Tokyo Conference Discusses Enhancing Macroprudential Policy Frameworks

Participants at the Tokyo conference.

At a conference organized in Tokyo by OAP and financed by JSA, senior officials including those from 16 Asian economies shared their views on improving macroprudential policy implementation.

Since the advent of the financial crisis in 2008, many countries have been placing a new emphasis on macroprudential policies aimed at containing system-wide risks that could undermine the stability of the financial system. The global community, led by the G-20, has proposed a reform agenda to ensure consistent rules across countries and sectors.

On March 22-23, the implications of these developments for the Asia-Pacific region were discussed at a conference on Macroprudential Policy Implementation in Tokyo, organized by OAP (Regional Office for Asia and the Pacific) and funded by the JSA (Japan Administered Account for Selected IMF Activities).

The conference gathered central bankers and high-level officials from all over Asia, as well as experts from Europe and Latin America to discuss how to achieve a common understanding on the role of macroprudential policy in the broader public policy framework and identify more universal policy guidelines in this area.

Introducing the workshop, OAP Director Shogo Ishii underscored the "continuous call from the G-20 to enhance collaboration between the Financial Stability Board and the IMF to provide early warning of macroeconomic and financial risks and actions needed to address them."

Challenges in defining policy

Opening the event, former Bank of Thailand Governor Tarissa Watanagase pointed out that while countries in Asia have made strides in developing further resilience to shocks, they still face other risks, such as volatile capital inflows and cross-border interconnectedness that may pose risks of instability, thus leading to fears of financial distress.

"Asia's financial systems have recently shown more resiliency than other advanced economies, but they still need to better monitor risks of buildup of financial sector imbalances and to deploy macroprudential instruments more efficiently," she said.

"No institutional framework of macroprudential policy fits all countries alike, yet we know now that central banks should play a leading role for its unique expertise—albeit it is still important to involve the ministry of finance in a careful manner."

MCM Advisor Jacek Osinski emphasized that "central banks should play a prominent role in operationalizing macroprudential policy frameworks" adding that "systemic risk prevention and crisis management are different policy functions, which should be supported by separate organizational arrangements."

Enhancing accountability

Participants agreed that while governance arrangements have been recently strengthened in Asia, there is ample room to further enhance accountability and reduce the risks of political pressure. Additional work is required to advance clear mandates and rulemaking powers and to facilitate appropriate coordination mechanisms to support leading macroprudential authorities subject to formal accountability.

Macroprudential policies complement traditional macroeconomic policies to deal with the procyclicality of business cycles. In this regard, Johnny Ravalo from the Philippines' Bangko Sentral ng Pilipinas emphasized that financial stability "binds macro, monetary, financial, infrastructure, and fiscal policies together so that transaction-level risks can be understood in terms of their systemic implications."

In difficult environments, central banks need to achieve multiple aims, and to do this they need multiple tools. Complementing this view,

Barry Topf, from the Bank of Israel, stated that "macroprudential policy should be viewed in a broad context, tying together the two key goals of a central bank: price stability and financial stability. Macroprudential policy can and should support monetary policy; and at the very least not endanger it." Chayawadee Chai-Anant (Bank of Thailand) and Juda Agung (Bank Indonesia) underscored that macro-prudential measures should not substitute monetary policy efforts.

Effects on monetary policy

Participants underscored the need to further explore the interactions between monetary and macroprudential policies—including the circumstances under which such interplay may call for a coordinated implementation.

"A proper functioning of the transmission mechanisms of monetary policy requires a sound functioning of the financial system and an idea of the impact of macroprudential instruments on the transmission dynamics" underlined Renzo Rossini, of the Central Reserve Bank of Peru.

The effective implementation of an optimal integration between monetary and macroprudential policies was recognized as critical to preserve financial stability. Country participants noted, however, that developing better policy coordination in this area necessitates further technical work to analyze transmission channels and the costs associated with the use of particular instruments.

Survey findings

In presenting the main findings of a survey conducted by MCM, Senior Economist Rodolfo Maino stressed that the instruments that vary through the cycle exhibit advantages to cope with specific risks and that it remains useful to be able to adjust macroprudential instruments at different phases of the cycle. In this regard, Jun Il Kim, of the Bank of Korea, depicted the potential tensions between macro- and micro prudential authorities in deploying instruments during booms and downturns. Further, work is needed to better coordinate policies and to understand calibration issues. There is still an unclear view on the appropriate use of instruments against particular risks, such as those arising from capital flows and cross-border interconnectedness.

Monitoring Systemic Risks

Maino explained the nature and use of the monitoring toolbox employed in MCM to assess systemic risk. "Systemic risk measures and their relative merits should be analyzed from a policymakers' perspective, considering in particular the 'timeliness' of the signals and the types of risks they cover," he noted.

Tae Soo Kang, from the Bank of Korea, warned that high capital flow volatility weakens the ability to predict system-wide financial risk given the noises introduced in the monetary policy transmission channel. However, some actions that are appropriate for individual firms may collectively lead to, or exacerbate, system-wide risks, as stressed by Liao Min Director General of China Regulatory Commission. To overcome problems like these, Jouni Timonen, from the Bank of Finland, explained that the European Systemic Risk Board is currently using more scenario-based analysis with short- and medium-term perspectives to capture "fat tails."

Former Bank of Thailand Governor Tarissa Watanagase