Comments on
“The Bank lending Channel in an Euroised Economy”

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WHAT THE PAPER DOES?

It tackles an interesting area of the power(full/less) monetary policy in an euroised economy

- It investigates the bank lending channel and its determinants in Serbia
- It disentangles between domestic and foreign currency loan supply function
- It introduces bank specific variables, which might affect the response to monetary changes
- It touches upon a topical issue – the role of financial integration, within this paper through its potential impact on the effectiveness of domestic monetary policy

The context

- **The paper would have been more insightful if a snapshot on three blocks have been given**

- The major mp instruments used by NBS and visual inspection of the connection between the policy and the lending cycle

- A brief overview of the bank's balance sheet position –have they enough buffers to withstand policy changes with no change in their lending behaviour

- - How tight was the pre-crisis link of the foreign funding and the growth in lending?

How does it do it?

- **The methodology– dynamic panel, but:**

- the number of cross sections relatively small

- the time dimension of only 12 quarters makes us think about the "sustainability" of the final results

- -the time dimension covers the acute period of the global crisis, when the policy impact on loan supply was outweighed by other measurable and non- measurable factors

How does it do it?

- **Data issues and variable selection**
- interbank rate chosen instead of policy rate: is it justified through the importance of this market (one would expect amidst liquidity excess , banks not to be exposed to interbank market)
- bank-specific variables can be augmented with a cost-efficiency indicators and non-performing loans?
- -the dinar er has depreciated very rapidly -does it possibly distort the fc. data?

The Results

- **Empirical results:**

- finds statistically significant impact of the interbank rate on dc loans...

- ...and also an impact of the Euribor rate on dc loans...being explained by the possible foreign financing of dc loans...but the external exposure as bank specific variable found not to be significant?
- - is there a decoupling of the domestic and foreign interest rate?

- fc loans do not react to interbank rate, neither to the foreign rate – what determines the foreign currency loans then?

- it is strange not to see the same bank-specific factors influencing the fc lending...
- ...is the role of parent bank funding so large that the specifics of the bank balance sheet do not matter?
- - The nominal ex plays important in generating indirect credit

Policy implication

- **The paper implies a serious inference on the constrained monetary policy**

- Factoring in the caveats of the research the conclusion on the policy ineffectiveness might be too harsh
- The paper would benefit from tackling policy implications – going beyond the conventional mp instruments: the room and the role of macro prudential measures?
- The further research might involve using CB balance sheet (the change in the sterilized liquidity) as proxy for the change in mp stance or...
- might increase the number of cross sections by employing bank by bank data for regional countries with a similar eurization level

THANK YOU FOR YOUR ATTENTION

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