Bank-Risk Taking, Securitization, Supervision, and Low Interest rates: Evidence from Lending Standards

A. Maddaloni and J. L. Peydró

Discussion

Hugo Rodríguez Mendizábal
Instituto de Análisis Económico (CSIC)
Summary

- Paper documents a negative relation between levels of interest rates and risk-taking by banks

- **Novel feature** is the use of the BLS which allows to identify the transmission channel *(how and why)*

- **Discussion:**
  - causality *(from MP rates to risk)*
  - policy implications
Causality

• **Specification of the Taylor rule**

\[ i_t^* = r^* + \pi^* + \alpha_\pi (\pi_t - \pi^*) + \alpha_y (y_t - y^*) \]

\[ i_t^* = 2.1 + 1.9 + 0.5(\pi_t - 1.9) + 0.5(y_t - y^*) \]

Taylor rule residual = \( i_t - i_t^* \)

**negative residual \( \Rightarrow \) expansive MP**
Causality

• Evidence on MP and house prices
  • Fatás et al. (IMF WEO, 2009) (figure)

• Low levels of short rates in several countries may point to common causes:
  – great moderation and assessment of risks
  – global saving glut (figure)
Policy implications

• Analysis based on Taylor rule
  – description or prescription? (quote)
  – should we change the reference rule?
    – great moderation/securitization (figure)
  – evaluate MP with respect to mandate?
    – price stability (figure)
Thanks for your attention
Taylor rule residuals and house prices (2002.1-2006.3)

Source: Fatás et al. (2009), IMF World Economic Outlook
Current account and house prices (2002.1-2006.3)

Source: Fatás et al. (2009), IMF World Economic Outlook
“If the policy rule comes so close to describing actual Federal Reserve behavior in recent years and if FOMC members believe that such performance was good and should be replicated in the future even under a different set of circumstances, then a policy rule could provide some guide to future decisions. [...] Such a policy rule could become a guide for future FOMCs.”

J. B. Taylor (1993)
Relative growth rate in the first two quarters of expansion (US)

Note: Average growth rate in the first two quarters of expansion minus average growth rate of expansions
Inflation rate

Source: ECB
Long-short interest rate spread

Source: OECD Economic Outlook