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Macprudential Policies, Capital Flows, and the Structure of the Banking Sector[☆]

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Abstract

Using a large sample of advanced and emerging market economies over the period 1999-2012, we examine the effectiveness of macroprudential policies (MPPs) in managing cross-border bank flows. Conditioning on the structure of the banking sector in the MPP-implementing country, we find that higher regulatory quality and a higher credit-to-deposit ratio increase the effectiveness of MPPs, while a higher cost-to-income ratio has the opposite effect. If all three financial variables are evaluated at the median, the marginal effect of our preferred MPP measure leads to a reduction of international bank inflows in percent of GDP by around half a percentage point and is only marginally significant. However, when the more enhanced 25th (10th) percentiles of their respective distributions are considered, we observe, as a response to the same MPP measure, a reduction of bank inflows by 3.44 (5.39) percentage points that is highly statistically and economically significant. Additionally, we find that the structure of the domestic banking sector determines spillovers from MPPs across asset classes, while spillovers from MPPs across countries are a function of banking sector conditions both at home and abroad.

Key Words: macroprudential policies, international capital flows, banking sector

JEL Classification: F3, F5, G11, G21

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