Unconventional Monetary Policy and Bank Lending Relationships: Discussion

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The views expressed here do not necessarily reflect those of the Bank of Italy.
Very good work!

- Nice paper: carefully devised, well explained and clearly written
- Needed: We still have little evidence on the consequences of unconventional monetary policies

My comments:

- Mainly focused on the interpretation of the results from a policy perspective
Overview

- Focuses on Additional Credit Claims (ACC)
  - Starting in Feb 2012, Eurosystem extended the perimeter of bank loans eligible as collateral in refinancing operation (Credit Claims)
  - Policy lowered the minimum credit rating of eligible borrowers to “Level-4” (ACC firms). More risky firms (Level-5) remain ineligible

→ Because ECB refinancing is so cheaper than alternatives (at least until Dec 2012), the extension implies a window of opportunity to lower banks cost of funding
Implications for lending? Focus on 2 ACC-induced “shocks”

- **Bank-level shock**: in Feb 2012, banks’ cost of funding fall in proportion to the amount of outstanding credit to ACC (L4) firms. More exposed banks should benefit (and react) more.
  - But the paper does not exploit this shock (absorbed by bank*month effects in regs.). Why? Many concurrent confounds at the bank*time level (e.g. LTRO).

- **Firm-level shock**: starting in Feb 2012, L4 firms become relatively more attractive borrowers than other firms.
  - Paper main questions: Did L4 firms receive more credit? Any relevant dimension of (firm) heterogeneity?
Overview

• **Implications for lending? Findings**
  - Analysis: DiD comparing credit to L4 (“ACC”) and L5 firms around the implementation. Sample of small but not young (20-20) firms
  - Results:
    - Starting in Feb 2012, ACC firms see their bank debt increase (relative to L5 firms). With two important qualifications:
      1. Only true in the case of single-bank (SB) firms
      2. And among those, only firms with long-term relationship w/ their bank
  - Also, find evidence that the policy lowered both
    1. payment defaults with the firm suppliers, and
    2. credit rating downgrades (albeit weaker)
Comment 1:

- The authors sometimes refer to “loan supply shock” as the object of their analysis,

- but focusing on ACC as a shock to firms implies that the estimates might reflect both changes in supply and demand of credit
  - E.g., if firm being “upgraded” benefit from some form of competitive advantage in the market

- Is it plausible? Do we care (e.g. from a policy point of view)?
  - I missed a discussion of this point.
• **Comment 2:**
  
  • What explains the different results btw single and multiple bank firms?
    
    • If the policy equally affects all banks (i.e. same change in incentives) then it looks like there should be no difference, a priori.
    
    • Current explanation (“single bank firms are more constrained, so they react more”) seem to speak to credit demand as a significant driver (if so, back to comment 1: do we care?).
    
  • Or is there evidence that banks are differently affected by the policy?
    
    • I could not find (but it might be worth performing) any bank- heterogeneity exercise.
    
    • e.g. test whether more exposed banks are more likely to respond to the policy. (For example, bc they have higher propensity to lend to L4 firms to begin with?)
• **Comment 3:**
  
  • DiD comparing credit to L4 and L5 firms around the implementation ($\beta_{ITT} = a - b$)

  ![Diagram](image)

  • But are L5 firms outcomes really unaffected by the policy?
    
    • relative incentive to lend are altered: banks may substitute credit to L5 firms with credit to L4 firms. Plus
    
    • L5 firms might suffer from a competitive disadvantage, lowering credit demand
• **Comment 3:**
  • DiD comparing credit to L4 and L5 firms around the implementation ($\beta_{ITT} = a - b$)

• But are L5 firms outcomes really unaffected by the policy?
  • Concluding that ACC “increased credit” vs. “increased credit for some at the expenses of others” would be quite different from a policy perspective.
Other points:

1. Maybe worth looking at other outcomes / extensions:
   - e.g. do “upgraded” firms start accessing other sources of finance? Are there changes in the patterns of trade credit from other firms? Do they more broadly choose higher leverage?
   - e.g. is credit allocated disproportionately to high productivity/more profitable firms? (allocative efficiency)

2. Useful discussion of potential confounds, including other UMPs.
   - One additional confound maybe worth discussing: the business cycle. Rodano et al (2016) showed that in downturns banks lower credit quantities disproportionately to riskier firms.