Security Losses, Interbank Markets, and Monetary Policy Transmission

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Discussion by
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Key Message

- Banks with long duration securities lost more of their collateral's value after rate hikes. As a result:
  - They were able to borrow less in the interbank market.
  - They lent less, both in the interbank market and corporate loan market.
- Domestic subsidiaries of banking group were less affected.

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  - They lent less, both in the interbank market and corporate loan market.
- Domestic subsidiaries of banking group were less affected.
- Interpretation: Collateral channel matters and internal capital markets within a country works.
- Message: collateral channel matters, but **its effect depends on banking market structure**.

Three Comments

- Mapping empirics more tightly to theory
- Focus of the paper
- Identification

Comment 1: Mapping empirics to theory

- Canonical Kiyotaki-Moore model:
    - distinct lenders and borrowers, limited enforceability of contracts
    - collateral alleviates credit constraint
    - amplification of shocks: credit constraint-asset price cycle
- Paper's setting:
    - banks are on both sides of the contract: borrow and lend
    - empirical mapping: net borrowing? why not corner solution?
    - who is borrowing, lending?
    - study the dynamics of credit and collateral value? second order effects?
    - are bank's selling their collateral to meet funding shocks?

Comment 2: Focus of the Paper

- Collateral channel: fine result but not very novel, I think.
- Its interaction with internal capital markets and banking I.O. looks really interesting to me.
- Why not focus on the second point? Develop it further:
  - does the strength of the group matters even for collateralized borrowing? how much?
  - where exactly is the funds coming from? subsidiaries with less security exposure?
  - are these subsidiaries "specialist" in securities market?

Comment 3: Identification & Related Issues

- Two key concerns:
  - selection on initial security holdings
  - selection on group affiliation
- Liability structure and Portfolio choice: do banks with long duration securities have different liability structure? loan portfolio?
- Why not sell securities to meet corporate lending demand?
- The measure of security losses fixed before the hike, what happens if a bank sells securities?

Some Thoughts on Policy Implications

- If transmission is weaker for larger groups, then does it follow that the aggregate effects are smaller than expected.
- Can the paper relate to "innovative" policy design such as BTFP, i.e., lending against par value?

Conclusions

- This is a promising paper.
- A lot to like about the paper.
- Good luck!