Unconventional Monetary Policy and Bank Lending*

Kiyotaka Nakashima †
Konan University

Masahiko Shibamoto ‡
Kobe University

Koji Takahashi §
University of California, San Diego

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Abstract. We investigate the effects of unconventional monetary policy on bank lending, using a bank-firm matched dataset in Japan from 1999 to 2015 by disentangling the different types of monetary policy measure shocks employed by the Bank of Japan over the past 15 years. We find that a rise in the share of the unconventional assets held by the Bank of Japan boosts lending to firms with a lower distance-to-default ratio from banks with lower capital and a lower ratio of government bond holdings, which implies that unconventional asset purchases by the central bank stimulate lending through the bank's risk-taking channel. In contrast to the unconventional policy, we find that interest rate cuts stimulate lending to risky firms from banks with higher capital and larger holdings of government bonds. This finding suggests that the conventional monetary policy mainly works through the banks' balance sheet channel. Furthermore, the quantitative easing policy of increasing the monetary base has less significant heterogeneous effects on bank lending across banks with different risk profiles.

JEL classification: E44, E52, G21.

Keywords: unconventional monetary policy; quantitative and qualitative monetary easing; matched lender-borrower data; risk taking channel; news shock

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† Kiyotaka Nakashima, Faculty of Economics, Konan University, Okamoto 8-9-1, Higashinada, Kobe, 658-8501, Japan, e-mail: kiyotaka@center.konan-u.ac.jp.

‡ Research Institute for Economics and Business Administration, Kobe University, 2-1, Rokkodai, Nada, Kobe, 657-8501, Japan, e-mail: shibamoto@rieb.kobe-u.ac.jp.

§ Correspondence to: Koji Takahashi, Department of Economics, University of California, San Diego, 9500 Gilman Dr., La Jolla, CA, 92093-0508, United States of America, e-mail: ktakahas@ucsd.edu, fax: +1-858-822-2657.