Commodity Prices, Financial Frictions, and Macroprudential Policies *

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Abstract

Fluctuations in commodity prices have significant effects on output and financial stability in emerging countries. We examine the effect of macroprudential policies on commodity-exporting countries, which consist of two sectors—the commodity-producing sector and final goods sector. When a commodity-exporting country suffers from volatile fluctuations in commodity prices, we find that macroprudential policy in each sector is welfare-enhancing and that it is optimal to impose macroprudential policies in both sectors. We also show that macroprudential policies are more effective in improving welfare for commodity-exporting economies suffering from a stronger link between commodity prices and interest rate spreads, higher sensitivity of interest spreads to debt, and larger commodity price shocks.

Keywords: macroprudential policies, commodity-exporting countries, DSGE model, financial frictions, emerging economies, Mongolia
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