Comments to "Effects of Bank Capital Requirements on Lending by Banks and Non-Bank Financial Institutions" by P. Bednarek, O. Briukhova, S. Ongena, and N. v. Westernhagen

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Disclaimer

The opinions expressed herein are mine and do not necessarily represent the opinions of BancoEstado and its Executive Committee.

Summary

- Paper empirically investigates effects of bank capital requirements on lending activity of German banks and non-bank financial institutions (NBFIs)
  - Spillover effects of banking regulation and impacts on distribution of risks
  - Quasi-exogenous increase in bank capital requirements imposed by EBA capital excercise in October 2011

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  - Spillover effects of banking regulation and impacts on distribution of risks
  - Quasi-exogenous increase in bank capital requirements imposed by EBA capital excercise in October 2011
- **Main findings**
  - NBFIs and Non-EBA banks expand their corporate lending relative to EBA banks
  - NBFI funding increase is stronger in riskier and more competitive borrower segments
  - NBFIs do not rely on bank funding to finance their expansion

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- Related empirical literature is not abundant
  - ECB (2020a, 2020b)
    - Buffer usability leads to better economic outcomes and has little impact on banks' solvency
  - **Implementation**
    - Extend baseline specification by incorporating a mesaure of banks' capital buffer and RWA densities

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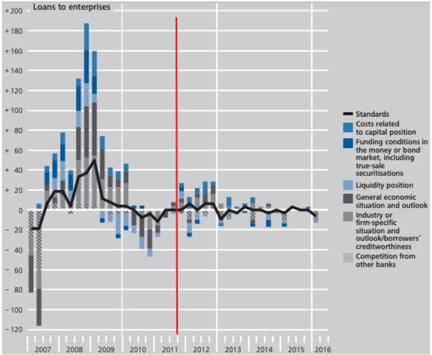
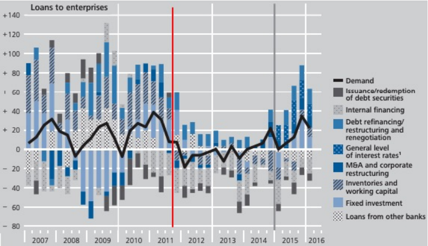
- Bank Lending Survey for Germany as an additional alternative
  - Changes in credit standards and credit demand detailed by explanatory factors and loan segments
  - Bassett *et al.* (2014), Cavallo *et al.* (2024)
    - Time-series regressions of changes in credit standards on own lags, macro-financial variables, and bank-level variables

Controls for Credit Demand

Figure: Bank Lending Survey (Deutsche Bundesbank, 2016)



(a) Changes in Credit Standards



(b) Changes in Demand

Credit Substitution

- Credit use by firms is relevant to determine the substitution degree between lenders
  - Working capital- and investment-oriented loans
  - Firms may engage with a factoring company as part of their liquidity management
  - Multi-banking firms
    - Agreements (suppliers/workers payment)
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    - Type of lending contract (credit lines v/s loans)
- Include loan characteristics in the analysis
  - Type, interet rate and term of the loan