

Discussion on:

**The transmission mechanism of
credit support policies in the Euro Area**

by Jef Boeckx, Maite de Sola Perea and Gert Peersman

Discussion by:

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The opinions in this presentation are those of the authors and do not necessarily reflect the views of the European Central Bank or the Eurosystem

Main questions

- ✓ Do credit easing policies (July 2007 – Dec. 2014) stimulate bank lending? **YES**
- ✓ Do bank balance sheet characteristics matter? **YES**

Main ingredients

- ① Individual bank balance sheet data
- ② A measure of policy shock
- ③ Panel model
- ④ IRFs via Local projection

- Interesting and important topic
- The paper is well-done
- Some comments

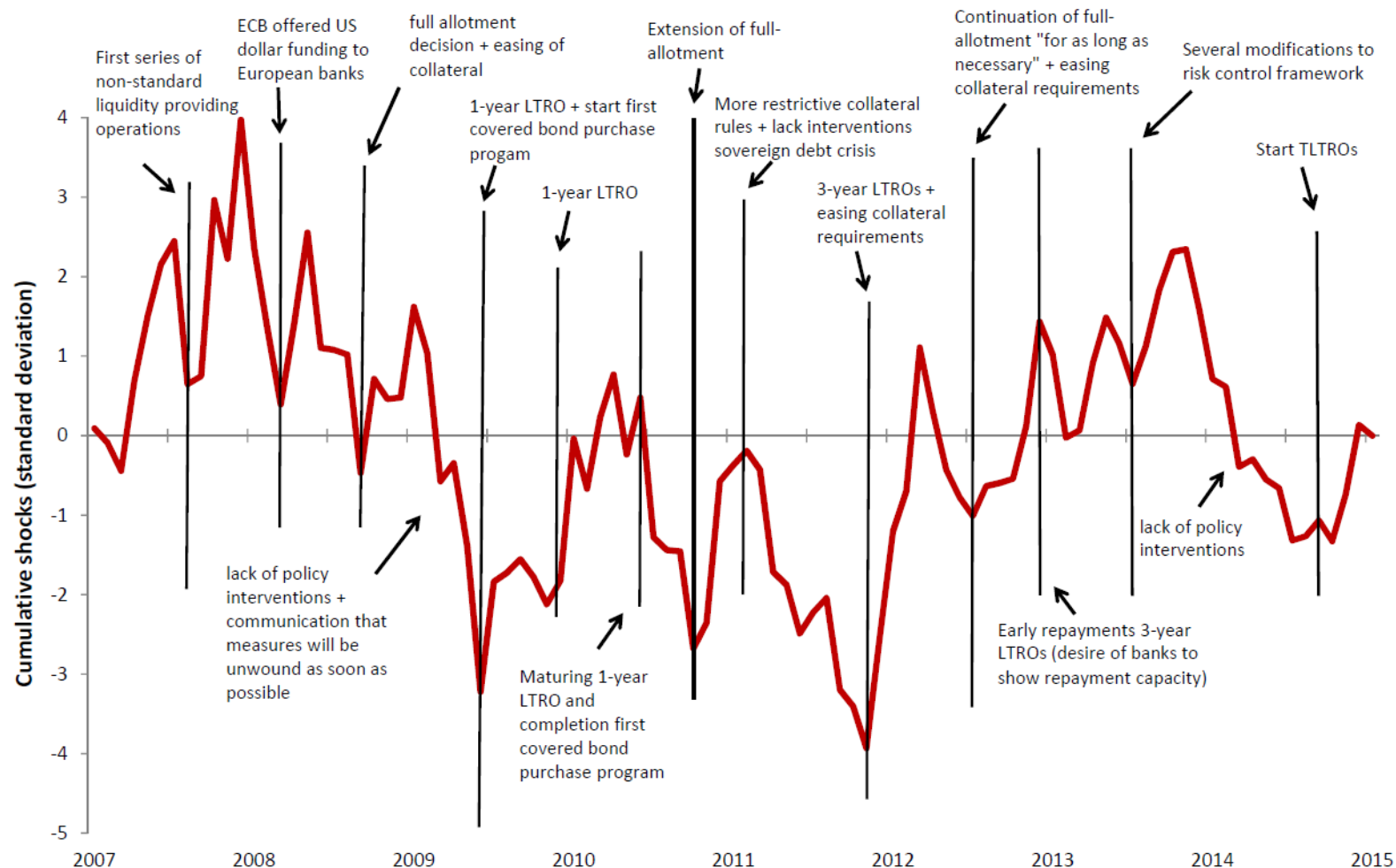
- ▶ Measure of monetary policy Shock
- ▶ Panel Model and IRF analysis
- ▶ Bank characteristics and Transmission
- ▶ Minor points

