Balloch and Koby paper
Low Rates and Bank Loan Supply: Theory and Evidence from Japan

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Discussant
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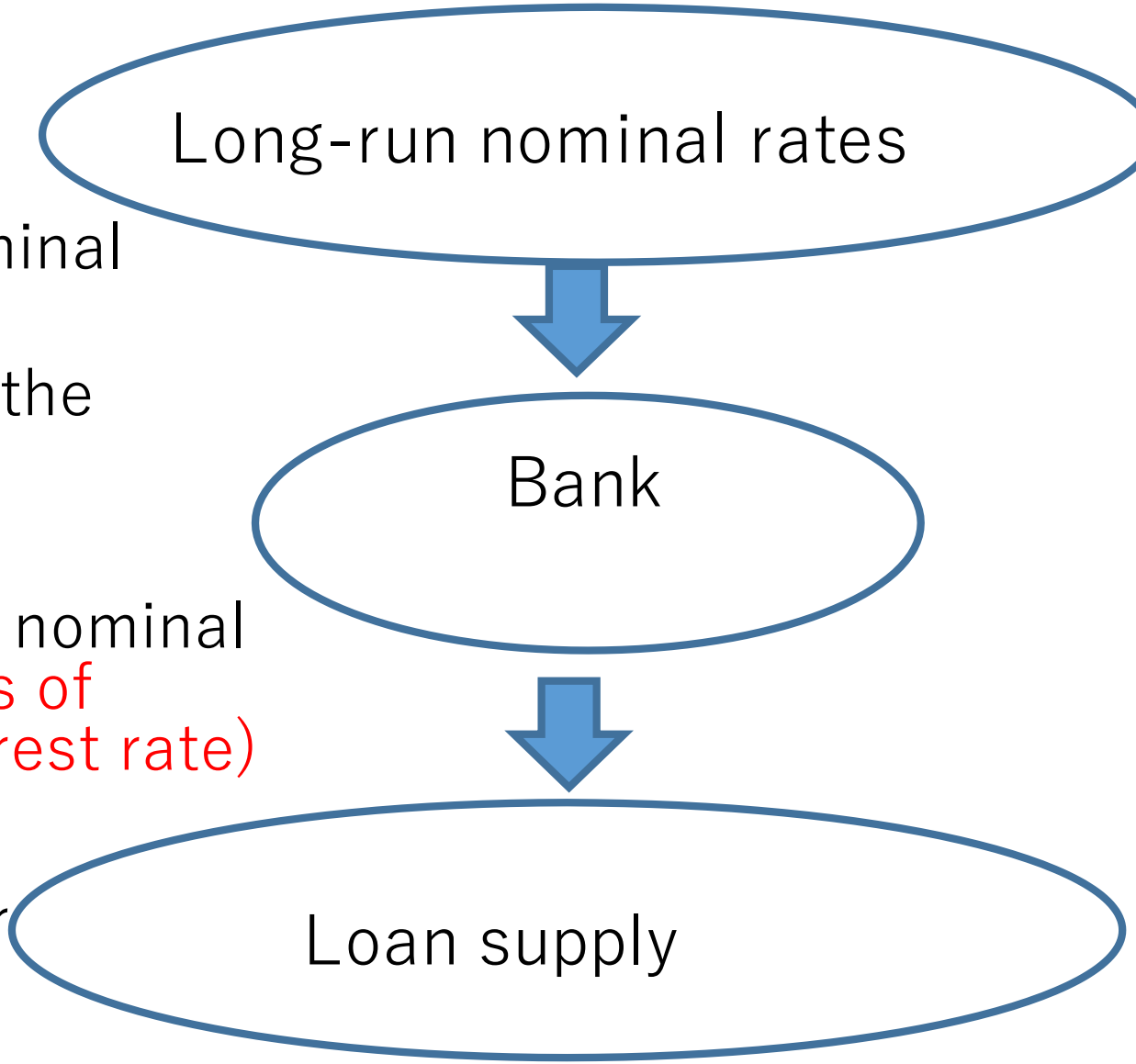
What the paper does

- Examining long-run effects of nominal rates for credit supply,
- Finding policy tools for mitigating the unexpected effects

