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Guarantee Arrangements for Financial Promises: How Widely Should the Safety Net be Cast?

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Abstract

Guarantees have become the preferred instrument to address many financial policy objectives. The incidence of financial sector guarantee arrangements that address specific policy objectives, such as supporting financial stability, protecting consumers and influencing credit allocations, has increased markedly over the past decades and additional schemes are under consideration. This report identifies considerations regarding consistency and affordability that policymakers should take into account before introducing additional guarantee arrangements. One of them is that the safety net cannot be expanded without limits. In fact, as regards the strength of the net of government-supported guarantees for financial promises, the wider that net is cast (without altering its other key parameters), the thinner it becomes.

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