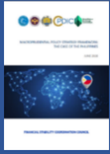
FINANCIAL STABILITY COORDINATION COUNCIL

AN EASY GUIDE TO THE MACROPRUDENTIAL POLICY STRATEGY FRAMEWORK: THE CASE OF THE PHILIPPINES



What is a Macroprudential Policy Strategy Framework?

This framework reflects the thinking of financial authorities, the institutional arrangements as well as the tools that will be used to sustain and enhance the health of the financial system. This health is specifically defined in terms of the system's resilience against "systemic risks."

What are systemic risks?

There are several academic models that focus on systemic risks but financial authorities now commonly refer to the definition provided jointly by the Financial Stability Board (FSB), the International Monetary Fund (IMF) and the Bank for International Settlements (BIS). Under the FSB-IMF-BIS definition, systemic risks are disruptions to any part of the financial system that specifically have the ability to adversely affect the rest of the economy.

Why is managing systemic risks important?

A financial market disruption only qualifies as being "systemic" if it has that ability to adversely affect the rest of the economy. An initial financial market disruption may be small but if it amplifies to affect other portions of the economy, this makes it systemic. The importance of managing systemic risks is simply because we do not want the economy to be at risk.

What are macroprudential policies?

Macroprudential policies are interventions used to manage systemic risks. The scope of concern is the financial system taken as a single unit. We do not focus on the health of individual institutions (which is the ambit of the micro regulator) and the system is not simply the sum of the different institutions. While some institutions may be designated as "systemically-important," the extent to which macroprudential policy has interest with them is limited to their impact on the system and not on the propriety of their day-to-day operations.

Are there different types of macroprudential policy interventions?

Macroprudential policies are typically classified either as those that manage systemic risks across different segments of the financial market or those that can create systemic risks over periods of time. With the former, the objective is to address structural imbalances at any point in time among the different financial market components. Issues of concentration, for example, come to mind. In the latter, the issue is whether incentives/regulations create risk behaviors that build up over time which, in the judgement of the authorities, should not be allowed to be sustained over prolonged periods. Here, macroprudential policy is deliberately countercyclical in intent.

What makes macroprudential policy distinct from other policy objectives?

There are similarities between macroprudential policy and other longstanding policy objectives of financial authorities. Like monetary policy, macroprudential policy is ultimately concerned with a strong macroeconomy. This is the point about systemic risks being defined specifically as having the ability to adversely affect the rest of the economy. And like banking supervision, macroprudential policy focuses on the financial market in the service of the financial consumer.

But there are also important differences. There will certainly be bank-level concerns that need not concern the macroprudential authority, just as there are macroprudential issues that are not specific to banks. In the same manner, inflation need not always be a macroprudential concern just as there are issues faced by the macroprudential authority that go beyond market liquidity. The point is that macroprudential policy has a different objective and is most concerned with the connectedness, complementarities, contagion, and correlation between risk behaviors that cause social outcomes to differ from the private choices of institutions.

Who are the authorities for macroprudential policy?

The revised charter (R.A. No. 11211) of the Bangko Sentral ng Pilipinas (BSP) explicitly recognizes Financial Stability to be a mandate of the BSP. This makes it the only authority in the country which has financial stability explicitly indicated in its Charter. A Board-level Financial Stability Policy Committee (FSPC) has been created to discuss and act upon the different financial stability concerns. The BSP Charter further states that in pursuing this policy agenda, we will coordinate with other government agencies, such as the Department of Finance, the Insurance Commission, the Philippine Deposit Insurance Corporation, and the Securities and Exchange Commission. These agencies, in fact, convene as the FSCC.

Who benefits from having a national strategy framework for macroprudential policy?

Having a national macroprudential framework in place that is specifically available to all benefits individuals as well as institutions. All stakeholders can better understand how the authorities think of systemic risks while being given the assurance that the pursuit of financial stability and the corresponding mitigation of systemic risks are being addressed at the highest level. Releasing the document also reflects the commitment of the FSCC to ensure that our financial market remains a value proposition that meets the needs of the public.

ABOUT THE FSCC: The FSCC is an inter-agency council composed of the BSP, the Department of Finance, the Insurance Commission, the Philippine Deposit Insurance Corporation, the Securities and Exchange Commission, with the participation of the Bureau of the Treasury. The Council identifies, manages and mitigates the build-up of systemic risks in the financial market, effectively safeguarding the broader economy. It was convened on 4 October 2011 and a Memorandum of Agreement among the member agencies was formally signed on 29 January 2014.

For inquiries, please contact us:
OFFICE OF SYSTEMIC RISK MANAGEMENT
Technical Secretariat of the FSCC
Bangko Sentral ng Pilipinas
Telephone No.: (+632) 5306-2938; Fax No.: (+632) 5306-2448
E-mail: fscc@bsp.gov.ph; Facebook: www.facebook.com/FSCCph