- Related papers proposed that low nominal rates reduce or reverse the effects of monetary policy (the reversal interest rate)

- Japan provides an ideal setting for examining the issues



The reversal rate

- The “reversal interest rate”, the rate at which accommodative monetary policy “reverses” its effect and becomes contractionary for output

- Quantitative easing increases the reversal interest rate
- The reversal interest rate is not necessarily zero

- The paper’s results relate to the idea that the long-run reversal rate is positive and high
- Japan’s nominal rates have been very low for very long

Contribution of the paper

- Exposed banks face relatively higher costs of funding, have lower profitability and decrease loan supply
- Loans are undersupplied in the model
- Low interest rates resulted in lower loan growth, in Japan
- Negative effects of low interest rates on credit supply

by controlling identification challenges: loan supply needs to be disentangled from the effects on loan demand

Contribution of the paper

- Exploring two policies that have not been implemented nor tested in literature
- Bank reserve tiering has a limited effects
- A tax on currency holdings as well as tiering alleviate the negative effects of low interest rates on loan supply

- Provides macroeconomic model with heterogeneous banks that rationalizes exposure to low nominal interest rates

My comments

1) Sample coverage, too long?
from 1975 to 2017
Probably enough to examine period after 2000

2) The exposure α_j
The markup charged on deposits in 1990
“ex-ante” extent of banks’ market power ?

3) Post $_t$ dummy
4) Effects on equity
5) Empirical studies using firm - bank loan - level data
Not so clear points on borrowing from banks

Comment1 Sample coverage

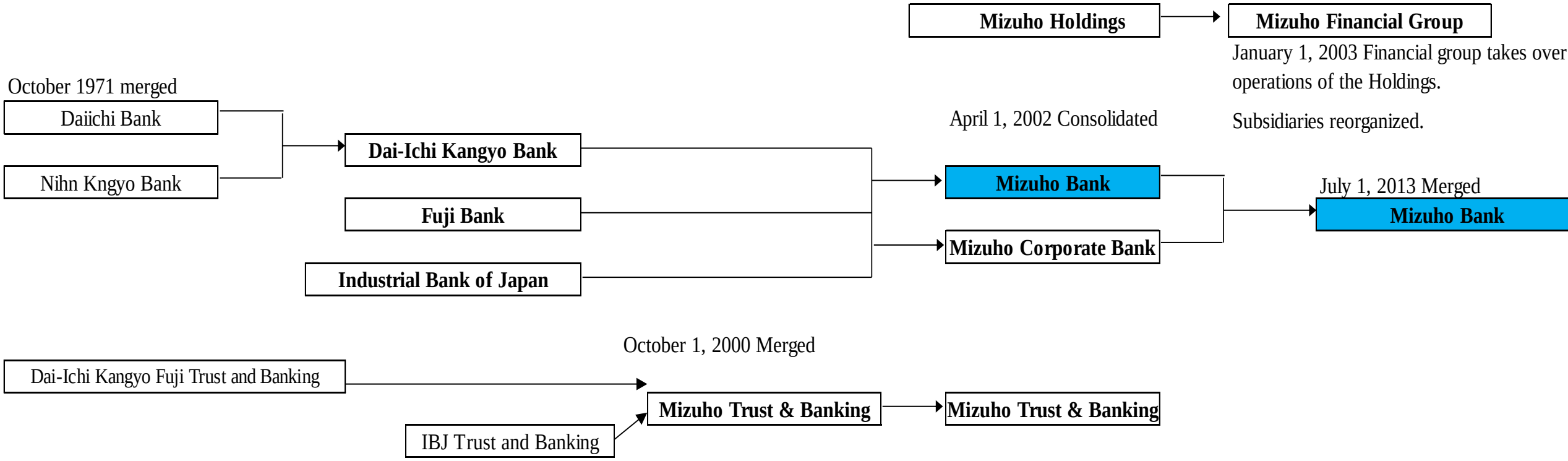
- Longer than unconventional monetary policies, which lowered long-run interest rates

- Most literature examining the effects of UMP investigates period after 2000, partly to avoid complexity of mergers and failures

