A non-standard monetary policy shock:

the ECB's 3-year LTROs and the shift in credit supply

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Non-Standard Monetary Policy Measures: ECB Workshop

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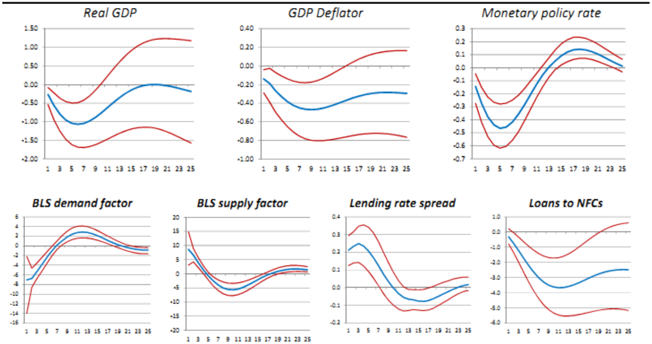
Outline of Arguments

- Impact of 3-year LTROs from December 2011 to February 2012
- On macroeconomy by interpreting Bank Lending Survey as an instrument of LTROs
- Panel VARs run using timing and sign restrictions
- Identify credit supply shifts from BLS
- GDP estimated to be 0.5-0.8% higher by mid-2013 and inflation estimated to be 0.15-0.25 higher in early 2014
- Lending rate responds quickly but quantity of lending response maximal in 2014

EZ ey Result

Fig. 4. Impact of credit supply shocks using sign restrictions

(response to one s.d. innovations, median of the responses along with the 16% and 84% percentiles)



Notes: The VAR specification includes Real GDP growth, GDP deflator inflation, BLS demand factor, BLS supply factor, Lending rate to NFCs, 3-month OIS, and Loan growth to NFCs. The model is estimated over the 2003Q1-2011Q4 period. The credit supply shock is obtained using sign restrictions. The panel with 11 countries include: Austria, Belgium, Finland, France, Germany, Italy, Netherlands, Spain, Greece, Ireland and Portugal.

US Key Result

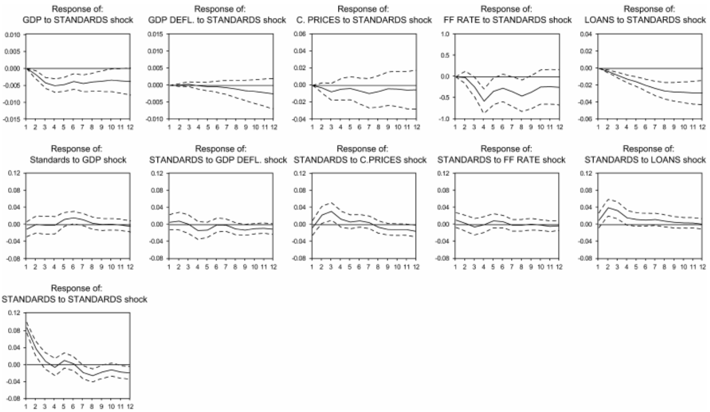


Fig. 2. Impulse Responses for Core VAR

Lown and Morgan (JMCB, 2006)

Basic Background

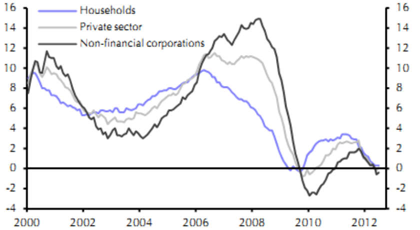
- Banks are maturity transformers and have insufficient liquidity/capital in the event of risk aversion
- Balance sheet operations expand the size and composition of the central bank balance sheet and reduce the duration of financial markets' bond holdings and increase liquidity
- Involve the issuance of short term debt-fiscal instruments (interest rate bearing reserves or T-Bills)
- Monetary-fiscal operations hedge liquidity risk but in the presence of significant sovereign risk
- Operations may involve some signalling about path of short rates i.e. *future stance*

Bank Lending Mechanism

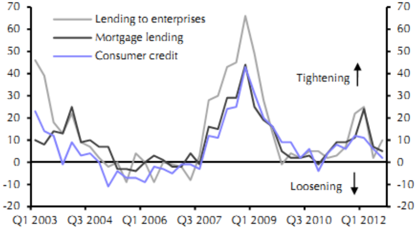
- Liquidity preference strong e.g. broken inter-bank markets or stigma, so satiate demand for liquidity and lead to some substitution into less liquid assets
- Operations may offset some premia, e.g. boost collateral values, and so lead to higher lending
- Lessen roll-over risk from bank lending
- May inject 'confidence' or 'demand' into the economy possibly by increasing fiscal multipliers
- No real connection made between LTROs (liquidity) or BLS credit standards question.

MFI Lending and the BLS

5. MFI Lending to the Private Sector (% y/y)



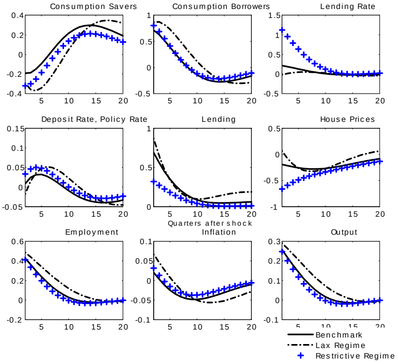
6. Net % of Banks Expecting to Tighten Lending Criteria



Sources – Thomson Datastream, ECB, National Central Banks

- Little permanent impact from LTROs?
- Is the survey endogenous or exogenous?

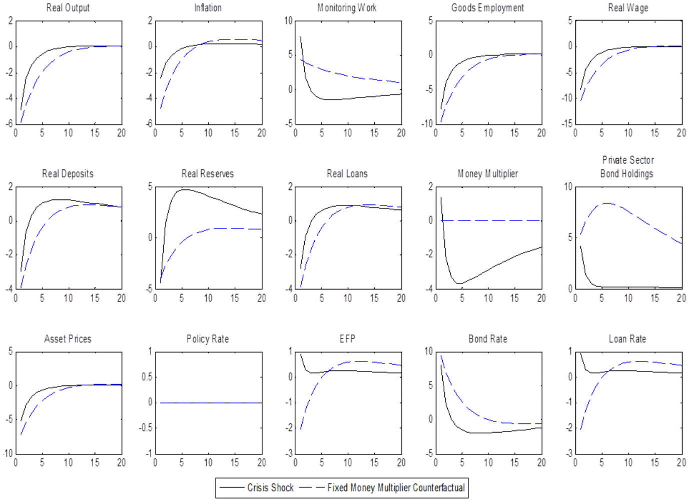
DSGE I: Lending and Standards



Impulse Response Analysis to a Loan to Value Shock.

- "Consumption Dynamics, Housing Collateral and Macroprudential Policy",

DSGE II: Lending and Banks



- "Modelling the Money Multiplier", mimeo

Questions

- Responses look large: are we conflating endogenous and exogenous changes in lending standards?
- Why does output respond with a large elasticity so quickly when bank lending is laggardly?
- Do the proportional responses from lending and output match up e.g. given the size of loans to GDP,
- Is the strong heterogeneity in Euro-Area performance fully accounted for in the VAR?
- Fail to understand the secrecy over the BLS question about LTROs - why not publish?
- More theory required linking bank liquidity preferences, impact on costs of funding and response of optimal leverage to such operations - otherwise we are probably conflating many factors here.
- Is this paper about LTROs at all?