Monetary and Macroprudential Policy Interactions

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Abstract

With the global financial crisis, the failure of the traditional policy framework to limit pro-cyclicality and reduce vulnerabilities arising from the structural links between financial intermediaries has led political authorities to seek alternatives. In this direction, macro prudential policy has been defined as a new policy area to control systemic risks and the negative externalities they can cause, to strengthen the resilience of the financial system to possible shocks and to increase the effectiveness of other economic policies.
The aim of the study is to examine the interactions between monetary policy and macroprudential policy practices and contributes to the discussion about the coordination of those policies. The reciprocal relationship between monetary policy and the implementations of macroprudential policy is examined as well as the interaction between monetary policy and macroprudential policy is discussed at a theoretical level. Then, monetary policy and macroprudential policy practices were examined, taking into account the state of the cycles. The study is complemented by considerations of policy interactions.

Keywords: Macroprudential policies, monetary policies, Financial Stability