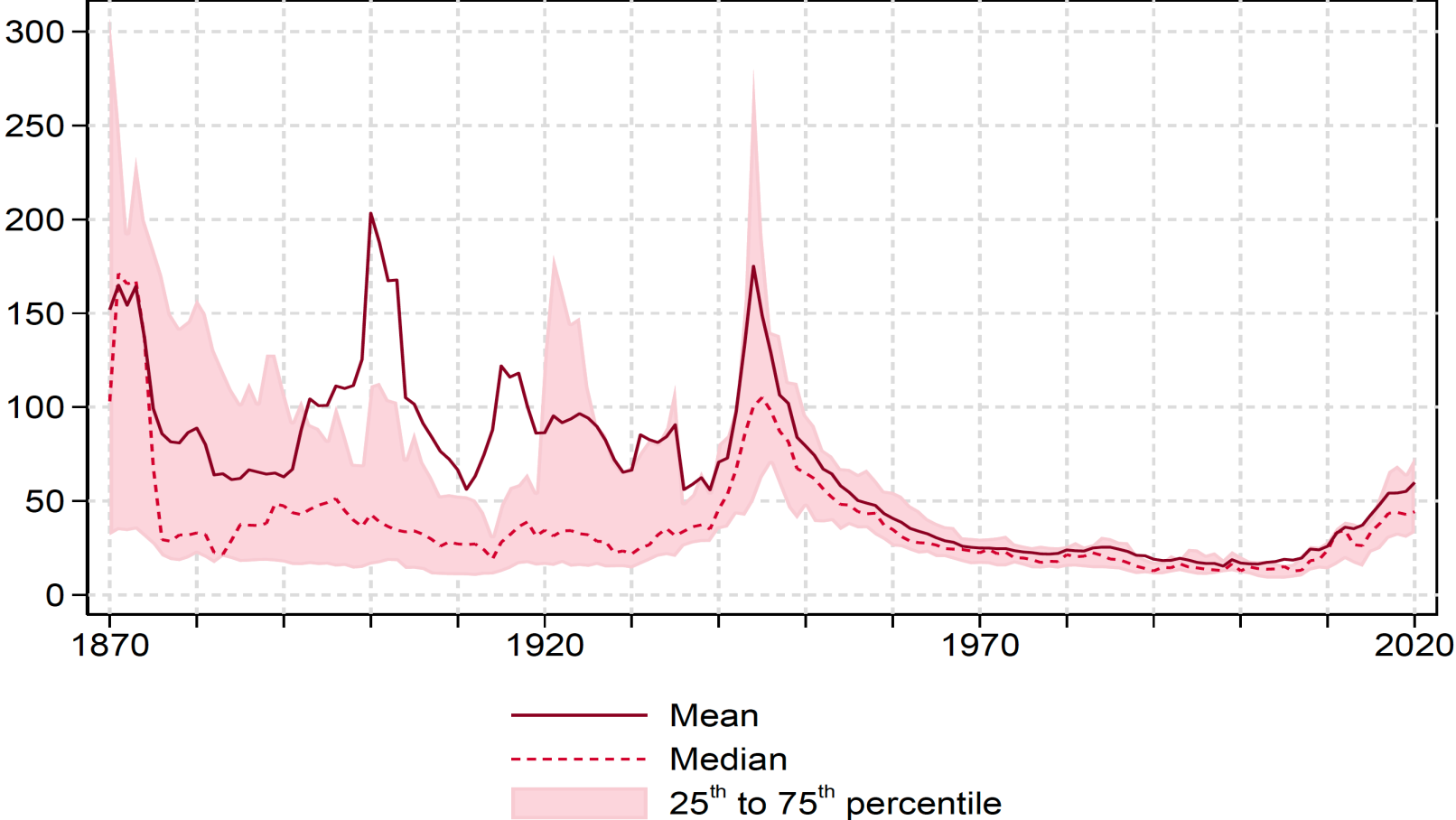*Panel*
Evolving Policy Transmission Mechanisms

Lucrezia Reichlin
London Business School

Central banking in the post-pandemic financial system

Federal Reserve Bank of Atlanta

May 20-21, 2024

Central banks' assets as share of total bank lending to non-financial private sector (%)

Banks are expected to increasingly tap Eurosystem operations as excess reserves decline

