Banks’, investment banks’, and insurers’ balance sheets shrink following a monetary contraction while finance companies show the opposite reaction.

1. Response of Balance Sheets to a Monetary Contraction

More highly capitalized banks contract lending more in response to a monetary contraction while more leveraged finance companies expand more.

2. Effect of Capital

Smaller banks are more responsive but the opposite holds true for finance companies.

3. Effect of Size

More wholesale funding dampens the response to monetary policy.

4. Effect of Access to Wholesale Funding

Sources: SNL Financial; Thomson Reuters Datastream; and IMF staff estimates.

Note: Panel 1 shows the estimated response of total real assets of financial institutions to a one percentage point monetary policy change. Panels 2 to 4 show the impulse responses after three years at the 25th and 75th percentiles of the interaction variable (that is, the equity to asset ratio, balance sheet size, and wholesale funding ratio, respectively). The responses are drawn from impulse responses based on a firm-level panel vector autoregression (VAR). The monetary policy measure is the orthogonal innovation to the monetary policy rate from a VAR analysis that also includes real GDP and the real GDP deflator. The VAR uses the shadow policy rate for countries using unconventional monetary policies. The sample covers listed financial institutions from advanced economies from 1998 to 2015, at quarterly frequency. Solid bars mean the responses are significant using a 68 percent confidence interval. See Annex 2.2 for details.