Risk Taking and Interest Rates: Evidence from Decades in the Global Syndicated Loan Market

Discussion by Şebnem Kalemli-Özcan
What does the paper do?

- Show evidence for corporate risk taking in the rest of the world as a response to low US rates
- Before crisis, ex-ante riskier loans to non-US borrowers as a response to decline in short-term rates
- After crisis, ex-ante riskier loans to non-US borrower as a response to a decline in long-term rates
- No role for risk appetite and exchange rate
General Impression

- I liked the paper a lot.
- Risky loan measure is spread fixed at origination; use confidential US data to link to defaults and to secondary markets for systemic risk
- Right focus on cross border loans
- Strong identification from specifications with no US borrower and US lender
International Transmission via Global Banks

- We know **global banks and capital flows** into banks are very important for the transmission

- We still need more empirical work on mechanisms and specific role of **bank heterogeneity** and bank balance sheet management (and effect of lending and borrowing in FX)

- Important to understand if transmission via banks work through **prices** (interest rates and spreads) and/or **quantities** or both

- Important to separate **credit supply** shocks via banks versus other sources and also from **credit demand** shocks
Importance of banking flows in EMs: Loans 50-60% of external debt; bonds 30-40%
Credit demand may not be fully controlled since firm×quarter effects cannot be used not to absorb the US interest rates (only firm×year)

How much quarterly variation in US rates?

Is firm credit demand slow moving?
How do we know this is **risk taking** without full balance sheet of firm and bank (need firm and bank characteristics)?

Conventional policy works via lowering short term rates however unconventional policy works via lowering risk spreads and might encourage risky loans/investment at a lower cost.

What is the **exact mechanism**?

- Lowering rates/spreads in US can lead to portfolio balance channel overseas (for cross-border loans?)
- Global banks fund themselves cheaply so lower rates on customers (as in Baskaya et al., 2016) (means lower spreads?)
- For loan portfolio regressions; post crisis long-term result is stronger and short term result is weaker
Lower funding costs for global banks, lower funding costs for domestic banks, lower loan rates
Great paper!

Focusing on banking flows is the first step in understanding US monetary policy spillovers across borders

Innovative way of measuring risk!

Food for thought: Policy implications—How to regulate cross-border loans when foreign banks involved?