

Financial stability and macroprudential oversight in Germany

Framework and organisation

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Overview

- **Macro-prudential oversight in Germany**
 - European context
 - Implementation of the macroprudential mandate
 - Coordination of macroprudential policy and financial stability
- **Financial Stability Committee in Germany**
 - Assessment of current risk situation
 - Recommendation of new macro-prudential instruments
- **Financial Stability Department at the Deutsche Bundesbank**
 - From a cross-departmental approach to a department approach
 - Reorganisation in 2016
- **Résumé**

European Systemic Risk Board

Public recommendations

Subject	Date of publication	Timeline for follow-up
Lending in foreign currencies	11 October 2011	31 December 2012 (with other more specific deadlines)
US dollar-denominated funding of credit institutions	16 January 2012	30 June 2012
<i>Macro-prudential mandate of national authorities</i>	16 January 2012	30 June 2012 (interim report) and 30 June 2013 (final report)
Money market funds	18 February 2013	30 June 2013 (interim report) and 30 June 2014 (final report)
Funding of credit institutions	18 February 2013	From 31 December 2013 on
Intermediate objectives and instruments of macro-prudential policy	4 April 2013	31 December 2014/2015
Guidance for setting countercyclical buffer rates	18 June 2014	30 June 2016
Recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures	29 January 2016	30 June 2017
Recommendation on setting countercyclical buffer rates for exposures to third countries	29 January 2016	31 December 2020

European Systemic Risk Board

Recommendation on macroprudential mandate of national authorities

- EU Member States should bestow the macro-prudential authority with the powers to conduct macro-prudential policy on its own initiative or as a follow-up to recommendations of the ESRB □ would also facilitate cooperation with ESRB
- National authorities to have full access to all necessary statistical information and policy instruments
- National authorities to have the necessary independence to fulfill its tasks, to ensure accountability and to reserve the maximum of transparency
- National authorities to be able to issue public and confidential statements on systemic risks
- Governments to take actions for implementation by February 2014

Implementation of the macroprudential mandate in Germany

Financial Stability Act

Implementation of the ESRB /2011/3 recommendation comprising

- the objective of macro-prudential policy
- the institutional arrangements within the legislative infrastructure
- the tasks, powers and instruments of the macro-prudential authorities and
- transparency, accountability and independence issues related to macro- prudential authorities

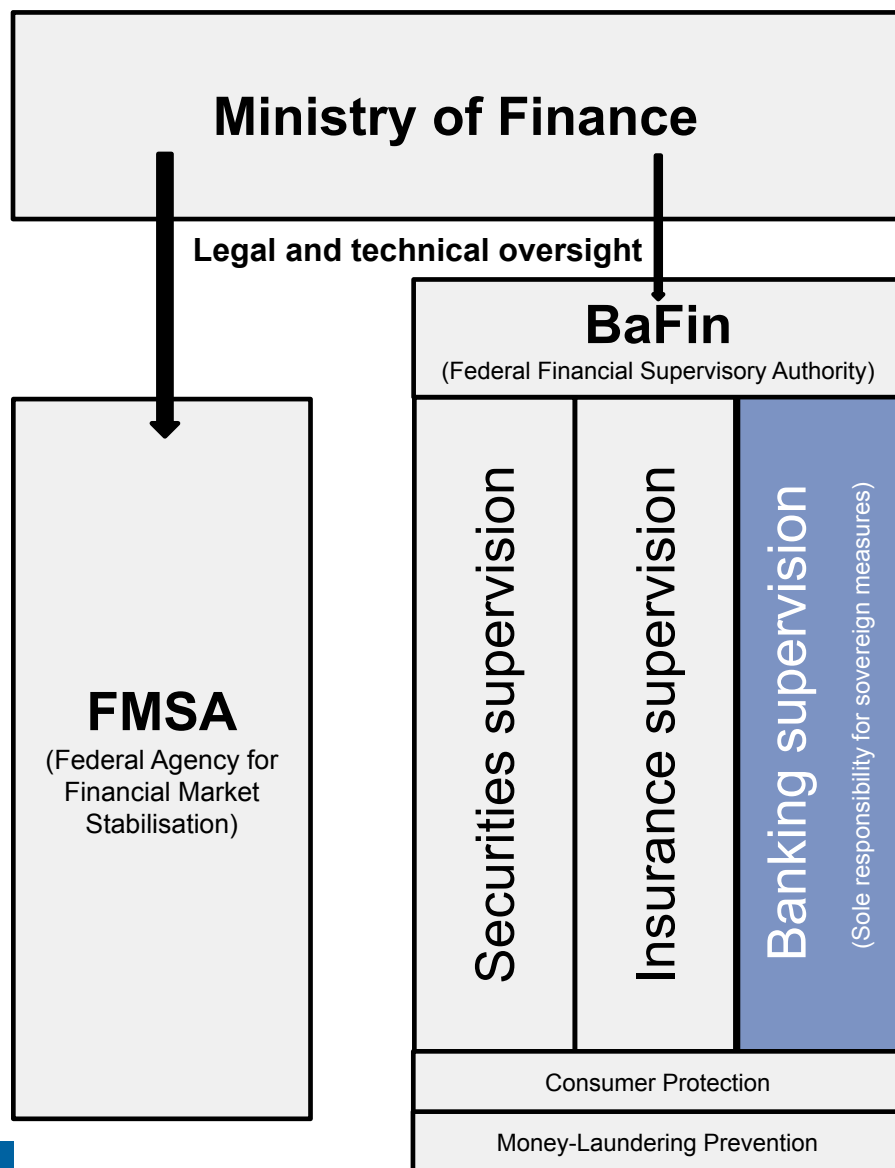
Implementation of the macroprudential mandate in Germany

