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Macro Roundup Article

Headline: Tighter Credit Conditions Having Gradual Negative Impact on GDP

Article Link: https://apolloacademy.com/tighter-credit-conditions-having-gradual-negative-impact-on-gdp/

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Tweet: According to a model by Torsten Slok @apolloglobal, it takes a year and half for tighter credit to have its maximum impact on GDP, suggesting changes in banks behavior in the aftermath of SVB won't peak until the second half of next year.

Summary: We built a small vector autoregressive model with GDP growth, loan growth, and bank lending standards, and giving a one standard deviation shock to bank lending standards using a standard Cholesky decomposition shows that it takes six quarters before tighter credit conditions have a maximum negative impact on GDP, see chart below. In other words, the negative impact of the SVB collapse on tighter lending standards will continue to accumulate until the second half of 2024 because it takes time for banks to repair their balance sheets.

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Primary Topic: Business Cycle

Topics: Banking, Business Cycle, GDP, Monetary Policy, Op-Ed/Blog Post

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