

From monetary to macroeconomic policy

A return to complexity

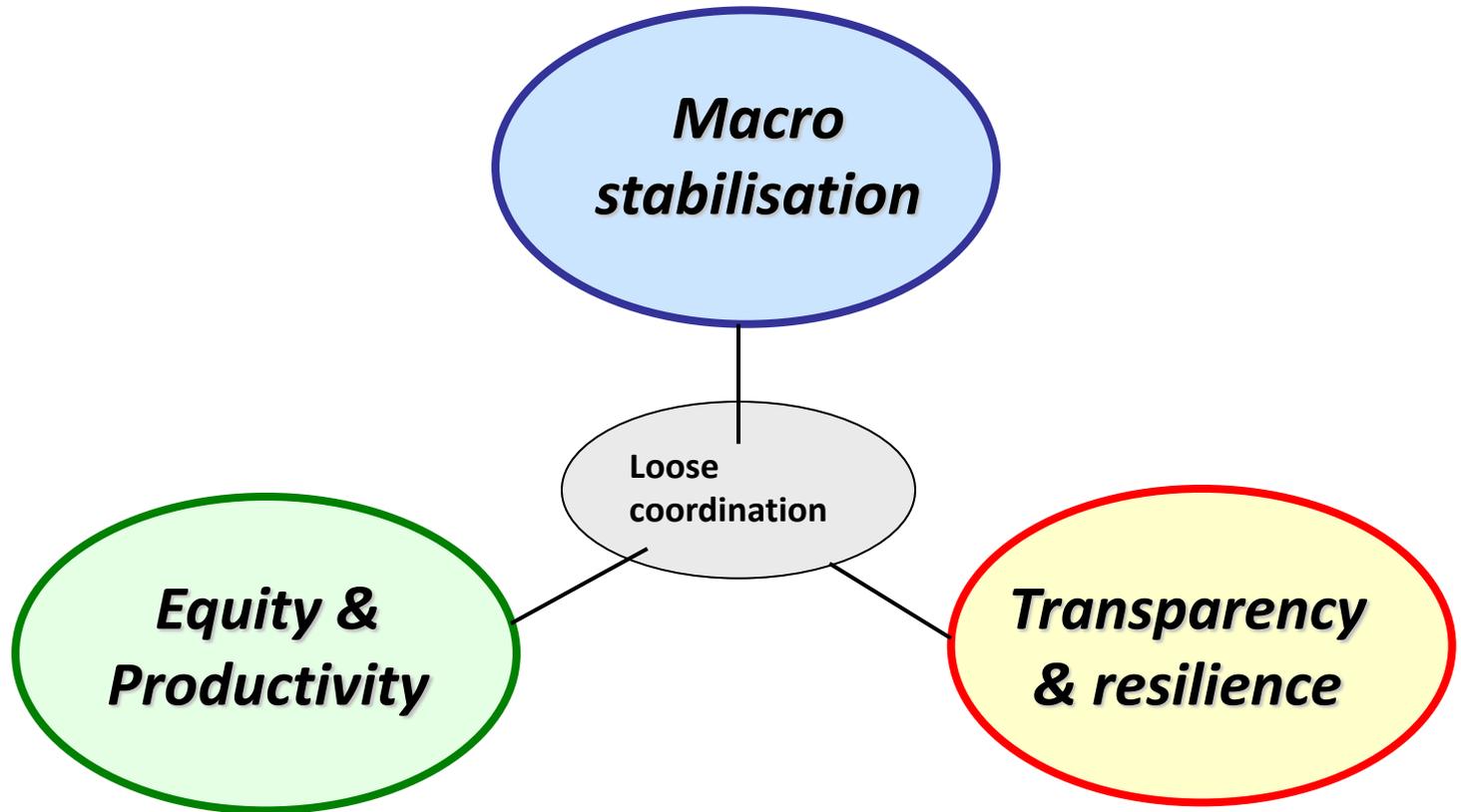
Sir John Gieve

13 January 2014

Policy framework –pre-crisis

Segmenting Policy

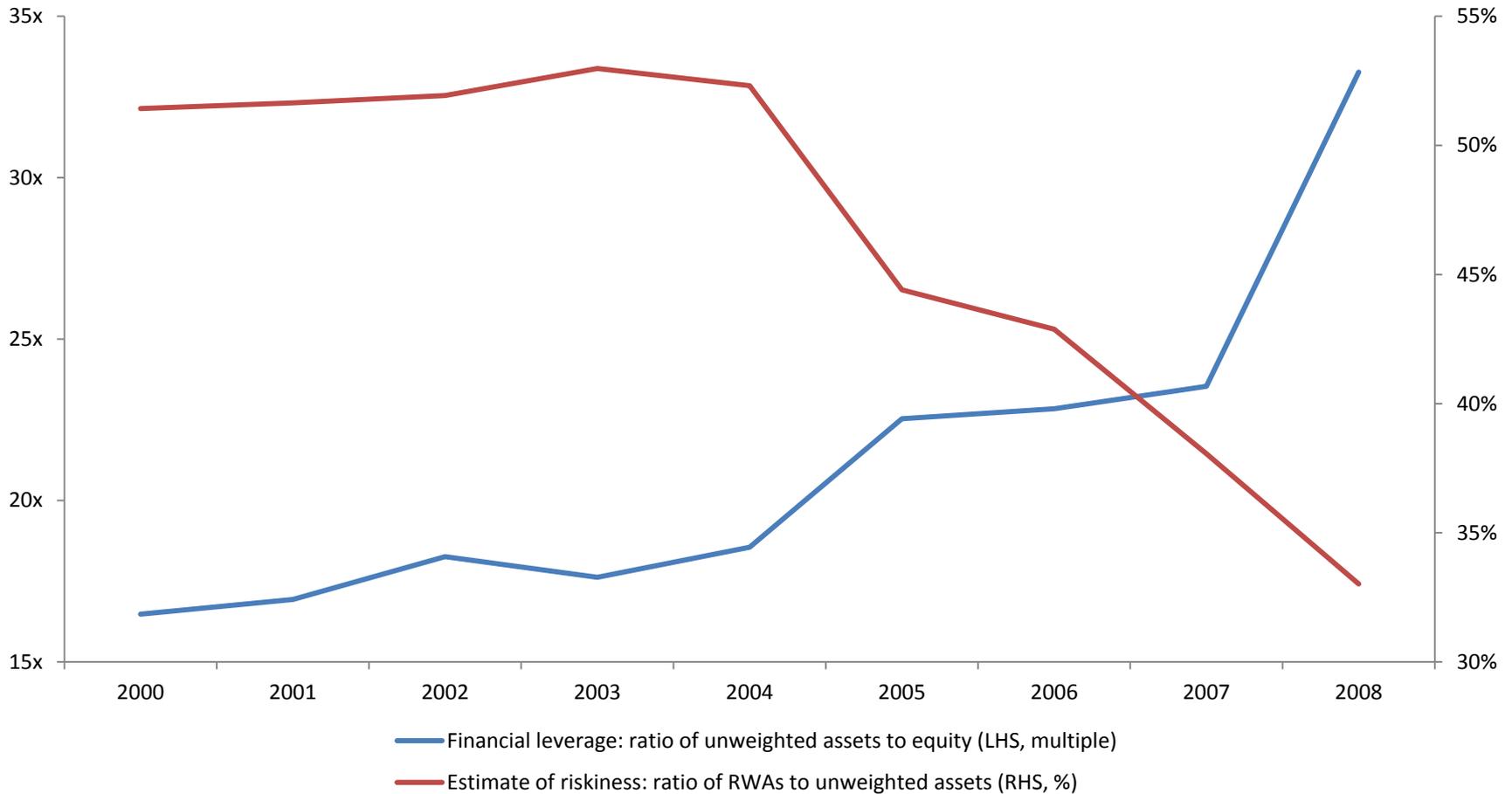
Monetary policy



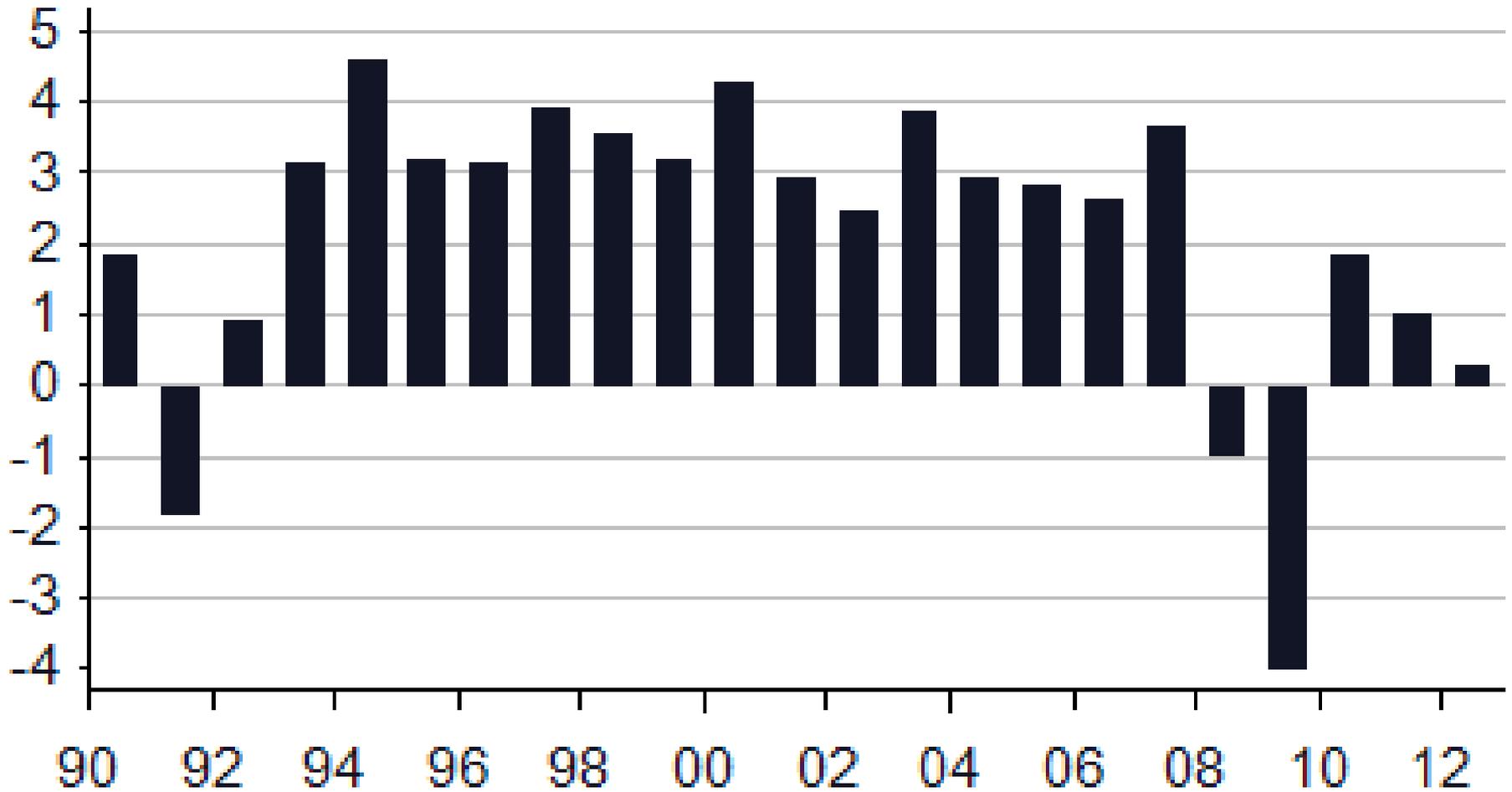
Fiscal policy

Financial
Regulation

What went wrong – regulation leverage and risk weighting



