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# CHALLENGES IN MACROPRUDENTIAL COMMUNICATION- HUNGARIAN EXPERIENCE

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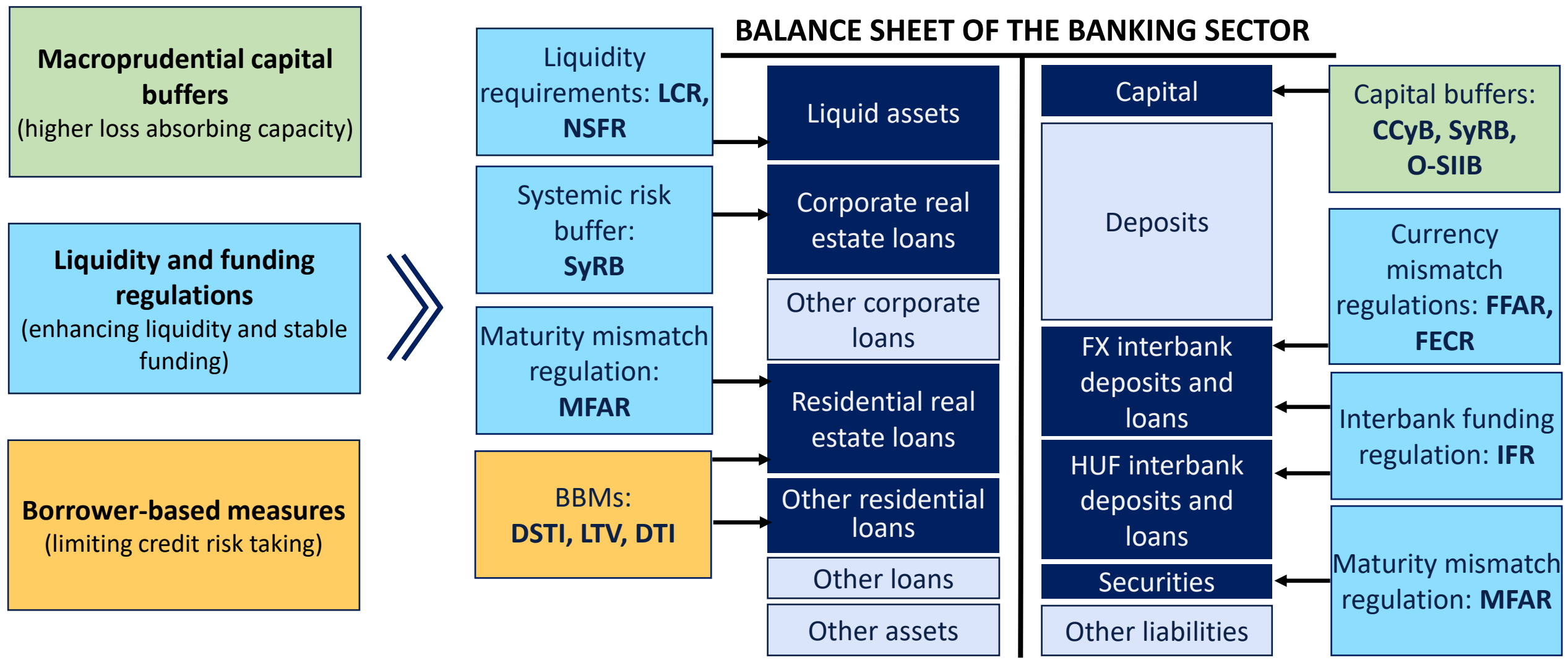