Financial Stability Act

- 'Act to strengthen German financial supervision' ('Financial Stability Act')
- Establishment of the German Financial Stability Committee
- Adoption of core elements of the ESRB structure:
 - Legal framework for macroprudential surveillance
 - Indirect approach of warnings and recommendations
 - Leading role in macroprudential oversight for the central bank

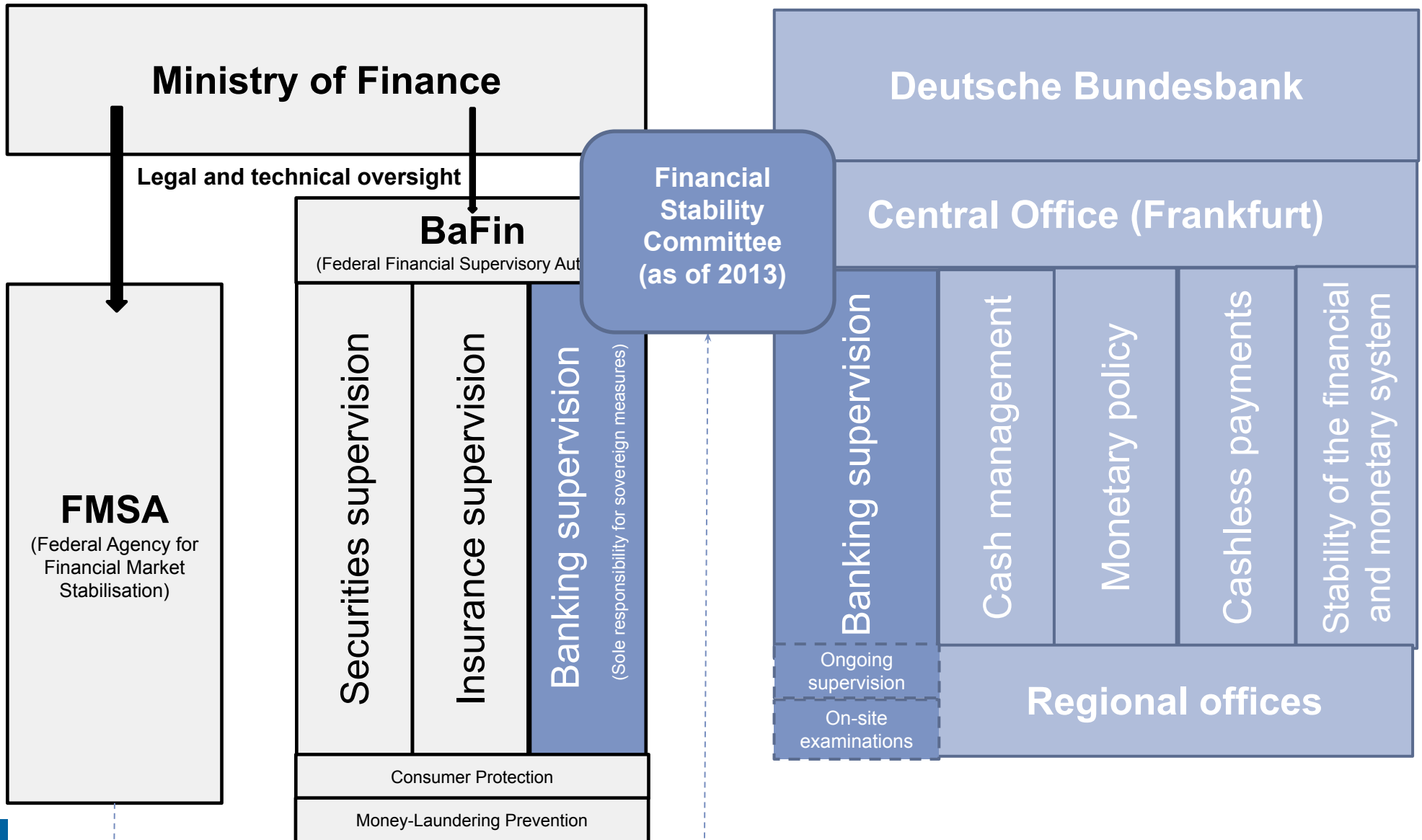
Implementation of the macroprudential mandate in Germany

