Credit Allocation and Macroeconomic Fluctuations

Karsten Muller Emil Verner

Discussion: Veronica Rappoport (LSE)

Third Conference on Financial Stability

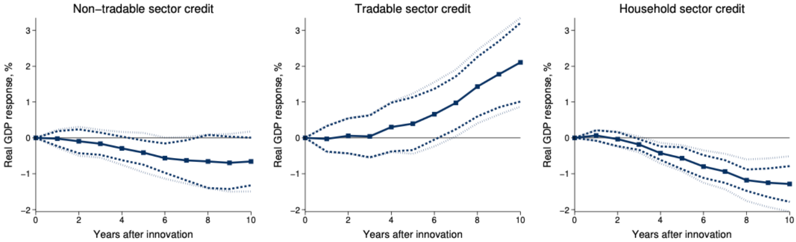
Madrid, October 2021

This Paper

- Amazing dataset!
  - 1940-2014, +100 countries, firms (and sectors!), HH, mortgages...
- Very interesting cross-country trends
  - A hint of many potential research avenues
- A clear pattern on cross-sector credit and macroeconomic fluctuations
  - HH and NT credit look alike - T credit does not
  - HH and NT credit predict future macroeconomic slowdown - Opposite for T credit
  - HH and NT credit predict likelihood of financial credit - T credit does not

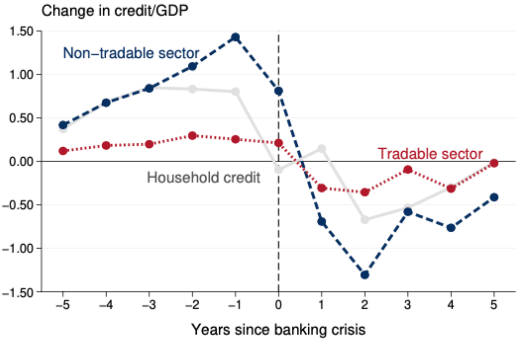
Is there good and bad credit?

Figure: Credit and GDP growth (Figure 8)



Is there good and bad credit?

Figure: Credit dynamics around Banking Crises

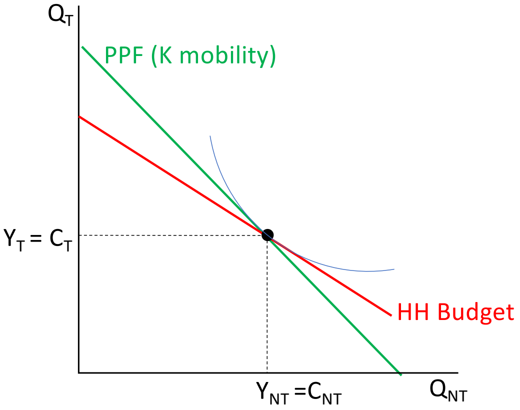


My Discussion

- Think of potential mechanisms behind these *co-movements*
- What do we learn from cross-sector credit fluctuations?
- What is the null hypothesis?
- What does the credit dimension add to our understanding of macroeconomic fluctuations?

Heckscher-Ohlin on T versus NT

- Perfect K mobility (SOE) and Law of One Price on Tradables
- T more K-intensive than NT (i.e., higher labor productivity)
- Initial SS: Balanced Current Account ($C_T = Y_T$)

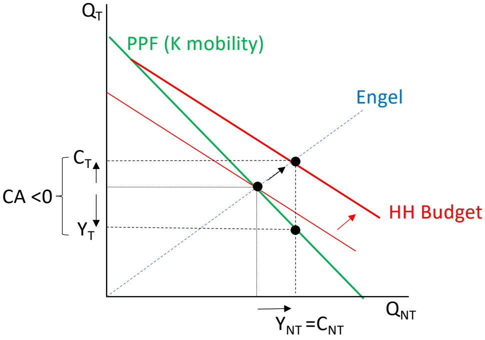


Heckscher-Ohlin on T versus NT

- Relaxation of HH's budget constraint:

… i.e. asset valuation (bubble?), improve (reckless?) HH credit, (wrong?) expectation about future

  - Expansion of HH consumption and NT sector. Contraction of T sector.
  - Deterioration of Current Account



→ Boom-Bust patterns consistent with *unsustainable* relaxation of HH's budget constraint

Distinction T versus NT credit

- What do we learn?
  - Previous distinction HH vs firms hided interesting cross-sectoral variations
  - Uncovered patterns of HH-T-NT credit reinforces existing boost-bust stories in the literature

- But many questions remain unanswered
  - Does T vs NT credit add to the business cycle dynamics?
    - ... Are NT firms more fragile or is it the nature of the shock that triggers the credit dynamics?
  - Are changes in credit/value added ratio conclusive about an independent NT push?
    - ... Is the null hypothesis that leverage ratio remains constant when demand is expected to expand?
  - What can we learn about the drivers of boom-bust cycles?
    - ... Asset valuation (bubble?), improve (reckless?) HH credit, extensive or intensive margins of credit?

- Still, macro-prudential regulation may want to contemplate *both* NT and HH credit dynamics

To Conclude

Very interesting paper

and surely very interesting papers to come