What went wrong – macro policy



Source: Reuters EcoWin / Fathom

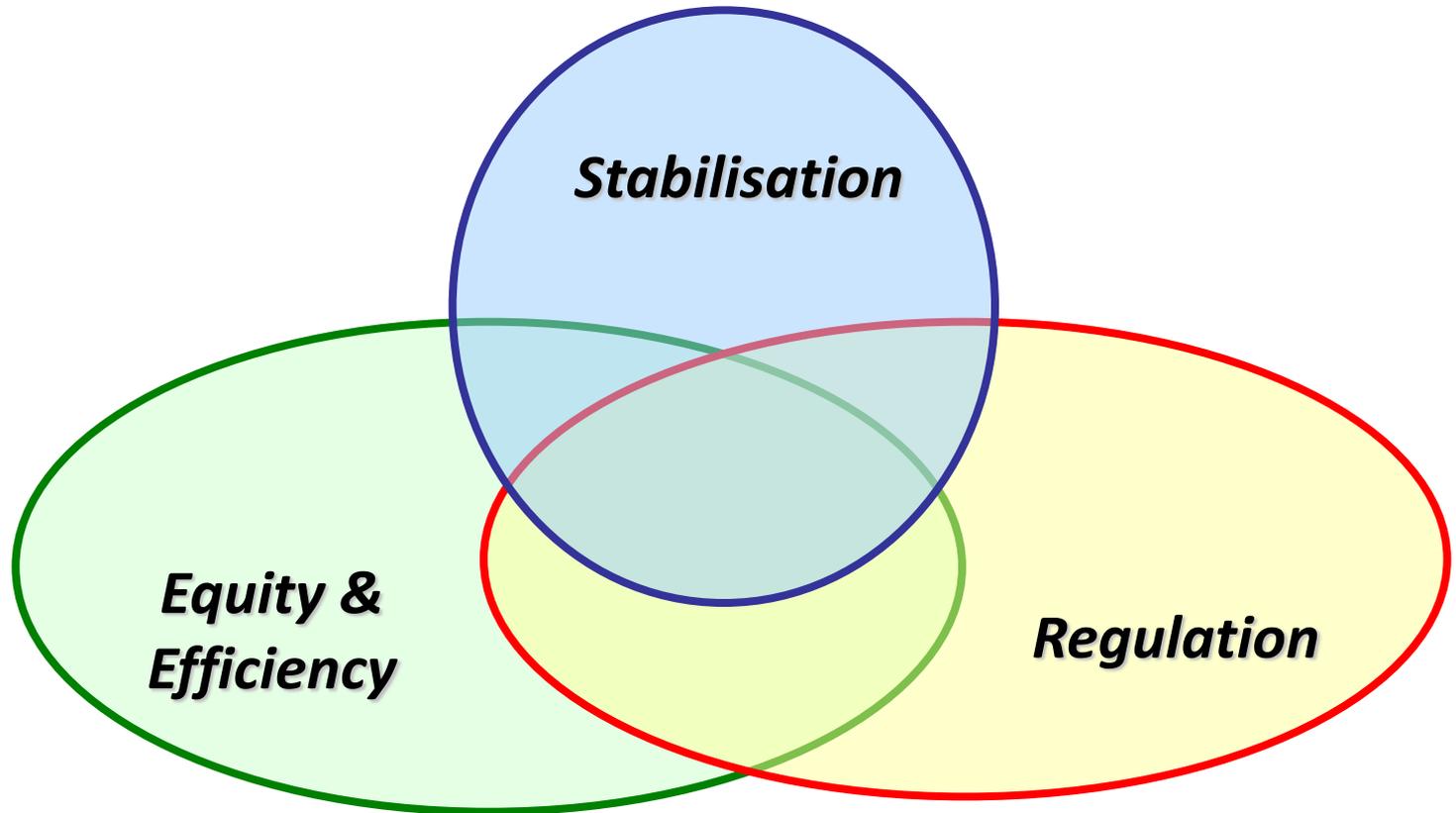
Two sides of macro-prudential

- Strengthening the system- protecting the banks against shocks
 - Capital and liquidity requirements for SiFis
 - Infrastructure
 - Resolution plans
 - Separation of functions eg Volcker
- Managing the credit cycle – protecting the economy from the banks
 - Varying capital and liquidity requirements
 - Margins and haircuts
 - Provisioning
 - Asset controls eg LTV limits

Policy framework – post-crisis

Interdependence

Central Bank



Finance Ministry

Regulator(s)

Overlaps and tensions

- Macro- stability = inflation, output , and credit
- Instruments +rates+ QE + fiscal (deficit and incentives) + counter cyclical prudential
- Trade offs and tensions not just possible they are obvious
 - two brakes and one accelerator
 - systemic resilience v credit revival

Bank independence in a complex world

- Winner's curse?
- Coordination not segmentation
- Chronic uncertainty and inadequate models
- Instruments mainly with Bank, responsibility mainly with government
- More assertive guidance on goals and instruments
- A return to complexity