Bank Market Power and Monetary Policy Transmission: Evidence from Loan-Level Data

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Discussion
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Overview

research questions

- monetary policy transmission to bank lending (depending on the bank market structure)
- effect on loans characteristics (volume, maturity, lending rate, and riskiness)
- a trade-off between the strength of monetary policy transmission and financial stability

contribution

- "the first study of the relationship between market concentration and the strength of monetary policy transmission" - in lending markets

Overview

data and approach

- confidential loan-level data from the credit register
  1. loans to corporate borrowers
  2. 2017-2022 (monthly frequency)
  3. Russia

- regression with dyadic fixed effects
  1. firm x time (industry x time)
  2. bank x time
  3. to control for demand and supply of credit at the firm and bank level
  4. time, bank, firm FE

- variable of interest - double interaction of the BoR policy rate and the region-specific Herfindahl – Hirschman Index (HHI) as a proxy for bank market power in lending at the region level

Overview

results

1. with respect to changes in the key rate, on more concentrated markets:
   - loan volume is less sensitive
   - lending rate is more sensitive (opposite to theory and literature)
   - risk taking is more pronounced
   - no effect on loan maturity, the extensive margin of lending, credit spread, and ex post measures of risk

2. regards a trade-off between the strength of monetary policy transmission and financial stability, results are ambiguous

Comments and Questions

big picture

- interesting study, with important policy implications
- amazing data

some big questions to think about

- monetary policy transmission, to what? if you look at the channel, like lending channel, this is an intermidiary step, as the final step are some macro aggregates, like employment, etc.
- Drechsler et al. (2017): MP $\rightarrow$ Deposit Channel $\rightarrow$ Lending $\rightarrow$ Macro aggregates (County Employment)
- You have directly MP $\rightarrow$ Bank Lending/Firm Borrowing. How about deposit channel?
- Why not endogenize everything and do a proper identification?

Comments and Questions

regression, identification, estimation

- authors suggest that their specification is a panel LP (Jorda (2005))

$$Y_{bft} = \beta_0 + \beta_1 \text{HHI}_{r,t-h-1} + \beta_2 \text{HHI}_{r,t-h-1} \times \text{KeyRate}_{t-h}$$
$$+ \alpha_{bt} + \zeta_{it} + \gamma_t + \delta_f + \mu_b + \epsilon_{bft}$$

- stantard panel LP

$$y_{i,t+h} = \alpha_{i,h} + \beta_h \text{shock}_{i,t} + \gamma_h x_{i,t} + \epsilon_{i,t+h},$$
$$h = 0, 1, \ldots, H-1,$$

- **is it really a shock?**
  - proper identification or instrument
  - potential anticipation effect

Comments and Questions

regression, identification, estimation

- **standard errors?** standard errors of coefficients clustered at the bank-firm level. This is a **pair level** clustering, right? (account for the correlation of residuals within each unique bank-firm pair across time)

- for the robustness it would be great to do clustering at a **dyad level**: account for the correlation of residuals within each dimension of the dyad (both banks and firms) - for example, you have the same bank with two firms (i,j) and (i,k), or the same firms with two banks (i1,k) and (i2,k)

Comments and Questions

regression, identification, estimation

- **controls?** it is more standard to control for the past (time and pairwise time FE)
- **controls?** quite common to include controls for the past endogenous variables
- **controls?** how about including (bank x firm) pairwise fixed effects? common in dyadic panels

Comments and Questions

regression, identification, estimation

- **controls?** (industry x time) instead of (firm x time), why there is a perfect multicollinearity with $HHI_{r,t-h-1}KeyRate_{t-h}$?
  - (industry x time) would not capture **heterogeneity of firms within the industry**
- Main variable of interest - **interaction term**, what does it really capture?
  - potential misattribution of the effect?
  - do you capture time variant firm specific charachteristics like **size**, for example? or true effect of interaction term? inclusion of additional controls might help

Comments and Questions

regression, identification, estimation

- it is clear that it is not possible to include simultaneously KeyRate (or MP shock, if you will do identification) and time fixed effects, but still at least for the robustness it will be interesting to see what will be **direct effect of a MP shock on the dependent variable** and just to confirm that results on interaction term will not be affected. One can include more specific time controls instead of time fixed effects...

Comments and Questions

data

- to the best of my knowledge using credit registry data you can distinguish between **stand alone loans** and **credit lines**. You look only at new issued loans, how consideration of credit lines, might affect your results?

- i could not find anywhere in the paper, but believe it might be iseful for the reader: how do you treat some **large players**? say, large firms, and they operate in different regions, or large banks and they also operate in different rigions, how do you treat them? do you look at the specific brunch? do you look at firm subsidiaries, affiliates etc. do you take into account somehow redistribution of financing this into account?

- it would be interesting to see also the percentage from both sides of big players

Comments and Questions

additional comments

- in some figures - time series of region-specific HHI, is quite volotile, for example, Yamalo-Nenets Autonomous Okrug, Republic of Kalmykia etc. and look non-stationary, how that might affect your results?

conclusion

- paper studies important and interesting questions, has great potential

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