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IMPACT OF MONETARY AND MACRO PRUDENTIAL POLICIES ON FINANCIAL STABILITY

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ABSTRACT

The objective of this paper is to study the impact of different instruments of monetary and macro prudential policy on financial stability, using a sample of 48 countries, over the period 2000-2016. Based on the recent survey conducted by the IMF in 2016, we extend the database created by Cerutti, et al. (2015), considering macro prudential instruments through a binary approach. The results show the effectiveness of both monetary and macro prudential policies in reducing credit growth and so, in stabilizing financial system. However, macro-prudential regulation is more effective than monetary policy, given the number of monetary policy objectives and the short-term interest rate limit. Macro prudential tools appear to be more effective for emerging countries, given the degree of openness and limited external financing possibilities; these tools are used to limit excessive lending. For advanced countries that are more financially open, with more diversified and sophisticated external financial sources, macro prudential tools seem to be less effective and difficult to monitor, they are used to control mortgage borrowing and foreign-exchange loans.

KEYWORDS: *Macroprudential Policies, Monetary Policy, Effectiveness, Procyclicality, Financial Stability,*

JEL Classification: *E43, E58, G18, G28*

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