Macroprudential policy over the business cycle

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Panel IDB

April 17, 2012
Questions

- How many/which countries use prudential tools for macroeconomic stabilization purposes?
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- How is macroprudential policy conducted over the business cycle?

- Is reserve requirement policy a complement to/substitute for interest rate policy?
Database and analysis is part of a World Bank regional study (Office of the Chief Economist for LAC) on macroprudential policy

- Empirical focus is on reserve requirements

- 33 countries so far (22 emerging, 11 industrial)

- Sample: 1980 to present

- Frequency: Quarterly

- Sources:
  - Reserve requirements: Country desks, central banks, regulatory agencies, and IMF staff reports
  - Interest rates and GDP: IFS, GFS, and national sources
## Varieties of reserve requirements

<table>
<thead>
<tr>
<th>Developing (22)</th>
<th>Single RR (12)</th>
<th>Maturity RR (13)</th>
<th>Currency RR (2)</th>
<th>Maturity and currency (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
<td>Brazil</td>
<td>Croatia</td>
<td>Argentina</td>
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<td>Colombia</td>
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<td>Chile</td>
<td>Peru</td>
<td>Belarus</td>
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<td>India</td>
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<td>Czech Rep.</td>
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<td>Costa Rica</td>
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<td>Jamaica</td>
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<td>Hungary</td>
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<td>Ecuador (before dollarization)</td>
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<td>Malaysia</td>
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<td>Israel</td>
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<td>Poland</td>
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<td>Philippines</td>
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<td>Venezuela</td>
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<td>Turkey</td>
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</table>

| Industrial (11) | Australia |                | Euro            | Argentina                |
|                 | Canada    |                | France          | Belarus                  |
|                 | New Zealand|               | Germany         | Costa Rica               |
| United Kingdom  |           |                | Japan           | Ecuador (before dollarization) |
|                 |           |                | Portugal        | Poland                   |
|                 |           |                | Spain           | Turkey                   |
|                 |           |                | United States   |                          |


Average reserve requirements over time
Dispersion over time
Cyclicality of reserve requirement policy

Av. industrial = 0.23
Av. developing = 0.19

75% of industrial countries excluded
10% of developing countries excluded
Cyclicality of interest rate policy

Av. industrial = 0.48
Av. developing = 0.05
<table>
<thead>
<tr>
<th>Reserve requirement policy</th>
<th>Pro-cyclical</th>
<th>A-cyclical</th>
<th>Counter-cyclical</th>
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<tr>
<td>Pro-cyclical</td>
<td>Ecuador (pre-dollarization)</td>
<td>Serbia</td>
<td></td>
</tr>
<tr>
<td>A-cyclical</td>
<td>Chile</td>
<td></td>
<td><strong>Australia, Canada, Czech Rep., Euro-17, France, New Zealand, Spain, United Kingdom, United States</strong></td>
</tr>
<tr>
<td>Counter-cyclical</td>
<td>Argentina, Brazil, India</td>
<td><strong>Belarus, Costa Rica, Croatia, Hungary, Israel, Japan, Malaysia, Peru, Philippines, Portugal, Turkey, Venezuela</strong></td>
<td><strong>China, Colombia, Ecuador (dollarization), Germany, Jamaica, Poland</strong></td>
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Conclusions

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