

# Comments on the Use and Effectiveness of Macroprudential Policies



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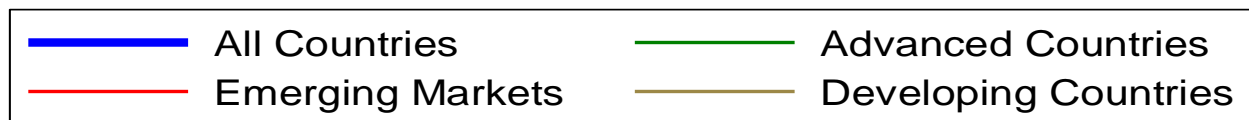
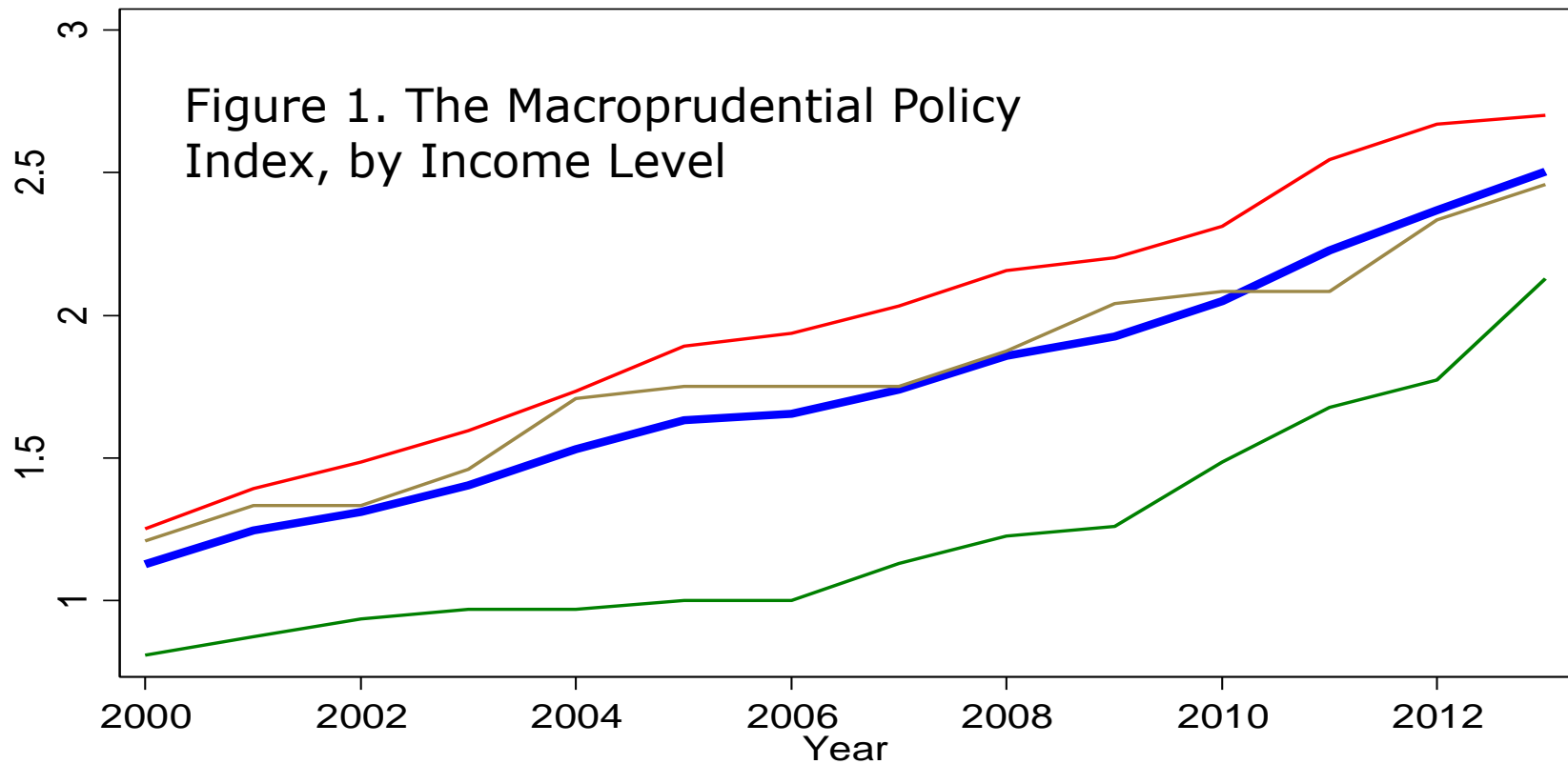
# Governance issues: An inaction bias?

