Discussion on

"Buying insurance at low economic cost – The effects of bank capital buffer increases since the pandemic"

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Paper's Summary (1/2)

- Question: How have increases in macroprudential capital buffer requirements (CCyB, SyRB, O-SII/G-SIB) since the pandemic affected bank lending behavior in the euro area?
- Data: AnaCredit (European credit register for firms)
  - 2021 Q1–2023 Q2
  - Collapsed to (1) bank-firm-quarter level and (2) firm-quarter level
  - 2,146 banks; approx. 15 million observations (bank-firm-quarter)
- Panel data regression with KM FEs and ILS FEs; intensive and extensive margin effects
- Main explanatory variables:
  - $\Delta CBR_{i,t}$: difference between announced and implemented CBR
  - $D(D2CBR < \tau)_i$: dummy variable for bank's capital headroom (well- vs. less-capitalized banks)
- Main dependent variables:
  - $\Delta \ln(loan_{i,j,t})$: change in outstanding loans
  - $D(new\,rel)$: dummy for firm's new loan established with a new bank

Paper's Summary (2/2)

Findings:

1. For the average bank, announced CBR increases did not affect credit supply to firms.

2. Slower loan growth for banks with less capital headroom.

3. Effects observed at both the extensive and intensive margins.

4. Lending to firms with a single bank relationship and small/micro firms decreased, but some credit substitution mitigated these effects.

5. Important policy implications: Activating releasable capital buffers at an early stage of the cycle has high benefits of increased resilience to shocks at low cost.

- A rich set of results and robustness analyses; very granular dataset; already well-developed paper.
- Comments:
  - Cross-country heterogeneity and variation in CBR.
  - The role of inflation and PGLs.
  - Some minor comments.

Cross-country Heterogeneity and Variation in CBR

- From approx. 15 million observations, 33% are from IT and 20% from ES.
- Are non-significant effects due to limited CBR changes in these countries?
- Suggestions:
  - ▶ Limit to banks with nonzero ΔCBR or specific thresholds.
  - ▶ Explore non-linear effects with higher ΔCBR. Use dummies for different quantiles.
  - ▶ Address cross-country heterogeneity with country FEs or sub-analysis by country groups.
  - ▶ Consider firm's country for FEs instead of bank's country (different macrofinancial/structural conditions).
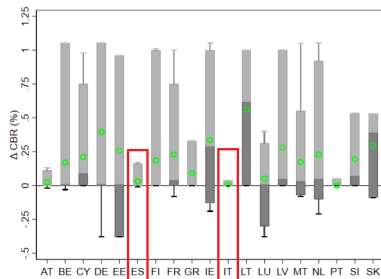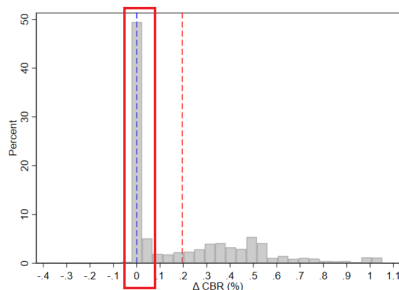

Figure 1: Distribution ΔCBR across banks averaged over 2021Q2 - 2023Q2   Figure 2: Distribution ΔCBR across countries averaged over 2021Q2 - 2023Q2

What Might Have Affected Your Results?

- Sample period: 2021 Q1–2023 Q2
- The role of inflation:
  - EA-19: 1M/2021 0.9%; 10M/2022 10.6%; 6M/2023 5.5%
  - In some months, the difference between countries was up to 19 pp (8/2022: FR 6.6% vs. EE 25.2%)
  - Suggestion: Consider real credit and include firm's country FEs.
- Some COVID-19 public guaranteed loan programs continued beyond 2020.
  - How do you treat these loans in your analysis?
  - Significant heterogeneity in programs across countries. Additionally, both banks and firms engaged in PGLs differ in characteristics from the rest.
  - Suggestion: Run robustness checks without PGLs.

Minor Comments & Questions (1/2)

- ΔCBR combines increases in CCyB, SyRB, and O-SII/G-SIB.
  - ▶ There are different motives/methodologies behind setting each of them (different positions in the financial cycle, levels of structural risks, and structures of the banking system).
  - ▶ It is worth estimating the effects on subgroups of countries, e.g., those increasing either CCyB or SyRB.
- Effective vs. announcement date:
  - ▶ ΔCBR measures impact of the announced change in CBR, not the effective one.
  - ▶ Would you expect the results to be similar after the CBR is in effect?
  - ▶ Could the impact differ with respect to the length of the period between the announcement and effective date? Shorter period $\rightarrow$ stronger reaction?

Minor Comments & Questions (2/2)

- Suspected multicollinearity
  - ▶ Quite a few financially interlinked controls: TSCR, CET1, log(TA), RWA/TA, cash/TA, ROA, NPL, deposits/TA, loans/TA.
  - ▶ Controls are often non-significant.
  - ▶ Endogeneity?
  - ▶ Check for high correlations; introduce controls one-by-one.
- New vs. outstanding loans
  - ▶ In response to MP tightening, how did loan maturities change? Substituting LT loans for ST loans? The effect on your results?
  - ▶ Consider looking at the change in new loans (first appearance) rather than outstanding amounts.

To Sum Up

- Great paper, making a very important contribution to the literature.
- Highly policy relevant.
- Well-structured, with careful identification.
- I enjoyed reading it and highly recommend it.

Thank you for your attention!

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