Discussion of "Local Monetary Policy"

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Disclaimer: Views are those of the author and should not be attributed to the BIS.

Summary of the paper

- Main message:
  - Regional FRBs conduct “local monetary policy”
  - They adjust discount window loans in response to local inflation...
  - ...particularly when they lack FOMC voting rights
- Key findings:
  - In response to local inflation:
    - Districts with voting rights: similar responses in DW and FHLB loans
    - Districts without voting rights: DW falls *relative to FHLB*
- Empirical strategy:
  - Exogenous rotation of voting rights among regional FRBs.
  - A lot of fixed effects including district-time and borrower-time FEs.
  - Heterogeneity: borrower size, inflation dispersion, periods of more DW applications

Comment 1: FHLB vs DW is not a clean comparison

- Regressions at borrower-loan type-time level
- District $\times$ LT, Time $\times$ LT, District $\times$ Time, Borrower $\times$ LT, Borrower $\times$ Time, Controls

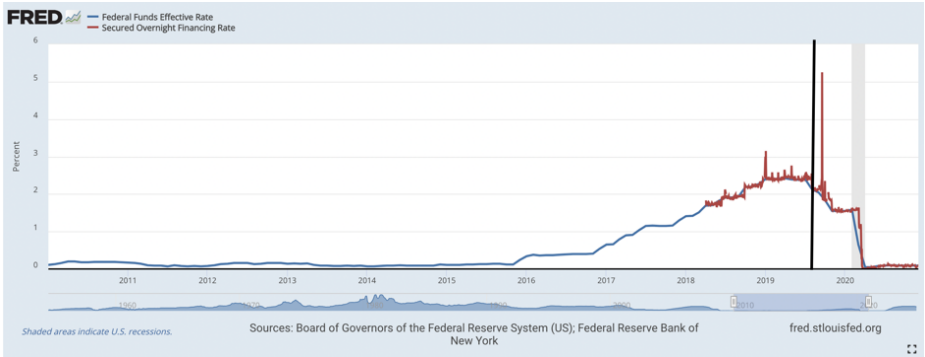
- DW and FHLB are inherently different loans (maturity, purpose etc.)

1. FHLB provides advances against mortgage collateral
   - High inflation & high mortgage activity $\rightarrow$ more FHLB loans
   - Check if banks with more mortgages are driving the results
2. FHLB is a way to improve banks' liquidity coverage ratio (LCR)
   - LCR rules and implementations vary across banks
3. Repo market use/its regulatory treatment can differ across banks

- These concerns could be alleviated:
  - if voting rotates exogenously
  - districts are similar

Comment 2: Zero lower bound and the small sample problem

- Most of the sample period is when interest rates were at the ZLB and fwd guidance
  1. Why exactly are voting rights relevant if FFR=0 for a long time?
  2. Which time period is driving the results? Post-August 2019 sample:
     - Financial stress $\rightarrow$ demand for FHLB/repo loans is high (by borrowers with greater access)
     - How to deal with i) QT; ii) the plethora of programs during Covid-19?
     - Small sample issues with voting rotation



In 2019 and 2020, non-voting districts are larger

Federal Reserve District	2019 Voting Status	2020 Voting Status
San Francisco	Not Voting	Not Voting
Chicago	Voting	Not Voting
Dallas	Not Voting	Voting
Atlanta	Not Voting	Not Voting
Richmond	Not Voting	Not Voting
Boston	Voting	Not Voting
St. Louis	Voting	Not Voting
Kansas City	Voting	Not Voting
Cleveland	Not Voting	Voting
Philadelphia	Not Voting	Voting
Minneapolis	Not Voting	Voting

- Disclaimer: Ranking done by ChatGPT based on GDP data from the BEA and it might contain errors.
- Structural differences across districts can influence outcomes
  - District $\times$ time fixed effects not enough
  - Borrower (or district)-loan type-time variation (e.g. mortgage exp affect banks' use of FHLB loans)
- Suggestion: Extend the sample to cover the post-pandemic period

Comment 3: Economic significance and channels

- The average DW loan is $7.5 million
- Need more evidence why this matters quantitatively. Extending the sample is key.
- Look at the SVB episode: potential trade-offs between price and financial stability?
- Suppose the FRBs are indeed restricting supply. What are they trying to achieve?
  - Inflation below target for most of the sample period
  - Legally, regional FRBs need to follow the national guidelines. Acceptable collateral. Evidence?
  - Interactions with regulation and supervision?
- What is the primary use of DW loans? What happens when they are restricted?
  - Discount window $\rightarrow$ Which financial outcomes? $\rightarrow$ Inflation???

Conclusion

- Interesting agenda of the impact of regional differences on monetary policy
- The use of voting rotation is nice
- Suggestions:
  - economic significance and channels
  - longer sample
  - address issues with borrower-LT-time
- A study of the Euro area?
  - Identification is harder, but regulation and supervision?