

Banks' financial conditions and the transmission of monetary policy: a FAVAR approach

Ramona Jimborean & Jean-Stephane Messonnier

Discussion at IJCB Conference

Don Morgan*

June 17, 2010

*Federal Reserve Bank of New York. Morgan's view do not necessarily represent those of the Federal Reserve.

FAVAR

Bank Factors
F₁, (FBF)₃ ...

CUMUL BQ POP HORS AGREMENT COLLECTIF SCM
STE BORDELAISE DE CIT IND ET COMMERCIAL
LYONNAISE DE BANQUE
EMU 3-month EURIBOR
BANQUE CHAIX
Total loans to French credit institutions
BANQUE FIDUCIAIRE
Total loans to NFIs
BANQUE LAYDERNIER
Loans to NFIs for cash needs
BANQUE COURTOIS
Loans to NFIs for investment needs
BANQUE RHONE-ALPES
Total loans to households
CREDIT COMMERCIAL DU SUD-OUEST
Mortgage loans to households
RCI BANQUE
BANQUE THEMIS
Monetary aggregates M3
by aggregate M3
SOCRAN BANQUE
Gross domestic product at market price
BANQUE ACCORD
Production of total industry
BANQUE DUPUY DE PARSEVAL
Final consumption of households and NPISH's (private consumption)
BANQUE SOHREY
Private consumption of households, durable goods, chain linked volumes,
DEXIA CREDIT LOCAL
Private consumption of households, non-durable goods, chain linked volumes
OSEO FINANCEMENT
Exports of goods and services, chained volume estimates
BANQUE FINAMA
Imports of goods and services, chained volume estimates
CASSIS CENTRALES
Gross fixed capital formation of financial institutions, goods and services
B.F.T. BANQUE DE FINT ET DE TRESORERIE
CORTAL CONSORS
Gross fixed capital formation of public services, goods and services
NATIXIS TRANSPORT FINANCE
Gross fixed capital formation of households, goods and services
GENE BANK OF
Gross fixed capital formation of households, building and civil engineering
CONFEDERATION NATIONALE DU CREDIT MUTUEL
CREDIT LYONNAIS
Gross fixed capital formation of households, real estate services
STE GENERALE
Gross fixed capital formation of NFIs, goods and services
BNP PARIBAS
Gross fixed capital formation of NFIs, building and civil engineering
BANQUE SCALBERT DUPONT - CIN
CREDIT INDUSTRIEL DE L OUEST
Gross fixed capital formation of all sectors, goods and services
HSBC FRANCE
Employees, full time equivalent
CREDIT COMMERCIAL - CIC
Unemployment rate (BTP)
CREDIT DU NORD
BANQUE CIC EST
FORTIS BANQUE FRANCE
BANQUE TRANSATLANTIQUE
BNP PARIBAS LEASE GROUP
CALYON



First finding

BF predict macro factors → macroprudential advised

“ potentially a scope for active macroprudential policies aimed at constraining changes in (BF)”

BF predict F Pre-Crises (1993-2007)...

	Bank Factor:		
	Liquidity	Leverage 1	Leverage 2
F1 “business cycle”	yes	yes	yes
F2 “long-term R”	yes	yes	yes
F3 “inflation”	no	yes	yes

BF predict F Pre-Crises (1993-2007)...

Macro Factor:	Bank Factor:		
	Liquidity	Leverage 1	Leverage 2
F1 “business cycle”	yes	yes	yes
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... Less So Including Crisis (1993-2009)

F1 “business cycle”	no	yes	yes
F2 “long-term R”	yes	no	yes
F3 “inflation”	no	no	no



