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Student Research Seminars

THURSDAY 15th June 2006
13:00 – 14:00

SEERC Seminar Room
SEERC Bldg

"The Transmission Mechanism of Monetary Policy and the Bank Lending Channel: The Case Of Greece"

by

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ABSTRACT

Monetary transmission is the process through which changes in monetary policy affect real economic activity. Although the analysis of the monetary transmission mechanism has been one of the most researched areas in the economic literature, we are still far from understanding in detail how it works, as it is a complex process that operates through various channels. The credit channel of the monetary transmission mechanism is considered to be the modern view and emphasizes the role of financial intermediaries in the aggregate economic activity. It is argued that a credit channel would be relevant in Greece due to the great share of bank-intermediated credit in total indebtedness of non-financial firms and hence, the prevalence of bank-dependent firms. Given the very limited literature on the issue for the Greek economy, this thesis attempts to answer the following questions: First, whether the credit channel has played any role as a transmission mechanism for monetary policy in Greece over the period 1985-2005. Second, whether the impact of changes in monetary policy vary for different bank credit measures such as households and firms and third, whether different banking groups according to asset size, liquidity and capitalization respond differently to monetary policy shocks.

Two alternative conceptually methodologies are combined in the thesis in order to have a better approximation on the issue under examination: a macro-dynamic system utilizing the structural VAR approach that examines different bank credit measures (heterogeneity of the loan types) and a dynamic panel data approach that allows for asymmetries in loan supply across banks, depending on their size, liquidity and capitalization.

Preliminary findings for the Greek economy based on the SVAR approach support the credit view of the monetary transmission mechanism. More importantly, shocks in key macroeconomic variables have a greater impact to bank credit to individuals rather than bank credit to firms in the short-run. These findings allow us to conclude that in Greece, individuals seem to be credit-restricted compared to firms.

The seminar series is open to all members of *staff* and *students* of CITY and to *public* that wish to attend.