



BANK FOR INTERNATIONAL SETTLEMENTS

# Discussion of "Regulation and structural change in financial systems" by Stijn Claessens

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Bank for International Settlements

ECB Forum on Central Banking

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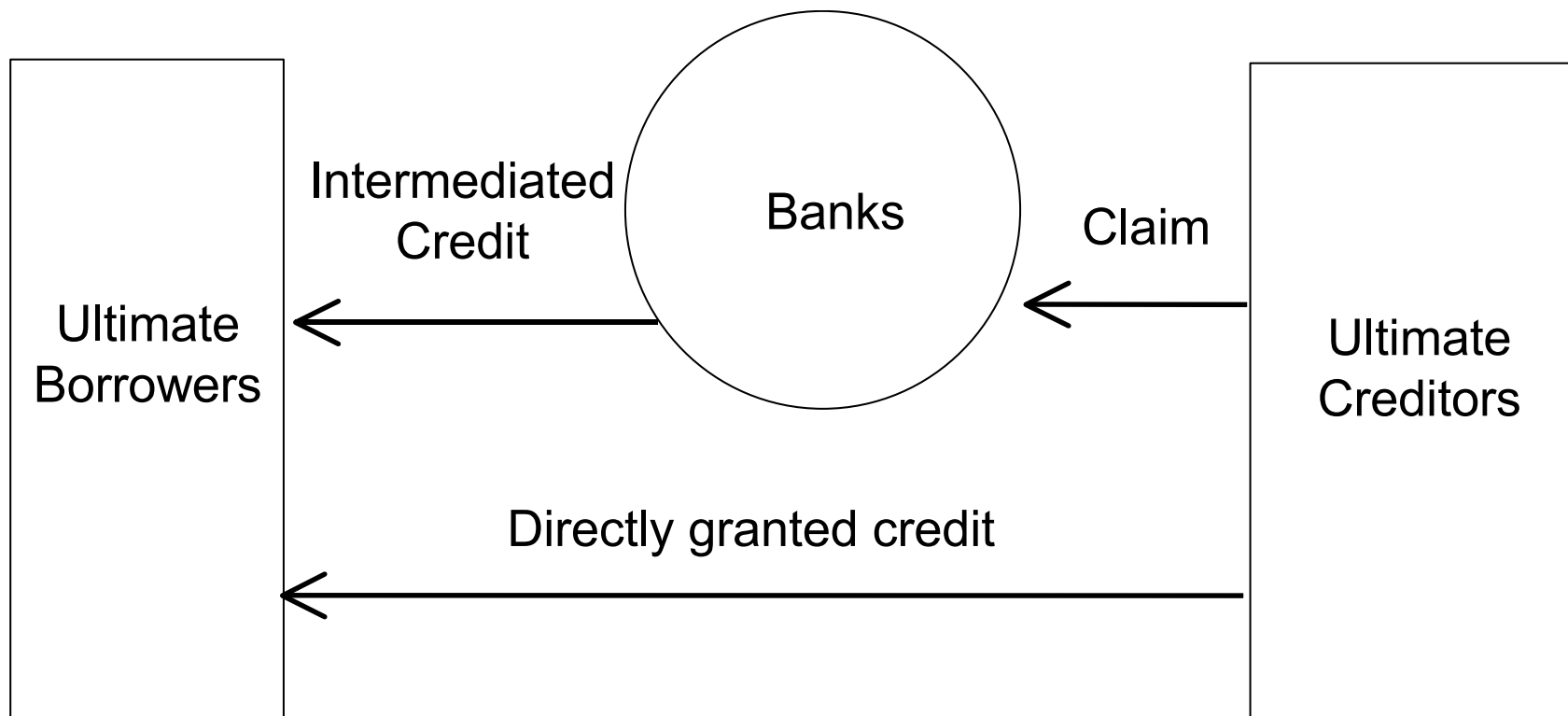
\* The views expressed here are mine, not necessarily those of the Bank for International Settlements.

