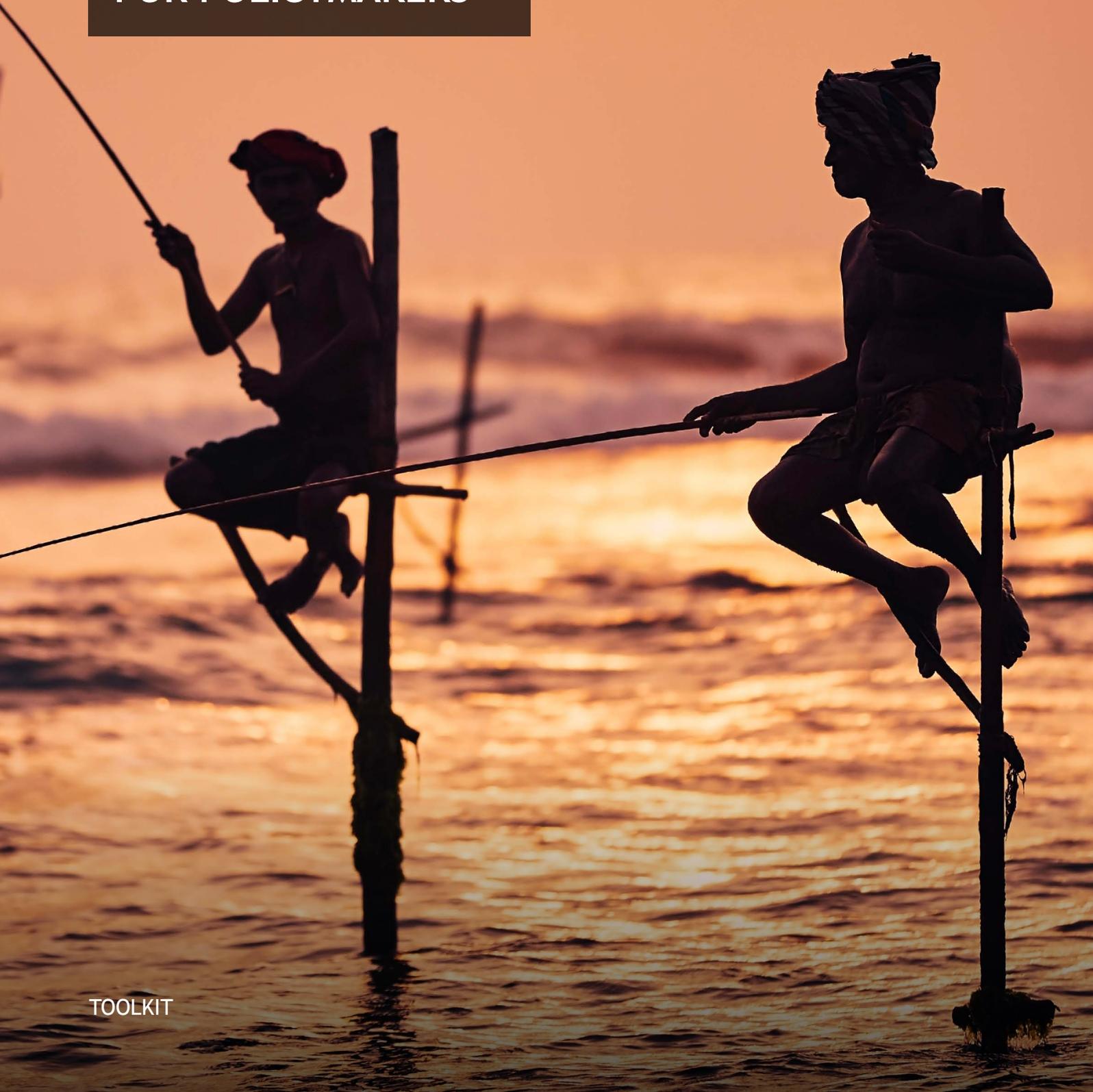




GLOBAL STANDARDS
PROPORTIONALITY (GSP)
WORKING GROUP

INCLUSIVE FINANCIAL STABILITY: A TOOLKIT FOR POLICYMAKERS



TOOLKIT

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INTRODUCTION

This toolkit is designed for financial policymakers, regulators, and supervisors, and other stakeholders involved in shaping national and regional financial stability agendas. It is particularly relevant for authorities developing or strengthening macroprudential frameworks and those integrating financial inclusion considerations into financial system oversight. The toolkit also serves as a reference for development partners, researchers, and industry practitioners aiming to understand and contribute to more resilient and inclusive financial systems.

How is the Toolkit structured?

The toolkit is designed to guide users from basic concepts to practical applications. It starts with an introduction to financial stability and macroprudential policy, then moves on to frameworks and tools for risk recognition, mitigation, and system resilience. The document also discusses integration with national financial inclusion strategies, regulatory coordination, and implementation methods. Each chapter features real-world examples, policy insights, and actionable recommendations to promote effective and inclusive financial stability planning.

The toolkit's chapters are structured as follows



1 | INTRODUCTION TO FINANCIAL STABILITY

Introduces the toolkit and explains the importance for central banks to develop robust frameworks that safeguard financial systems from systemic shocks, drawing lessons from the Global Financial Crisis.



2 | FINANCIAL STABILITY & MACROPRUDENTIAL POLICY

Explores how coordination among all stakeholders is crucial for effective macroprudential policies and how it helps to mitigate systemic risks and ensure the resilience of financial systems across regions. This coordination will in turn help to achieve financial stability objectives.



3 | FINANCIAL SYSTEM RESILIENCE

Focuses on operational resilience, the impact of systemic shocks, and the need for integrated policies that also safeguard financial inclusion. To ensure a resilient and stable financial system, the macroprudential framework should also incorporate financial inclusion aspects and elements.



4 | AN INTEGRATED & INCLUSIVE FRAMEWORK

Presents the foundational elements of a financial stability framework, highlighting the importance of governance, risk assessment, and iterative policy cycles.



5 | MANDATE & GOVERNANCE

Outlines the need for clear legal mandates and robust governance structures to ensure effective, accountable, and coordinated macroprudential oversight aligned with financial inclusion goals.



6 | SYSTEMIC RISK ASSESSMENT/
ANALYTICAL TOOLS

Introduces tools and methodologies to detect and assess systemic risks, emphasizing the integration of financial inclusion data for a more comprehensive risk analysis.



7 | POLICY INSTRUMENTS
& TOOLS

Presents a range of macroprudential instruments to mitigate systemic risks, with guidance on their application and potential implications for inclusive financial sector development.



8 | COMMUNICATIONS &
REPORTING

Highlights the importance of strategic communication and transparent reporting in building trust, shaping market behavior, and reinforcing inclusive financial stability frameworks.



9 | SUMMARY OF KEY
TAKEAWAYS

Presents consolidated insights and recommendations across all sections to guide future policymaking and stakeholder engagement.





1 INTRODUCTION TO FINANCIAL STABILITY

Definition

Financial stability can be defined as a condition in which the financial system - comprising financial intermediaries, markets and market infrastructures - can withstand shocks and the materialization of financial imbalances. This mitigates the prospect of disruptions in the financial intermediation process that are severe enough to adversely impact real economic activity.

The 2008-2009 Global Financial Crisis (GFC) showed that stronger macrofinancial links can cause a poorly functioning financial system to reduce monetary policy effectiveness, disrupt the economy, and trigger contraction. Financial stability is a collective responsibility of all financial authorities and stakeholders, not just the central bank. Effective cooperation among stakeholders is crucial, with the central bank playing a leading role. Active participation and coordination are essential for financial resilience.

Developing a Financial Stability Framework

The concept of financial stability has gained considerable attention, especially after the 2008 Global Financial Crisis (GFC). Before the crisis, financial systems worldwide were seen as stable because individual institutions appeared sound. However, the GFC exposed a major oversight: systemic risks had been accumulating across the entire financial system. The failure of interconnected institutions caused a domino effect, threatening the wider economy. This event led to a global reassessment of regulatory approaches. The crisis showed that relying solely on microprudential regulation was insufficient. Since then, numerous policy speeches, research, and international discussions have advocated for a macroprudential approach, which aims to monitor and manage risks to the entire financial system whole.

There is now a broad consensus among policymakers that a macroprudential approach must complement micro-level supervision. As Adair Turner (2010), then Chairman of the UK Financial Services Authority, stated:

“ [...] We need a new set of macro-prudential policy tools which will enable the authorities more directly to influence the supply of credit [...]. These tools are needed because credit/asset price cycles can be key drivers of macroeconomic volatility and potential financial instability [...]. ”

Similarly, Herve Hannoun (2010), Deputy General Manager of the BIS, emphasized:

“ To this microprudential base policymakers are adding a macroprudential overlay to address systemic risk. This overlay has two important dimensions. First, it seeks to ensure the stability of the financial system over time [...]. And second, the macroprudential overlay addresses the stability of the financial system at each point in time [...]. ”

These insights reinforce that macroprudential policy should be a core part of financial oversight, alongside monetary policy and microprudential regulation. Central banks are working to institutionalize this view, recognizing that financial system stability is an emergent property needing dedicated tools, surveillance, and coordination. While definitions vary, most agree that a stable financial system can absorb shocks without widespread disruptions. For central banks, this means the continuous, efficient functioning of key institutions and markets despite adversity means:

- Individuals can access their bank accounts and savings without concern.
- Businesses can conduct transactions and obtain credit as needed.
- Investors can buy and sell financial instruments in liquid and orderly markets.
- Banks can fund themselves through interbank markets or central bank facilities.

The GFC was a wake-up call for regulators and central banks worldwide, highlighting that the financial system can be unstable even if individual institutions seem solvent. This led to a shift towards a macroprudential approach, focusing on the interconnectedness of the financial ecosystem and risk buildup. Developing robust financial stability frameworks has become a priority. Unlike monetary policy, which targets price stability, macroprudential policy aims at financial stability, a more elusive goal. It involves various tools to improve lender solvency, borrower resilience, and stability, but changes are less frequent and more anticipated. The concept of financial stability is multifaceted with no single target, making effectiveness challenging to assess goal.

FIGURE 1.
BANK OF ENGLAND'S FINANCIAL POLICY COMMITTEE

The Bank of England's Financial Policy Committee (FPC) is prioritizing the enhancement of macroprudential oversight of operational resilience.

Evidence from the UK suggests that unexpected macroprudential policy announcements can reduce systemic risk in equity and bond markets. However, most policy announcements are anticipated and largely priced in by markets ahead of time. To build a fuller picture of the effectiveness of macroprudential policy, cross-country comparisons are needed, as they capture a wider range of policy experiences and market responses.