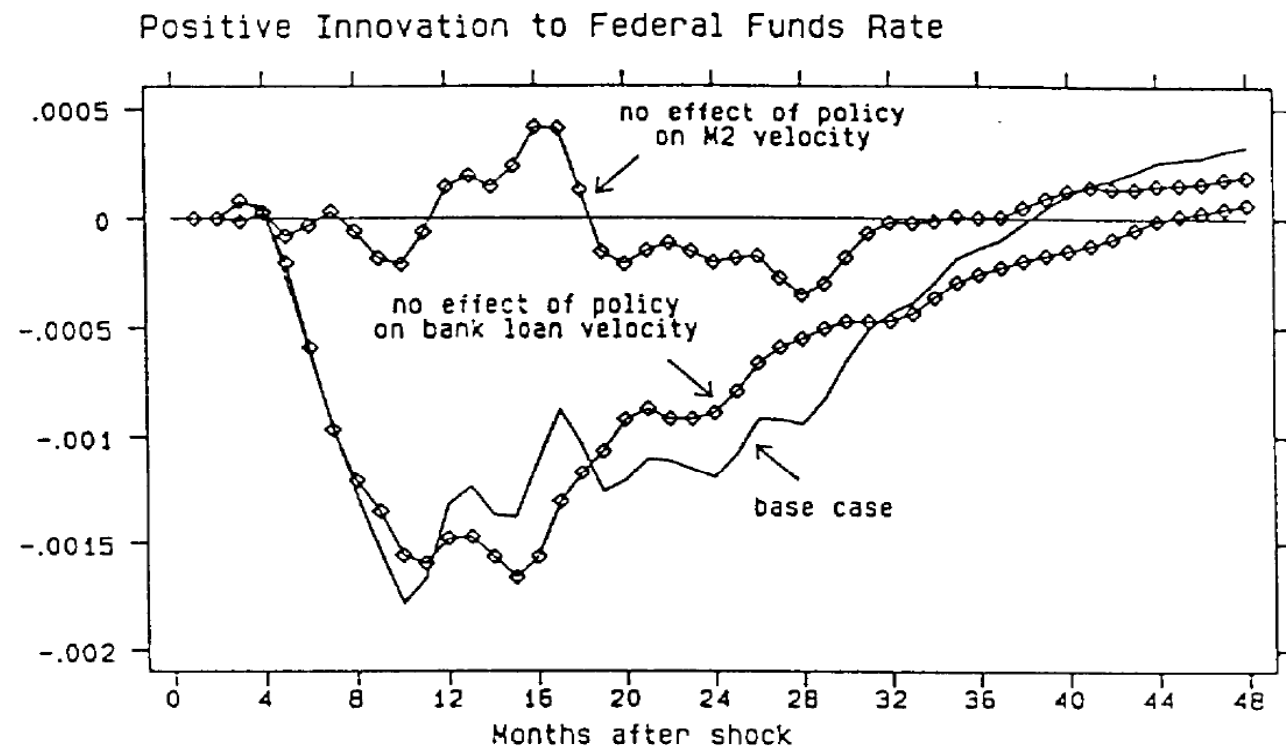
Second Finding

Impact of monetary policy shock (“M”) on macro series (“Y”) invariant to BF : $\delta^2 Y / \delta M \delta BF = O$

Impulse responses anticlimatic (one paragraph)

Given money and credit aggregates, little point in monitoring bank liquidity & leverage in assessing impact of monetary policy

Déjà vu all over ...



Ramey (1993)



Cautions

- Data rich but degrees-of-freedom poor
 - Don't include BF simultaneously in FAVAR
- Identification
 - FAVAR doesn't completely solve French price puzzle
 - M shock partly mis-identified
- Bernanke critique of Ramey (1993): timing vs. structure

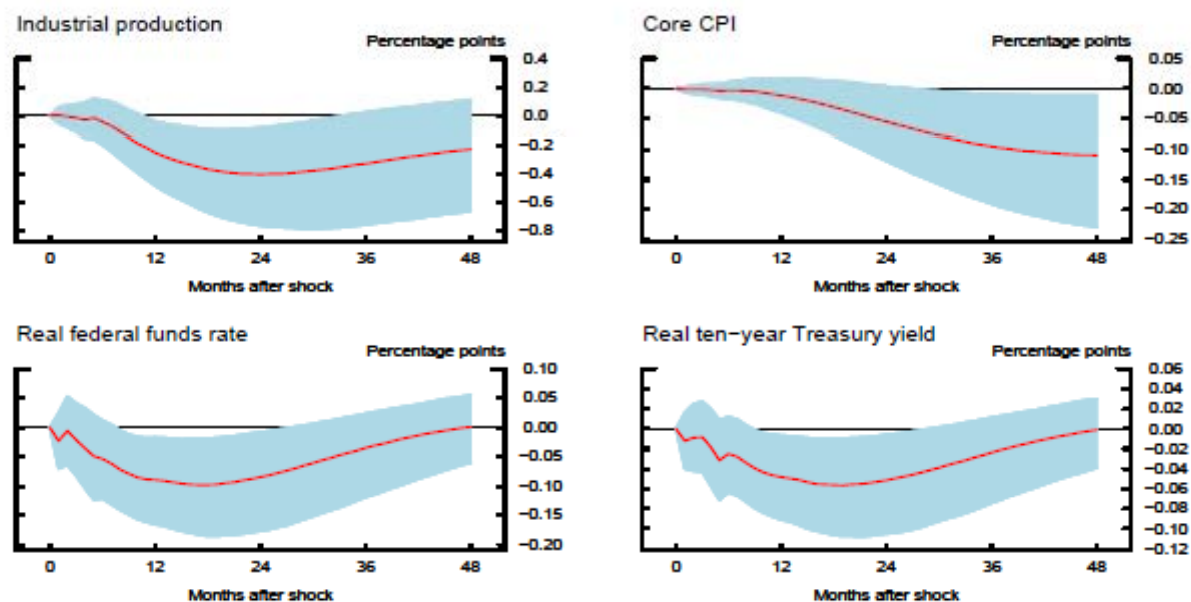


Suggestions

- Use bank loan rates and chargeoffs instead of/in addition to liquidity and leverage
 - bank loan spreads highly informative about bank risk (Ashcraft and Morgan 2003)
- Other experiments:
 - Examine impact of credit shocks ($\delta Y / \delta BF$) ala Gilchrist et al.

Look at first derivatives ala GYZ

Response of Selected Variables to Credit Market Shock



Gilchrist, Yankov, and Zakrajsek (2009)



Aerial View

- In favor of FAVAR?
 - Avoid “nebulous” concepts like GDP
 - Replace with nebulous factors like “business cycle”
 - Better identification of policy shocks by data-rich central banker
 - Solves U.S. price puzzle (BBE) but not French puzzle (entirely)
- Macro prudential?

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Literature

- FAVAR: Stock and Watson, Boivin x 4, Gianonni, Elias, Bernanke, Gilchrist, Yankov, Zakrajsek
 - JM Contribution: first to integrate bank liquidity and leverage factors
- Bank lending channel
 - Dave et al. (2009); FAVAR of bank lending channel using U.S. data
 - Big but fragile BLC
 - Den Haan et al. (2009); disparate responses by loan type
- Peek, Rosengren, and Tootell (PRT)
 - *PRT*: $\delta Y / \delta BF \neq 0$; $\delta M / \delta BF \neq 0$
 - *JM*: $\delta^2 Y / \delta M \delta BF = 0$
 - Tension?