

“The bank lending channel of conventional and unconventional monetary policy: evidence from a panel of euro-area banks” – Discussion of Albertazzi, Nobili and Signoretti (2016)

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Monetary policy transmission: a quick reminder

- **Bank lending channel:**

- $\downarrow PR \Rightarrow \downarrow MMR \Rightarrow \uparrow$ Insured Deposit Demand (lower opport. cost) $\Rightarrow \downarrow$ Dep R $\Rightarrow \downarrow$ Loan R (\uparrow Loan supply)

- $d^2LoanRate/dBdPR < 0$ (and $d^2Loan/dBdPR > 0$), with $B=BS$ strength (e.g. Liq A/TA) : **Transmission amplified if « weak » bank** (and small: Kashyap & Stein, 2000), due to informational frictions.

- **Bank capital channel**

- (1) CMP: $\downarrow PR \Rightarrow \downarrow MMR \Rightarrow \uparrow$ Term spread $\Rightarrow \uparrow$ NII $\Rightarrow \uparrow K - K^* \Rightarrow \downarrow$ Loan R (\uparrow Loan supply)

- $d^2LoanRate/dBdPR < 0$ (and $d^2Loan/dBdPR > 0$), with $B=K - K^*$: **Transmission amplified if « weak » bank**

- (2) UMP $\Rightarrow \downarrow$ Term spread $\Rightarrow \downarrow$ NII $\Rightarrow \downarrow K - K^* \Rightarrow \uparrow$ Loan R (\downarrow Loan supply)

- $d^2LoanRate/dBdSR > 0$ (and $d^2Loan/dBdPR < 0$), with $B=K - K^*$: **Transmission dampened if « weak » bank**

Overview of the paper

- **Question:** how do conventional and unconventional MP transmit to bank loan interest rates?
- **Empirical approach:**
 - Pass-through-type panel regressions from “MP rate” to corporate loan rates
 - iBSI/iMIR dataset: monthly data on rates to new loans for some 200 banks, mid-2007 to 2015.
 - Coefficient of interest: “*MP rate*” * “*Balance sheet strength*”
and “*MP rate*” * “*Balance sheet strength*” * “*Business model*”
 - Saturation with *country*time FE*
 - Clustering of innovations at *Bank*year* and *time (month)* level

Overview (2)

- **Main conclusions:**
 - MP transmitted to corporate loan rates throughout the period
 - Conventional policy works according to standard BLC
 - Unconventional policy: BKC dominates over BLC => *weakly capitalized* banks/more constrained banks transmit UMP cuts *less*.
 - Policy implication: Macropru should be cautious not to heighten banks' capital ratios "too much" at the ZLB
- **Topical and stimulating paper**
- **Several concerns however**

Outline of comments

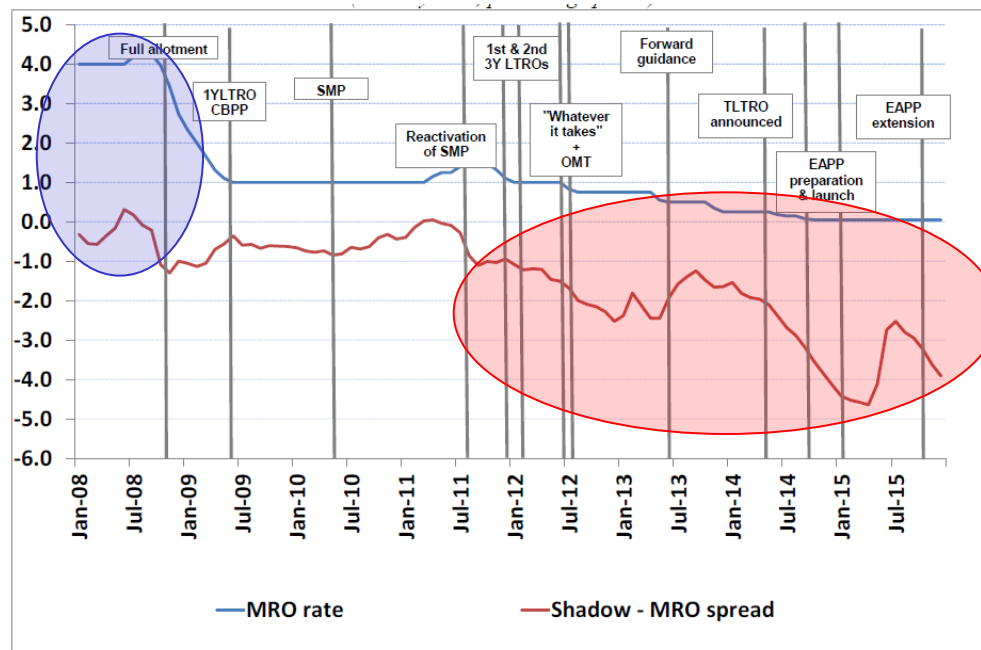
- Measuring MP, conventional or not
- Measuring banks' characteristics: some issues
- Identification problems: demand effects and capital constraint
- Other, minor issues