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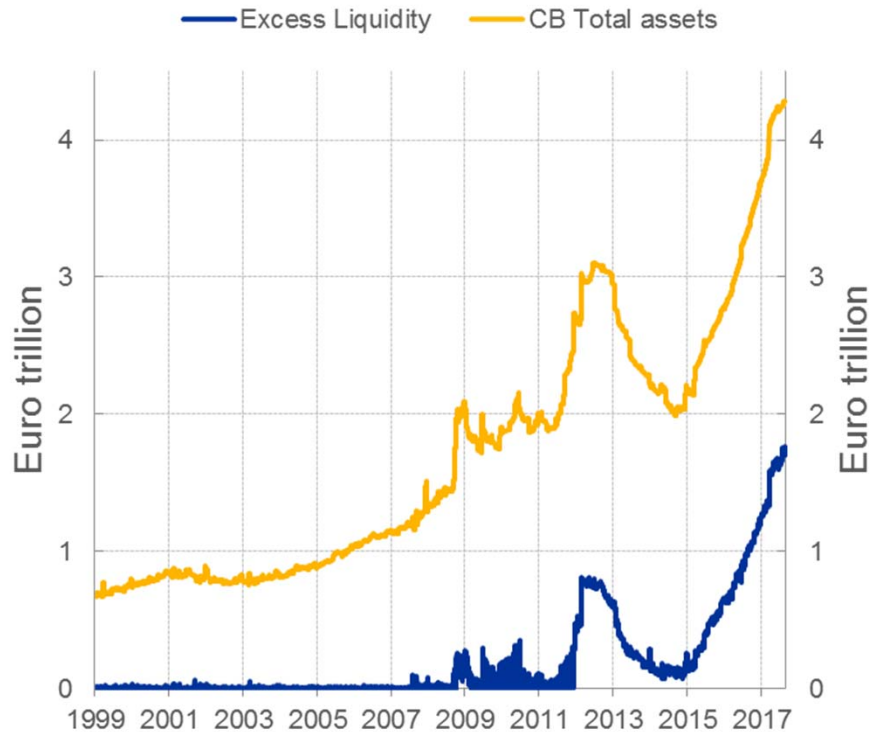
Measure of monetary policy Shock

Estimate a structural VAR to retrieve the ECB balance sheet shock

Output	Prices	CB Total Assets	CISS	EONIA–MRO Spread	Policy Rate
0	0	≥ 0	≤ 0	≤ 0	0



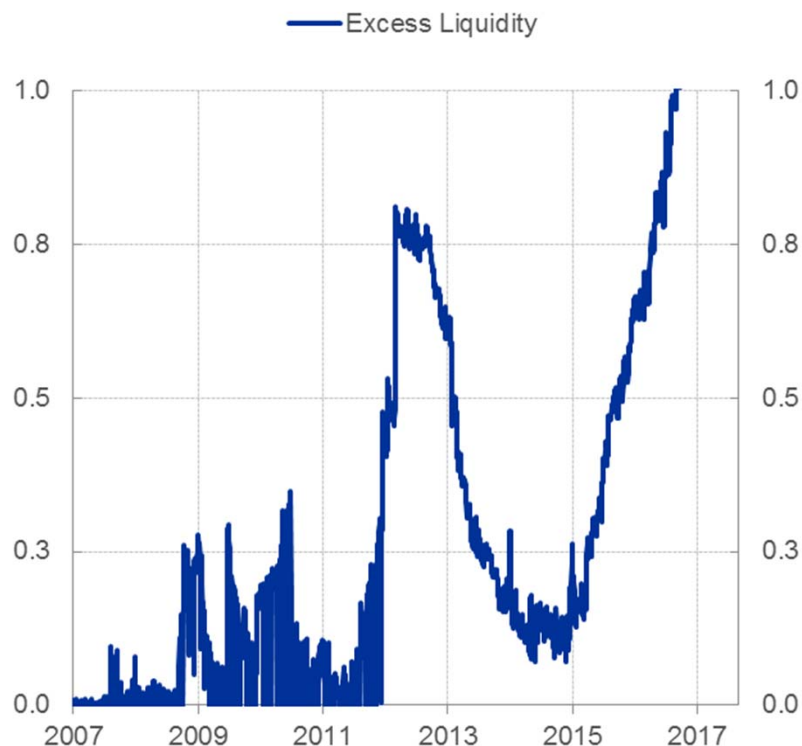
Measures of balance sheet size



What do the measures capture?

