



EUROPEAN CENTRAL BANK

EUROSYSTEM

European Central Bank conference on  
Credit, Banking and Monetary Policy

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## **“The Interest of Being Eligible”**

Jean-Stéphane Mésonnier, Charles O’Donnel,  
and Oliver Toutain

*Discussion by*

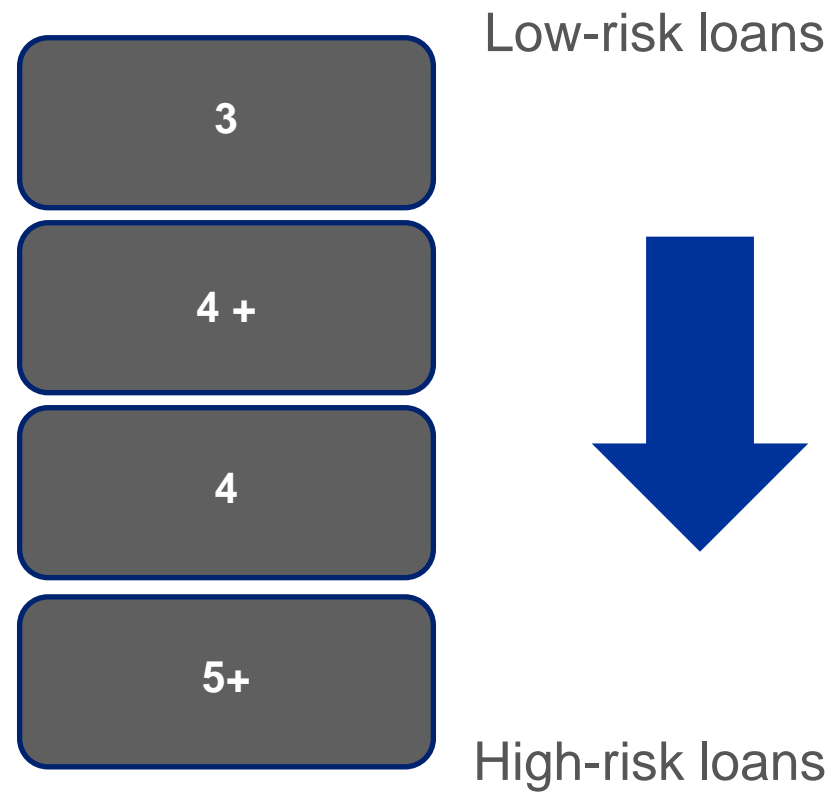
Ugo Albertazzi

European Central Bank, Monetary Analysis Division

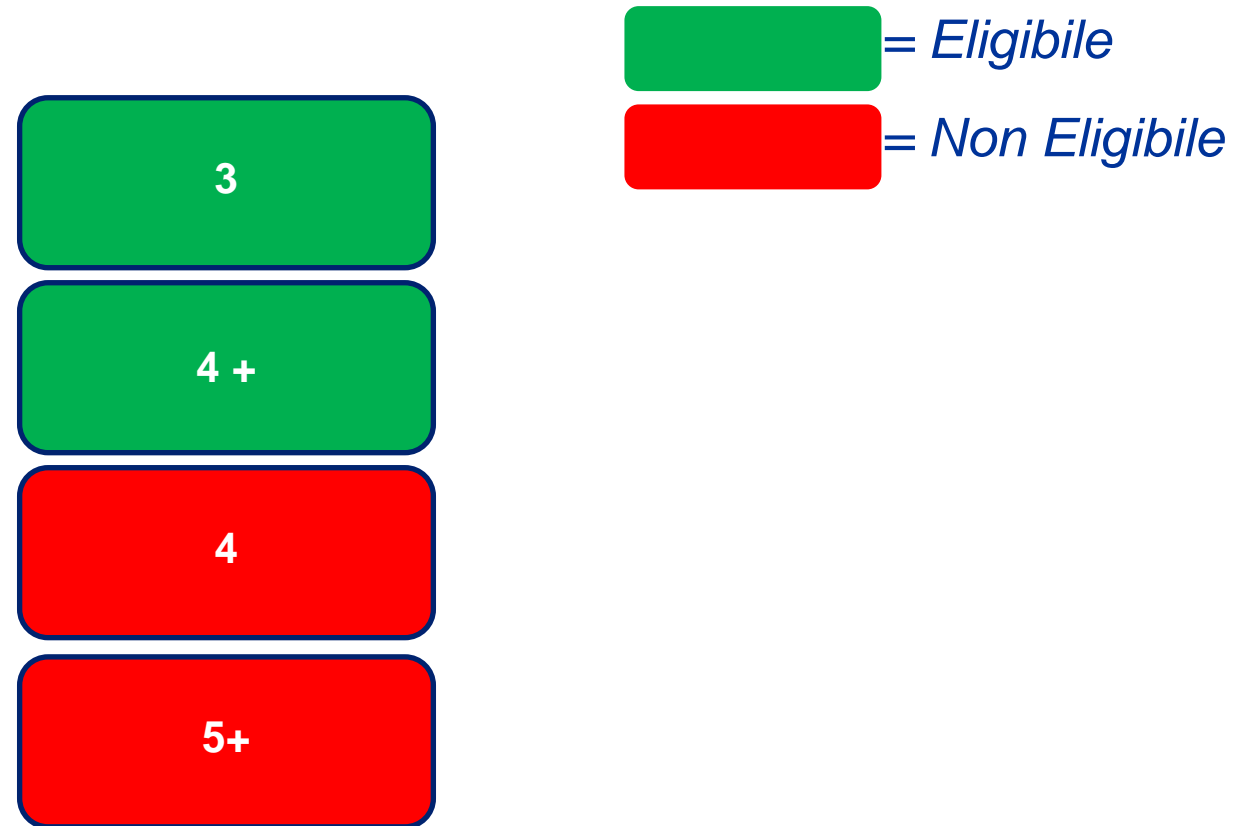
*The views expressed are my own and do not necessarily reflect those of the ECB*

