Covid-19 and Local Market Power in Credit Markets

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Discussion

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This paper

- Examines where COVID-19 changed banks' market power in Brazil

  - Market power: Lerner index
    - Conceptually better than concentration indexes, but data-intensive (mark-up)

  - Identification: DiD analysis
    1. Exploit different timing & severity of COVID-19 across Brazilian localities
       - Within-bank variation across branches in different localities
    2. Heterogeneity in banks' IT readiness

  - Product segments: Individuals, non-financial firms
    - Specs at locality-branch-modality-time level

Key insights

$$L_{blt}^{(m)} = \frac{p_{blt}^{(m)} - MC_{blt}^{(m)}}{p_{blt}^{(m)}}, \qquad p_{blt}^{(m)} = \frac{Credit\ Income_{blt}^{(m)}}{Credit\ Concessions_{blt}^{(m)}}$$

- COVID-19 reduces effective prices ($p_{blt}^{(m)}$). Drop not economically significant.
  - Decrease in credit income is offset by a similar decrease in granted credit.
- There is a statistically and economically significant increase in marginal costs ($MC_{blt}^{(m)}$).
  - Bank branches unable to adjust local costs quickly in response to relative drop in credit.
- Local market power ($L_{blt}^{(m)}$) decreases.

Key insights

- Bank heterogeneity on IT

1. Branches more reliant on IT spending have a more flexible cost structure.
2. More digitalized banks are able to continue lending as locality is hit by COVID.
3. More digitalized banks are also less constrained by local borrower conditions (i.e., they are able to lend more outside their locality).
4. More digitalized banks are able to improve their local market power.

Comments

1. Would key insights be different if using a less data-intensive measure of market power (e.g., HHI)? Useful to know.

2. Timing & intensity of COVID-19 severity likely not exogenous to economic conditions (population tensity, economic development, international traffic, …)
   - Convinced fairly exogenous within macro-localities & localities with similar GDP per capita
   - Shock changes competition by inducing changes in both *credit demand* & *credit supply*
     - Branch autonomy

3. Analysis relies on within-bank heterogeneity. Very important as it absorbs regulatory changes aiming to boost credit supply that may affected banks differentially
   - Support programs directed to firms and individuals remain a challenge
     - Controls: Emergency aid volume/GDP*COVID-19, Number of SMEs in each location*COVID-19
     - Show results with and without these controls (also without the FEs)

Comments

4. Results on IT as very interesting.

5. To better understand how to interpret them it would be very useful to study how cost decomposition varies with:
   - Other bank or branch characteristics (e.g. size, type, age, ownership)
   - Borrower clientele

6. Correlations; sub-samples; augmented specs (e.g., COVID-19*other bank characteristics, COVID-19*clientele characteristics)

Comments

7. On results outside the banks' locality, can you study where IT banks are expanding more?
    - More (less) affected other localities
    - Localities with more non-IT banks

8. Less is more
    - Paper very long. Need to streamline discussion and select key (new) results that are likely to enjoy general interest

Overall

I enjoy reading this paper

Rich set of results

Learned a lot!

THANK YOU