BIS

SUERF Workshop
Macroprudential Communication

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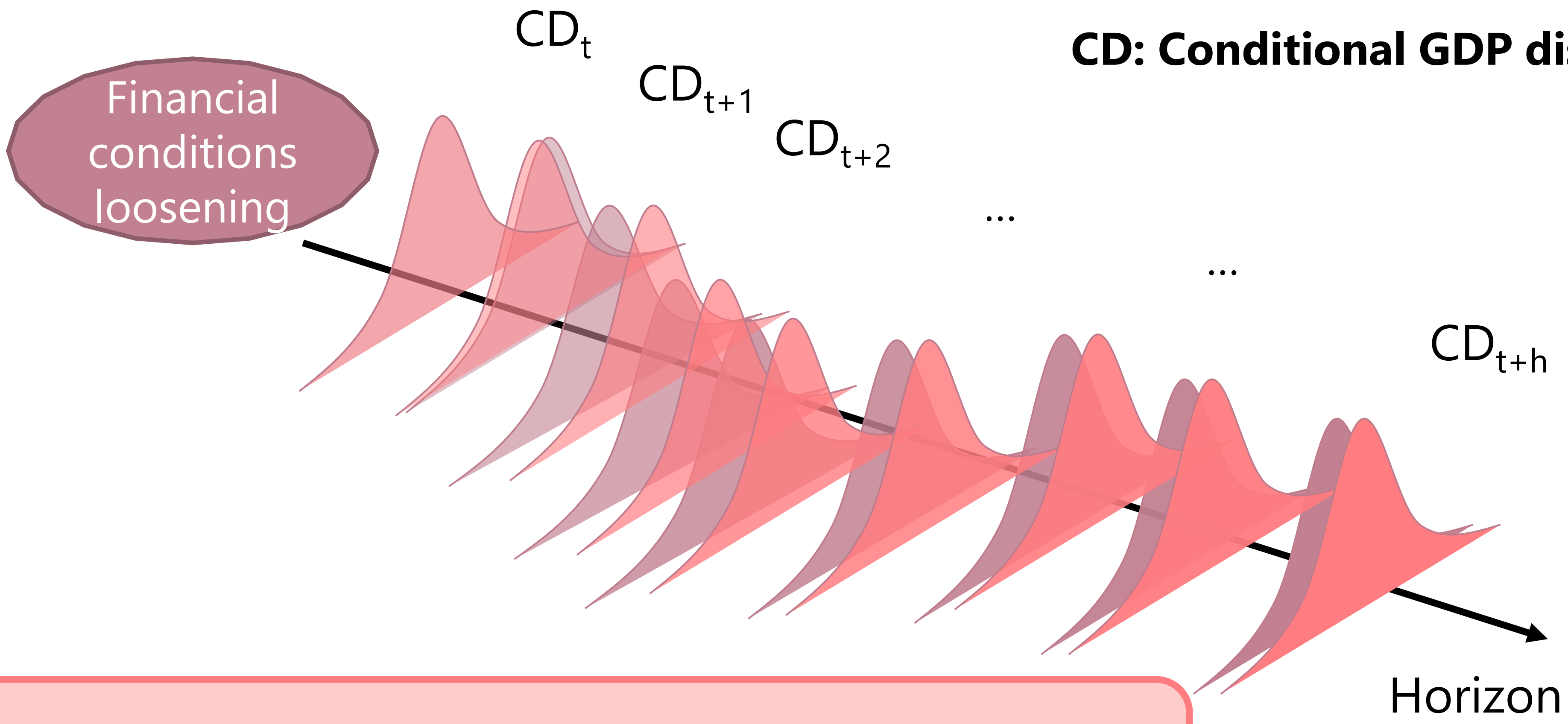
Complexities in macropru requires relatable metrics

