

When the Spare Tyre Goes Flat: Monetary Policy Transmission through Non-Banks

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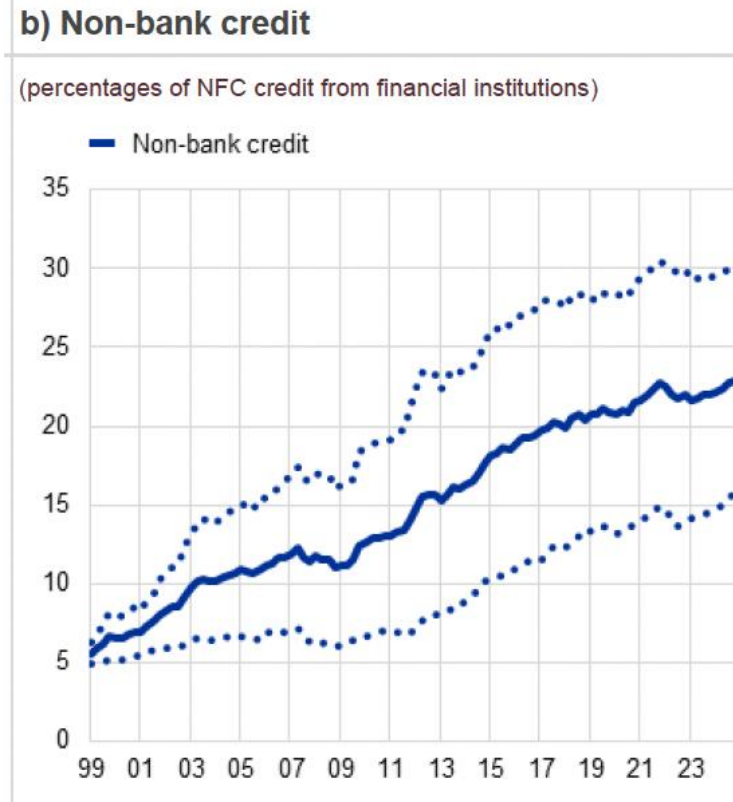
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Credit intermediation shifting outside traditional banks



Source: ESRB non-bank financial intermediation risk monitor 2025

- Monetary policy transmission increasingly influenced by non-banks

Ireland — rare and complete picture

- Universe of Irish term credit from banks and non-banks
 - 335 lenders, ~3m loans (>500 €)
- All segments, secured and unsecured
- Prices and quantities
 - Both valuation effects and willingness/capacity to intermediate

