Discussion of Acre, Gimeno, and Mayordomo's
"Making Room for the Needy"

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*These are not official Federal Reserve views.

Overall

- Very nice paper.
- Extremely important questions for understanding balance-sheet policies.
- Authors marshal a lot of data to good effect.
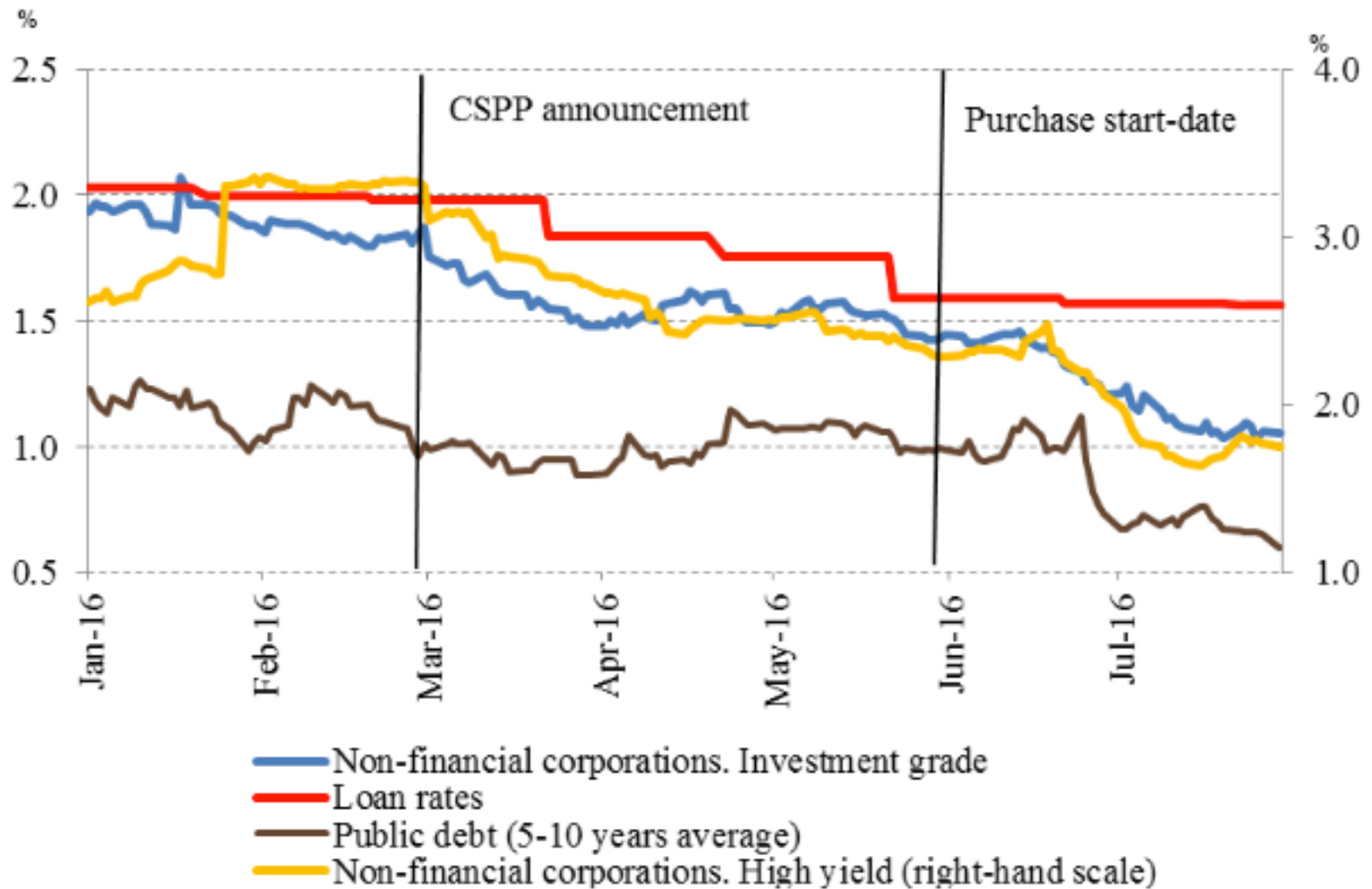- Results are thorough and (mostly) convincing.

Logical steps

1. CSPP reduced bond rates relative to loan rates.
2. Firms with bond-market access responded by issuing more bonds.
3. These bonds substituted for loans, reducing commercial bank credit.
4. Banks responded by lending more to borrowers without bond-market access.
5. Those firms responded by increasing investment.

Results

1. CSPP reduced bond-loan spreads by 50 to 100 bp.

2. Issuance was ~50% greater than in previous 2 years.

3. 1% increase in issuance ➔ 0.4% decrease in bank borrowing by issuing firms.