- A few macroprudential authorities have started to assess and communicate their macroprudential stance within a cost-benefit framework, including Ireland.
- These frameworks, however, are still nascent; identifying and quantifying the relevant costs remain significant challenges (Banerjee and Wooldridge 2024).
- Growth-at-Risk frameworks based on Adrian et al (2019) have increasingly found use. Examples include, among others:
  - Brandao-Marques, Gelos, and Nier (2020); Franta and Gambacorta (2020)
  - Bundesbank (2021)
  - Suarez (2021); Cecchetti and Suarez (2021)
  - Cucic et al (2023)
  - Galan (2024); Škrinjarić (2024); ESRB (2024)
- Mostely take intertemporal dimension only partially into account

Assessing overall intertemporal effects

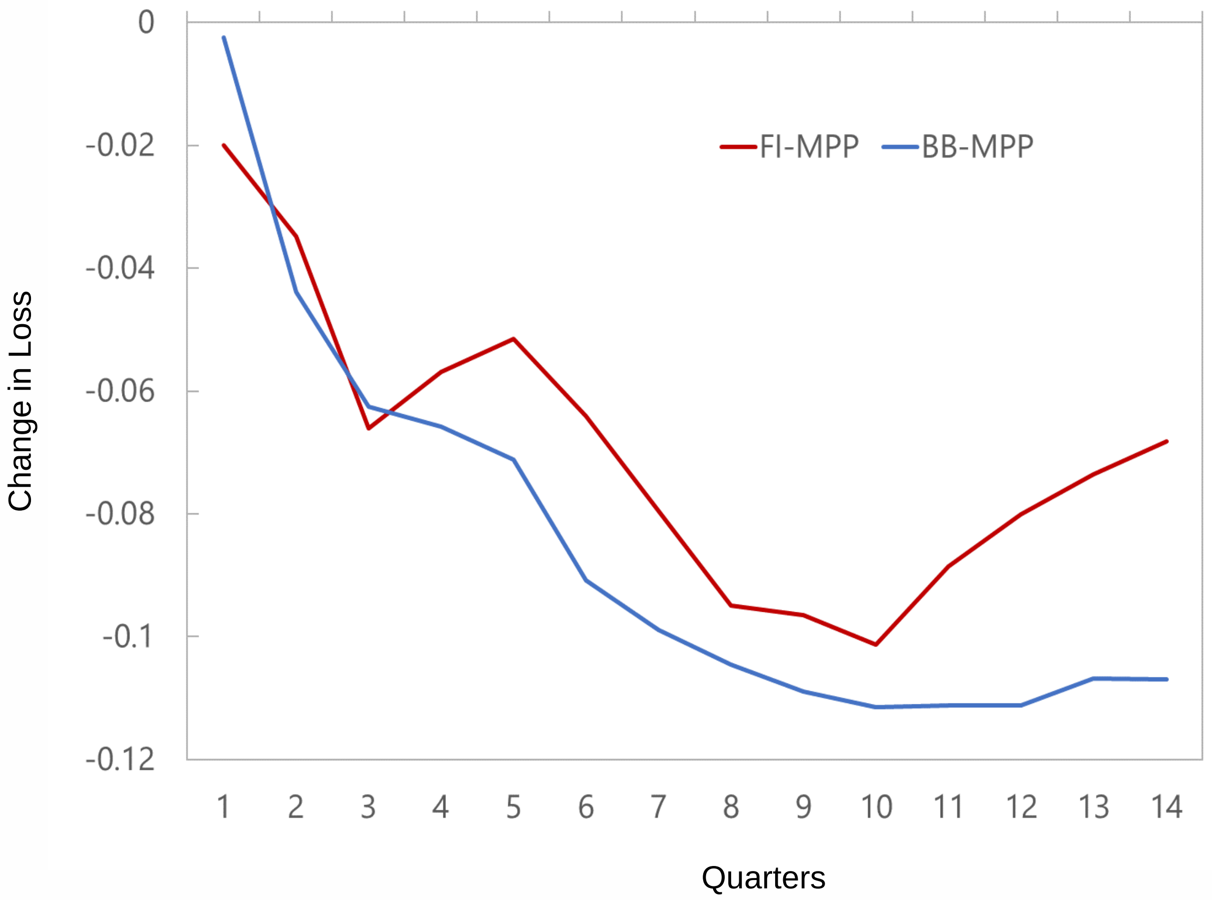


CD: Conditional GDP distribution

Summary statistic➔Compute quadratic loss functions with estimated distributions

Source: Brandao-Marques, Gelos, Narita and Nier (2020)

Cross-country evidence: reduction in macroeconomic losses from tightening of macroprudential tools in response to looser financial conditions



Based on quadratic loss function

Source: Brandao-Marques and others (2020).

