

Money, Credit, Monetary Policy and Business Cycle in the Euro Area

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discussed by

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Main Idea of the Paper

To study the monetary transmission mechanism of euro area macroeconomic variables:

- Financial
- Monetary
- Credit
- Real
- Prices

Two novelties:

- Large information - encompassing framework
- New dataset for the euro area (disaggregated loans and monetary aggregates and their lending rates)

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Encompassing framework

Bayesian shrinkage technique (De Mol, Giannone and Reichlin (2006))

Euro area dataset

31 monthly variables, from January 1991 to August 2009

- Real (industrial production (euro area), industrial production (US), unemployment)
 - Nominal (HICP, world price of raw materials, producer prices index, oil price)
 - Financial and survey (various interest rates, stock prices, consumer confidence)
 - Money and Credit (different indicators for money and loans)
- New!**

Estimation Strategy

Large Bayesian VAR (in levels) (Banbura, Giannone and Reichlin, 2009), using 13 lags. Random walk priors.

Identification Strategy

Monetary policy shock identified by assuming that the Euribor does not affect contemporaneously real variables, HICP, US federal funds rate, PPI and US CPI

Results: Monetary Transmission Mechanism

1. Real economic activities, policy rate, inflation, unemployment, surveys and financial
 - Results in line with the economic theory (similar to US)
2. Monetary aggregates
 - M1: liquidity effect
 - Broader Money: no liquidity effect
3. Loans
 - Loans to non financial corporations up to 1 year and over one year increase
 - Consumer loans do not respond
 - Loans for house purchases decrease
 - Other loans increase in the short-run

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Results: Cyclical Behavior of Loans

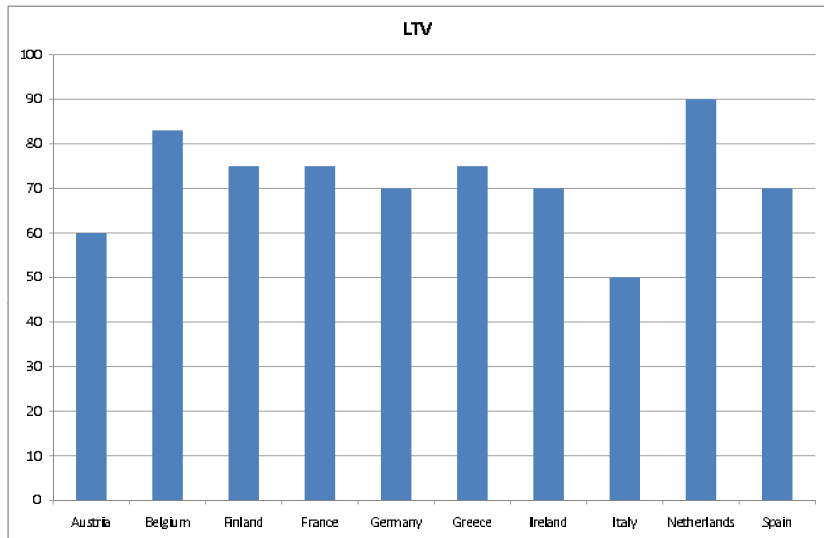
- 1) Compare correlations conditional on business cycle shocks and monetary policy shock.
 - Similar correlations!
 - In particular, loans to non-financial corporations very cyclical
- 2) Counterfactual exercise: evolution of economy conditional only on the shocks that explain the business cycle and pre-financial crisis transmission mechanisms.
 - Cyclicity results confirmed
 - Decrease in loans to non-financial corporations, as expected
 - Loans to households exhibit a "strange" behavior (outside bands)

- Very interesting paper and results.
- Systematic analysis of the euro area and the transmission mechanism of monetary policy.
- Lots of stylized facts.

but

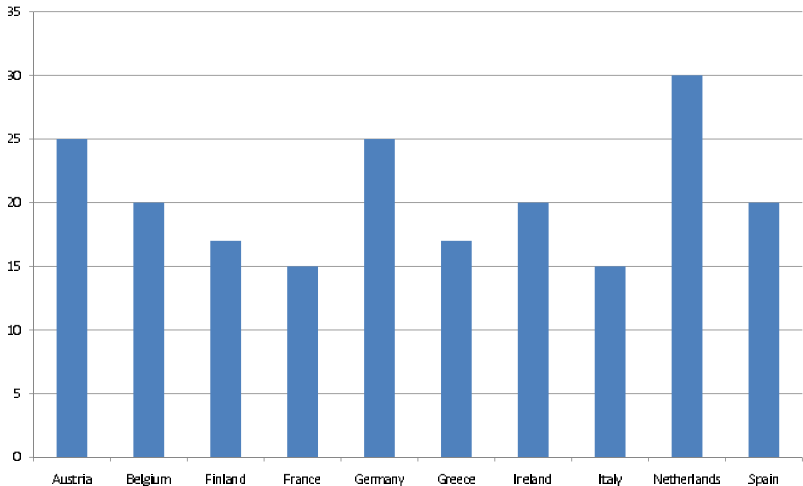
analysis is based on aggregated variables!

