Financial Stability Conference

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Discussion by
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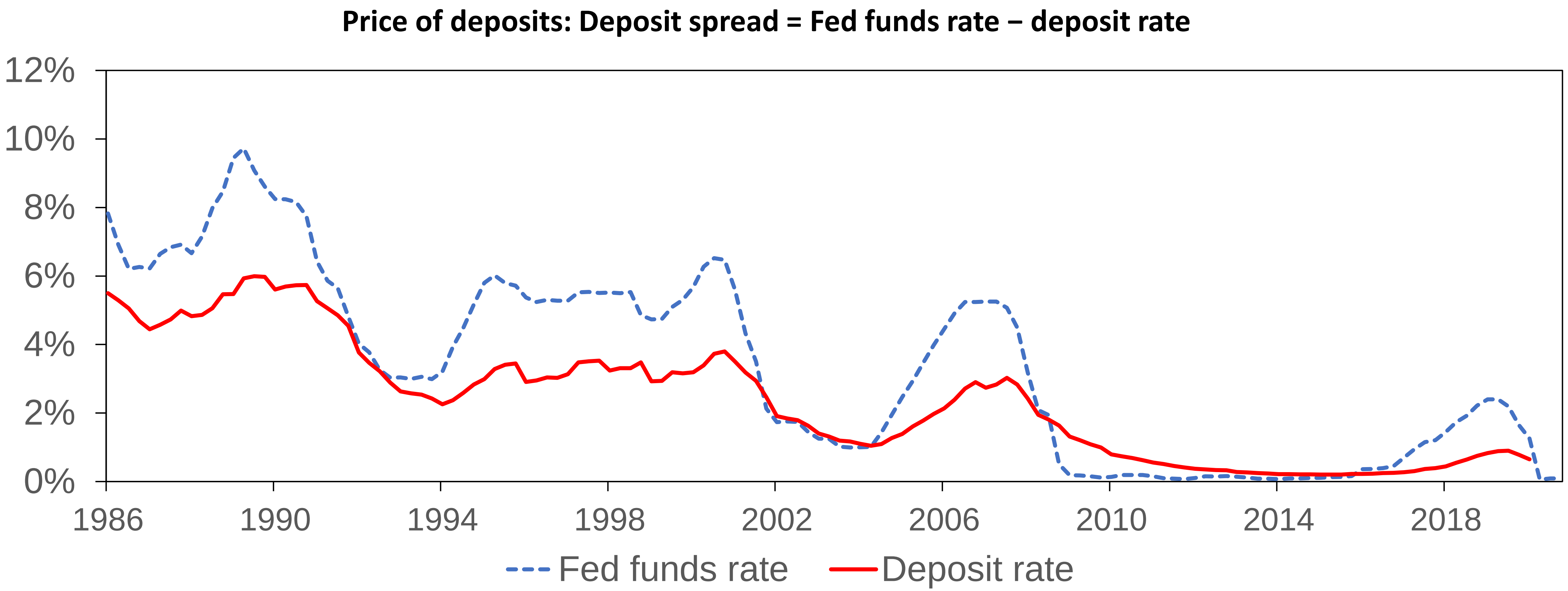
This session: The supply of credit

- 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))

