U.S. Monetary Policy and Fluctuations of International Bank Lending
Avdjiev and Hale

Discussion by Şebnem Kalemli-Özcan

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Asia Economic Policy Conference: Monetary Policy Challenges in a Changing Global Environment
**Key Finding of the Paper**

- **Asymmetry Result:** Effects of US MP on banking flows differ: by US MP component, in different flow regimes

  - **Booms:** banking flows INTO EM with **high FFR** ⇒ “search-for-yield” (fundamentals)
  - **Stagnations:** banking flows OUT OF EM with **high FFR** ⇒ high cost of funds, flight to safety (stance)
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- **Possible Interpretation**
  - **Booms**: dollar depreciation makes EM borrowers more creditworthy
  - **Stagnations**: dollar appreciation makes EM borrowers less creditworthy

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<th>Boom</th>
<th>Stagnation</th>
<th>USD dep</th>
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<td>FFR ↑</td>
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  **Omitted factors:** If \(\uparrow\) FFR captures fundamentals, flows into EM both during booms and stagnations but stagnation result is not robust to controlling spreads and VIX.
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**Diagram:**
- Federal Fund Rate (LHS)
- log(VIX) (1990m1 = 100, RHS)
- Broad Dollar Index (1973m3 = 100, RHS)

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Alternative:
- Borrowing/funding costs change with capital flows; role for domestic banks (Baskaya, di Giovannoi, Kalemli-Ozcan, Ulu, 2017)

$$r_{i,t} = r^*_{t} + E_{t} \Delta e_{t+1} + \gamma_{i,t}$$

Capital inflows (outflows) into EM when country risk is low (high) ⇒ correlated with VIX ⇒ correlated with US MP fundamentals (stance).
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![Graph](image)

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What channel explains the result?

- High-low banking flow regime definition may not directly map to high-low VIX regime or high-low exchange rate regime
- More work needed on endogenous regimes, which is possibly linked to potential channels behind the results