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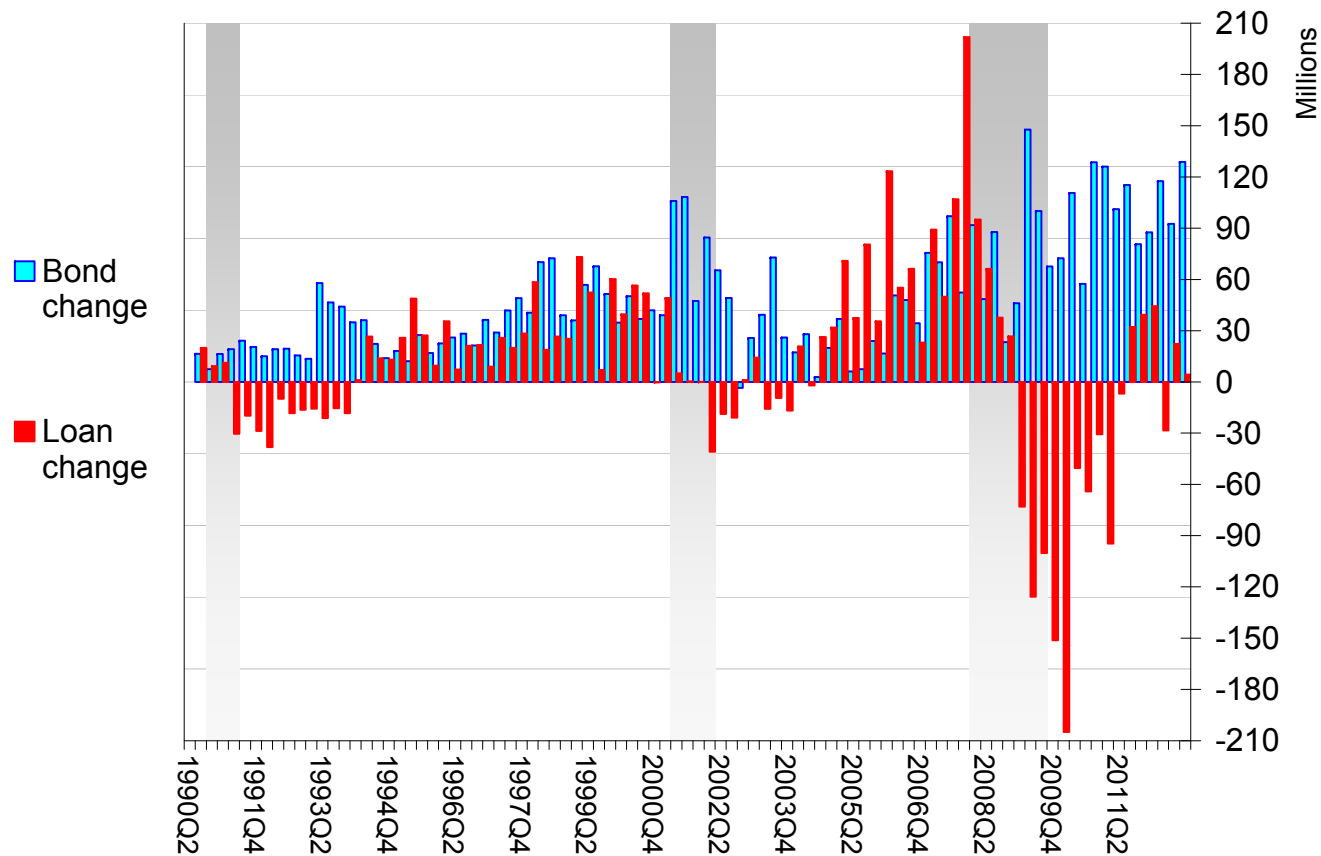
## Comprehensive and yet compact review with two key messages

- Financial structure matters for efficiency and risks
  - Banks versus markets
    - Wholesale versus deposit funding
    - Extent of procyclicality depends on financial structure
  - Functional taxonomy of financial systems
    - Types of financial services
    - Complementarity across functions
- Regulation should take account of financial structure
  - Dealing with procyclicality
  - Meeting risks from non-banks
  - Macroprudential regulation

## Direct and intermediated finance



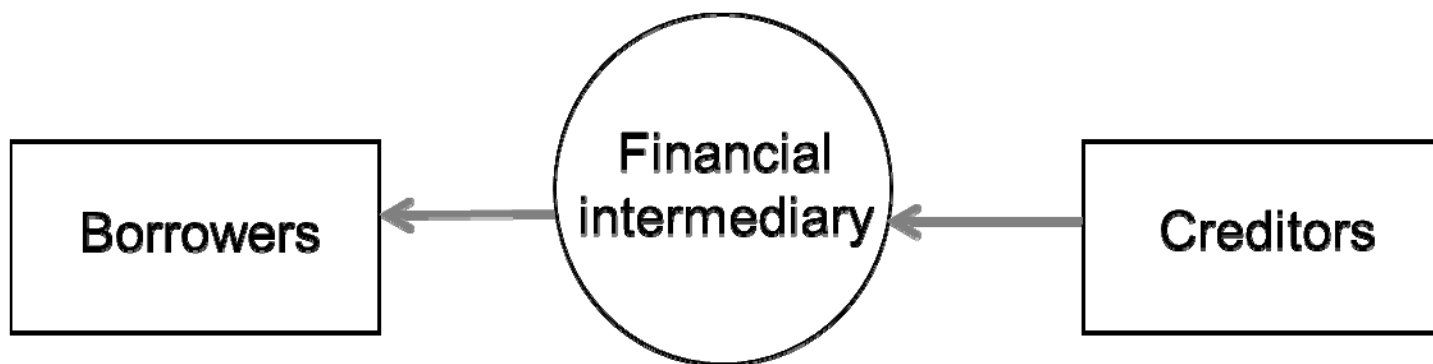
## Bank credit is more procyclical: credit to the US non-financial corporate business sector



