

Monetary policy and corporate debt structure

Stéphane Lhuissier Urszula Szczerbowicz

Discussion by Lorenzo Burlon

6th Research Workshop
MPC Task Force on Banking Analysis for Monetary Policy

Banque de France, 31 January 2019

The views expressed do not necessarily reflect those of the European Central Bank or the Eurosystem.

THE PAPER IN A NUTSHELL

- ▶ Analysis of macroeconomic effects of US monetary policy:
 - ▶ conventional (CMP);
 - ▶ unconventional (UMP).

- ▶ Small-scale monthly BVAR with 4+1 variables:
 - ▶ GDP,
 - ▶ core consumption prices,
 - ▶ excess bond premium,
 - ▶ policy indicator,
 - ▶ and a 'bonus' variable.

- ▶ Identification with high-frequency (daily) instruments à la Gertler & Karadi (2015).

THE PAPER IN A NUTSHELL

- ▶ **Distinction 1:** between two periods/tools/instruments:
 - ▶ CMP (90M1-08M10/ST rates & FG/3m-ahead FF futures);
 - ▶ UMP (08M11-15M11/QE & FG/5y Treasury yields).
- ▶ **Distinction 2:** between two forms of corporate borrowing:
 - ▶ bank loans;
 - ▶ corporate bonds.
- ▶ **Two key results** regarding CMP vs. UMP:
 1. similar aggregate effects;
 2. different effects on corporate debt structure:
 - ▶ CMP: \uparrow loans and \downarrow corporate bonds;
 - ▶ UMP: \simeq loans and \uparrow corporate bonds.

THE PAPER IN A NUTSHELL

- ▶ Very topical for the current policy debate:
 - ▶ real effects of UMP on (and via) firms.
- ▶ Established analytical tool and identification strategy.
- ▶ Stimulating results: more questions come to mind!

FOUR COMMENTS

1. Identification of policy shocks.
2. Distinction between loans and corporate bonds.
3. Economic mechanism (and ultimately policy implications).
4. Some puzzles based on current results.

IDENTIFICATION OF POLICY SHOCKS

- ▶ One fundamental difference between CMP and UMP:
 - ▶ UMP come into play only when CMP is impaired by the ZLB.
- ▶ So, two challenges for reduced-form evidence:
 - ▶ UMP only with ZLB (a shock must bring you there);
 - ▶ cannot have both at same time (need of two periods).
- ▶ Structure of economy changes dramatically after crisis.
 - ▶ IRF of the same CMP shock during UMP period, if it existed, might look different than during CMP period.

IDENTIFICATION OF POLICY SHOCKS

Some ways around:

- ▶ Switch propagation mechanism with shocks (excl. policy variable) across time periods, à la Stock & Watson (2002).
- ▶ Change (and unify across subperiods) the policy instrument:
 - ▶ identify two factors for policy rate and FG shocks (à la Gürkaynak, Sack, Swanson, 2005);
 - ▶ add one that explains minimal part of yield curve variance in pre-crisis period (à la Swanson, 2018 and Altavilla, Brugnolini, Gürkaynak, Motto, Ragusa, 2019).
- ▶ Split in three subperiods:
 - ▶ pre-crisis, crisis pre-QE, crisis post-QE.

DISTINCTION BETWEEN LOANS AND CORPORATE BONDS

Not clear what generates the different response by debt type.

Some possibilities:

- ▶ Maturity: If mortgages are to be considered more long-term than the rest of loans, this story does not hold.
- ▶ Collateralization: Mortgages (\uparrow & \downarrow) vs rest (\uparrow & \simeq), role of RE prices.
- ▶ Counterpart: Bank loans (\uparrow & \uparrow) vs non-banks (\uparrow & \simeq).
- ▶ (Listed/multilateral vs unlisted/bilateral)
- ▶ Issuer dimension: Small firms issue less corporate bonds, GFC hit especially small firms.

DISTINCTION BETWEEN LOANS AND CORPORATE BONDS

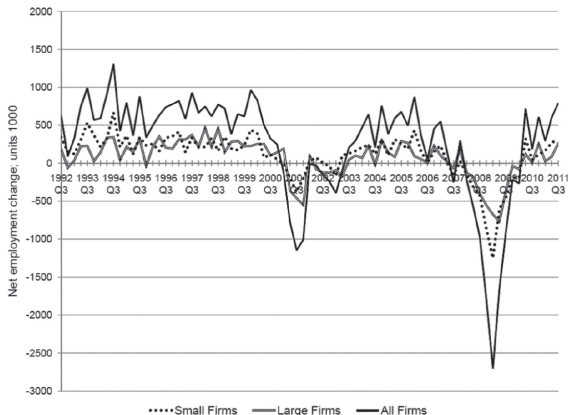


FIG. 8.—Net employment changes by size. Net employment changes (gross job growth less gross losses), measured in thousands. Small firms are defined as firms with employment under 100 and large firms as firms with employment over 1,000. Data source is BED, constructed from the quarterly *Census of Employment and Wages*. Data include all firms covered by state unemployment insurance programs, which is roughly 98 percent of nonfarm payrolls.

From Khan & Thomas (2013).

ECONOMIC MECHANISM

- ▶ It is not easy to understand the mechanism by adding one variable at a time.
- ▶ Once the difference has been documented (controlling for DF issues), why not to go 'large'?
- ▶ Some questions that we might answer with a larger system:
 - ▶ Trivially: What happens to the 5y rate with CMP shocks?
 - ▶ Does trade credit (payables and receivables) respond?
 - ▶ What happens to leverage?
 - ▶ Does maturity composition of external liabilities change?

ECONOMIC MECHANISM

- ▶ It is not easy to understand the mechanism by adding one variable at a time.
- ▶ Once the difference has been documented (controlling for DF issues), why not to go 'large'?
- ▶ Some questions that we might answer with a larger system:
 - ▶ Is there a recomposition of asset side of firms?
 - ▶ What happens to firm profitability? And productivity?
 - ▶ Does aggregate dispersion in productivity change?
 - ▶ What happens to collateral prices?

ECONOMIC MECHANISM AND POLICY IMPLICATIONS

- ▶ These questions are not (just) an end in themselves.
- ▶ They would signal different channels in action:
 - ▶ signalling
 - ▶ portfolio rebalancing
 - ▶ collateral
 - ▶ deposit
 - ▶ exchange rate
 - ▶ ...
- ▶ Depending on how we answer these questions we might prefer to use (certain) macroprudential tools rather than 'lean against the wind.'
- ▶ (Are there nonlinearities or asymmetric responses to positive vs negative shocks?)

SOME OPEN ISSUES

- ▶ Loans do not respond to UMP:
Constraints or less non-banks?
- ▶ Consumer prices respond a lot to UMP:
What about producer prices / core components?
- ▶ Consumption response relative to investment's is stronger for UMP (1st year):
Wealth effects? Cash-in-advance? Rel. price of investment?
- ▶ Employment response is weaker for UMP while GDP's similar:
Jobless recovery?
- ▶ Opposite response of mortgages:
Shift in collateral requirements?
- ▶ Initial drop in Y/C/Empl. for CMP:
Mechanical result of interpolation? Better use IP.

Thank you.