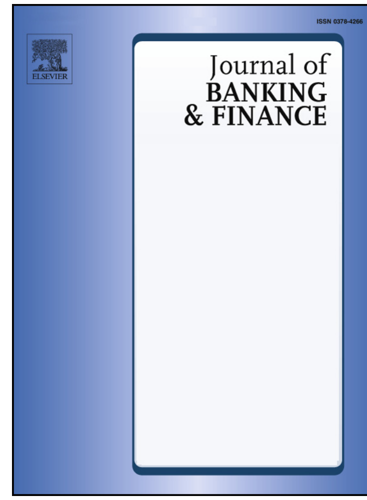

The Level Effect of Bank Lending Standards on Business Lending

Koen J.M. van der Veer, Marco M. Hoeberichts

PII: S0378-4266(16)00013-3
DOI: http://dx.doi.org/10.1016/j.jbankfin.2016.01.003
Reference: JBF 4887

To appear in: *Journal of Banking & Finance*

Please cite this article as: van der Veer, K.J.M., Hoeberichts, M.M., The Level Effect of Bank Lending Standards on Business Lending, *Journal of Banking & Finance* (2016), doi: http://dx.doi.org/10.1016/j.jbankfin.2016.01.003

The Level Effect of Bank Lending Standards on Business Lending

Koen J.M. van der Veer* Marco M. Hoeberichts†

November, 2015

Abstract

Do tightenings of bank lending standards permanently reduce bank lending? We construct a measure of a bank's level of lending standards using micro-data from the sample of banks participating in the Eurosystem Bank Lending Survey in The Netherlands and show that this level measure affects business lending. The level effect is statistically robust and economically relevant; a one point tightening reduces a bank's quarterly growth rate of business lending by about half a percentage point until bank lending standards are eased. This level effect of bank lending standards helps to explain low bank lending growth after a period of prolonged tightening as well as high bank lending growth in a period of prolonged easing. As such, the analysis provides another potential indicator for macroprudential policy.

JEL codes: E44, E51, G01, G21

Keywords: bank lending standards, bank lending survey, bank lending, level effect, macroprudential policy

*De Nederlandsche Bank, P.O. Box 98, 1000 AB, Amsterdam, k.j.m.van.der.veer@dnb.nl, tel: 0031 (20) 524 5836
†De Nederlandsche Bank, P.O. Box 98, 1000 AB, Amsterdam, m.m.hoeberichts@dnb.nl, tel: 0031 (20) 524 2890

We thank Peter van Els, Jakob de Haan, Eelke de Jong, Petra Köhler Ulbrich, Andrew Rose, Job Swank, the members of the ESCB Monetary Policy Committee, seminar participants at De Nederlandsche Bank, the editor and two anonymous referees for comments. The views expressed in this paper are those of the authors and do not necessarily represent those of the Dutch central bank.