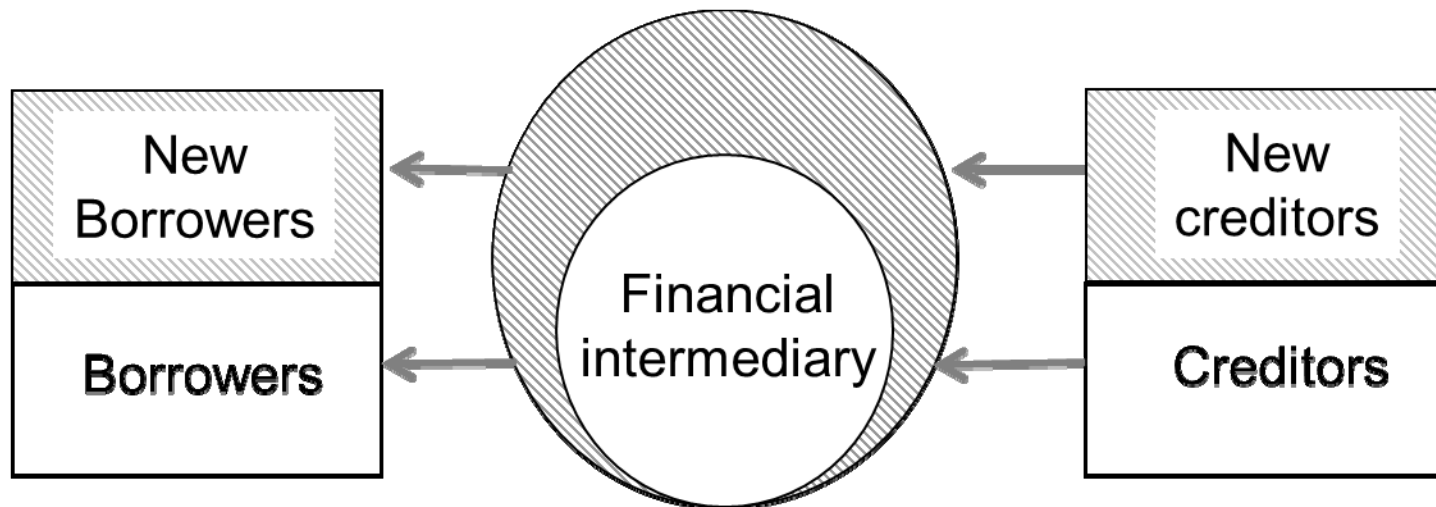
Source: Federal Reserve Flow of Funds, Table L102

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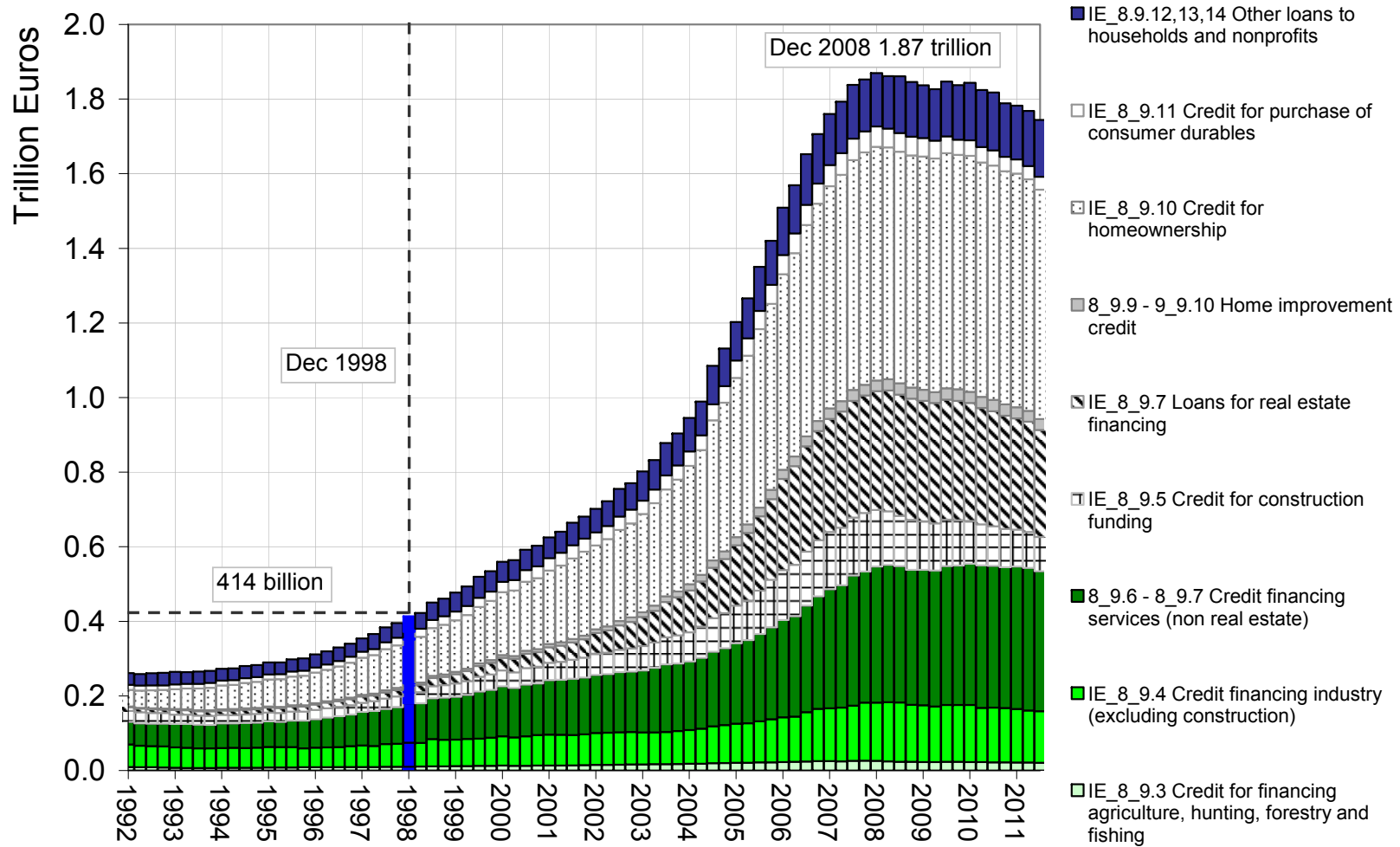
## Financial intermediation before expansion