- ✓ Why total assets and not excess liquidity?
 - Components not related to MP
 - e.g. Autonomous factors
- ✓ Why not disaggregated measure (bank-level)?

Measures of balance sheet size



What do the measures capture?

The identified shock captures well movement in central bank balance sheet but is it a (non-standard) monetary policy shock?

- Given that there was no shortage of eligible collateral and with fixed rate full-allotment tender procedure in place, Eurosystem liquidity provision is endogenous to banks' aggregate demand for central bank liquidity.
- Boeckx, de Sola Perea and Peersman: "As most decisions have to some extent an unexpected component, this indicates that our identification strategy is plausible."

Challenge: QE was largely anticipated

FINANCIAL TIMES

May 9, 2014 2:51 pm

Euro falls after ECB signals June action

FINANCIAL TIMES

20 September/21 September 2014

Analysis. Capital markets

Weak ECB loan take-up paves way for QE

FINANCIAL TIMES

Thursday 27 November 2014

Global overview

US data disappoint as possibility of European QE comes into focus

FINANCIAL TIMES

29 November/30 November 2014

Draghi needs support on QE in the eurozone

Orthodox sceptics led by Germany should give ECB president backing

The Economist

Jan 3rd 2015 | From the print edition

Euro-zone quantitative easing

Coming soon?

The ECB might unleash its long-awaited programme in early 2015

Policy announcement (22nd January, 2015): intraday data, 10-year yields

Germany



France



Italy



Spain



- ▶ Measure of monetary policy Shock
- ▶ **Panel Model and IRF analysis**
- ▶ Bank characteristics and Transmission
- ▶ Minor points

$$Z_{i,t+h} = \alpha_{i,h} + \delta_{i,h}(L) Z_{i,t-1} + \rho_{i,h}(L) X_{t-1} + \theta_h MPshock_t + \epsilon_{i,h,t}$$

Variables in X

1. Euro area log real GDP
2. Euro area log HICP
3. Central bank total assets
4. CISS
5. MRO
6. EONIA-MRO
7. Euro area lending volumes
8. Euro area lending rate

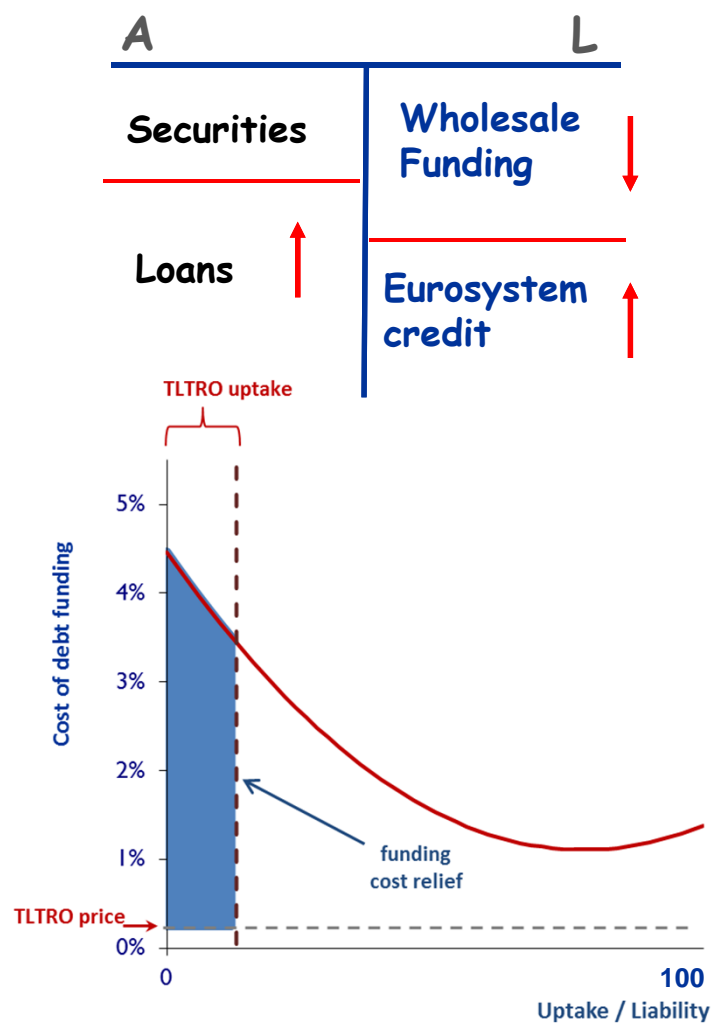
Comments:

- Generated regressor ($MPshock_t$) problem
- Missing bank-specific heterogeneity (θ) of the impact of monetary policy
- Missing country-specific controls
- Missing bank-specific controls
- Credit demand? (minimum: country x time FE)

