

Lending performance and inflation: The role of capitalization

Record number : OPR-1309

Overview

RESEARCH DIRECTION

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Project Description

This study investigates how bank capitalization shapes lending behavior during inflationary periods in Canada, building on lessons from the COVID-19 crisis. During the pandemic, well-capitalized banks and credit unions sustained credit flows and supported economic recovery, aided by strong pre-crisis balance sheets and swift policy interventions. However, as the economy recovered, inflation surged to levels unseen since 1984, prompting sharp interest-rate hikes by the Bank of Canada. These increases have raised mortgage payments and household debt burdens, potentially weakening bank capital and constraining future lending. The research is original in linking bank capitalization dynamics to inflation and monetary tightening—an area largely unexplored after decades of price stability. Using a newly constructed dataset covering 1980–2022, including archival data from The Montreal Gazette, the study will compare banks and credit unions to reveal how their different business models influence lending under inflation stress. By modeling capital adjustments through inflation episodes, the paper aims to clarify how capitalization affects the lending–inflation nexus and provide policy insights for preserving financial stability in Canada.

Funding offered

To be discussed

The last update was on 22 January 2026. The University reserves the right to modify its projects without notice.