Source: Bluwstein, K. and Patozi, A. 2024. *The Effects of Macroprudential Policy Announcements on Systemic Risk*. Bank of England Staff Working Paper No. 1,080. July 2024. Available at: <https://www.bankofengland.co.uk/working-paper/2024/the-effects-of-macroprudential-policy-announcements-on-systemic-risk>

Operational Resilience and Financial Stability

Operational resilience refers to the ability of individual financial institutions, financial market infrastructures (FMIs), and the broader financial system to prevent, adapt to, respond to, recover from, and learn from operational disruptions. These disruptions may stem from internal failures—such as deficiencies in processes, systems, or personnel—or from external events like cyberattacks, natural disasters, or geopolitical incidents.¹

¹ Bank of England. 2024. Financial Stability in Focus: The FPC's macroprudential approach to operational resilience. Available at: <https://www.bankofengland.co.uk/financial-stability-in-focus/2024/march-2024>

Far from being isolated incidents, operational disruptions can have far-reaching consequences. They may serve as sources of systemic shocks or act as amplifiers of stress during periods of financial instability. In an increasingly digital and interconnected financial ecosystem, operational resilience is no longer just a matter of internal risk management—it is a cornerstone of financial stability.

FIGURE 2.
**STRENGTHENING OPERATIONAL RESILIENCE:
A FIRM-LEVEL FOCUS TO SAFEGUARD SYSTEM-WIDE
FINANCIAL STABILITY**

The Bank of England's Financial Policy Committee (FPC) is prioritizing the enhancement of macroprudential oversight of operational resilience to prevent system-wide disruptions in the financial system. With increasing digitalization and interconnectedness, operational resilience is vital for financial stability. The FPC emphasizes that firm-level resilience—the ability of individual financial institutions and infrastructures to manage risks—is key to overall system resilience.

Risks such as outdated systems, weak transformation programs, and heavy reliance on data increase the chance of incidents. Firms must address these through strong risk management and compliance with regulatory standards set by the Bank of England, PRA, and FCA.

The Financial Stability Board

The Financial Stability Board (FSB)² is an international body that monitors and makes recommendations about the global financial system. It plays an important role in drafting standards, guidelines and principles on capital requirements for banks, banking supervision and financial stability.

The FSB promotes global financial stability by coordinating authorities and standard-setters to develop and implement strong financial policies across sectors and borders, aiming to strengthen systems and stabilize markets authorities. More specifically, the FSB was established to:

² Financial Stability Board (FSB). About the FSB. Available at: <https://www.fsb.org/about/>

- Assess vulnerabilities affecting the global financial system as well as identify and review, on a timely and ongoing basis within a macroprudential perspective, the regulatory, supervisory and related actions needed to address these vulnerabilities and their outcomes.
- Promote coordination and information exchange among authorities responsible for financial stability.
- Monitor and advise on market developments and their implications for regulatory policy.
- Monitor and advise on best practice in meeting regulatory standards.
- Undertake joint strategic reviews of the international standard-setting bodies and coordinate their respective policy development work to ensure this work is timely, coordinated, focused on priorities and addresses gaps.
- Set guidelines for establishing and supporting supervisory colleges.
- Support contingency planning for cross-border crisis management, particularly regarding systemically important firms.
- Collaborate with the International Monetary Fund (IMF) to conduct Early Warning Exercises.
- Promote member jurisdictions' implementation of agreed commitments, standards and policy recommendations, through monitoring of implementation, peer review and disclosure.

An inclusive approach to Financial Stability and resilient financial sector

There is increasing recognition that financial inclusion and financial stability are complementary policy objectives that must be well aligned to enable effective financial sector policymaking. Financial stability - broadly defined as the ability of the financial system to withstand both endogenous and exogenous shocks and systemic risks - provides essential support for financial inclusion strategies. Conversely, a growing body of research indicates that financial inclusion, especially when combined with effective supervision and strategies to improve financial literacy, can enhance financial stability. For example, it can strengthen domestic deposits and contribute to diversifying the loan portfolios of financial institutions.

Banks in emerging markets and low-income countries

may face severe liquidity risk due to volatile deposits, which destabilize their funding and profitability. In addition, such liquidity risk would have negative impact on the intermediation function of the banking sector to transform deposit base into lending and investment to productive sectors of the economy.

Several growing studies provide evidence that small customers are a stable source of funding for banks and non-banks, contributing to reducing systemic risk in the financial system. Similarly, Ahamed & Mallick (2019) show that bank individual risk is reduced with broader financial inclusion in deposits. The researchers claim that, by reaching out to more customers, banks may collect cheap retail deposits and reduce their cost of funding, which in turn enhances their profitability and resilience.³ Furthermore, Adasme et al. (2006) suggest that losses on small loans are associated with lower systemic risk than the large, infrequent, and less predictable losses associated with large loans.⁴ Conversely, where levels of high financial exclusion persist, banks may rely on a narrower and more volatile deposit base, thereby adding to systemic risks (IMF, 2024).

Financial stability should be understood broadly, requiring not only analysis of macroeconomic and financial indicators but also informed judgement developed through stakeholder engagement and financial inclusion data. AFI members indicated that central banks' financial stability mandate should align with financial inclusion goals. They also requested practical guidance, such as a toolkit with key recommendations to integrate financial inclusion into their existing financial stability frameworks, ensuring alignment between financial inclusion and stability objectives.

This toolkit therefore provides practical guidance on aligning financial inclusion and financial stability with respect to the formulation and implementation of related policy and regulation of the macro-prudential framework.

In this context, central banks have several avenues through which they can continue to enhance their financial stability frameworks through incorporating financial inclusion considerations. This toolkit suggests a variety of areas where it would be useful to focus further efforts, while acknowledging that resource constraints mean progress will take time and must be phased.

³ Ahamed, M. and Mallick K., S. 2019. Is financial inclusion good for bank stability? International evidence, *Journal of Economic Behavior & Organization*, Volume 157, 2019, Pages 403-427, ISSN 0167-2681. Available at: <https://doi.org/10.1016/j.jebo.2017.07.027>

⁴ Adasme, Osvaldo, Majnoni, Giovanni & Uribe, Myriam. 2006. Access and risk - friends or foes? Lessons from Chile. Policy, Research working paper; no. WPS 4003 Washington, DC: World Bank. Available at: <http://documents.worldbank.org/curated/en/519511468216004095>



FINANCIAL STABILITY & MACROPRUDENTIAL FRAMEWORK

Safeguarding the Financial System through Coordinated Surveillance and Macroprudential Policy

The European Central Bank (ECB) safeguards the euro area’s financial stability by monitoring banking, insurance firms, investment funds, and financial market infrastructures. This surveillance aims to detect early vulnerabilities that could undermine the system’s resilience.

In performing these functions, the ECB works closely with the national central banks of the Eurosystem and the European System of Central Banks (ESCB), fostering a coordinated and comprehensive approach to financial oversight.

When potential threats to the stability of the financial system are identified—such as excessive credit growth, asset bubbles, or liquidity mismatches—the ECB and its partners deploy macroprudential policy tools to prevent or mitigate systemic risks before they escalate into crises.

The ultimate objective of macroprudential policy is to preserve the stability and smooth functioning of the financial system as a whole, ensuring it can support sustainable economic growth, even in the face of shocks or disruptions.⁵

⁵ European Central Bank (ECB). Financial stability and macroprudential policy. Available at: <https://www.ecb.europa.eu/ecb/orga/tasks/stability/html/index.en.html>

FIGURE 3. BANK INDONESIA’S COMPREHENSIVE APPROACH TO MACROPRUDENTIAL POLICY AND FINANCIAL INCLUSION

Bank Indonesia pursues macroprudential policies through initiatives to foster balanced, quality and sustainable intermediation; mitigate and manage systemic risk; as well as increase economic inclusion, financial inclusion and sustainable finance. In terms of task implementation, Bank Indonesia is authorized to perform the following in accordance with prevailing laws and regulations:



Understanding Financial Stability

At its core, financial stability is a matter of balance. The financial system constitutes an intricate network of interdependencies and interactions among various participants. Banks and insurance companies function as intermediaries, channeling funds from lenders and investors to borrowers. Financial markets,

including bond and money markets, directly connect those seeking capital with those willing to provide it. Additionally, payment and securities settlement systems – the fundamental infrastructure of financial markets—facilitate the secure movement of money and financial assets. However, a stable financial system must also be inclusive. Financial stability must go in hand and be aligned with financial inclusion.

Risks Emergence and propagation Across the System

Risks can arise at various levels and take many forms. For example, a widespread economic slowdown could leave homeowners with excessive debt and falling property values. As a result, banks that provided mortgage loans may face challenges as borrowers struggle to meet their repayment commitments. Likewise, a decline in emerging markets can negatively affect the economy by reducing demand for goods, leading to job losses in affected sectors. Such a downturn might also cause sudden sell-offs in debt, equity, and foreign exchange markets, thereby hindering business financing and limiting economic growth.

Therefore, risks and vulnerabilities in one part of the financial system can trigger cascading effects, disturbing stability and threatening overall financial health. An unstable financial system may also harm financial inclusion and vice-versa.

Macroprudential Policies for Risk Mitigation

To mitigate these risks, continuous monitoring of the financial system is essential. This allows for the early identification of potential threats and vulnerabilities, enabling appropriate interventions. Macroprudential policies act as a preventive measure at the national, sectoral, or institutional levels. For example, to prevent the emergence of a housing bubble, national authorities may impose stricter credit standards on banks, such as requiring higher down payments for mortgage loans. Such policy measures are usually coordinated and overseen by central banks (or the designated macroprudential authority), in consultation with other regulators. Additionally, central banks may require financial institutions to hold capital reserves above the minimum regulatory requirements to strengthen their resilience against potential financial shocks.

Political Economy and communications challenges

Maintaining financial stability is complicated further by political economy considerations, which hinder the timely implementation of stricter regulations before vulnerabilities fully emerge. Stability efforts can have distributional impacts and constrain market behavior, making effective communication vital for public understanding of policies and mechanisms.

Economic agents view risks as decreasing during good times and increasing during distress, leading to reluctance to curb risky profits early. Crafting strategies that warn key stakeholders and prompt behavioral changes is thus challenging.

More research is needed on how financial stability and inclusion relate, as macroprudential tools' role is not fully understood. However, there is consensus that stronger links between stability and inclusion are beneficial.