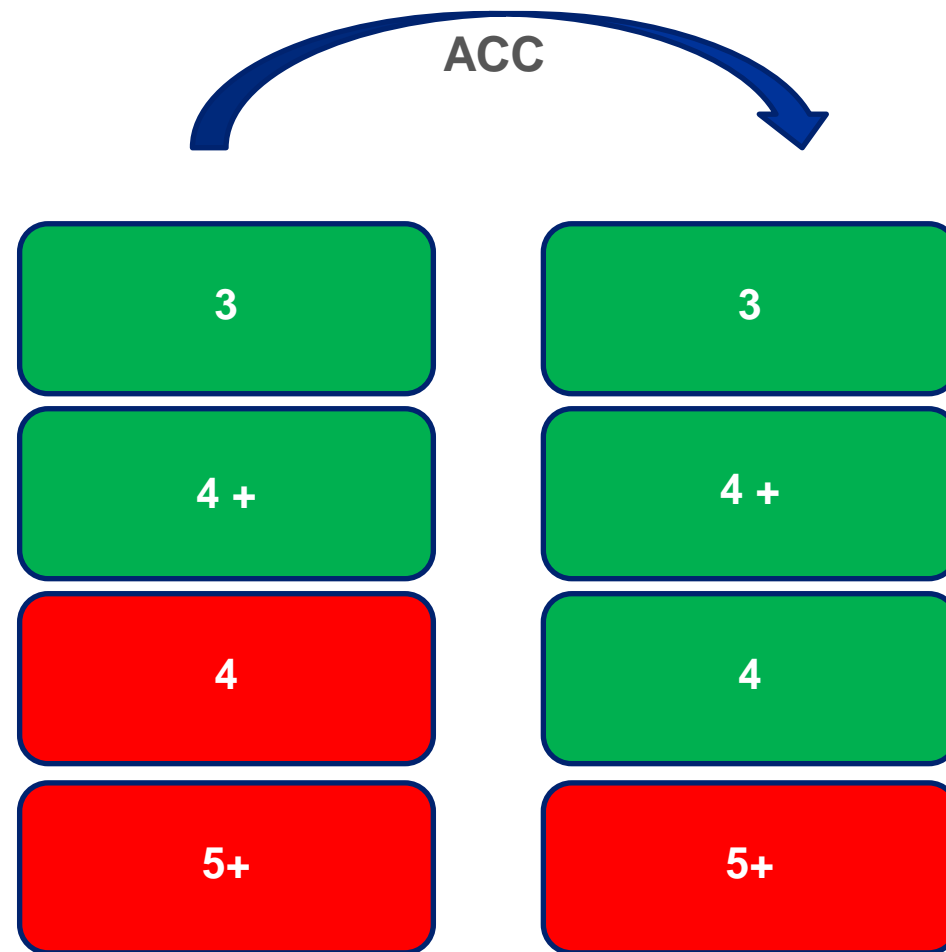
# The paper in a nutshell

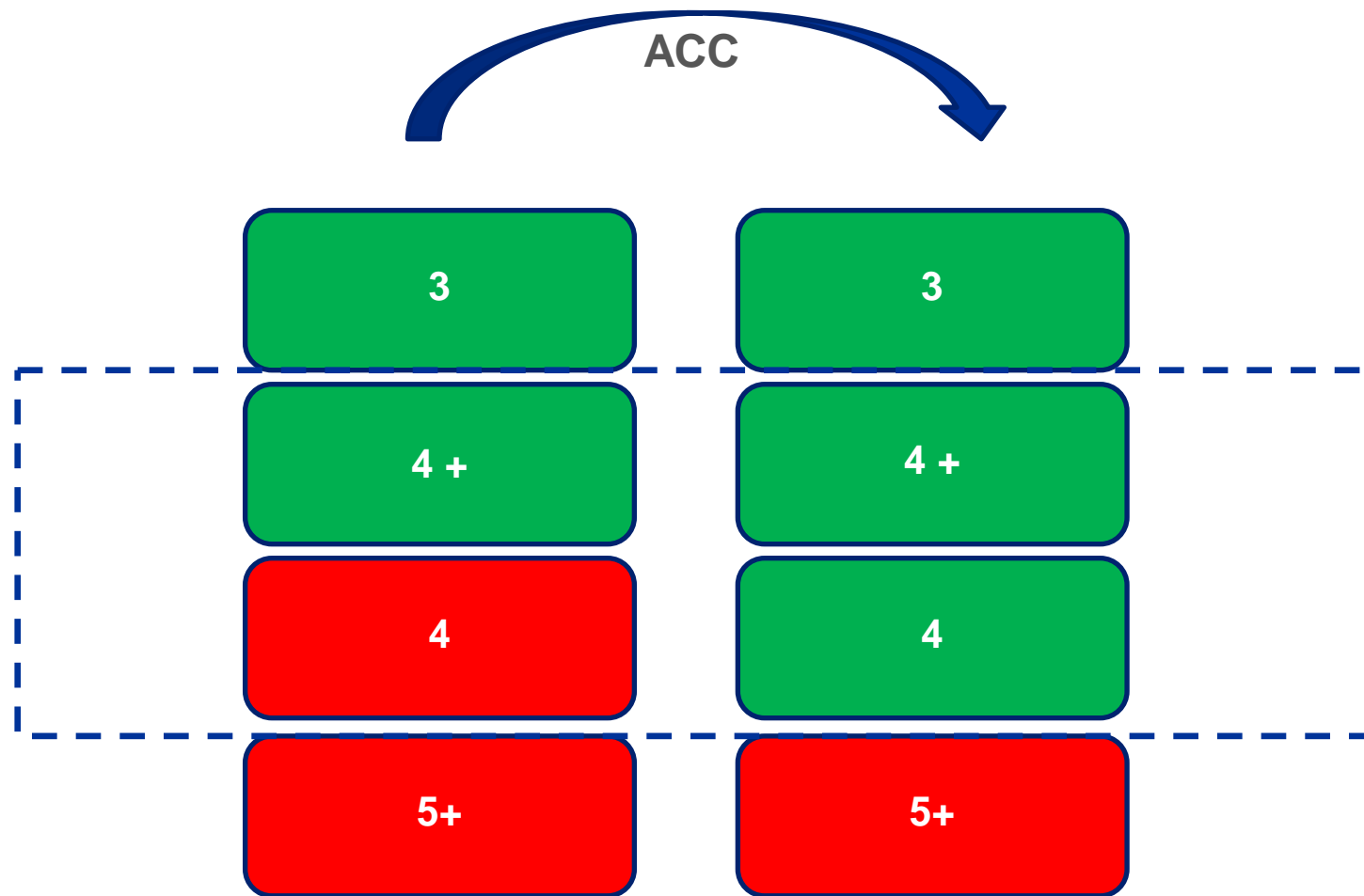
- **Objective**: empirically assess the effect of central banks' collateral policy
- **Focus**: Eurosystem's Additional Credit Claims (ACC)
- **Data**: granular and detailed dataset with information on loans to French non-financial companies
- **Methodology**: diff-in-diff estimation



