

“Corporate Debt Structure and Unconventional  
Monetary Policy in the United States”  
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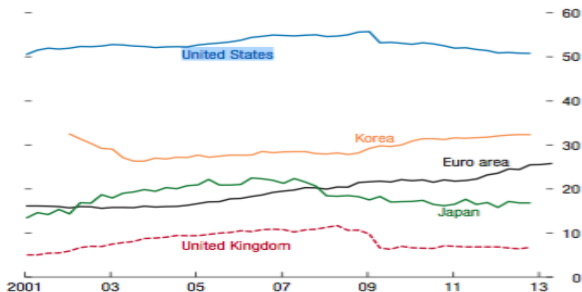
<sup>1</sup>The views expressed do not reflect the official views of De Nederlandsche Bank

- **Motivation:** Observed shift in corporate debt structure between bank loans and bonds since the fall of 2008 in the U.S.
- **Contribution:** Examine effects of UMP shocks on substitution between bank financing and bond financing of non-financial corporations' debt using VAR with high-frequency external instrument
- **Findings:** Expansionary (unconventional) monetary policy shock
  - contributes to the shift in the corporate debt composition from bank loans to corporate bonds in the short-run
  - reduces yields and spreads on corporate bonds, stimulates 'reach-for-yield' behavior
  - has positive effects on aggregate activity

# 1. Role of non-bank lending in corporate debt structure

- Corporate debt = bank loans + **non-bank loans (?)** + debt securities
- Growing importance of non-bank sector in U.S., with larger role of securitization and syndicated loan activity than in euro area
- Corporate lending by shadow banks is growing rapidly in U.S.
- Firms substitute bank loans not necessarily with bonds, but with non-bank loans offered for longer maturities and favorable conditions

Figure: Lending by shadow banks (share of total lending)



Source: IMF (2014), Global Financial Stability Report, p. 67

## 2. Treatment of UMP events

- Every UMP event has same importance; same treatment of LSAP and forward guidance
- Use categorical variable to distinguish importance of events: LSAP introduction/extension; differentiate LSAP with/without forward guidance
- Differentiate effects of announcements from implementation
- "Gap filling" theory: central bank purchases of long-term government bonds reduces supply of long-term bonds in the market – "gap filling" by corporate bonds. Why not test it directly by using actual purchases as unconventional monetary policy instrument?

### 3. Economic theory and interpretation of results

- Paper could be better grounded in theoretical literature on corporate debt structure and firms' behavior
- De Fiore and Uhlig (2015): DSGE model – evaluate the role of corporate debt composition in responses of investment and output to financial shocks; explain shifts of firms between bank financing and bond financing
- Provide more economic intuition and explanation of monetary policy transmission mechanisms in relation to corporate debt
- Bank loans drop after expansionary shock – supply or demand story? Banks don't want to lend to firms or firms don't want to borrow from banks?
- What are the implications of changing debt structure? Do firms that refinance through bonds invest/produce more (efficiently) relative to loan-financed firms? Is corporate debt structure another channel of monetary policy transmission to the real economy?

## 4. Role of financial market conditions and regulation

- Is it the effect of UMP or did financial market conditions facilitate the shift in corporate debt structure?
- Retreat from pre-crisis market trading: lower transaction costs, more frequent and smaller trades
- Impact of recent regulatory reforms (Basel III, Dodd-Frank Act) on corporate financing decisions and bank lending allocation

## 5. Firms' heterogeneity

- Does the composition of corporate debt vary depending on firms' characteristics (size, age, industry)?
- Are different types of firms affected by an UMP shock similarly?
- Possible extension of analysis: use firm-level data to examine heterogeneity