The spillovers, interactions, and (un)intended consequences of monetary and regulatory policies

Kristin Forbes a,b,c, Dennis Reinhardt d,* , Tomasz Wieladek e,f,1

a Bank of England’s Monetary Policy Committee, UK
b MIT, USA
c NBER, USA
d Bank of England, Threadneedle Street, London EC2R 8AH, UK
e Barclays, UK
f CEPR Research, UK

A R T I C L E   I N F O

Article history:
Received 14 October 2016
Accepted 24 October 2016

Keywords:
Capital requirements
Funding for Lending Scheme
Financial deglobalisation

A B S T R A C T

Have bank regulatory policies and unconventional monetary policies—and any possible interactions—been a factor behind the recent “deglobalisation” in cross-border bank lending? To test this hypothesis, we use bank-level data from the UK—a country at the heart of the global financial system. Our results suggest that increases in microprudential capital requirements tend to reduce international bank lending and some forms of unconventional monetary policy can amplify this effect. Specifically, the UK’s Funding for Lending Scheme (FLS) significantly amplified the effects of increased capital requirements on cross-border lending. Quantitative easing did not appear to have a similar effect and countries with stronger prudential capital regulations were partially insulated against the effects of these changes in UK policy. We find that this interaction between microprudential regulations and the FLS can explain roughly 30% of the contraction in aggregate UK cross-border bank lending between mid-2012 and end-2013, corresponding to around 10% of the global contraction in cross-border lending. This suggests that unconventional monetary policy designed to support domestic lending can have the unintended consequence of reducing foreign lending.

© 2016 Published by Elsevier B.V.

1. Introduction

Global financial intermediation has changed significantly since 2008. Cross-border capital flows have contracted sharply (Fig. 1), mainly due to a reduction in international bank lending. In contrast, FDI and international portfolio exposures have

We would like to thank James Benford, Enrica Detragiache, Marco Lo Duca, Jas Ellis, Phil Evans, Linda Goldberg, Glenn Hoggarth, Sujit Kapadia, Luc Laeven, Lyndon Nelson, Roland Straub, and participants at the Carnegie-Rochester-NYU Conference on Public Policy, CBRT-IMF-BIS conference on ‘Macroprudential Policy: Effectiveness and Implementation Challenges’, at the EMG-ECB Workshop on Global Liquidity and its International Implications, the ECB workshop on non-standard monetary policy measures, the IMF’s 16th Jacques-Polak Annual Research Conference, the 3rd Annual Conference of the MIT Golub Center for Finance and Policy, the Bank of England Research Steering committee and Research Awayday for useful comments. We thank John Lowes for excellent assistance and advice with regard to the data. This paper was initially released as Bank of England External MPC Unit Discussion Paper No. 44. All remaining errors are our own. The views expressed in this paper are those of the authors, and not any institutions with which they are affiliated.

* Corresponding author.
E-mail address: dennis.reinhardt@bankofengland.co.uk (D. Reinhardt).
1 His contribution to this paper was completed while employed by the Bank of England and does not represent the views of Barclays.

http://dx.doi.org/10.1016/j.jmoneco.2016.10.008
0304-3932/© 2016 Published by Elsevier B.V.

Please cite this article as: Forbes, K., et al., The spillovers, interactions, and (un)intended consequences of monetary and regulatory policies. Journal of Monetary Economics (2016), http://dx.doi.org/10.1016/j.jmoneco.2016.10.008
not declined by nearly as much and have bounced back since the 2008 crisis (Fig. 2). This evolution in cross-border bank lending has been described as “financial deglobalisation” (Forbes, 2014) and “the great cross-border bank deleveraging” (Cerutti and Claessens, 2014). It can be divided into two stages: the sharp initial contraction that occurred during the crisis, and a more recent decline that began in 2012—what we refer to as the “second phase of banking deglobalisation”. This most recent decline in international lending stands in sharp contrast to the relative stability in domestic bank lending over the same period, in both the UK and the world (Fig. 3). Proposed explanations for the initial phase of banking deglobalisation include government intervention in the banking system (Rose and Wieladek, 2014), increased home bias (Giannetti and Laeven, 2012), reduced demand for loans, and reduced availability of wholesale funding for banks.2 Although a substantial literature has analysed various effects of regulatory and unconventional monetary policy, no previous work has examined whether these policies could be an important factor behind this contraction in global banking.3 Also, no other work has studied the second phase of banking deglobalisation. This paper aims to fill these gaps.

---


3 Most papers examining the impact of unconventional monetary policy focus on the effects on domestic and international financial market prices. Fratzscher (2013), Ahmed and Zlate (2013), and Koepke (2014) are some of the few examples of papers which instead assess the impact on global capital flows, especially to emerging markets.
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات