Heterogeneity in Corporate Debt Structures and the Transmission of Monetary Policy
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(The views expressed are those of the authors and do not represent the views of the European Central Bank or the Eurosystem)

Bond-based finance increasingly relevant at euro area and country level

- **Marked shift in corporate debt structures**: increase in corporate bonds relative to bank loans
- **Wide range of bond share** (B/D) across euro area countries
- **Time-series pattern of bond share** primarily driven by **steady increase in bond volumes**

**Question we address**: Does shift in debt financing structures matter for monetary policy transmission?

Modelling dynamic impact of MP shock and its interaction with debt structure

- **Estimate IRFs** via local projections (Jordá, 2005)*
  
  \[ y_{t+h} = \alpha_{t,h} + (\beta_{0,h} + \beta_{h}(B/D)_{t-1})\text{shock}^{IR} + \text{controls} + \epsilon_{t+h} \]

  where

  \[ y_{t+h} = \{\text{GDP}_{t,t}, \text{Defl}_{t,t}, \text{Loan}_{t,t}, \text{Bond}_{t,t}, (B/D)_{t,t}, \text{Intermed. wedge}_{t,t}, \tau_{t} \} \]

- **Identification**: High-frequency surprises in short-term rate around Governing Council meetings (EA-MPD by Altavilla et al., 2019)**

- **Sample**: Jan-2002 to May-2019, panel of 10 euro area countries


Strength of bank lending and demand-substitution channel varies across bond share distribution

**At average B/D**

- Cost of loans rise relative to cost of bonds in response to MP tightening (\text{wedge} \uparrow); bank lending channel: supply of loans declines
- Loans and bonds fall in equal proportion (B/D =); demand for loans increases

**Across B/D spectrum**

- High B/D: bonds expand as loan supply contracts (B/D \uparrow)
- Low B/D: upward pressure on cost of credit reinforced by a demand shift towards loans (B/D \downarrow)
- Transmission to real activity attenuated in economies with higher bond share

Additional findings using long-rate shock and robustness

- **Long-rate shock** leads to different transmission pattern
  - At high B/D: contraction in B relative to L (B/D \uparrow); at low B/D no shift in debt composition
  - Stronger transmission of MP as bond share increases

- **Robustness** of main findings w.r.t. (i) sub-samples, (ii) further cross-country heterogeneity, and (iii) alternative MP indicators and shocks