



SPEECH

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SPEAKER: Stefan Ingves
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SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

Opening remarks

- Sveriges Riksbank - De Nederlandsche Bank - Deutsche Bundesbank Annual Macroprudential Conference 2018

Good afternoon ladies and gentlemen. It's a great pleasure to welcome you to Sweden and this peaceful rural setting, and to this Macroprudential Conference hosted by the Riksbank. This is the fourth conference in a series of macroprudential conferences. Our co-sponsors include the Deutsche Bundesbank and the De Nederlandsche Bank.

Today, almost ten years after the outbreak of the most recent financial crisis, the need for macroprudential policies is clear to most economists, or at least the ones gathered in this room. The focus of such policies is both to maintain financial stability and to take a holistic and macro-economic perspective on the financial system. Since the crisis, we have made enormous progress in improving the resilience of the financial system. We have also made progress in setting up macroprudential frameworks in different countries. However, there is still considerable uncertainty over exactly how financial frictions and different types of regulation affect economic outcomes. It is therefore important to gather industry participants, academics and representatives from the policy areas to discuss a wide range of macroprudential policies - and that is exactly why we are gathered here today.

Over the last few years, economic development in most countries has been rather benign with a period of economic growth and relative tranquillity on the financial markets. However, as we all know, this could simply be the calm before the storm. One of the challenges with financial stability and macroprudential policy is to act in good time. Authorities responsible for these areas have to be vigilant during calm periods like these as the

grounds for future crises could be laid during this relative calm. In this respect, macroprudential policy plays an important role in preventing systemic risks from building up. Since it is impossible to prevent all possible crises, we should focus on building resilience instead, so that we are well prepared to withstand the next crisis. However, systemic resilience is built not only by macroprudential policies but also at the intersection of fiscal policy, monetary policy and microprudential policies. Thus, macroprudential policies do not operate in a policy vacuum and the interaction of these different policies should not be left out of sight.

I would like to structure my brief introduction to this year's conference around three main topics that can be presented in chronological order. First of all, I would like to discuss the importance of learning from past crises. Then, I will move on to the current environment and the challenges of returning to a new normal. This partly focuses on the prevalence of low interest rates and their implications for macroprudential policies. Lastly, I will mention future developments that may pose a challenge to our policies.

The historical perspective

Let me start from the historical perspective. The 2007-2009 crisis led to a number of changes in the regulatory framework and it is important to study the implications of these new regulations. The first paper on our programme today, presented by Thomas Philippon, studies financial linkages and risk sharing in the context of the Eurozone crisis. This raises a question about the role of the banking union in responding to external shocks to the economy. The topic of banking union and its implications for the economy has far-reaching significance for the whole of Europe. How much integration is possible and desirable in Europe and what are the economic and political ramifications? There are also clear consequences for countries outside the present banking union, such as Sweden. The set of post-crisis regulations and the establishment of the banking union in the Eurozone have been put forward as reasons for the largest bank in the Nordic region, Nordea, moving its headquarters from Sweden to Finland. We are thus more aware than ever of the importance of studying new regulations in an international context, taking into account spill-overs – both in terms of risk and regulations. Furthermore, macroprudential policy has a clear intertemporal aspect and most prudential regulations are based on accounting. It is therefore crucial to many macroprudential policies that we can understand the interaction between accounting and procyclicality. Javier Suarez' paper, which will be discussed tomorrow, sheds new light on how existing and new regulations interact with provisions and the acknowledgment of losses in times of crisis. Finally, the recent crisis is only

one of few in the long history of financial turbulences and we should not forget that many lessons can be learnt from the study of past crises. Bearing this in mind, our conference concludes with a presentation of a past German crisis by Martin Hellwig and we are certainly all looking forward to this contribution.

The current perspective

Second, I would like to move on to a more current perspective on macroprudential policies. Today's economic environment is characterized by very low interest rates in many advanced economies, including Sweden, where the target interest rate has remained at a negative level since February 2015. Since low interest rates mean low funding costs, the current monetary policy can contribute to an increase in leverage in different sectors of the economy, such as the household or the banking sector. In times like this, macroprudential policies are essential to regulate the risk appetite of market participants. A sector that has been paid relatively little attention in this context is the pension funds sector. We are therefore very pleased that Annette Vissing-Jorgensen, in today's second session, will discuss how that sector is reacting to regulatory changes and low interest rates, and in turn how that reaction affects global yield curves. Low interest rates undoubtedly put a strain on pension funds' returns, and may contribute to the underfunding of the pension system. In the third presentation today, Joshua Rauh will discuss the fiscal implications of pension underfunding, a topic undoubtedly of interest to conference participants from various countries.

The future and structural changes

Third, our conference provides a glimpse of the future. It would not be complete without a session on crypto-currencies and shadow banking. Crypto-currencies have become a real buzzword in the past year, with Bitcoin experiencing a rally towards the end of 2017. Crypto-currencies were then the talk of literally everyone. It will therefore be very interesting to hear more about how technological developments will affect infrastructures and payments. These technological developments also raise important issues for central banks. The demand for instant payments is increasing. In Sweden, small real time payments are available via Swish, an app launched in 2012 by the largest Swedish banks in cooperation with the Riksbank. This initiative has proven to be an effective substitute for cash payments and as you may know, the amount of cash in circulation in Sweden is falling drastically. For us at the Riksbank, we see a dwindling demand for our product, and as a consequence we are exploring the issuance of digital central bank money – an e-krona. Still, few truly understand what the optimal design of payment systems in the new

environment is. I therefore hope that tomorrow's first presentation by Rob Townsend on that topic will shed some light on the challenges in regulating financial platforms in the era of cryptocurrencies and rapid technological advances. The post-crisis global reforms have several aspects. One is to develop more tools for resolution and another is to promote central clearing. The latter has put the central counterparties in the limelight. These creatures can effectively reduce risk – but only if there are not too many of them. The development therefore entails a concentration of risks and exposures towards the remaining CCPs. To ensure global financial stability, it is therefore of paramount importance to have efficient ways of dealing with a CCP that faces problems. We have to limit the risks of these nuclear reactors. I am therefore very much looking forward to tomorrow's panel discussion on the CCP resolution.

Obviously, current and future macroprudential policies face even more challenges that we are unable to discuss during our two-day conference, but I hope that the short breaks in-between sessions will spur some fruitful discussion among conference participants and provide us with ideas for future conference topics.

The keynote address by Dr. Elke König, the Chair of the Single Resolution Board, completes our excellent programme. Her insights on how to develop efficient resolution tools will be important.

Before turning the podium over to our first session chair, let me conclude by pointing out that a programme like this would not be possible without a very high calibre scientific committee, and the diligent works of the organizing committee. Please join me in thanking our scientific committee members, Viral Acharya, Darrell Duffie, Anil Kashyap, Nobuhiro Kiyotaki, Rafael Repullo and Helene Rey as well as the organizing committee members, the Riksbank staff: Cristina Cella, Anna Grodecka and Jonas Niemeyer supported by Anil Kashyap for putting together a very strong programme and an excellent guest list. Last but not least, let me also acknowledge the behind-the-scenes logistical support and hard work by Tracey Green from the Riksbank.

Enjoy the conference and I encourage you to engage in fruitful discussions during these days. Thank you!