

Investigating new policies for financial stability that do not create inequality

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The primary aim of the study is to investigate how new macroprudential policies can influence financial stability without contributing to inequality in society. This study presents the results of the wider project MACROPRU which has received funding from the European Union's Horizon 2020 research and innovation programme under the Marie Skłodowska-Curie grant agreement No 101023445. The author aims to apply cutting-edge, agent-based simulation techniques to uncover the redistributive effects of macroprudential policies and to examine the combination optimality of the macroprudential tools from the social welfare perspective.

The inequality problem is closely related to the differences between agents and their attributes (i.e. heterogeneity of agents). Until recently, most macroeconomists falsely believed that this heterogeneity had only a minor effect on the aggregates (such as consumption, investment or output). They stated that household income and wealth inequality would have little impact on the aggregate dynamics. This view has not been supported by the empirical data that has been found. Nonetheless, it has resulted in the consolidation of a representative agent framework. As a result, the existing models have not been well suited to studying the relationship between financial stability policies (supranational macroprudential policies) and inequality. Therefore, the goal of this study and the project, apart from identifying the mechanisms by which macroprudential tools can affect the economy and society, is primarily to construct an agent-based model with heterogeneous agents that would allow us to test the distributional effects of macroprudential policies.

The results of this study and project MACROPRU complement the conclusions extracted from the ECB system-wide stress-testing exercises by providing data on the rise of inequality in EU countries due to the adoption of new financial regulations. They also supplement the macroeconomic impact assessment for the Basel III reforms (cost-benefit "Growth-at-Risk" approach).