"Cross border spillovers of monetary policy / The international transmission of monetary policy through financial centers"

Discussion of Barbosa, Bonfim, Costa and Everett (2017) and of Hills, Ho, Reinhardt, Sowerbutts, Wong and Wu (2017)

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Context of the two papers

- Important policy debate about international (unconventional) MP spillovers over 2010s
  - Exporting QE? Currency wars in disguise?
- Booming empirical literature on international transmission of shocks through bank networks
  - Mostly based on US bank data (e.g., Cetorelli and Goldberg, JoF 2012) or BIS LBS data (Hale and Obstfeld, JEEA 2016)
- Nice feature of the IBRN endeavour:
  - Each country team has access to both local bank balance sheet and local bank cross-border assets/liabilities
  - Common framework: comparative approach

Overview of the papers: IE/PT vs UK/HK

- Baseline = Bank-level panel regressions (quarterly data, 2000s-2015) akin to Cetorelli and Goldberg (JoF 2012):
  - impact on local bank lending (L) of interacted foreign MP*local banks' international exposure (IL or IA) or balance sheet strength (B) (+ controls, FE etc.)
- Two mechanisms:
  - "Bank lending channel": $d^2L/dMPrate.dIL < 0$ or $d^2L/dMPrate.dB > 0$
  - "Portfolio rebalancing channel": $d^2L/dQE.dIA < 0$ or $d^2L/dQE.dPBHE > 0$

Foreign MP = US, UK (IE/PT) or Home country MP if EA, US, UK, JP (HK) or EA, JP, US (UK) – MP indicator: MP rate (interacted with ZLB) vs CB's BS growth vs Shadow rate…

IL = local bank's (net) crossborder liabilities to foreign country [IE/PT/UK] – B = local bank's liquid assets [IE/PT], parent bank's liquid assets or deposit ratio [HK] - IA= local bank's crossborder assets [E/PT/UK] - PBHE = parent bank's loan to asset ratio at home [HK] (opposite sign expected then)

Summary of (main) findings

Bank lending (funding) channel
(loans to non-financial sector)

	EA	UK	US	JP	Home
IE		Y	Y		
PT		Y?	Y?		
UK	N		N	N	
HK					Y

Portfolio rebalancing channel
(loans to non-financial sector)

	EA	UK	US	JP	Home
IE		N	N		
PT		Y	Y		
UK	Y		Y	N	
HK					Y

Interesting additional results on currency denomination: **strong "dollar funding channel" in UK and HK**

- Cf. Berthou, Horny and Mésonnier (2017): dollar funding collapse of late 2011 weighed down on (dollar denominated) French exports to the US in 2012 due to French banks cutting dollar credit in France.

Comments (1)

- **Interesting team work**, lots of results (too many?) => some streamlining effort still needed…

- **Comparability**: Striking the right balance between accounting for specifics of local banking systems vs making results comparable

  – HK results due to general transmission channel or to focus on bank branches only (cf. Peek and Rosengreen, AER 1997, on JP branches vs subsidiaries in US in 1990s)

- Some **country-specific issues**:

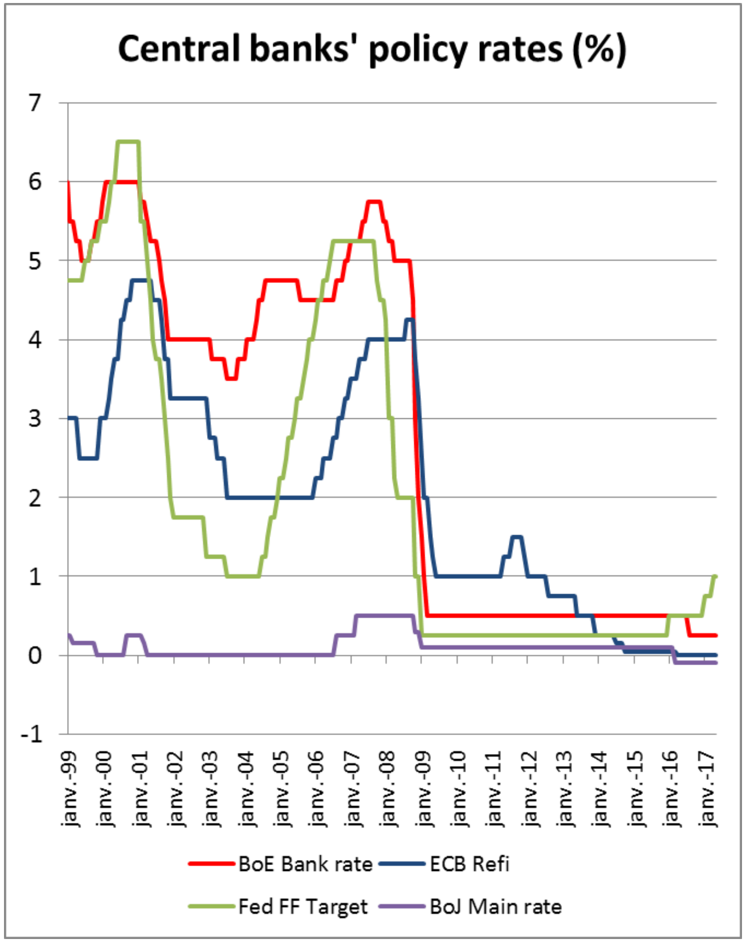
  – Very small sample of local banks in IE (9), highly parameterized model…