To study critical question

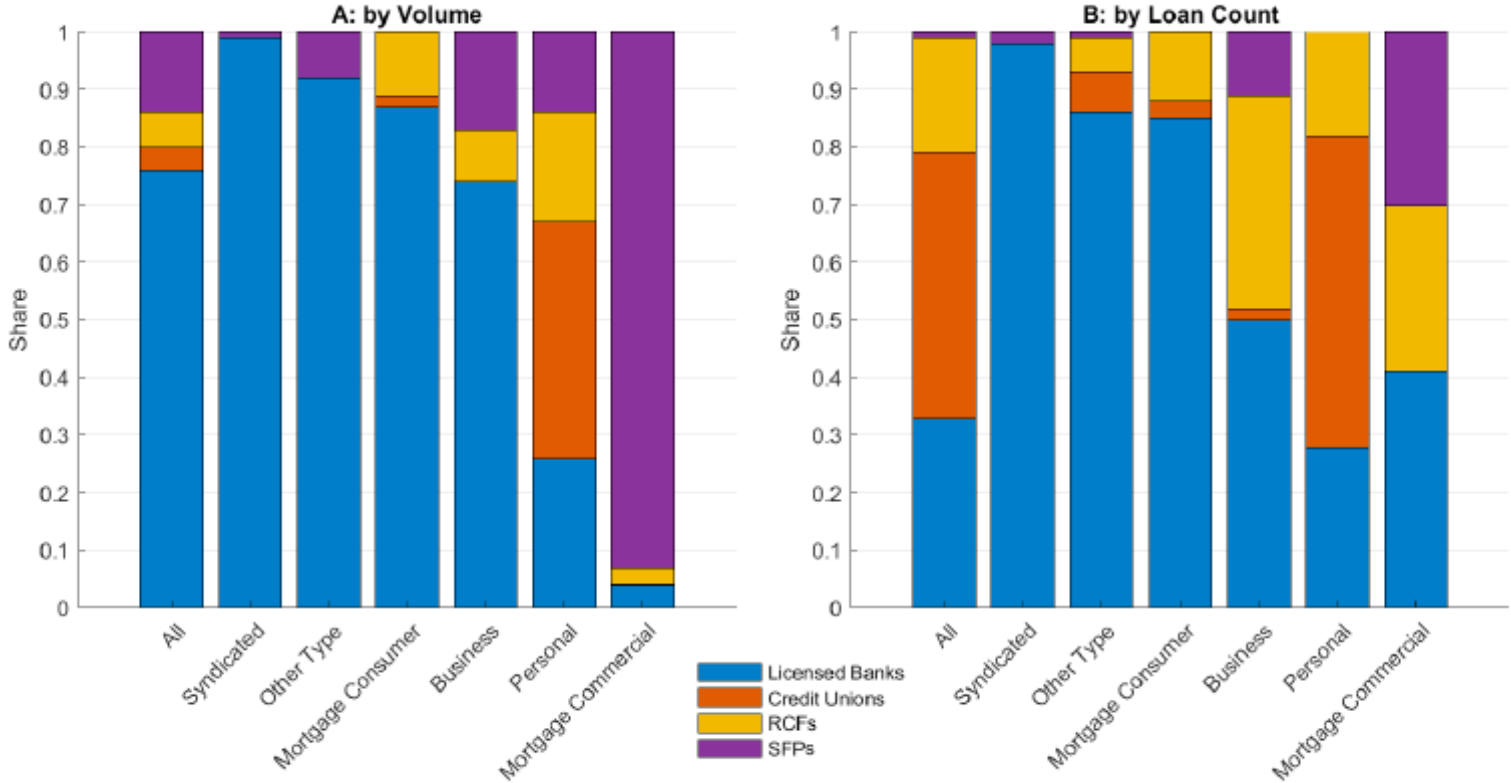
- Most literature: do non-banks step in when banks are **constrained**?
 - Spare tyre
- This paper: Do non-banks *cushion* monetary tightening or *amplify* it?
 - When banks are **healthy**
- The answer shapes how strong, and predictable, transmission now is

The Irish case — tightening 2022-2024

- NBLs raised **rates** more (+0.17 pp)
 - RCF and SFPs very similar
- Reduced **quantities** more (volume – 6%, count – 9%)
- NBL dependent firms **invest** less (– 2%)
- Mechanism: liability wedge