Financial Stability Committee



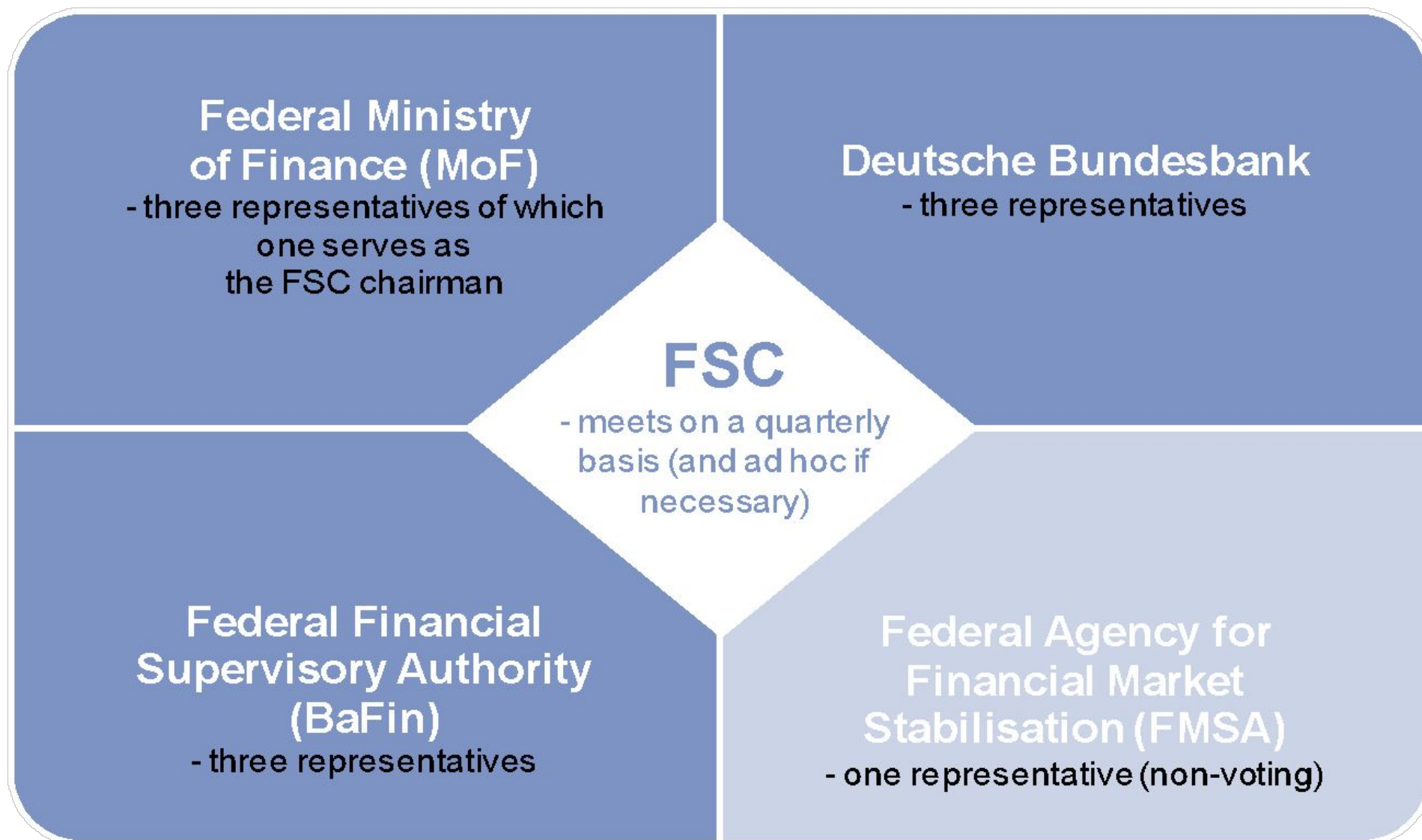
Implementation of the macroprudential mandate in Germany

