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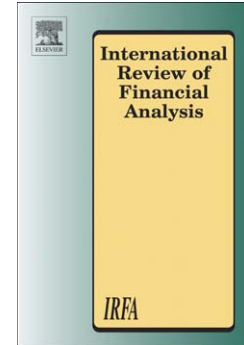
Sentiment volatility and Bank lending behavior

Mustafa Caglayan, Bing Xu

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Sentiment Volatility and Bank Lending Behavior

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Using a panel of commercial, co-operative and savings banks from G7 countries, we investigate whether the changes in sentiment and its volatility affect banks' lending behavior. We show that the changes in economic agents' sentiment and its volatility affect bank lending negatively, while the impact sizes differ across indicators. We also examine volatility effects on banks' loan growth as uncertainty reaches excessive levels. We highlight the role that several bank-specific variables play on bank lending and discuss to what extent uncertainty effects are transmitted on credit growth through them.

Keywords: Bank loans, tier 1 capital, business sentiment, consumer sentiment, leading indicators, uncertainty

JEL classification: C22, C23, D81, E51.

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