University of Nottingham
UK | CHINA | MALAYSIA

Research impact summary

Financial stability: where macroprudential and monetary policies meet

Research by the Centre for Finance, Credit and Macroeconomics (CFCM) is helping to shape policymaker thinking amid the post-financial-crisis landscape. One key contribution has been to shed light on the long-underappreciated links between macroprudential and monetary polices and to analyse how these play out in countries of varying wealth levels.

The global financial crisis of 2007 and 2008 has forced a wide-ranging rethink of economic policies, their interactions and their repercussions. With new forms of intervention, regulation and supervisory practice introduced since the height of the turmoil, the landscape has been dramatically transformed – and it is still changing.

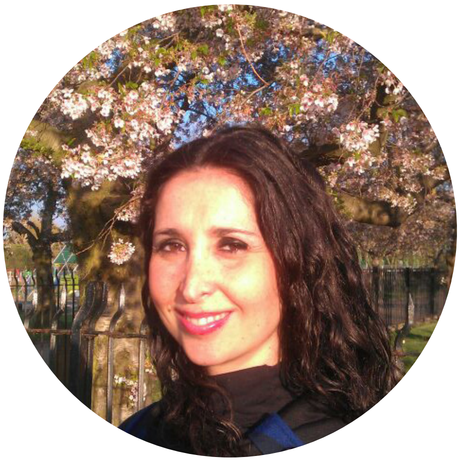
"Many of the novel measures that have emerged of late have been designed to prevent future crises by creating a financial system whose problems aren't spread to the real economy," says Margarita Rubio, an Assistant Professor of Economics. "A fundamental issue that has only recently started to gain the level of attention it deserves is how these measures coexist with monetary policies. This is the principal focus of our research."

One of the most significant cornerstones of macroprudential policymaking is Basel III. Developed by the Bank of International Settlements' Basel Committee on Banking Supervision, it represents a comprehensive set of reforms in banking regulation, supervision and risk management. Key stipulations include a compulsory capital requirement ratio (CRR) and a countercyclical buffer, the latter intended to guard against periods of excessive credit growth.

Using dynamic modelling, Dr Rubio's research has demonstrated how monetary policy needs to be more aggressive when the CRR rises and that such a combination is likely to lead to a more stable economic and financial system. Her studies also suggest a higher CRR increases the welfare of borrowers at the expense of savers and banks. Such findings are vital to shaping effective long-term policies.

"The crisis has made clear that we don't fully grasp the interactions between the various components of the financial and economic system," says Dr Rubio, whose work has informed several central banks and the International Monetary Fund. "Financial markets, the real economy, the housing sector, stability, welfare, macroprudential, microprudential and monetary policies – we need to disentangle all these complicated relationships to avoid a repeat of 2007 and 2008."

Research into the relationship between macroprudential and monetary policies in low-income countries is especially rare. CFCM has sought to address this gap by examining the situation in nations that tend to be characterised by economic volatility, weak supervisory capacity and limited data. Results suggest an active policy – that is, one in which the CCR is adjusted in response to credit deviations – is more likely to bring stability, provided regulators are able to observe economic conditions perfectly.



“The crisis has made clear that we don’t fully grasp the interactions between the various components of the financial and economic system.”

Margarita Rubio

Assistant Professor of Economics

“We live in a turbulent and difficult economic environment in which models and beliefs we took for granted don’t apply any more. These are precisely the times in which economists are most needed. My research helps propose policy interventions to central banks and other international institutions to improve the current situation and avoid future crises, which is something we all definitely want.”

margarita.rubio@nottingham.ac.uk

World-leading research

The research carried out at the School of Economics is regularly acknowledged as among the most significant of its kind in the world. It is also among the most influential.

Research can help boost economic competitiveness, improve the effectiveness of public services and policy and enhance quality of life. We have made important contributions in all of these areas through the work of our research centres.

- Centre for Decision Research and Experimental Economics
- Centre for Finance, Credit and Macroeconomics
- Centre for Research in Economic Development and International Trade
- Nottingham Centre for Research on Globalisation and Economic Policy
- Granger Centre for Time Series Econometrics
- Network for Integrated Behavioural Science
- Nottingham Interdisciplinary Centre for Economic and Political Research