DISCUSSION OF

MACROPRUDENTIAL POLICY DURING COVID-19: THE ROLE OF POLICY SPACE
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MAIN REACTIONS

- A very relevant policy question
- Very nice effort to construct relevant macro-pru data
- Interesting comparison of macro-pru effort with policy measures in other domains
- A caveat:

  I am on outsider to this literature

Macro-prudential data

- Important to try to measure intensity and not just "loosening-tightening" (as most indicators used in the literature do).
- Authors construct indices for
  - Counter-cyclical capital buffer
  - LTV ratios
  - FX prudential measures (not comparable across countries)
- General pattern: gradual tightening after the GFC-induced loosening

Evidence

- Negative correlation between tightness of MPr stance pre-COVID and extent of economic and financial stress
- … but countries with less financial stress loosened MPr stance more
- Only predictor of MPr loosening during COVID is how tight the stance is
- MPr stance pre-COVID uncorrelated with use of other policy tools
- "Space" correlated with use of tools only for conventional MP

A general note on the COVID shock

- Global, very large, key sectoral component
- Short-lived financial panic….
- ….but enormous effects on economic activity, related to
  - Sectoral composition of activity (eg tourism share)
  - Severity of pandemic and lockdowns
- Massive policy reaction

Queries on the data and evidence

- Evidence: countries that tightened MPr more during previous decade experienced less financial stress
- …but this evidence is bivariate and not explored further
- My simplistic reading: some countries use MPr much more actively than others…
- What country features correlate with this policy framework/choice?
- 29 countries show no change in MPr during the COVID shock, and virtually all of them show no change in earlier episodes either

Why did severely affected countries refrain from loosening?

- Their MPr stance was loose to start with
- Their MPr stance as measured is basically a constant
- They could not loosen given the impact of the financial shock on exchange rate, spreads etc

Policy message: tightening before a shock is good?

- Assessing the MPr stance has to relate to overall financial stability
- Hard to argue on the basis of the evidence presented that a tighter MPr stance is "good" because you can loosen when a bad shock hits
- Countries may not be using actively MPr for a host of other reasons (institutional and financial development; different set of tools for financial regulation?)

Other reactions and queries

- Why government debt to measure fiscal space?
  - Spreads/interest rates?

- Data availability for the "fiscal space" regressions seems limited (sample is 37 observations, half those for macro-pru). Surely sample can be extended