Discussion on Central Bank Liquidity, Bank Deposits and Loan Rates

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(The opinions presented here are those of the discussant only)

Objective

Evaluate the impact of central bank liquidity on the transmission mechanism of monetary policy.

Is more (or less) central bank liquidity effective for borrowers?

Ideal setting

- Banks are randomly assigned treatment (liquidity)
  - And there is lack of interaction on outcomes/treatment on the variable of interest,

- Liquidity is not endogenously determined by risk:
  - In other words. Central bank liquidity is not a reaction to problems in the banking sector.

So what do people do?

- Unexpected shocks to liquidity unrelated to fundamentals of borrowers,

- In other words, this is a banking shock,

- Imagine borrowers conditions remain similar but there is a shock that drives liquidity out/in of banks.

So what do people do?

- Natural disaster: **outflow** of liquidity

  – *We examine the impact of liquidity shocks by exploiting cross-bank **liquidity variation** induced by **unanticipate**d nuclear tests in Pakistan. We show that for the **same firm borrowing from two different banks**....* (Khwaja and Mian, 2008).

- Unexpected **positive inflow of liqudity**

  – *We exploit an **unexpected** inflow of liquidity in an emerging market to study how capital is intermediated to firms. (*Khwaja, Mian and Zia, 2010).

So what do people do in Europe?

- Use **two different banks lending to same firm** subject to different liquidity shocks
  - *Foreign versus local banks* (Albertazzi and Bottero, 2014), Peek and Rosengren(1997).
- Assume that the ***liquidity shock is truly exogenous***
  - *How Russian crisis affects Peruvian firms* (Schnabl, 2012),
  - *Subprime on European banks* (Bofondi et al, 2012),
  - Collapse of the asset-backed commercial paper market on U.S., and foreign banks (Acharya, Afonso and Kovner, 2012).

Strengths of the paper

- Use of instrument level information: syndicated loans, deposit,
- Match this information with bank and borrower information,
- Link with liquidity information at the macro level.

Explain your data

- FDIC for banking consolidation on European data

- Syndicated loans.
  - Same price for a bunch of lenders (lead bank?),
  - Cross selling in Europe seems wide spread,
  - Discrete lending,
  - Bridge CLO loans next to more traditional syndications.

- Borrowers
  - How good is the coverage for borrowers in the case of European data,
  - Only listed firms?.

Buttress your results

- Think of ways of making liquidity exogenous.

- One option is to take clues from previous literature:
  - Foreign versus local,
  - Initial conditions of banks pre-crisis,
  - Consider possible vulnerability of banks (more market funding unrelated to actual risk pre-crisis),
  - Level of exogeniety of liquidity shocks,
  - Different banks lending to same borrower,
  - Country liquidity use.

Deposit data possible way forward

- Super interesting data.
- Unfortunately we do not know much about it
  - Overall size of the market,
  - Type of trades,
  - Distribution across countries (core periphery…).
- One way forward is to to exploit this data: origin of the shock and the identity of the borrower,
  - Same ratings borrower/different liquidity shock.
- Then connect the deposit and lending side for same bank.

Summing up

- Super interesting topic,
- I am very sympathetic to the findings,
- Yet paper would improve from building on the literature & furthers efforts to buttress the findings,
- Very interesting new data on deposits.