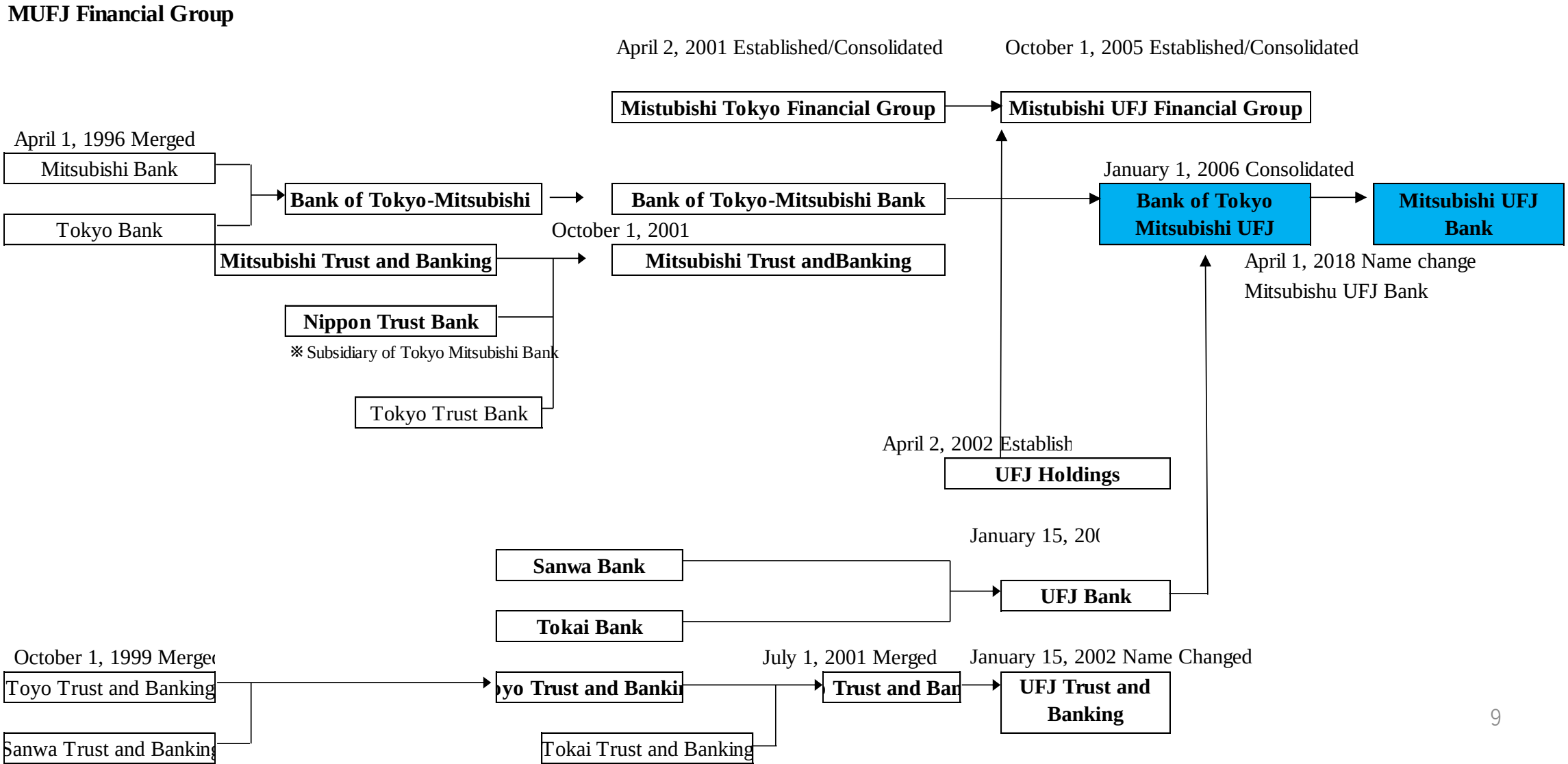
- Key parameter in the regression uses the value in 1990
- Too many changes, many bankruptcies and mergers in 90s and early 2000s, Omitting 1990s and starting from 2000?

