Unconventional Monetary Policy and Household Credit Inequality

Ying Xu
Graduate Institute, Geneva (IHEID)
ying.xu@graduateinstitute.ch; https://sites.google.com/view/yingxu

Motivation
- Distributional effects of unconventional monetary policy:
  - increases inequality (Bivens, 2015; Holberger et al., 2020; Guerrieri, 2018)
  - reduces inequality (Montecino et al., 2015; Domanski et al., 2016; Saiki and Fost, 2014)
- neutral (Bernanke, 2015)
- Credit inequality: Household credit inequality = 2 x household income inequality in the Euro area
  (Cuestas-lacruz, 2015)
- ECB asset purchase programmes (APP): A positive aggregate effect on household credit

Research Questions
- What is the distributional effect of the ECB Asset Purchase Programmes on household credit?
- What is the role of household asset portfolios in credit expansion and credit distribution?
- What are the policy transmission channels that contribute to the distributional effect?

Data
- Household-level data:
  - ECB Household Finance and Consumption Survey (HFCS): second wave (pre-APP period) and third wave (post-APP period), more than 138,000 observations from 17 countries in the Euro area.
- National-level data:
  - ECB: housing price index, bank interest rates on deposits
  - Datastream: stock market index

Cross-Quintile Analysis

$$ credit_{ijt} = \sum_{q=1}^{Q} \beta_q APP_{ijt} \times Wealth_{ijt} + \sum_{q=1}^{Q} \beta_{iq} Wealth_{ijt} + \beta_{ICijt} + \gamma_t + \epsilon_{ijt} $$

Figure 1: Household credit among different quintiles

Household Asset Portfolio: Property as the Key Driver

$$ credit_{ijt} = \beta_{asset_{ijt}} + \beta_{asset_{ijt}} \times APP_{ijt} + \beta_{ICijt} + \gamma_t + \epsilon_{ijt} $$

Table 1: Household Portfolio and Asset Returns on Household Credit

Transmission Channels of UMP
- Two Channels: Credit Risk Channel, Credit Constraint Channel

Conclusions
- Among all quintiles, the middle-wealth households increase the most their credit after APP implementation.
- APP widens the credit gap between the top and the bottom of the distribution.
- APP affects household credit by boosting property prices and the higher property prices lead to credit expansion by property owners.
- The credit risk channel increases credit inequality and the credit constraint channel decreases credit inequality.