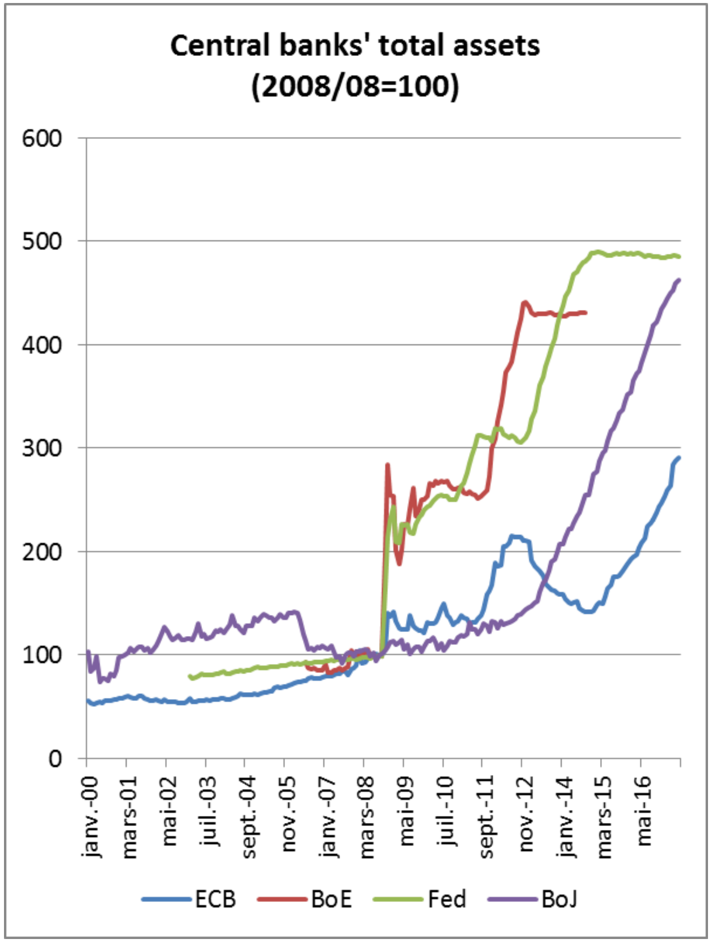
  – IL/IA of PT banks vis-à-vis US very small: interpretation of results?

  – Possible endogeneity of Parent banks' controls to foreign MP in HK (parent banks are located in foreign country)

Comments (2)

General identification issue: MPs worldwide are correlated (e.g., respond to global shocks).





Comments (3)

- **General identification issue**: MPs worldwide are correlated (e.g., respond to global shocks). Hence, need to disentangle between two possible stories:
  1. MP foreign => Balance sheet of international banks => lending local
  2. MP foreign => MP local => lending local
  - Some easy improvements still possible: include [Local MP*Local bank] terms
  - Use Foreign MP shock series from external source (e.g.: VAR, narrative)
- Alternative settings could allow for better identification of foreign MP shocks (for further work?):
  - Event-study type
  - FAVAR type

Alternative approach (1): event-study

- Idea close to Cetorelli Goldberg (JIE, 2012) (use subprime panic 2007/08 and Fed's TAF 2007/12 as instruments)
- Select idiosyncratic, unexpected policy moves:
  - Examples: Bernanke's 2013 taper tantrum, BoE's and BoJ's annoucements about higher QE limits, Draghi's 2012 London speech on "whatever it takes" etc.
  - Must be arguably specific for "foreign" country
- Run Diff-in-Diff style regressions of local lending on event dummy interacted with bank category (highly exposed to crossborder funding or not)

Alternative approach (2): FAVAR

- Idea close to Buch, Eickmeier, Prieto (JEDC 2014)

- Domestic bank-level loan growth follows a simple factor model: $y_{it} = \Lambda F_t + \varepsilon_t, F_t = [G_t', H_t']'$
  - Observed factors *G* (local macro and MP; foreign MP indicator or shocks)
  - Unobserved bank factors *H* (simple PCA)

- Factors follow a VAR model: $F_t = \Phi F_{t-1} + \eta_t$

- Plot median IRF of domestic bank-level *y* for sub-groupings of banks (highly exposed to crossborder funding vs not)

- *NB: could be embedded in hierarchical model (global vs local factors)*