



## Press release

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# ESRB publishes two reports on macroprudential stance

The European Systemic Risk Board (ESRB) has today published reports from the Advisory Scientific Committee (ASC) and the Advisory Technical Committee (ATC) on macroprudential stance. The macroprudential stance is a conceptual framework for comparing systemic risks with the policy measures taken to address them. The purpose of this comparison is to arrive at an assessment of whether the macroprudential policy stance of a jurisdiction is neutral, loose or tight.

**The assessment of the macroprudential stance may support policymakers in deciding how to address systemic risks.** The ultimate objective of macroprudential policy is to contribute to financial stability by strengthening the resilience of the financial system as a whole and counteracting the build-up of systemic risks. To achieve this objective, the ESRB, like other macroprudential authorities, needs to form a view on the macroprudential policy stance on which its risk warnings and policy recommendations are based. The two reports document the progress made by the ESRB in this area, although further work is required to refine the proposed methods and approaches. In the longer run, assessments of the macroprudential stance also aid communication of macroprudential policy decisions and increase accountability.

**The ASC report explains that a policy stance requires a framework containing objectives, tools and transmission mechanisms.** The report applies some of the lessons from the monetary policy framework to macroprudential policy to complement narrative approaches. It discusses a setting in which the ultimate objective of macroprudential policy is to minimise the frequency and severity of economic losses arising from severe financial distress and integrates the growth-at-risk concept into that setting.<sup>1</sup>

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<sup>1</sup> A growth-at-risk framework links macro-financial conditions to the probability distribution of future real GDP growth, with a focus on potential adverse outcomes, even if they have a low probability of occurrence.

**The ATC report applies country-level data to a macroprudential stance framework.** It examines three complementary approaches to assessing, discussing and communicating the macroprudential stance:

1. A growth-at-risk approach, in which a model forecasts the distribution of future economic growth. The resulting stance metric quantifies future impacts of current vulnerabilities and conditions in the financial system by focusing on risks at the lower end of the growth distribution.
2. A semi-structural approach, in which a model derives trade-offs between capital buffers used to absorb losses within the banking sector and downside risks to real gross domestic product.
3. An indicator approach for sectoral analysis, for example of real estate risks.

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