



EUROPEAN CENTRAL BANK

EUROSYSTEM

Macroprudential regulation, quantitative easing and bank lending

MPPG Annual Research
Workshop



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Summary

What the paper does:

- The paper investigates the relationship between macroprudential regulation relying on historical cost (HCA) vis-à-vis mark-to-market (MMA) accounting and the transmission of unconventional monetary policy (PSPP)

The transmission Channel:

- According to the “net worth channel” ([Brunnermeier and Sannikov, 2014](#); [Rodnyansky and Darmouni, 2017](#)), PSPP should increase the mark-to-market value of bank security holdings, increasing bank net worth and therefore improving lending supply. **But what if the eligible securities are held at HCA?**

Research question:

- Does the effect of PSPP on bank lending supply depends on the accounting classification of eligible securities (especially sovereign securities) put in place by macroprudential rules?

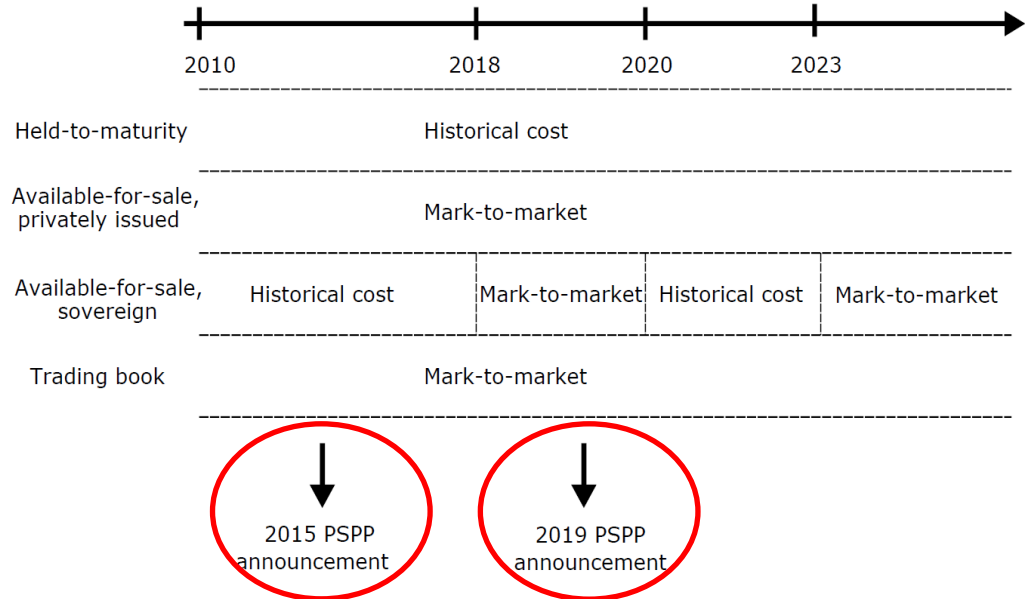
The scenarios under investigation and empirical findings:

The paper exploits two PSPP programs:

- 1) From 2010 to 2017, regulators permitted AFS sovereign securities to be held at historical cost to insulate the banking sector from the effects of the ESDB
- 2) From 2018 to 2020, regulators required AFS sovereign securities to be valued at mark-to-market

Findings:

- 1) The effect on lending supply from PSPP is muted or unclear when considering all eligible securities
- 2) A positive effect on bank lending supply is found when considering mark-to-market eligible securities
- 3) Ceteris paribus, the 2019 PSPP has stronger effect on bank lending supply than that of 2015 PSPP in line with the “bank recapitalization channel”



1) Omission of single-bank relationships

- The paper employs the well-known [Khwaja and Mian \(2008\)](#) methodology exploiting firms borrowing from multiple banks.
- However, this approach excludes firms with borrowing from a single bank, leading to sample selection biases.
- In your analysis this issue appears particularly relevant (Table 1) since you lose more than half of the sample in the intensive margin analysis.
- This issue is also important in your extensive margin regressions where, by removing the borrower*time FEs, you are not controlling for credit demand.
- **Since you use very granular data, you could run a robustness check replacing borrower*time FEs with industry-location-size fixed effects.**

2) To which borrowers is the improved lending supply directed to?

From a policy-makers' perspective, it is relatively more important to ensure that the provision of credit is directed to SMEs because:

- A. They do not rely on debt security issuance as a substitute for bank credit ([Becker and Ivashina, 2018](#))
- B. They are subject to greater lender discretion facing a disadvantage with respect to large firms when requesting credit from banks ([Chodorow-Reich et al. 2022](#))

If the effect found on lending is concentrated only at large firms then the importance of this channel would be more limited.

Is it possible to run a triple interaction term with a dummy distinguishing between SMEs and Large firms?

What about risk-taking? Should mark-to-market accounting result in an increase in riskier lending, this would strengthen the monetary policy transmission but undermining financial stability.

3) A bit more info on the sample does not hurt!

- Which instrument contracts did you consider when collapsing the dataset at the bank-firm-month level? It is unclear whether you use only term loans or whether other instruments such as credit lines, revolving credit etc... are included in the collapsing procedure
- Firms can have multiple contracts (e.g. term loans) with the same bank. How is the interest rate variable computed then? It is the weighted average interest rate or the simple mean of the interest rate across different instruments?
- Descriptive statistics is not complete as only the first and third quartile of the distribution of the variable of interest are shown. Max and Min should also be reported considering the large standard deviation of some variable of interest.
- How did you treat the outliers?