Financial Stability: Towards a Macroprudential Approach

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Macroprudential on the rise ...

“macroprudential”: # google hits
Outline

1. Macroprudential framework
2. Practical experiences
3. Macroprudential supervision
1 Macroprudential framework

Two aims:
- Strengthen the financial system’s resilience
- Leaning against the financial cycle
# 1 Macroprudential framework

<table>
<thead>
<tr>
<th></th>
<th>Strengthen resilience</th>
<th>Moderate the cycle</th>
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</thead>
<tbody>
<tr>
<td>General approach</td>
<td>Recalibrate micro tools</td>
<td>Use macro tools dynamically</td>
</tr>
<tr>
<td>Key features</td>
<td>Micro or macro style</td>
<td>Tend to be macro</td>
</tr>
<tr>
<td>Frequency of adjustment</td>
<td>Not very frequent</td>
<td>More frequent, responsive</td>
</tr>
</tbody>
</table>
1 Macroprudential framework

Challenges:
- Understanding transmission mechanism
- Signal extraction
- Rules versus discretion
- Regulatory arbitrage & cross-border cooperation
- Relationship with monetary policy
2 Practical experience

- CGFS survey on instruments among central banks
- Possible tools: microprudential, tax-related, liquidity-related, lending restrictions
- February 2010: workshop on LTVs
- Forward looking provisioning
3 Macroprudential supervision

Crucial:
- Translation analysis into action
- Firmly embedded in organisation
- Elements: (1) monitoring & analysis, (2) assessment, (3) mitigating action, (4) evaluation
3 Macroprudential supervision

Macroprudential monitoring and analysis

1

2

Assessment and decision to act

3

Mitigating action

4

Evaluation