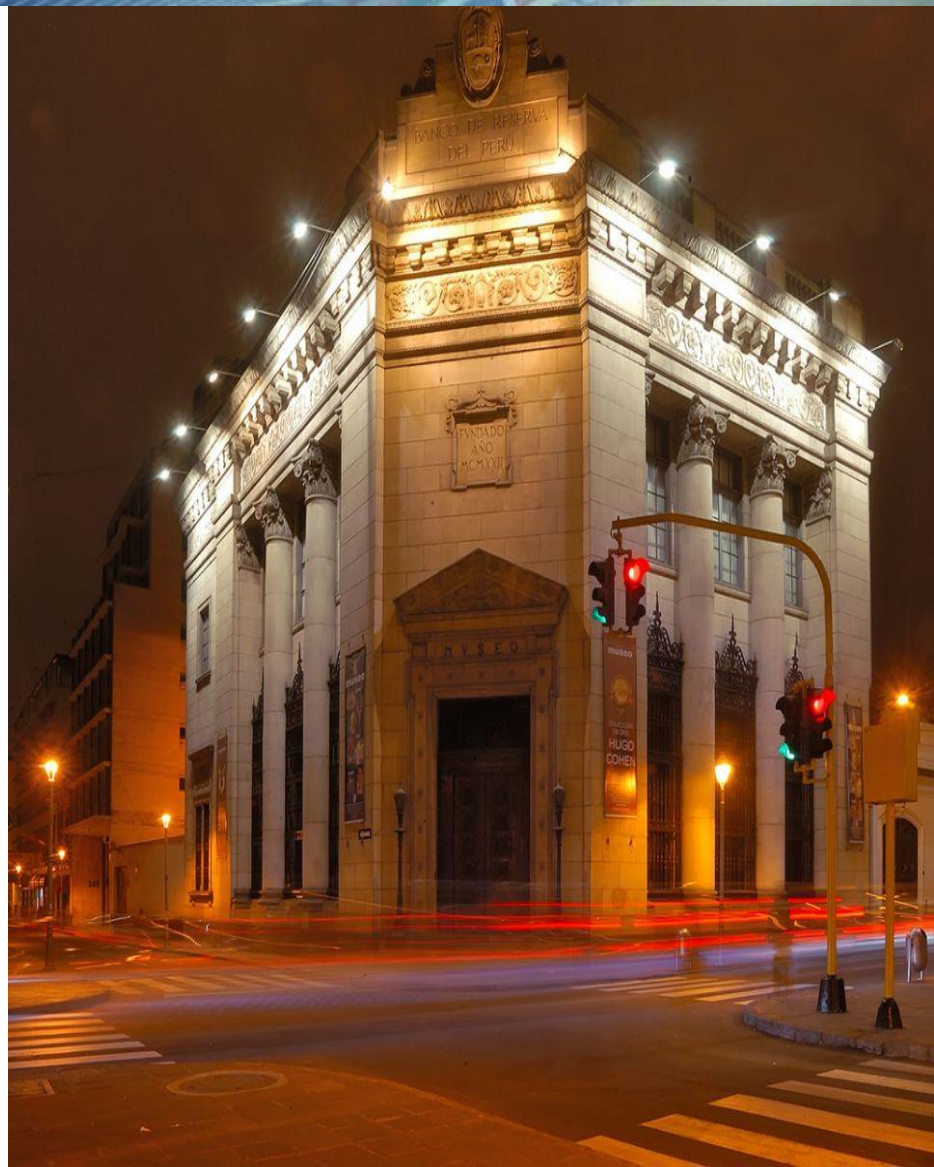




**BANCO CENTRAL DE RESERVA DEL
PERÚ**

The Interaction Between Monetary and Macro-Prudential Policy

Julio Velarde
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del Perú**



There are strong links between monetary and macro-prudential policies. In Latam, the latter are used to enhance resilience and smooth out cycles.