# Description of the paper







**=> TEST: Has the spread between 4 and 4+ loans diminished after the introduction of ACC?**

- Becoming eligible for Eurosystem's collateral framework provides a 7 bps discount on the rate applied on new loans
- Only for banks that were already pledging loans as collateral in liquidity operations with the Central Bank
- Impact also on lending volumes

# General comments

- **Interesting and relevant topic (debate on “new normal”)**
- **High quality dataset**
- **Nicely written, lots of interesting background information on the institutional framework**
- **Results credible and plausible**
- **A few comments and questions to further improve...**



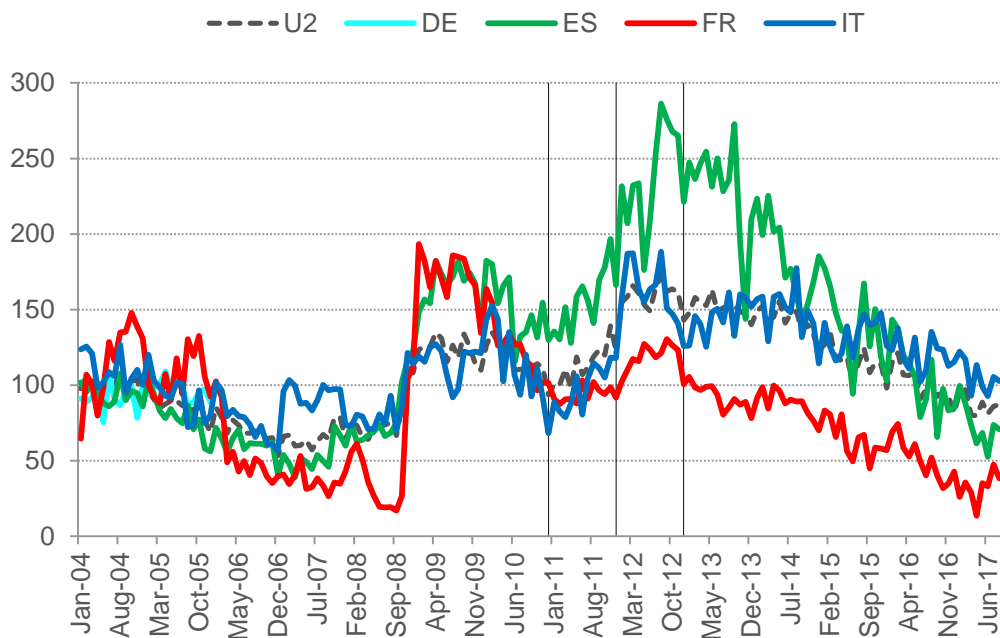
# Comment 1: Role of controls

- Treated loans are by construction riskier than non-treated ones => DD measures the change in the spread between 2 risk-categories of loans (4 vs 4+)

