

THE CREDIT-TO-GDP GAP AND COMPLEMENTARY INDICATORS FOR MACROPRUDENTIAL POLICY: EVIDENCE FROM THE UK

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First published: 21 February 2014

<https://doi.org/10.1002/ijfe.1489>

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ABSTRACT

The financial crisis has demonstrated the need for a set of macroprudential policy tools that can be used to mitigate systemic risk. Focusing on the UK, our paper reviews the performance of the Basel III credit-to-GDP gap that, alongside judgement, is to be used as a reference guide in setting the countercyclical capital buffer. We find that this measure worked well in providing an advance signal of past UK episodes of banking system distress. But this does not guarantee future signalling success. We therefore evaluate some conceptual shortcomings of the credit gap and suggest complementary indicators. Copyright © 2014 John Wiley & Sons, Ltd.

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