Different types of macroprudential tool in the Americas Table 1

Type of instrument	Measures	Frequency of use (percent)	Tightening measures	Loosening measures
	(1)	(2)	(3)	(4)
a. Enhancing Resilience (1)	38	22		
Capital requirement/Risk weights (RW)/ Limits on dividend distribution	21	12.1	17	4
Provisioning requirement (Prov)	9	5.2	9	0
Liquidity ratios	8	4.6	7	1
b. Dampening the cycle (2)	135	78		
Changes in reserve requirement (RR)	108	62.4	53	55
Net open position (NOP)	9	5.2	4	5
Changes in LTV, DTI limits	13	7.5	9	4
Limits on credit growth or lending to specific sectors	2	1.2	1	1
Foreign currency lending limits	3	1.7	3	0
Total	173	100	45	16

Note: (1) We follow the classification in Claessens et al (2013) with respect to the objectives of macroprudential policies. According to them, in reviewing the goals of various types of macroprudential policies, it is useful to classify measures in four groups. The first two groups are aimed at reducing the occurrence and consequences of cyclical financial risks, by respectively either (1) dampening the expansionary phase of the cycle, or (2) reinforcing the resilience of the financial sector to the adverse phases of the cycle. The database has been constructed using information in Kuttner and Shim (2016) and Lim et al (2013). The information includes the following countries: Argentina, Brazil, Canada, Chile, Colombia, Mexico, Peru, United States and Uruguay.

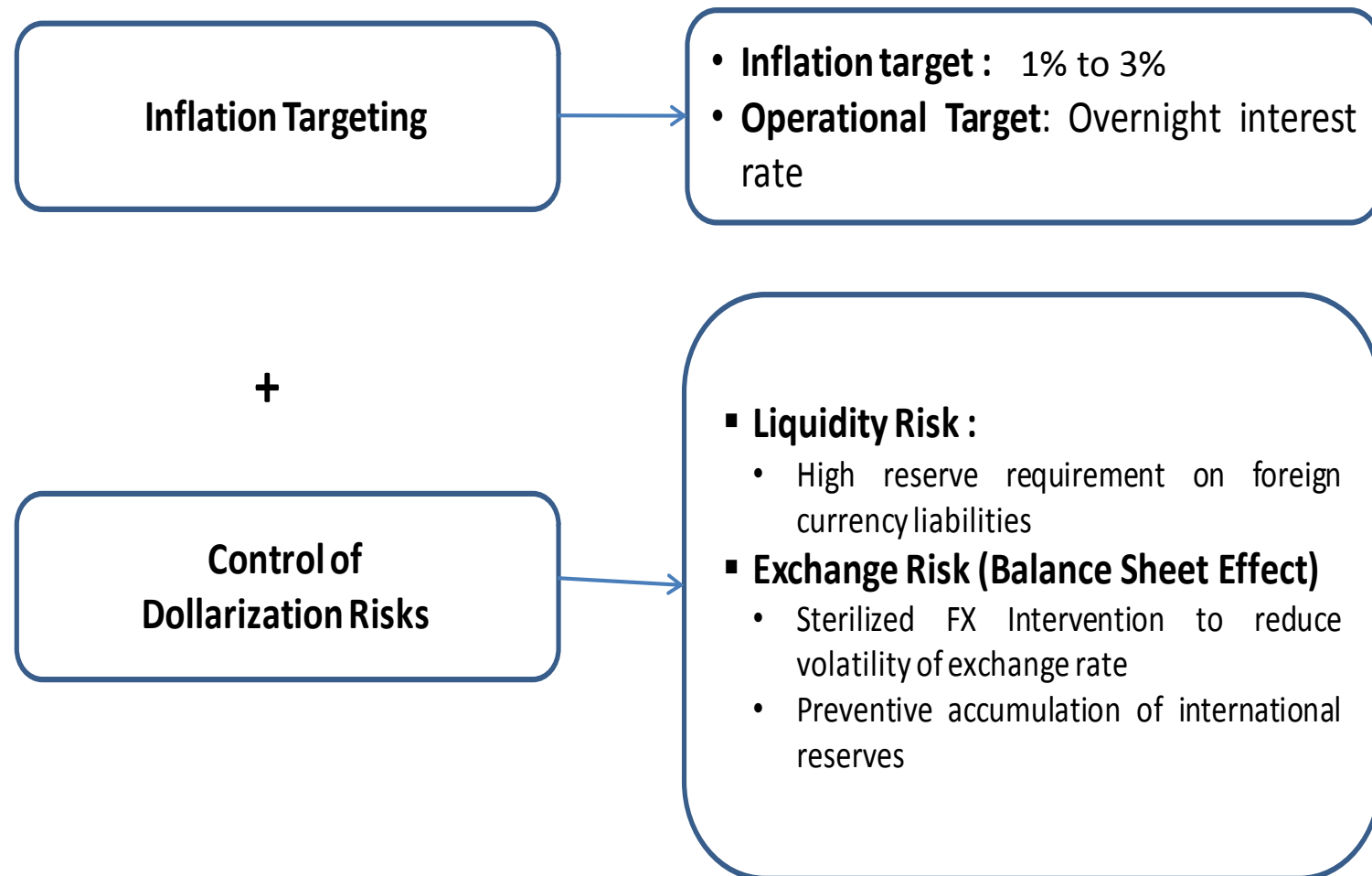
In dollarized economies, the monetary/macro-prudential link is stronger because dollarization affects financial stability by:

- Limiting central banks' ability to act as a lender of last resort in foreign currency.
- Increasing banks' solvency risk associated with exchange rate fluctuations.
- Reducing the effectiveness of conventional monetary policy.

Macro-prudential policies can reduce dollarization risks affecting financial stability by :

- Reducing the risk of credit boom-bust cycles.
- Limiting currency mismatches and preventing balance sheet effects.
- Limiting excessive leverage.
- Increasing banks' availability of international liquidity.

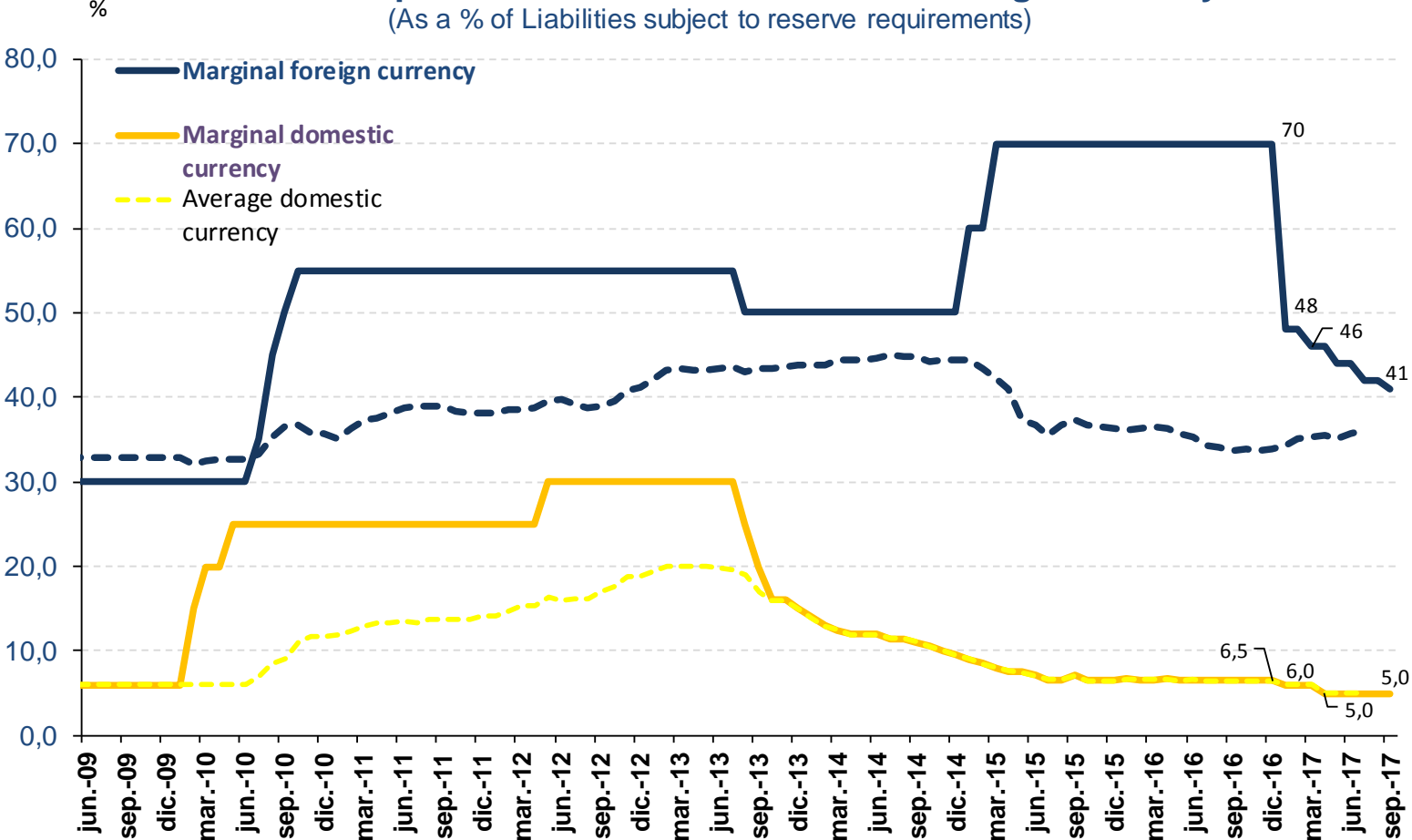
The Central Reserve Bank of Peru (BCRP) uses non-conventional instruments to limit the financial risks from dollarization.