Political economy factors are crucial in macroprudential policy design. As governments take a more active role, they face political pressures. Embedding accountability, transparency, and operational independence in frameworks helps mitigate these risks. In some cases, parliamentary review of measures like LTV adjustments can boost legitimacy and shield regulators from political backlash stress.

Shaping Market Behavior Through Strategic Messaging

To enhance macroprudential policy, establishing communication frameworks that clearly convey risks to market participants is essential. This proactive approach increases awareness of financial vulnerabilities and highlights the long-term benefits of early action, reducing resistance and fostering stability. However, communication must be carefully calibrated; overly early or specific signals can lead to risky behavior, such as increased risk-taking before policy changes. Effective communication balances transparency, credibility, and caution to prevent procyclicality responses.

Evolving Frameworks for Financial Stability

As with every policy domain related to the financial sector, development of an inclusive financial stability framework is an ongoing task. The challenges are especially significant because this is still a relatively new policy area for many countries. While financial stability authorities worldwide have made progress in establishing national frameworks, globally the tools for accurately assessing the emergence and transmission of systemic risk remain at an early stage. Experience with policy instruments and their calibration, while growing, remains comparatively limited and challenging for many countries.

The first intermediate objective of macroprudential policy is to prevent excessive credit growth and leverage. The role of excess credit growth in causing financial crises has been well documented in the academic literature (Minsky, 1972; Barajas, Dell’Ariccia and Levchenko, 2007; Claessens, Kose and Terrones, 2008; Mendoza and Terrones, 2012).⁶ Its effects can be further amplified by excess leverage, which both facilitates credit growth and makes individuals and institutions less resilient to its reversal. A wide range of indicators have been constructed to monitor these risks, such as measures of aggregate and sectoral credit dynamics, bank leverage, and real estate price-based indicators.⁷

Limitations of Current Policy Tools

“ Deposit inclusion can bolster banks’ resilience by attracting more stable retail deposits. On the other hand, credit inclusion, while promoting loan diversification, may elevate bank idiosyncratic risk in competitive banking systems, where relaxed lending standards prevail. ”

(IMF, Systemic Implications of Financial Inclusion, 2024)

“ NCBs tend to increase systemic and idiosyncratic risks for CB through competitive pressure in the loan segment, although their involvement in deposit services enhances overall CB resilience. This underscores the importance of aligning FI efforts with macroprudential regulation. ”

(IMF, Systemic Implications of Financial Inclusion, 2024)

Policy tools to mitigate systemic risk in the financial system do exist but they are often blunt instruments and require further refinements and better coordination among financial policymakers and regulators (Caruana 2010) and may give rise to unintended consequences.⁸

FIGURE 4.
OVERVIEW OF FINANCIAL STABILITY
AND MACROPRUDENTIAL FRAMEWORK



UNDERSTANDING FINANCIAL STABILITY

The financial system is stable when it can withstand shocks.



RISKS IN THE SYSTEM

Risks can spread through the financial system in various ways.



MITIGATING RISKS

Macroprudential policies seek to limit financial risks.



POLICY CHALLENGES

Addressing risks and building support for policies can be difficult.

Figure 4 outlines the financial stability and macroprudential framework. Risks can spread through interconnected institutions, markets, and infrastructure, worsened by excess debt, downturns, or market shocks. Macroprudential policies aim to mitigate systemic risks, enhance resilience, and reduce vulnerabilities. However, addressing these risks involves political challenges, as building consensus and implementing pre-emptive measures can be complex in diverse economic and political contexts.

⁶ Enrique G. Mendoza and Marco E. Terrones. 2012. “An Anatomy of Credit Booms and their Demise”, National Bureau of Economic Research Working Paper 18379. September 2012. Cambridge, MA. Available at: <https://doi.org/10.3386/w18379>

⁷ Barajas, Adolfo, Dell’Ariccia, Giovanni & Levchenko, Andrei. 2007. “Credit Booms: The Good, the Bad, and the Ugly” (unpublished; Washington: IMF Research Department), IMF Working Paper.

⁸ Caruana, Jaime. 2010. Systemic Risk: How to Deal with It? BIS Other publications. February 2010. Basel. Bank of International Settlements. Available at: <https://www.bis.org/publ/othp08.htm>



3 FINANCIAL SYSTEM RESILIENCE

From a public policy standpoint, financial regulatory frameworks constitute a fundamental component in mitigating systemic risk. However, their effectiveness may be limited when applied in isolation, given the multifaceted nature of such risks. To comprehensively address these challenges, a coordinated approach incorporating other policies is imperative.

Integrating Policy Alignment and Inclusive Stability

Policy alignment must be pursued not only at the national level—ensuring coherence between monetary policy, fiscal policy, and both macro- and microprudential regulations—but also through international cooperation to enhance global financial stability.

Moreover, crucially another category of measures warrants attention. These include initiatives aimed at reinforcing market discipline, promoting transparency, strengthening governance structures, aligning incentives, upholding market integrity, safeguarding consumer protection and financial inclusion. The implementation of such measures is instrumental in bolstering market confidence, enhancing institutional resilience, and curbing excessive risk-taking.

If not carefully designed and calibrated, analytical and policy instruments to monitor and curb excessive credit growth and leverage may inadvertently undermine progress on financial inclusion.

It is therefore important to integrate financial inclusion considerations into the financial stability framework to ensure a balanced, comprehensive, and inclusive approach.

The Nature of Systemic Shocks and Their Impact on Financial Inclusion

A systemic shock may take two main forms (Caruana 2010):⁹

1

The financial system is a network of interconnected balance sheets. As a result, an increasingly complex web of daily transactions means that a shock hitting one institution can spread to the other institutions that are connected to it and become systemic. Financial crises usually start with problems in one specific financial institution. Because of settlement and interbank linkages, the failure of each of these specific firms threaten wider problems for connected institutions that were otherwise sound.

2

Alternatively, a shock can have wide ramifications and become systemic because of direct common exposures. By its nature, a nationwide downturn in commercial real estate or housing markets tends to have this character. As demonstrated during the global financial crisis, such common exposures can generate far-reaching international spillovers. Many practitioners initially described the crisis as a negative exogenous shock – a ‘meteor strike’ or ‘perfect storm’ – to capture its sudden and widespread impact.

Too often when financial crises happened, vulnerable segments of the population including low-income households, women and MSMEs have been disproportionately impacted, thereby impacting financial inclusion negatively.

⁹ Ibid.



AN INTEGRATED & INCLUSIVE FRAMEWORK

Building Blocks of an Effective Financial Stability Framework

An effective financial stability framework includes several key elements including: appropriate institutional and governance arrangements with agreed objectives; procedures and methods for identifying and assessing systemic risks to the financial system; a policy toolkit; and strategies for internal and external communication (IMF/FSB/BIS, 2016). These elements should be integrated into a mutually supporting process that leads to robust policy decisions and contributes to financial stability and economic development. Importantly, it is an iterative process - policy decisions (even decisions to take no action) are followed by ongoing analysis, further discussion and continued review of policy options through the committee process.

FIGURE 5.
ITERATIVE REVIEW OF RISKS AND POLICY OPTIONS

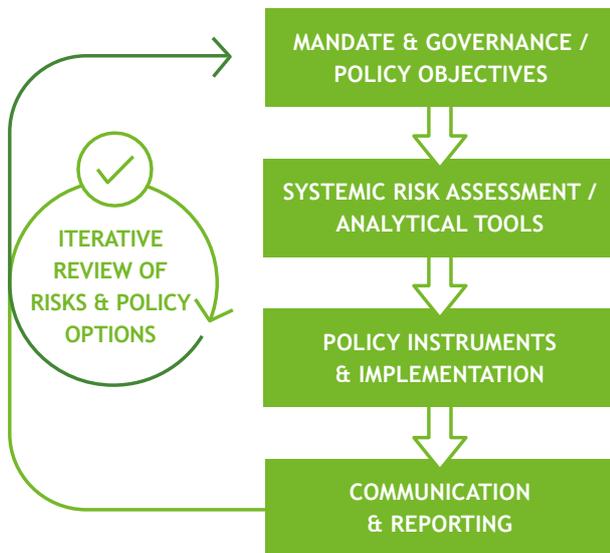


Figure 5 shows the cyclical, dynamic macroprudential policy process via an iterative review framework. It emphasizes that financial stability requires ongoing monitoring, assessment, and recalibration, not one-time actions.

The process begins with identifying systemic risks, then internal discussions, selecting and implementing tools, and evaluating outcomes. This feedback loop updates risk assessments, keeping policies adaptive. Stakeholder engagement and feedback promote evidence-based decisions and strengthen financial resilience through timely macroprudential responses measures.

Macroprudential Policy Decision-Making Cycle

International experience with the use of macroprudential policy instruments has grown dramatically over the past several decades, spurred by the GFC and more recently by the experience of the global COVID-19 pandemic. Nevertheless, many instruments are still relatively new, and policymakers are faced with some difficult decisions when responding to systemic risks.

Policy options may include broad-based approaches or more targeted measures which could be more challenging to implement. In addition, the objective might be to mitigate the systemic risk at its perceived source or simply to increase the overall robustness of the financial system so that it is better able to deal with the materialization of risks. Finally, many policy actions will have implications in other policy domains (for example, monetary policy) and may be implemented by different departments or authorities. Choosing among the available policy options requires assessing the likely trade-offs and is best undertaken within an established macroprudential decision-making structure that requires a substantial amount of interactions and information flow among many stakeholders internally and externally.

Figure 6 highlights the crucial role of data flow in supporting a coordinated macroprudential policy framework. It shows how timely, accurate data exchange among central banks, regulators, ministries, and inclusion-focused institutions is essential for effective decisions. The diagram depicts a multi-directional flow of quantitative data (like financial and inclusion indicators), qualitative insights (such as market intelligence and sector feedback), and analytical outputs (risk assessments, stress tests). This ongoing exchange helps identify vulnerabilities early, align institutions, and build trust and accountability in macroprudential governance. The figure underscores the importance of institutionalized data sharing and inter-agency dialogue for stable, inclusive oversight.