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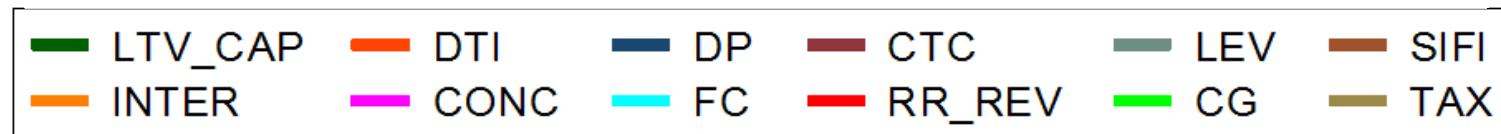
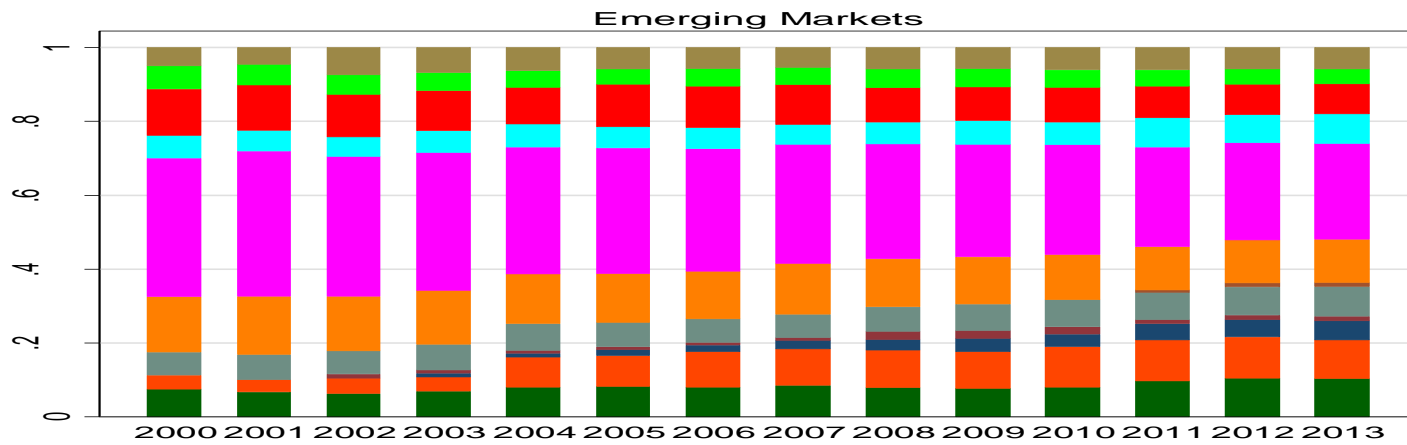
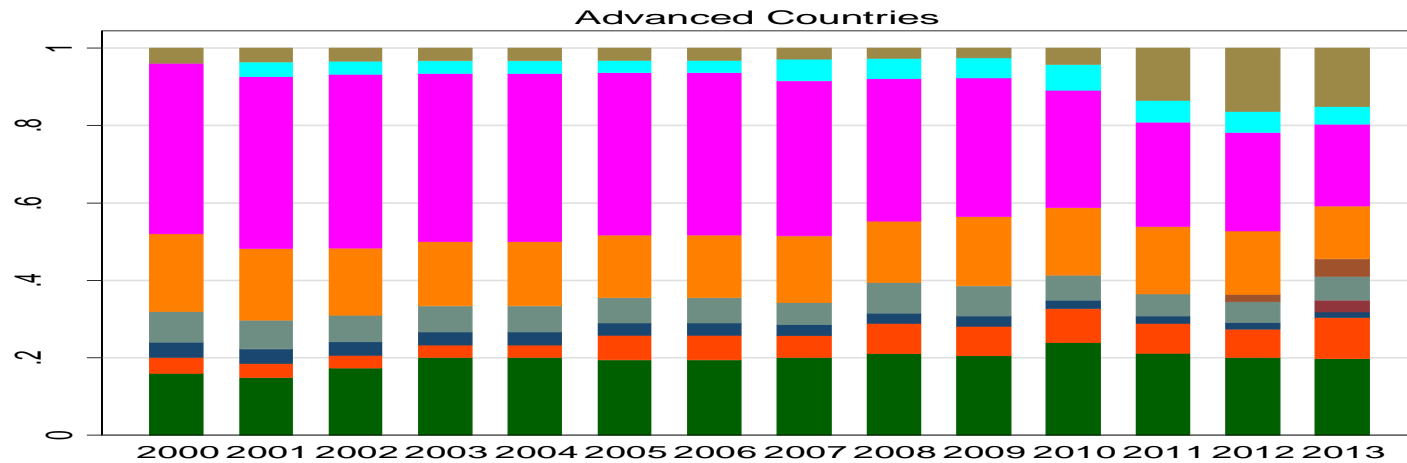
- Outsourcing monetary policy to independent CBs was “easy”
  - A clear and measurable objective: low and stable inflation (sometimes with some attention to short-term output)
  - A clearly understood (almost mono-dimensional tool): the policy rate
  - Accountability led to properly designed incentives for central bankers
- But financial stability much more complicated
  - Is there as a too stable banking system?
  - Multiple objectives, difficult to measure
  - Nobody sees the crises that do not happen
  - Accountability complicated, potential for poor incentives
  - Systemic nature makes problem worse than for MiP (no yardstick)

