

## Discussion:

“Trusting the Bankers: A New Look at the Credit Channel of Monetary Policy” by M. Ciccarelli, A. Maddaloni, and J.-L. Peydró

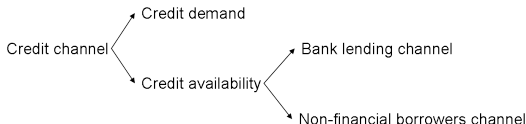
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# Summary

- Authors analyze credit channel of monetary policy in Euro area and U.S.:



- Issue: credit supply and demand changes not observable;
- Authors use BLS (EA) and SLOS (U.S.) to disentangle effects of supply and demand in a VAR set-up;
- Authors find evidence that:
  - Credit channel amplifies monetary policy shocks on GDP and inflation;
  - Credit crunch for firms and tighter standards for mortgages reduced GDP during financial crisis.

- Some remarks on methodology and results;
- Comment on authors' conclusion;
- Conclusion.

## Some Remarks on Methodology and Results

- Results for Euro area based on fixed effects PVAR ( $T=29$ ,  $N=12$ );
- Standard fixed effects ML estimator is inconsistent in panels with lagged endogenous variables (Holtz-Eakin et al., 1988; Phillips and Sul, 2007);
- Taking a Bayesian approach, a flat prior generally does not solve the problem (Lancaster, 2000), but possible to solve the problem via orthogonal reparametrization of the fixed effects (Lancaster, 2002);
- In how far is this potential issue addressed?

## Some Remarks on Methodology and Results (ctd.)

- On the price puzzles, e.g. [▶ Figure 2B](#);
- Should counterfactual medians not also have a credible interval (see [▶ Figure 2C](#))?
- Eventually split data set into different samples according to banks' size (balance statistic will get coarser);
- Quite a few typos (see [▶ Appendix](#)).

For economic theory: “bank loan supply should be included explicitly when modelling the linkages between monetary policy, credit provision and the real economy.”

For central bank policy: “central bank policies based on both very low interest rates and measures aimed at relaxing bank capital and liquidity constraints have provided a significant support to the real economy [during the crisis].”

⇒ Should a central bank (have to) take “measures aimed at relaxing bank capital constraints”?

# Quasi-Fiscal Shenanigans in Frankfurt?\*

Central banks should not (have to) pursue policies of actively recapitalizing banks (or: keeping zombi-banks alive):

- Interest subsidies are a slow, inefficient and inequitable way to recapitalize banks (a.k.a. the Japanese way);
- Subsidies should be voted by appropriate parliaments, not distributed by unelected technocrats;
- Should a central bank accept dubious collateral (BBB-), taking risk on its balance sheet without insurance from the treasury?
- Doesn't this blur a central bank's policy aims and independence?

⇒ Better solutions need to be found, in the worst case central banks should be fiscal agents, but never fiscal policymakers.

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\*Buiters, 2009

# Conclusion

- Fruitful approach to tackle the identification problem;
- Important contribution to the literature on monetary policy transmission;
- Shows that lending surveys provide central banks with valuable information;
- Provides some evidence that monetary policy was effective during the crisis;
- But this does not mean that central banks taking on quasi-fiscal functions should be seen uncritically.



- Several inconsistencies with citing sources (sometimes year in brackets, sometimes without, sometimes with comma before etc.) as well as between describing text and according figures (e.g. description of Figure 1, Panel A on page 9 uses “credit demand, credit availability, credit supply, and borrowers’ quality” while on the figure you use “borrower quality, pure supply, demand for loans, and lending standards”).
- Doubtful significance of results / how do you define significance? [▶ Figure 2A](#) ;
- Puzzling result [▶ Figure 4C](#) .

## Typos:

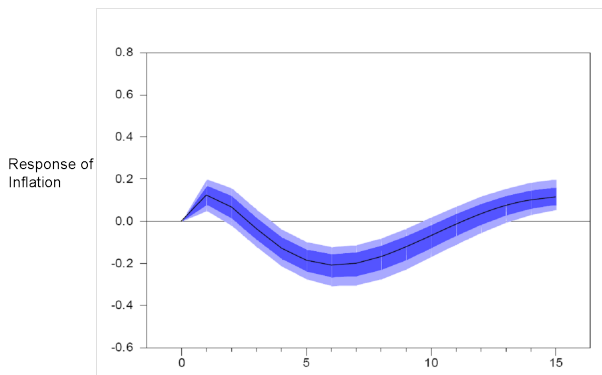
- p. 2, 2nd paragraph, source “(ECB, 2009)”: not in reference list.
- p. 5, footnote 7, source “Holmstrom”: (a) should be “Holmström”, (b) not in reference list.
- p. 6, first paragraph: “they are expected to be” instead of “it is expected”.
- p. 6, footnote 9: several typos.
- p. 6, footnote 11, source “Loan and Morgan, 2006”: should be “Lown and Morgan”.
- p. 6, footnote 12, typo: “loans” instead of “loans’ ”.
- p. 7, first paragraph, typo: “banks” instead of “bank”.
- p. 7, second paragraph, typo: “borrowers” instead of “borrower’s”.
- p. 7, footnote 13, typo: “Euro area” instead of “Euro Area”.
- p. 8, last paragraph, typo: “types” instead of “type”.
- p. 9, third paragraph, typo: “plots” instead of “plot”.