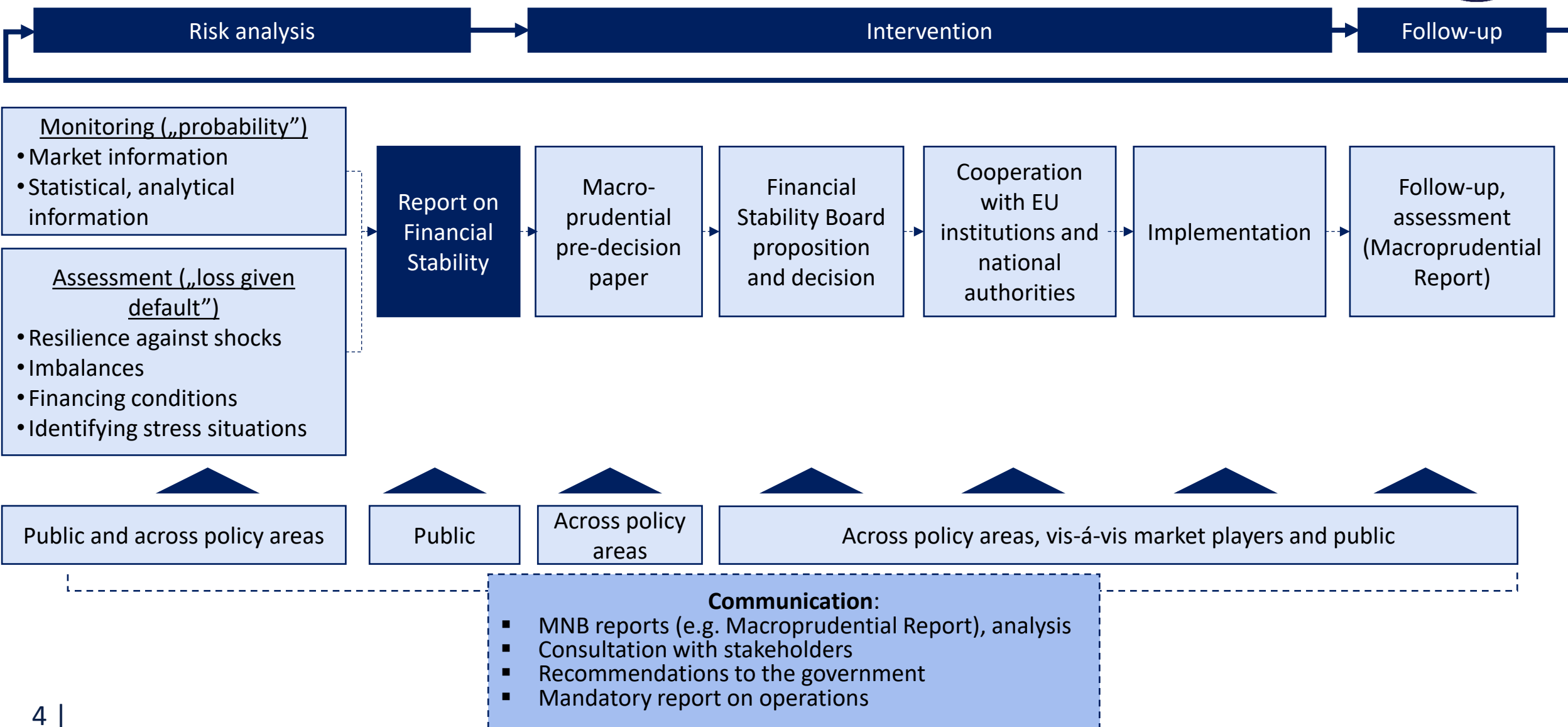
# THE MACROPRUDENTIAL FUNCTION OF THE MNB