Higher reserve requirements in dollars are used to reduce incentives for financial dollarization.

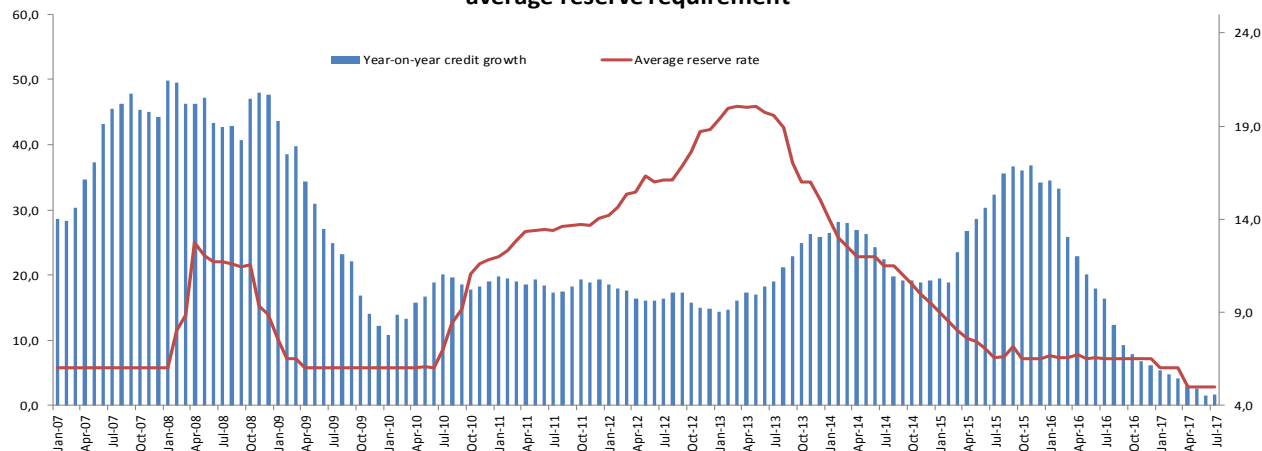
Reserve requirement rate in domestic and foreign currency

(As a % of Liabilities subject to reserve requirements)

