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MACROPRUDENTIAL POLICY EFFECTS: EVIDENCE AND OPEN QUESTIONS

The calibration of macroprudential policies under different financial and monetary cycles

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Fátima Silva | Head of Macroprudential Policy Division, Financial Stability Department

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WHAT WE KNOW OR WE ARE LEARNING ABOUT MACROPRUDENTIAL POLICY

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01

What we know or are learning about macroprudential policy

WHAT WE KNOW ABOUT MACROPRUDENTIAL POLICY IN CONTAINING THE BUILD UP OF VULNERABILITIES OR INCREASING THE RESILIENCE?

✓ **That macroprudential policy is effective in:**

Containing ex-ante credit growth, household leverage and RRE price overvaluation.

Maintaining credit availability in downturns by mitigation the impact on economic activity of the shock (capital measures) and reducing borrowers' PD and lenders' LGD (BBMs).

Reducing the amplification mechanisms of the banking system in the event of a shock.

✓ **That macroprudential policy is more effective in tightening than in easing episodes and the net benefits depend on the type of instrument being implemented.**

✓ **That macroprudential policy has costs (economic activity) and benefits (financial stability):**

The short-term negative impact on economic activity appears to be small, and the net benefits also appear to be fully realised in the medium term.

The need for a gradual phase-in.

✓ **That the marginal benefits of increases in capital / DSTI / LTV are initially high but decreasing in the tightness of macroprudential policy.**

WHAT WE KNOW ABOUT MACROPRUDENTIAL POLICY IN CONTAINING THE BUILD UP OF VULNERABILITIES OR INCREASING THE RESILIENCE?

- ✓ **This nonlinearity means that the net benefits may depend on:**
  - The size;
  - The direction of the policy change;
  - The position of the financial cycle;
  - The nature of the shocks;
  - The financial structure (country characteristics);
  - The interaction with other policies.

- ✓ **That there may be a shift in activity towards less regulated sectors (non-bank leakage), other types of assets (risk-shifting effects) or an increase in foreign inflows.**

ON THE INTERACTIONS WITH OTHER POLICIES

The study focuses on the interaction of macroprudential policies with monetary policy, capital flow management measures and foreign exchange market interventions and their impact on bank credit in advanced economies and emerging market economies:

- Quarterly data for a sample of 23 advanced economies and 16 emerging market and developing economies over the period 2001:Q1–2018:Q4.

- Interactive effect of macroprudential policy with monetary policy and FXI on credit is primarily driven by lender-based (supply) macroprudential measures. The effects in credit growth are significant in emerging markets while these reinforcing effects are not seen in advanced economies.

- When credit growth is high, the magnitude of the interaction between macroprudential and other policies increases.

02

Further Considerations

FURTHER CONSIDERATIONS

THIS PAPER REASSURES THAT THE RESILIENCE-BUILDING EFFECTS OF MACROPRUDENTIAL POLICY HOLD-UP THROUGH TIME ESPECIALLY FOR BBMS, SUGGESTING THAT THE PRE-EMPTIVE USE OF SUCH TOOLS CAN YIELD IMPORTANT BENEFITS.

- ✓ To operationalise the ultimate objective of macroprudential policy - resilience/reduction of output volatility.
- ✓ To capture the two sources of systemic risk - the temporal and cross-sectoral dimension and the new sources of systemic risk (climate/crypto/fintech).
- ✓ To conduct further research on structural versus cyclical instruments, as the net benefits of each instrument seem to depend on the type of shock that hits the economy and on the structure of the financial system.
- ✓ To further explore the discrepancies between empirical studies using micro and/or macro data.

FURTHER CONSIDERATIONS

- ✓ Address the issue of endogeneity.
- ✓ To analyze how macroprudential policy interacts with other policies – monetary, fiscal, FX, micro-prudential and resolution policies.
- ✓ To incorporate potential leakages/spill-overs and regulatory arbitrage: nonbank financial intermediation (including fintech) and the substitution effect on credit.
- ✓ To include the heterogeneity of the financial system.
- ✓ To extrapolate the results from one country to other countries.
- ✓ To explore the distributional effects that some measures can have.
- ✓ To operationalize the concept of macroprudential stance.


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