Discussion of:

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

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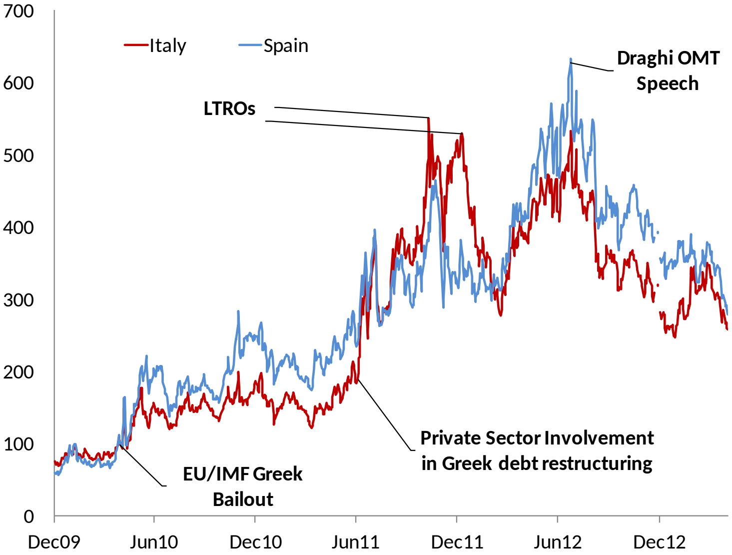
# OMT in Context



# The Outright Monetary Transactions Program

*"But there is another message I want to tell you. Within our mandate, the ECB is ready to do* ***whatever it takes to preserve the euro****. And believe me, it will be enough"*

- Allows the ECB to buy unlimited amount of govt bonds
  - Program has never been actived
  - 26 July 2012: announcement
  - 6 September 2012: release of technical details
- The goal is to "prevent divergence in short-term bond yields and ensure that monetary policy is transmitted equally to all the eurozones member economies"

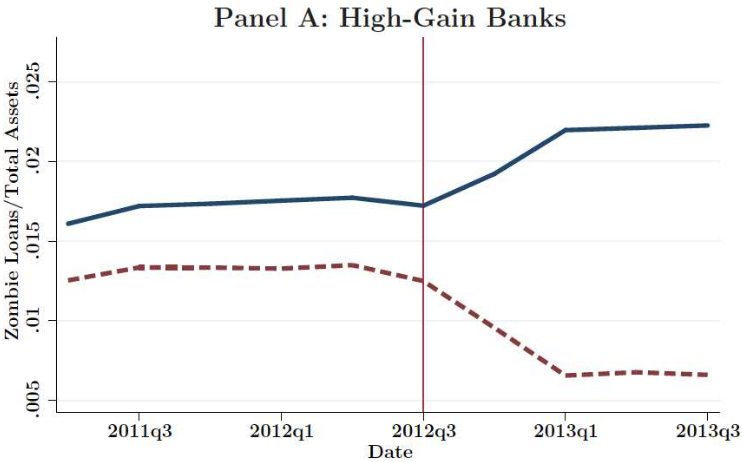
- *De facto* an indirect bank recapitalization
  - Krishnamurthy et al. (2017)

# Transmission of OMT to Bank Lending

1) OMT$\Rightarrow$"windfall gains" through bank govt bond holdings
   - Use EBA stress test data and market prices
   - *De facto* an indirect bank recapitalization
2) Windfall gains $\Rightarrow \uparrow$ bank credit supply to firms
   - Use DealScan and firm-level data from Amadeus
   - Positive effect only in the intensive margin
   - Positive effect only to low-quality firms (IC ratio)
3) The rise of zombies
   - Zombies are distressed firms obtaining subsidized loans Caballero et al. (2008) and Giannetti and Simonov (2013)
   - Zombies firms from 4% to 12% of tot assets post-OMT

