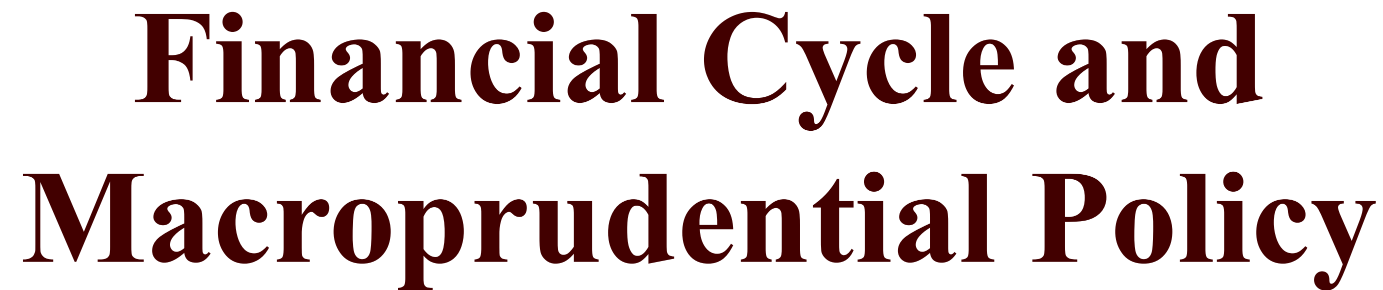


Eric Jondeau
University of Lausanne
and Swiss Finance Institute

5th Annual Conference of the BCC Programme

My Comments

- Macroprudential policy
- The papers

Macroprudential Policy

Policies

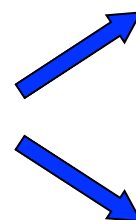
	Goal	Intermediate goal	Typical instument
Monetary policy	Price stability	Short-term rates	Policy rate
Microprudential policy	Safety of individual banks	Reduce credit of individual institutions	Capital ratio Leverage ratio
Macroprudential policy	Stability of financial system Reduce systemic risk	Reduce credit growth and procyclicality of credit	Coutercyclical capital ratio

- Main goals:
  - Stability of financial system
  - Reduce systemic risk
- Intermediate goals: control 2 main sources of financial instability
  - Control of credit supply
    - Reduce credit growth
    - Reduce procyclicality of credit
  - Control prices of nonfinancial assets (avoid bubbles)
    - House prices
    - Assets as collateral for loans

