Abstract
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HOW MONETARY AND MACROPRUDENTIAL POLICIES INCREASE FINANCIAL STABILITY IN EAGLES? NEW EVIDENCE FROM A MONTE CARLO SIMULATION STUDY

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ABSTRACT

Authors mention EAGLEs (or Emerging & growth-leading economies), where the financial system plays an increasingly crucial role for economic growth, are a driving force of global growth. But there are mot many researches on macro responses (effects) on financial stability. The current study is conducted to evaluate monetary policy, macro-prudential policy impacts on financial stability in 15 EAGLEs. By employing a (MCMC) simulation algorithm within the Bayesian approach, the results show that within the macroprudential policy framework, capital surcharges, limits on foreign currency lending considerably improve financial stability, while expanded credit tends to hurt financial stability, but the effects of FX and/or countercyclical reserve requirements and limits on interbank exposures are very weak, even ambiguous. Surprisingly, loan-to-value (LTV) and policy rate adversely affect financial stability. Regarding monetary policy tools, money supply is positively related to financial stability. Crucial conclusions are that macro-prudential, monetary policy interactions might be effective in supporting the stability of a financial system in case their responses move in the same direction in the business cycle recover stage and in a bank-based financial system, high interest rates adversely influence financial stability.

Key words: macro-prudential, policy, stbaility