Macroprudential Policy Efficiency: Assessment for the Uncollateralized Consumer Loans in Russia

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Annotation

Prudential regulation aims at providing financial stability. Its conventional realization encompasses a set of regulatory restrictions, add-ons and/or regulatory ratios. The latter include capital adequacy, liquidity coverage ones etc. In case the bank meets such requirements, the regulator expects it may pass through a financial crisis without soliciting bail-out funds from the Central Bank. However, meeting the very same criteria during the crisis times may be over-restrictive, or procyclical (Altman et al. 2002,Gordy and Howells 2004, Behn et al. 2014, etc.), i.e. might constraint bank even more and consequently limit economic activity exacerbating crisis and preventing rapid recovery. The described dilemma is known as the trade-off between microprudential measures and macroprudential ones. The former include the mentioned ratios and target individual bank stability. The latter have a larger toolkit and target economic system stability overall. Policymakers started publicly discussing macroprudential toolkit composition after the Asian crisis in 1997 (Crockett 2000) and Dot-com crises in 2001 (Borio 2003). However, Clement 2010 claims the knowledge and importance was given to macroprudential tools early in the onset of the Basel Committee for Banking Supervision (BCBS) in 1970s. Nevertheless, wider adoption of macroprudential policy tools started after the Global financial crisis (GFC) of 2007-09. At the time (Schoenmaker 2014) even introduced a term 'macroprudentialism'.

The objective of this paper is to investigate macroprudential policy tools efficiency that targeted restricting uncollaterilized consumer lending in Russia. To reach this goal we made following steps.

First, we collected the unique dataset on the macroprudential measures implemented in Russia. It consists of over 60 measures introduced from 2015 to 2020. Each measure has a type description (general/specific; easing or tightening one; whether it is related to uncollaterilized consumer lending or not). We added information on to which banks it was applicable; what it sensitivity in terms of the risk-weight mark-up equivalent is. We carefully verified the timing of each measure starting from its announcement (draft document publication); its formal (legal) acceptance; its registration with the Ministry of Justice and the ultimate application date. Such a dataset is a unique extension to the existing IMF dataset used in (Cerutti and Claessens 2017; Norring 2019; etc).

Second, we departed from the BIS methodology coined in (BIS 2020; Gambacorta and Murcia 2020). By extending the methodology to the announcement dates - as recommended

by (Budnik and Jasova 2018) - and measure sensitivity we were able to learn more about the macroprudential measures effectiveness. We followed the idea of (Dautović 2019) for the risk-weighted assets (RWA) investigation and we find that such measures led to increase in the overall credit riskiness of the Russian banks' loan portfolios. This effect is explained by the fact that all measures tightening suppose increase in risk-weights that are assigned to credits. Despite this fact we can see that at the moment of tighter policy implementation risk-weight remain stable meaning credit structure changes toward less risky loans. We also find that the tightening consumer-lending-oriented measures were successful in the short-term curbing of the new loan volumes provided and in decreasing the average consumer loan portfolio growth rate. Mostly often we observed that such contractions took place after the announcement dates, and not after the application (implementation) ones. When we look at the longer term horizon, we observe the insignificant increase in credit growth rate after the measure implementation.

Due to the uniquely collected dataset we are able to step further from the measure signalling effect to its sensitivity one. Thus, we find that any risk-weight mark-up of 10 pp are associated with 1 pp p.a. increase in consumer lending. Such findings coincide with several works, e.g. (Cerutti, Correa, et al. 2017; Budnik and Jasova 2018; McCann and O'Toole 2019; Basten 2020; Kim and Oh 2020). Additionally, we also observe the redistribution effects like that in (McCann and O'Toole 2019) and (Basten 2020). To some extent they are also similar to (Yarba and Güner 2020). In particular, we find that the tightening macroprudential measures limit consumer lending growth of the smallest banks, the least market players (with smaller consumer loan portfolios). The largest banks inversely increase consumer lending overall throughout the year, but the middle players (banks with neither the least, nor the largest consumer loan portfolios) overcome the largest ones in the pace of consumer lending growth disregarding the tightening nature of the implemented measures. Besides, the banks with the smallest capital adequacy ratios (often the largest in size) tend to increase consumer lending more than those with larger capital buffers and larger capital ratios. In other words, banks do not wish to spend the accumulated capital buffer to pay for the burden of the new measures. This effect may be attributable to the technology-intensive nature of the consumer lending. Those banks, that have invested much in IT, do not wish to easily capitulate in front of the competitors who earlier economized on such investments.

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