



**Private Debts Are a Public Blessing –  
Exploring the Political Economy of Lending Booms**  
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# Introduction

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- ▶ **Research question**
  - ▶ What factors explain the emergence of lending booms?
- ▶ **Synthesis in the literature**
  - ▶ lax monetary and regulatory policies are main triggering factors for lending booms
- ▶ **Motivating a Missing Political Economy Link**
  - ▶ lack of a macrofinancial view of financial market governance
- ▶ **Hypothesis**
  - ▶ Lending booms are more likely to occur in economies in which governments can rely less on traditional macroeconomic policy tools to stimulate the economy.

# Empirical Approach

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Dependent Variable	Definition
Lending Boom Start Date	coded as 0,1
Independent Variables	
Regulatory Channel	Banking Supervision Index
Monetary Policy Channel	Monetary Independence Index
Political Variables	
Institutional Constraints	Henisz Political Constraints Index
Political Pressure	Competitiveness of Executive Recruitment
Control Variables	
Macroeconomic Controls	GDP growth (real), Inflation (in %), Capital Inflows (%GDP)

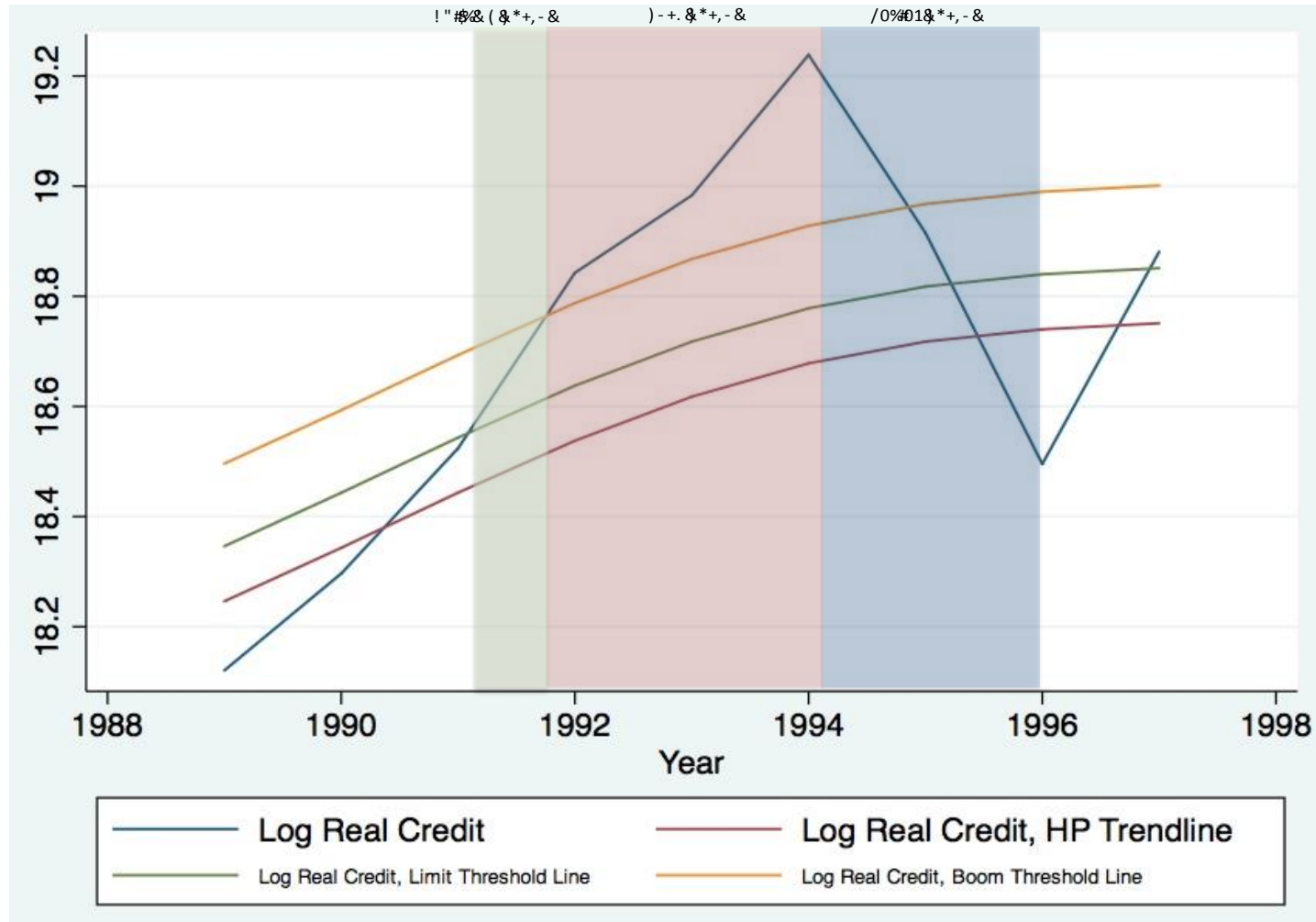
## Measurement Strategy – Identifying a Lending Boom Episode