## Appendix (ctd.)

- p. 10, first paragraph, typo: "Evans" instead of "Evansm".
- p. 10, second paragraph, source "Trichet, 2009" not in references.
- p. 10, second paragraph, source "ECB, 2009" not in reference list.
- p. 11, 3rd paragraph, typos: "an" and "banks' " instead of "a" and "banks's", respectively.
- p. 12, third paragraph, wrong reference to figure in text: "Figure 1B" instead of "Figure 2B".
- p. 12, fourth paragraph: "the U.S." instead of "U.S.".
- p. 13, footnote 25: "the U.S." instead of "U.S.".
- p. 16, third paragraph, typo: "increases" instead of "increase".
- p. 17, third paragraph, typo: "down" instead of "dowin".
- p. 17, footnote 29, several typos: "analyses" instead of "analysis", "show the real" instead of "show a the real", "shock" instead of "shocks", and "Japanese" instead of "Japanesse".
- p. 18, third paragraph: "household it is" instead of "household is".
- p. 19, third paragraph, typo: "banks' " instead of "bank's".
- p. 21, first paragraph: "the decline in GDP" instead of "GDP decline".
- p. 21, second paragraph: source "Angeloni and Faia" not italic.
- p. 21, second paragraph: "affects corporate loans more" instead of "affects more corporate loans".
- p. 21, last paragraph: "targeted at banks" instead of "targeted banks".
- Figure A: "Borrowers' " instead of "borrower's".
- Figure 2A, text under figures: "Model 1 in Section 2.3" instead of "Model 2 in Section 2.3".
- Figure 2B: "Model 1 in Section 2.3" instead of "Model 2 in Section 2.5".
- Figure 3A, text under figures: Var should include 12 variables and not 9, "Model 2 in Section 2.3" instead of "Model 4 in Section 2.3".
- Figure 3B: rescale fourth, tenth, eleventh and thirteenth figure, such that they are completely visible.
- Figure 3B, text under figures: Var should include 12 variables and not 9, "Model 2 in Section 2.3" instead of "Model 4 in Section 2.3".
- Figure 3C: "borrowers' quality" instead of "borrower's quality".
- Figure 3C: text below figure is cut off on the right.
- Figure 4A: "Section 2.3" instead of "Section 2.5".
- Figure 4B: "Section 2.3" instead of "Section 2.5".
- Figure 4C: "Section 2.3" instead of "Section 2.5". Heading incomplete.

# Price Puzzle on Figure 2B

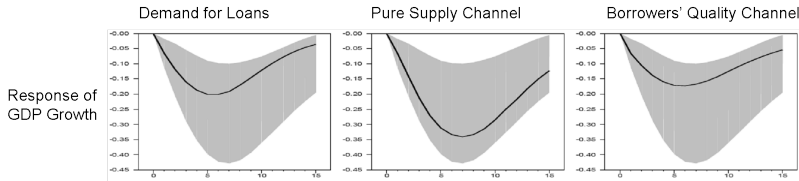
## Credit Availability Shock to Business Loans in EA



Do results change when including variables for world demand and inflation (see Sims, 1992)?

# Figure 4C

Counterfactual Analysis. Firm Balance-Sheet and Bank Lending Channel. Responses of GDP Growth in the U.S.

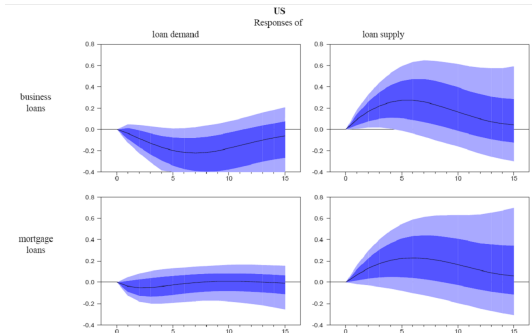


Pure supply channel relatively dampens shock?

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# Figure 2A

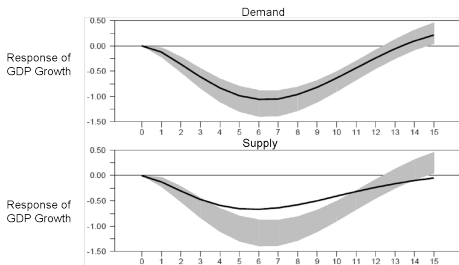
## Responses of Loan and Supply to a Monetary Policy Shock (Model 1)



Use of “significance terminology” (e.g. on p. 14). How do you define significance? Inside the 90 percent or 68 percent Bayesian credible interval?

# Figure 2C

Counterfactual analysis. Responses of GDP growth to a monetary policy shock with and without loan demand and supply channels for business loans in EA.



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Buiter, W. (2009): Recapitalising the Banks Through Enhanced Credit Support: Quasi-Fiscal Shenanigans in Frankfurt, Maverecon.

Holtz-Eakin, D., W.K. Newey, and H.S. Rosen (1988): Estimating Vector Autoregressions with Panel Data, *Econometrica*, 56, 1371-1395.

Lancaster, T. (2000): The Incidental Parameter Problem Since 1948, *Journal of Econometrics*, 95, 391-413.

Lancaster, T. (2002): Orthogonal Parameters and Panel Data, *Review of Economic Studies*, 69, 647-666.

Phillips, P.C.B., and D. Dul (2007): Bias in Dynamic Panel Estimation with Fixed Effects, Incidental Trends and Cross Section Dependence, 137, 162-188.

Sims, C.A. (1992): Interpreting the Macroeconomic Time Series Facts: The Effects of Monetary Policy, *European Economic Review* 36, 975-1000.