How to measure MP over the last decade?

- Here, $CMP = \text{repo rate}$, $UMP = \text{shadow rate} - \text{repo rate}$.
- Can we really disentangle CMP and UMP post 2008? If yes, is this the right way?
- Several issues
 - MRO rate vs EONIA: MRO rate was not key policy rate anymore after FRFA in October 2008, or it was but *only for weak banks*.
 - Negative Deposit Facility rate: is it conventional or not?
 - Zero MRO is here considered conventional, but comes at cost of negative DFR...
 - ELB for EONIA is not zero anymore but DFR at -40 bp.

How to measure MP over the last decade? (2)

- Specification akin to MPR = shadow rate throughout, interacted with period dummy for « unconventional times » (basically 2011 07 onward): would be more transparent.
 - Note: current coefficient estimates presumably largely driven by « where the action is »!

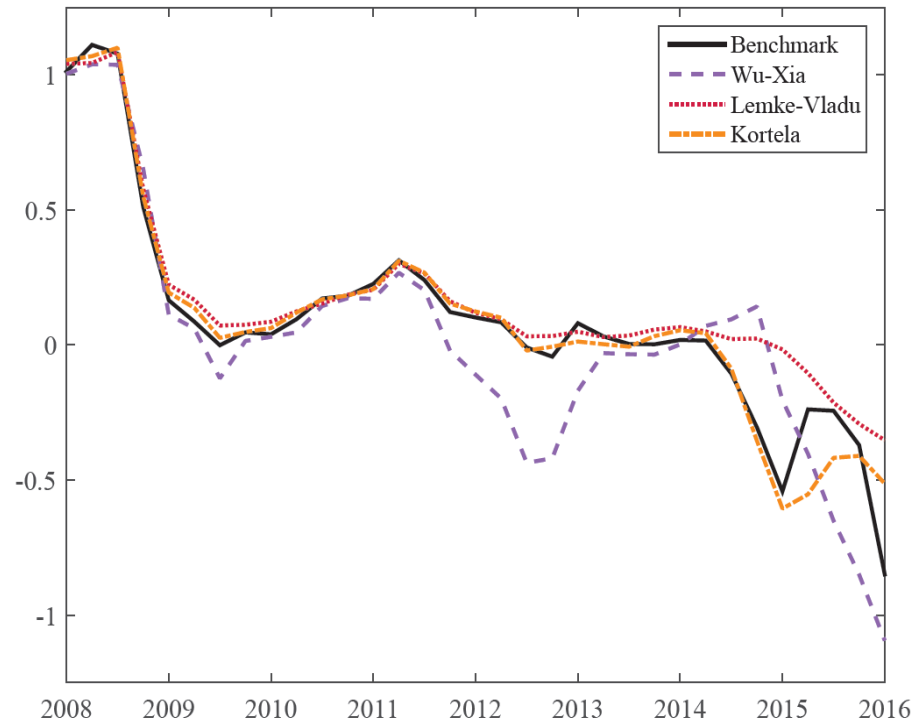
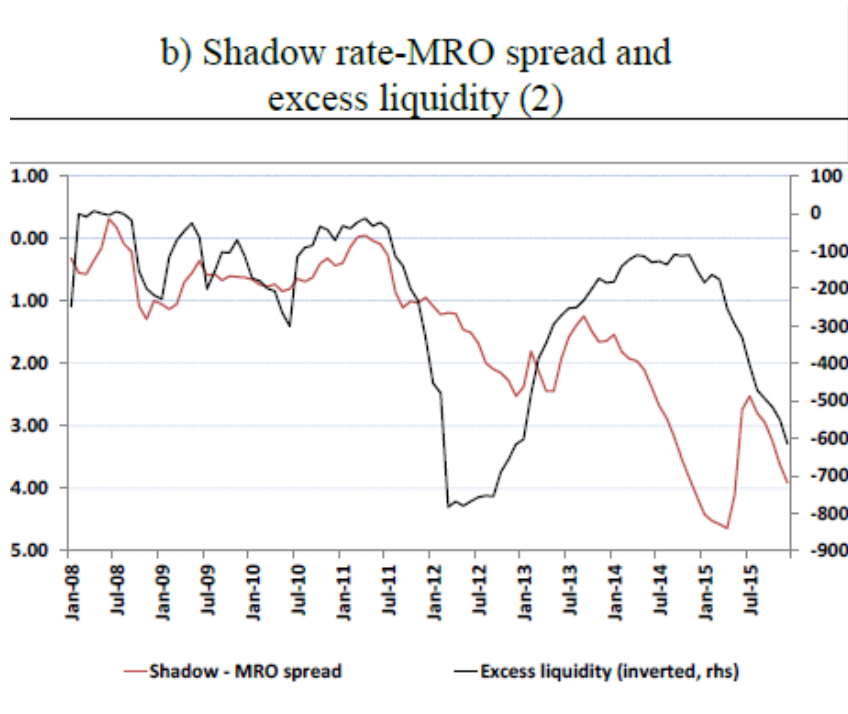


