Examining macroprudential policy and its macroeconomic effects – some new evidence

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Discussion

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Summing up…

- Motivation:

  After GFC **macropru policies** became key to mitigate systemic risks but what are the **effects on macroeconomic variables** via their impact on availability of credit and cost of borrowing? How **macropru policy reacts to financial risks** (macropru reaction function)?

- Method:

  Structural panel VAR on 32 countries (AEs and EMEs). Macropru index based on Cerutti et al. (2017b).

- Main results:

I. Effects of macropru policy shocks on macro (GDP, price and credit) similar to MP shocks (decline if contractionary) **BUT the transmission is different** → I>C and HH>NFC (more homogeneous if MP)

II. **Differences in effects of macropru across country-groups**: positive credit shocks are met with contractionary macropru responses but magnitude differs: country-characteristics that matter (FX regime, financial development, role of NCB).

…also my points quickly (more details later on)

- In general I found this paper a VERY interesting contribution for the empirical side of macropru studies. A more comprehensive panel analysis was really missing and the method is sound.
- Thanks a lot for giving me the opportunity to read and comment your work!!!!

- **The main questions/comments on the methodology concern:**

1. A more clear ID scheme description and the Tinbergen principle.
2. UMP?
3. Heterogeneity in the sample, data.
4. Some further checks: common/exogenous factors.
5. Tests (for cross-sectional dependence, stationarity and lags).

Some questions and suggestions…

1. **What is the ID among the 3 macro variables and/or consumption and investments and/or HH and NFCs credit?** (if this is not clear you may also consider sign restrictions?)

- Have you done some sensitivity analysis or is it following the literature…?
- A table with the Cholesky identification scheme would be very helpful (especially when you extend the baseline to more variables).

- **How macropru instruments can affect the MP instrument in the ID?** The interaction between this two is very important as well. (only mentioned at page 21!)
- A nice addition to the literature and the discussion of results: the strand on the **"Tinbergen principle",** which argues that there should be two different instruments (MP's is interest rates but macropru can influence them!) when there are two different policy goals (price stability v. financial stability – btw the latter is normally not a MP objective but depends on MP regimes!). There is a 2-countries DSGE paper on Lithuania and EA about this (Rubio and Comunale, 2018 ES) but Rubio has some more general follow ups on the topic too, you may want to check, and look also at Svensson (2015), which might be worthwhile considering.

Some questions and suggestions…

- **Still on the objective of MP→ subsampling by MP regimes** (inflation targeters vs. the rest?). If all the NCBs' main MP goal is price stability see **Tinbergen principle** (and you should correct your point at page 21, a NCB involved in financial stability does not mean that this is its MP objective). This is not the same as FX regimes and different compared with **your (extra interesting!) exercise on governance of financial stability (I would emphasize that even more and move it in a ad-hoc section)** → at least can be complementary to it (including governance of MP and main objective) and give you some more insights.
- This is linked to your idea of MP with "**macroprudential orientation**"…tricky. **Which are the NCBs?** This can be a *de facto* role but is it in the official *de jure* objective of some NCBs for MP?
- What a "full" role means?
- **Again it is good to differentiate between a NCB involvement in macropru policies (objective: financial stability) and in MP (objective price stability if inflation targeters). And between macropru variables and interest rates as tools or reaction variables.**
- Interest rates, as instrument and not as a reaction variable, should not be a tool against credit shocks (if not linked to excessive inflation) in the latter. (see page 28)

Some questions and suggestions…

2. For the policy interest rates, (different set of) **shadow rates**? You end your sample in 2014, but some UMP measures in some AEs (see euro area) were already in place. So for now you look at conventional MP only, extending it could be nice!

- Ideally, you can also look at how a variation in UMP/normalization will affect macroprudential policies and the transmission to the economy...

Some questions and suggestions…

3. What about **homogeneous v. heterogeneous coefficients**? Having a panel of so many countries, this could make a difference!

- Data: Are CZ, HU and PL really EMEs (IMF definition)? Why US is not included? Japan? And other euro area countries?
- Maybe could be worthy having as 2 samples: EMEs and AEs? (you also stressed the important differences EME/AE at page 21, better having this sub-sampling too or define here as EME and AE by level of financial developments)
- In some countries, monetary policy is common (euro area) and macropru is country-specific. Have you tried to run the panel VAR only for euro area countries (12 over 32)? This may be not exactly the same as **fixed regimes (how are they defined btw? Fully fixed or you added some intermediate regimes? – see other point slide 8).**

Some questions and suggestions…

4. Some possible further checks on spillovers/common factors

- You may want to consider (a proxy for) spillovers among the considered set of countries to take care of (weak) **cross-sectional dependence** (the presence of CSD is my educated guess, but it would be nice testing it). → as you mentioned one potential source of differences could be related to international leakages in financially more open economies – it could be interesting to analyse this further! Perhaps using a proxy for these leakages (some weighted average in the meantime, or in the future a GVAR?)
- You included in your VARX version US GDP and Federal Fund rate, as sort of **(exogenous) common factors**, but more robustness checks on this aspect would be also useful (just an idea: VIX? Global GDP? A better measure of US MP as shadow rates? A weighted measures of shadow rates?).

5. As for the system in levels: have you performed any **tests** on the variables? How did you decide for **2 lags**? Have you tested for that (BIC, AIC…)?

Minor suggestions/ideas…

- Why have you decided to use the de facto regime classification by Aizenman et al. (2013)? IMF has a database on that updated (AREAER). **You can also see intermediate regimes!**
- Now: method do not have **distinction between credit shocks from credit demand or supply** → link to the shock-dependent ratios (from another strand of literature: ERPT! See Forbes et al. (2018))?
- Take a look at April 2018 GFSR by the IMF → Zohair et al. (2018) "Digging Deeper – Evidence on the Effects of Macroprudential Policies from a New Database" (I think it is work in progress but you may want to approach the authors). And some new evidence from the IMF survey "The IMF's Annual Macroprudential Policy Survey— Objectives, Design, and Country Responses": here

Extra minor (!):

- Is 1 standard deviation shock informative for the reading? Is 1% more clear in a way/makes the comparison easier?
- Your bands are at 95%, so there might be a typo at page 11 (second paragraph – 90%) and page 20 (description of Fig.8).
- Are Figure 4 and 5 took out from a full set of IRFs as in the baseline (I think so, but it is better mention that under the figures)?
- Insert some explanations in a note under Figure 8 (what are all the different lines?) basically a quick version of the paragraph.

Conclusions

- In general I found this paper a VERY interesting contribution for the empirical side of macropru studies. A more comprehensive panel analysis was missing and the method is sound.

- Thanks once again for giving me the opportunity to read and comment your work!!!!
- I hope that these points of mine/questions/suggestions will be of some help.

Thanks to the authors and organizers!!! ☺

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