Financial Stability Committee



Implementation of the macroprudential mandate in Germany

Financial Stability Committee - Composition



Implementation of the macroprudential mandate in Germany

Financial Stability Committee - Objectives

- Strengthening German financial supervision
- Establishing link between micro and macro-prudential supervision
- Monitoring the stability of the German financial system
- Issuing warnings and recommendations (to the Ministry of Finance, the Federal Financial Supervisory Authority, other public institutions)
- `Comply or explain`
- The Board will report to the German parliament once a year

Implementation of the macroprudential mandate in Germany

Financial Stability Committee - Role of the Deutsche Bundesbank

Tasks according to the Financial Stability Act:

- Central role in macroprudential surveillance and analysis
 - including comprehensive information rights (exchange of information with BaFin, additional data survey if necessary)
- Proposing warnings and recommendations
- Assessing implementation of warnings and recommendations
- Providing and presenting an Annual Report to the parliament
- Link to the European level, where the ESRB is responsible for monitoring systemic risks

Implementation of the macroprudential mandate in Germany

Financial Stability Committee - Role of the Deutsche Bundesbank

Decision making process

- In principal simple majority

- Decisions with regard to warnings and recommendations
 - should be taken unanimously
 - veto right of the Bundesbank

Implementation of the macroprudential mandate in Germany

Financial Stability Committee - Role of the Deutsche Bundesbank

Risks and possible conflicting goals

- 'Dual' mandate:
 - Maintain price stability and contribute to financial stability

- Precautionary measures:
 - Primary objective of maintaining price stability
 - Contribution to financial stability
 - Veto right in the Financial Stability Committee

- Internationally and historically different role understanding of central banking

- Reputational risk:
 - "The next crisis will definitely come"
 - "The next crisis will be our crisis"

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Financial Stability Committee in Germany

2nd Report (30 June 2015): Stability situation in German financial system

- General risk situation dominated by low interest rate environment

- Risks in the banking sector
 - Low-interest rate environment and structural problems weighing on profitability
 - Improvement in banks' resilience

- Risks in the insurance sector
 - Insurer's business development dampened by low-interest rate environment