Mizuho Bank

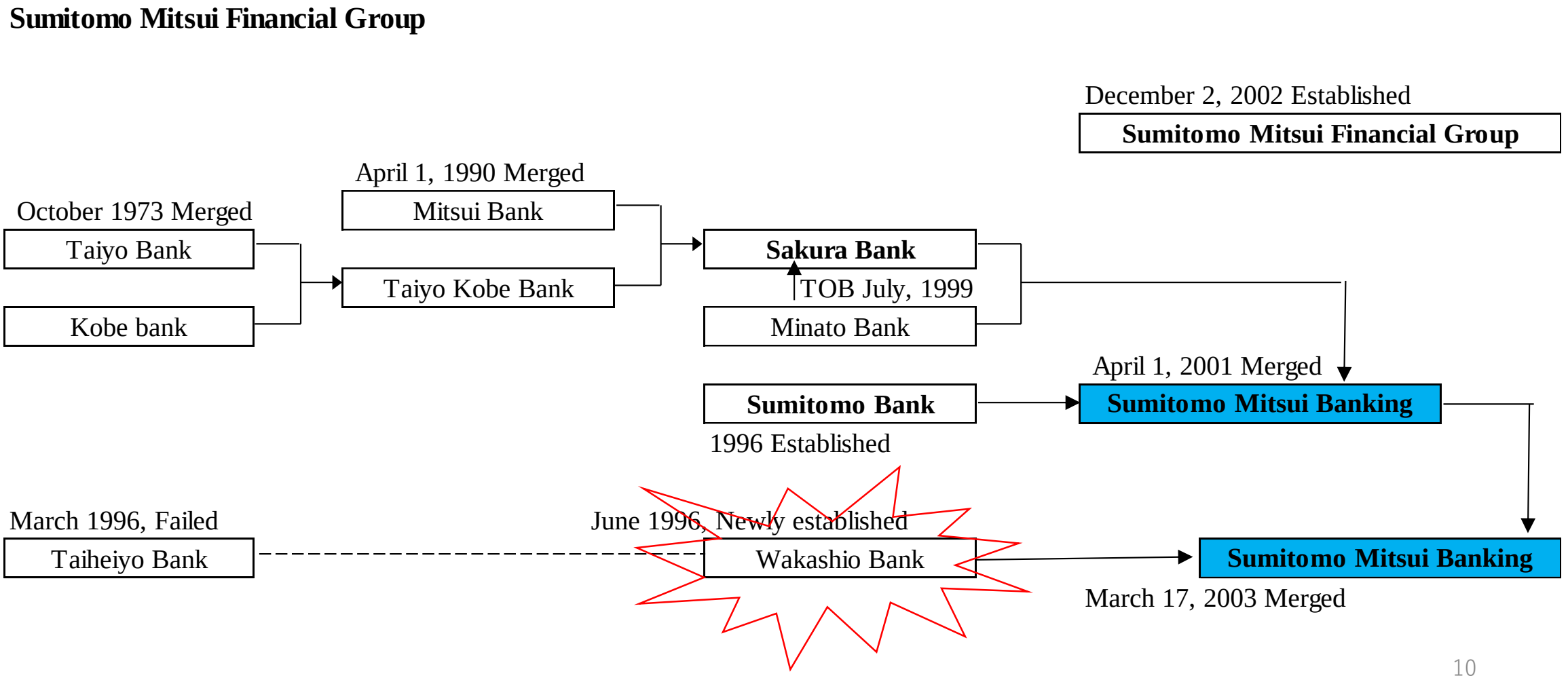
Mizuho Financial Group



MUFJ Bank mergers are tracked manually and many are not included…



SMBC current SMBC is former Wakashio Bank, reverse merger



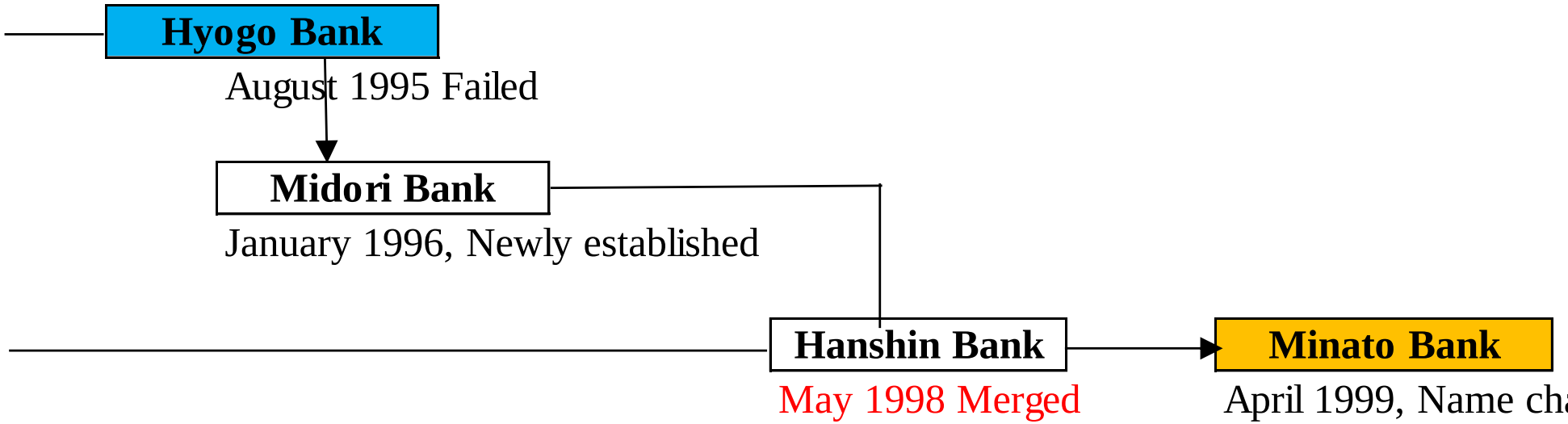
Acquired banks = Failed banks, relief merger

Bankruptcy date	Name of bank	Type of failure	Transfer of business, contractual transfer or current name
1995/8/30	Hyogo Bank	Announcement of the failure by the Ministry of Finance	Midori Bank (later Minato Bank)
1996/3/29	Taiheiyo Bank	Announcement of the disposal plan	Wakashio Bank (Newly-established bank by Sakura Bank)
1996/11/21	Hanwa Bank	Ordered suspension of business by the authorities	Kii Deposits Management Bank
1997/10/14	Kyoto Kyoei Bank	Transfer of business	Kofuku Bank (later bankrupt)
1997/11/17	Hokkaido Takushoku Bank	Transfer of business	Hokuyo Bank and Chuo Trust &Banking
1997/11/26	Tokuyo City Bank	Transfer of business	The 77 Bank and Sendai Bank
1998/5/15	Midori Bank	Transfer of business	Hanshin Bank
1998/5/22	Fukutoku Bank	Transfer of business	Namihaya Bank (Newly-established by the government. Later banklupt.)
1998/5/22	Naniwa Bank	Transfer of business	Namihaya Bank (Newly-established by the government. Later banklupt.)