Conclusion: NBLs can *amplify* monetary policy transmission

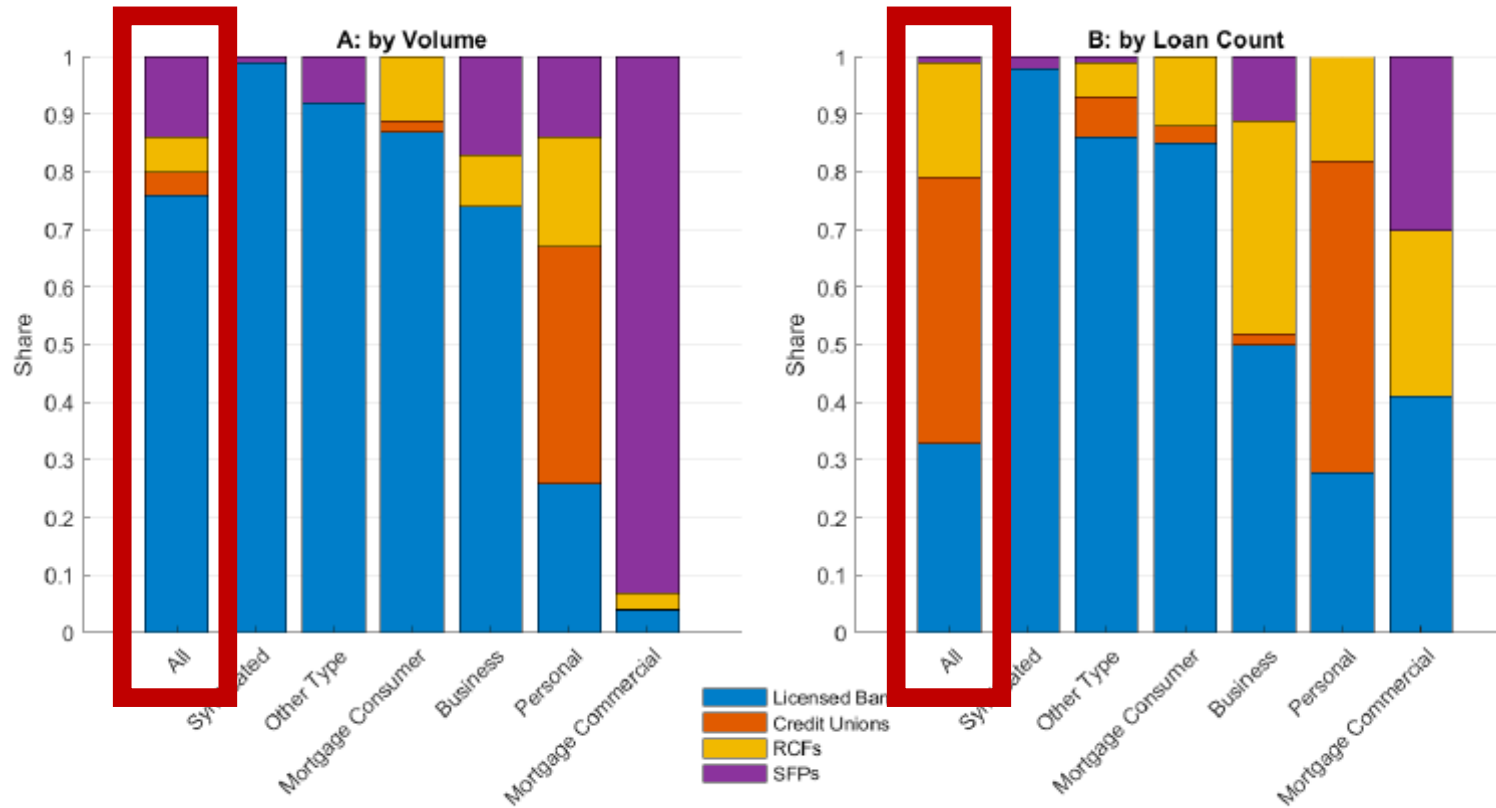
But “NBL” is not one thing



Retail Credit Firms (27):

Specialised Finance Providers (89):