$\Rightarrow$ 3 hints that point at zombie lending

# Zombie Lending: High- Vs. Low-Capital Banks



# Windfall Gains and Bank Credit Supply

**Claim: Windfall gains $\Rightarrow \uparrow$ bank credit to firms**

- Holdings of government bonds not randomly assigned
  - Especially in the eurozone periphery during the crisis
  - GIIPS banks increase holdings of domestic govt bonds
  - Acharya et al. (2016): high leverage banks risk-shift buying domestic government bonds and reducing lending to firms

$\Rightarrow$ "Windfall" gains might just be "undercapitalization"

$$\begin{aligned}\Delta Volume_{bmt+1} &= \beta_1 \cdot OMT\ windfall\ gain_b * PostOMT \\ &+ \gamma \cdot X_{bt} + Firm\ Cluster_m \cdot Quarter\text{-}Year_{t+1} \\ &+ Firm\ Cluster_m \cdot Bank_b + u_{bmt+1},\end{aligned}$$

- What if we add *Leverage* $*$ *PostOMT*?

# Transmission Channel

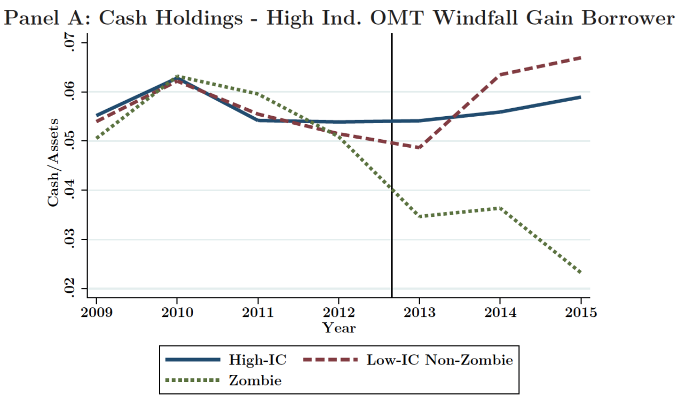
**Claim: Windfall gains $\Rightarrow$ $\uparrow$ bank credit to firms**

- Channel: $\uparrow$ banks' equity capitalization and $\downarrow$ run risk
  - Banks are liquid thanks to the LTROs but likely insolvent

1) Alternative Channel: Eurozone breakup risk $\downarrow$
   - Pre-OMT: sovereigns likely unable to bailout banks
   - Post-OMT: banks rely on govt guarantees
2) Alternative Channel: the risk-shifting asset changed
   - Pre-OMT: undercapitalized banks buy domestic govt bonds
   - Post-OMT: undercapitalized banks lend to risky firms

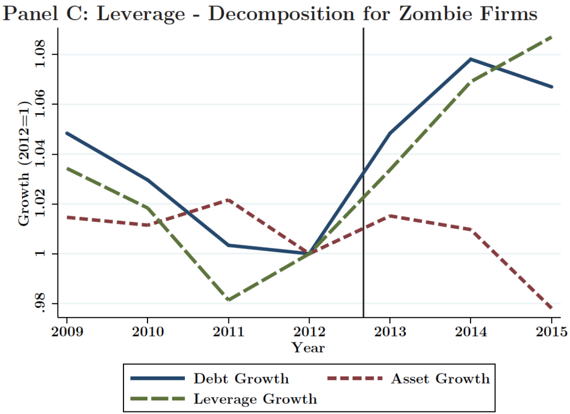
# Zombie Firms and Cash Reserves

- Firm balance sheet Vs. risk-shifting channel
  - Non-zombie firms use bank credit to build up cash reserves
  - Zombie firms unable to increase cash reserves



# Zombie Firms and Leverage

- Firm balance sheet Vs. risk-shifting channel
  - Zombie firms unable to increase cash reserves
  - But zombie increase leverage...
  - Plot total assets of zombie firms



# Macro Outcomes and Policy

- Default rates of zombie Vs non-zombie firms
  - In the short-term (2013-14), similar default rates
  - By 2016, 15% of zombie firms default (5% on non-zombie)
- Policy
  - Good firms suffer from zombie lending in same industry
  - Bank zombie credit explains current issues with bad loans

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