Real Effects of Financial Market Integration: Evidence from an ECB Collateral Framework Change

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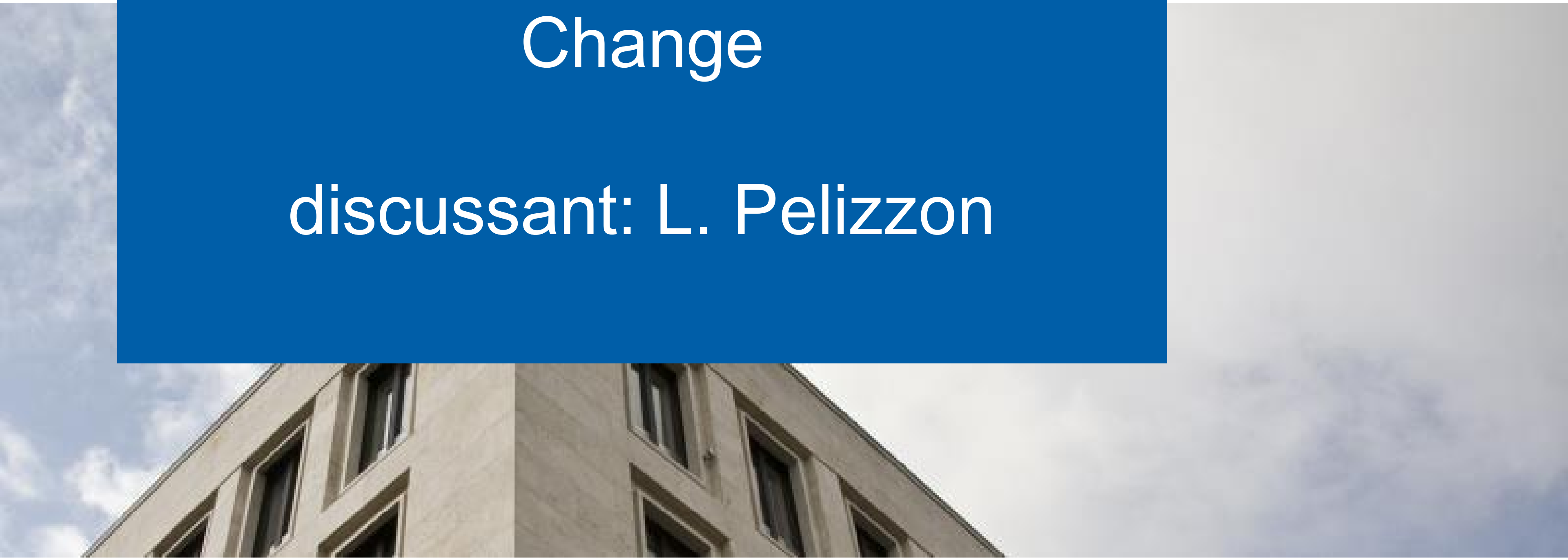
Sustainable Architecture for Finance in Europe



Paper Overview

- Obj: Estimate the **Real Effects** of the harmonized collateral policy at ECB introduced on January 2007
  - Employment
  - investments
- Focus: cross-boarder credit provision

Paper Results

1. Improvement of the banking Union:
   - Core countries banks lent more to Peripheral countries, reducing their home bias
   - Not vice versa… so the home bias has been reduced only partially

2. Credit supply has been increased (but to riskier and less productive firms located in periphery countries)
3. Cost of credit has been reduced
4. Employment and investments increased

Comments

Very interesting topic!

Questions

The first purpose of the unique list was to:

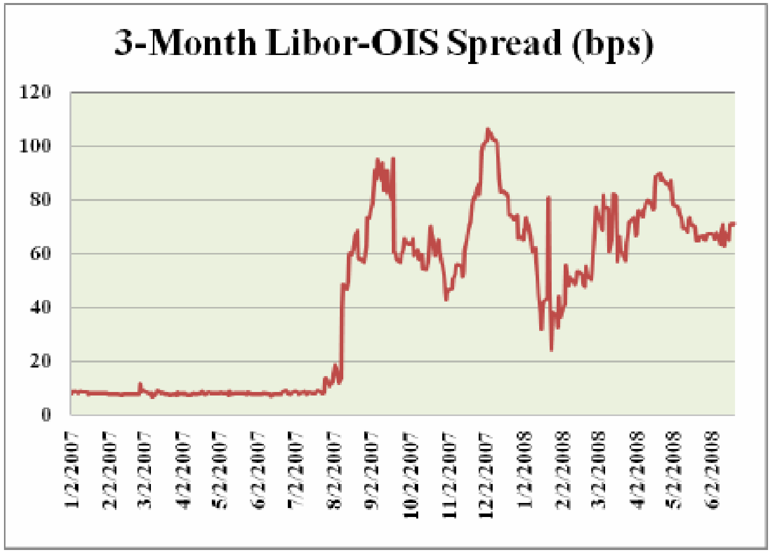
- improve monetary policy transmission.

