CROSS BORDER COORDINATION OF MACROPRUDENTIAL POLICIES

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agenda

to unravel a vague notion

CROSS-BORDER COORDINATION OF MACROPRUDENTIAL POLICIES

a. what to coordinate?

b. why to coordinate?

c. how to coordinate?
what is it?

a two-dimensional issue

preventive macroprudential co-ordination

crisis containment / resolution

cross-sectional dimension

tenhancing systemic resilience

time dimension

reducing procyclicality
what is it?
the coordination of „stances”

macroprudential stance

monetary policy stance

in resilience

in counter-cyclical policy

tight

loose

tight

loose
what is it?

the coordination of „stances“

macroprudential stance

country A

country B

Do we need a macroprudential conditions index (?)
agenda

to unravel a vague notion

CROSS-BORDER COORDINATION OF MACROPRUDENTIAL POLICIES

a. what to coordinate?

b. why to coordinate?

c. how to coordinate?
why to do it?

banking has become global

Ratio of banks’ international positions to global GDP

- Foreign claims/GDP
- International claims/GDP
- Activity of subsidiaries/GDP

Source: CGFS papers No. 41.
why to do it?

exposure to contagion has increased

Average bilateral output correlations for 20 developed economies

GDP correlation

Source: Kalemli-Ozcan, Papaioannou and Perri (2010)
why to do it?

regulatory arbitrage has increased

DANGER of race to the bottom
agenda

to unravel a vague notion

CROSS-BORDER COORDINATION OF MACROPRUDENTIAL POLICIES

a. what to coordinate?

b. why to coordinate?

c. how to coordinate?
how to do it?

„act globally”

The case of US and Europe with the CDO-s

Let's suppose Basel III is in effect!

Credit boom in US
Moderate credit boom in Europe

Contagion:
toxic assets, shadow banking

Europe was not resilient
how to do it?

„act globally”

The case of US and Europe with the CDO-s

A countercyclical Basel 3. rule would have been enough?

Establish a global macroprudential element!

„A GLOBAL BUFFER IS NEEDED”
The case of Hungary and Austria with FX lending

Assymetric macroprudential stance  
New toxic asset: FX household lending  
2008 Financial crisis – hits the vulnerable country  
Reverse contagion

how to do it?

„act locally”
how to do it?

„act locally”

The case of Hungary and Austria with FX lending

A global regulation on FX lending would have helped?

It is more complicated to globally coordinate cross-sectional macroprudential policies (lack of flexibility, diversified products – speed of innovation)

LOCAL COORDINATION IS THE SOLUTION
what? why? how?

OBSERVE - ANALYSE – COORDINATE - SOLVE

Think about the Raab case!
cross-border macroprudential coordination

to unravel a vague notion

why to coordinate?

- to establish a „level playing field”
- to limit exposure to contagion/regulatory arbitrage
- to avoid a build-up of global systemic risk/race to the bottom

how to coordinate?

- resilience can better be coordinated locally
- fill the global macroprudential coordination gap! (Basel III. – capital buffer contingent on GLOBAL credit growth)

what to coordinate?

- cross sectional (systemic resilience)
- time (countercyclical)