SVERIGES RIKSBANK

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Macroprudential policy, countercyclical bank capital buffers and credit supply: Evidence from the Spanish Dynamic Provisioning Experiment

Discussion by
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- Paper in a nutshell

  - Study effect of “countercyclical” provisioning “experiment” in Spain

    - Policy experiment uses a calibrated function that maps current loan provisions (LP) into the additionally required countercyclical (i.e., not loan-specific), provisions

    - Calibrated parameters under control of central bank

    - The three policy shocks affecting banks differently

    - Policy shocks “interact” with “state of the economy”

    - Follow same bank-loan and bank-firm pairs!

- In good times
  - Tightening provisioning requirements (PR)
    - Makes banks that need to provision more make deeper cuts in credit commitments (to the same firm)(1stdev LP => -4% credit)
    - Firms manage to replace cuts in credit by going more to banks that are hit less
    - No enduring real effects (assets, staff, survival)
  - Loosening PR :
    - Response consistent with tightening/good times experience
  - Results hold for credit commitments, to the same firm; on intensive and extensive margin.

- In bad times (2008, Q4)
  - Lowering the *minimum* PR:
    - Banks with LP close to the minimum (in lowest quartile), permanently cut credit *(9%) less*
    - Banks with ample provisions permanently cut credit less (1stdev drop in PR => 5% increase in credit)
    - Substitution of credit more difficult than in good times
    - Real effects: assets, employment and survival increase at firms served by these banks
  - Results hold for intensive and extensive margin, but shorten maturity and increase collateral

- Picking up the last breadcrumbs

  - The workings of the experiment
  - A few regression questions
  - What we can learn from the paper
  - Some reflections on CCCB policies after reading JOPS
  - Parallel to asymmetric effect of monetary policy

- Reading the paper
  - There’s a lot! A Kashyap-Stein (2000) density experience
  - The description of the experiment could provide more detail
    - Announcement time, did BdE make a policy statement about what it wanted to achieve, did all banks meet the provisioning demands?
  - What’s the relevant control group for banks?
  - Firm-level measure of susceptibility to shocks: alternatives?
  - Why can’t you compute the size of the 2nd provisioning shock?
    - Can provide more intuition for the instrumenting? What are you disregarding and what are you instead focusing on?
  - Could effect of DP depend on size because of access to equity market?
    - Regressions by size (now models are nested, interaction size*DP in Table 3)
  - Some small text errors

- What the paper made me think about …

  - There are good things:
    - You can impose additional capital requirements in good times without hurting the economy
    - CCCB can make credit move from weaker to stronger institutions
    - Releasing DP (lowering capital requirements) in bad times can stimulate credit and the real economy

  - There are possibly bad things
    - Credit may (relatively) keep increasing in weak financial institutions

  - What is the true or relevant counterfactual for policymakers?
    - Spanish banks did not fare well post 2008 Q4, despite CCCB
    - What if bank is not exposed to policy? (Some banks in Spain)
    - Should we be concerned that simple rules create incentives to ….

- What the paper made me think about …

  - What's complicated about CCCB:
    - Calibration of the CCCB function
    - Individual or system-wide addition?
    - Timing: when to build up and when to release?

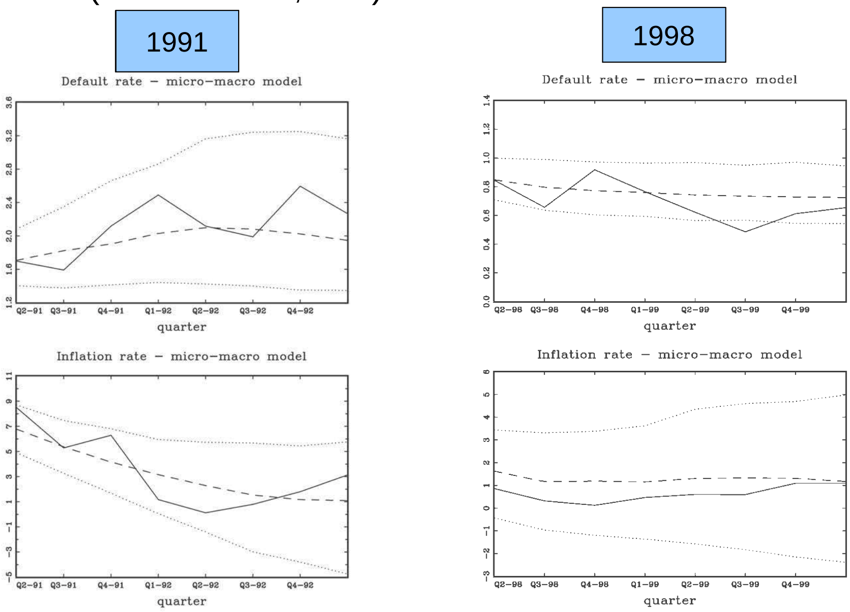
    - Do we want badly provisioned (capitalized) banks to lend "more"?
      - What happened to the banks that benefited most in 2008-Q4?

  - Policymakers (BIS, ECB) have argued that increases in capital requirements don't have real effects: JOPS suggests true if introduced at right time (cf. BoE)

  - Parallel to asymmetric effect of monetary policy

- # Parallel to asymmetric effects of monetary policy?

  - Monetary contractions have asymmetric, state-dependent, effects on financial stability, not on inflation (Jacobson et al., 2005)



- Thanks!