



A LITERATURE REVIEW ON THE INSTITUTIONAL AND OPERATIONAL FRAMEWORK FOR MACROPRUDENTIAL POLICIES

14 OCT 2025 | BUDAPEST

8TH MACROPRUDENTIAL POLICY GROUP
WORKSHOP

*Institutional and operational framework for
macroprudential policies and tools in Europe*



BANCO DE
PORTUGAL
EUROSISTEMA



OUTLINE

01

THEORETICAL
FOUNDATIONS

02

CORE ELEMENTS

03

THEORETICAL
INSIGHTS

04

EMPIRICAL
FINDINGS

05

SUMMING UP

THEORETICAL FOUNDATIONS

HOW DO INSTITUTIONAL AND GOVERNANCE ARRANGEMENTS OF MACROPRUDENTIAL AUTHORITIES INFLUENCE MACROPRUDENTIAL POLICY?

1. **Economic theory of regulation. Regulatory capture arises due to:**
 - Information asymmetries between the public and the regulator, giving rise to misaligned incentives for the financial regulator causing it to pursue self-interest rather than social welfare (Jensen & Meckling, 1976)
 - Industry influence, to use regulators / regulation to their advantage (Stigler, 1971)
2. **Literature on institutional frameworks of monetary policy and microprudential policy**
 - Main takeaway is that macroprudential policy should be allocated to the central bank (Garicano and Lastra, 2010; Blanchard et al., 2010, Blinder, 2010, Mishkin, 2011) or have a key role in macroprudential policy (IMF, 2013) to reap the synergies between monetary and macroprudential policies (LOLR; data access; financial stability experience of CB). Microprudential policy should be assigned to a separate authority.
3. **Macroprudential policy is prone to inaction bias, due to the following challenges:**
 - time inconsistencies
 - distributional effects

CORE ELEMENTS

- ✓ clear objectives
- ✓ clear mandate
- ✓ adequate powers
- ✓ effective coordination
- ✓ transparency
- ✓ political independence and accountability
- ✓ operational independence
- ✓ central banks with leading role



However:

Frameworks differ considerably across countries (Villar, 2017), also in Europe (Bengtsoon, 2021), with or without central banks involvement in macroprudential policy (Masciandaro, 2016).

No consensus on appropriate governance for macroprudential policy: no “one-size-fits-all” approach (Arslan and Upper, 2017; IMF-FSB-BIS, 2016; Borio, 2011)

CORE ELEMENTS



Why do policymakers choose one (usually the central bank) or multiple agencies for macroprudential regulation?

- ✓ **Logic of “policy control”:** policymakers, who want to control policies with distributive consequences, choose the single agency (central bank) model under conditions of political uncertainty and **low agency independence** (53 countries). *Moschella and Pinto (2022)*.
- ✓ **Logic of symbolic politics:** Governments often delegate macroprudential powers to **independent regulatory authorities** not solely to improve policy effectiveness, but also to signal credibility, competence, and commitment to markets and the public. *Lombardi and Moschella (2017)*.
- ✓ **Central banks previous roles and political independence:** Central bankers already in charge of micro supervision and **less politically independent** are more likely to get macroprudential powers; the same is true, if they have low monetary policy discretion, being constrained by a monetary stability objective. (31 countries) *Masciandaro (2016) and Dalla Pelegrina et al. (2013)*.
- ✓ **National culture:** authors find that individualism is positively associated, and power distance is negatively associated, with the likelihood of higher central bank involvement in supervision (70 countries, 1996–2013). *Gaganis et al. (2021)*.



No single optimal supervisory model exists!

...but effectiveness depends on governance arrangements:

- Independence, accountability, transparency and political feasibility (Masciandaro and Quintyn, 2016; Borio, 2011)
- Institutional view: regulatory success and overconfidence leads to regulatory relaxation before crisis (Baker and Widmaier, 2014)
- Balance between rules and discretion: relying too much on informal governance undermines effectiveness (Mcphilemy, 2013)
- Success of macroprudential policy depends on its integration with monetary and microprudential policies (Borio, 2011)
- Reforms should focus less on institutional architecture and more on embedding robust governance principles, such as independence, accountability and transparency (Masciandaro and Quintyn, 2016)

EMPIRICAL FINDINGS



So far, the empirical evidence is focused on the following dimensions of institutional arrangements:

ENSURING POLITICAL INDEPENDENCE AND CENTRAL BANKS' LEADING ROLE

Kim and Kim (2014)
Bengtsson (2020), Andrieș and Pleșcău (2020)
Lepers (2024)
Fraccaroli et al (2025) and Kim et al (2025)

SAFEGUARDING INSTITUTIONAL QUALITY AND EFFECTIVENESS

Apergis et al. (2021) and Dutta and Saha (2021)
Chaurasiya et al. (2025)

