

Discussion of *Monetary Policy, Inflation, and Crises: Evidence from History and Administrative Data*

Fabrizio Core

Dpt. of Business Economics  
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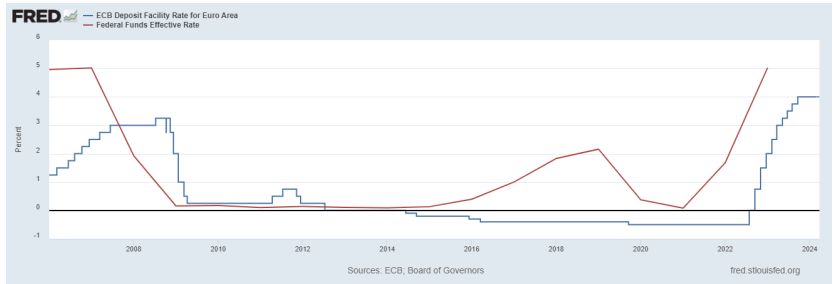
# The Paper

*Does the specific path of monetary rates affect the risk of incurring in a banking crisis?*

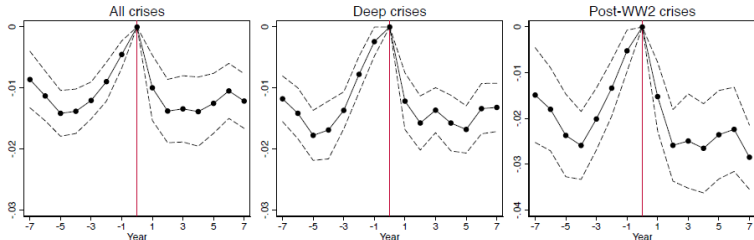
- 1** A U-shaped pattern (decrease-increase) of monetary rate adjustments significantly increases the risk of a banking crisis;
- 2** Rate cuts create vulnerabilities among banking intermediaries (red zone), while rate increases trigger said vulnerabilities;
- 3** Vulnerabilities take the form of higher loan defaults for ex-ante riskier borrowers.

**Amazing macro-to-micro paper on an incredibly important and current topic!**

# The banks aren't alright



# Macro I - Results



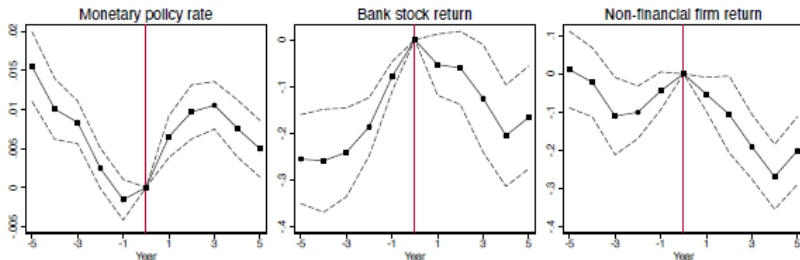
- No comparable patterns can be found in inflation, real and long-term rates.
- No comparable patterns can be found in economic non-financial recessions.

# Macro I - Comments

- 1 Policy implications:** are these monetary policy mistakes? If so, can the authors shed light and what could have worked better?
- 2 Counterfactuals:** Almost all crisis come after U-shapes, but are U-shapes also associated with non-crises? If so, how frequently?
- 3 Frequency:** why 8(6)-years cycles? Does the breadth of the U matter (i.e., is it a hockey stick)?
  - What about controlling for the moving-average of recent rates?
- 4 IV:** What if countries that do not face the Trilemma are excluded (i.e., non-pegged currencies)?

# Macro II - Results/Comments

- Rate cuts increase the chances of entering a financial red zone (elevated asset prices/credit). Raising rates in the red zone increases the risk of a banking crisis.
- The U-shape is associated with strongly negative real bank stock returns in the two years following the crisis.



**Relevance:** burgeoning paper but some results in this section are underwhelming.

# Micro - Results

Use microdata from the credit registry to zoom in on the case of Spain during the GFC.

- Loans granted during the first leg of the U-shape are more likely to default in the second leg of the U-shape.
- The result is robust to including a variety of fixed effects, notably firm fixed-effects.
- Several splits with triple-interactions prove that riskier firms and banks are more exposed.

# Micro - Comments

This part really helps nailing down the mechanism, but it feels rushed!

- Triple interactions are messy: wouldn't be better to study how firm characteristics change at origination across the U-shape?
- Similarly, how these results differ for banks with different need to reach for yield?
- Ultimately, I think the goal should be to establish banks' incentives to lower credit standards.
- Firm fixed effects are cool, but here they ultimately boil down to comparing older to newer loans (which are always more likely to default by survival bias).



# Conclusion

Overall, this is a great paper that cannot be more current. Amazing blend of macro- and micro-level evidence

- Very well written, but a bit long.
- The micro-evidence really helps the macro-part of the paper, but it could be given larger weight in the draft.
- Some tests in the macro-part seems redundant or appendix-material.

**I am sure this paper will fare extremely well!**