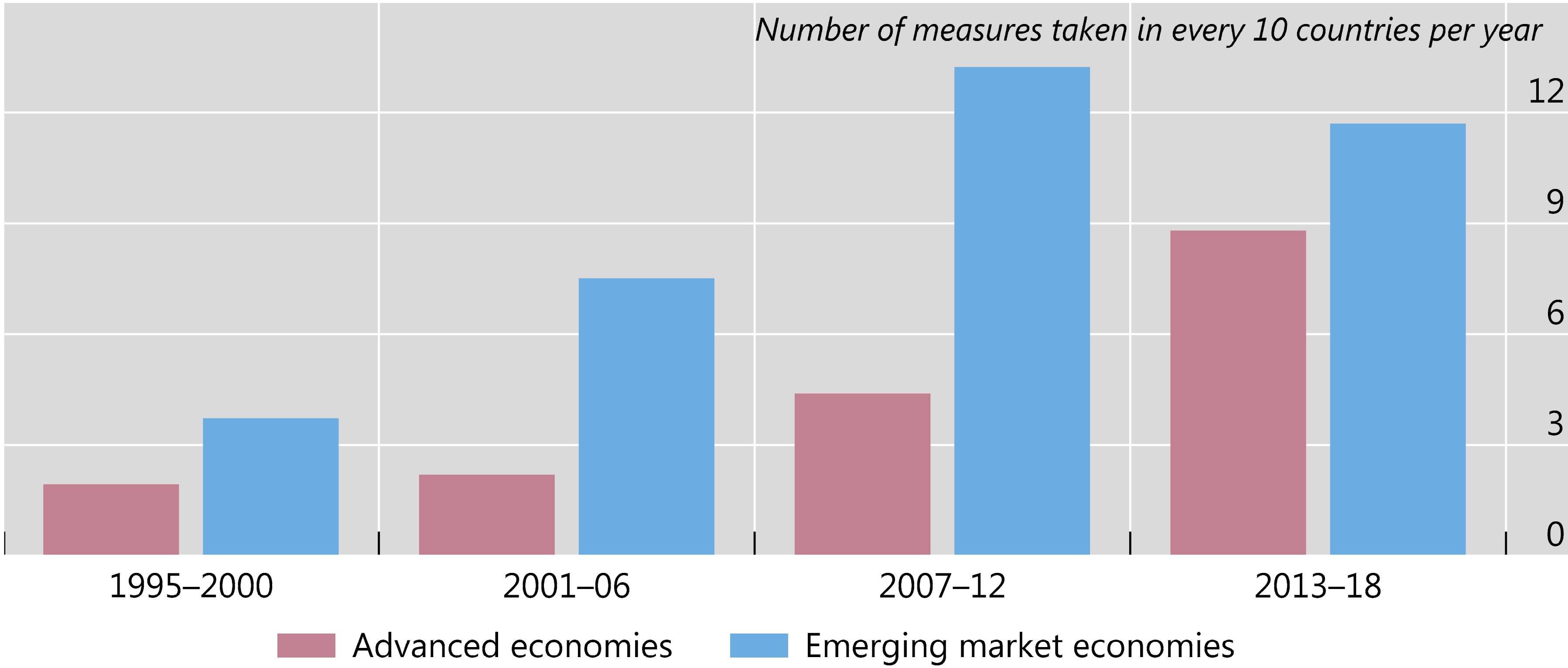


Structure of the remarks

- 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

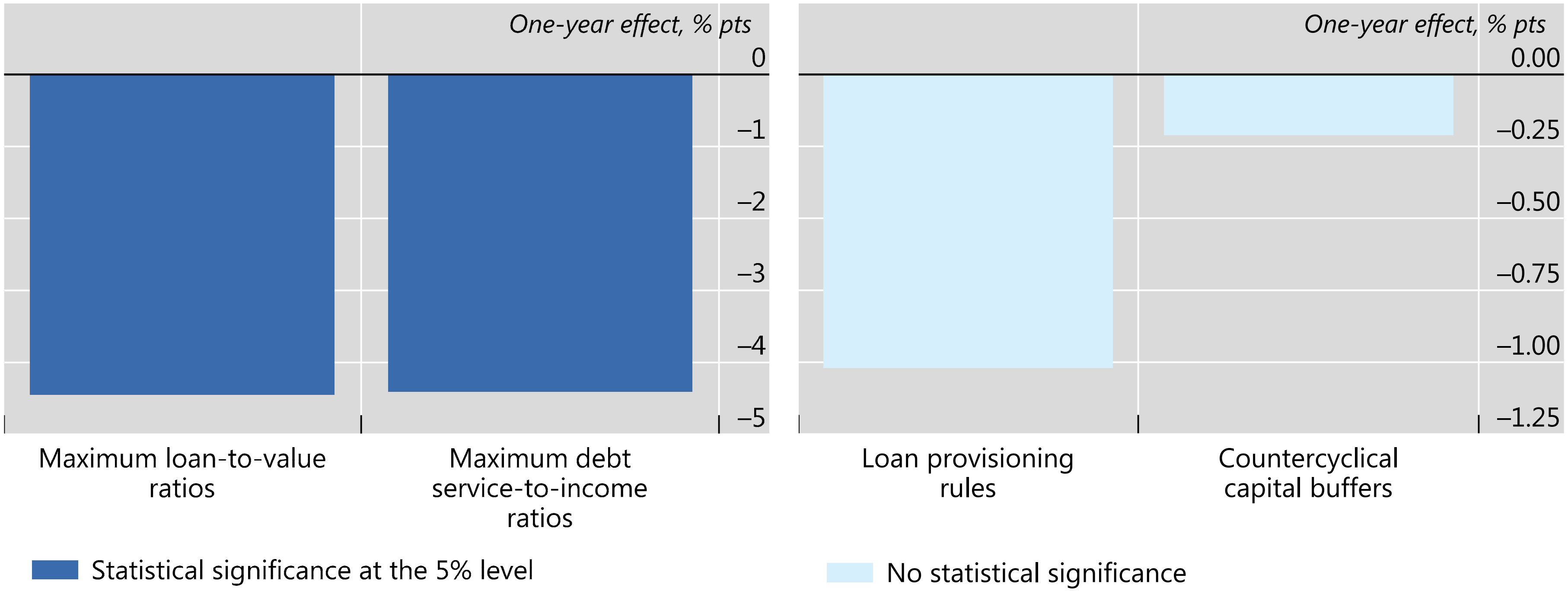
Macro stress tests: strengths and limitations