# Increasing use of MAPs

(% of country-year observations using any instrument)

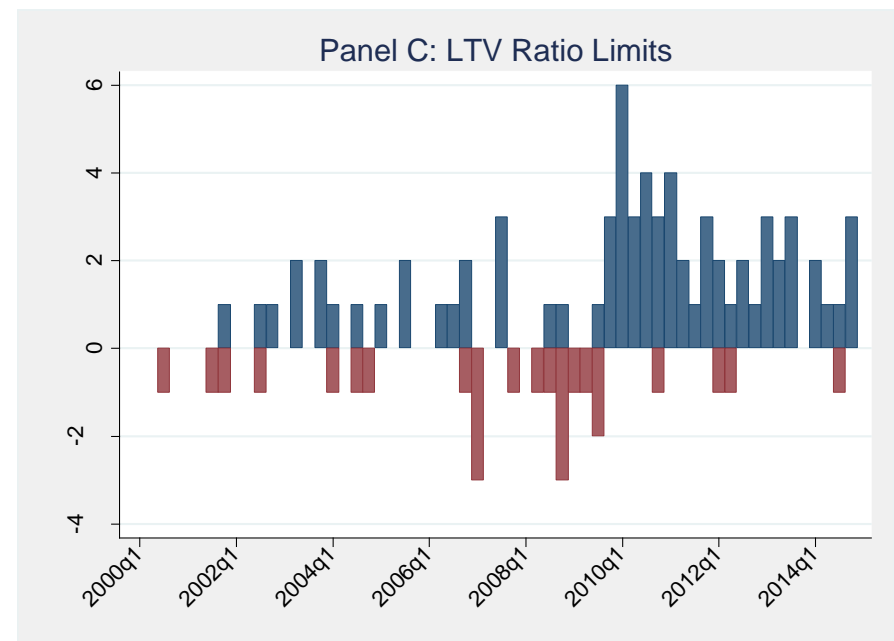
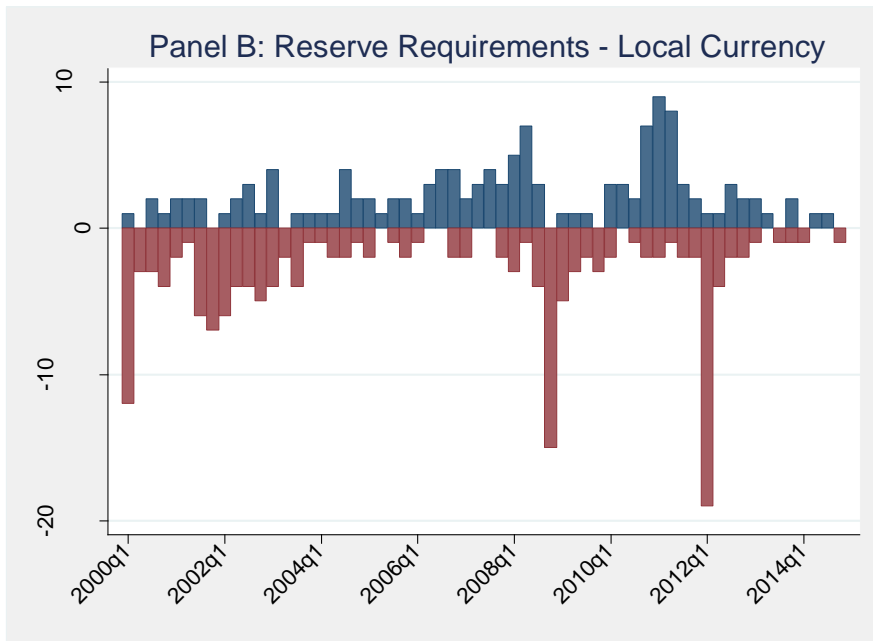


