# Forward Guidance and the Risk-Taking Channel

Manthos D. Delis
*Montpellier Business School*

Sizhe Hong
*Durham University Business School, Durham University*

Nikos Paltalidis
*Durham University Business School, Durham University*

Dennis Philip
*Durham University Business School, Durham University*

# Forward Guidance and the Risk-Taking Channel

****PRELIMINARY AND INCOMPLETE; PLEASE DO NOT QUOTE****


**Abstract**

We suggest that forward guidance, via "binding" the central bank's actions and creating associated expectations, fundamentally affects bank risk-taking and lending rates independently of other forms of monetary policy. To test this hypothesis, we build a forward guidance measure based on the language used in the Federal Open Market Committee (FOMC) meetings and match this measure with syndicated loan data. Our results are consistent with a "forward guidance risk-taking channel": Expansionary forward guidance decreases corporate loan spreads in the post-crisis period by at least 31 basis points, an effect over and above the effects of the federal funds rate. We calculate the cost reduction for borrowing firms to be approximately equal to 7.7 million USD for a loan with the average size and maturity, originating next month after an Odyssean forward guidance. The results are more pronounced for better capitalized banks.



*JEL classification*: G21; E52; E43; E58

*Keywords*: Bank risk-taking; Forward guidance; Monetary policy transmission; Bank lending; Credit channel