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- Spreads between risky and less risky loans moves a lot

## Spread between lending rates on small vs large loans (basis points)

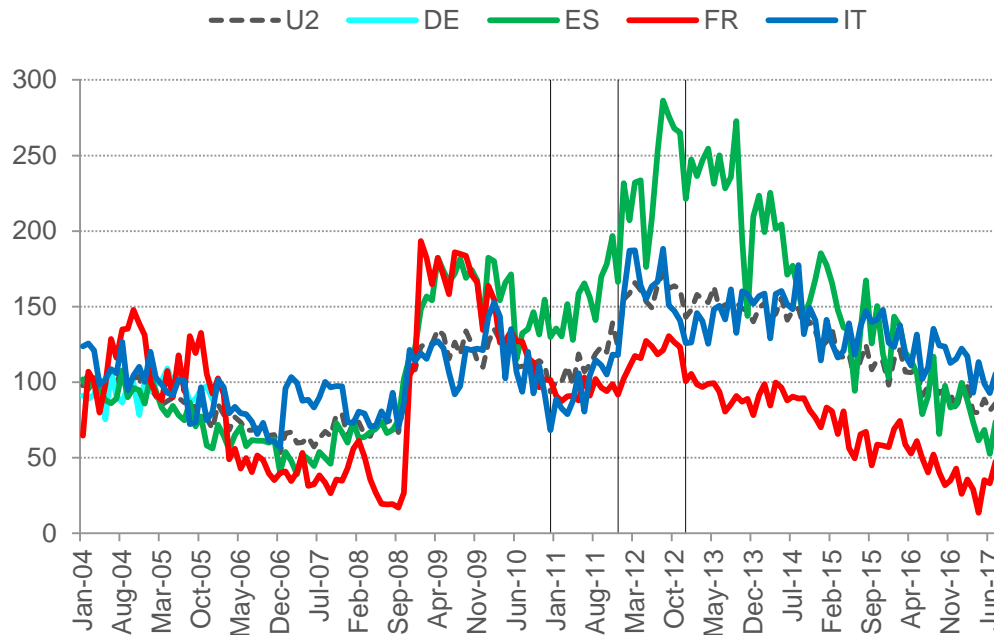


FR: sd = 42 bps

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## Spread between lending rates on small vs large loans (basis points)



=> **Are all confounding factors (unrelated to ACC) effectively controlled for?**

➤ On the side of lenders

=> bank \* time f.e.

➤ On the side of borrowers

=> borrower \* time f.e. NOT possible

=> list of controls (rating, size, leverage, sector...)

