



**RESEARCH**

# **What Policy Combinations Worked? Bank Lending during COVID-19**

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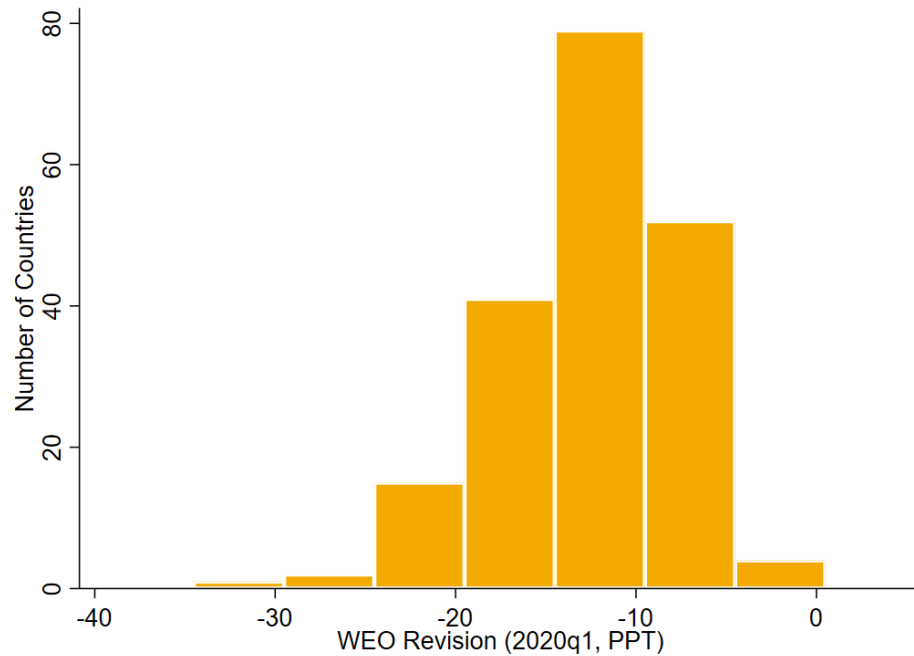
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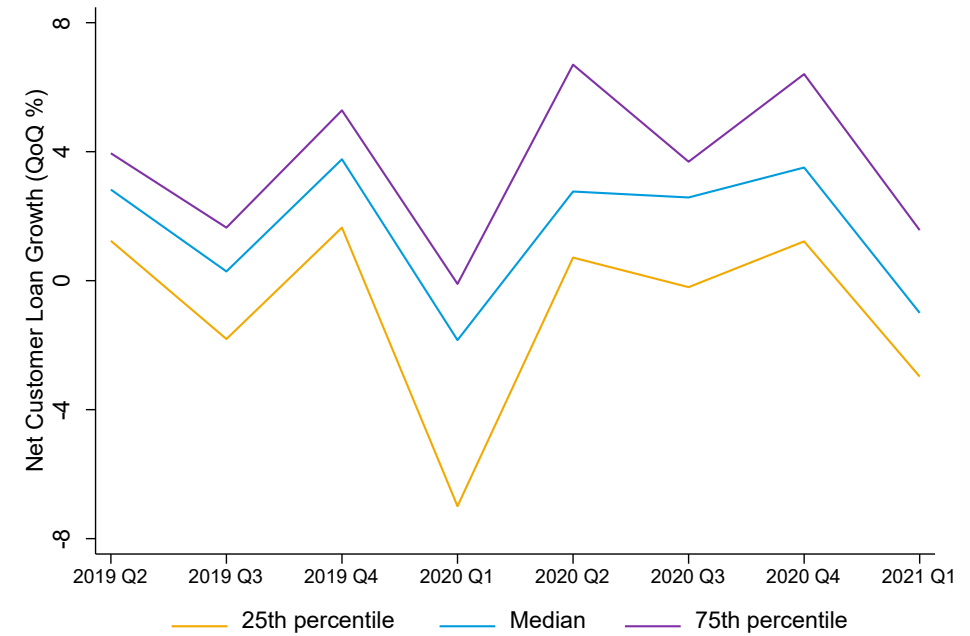
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# COVID-19: An unprecedented shock