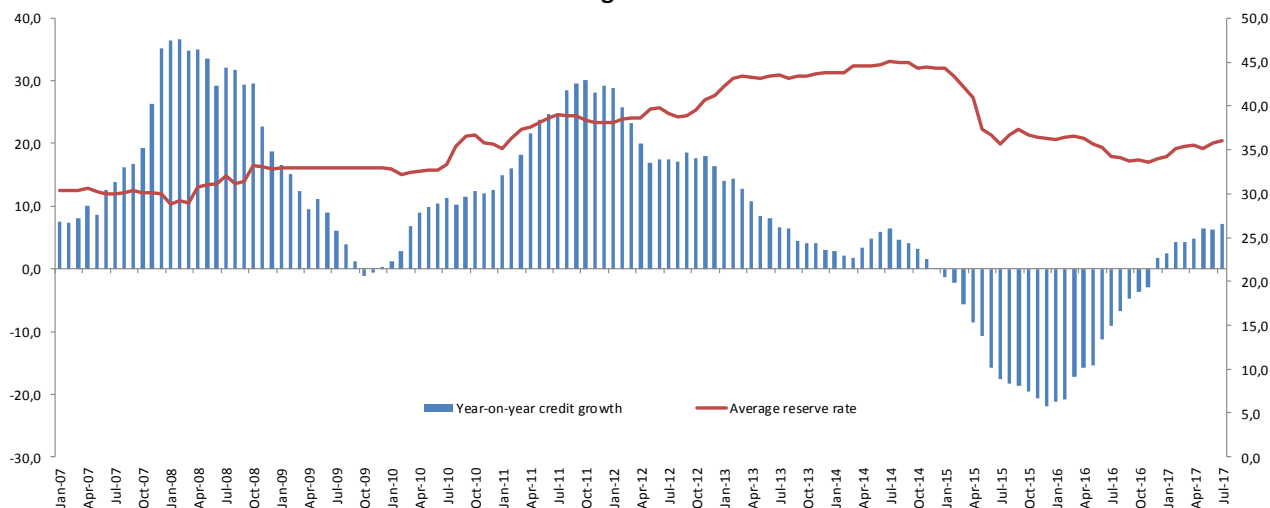


Reserve requirement adjustments have been actively used to reduce the risks from credit boom-bust cycles.

Bank system domestic-currency credit to the private sector and average reserve requirement



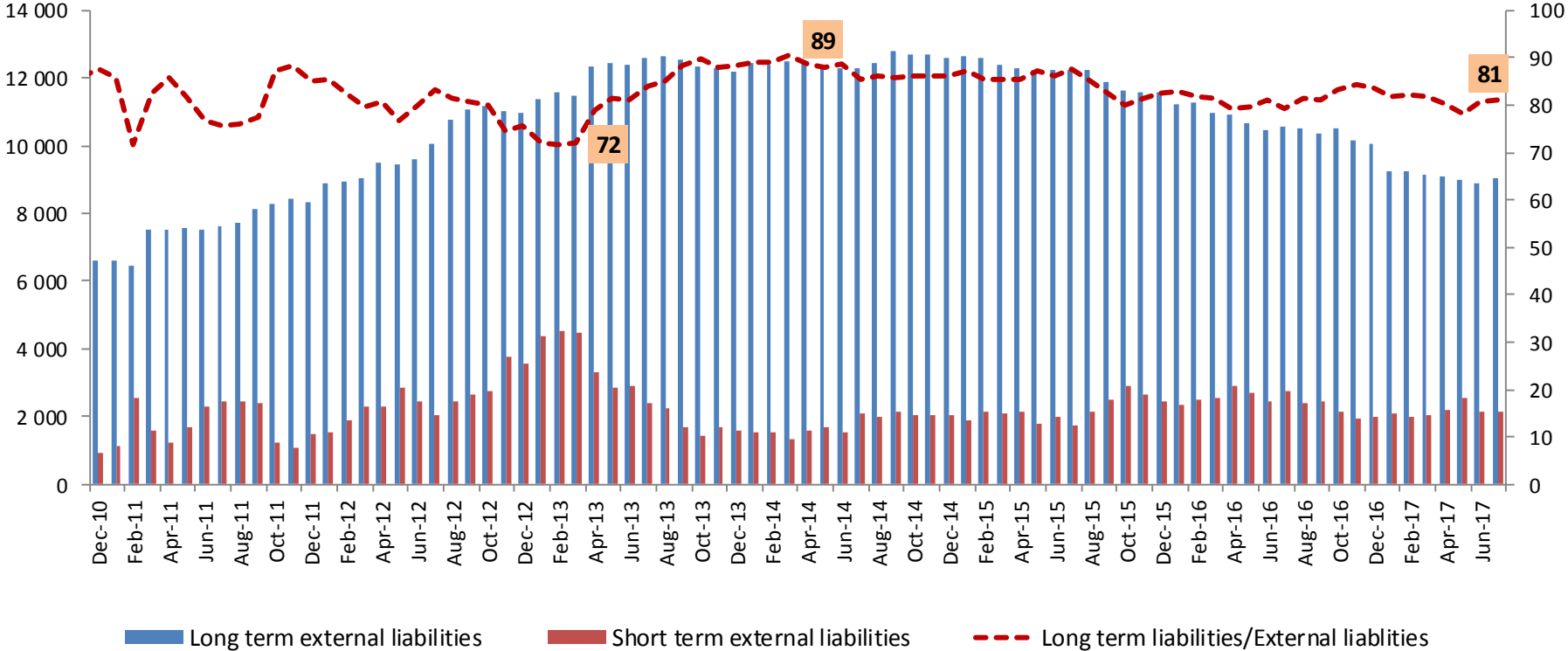
Bank system foreign-currency credit to the private sector and average reserves



Higher reserve requirements on banks' external short-term liabilities were used as an incentive for banks to extend their funding maturities and reduce their exposure to liquidity risks, particularly from sudden capital reversals.