# THE MNB HAS BEEN VERY ACTIVE SINCE 2014 IN USING ITS MACROPRUDENTIAL MANDATE TO MITIGATE SYSTEMIC RISKS



# COMMUNICATION IS AN IMPORTANT PART OF ALL THREE PHASES OF THE REGULATORY CYCLE: ANALYSIS, INTERVENTION AND FOLLOW-UP



# THE MNB COMMUNICATES ABOUT ITS MACROPRUDENTIAL POLICY VIA NUMEROUS CHANNELS DEPENDING ON THE PURPOSE AND THE AUDIENCE



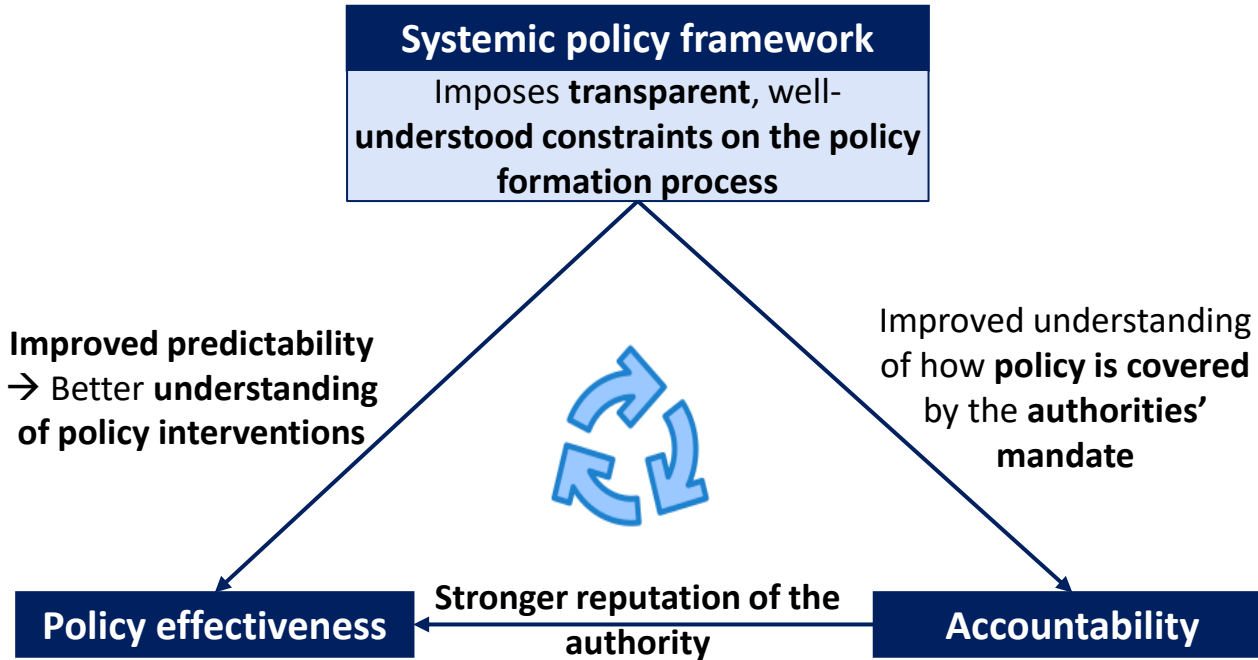
	Communication tools		
	Internal communication	Communication with external stakeholders	
		Public	Non-public
Risk assessment	<ul style="list-style-type: none"> <li>• Expert- and mid-level meetings</li> <li>• Macroprudential Decision Preparation Paper</li> <li>• Circulation of FSB agenda items</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Stability Report, MNB reports</li> <li>• Studies, analyses, articles</li> <li>• Resolutions, press releases</li> </ul>	<ul style="list-style-type: none"> <li>• Market intelligence</li> <li>• Targeted consultations</li> <li>• Consultation with international organisations (ECB, ESRB, IMF)</li> </ul>
Intervention	<ul style="list-style-type: none"> <li>• Consultation with other policy areas</li> <li>• Consensus reached on mid-level expert groups</li> <li>• Circulation of FSB agenda items with the Monetary Council</li> </ul>	<ul style="list-style-type: none"> <li>• MNB decrees, recommendations, executive circulars</li> <li>• Description of the methodologies</li> <li>• Press releases</li> </ul>	<ul style="list-style-type: none"> <li>• Consultation with stakeholder groups (mainly the Hungarian Banking Association)</li> <li>• Consultation with the government and international organisations</li> <li>• Certain executive circulars</li> </ul>
Follow-up	<ul style="list-style-type: none"> <li>• Collection of information and data from other professional areas</li> <li>• Submission of FSC agenda items to the Monetary Council</li> </ul>	<ul style="list-style-type: none"> <li>• Macroprudential Report</li> <li>• Working papers, Occasional papers</li> <li>• Academic publications</li> <li>• Q&amp;A documents</li> </ul>	<ul style="list-style-type: none"> <li>• Annual revision of the MAP measures</li> <li>• Consultation with market participants, feedback</li> </ul>
Education	<ul style="list-style-type: none"> <li>• Internal workshops</li> <li>• Comprehensive trainings and educational events</li> </ul>	<ul style="list-style-type: none"> <li>• Courses in universities</li> <li>• Public awareness campaigns</li> <li>• Publications in media</li> <li>• MNB website</li> </ul>	<ul style="list-style-type: none"> <li>• Biannual financial stability conference</li> <li>• International technical assistance</li> </ul>