## Financial intermediation during credit boom

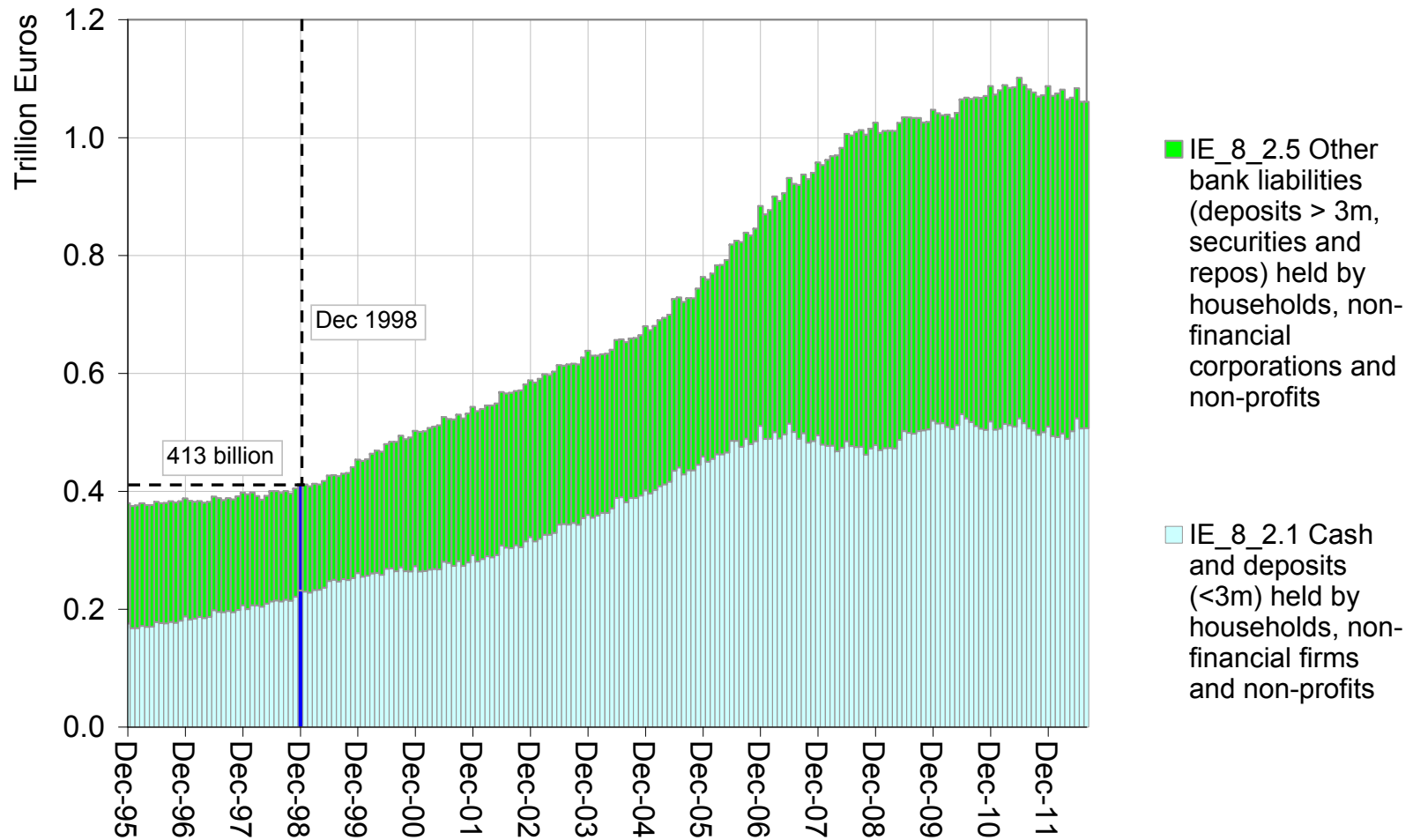


# Spain: total banking sector domestic