What do we know about MPP so far?
- a national perspective

NBS I BoF I SUERF Research Conference
20 years of Macroprudential Policy in Europe – Looking back and looking ahead

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Lessons from macroprudential policies – a national perspective

1) Interaction of monetary and macroprudential policies

2) Requirements for effective and well-targeted policies

3) Role of high-quality data and analysis are fundamental

4) Importance of communication - making MPP better understood and legitimate
Interaction between monetary and macroprudential policies

• Common monetary policy in the euro area – **important to have national macroprudential policies**

• Countries can be in **different phases of a cycle** – (aggregated) MP can approve to be too loose or tight → macroprudential policies can operate in national level to enhance stability.

• **Transmission of monetary policy differs** according to interest rate fixation depending on whether variable or fixed dominates.

• Monetary policy impact is strong – macropru policies must be made enough effective.

• Having national policies in MPP is important, but it could be useful to have **common EU-wide definitions and basic principles** of various tools.
Effective and well-targeted policies – need for adequate tools

- MPP focuses on systemic risks – either structural or cyclical in nature. Need for clear and well-defined principles for using different tools. And not only for build-up phase but also for release.

- Covid showed that also large external shocks can cause systemic impacts → need for positive neutral buffer.

- There is an implementation lag – need for timely analysis to identify the right time to act. This challenges the analysis.

- Scenario analysis approves to be helpful – projection of possible decision-making frameworks in advance and thinking about variable combinations of tools. Simulation of decisions in advance can help to identify their expected impact.

- Many of the MPP tools do have an impact on sectors and operators which do have an important role in the whole economy (banks, real estate, HH) → impact to real economy need to be well understood.
Precondition for successful policies are high quality analysis and data

• Effective and well-targeted policies require **timely and comprehensive** analysis of current operating framework.

• Challenge is the true **systemic dimension** of the risks – this requires deep knowledge of the relevant and complicated interconnections, correlations and interdependencies.

• Requirements for **data** to be leveraged in the analysis has increased constantly – it needs to be **wide, deep and combinable**.

• Requirements for the **use of data** has also develop (new skillset) – especially in the case of deep micro-level databases → micro transformed to macro level messages.

• In case of Finland, integrated financial system in Nordic-Baltic area underlines the need to understand **interconnections** in case of systemic risks and possible **contagions**.
Communication – how to make the MPP better understood, accepted and increase its legitimacy

- Good & transparent communication can improve understanding and acceptance of policies as well as increase the probability of well-placed expectations. This increases the legitimacy of the policy.

- Communication about policies and their rationales / fundamentals need to be
  - clear
  - transparent
  - high quality
  - consistent
  - co-ordinated and
  - accessible
Thank You!