**Proper timing and balanced publicity are key aspects of transparent and effective policy making**



# COMMUNICATION CHALLENGES

# CLEAR OBJECTIVES AND COMMUNICATION ARE KEY TO AN EFFECTIVE MACROPRUDENTIAL POLICY FRAMEWORK



- The political economy gains of inaction can be substantial. → Costs of macroprudential policy can be more direct and immediate than its benefits
- Systematic policy should refrain from surprising private sector decision-makers → potential short-term gains may be outweighed by long-term costs
- A transparent policy framework increases the reputation, anchors expectations and mitigates the inaction bias

	Borrower-based measures	Capital buffers	Liquidity and funding regulations
Objectives	<ul style="list-style-type: none"> <li>▪ Directly affect credit market access, thus objectives should be clearly stated</li> </ul>	<ul style="list-style-type: none"> <li>▪ Explaining the countercyclical nature and the benefits of early build-up can be challenging, especially in good times</li> </ul>	<ul style="list-style-type: none"> <li>▪ Highly technical and less visible tools. Overlap with monetary policy - communication with the financial industry is essential</li> </ul>
Timing	<ul style="list-style-type: none"> <li>▪ Can be politically sensitive, particularly if tightened</li> <li>▪ Communication can lead to front-loading</li> </ul>	<ul style="list-style-type: none"> <li>▪ Transparency and managing expectations is key</li> <li>▪ Guided discretion; forward guidance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Communication focuses on preparedness and to technical aspects</li> </ul>
Operation	<ul style="list-style-type: none"> <li>▪ Detailed Q&amp;As to facilitate and harmonise operation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regular reassessments</li> <li>▪ Intensive consultations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Detailed Q&amp;As to facilitate and harmonise operation</li> </ul>

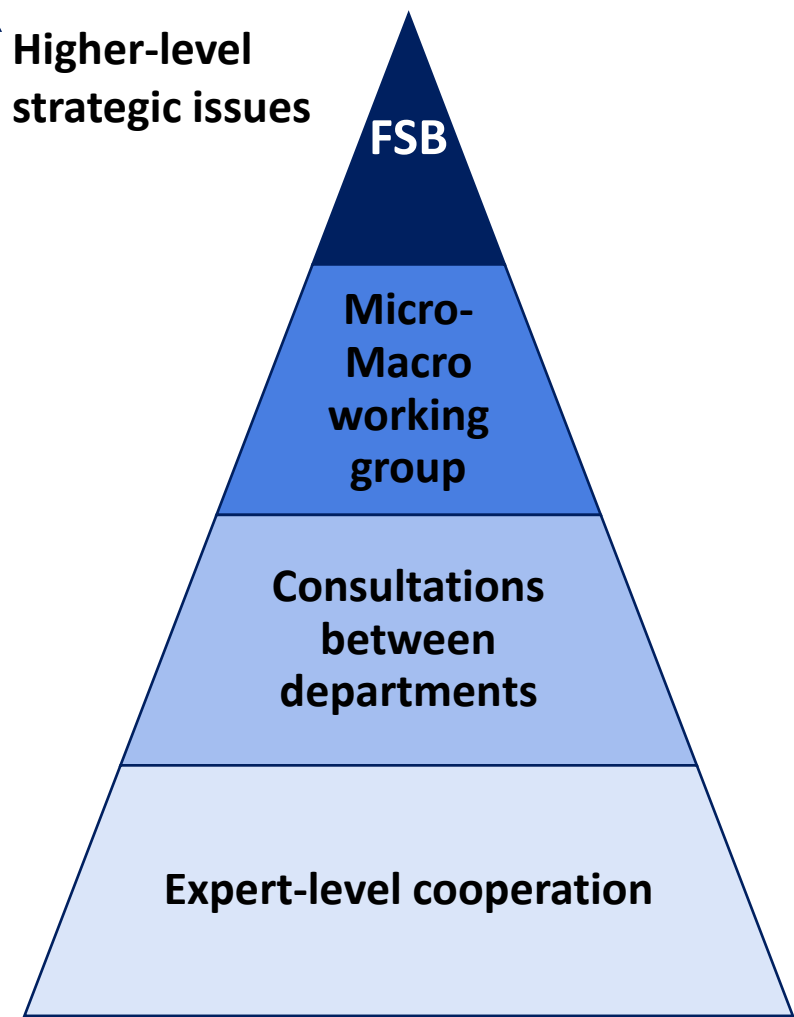
## Communication aspects and challenges of macroprudential measures