## A. Revisions in expected real GDP growth in 2020-2021 relative to 2019



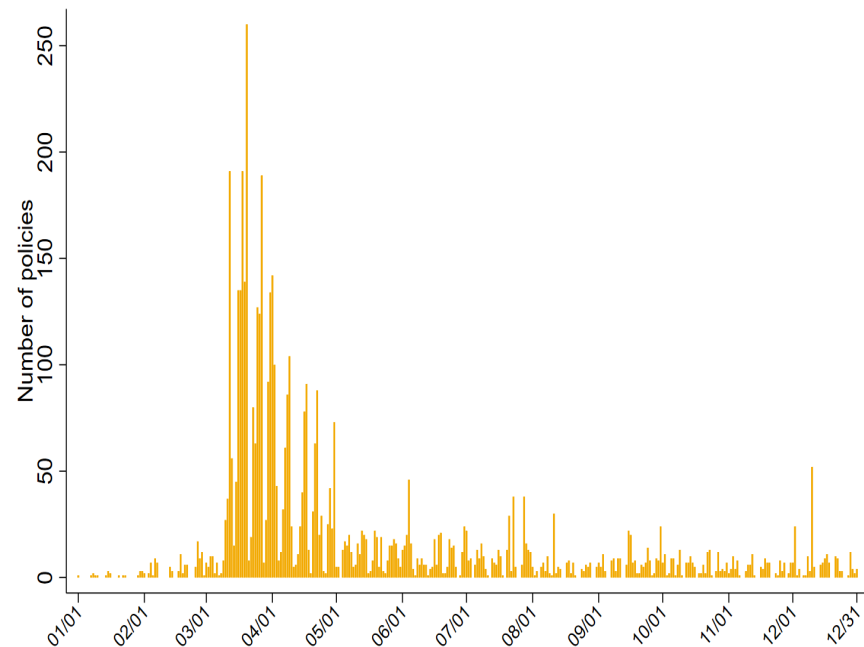
## B. Quarterly credit growth



Source: IMF World Economic Outlook Database; S&P Global Market Intelligence, and authors' calculations.