# Comment 1: Role of controls

Main regression equation is

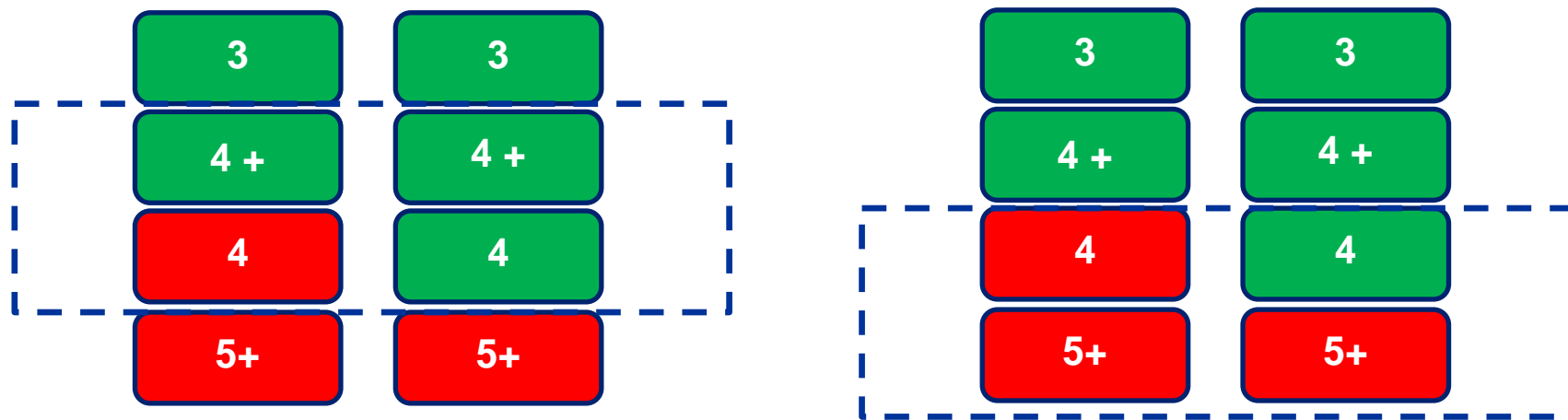
$$Spread_{ijklt} = \alpha + \beta_1 ACC_{jt} + \beta_2 POST_t + \beta_3 (ACC * POST)_{jt} + \beta_4 X_{it} + \beta_5 Z_{jt} + \eta_{kt} + \varepsilon_{ijt}$$

where X and Z indicate loan- and firm-level controls.

**=> Why not saturating the specification with interaction terms X\*POST or Z\*POST?**

## Comment 2: non linearity

- Main results are confirmed for the comparison 4 vs 5



i.e. rate for 4 declines in comparison with both less risky loans (4+) and riskier loans (5+)

- ⇒ Why not emphasize the non-linearity in the reduction of rates at the treated category (4)?

## Comment 3: Aggregate effects

*...if liquidity premia are driven by the amount of available liquidity, such as treasuries, in the financial system, then the ACC program by increasing the aggregate supply of liquidity ought to imply a reduction in rates for all loans...*

- Diff-in-diff estimations capture heterogeneous effects but not aggregate effects
- Aggregate effects could be relevant. ACC complementary to 3-year VLTRO in preventing a systemic bank run and massive credit crunch (Darracq-Paries, De Santis, 2015).

**=> Can the analysis be extended and provide an assessment of aggregate effects?**

# Comment 4: Heterogeneity across banks

## ➤ How to interpret results for heterogeneity across banks (findings tend to disappear)?

TABLE 8. Explaining further the eligibility discount: impact of bank heterogeneity on the intensity of transmission

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	All	High CC	Low CC	High Squeeze	Low Squeeze	High Cap	Low Cap
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Rating4	0.171*** (0.023)	0.173*** (0.032)	0.177*** (0.032)	0.170*** (0.031)	0.138*** (0.037)	0.158*** (0.031)	0.212*** (0.029)
POST*Rating4	-0.070** (0.035)	-0.096** (0.045)	-0.002 (0.048)	-0.055 (0.045)	-0.002 (0.072)	-0.057 (0.044)	-0.091 (0.058)
Loan Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sector*Period FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region*Period FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank*Period FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3977	2085	1596	1999	1141	2129	1689
Adj.R <sup>2</sup>	0.378	0.306	0.414	0.296	0.467	0.411	0.395

# Comment 5: External validity

7 bps seems a small quantity!

- Larger effects outside France?
  - other countries without similar collateral policies already in place
  - French banks in 2011/12
- Smaller effects in other period?
  - crisis period vs normal times



- Overall a very nice and interesting paper
- To make it even more convincing:
  - Exploit better and put more emphasis on the non-linearity of the effects across risk categories
  - Explain absence of findings in the bank cross section
- Gain clarity and discuss more at length
  - Quantitative relevance
  - Aggregate effects
  - External validity

THANKS!