Macroprudential: growing use of measures over time

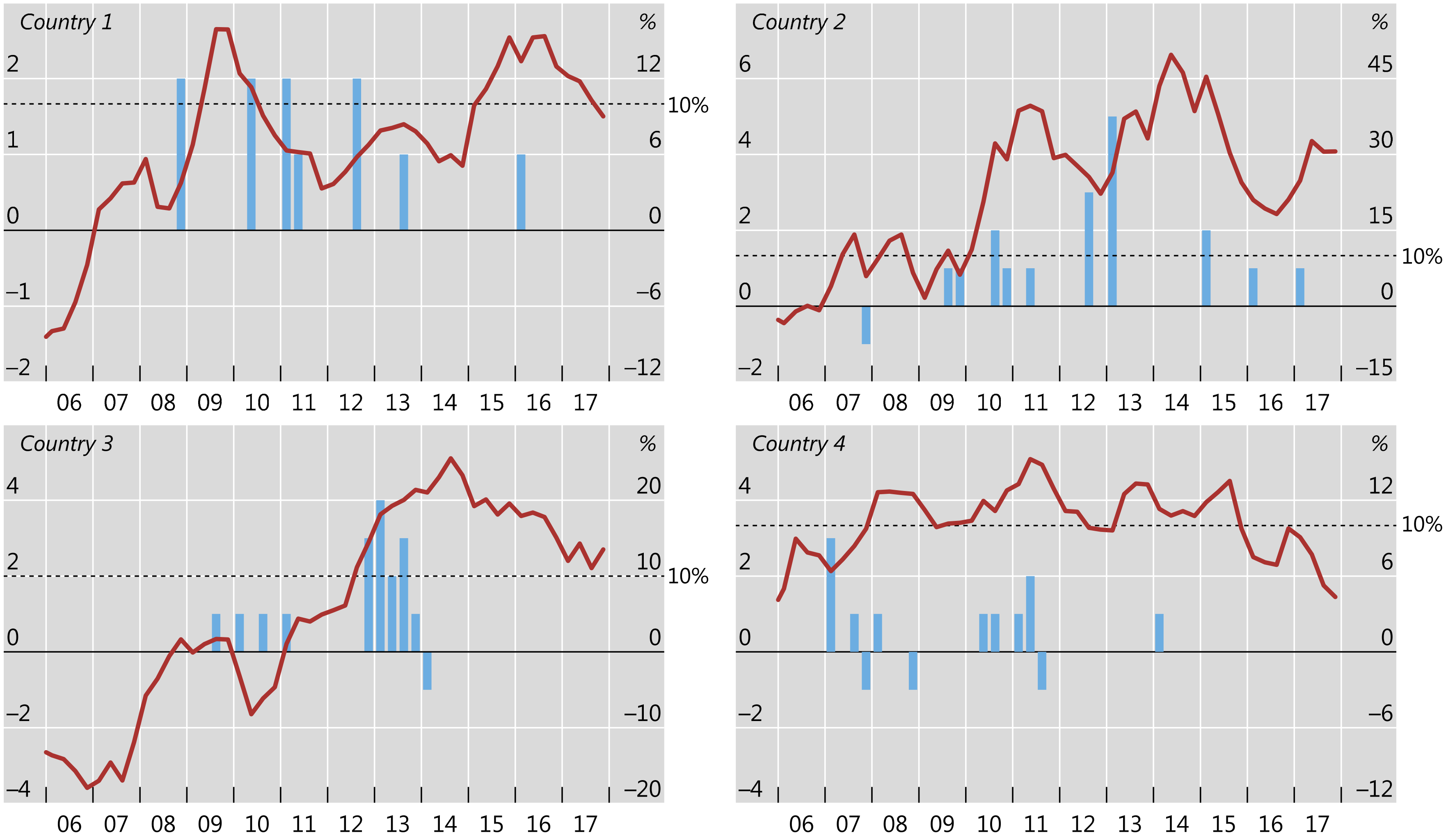


Impact of macroprudential measures on bank credit

Impact of tightening



