International Monetary Fund

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IMF Executive Board Discusses Key Aspects of Macroprudential Policy

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On July 1, the Executive Board of the International Monetary Fund (IMF) concluded discussions of a staff paper on "Key Aspects of Macroprudential Policy."

The crisis has underscored the costs of systemic instability at the national and global levels and highlighted the need for macroprudential policies to achieve financial stability. Building on recent advances, this paper proposes a framework to inform the IMF's country-specific advice on macroprudential policy. Synthesizing lessons from previous staff papers, existing research, and the international experience, the paper offers analysis of key issues arising in ensuring the effectiveness of macroprudential policy.

The paper first recalls the definition and sets out the scope of macroprudential policy, drawing on previous papers discussed by the Board. It then examines interactions between macroprudential and other public policy areas; describes key steps in operationalizing macroprudential policy; and discusses issues to be considered when setting up the institutional framework underpinning macroprudential policy. The paper also examines multilateral aspects that can arise from a lack of action of national authorities, imperfectly aligned financial cycles and conflicts between home- and host authorities of cross-border institutions.

The paper recognizes that developing macroprudential policy will remain work in progress in the years to come and highlights the main challenges and limitations of macroprudential policy. The paper finally sets out the role of the Fund, in partnership with international standard setters and national authorities, to help ensure that macroprudential policy can be pursued effectively in support of domestic and global stability.

Executive Board Assessment

Executive Directors welcomed today's discussion on macroprudential policy. They noted that the papers build on previous work by Fund staff discussed by the Board and draw on the experience with macroprudential policy among the Fund's membership, as well as advances made by standard setters to date.

Directors welcomed the analysis and the general approach to this relatively new policy area, recognizing the still limited experience and the range of challenges in ensuring the effectiveness of macroprudential policy. They noted that the staff papers provide useful insights for policy discussions and a good basis for the Fund′s advice on macroprudential policy in its regular surveillance, financial sector assessments, and technical assistance. Nonetheless, Directors considered that developing macroprudential policy remains a work in progress, and urged the staff to continue to sharpen its analytical work, accumulate experiences, and advance our understanding of macro-financial linkages and conditions for effective macroprudential policy.

Directors broadly considered the definition of macroprudential policy and its objectives as appropriate. They stressed that macroprudential policy should be used to contain systemic risk, including systemic vulnerabilities from pro-cyclical feedback between credit growth and asset prices and from interconnectedness within the system, but that it should not be overburdened with other objectives. Directors also emphasized that macroprudential policy cannot substitute for sound macroeconomic policies.

Directors welcomed the analysis of interactions between macroprudential policy and other policies. They underscored that, to be effective, macroprudential policy needs to be complemented by appropriate monetary, fiscal, and other financial sector policies, and supported by strong supervision and enforcement. Directors noted the particularly strong linkages and complementarities between monetary and macroprudential policies: while pursuing its primary objective of price stability, monetary policy may have undesirable effects on financial stability and hence needs to take account of financial stability considerations; therefore, effective macroprudential policy can help reduce the burden on monetary policy, thus preserving the credibility of the latter.

Directors agreed that operationalizing macroprudential policy requires an ability to assess systemic risk, assemble and deploy macroprudential tools suitable for the goals, and monitor and close regulatory gaps. Directors also stressed the importance of access to information to evaluate systemic risk and an appropriate range of policy instruments. Clear communication of policy goals and strategies is also crucial for effective macroprudential policy insofar as it does not constrain the policymaker′s choice of tools. Directors saw a need to gain more experience in assessing the strength of transmission of macroprudential policy in practice.

Directors emphasized that strong institutional and governance frameworks are essential for the effective conduct of macroprudential policy, although the appropriate arrangements would clearly depend on individual country circumstances, including legal frameworks. They saw merit in establishing a well-defined scope of responsibilities and a clear accountability framework, enabling the policymaker to exercise a combination of powers suitable for different tasks. Directors generally considered that the central bank has an important role to play in conducting macroprudential policy, but that care must be taken to ensure that its independence is not undermined.

Noting that macroprudential action, or lack thereof, could create potential spillovers, Directors highlighted the need for international coordination. They noted that multilateral issues could be addressed by international standards, regional cooperation, and surveillance, although policy coordination would remain challenging in practice given different legislative setups and national priorities.

Most Directors agreed that the Fund should play a key role in contributing to the development of macroprudential frameworks, in collaboration with standard setters and country authorities and respecting the mandates of other international financial institutions. The Fund should use its existing instruments, including surveillance, the Financial Sector Assessment Program, and technical assistance, to facilitate its dialogue with national authorities on macroprudential policy. Directors underlined that the goals are to strengthen the institutional underpinnings for macroprudential policy; help analyze evolving risks, policy linkages, and spillovers; and advise on the policy response appropriate for each country. In an effort to close data gaps, care should be exercised to avoid overburdening financial institutions with reporting requirements. Some Directors stressed the need for the Fund to take a cautious approach, building up in-house expertise and conducting further research before drawing firm conclusions in this area.

Directors emphasized that, in developing a guidance note to staff to help guide its dialogue with country authorities, it will be important to ensure that Fund advice takes due account of country-specific differences and the evolving nature of macroprudential policy, and avoid a prescriptive approach. They offered many valuable suggestions for further research work by Fund staff, and encouraged periodic reviews of country practices that could inform further refinements of the Fund’s advice.

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