Discussion of:
Making Room for the Needy: The Credit-Reallocation Effects of the ECB's Corporate QE
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The Transmission of the ECB CSPP

- **The ECB Corporate Sector Purchase Program**
  - Purchases of corporate bonds by the ECB
  - Small part of ECB LSAPs
  - Goal is improving the pass-through of monetary policy
  - Announced in March 2016, started in June 2016
  - Euro denominated and IG bonds, maturity $\in [6\text{mo}, 31\text{Y}]$
  - Issuer must be a non-financial company

- **Transmission to Spanish firms**
  - Exploit data from national credit registry to study

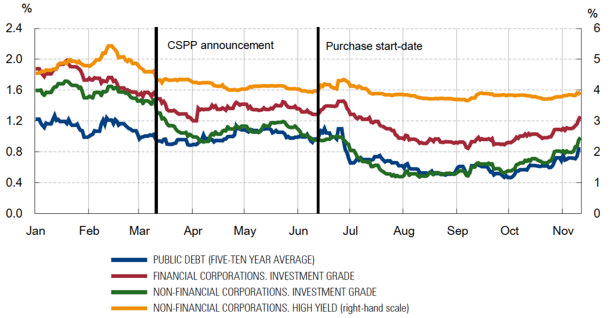
  → "Direct" effects on bond financing

  → "Indirect" effect on bank credit
    - Firms with access to bond financing demand less bank credit
    - Banks increase credit to firms with no bond financing

Direct Effects on Bond Financing

1) **CSPP lowers the cost of issuing bonds**

- Most of the effect at announcement (Mar16)
- Yields from Mar16 to mid-April:
  - Eligible bonds: −44 bps (30% of the average yield)
  - Non-eligible bonds: −46 bps (10% of the average yield)



- Figure 1 more useful than DiD regressions
- Is the effect on non-eligible bonds large/significant?

Direct Effects on Bond Financing (2)

1) **CSPP lowers the cost of issuing bonds**
   - Most of the effect at announcement (Mar16)
   - Yields from Mar16 to mid-April:
     - Eligible bonds: -44 bps (30% of the average yield)
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   - Figure 1 more useful than DiD regressions
   - Is the effect on non-eligible bonds large/significant?

2) **CSPP increases the likelihood of bond issuance by firms**
   - 1/3 higher probability of issuing bonds by eligible firms
   - $+6\%$ probability of issuing bonds by non-eligible firms

   - Need some non-parametric evidence for non-eligible bonds

Indirect Effect on Bank Credit

Bond issuing firms demand less bank credit

$$Credit_{jb} = \alpha_b + \beta_1 BondNetAmtOuts_j + \delta G_j + \theta GB_{jb} + \epsilon_{jb}$$

- Corr< 0 btw (net) bonds outstanding and bank credit
- Bank FE α_b control for bank credit supply
- $\uparrow$ 1% (net) bonds outstanding, bank credit balance $\downarrow$ 0.44%

- Why are eligible and non-eligible firms pooled together?
  - Because there are only 13 eligible (IG) firms!
  - The authors *need* the non-eligible firms in the sample
- How do firms reduce their bank credit?
  - Use early redemptions and non-renewals as LHS

Indirect Effect on Bank Credit (2)

Banks reallocate their credit to bank-dependent firms

$$Credit_{jb} = \alpha + \beta Outflows/TA_b + \delta F_j + \gamma B_b + \theta FB_{jb} + \epsilon_{jb}$$

- Exploit bank heterogeneity, firm FE capture credit demand
- $\downarrow$ 1EUR bank credit to bond issuing firms, $\uparrow$ 0.75EUR bank credit to bank-dependent firms
- These firms increase investments
- Reallocation not accompanied by increasing bank risk exposure

- **Large firms likely matched with large banks**
  - $Outflows/TA_b$ likely correlated with size
  - Median($Outflows/TA_b$) $= 0 \Rightarrow 15/29$ banks unaffected
  - But only largest banks likely affected (you control for size)
  - I would openly discuss this endogenous matching

The Analysis Leaves Many Open Questions

- **Very crowded literature of LSAP (UMP) and bank credit**
- **What is the key insight(s) for theory?**
  - What is different compared with standard LSAP?
  - Is the bank credit-reallocation channel just the LSAP "rebalancing channel" with another asset class?
  - This effect seems to operate through quantities
- **What is the effect on financial stability?**
  - In the new equilibrium, banks lend more to small firms
  - This lending does not seem risky, but why banks were not funding these projects before?
  - How is the credit risk reallocated in the economy?
  - Explore bank heterogeneity: e.g., high- Vs. low-leverage

The Contemporaneous TLTROII

- **CSPP announced together with TLTROII**
  - TLTROII: provision of collateralized loans to banks
  - Conducted once a quarter between Jun16 and Mar17
  - Mostly used to rollover previous borrowing from the ECB

- **Rates on TLTROII credit linked to bank lending**

  "counterparties whose eligible net lending in the period between February 1, 2016 and January 31, 2018 exceeds their benchmark are charged a lower rate for the entire term of the operation"

- Estimated effects are the result of CSPP **and TLTROII**
  - Differential use of the TLTROII is endogenous
  - No obvious counterfactual

Overall

- Excellent paper
- New transmission channel of LSAPs
- Careful execution
- My comments:
  - Few loose ends to tie up in the empirics
  - Relate findings to theory of LSAPs
  - Improve the discussion of the contribution