Some signs of financial imbalances even where measures used actively

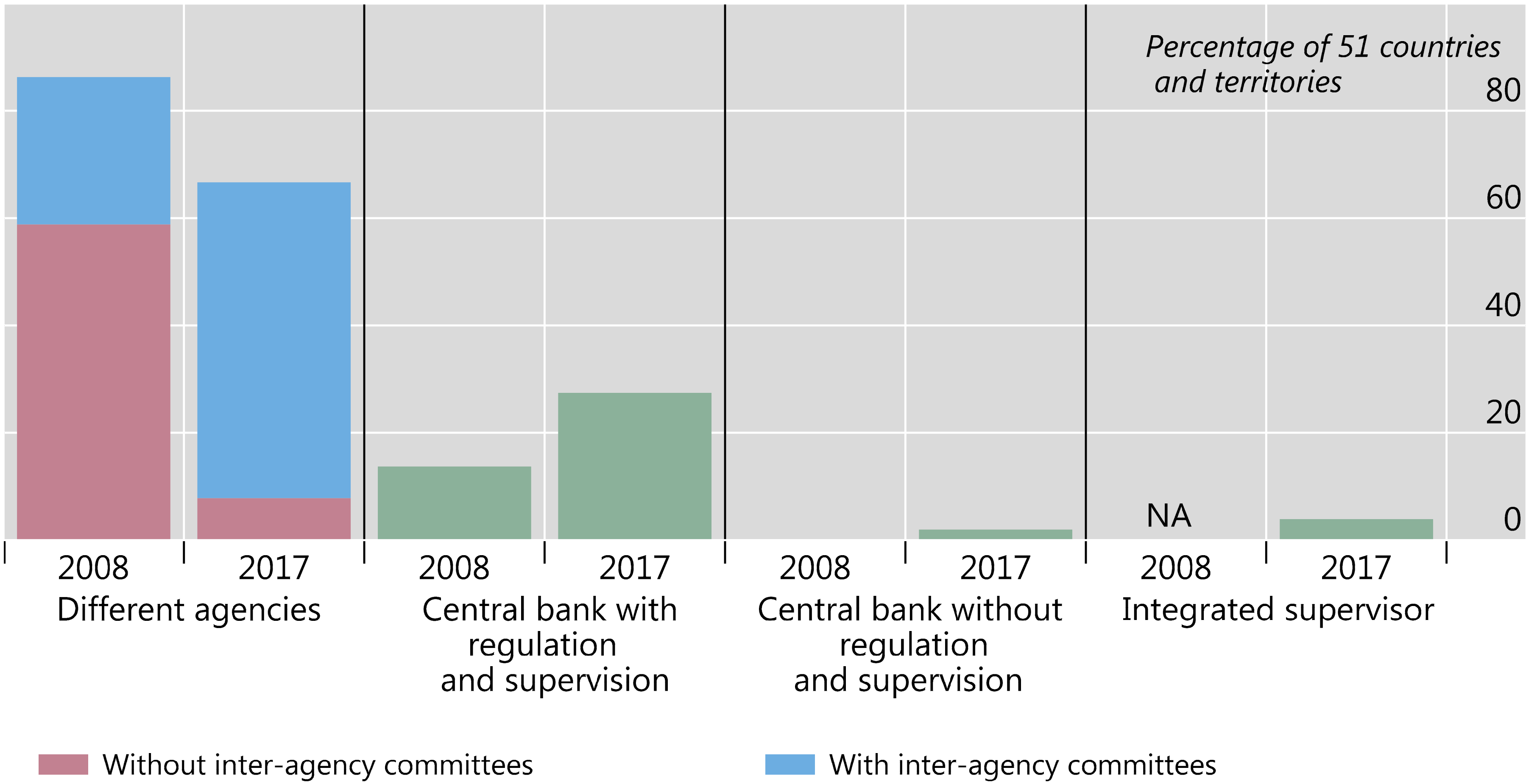


Lhs:
Number of measures (+1/–1) tightening/loosening action

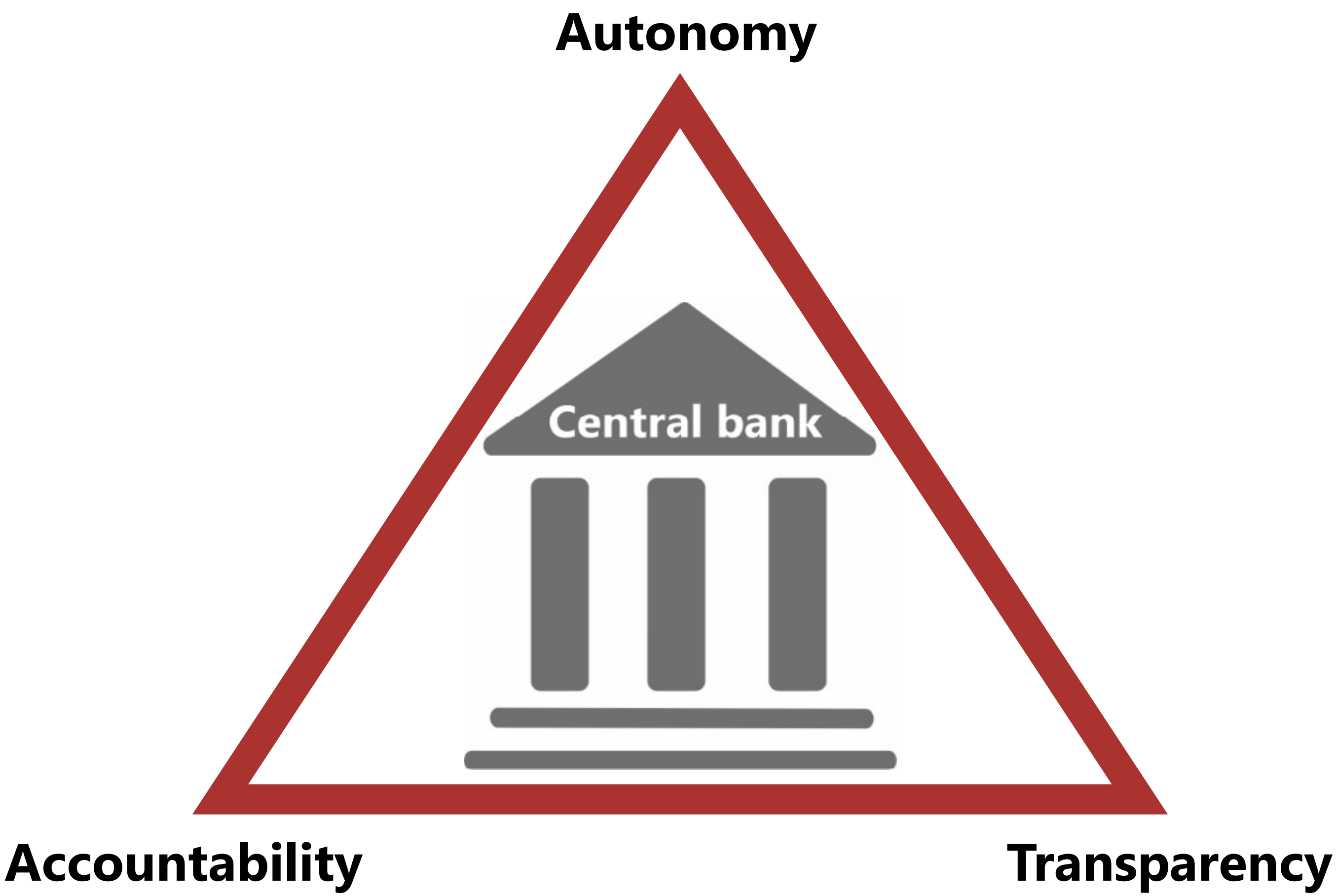
Rhs:
Credit-to-GDP gap
10% threshold for the BCBS countercyclical capital buffer

BANK FOR INTERNATIONAL SETTLEMENTS

Who is responsible for macroprudential measures?



