

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  $\Rightarrow$  “search-for-yield” (fundamentals)
  - **Stagnations**: banking flows OUT OF EM with high FFR  $\Rightarrow$  high cost of funds, flight to safety (stance)

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- Regimes are correlated with changes in VIX, spreads, **exchange rate**
- **Possible Interpretation**
  - **Booms**: dollar depreciation makes EM borrowers more creditworthy
  - **Stagnations**: dollar appreciation makes EM borrowers less creditworthy

		Boom	Stagnation		USD dep	USD app
FFR $\uparrow$	MP	0	-		0	-
FFR $\uparrow$	TR	+	+ / 0		+	+

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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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Rests on: balance sheet currency mismatch in EM

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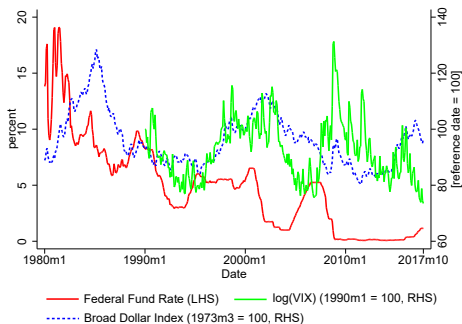
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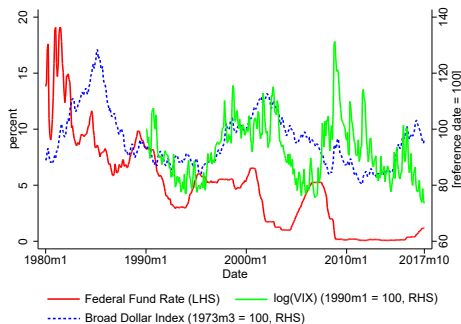
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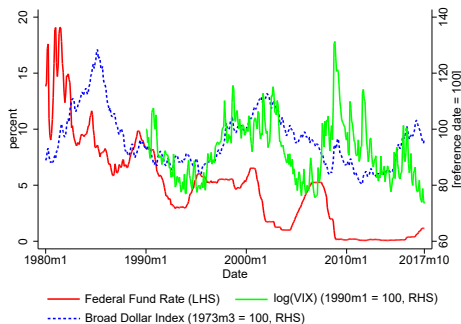
- Alternative: Borrowing/funding costs change with capital flows; role for domestic banks (Baskaya, di Giovanni, Kalemli-Ozcan, Ulu, 2017)

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- Capital inflows (outflows) into EM when country risk is low (high) ⇒ correlated with VIX ⇒ correlated with US MP fundamentals (stance).

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- Asymmetry result is new and interesting
- 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