MacroPrudential, where do we go

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Macroprudential: The “official” view

Source: IMF staff.
1. What is (is not) Macroprudential

1. What is not?
   - Anything covered by another policy tool
   - A stable policy tool with continuous mandates

2. What it is?
   - A toolkit for systemic risks to the economy
   - “Systemic”, i.e. with externalities beyond a single traditional policy
   - Exceptional: Requires in depth understanding of externalities and interactions in financial stability
   - Poliedric: Close cooperation and communication among all the other policy makers (policy tools)
1. Contents of Macroprudential

1. What should it do?
   - Address externalities or unwanted consequences
     - Be proactive – identify potential spillovers and decrease linkages and building of imbalances
     - Be reactive – assure that unintended consequences of asset crashes are small

2. What is it in practice?
   - Countercyclical buffers, dynamic provisioning
   - Housing markets: LTV, LTI, DTI
   - Sectoral: foreign currency mismatches (indexing),
   - Liquidity tools: mainly capital flows
3. Governance of Macroprudential

Challenges

• It can arise from a large number of policies

• It deals with systemic externalities

• Its governance must be encompassing

• It is not national in nature – many externalities likely to arise cross-border

Actual Governance

• Controlled by one institution: central banks

• Focused – almost exclusively on banking

• No systemic approach to analyze its implications

• Mainly national. No international governance exists (except Curr Union)

Governance: Any hope?
4. Challenges to Macroprudential

...Lots of talk ... lack of action

1. Lack of clarity on short-term / long-term goals
2. Lack of simple mandate – lots of policy/political implications
3. How to measure success? By avoiding excess? By cleaning up the mess?
4. Coordination of issues?