Discussion of the paper **'As interest rates surge: flighty deposits and lending'** by Giuseppe Cappelletti, David Marques-Ibanez, Alessio Reghezza, Carmelo Salleo

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Motivation and Key Findings

- **Recent research highlights the importance of deposits:** In a period of rising policy rates, savers may move out of sight deposits and invest into higher-yielding products. As a result, banks prefer to reduce lending, instead of raising deposit rates or finding alternative sources of funding.

- **Finding 1:** After a large increase in monetary policy rates, the banks with the largest deposit outflows compensate for this most by tightening their lending conditions.

- **Finding 2:** As banks rationalize their outstanding loans, new borrowers and loans with fixed interest rates or longer maturities suffer the most from banks' credit supply constraints.

- **Finding 3:** Banks are more concerned with maintaining a balance between assets and liabilities, which allows them to lock in long-term profits through a stable duration gap, than with short-term profitability targets.

General Issues

- **Emphasis of own contributions:** The empirical test is based on the methodology developed by Khwaja and Mian (2008). It is not clear whether the authors have made any adjustments or improvements. In addition, the original contributions of this paper to the existing literature should be more emphasized.

- **New chapter on robustness checks:** Merge sections 4.5, 4.6 and 4.7 into a new chapter called robustness check.

- **Policy implications:** In the last chapter on conclusions, apart from a brief summary of the main findings, there are no policy implications that can be drawn from these findings.

Empirical Design and Results

- **Construction of DEP_OUTFLOW:** DEP_OUTFLOW is designed as a dummy variable that takes the value 1 for banks that experience deposit outflows in all quarters following the start of monetary tightening, and 0 otherwise. However, constant deposit outflows cannot capture the amount of cumulative deposit outflows.

  - ✓ How about constructing a new dummy variable equal to 1 if the cumulative amount of deposit outflows for the period Q1 2021 to Q1 2023 is above the average of total outflows of similar banks, and 0 otherwise?

- **Presentation of the empirical results in Table 5:** In section 4.3, the coefficients of the interaction term (Tightening×Fixed Rate) and the triple interaction term (DEP_OUTFLOW×Tightening×Fixed Rate) are of most interest and well explained.

  - ✓ In addition, the authors can further illustrate why the coefficient of the interaction term DEP_OUTFLOW×Fixed Rate is positive and highly significant.

Other Issues

- **Adverse selection argument:** The authors argue that the second key finding is consistent *'with banks trying to avoid adverse selection'* and further explain in the footnote that *'new borrowers that apply in the context of a sharp increase in rates would likely be very risky'*. However, new corporate borrowers with high credit ratings are not necessarily riskier borrowers than existing clients with payment difficulties.

- **Wording:** In some parts of the paper, the wording may be difficult for readers to understand at first glance.