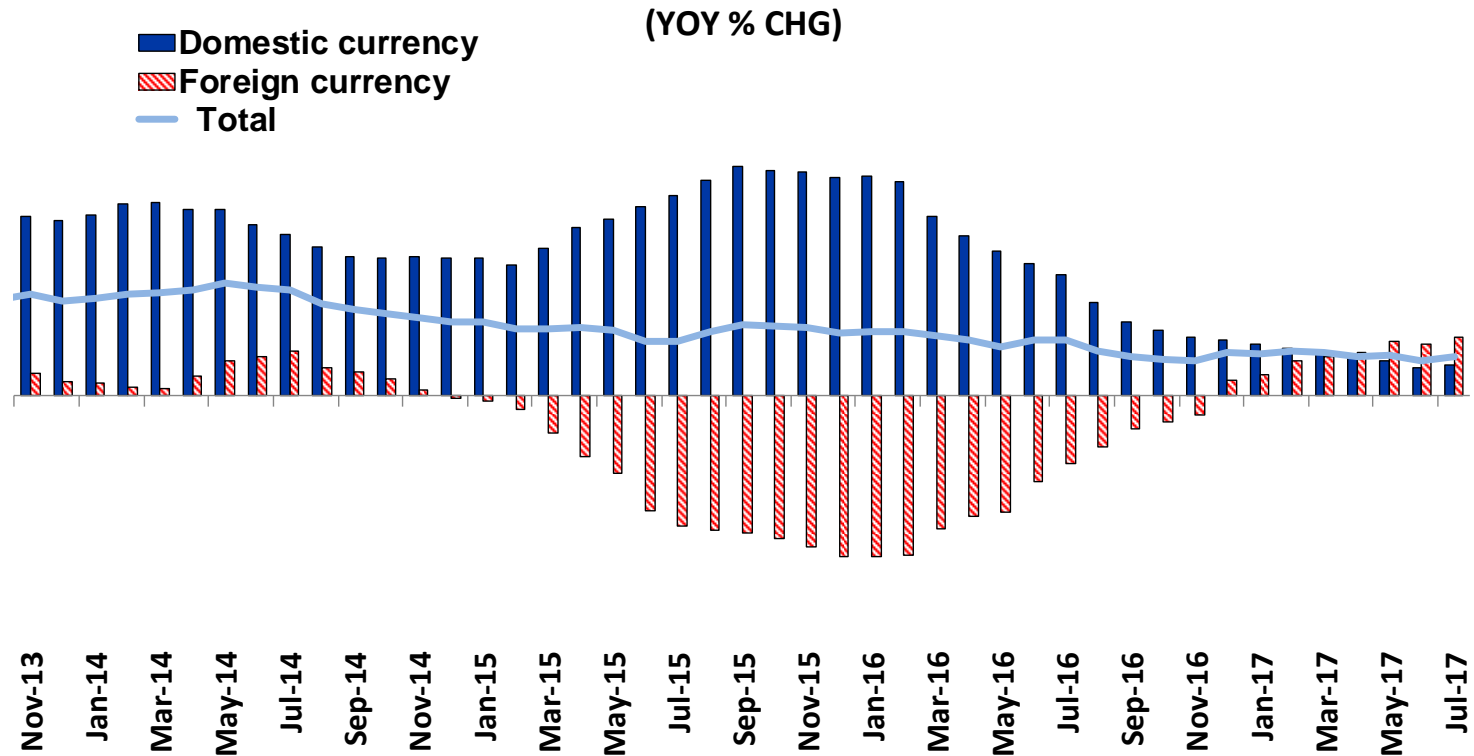
Bank's external liabilities

(Balance in millions of US\$ and ratio en percentage points)



