



ESRB

European Systemic Risk Board

European System of Financial Supervision

The implementation of the macroprudential function in the EU/EEA

Lessons from the past and future challenges

14 October 2025
MPPG workshop Budapest



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With many thanks to Evelyn Herbert and Inês Pacheco
Comments also gratefully received from Mihai Aliman, Joana Baptista,
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Introduction

- The **Global Financial Crisis** prompted a rethink on how to safeguard **system-wide financial stability**
- From concept to practice, macroprudential policy has been implemented through a wide range of institutional set-ups
- Fifteen years on, this workshop reflects on **key lessons and future challenges**

Outline

Section 1: Looking back

- Overview of macroprudential institutions and tools before and after GFC
- The peculiar case of the ESRB
- National macroprudential institutions in the EU

Section 2: Future challenges

- References to the central bank
- Key ingredients of a good macroprudential framework – selected questions



Looking back

Looking back - macroprudential history before the GFC

Macroprudential policies existed in effect but not always in name...

Country	Main tools used pre-GFC	Year introduced	Institutional set-up
Hong Kong	LTV limits, Caps on DSTI ratio (including LTI caps)	1991-1997	Central Bank-led; Financial Stability Council created in mid-2009
India	Sectoral capital requirements (2004)	2004	Central Bank-led; FSDC created in 2010
Chile	Capital inflow restrictions (encaje)	1990s	Central Bank-led; Consejo de Estabilidad Financiera created in 2011
Spain	Dynamic provisioning	2000	Central Bank-led; Macroprudential Authority Financial Stability Council created in 2019
United States	LTV ratios, margin requirements, loan maturity limits, deposit rate ceilings, reserve and capital requirements, supervisory pressure	1930-1990s	Fragmented (Federal Reserve, OCC, FDIC, etc.); FSOC created in 2010

Source: BIS Papers No.86 (2016), Macroprudential Policy; IMF (2011a), Macroprudential Policy: An organizing framework; IMF (1999), A review of Capital Account Restrictions in Chile in the 1990s; CGFS Papers No. 69 (2023), Macroprudential policies to mitigate housing market risks

Looking back - macroprudential history before the GFC

.. and borrower-based measures (BBMs) were used particularly often

Countries using LTV limits	Countries using DSTI / LTI caps
Hong Kong (1991)	Hong Kong (1997)
Colombia (1999)	Colombia (1999)
China (2001)	Korea (2005)
Korea (2002)	China (2004)
Thailand (2003)	Romania (2004)
Bulgaria (2004)	Thailand (2004)
Romania (2004)	Netherlands (2007)
Canada (2007)	Latvia (2007)
Latvia (2007)	

Source: BIS Papers No.86 (2016), *Macroprudential Policy* (page 120)

Looking back – macroprudential institutions frameworks and tools after the GFC

	EU	UK	US
Year of creation	2010 (ESRB), 2014 (SSM)	2012/13 (FPC)	2010 (FSOC)
Governance Model	<u>Networked</u>	<u>Centralised</u>	<u>Fragmented</u>
Main Authorities	• <i>European Systemic Risk Board (ESRB)</i> • ECB/SSM • <i>National Designated Authorities (NDAs)</i>	• <i>Financial Policy Committee (BoE FPC)</i> • <i>Prudential Regulation Authority (PRA)</i> • <i>Financial Conduct Authority (FCA)</i>	• <i>Financial Stability Oversight Council (FSOC)</i> • <i>Federal Reserve</i> • Other federal and state regulators
Key Functions	• ESRB monitors systemic risks and issues warnings and recommendations • NDAs apply macroprudential tools • ECB may apply stricter measures	• FPC identifies and mitigates systemic risks • PRA and FCA implement its directions	• FSOC identifies systemic risks and designates non-banks SIFIs • Fed and other agencies apply prudential / sectoral measures
Key tools	• Capital-based: CCyB, SyRB, O-SII / G-SII buffer • Borrower-based (not harmonised) • Other (e.g., risk weights, liquidity, etc)	• Capital-based: CCyB, O-SII / G-SII buffer, Sectoral capital requirements • Borrower-based • Other	• Capital-based: CCyB (never activated), G-SIB surcharge, Stress Capital Buffer • Liquidity / leverage tools • Borrower-based measures
Implementation level	EU legislation + national application	National	Federal agencies (Fed, OCC, FDIC, etc.)

