Roundtable : Interactions between monetary policy and macro-prudential policies

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How do monetary, micro- and macroprudential policies interact?
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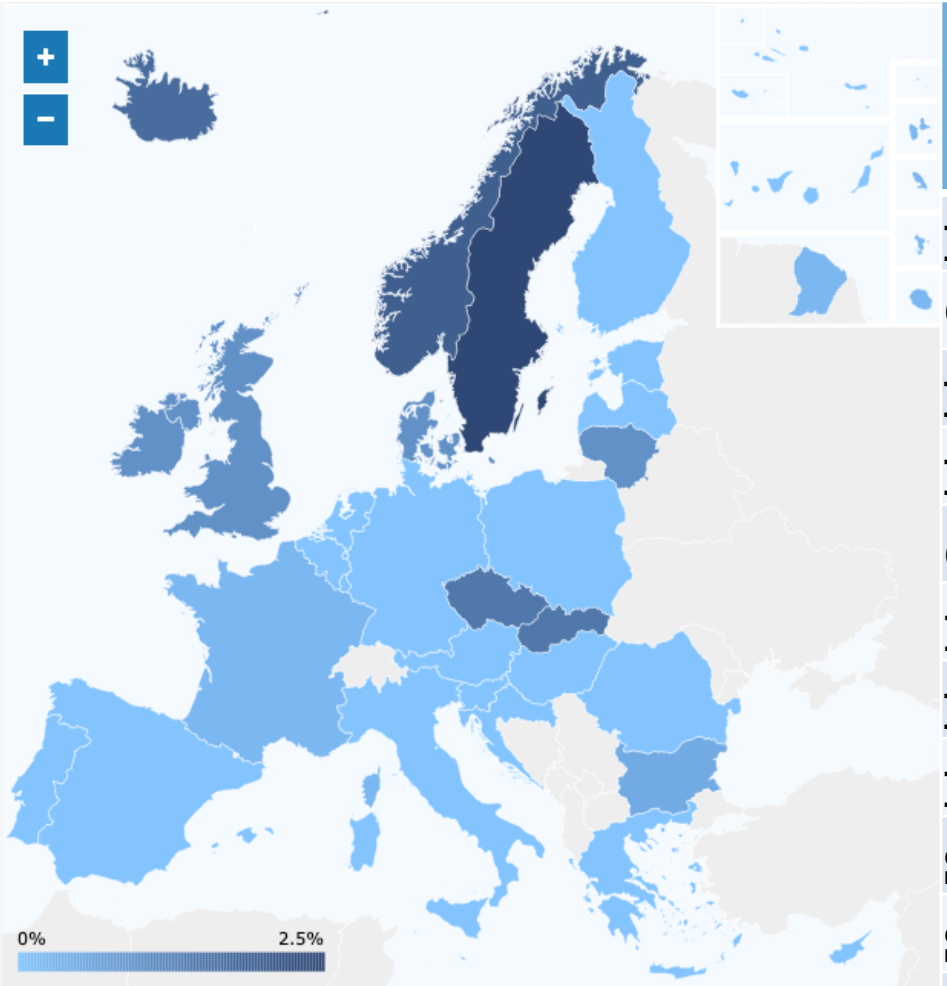
Countries with CCyB (Counter Cyclical Buffers)



	Current CCyB (2019)	Planned CCyB (2020)
Belgium		**1.00%**
Czech R.	1.50%	**1.75%,2.00%**
Denmark	1.00%	**1.50%,2.00%**
France	0.25%	**0.50%**
Germany		**0.25%**
Iceland	1.75%	**2.00%**
Luxembourg		**0.25%**
Norway	2.00%	**2.50%**
Slovakia	1.50%	**2.00%**
Sweeden	2.50%	2.50%
UK	1.00%	1.00%

Source: European Systemic Risk Board (ESRB)

Countries with Max LTV ratio (mandatory or recommended)

Country	Max LTV ratio	Country	Maw LTV ratio
Cyprus	80%	Lithuania	80%
Czech R.	95%	Malta	
Denmark	95%	Netherlands	100%
Estonia	85%	Norway	85%
Finland	95%	Poland	80%
Hungary	80%	Portugal	90%
Iceland		Romania	85%
Ireland		Slovakia	90%
Latvia	90%	Slovenia	85%
Lichtenstein	80%	Sweden	85%

Source: European Systemic Risk Board (ESRB)

Countries with other borrower based MP measures

Country	DSTI	DTI	LTI
Cyprus	X		
Czech R.	X	X	
Denmark			X
Estonia	X		
Hungary	X		
Ireland			X
Lithuania	X		
Malta	X		
Norway		X	X
Poland	X		
Portugal	X		
Romania	X		
Slovakia	X	X	
Slovenia	X		
UK			**X**

Source:
European Systemic Risk Board (ESRB)

Consensus regarding the use of Monetary Policy and Macroprudential policy

- Clear separation between the 2 policies
  - Monetary policy objective: inflation and unemployment (or output stabilization).
  - Macroprudential policy is in charge of (ex-ante) Financial Stability

How did we reach this consensus (1/2)?

- Before the 2008 – 2009 crisis:
  - Academic economists and central bankers agreed that interest rate was too blunt a tool to deal with stock market bubbles
    - Academics: Bernanke, Gertler (2001)
    - Policy experiment: US monetary policy 1928 – 1929
    - Trust in financial markets self regulation

How did we reach this consensus (2/2)?

- Since 2008 – 2009:
  - Threat to financial stability comes more from large credit expansions than from bursting stock market or property bubbles
    - Schularik and Taylor (2012), Dell'Arricia and al. (2015)
  - The Swedish « experiment »
    - Svenson (2015)
  - DSGE models have hard time to identify occurrence where a preventive increase in interest rate (to reduce the probability and the damage of a banking crisis) is welfare improving.
    - e.g. Gourio et a. (2016)

How comfortable are we with this consensus?

- We have tested the inability of the monetary policy to deal with rampant credit growth & property bubbles
- We haven't tested the ability of MP measures to tame credit growth and ensure financial stability.
  - How far one needs to go with MP measures to increase financial stability?
- We don't know much about the impact of MP measures on monetary policy targets

The many reasons we know so little about the impact of MP measures on credit growth

- Many different tools (LTV, DSTI, CCyB, …)
- Up to recently, most MP measures had been implemented in Emerging economies …and validity of empirical conclusions for developed economies is questionable
- Most empirical papers are just counting the number of MP measures and the path of the policy (tightening, loosening)
- Empirical methodology not stabilized

Most sophisticated empirical evaluation …so far

- Richter, Schularick, Shim (2018) evaluate that:
  - A 10pt decrease in the LTV has the same macro-impact (inflation and output gap) as a 25 bp rise in the policy rate
  - Increases in LTV seem effective in taming credit and housing price growth
  - Situations that trigger Macropru seem different from those governing monetary policy
  - ….however, these conclusions hold mostly for emerging economies

We are learning fast

- More and more European countries are implementing MP measures
- Empirical methodology is being improved:
  - Intensity of MP measures start to be considered
  - Concerns about policy endogeneity are being addressed

Besides the impact of macropru measures, there is a long list of questions waiting for answers

- Do all types of credit booms need a macropru measure?
  - Probably not, (Asriyan et al. 2018)
- Does macro-pru leak in space and time?
  - Yes, probably
- Do we need coordination within EZ for macropru?
  - Probably not, (Poutineau, Vermandel, 2017)
- The political economy of Macro-prudential policy
  - Notably of MP measures that are borrower oriented (max horizon for mortgage, LTV, DSTI, …) (Epaulard, Lorach, forthcoming)

Thank you !