Discussion of
"Blocking the Credit Chain: Cryptocurrencies, Deposits, and Bank Loan Growth"

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Household crypto adoption may lead to less bank credit supply

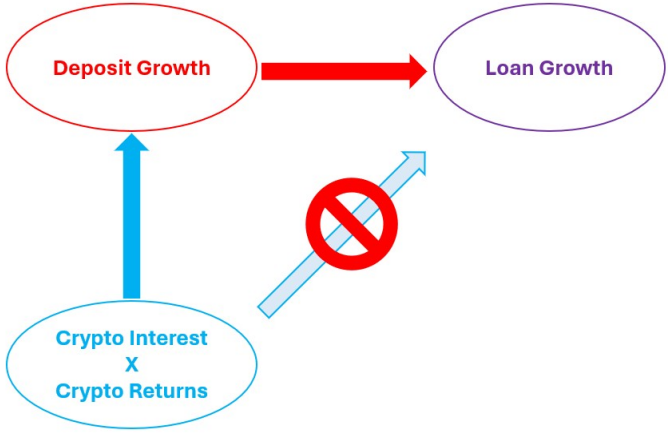
- Hypothesis: when crypto returns increase
  - crypto-friendly households transfer some bank deposits into crypto
  - leading to lower supply of bank credit

- Super cool dataset
  - IRS tax returns–household crypto investments:
    - measure crypto interest at county level (% tax filers HODLING crypto)
  - FDIC summary of deposits–deposits each bank raises in a county
    - measure county-level exposure of a bank to crypto disruption

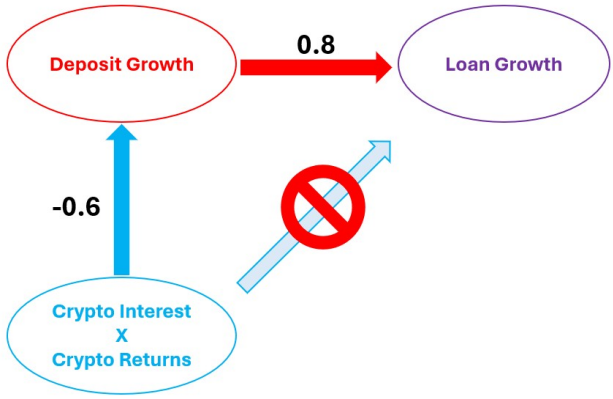
  $\Rightarrow$ Obtain bank exposure to crypto disruption

Identification of the Causal Effect

- Hypothesis: when crypto returns increase
  - crypto-friendly households transfer some bank deposits into crypto
  - leading to lower supply of bank credit

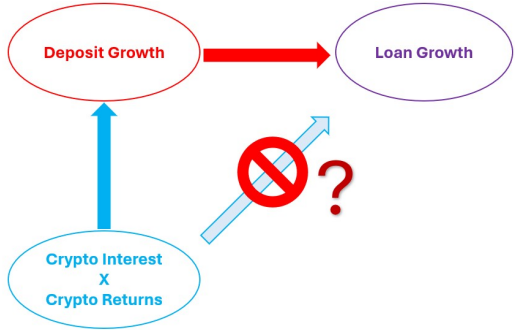


Findings



- 1% drop in crypto-driven deposit growth leads to 0.8% lower loan growth
- counties with more crypto-exposed banks see lower business activity and employment

Exclusion Restriction



- 2016–2025: S&P500 returns highly correlated with Bitcoin returns ($\approx +80\%$).
- households holding crypto in San Francisco, L.A., Seattle, Austin.
- in those areas loan demand may be less pro-cyclical
  - higher crypto returns, less external funding needs
- or banks operating in those areas may be different (e.g., Silvergate, SVB)

Big Picture & Contribution

- Is crypto a parallel universe or does it intersect with traditional finance and real economy?
- This paper: crypto investing crowds out bank lending
- Lingering Questions for Future Research:
  - ? extent to which stablecoins in particular crowd out bank deposits & lending
    - younger vs. older generations
    - insured vs. uninsured deposits
    - multinational corporations for cross-border payments
    - flight to safety dynamics between deposits and stablecoins

Discussion of
"Digital Payments and Monetary Policy Transmission"

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Monetary Policy Transmission to Short Term Rates

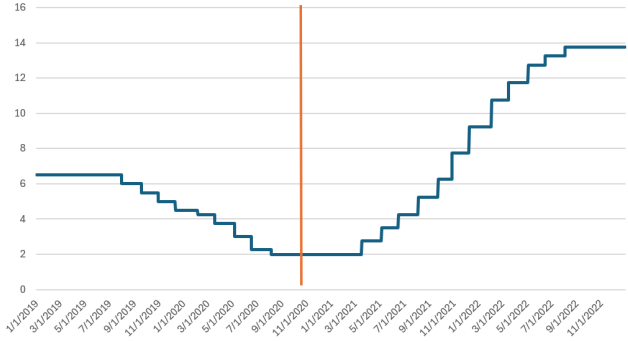
- Central bank increases the policy rate by 25 bps.
  - Complete pass-through (transmission): short-term rates go up by 25 bps
  - Incomplete pass-through: short-term rates go up by less
- What we know so far
  - Deposit Channel of Monetary Policy QJE 2017
    - low pass-through of ↑ EFFR to deposit rates → deposit outflow, credit contraction
  - Monetary Transmission through Shadow Banks RFS 2019
    - money market funds display higher pass-through of monetary policy
    - attracting bank deposits when ↑ EFFR
- This Paper:
  - competition in digital payments reduces market power & ↑ pass-through

Background

- Central Bank of Brazil introduces instant payment system, Pix in Nov 2020
  - Real–Time Gross Settlement, instant transactions, low cost
  - Unique key identifies each bank account
  - Pix enables fast payments, crowds out cash usage
  - similar to FedNow, NOT a stablecoin paying interest
- Due to both Pix and rise of mobile banking
  - increase in bank accounts per capita, from 3.5 in 2020 to 5.2 in 2022

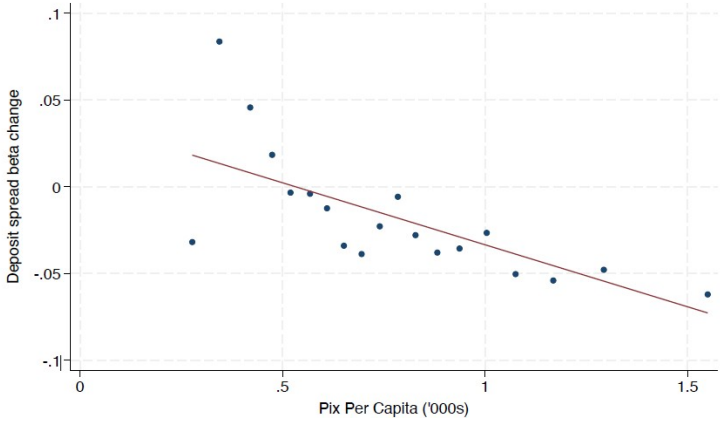
Empirical Strategy

Sample: Jan 2019 to Sep 2022. Pix starts Nov 2020.



- Estimate pass-through at branch level before and after Pix (Nov 2020)
- $\Delta(DepRate - PolicyRate) = \beta_i \Delta PolicyRate$. High pass-through $\rightarrow$ low β_i
- check if branches with more Pix activity have a higher pass-though

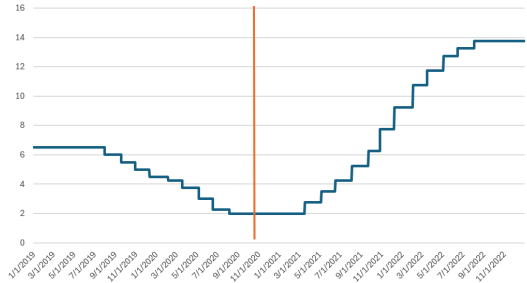
Findings



- After Pix, ↑ pass-through (↓ deposit spread beta) in areas with more Pix
- Pix increases competition in deposit markets

Comments

What else can explain the higher pass-through after Nov 2020?



- Asymmetric deposit rate response to easing and tightening
  - only easing before Pix, only hikes after Pix
- compression effect toward the zero lower bound
  → higher pass-through post Pix (spurious)
- competitive effect of mobile banking vs effect of fast payments (Pix)
  - any effect in US after FedNow?