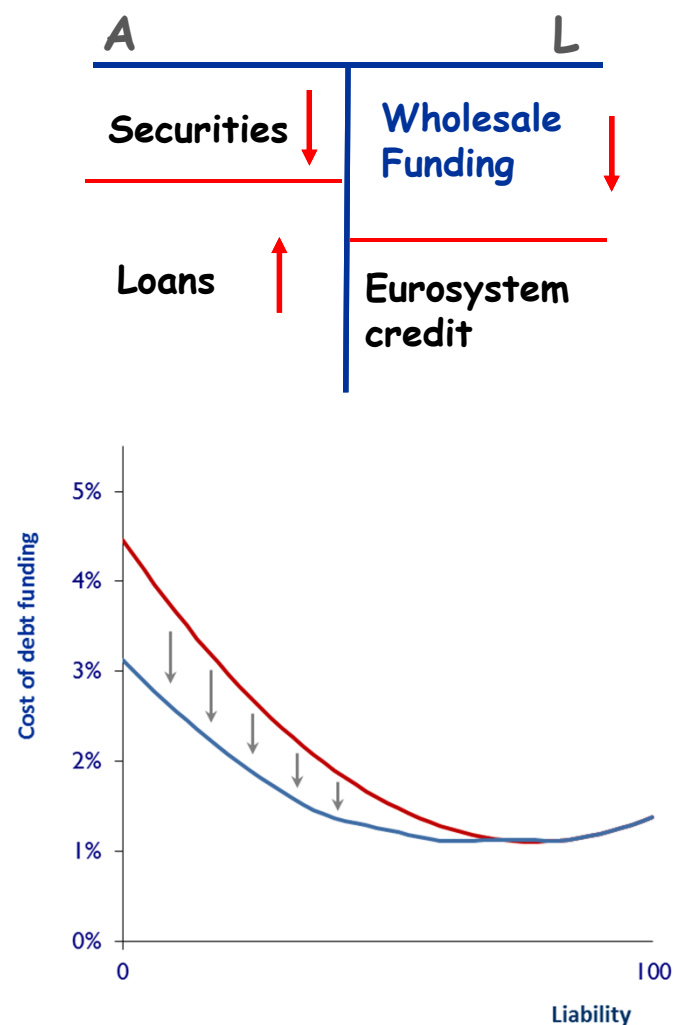
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Transmission of credit easing

Effects on bidding banks



Effects on all banks



Source: Altavilla, Canova, Ciccarelli (2016): Mending the broken link: heterogeneous bank lending and monetary policy pass-through, ECB WP

$$Z_{i,t+h} = \alpha_{i,h} + \delta_{i,h}(L) Z_{i,t-1} + \rho_{i,h}(L) X_{t-1} + \left(\gamma_{0,h} + \sum_j \gamma_{j,h} DUMC_j + \sum_k \gamma_{k,h} characteristic(k)_{i,t-1} \right) MPshock_t + \epsilon_{i,h,t}$$