1998/10/23	Long-Term Credit Bank of Japan	Decision to commence special public management and the government purchase of shares	Transfer and purchase of shares to New LTCB Partners. Now Shinsei Bank
1998/12/12	Nippon Credit Bank	Decision to commence special public management and the government purchase of shares	Transfer and purchase of shares to Softbank Group (consisted by Softbank, Orix and Tokio Marine). Now Aozora Bank

1999/4/11	Kokumin Bank	Announcement of failure	Yachiyo Bank
1999/5/21	Kofuku Bank	File for a disposal	Kansai Sawayaka Bank
1999/6/11	Tokyo Sowa Bank	File for a disposal	Tokyo Star Bank
1999/8/6	Namihaya Bank	File for a disposal	Daiwa Bank and Kinki Osaka Bank
1999/10/1	Niigata Chuo Bank	File for a disposal	Taiko Bank, Daishi Bank, Hachijuni Bank, Higashi-Nippon Bank, Gunma Bank and Towa Bank
2001/12/28	Ishikawa Bank	File for a disposal	(Through Bridge Bank of Japan) Hokuriku Bank, Hokkoku Bank, The First Bank of Toyama, Kanazawa Shinkin Bank and Noto Shinkin Bank
2002/3/7	Chubu Bank	File for a disposal	(Through Bridge Bank of Japan) Shimizu Bank, Shizuoka Chuo Bank and Tokyo Star Bank
2003/11/29	Ashikaga Bank	Temporalily nationalized	Nomura Financial Partners (Nomura Holdings) and Next Capital Partners Co., Ltd., acquired all outstanding shares of Ashikaga Bank from the DIC (July 2008)