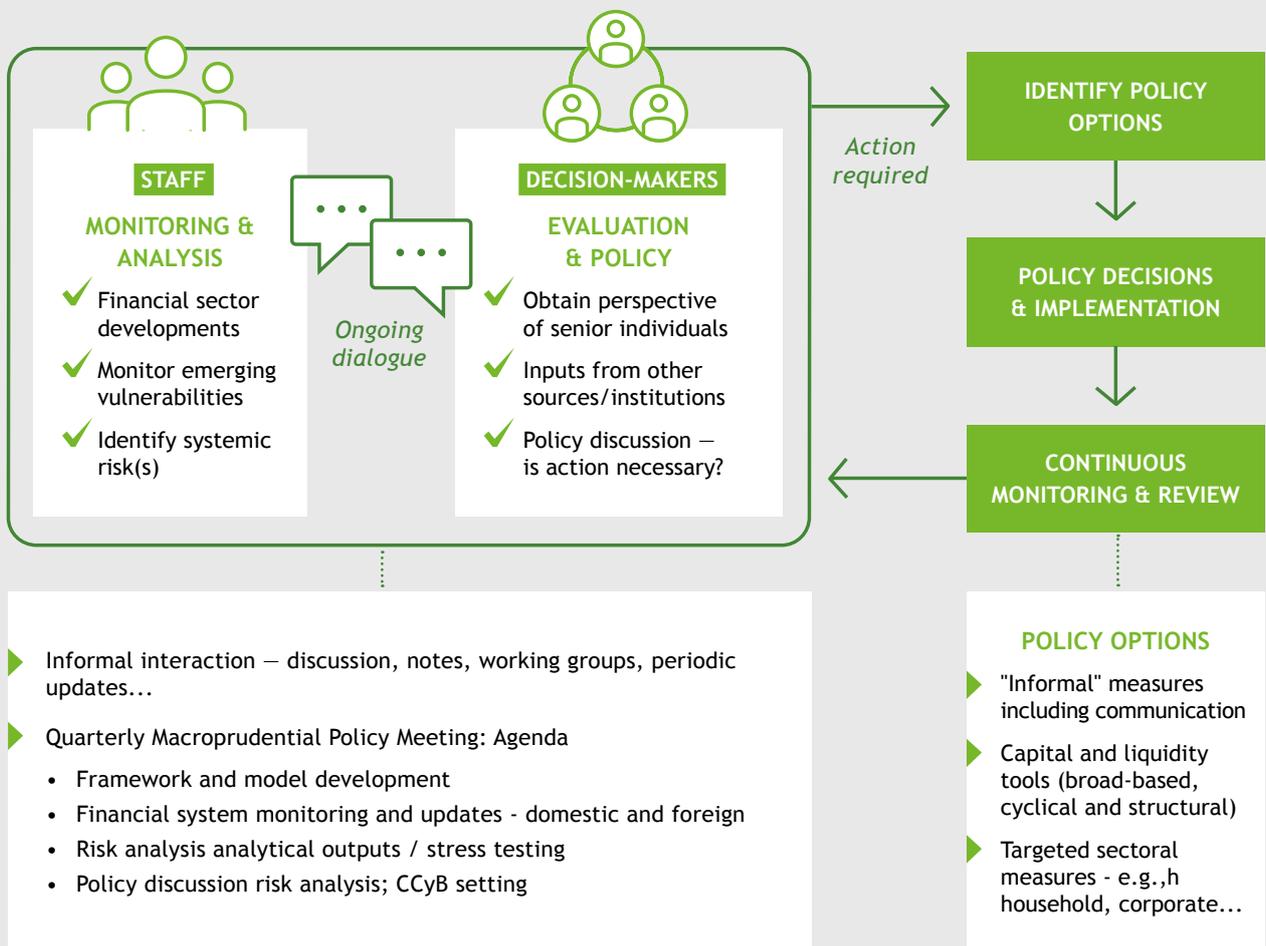
Many AFI members may have already adopted key macroprudential tools like capital buffers, liquidity requirements, bank lending, and foreign currency

exposures. They might be ready to implement more. Still, many macroprudential authorities focus on a few well-understood tools while gradually expanding their policy options over time.

Many countries are struggling when implementing an effective inclusive macroprudential policy decision-making framework due to a lack of:

- Clear mandate to align financial stability and financial inclusion.
- Structured mechanisms and processes to support interactions and coordination among stakeholders.
- Formal data sharing mechanisms among stakeholders to ensure that macroprudential analytical tools capture and analyses the financial inclusion data.

FIGURE 6. EFFECTIVE FLOW OF DATA AND INFORMATION TO SUPPORT ONGOING DIALOGUE AND COORDINATION AMONG KEY STAKEHOLDERS





5 INCLUSIVE FINANCIAL STABILITY MANDATE & GOVERNANCE

In most cases, central banks have developed a central bank policy that specifically refers to their role in maintaining financial stability. This is very positive. However, not all central banks have a clear and specific mandate with clear terms of reference as to how they would implement a macro-prudential framework.

Few central banks have a Memorandum of Understanding (MOU) establishing Macroprudential or Financial Stability Committees (MPC/FSC) with key stakeholders like the Ministry of Finance or Stock Exchange.

Where existing, these committees are chaired by the central bank or Ministry of Finance, often with voting members, usually holding a majority. Meetings are ideally quarterly, as specified in the Mou. Supporting these are working groups led by the central bank's Macroprudential Unit, focusing on risk analysis, policies, data, financial inclusion, and sustainable finance, drawing staff from various authorities.

There's a need to clarify the mandate for macro-prudential surveillance to ensure financial stability that includes financial inclusion considerations, as some AFI members highlighted that these are not always fully recognized. Addressing the definition of financial stability locally can better integrate financial inclusion into the framework strengthened.

RECOMMENDATION 1 / FRAMEWORK

- ▶ Complete or draft a comprehensive financial stability framework document that duly incorporates financial inclusion components. This document is essential as a fundamental articulation of the central bank's policy objectives within the domain of macroprudential policy, exemplifying how the central bank intends to fulfil its mandate through succinct summaries of decision-making processes, analytical methodologies, and principal policy instruments, including those related to financial inclusion elements.
- ▶ The document should not wait until the framework is "complete". Aside from the policy objectives, it can be treated as a living document that will be updated as research and experience lead to useful improvements. The document could be placed on the central bank's website to promote public understanding and accountability.

RECOMMENDATION 2 / WORKING GROUPS

- ▶ The working groups supporting MPC/FSC should be established and initiated promptly. These groups serve as an excellent mechanism to organize and guide staff efforts concerning inclusive macroprudential topics, and they effectively promote information sharing and collaboration. Such groups facilitate open discussions at an early stage, enabling the consideration of a broad spectrum of risks and policy options (i.e., "brainstorming") prior to raising specific concerns and recommendations to higher authorities. Additionally, they are valuable platforms for discussing emerging risks and concerns related to enhancing the inclusiveness of the financial stability framework.

RECOMMENDATION 3 / INTERMEDIATE COMMITTEE

- ▶ The central banks might consider an intermediate committee that is situated above the working groups but below the MPC/FSC. Composed entirely of CBs staff, it would allow for a full discussion of policy recommendations within the central banks before they are raised to the highest level at the central banks or taken "outside" the central banks through the MPC. While this review function can be undertaken informally, there are benefits to formally including it in the policy-making process.



BOX 1

STATE BANK OF PAKISTAN'S APPROACH TO ENSURING FINANCIAL STABILITY MANDATE



MANDATE AND OBJECTIVES:

Financial stability is one of the key statutory objectives of State Bank of Pakistan (SBP), as set out in the SBP Act 1956 [4B(2) and 4C(j)] and duly cascaded into the SBP's Vision and Strategic Plan. The Act mandates SBP with responsibility for ensuring the stability of the financial system and securing monetary stability. The stability of the financial system in turn is a key imperative for the monetary and price stability, paving way for a sustainable economic development.



INSTITUTIONAL ARRANGEMENTS

SBP has implemented a comprehensive Macroprudential Policy Framework (MPPF) in Pakistan that flows through several connected layers and functions designed to ensure financial stability. At the top is the Executive Committee (EC), the designated MPP authority, which ensures to secure the banking sector and overall financial stability by preventing systemic risks from building up over time or spreading via interconnected financial institutions. The EC is assisted by a dedicated Financial Stability Department, which conducts the systemic risk assessments. Beyond banking, an overarching National Financial Stability Council (NFSC) includes the Securities and Exchange Commission of Pakistan and the Ministry of Finance. The NFSC is mandated through an MoU to assess and manage risks affecting the wider financial sector and economy.



OPERATIONAL CONSIDERATIONS

SBP maintains a comprehensive framework and utilizes a variety of tools and methodologies to evaluate the impact of economic and financial developments on the stability of the financial system. The assessment procedures are adaptive and incorporate contemporary international best practices, including advanced tools, methodologies, and regulatory measures. Recent initiatives such as Risk-Based Supervision, the implementation of IFRS-9, and a comprehensive bank resolution framework have strengthened SBP's ability to oversee financial stability risks. Over time, numerous tools have been activated or adopted to address systemic risks, including those introduced during the COVID-19 pandemic.



COMMUNICATION OF MPP

An elaborated system of communication exists to inform stakeholders on the economic and financial stability, including financial inclusion. These include publications such as annual Financial Stability Review, Governor's Annual Report [under Section 39(3) of the Act] and a mid-year performance review of banking sector. The decisions taken by the EC and NFSC are disseminated to the regulated entities via circulars, circular letters and press releases. For public at large, special messages, interviews of the Governor or other senior officials, and explanatory podcasts are also broadcast.



SYSTEMIC RISK ASSESSMENT / ANALYTICAL TOOLS

According to 2025 interviews with AFI members, developing analytical tools to collect and analyze financial inclusion data is crucial for policymakers. While some parts of a macro-financial model are in place, its broader development is a long-term goal ongoing.

Data is the backbone of quantitative risk assessment. Many countries encounter challenges with the availability of quality and timely data and in particular lack of long historical data series covering a range of not only economic and financial data but also financial inclusion data and indicators. Collecting the right and relevant data to conduct comprehensive analysis of interactions between financial stability and financial inclusion is one area where most AFI members are facing major challenges and where research and technical support would be valuable.

Nevertheless, in some countries the data currently available may be sufficient for establishing several useful risk and financial inclusion indicators and these countries are working to improve their analytical tools. In addition, these countries should consider collecting additional data, including the development of bank lending surveys (BLS) if they are not currently doing so.

Qualitative data is an important complement to quantitative work. Interaction with knowledgeable individuals in the financial sector, and acquiring information from a broad range of sources (e.g. external analyses and discussion, academics, international contacts, etc.), provides an additional perspective on systemic risks and interactions between financial stability and financial inclusion. It is particularly helpful in the case of unusual or emerging risks that may not readily appear at an early stage in the financial data.