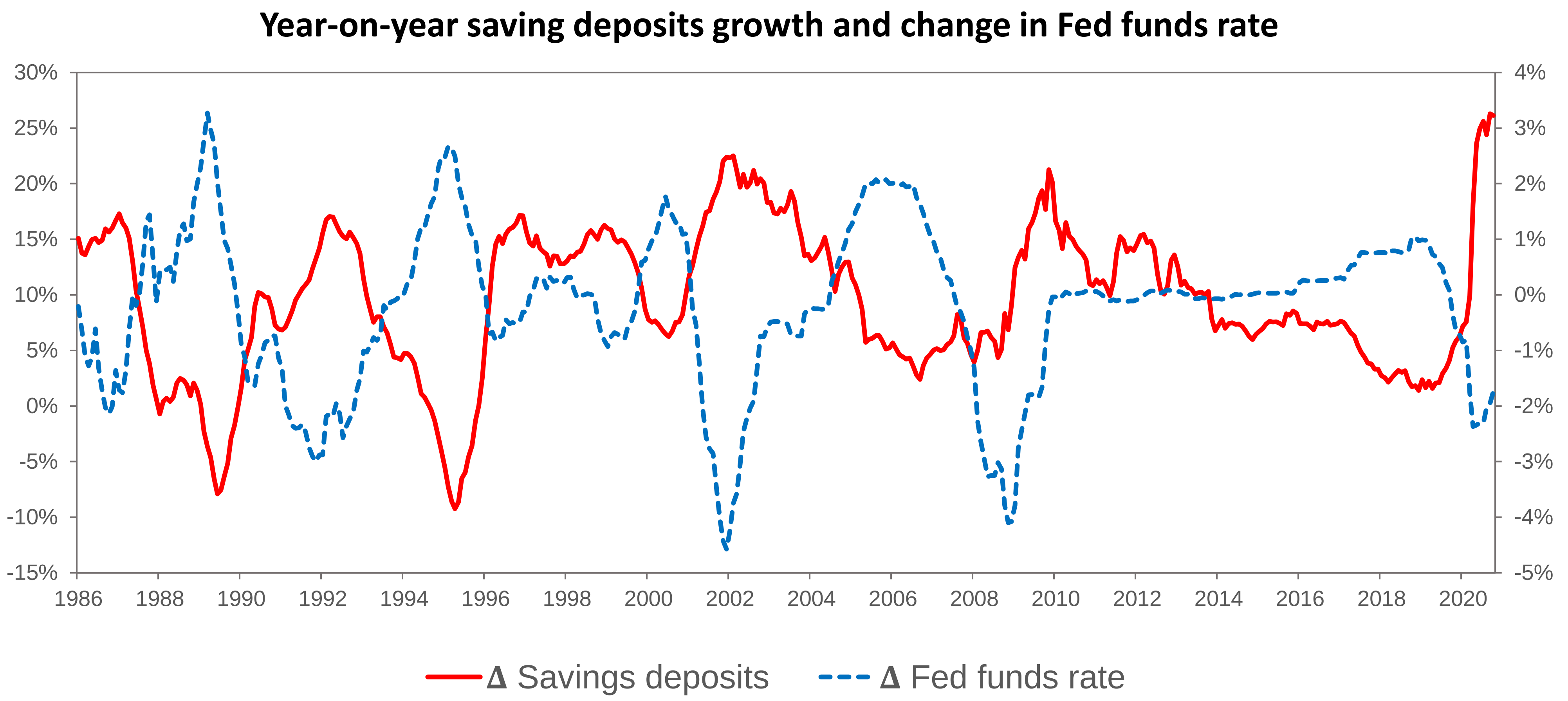
The Deposits Channel of Monetary Policy



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