Note: The figure shows the cumulated change in the loss function when comparing a scenario of loose financial conditions without policy tightening to one where policy is tightened. BB-MPP = borrower-based macroprudential policy; FI-MPP = financial-institutions-based macroprudential policy. The horizontal axis shows the number of quarters since the time of the loosening shock of financial conditions and macroprudential tightening.

Thank you

Complexities in communicating about macroprudential policy

- Financial stability not directly measurable
- Evidence on nature and size macroprudential effects mounting, but still open questions
- Effects mostly not immediate, accrue over time (Brandao Marques et al 2021, Chen et al 2024). Effects inherently probabilistic & complex.
- Wide arrange of tools with different and possibly interacting effects
- Communication on financial stability also aimed at altering behaviour.
- Type I vs type II error: crying wolf too often vs neglecting to warn of risks.
- Although overall short-term costs for the economy seem small (Brandao Marques et al 2022, Richter et al 2019), intertemporal trade offs.
- Direct effects very noticeable to affected segments ➔ political dimension.

Macroprudential governance

- Heterogeneity of macroprudential institutional arrangements across countries
- Many have financial stability committees (FSCs). But many are only advisory bodies with mostly coordination and information purposes (Edge and Liang 2019)

Governance and communications

- Jurisdictions with one body responsible for macropru have tended to be more transparent, publishing regular reviews of policy.
  - Greater operational independence has facilitated more regular reviews of policy calibrations.
  - Clarity of objectives has helped to enhance accountability.
  - Having a hierarchy of objectives (eg those related to political considerations), has helped make tradeoffs more transparent.
- Having tools which meet objectives without adjustment would be especially helpful. In particular, it mitigates inaction bias due to governance deficiencies. It also implies less need to regularly communicate of policy changes.
- Authorities should be open about the cost-benefit tradeoffs
  - If macropru authorities had better quantitative cost-benefit frameworks, it would very much help communication.

Central Banks, Financial Stability Committees and Decisions

Financial Stability Committees (Edge and Liang, 2020):

- FSCs with strong governance (formal legal basis, voting mechanisms, authority over macroprudential tools etc.) significantly more likely to activate the CCyB.
- Probability of CCyB activation more sensitive to credit growth with strong FSC governance.
- Either the FSC or the Ministry of Finance has direct authority to set the CCyB ➔ substantially higher probability of activating it, compared to when the authority lies with the central bank or bank regulator
- Smaller FSCs (fewer agencies) more likely to implement the CCyB than larger ones

Ambiguous evidence on central banks' role:

- More prominent central bank role in macroprudential policy decisions is associated with a stronger macroprudential response to credit shocks (Kim, Mehrotra and Shim 2025)
- But when in charge, independent central banks are less likely than Ministries of Finance to tighten macropru policy in when credit expands (Lepers 2024)

Communication by Central Banks (Londono, Claessens & Correa 2021)

- CBs that are part of Financial Stability Committees (FSCs), esp. those with legal mandates & decision-making authority, communicate more effectively about financial stability risks.

- Communication by CBs is more credible and effective when backed by governance structures allowing for coordinated policy responses.

- CBs with macroprudential responsibilities tend to maintain a calmer tone in their financial stability reports (FSRs) during periods of market stress.

- Where strong governance exists, deteriorating sentiment is followed by policy action (e.g., macroprudential tightening), making the sentiment less predictive.

- **Alignment of communication with institutional mandates and policy capacity strengthens its effectiveness. Communication works best when it signals potential action.**