Effects and role of macroprudential policy: Evidence from reserve requirements based on a narrative approach

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June 13-14, 2014

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- Questions:
  - What are the macroeconomic (output) effects of RR?
  - Does RRP complement (i.e., reinforce) or substitute for monetary policy?

How do we proceed?

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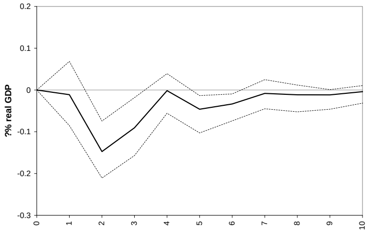
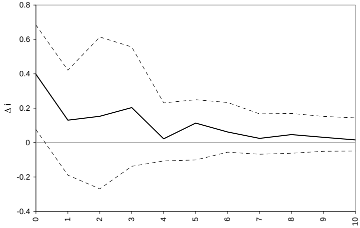
- Panel VARs with quarterly data

Monetary policy in the United States

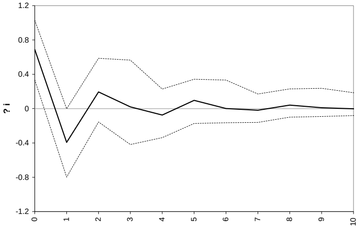
Panel A. Effect of monetary policy on GDP



Panel B. Effect of GDP shock on i



Panel C. Effect of inflation shock on i



Monetary policy in LAC 4

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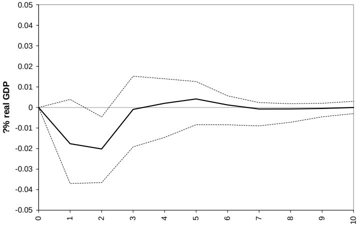

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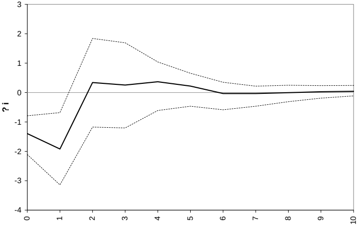

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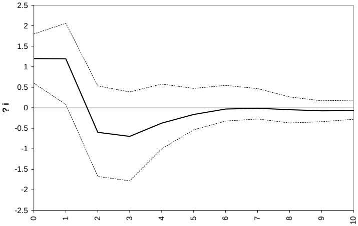
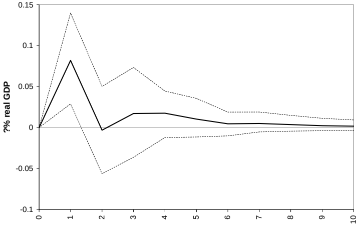


RRP in LAC 4: "Traditional" identification

Panel A. Effect of RR policy *(all RR changes)* on GDP



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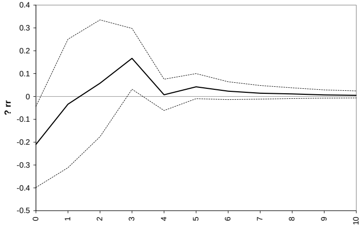
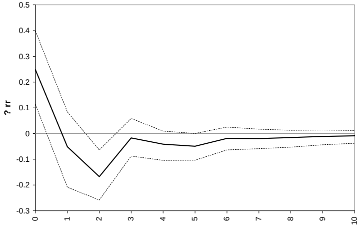


Panel C. Effect of inflation shock on RR

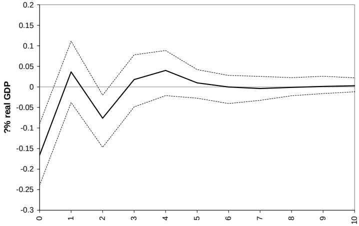


Narrative

	total	exogenous	endogenous
Argentina (1992:1-2011:3)	33	20	13
Brazil (1995:1-2010:4)	20	14	6
Colombia (1992:1-2011:3)	6	1	5
Uruguay (1992:1-2011:4)	10	9	1
Total	69	44	25

RRP in LAC 4: Identification based on narrative

Panel A. Effect of RR policy *(exogenous RR changes)* on GDP



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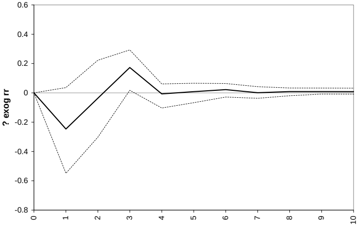

