Did the banking crisis of 2008/09 lower GDP? This question is difficult to answer, because the housing market crash in the United States, government credit-rating downgrades, and increased uncertainty affected developed economies at the same time as the banking crisis. In this paper, I identify a setting that allows me to establish the causal effects of bank lending on GDP and employment.

I study a lending cut by a large German bank in 2008/09. This bank had to reduce its loan supply to the German economy because it suffered significant losses on international financial markets. Importantly, these losses were unrelated to the businesses and households the bank lent to. I find that for two years the lending cut reduced GDP growth in German counties dependent on this bank. Thereafter, the affected counties did not catch up, even after bank loan supply had normalised. The firm results exhibit similar dynamics, and show that the lending cut primarily affected firms’ capital investment.

To ensure that I am capturing the causal effects of bank lending, I focus on variation in bank dependence that is due to a temporary break-up of the bank by the Allied occupation forces after World War II. This allows me to check that other factors that vary across counties do not spuriously confound the statistical results.

Overall, the results imply that bank lending has large, persistent effects on GDP and employment. The effects over time resemble the growth patterns of developed economies after 2008. This suggests that the temporary bank lending cut of 2008/09 can partially explain the slow growth of GDP in recent years. A likely channel for the persistence of the effects is that a large lending cut makes the economy less efficient at using its resources.