   – Bank-level fixed effects ensure that result is not supply driven.

4. Outflow of 1% of assets from bond issuers ➔ 4 pp growth of credit to non-issuers.

   – €3.3 bil increase in bank credit.

   – Mostly to large, safe firms.

5. Investment of non-issuing firms increases by 20%.

Rates

Non-financial corporations. Investment grade
Loan rates
Public debt (5-10 years average)
Non-financial corporations. High yield (right-hand scale)

Did CSPP raise loan/bond spread?

$$ExcessYield_{i,t} = \alpha_i + \beta_1 Ann\_CSPP_t + \beta_2 Pur\_CSPP_t + \beta_3 BPur\_CSPP_{it} + \varepsilon_{i,t}$$

- Specific results:
  - Spreads on purchased ⬆ 90 bp.
  - Spreads on eligible, non-purchased ⬆ 51 bp.
  - Spreads on ineligble (HY) ⬆ 108 bp.

- Minor points:
  - How did the ECB decide which bonds to purchase?
    - Purchase coefficient will not capture full effect if market anticipated.
    - Possible endogeneity concerns.
  - Would be better to use amounts purchased.
  - What about substitutes?

Did CSPP raise loan/bond spread?

- Are these effects plausible?
    - CSPP purchases = €0.18 tril (through 2018)
        - Some of this is replaced by new issuance.
    - European corp. bond market > €4 tril.
    - Even if the market were totally segmented, this would be a small percentage.
    - Suggests big dislocations / limits to arb.
    - Other research (Abidi & Miquel-Flores, 2018) suggests smaller effects.

Did CSPP raise loan/bond spread?

Other reasons to be suspicious:

- Ineligible spreads widen more than eligible.

- Timing doesn't quite work for announcement effects.

- There are many confounding factors.
  - Monetary policy:
    - Main refi rate cut to zero
    - Marginal lending rate reduced by 5 bp
    - Deposit facility rate reduced 10 bp
    - APP expanded to €80 bil/ month
    - New round of TLTROs
    - "Extended period" forward guidance
  - Brexit

Next stage: Bonds vs. loans

- First stage estimates don't matter much, because they don't use them.

- But they do implicitly assume that the entire change in spreads between March and June is due to CSPP:
  - Main result: 1% higher issuance causes -0.4 pp loan growth for same firm.
  - To interpret this as the effect of CSPP requires that nothing else important was going on.
  - This seems suspect.

Next stage: Bonds vs. loans

- For firms, sometimes loans and bonds are substitutes, and sometimes they are complements.
- Which effect dominates depends on circumstances.
  - Other periods the authors look at find no correlation between bonds and loans, suggesting the effects cancel:

	(1)	(4)	(5)	(6)
Bond_Amt_Outs	-0.438***	-0.040	0.108	0.054
	[0.135]	[0.025]	[0.078]	[0.033]

- During early 2016, substitution effects clearly dominate. But:
  - Not all of this necessarily came from the CSPP.
  - Some of it could have been offset by complementarities.
- This calls into question whether the quantitative effects on lending really reflect CSPP.

Next stage: Bank portfolio adjustment

- In regressions of bank credit, independent variable is "decline in credit to bond issuers."
  - But this entirely ignores how much of the change is bond substitution.
  - Better to use the actual issuance-related loan outflows from the previous stage as the independent variable.
  - They have this as a robustness check, but it should be the baseline.
    - (Have to correct for generated regressor.)
  - Also, it seems huge...

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Outflows/TA (%)	4.380**	3.494**	4.353**	10.298***	5.713**	9.790**	22.481***	10.635
	[1.842]	[1.568]	[1.726]	[3.151]	[2.131]	[2.612]	[7.301]	[7.856]
FI Outflows/TA (%)					-12.914			
					[8.934]			
Firm Control Variables	YES	YES	YES	YES	YES	YES	YES	YES
Bank Control Variables	YES	YES	YES	YES	YES	YES	YES	YES
Firm FE	NO	YES	NO	NO	NO	NO	NO	NO
Industry-Province-Size FE	NO	NO	YES	YES	YES	YES	YES	YES
Observations	523,723	329,152	523,307	523,307	523,307	523,307	522,736	600
R-squared	0.022	0.364	0.039	0.027	0.039	0.038	0.039	0.091

- Seems to imply an expansion of bank credit greater than the size of CSPP purchases.

A few miscellaneous questions

- Need more details on loans and bonds.
  - Collateral, floating/fixed, callability

- Did banks with outflows also expand to other types of credit?
  - Mortgages, consumer, etc.

- What about bank condition?
  - The portfolio reallocation suggests banks are worse off.
  - Inconvenient time for this – Spanish banks were already in trouble.
  - Is this an unavoidable side effect of corporate QE?

Good paper.

Thanks!