# Countries introduced many policies in response to Covid-19

## Number of economic and financial policies announced daily

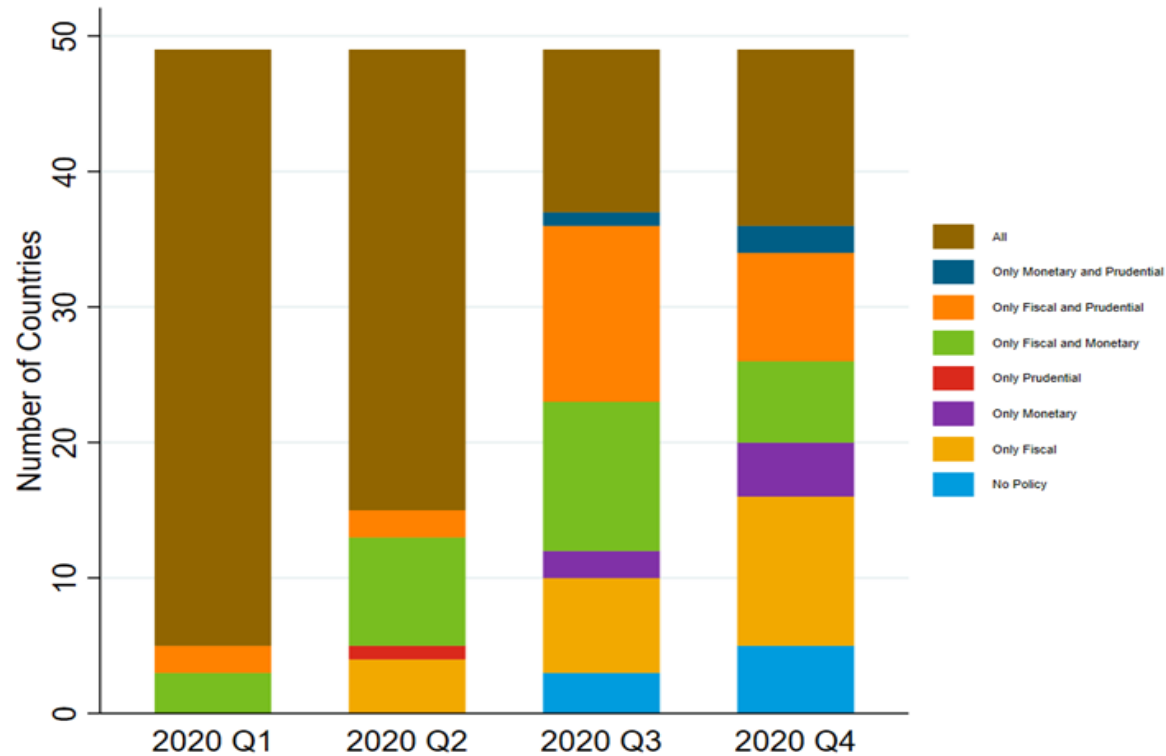


- New comprehensive announcement-level panel dataset (Kirti et al., 2022)
- Details on 28 granular policies adopted by 74 countries during 2020
  - ▶ Covering fiscal, monetary, and prudential policies
  - ▶ Information on sizes where available
- About 5,500 policy measures were announced

Source: Kirti et al. (2022), and authors' calculations.

# Countries announced policies in packages

## Composition of country policy announcements



- Standalone announcements were rare
  - ▶ Few cases of “only prudential” or “only monetary” or “only fiscal”
- Combinations of fiscal, monetary, and prudential policies were observed frequently

Source: Kirti et al. (2022), and authors' calculations.

