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Do macroprudential policy instruments affect the link between lending and capital? – A cross country evidence

In the aftermath of the last financial crisis, both academic researchers and practitioners started looking for tools which could curb excessive procyclicality of the financial sector. In this paper we ask about the capacity of countercyclical macroprudential policy instruments to reduce the procyclical impact of bank capital on lending. We focus on major types of macroprudential instruments as designed by the International Monetary Fund (i.e. macroprudential index, borrower targeted macroprudential policy index and financial institution targeted macroprudential policy index), as well as on detailed instruments identified by the IMF in the survey on Global Macroprudential Policy Instruments (GMPI). In our study we ask two major questions: (1) do macroprudential policy instruments reduce the impact of bank capital on lending in non-crisis period?; (2) how do they affect the link between lending and capital during the crisis? Applying the GMM Blundell and Bond approach to a sample covering over 70 countries we find that macroprudential policy instruments reduce the impact of capital on bank lending during both crisis and non-crisis times. This result is robust to several checks. Thus our study lends empirical support to the notion that macroprudential policy has the potential to curb the procyclical impact of bank capital on lending and therefore the more restrictive Basel III standards are justified.

Key words: loan supply, capital ratio, procyclicality, macroprudential policy instruments

JEL classification: E32, G21, G28, G32