- Higher nominal rate → higher price of deposits

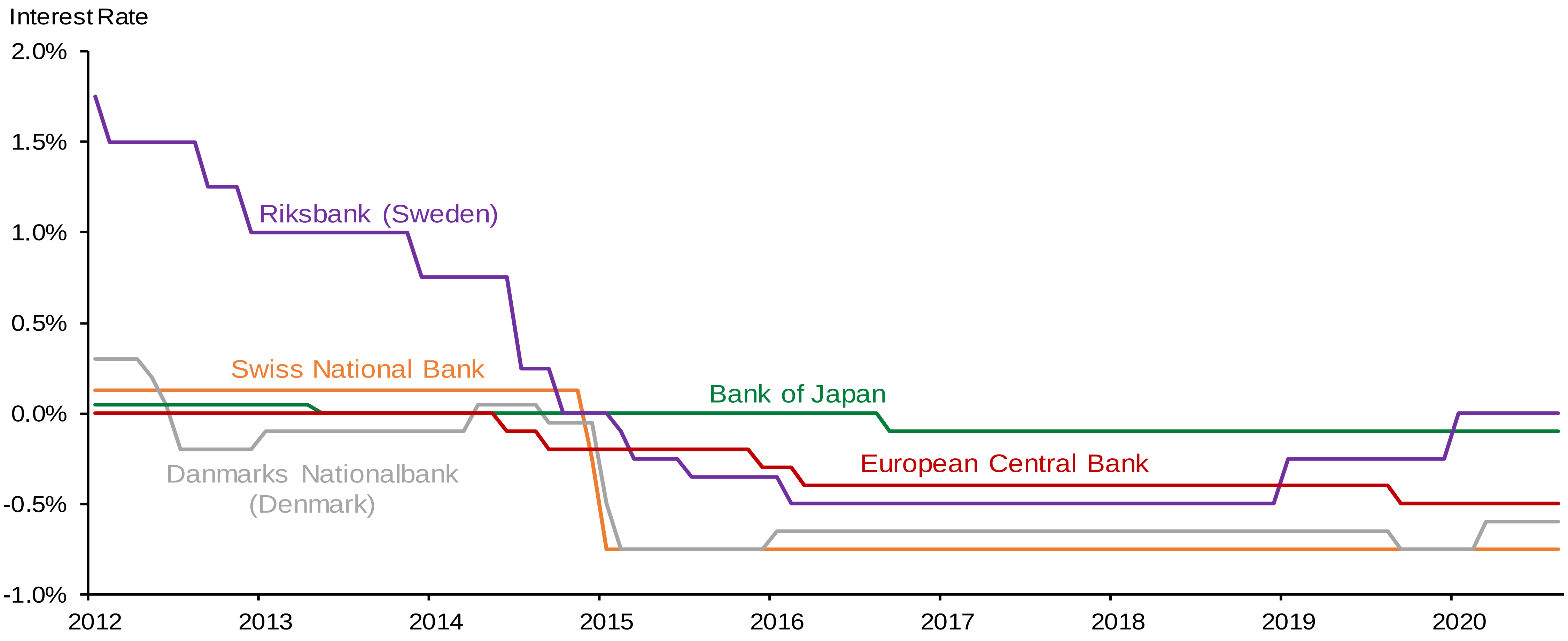
The Deposits Channel of Monetary Policy