credit



Source: Bank of Spain

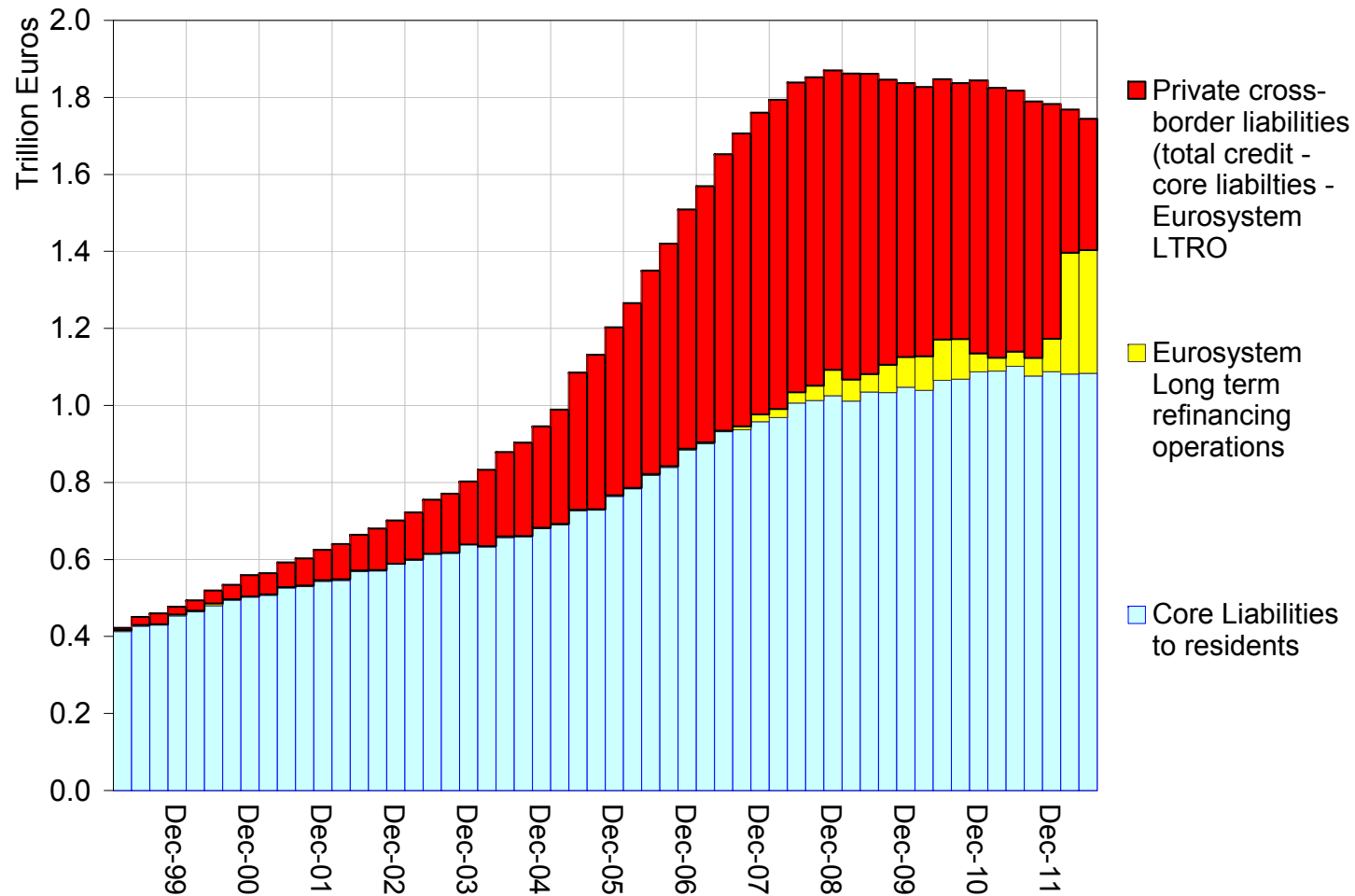
## Spain: core domestic liabilities of banking sector



