

Discussion of Alfaro, García-Santana and Moral-Benito

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Chicago Financial Institutions Conference

April 6, 2018

The views stated herein are those of the author and are not necessarily those of the Federal Reserve Bank of Cleveland or the Board of Governors of the Federal Reserve System.

Summary: Effect of Credit Supply Shocks

- Bank-Firm-Loan level data from Spain
- identify via Banks lend to several firms, firms borrow from several banks
- Input/output: Direct, bank to firm, indirect, firm to other firms
- Macro effects based on Bigio and La'O (firms might substitute bonds for loans)

Appreciation: Bernanke 1983

$$(4) \quad Y_t = .615 Y_{t-1} - .131 Y_{t-2} + .455 (P - P^e)_t + .231 (P - P^e)_{t-1} - .004 (P - P^e)_{t-2}$$

(9.76)
(-2.13)
(3.99)
(1.97)
(-0.03)

$$+ .024 (P - P^e)_{t-3} - .799E-04 DBANKS_t - .337E-04 DBANKS_{t-1}$$

(0.22)
(-4.03)
(-1.66)

$$- .202E-03 DFAILS_t - .242E-03 DFAILS_{t-1}$$

(-1.52)
(-1.83)

s.e. = .0246 *D.W.* = 1.98 Sample: 1/21-2/41

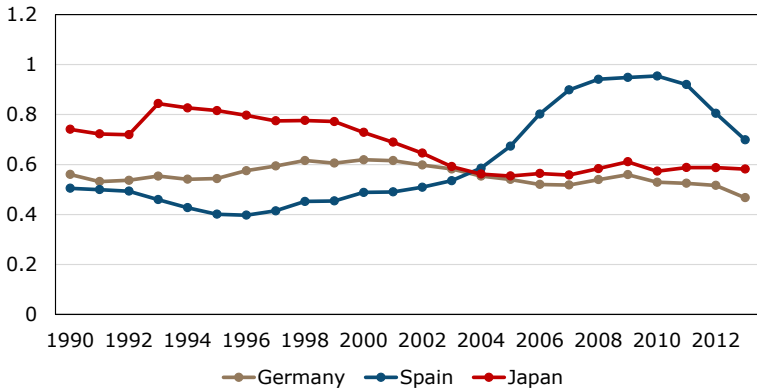
A Hot Area

- Huber (2018) Germany 2007-2012
- Amity & Weinstein (2018) Japan 1990-2010
- Alfaro et al Spain 2003-2013

What are the advantages and disadvantages of the identification schemes?

Alfaro can look at sector impact (Real Estate).

TBUS to GDP Ratio



Source: Jorda, Schularick, and Taylor (2017)

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The Labor Analogy

Labor economist asks: Why is Suzy's wage high: her MBA, her smarts, or working for Google?

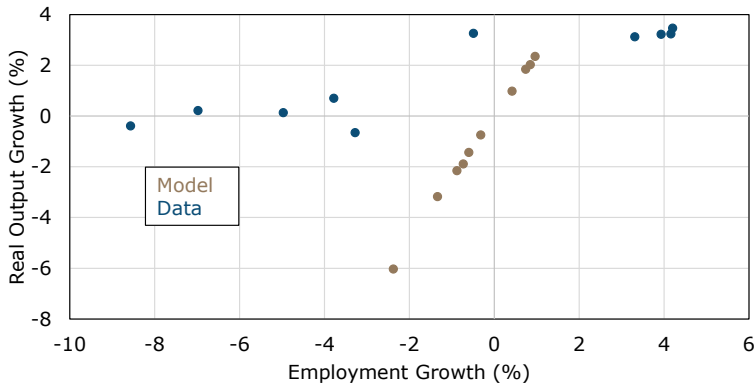
$$y = X\beta + D\theta + F\psi + \epsilon. \quad (1)$$

Alfaro decomposes credit growth between bank and firm shocks

$$\Delta \ln c_{ijt} = \delta_{it} + \lambda_{jt} + \epsilon_{ijt}. \quad (2)$$

Identifies shocks, but does bank capital, or loan loss reserves affect lending?

Okun's Law, Model and Data (2003-2012)



Sources: Alfaro, Garcia-Santana, and Moral-Benito (Model)
1 and Spanish National Statistical Institute (Data)

Macro Musings

- Is the credit supply shock Bigio and La'O's financial friction?
- Any role for price of credit, higher spreads?
- Bank credit shocks have large effect in Financial Crisis: fewer alternatives?
- Shocks + Input/Output = time series properties Long and Plosser (1983), Granger (1980), Gabaix (2011).
- do more with rejected loan applications.