Bank lending in Switzerland: Capturing cross-sectional heterogeneity and asymmetry over time *

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November 2019

Abstract

We study the bank lending channel in Switzerland over three decades, working with unbalanced quarterly bank-individual data spanning from 1987 to 2016. In contrast to the usual empirical approach, we take an agnostic stance towards which bank characteristic drives the heterogenous lending response. In addition, our empirical model allows for a changing lending reaction over time in a state-dependent way. Our results are consistent with the existence of a bank lending channel, which is muted during specific periods, however. These episodes are characterised by increased economic uncertainty, which impacts negatively on loan growth.

JEL classification: C11, C34, E44, E52, G21

Keywords: Bank lending channel, economic uncertainty, Markov switching model, Bayesian econometrics, unbalanced panel

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*We thank seminar participants at the SNB for useful comments and Pascal Meichtry for excellent research assistance in the early stages of this project. This paper is a substantially updated version of earlier unpublished research by Amstad and Kaufmann (2003). The views expressed in this paper are those of the authors and do not necessarily reflect those of the Swiss National Bank.

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