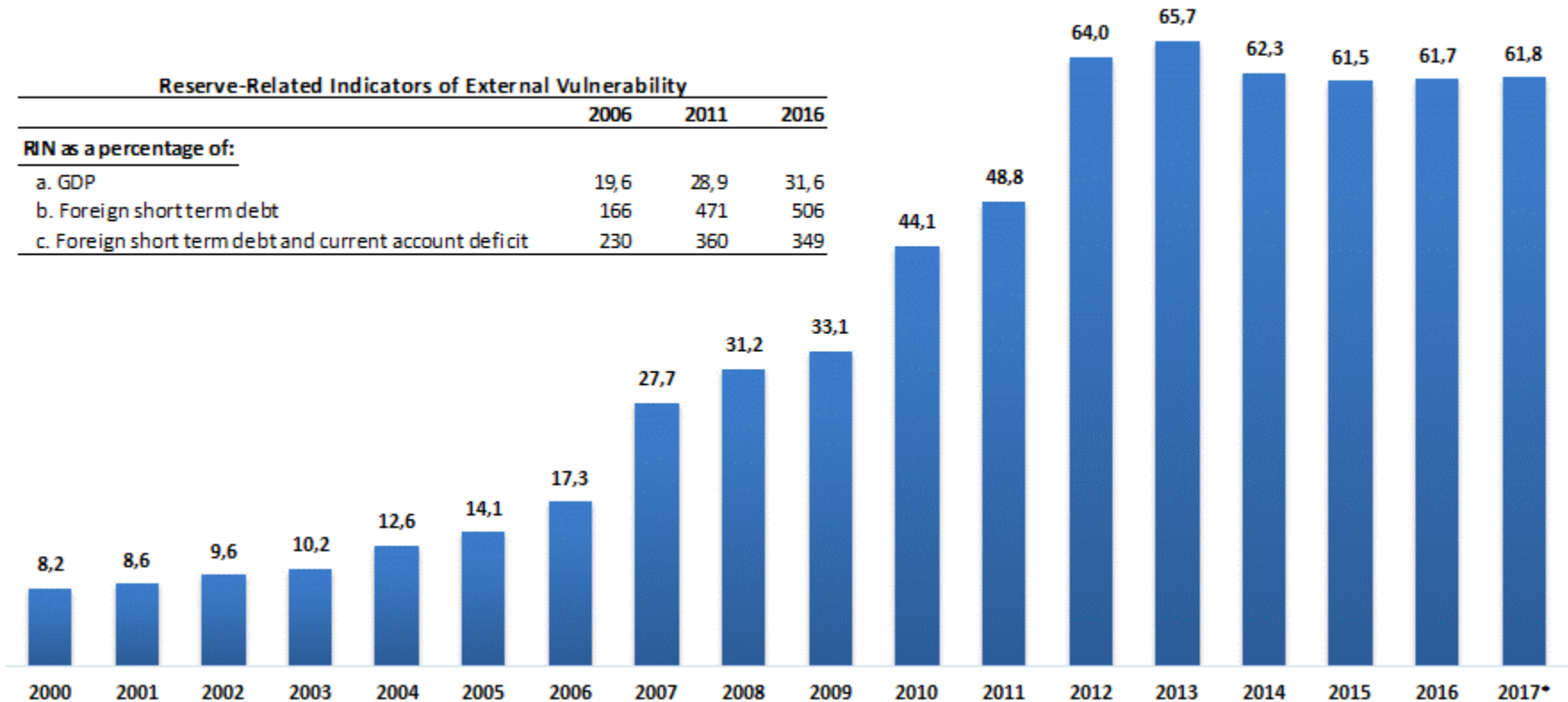
Additional reserve requirements linked to dollar loan performance are used since 2013 to expedite credit de-dollarization.

Credit to the private sector in domestic and foreign currency



International reserves are used to limit liquidity risks in the domestic financial system.

