Panel discussion on
'Macroprudential Regulation of Households'

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Outline for my remarks on *Macroprudential Regulation of Households*

Do we need macropru regulation? Central banks need to be involved?

- For systemic risk/financial stability, credit cycles are key:
  - For financial crises booms: ex ante financial imbalances key, eg excessive risk
  - Busts: credit crunches, fire sales, contagion, solvency & liquidity problems…

- Differences in macropru regulation on banks such as countercyclical capital requirements *versus* more targeted regulation to e.g. household credit? Differences in booms and/or in busts?

- Macropru on households: (i) differences in booms (access to credit) vs. bust (defaults; C drop…); (ii) distributional effects; (iii) LTVs or DTIs?

- Are there complementarities in monetary policy and macropru? Many central banks nowadays have both policies

- My remarks based on Systemic Risk, Crises & Macroprudential Regulation (Freixas-Laeven-Peydró, 2015, *MIT Press*) and some academic papers

Macropru on banks or targeted on households?

- Difficult to "take away the punch bowl just when the party gets going"
  - E.g. Spain (in the boom-period between 2014-19) did not introduce CCyB, not even Germany with a very strong boom (nor HH macropru)
  - In countries with CCyB, buffers relatively small
  - Not only does private debt matters: similar for some countries on public debt: Spain/Italy/France pre-COVID19 *versus* Germany and the four frugal countries
  - Not only macropru on debt, but monetary rates were reduced to -0.5% (and restart of QE) in Euro area in September 2019 (not crisis times)

- Even if regulator wants, it is difficult to tame a credit boom, even more the excessive risk taking. In our research, we find:
  - Easier to reduce private debt boom targeting household debt (HH macropru)
  - Difficult to reduce credit boom with CCyB (macropru on banks)

