The role of stringency and sanctions for the effects of macroprudential policy on the profitability of EEA banks

Małgorzata Olszak, University of Warsaw

Christophe Godlewski, University of Strasbourg

Sylwia Roszkowska, University of Warsaw, University of Łódź

Abstract

Using a large sample of commercial banks operating in the European Economic Area in the years 1996-2019 this study looks at the effects of macroprudential policy instruments on the operating profits of European Economic Area (EEA) banks. We test two sets of hypotheses. First, we look at the role of stringency of the policy on profitability. We proxy the stringency by using such types of policy as activation of a new tool, change in the scope of the existing tool, change in the level of the tool, maintaining the existing level and scope of a tool, and deactivation of an existing tool. On the other, we are interested in the role of sanctions associated with the policy. In our study, we consider six consequences of non-compliance with macroprudential policy tightening actions, as defined in the Mapped database: additional reporting requirements; compliance or explain; fines and penalties; nonmonetary sanctions. We also consider combinations of these consequences described in the Mapped database including additional reporting requirements, fines and penalties; additional reporting requirements, nonmonetary sanctions; additional reporting requirements, nonmonetary sanctions, fines and penalties; comply or explain, additional reporting requirements; nonmonetary sanctions, fines and penalties. Our analysis shows that the effects of the stringency and sanctions related to non-compliance of the policy tightening depend on the period of the regulatory standards (pre-Basel III period, formally binding macroprudential policy and supervision period Basel III period). The results also show that profitability is heterogeneously affected by the type of stringency, sanctions and macroprudential tools.

JEL classification: E44, E58, G21, G28

Acknowledgements: We gratefully acknowledge the financial support provided by the National Science Centre (NCN) in Poland, decision no. 2019/35/B/HS4/02471.