

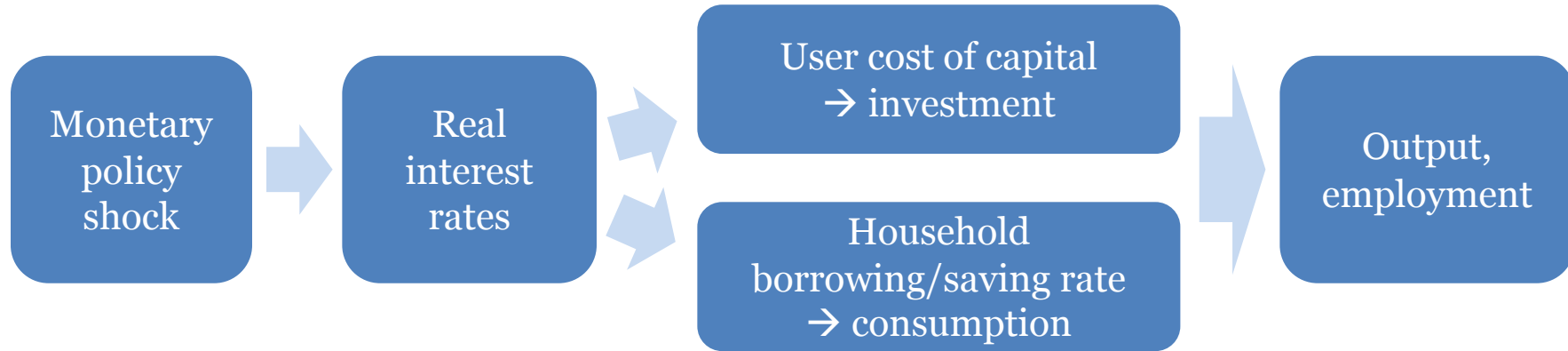
# Quantitative Easing, Bank Lending, and Macroprudential Regulation

by Andrea Orame, Rodney Ramcharan, and Roberto Robatto

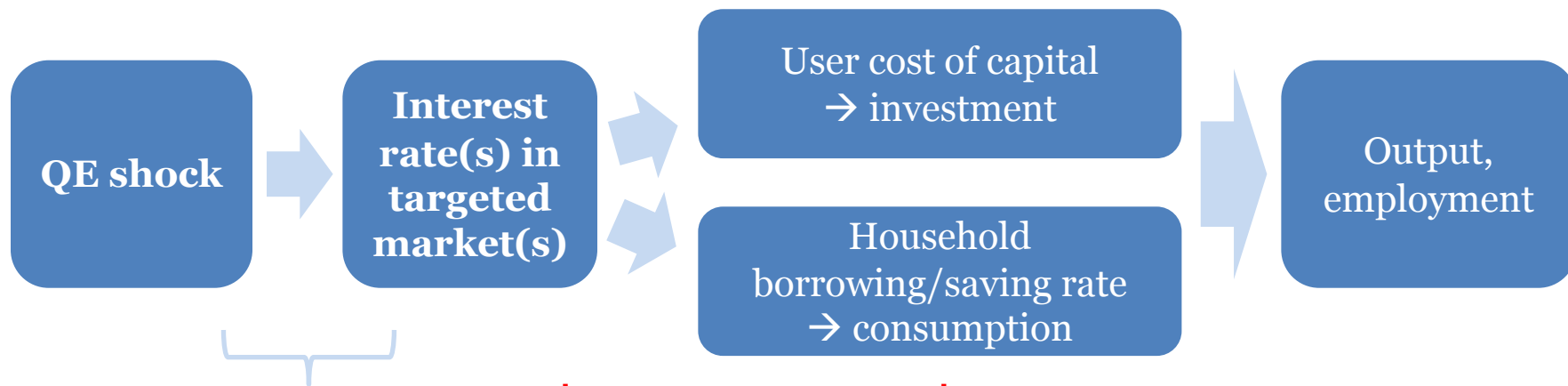
Discussion by Amy Wang Huber  
*MFA March 18, 2023*



# Conventional monetary policy research



# Research on the macro effect of QE



Well-understood channels:

- Liquidity premia
- Risk premia
- Safety/scarcity premia

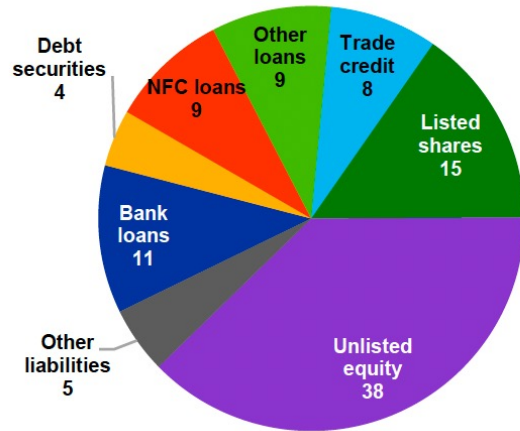
Focus of this paper

# Understanding impact of QE on bank lending is especially relevant in Europe

b) Capital structure of euro area NFCs as of Q3 2020

(percentage of total liabilities)

Source: ECB



In Europe:

- Loan is 7x bond financing.
- Bank loan accounts for 38% of loan financing.