Source: [CGFS Papers No 57](#)

# I. INTER-AUTHORITY/DEPARTMENT COMMUNICATION: INFORMATION SHARING IS ESSENTIAL ON EVERY LEVEL OF THE ORGANISATION



Higher-level strategic issues



- **Members:** Governor, deputy governors, executive directors
- Managers responsible for **micro- and macroprudential policy are both present**
- FSB members receive the decision preparation documents in advance, usually **consensus is reached at the expert level before submission**

- **Members:** Management and senior experts of the macroprudential and microprudential areas + other relevant areas on an ad hoc basis
- **Mid-level consultation forum** preceding the FSB meetings

- Regular, **close cooperation during decision preparation** with the participation of all relevant departments
- **Most of the debated questions are settled on expert and mid-level consultations**

- **Close-expert level cooperations** during the preparation of the decisions to **ensure technical-level consistency.**

*Consultation levels in the MNB*



## II. VIS-À-VIS FINANCIAL INSTITUTIONS: THE MNB IS IN CONTINUOUS DIALOGUE WITH BANKS THROUGHOUT THE MACROPRUDENTIAL POLICY CYCLE



### Purpose and methods of communication

<b>Risk assessment</b>	<ul style="list-style-type: none"> <li>▪ <b>Annual market intelligence</b> meetings with the management of the most significant banks</li> <li>▪ <b>Regular high level meetings</b> covering the latest and most relevant issues</li> <li>▪ <b>Targeted consultations</b> with mid-level bank representatives along particular macroprudential issues (e.g. SyRB calibration)</li> </ul>
<b>Intervention</b>	<ul style="list-style-type: none"> <li>▪ <b>Consultations with the Hungarian Banking Association</b> or other relevant stakeholders precedes every macroprudential intervention</li> <li>▪ <b>Stakeholders are informed and provided opportunity to opine on and suggest amendments</b> (e.g. PN CCyB implementation)</li> </ul>
<b>Operation and follow-up assessment</b>	<ul style="list-style-type: none"> <li>▪ <b>Annual revision and finetuning of the BBM framework</b></li> <li>▪ <b>For other macroprudential tools</b> → ad hoc meetings if deemed warranted</li> </ul>

### Examples

- **The MNB annually assesses banks exposures** such as CRE project loans and consults the institutions through **bilateral dialogues regarding the risks they perceive**

- **The MNB introduced the rationale of the positive neutral CCyB framework to banks** before its introduction and provided institutions ample time for preparation

- **The MNB annually calls on banks for input about technical amendments of the BBM framework to ensure its smooth operation**

# III. VIS-À-VIS THE GENERAL PUBLIC: VARIOUS CHANNELS ARE USED DEPENDING ON HOW THE PUBLIC IS AFFECTED BY A GIVEN MEASURE



The MNB helps to understand risks of various household products and to borrow responsibly

- The MNB operates a **borrower-based measure framework** (LTV and DSTI limits), which **helps avoid excessive indebtedness** → **limits have become an anchor in consumers' expectations** also
- The MNB introduced a **Certified Consumer-Friendly certification** (for housing, personal loans and home insurance) to improve the transparency and comparability of these products



Financial Navigator Booklets, Videos, etc.



Compulsory information sheet for borrowers before contract signing



Strong marketing of Certified Consumer-friendly loans



Online tools: calculators and comparison sites

MNB issues reports, analyses, background documents on macroprudential tools to guide and inform general public

**Macroprudential strategy:** describes the main goals of macroprudential policy and its conduct

**Macroprudential Report:** published annually and provides an account of the various macroprudential instruments used to minimise systemic risks

**Press releases:** explaining the reasons and the expected consequences of policy actions

**Analyses in journals and in economic press:** helping the general public to understand macroprudential decision and to underpin the reasoning behind policy steps



Budapest, 18 December 2023. Due to the dynamic increase in house prices in recent years, the down payment required to take out a housing loan has also been showing a rapid increase. Consequently, the housing opportunities of young first-time home buyers, who typically have little savings, may be significantly limited by the current regulations. Considering the potentially lower credit risk of these customers, the MNB will introduce a higher loan-to-value (LTV) limit of 85 percent for first-time home buyers from 1 January 2024.

