

# Discussion of Non Bank Lenders as Global Shock Absorbers: Evidence from US Monetary Policy Spillovers

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# This Paper

US Monetary policy spillovers leading to financial stability risks and macroeconomic volatility globally.

## **Existing literature:**

- ▶ Highlights the role played by the banking sector.
  - ▶ Bruno and Shin (2015): International risk taking channel
  - ▶ Brauning and Ivashina (2020): Bank's capital constraint

## **Motivation for this paper:**

- ▶ Non banks account for 50% of global assets
- ▶ How do they lend and propagate (US monetary policy) shocks?

# What they do

*How US m. p. affects lending to non-US corporate by nonbanks, relative to banks?*

## **Challenges:**

- ▶ Banks and non banks might lend to borrowers with different characteristics and responses to MP
- ▶ US monetary policy is not exogenous

## **How the do it:**

- ▶ Use global syndicated lending market
- ▶ Instrument US monetary policy shocks using surprises by Jarocinski and Karadi (2020)
- ▶ Focus on dollar denominated loans for 1990 - 2019

## **Why would nonbanks be different?**

- ▶ Lower risk aversion (Bruno and Shin (2015))
- ▶ Non banks receive funds from banks when rates are high (Dreschsler et al. (2017), Xiao (2020))

## What they find

*When US monetary policy tightens, nonbank increase the supply of syndicated dollar credit to non-US corporate, relative to banks.*

- ▶ 100 b.p. monetary tightening → relative increase in nonbank loan size of  $\sim 20\%$
- ▶ Increase holds for investment banks and finance comp.
- ▶ US and Non us lenders, within and cross border loan
- ▶ Driven by dollar loans (no impact on non dollar loans)
- ▶ Equal across US and non US borrowers

### **What are the channels:**

- ▶ Higher risk tolerance of non banks
- ▶ Higher rates, money goes into nonbanks to seek returns (Dreschsler et al. (2017), Xiao (2020))

# My Comments

*I like it. Very well executed paper on an important question.*

## **Some questions:**

- ▶ What drives the results for non US lenders?
- ▶ Why the impact is only on dollar loans?
- ▶ Is the response about monetary policy or crises?

# What drives the results for non US lenders?

Large share of lenders are outside the US

Table 2: Lenders and loans by lender region

Region	Number of lenders		Number of loans	
	Bank	Nonbank	Bank	Nonbank
<i>Developed economies</i>				
Asia and Pacific	538	108	24,744	1,235
Europe	1,695	316	106,561	4,286
North America	870	693	37,583	8,902
TOTAL:	3,103	1,117	168,888	14,423
<i>Emerging economies</i>				
Africa and Middle East	350	65	10,004	617
Asia and Pacific	1,407	170	28,822	1,119
Europe	268	22	2,645	78
Latin America and Caribbean	232	34	2,694	291
TOTAL:	2,257	291	44,165	2,105
GLOBAL TOTAL:	5,360	1,408	213,053	16,528

The idea of the shock absorber channel is:

- ▶ Higher FF rates + monopoly on banking sector
- ▶ Money flows out of banks and into shadow banks

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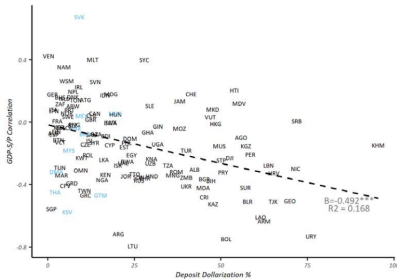
- ▶ Higher FF rates + monopoly on banking sector
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*How does this work outside of the US? Is the assumption that deposits are dollarized?*

# What drives the results for non US lenders?

- ▶ But dollarization of the banks outside of the US varies (Christiano, Dalgic and Nurbekyan (2020))

Figure 2: Countries in which the Currency Depreciates More in a Recession Have Greater Deposit Dollarization



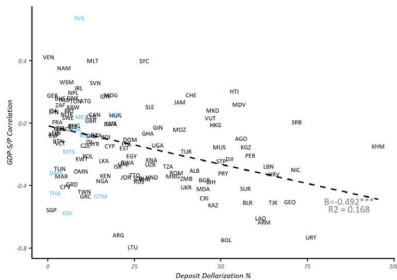
Notes: Data on the horizontal axis correspond to  $100 \times \phi$ , where  $\phi$  is defined in equation (1); (ii) the statistic on vertical axis is correlation between the log difference (in annual data) of real GDP and the log difference of  $S/P$ , where  $S$  denotes foreign currency per unit of domestic currency and  $P$  denotes the domestic consumer price index, also, before computing the correlation we scale the growth rate of GDP and  $S/P$  by their sample standard deviations; (iii) deposit dollarization is defined in equation (4) and corresponds to the average over all available data for each country in the sample, 2000-2018; (iv) codes in the figure correspond to World Bank Country codes; (v) the statistic on the vertical and horizontal axis for a given country is based on the same sample period; (vi) the country codes indicated in blue indicate countries that restrict deposit dollarization according to Nicolo et al. (2003). See Online Technical Appendix, section (B) for a list of the countries for which we have deposit dollarization data. The GDP and  $S/P$  data are available from the IMF's dataset, IFS, for all those countries.



