Macroprudential and monetary policy

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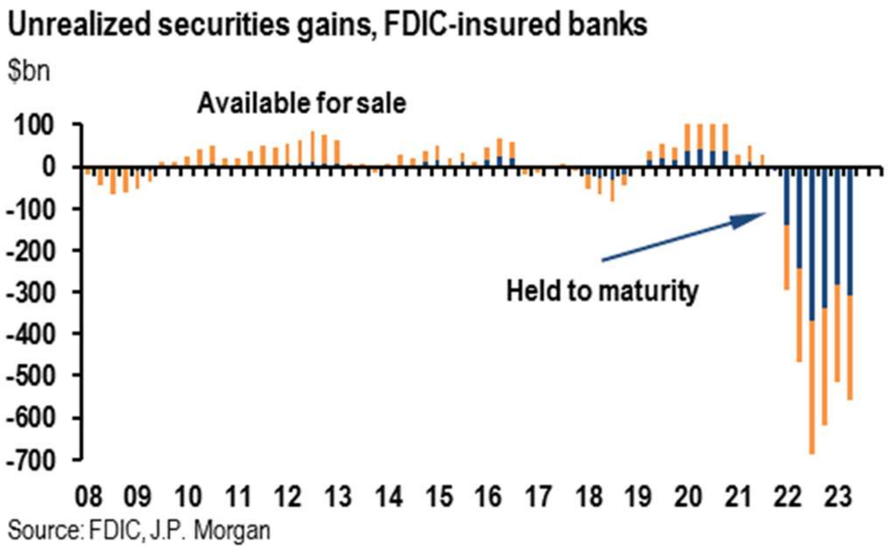
Macroprudential and Monetary Policy

- Orthodoxy: Separation principle
  - Monetary policy is responsible for price stability and macroprudential policy is responsible for financial stability
    - Bernanke Gertler (1999), Bernanke (2002)
- What did this cycle teach us about the advisability of the separation principle?

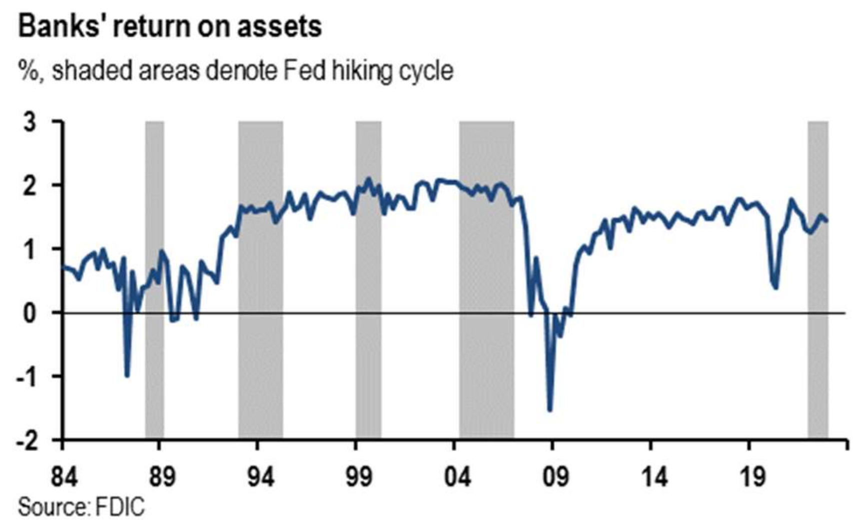
The March 2023 banking crisis

- Unrealized securities losses ballooned on the back of Fed's rate hike campaign
  - Economic losses on loan book potentially even larger
- Should the Fed have considered this when raising rates?



The March 2023 banking crisis

- The economic value of banks' deposit franchise correlates positively with interest rates
  - Drechsler, Savov, Schnabel (2021)
- Well-managed banks are hedged against interest rate risk



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- What did the March 2023 banking crisis say about the separation principle?
    - Supervision matters!
    - Attention is on insured vs uninsured deposits, but distinction between operating and non-operating deposits also matters