

Consumer Loan Supply, Recession Expectation and Deficit¹ induced Policy Uncertainty

Abstract

Using Autoregressive Distributed Lag (ARDL) co-integration framework advanced by Pesaran et al (2001), this study examines short and long run effects of recession expectation, policy uncertainty and other predictor variables on consumer loan supply. Empirical results via ARDL bounds test approach confirms existence of long run relationship between growth in consumer loan supply, recession expectation and budget deficit induced policy uncertainty. Short and long run elasticity estimates following this co-integration analysis show that employed regressors² have varying, but significant negative impact on consumer loan supply. Comparative analysis further indicate that individual regressors tend to have more constraining or negative effects on consumer loan supply in the long run than in the short run. This study further finds that inflation expectations restrict consumer loan supply more than recession expectations and macroeconomic uncertainty.

Keywords: Loan Supply, recession expectation, deficit induced policy uncertainty, ARDL, bounds test

¹ Refers to Budget Deficit induced policy uncertainty as perceived by lending institutions, potential investors and consumers

² Independent variables tested in the study

OC13057