OVERCOMING INACTION BIAS AND THE ROLE OF FSC'S

Edge and Liang (2020)
Thiemann and Stellinga (2023)
Lepers and Thiemann (2024)

PREVENTING REGULATORY CAPTURE

Boyer and Ponce (2012)
Mcphilemy (2013)
Sigmund (2022)



Ensuring political independence

FRACCAROLI ET AL. (2025)

- New indicator of regulatory and supervisory independence (RSI) for 98 countries (1999 to 2019)
- Greater RSI is associated with improved financial stability (measured as a reduction in bank non-performing loans).
 - >> Results robust to alternative measures of financial stability.
- **Benefits of RSI for financial stability are stronger when the supervisor is the central bank** whereas they are somewhat more muted when the supervisor is an agency which is separate from the central bank.
- RSI plays a crucial role in mitigating bank risk during normal times (evidence on its effectiveness during crisis periods is less robust).

BENGTSSON (2021)

Comprehensive discussion of macroprudential policy in the EU shows that institutional and governance features strongly influence policy stances and their effectiveness.

- Countries with a **single macroprudential authority and strong transparency requirements** tend to have more intense and effective policies.
- **Independence and accountability arrangements have more nuanced effects** and may not alone explain policy intensity;
- **Interactions among governance features matter**



Central banks leading role

KIM ET AL. (2025)

- 31 economies: 19 advanced and 12 EME (2000-2020)
- Macroprudential intensity index for BBM and CBM
- A greater role for the central bank in macroprudential policy decisions is associated with **a more contractionary response of macroprudential policy to credit shocks.**
 - >>The findings are not driven by the degree of central bank independence.
- Findings are robust to different classes of macroprudential instruments
- Even when macroprudential policy tightens in response to credit shocks, macroprudential policy measures are undertaken infrequently, **suggesting a bias toward inaction.**

LEPERS (2024)

- 58 countries (EM and AE)
- When in charge, **central banks were less likely than Ministries of Finance to tighten macroprudential policy** during the expansion phase of the credit cycle.
- This was particularly true for more visible and unpopular tools like **loan-to-value caps, as opposed to less visible measures such as capital requirements.**
- However, FSC that coordinate ministries and central bank positions appeared to influence macroprudential regulators' policy reactions.
- Central bank reluctance and the greater capacity of Ministries of Finance to **act is partly conditional on the existence of such committees that facilitate inter-institutional discussion.**



Overcoming inaction bias and the role of FSC's

THIEMANN AND STELLINGA (2023)

- Countries with FSC and ESRB Warnings: Germany, France, and the Netherlands from 2015 onwards
- Focus on countercyclical policies (CBM & BBM) to limit the **systemic risks of housing booms** and on some EU countries FSC effectiveness.
- **FSC's work is characterized by lengthy processes of consensus-building.**
- Whether this leads to meaningful steps crucially depends on the committee's institutional set-up, mainly its capacity to engage the Ministry of Finance in binding discussions and the governance arrangements for the activation of precautionary instruments.

EDGE AND LIANG (2022)

- 58 countries that activated and increased the CCyB since its formal phase-in began in 2016
- Study on financial stability committees (FSCs) and the countercyclical capital buffer (CCyB).
- The authors find **higher probabilities of using the countercyclical capital buffer (CCyB) in countries that have strong financial stability committees (FSCs)**, defined by those with tools and voting processes.
- Large FSCs or those with weak governance mechanisms may actually hinder effective decision making.
- The authors do not find that **central banks with direct powers are more likely than independent bank regulators to use the CCyB**, although central banks are involved in multiple ways in these decisions.



Ensuring institutional quality and effectiveness

APERGIS ET AL. (2021)

- Panel data of 593 banks in 25 OECD countries, 2001-2013
- **Macroprudential policy reduces bank systemic risk** (measured by Delta CoVAR and Marginal Expected Shortfall) **more effectively under high institutional quality** (disclosure, rule of law*, creditor rights), capital stringency, and moderate supervisory power.
- The negative effect of macroprudential policy on systemic risk exposure and contagion risks strengthens at higher institutional quality levels, i.e., in countries under: (a) effective information sharing systems, (b) stronger creditor rights* (c) higher levels of rules of law.

*Rule of law: extent to which agents have confidence in and abide by the rules of society.

**Creditor rights index: strength of collateral and bankruptcy laws protect the rights of borrowers and lenders.

CHAURASIYA ET AL. (2025)

- Sample of 44 countries from 2009 to 2021
- **Institutional quality enhances the effectiveness of macroprudential policies** in mitigating sovereign default risk, with governance and institutional frameworks moderating such effects differently across country groups
- Institutional quality measured across the following governance dimensions:
 - ✓ voice and accountability,
 - ✓ political stability,
 - ✓ government effectiveness,
 - ✓ regulatory quality,
 - ✓ rule of law, and
 - ✓ control of corruption.



