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Macro Roundup Article

Headline: Credit Allocation and Macroeconomic Fluctuations

Article Link: https://www.nber.org/papers/w31420

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Tweet: .@KarstenMueIler and @EmilVerner find that credit growth to non-tradable industries like real estate is predictive of a boom-bust output pattern and financial fragility, while credit to the tradable sector is associated with productivity growth.

Summary: Credit expansions lead to disproportionate credit growth toward non-tradable sector firms and households. This pattern is in line with theories in which these sectors are more sensitive to relaxations in financing conditions and to feedbacks through collateral values and domestic demand. The sectoral allocation of credit, in turn, has considerable predictive power for the future path of GDP and the likelihood of systemic banking crises. Credit growth to non-tradable industries predicts a boom-bust pattern in output and elevated financial fragility. Credit to the tradable sector, on the other hand, is less prone to large booms and is associated with higher future productivity growth. Our evidence suggests that previous work, which could not differentiate between different types of corporate credit, has missed an important margin of heterogeneity. Figure 7 plots the average yearly change in sectoral credit-to- GDP for five years before and after a systemic banking crisis, relative to non-crisis times. The sample includes 59 crises. Non-tradable sector credit expands more than twice as rapidly relative to GDP as tradable sector credit, surpassing the growth of household debt in the three years immediately before crises.

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