How to measure MP over the last decade? (3)

- Shadow rate = (unobservable, negative) short term rate consistent with term structure of (flattened) yield curve at ELB
 - includes **signaling effect + reductions in term premium** (preferred habitat), but *this does not subsume all UMP measures*.
 - Example 1: LTROs. [Andrade et al. \(2015\)](#) find that extending unlimited liquidity with long maturity incented more constrained banks to increase lending, a “quantitative” channel in line with Gertler and Kiyotaki (2011)
 - Example 2: ACC. [Mésonnier et al. \(2017\)](#) find that newly eligible firms benefited from an eligibility discount on new loan rates. Transmission higher for banks having lower opportunity cost to pledge CC as collateral.
- Also missing: impact of OMT + QE on credit spreads

How to measure MP over the last decade? (4)

- Hint that something is missing: *Shadow-MRO* correlated with term spread but not so correlated with excess liquidity (left panel below)
- Besides, shadow rate is strongly model-dependent (right panel below)



Euro area shadow rate estimates: Mouabbi-Sahuc 2016, Fed, BoFin, ECB

Measuring banks' characteristics

- Some bank BS characteristics measured at MFI-level (LiqA/A, SovHold/A), others at Group-level (ET1/A, NPL/A, NIM...):
 - Rationale? What underlying assumptions regarding internal liquidity and capital markets?
 - Coefficient of interacted LiqA/A never significant: at odds with [Kashyap and Stein \(2000\)](#) => measurement problem?
- Holdings of domestic sovereign bonds: ambiguous measure of BS strength (as acknowledged) => interpretation of coefficient difficult here
 - Include *DomSovHolding***Crisis period***Stressed country* to sort it out
- $NIM = NII / TA$: not a measure of business model, but of profitability compounded by leverage ($NIM = [NII / ET1]*Leverage$)
 - Prefer here *NII/Income* or *Loan/TA*

Identification challenges

- Identification of loan-demand effects with country*time FE:
 - Relies on having subsidiaries of same banking group in different countries
 - Is it the case? More detailed description of data structure + statistics at group-level would be welcome?
 - Hence, robustness check excluding « branches and subsidiaries » (table 5) is puzzling: results unchanged suggest poor identification in the first place?
- Issue with measurement of banks' leverage constraint: implicit model with K_{it} – K_i^* and constant K_i^*
 - However, K_i^* very likely to be time-varying over 2007-2015: eg, impact of EBA's 2011 Capital exercise (see [Mésonnier and Monks, 2015](#), [Gropp, Mosk, Ongena, Wix, 2016](#)) => misspecification of BKC?

Minor comments

- Would be interesting to look also at effects on lending volumes + effects along maturity/size of loans (all available in iMIR/iBSI)
- Pass-through regressions: can we really ignore cointegration of interest rates?
- Double clustering: what for? Bank*year is enough if already time FE
- Variable labels in table 3 are wrong...