RECOMMENDATION 4 / QUANTITATIVE DATA

Undertake a targeted approach to obtaining additional data and information for risk analysis. The range of desirable quantitative data is broad, but in cooperation with colleagues in other departments of the central banks it is important to further identify key data requirements across financial sectors and systemic risk categories and review the options for obtaining additional data. Priorities include data on financial inclusion and how it interrelates with MSMEs, SMEs, corporate and household borrowing and on capital flows (and related currency and maturity mismatches). Areas of interest include inclusive insurance companies, shadow banking, real estate markets, and granular (or micro) data on household lending.

For the usage dimension of financial inclusion, a common indicator employed in the literature are the ratios of outstanding loans and deposits to GDP (Ahamed & Mallick, 2019; Danisman & Tarazi, 2020; Sarma & Pais, 2011; Wang & Luo, 2022). Moreover, Feghali et al. (2021) and Han & Melecky (2017) proxy the usage dimension with the number of depositors and borrowers per 1000 adults, available in IMF Financial Access Survey database (FAS).¹⁰

The choice of these two metrics to account for the demand side of financial inclusion overlook important dynamics. For instance, considering only the number of borrowers per 1000 adults may overstate inclusivity, as simply being a borrower does not ensure regular or significant borrowing.

¹⁰ Ben Naceur, Sami, Candelon, Bertrand & Mugrabi, Farah. 2024. "Systemic Implications of Financial Inclusion", IMF Working Papers 2024, 203. September 2024. Washington D.C. International Monetary Fund (IMF). Available at: <https://doi.org/10.5089/9798400290763.001>

Conversely, using solely outstanding loans to GDP may mask the concentration of loans among high-income clients, thus not adequately reflecting the potentially significant portion of the population excluded from borrowing activities.

RECOMMENDATION 5 / QUALITATIVE DATA

FOCUS ON QUALITATIVE DATA AND INDICATORS

AFI member countries should seek to enhance their access to qualitative information, which is an important component of a risk monitoring framework. This may cover a variety of external sources, including views emanating from the domestic financial sector, from international organizations (e.g. the IMF), credit rating agencies, and private sector analyses. These sources are particularly helpful in spotting previously unidentified or emerging risks and interrelationships between financial inclusion and financial stability.

Additionally, both measures might have different consequences for financial stability. Outstanding loans to GDP can be interpreted as a measure of financial deepening, which may not necessarily have the same implications for financial stability as broader inclusion of low-income borrowers (Sahay et al., 2015).¹¹

¹¹ Sahay, R., Cihak, M., N'Diaye, P., & Barajas, A. 2015. Rethinking financial deepening: Stability and growth in emerging markets. *Journal of Institutional Economics*, 17 (33), 73-107. Available at: <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1508.pdf>

Barajas et al. (2007) observe that, while in some countries financial deepening has followed an even path, in others it has been a bumpy process with sharp accelerations in aggregate credit, or credit booms, sometimes followed by episodes of financial distress and banking crises. In this regard, including numerous, small and diverse borrowers allows banks to mitigate the concentration of large loans, which are associated with larger and less predictable losses. (Adasme et al., 2006; Morgan & Pontines, 2014).¹²

RECOMMENDATION 6 / SURVEYS

IMPLEMENT FINANCIAL SECTOR SURVEYS TO BUTTRESS THE CENTRAL BANKS INFORMATION SOURCES ON FINANCIAL INCLUSION

Finalise the development of the surveys concerning MSMEs, SMEs households, and farmers in remote areas, as well as lending conditions. Prior to their execution, a consultation phase should be conducted to inform banks and non-bank financial institutions about the new survey and to gather more detailed feedback from a select number of banking institutions. Upon implementation, these surveys will constitute a significant contribution to the data resources available to the Macroeprudential Unit and will serve as a valuable point of contact with the banking sector.

¹² Loan size and systemic risk



7 MACROPRUDENTIAL POLICY INSTRUMENTS & TOOLS

Key policy instruments are vital for an effective macroprudential framework, aimed at enhancing financial system resilience and reducing systemic risks. The chapter classifies tools such as capital requirements, liquidity standards, credit measures, and structural safeguards, and discusses how they can be used individually or together to promote stability. Precise calibration is crucial, especially with the growing trend of financial inclusion, to avoid unintended consequences. Outlining this toolkit offers policymakers a practical basis for fostering an inclusive and stable financial system.

Macroprudential Instruments

Figure 7 outlines a comprehensive set of macroprudential instruments used by regulators and supervisors to identify, monitor, and mitigate systemic

risks across the financial system. These tools span multiple domains, including capital requirements, risk measurement, funding liquidity standards, and compensation practices. For instance, regulators may apply countercyclical capital buffers or time-varying loan-to-value ratios to moderate credit cycles and prevent asset bubbles. Supervisors can adjust prudential filters or require dynamic provisioning to address procyclical financial reporting practices.

The table also emphasizes measures such as profit distribution restrictions and contingent capital mechanisms that build resilience during economic booms and ensure sufficient buffers during downturns. Importantly, many of these instruments aim to shift behavior across the financial sector by aligning incentives, limiting excessive risk taking, and encouraging long-term stability. During the interviews with AFI members it was noted that sometimes there may be some confusion between macroprudential policy tools and microprudential policy tools and their objectives, hence the focus in this toolkit on examples of macroprudential policy tools to maintain financial stability.

Whilst many macroprudential authorities have these policy tools in their toolbox, the impact of these tools on financial inclusion is currently not well understood and requires further examination.

Overall, the table reflects the layered, proactive nature of macroprudential policy, which differs from traditional micro prudential tools by targeting system-wide vulnerabilities rather than institution-specific risks.

FIGURE 7. MACROPRUDENTIAL INSTRUMENTS

INSTRUMENTS	EXAMPLES
1 RISK MEASUREMENT	
By Banks	Risk measures calibrated through the cycle or to the cyclical trough
By Supervisors	<ul style="list-style-type: none"> • Cyclical conditionality in supervisory ratings of firms • Develop measures of systemic vulnerability (e.g. commonality of exposures and risk profiles, intensity of inter-firm linkages) for calibrating prudential tools • Communication of official assessments of systemic vulnerability and outcomes of macro stress tests

2 FINANCIAL REPORTING	
Accounting Standards	Use of less procyclical accounting standards; dynamic provisions
Prudential Filters	<ul style="list-style-type: none"> • Adjust accounting figures as a basis for calibration of prudential tools • Prudential provisions as add-on to capital • Smoothing via moving averages of such measures • Time-varying target for provisions or for maximum provision rate
Disclosure	Disclosures of various types of risk (e.g. credit, liquidity), and of uncertainty about risk estimates and valuations in financial reports or disclosures
3 REGULATORY CAPITAL	
Pillar 1	<ul style="list-style-type: none"> • Systemic capital surcharge • Reduce sensitivity of regulatory capital requirements to current point in the cycle and with respect to movements in measured risk • Introduce cycle-dependent multiplier to the point-in-time capital figure • Increased regulatory capital requirements for particular exposure types (higher risk weights than on the basis of Basel II, for macroprudential reasons)
Pillar 2	Link of supervisory review to state of the cycle
4 FUNDING LIQUIDITY STANDARDS	<ul style="list-style-type: none"> • Cyclically-dependent funding liquidity requirements; Concentration limits • FX lending restrictions • FX reserve requirements; currency mismatch limits; open FX position limits
5 COLLATERAL ARRANGEMENTS	<ul style="list-style-type: none"> • Time-varying Loan-to-value (LTV) ratios • Conservative maximum loan-to-value ratios and valuation methodologies for collateral • Limit extension of credit based on increases in asset values • Through-the-cycle margining
6 RISK CONCENTRATION LIMITS	<ul style="list-style-type: none"> • Quantitative limits to growth of individual types of exposures • (Time-varying) interest rate surcharges to particular types of loans
7 COMPENSATION SCHEMES	<ul style="list-style-type: none"> • Guidelines linking performance-related pay to ex ante longer-horizon measures of risk • Back-loading of pay-offs • Use of supervisory review process for enforcement
8 PROFIT DISTRIBUTION RESTRICTIONS	Limit dividend payments in good times to help build up capital buffers in bad times
9 COMPENSATION SCHEMES	<ul style="list-style-type: none"> • Contingent capital infusions • Pre-funded systemic risk insurance schemes financed by levy related to bank asset growth beyond certain allowance • Pre-funded deposit insurance with premia sensitive to macro (systemic risk) in addition to micro (institution specific) parameters
10 PROFIT DISTRIBUTION RESTRICTIONS	<ul style="list-style-type: none"> • Exit management policy conditional on systemic strength • Trigger points for supervisory intervention stricter in booms than in periods of systemic distress

Macroprudential versus Micro-prudential Perspectives

Figure 8 presents a comparative overview of macroprudential and micro prudential approaches to financial regulation, highlighting their distinct objectives, risk perceptions, and implementation mechanisms.

Macroprudential policy is designed to limit systemic risk and protect the financial system, with the ultimate aim of safeguarding the broader economy from instability. It views risk as endogenous, arising from collective behavior and interconnected exposures across institutions, and calibrates controls through a top-down, system-wide lens.

In contrast, micro prudential policy focuses on the soundness of individual financial institutions, primarily to protect consumers, depositors, and investors. It treats risk as exogenous to the institution and tailors controls based on individual risk profiles using a bottom-up approach.

The table underscores how macroprudential oversight is essential for addressing common exposures and risk correlations that may be overlooked under micro prudential supervision alone. This distinction is critical for policymakers seeking to build resilience at both institutional and systemic levels, especially in increasingly interconnected financial systems.

The Macroprudential Toolkit

Figure 9 presents a structured overview of the macroprudential toolkit, categorizing instruments based on their objectives and functional areas within the financial system. The table captures the diverse tools available to policymakers to address systemic risk, organized under key headings such as capital buffers, liquidity requirements, credit-related measures, and structural tools.

These instruments serve either to increase financial system resilience to shocks (e.g. countercyclical capital buffers, liquidity coverage ratios) or to dampen the build-up of financial vulnerabilities (e.g. limits on loan-to-value or debt-to-income ratios).

Structural tools, such as systemic risk surcharges or restrictions on interbank exposures, target risks arising from interconnectedness and the “too-big-to-fail” nature of certain institutions. By mapping out these instruments, Table 8 underscores the importance of a holistic, flexible, and risk-based approach to macroprudential policymaking. It highlights that no single tool is sufficient in isolation; rather, a coordinated use of complementary instruments is necessary to pre-empt financial instability and promote long-term system resilience, particularly in dynamic or rapidly evolving financial environments.

