



The impact of the sovereign debt crisis on bank lending rates in the euro area

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Since the early part of 2010 tensions in the sovereign debt markets of some euro-area countries have progressively distorted monetary and credit conditions, hindering the ECB monetary policy transmission mechanism and raising the cost of loans to non-financial corporations and households. This paper makes an empirical assessment of the impact of the tensions on bank lending rates in the main euro-area countries, concluding that they have had a significant impact on the cost of credit in the peripheral countries.

A counterfactual exercise indicates that if the spreads had remained constant at the average levels recorded in April 2010, the interest rates on new loans to non-financial corporations and on residential mortgage loans to households in the peripheral countries would have been, on average, lower by 130 and 60 basis points, respectively, at the end of 2011. These results are robust to alternative measures of the cost of credit and econometric techniques.