The background of the slide is an aerial photograph. The top half shows a dense city skyline with numerous skyscrapers, likely New York City, under a hazy, overcast sky. The bottom half shows a vast, flat agricultural landscape with green fields, a central canal or road, and some smaller structures. A large, semi-transparent purple rectangle is overlaid on the city skyline, containing the main title and speaker information. A smaller blue rectangle is overlaid on the agricultural landscape, containing the bank's name.

How do monetary, micro- and macroprudential policies interact

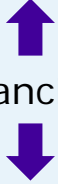
Prof. dr. Aerd Houben | Director Financial Markets | Dec 2019

DeNederlandscheBank

EUROSYSTEEM

Oesterreichische Nationalbank, December 2 2019

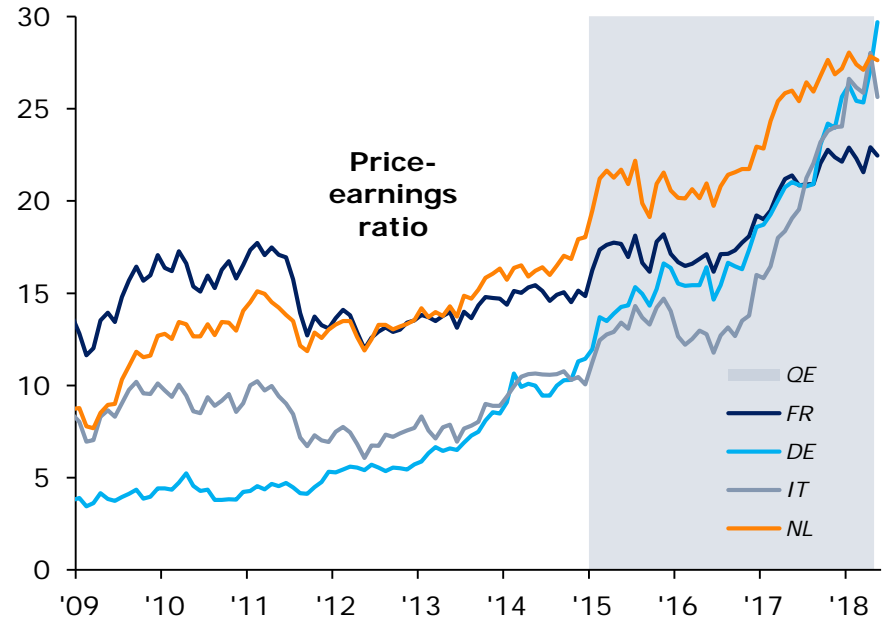
Policy framework to the financial system

| Policy type | Objective | Ultimate aim |
|------------------------|---|--|
| Monetary policy | Stable prices | Foster stable growth |
| Macroprudential policy | Stable financial system  | Protect depositors and foster stable economic growth |
| Microprudential policy | Stable financial institutions | Protect depositors |

Tinbergen: “For each policy objective, at least one policy instrument is needed”

Monetary policy should consider side-effects ...

- Primary objective is price stability
- But consider also side-effects (e.g. asset price inflation).
- Monetary policy “gets into all the cracks” and has to lean against the financial cycle



... and be supplemented by macroprudential policy

- New policy field
- Exclusive focus on financial stability
- Domestic orientation

Central bank's involvement with macroprudential policy?

- ESRB (2011) recommendation on macroprudential policy mandates:
 - Objective: financial stability set at a national level.
 - Authority should be single institution or a committee.
 - There should be mechanisms for cooperation between authorities
 - Leading role for central banks.

Central bank's involvement with macroprudential policy?

