The authors claim that any empirical study in which interest rates, debt or other financial variables are relevant should face the tough question of how to control for the fundamental institutional development that has taken place.

Indeed, credit market institutions have undergone major transformations in the last decades. In order to capture regime shifts in the credit market, the authors propose to use a “structural trend” which is a weighted combination of a number of step dummies, an ordinary dummy and an economic variable. The authors claim that their “common structural trend” can be interpreted as a credit condition index that measures relative credit availability. However, reading the paper I got the impression that this interpretation is largely overstated. Giving a structural interpretation to such a variable would require that the statistical properties of the model are much more robust than they appear to be, and that the set of assumptions used to estimate and identify the model would be kept at the minimum. It should be acknowledged that the authors themselves reckon that “some statistical properties leave something to be desired”. For example:

1. The investigation of the $I(d)$ properties of the series is largely unsatisfactory. To be consistent with the main assumption of the paper (the presence of multiple regime shifts), unit root tests that allow endogenous multiple breaks should be used for each variable.

2. The authors seem not to worry too much about the possibility that they are mixing $I(0)$, $I(1)$, $I(2)$ and shifting variables in their model.

3. How adequate is the conventional VECM to cope with broken trends variables?

4. How much of the “flexible trend” reflects misspecifications in the model?

5. What about the potential misspecifications that are still present (as witnessed by residuals diagnostics)?

Instead, a number of assumptions about the statistical properties (e.g. in terms of exogeneity, integration, cointegration, long run impact) of the variables are taken for granted and used to specify and identify the model. Furthermore, some coefficients are set to zero because of the violation of assumed sign restrictions.

Therefore, I found the statistical analysis not satisfying, not completely clear and based on untested assumptions.

It might be a matter of personal taste, but I would not buy the authors’ final remark that since the trend can be interpreted as a credit conditions index, it will permit researcher to control for structural supply side shifts in the credit market in empirical analyses.