# ACs Use More Borrower-based EMs Use Broad Set of MAPs



# Cyclical Use of Policies

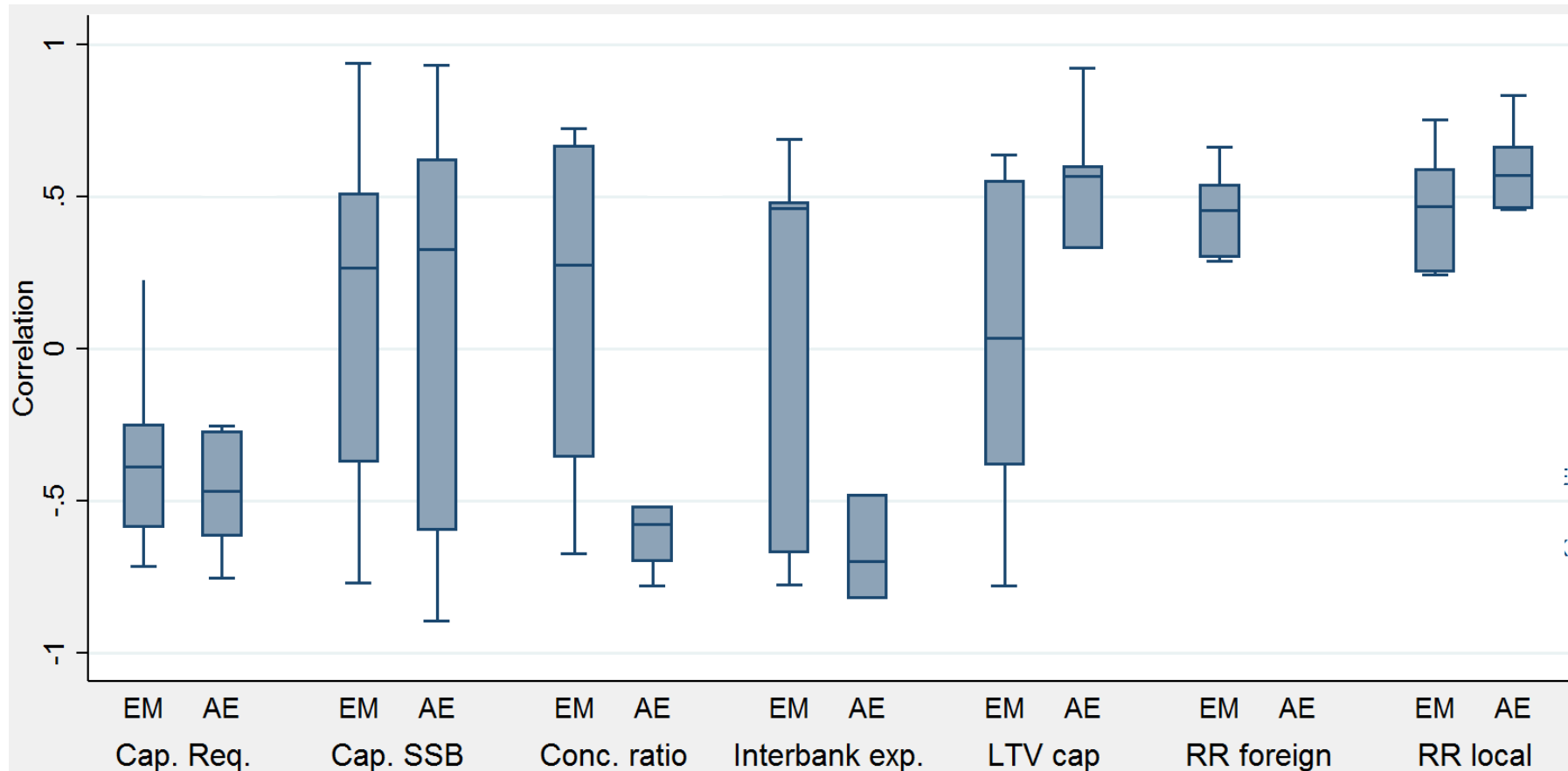
- ▶ RR loosening coincided with GFC and the European sovereign debt crisis
- ▶ LTV tightened often after GFC (counter acting loose monetary policies in several countries)



