

Comments on “A Tale of Different Capital Ratios: How to Correctly Assess the Impact of Capital Regulation on Lending”

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Czech National Bank Research Open Day, 23 May 2022

Cynical view on bank regulation (Cochrane)

- 1 Big banks are the central bank's key clients.
- 2 Many policymakers used to work work (or plan to work) for commercial banks.
- 3 The system is designed to protect big banks from competition.
- 4 At the same time providing power to the regulator.
- 5 Individuals and companies suffer as a result.

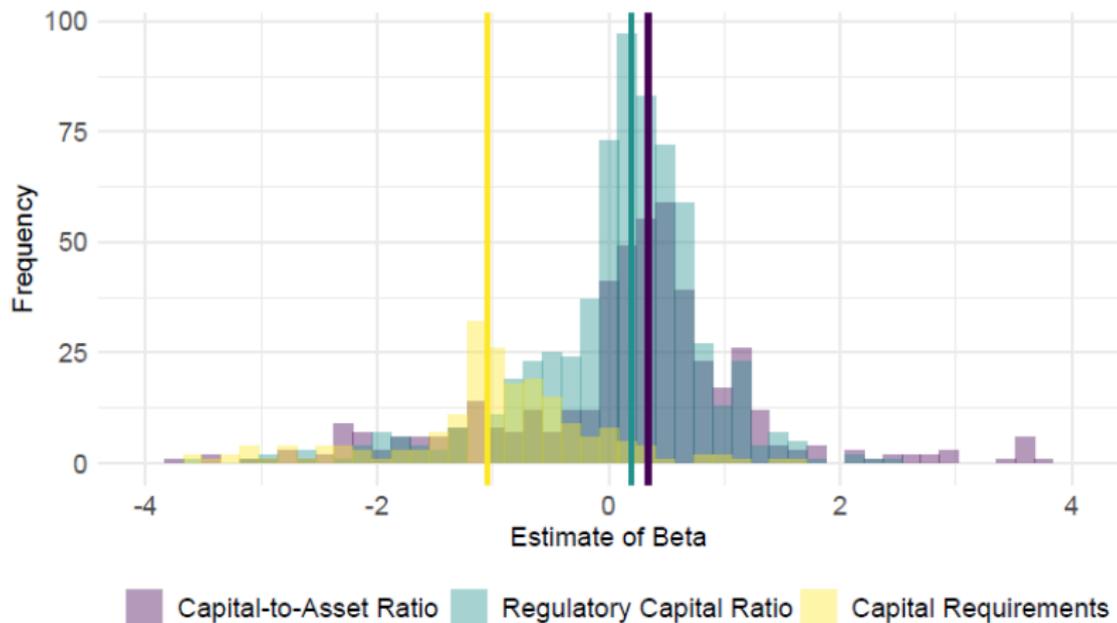
More efficient alternative?

- drastically higher requirements (capital or long-run debt)
- no other regulation

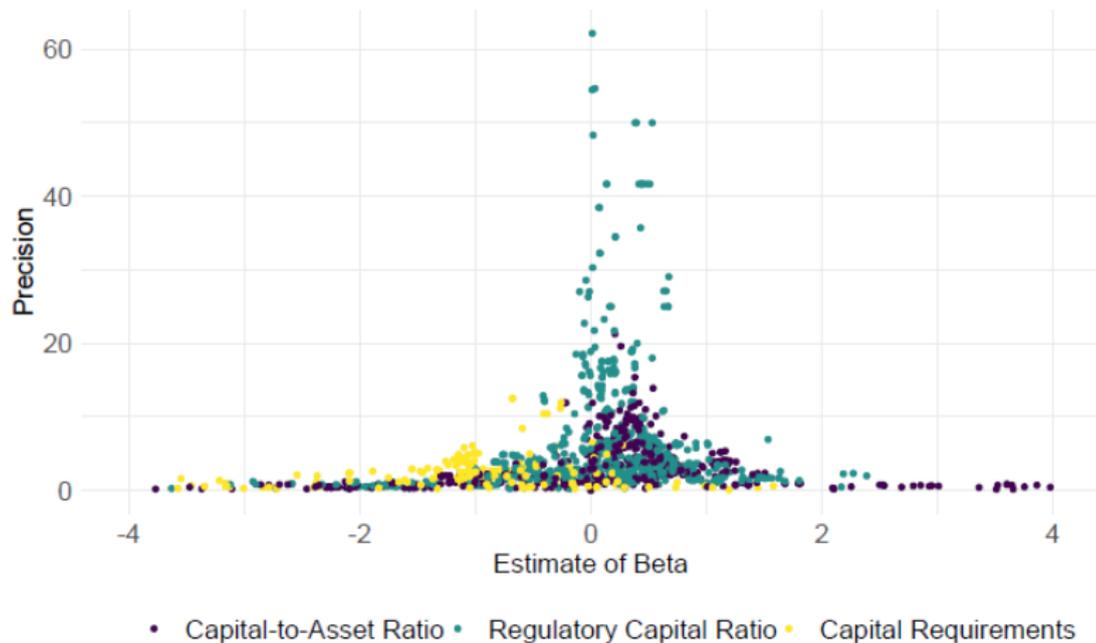
The effect of capital on lending is key

- Plenty of mixed evidence
- Insignificant results perhaps not reported
- One needs a meta-analysis
- Isaiah Andrews, David Card
- Here advanced techniques: WAAP, kinked model, stem-based model, frequentist model averaging, Bayesian model averaging with a dilution prior. . .

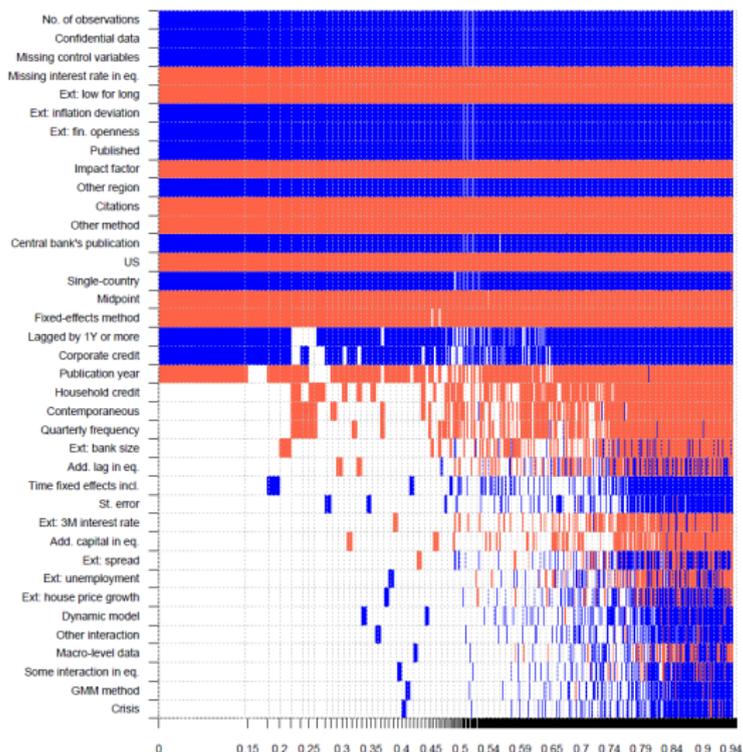
Short run, long run



Publication bias?



Identification? Linearity?



- If we trust these results, Cochrane's alternative is viable.
- Why not 50% requirements? Unweighted; equity or long-run debt (> 10 years).
- No financial crises, no need for much additional regulation.
- More competition, more efficient banking system.
- Regulators will have more time for research.