Discussion of "Real Domestic Effects of Bank Cross-border Lending"

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Views are my own and not necessarily those of the BIS or its member institutions

Does cross-border bank lending boost domestic growth?

- **Intriguing question**
- **Results are a bit counterintuitive**
- **To be convincing, may need**
  - **Higher standard of (causal) evidence**
  - **Direct evidence of the mechanism(s) at work**

Micro-data analysis

- **IV approach with shift-share instrument**: pre-exposure to country*increase in aggregate lending to that country, summed across countries

- **IV estimate = Local average treatment effect (LATE) of bank A increasing XB lending when all UK banks expand XB lending**

  - Could capture aggregate drivers of bank lending correlated with domestic productivity

- **Selection of growing firms into banks that expand domestic lending alongside cross-border lending**

- **Shift-share IV is better than nothing, but uphill battle to still be convincing**

Focus on the proposed mechanisms

- **1. Foreign lending → better screening**
  - Banks cut low performers, start lending to new more productive firms

- **2. Foreign lending → knowledge transfer**
  - Banks' existing clients perform better, regardless of additional credit

- **Dimensions to check:**
  - Any change to credit supply?
  - Terms of credit?
  - Extensive margin of bank credit (screening)?
  - Intensive margin?

- **Results at the bank level could be useful** (eg loan weighted productivity of counterparties)

Macro-data analysis

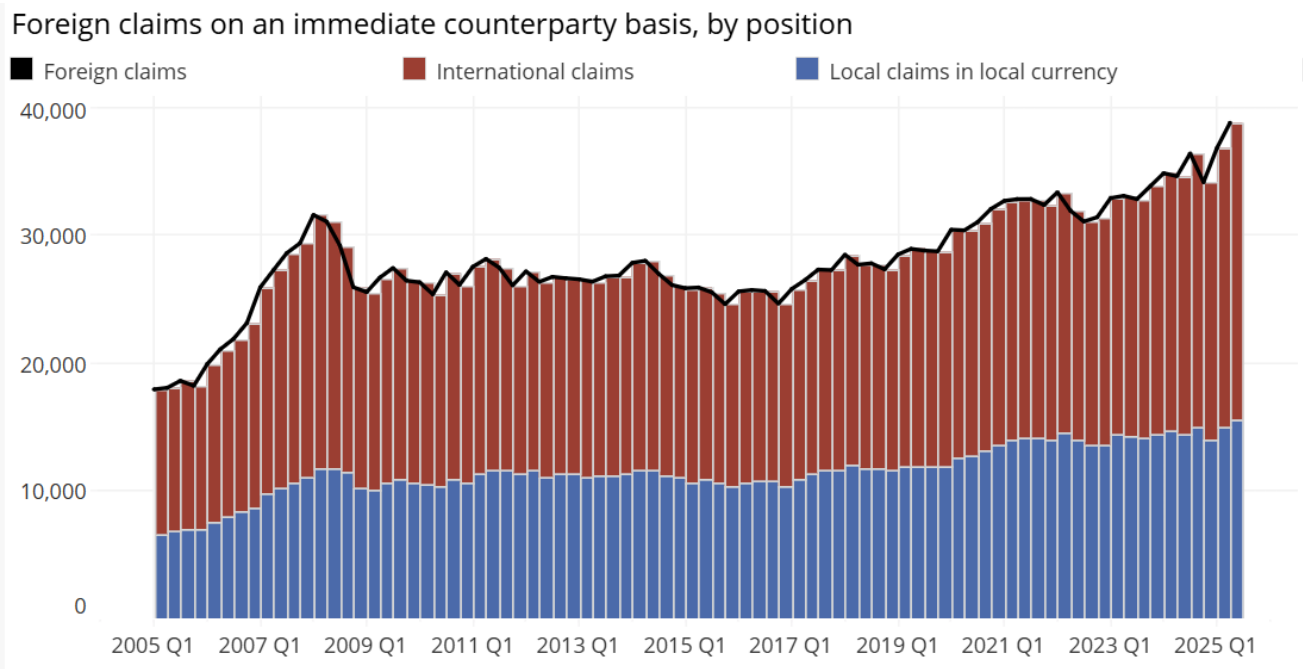
- **Valuation effects are important here!**
  - USD depreciation → mechanical increase in measured foreign claims
  - USD depreciation → global boost to credit, international bank lending, trade, investment…
    - Bruno and Shin (2015); Avdjiev et al (2020); Hofmann et al (2022); Hofmann and Park (2020); Banerjee et al (2022)