Source: Cerutti, Correa, Fiorentino, and Segalla (2017)

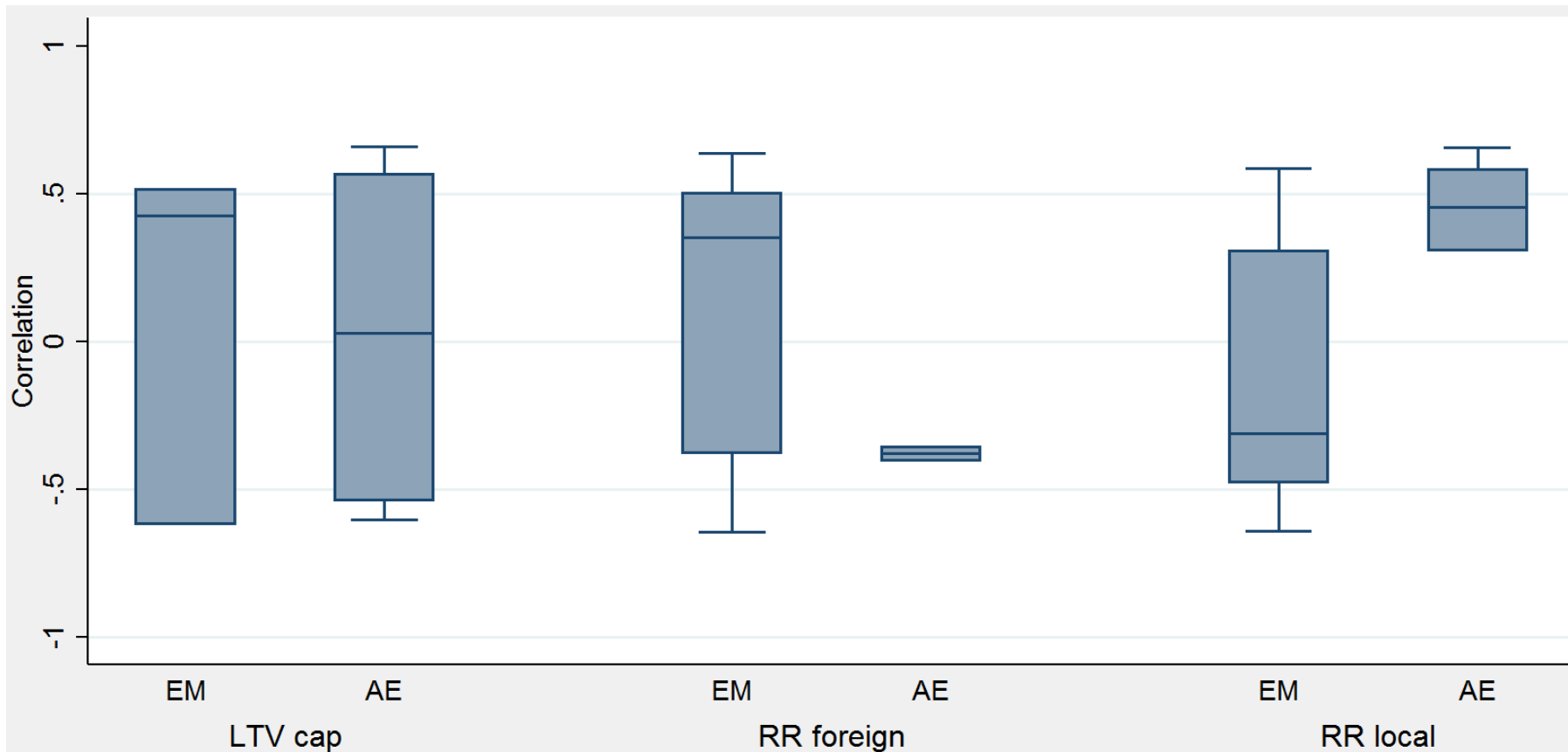
# Usage relative to credit growth ?

