

MacroPru or Capital Controls: Care Needed

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NBER/TCMB conference, Istanbul, 14
June 2014

International monetary system reform

- Hasn't gone well
- Futile debate about symmetric adjustment to global current account imbalances
- Better to focus on problems of contagion: now happening because of EME policy actions
- Advanced Economies have a lot to learn as embark on MacroPru: humility warranted

Four guiding points

- *Gross* capital flows matter as well as net flows
- Therefore national balance sheets (NBSs) matter
- MacroPru shd focus on balance-sheet resilience not *fine*-tuning the credit cycle
- Some capital-flow measures (CFMs) amount to NBS macro-pru. But not all

MacroPru policy: a revolution

- Objective of sustaining resilience will require *time-varying* regulatory policy
- Changing capital, liquidity or collateral reqts as booms develop beyond what was reflected in the 'normal times' calibrations
- *May* help to dampen booms. But *will* make 'bust' less damaging
- Useful way of thinking about NBS mgt

Policy framework :stocks not flows

- Taxing *all* short-term x-border *flows* costly and unnecessary if flows small relative to NBS
- Universal tax could impede, eg, trade finance
- Plus would end up complicated: exempt or ban cross-border flows of margin moneys to collateralise derivatives?
- Plus leakage o/a reg arb

Policy Framework: *stock*-based

- Better to focus on serious NBS vulnerabilities
- Use macropru to force enhanced resilience
- More than pigouvian tax: forces insurance against busts not just leaning against booms
- That is directed against really big welfare costs
- Leaves q of effect of *net* flows on exchange rates

Abuse of 'MacroPru' epithet

- Some CFMs genuinely macropru. Some not
- IMF needs framework for distinguishing 'true' *macropru* CFMs from attempts to influence Terms of Trade 'beggar thy neighbour' policies
- Each country shd publicly explain NBS-macropru policy settings in terms of which balance-sheet vulnerability threatening finstab it is addressing

MacroPru and non-financial firms

- Some risks to stability will stem from outside banks (and shadow banks)
- Sometimes that may even require interventions *directly* to constrain households and *non-financial* businesses
- But such interventions shd not be a central bank competence
- So need to map types of intervention to institutional competences. POLITICAL ECONOMY:

Objectives

Exchange rate /
Terms of trade

Financial
Stability

Capital controls:
last resort

✓ On rec. of
macropru body

Tools

CFM in hands of
Finance Ministry

Macropru in hands of
Central
Bank/Regulator

x

✓