FIGURE 8. MACRO- VERSUS MICROPRUDENTIAL PERSPECTIVES

	MACROPRUDENTIAL	MICROPRUDENTIAL
Proximate objective	Limit financial system-wide distress	Limit distress of individual institutions
Ultimate objective	Avoid macroeconomic costs linked to financial instability	Consumer (investor/ depositor) protection
Characterization of Risk	“endogenous” (dependent on collective behavior)	“Exogenous”(independent of individual agents’ behavior)
Correlations and common exposures across institutions	Important	Irrelevant
Calibration of prudential controls	In terms of system-wide risk; top-down	In terms of risks of individual institutions; bottom-up

Source: Borio (2003), BIS Working Paper. *Towards a macroprudential framework for financial supervision and regulation?*

FIGURE 9. THE MACROPRUDENTIAL TOOLKIT

	POLICY TOOL				
	Restrictions related to borrower, instrument, or activity	Restrictions on financial sector balance sheet (assets, liabilities)	Capital requirements, provisioning, Surcharges	Taxation, levies, other	Other (including institutional infrastructure)
Expansionary phase	Time varying caps/ limits/ rules on: > Margins, haircuts > Lending to sectors > Credit growth	Time varying caps/ limits on: > Mismatches (FX, interest rate) > Reserve requirement	Counter cyclical capital requirements, leverage restrictions, general (dynamic) provisioning	Levy/tax on specific assets and/or liabilities	Accounting (e.g., varying rules on mark to market) Changes to compensation, market discipline, governance
Contractionary phase: fire-sales, credit crush	Adjustment to specific loan-loss provisioning, margins or haircuts (e.g., through the cycle, dynamic)	Liquidity limits (e.g., Net Stable Funding Ratio, Liquidity Coverage Ratio)	Countercyclical capital requirements, general (dynamic) provisioning	Levy/tax (e.g., on non-core liabilities)	Standardized products-OTC vs. on exchange Safety net (Central Bank/Treasury liquidity, fiscal support)
Contractionary phase: fire-sales, credit crush	Varying restrictions on asset composition, activities (e.g., Volcker, Vickers)	Institution-specific limits on (bilateral) financial exposures, other balance sheet measures	Capital surcharges linked to systemic risk	Tax/Levy varying by externality (size, network)	Institutional infrastructure (e.g., CCPs) Resolution (e.g., living wills) Varying information, disclosure
	Enhancing resilience	Dampening the cycle		Dispelling gestation of cycle	

Source: Stijn Claessens. 2014. *An Overview of Macroprudential Policy Tools*. IMF Working Papers 2014, 214. (2014). December 2014. Washington D.C. International Monetary Fund (IMF). Available at: <https://doi.org/10.5089/9781484358115.001>

RECOMMENDATION 7 / RESEARCH

Conduct more research to understand the impact of macro-prudential policy tools on financial inclusion and discuss more extensively the impact with stakeholders.

Broader FI may increase financial risks if it results from the expansion of relatively unregulated parts of the financial system. One way to mitigate the decrease in lending standards of CB caused by the entrance of non-traditional banks is to increase capital requirements, as banks are less tempted to engage in riskier loans if a larger portion of their own capital is at stake.

(IMF, Systemic Implications of Financial Inclusion, 2024)

Our analysis encompasses macroprudential regulation at country-levels and adherence to Basel III guidelines at bank-levels. These policies enhance banking sector resilience by curbing individual banking risk-taking incentives, especially during periods of rapid FI expansion.

(IMF, Systemic Implications of Financial Inclusion, 2024)



COMMUNICATIONS & REPORTING

Communication and transparency strategy is a cornerstone of maintaining and ensuring financial stability. Communication on financial stability issues by a central bank has been and will likely be watched even more closely in the future. The role and importance of communication cannot be underestimated. It has an important influence on the financial sector, markets and financial inclusion.

Both internal and external communication pose challenges for central Banks. Internal communication—within the bank and with partner agencies—is vital for a cohesive policy framework, requiring decision-makers to share structured information on financial developments, risks, and policy advice. Its effectiveness improves when senior decision-makers regularly offer guidance and share insights from discussions. Central banks need clear, transparent processes for continuous internal communication; it's not a one-off event. This also involves data sharing across departments and agencies, which remains a challenge for many AFI members. External communication helps build understanding of systemic risks and public support for policy measures. Many AFI members have a Macroprudential or Financial Stability Unit producing comprehensive Financial Stability Reviews, with increasing analytical depth and plans for more frequent publication. However, timely completion with limited resources is challenging, and a lack of relevant data, especially on financial inclusion, hampers quality analysis.

RECOMMENDATION 8 / INTERNAL DIALOGUE

Firmly establish the ongoing dialogue between staff and senior decision-makers that underpins the macroprudential framework.

- ▶ To support the established Financial Stability Committee, as well as senior decision-makers generally, develop a comprehensive set of reporting packages concerning developments within the financial system, pertinent international advancements, and the recent progression of associated risks. Discussions among staff regarding policy options and recommendations should be incorporated where appropriate. Additionally, at less frequent intervals, discussions should be initiated on risks of a more speculative or atypical nature. This decision-making process should also encompass elements of financial inclusion data.
- ▶ Encourage robust communication from senior decision-makers to staff. Senior decision-makers gather extensive relevant information through their high-level contacts and discussions, both domestically and internationally. While it is essential to ensure that only appropriate information is shared, the knowledge and guidance provided assist staff in focusing their analysis and enhance their awareness of significant developments elsewhere, including matters related to financial inclusion. This may include selective debriefs for staff following relevant senior-level briefings meetings.

RECOMMENDATION 9 / EXTERNAL ENGAGEMENT

- ▶ Enhance staff interaction with external contacts, both in the domestic financial system (e.g. with staff at financial institutions) and internationally (via international meetings, conferences, working groups, training programs, etc.). Informal exchanges can provide useful perspectives and help interlocutors to understand the views and policy thinking of the macroprudential authorities and agencies responsible for financial inclusion. International contact provides a wealth of information on analytical research, systemic risks in other financial systems, and the impact of policy measures.

RECOMMENDATION 10 / PUBLIC COMMUNICATION

Within the context of a comprehensive “communications package”, enhance the role of other forms of public communication to promote the visibility and understanding of financial stability issues and policies including how financial stability interacts with financial inclusion and vice-versa. This might take the form of additional speeches, press releases, press conferences, or shorter documents and infographics. These actions can influence public and financial sector behavior in beneficial ways that reduce systemic risk and improve the overall effectiveness of policy measures.

RECOMMENDATION 11 / ONLINE HUB

Establish an online Financial Stability Hub that combines data, research and expert commentary and other information in one easily accessible location. This is essentially an online site managed by the central bank that incorporates all pertinent material on financial stability and organizes it in a manner readily accessible to the public. Advanced versions of these hubs include videos, interactive charts, and backgrounders aimed at a wide audience. Some internal papers, appropriately modified, can also be included on the website. An internal version of the Hub can also be created that contains confidential data and information, to be used by the appropriate staff from the member institutions of the Financial Stability Committee and macroprudential working groups.

The central bank of the Philippines provides some good examples of elements of transparency and communication. The central bank provides clearly some key aspects of the financial stability framework and the composition of a key committee.¹³

¹³ Bangko Sentral ng Pilipinas. 2020. Macroprudential Policy Strategy Framework: The Case of the Philippines. Available at: <https://www.bsp.gov.ph/Pages/FinancialStability/MacroprudentialPolicyStrategyFramework.aspx>



A CASE STUDY OF THE BANGKO SENTRAL NG PILIPINAS: Institutionalizing Financial Stability through the Financial Stability Coordination Council

Financial systems are inherently complex and interdependent. Shocks in one segment, be it banks, markets, or insurance, can ripple across the broader economy. In response to such challenges, many central banks have developed new frameworks for identifying, assessing, and mitigating systemic risks. The Philippines stands out for its early and comprehensive adoption of a macroprudential approach, spearheaded by the Bangko Sentral ng Pilipinas (BSP). Central to this effort is the Financial Stability Coordination Council (FSCC) - an inter-agency body that provides a coordinated platform for monitoring systemic risks and crafting targeted policy interventions.

Established in 2011 and formalized over the years, the FSCC has since evolved into a cornerstone of the country’s financial oversight framework, ensuring communication and coordinated action across regulatory bodies. Its structure, communication strategy, macroprudential toolkit, and crisis management protocols collectively demonstrate a strong commitment to preserving financial stability.

1 Creation and Structure of the FSCC

The FSCC was created in recognition of the limitations of siloed regulatory oversight. It embodies the belief that financial stability is a shared responsibility across institutions. The FSCC brings together the heads and senior representatives of:

- Bangko Sentral ng Pilipinas
- Department of Finance
- Philippine Deposit Insurance Corporation
- Securities and Exchange Commission
- Insurance Commission

This multi-agency composition reflects the diversity of systemic risks across the financial ecosystem—banking, capital markets, insurance, and fiscal policy. The council is structured to operate at both strategic and operational levels:

- Executive Committee - Composed of agency heads, providing high-level direction
- Inter-Agency Technical Working Group - Handles day-to-day coordination and technical assessments
- BSP’s Office of Systemic Risk Management - Acts as the secretariat and analytical engine of the FSCC

The structure facilitates consensus-building and policy harmonization across authorities, allowing macroprudential concerns to be addressed from a multi-perspective, system-wide lens.

FIGURE 10. THE FSCC’S INSTITUTIONAL STRUCTURE AND COLLABORATIVE APPROACH

FINANCIAL STABILITY COORDINATION COUNCIL

The FSCC brings together the heads and senior representatives of:



The council is structured to operate at both strategic and operational levels:



2 The Macroprudential Policy Strategy Framework

In June 2020, the FSCC published a detailed Macroprudential Policy Strategy Framework (MPSF) outlining the philosophy, strategy, and tools underpinning the Philippines' approach to financial stability. Key principles of the framework include:

Definition and Objective of Financial Stability

The BSP and FSCC define financial stability not merely as the absence of crises, but as a resilient system that delivers its key functions (capital allocation, intermediation, risk distribution) even during stress events. Financial stability is treated as a public good, beyond the protection of individual institutions.