- ▶ Cap. SSB, CONC, INTER: not many statistically significant correlations and broadly distributed
- ▶ LTV and RR show more counter-cyclical usage



# Use relative to monetary policy?

- ▶ LTV used with higher policy rates in some AEs, but also to tighten while lowering policy rates (e.g., Canada, Hong Kong)
- ▶ RR (Local) used more to (partially) offset policy rate changes, but there is general heterogeneity



# Challenges when looking at effectiveness

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- Limited use of Macroprudential measures
  - Recourse to indexes, but...
- Heterogeneity within and across countries
- Endogeneity
  - Negative bias on effectiveness coefficients
- Simultaneous use of multiple policy tools
  - Need GE approach
  - But calibration remains a challenge



# Economic effects are meaningful, but vary in magnitude

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- Based on existing literature:
  - Cross-country/cross-measure heterogeneity
  - Macroprudential can slow credit growth down
  - But more effective in building buffers
  - Less clear effects on real estate prices (but perhaps less important)
  
- Effects over time?
  - Circumvention likely to increase
  - Cat-and-mouse game
  - Compare to capital flow measures

# Conclusions

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- Evidence of increase use of macroprudential policies
  - At times in sync at others opposite to MP
- Evidence of effectiveness
  - Especially on credit (overall and HH credit)
  - But differentiate by country and individual MAPs
  - Need to be pragmatic, a times discretionary within frameworks, targeted at specific markets/objectives
  - Ensuring resilience can reinforce avoiding booms/busts
- But overall, MAP still at early stage
  - Interactions with other policies. Adaptations. Costs. Political economy concerns. Rules vs. discretion.
  - ⇒ More data, research on effects, risks, calibrations, etc.

# Data for this presentation

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- ▶ Country coverage: (31 AEs, 64 EMs, and 24 LICs)/2000-2013 (annual data)
- ▶ Binary measures:
  - Loan-to-Value Cap (LTV)
  - Debt-to-Income Ratio (DTI)
  - Time-Varying/Dynamic Loan-Loss Provisioning (DP)
  - Counter-Cyclical Requirements (CTC)
  - Leverage Ratio (LEV)
  - Capital Surcharges on SIFIs (SIFI)
  - Limits on Interbank Exposures (INTER)
  - Concentration Limits (CONC)
  - Limits on Foreign Lending (FC)
  - Reserve Requirements (RR)
  - Credit Growth Caps (CG)
  - Levy/Tax on Financial institutions (TAX)
- Sources: Cerutti, Claessens, Laeven (JFS 2015); Source: Cerutti, Correa, Fiorentino, and Segalla (2017); Rabanal (2017)