Macroprudential policy and interactions

SUERF

Henrik Braconier
henrik.braconier@fi.se
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“...the ultimate objective of macro-prudential policy, which is to contribute to the safeguard of the financial system as a whole, including by strengthening the resilience of the financial system and decreasing the build-up of systemic risks, thereby ensuring a sustainable contribution of the financial sector to economic growth.”

ESRB, 2013
Why care about policy interactions?

- Important for institutional setup of macropru:
  - Spillovers on other public policy targets limits scope for delegation
  - Spillovers from other policy areas (further) limits possibility to monitor performance

- Given institutional setup policy coordination can be facilitated

- Even without policy coordination, cost-benefit analysis can be improved and measures adjusted
Which interactions?

- Microprudential policies
- Monetary policy
- Fiscal policy
- Structural policies
Which perspective: structural vs cyclical?

Two types of systemic risks are commonly distinguished in policy practice:

– (i) a cyclical, or time-varying, and

– (ii) a structural that relates to interconnectedness and common exposures of financial institutions and markets
Swedish household debt

Per cent of disposable income

Source: Statistics Sweden
What explains the debt increase?

- Unexplained increase
- Other factors
- Low interest rates
- Lower taxes
- Increase in house ownership

Increase in household debt ratio (%)
Macroprudential response

Measure
- Capital-based
- Borrower-based

Risk Objective
- Bank resilience
- Risk-mitigation in household sector
Increasing bank resilience

Per cent of risk weighted assets

- Buffer requirements
- Pillar 2
- Minimum capital requirement

EU minimum
Average for major Swedish banks
Actual capital base
Household risk-mitigation

Source: Finansinspektionen
Note: Loan-to-value (LTV) and Loan-to-(gross)income (LTI).
Effects on mortgages and house prices

Source: FI

Note. Compared to if FI had not implemented the regulation. The bar for the mortgage cap shows the effect on the households’ total debt (new mortgages), other bars show effects on mortgages.
Regulations dampen credit

Source: FI and Valueguard.
Solid bars indicate growth in mortgages (yellow) and purchase prices (red) for an average household 2011–2017. Shaded bars indicate the estimated impact of FI’s regulations for respective variable.
End