IN LANDS OF FOREIGN CURRENCY CREDIT, BANK LENDING CHANNELS RUN THROUGH?

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MAIN ELEMENTS

- Study effects of monetary policy interest rate on currency composition of loans. Use comprehensive, rich data set on bank lending to firms in Hungary.
- Aim to disentangle supply- vs. demand-side effects by focusing on changes in lending in the *same month to the same firm* and by controlling for GDP and inflation.

MAIN RESULTS

- Lower domestic interest rates are associated with relatively higher lending in domestic currency.
- Lower foreign interest rates are associated with relatively higher domestic lending in foreign currency.

ADDITIONAL ASPECTS

- Identification of bank-lending channel effects through bank-level heterogeneity (capital ratios, liquidity ratios, NPLs).
- Results consistent with bank lending channel mechanism.
- Little literature on bank lending channel in dollarized/eurorized economies:
  - Gelos and Piñon (2008) examine bank-lending channel effects in a highly dollarized economy (Uruguay).
  - Mora (2013) examines bank lending channel in Mexico, relates to fx deposits
  - Horváth, Krekó and Naszódi (2006):Hungary
  - Pruteanu-Podpiera (2007): Czech Republic
  - Havrylchyk and Jurzyk (2005): Poland

COMMENTS

- **Overall: Interesting question, great data set, carefully executed. Convincing control for demand effects➔Nice paper.**
- Less clear: focus on bank-lending channel vs. assessment of overall effects.
- Is purpose (i) to understand the overall change in credit in different currencies associated with monetary policy actions, or (ii) test whether the bank lending channel is prevalent, and how it works across currencies?

COMMENTS

- Well-known weakness of identification-through-heterogeneity approach: don't know how much of this is substitution between lenders (and currencies) versus aggregate credit contraction/expansion (Van Den Heuvel, 2012, shows that for the U.S., there are aggregate bank-lending-channel effects.)
- Another issue in a small open economy: cannot be certain about total effects on lending given that cross-border lending is not included.

COMMENTS

- Authors mostly discuss interaction terms: differences across banks and across currencies, not total effects. Sometime, however, the discussion seems to mix the two.
- If non-interactions and double interactions are to be interpreted more clearly, variables need to be demeaned.

COMMENTS

- In a small open economy, need to control for external conditions (e.g. country sovereign spreads) in addition to GDP and inflation.
- It would be nice to use the bank-level fx exposure in addition to capital/liquidity/NPLs
- Why emphasis on extensive margin?
- Low inflation associated with larger nominal credit growth. Could discuss more.

MINOR COMMENTS

- Methodological discussion somewhat repetitive – could streamline.
- Is the *yearly* change in the interest rate the best measure?
- Use output gap instead of GDP growth as control (Taylor rule)?

OVERALL

- Well done.
- Clarify a few issues and otherwise do not listen to much to discussants, and submit it to a good journal!