Source: Bank of Spain

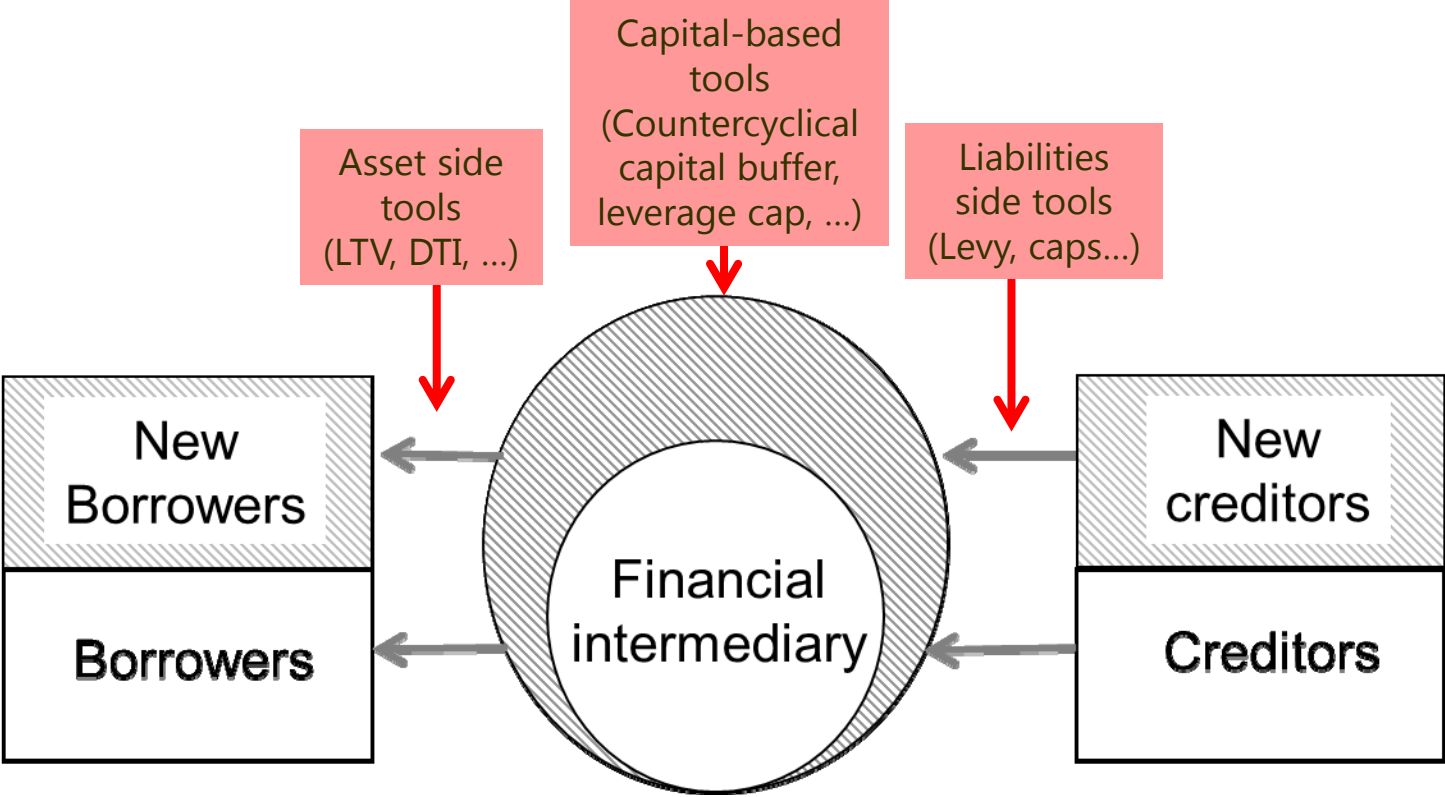


## Spain: core and non-core liabilities of banking sector

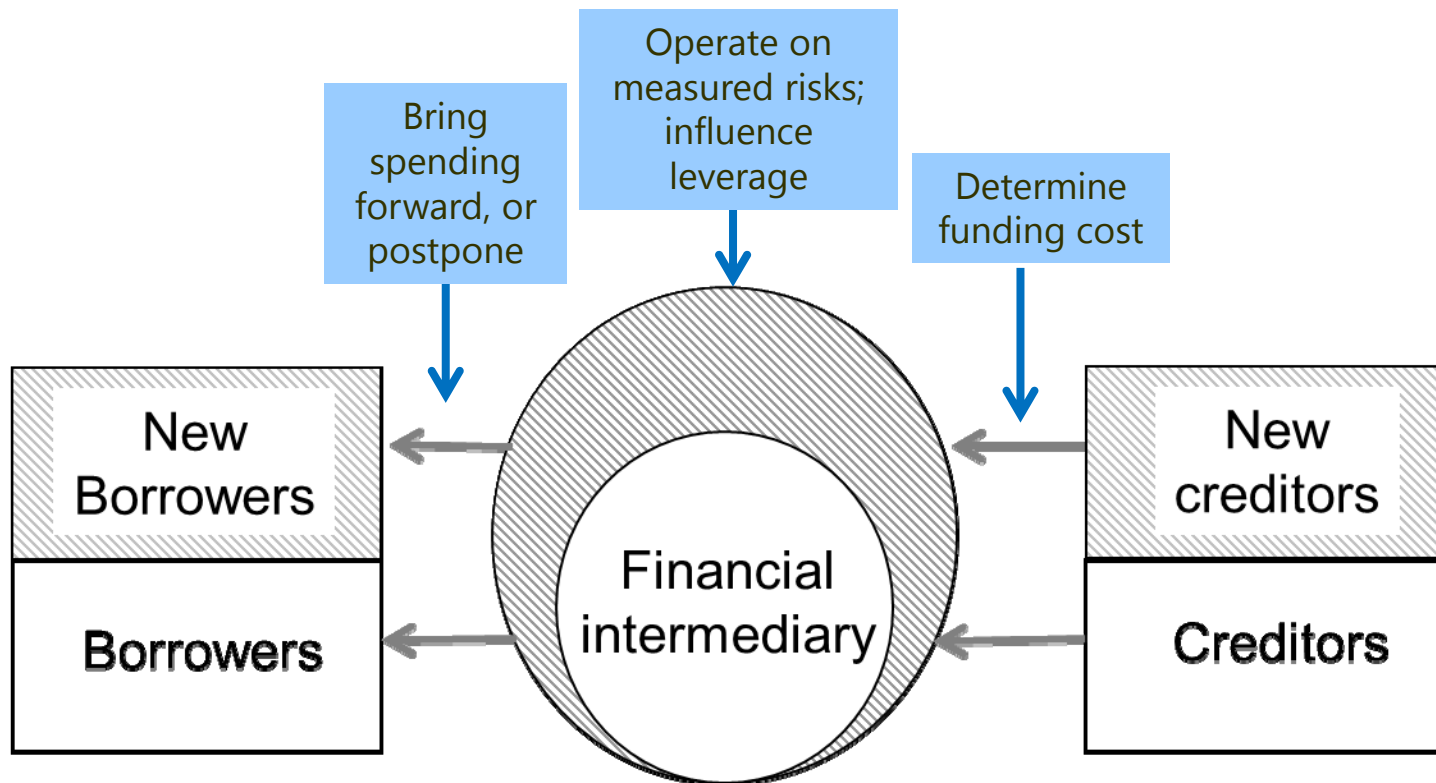


Source: Bank of Spain

# A taxonomy of macroprudential tools



# Monetary policy has similar impact to macroprudential policy



## Monetary policy and macroprudential policy: similarities

- Demand for credit
  - Monetary policy brings spending forward (by borrowing more) or postpones spending (by borrowing less)
