Pricing Risk or Rationing Credit?

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Marij Pregelj, *A Trumpeter* (1960), tempera on canvas, NG S 2792, National Gallery of Slovenia.

This paper

- Credit Rationing or re-pricing during ECB MP tightening?
  - AnaCredit loan-level data;
  - spreads and loan amounts.
- Credit Rationing $>$ Repricing
  - As in Stiglitz and Weiss (1981), +;
  - competition dec. tightening;
  - unexpected: higher CET 1 $\implies$ more tightening.

Questions and comments

- There is a major econometric question: if loan rates and volumes are jointly determined, how to estimate a sensitivity to a factor?
- You are using Degryse et al (2019) how doees it work with the specification in Khwaja, Asim Ijaz, and Atif Mian. "Tracing the impact of bank liquidity shocks: Evidence from an emerging market." American Economic Review (2008)?
- How do your methodology compares with Jiménez et al., 2014?

Identification Strategy (Jiménez et al., 2014)

Question. Does a *lower policy (overnight) rate* spur banks' *risk-taking* via compositional shifts in credit supply at the bank–firm level?

Challenge. Disentangle effects on the *risk of supplied credit* from (i) supply *volume*, (ii) *demand* volume/quality, and (iii) other macro forces (e.g., long-term rates).

Identification Strategy (Jiménez et al., 2014)

Three pillars of identification.

1. *Two-stage selection design* (panel type-2 Tobit):
   Stage 1 (extensive margin) — **granting of applications**; Stage 2 (intensive/risk) — committed amount, collateral, and ex post default for granted loans. Estimated with Kyriazidou's two-step correction for selection with fixed effects.
2. *Saturation with high-dimensional fixed effects*:
   Time×Firm and (in robustness) Time×Bank FEs absorb all time-varying observed/unobserved heterogeneity at firm and bank level (balance-sheet and interest-rate channels). Identification comes from *within-month comparisons across banks to the same firm* (most firms apply to multiple banks).
3. *Risk-taking test via triple interaction (horserace):*
   Main regressor: ΔOvernight$\times$ ln(Bank capital) $\times$ Firm risk, where firm risk is based on past NPL history. Concurrently "horseraced" against analogous triples with long-term rates and other macro controls (GDP/CPI, securitization, external rates), while also including bank controls in triples.

Identification Strategy (Jiménez et al., 2014)

Canonical specification (schematic).

$$\Pr(\mathrm{Grant}_{tbi} = 1) = \alpha_{t\times i} + \alpha_{t\times b} + \gamma\,\Delta i_t \cdot \ln \mathrm{Cap}_{b,t-1} \cdot \mathrm{Risk}_{i,t} + \mathrm{Ctrls}_{tbi} + \varepsilon_{tbi},$$

$$\ln \mathrm{Amt}_{tbi} = \alpha_{t\times i} + \alpha_{t\times b} + \gamma'\,\Delta i_t \cdot \ln \mathrm{Cap}_{b,t-1} \cdot \mathrm{Risk}_{i,t} + \mathrm{Ctrls}_{tbi} + u_{tbi},$$

with multi-clustered SEs (time, bank, firm) and samples restricted to firms applying to multiple banks in a month.

Identification intuition. Conditional on Time×Firm FEs (and bank FEs in robustness), a lower overnight rate should induce *larger risk-taking shifts* precisely at *low-capital banks* toward *ex ante riskier firms*; if effects remain when horseracing other macro triples, they are consistent with a *policy-rate* risk-taking channel.

Questions and comments

- You write: "[...] monetary tightening may have led to [...] limiting the volume of credit rather than altering the pricing terms.". How confident are we that this is due to Monetary Policy?
- How do you disentangle the Monetary Policy decisions from the inflation surge?
- How would Monetary Policy shocks impact the results? Versus a unique time dummy?

Questions and comments

- Effect on small firms and the role of **collateral** when borrowing: Beaumont, Paul, Huan Tang, and Eric Vansteenberghe. "Collateral effects: the role of FinTech in small business lending."
- Effect of banking competition and **information dispersion**: important subject for insurance market too. C.f. **Pioneers Detection Method**. Some might learn faster, how to identify them and rely on them.

Questions and comments

- You distinguish PD above and below the median, is it per bank? If not, how does it work in terms of share per bank?
- You are using a through-the-cycle PD measure, this might suffer during/after lock-down decisions, or during inflation surge.

Conclusion

- This is a very nice paper to read, I had a great time.
- Important questions: Monetary Policy and Bank Lending!