Designing macroprudential mandates and institutional frameworks

- The German approach -

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Designing macroprudential mandates and institutional frameworks Introduction (1)

- Establishment of European Systemic Risk Board (ESRB) in January 2011 (Regulation (EU) No 1092/2010)
- ESRB-Recommendation on the macro-prudential mandate of national authorities, December 2011 (ESRB/2011/3)
- ESRB-Recommendation on the macro-prudential mandate of national authorities, Follow-up Report - Overall assessment, June 2014

Designing macroprudential mandates and institutional frameworks
Introduction (2)

Design of national macro-prudential mandates – general aspects

- Common understanding: Important role of central banks in financial stability
- No “one size fits all” solution – destinctions necessary on
  - institutional level: “pure” central bank or committee model
  - instrument level: legally binding and/or legally non-binding instruments

Designing macroprudential mandates and institutional frameworks
German Financial Stability Committee – institutional settings (1)

- **Establishment: 1 January 2013**
- **Members:**
  - 3 representatives of the Deutsche Bundesbank,
  - 3 representatives of the Federal Ministry of Finance,
  - 3 representatives of the Federal Financial Supervisory Authority and
  - 1 (non-voting) representative of the Federal Agency for Financial Market Stabilisation.
- **Tasks:**
  - Discussing the factors that are key to financial stability,
  - Strengthening cooperation between the institutions represented on the Financial Stability Committee in the event of a financial crisis,
  - Advising on the handling of warnings and recommendations issued by the European Systemic Risk Board,
  - Reporting annually to the lower house of Parliament (the Bundestag) and
  - Issuing warnings and recommendations and publishing the same.

Designing macroprudential mandates and institutional frameworks
German Financial Stability Committee – institutional settings (2)

- **Instruments:**
  - **Warnings:** Draw Attention to risks which might impair financial stability.
  - **Recommendations:** Identification of measures suitable and necessary for the addressee to implement in order to avert risks to financial stability.
  - **Addressee:** Federal Government, BaFin or another public body in Germany.
  - **Action:** Comply-or-explain-mechanism.

- **Publications:**
  - **Warnings** and **recommendations** may be published.
  - **Annual report** to the Bundestag on the situation regarding and developments in financial stability as well as on the Financial Stability Committee's activities.
  - **Press releases**.

Designing macroprudential mandates and institutional frameworks German Financial Stability Committee – Role of Deutsche Bundesbank

- **Deutsche Bundesbank contributes** to **safeguarding** financial **stability** in Germany in particular by

  – **analysing** factors that are key to financial stability and **identifying risks** which may impair financial stability (comprehensive right of access to available information and request of necessary information),
  – **preparing** the annual **report to the Parliament**,
  – making proposals to the Financial Stability Committee regarding the issuing of **warnings and recommendations**, and
  – **evaluating** the **implementation measures** and informing the Financial Stability Committee of its assessment.

- **Decisions** of Financial Stability Committee require **simple majority; veto right** of **Deutsche Bundesbank** with regard to

  - **issuing** and **publication** of **warnings** and **recommendations**
  - annual **report** to **parliament**

Designing macroprudential mandates and institutional frameworks Pros and Cons of the German approach (1)

- **Role of central banks**

  - **Ultimate responsibility** for safeguarding **financial stability** lies with **political bodies**.
  - **Conflicts of interest**: Primary goal of ESCB central banks is to maintain **price stability**.
  - Endangering **independence** of central banks.
  - Affecting the **credibility** of central banks.
  - Increasing of **moral hazard**.
  - Focus on **banking sector**

- **Designated authority**

  - Central banks have expertise and experience in financial stability.

Designing macroprudential mandates and institutional frameworks
Pros and Cons of the German approach (2)

- **Committee model**
  - Strengthening of cooperation and coordination: **Pooling** of the **relevant expertise**.
  - **Involvement** of political bodies?
  - **Information sharing**
  - **Competence** restricted to **“soft powers”**: Due to its structure and capacity committees seem to be not the best solution for implementing macroprudential decisions.

Thank you for your attention