  - Macroprudential policy postpones spending by curbing credit
- Intermediary risk-taking
  - Risk-taking channel of monetary policy impacts leverage
  - Macropru does the same through binding equity constraint
- Funding cost
  - Monetary policy influences net interest margin
  - Macropru is another way to influence funding costs

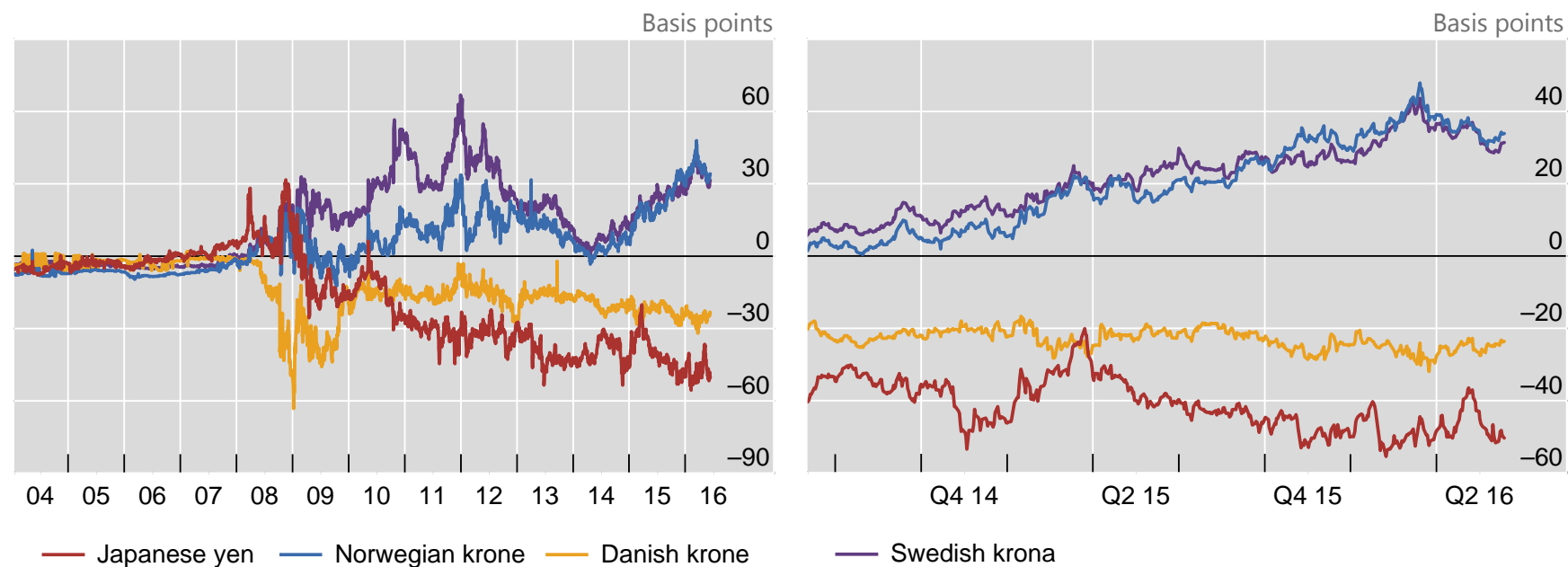
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## Two differences