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

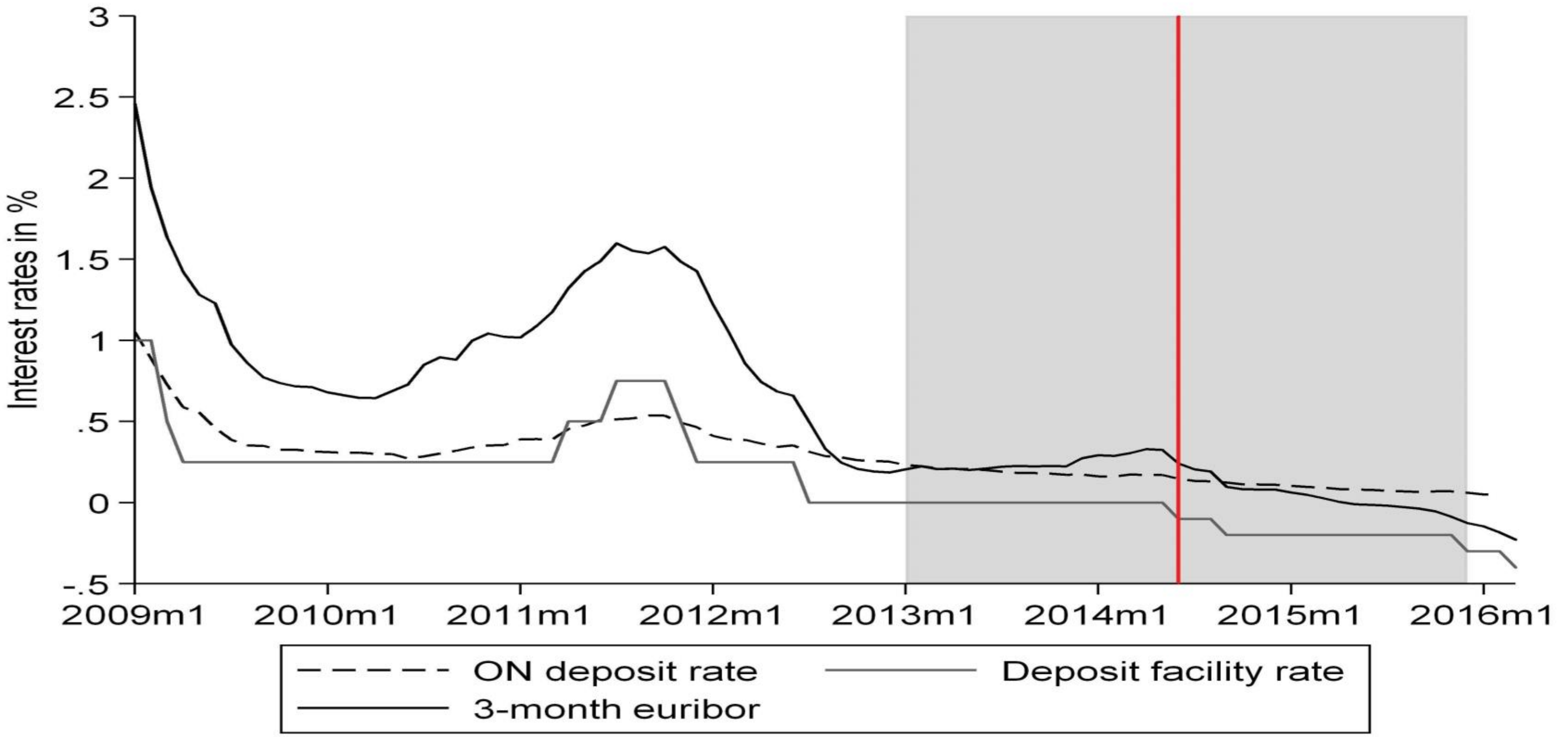
- Higher nominal rate → large outflows of deposits → less lending

