

Discussion of  
“Creditable capital: macroprudential regulation and  
bank lending in stress”

by A. Mathur, M. Naylor and A. Rajan

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*Macroeconomic Policy and the CCyB*

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<sup>1</sup>The views presented do not necessarily reflect the position of the Central Bank of Chile or its Board members

## Summary and general remarks

- How *usable* are capital buffers during a downturn? What is the effect of releasing the CCyB on *usability* and lending?
  - ▶ Policy relevant → benefits of capital buffers during stress periods
  - ▶ Know relatively little → good empirical evidence extremely welcomed
- Setting: UK during Covid-19. Focus on two policies:
  - ① Statements reinforcing *usability* at the onset of the pandemic
    - ★ Exploit variation on ex-ante surpluses (capital constraints)
  - ② Releasing the CCyB
    - ★ Exploit variation on effective release
- Single DnD strategy at bank (surpluses) and ind. (lending) levels
  - ▶ Banks increased surpluses during Covid → *usability* frictions
  - ▶ CCyB release increases *usability* and helps supporting credit growth

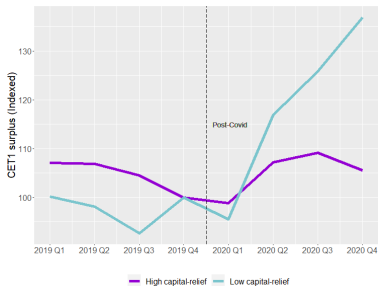
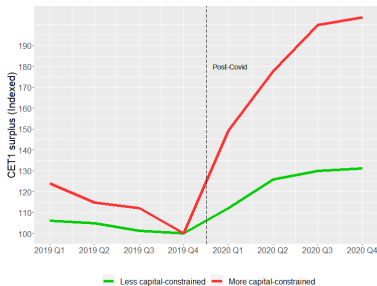
# Main comments and suggestions

- 1 Relevant and credible results on the impact of CCyB
  - ▶ Good job providing consistent evidence with overall story
  - ▶ For surpluses and, particularly, for credit results (ind. level)
  - ▶ Minor: more discussion on interest rates
- 2 Descriptive evidence might be more important than clean identification in this case
  - ▶ Finding causal estimates in this setting is extremely challenging
  - ▶ More emphasis on descriptive evidence
- 3 Increasing surpluses during Covid-19: *usability* frictions?
  - ▶ Why CCyB works?
  - ▶ Rule out alt. explanations: expectations of losses vs buffer size
  - ▶ Additional evidence and discussion on mechanism would help

# Descriptive evidence might be more important than clean identification in this case

- Identification of causal effects in this setting is extremely challenging
  - ▶ Many other policies affecting banks happening at the same time
  - ▶ Government guarantees, dividend dist., CCyB other countries, etc.
  - ▶ Each requiring controls if observable, or a discussion
- Two treatments require stronger identification assumptions
  - ▶ Alt. 1: orthogonality between policies for causal interpretation
    - ★ Deserves more discussion
  - ▶ Alt. 2: treat ex-ante capital constraints as heterogeneity
    - ★ Seems that parameter of interest is CCyB release X capital constraints
- Suggestion: more emphasis on descriptive evidence
  - ▶ Show other adjustment margins at the bank-level
  - ▶ Commercial credit consistent w/ story? Why, why not?

# Increasing surpluses during Covid-19: *usability* frictions?



- Banks of different groups increased surpluses, on average
- Banks more constrained ex-ante → larger relative increase
- Banks w/ higher CCyB impact → smaller relative increase

⇒ Usable regulatory buffers did not work as intended due to frictions (supervisory reactions, stigma, etc.). CCyB works because it addresses barriers simultaneously.

# Increasing surpluses during Covid-19: *usability* frictions?

- Lit. on usability, particularly low during Covid
  - ▶ Diff. potential reasons (Leitner et. al., 2023; Berrospide et al. 2023)
- Critical to know to what extent a shock-specific phenomena
  - ▶ Existence of *usability frictions* → re-think why do we need buffers
- Expectation of future constraints due to nature of Covid-19?
  - ▶ Covid-19 very unusual shock → high uncertainty + high credit risk
  - ▶ Ex-ante capital levels too low? Consistent w/ rest of evidence
- More evidence of frictions and banks' actions
  - ▶ Data on expected losses at onset and later, variation in stock prices,
  - ▶ Evidence of relevant frictions → exposure to guarantees and usability?

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