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The Level Effect of Bank Lending Standards on Business Lending

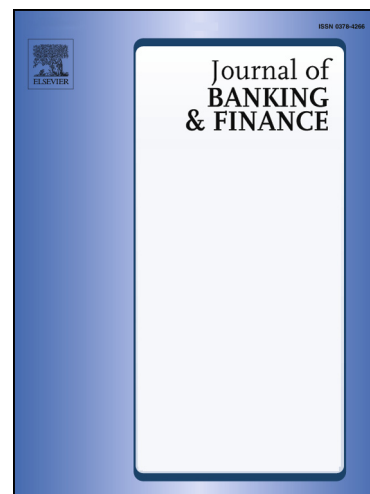
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The Level Effect of Bank Lending Standards on Business Lending

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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

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