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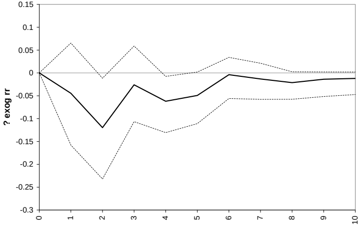
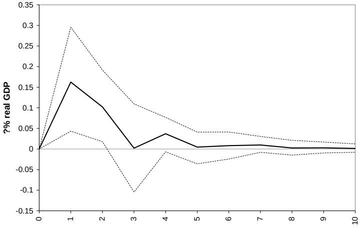
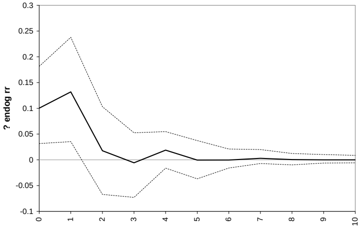


Panel A. Effect of RR policy *(endogenous RR changes)* on GDP

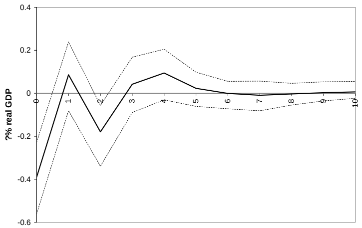


Panel B. Effect of GDP shock on RR

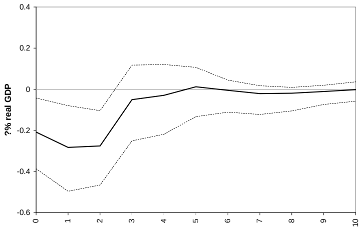


Monetary policy versus RP in LAC 4

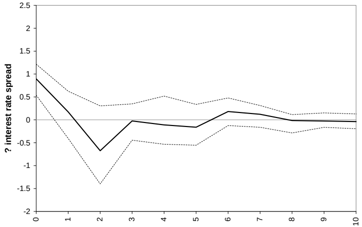
Panel A. Effect of RR policy *(exogenous)* on GDP



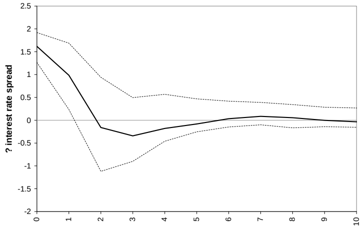
Panel B. Effect of monetary policy on GDP



Panel C. Effect of RR policy *(exogenous)* on i spread

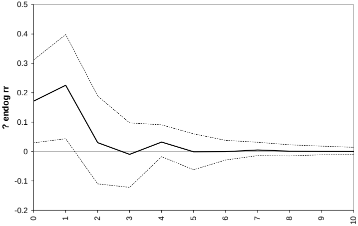


Panel D. Effect of monetary policy on i spread

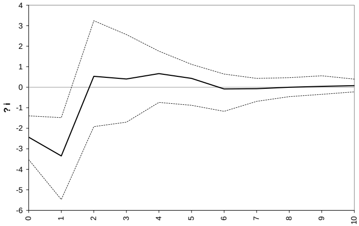


Substitutability between RRP and monetary policy

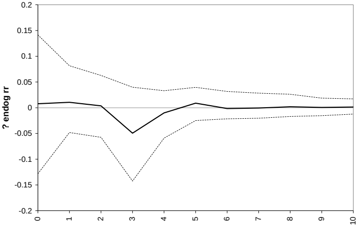
Panel A. Effect of GDP on RR policy *(endogenous)*



Panel B. Effect of GDP on monetary policy



Panel C. Effect of depreciation on RR policy *(endogenous)*



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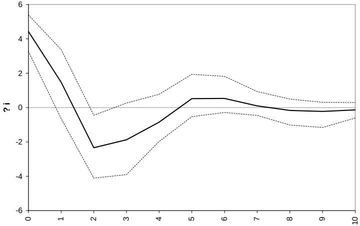

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- RR provide policymakers with a second instrument that they can use to target output

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- RRP acts as substitute for monetary policy