$DUMC_j$ are 19 country dummies

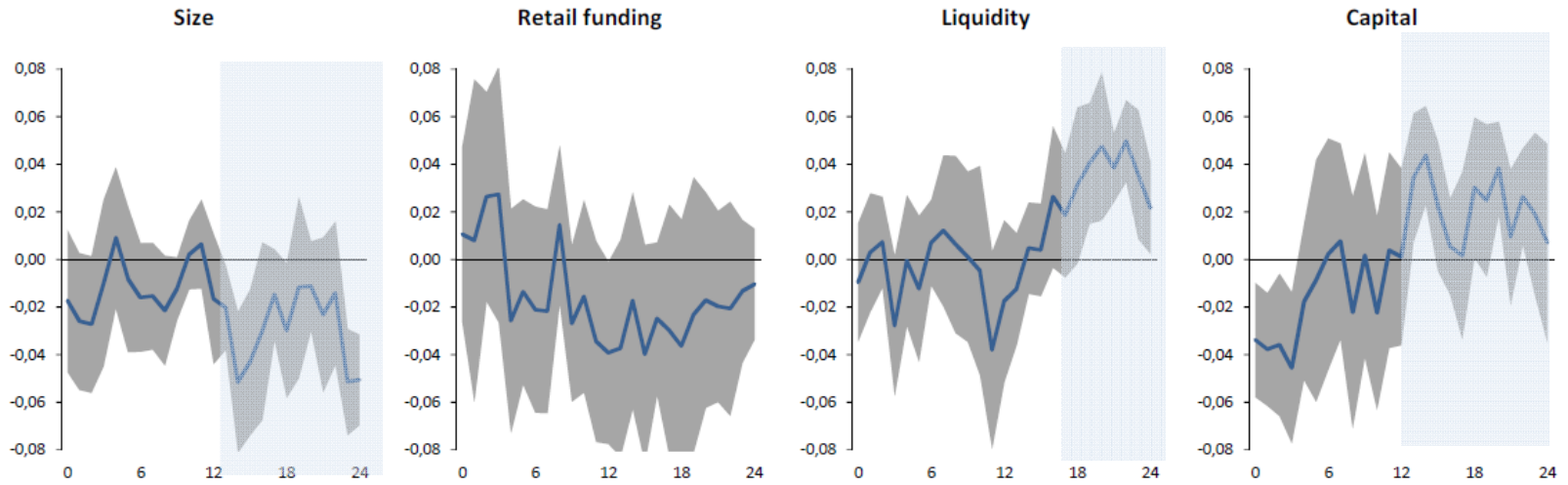
Characteristic(k) captures channels

1. Size: total main assets
2. Retail deposits: ratio of retail deposits to total lending to HHs and NFCs (yearly)
3. Liquidity: cash and cash related equivalents such as securities held for trading
4. Capital: Equity/total assets (yearly)

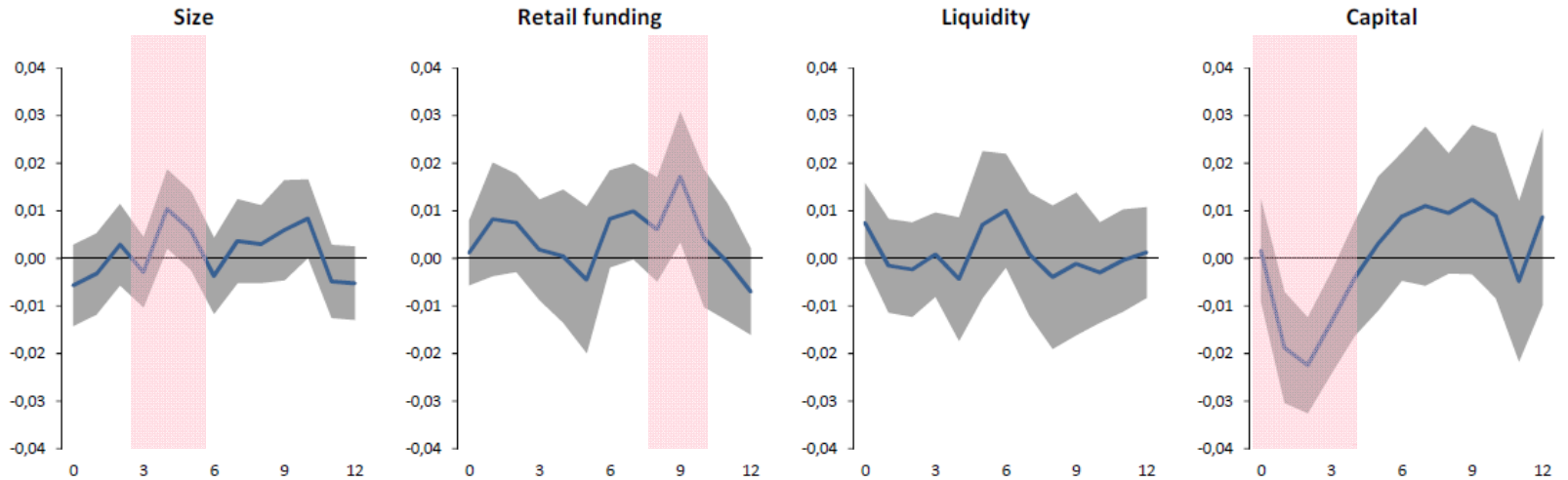
Comments:

- Regulatory capital would capture better balance sheet constraints
- Interaction with country: all countries are exposed to the same shock?
- Missing bank-specific and country-specific controls not interacted