- The sovereign-bank nexus
 - Regulatory privileges tighten sovereign-bank nexus

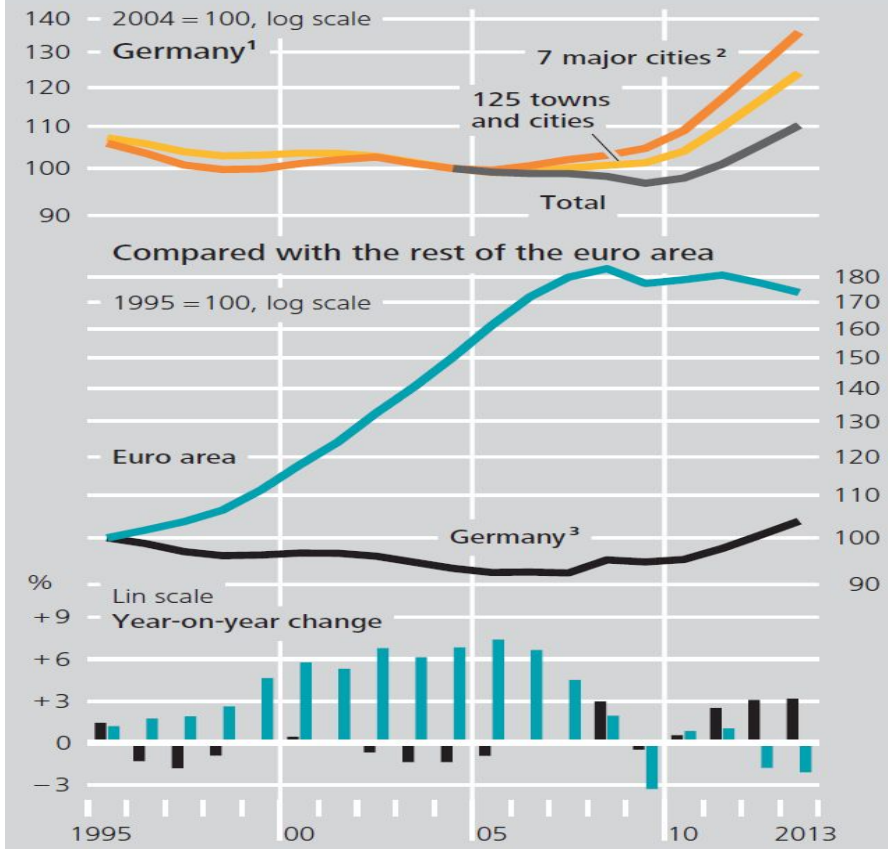
- Mortgage loans under observation

Financial Stability Committee in Germany

2nd Report (30 June 2015)

Housing prices

Chart 3.1



Sources: bulwiengesa AG, ECB, Association of German Pfandbrief Banks (vdp) and Bundesbank calculations. **1** Bundesbank calculations for terraced houses and freehold apartments based on data from bulwiengesa AG. **2** Berlin, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart. **3** Up to 2006, bulwiengesa AG data for 125 towns and cities. From 2007, vdp price index for owner-occupied housing.

Deutsche Bundesbank

Preise für Wohnimmobilien in Deutschland

2010 = 100, log. Maßstab



1 Transaktionsgewichtet. Eigene Berechnungen auf Basis von Preisangaben der bulwiengesa AG. **2** Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Köln, München und Stuttgart.

Deutsche Bundesbank

Financial Stability Committee in Germany

Recommendation to the Federal Government (as of 30 June 2015)

A: New instruments for the regulation of mortgage lending

- LTV ratio
- Amortisation requirement
- DTI
- DSTI/DSCR

B: Providing a legal basis for broader data collection on mortgage loans

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Organisational developments in financial stability

From a cross-departmental committee approach in 2003...

- Financial Stability Committee
 - International Relations Department
 - Economics Department
 - Banking and Financial Supervision
 - Markets Department
 - Payment Systems Department
 - Legal Department

Organisational developments in financial stability

... to a department approach in 2009

Payments
systems

Banking and
Financial
Supervision

Economics

Markets

- Financial Stability Department
- Coordination group
- Macroprudential analyses
- International financial system
- International monetary affairs

Organisation of financial stability at the Bundesbank

Reorganisation of the Financial Stability Department (September 2012)

- Financial Stability Department
 - Central Secretariat (including
 - Coordination Committee Financial Stability)
 - Macroprudential analyses
 - Macroprudential surveillance
 - International monetary affairs
 - Macroprudential
 - policy

Organisation of financial stability at the Bundesbank

Reorganisation of the Financial Stability Department (September 2012)

- **Financial Stability Department**
 - **Central Secretariat (including**
 - **Coordination Committee Financial Stability)**
 - **Macroprudential analyses**
 - **Stability of financial intermediaries**
 - **Stress tests,**
 - **systemic risk**
 - **Macroprudential databases**
 - **Macroprudential surveillance**
 - **Stability of financial market segments**
 - **Stability in advanced economies**
 - **Stability in emerging economies**
 - **International monetary affairs**
 - **Macroprudential**
 - **policy**
 - **Financial sector policy and international standards**
 - **Regulation systemic risk, macroprudential mandate**
 - **Regulation financial markets, financial infrastructure**

Organisation of financial stability at the Bundesbank

Reorganisation of the Financial Stability Department (January 2016)

