Monetary Policy, Uncertainty, and Credit Supply

Discussion by Paul Reimers, Sep. 18th 2025

Paper in a nutshell

- How does dispersion/asymmetry in banks' inflation forecasts shape bank lending rates

- Model: Single monopolistic bank facing uncertainty about <u>probability distribution</u> of π

  - Mechanics: Choose R_i^* that maximizes profits, given uncertainty about the probability distribution of π

  - Main propositions: Loan pricing more expensive for wider and positively skewed densities of π

- Empirics: How do bank lending rates correlate with indicators that measure dispersion/asymmetry by aggregating inflation forecasts of banks

Model: Why monopolistic setup, and are all model features consistent?

- Why just a single monopolistic bank facing uncertainty about <u>probability distribution</u> of π?

  - Not: Multiple banks with individual probability distributions

  - My guess: Monopolistic setup for ease of aggregation & derivation of R_i^*?

- But: Funding costs modeled by having deposit rates as function of π.

  - Doesn't this imply there is competition for deposits?

  - Shouldn't monopolists set deposit rate marginally>0, and would this kill part of the real return channel?

- Proposal: Have a model setup with multiple banks (each with its own probability distribution)

  - More intuitive to derive and discuss main propositions $(1+3)$

  - Plus: Propositions 1 & 3 do not hinge on aggregation anyways?

Bridging model & data/empirics

- Propositions 1 & 3 of model tell a **bank-level story**

  - I translate propositions to lending rates of <u>two banks with distinct distributions of π</u> – correct?

  - Datawise, I'd expect that you test those propositions based on the lending rates of two banks with distinct SPFs (Matching problem?)

  → *All else equal, do banks with more uncertain/asymmetric inflation expectation exhibit higher rates?*

- But in empirics, you use **aggregate measures** of forecast dispersion/asymmetry in inflation expectation

  →*All else equal, during times of high dispersion/asymmetry the lending rate is higher.*

  - But to what extent does this really validate the bank-level mechanisms you have in mind?

  - Instead: I'd then expect that you show how the model propositions aggregate up…

    …which in turn requires that we rethink the setup (monopolistic/competitive), no?

Wrapping up

- Your paper addresses and important and relevant issue for monetary policy

    → Based on the intro/abstract, the paper does what it promises

- I see an even more substantial contribution if you provided a full-fletched picture, by

    - lifting the theoretical bank-level impact of different beliefs on lending rates to the aggregate

        → Which is what you test empirically, as of now…

    - and by breaking down the empirical part of the analysis to the bank-level

        → Match banks' individual SPFs from ECB-SPF/Consensus (?) to AnaCredit

        → Test theoretical propositions 1 & 3

Some questions – all meant constructively of course!

- The objective is „non-increasing" in π – why? Is this reasonable?

  - Doesn't this mean that lower default risk from higher π always outweighs π's marginal impact on the real return channel?

  - What should work against this is the sluggishness of deposit rates, no?

- It took me a while to understand the level of variation that you use – bank or aggregate level

  - P.10 „*we analyze SPFs at the individual forecaster level, accounting for […]* "

  - P.13: „*we incorporate each bank's inflation forecast using our SSI, which summarizes the strength […]* "

  - P.6 in version 2: „*we capture <u>banks' inflation</u> expectations […]* & „*Banks facing higher uncertainty or asymmetry in their inflation […]* "

  - But the way you construct NIU/ASI (SSI?) you can't be using bank-level variation? (Avg over forecasters!)

  - You can easily remedy this by being clearer/more precise/more transparent about the data

- Why this focus on latent segments/regimes?

  - You don't discuss the resulting regimes – why not? What characterizes them?

  - The one regime you discuss briefly (2) puts up more questions than answers: What do you mean with it identifes established relationships? Why don't you include relationship lending as regressor, if this is so important?

- How can a change of NIU – which enters linearly additive (I guess?) – cause skewness in the distribution of the fits?

  - Is this coming from the different components?