## Whatever it takes: The Real Effects of Unconventional Monetary Policy


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#### Abstract

On July 26, 2012 the ECB's president Mario Draghi announced to do "whatever it takes" to preserve the Euro and subsequently launched the Outright Monetary Transactions (OMT) Program, which led to a significant increase in the value of sovereign bonds issued by European periphery countries. As a result, the OMT announcement indirectly recapitalized periphery country banks due to their significant holdings of these bonds. However, the regained stability of the European banking sector has not fully transferred into economic growth. We show that this development can at least partially explained by zombie lending motives of banks that still remained undercapitalized after the OMT announcement. While banks that benefited from the announcement increased their overall loan supply, this supply was mostly targeted towards low-quality firms with pre-existing lending relation-ships with these banks. As a result, there was no positive impact on real economic activity like employment or investment. Instead, these firms mainly used the newly acquired funds to build up cash reserves. Finally, we document that creditworthy firms in industries with a prevalence of zombie firms suffered significantly from the credit misallocation, which slowed down the economic recovery.