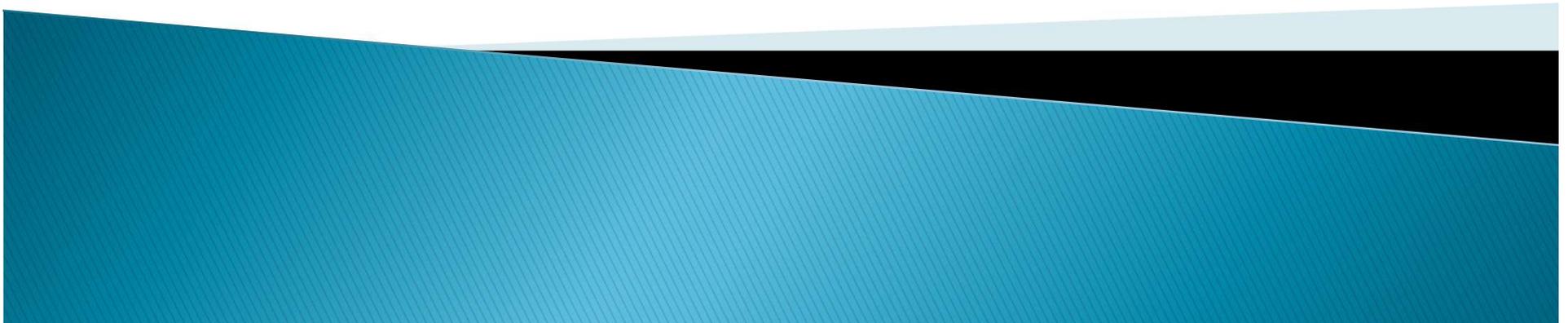


# Central Banks and Macroprudential Policies: Who Does What?

Presentation by W R White  
Financial Stability Research Conference  
South African Reserve Bank  
Pretoria, South Africa  
26–27 October, 2017



# Trying to Narrow Down the Issue

- ▶ Policies directed to more traditional concerns
- ▶ Two sources of systemic instability in the financial sector; the cross section and time dimensions
- ▶ Three solutions; prevention, management, resolution
- ▶ Six cells in the matrix; who does what?
- ▶ Today, focus only on crisis prevention and crisis management due to “procyclicality”
- ▶ Governments should deal with cross section issues and also crisis resolution



# The Problem is Domestic “Procyclicality” Leading to Macro Instability

- ▶ The current crisis has its roots in excessive credit and debt creation
- ▶ Lessons from economic history
- ▶ Lessons from the history of economic thought
- ▶ Neither price (monetary) nor financial stability ensures satisfactory macroeconomic performance
- ▶ Need to address the underlying roots of the problem, not just its symptoms



# The Solution is Crisis Prevention

- ▶ The “lean versus clean” debate
- ▶ How best to “lean”?
- ▶ The shortcomings of monetary instruments
- ▶ The shortcomings of macroprudential instruments
- ▶ The need for coordinated tightening during upturns?



# But Inevitably Crisis Management as Well

- ▶ Complex systems always fail; be prepared
- ▶ The need for coordinated easing during downturns?
- ▶ The Borio– Goodhart controversy; confidence is key
- ▶ A fatal disconnect; monetary policy on the accelerator and regulatory policy on the brake
- ▶ Why? Two silos and two sets of false beliefs
- ▶ Implications? Risks have risen and policy options have declined



# Which Domestic Institutional Framework Best Serves Financial Stability?

- ▶ Various models for allocating macroprudential functions across and within institutions
- ▶ Criteria for choice; how the imperatives of “should and would” determine who “could” do what
- ▶ These criteria put central banks at the core
- ▶ But threaten the “independence” of central banks



# Making the Domestic Framework Operational: the “Should” Problem

- ▶ Need full acceptance of a new analytical framework; one pillar (the “gap”) is not enough
- ▶ Need to identify emerging risks; alternative approaches and associated data requirements
- ▶ Need to identify which instruments are available
- ▶ Need to calibrate the available instruments
- ▶ Why this criterion should favor a central bank model in “booms” if not “busts”
- ▶



# Making the Domestic Framework Operational: the “Would” Problem

- ▶ Impediments to action in the real world
- ▶ How those impediments might be removed; transparency and accountability
- ▶ How explicit rules might help resolve both the “should” and “would” problems
- ▶ But what if the rules are wrong?
- ▶ Why this criterion should favor central banks



# Making the Domestic Framework Operational: the “Could” Problem

- ▶ More arguments favoring central bank model
- ▶ Need for legislation or, at least, an MOU
- ▶ Mandate: for longer term price stability and/or financial stability?
- ▶ Powers: “the buck stops here”?
- ▶ Accountability: necessary but ever harder?
- ▶ Governor–Board model or Committee model?



# Is it a Problem that this Domestic Model Threatens Central Bank “Independence”?

- ▶ A broader mandate with less accountability could be dangerous
- ▶ But “independence” has always been oversold
- ▶ And is, in any event, already threatened
- ▶ National circumstances matter; avoid the straw that breaks the camel’s back?
- ▶ The work of central bankers will be less “neat” than in the past



# International Dimensions of Macro Instability

- ▶ Global integration of financial markets is a reality; capital flows, international banks and Bloomberg
- ▶ Spillovers a threat to “independent” domestic policies. Leakages imply domestic responses less effective.
- ▶ Need to roll back globalization to limit both spillovers and leakages?
- ▶ Need for a new international monetary system to limit spillovers and global crisis?



# Or A Need for Still More Radical Solutions?

- ▶ Should domestic capital requirements be both much higher and simpler?
- ▶ Should we rely less on regulation and more on self and market discipline?
- ▶ Should we institute “narrow money” and abolish safety nets and regulation?



# Concluding Comments

- ▶ We have been on a bad path; crisis resolution has not been achieved
- ▶ Our highest priority should be thinking about managing the next phase of the current crisis
- ▶ Yet thinking about crisis prevention also has merit; a time for institutional reform?
- ▶ Good luck to policymakers:

THEY WILL NEED IT

