International banking and liquidity risk transmission

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Granular data

- 11 countries
- Period: 2006-2013
- Very desirable enterprise
- More descriptive statistics would be useful
- Harmonisation of data? (even accounts)
- More narrative on the country cases

Liquidity shocks and lending

- Variations in Libor OIS spreads (liquidity shock) and effect on lending behaviour domestic and cross border
- How it is affected by some balance sheet characteristics, some official interventions, structure of banking groups

Results

- Domestic loan growth mostly affected by bank fixed effects (share of deposits in funding)
- For banks with foreign affiliates BS characteristics matter more, in particular for cross border loans but large heterogeneity.
- Official lending facilities matter more for banks with foreign affiliates

Identification of the supply effects

- Key to be able to distinguish between supply shocks and demand shocks
- Mysterious sentence: “explain heterogeneity across banks (and countries) in order to identify a loan supply effect.“
- Shock correlated with other shocks

- Heterogeneity is very multi dimensional

How do we identify?

- A mostly global liquidity shock that interacts with financial market meltdown
- Banks hit differently because of their BS sheet structure (partly captured by share of deposits, illiquid assets, capital in the regressions) but also:
  - Heterogeneity on the asset side (toxic assets, NPLs, sovereign debt, etc…)
  - Heterogeneity in funding shocks (degree of wholesale dollar financing)
- How is it controlled for?

Other bank characteristics

- Structural characteristics that matter:
- Emphasis seems to be on existence of foreign affiliates
- But how about business structure: universal banks versus specialized banks? This matters for cyclicality of revenues.
- More generally: how do we deal with correlation of BS and selection in specific types of activities (for example international groups do more trade finance, may require more dollar financing)

Intervention of supervisors

- Very heterogeneous
- In some cases explicitly conditioned on specific forms of lending

Boom phase

- Studying heterogeneity in risk taking during the boom phase would be useful
- Overextended banks had to cut more their lending behaviour (also role of state guarantees and their timing in booming phase)
- Hard separate the boom and the bust

Corporate governance

- Would be interesting to know more about:
- Business models
- Branches versus subsidiaries
- Are there business models that gained market shares?

Financial desintegration

- Is it due to the liquidity shock and banks cutting “non core” business?
- Is it due to supervisor intervention?
- Is it due to more risky nature of cross border banks?
- Would be nice to have more information on importance of each banks in specific economies.
- Did we observe complementarity in banks lending decisions?
- Role of cooperation and the Vienna initiative

Conclusion

- Very worthwhile enterprise
- More information on the identification strategy would be useful
- More targeted hypothesis testing too.