Discussion of:

Currency networks in cross-border bank lending

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Currency and nationality in lending

- Improved BIS dataset that includes information on 1) currency, 2) residence of borrower, 3) nationality of lender.
- Maps networks of «who lends to whom» by currency.
  - USD: from and to US (dominant in intensity), from EM, to EM except Europe.
  - Euro: from and to Euro area, from other AE to Euro, from Euro to emerging Europe.
- Case study of the tantrum: drivers of shifts in USD lending flows between 2012.4-2013.1 and 2013.1-2.
  - Lender's factors (credit and deposit), existing share of USD (larger % contraction in lender-borrower pairs where USD share was high).

Comment 1: Why the taper tantrum?

- Case study of this relevant episode, but data go back to mid-1980's.
- Other episodes could be of interest:
  - 6 months after Lehman, with sharp turnaround of international banking flows (Milesi-Ferretti and Tille 2011).
  - Summer of 2012 with tension in Euro area, followed by «whatever it takes» speech.
  - QE 2 or QE 3 pre-tantrum.
- Are the drivers robust across episodes? If not, can we link heterogeneity across episodes to specific characteristics?

Comment 2: Panel approach

- In addition to focusing on episodes, consider a panel approach.

- This allows for the inclusion of common time-varying drivers of interest:
  - Fed funds futures, US, euro, and Japan money market rates. Of particular relevance as movements are driven by interbank flows.
  - VIX, liquidity measures.
  - Exchange rates, which matter for carry trades (Krogstrup and Tille 2015 for Swiss franc funding).

Comment 3: Puzzling drivers

- The pre-tantrum public deficit in the borrowing country is significant.
  - Could proxy for general economic fragility.
  - But does not matter for lending to non-banks (incl. the government).
  - What about the current account, i.e. national instead of public borrowing?
- Pre-tantrum credit and deposit growth in the lending country matters.
  - The lending bank's balance sheet condition should matter for all lending, not just in USD. Do we see an impact in other currencies?

Comment 4: Interpretation

- USD lending falls proportionnaly more in emerging countries where the USD was a large share of lending for the specific lender-borrower pair.
- What happens in times of pullback by a bank?
  - Liquidate marginal positions, or «take the money where it is» i.e. in already large positions?
- The results point to the second pattern. But the specification should be extended.
  - Pair USD lending as share of bank's total USD lending: is the borrower marginal for the bank?
  - Pair USD lending as share of borrower's total USD debt: is the bank a dominant actor in the USD lending market in that country?

Comment 5: Global role of currencies

- Since the crisis, banks from emerging economies represent a growing share of international banking activity.
- The shift in lenders' nationality is not accompanied by a shift in currencies' role.
  - Emerging market banks lend mostly in USD.
- Interesting pattern for currencies global role.
  - Move from using a currency that is the lender's or the borrower's to using a vehicle currency.
  - If US policy is transmitted through USD lending, and US banks are a smaller share of this, could the Fed become less concerned about it?