Is there evidence of
heterogeneity across euro area
countries?

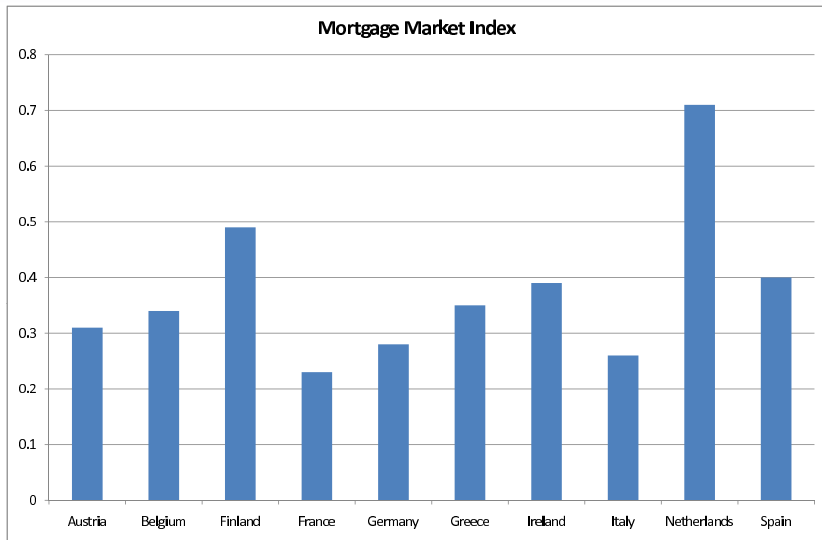


Source: IMF, World Economic Outlook, April 2008 Ch.3

Average Term Mortgage



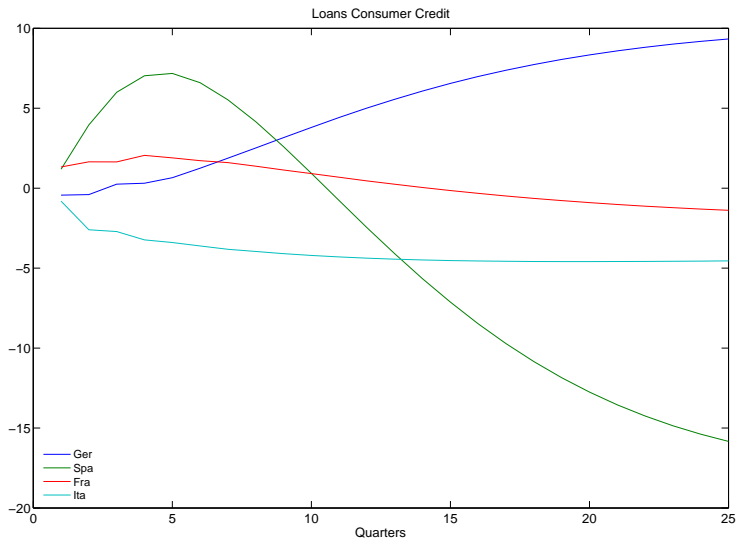
Source: IMF, World Economic Outlook, April 2008 Ch.3