Looking back – the peculiar case of the ESRB

- Recommendation of the 2009 **de Larosière Report**
- Set up 2010: ‘only existing example of a supranational institutional setup’ (IMF, 2011b).
- ESRB recommendation (2011) on the macro-prudential mandate of national authorities: creation of national ‘**macroprudential authority**’.
- ‘**Designated authority**’ only enshrined in EU law later, in 2013, tasked with setting macroprudential tools.
- The final piece of the European puzzle: SSM Regulation in 2014, giving the **ECB its ‘top-up’ power** in the Banking Union.

Looking back – heterogeneous models established at the national level in the EU

- Recommendation B of Recommendation ESRB/2011/3 – Institutional arrangements:
 - Single institution or board
 - Leading role of central bank
 - Cooperation and information – exchange arrangements
- To date, **all 30 EEA Member States have established a macroprudential authority.**
- The national macroprudential authority is:
 - same as designated authority in 18 countries,
 - newly-established council in 13 countries,
 - already existing domestic institution in 17 countries, of which: central bank in 13 cases, financial stability authority in 2 case, government in 1 case, two institutions in 1 case.

Source: Recommendation ESRB/2011/3 and ESRB (2019): List of national macroprudential authorities and national designated authorities in EEA Member States



Key ingredients of a good macroprudential framework

The key ingredients of a good macroprudential framework – references to the central bank will only take us so far

- Independent central banks: a strong frame of reference
- Central banks have a **‘whole picture’** understanding of banks and their impact on real economy
- So it makes sense to also mirror institutional set-up
- Most often cited element in papers: **central bank should be given a pre-eminent role**
- But: institution that is not a central bank and has ‘only’ soft law powers can also do an effective job – see ESRB
- Should central banks necessarily be always, or solely in charge? What other aspects should we consider?

The key ingredients of a good macroprudential framework – selected questions for further reflection (1/3)

Question 1: where is the expertise, and where will it be in future?

- Financial system: diverse, moving target
- Central banks can deliver a 'system-wide' approach
- Need experts in diverse fields
- Need for systematic cooperation with other supervisory or policy-making authorities

Question 2: Where should the power to take and implement decisions be?

- Financial and real estate cycles still mostly at the MS level
- But how to shield the macropru authority from local political and lobbying influences ?
- One way to do this could be to move it to supranational/ECB level (see SSM)
- A precondition to more uniform macroprudential policies is further EU integration

The key ingredients of a good macroprudential framework – selected questions for further reflection (2/3)

Question 3: Should decisions on macroprudential policy and monetary policy be taken together?

- Some advantages in having a separate body distinct from monetary policy:
 - Potential conflicts of interest between policy priorities
 - Range of expertise, overload
- Useful to have macroprudential policy conducted at national level in a monetary union

Question 4: Are we clear about what we mean when we talk about a financial stability objective?

- Resorting to intermediate objectives (2013 ESRB recommendation)
- Hard to say whether we have achieved the ‘ultimate’ objective, financial stability.
- This makes it hard to define the best institutional set-up.

The key ingredients of a good macroprudential framework – selected questions for further reflection (3/3)

Question 5: To what extent should there be checks and balances involved in macroprudential instances, for example to ensure fairness?

- Macroprudential policy has a limited range of action - example of BBMs, only a small part of housing policy
- Can't always disentangle some aspects of macroprudential policies from topics that have their rightful place in the political debate

Conclusion

- ‘We [...] find **that the benefits of regulatory and supervisory independence for financial stability are stronger when the supervisor is the central bank.** [...] There are a number of reasons why that might be the case – for example better information on the health of the financial sector.’ (Sowerbutts, 2025)
- Use of the CCyB does not seem to depend upon whether the central bank is in charge; for BBMs, if a political body is in charge, that might lead more often to inaction.
- At first glance, no single institutional framework seems to *definitively* deliver better macroprudential policy outcomes.
- **It is likely that the answers are to be found deeper than in the immediate institutional design. That makes it a hard question to tackle – all the more worthwhile.**

Thank you!

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