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# Macro Roundup Artcile

## Headline: The Secular Decline of Bank Balance Sheet Lending

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**Tweet:** Bank balance sheet lending has declined from 60% of total private lending in 1970 to 35% in 2023. Private credit is increasingly intermediated through arms-length transactions such as securitization. @NBERpubs

**Summary:** The role of traditional bank-led intermediation has declined sharply since the 1970s. Private credit is increasingly intermediated through arms-length transactions such as securitization. A structural model explores what can explain these shifts [and simulates] implications for macroprudential policies. Declines in securitization cost account for changes in aggregate lending quantities. Savers, rather than borrowers, are the main drivers of bank balance sheet size. Implicit banks' costs and subsidies explain shifting bank balance sheet composition. Together, these forces explain the fall in the overall share of informationally sensitive bank lending in credit intermediation. Raising capital or liquidity requirements decreases lending in both early (1960s) and recent (2020's) scenarios, but the effect is less pronounced in the latter. The substitution of bank balance sheet loans with debt securities in response to these policies explains why we observe only a fairly modest decline in aggregate lending despite a large contraction of bank balance sheet lending. Related: The Evolution of Banking in the 21st Century: Evidence and Regulatory Implications and Fiscal Dominance and the Return of Zero-Interest Bank Reserve Requirements

**Primary Topic:** Banking

**Topics:** Academic paper, Banking, Database, Financial Markets, GDP, Monetary Policy, Weekly

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