# Remarks for the Panel on **International Perspectives on Macroprudential Policy**

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# Macroprudential Policy in the Open Economy

- Macroprudential policy (macropru) is particularly useful in the open economy
  - It can stabilize against external pressure, especially when monetary policy is not enough
- But macropru is also more challenging in the open economy
- What do we learn from the macro literature?
- Some suggest there are clear gains from international cooperation
- But international cooperation may be difficult in practice and may not benefit all countries
  - Survey by Agénor and Pereira da Silva (2018)

# Too Much or too Little Macropru?

- If there are gains from international cooperation, it means there are positive or negative international externalities
  - "Local" externalities leading to overborrowing (pecuniary or demand externalities) can be addressed by national authorities
- If macropru reduces probability of crisis in one country, this should be beneficial for other countries
- Positive externality, typically implying too little macropru as countries do not take into account the positive impact to other countries
- But macropru has other implications than reducing risk

# Examples of Excessive Macropru

- Occurs in a Liquidity Trap (LT)
  - Fornaro-Romei (2018), Jeanne (2014), Acharya and Bengui (2018)
- A LT occurs because of too much global saving compared to global investment
- Macropru in some part of the world increases saving even more
- Makes the LT even "deeper", which could have negative implications
- Other example: stronger macropru in advanced economies may push capital towards less regulated economies
  - Could create "excessive" capital inflows

# Is Macropru so Powerful?

- Macro models assume that macropru measures can be applied to the whole economy and have general equilibrium effects
- But there are *leakages*
- Macropru only applies to some lenders
- Consider two types of leakages
  1. Only applies to residents
  2. Only applies to banks

# 1. Macropru only Applies to Resident Lenders

- Borrowers can arbitrage with foreign lenders
- Example: in 2007-2008 "risky" European firms could borrow more from US banks (Bacchetta and Merrouche, 2017)
- Potential explanation: EU was applying risk-weighted Basel II, but not US
- Macropru could make local lenders safer, but it increases competitive pressure
- Does this still reduce systemic risk?
- Reciprocity reduces this leakage

# 2. Macropru only Applies to Banks

- Borrowers can arbitrage with non-banks: corporate bonds, shadow banking, etc.
- Here again, make banks are more resilient, but what about systematic risk?
- In a closed economy Bengui and Bianchi (2018) find that banking regulation is still useful even in presence of shadow banking
- But how does this affects the international spillovers? And macropru may not be effective in stabilizing from external shocks

# Is Macropru really Macro?

- Is it *Bankingsectorpru* ?
- Removing leakages is desirable to make it macro (systemic)
  - ESRB goes in the right direction with reciprocity and other measures
- Would be better to focus on borrowers rather than lender
  - As in macro models
  - See discussion in Jeanne and Korinek (2014)
- LTV are better than capital ratios
  - See Ferrero, Harrison and Nelson (2018)

# Macropru in Emerging Markets

- Macropru has been traditionally strong in EM with limited capital mobility
- But with disintermediation and financial integration, leakages become larger: more difficult to resist financial shocks
- E.g. increase is corporate borrowing
- Anhert, Forbes, Friedrich, and Reinhardt (2018): FX regulation on banks increases FX borrowing by firms
- Capital controls may be needed for macropru in EM to compensate for leakages

# Conclusions

- From a macroeconomic perspective, there are leakages to macropru
- These leakages should be reduced to make macropru more efficient
- International macropru models should incorporate these leakages to give us a better understanding

# References


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