But “NBL” is not one thing



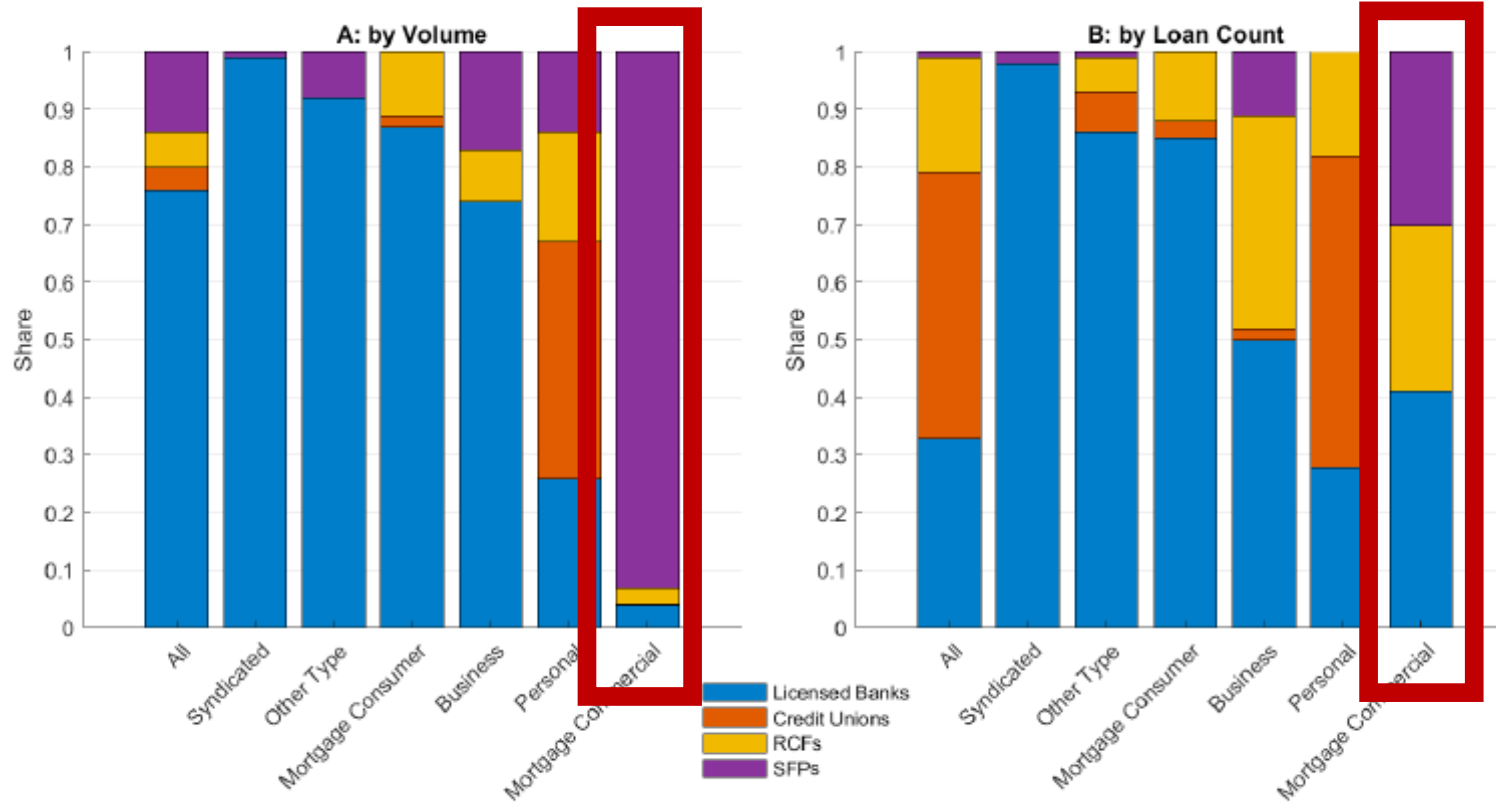
Retail Credit Firms (27):

- Many small loans (95%)
- Borrowers look like bank borrowers

Specialised Finance Providers (89):

- Few larger, lumpy loans

But “NBL” is not one thing



Retail Credit Firms (27):

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Specialised Finance Providers (89):

- Few larger, lumpy loans
- Dominant in commercial real estate

What are the results capturing?

- Estimates weigh NBL types differently
 - Prices : every loan counts once → 19 in 20 are RCF
 - Quantities: every lender counts once → 3 in 4 are SFPs
 - Mechanism: 30 NBLs → likely dominated RCF, unclear who ST/LT funded
 - Real effects: likely dominated RCF borrowers
- Are different exercises identifying a **common transmission mechanism** or **different segments** of the non-bank sector?

Is this a non-bank channel — or a liability channel?

- Mechanism: Liability wedge
 - Banks: sticky deposits → funding shield
 - LT-funded NBLs: locked-in liabilities → duration shield
 - ST-funded NBLs: frequent refinancing → exposed to current rates
- Key distinction: **insulated** versus **exposed** balance sheets

Different liabilities — different transmission dynamics

- Denmark (Cucic & Gorea, RFS 2025)
 - Dampening: NBLs increase (unsecured) lending after tightening
 - Mechanism: increased LT debt funding
- US (Xiao, RFS 2020)
 - Dampening: MMFs attract more deposits when rates rise
 - Mechanism: yield-sensitive investors shift toward shadow banks
- **Direction** and **strength** NBL transmission seems driven by liabilities

Implications for monetary policy transmission

- More market-based intermediation → more heterogeneous transmission
- Same policy rate but
 - Different composition NBL sector
 - Different funding structures
 - Different refinancing exposure
- Monetary policy transmission more system (and state) dependent

And likely less predictability

- Non-bank intermediation is:
 - Opaque and evolving rapidly
 - Heterogeneous across countries
- Still know little about transmission via NBLs
 - Easing cycles
 - Stress periods

Summary

- Exceptional data and credible identification
- Strong evidence that some NBL *amplify* monetary policy transmission
- Liability structure appears central to transmission strength
- May make transmission more heterogeneous and less predictable
- A very important paper – and research agenda

THANK YOU