EMPIRICAL FINDINGS

Political independence and central banks' leading role

- Independence improves financial stability, but there are papers that do not find an effect (Kim et al., 2025;)
- CB as macropru authority generally found to improve financial stability, but also FSCs and Ministries of Finance.
- Independence more effective during normal times

Inaction bias and the role of FSC

- FSC are effective in reducing inaction bias and helps counteracting reluctance to act of CB.
- However, the processes can take time due to consensus-building.
- Large FSCs or those with weak governance mechanisms may actually hinder effective decision making.

Institutional quality and effectiveness

- Institutional quality enhances macroprudential effectiveness in mitigating the build up of: sovereign default risk, financial risk, and bank systemic risk.

Regulatory capture

- Regulatory capture undermines effectiveness.
- Institutional balance between rules and discretion;
- Ensure supervisory quality and funding.



EMPIRICAL FINDINGS

What's still missing?

- ✓ How to measure the influence of the institutional arrangements on macropru effectiveness?
 - The most common approach in the literature is to tackle the impact on financial stability (by measuring the impact on systemic risk – indicators vary)
 - Could it be also considered the number of times macroprudential policymakers activate a tool? Should the intensity of the measures be also used?
- ✓ Advanced economies vs emerging economies: are there differences?
- ✓ Literature focused on the effectiveness of macroprudential policy in ensuring banking stability. The institutional governance of macropru authorities wrt the non-banking sector is missing.
- ✓ Albeit a few exceptions (*Fraccaroli et al., 2025*), it would be relevant to study the robustness of institutional arrangements over normal vs crisis times.
- ✓ Are macroprudential institutional frameworks more or less effective when combined with microprud policy under the same roof?

SUMMING UP



- ✓ The core elements of macroprudential policy institutional arrangements are underpinned by theoretical considerations.
- ✓ Institutional structures seem to be determined by country-specific factors (policy control, independent anchor, existing role of central bank and – possibly – cultural differences).
- ✓ Theoretical and empirical evidence cannot clearly identify the optimal institutional arrangement (single agency, as the central bank, multiple authorities with FSC or Ministries of Finance).
- ✓ Findings suggest that all set ups can be effective if there is combination of core institutional elements.
- ✓ Institutional quality is a key element (the papers are consensual), independence from political influence also promotes action (not fully consensual) and the use of formal rules more often than discretion is also important to reduce regulatory capture and increase effectiveness. Mixed findings for effectiveness of institutional set ups where CB are in charge.
- ✓ The literature review also indicates that findings may be different depending on types of macroprudential tools (distributional effects of macroprud) (Apergis et al., 2021 and Lepers, 2024).





6 | REFERENCES

- ✓ Bengtsson, Elias, 2020. "**Macprudential policy in the EU: A political economy perspective**," Global Finance Journal, Elsevier, vol. 46(C).
- ✓ Fraccaroli, Nicolò & Sowerbutts, Rhiannon & Whitworth, Andrew, 2025. "**Does regulatory and supervisory independence affect financial stability?**," Journal of Banking & Finance, Elsevier, vol. 170(C).
- ✓ Iljoong Kim & Inbae Kim, 2014. "**Independence and Architecture of Financial Supervision: With Focus on the Effects on Banking Stability**," Global Economic Review, Taylor & Francis Journals, vol. 43(4), pages 338-354, December.
- ✓ Lepers, Etienne. (2024). Macroprudential Governance and Capacity to Remove the Punch Bowl. IMF Economic Review. 1-31. 10.1057/s41308-024-00258-7.
- ✓ Rochelle M. Edge & J. Nellie Liang, 2022. "**Financial Stability Committees and the Basel III Countercyclical Capital Buffer**," International Journal of Central Banking, International Journal of Central Banking, vol. 18(5), pages 1-53, December.
- ✓ Thiemann, M. and Stellinga, B. (2023), Between technocracy and politics: How financial stability committees shape precautionary interventions in real estate markets. Regulation & Governance, 17: 531-548.
- ✓ Kim, Soyoung & Mehrotra, Aaron & Shim, Seri, 2025. "**Governance arrangements and the use of macroprudential policy**," Journal of International Money and Finance, Elsevier, vol. 154(C).



6 | REFERENCES

- ✓ Jitendra Kumar Chaurasiya & Bhanu Pratap Singh & Sujit Kumar, 2025. "**Do institutional settings condition the effect of macroprudential policies on sovereign default risk? Cross-country evidence**," *Economic Change and Restructuring*, Springer, vol. 58(3), pages 1-60, June.
- ✓ Apergis, Nicholas & Aysan, Ahmet F. & Bakkar, Yassine, 2021. "**How do institutional settings condition the effect of macroprudential policies on bank systemic risk?**," *Economics Letters*, Elsevier, vol. 209(C).