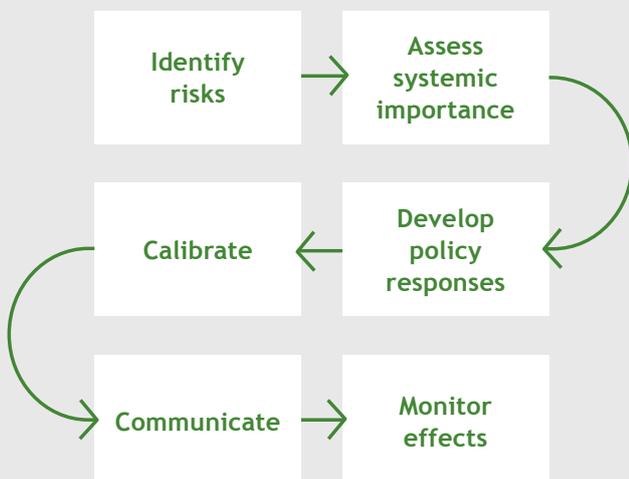
Systemic Risk Focus

Unlike micro prudential regulation, macroprudential oversight focuses on systemic risks, that are risks that may not pose a threat individually, but are dangerous due to interconnectedness, procyclicality, or contagion effects. The FSCC identifies key sources of systemic risk such as:

- Leverage and maturity mismatches
- Risk concentration and herd behavior
- Cross-sectoral interdependencies
- Common exposures to macro shocks

Toolbox and Policy Cycle

The framework outlines a structured policy cycle:



Macroprudential tools may include:

- Countercyclical capital buffers
- Loan-to-value and debt-to-income caps
- Sectoral capital requirements
- Liquidity coverage ratios
- Systemic risk stress testing

This allows the FSCC to act pre-emptively, mitigating the build-up of systemic vulnerabilities before they become crises.

3 The Role of the OSRM: Data, Analysis, and Surveillance

The Office of Systemic Risk Management (OSRM), formed within the BSP in 2017, is critical to the technical capacity of the FSCC. It:

- Serves as the data and analytics hub for systemic risk monitoring
- Produces regular macro-financial surveillance reports
- Facilitates cross-agency data sharing
- Coordinates with international bodies like the Financial Stability Board (FSB)

The OSRM ensures that decisions within the FSCC are data-driven, rooted in risk-based metrics such as network analysis, scenario modeling, and market liquidity stress testing. Notably, the OSRM is independent from BSP's monetary and supervisory functions, thereby reinforcing its objectivity and system-level focus.

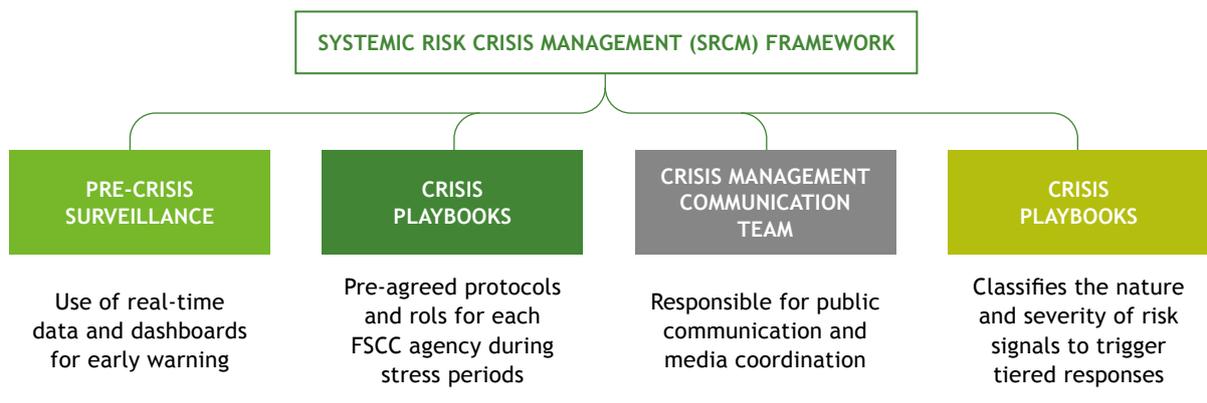
4 Systemic Risk Crisis Management Framework

The FSCC has also developed a Systemic Risk Crisis Management (SRCM) Framework, which lays out an institutional process for identifying, escalating, and managing potential crises.

At its core are four key components: **Pre-crisis Surveillance**, which uses real-time data and dashboards for early warnings; **Crisis Playbooks**,

outlining pre-agreed protocols and agency responsibilities during stress scenarios; the **Crisis Management Communication Team**, tasked with ensuring clear and timely public messaging; and the **Staging System**, which classifies the severity of risk signals to trigger proportionate, tiered responses. Together, these elements provide a coherent, agile response mechanism to safeguard financial stability.

FIGURE 11. SYSTEMIC RISK CRISIS MANAGEMENT FRAMEWORK



5 Communication and Transparency Strategy

Communication is a fundamental element of effective macroprudential policy. Recognizing that markets respond not only to actions but also to signals, the Financial Stability Coordination Council of the Philippines has incorporated a structured communication strategy as a key part of its financial oversight mandate. This

approach recognizes that clarity, consistency, and credibility in messaging are vital for anchoring stakeholder expectations, improving regulatory predictability, and bolstering trust in the financial system.

The FSCC's communication and transparency strategy is multi-layered, targeting different audiences—regulators, financial institutions, investors, and the general public—through a variety of platforms and tools:

FIGURE 12. COMMUNICATION AND TRANSPARENCY STRATEGY





REGULAR FINANCIAL STABILITY REPORTS

At the heart of its communication framework is the periodic publication of Financial Stability Reports, prepared with the technical input of the BSP's Office of Systemic Risk Management (OSRM). These reports:

- Provide in-depth analysis of current macro-financial trends
- Identify emerging systemic vulnerabilities
- Offer updates on policy responses and institutional coordination
- Serve as a reference point for stakeholders to assess the FSCC's risk outlook

The FSRs are publicly available and often accompanied by executive summaries and press briefings to ensure accessibility across a wide spectrum of users.



FAQS AND EXPLANATORY NOTES ON KEY FRAMEWORKS

To enhance public understanding of complex topics, the FSCC has developed Frequently Asked Questions (FAQs), concept notes, and simplified guides on documents such as the Macroprudential Policy Strategy Framework. These resources help demystify systemic risk concepts, explain the roles of various agencies, and clarify how macroprudential tools are selected and deployed. This “knowledge democratization” effort supports financial literacy and fosters broader stakeholder engagement.



DEDICATED FSCC WEB PORTAL

The FSCC maintains a dedicated online portal on the BSP's official website that serves as a central hub for financial stability-related information. The portal includes:

- Council announcements and meeting highlights
- Framework documents and policy updates
- Educational content on macroprudential policy
- Access to publications, speeches, and data resources

By maintaining this digital platform, the FSCC promotes both real-time dissemination and archival transparency, enabling stakeholders to track developments over time.



ENGAGEMENTS WITH THE MEDIA AND INDUSTRY STAKEHOLDERS

The FSCC places strong emphasis on interactive communication, including:

- Press conferences and media briefings
- Consultations with industry associations and market operators
- Participation in forums, conferences, and roundtables

These engagements serve as two-way communication channels, allowing the FSCC not only to share its views but also to gather insights from the market and adjust policy messaging accordingly. In times of stress, this dialogue becomes even more critical to reduce uncertainty and coordinate expectations.



CONFIDENTIAL INTER-AGENCY ALERT CHANNELS

While public transparency is essential, effective financial stability oversight also requires discreet and secure information-sharing mechanisms among regulators. The FSCC has institutionalized confidential communication channels—especially for early warning signals, surveillance findings, or crisis triggers.

These channels allow member agencies to:

- Flag anomalies in market or institutional behavior
- Discuss potential cross-sectoral vulnerabilities in a controlled setting
- Coordinate pre-emptive responses while avoiding unnecessary panic

This internal communication infrastructure complements the FSCC's public messaging strategy by ensuring that macroprudential coordination remains proactive and agile, especially under conditions of uncertainty or emerging stress.

In summary, the FSCC's communication and transparency strategy reflects international best practice while being tailored to the institutional realities of the Philippine financial ecosystem. It integrates formal publications, public education, digital accessibility, stakeholder engagement, and confidential coordination, thereby enabling a well-rounded approach to systemic risk governance. This commitment to transparency not only improves policy effectiveness but also reinforces the FSCC's legitimacy as the country's central mechanism for macroprudential oversight.

6 Communication and Transparency Strategy

The BSP and FSCC have built their frameworks in alignment with global norms:

- FSCC's structure mirrors the FSB's guidance on inter-agency coordination
- The OSRM's systemic risk approach is informed by BIS, IMF, and ECB practices
- Cross-sectoral data sharing supports granular risk analysis akin to the ESRB (Europe)
- Stress-testing methodologies and network maps are continually updated

Moreover, the FSCC has been a regional innovator in embedding macroprudential oversight into operational governance—well ahead of many emerging market peers.





SUMMARY OF KEY TAKEAWAYS



Chapter 1: INTRODUCTION TO FINANCIAL STABILITY

A macro-prudential framework is vital for managing systemic risk and maintaining financial stability. Operational resilience is the ability of financial institutions, FMIs, and the financial system to prevent, respond to, recover from, and learn from disruptions caused by internal failures or external events like cyberattacks, natural disasters, or geopolitical incidents.

Financial inclusion and stability are linked policy goals that must be aligned. Stability, defined as the system's capacity to withstand shocks and risks through an effective macro-prudential framework, underpins financial inclusion efforts. Conversely, research indicates that financial inclusion can enhance stability by increasing deposits and diversifying loan portfolios institutions.



Chapter 2: FINANCIAL STABILITY & MACROPRUDENTIAL POLICY

The goal of macroprudential policy is to preserve the integrity and smooth functioning of the financial system, ensuring it can support sustainable economic growth, even in the face of shocks or disruptions.

There appears to be some ground to cover in understanding the full extent of financial stability and how it might impact with financial inclusion. For example, during interviews held with AFI members, the indications were that the role and impact of macroprudential policy tools is not fully appreciated in the context of financial stability

and financial inclusion. One of the outcomes of this position is that, in general, countries do not appear to have a structured approach to addressing the overall financial stability objectives they are meant to achieve. There was a consensus during the interviews conducted that a synergy between financial stability and financial inclusion is required and would be helpful to AFI members.



Chapter 3: FINANCIAL SYSTEM RESILIENCE

Financial regulatory frameworks are key in reducing systemic risk but are limited when used alone due to risks' complexity. A coordinated approach involving other policies is essential. Policy alignment should occur at both national and international levels to ensure financial stability. Additionally, measures to reinforce market discipline, transparency, governance, incentives, market integrity, consumer protection, and financial inclusion are vital. These actions build confidence, resilience, and prevent excess risk-taking.