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### ▶ Constructing the Dependent Variable

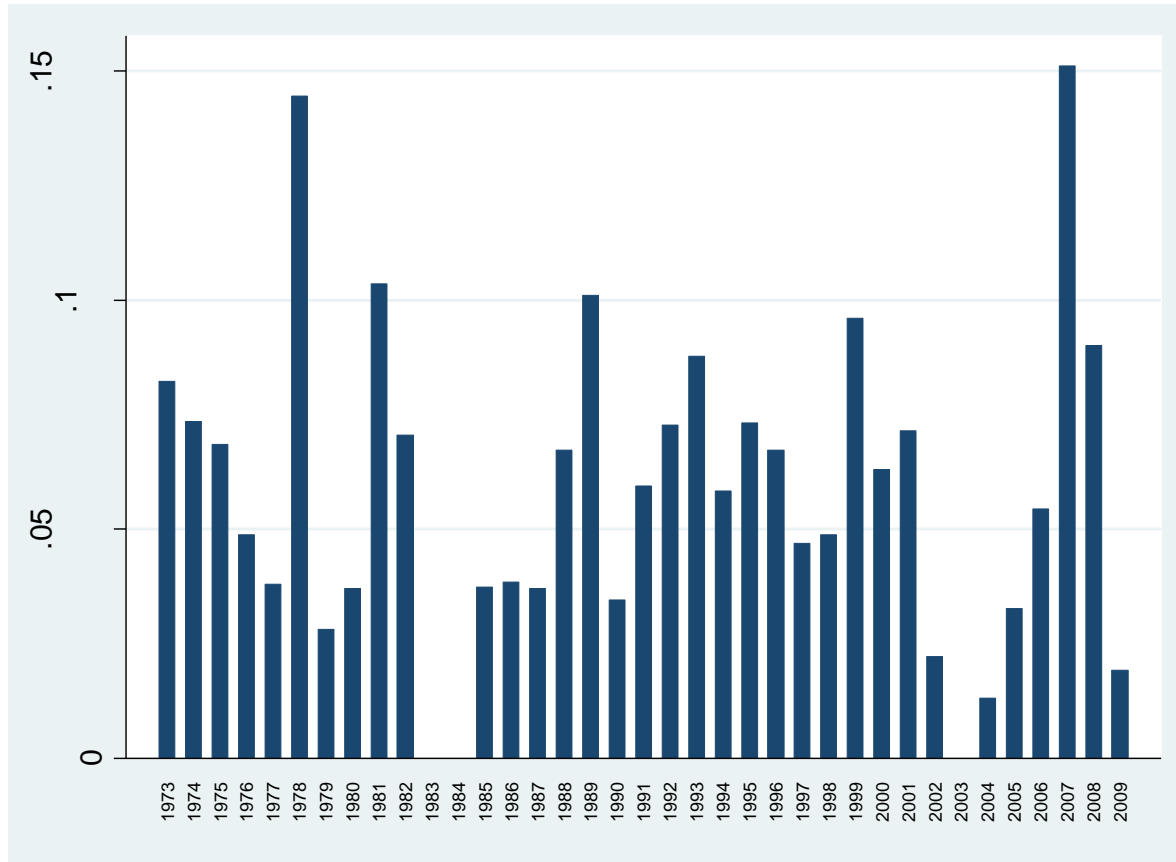
- ▶ credit variable captures the log of real credit ( $c_{i,t}$ ) in country  $i$  at time  $t$ , whereby nominal credit is measured as IFS lines 22d/42d.
- ▶ the starting date for a lending boom has to fulfill two conditions
  - ▶  $c_{i,t}$  surpasses a limit threshold set at 1.00 in a given year
  - ▶ Credit-GDP ratio increases by more than 10 per cent in the same year

