

Macroprudential Analysis and Supervision

Maarten Gelderman

Head Macroprudential Analysis
De Nederlandsche Bank

22 February 2011

Outline

Conceptual issues

The dimensions of macroprudential supervision

Linkages

Lines of defence

Conceptual issues

Dimensions

Linkages

Lines of defence

Practice

Monitoring

Practice

Monitoring

Instruments

DNB

Challenges

Macroprudential policy in practice

Monitoring

Macroprudential policy in practice

Monitoring

Macroprudential instruments

Macroprudential policy at DNB

Challenges

The dimensions of macroprudential supervision

- ▶ Cross sectional
- ▶ Time

Conceptual issues

Dimensions

Linkages

Lines of defence

Practice

Monitoring

Practice

Monitoring

Instruments

DNB

Challenges

- ▶ Macro-micro
 - ▶ Identify risks
 - ▶ Build resilience
- ▶ Micro-macro
 - ▶ Identify build up of imbalances (only one source!)
 - ▶ Address the risk

Lines of defence

Conceptual issues

Dimensions

Linkages

Lines of defence

Practice

Monitoring

Practice

Monitoring

Instruments

DNB

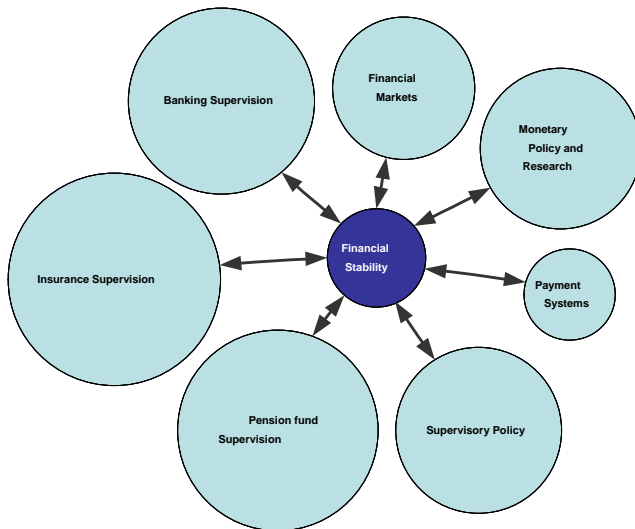
Challenges

1. Reduce the risk
2. Create “buffers”
3. Make the system more resilient

- ▶ Payment systems
- ▶ Financial markets
- ▶ Monetary policy
- ▶ Supervisory returns
- ▶ Ad hoc inquiries (e.g. exposures and stress testing)
- ▶ Truly ad hoc (international, anecdotal supervisory information, anecdotal financial market information)

Note that most data have not been collected for macroprudential purposes. Moreover reconciliation can be difficult.

Spider in the web or stuck in the middle?



Conceptual issues

Dimensions
Linkages
Lines of defence

Practice

Monitoring

Practice

Monitoring
Instruments

DNB

Challenges

Monitoring

- ▶ Payment systems
- ▶ Financial markets
- ▶ Monetary policy
- ▶ Supervisory returns
- ▶ Ad hoc inquiries (e.g. exposures and stress testing)
- ▶ Truly ad hoc (international, anecdotal supervisory information, anecdotal financial market information)

Note that most data have not been collected for macroprudential purposes. Moreover reconciliation can be difficult.

Conceptual issues

Dimensions

Linkages

Lines of defence

Practice

Monitoring

Practice

Monitoring

Instruments

DNB

Challenges

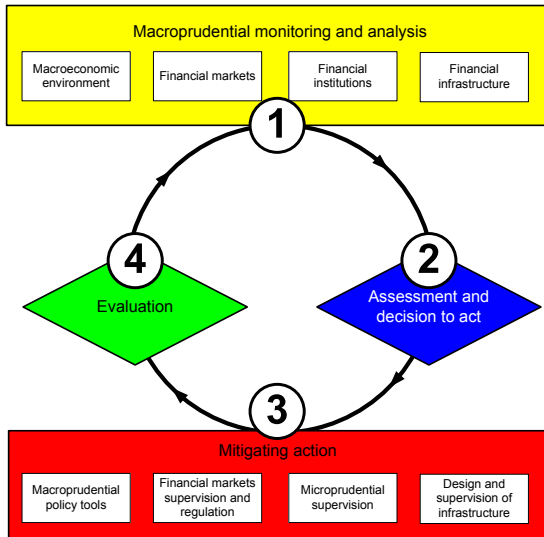
Macroprudential instruments

- ▶ Purposes
 - ▶ Reduce the risk
 - ▶ Improve resilience
- ▶ Forms
 - ▶ Communication (public, financial sector, authorities)
 - ▶ Buffer/leverage requirements
 - ▶ Targetted supervisory action
- ▶ Considerations
 - ▶ Avoid risk of being responsible for everything without authority for anything
 - ▶ Separation principle (monetary policy, microprudential regulation, fiscal policy)
 - ▶ Don't put the horse behind the cart
- ▶ Examples
 - ▶ LTV restrictions
 - ▶ Margin requirements
 - ▶ Risk specific buffers
 - ▶ Countercyclical buffers

Macroprudential policy at DNB

- ▶ Institutional
 - ▶ (Very) limited mandate
 - ▶ Twin peaks model
- ▶ Monitoring
 - ▶ Databook (quarterly)
 - ▶ Sector analysis (bi-annually)
 - ▶ Financial Stability Review (bi-annually, < 40 pages, domestic)
- ▶ Organizational
 - ▶ Financial Stability division with Macroprudential analysis and Multilateral fora department
 - ▶ In between supervisory divisions and central bank
 - ▶ Coordination group

DNB's approach: process



Macroprudential
Analysis

Maarten
Gelderman

Conceptual issues

Dimensions

Linkages

Lines of defence

Practice

Monitoring

Practice

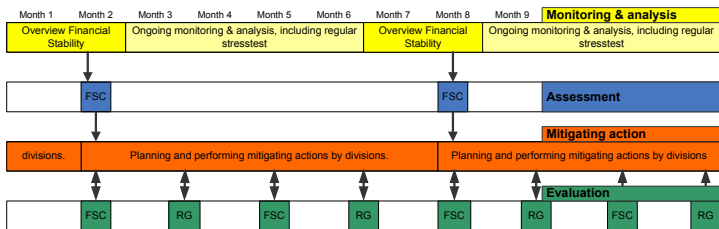
Monitoring

Instruments

DNB

Challenges

DNB's approach: process



FSC = Financial Stability Coordination Group
RG = Risk Group

Challenges

- ▶ From analysis towards action
- ▶ Mandate
 - ▶ Constraints
 - ▶ Monetary policy
 - ▶ Fiscal policy
 - ▶ Microprudential policy
 - ▶ Authority
 - ▶ Supervisor
 - ▶ Central Bank
 - ▶ Ministry of Finance
 - ▶ Authority
- ▶ Network analysis
 - ▶ Getting the data
 - ▶ Analyzing the data
 - ▶ Using the outcomes of the analysis
- ▶ The unknown unknowns
 - ▶ Finding them
 - ▶ Creating a false sense of security