

Dynamic provisioning: a buffer rather than a countercyclical tool?

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Abstract

This paper analyzes whether dynamic provisioning systems act as a dampener -as intended- or as a buffer. After briefly reviewing the literature, we explain the rationale for dynamic provisions and analyze the experience of three of the few countries that adopted them: Spain, Colombia and Peru. We conclude that in the case of Spain, which is the only one where dynamic provisions worked over a complete cycle, the fact that market discipline only operated in the downturn implied that the system acted more as a buffer than as a dampener. We also observe that even rule-based systems tend to be applied in a discretionary way, since they require a very reliable calibration of the cycle "ex ante", an assumption that has proven unrealistic. The comparison of the Spanish system versus the Peruvian and Colombian raises interesting policy conclusions on whether dynamic provisioning should be applied differently to industrial versus emerging countries.

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