VOLUME OF LENDING



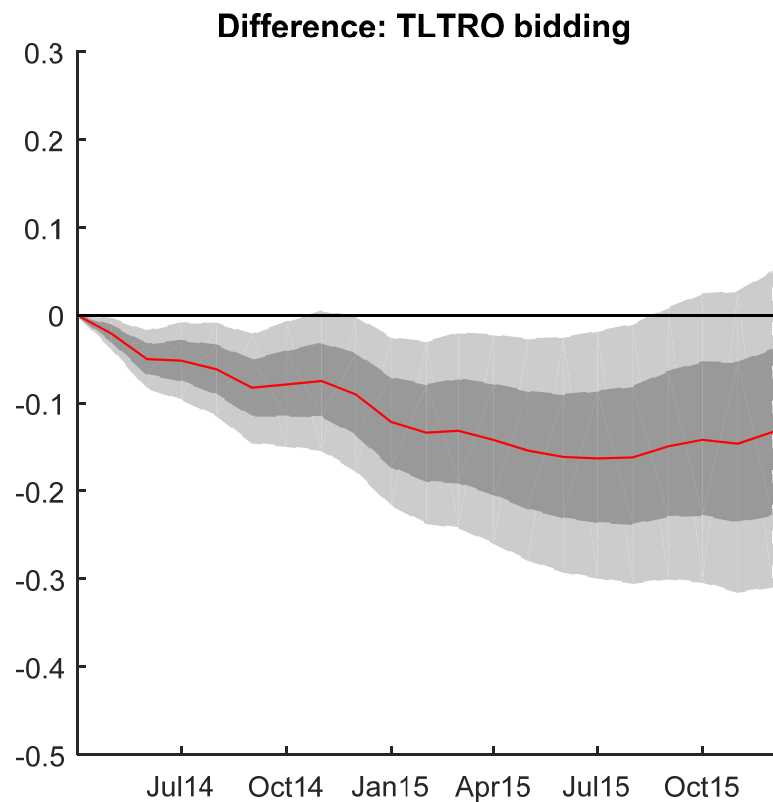
LENDING RATE



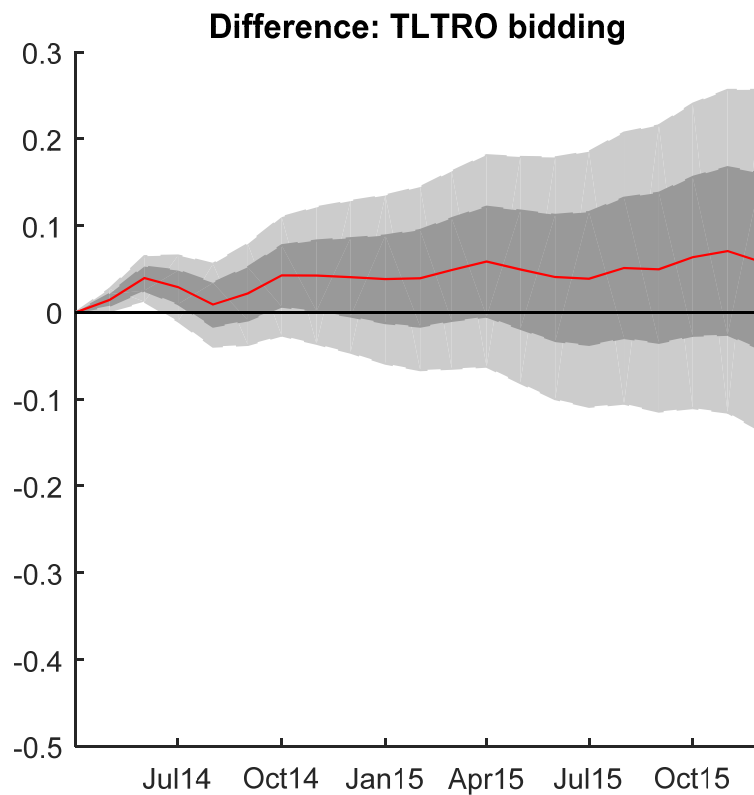
Note: horizon is monthly; 90 percent confidence bands are clustered by time and adjusted for persistent common shocks

The impact of non-standard measures on lending rates...