# Investigate how policy packages affected bank lending

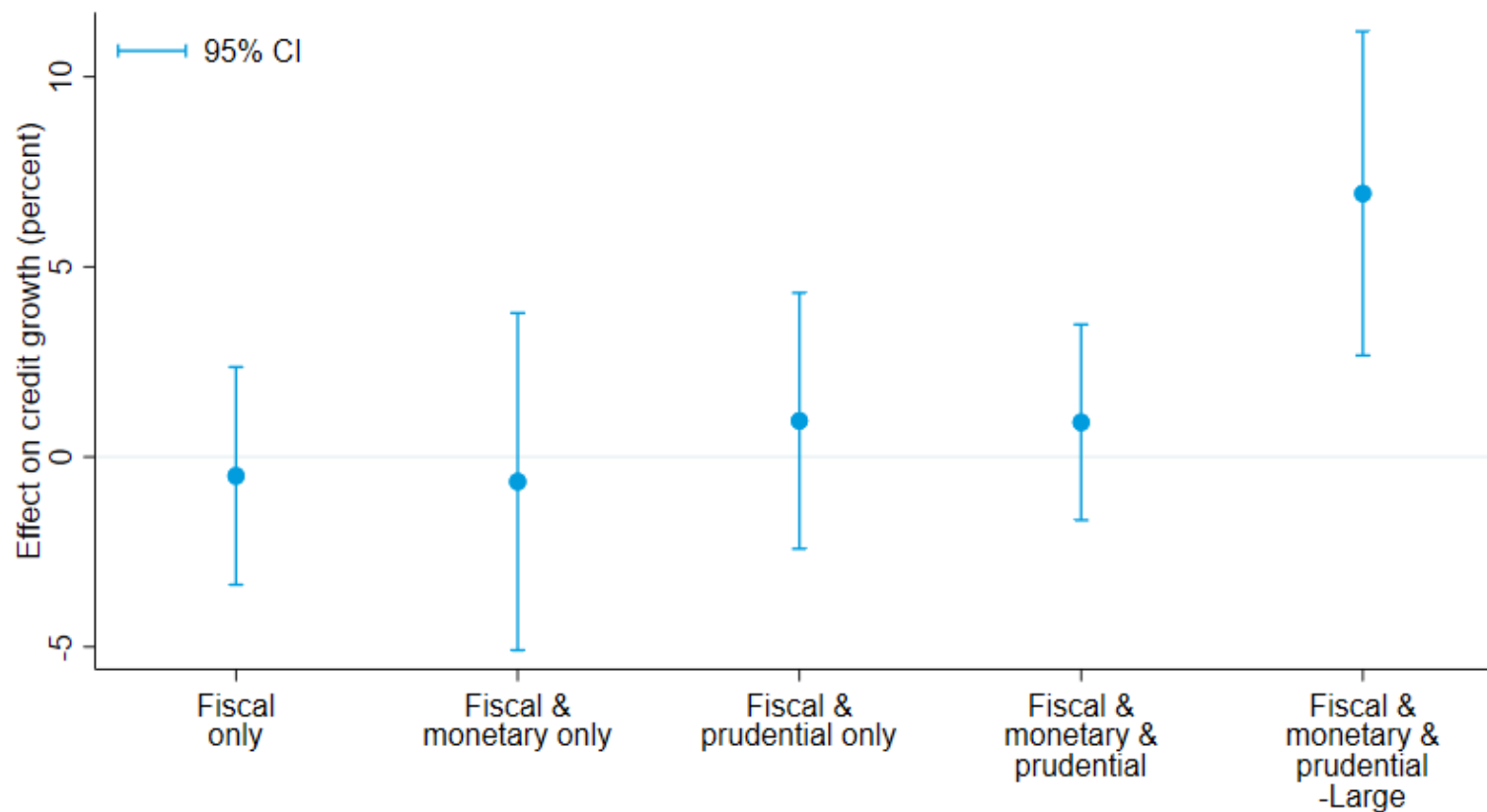
- Bank-level quarterly data for about 1,500 banks in 49 countries
- Cross-country bank-level regressions:

$$\Delta \ln(L)_{b,c,q} = \alpha P_{c,q-1} + \delta \text{Country controls}_{c,q} + \gamma X_{b,q} + \beta_b + \varepsilon_{b,c,q} \quad (1)$$

- ▶  $\Delta \ln(L)_{b,c,q}$ : q-on-q log change in lending by bank  $b$  in country  $c$  during quarter  $q$
- ▶  $P_{c,q-1}$ : dummies capturing policy packages
- ▶ Country-time controls: de facto mobility, health developments, expected economic shock, financial stress
- ▶  $X_{b,q}$ : Bank-level controls including size, capitalization, loan and funding ratios
- ▶  $\beta_b$ : bank fixed effects
- ▶ Sample period: 2020Q1-2021Q1

