# Discussion of: “The effect of macroprudential policies on credit developments in Europe 1995-2014” by Katarzyna Budnik and Martina Jasova

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- Also examine the interaction with monetary policy

# Findings

- Generally, various macroprudential instruments have proven to affect credit developments:
  - Especially capital buffers, minimum capital requirements, profit distribution restrictions and caps on short-term maturity mismatches are good instruments to control credit growth
  - Also most borrow-based measures have a countercyclical impact

# Findings

- Generally, various macroprudential instruments have proven to affect credit developments:
  - Especially capital buffers, minimum capital requirements, profit distribution restrictions and caps on short-term maturity mismatches are good instruments to control credit growth
  - Also most borrow-based measures have a countercyclical impact
- However, results are heterogeneous, e.g.:
  - Broader based instruments countercyclical effect on credit to NFC, but a procyclical effect on credit to households
  - Caps on short-term liquidity mismatches have a countercyclical impact, whereas caps on long-term maturity mismatches have slightly positive impact
  - Some macroprudential policies moderate the transmission of monetary policy while others reinforce it

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- Originates from the late 1970s, but used in a different context
- Crocket (2000): "The distinction between the micro- and macro-prudential dimensions of financial stability is best drawn in terms of the objective of the tasks and of the conception of the mechanisms influencing economic outcomes"
- However, many of these earlier instruments focused on limiting the likelihood of failure of individual institutions, i.e., micro-prudential

# Theory on macro-prudential policy

- Paper may greatly improve if more theoretical underpinning is provided. In particular, what purpose did different tools have at the time and what does theory predict about their impact on credit supply
- Agnostic one-size-fits-all approach is a good starting point, but theory may guide you to identify channels better

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- Link macro-prudential instruments to specific negative externalities:
  - Leverage ratio's internalize risks
  - LCR or NSFR prevent fire-sales
  - LTV and LTI prevent immobility housing market
- Some suggested readings: Hanson, Kashyap and Stein (2011), Galati and Moessner (2017), Nicol, Favara and Ratnovski (2012), Aiyar, Calomiris and Wieladek (2014)

# Interaction monetary policy and macro-pru

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  1. Monetary policy (+) & macro-pru (+) $\rightarrow$ reinforce (+) $\rightarrow$ negative effect on credit supply
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- 1 & 2 conflict and given dominance of one over the other 3 & 4 conflict (Aiyer, Calomiris and Wieladek, 2012)

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- Credit is not “bad” per se and often not explicitly targeted. Consider also other variables (credit gap, debt-service ratio, NPL’s, etc.).

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- Control variables for capitalization and health of the banking sector and unconventional monetary policy are missing
- Within quarter estimation, but macro-prudential policy and monetary policy are often suggested to have long lags

# Minor comments and suggestions

- Wealth of information, specify more country details, i.e., in what countries do macro-prudential measures work better.
- Authors control for current inflation and policy rate, but ex-ante expected inflation and expected interest rate path are more relevant
- As credit growth is lagged, endogenous variables should we instrumented with their second lag
- Macroprudential policy indicator suppressed into a single dummy ignores a lot of relevant information