- Sectoral disparities
  - Monetary policy “gets into all the cracks” (Jeremy Stein)
  - Macropru can be aimed at particular sectors/practices
- Constraints imposed by global liquidity conditions
  - Floating exchange rate does not insulate an economy to pursue autonomous monetary policy (Hélène Rey)
  - Macroprudential policies are less susceptible to global liquidity conditions

## FX swap spread vis-à-vis EUR, five-years

FX swap spread, five-years



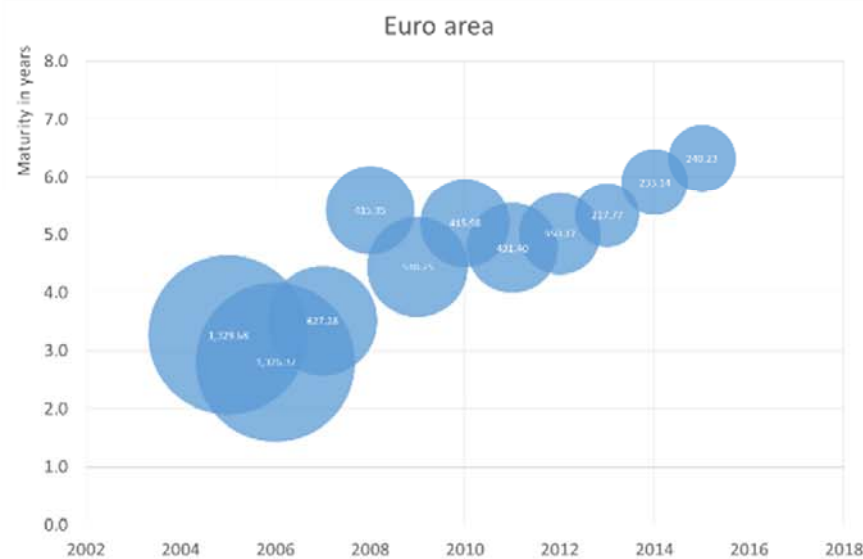
Source: Bloomberg.

# Euro denominated bond issuance by Swedish banks

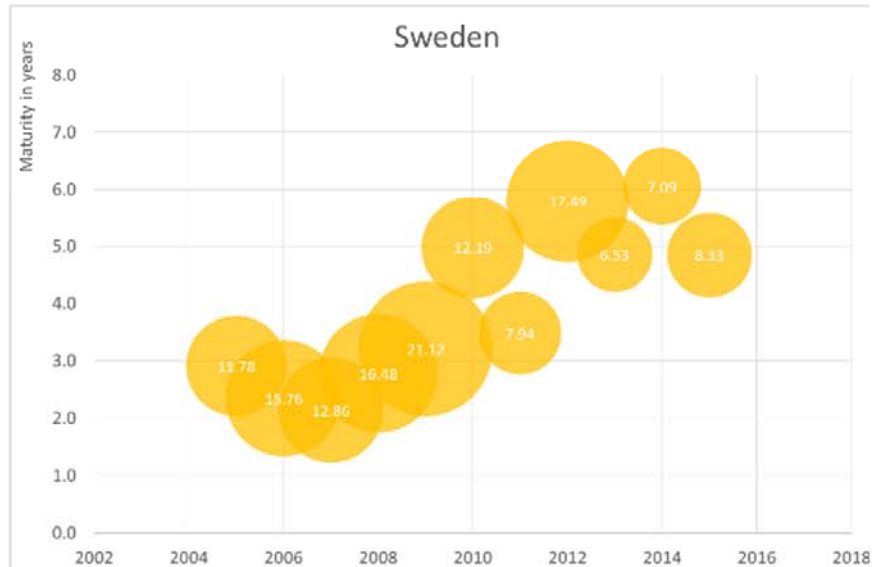
## Gross issuance of euro-denominated debt securities

Sum of domestic and international debt securities (in billions of euros)

### Euro area (Total)



### Sweden



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## Issues for discussion on macroprudential policy

- Taxonomy
- Effectiveness
- Interaction with monetary policy



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## Circling back to key points

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