.....to firms

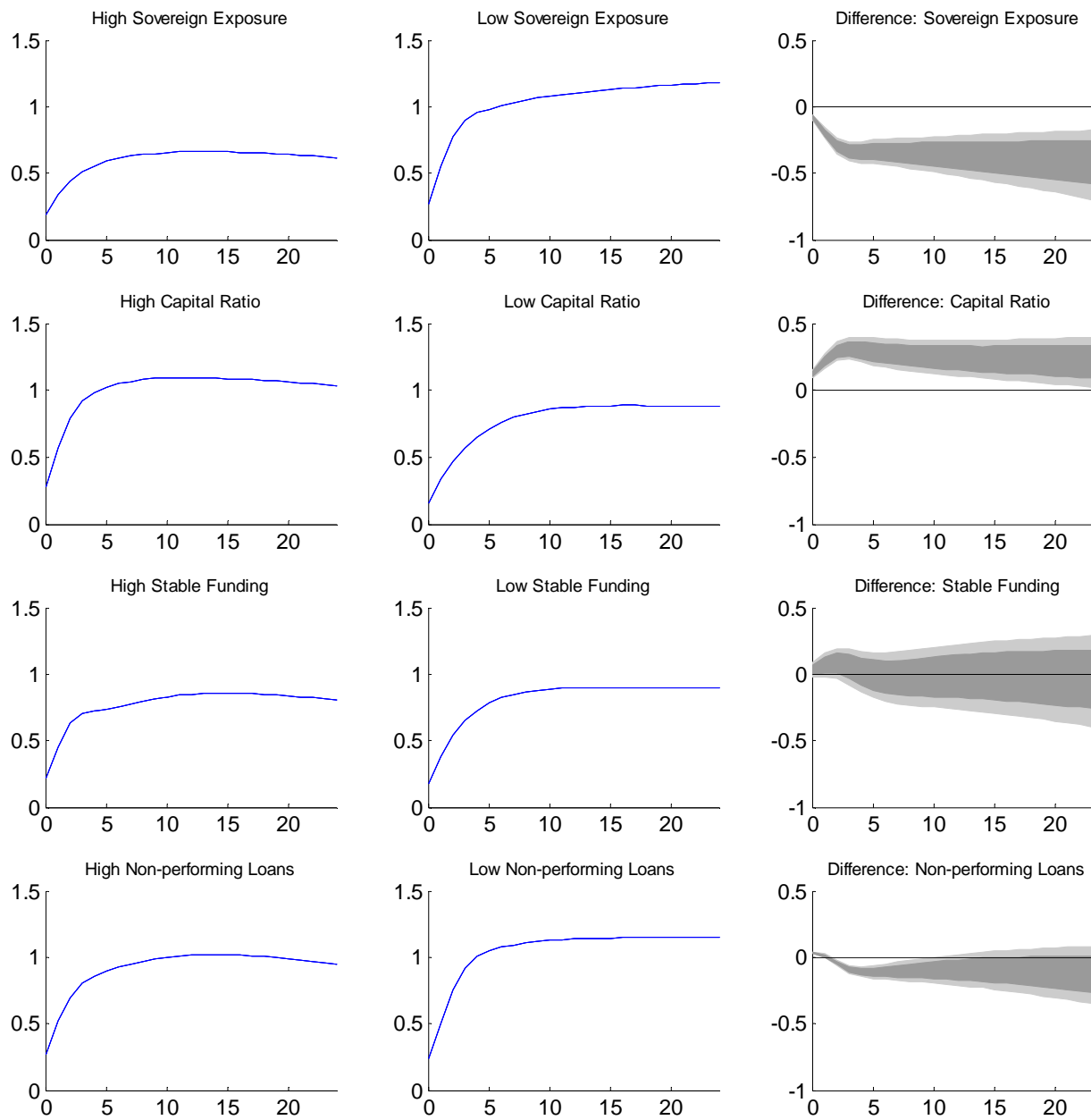


.....to Households



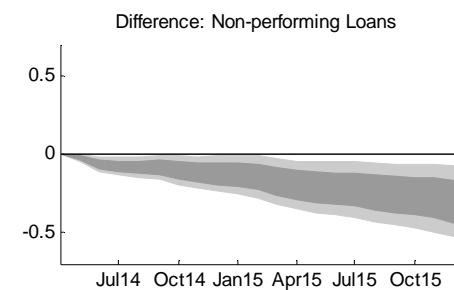
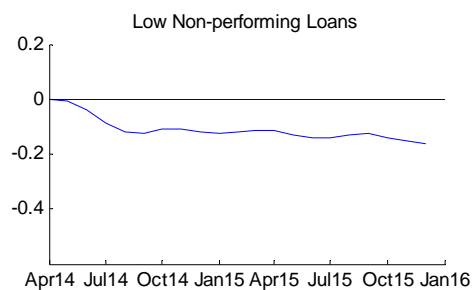
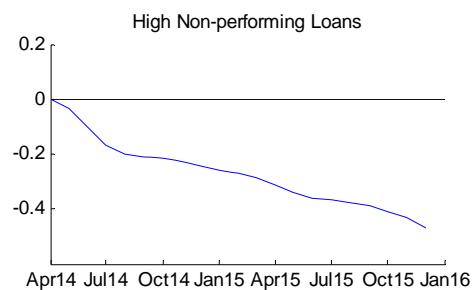
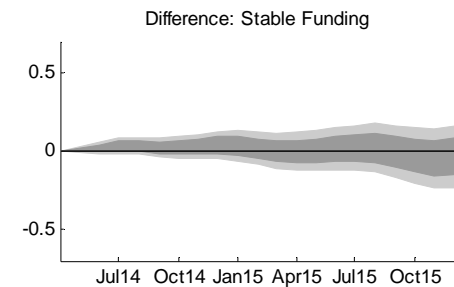
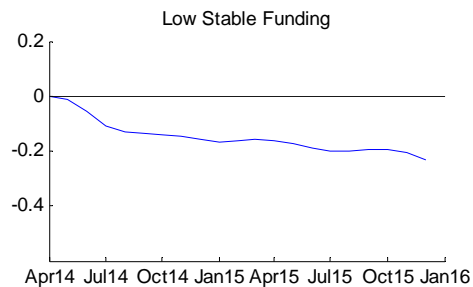
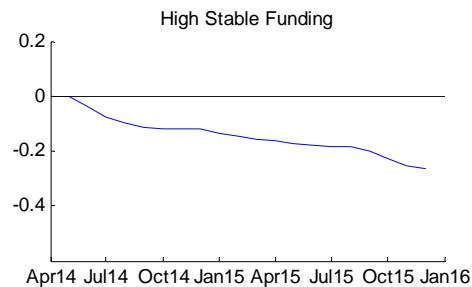
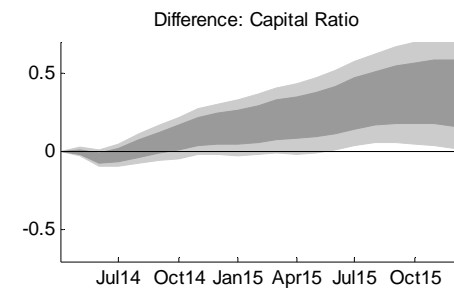
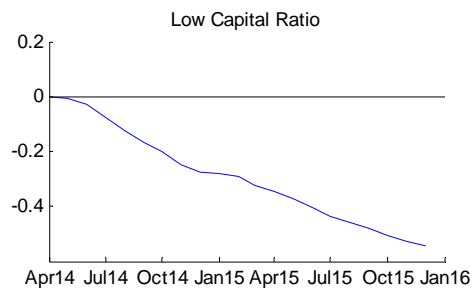
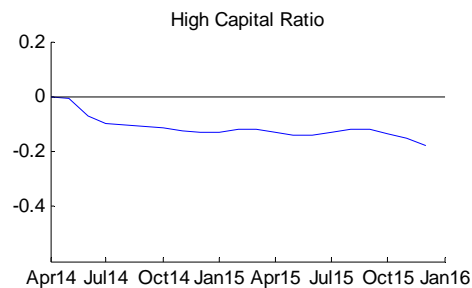
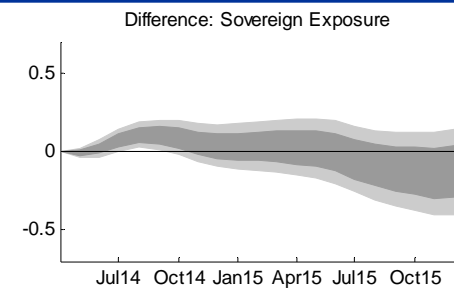
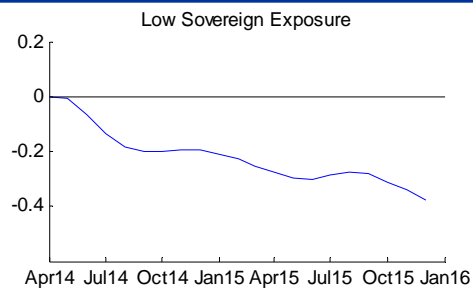
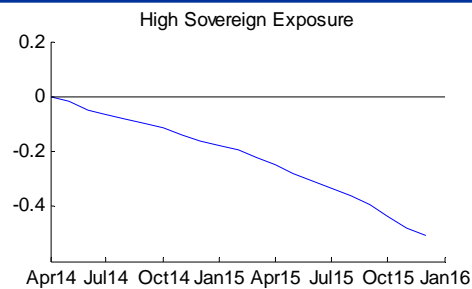
Source: Altavilla, Canova, Ciccarelli (2016): Mending the broken link: heterogeneous bank lending and monetary policy pass-through, ECB WP

Response to a MP shock of lending rate to NFCs



Source: Altavilla, Canova, Ciccarelli (2016): Mending the broken link: heterogeneous bank lending and monetary policy pass-through, ECB WP

The impact of non-standard measures on lending rates



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- ▶ **Minor points**

- ❑ Are Standard Errors clustered at bank level?
- ❑ Discuss biases in dynamic models with fixed effects
- ❑ IRF reports 90% confidence bands
- ❑ Increasing lending rates at horizons 12+
- ❑ Limitation of the methodology: cannot be applied to QE

This is a nice paper, well worth reading

Enjoy reading it