Discussant presentation: How to Release Capital Requirements in an Economic Downturn?

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- What is the impact of releasing bank capital requirements on credit supply during economic downturns?
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Approach

Zoom in on two related but distinct pandemic-era policy actions:

1. **'Capital relief':** Reduction in the level of binding capital requirements
2. **'Adjustments in supervisory guidance':** Public announcements to encourage banks to temporarily operate below pre-existing supervisory capital expectations

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  2. ...and for the supply of loans to riskier firms

- But temporary flexibility in supervisory guidance had no significant impact

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- European institutional setting enables analysis of a **range of different policy actions**, some of which are domestically controlled while others are operated by supra-national authorities

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- Rich, granular data on corporate lending enables nuanced analysis of impact heterogeneity while controlling convincingly for **crucial confounding factors**
- European institutional setting enables analysis of a **range of different policy actions**, some of which are domestically controlled while others are operated by supra-national authorities
- Findings are **consistent with other recent studies** in other jurisdictions (e.g. Berrospide et al. (2021) for the US, Mathur et al. (2023) for the UK), lending weight to the takeaways for policy

Points for discussion

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- **Policy takeaways:** 'Capital relief' variable combines different types of policy action, some of which are permanent and arguably less macro-prudential in nature $\rightarrow$ Is rules vs discretion important or temporary vs permanent important?

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- **Policy takeaways:** 'Capital relief' variable combines different types of policy action, some of which are permanent and arguably less macro-prudential in nature $\rightarrow$ Is rules vs discretion important or temporary vs permanent important?
- Minor points:
  - Sufficient data to do subsampling rather than triple interaction specifications. Check to see consistency of results
  - Unclear why triple-interaction specifications don't also include bank-time fixed effects