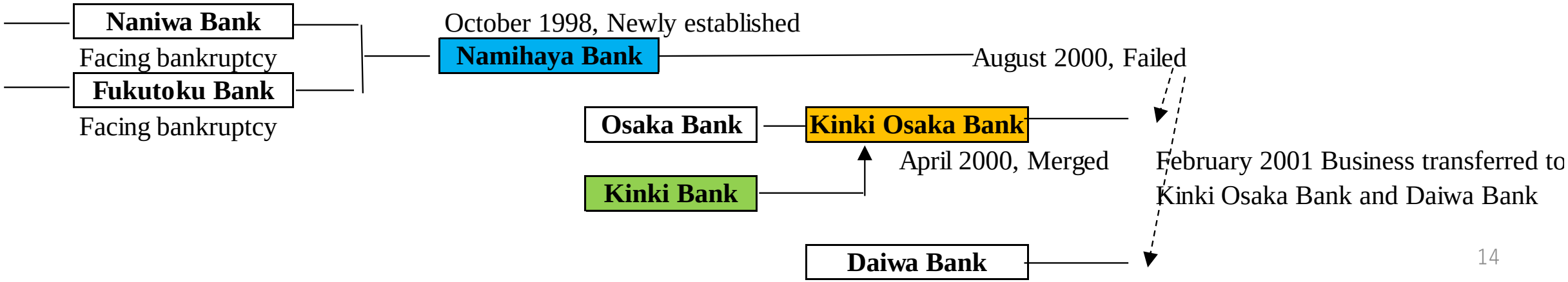
M&A in Appendix

- In the appendix, Hyogo Bank was acquired by Minato Bank in 1995Q3, the Midori Bank was also acquired by Minato Bank in 1999Q1
- Midori Bank was newly created to absorb failed Hyogo Bank next year but there was no Failure Resolution Framework, Midori Bank also failed in 1998