- **Financial Stability Department**
 - **Office for Intra-Departmental Tasks (including**
 - **Coordination Committee Financial Stability)**
 - **General Financial Stability Analysis and Macroprudential Surveillance**
 - **Macroprudential surveillance of the banking system**
 - **Macroprudential surveillance of the Non-Banking System**
 - **Surveillance of systemic risks from the international financial system**
 - **International Monetary Affairs**

- **Financial Stability Department**
 - **Office for Intra-Departmental Tasks (including Coordination Committee Financial Stability)**
 - **General Financial Stability Analysis and Macroprudential Surveillance**
 - **Principles of the national macroprudential mandate**
 - **Macroprudential surveillance of the German financial system**
 - **Methodological principles of financial stability analysis and policy evaluation; Evaluation of macroprudential measures**
 - **Macroprudential statistical databanks and financial market data**
 - **Macroprudential surveillance of the banking system**
 - **Macroprudential surveillance of the risk situation in the banking system**
 - **Macroprudential surveillance of structural risks in the banking system**
 - **Macroprudential surveillance of systemically relevant banks**
 - **Macroprudential measures for the banking system**
 - **Macroprudential surveillance of the Non-Banking System**
 - **Systemic risks of the shadow banking system**
 - **Regulation of the shadow banking system**
 - **Macroprudential surveillance of insurance companies and occupational pension systems**
 - **Financial stability risks of real estate and private household debt**
 - **Surveillance of systemic risks from the international financial system**
 - **International financial stability risks; ESM**
 - **Financial stability risks from risk allocation; risk concentration**
 - **Macroprudential surveillance of financial market infrastructures**
 - **Financial stability risks from markets for derivatives, corporate bonds and shares**
- **International Monetary Affairs**

Financial Stability Department at the Deutsche Bundesbank

Office for Intra-Departmental Tasks

Section	Staff: 13
Head of Section	1
Contributions to speeches and interviews	1
Coordination of work and preparation of meetings for committees and working groups (e.g., WFA, Ecofin)	5
Document management	2
Coordination within the Department, special tasks	2
Coordination issues for German Financial Stability Committee, Coordination Committee Financial Stability	1
Research coordination; Financial Stability Forum	1

Financial Stability Department at the Deutsche Bundesbank

General Financial Stability Analysis and Macroprudential Analysis

Division 1	Staff: 23
Head of Division	1
Principles of the macroprudential mandate	1
Macroprudential surveillance of the German financial system	6
Methodological principles of financial stability analysis and policy evaluation; Evaluation of macroprudential measures	8
Macroprudential statistical databank and financial market data	7

Financial Stability Department at the Deutsche Bundesbank

Macroprudential Surveillance of the Banking System

Division 2	Staff: 27
Head of Division	1
Macroprudential surveillance of the risk situation in the banking system	8
Macroprudential surveillance of structural risks in the banking system	7
Macroprudential surveillance of systemically relevant banks	5
Macroprudential measures for the banking system	6

Financial Stability Department at the Deutsche Bundesbank

Macroprudential Surveillance of the Non-Banking System

Division 3	Staff: 25
Head of Division	1
Systemic risks in the shadow banking sector	5
Regulation of the shadow banking sector	5
Macroprudential surveillance of insurance companies and occupational pension funds	7
Financial stability risks from real estate and private household debt	7

Financial Stability Department at the Deutsche Bundesbank

Surveillance of Systemic Risks from the International Financial System

Division 4	Staff: 27
Head of Division	1
International financial stability risks; ESM	6
Financial stability risks from risk allocation; Risk concentration	7
Macroprudential surveillance of financial market infrastructures	7
Financial stability risks from markets for derivatives, corporate bonds and shares	6

