

Credit standards, Bank Lending and Economic Growth

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Abstract

The paper investigates the effects of credit standards and loan demand on bank lending and economic growth, as well as the timing and persistence of these effects. Using data for 19 euro area countries and a panel vector autoregression (PVAR) methodology, we find that a tightening of credit standards decreases lending growth and inflation, while it increases lending interest rates. An increase in demand for housing loans boosts lending growth across all loan categories, also having a positive effect on interest rates. On the other hand, an increase in interest rates does not appear to have any significant effects on lending standards, while it has the expected negative effects on NFC lending, GDP growth, and inflation. Finally, an increase in GDP causes only a temporary effect on bank lending standards.

Keywords: credit standards, BLS, consumer credit, non-financial corporations, housing loans, monetary policy, euro area

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