The Deposits Channel of Monetary Policy + Negative Interest Rates



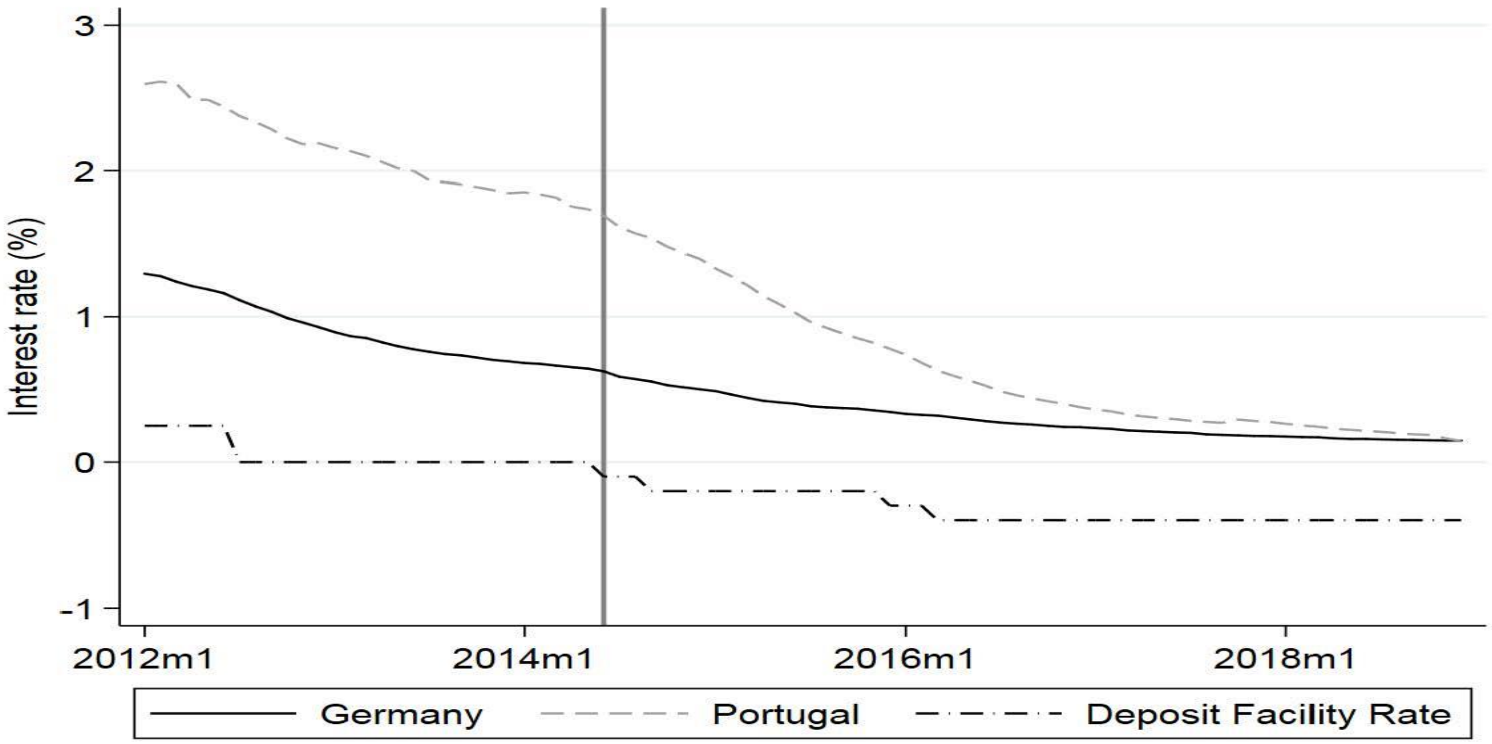
- Interest rates move into negative territory

