CREDIT ALLOCATION AND MACROECONOMIC FLUCTUATIONS

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SUMMARY

- Credit cycles are at the heart of financial crises for over 100 years
  - Reinhart and Rogoff (2009)
  - Minsky (1986)
  - Kindleberger (1978)
- Empirical findings
  - Credit expansions to the household sector are usually "bad"
  - Credit expansions to firms are mixed
- This paper
  - Compile a dataset of credit by sectors
  - Reconcile the mixed results in the second finding
  - Provide a framework to understand both findings jointly

AN AMAZING WORK FOR DATA COLLECTION

- Credit data by sector for a large number of countries
  - Covers up to 60 different industries and 4 types of household credit
  - Distinguish between the lending to households, the tradable sector and non-tradable sector
  - 117 countries in the whole sample and 75 in the main empirical analysis
  - Cover a long time span staring in 1940
  - Draw on more than 600 data sources
- Very useful dataset
  - Macroeconomics (e.g., credit cycles and macroprudential policy)
  - Finance (e.g., financial crisis and banking)
  - International economics (e.g., international transmission of credit shocks)

ONE APPLICATION OF THE DATA

- Sectoral heterogeneity in corporate debt expansion
  - Credit expansion to the non-tradable sector (especially real estate) is "bad"
  - Credit expansion to the tradable sector is "good"
  - Reconcile the previous mixed findings
- Household debt expansion is "bad"
- Three channels for lower medium-run growth following "bad" credit expansion
  - Demand shock
  - Asset price bubble such as the real estate
  - Resource misallocation from the tradable to non-tradable sector

AN ILLUSTRATIVE EXAMPLE

- Demand shock ➔ credit expansion in the non-tradable sector ➔ rising real estate price ➔ more credit expansion in the non-tradable sector
- Demand shock ➔ real exchange rate appreciation ➔ shrinking credit in the tradable sector ➔ resource misallocation ➔ economic slowdown
- Bust of the bubble and credit contraction
- The process can also start with a credit expansion shock

COMMENT ONE

- Credit expansion to household is “bad”
  - Non-tradable is linked to household consumption too
  - Similar to the argument about good and bad current account deficits
- Why is the tradable sector a magic bullet?
  - Subject less to irrational credit expansion?
  - Credit expansion or credit reallocation?
- The relative size and correlation between good and bad credit expansions?

COMMENT TWO

- International transmission of credit expansion
  - Can household demand credit expansion drive foreign tradable credit expansion?
  - Global financial cycles driven by the U.S. monetary policy shock?
- A minor comment
  - Secured credit vs. unsecured credit

SUMMARY

- An amazing dataset with many potential applications
- A nice application about good and bad credit expansions
- Suggestions
  - Why tradable sector credit expansion a magic bullet?
  - Cross country spillover of credit expansions