Discussion of:

Diverging Banking Sector: New Facts and Macro Implications

Shohini Kundu, Tyler Muir, Jinyuan Zhang

Melina Papoutsi

European Central Bank

April 4, 2024

Summary

- Broad Research Question:
    - How does banking sector heterogeneity affect monetary policy transmission?

- Related Literature:
    - Bank lending channel of monetary policy:
      impact on loan supply varies based on banks' liquidity
    - Deposit channel:
      deposit outflows cause a contraction in credit supply
    - Bank capital channel:
      impact on lending depends on banks' capital adequacy

- This paper:
    - How does the variation in deposit distribution across banks
      influences the transmission of monetary policy?
    - What is impact of digitization on monetary policy transmission?
    - Evidence from U.S. banks

Summary of findings

- New stylized facts about banks' heterogeneity in deposit rates
    - Heterogeneity in deposit rates is a new feature of the banking sector
    - Emergence of two types of banks:
        - *high rate banks*: deposit rates near market interest rates
        - *low rate banks*: deposit rates insensitive to market interest rates
    - High rate banks
        - have fewer branches
        - make short maturity loans and hold short maturity securities
        - favor investments of higher credit risk
        - exhibit positive deposit betas

- In monetary policy tightening,
    - deposits flow to high rate banks
    - banking sector maturity transformation decreases
    - credit risk increases

Why should you read it

- Important topic

  - How is digitization transforming the banking sector?

  - How is the transmission of monetary policy affected by the emergence of two types of banks?

  - What are the implications for the economy?

- New stylized facts

  - Data allows to look at the overall structure of the banking sector

  - Clear contribution

  - Insightful results with direct policy implications

Stylized facts: same results but a different story

- High Rate banks
- Fewer branches
- Shorter-maturity assets
- Higher lending spread
- More risk-taking
- Deposit beta increases

Stylized facts: same results but a different story

- High Rate banks

- Fewer branches

- Shorter-maturity assets

- Higher lending spread

- More risk-taking

- Deposit beta increases

- More agile banks

- More risk-taking

- Higher lending spread

- Shorter-maturity assets

- Fewer branches

- Higher deposit rates

- Deposit beta increases

The story you choose to say determines the empirical specification you use.

Empirical Specification

- Classification of High and Low Rate Banks

- Observe change after 2009

- Apply a Diff-in-Diff

  $Y_{i,q} = \delta_q + \beta HR_i \times Post_q + HR_i + Controls_{i,q-1} + \varepsilon_{i,q}$

Empirical Specification

Paper's main empirical specification

- Classification of High and Low Rate Banks

- Observe change after 2009

- Apply a Diff-in-Diff

  $Y_{i,q} = \delta_q + \beta HR_i \times Post_q + HR_i + Controls_{i,q-1} + \varepsilon_{i,q}$
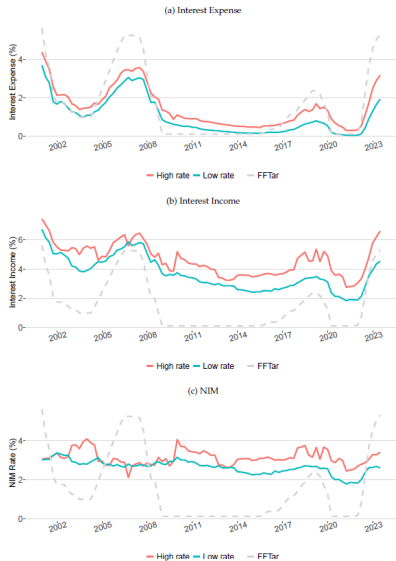
Other empirical specification

- Classification of Traditional and Agile Banks

- Observe change after 2009 (?)

- Apply a Diff-in-Diff

  $Y_{i,q} = \delta_q + \beta Agile_i \times Post_q + Agile_i + Controls_{i,q-1} + \varepsilon_{i,q}$

- Main difference is that deposit rates is an outcome variable

Differences in net interest margin

Figure 6: Net Interest Margin

(a) Interest Expense

(b) Interest Income

(c) NIM

Question: is the difference on interest income larger than the difference on interest expense? How do you explain this? Are high rate banks more profitable on average?

Suggestion: Explore more the differences on net interest margin

Monetary policy transmission

The allocation of deposits across banks has significant implications for the transmission of monetary policy.

Monetary policy transmission

The allocation of deposits across banks has significant implications for the transmission of monetary policy.

- Shall we interpret your findings as suggestive that the transmission of monetary policy is stronger with high rate banks?
  - deposit outflows towards HR banks; increased credit supply with shorter maturities and higher interest rates; less long term investments

Monetary policy transmission

The allocation of deposits across banks has significant implications for the transmission of monetary policy.

- Shall we interpret your findings as suggestive that the transmission of monetary policy is stronger with high rate banks?

    - deposit outflows towards HR banks; increased credit supply with shorter maturities and higher interest rates; less long term investments

- Increase in overall credit risk: financial stability considerations?

Monetary policy transmission

The allocation of deposits across banks has significant implications for the transmission of monetary policy.

- Shall we interpret your findings as suggestive that the transmission of monetary policy is stronger with high rate banks?

  - deposit outflows towards HR banks; increased credit supply with shorter maturities and higher interest rates; less long term investments

- Increase in overall credit risk: financial stability considerations?

Monetary policy transmission

The allocation of deposits across banks has significant implications for the transmission of monetary policy.

- Shall we interpret your findings as suggestive that the transmission of monetary policy is stronger with high rate banks?

    - deposit outflows towards HR banks; increased credit supply with shorter maturities and higher interest rates; less long term investments

- Increase in overall credit risk: financial stability considerations?

- Heterogeneous effect across banks: implications on banking competition?

Monetary policy transmission

The allocation of deposits across banks has significant implications for the transmission of monetary policy.

- Shall we interpret your findings as suggestive that the transmission of monetary policy is stronger with high rate banks?

    - deposit outflows towards HR banks; increased credit supply with shorter maturities and higher interest rates; less long term investments

- Increase in overall credit risk: financial stability considerations?

- Heterogeneous effect across banks: implications on banking competition?

- Stronger impact on firms borrowing from HR banks: implications for competition and firms' risk profile?

Conclusion

- What did we learn?
    - Heterogeneity in deposit rates across banks has increased substantially in the last two decades
    - Two types of banks emerge
    - Important implications for monetary policy transmission and banking sector's risk-maturity profile
- Clear contribution on an important topic
- Study with valuable policy insights

Thank you!