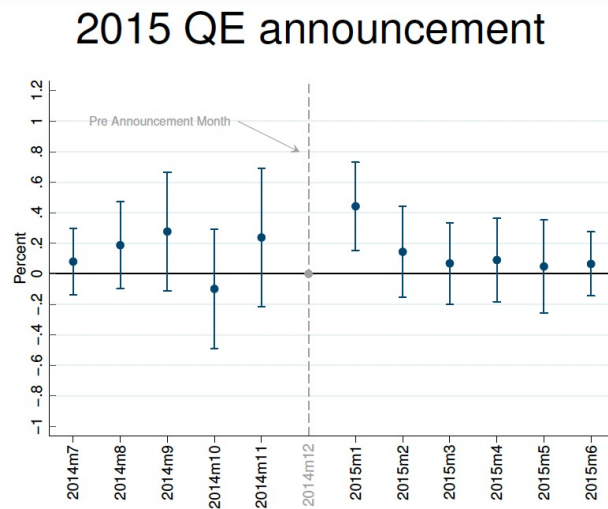
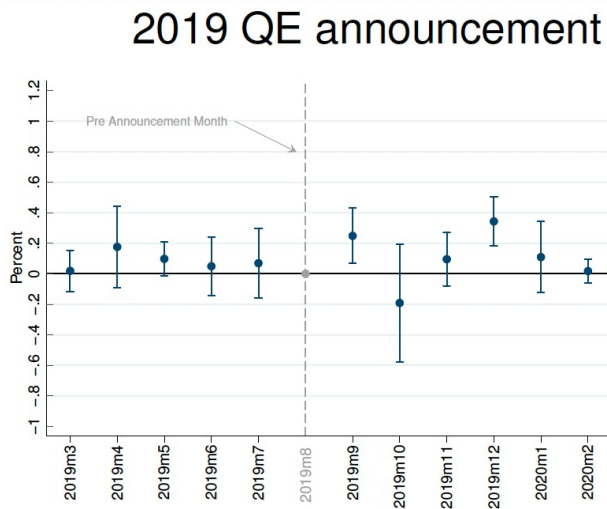
# This paper

- **Question:** How does European banks' accounting of security holdings affect QE-induced bank lending response?
- **Approach:** Italian supervisory data exploits Khwaja and Mian (2008) twin-exposure identification.
- **Key findings:** Mark-to-market accounting delivers more impact.
- **Discussion plan:** Magnitude.
  - Connection to literature.
  - Estimation strategy.
  - Back-of-the-envelope, a revisit.

# QE on banks: what we know

- Bank lending responds to QE, magnitude depends on exposure to purchased asset: e.g., Rodnyansky and Darmouni (2017).
    - This paper: banks' exposure depends on accounting measurement.
  - Basel III's removal of historical cost accounting (AOCI filter) exposes banks to market fluctuation, affecting banks' funding, loan supply, reporting incentives, etc: e.g., Kim, Kim, Ryan (2019), Bischof, Laux, Leuz (2021).
    - This paper: links exposure to loan response following QE.
- What would be good to establish: magnitude.
- Necessary to balance the impact of mark-to-market on QE response with other supervisory concerns.

# Estimation strategy and result



- Point estimate: difference in month-over-month loan growth of the same firm borrowing from high-exposure bank vs. low-exposure bank.
- “Exposure”: share of mark-to-market security holdings in the month before QE announcement.

# Observation on the result

The month following the announcement is the only month that has a significant jump in loan growth.

- If QE relaxed banks' regulatory constraint, why did banks only favor firms who applied for loans in the immediate next month?
  - Could it be that banks anticipated QE and asked firms to delay application?
- Current “anticipation test” only looks at whether banks shifted their securities portfolio ahead of QE.
- Why not use average loan growth in the preceding six (6) months as the baseline to circumvent possible anticipation?



# Magnitude of impact

Total effect = amount of loan \* additional loan growth

= mean loan amount \* # of firms \*  
estimated additional effect per unit of exposure \* exposure

= €533K \* 846K \* 0.248 \* 6%

= €6.7B

≈ 13K new loans

# Magnitude of impact

	<b>Paper</b>	<b>Alternative 1</b>	<b>Alternative 2</b>	
Number of firms in sample	846K	846K	846K	
Mean loan amount	€533K	€533K	€533K	
Estimated additional effect	0.248	0.248	0.148	Seasonally adjusted
Exposure (banks' eligible security)	6%	6%	6%	
		1 in 12	1 in 12	Month in year with effect
<b>Total effect</b>	<b>€6.7B</b>	<b>€0.6B</b>	<b>€0.3B</b>	
<b>Additional loans</b>	<b>13K</b>	<b>1K</b>	<b>626</b>	<b>Less than 0.1% of firms benefit?</b>

# Conclusion

- Important question to study.
- Contribution could lie in precisely quantifying the impact.
- Good luck!