Financial Stability Department at the Deutsche Bundesbank

International Monetary Affairs

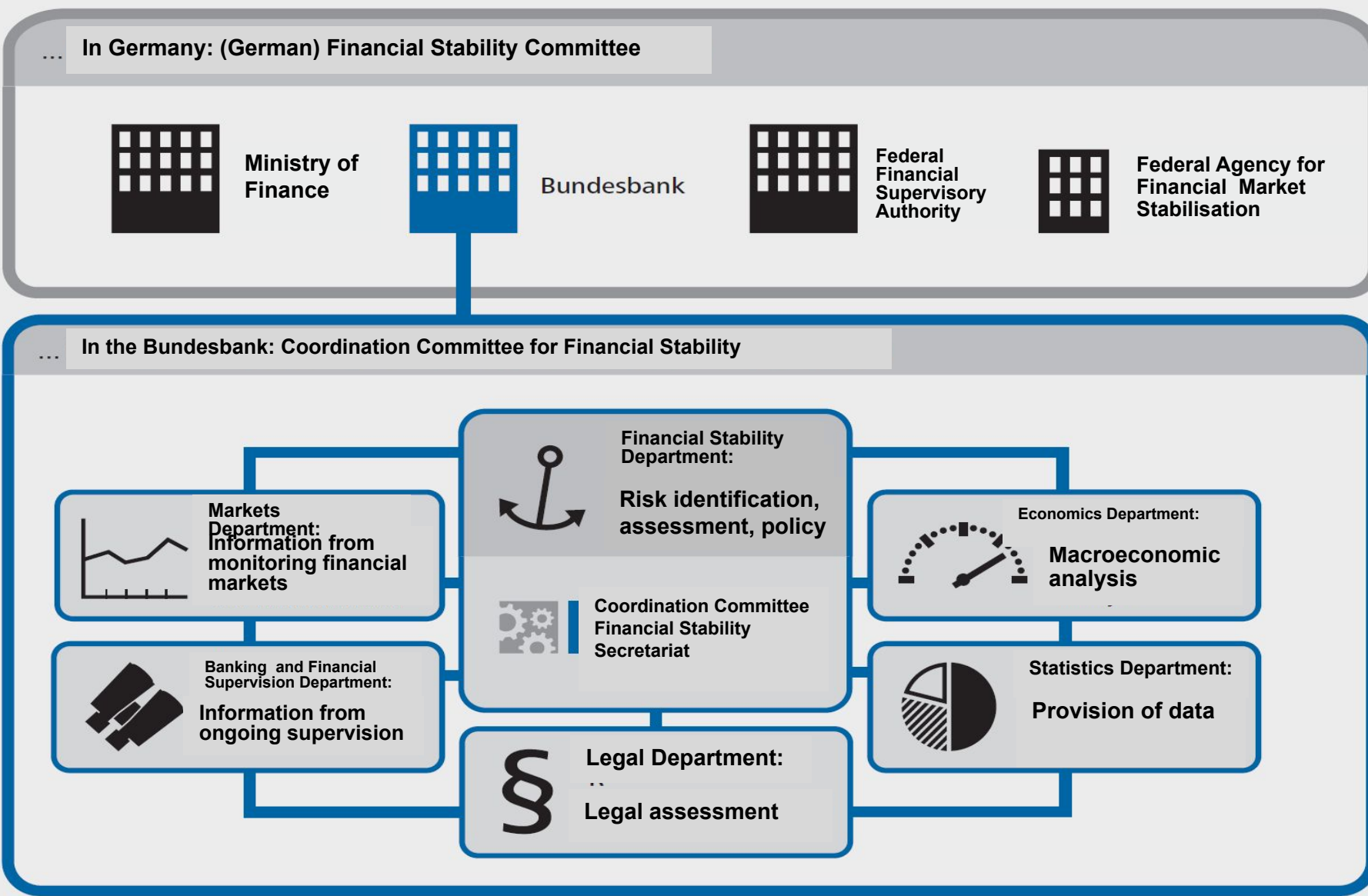
Division 5	Staff: 36
Head of Division	1
Principles of the international monetary system; IMF; G7; G20	6
International developments with regard to balance of payments, exchange rates; BIS; G 10	8
Multilateral surveillance by IMF; Article IV consultations	6
Relations to IMF including Article IV consultations for Germany; Special drawing rights	9
Multilateral development banks	6

