Cecilia Skingsley: Experience with macroprudential policies

Summary of a speech by Ms Cecilia Skingsley, Deputy Governor of the Sveriges Riksbank, at a workshop arranged by the Committee on the Global Financial System, BIS, held at the Hong Kong Monetary Authority, Hong Kong, 10 August 2015.

* * *

Since the global financial crisis, several countries have started implementing macroprudential policies. This workshop has provided us with the opportunity to deepen our knowledge regarding how different countries choose, calibrate and implement different kinds of macroprudential instrument. We have also gained a greater understanding of the efficiency of these instruments, as well as of how different countries incorporate macroprudential settings in the calibration of monetary policy.

Although we have come a long way the past few years as regards setting up institutional frameworks and developing tools, macroprudential policy is still a relatively new policy field in many countries and there are many important issues that need to be addressed. I would like to elaborate on three of these issues.

The first is the challenge of determining the proper mix of policy instruments and the right balance between them, and deciding how fast and resolute our actions should be when imbalances are building up. For example, on the one hand, we know from international experience that credit growth can be difficult to curb once it starts accelerating. This would speak in favour of prompt and strong measures. But, on the other hand, since we only have limited experience of macroprudential instruments, a step-by-step approach may seem more attractive. Furthermore, even if the first best solution would be bold steps, it may be more difficult to gain consensus for these. I think it would be better and more reasonable to take a number of small steps in order to avoid inaction bias and a standstill in reforms. Taking Sweden as an example: in its biannual Financial Stability Report, the Riksbank outlines several alternatives for how the growing risks associated with increasing household debt may be managed.

The second issue that needs to be addressed is how macroprudential policy should interact with other policy areas when it comes to tackling systemic risk. My view is that monetary policy could take systemic risk into consideration under the precondition that this doesn't conflict with the objects of monetary policy. That is, if the object of monetary policy is inflation targeting, monetary policy may very well serve as a line of defence if inflation is not too far from the target and if inflation expectations are firmly anchored.[1]

However, macroprudential policy also has links to microprudential policy and fiscal policy. All these policy areas may need to be involved in order to curb systemic risks in the most effective way. What instrument to choose in a specific situation should depend on the problem at hand and the purpose of the policy action. The most effective tool may not always be in the hands of the macroprudential supervisor.

Finally, in the past few years, macroprudential tools have been developed to tackle risk stemming from the traditional banking sector. Macroprudential policy has thus mainly been implemented as a form of banking regulation. As a consequence, resilience in that sector has increased. But, on the other hand, the non-banking sector is increasing rapidly and so, most likely, is risks related to it. This being my third and final issue, I think it is most important that we increase our understanding of these changing trends and the risks they entail, and that we start developing macroprudential instruments that can counteract these risks. In order not to fall behind the curve, work on developing new tools should start promptly, as it will take years before such instruments can be in place at national levels.

---

[1] See also Skingsley, C., (2015), *Inflation-targeting policy after the financial crisis*, speech at Almega, Stockholm 2015.