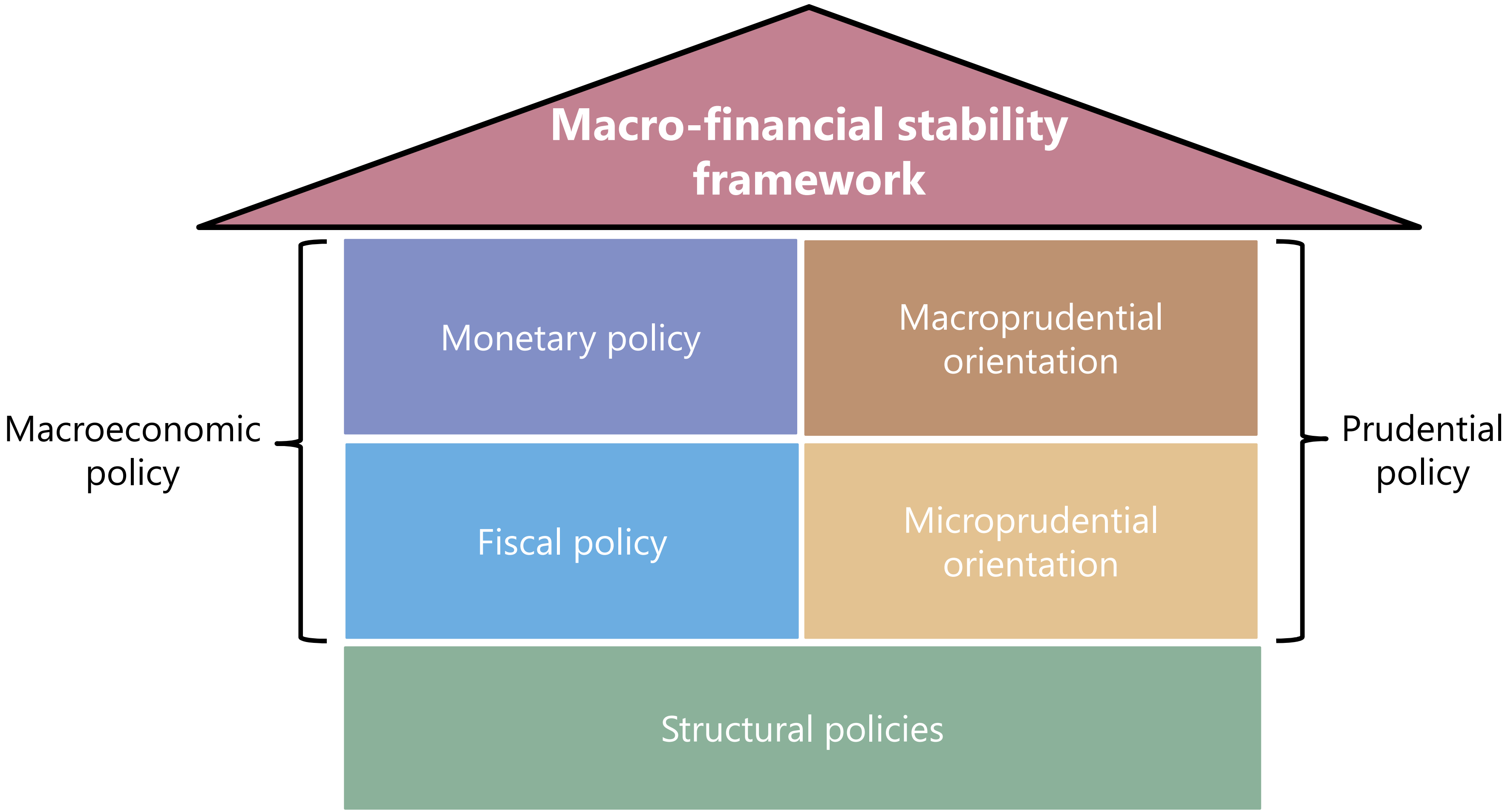
A case for autonomy in MaP frameworks



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

Towards a macro-financial stability framework



Conclusion

- 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

Thank you!