# THE MNB OPERATES A CONTINUOUSLY UPDATED DEDICATED SUBPAGE FOR ITS MACROPRUDENTIAL POLICY MANDATE



## Macroprudential policy and strategy

... > MACROPRUDENTIAL POLICY > MACROPRUDENTIAL POLICY AND STRATEGY

- MNB Corporate Social Responsibility Strategy
- Statutes of Magyar Nemzeti Bank
- Unofficial translation of MNB Act

### Financial Stability

Financial Stability Conference: New Challenges and Focuses

#### Macroprudential Policy

- Macroprudential policy and strategy
- The macroprudential toolkit
- Countercyclical capital buffer (CCyB)
- Borrower-based measures (LTV, DSTI)
- Basel liquidity and funding instruments (LCR, NSFR)

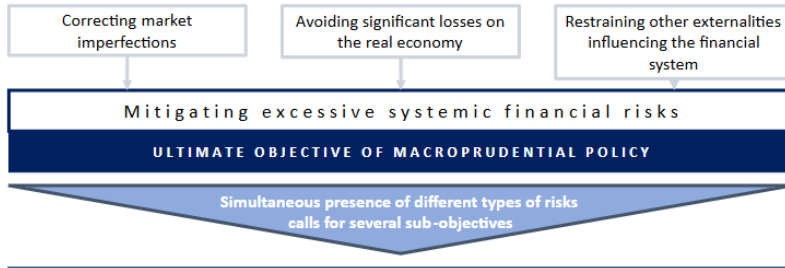
- Macroprudential Policy
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- Basel liquidity and funding instruments (LCR, NSFR)
- Funding instruments mitigating external vulnerability (FFAR, FECR, IFR)
- Mortgage Funding Adequacy Ratio (MFAR)
- Capital buffer for other systemically important institutions (O-SII)
- Systemic risk buffer (SyRB)
- Macroprudential report
- More publications
- Decrees, resolutions

### What justifies the need for macroprudential policy?

The magnitude of economic losses caused by the global financial crisis demonstrated the crucial importance of the stability of the financial system in the viability of a country's economy. The crisis underscored that microprudential interventions alone are unable to prevent the financial disturbances that inflict heavy losses on the real economy. The systemic spread of foreign currency lending and the economic and social problems arising therefrom are excellent examples of the need for prudential interventions with a systemic focus.

The ultimate objective of macroprudential policy is to mitigate excessive systemic financial risks. This means that it should strive to prevent severe financial crises and minimise their effects on the real economy if they nevertheless arise. The set of objectives of macroprudential policy are summarised in the chart below.

The macroprudential framework of the MNB



- Latest macroprudential policy news in both Hungarian and English
- General information about the macroprudential strategy and tools of the MNB
- Subpages for every macroprudential tool: description, indicators, latest and earlier decisions, Q&A

Transparency facilitates managing expectations; therefore, it is making the communication of the measures easier and ensures a harmonised and smooth operation of tools



- The one-year **development and the current level** of the applied macroprudential measures

- The instruments' contribution to **addressing the risks** identified

- **How effective** is the instrument **and what additional effect** can it have:
  - What degree of adjustment has been made by market participants
  - How close are the institutions to the limits
  - What further adjustment may be needed
  - Can risk mitigation/management be identified

- **Boxes** on regulatory directions, complementary measures and methodological developments

# THE MNB BROADENS PUBLIC KNOWLEDGE THROUGH SEVERAL CHANNELS, AS WELL



Books, journals and other non-regular publications



Educational work – universities, technical assistance



**DISSEMINATION**  
*OF RESULTS and PLANS*



Professional articles on economic news portals



Conferences, workshops, working groups





THANK YOU FOR YOUR  
ATTENTION!