Why are you checking the second order effects rather than looking first to MP transmission?

Questions

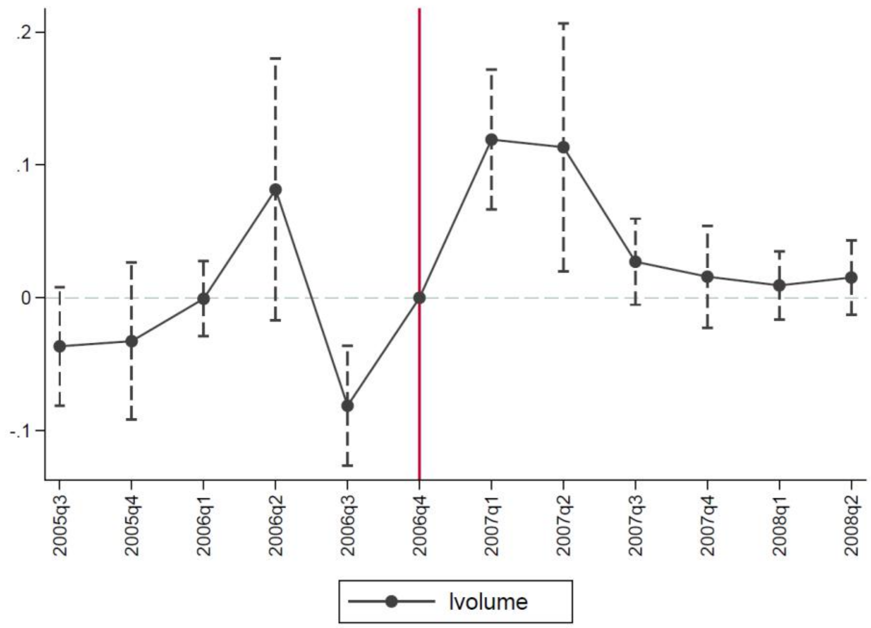
The unique list has been introduced in January 2007..

- Several events happen in 2007, the Subprime crisis started on August 2007!



Source: Bloomberg.

Questions



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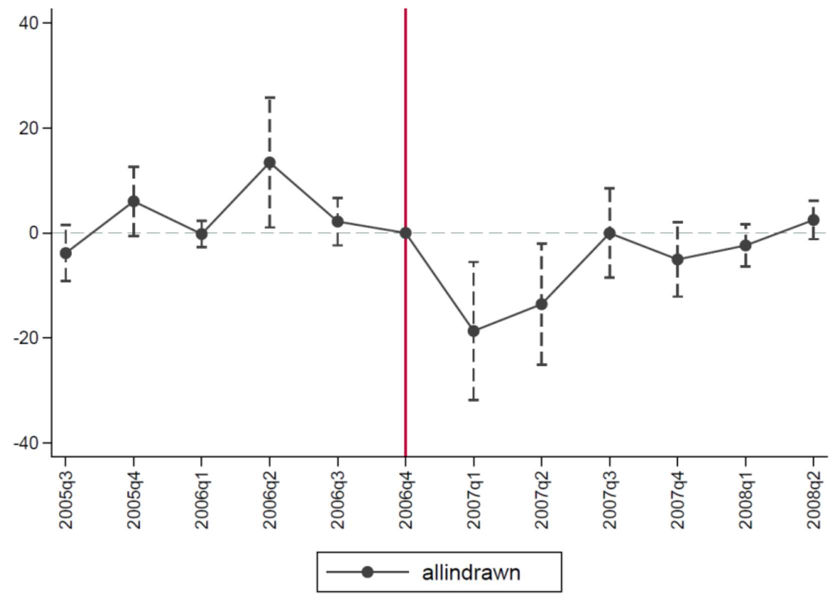

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Questions

To improve the identification of your paper you should be able to answer to this simple question:

Are indeed banks pledging these new loans (not allowed before) to the ECB?

- Look to the loans that before January 2007 would not be considered pledgeable at ECB and document that indeed, after January 2007 banks do pledge these loans at ECB

Questions

Why banks lend to riskier and less productive firms cross-border?

- Are these the only available options for non incumbent banks?
- How competition among banks have been changed due to the unique list, i.e. cross boarder lending?

Why the interbank market was not enough for transferring funding funding surplus cross-boarder before?

What is the role of diversification in your story?

Questions

1. The regression show some statistically significant effects, but:

- Are they economically significant?
- Are they permanent?

2. Your measure of bank’s riskiness as ROA standard deviations is quite debatable, other measures would be preferable

3. The title of the paper focuses on “real effects” but most of your analysis is not on the “real effects”.

Very interesting paper!