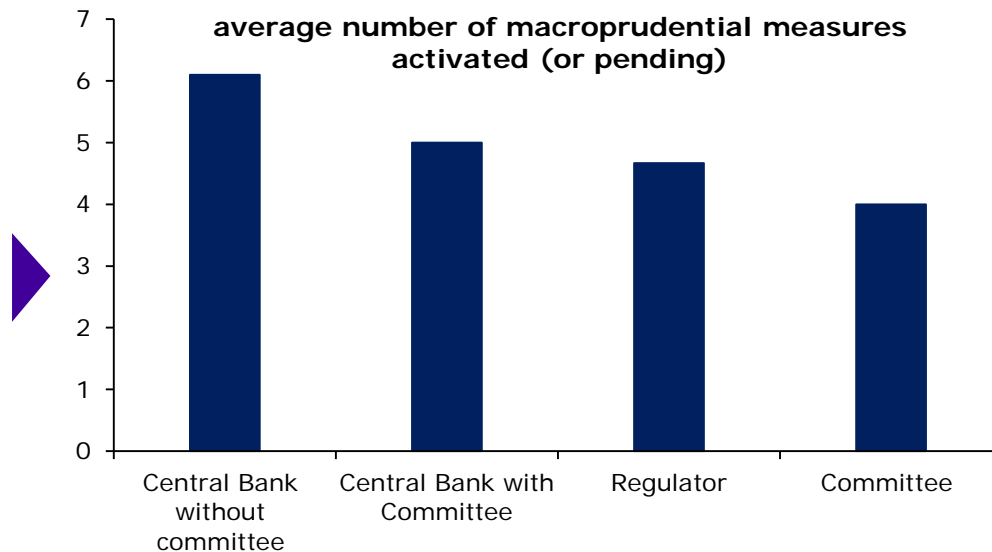
- Central banks traditionally involved with financial stability (system-wide focus, LOLR function)
 - Advisor versus coordinator versus authority.
 - Combination with other tasks (e.g. whether central bank is also prudential supervisor).
 - Importance of systemic risks (e.g. size of the financial sector, systemically important banks)
 - Way of thinking about systemic risks aligns more with monetary than with microprudential policy

Institutional set-up of macroprudential policy

| Designated Authority | Committee | Jurisdictions |
|----------------------|-----------|--|
| Central Bank | N | BE, EE, IE, GR, CY, LT, SK, MT, PT, FI |
| Central Bank | Y | NL, SI, ES, IT |
| Regulator | Y | DE, AT, LU |
| Committee | Y | LV, FR |

Institutional set-up of macroprudential policy (2)

- Central bank involvement important to counter inaction bias.

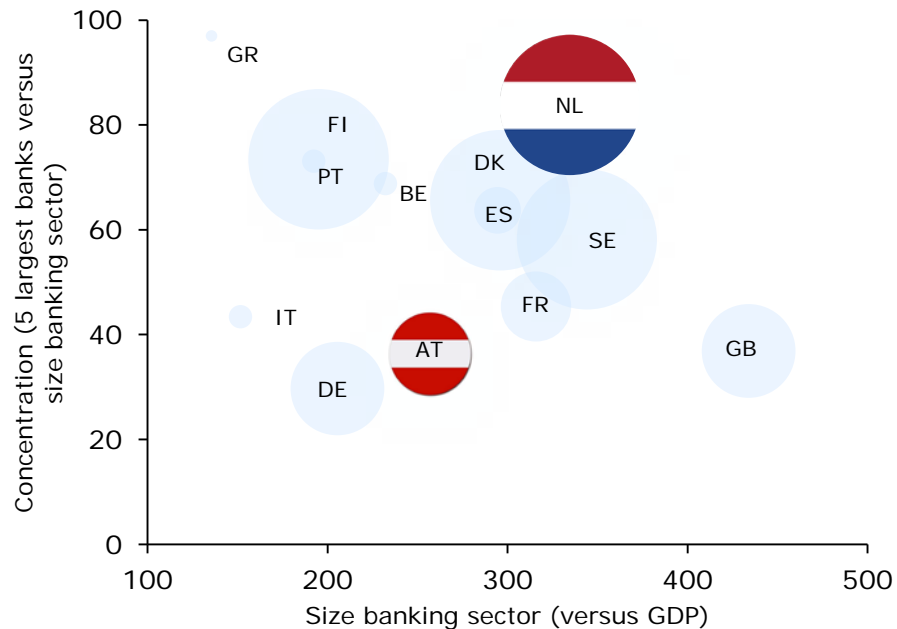


Institutional set-up of macroprudential policy (3)

- Relevant factors
 - i. Central bank also supervisor?
 - ii. Size and concentration of the financial sector.
 - iii. Systemically important institutions.



Dutch banking sector is large and concentrated



Size, concentration and buffers in EU banking sectors (bubble size proportional to systemic buffers)