Fifth
Research Workshop
of the MPC Task Force
on Banking Analysis for Monetary Policy

February 2nd, 2018

Closing remarks by Governor Jan Smets

Ladies and gentlemen,

I am happy to join you for the closing of this workshop, which the National Bank of Belgium has had the pleasure to host this year. I would like to thank all speakers for their very valuable contributions to our understanding of the transmission of monetary policy, and in particular to the two keynote speakers and the discussants for accepting to participate in this workshop.

Monetary policy transmission through the banking sector has been an object of intense study, already for many decades. It is, after all, one of the main channels through which our policies act, and whose effects are directly felt by households and firms. Earlier theoretical and empirical research, both in the US and in Europe, had mainly focused on how bank lending reacts to changes in interest rates. However, in the last few years, as central banks had to resort to new instruments and measures to fight the latest crisis, the subject took on a new relevance. Monetary policy actions were no longer limited to changes in policy rates and this required a renewed research effort. Researchers have undertaken this challenge and explored new avenues to study how banks react to the unconventional monetary policy measures, particularly given the interactions between the different policies, and how the banks' characteristics may influence the effectiveness and impact of said measures.

Much of the research presented in this workshop will certainly be very useful to help us understand the transmission mechanisms of these new instruments. Several papers investigate the impact of the measures taken by the ECB on credit provision by banks. They find that asset purchases by the central bank induce a portfolio rebalancing channel triggered by the search for yield. In particular, our purchases of corporate bonds, in combination with the TLTROS, seem to make more bank lending available to smaller firms. Yet, the impact of the negative rate policy on bank income could have an adverse effect on lending and on banks’ risk appetite.

The research presented here also shows that bank characteristics have an impact on how our measures transmit: stocks of non-performing loans, low capital and liquidity buffers, and dependency on the net interest income, all influence banks’ behaviours and could limit the effectiveness of monetary policy easing. Adverse financial shocks will reduce to a larger extent the lending by banks more exposed to the interbank market, particularly if capital levels are low, and especially for riskier firms. Furthermore, decreases in lending supply may also induce reductions in lending demand, and vice versa.

The central bank may counter this effect by adopting unconventional monetary policy measures, which seem to encourage banks to lend to riskier borrowers. However, such an outcome should be monitored so that the intended flow of credit to the economy does not become destabilising, which could endanger financial stability. At the same time, regulatory and supervisory efforts to improve the health of the banking system can temporarily weigh on credit supply and on economic activity. Thus, the results presented here shed light on the many interactions and complementarities between monetary and prudential policies, and are useful for us, policymakers, to avoid or minimise the undesirable side effects of our measures.

Indeed, work such as the papers presented here is fundamental for the Eurosystem. Continued research in this field has allowed us to assess whether and how our measures work and what their impact is via banks. It has become a precious tool to inform our monetary policy decisions. To a large extent, this has been facilitated by the Task Force behind this series of already five workshops.

The Task Force has had a key role over the last few years in contributing to improve our understanding of this domain, supporting monetary policy making - and monitoring its impact - over the last few years. The analysis undertaken by the task force has been instrumental in the design of policies, such as the TLTROs and recently it has provided important inputs on topics such as private sector deleveraging needs and the nature of banks' business models across euro area countries. As we progress towards a sustained adjustment in the path of inflation and hopefully approach the time when unconventional measures can gradually be phased out, the analysis of monetary policy transmission will be essential to ensure a smooth transition to steady state. It groups analysts and researchers of the ECB and the National Central Banks of the Eurosystem, providing a forum to stimulate research, and to connect researchers from different central banks – among themselves, but also with academics. In that respect, I am happy to learn that also many participants from Belgian universities have taken the opportunity to join us for one or more sessions. The outstanding work presented at the five annual research workshops held until now is evidence of its success.

An important achievement of the Task Force has been the creation of a database containing a very significant amount of bank-level information on hundreds of banks from the euro area. The establishment of this database was a joint effort of the Statistics services of the ECB and the National Central Banks, who cooperated with the Task Force members to produce an extremely useful tool for analysis and research. These individual bank data constitute the basis of several of the papers presented here on the last two days.

The database is particularly relevant for three reasons. First, it was established in a very short period of time, building on data collected by the National Central Banks for the construction of monetary and credit indicators. Furthermore, its frequent and expedient updates allow us to analyse and monitor the impact of our measures in an extremely timely manner. Second, it covers a wide range of items, including banks' balance sheet components, rates on loans and deposits, and the answers of banks to the Bank Lending Survey. Third, it is the first database that includes bank-level data for the entire euro area. This allows us to assess the transmission of our measures across countries whereas many papers focus on a single country, often due to data limitations.

In this way, this database covers two important dimensions of heterogeneity. Both are essential to improve our understanding of the impact of monetary policy in the euro area. The first dimension is geographical: by including data from all euro area countries, this database allows us to consider the impact of monetary policy on different countries –which have very diverse banking, financial and fiscal systems. While national credit registers contain data at a more granular level, their geographical scope is much more limited.

The bank-level data allow us to take into account also another dimension of heterogeneity: the heterogeneity among different banks –whose size, business model, capital levels, ownership, and so many other characteristics, may diverge. As we have seen these days, such differences may change the way monetary policies are transmitted by banks and, therefore, may influence their effectiveness. The richness of the database allows us to better identify the different channels involved.

As in other economic domains, research based on micro bank data has advanced strongly over the last years. This has been to a large extent thanks to the technical progress in computational and analytical tools, but also to the growing availability of data. In the particular field of micro bank data, the ECB, together with national central banks, has taken another initiative to broaden the possibilities to carry out such research in the euro area: in a few years, the AnaCredit project will offer us a harmonized, extremely detailed and comprehensive loan-level database for the entire euro area. I am sure that this will be very welcome by the researchers present in this room – as well as by the policymakers, anxious to listen to their conclusions. Such a complex dataset will certainly be a useful complement to the bank-level database, to add nuance and new insights to our understanding of monetary transmission channels.

The availability of micro data can help us to enhance our comprehension and analysis in many diverse ways. The vast amount of information they offer allows us to investigate interactions between variables, to better control for endogeneity, and to carefully evaluate the differential impact of shocks on different groups. They are, thus, an invaluable tool and, as we see in workshops such as this one, researchers are doing excellent work advancing knowledge in this field.

As a policymaker, however, I think there remain still some areas in which additional research would be very relevant. I will mention two, which I find of particular interest for monetary policy. The first one relates to how to translate micro-based research – often focusing on exploiting differences in the cross-section to identify the marginal effects of certain measures - into macro implications. In other words, how can we assess the full economic relevance of a measure, while at the same time taking into account its heterogeneous effects, spill-overs and feedback effects as well as possible trade-offs. Some of the papers presented in this workshop already do this, and they can serve as an example on the way forward.

The second under-researched area concerns the impact of monetary policy on credit supply to households, and its real effects. Most of the existing research focuses on firms, for very good reasons –including the availability of data, as privacy laws limit the access to loan-level data for households. Yet, we know much less about how monetary policy measures affect mortgage or consumer loans, and how the supply of such lending affects the real estate market or consumption trends.

I am convinced that this Task Force will certainly provide an excellent platform for the continuation of such work.

Thank you and I would like to invite you to the lunch, where I hope you will also enjoy the Belgian specialties that accompany it.