CLASS 7

TOPIC	***Macroprudential Policy***
LEARNING CONTENT - DETAILED CHARACTERISTICS	We explain that financial stability policies are of two sorts: microprudential policies (safeguard the stability and safety of individual institutions and markets) and macroprudential (ensure the stability and efficiency of the financial system as a whole). Our focus is on macroprudential policies that rely on a diverse set of levers ranging from monetary policy and credit standards to tax policy that require coordination across a range of public authorities. We define the two pillars of banking regulation that are capital and liquidity regulation. They are complemented by measures aimed at addressing the moral hazard by governments bail-outs. Capital requirements allow for risk-based supervision and were strengthened both quantitatively and qualitatively after the 2008 global financial crisis. Bank liquidity requirements rely on specific ratios that are defined. We address banking as an industry and take note of competition, technical change, and inclusion. We discuss the main objectives of capital market regulation and put the emphasis on macroprudential regulation and the activity of the Bank for International Settlements (BIS Basel). We address the macroprudential toolkit (borrower-oriented instruments, capital-based and liquidity-based instruments, and capital flow management measures) and discuss the future of financial regulation.
KEY WORDS	Microprudential policies, macroprudential policies, banking regulation, too big to fail, moral hazard, capital requirements, liquidity coverage ratio, net stable funding ratio, fintech, nonperforming loans, financial literacy, BIS Basel, borrower-oriented instruments, capital-based and liquidity-based instruments, capital flow management measures.
SUGGESTED TOOLS	Power-point presentation Critical thinking and analysis Real-world personal observation Interactive and group discussions A personal study plan
TIPS / METHODOLOGICAL REMARKS **(if applicable)**	Learning-by-doing and case studies activities. The focus is on the macroprudential policy aspects and instruments.

IMPLEMENTATION OF THE CLASSES	**STEP 1**	We distinguish microprudential and macroprudential policies. We address their objectives and instruments. We focus that financial stability is now a key policy objective alongside growth, employment, price stability, and fairness.
	STEP 2	We address principles and pillars of banking regulation. Public authorities in charge of banking supervision are usually independent and often part of the central bank. Bank capital requirements and liquidity regulations are considered.
	STEP 3	The students become familiar with the fact that policies addressed in the banking sector not only aimed at avoiding excessive risk-taking and ensuring the stability of the system but also aim at making the sector efficient, innovated, and inclusive. The competition in the banking sector, digital innovation (branded fintech), and social role of banks are considered. Climate change and the fight against it also raise major issues which call for innovative financial solutions. See work card 1.
	STEP 4	The rationale for capital market regulation is discussed. We present its specific objectives, such as ensuring transparency and equal access to information for all participants, curbing liquidity risk outside of the banking sector and regulating the fast-developing shadow-banking sector.
	STEP 5	We present the objectives and trade-offs in the macroprudential policies and the macroprudential toolkit: borrower-oriented instruments, capital-based and liquidity-based instruments, and capital flow management measures. We discuss the future of financial regulation as regards the following questions: the consistency and scope of the new regulatory approach, the persistence of the global regulatory effort in the face of powerful vested interests and with waning incentives for cross-border cooperation, and the role of technological change. See work card 2.

Crocodile Cross-disciplinary Academic Offer

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ADITIONAL MATERIAL 1 (WORK CARD, PICTURE, RECORDING, QUIZZ, PRESENTATION, ASSIGNEMENTS)

WORK CARD 1 – MACROPRUDENTIAL POLICY

Watch the video *How can business survive climate change?* and take part in the discussion:
https://www.youtube.com/watch?v=7vOwjNTDwBE

How can business survive climate change?

Share your thoughts about:

1) What is the role of the financial sector regarding the fight against climate change?
2) How will the climate change the business model in the banking sector?
3) What additional financial risks does the fight against climate change pose?
4) What is the sustainable corporate and banking sector development considering the climate change?
5) What about your country and the fight against climate change? Are public and private efforts enough or not? What are the avenues for better fight against climate change?

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ADITIONAL MATERIAL 2 (WORK CARD, PICTURE, RECORDING, QUIZZ, PRESENTATION, ASSIGNEMENTS)

WORK CARD 2 – MACROPRUDENTIAL POLICY

Read The International Monetary Fund Paper *Macroprudential Policy: An Organizing Framework* which is available on the following link:
https://www.imf.org/external/np/pp/eng/2011/031411.pdf

What is your answer to the questions raised in the paper following 2023 perspective:

- What is macroprudential policy?
- What are its boundaries?
- How should the policy framework be structured?

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