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Macroprudential Policy and Credit Spreads

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Abstract

Macroprudential policy is traditionally characterized by countercyclical rules responding to credit variables. In this paper, we augment macroprudential rules with additional indicators, including the credit spread. First, we empirically assess the validity of this extra variable by providing evidence on the correlation of a credit spread measure with credit booms. Then, we explicitly introduce this variable into a Dynamic Stochastic General Equilibrium (DSGE) model. We use our model to determine to which extent having countercyclical macroprudential measures also responding to credit spreads may be welfare improving, for both a capital requirement ratio (CRR) rule and a loan-to-value (LTV) rule. We find that the spread is a relevant indicator for credit-supply measures but not for borrower-based ones. For the latter, an additional response to house prices is more appropriate. We also find that the augmented rules deliver more financial stability, but at the expense of more inflation volatility, which reduces the welfare of the savers. Overall, the augmented rules improve welfare.

Keywords: Credit spreads, financial stability, macroprudential policy.

JEL Classification: E32, E44, E58.

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