

Monetary Transmission through Bank Securities Portfolios

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Summary

- The transmission of monetary policy through bank securities portfolios for the United States using granular supervisory data on bank securities, hedging positions, and corporate credit.
- The results underline that banks that experienced larger market value losses on their securities during the monetary tightening cycle in 2022 extended relatively less credit to firms.
- Such a spillover effect was stronger for:
 - (i) available-for-sale securities,
 - (ii) unhedged securities, and
 - (iii) banks that have to include unrealized gains and losses on their available-for-sale securities in their regulatory capital
 - **(iv) smaller firms are more impacted by the reduction of lending** (*you do not emphasize this result in the abstract and introduction*)

Strengths

- 1. Empirical Analysis:** The paper uses granular supervisory data on bank securities, hedging positions, and corporate credit to conduct an empirical analysis. This data-driven approach provides a strong foundation for the findings and allows for a detailed examination of the transmission of monetary policy through bank securities portfolios.
- 2. Timely Relevance:** The paper focuses on the transmission of monetary policy during a specific period, the monetary tightening cycle in 2022, making it relevant to current economic and policy discussions.
- 3. Identifying Spillover Effects:** The paper identifies a spillover effect, showing that banks that experienced larger market value losses on their securities extended relatively less credit to firms. This finding has important implications for understanding the impact of monetary policy on bank lending behavior.
- 4. Granularity:** The paper distinguishes between different types of securities (available-for-sale securities, unhedged securities) and different characteristics of banks (capital treatment of unrealized gains and losses), different kinds of firms and object of lending providing a nuanced analysis of how these factors influence the transmission of monetary policy.
- 5. Policy Implications:** The paper's findings suggest that the regulatory treatment of unrealized value changes of securities can affect the transmission of monetary policy. This has important policy implications for how banks are regulated and how monetary policy decisions are made.

Some suggestions

- Basically two papers in one, one on the effect of the value of securities on bank lending and one on the structural model which is a more theoretical approach
- Although the aim of the paper is clear,our suggestion is to better clarify the hypotheses development in the literature review section
- And guide the reader through the paper
- **Generalizability:** The study focuses on a specific monetary tightening cycle in 2022 in the United States. Probably, the findings may not be easily generalizable to other time periods or countries. It's important to discuss the limitations of the study's external validity.

Some suggestions

- **Data: 2021Q1-2023Q1**

The increase of interest rate starts **in early 2021 (why do not consider previous periods before 2021Q1?)**

- The amount of ASF (as well as hedged securities) in the balancesheet could be affected by **endogenous bias (management decision? and/or BoD decision?)**. **How do you manage this bias?**
- Why do not apply a **DID method** to compare the effect of the increase of interest rate on bank loans?
Treated banks with high ASF or AC banks
- The decrease of lending may depend on **the demand of credit** (*can you check for this information?*)
- The impact can depend on the firm characteristics (not only size): e.g. level of leverage, default risk, sector ecc...
- Table 7.2 the result may be driven by **the weight of AFS Hedged** (on average 11%?). Moreover, the composition of hedged and unhedged among NC and AC is very different. Can this affect the results?
- Value of AFS: at the denominator could you use **as an alternative** the **total of security investments**

Minors

- Conclusions: develop better the contribution to the literature and policy implication
- The analysis on capital requirement (in appendix), could be included in the main analysis (very interesting result)
- The monetary transmission should be better examined: clear differentiation between effects on AFS and HTM + assessment linked to interest rates dynamics

Thank you

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