Discussion of
Sarkisyan and Viratyosin's

"The Impact of the Deposit Channel on the International Transmission of Monetary Shocks"

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*The views expressed do not reflect official positions of the Federal Reserve Bank of Chicago or the Federal Reserve System. This presentation contains no discussion of current or prospective monetary policy.

Summary

- How do global banks matter for the "deposit channel" of monetary policy?
  - Availability of foreign funds may dampen the domestic effects
  - But this same mechanism may transmit the shocks to foreign economies
- Authors test these hypotheses in a sample of global banks.

Discussion outline

- Quick summary of theory and empirical setup
- Comments:
  - Several things about the call report data
  - Miscellaneous points/suggestions
  - Broader question about "market power" in deposits

Theory

- Straightforward extension of Drechsler, Savov, & Schnabel (2017).
  - Banks have local market power -> monetary shocks do not fully transmit to deposit rates.
  - Depositors withdraw when rates rise -> lending falls.
  - In authors’ model, availability of global funds offsets some of this.
  - Predictions:
    - Global banks should transfer funds following policy shock
    - Domestic lending should fall less for these banks
    - But foreign lending should fall instead

Empirical tests

- Instrument deposit rates and flows with surprises in FFF.
  - Tighter policy causes spreads to widen, deposits to flow out, and lending to decline.
  - These effects are smaller at “global” banks.
    - CRA data confirm smaller decline in loan originations
  - Global banks also see transfers from foreign offices.
  - Global banks also reduce their foreign lending.
  - Branch-level analysis shows most effects are stronger for banks with high HHIs.

- All of this appears consistent with the theory.

Data questions 1

- Main data are from call reports at the bank (not BHC) level.

- “Global” banks are identified as those that report non-zero “net due to/from” foreign offices.
  - Easier way to identify foreign activity - Banks without foreign offices file FFIEC 041; those with foreign offices file FFIEC 031.

- But measuring global presence using only domestically chartered bank subsidiaries seems odd.
  - Most big, global banks would separate operations as different subs in a holding company.
  - Unusual to have substantial foreign activity in domestic subsidiaries.
  - Also, includes banks with offices in Puerto Rico and other U.S. territories – not what the authors want.

Data questions 2

- “Transfers” from foreign offices are measured by net due to/from.
  - But this excludes transfers from affiliates and those down-streamed from the holding company.
  - These seem like potentially more important ways of reallocating liquidity.

- “Foreign loans” are measured as loans to foreign entities by the domestic bank sub.
  - This must be a very small portion of international lending activity.
  - Indeed, the average value in the sample is $50 million.

Bottom line – *wouldn’t it be better to use BHC data*?

4 Miscellaneous points

1. It is hard to get around the size effect.
    - All global banks are large banks and vice versa.
    - These operate in different markets from small banks, and have different degrees of market power.
    - Using data on *degree* of international presence across large banks might help.

2. Authors attribute foreign transfers to deposit outflows
    - Alternative story: banks reallocate liquidity to markets where they can earn the highest return.

3. Would be useful to break down by deposit flows by type (insured, brokered, etc.) and by counterparty (individuals, firms, etc.).

4. Call report also allows you to calculate deposit rates on deposits at foreign branches. If the theory is right, these should respond.

Broader question

What is the source of “market power” in deposit markets?

- Depositors may live far from branch where deposits are supposedly held.
  - Geographic HHIs may not capture the relevant aspect.
  - “Concentrated” is not the same as “uncompetitive,” and physical presence is no longer very important.
- One mechanical reason for spread widening: time deposits take time to roll over.
- Another reason: time deposits have long maturity and include compensation for duration risk.
  - May be better to focus on short-term deposits.
  - DSS use Ratewatch data to focus on relatively short-term rates.