The Deposits Channel of Monetary Policy + Zero Lower Bound (ZLB)



- Deposit rates stuck at zero → deposit channel impaired → no deposit inflows → 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)

New Lending Relationships				
	Portugal		Germany	
	Extensive	Intensive	Extensive	Intensive
Deposit Ratio * After	-0.011	-0.124	0.013	0.094
	(0.008)	(0.089)	(0.015)	(0.071)
Firm FE	Y	Y	Y	Y

- 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)

New Lending Relationships				
	Portugal		Germany	
	Extensive	Intensive	Extensive	Intensive
Capital Ratio * After	-0.031*	-0.327*	-0.094	-0.432
	(0.008)	(0.123)	(0.243)	(0.923)
Firm FE	Y	Y	Y	Y

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

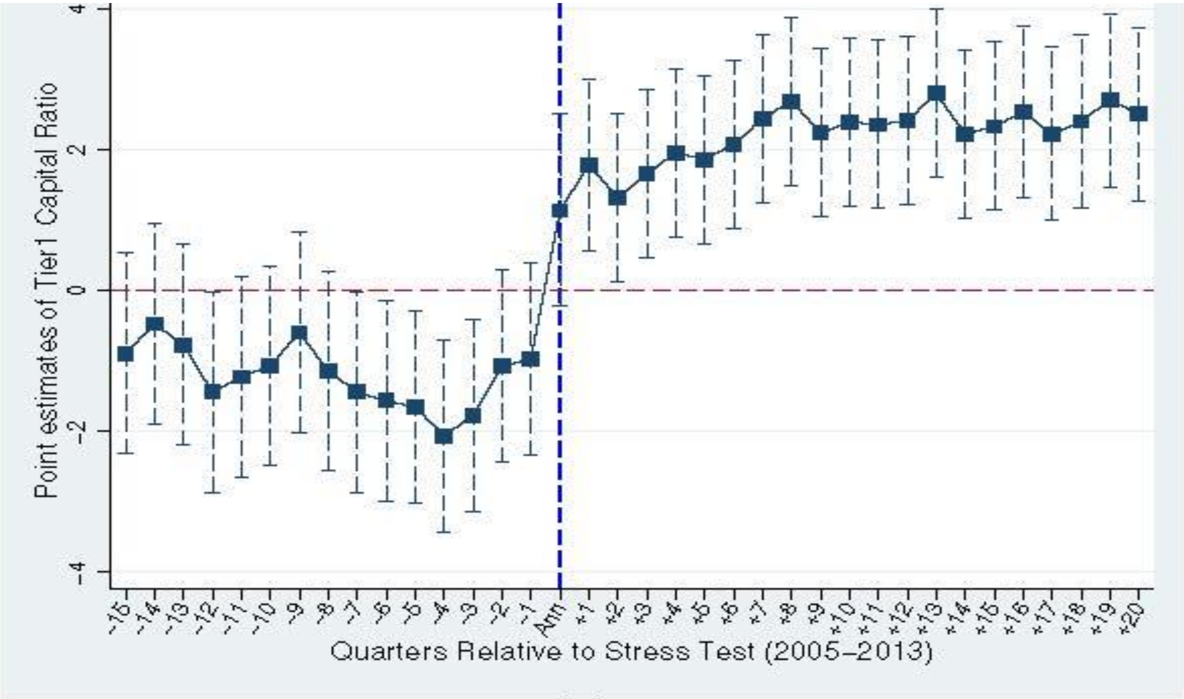
The impact of bank stress tests

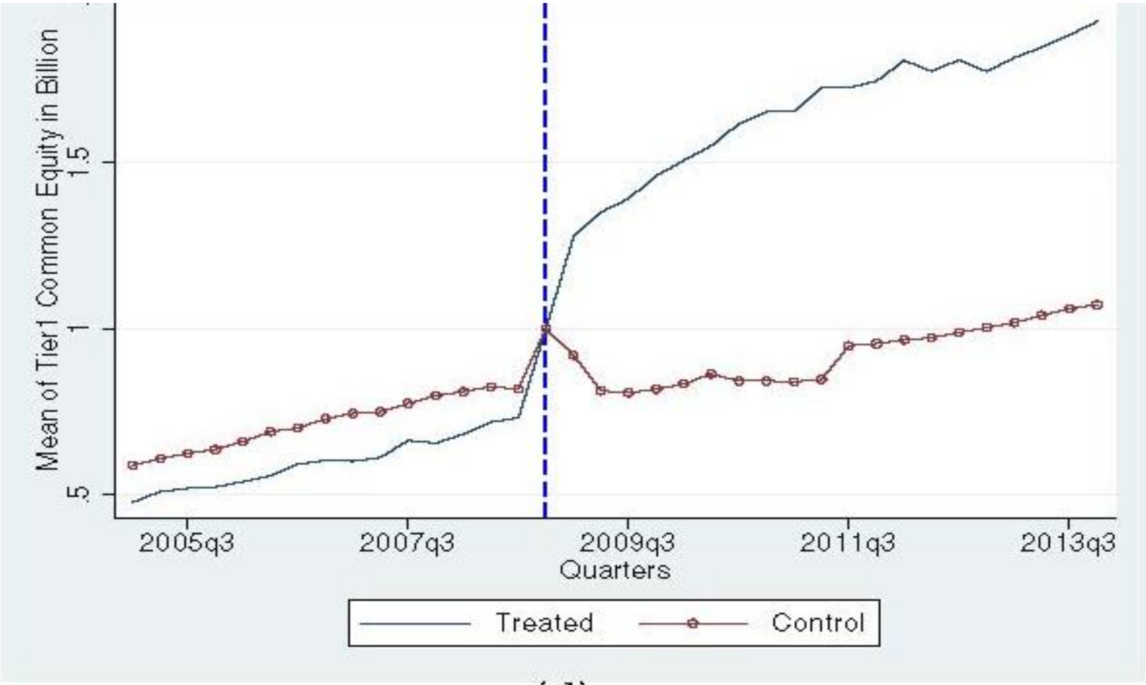
- Paper examines the impact of bank stress tests

- 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





(d)