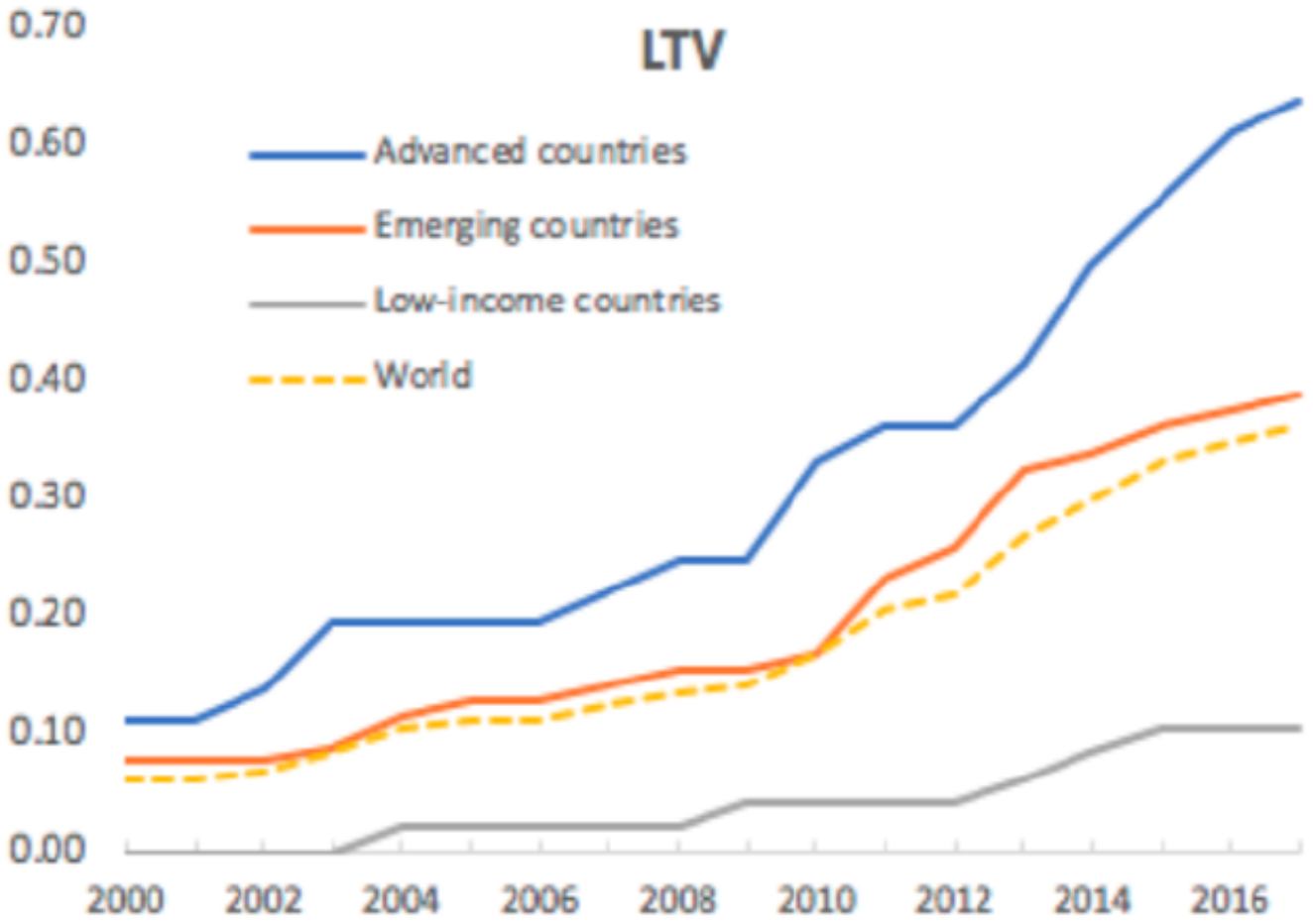
CCyB: Macropru on banks

- Difficult to analyze Basel III's CCyB over a full credit cycle
- Spain had a CCyB on Tier 2 capital: the so-called dynamic provisioning, similar to current IFRS9 and ECL wrt forward looking aspect but with an additional component: creating an extra buffer in good times "to be used" in crisis times (the CCyB part)
  - Introduced in Spain in 2000, revised four times, and tested in its countercyclicality during the 2008 crisis, it affected banks differentially

- We find that dynamic provisioning smooths credit supply cycles but with asymmetric effects: weak in good times and very strong in crises
  - In crises, DP improves real effects: A 1 percentage point (pp) increase in capital buffers extends credit to firms by 9 pp, firm employment (6 pp) & survival (1 pp)
  - Why? There are important compositional effects in credit supply related to risk and regulatory arbitrage by nonregulated and regulated but less affected banks

- "Macroprudential Policy, Countercyclical Bank Capital Buffers, and Credit Supply: Evidence from the Spanish Dynamic Provisioning Experiments," Jiménez-Ongena-Peydró-Saurina (JPE 2017)

Increasing share of countries regulating household leverage
Source: Cerutti et al. (2018)



Macropru on households

- Target LTVs or DTIs (DSTI) to households
  - Macropru can also target leverage of firms, but less common
  - The regulator can target directly the household (a household level restriction with both banks and nonbank credit intermediaries as in the case of Netherlands), or indirectly HH debt via banks as e.g. in the UK with DTI
- In the case of NL, Bekkum-Gabarro-Irani-Peydró (2020) analyze the effects of borrower-based macropru at the household-level, exploiting admin Dutch tax-return & property ownership data linked to the universe of housing transactions, and the introduction of a mortgage LTV limit
- The regulation reduces mortgage leverage, with bunching in its limit. Ex-ante more-affected households substantially reduce overall leverage and debt servicing costs but consume greater liquidity to satisfy the regulation (liquidity vs. solvency trade-off)
- However, fewer households transition from renting into ownership
- All of these effects are stronger for liquidity-constrained households
- So macropru on HH effective in booms, but (i) busts? (ii) less invasive?

Peydró-Tous-Tripathy-Uluc (BoE WP, 2020): setting

- We analyse the distributional effects of such a macroprudential policy on mortgage and house price cycles

- For identification, we exploit the universe of UK mortgages and a 15%-limit imposed in 2014 on lenders — not households — for high loan-to-income ratio (LTI) mortgages

- We analyze a cycle: policy introduction in real estate price boom and exploit EU referendum (Brexit) as RE price correction

- This type of paper is interesting for: (i) policy evaluation (in this case understanding the transmission of macropru on households); (ii) learn about key frictions in credit markets. Note that the UK policy is very different from the Dutch one: indirect regulation via banks and limit of LTI only binding in few banks

Peydró-Tous-Tripathy-Uluc (BoE WP, 2020): results

- Despite some regulatory arbitrage (e.g. increases in LTV and average loan size), more-constrained lenders issue fewer high-LTI mortgages

- Partial substitution by less-constrained lenders leads to overall credit contraction to low-income borrowers in local-areas more exposed to constrained-lenders, lowering house price growth

- Following the Brexit referendum (which led to house-price correction), the 2014-policy strongly implies — via lower pre-correction debt — better house prices and mortgage defaults during an episode of house price correction

Finally, interactions of monetary and macroprudential policies?

- In COVID-19 crisis, BoE-Fed-ECB (among other central banks) can soften both macroprudential (reducing eg CCyB and CCB) and monetary policy
- Central banks (sometimes with government or with macropru agencies, especially on HH macropru) manage both policies
- Each policy may independently improve real effects
- But do they complement each other? Independent on their effects?
- Altavilla-Laeven-Peydró (2020) analyze the Euro area monetary policy shocks and macropru policies in all the euro area countries in conjunction with the euro area credit register (Anacredit)
- In addition to the independent effects, we find much stronger effects of softening monetary policy on credit if macropru is softer
- Effects are strong in corporate loans, consumer loans and mortgages though with different elasticities. Lending effects also stronger in riskier borrowers/loans, but also in more productive ones
- **Macropru helps the monetary policy transmission, crucial at ZLB times**