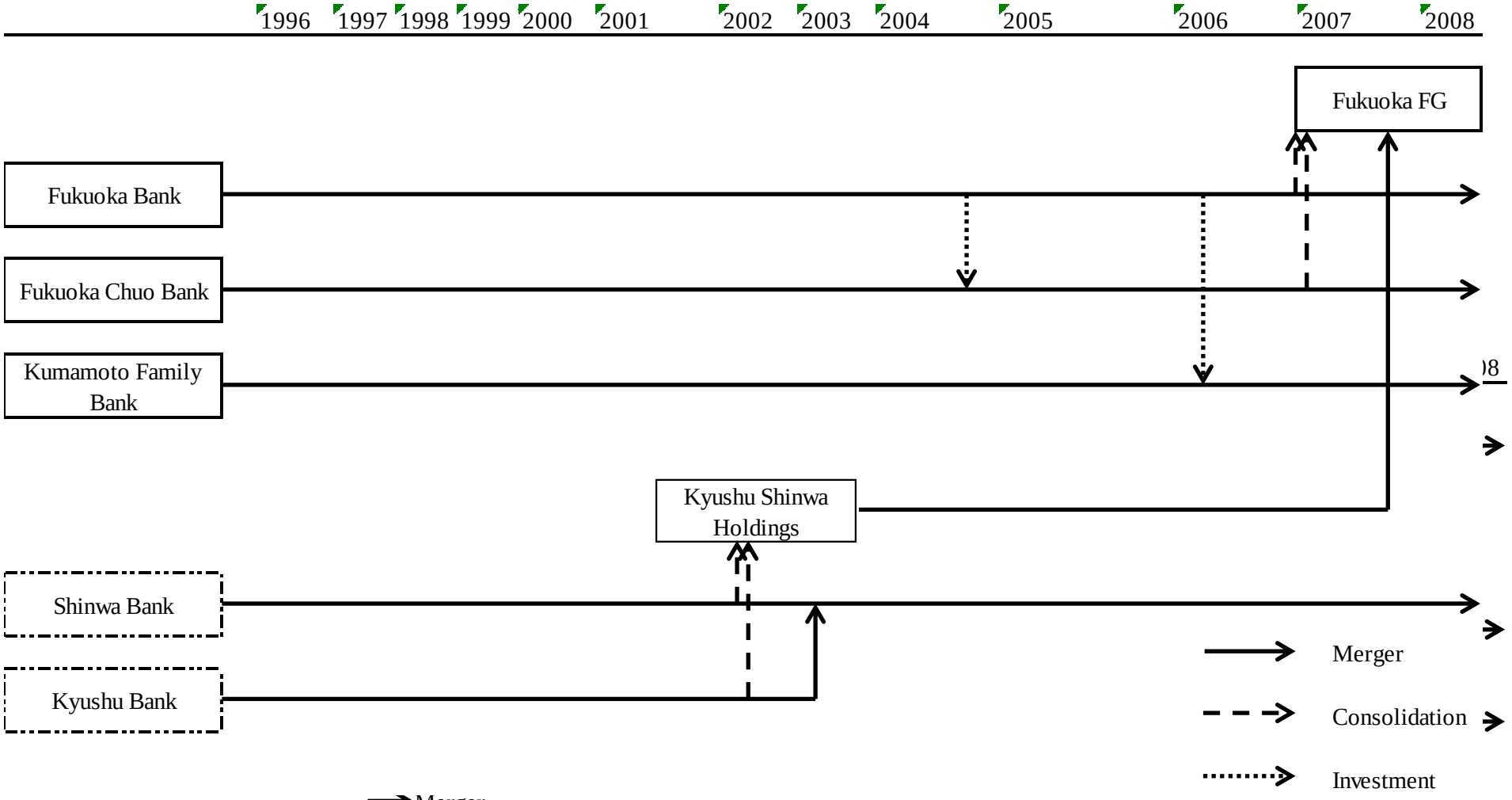
M&A in Appendix

- In the appendix, Namihaya Bank failed in 2000Q1 and Kinki Osaka Bank acquired Kinki Bank in 2000Q1
- Naniwa Bank and Fukutoku Bank can't be included in the cross-section regression?
- Namihaya Bank were not merged by Kinki Osaka and Daiwa Banks?



Some even after 2000

Fukuoka Financial Group



Comment1 Sample coverage

- No consistency for the classification of mergers and failures
- Many missing bank mergers that are not treated
- The paper focuses on the relationship between low rates and credit supply. Should not be bothered by these
- Omit 1990s?

Comment2 The exposure $\hat{\alpha}_j$

- Banks' exposure to the low interest rate is captured by $\hat{\alpha}_j$, which is defined as the difference between the real interest rate in 1990 and the bank's deposit rate in that year