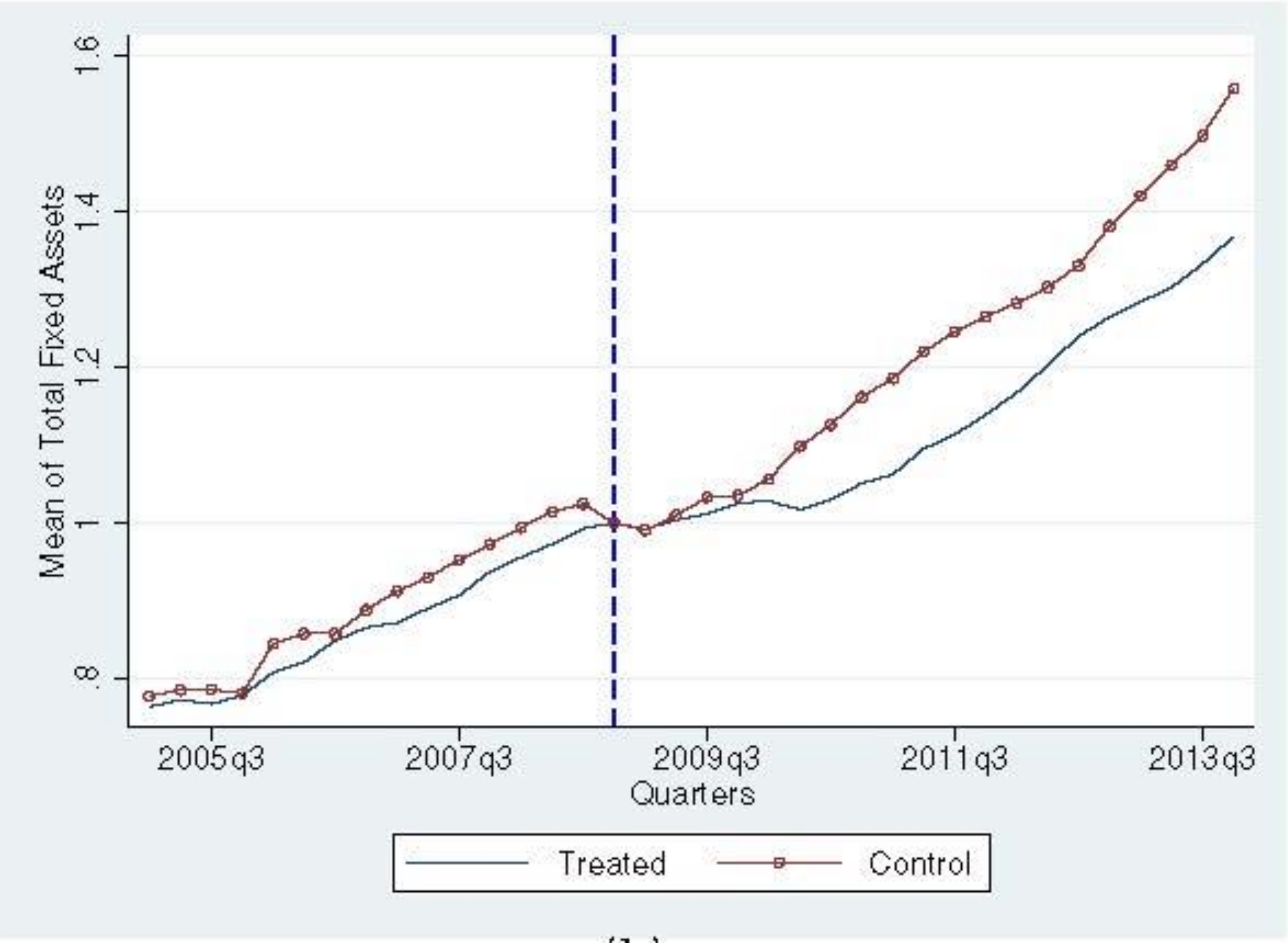
- Regulation increased capital ratio and total capital for large banks

Loan-level results (Tables 9 + 10)

Syndicated Loans				
	Intensive Margin		Extensive Margin (Exit)	
	Total	Total	Extensive	Intensive
Treated * After	0.29***	0.35**	-0.09**	-0.08**
	(0.09)	(0.13)	(0.03)	(0.03)
Treated * After * Small		-0.28** (0.11)		-0.03 (0.02)

- 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)

Bank-level results				
	Assets		Capital	
	Total	Risk-weighted	Tier 1	Common Equity
Treated * After	0.34***	0.37***	0.57***	0.55***
	(0.12)	(0.12)	(0.11)	(0.12)

- 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.