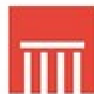

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Macroprudential policy

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The recent global financial crisis uncovered the necessity of a macroprudential approach to financial system analysis and designing of a consistent macroprudential policy. This assumes considering and supervising the financial system as a whole, since a significant share of systemic risks has proved to arise from the system itself, independent of the risks to and stability of individual financial institutions. Thus monitoring systemic risks is important for a precise identification of the processes of their accumulation and the real danger of their materialisation, which supplements a set of standard supervisory instruments.

Designing macroprudential policy involves a new institutional and technical aspect of policies for managing solvency and liquidity risks in the domestic financial system which enables the prevention, mitigation and avoidance of systemic risks and the strengthening of the system's resilience to financial shocks.

From a macroeconomic standpoint, it is necessary to take into account several main conclusions on the European regulatory reform:

1. a significant share of systemic risks has proved to arise from the system itself, independent of the risks to and stability of individual financial institutions;
2. in contrast to the pre-crisis period, when regulators exercised discretion in using various instruments (e.g. the CNB used a set of administrative and other measures), new regulations provide for a harmonised and somewhat automatic response (policy-makers' reactions are prescribed by law);
3. introduction of supervisory measures such as restrictions on distributing profits which arise from an assessment of macroprudential risks.

To identify systemic risks means to determine their nature (structural or cyclical), location (segment of the system in which they develop) and source (for example, whether they reflect more disruptions on the supply side or on the demand side). With regard to such diagnostics, instruments are optimised and intensity of measure is calibrated which should cover risks most efficiently, reduce regulatory risk of inaction bias and minimise potential negative spillovers to other sectors as well as unexpected cross-border effects. Macroprudential policy objectives and instruments are part of a broader matrix of economic policy instruments whose complete success requires efficient coordination, which is in the Republic of Croatia effected by means of the Financial Stability Council.

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