Comments on:

The impact of macroprudential policies and their interaction with monetary policy: An empirical analysis using credit registry data

by

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BIS CCA CGDFS Conference

Mexico City, 13 and 14 June 2016

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Disclaimer!

This presentation represents my own views and not necessarily those of the Federal Reserve Board of Governors or its staff.

Question and Answer of Paper

- Q: What are effects of macroprudential policies on procyclicality in Latin America?
  - Meta analysis using credit registry data of 6 countries
- A: Macroprudential policies have effects
  1. Have stabilized credit growth
  2. Been complements to monetary policy
  3. Buffer policies especially effective in limiting risks
- Provides important policy lessons

Relevance of and praise for paper

- Surely a worthwhile topic, especially for policy
  - While macroprudential policies (MAPs) used more, know little on effectiveness, interactions with other policies, notably monetary policy, and also risks
  - Many focused on this: academics, policy makers,…. But empirics (and theory) still limited
- Praise and agree with main findings
  - Careful analysis, new data sources: credit registries
  - Combining multiple countries in meta analysis
  - Sensible results, concur with many others and theories

Four Main Comments, Mostly on Underlying Studies, <u>not</u> on Meta

1. Literature: could be positioned better
   - Adds much to existing literature
   - Can show more of methodology and in framing
2. Think more on type of MAPs
   - Differences in impact? Why? Exploit more explicitly
3. Do more tests with data
   - Credit registry data allow for many more tests
   - Prices vs. quantities. Intensive vs. extensive. Risks
4. Clarify interactions MAPs with monetary policy
   - Complements, substitutes; use vs. impact: not so clear
   - Write-up and methodology can be more explicit

1. Literature and value added

- Value added could be sharpened
  - Most studies are aggregate, cross-country
    - Such studies have some strengths, but many weaknesses
  - Only very few use micro data (US, Korea), rarely credit registry (Spain, Uruguay)
    - Some of these more event, not time series
    - Most do not study explicitly bank characteristics
  - None allow for cross-country comparisons
- Highlight value added and sharpen motivation!

➢ Cast this set of papers as doing much better!

Literature and value added (continued)

- Other studies have weaknesses
  - Suffer from endogeneity: as MAPs may be adopted in response to a boom, when credit cycle is already turning; or in a bust, when deleveraging is in process
  - Cannot control for many factors, notably demand
  - Or detect channels through which MAPs operate
  - Hard to know tradeoffs (if any) between less credit, reduced risk taking and real economic costs
- Stress advantages of data and methodology here
  - Very detailed, firms-banks matched data
  - Little/no endogeneity, omitted variables, etc.

2. Differences in impacts of MAPs

- MAPs' aims and targets can and do vary
  - Some disincentives, some buffers, some dispel
  - Some financial institutions-, some borrower-based
    - Many target specific (balance sheets, income, other) items of banks or borrowers
- With registry can explore impacts in detail
  - Allows for identification of channels: Do capital tools work through capital? Liquidity through liquidity? Demand through borrowers' leverage or debt-service/income? Can test more formally
  - Can also use Amiti-Weinstein procedure or WLS

3. Empirics: do more. On prices, intensive vs. extensive margins, risks

- Also investigate prices (rates, spread charged)
  - If you observe rates, how do they (differentially) adjust to MAPs? Is price a mechanism to reduce?
- Focus on intensive margin, but also do extensive
  - Yes/no renewed; yes/no new firm getting financing
  - Also do firms switch lender in response to MAPs?
- Ask also if the risks of firms is reduced by MAPs
  - Do MAPs make it less (or more) likely more risky (e.g., high leverage) firms get more financing and more likely (or less likely) to end lending?

Other empirical comments

- Why, how do larger banks have less impacts?
  - Is this access to interbank markets, (preferential) bonds, CP, etc.? Related to TBTF? Or is importance due to funding source differentially affected by MAPs (deposit vs. whole-sale; FX vs. LC, short-term vs. long-term)? Evasion? Can you explain more?
- Other type of bank effects
  - E.g. relation vs. transaction: clientele (thus SMEs hurt more)? Lending by less informed? In extensive margin good screening, but in intensive margin is it more relationships or Zombie firms? Interpretation?

4. MAPs and monetary policy (MOP). Clarify the questions

- MAPs and MOP can
  - Be used in complementary ways
    - d(credit)/d(MAP)>0 <u>and</u> d(credit)/d(MOP)>0 ?
  - Stances can affect each others' impact
    - e.g., d(credit)/d(MAP|MOP=0)>>>0 (ZLB) ?
  - Can complement each other in their effectiveness
    - δ^2(credit)/δ(MAP)δ(MOP)>0 or < 0?
- And need to consider each primary goal too
  - Is MOP trying to affect π and Y (efficiently)?
  - Is MAP trying to affect credit (efficiently)?

4. MAPs and MOP (continued)

- Clarify some of these as they can be tradeoffs
- Channels and time lags can matter here
  - MOP may reduce asset prices, which in turn reduces leverage buildup, thereby reducing booms
    - Study both channels (asset prices & credit) and lags
- Evasion, "getting in the cracks", and risk taking
  - MAPs affect bank credit, MOP may affect bank <u>and</u> non-bank credit
    - Look at non-bank financing of firms in response to MAP
    - Explore risk taking channel of monetary policy

Comments on meta study

- Well done and clearly presented
  - Explicit on methodology used. Provides much details
- Still a few comments
  - Obviously, degrees of freedom can be few (5, 6)
  - Related, not clear how to think of selection bias: did those selecting certain tools expect more impact from these tools? Are there ways to correct for this?
  - Was not clear if all papers use same specification or not (some do include firm*time fixed effects, others not). Preferably meta results for the same specification

Presentational comments

- Do more on economic importance of factors
  - Notably banks' balance sheets. Cannot infer economic importance. What MAPs highest impact? If small because of avoidance or other problems?
- Related papers and literature
  - Highlight IBRN, macroprudential policies spillovers, and Buch and Goldberg, meta study closely relate
  - Capital flow management tools matter for SOEs, include, besides related papers, a discussion
  - Make more comparisons with other studies' results