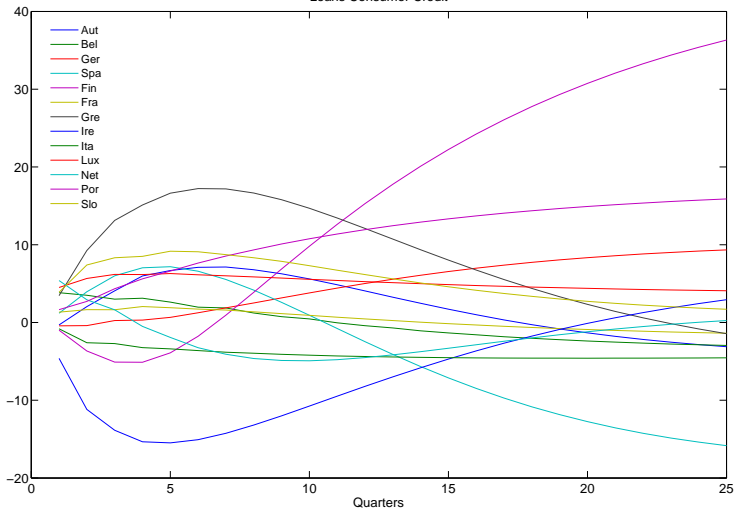
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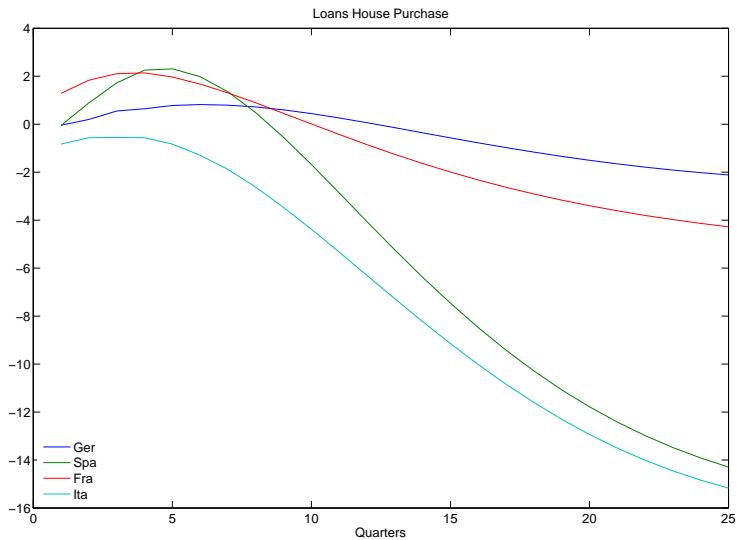
Evidence from Countries VAR (Euro Area)

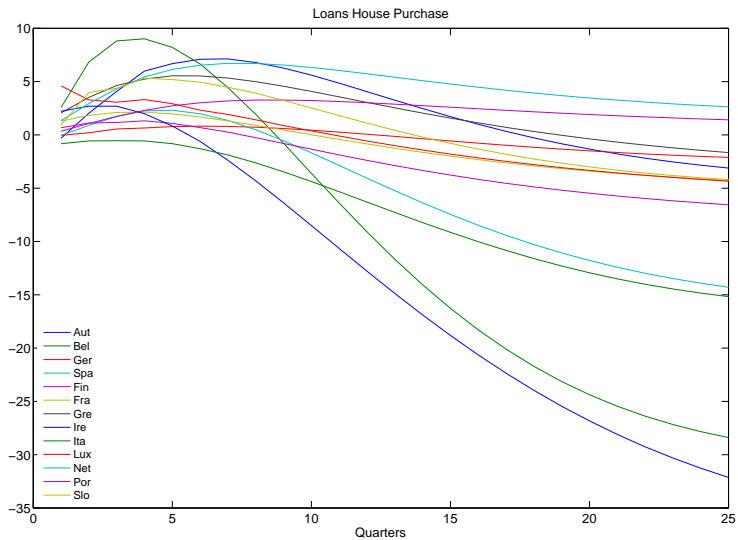
- Countries: Austria, Belgium, Germany, Spain, Finland, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia
- Sample: January:1999 - July:2009
- Variables: Industrial Production, HICP, Commodity Price index, Euribor, Exchange rate (euro/us dollar) and Loans (house purchase, consumer credit and non-financial corporations up to 1 year)
- Source: ECB

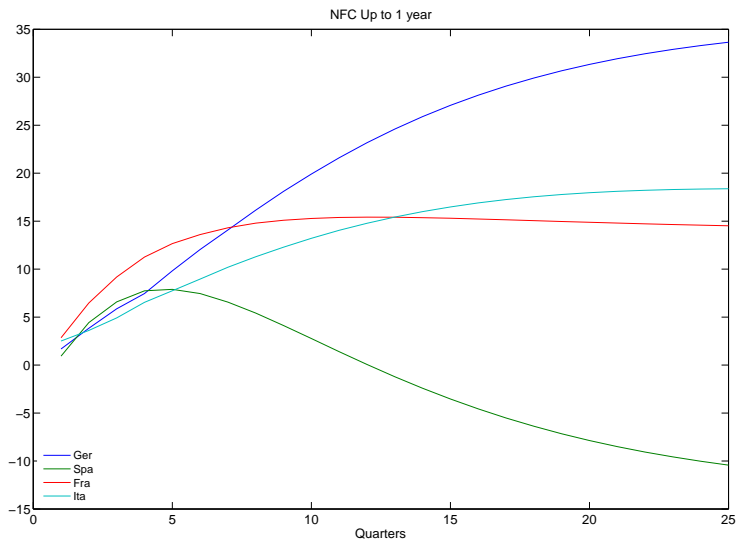


Loans Consumer Credit









Conclusions/Suggestions

- The dataset could be expanded to study heterogeneity across countries; to evaluate the impact and the transmission mechanism of the monetary policy shock.
- ...and to study the effect on business cycle. That is, to what extent does heterogeneity in the credit market affect the business cycle synchronization?

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