Chapter 4: FINANCIAL SYSTEM RESILIENCE

An effective financial stability framework includes several key elements - appropriate institutional and governance arrangements with agreed objectives; procedures and methods for identifying and assessing systemic risks to the financial system; a policy toolkit; and strategies for internal and external communication. These elements should be integrated into a mutually supporting process that leads to robust policy decisions and contributes to financial stability and economic development. Importantly, it is an iterative process - policy decisions (even decisions to take no action) are followed by ongoing analysis, further discussion and continued review of policy options through the committee process.



Chapter 5: MANDATE & GOVERNANCE

In most cases, we have found that central banks have enacted a central bank law that explicitly refers to their role in maintaining financial stability. This is highly positive. However, not all central banks possess a clear and specific mandate with well-defined terms of reference on how they should implement a macroprudential framework.

Only a few central banks have a Memorandum of Understanding (Mou) to establish a Macroprudential Policy Committee (MPC) or Financial Stability Committee (FSC), which typically includes central bank personnel as well as other key stakeholders such as the Ministry of Finance, stock market entities, and financial inclusion agencies where applicable.

In most cases where such committees exist, the MPC/FSC is chaired by the central bank or the Ministry of Finance. Ideally, in addition, the MPC/FSC would be composed of members with voting rights, and it is common for the central bank members of the MPC/FSC to hold a majority of voting rights. The frequency of meetings for the MPC/FSC should ideally be specified in the Mou, such as quarterly example.

RECOMMENDATION 1 / FRAMEWORK

- ▶ Complete or draft a financial stability framework document that would also incorporate financial inclusion elements. It is important as a fundamental statement of the central bank's policy objectives within the area of macroprudential policy, demonstrating how the central bank will achieve its mandate with succinct summaries of decision-making structures, analytical tools, and the main policy instruments including financial inclusion elements.
- ▶ The document should not wait until the framework is "complete". Aside from the policy objectives, it can be treated as a living document that will be updated as research and experience lead to useful improvements. The document could be placed on the central bank's website to promote public understanding and accountability.

RECOMMENDATION 2 / WORKING GROUPS

- ▶ The working groups should start meeting as soon as possible to organize and help guide staff work on inclusive macroprudential topics, and a useful way to promote information sharing and cooperation. They facilitate open discussion at an early stage, allowing a wide range of risks and policy options to be considered (i.e. "brainstorming") before specific concerns and recommendations are raised to more senior levels. They are also good forums for discussing emerging risks as well as concerns about how to make the financial stability framework more inclusive.

RECOMMENDATION 3 / INTERMEDIATE COMMITTEE

- ▶ The central banks might consider an intermediate committee that is situated above the working groups but below the MPC to discuss policy recommendations within the central banks before they are raised to the highest level at the central banks or taken "outside" the central banks through the MPC. While this review function can be undertaken informally, there are benefits to formally including it in the policy-making process.



Chapter 6: SYSTEMIC RISK ASSESSMENT/ ANALYTICAL TOOLS

Interviews with AFI members in 2025 reveal challenges in developing analytical tools for financial inclusion data collection and analysis. While some macro-financial models exist, fully developing these remains a long-term goal.

Data, essential for risk assessment, is often limited by availability and quality, especially long-term series covering economic, financial, and inclusion indicators. Many countries struggle to gather relevant data for analyzing financial stability and inclusion, requiring research and support.

However, some countries have sufficient data to develop useful risk and inclusion indicators and are working to enhance their analytical capabilities tools.

RECOMMENDATION 4 / QUANTITATIVE DATA

- ▶ Undertake a targeted approach to obtaining additional data and information for risk analysis

The range of desirable quantitative data is broad, but in cooperation with colleagues in other departments of the central banks it is important to further identify key data requirements across financial sectors and systemic risk categories and review the options for obtaining additional data. Priorities include data on financial inclusion and how it interrelates with MSMEs, SMEs, corporate and household borrowing and on capital flows (and related currency and maturity mismatches). Areas of interest include inclusive insurance companies, shadow banking, real estate markets, and granular (or micro) data on household lending.

RECOMMENDATION 5 / QUALITATIVE DATA

- ▶ Focus on qualitative data and indicators

AFI member countries should seek to enhance their access to qualitative information, which is an important component of a risk monitoring framework. This may cover a variety of external sources, including views emanating from the domestic financial sector, from international organizations (e.g. the AMF or IMF), credit rating agencies, and private sector analyses. These sources are particularly helpful in spotting some previously unidentified or emerging risks and interrelationships between financial inclusion and financial stability.

RECOMMENDATION 6 / SURVEYS

- ▶ Undertake Implement financial sector surveys to buttress the central banks information sources on financial inclusion

Complete the development of the surveys on MSMEs, SMEs household and famers in remote areas, lending conditions. Prior to implementation, a consultation phase should occur that alerts banks and non-banks to the new survey and includes more detailed feedback from a small number of banks. Once implemented, the surveys will represent an important addition to the information set available to the Macroprudential Unit and a useful point of contact with the banking sector.



Chapter 7: POLICY INSTRUMENTS & TOOLS

Key policy instruments and tools form the backbone of an effective macroprudential framework. These tools are designed to build financial system resilience and mitigate systemic risks. The chapter categorizes tools across domains such as capital requirements, liquidity standards, credit measures, and structural safeguards, and explores their individual or combined use to achieve stability. Attention is needed to understand these tools' implications amid growing financial inclusion, ensuring careful calibration to prevent unintended consequences. Mapping this macroprudential toolkit provides a practical foundation for policymakers to safeguard an inclusive, stable financial system. However, the impact of some tools on financial inclusion isn't well understood, requiring further research area.

RECOMMENDATION 7 / RESEARCH

- ▶ Conduct more research to understand the impact of macro-prudential policy tools on financial inclusion and discuss more extensively the impact with relevant key stakeholders.



Chapter 8: COMMUNICATIONS & REPORTING

Communication and transparency strategy is a cornerstone of maintaining and ensuring financial stability. Communication on financial stability issues by a central bank has been and will likely be watched even more closely in the future. The role and importance of communication cannot be underestimated. It has an important influence on the financial sector, markets and financial inclusion. During the interviews conducted with AFI members, some of them clearly mentioned that communication is an area that needs improvement.

Both internal and external communication can be challenging for central banks.

Internal communication – that which occurs within the central bank and with partner agencies – is the “glue” and “fabric” that holds the policy framework together and allows it to function effectively. Staff

must provide decision-makers with a well-organized set of information that summarizes developments in domestic and international financial sectors, assesses existing or emerging systemic risks, and includes policy recommendations when appropriate.

RECOMMENDATION 8 / INTERNAL DIALOGUE

Firmly establish the ongoing dialogue between staff and senior decision-makers that underpins the macroprudential framework.

- ▶ To support the established Financial Stability Committee, as well as senior decision-makers generally, develop a broader set of reporting packages on financial system developments, relevant international developments, and the recent evolution of risks. Staff discussion of policy options and recommendations should be included if appropriate. On a less frequent basis, discussion should also be encouraged on risks of a more speculative or unusual nature. That decision making process should include financial inclusion elements and data.
- ▶ Encourage strong communication from senior decision-makers to staff. Senior decision-makers accumulate a wealth of pertinent information as a result of their high-level contacts and discussions, both domestic and international. While care must be taken that only appropriate information is shared, the knowledge and guidance thus provided helps staff to focus their analysis and makes them more aware of important developments elsewhere including on financial inclusion matters. This might include selected debriefs for staff following relevant senior-level meetings.

RECOMMENDATION 9 / EXTERNAL ENGAGEMENT

- ▶ Enhance staff interaction with external contacts, both in the domestic financial system (e.g. with staff at financial institutions) and internationally (via international meetings, conferences, working groups, training programs, etc.). Informal exchanges can provide useful perspectives and help interlocutors to understand the views and policy thinking of the macroprudential authorities and agencies responsible for financial inclusion. International contact provides a wealth of information on analytical research, systemic risks in other financial systems, and the impact of policy measures.

RECOMMENDATION 10 / PUBLIC COMMUNICATION

- ▶ Within the context of a comprehensive “communications package”, enhance the role of other forms of public communication to promote the visibility and understanding of financial stability issues and policies including how financial stability interacts with financial inclusion and vice-versa. This might take the form of additional speeches, press releases, press conferences, or shorter documents and infographics. These actions can influence public and financial sector behavior in beneficial ways that reduce systemic risk and improve the overall effectiveness of policy measures.

RECOMMENDATION 11 / ONLINE HUB

- ▶ Create an online Financial Stability Hub that consolidates data, research, expert commentary, and other information in a single, easily accessible location. This platform is essentially a website managed by the central bank that gathers all relevant material on financial stability and organizes it in a way that is readily accessible to the public (see Diagram 4 below). Enhanced versions of these hubs include videos, interactive charts, and backgrounders aimed at a broad audience. Some internal documents, suitably adapted, can also be included on the website. An internal version of the Hub can also be established to contain confidential data and information, for use by relevant staff from the member institutions of the Financial Stability Committee and macroprudential working groups.

ACRONYMS

AFI	Alliance for Financial Inclusion	NFSC	National Financial Stability Council
BIS	Bank for International Settlements	OSRM	Office of Systemic Risk Management
BLS	Bank Lending Survey	PRA	Prudential Regulation Authority
BSP	Bangko Sentral ng Pilipinas	SBN	Surat Berharga Negara (Indonesian Government Securities)
CB	Commercial Bank	SMEs	Small and Medium Enterprises
ECB	European Central Bank	SRCM	Systemic Risk Crisis Management
ESCB	European System of Central Banks		
FAS	Financial Access Survey		
FCA	Financial Conduct Authority		
FMI s	Financial Market Infrastructures		
FPC	Financial Policy Committee		
FSB	Financial Stability Board		
FSC	Financial Stability Committee		
FSCC	Financial Stability Coordination Council		
GFC	Global Financial Crisis		
IDIC	Indonesia Deposit Insurance Corporation		
IMF	International Monetary Fund		
LTV	Loan-to-Value		
MFI s	Microfinance Institutions		
MoU	Memorandum of Understanding		
MPC	Macroprudential Policy Committee		
MPPF	Macroprudential Policy Framework		
MPSF	Macroprudential Policy Strategy Framework		
MSMEs	Micro, Small and Medium Enterprises		
NCBs	Non-Central Banks		
NFIS	National Financial Inclusion Strategy		

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