Foreign Exchange Reserves
(billions of US dollars)



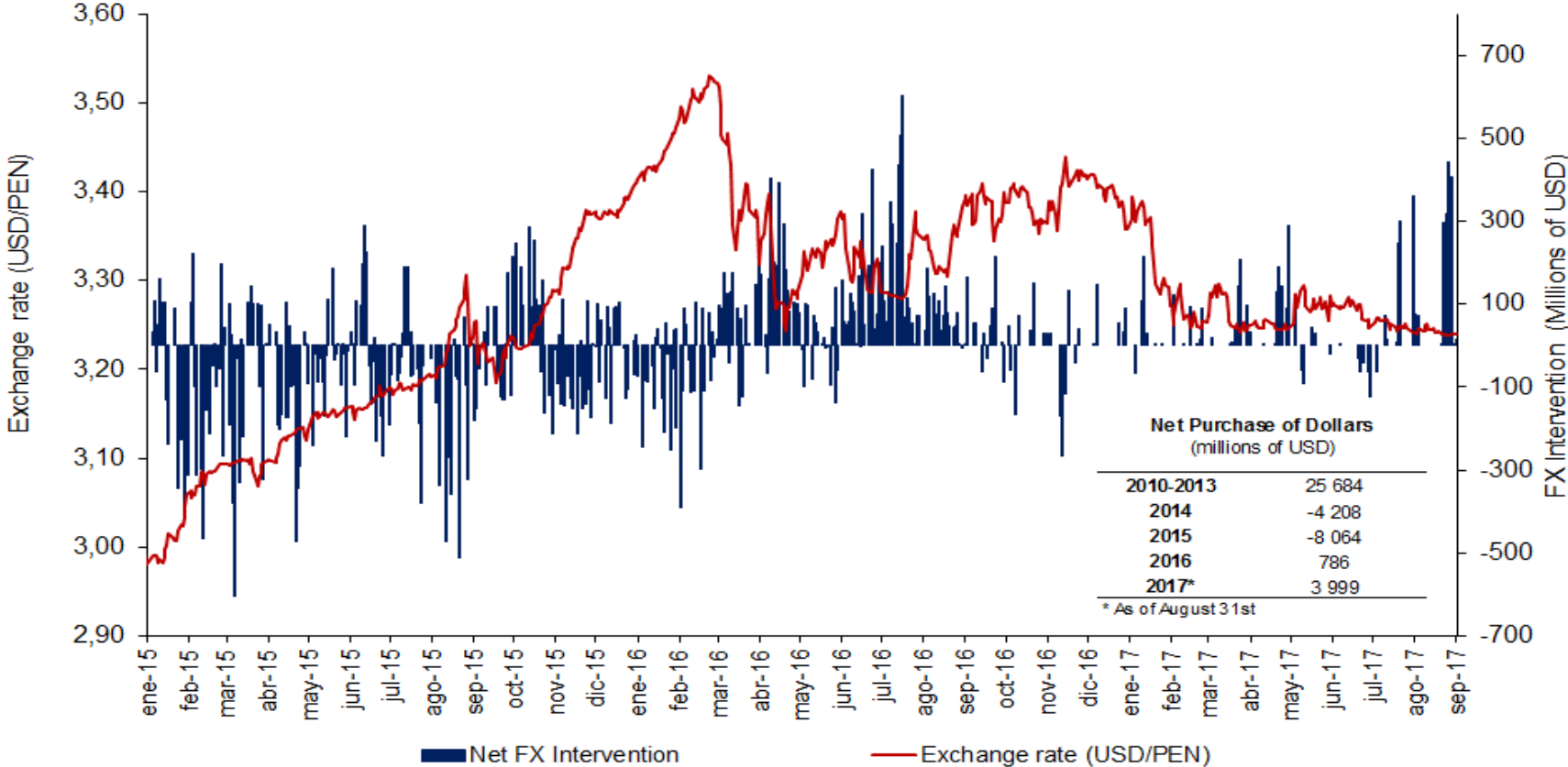
Reserve-Related Indicators of External Vulnerability

	2006	2011	2016
RIN as a percentage of:			
a. GDP	19,6	28,9	31,6
b. Foreign short term debt	166	471	506
c. Foreign short term debt and current account deficit	230	360	349

* As of August 2017.

FX intervention is used to reduce the risk of balance sheet effects

Exchange Rate and FX Intervention^{1/}



1/ Includes: Net purchase of dollars, net maturity of CDRBCRP and net maturity of FX Swaps.

BCRP: FX Intervention

Leaning against the wind to tame volatility.

Discretionary (based on the daily assessment of the FX market)

Symmetric (given the financial stability motive)

Sterilized (OMOs are conducted to keep interbank interest rates as close as possible to the policy rate)

Includes indirect intervention since 2002.



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