Financial Stability Conference

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Discussion by
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This session: The supply of credit

• Both papers examine the supply of credit to firms
  • Important for economic growth and investment
  • Financial crises lead to a decline in the loan supply and cause deeper recessions

• Paper 1: Role of deposits and lending
  • Deposits are special for long-term lending (e.g., Stein (1998), Hanson et al. (2015), Drechsler et al. (2020))

• Paper 2: Role of bank capital and lending
  • Banks tend to have too little capital (e.g., Diamond and Rajan (2002), Gropp and Heider (2010), Schepens (2016))
The Deposits Channel of Monetary Policy

Price of deposits: Deposit spread = Fed funds rate − deposit rate

- Higher nominal rate → higher price of deposits

Source: Drechsler, Itamar and Savov, Alexi and Schnabl, Philipp, The Deposits Channel of Monetary Policy (QJE; 2017)
The Deposits Channel of Monetary Policy

Year-on-year saving deposits growth and change in Fed funds rate

- Higher nominal rate → large outflows of deposits → less lending

Source: Drechsler, Itamar and Savov, Alexi and Schnabl, Philipp, The Deposits Channel of Monetary Policy (QJE; 2017)
The Negative Rates Club

Central Bank Policy Rates January 2012 – September 2020

Interest Rate

Source: Bank of International Settlement; European Central Bank

- Interest rates move into negative territory
The Deposits Channel of Monetary Policy + Zero Lower Bound (ZLB)

- Deposit rates stuck at zero $\rightarrow$ deposit channel impaired $\rightarrow$ no deposit inflows $\rightarrow$ no increase in lending
- Monetary policy less effective at ZLB (Brunnermeier and Koby, 2019, Wang 2019)
Deposit rates in Germany and Portugal

- Deposit rate in Portugal higher than in Germany → Effect of deposit channel larger in Portugal than in Germany
- Why are the 2014 rates higher in Portugal?
Main Result 1: Deposit Channel (Tables 2 +3)

<table>
<thead>
<tr>
<th>New Lending Relationships</th>
<th>Portugal</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Extensive</td>
<td>Intensive</td>
</tr>
<tr>
<td>Deposit Ratio * After</td>
<td>-0.011</td>
<td>-0.124</td>
</tr>
<tr>
<td></td>
<td>(0.008)</td>
<td>(0.089)</td>
</tr>
<tr>
<td>Firm FE</td>
<td>Y</td>
<td>Y</td>
</tr>
</tbody>
</table>

• How do the estimates compare estimates to Heider et al. (2019)?
• How to interpret difference between Portugal and Germany?
Main Result 2: Bank Capital Channel (Tables 2 +3)

<table>
<thead>
<tr>
<th>New Lending Relationships</th>
<th>Portugal</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Extensive</td>
<td>Intensive</td>
</tr>
<tr>
<td>Capital Ratio * After</td>
<td>-0.031*</td>
<td>-0.327*</td>
</tr>
<tr>
<td></td>
<td>(0.008)</td>
<td>(0.123)</td>
</tr>
<tr>
<td>Firm FE</td>
<td>Y</td>
<td>Y</td>
</tr>
</tbody>
</table>

- Is this the bank capital channel? Or is this the impact of lower deposit franchise values?
The impact of bank stress tests

• Paper examines the impact of bank stress tests

• Compare banks that undergo stress tests vs. banks that do not
  • Bank Capital: Capital ratio, amount
  • Lending: Syndicated loan market
  • Access to credit: Firm borrowing

• Identification assumption: parallel trends for large vs. mid-sized banks
  • Loss of explicit and implicit government guarantees, risk management failures, Dodd-Frank regulatory framework
Treated vs. control banks

- Regulation increased capital ratio and total capital for large banks
## Loan-level results (Tables 9 + 10)

### Syndicated Loans

<table>
<thead>
<tr>
<th></th>
<th>Intensive Margin</th>
<th>Extensive Margin (Exit)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td>Treated * After</td>
<td>0.29***</td>
<td>0.35**</td>
</tr>
<tr>
<td></td>
<td>(0.09)</td>
<td>(0.13)</td>
</tr>
<tr>
<td>Treated * After * Small</td>
<td></td>
<td>-0.28**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.11)</td>
</tr>
</tbody>
</table>

- Small firms did not experience increase in loan amounts & less likely to receive new loans
- Why is the impact on smaller firms larger on the intensive margin?
Impact of reduced lending on average firm

• What is the impact on large firms? What is the aggregate effect?
### Bank asset growth (Table 5)

<table>
<thead>
<tr>
<th>Bank-level results</th>
<th>Assets</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Risk-weighted</td>
</tr>
<tr>
<td>Treated * After</td>
<td>0.34***</td>
<td>0.37***</td>
</tr>
<tr>
<td></td>
<td>(0.12)</td>
<td>(0.12)</td>
</tr>
</tbody>
</table>

• Treated banks increased assets by 34-37% relative to control group

• What did banks invest in if not syndicated loans? (C&I lending, securitzation, lending to nonbanks)
Summary

• Two great papers. I recommend reading both of them.

• Paper 1: Beware of the Zero lower bound. Retail depositors do not play along → bank lending is impaired.

• Paper 2: Regulation increased resilience of the financial system. Make sure we do not penalize lending to small firms.