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Résumé

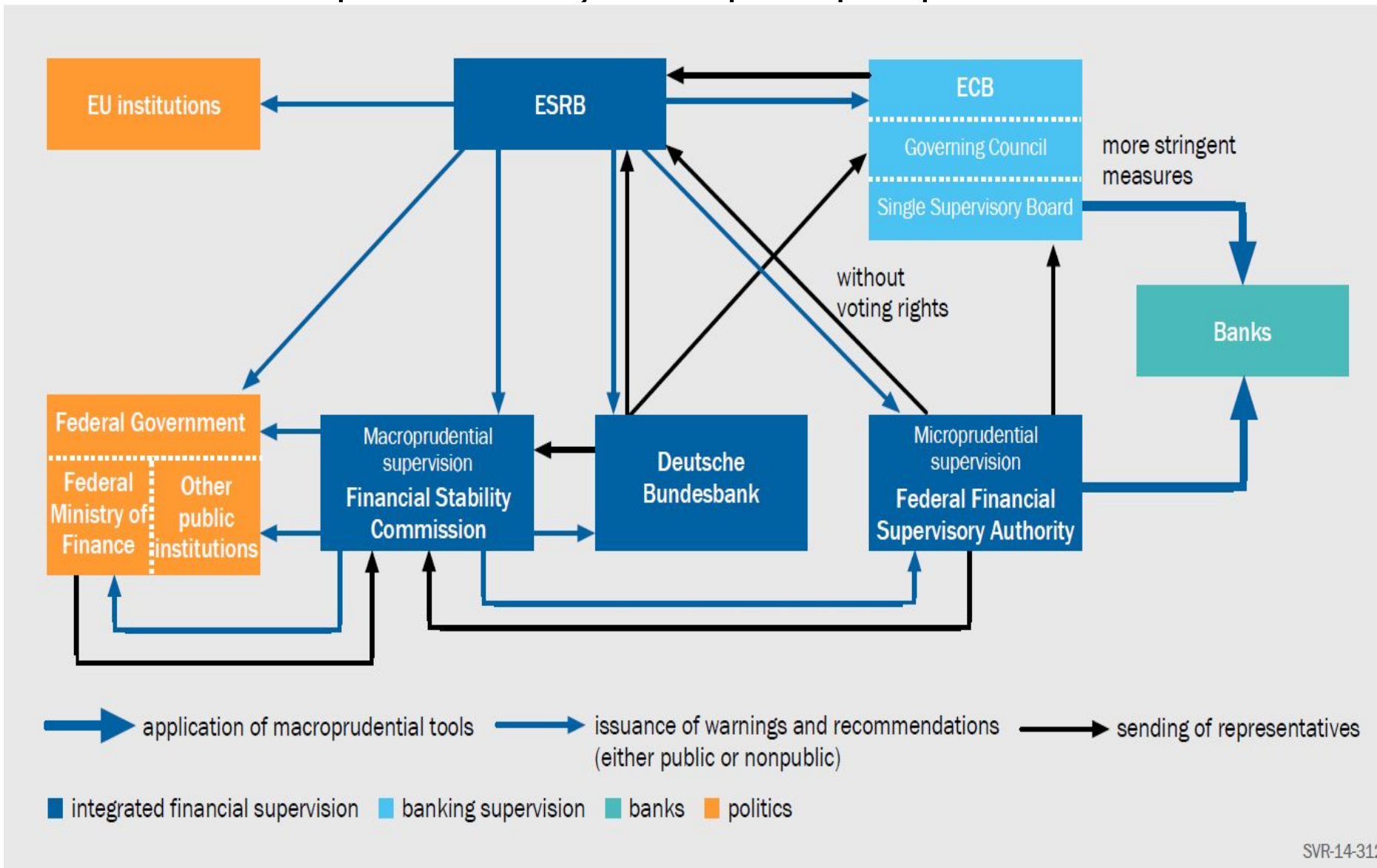
Institutional set-up in Germany



Source: Deutsche Bundesbank

Résumé

Institutional set-up in Germany - European perspective



SVR-14-312

Source: German Council of Economic Experts (2015)

References

- Bank for International Settlements, *Annual Report, various issues*
- Borio, Claudio: *Towards a macroprudential framework for financial supervision and regulation?*, BIS Working papers, No 128, February 2003
- European Central Bank, *Housing finance in the euro area*, Occasional paper series, No 101, March 2009
- Deutsche Bundesbank, *Financial Stability Review*, various issues
- European Central Bank, *Financial Stability Review*, various issues
- Regulation No 1092/2010 of 24 November 2010 on EU macro-prudential oversight of the financial system and establishing the ESRB
- Regulation No 1096/2010 of 17 November 2010 conferring specific tasks upon the ECB concerning the functioning of the ESRB

Thank you very much for your attention!

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