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*So maybe the power outside of the US is coming from highly dollarized countries?*

# What drives the results for non US lenders?

- ▶ But those that have high dollarization, deposits might be inelastic to deposit rates
- ▶ For Peru: Gutierrez, Ivashina and Salomao (2023)

Table 7: Pass-through of the Marginal Reserve Requirements Cost

This table summarizes result of examining changes in dollar deposit rates and share of dollar deposits following two episodes of adjustments to marginal reserve requirement rate. It shows the results of regressions in equations 14 and 15. Estimates are changes in the dependent variable; each estimate corresponds to a different regression. Benchmark quantities reflect calculations for perfectly inelastic demand for dollar savings. \*\*\* indicates that coefficient is statistically different from zero at 1% level.

	December 2014 and February 2015			December 2016		
	Reserve on dollar deposits increased from 50% to 70%			Reserve on dollar deposits decreased from 70% to 48%		
	(differential dollar reserve change 21.5%)			(differential dollar reserve change -21.5%)		
	Benchmark (model)	Estimate	Test	Benchmark (model)	Estimate	Test
Deposits ( $\ln(r^d)$ )	-0.287	-0.17**	Fail to reject	0.55	+0.29**	Fail to reject
Loans ( $\ln(r^l)$ )		+0.15			-0.17**	
Share of dollar deposits	0	-1.19	Fail to reject	0	-0.30	Fail to Reject

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*Maybe is coming from non-core financing?*

# What drives the results for non US lenders?

Maybe is coming from non-core financing going from banks to shadow banks?

- ▶ That also changes a lot per country but we have data on it (IFS), maybe the author can check?
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Table B.4: Banks Financing: Deposit vs Foreign Liabilities

This table shows the share of deposits and foreign liabilities as a share of bank's total assets. The data is from International Financial Statistics (IMF). Deposits is equal to Deposits Excluded from Broad Money + Transferable Deposits Included In Broad Money+Other Deposits Included In Broad Money. The data are averages from 2006 to 2019. Standardized data for Argentina was not available.

	Deposits/Total Assets (%) (1)	Foreign Liab./ Total Assets (%) (2)
Bolivia	76.39	2.00
Brazil	39.28	4.15
Chile	44.54	6.54
Colombia	35.93	5.38
Costa Rica	30.96	9.47
Guatemala	63.94	10.08
Honduras	58.28	6.39
Mexico	44.47	5.74
Nicaragua	60.02	10.86
Paraguay	43.94	6.90
Peru	55.55	9.58
Uruguay	62.13	13.49

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*Nailing the channel for Non US lenders would help with the story!*

# Why the impact is only on dollar loans?

Table 10: Global lending by nonbanks relative to banks – by currency and nationality

Dependent variable:	Log(New credit amount)			
	(1)	(2)	(3)	(4)
Nonbank lender $\times$ Fed Funds $\times$ Dollar loan	0.086*** (0.030)			
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Nonbank lender $\times$ Fed Funds $\times$ Non-US lender			0.153*** (0.058)	
Nonbank lender $\times$ Fed Funds $\times$ Within-border loan				0.145*** (0.054)
Nonbank lender $\times$ Fed Funds $\times$ Cross-border loan				0.201*** (0.057)

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*Can the frictions of Brauning and Ivashina (2020) explain these? Or maybe the Bruno and Shin (2015)?*

# Is the response about monetary policy or crises?

## **Aldasoro, Doer and Zhou (2023)**

- ▶ Non-banks curtail their syndicated credit by significantly more than banks during crises
- ▶ Non-banks exacerbate the repercussions of financial crises



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This can matter for policy/regulation:

- ▶ Are non banks “good guys” and shock absorbers (this paper)....
- ▶ Or bad guys and magnify crises?

# Conclusion

*Really like the paper!*

- ▶ Important analysis on the role of nonbanks in propagating shocks globally

## **Would like to see:**

- ▶ Clarification on the channel for non US lenders
- ▶ Explanation for no effect on non dollar loans
- ▶ Is it crises or monetary policy shocks