An assessment of the effects of unconventional monetary policies on the cost of credit to non-financial companies in the eurozone

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Key question

In reaction to the last financial crisis, central banks have lowered their key policy rates until reaching zero. However, this interest rates policy has not been sufficient to improve the economy's financing conditions and prevent the credit spreads from growing wider between the euro area countries. In this situation, the ECB has implemented new policies, called Unconventional Monetary Policies (UMPs). To the lowering of key policy rates, they add the provision of liquidity to banks, targeted purchases of securities and the orientation of anticipations of interest rates. What were the effects of these UMPs on the cost of credit to non-financial firms in the euro area?

Methodology

The analysis draws on macro-financial data over monthly periods for 11 euro area countries over the years 2003-2014. The article contributes to the literature in several respects. The direct effects of the different UMPs on the borrowing cost to non-financial corporations are estimated by a multiple linear regression; their indirect effects are estimated by a multiple linear regression with interaction terms, aiming to highlight a presumed complementarity between UMPs and interest rates policy. A panel conditionally homogeneous VAR model (PCHVAR) allows for the exploration of diverse interpretations of the heterogeneity of the effects of these policies.

Main results

The direct effects of UMPs on the lowering of the borrowing cost are very limited:

- the foreign currency swaps, collateral easing, as well as asset purchase programmes would not have had a significant impact;
- only the fixed-rate full allotment and long-term refinancing operations would have had an impact;
- Austria, Finland, France, the Netherlands and Italy would not have benefited from any direct effect, whatever the measure considered.

The direct effects of UMPs that being the effects conditional to the interest rates policy, are more compelling: each measure has an indirect effect on at least one country. However, some countries benefited less than others, Ireland for example.

The heterogeneity of the impact of the indirect effects of unconventional measures in the euro area is explained by:

- macro-financial differences of the economies, in terms of growth, public debt and systemic risk;
- differences in health of the banking sectors in terms of capitalisation and size of non-performing loans.

Main message

Firms experienced different shocks in the 2000s (globalisation, emergence of information and communication technologies, financial crisis) which would have required reallocations. However, the latter were hampered by diverse rigidities on the labour and product markets. The article advocates the implementation of structural reforms to promote a more efficient allocation of productive resources and to reinforce the dynamics of the productivity sustained by the ongoing technological revolution of ICT and the digital economy.

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