The Asymmetric Credit Channel of Monetary Policy

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Summary

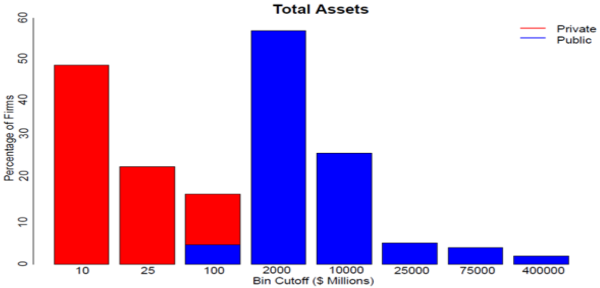
- Evidence that credit channel of monetary policy is **asymmetric**
  - Firms' financial constraints amplify tightenings and weaken loosenings
- Empirical strategy: HF-identified MPS & financial constraint heterogeneity
- Model with two types of financial constraints rationalizes findings
- Implications:
  - Monitor net worth distribution; interest in FFL programs; channel in EMs

Context

- **Sources** of asymmetry in monetary policy (Agénor 2001, Florio 2004):
  - Private expectations (pessimism in recession > optimism in boom)
  - Inflation expectations and the yield curve (Fisher equation)
  - Capacity constraints (nonlinear Phillips curve)
  - Asymmetric price adjustment (downward rigidity, upward flexibility)
  - Credit market imperfections (lending & balance sheet channels)
- Asymmetries at aggregate level (above) vs **disaggregate** level (Kurt 2023)

Data

- Estimates may be a **lower bound** since data from Compustat
  - Most US private firms are SMEs with debt from banks and collateralized



Source: Caglio, Darstz & Kalemli-Özcan (2022)

Empirical Strategy

- High-frequency identified US monetary policy surprises are predictable
  - Fed information effect: Miranda-Agrippino & Ricco (2021)
  - Fed response to news: Bauer & Swanson (2023)
- Short term rate (policy) vs medium/long term rates (spending decisions)
- Asymmetry for target, forward guidance & LSAP surprises? (Swanson 2021)

Theoretical Model

- 'Credit view' works through banks, yet no financial intermediary in model
  - Observational equivalence of tightenings (Anderson & Cesa-Bianchi 2023)
- Add labor to line up better with empirical findings

Conclusion

- Well executed paper
- Relevant implications:
  - Monitor net worth distribution; interest in FFL programs; channel in EMs
- Comments on context, data, empirical strategy and theoretical model
- Looking forward to the next iteration