Discussion: Macroprudential policy spillovers and international banking - Taking the gravity approach

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Overview

Main questions:

- Are there spillovers of macroprudential policy?
- Do they differ between advanced economies and and emerging markets / developing economies?

Data:

- BIS locational banking statistics (residence basis)
- Cerutti et al. macroprudential measures

Main findings:

- Spillovers of macroprudential policy
- Heterogeneous across country groups (AEs vs. EMDEs)

Results

Table: Main Results

MP	Origin	Destination	Sign	Specific.	Share of flows?	Theor. pred.?
$mpib_i$	no OFC	no OFC	+	3		
$mpib_j$	no OFC	no OFC	0	3		
$mpif_i$	no OFC	no OFC	-	3		
$mpif_j$	no OFC	no OFC	-	3		
$mpib_i$	AEs	no OFC?	+	4		
$mpib_j$	AEs	no OFC?	0	4		
$mpif_i$	AEs	no OFC?	-	4		
$mpif_j$	AEs	no OFC?	-	4		
$mpib_i$	EMDEs	no OFC?	+	5		
$mpib_j$	EMDEs	no OFC?	+	5		
$mpif_i$	EMDEs	no OFC?	+	5		
$mpif_j$	EMDEs	no OFC?	-	5		
$mpib_i$	AEs	AEs	+	6		
$mpib_j$	AEs	AEs	0	6		
$mpif_i$	AEs	AEs	-	6		
$mpif_j$	AEs	AEs	-	6		
$mpib_i$	EMDEs	EMDEs	0 (- for major EMEs)	7		
$mpib_j$	EMDEs	EMDEs	0	7		
$mpif_i$	EMDEs	EMDEs	+	7		
$mpif_j$	EMDEs	EMDEs	+	7		

Comments

1. Exposition / Theory
2. What drives results?
3. Offshore Centers
4. Measurement
5. Additional points on the empirics
6. Smaller points

Exposition / Theory

Provide a better theoretical background discussion
(e.g. building on Niepmann (2015))

- Why do banks go across borders?
  Differences in endowments and technologies
- How do banks go across borders?
  Cross-border lending or local lending? Funding at home, abroad, or both?
- How can macroprudential policy affect these decisions?
  Balance sheet constraints? Marginal costs?

What drives results

- Why do correlations differ between AEs and EMDEs?
- Can you interact with country-level variables like:
  - Rule of Law
  - Financial Development
  - Capital/Labor Endowment

A significant interaction between rule of law and macro-prudential policies could support the conjecture in the paper that differential abilities to circumvent policies could drive results.
(Needs to be spelled out better though).

Offshore Centers

Would be interesting to put more analysis into tax havens / offshore centers

- Offshore list very incomplete. The most important financial centers missing: Luxembourg, Ireland, the Netherlands, the Cayman Islands?
- Don't just drop them. Show results for financial center origin only, financial center destination only and compare with other countries.
- Distinguish between offshore sinks and offshore conduits (classification in Nature (2017)).

- How do moves in the exchange rate affect results? Can you control for such valuation effects? This aspect likely worse when looking at stock data (rather than flow data).
- Could large write-offs during financial crisis affect outcomes?
- Provide more discussion on the intra-bank flows in the locational statistics data. How do they affect results? Is this a big problem?

Additional points on the empirics

- Multilateral resistance country-pair-time, so need at least country-pair fixed effects (see Anderson and van Wincoop).
- Split sample into pre- and post-crisis? Look at a break in the relationship? Leave out the financial crisis?
- Discuss more why you use stock of asset holdings and others (like Cerutti and Zhou (2018)) use asset flows.
- Niepmann (2015) shows that gravity can break down for bank flows. Might this explain differences between AEs and EMDEs?
  'The fact that banks also engage in global banking (i.e., they expand abroad by raising capital in the host market) weakens the link between the size of the source country and foreign asset holdings and makes the size of the destination market matter more, creating an asymmetric relationship.'

Smaller Points

- Reference to new IBRN project on prudential and monetary spillovers.
- Distance effect: is assessing risks easier or could it be harder to monitor and enforce? Would implications be different?
- Borrower-side prudential regulation is only in regard of mortgages? This limitation should be mentioned earlier and discussed in more detail.
- You can only observe 'true zeros' if both countries are reporting a zero. This is not clear from the text.
- How are standard errors clustered? Results have surprisingly high significance levels. Using four stars is a bit unusual.

Conclusion

- Very interesting and timely project.
- Surprising heterogeneity across country groups.
  $\Rightarrow$ Present the results more systematically and test the channel more directly.
- Offshore centers seem important, so do not just drop them.
- Theoretical framework would help sort through the findings.

Great project with lots of ways to go forward.