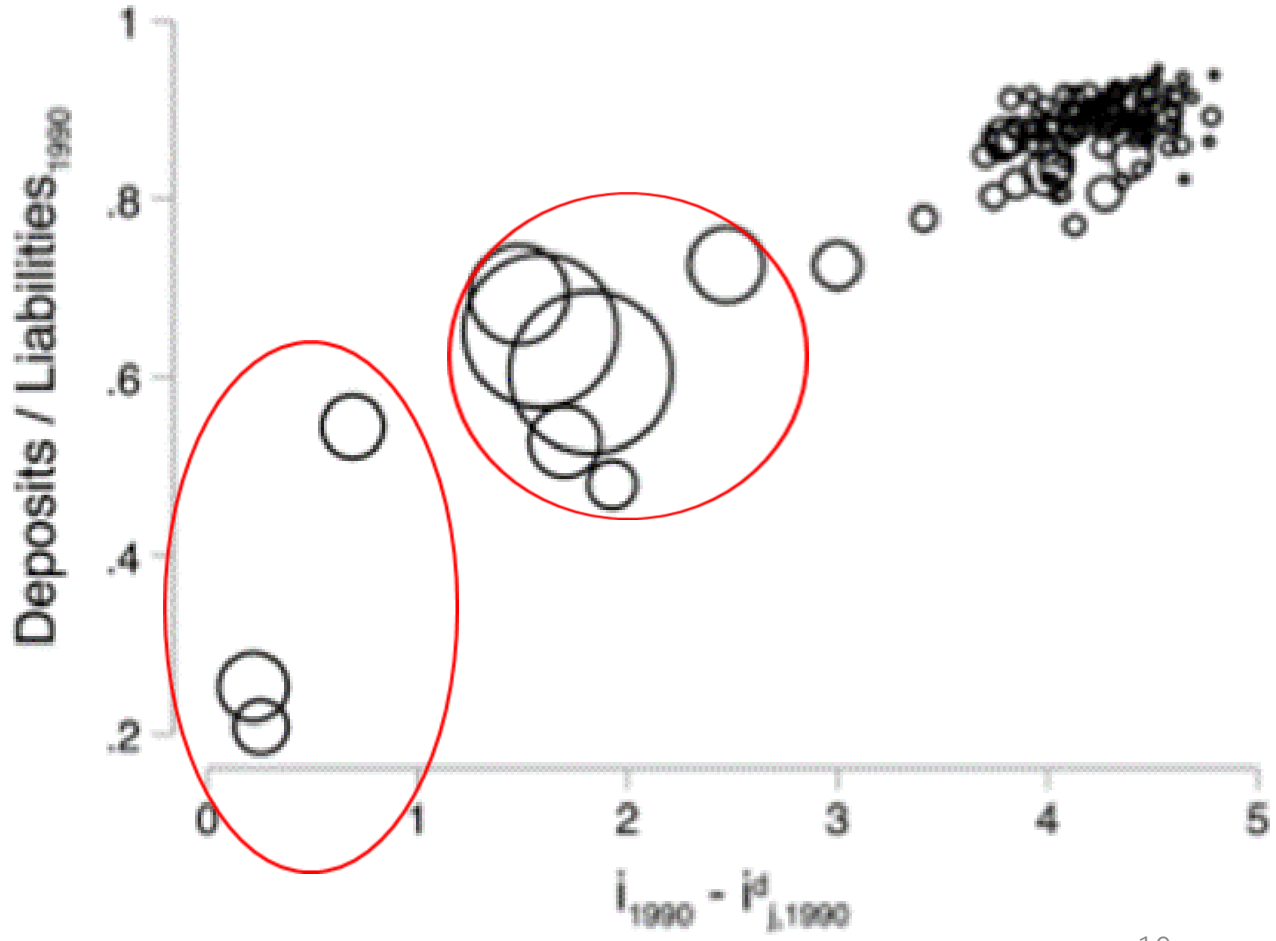
- "ex-ante" exposure can be after 1994 because ordinary deposit rate was completely deregulated in October 14th 1994

Japan Short and Long Term Rates 1989-

Comment2 The exposure $\hat{\alpha}_j$

- Banks located near 0 must not be ordinary banks, probably government banks, and large city banks

- “ex-ante” exposure captures bank size and type?



Comment3 Post t dummy

- Dummy takes 1 for years after 2000, takes 1 till 2017?

- Many events had occurred…

IT bubble burst, GFC, Great earthquake and so on…

Some economic fluctuations also…

Comment4 Effects on equity

- $\hat{\alpha}_j$ is not significant
- Regression results are not significant

- No wonder as the dependent variable is

Dividend payments/ Assets

- Dividend payments were similarly equal, especially earlier days
- Table 5 can be omitted

Comment5 firm - bank loan - level data

- Bank-firm matched loan-level data is used
- Firm's bank borrowing grows less from exposed banks, controlling for firm demand through the inclusion of a firm-time fixed effect

- Not so sure how matched data used?
- Number of firms used in the analysis?
- j for bank, t for time but i for interest rate (i not for firm)

Very well prepared paper

- With many robustness checks
- With theoretical model and calibrations

- Must be regretting for having choosen Japanese banking industry as it is very much complicated, less detailed information in English

- Suggest to focus on the period after 2000s and it’s enough for examining long-run consequences of low nominal interest rates