
FOREWORD

The recent financial crisis shook the banking system to its very foundations. While the most acute phase of the crisis seems to be over, very challenging questions remain unanswered. In their capacity as financial intermediaries, banks both generate profits and contribute to social welfare by taking risks. Yet when the crisis revealed that there may be strong incentives for them to go too far, they were forced to reduce their risky positions in a very short space of time. This in turn, however, may result in less social welfare, particularly in the context of banks' lending business. Lending is the most significant source of both income and risk for the banking sector, but it is also the one outcome of financial intermediation that carries the greatest social importance. A number of studies have already analyzed the lending behavior of banks during the crisis. However, only a few studies examine the characteristics of banks and how they influence the supply of bank loans. Evidence for European banks in particular is very scant.

Hartmut Brinkmeyer's dissertation contributes to this field of research not only on a general level, but also with respect to individual euro area countries. His analysis provides a wealth of detailed results. One broad finding is that significant relationships exist between lending and bank characteristics. In particular, the level and nature of influence differs between countries and between times of crisis and normal times. While great care must – as always – be taken when interpreting these results, they clearly deliver a profound insight into the lending behavior of European banks. The findings of the study are the fruit of a well-founded theoretical framework. To develop hypotheses, the author applies a wide range of theoretical approaches to the transmission of monetary policy, nevertheless focusing primarily on the “new view of the bank lending channel”. This modern theoretical approach is tested against a proprietary set of data. The econometrical design deploys a number of remarkably innovative ideas. First, the author implements a bank-specific, self-chosen target capital ratio in which the capital structure of a bank is driven not only by general regulatory rules, but by internal considerations as well. This approach enables management decisions to be introduced in a sophisticated and realistic way. Second, the study adopts a very convincing approach to the disentanglement of loan supply and loan demand.

While some of the findings may line up with expectations, others are surprising indeed. The study explicitly urges academic and practical discussion; and I am convinced that it will have a place in the ongoing discussion of how banks acted in the crisis. My hope is therefore that this dissertation receives the attention it deserves.

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