



Does Monetary Policy Affect Bank Credit Standards?

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■ Research issue

- Why does monetary policy influence real economy?
 - Imperfect information,
 - Incomplete contracts
 - Imperfect bank competition

 - Through what channels does monetary policy influence real economy
 - Bank lending
 - Balance sheet
 - Risk-taking (credit)
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■ Research strategy

- Use Euro area Bank Lending Survey
 - Bank level responses, 2002:Q4 – 2008:Q2 (
 - Bank controls available until 2006:Q3
 - LHS: Share of banks that report a change in CS
 - Sub-sample: dummy {CS up, CS down}
 - RHS variables
 - Eonia, GDP growth, inflation, country risk
 - Variables mentioned in BLS
 - Method: panel GLS
 - Disentangle demand and supply
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- Eonia

- Euro OverNight Index Average

- An effective overnight rate computed as weighted average of all overnight unsecured lending transactions in interbank market, initiated within the euro area by the contributing (representative) Panel Banks.
 - All specified ON-transactions initiated during the business day and carried out before the closing of real-time gross settlement systems at 18.00 CET shall be reported by the Panel Banks.





■ Findings

- Overnight rates affect bank credit standards.
 - Exceeds the pure BS channel effect
 - Banks soften CS by reducing spreads and collateral requirements, weakening covenants and increasing loan size and maturity.
 - Monetary policy too low for too long softens CS even further.
 - Big banks react less to ON-rates, especially in lending to SMEs
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■ Comments

- Important topic: issue policy makers are – or should be - thinking about today
 - Zero-lower bound effects concern interbank market only
 - Captures potential channel of MP that has not been incorporated in DSGE models
 - Improvement of monetary policy indicator relative to Jiménez et al. (2008)
 - Use deviation from Taylor-rule rate
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■ Questions

- What is a “credit standard”?
 - Is it a conditional or unconditional concept?
 - How do survey respondents think about this?
 - What is expansionary or contractionary monetary policy?
 - Same Taylor rule for each Euro zone country?
 - Is it optimal? (weights 0.5 and 0.5)
 - Expansionary MP \Leftrightarrow *real* rate < *flexprice* rate
 - Business loans often have short-term rate with long commitments (maturity): why is s-t rate important?
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■ Questions

- Why is there impact on risk-taking through CS?
 - What else than MP are you capturing?
 - Povel Singh Winton (RFS 2007) argument: fraud over business cycle?
 - Risk-taking channel:
 - Valuations, income and cash-flows;
 - Target rates-of-return;
 - Central bank policy
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■ Conclusions

- Interesting and useful survey
- Important findings that raise many questions
- Link to monetary policy not fully convincing (yet)
- Conceptual issues with credit standards





- **Alternative interest rate?**
 - **Euribor (Euro Interbank Offered Rate)**
 - Rate at which euro interbank term deposits within euro zone are offered by one prime bank to another prime bank
 - Panel Banks provide daily quotes of the rate, rounded to two decimal places, that each panel bank believes one prime bank is quoting to another prime bank for interbank term deposits within the euro zone.
 - For each maturity the highest and lowest 15% of all the quotes collected are eliminated in the calculation. The remaining rates are averaged.
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