Stylised breakdown of reserve supply over time

Excess reserves

Legacy portfolios

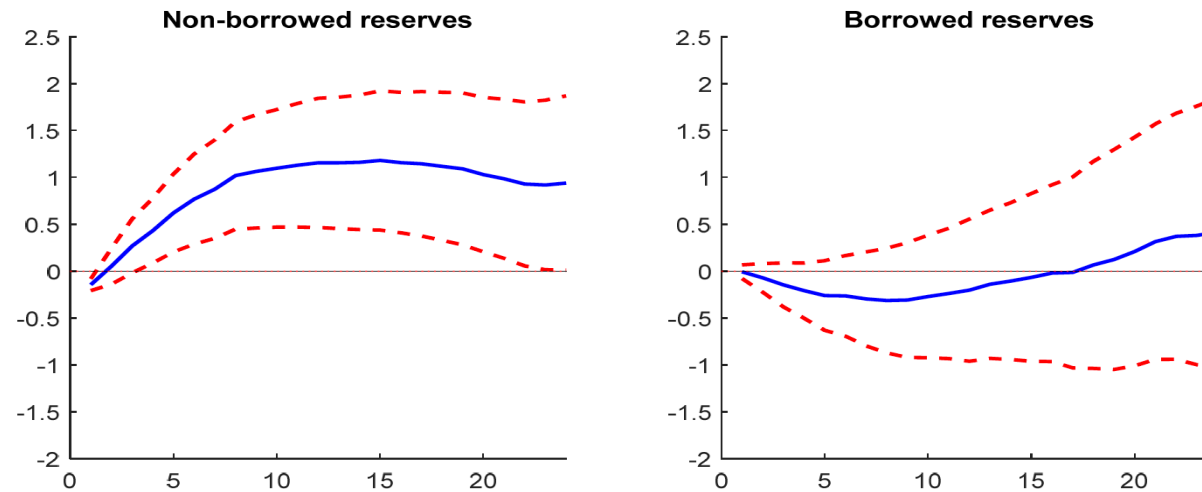Status quo

Credit operations

Structural operations

Time
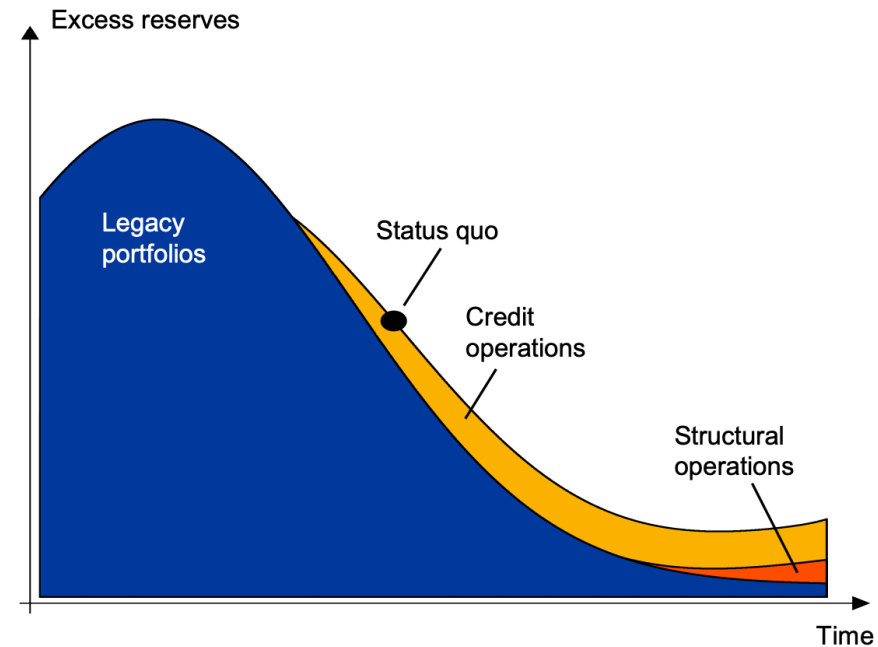
Source: ECB.

Altavilla, Rostagno and Schumacher, 2024
Response of bank lending after 1pp increase in reserves – euro area data

Figure 6. Response of bank loans after a 1pp increase in reserves

Note: The figure reports the cumulated response of banks' loan growth up to time $t+h$ to a drop in non-borrowed and borrowed reserves ratio at time t The solid line are retrieved from the coefficients β_h, δ_h, and λ_h from the regression of the regression $\Delta L_{i,t+h} = \alpha_{i,h} + \beta_h \Delta NBR_{i,t} + \delta_h \Delta BR_{i,t} + \Gamma_h X_{i,t-1} + \epsilon_{i,t+h}, for\ h = 1, \dots, 24$. $\Delta L_{i,t+h}$ is the cumulated change in loans to firms of bank i between t and $t+h$; the variable $\Delta BR_{i,t}$ and $\Delta NBR_{i,t}$ represents the change in the ratio of borrowed and non-borrowed reserves over assets; We control for a host of lagged observable characteristics at the bank level $X_{i,t-1}$, which include the non-performing loans (NPL) ratio, the return on assets (ROA), the share of government and corporate securities in the bank's assets, bank-specific credit demand conditions from the BLS, and bank fixed effects $\alpha_{i,h}$. The dashed lines report the 95% confidence intervals for each horizon h with standard errors clustered at the country*time and bank level.