Instruments

Liquidity based

Countercyclical reserve requirement



Dynamic provisioning

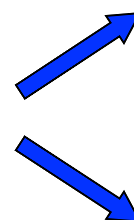
Conditional reserve requirement

Capital based

Countercyclical capital requirement

Asset based

Bank balance sheet



Loan-to-Value

Debt-to-Income

Type of data

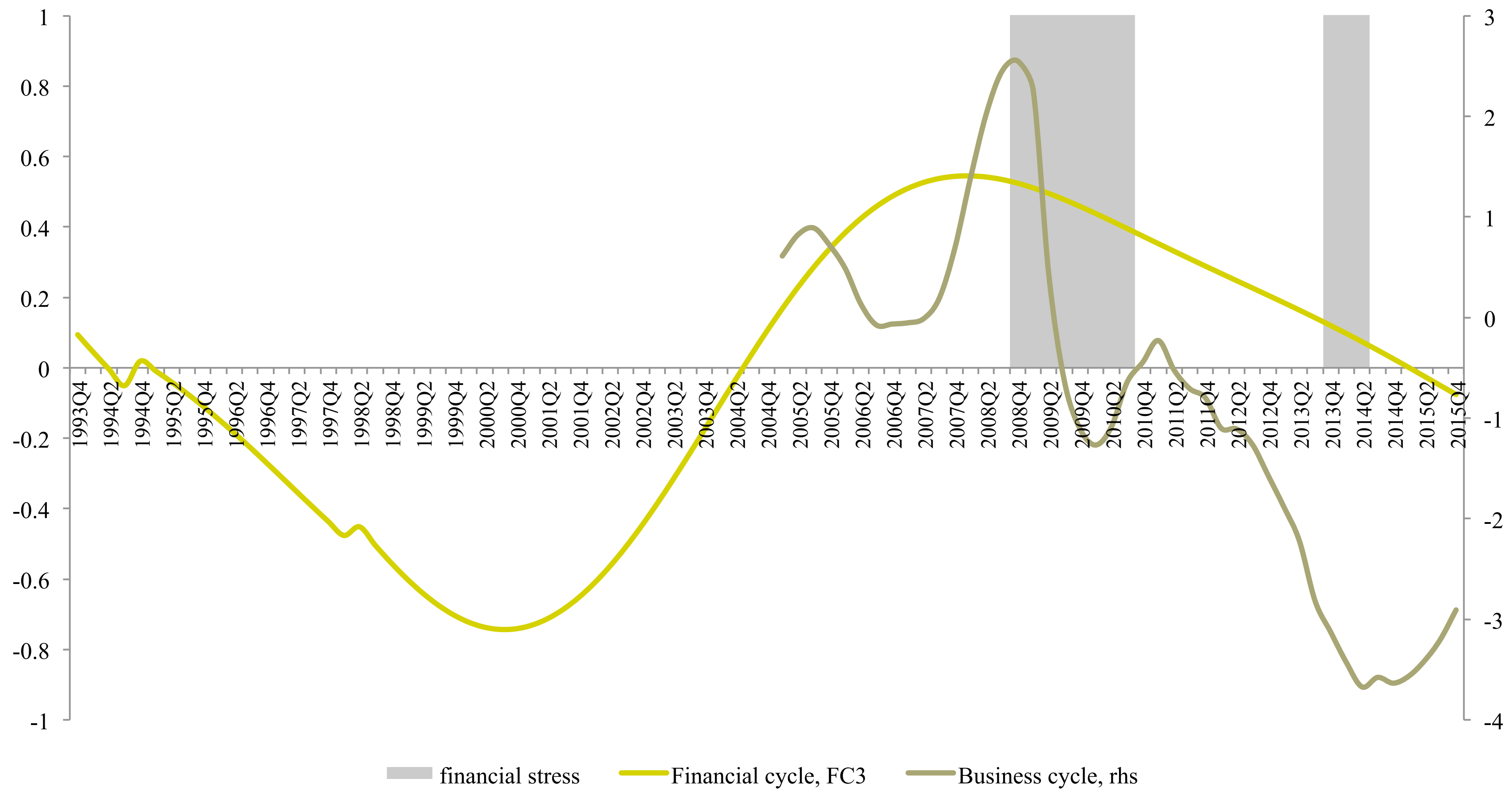
Cross-country regression	Heterogeneity in macroprudential rules		
Macro model (DSGE)	Counterfactual simulation of macroprudential policies		Rule of capital ratio that depends on output or credit growth
Micro data (Panel)	Regression at bank level or credit level		Credit growth depends on macroprudential tools

Paper #1

- Question: How to define the financial cycle?
  - No single indicator
    - Credit
    - Property prices (real estate)
    - Financial institutions balance sheet
      - Short-term funding, net income, loans
  - Results:
    - FC: Credit/GDP, Housing price, Credit growth (+ loan/ assets)
    - Evaluation: Financial crises prediction

- Sample size is an issue
- Financial crises have higher frequency than financial cycles
- FC3 could be a good indicator to be used in a macroprudential rule

Paper #1



- Question: How effective are macroprudential tools?
  - Paper #2:
    - The case of a partially dollarised economy
  - Paper #3:
    - The case of a country with a mix of several regulatory measures
  - Evaluation based on individual data

Empirical Analysis

Country	Peru	Colombia
Sample	2004-14	2006-09
Data	Loan data (841,144 obs.)	Loan data (1,933,044 obs.)
Dependent variable	Credit growth at firm-bank level	Credit growth at firm-bank level
Regressor	Dynamic provisioning activated: -1.4%	Dynamic provisioning/loans: -0.5% Countercyclical reserve requirement / liabilities: -0.7%
Dependent variable	Dollarisation ratio of mortgage loans	
Regressor	Dollar program activated: -1%	

- Sample size is less an issue because a large cross section is used
- Analysis with:
  - Bank controls and macro controls
  - Interactions betwen macroprudential tools and other variables
- One difficulty: How to evaluate the quality of the regressions
  - Probably very noisy (low R2)
  - How much is explained with macroprudential tools?

- Trade-off between macro vs micro data:
  - Macro: all macro interactions are taken into account
  - Micro: alows for very specific macroprudential rules

- I like the conclusion of Paper #2:

“further research is needed on the wide range of macroprudential policies implemented in Peru – especially within a general equilibrium framework – as all trade-offs need to be taken into account.