

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

Julia Giese, Henrik Andersen, Oliver Bush , Christian Castro, Marc Farag, Sujit Kapadia

First published: 21 February 2014

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



## 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.

## REFERENCES

Aikman D, Haldane AG, Nelson BD 2010. 'Curbing the credit cycle', prepared for the Columbia University Centre on Capital and Society Annual Conference, New York, November 2010.

[Google Scholar](#) 

Alessi L, Detken C. 2011. Quasi real time early warning indicators for costly asset price boom/bust cycles: a role for global liquidity. *European Journal of Political Economy* 27(3): 520-533.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Google Scholar](#) 

---

Bank of England. 2003. Financial Stability Review, December 2003.

[Google Scholar](#) 

---

Bank of England. 2009. 'The role of macroprudential policy', a Discussion Paper, November 2009.

[Google Scholar](#) 

---

Bank of England. 2011a. Financial Stability Report, June 2011.

[Google Scholar](#) 

---

Bank of England. 2011b. 'Instruments of macroprudential policy: a discussion paper', December

[Google Scholar](#) 

---

Bank of England. 2013. 'The Financial Policy Committee's powers to supplement capital requirements: a draft policy statement', January.

[Google Scholar](#) 

---

Barrell R, Davis EP, Karim D, Liadze I. 2010. Bank regulation, property prices and early warning systems for banking crises in OECD countries. *Journal of Banking & Finance* 34(9): 2255–2264.

[Web of Science®](#)  | [Google Scholar](#) 

---

BCBS. 2010. 'Countercyclical capital buffer proposal – consultative document', July 2010.

[Google Scholar](#) 

---

Bernanke B. 2005. 'The global saving glut and the US current account deficit', speech on 10 March.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential



Borio C. 2011. Implementing a macroprudential framework: blending boldness and realism. *Capitalism and Society* 6(1): 1-23.

[Google Scholar](#) 

Borio C, Lowe P. 2002. ' Asset prices, financial and monetary stability: exploring the nexus', *BIS Working Paper No. 114*.

[Google Scholar](#) 

Borio C, Lowe P. 2004. ' Securing sustainable price stability: should credit come back from the wilderness?', *BIS Working Papers* No. 157.

[Google Scholar](#) 

Cecchetti S, Kharroubi E. 2012. ' Reassessing the impact of finance on growth', *BIS Working Paper No. 381*.

[Google Scholar](#) 

Claessens S, Kose MA, Terrones ME. 2011. ' How do business and financial cycles interact?', *IMF Working Paper 11/88*.

[Google Scholar](#) 

Committee on the Global Financial System. 2010. ' Macroprudential instruments and frameworks: a stocktaking of issues and experiences', *CGFS Publications* no. 38.

[Google Scholar](#) 

Dell'Ariccia G, Igan D, Laeven L, Tong H, Bakker B, Vandebussche J. 2012. ' Policies for macrofinancial stability: how to deal with credit booms', *IMF Staff Discussion Notes* No. 12/06

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

---

Edge R, Meisenzahl R. 2011. The unreliability of credit-to-GDP ratio gaps in real time: implications for countercyclical capital buffers. *International Journal of Central Banking* 7(4): 261–298.

[Web of Science®](#) | [Google Scholar](#)

---

Financial Stability Board, International Monetary Fund, Bank for International Settlements. 2011. ' Macroprudential policy tools and frameworks: progress report to G20', 27 October.

[Google Scholar](#)

---

Gai P, Haldane A, Kapadia S. 2011. Complexity, concentration and contagion. *Journal of Monetary Economics* 58(5): 453–470.

[Web of Science®](#) | [Google Scholar](#)

---

Gropp R, Vesala J, Vulpes G. 2002. ' Equity and bond market signals as leading indicators of bank fragility', *ECB Working Paper Series, No. 150*.

[Google Scholar](#)

---

Hahn J-H, Shin HS, Shin K. 2012. ' Non-core bank liabilities and financial vulnerabilities', mimeo.

[Google Scholar](#)

---

Haldane AG, Madouros V. 2012. ' The dog and the frisbee', Speech given at the Federal Reserve Bank of Kansas City's 36<sup>th</sup> economic policy symposium.

[Google Scholar](#)

---

International Monetary Fund. 2011. ' Macroprudential policy: an organising framework', March.

[Google Scholar](#)

---

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

---

King MA. 2009. The Governor's speech to the CBI dinner, Nottingham, January,

[Google Scholar](#) 

---

Koo R. 2008. *The Holy Grail of Macroeconomics: Lessons from Japan's Great Recession*. Singapore: Wiley.

[Google Scholar](#) 

---

Logan A. 2000. 'The early 1990s small banks' crisis: leading indicators', Bank of England Financial Stability Review, December, pages 130–45.

[Google Scholar](#) 

---

MacKinnon J. 2006. Bootstrap methods in econometrics. *The Economic Record* 82, special issue, September, 52–518.

[Web of Science®](#)  | [Google Scholar](#) 

---

Mendoza E, Terrones M. 2008. 'An anatomy of credit booms: evidence from macro aggregates and micro data', *NBER Working Paper no. 14049*.

[Google Scholar](#) 

---

Mian A, Sufi A. 2009. The consequences of mortgage credit expansion: evidence from the US mortgage default crisis. *Quarterly Journal of Economics* 124: 1449–96.

[Web of Science®](#)  | [Google Scholar](#) 

---

Mian A, Sufi A. 2011. House prices, home equity-based borrowing and the US household leverage crisis. *American Economic Review* 101: 2132–56.

[Web of Science®](#)  | [Google Scholar](#) 

---

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

Manage Preferences

Accept All

Reject Non-Essential

Orphanides A, van Norden, S. 2002. 'The unreliability of output-gap estimates in real time. *Review of Economics and Statistics* 84(4): 569–583.

[Web of Science®](#) | [Google Scholar](#)

Reid M. 1982. *The Secondary Banking Crisis, 1973–1975*. London: Macmillan Press.

[Google Scholar](#)

Reinhart C, Reinhart V. 2008. 'Capital flow bonanzas: an encompassing view of the past and present', *NBER Working Paper no. 14321*.

[Google Scholar](#)

Reinhart C, Rogoff K. 2009. *This Time is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press.

[Google Scholar](#)

Riiser M. 2005. House prices, equity prices, investment and credit – what do they tell us about banking crises? A historical analysis based on Norwegian data. *Norges Bank Economic Bulletin* 05(Q3): 145–154.

[Google Scholar](#)

Schularick M, Taylor A. 2012. Credit booms gone bust: monetary policy, leverage cycles, and financial crises, 1870–2008. *American Economic Review* 102: 1029–61.

[Web of Science®](#) | [Google Scholar](#)

Shin HS, Shin K. 2011. "Procyclicality and monetary aggregate". *NBER Working Paper No. 16836*.

[Google Scholar](#)

Swiss National Bank. 2013. 'Implementing the countercyclical capital buffer in Switzerland: concretising the

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential



**ABOUT WILEY ONLINE LIBRARY**

Privacy Policy

Terms of Use

About Cookies

Manage Cookies

Accessibility

Wiley Research DE&I Statement and Publishing Policies

**HELP & SUPPORT**

Contact Us

Training and Support

DMCA & Reporting Piracy

Sitemap

**OPPORTUNITIES**

Subscription Agents

Advertisers & Corporate Partners

**CONNECT WITH WILEY**

The Wiley Network

Wiley Press Room

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



**Manage Preferences**

**Accept All**

**Reject Non-Essential**