

Discussion on 'The role of demand and supply in cyclical fluctuations of household debt in Croatia' by Ivana Herceg

Summary: The paper investigates whether changes in household borrowing in Croatia were due to demand or supply factors, i.e. if Croatian banks change their lending standard. The paper suggests an approach to evaluate both changes in the banks' criteria for granting loans, as well as the maximum loan amount that banks are willing to grant conditional on approval of the customer. By applying the approach to Croatian data, the author finds that banks have become stricter with respect to approving loans, but more generous with respect to the maximum credit made available.

The main innovation of the paper seems to be the joint modeling of the two credit supply aspects outlined above (access to and upper limits of credit). Also, the paper presents some really interesting results.

Comments and suggestions:

There are some expositional problems in the paper.

- The paper would benefit from emphasizing the joint modeling of the above two credit supply aspects right at the outset (is the title optimal?), as this is the main innovation of the paper.
- The organization of the paper could be improved. For example, the technique for estimating the probability of loan existence is discussed first and the technique for estimating credit limits discussed second in the "Methodology" section, whereas the order is reversed in the "Results" section.
- How important is the stochastic frontier analysis (SFA) for the objectives of the paper? Perhaps it could be delegated to a robustness section or even a footnote.

- The reporting of results is rather difficult to follow (entries in tables are not explained, references to formal results are imprecise etc.).
- It would be nice if the paper could provide a bit more technical detail with respect to the econometric approach and models (provide the estimators and tests etc.).
- The supply and demand of loans in (2) presumably also depends on general economic fundamentals, terms of credit etc. Why are these not included?
- The identifying exclusion restrictions with respect to (2) could be discussed in greater detail.