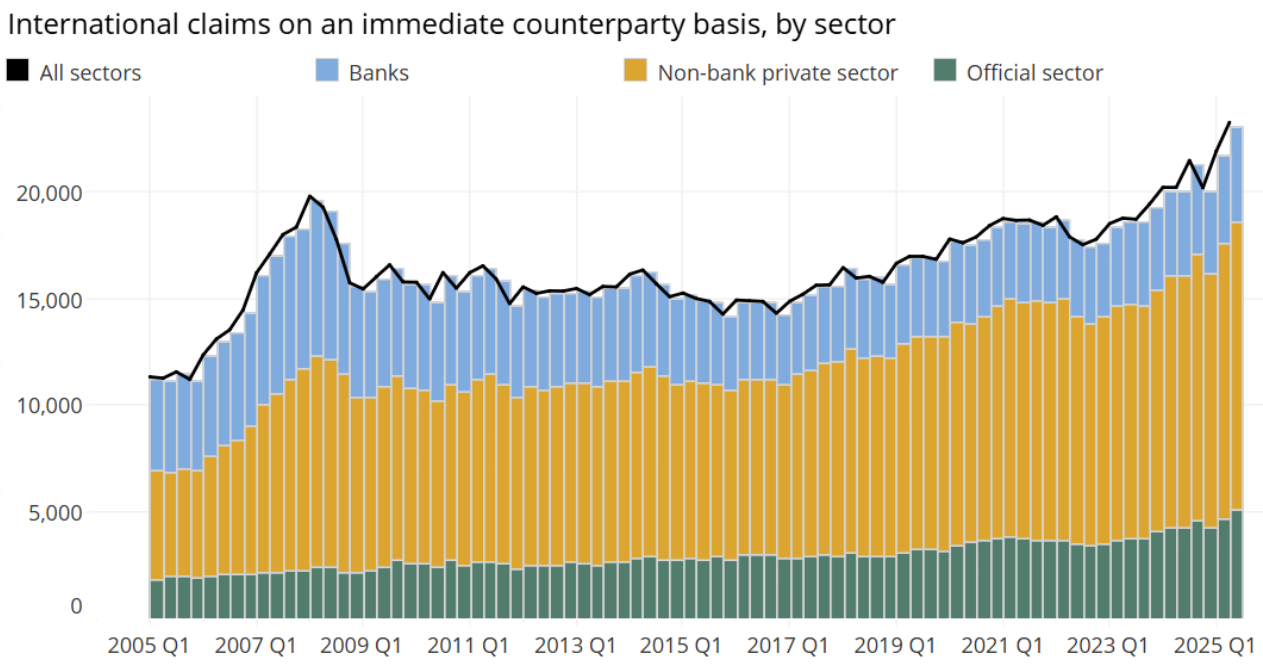
- **USD strength is key confounding factor**
  - Not absorbed by the time fixed effects (different loadings, different FX share in foreign claims)

- **Can make some headway on valuation effects**
  - Foreign claims = international claims + local claims in local currency
  - Know currency of local claims in local currency, apply a valuation adjustment to this
  - Estimate currency composition of international claims (or assume most is in USD)

BIS data

- **Title of paper is a misnomer: this is foreign claims, not cross-border claims**
  - Opportunity: see if this relationship is stronger for international claims or for local claims in local currency
    - Local claims → better information, but less automatic sharing with the group
    - International claims → more distance, but more direct link to home country lending operations
  - International claims can be further split by sector
    - Should see most of the impact from lending to private non-bank sector





Suggestions

- **Show evidence for the mechanism**
  - Bank-level results?

- **Clean up valuation effects, explore macro data**

- **Reorder paper**
  - Micro evidence first, with more convincing work on the mechanism
  - Then macro evidence to establish external validity

- **Very interesting work!**