Macroprudential Communication: Where Do We Stand Internationally?

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NBS SUERF WORKSHOP

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- The views expressed herein are those of the authors and should not be attributed to the IMF, its Executive Board, or its management.

What Do We Know – debate in the wake of GFC

- **Macroprudential policy aims to control tail risks to output.**
  - Benefits in the future and costs immediate, giving rise to inaction bias (Nier 2011)
  - Compounded by political economy headwinds

- **Objectives of macroprudential communication (IMF 2014):**
  - generate willingness to act, i.e., to create commitment,
  - garner political support and public understanding,
  - enhance effectiveness (achieve benefits at lesser cost).

- **Communication tools (IMF 2014):**
  - Policy strategy—to lay out aims, toolkit, and indicators that would guide policy action
  - Records of meetings—to create a narrative around risks and policy actions, to create a record of decisions and votes
  - Periodic reports—to summarize and update risk assessment, describe past policy actions, and assess effectiveness of past actions

What Are We Learning—experiences since then

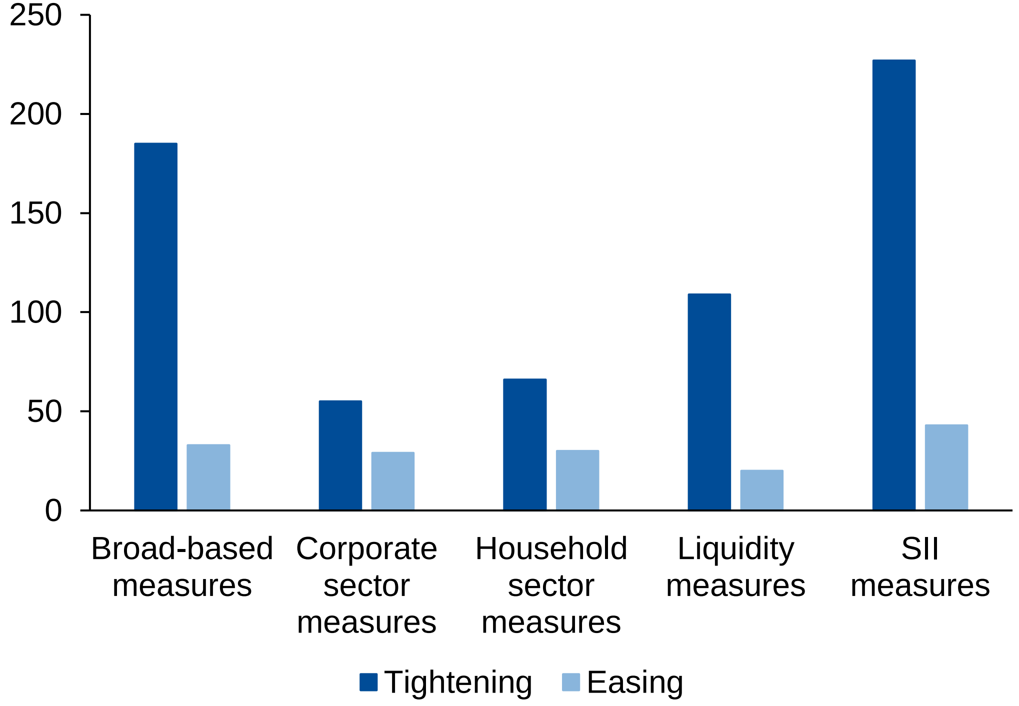
- Early warning indicators can be unreliable, leading to lack of protection (Miettinen and Nier, forthcoming).

- Shift towards frameworks involving **three decision-points**.
  - **Activation** of tools—early (preemptive) action for all tools that control risks in the time dimension.
  - **Tightening** of tools —in light of indications of cyclical increase or cross-sectional shifts in risks.
  - **Release** or relaxation—to prevent amplification of shocks in periods of stress.

- Useful to consider implications for communication **for each**.
  - Example: language for **activation** needs to
    - emphasize the objective to *protect* the economy (and banks, borrowers),
    - appeal to the logic of taking out *insurance* against future risks.

What Issues For Research: lead times and effects of measures

Average number of days between effective and announcement dates



Source: IMF Global Macroprudential Database.
Note: Averages are computed for policies announced from 2016 to 2023.

- Lead times=days between effective and announcements dates.
- Lead times can indicate objective of measures.
  - Longer lead times indicate that objective of slowing credit is not in focus.
  - Empirically, lead times are
    - long for measures on SIFIs as well as broad-based measures (CCyB),
    - much shorter for sectoral measures,
    - shortest for easing measures.

Extra slide: Focus on Credit Gap Can Lead to Lack of Buffers

- The Basel guidance BCBS (2010) refers to activating and increasing the buffer in response to “excessive credit growth”, as measured by the credit-to-GDP gap.

- But: this gap can stay negative for an extended period of time, leading to a lack of buffer (Baba and others, 2020).