# Measurement Strategy – The Case of Mexico, 1992 - 1996



Note: own illustration

## Measurement Strategy – Frequency of Lending Booms, 1973 - 2005



Note: own illustration

# Preliminary Regression Results

	Lending Boom Start	Boom Bust Cycle, Banking Crisis	Boom Bust Cycle, Financial Crisis	Boom Bust Cycle, Currency Crisis	Boom Bust Cycle, Twin Crisis	Soft Landing Boom
Monetary Independence	-0.172 (0.669)	0.563 (0.867)	1.291 (1.122)	-0.0488 (0.810)	0.933 (1.523)	-0.612 (0.664)
Banking supervision	-0.232** (0.106)	-1.240*** (0.304)	-1.290*** (0.325)	-0.102 (0.128)	-1.398*** (0.497)	-0.211* (0.127)
Political Constraints	0.714 (0.448)	1.122* (0.628)	2.123** (0.833)	1.237* (0.686)	1.898 (1.384)	0.859 (0.560)
Political Competition	0.0640 (0.121)	-0.0222** (0.0103)	0.00770 (0.0118)	0.0341 (0.0388)	0.105 (0.563)	-0.00870 (0.0110)
Capital Inflows, (in % of GDP)	-0.00154 (0.0344)	0.169*** (0.0460)	0.155*** (0.0567)	-0.0321 (0.0398)	0.159** (0.0718)	-0.0360* (0.0212)
Inflation, (in %, annual change)	0.000148** (6.38e-05)	9.72e-05 (9.98e-05)	0.000162 (9.99e-05)	0.000174* (9.57e-05)	0.000191* (0.000102)	-0.0196*** (0.00745)
GDP growth rate, (in %, annual change)	0.119*** (0.0329)	0.0346 (0.0578)	0.0896* (0.0512)	0.144*** (0.0376)	0.0615 (0.0772)	0.154*** (0.0348)
Constant	-3.703*** (0.450)	-4.404*** (0.686)	-5.836*** (0.803)	-4.732*** (0.586)	-6.208*** (1.251)	-3.613*** (0.504)
Observations	1,332	1,332	1,332	1,332	1,332	1,332
Number of Countries	78	78	78	78	78	78
<i>p-value</i>	0.00431	0.000194	1.64e-05	0.00119	0.0260	9.10e-07
chi2	20.66	28.30	34.11	23.90	15.90	40.74

Standard errors in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

Note: author's own calculations. Negative Binominal regression with population average robust standard errors.

# Concluding Remarks

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## ▶ Result

- ▶ Empirical analysis indicates that lending booms are more likely to occur in economies in which governments are more constrained.

## ▶ Policy Implication

- ▶ from a political perspective, it seems to be that a lack of financial market oversight has also partially driven by electoral/popular pressure in response to macroeconomic policy constraints.



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Thank You!