# “All-out” approach was most effective

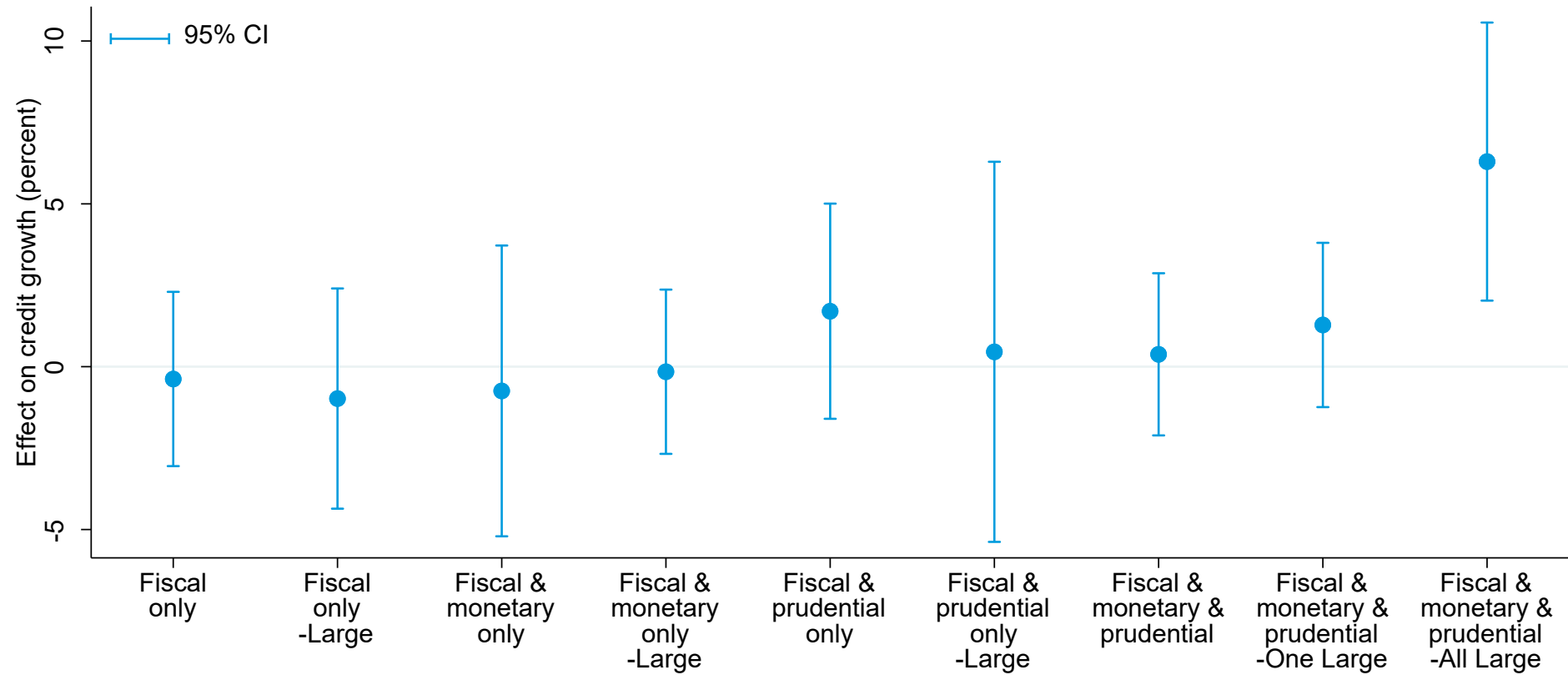
Effect of policy packages on bank credit



Source: Kirti et al. (2022), IMF World Economic Outlook Database; S&P Global Market Intelligence, and authors' calculations.

# Going big on both scope and size was important

Effect of policy packages on bank credit (less stringent definition of large policies)



Source: Kirti et al. (2022), IMF World Economic Outlook Database; S&P Global Market Intelligence, and authors' calculations.



## Additional results and robustness

- All-out approach more effective for constrained banks
- All-out response more important for large shocks
- Robustness
  - ▶ Findings are driven by packages of all three types of policies announced within the same week, not just in the same quarter
  - ▶ Findings do not appear to be driven by base effects

# COVID experience shows value of going all out

- Packages combining large fiscal, monetary, and prudential policies supported higher bank credit growth
- All-out approach likely to act by
  - ▶ Shifting banks' incentives to lend at the margin
  - ▶ Easing binding constraints and providing capacity to lend
  - ▶ Raising borrower demand for credit
- All-out approach most effective for
  - ▶ More capital constrained banks
  - ▶ Very large economic shocks
- Replicating this approach for future shocks would require coordination across fiscal authorities, central banks, and regulators