

Some comments on

International Banking and Liquidity Risk: Lessons from across countries

by C. Buch and L. Goldberg

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Frankfurt, September 2014*

Outline

- Much praise
- A few observations
 - Identification
 - Macroeconomic dimension
 - Endogeneity of structure of international banks

Identification

- Cross-sectional variation in bank behaviour is attributable to supply factors (i.e. bank behaviour)
- But customer base of 'international' bank may be systematically different from those of a more 'domestic' bank ...

Type of bank

- Nature of ‘international’ bank ...
 - Customer base?
 - Ownership?
 - Legal structure (branches, subsidiaries)?
- Study of Argentina in run-up to the 2001 crisis
- Data on individual banks available
(cf. Calomiris and Powell, 2000)

	<i>Dependent variable</i>					
Random effects N=128, T = 46	Total real lending growth (1)		Peso-denominated real lending growth (2)		Dollar-denominated real lending growth (3)	
<i>Panel A: Sensitivity to developments in currency risk</i>						
$(\dot{r} - \dot{r}_H^{\$})$	-0.193	(0.168)	-0.257	(0.305)	-0.208	(0.245)
$(\dot{r} - \dot{r}_H^{\$}) \times$ foreign-owned	-0.104	(0.266)	-0.044	(0.464)	0.212	(0.391)
$(\dot{r} - \dot{r}_H^{\$}) \times$ public national	0.194	(0.872)	0.457	(1.581)	-0.286	(0.946)
$(\dot{r} - \dot{r}_H^{\$}) \times$ public provincial	0.610	(0.311)	0.642	(0.565)	0.791	(0.460)
$(\dot{r} - \dot{r}_H^{\$}) \times$ private coop.	0.387	(0.618)	0.448	(1.121)	0.389	(0.913)
$(\dot{r} - \dot{r}_H^{\$}) \times$ foreign subsidiary	0.883	(0.305)	-0.765	(0.552)	1.250	(0.423)
$(\dot{r} - \dot{r}_H^{\$}) \times$ savings bank	0.729	(0.427)	0.876	(0.774)	0.506	(0.630)
$(\dot{r} - \dot{r}_H^{\$}) \times$ foreign fin comp.	0.018	(0.414)	0.134	(0.710)	0.794	(0.511)
$(\dot{r} - \dot{r}_H^{\$}) \times$ dom. fin comp.	0.147	(0.367)	0.282	(0.665)	0.314	(0.542)

Source: Pill (2014). "Argentine banks and macroeconomic risks: Overborrowing and credit dynamics," McKinnon Festschrift.

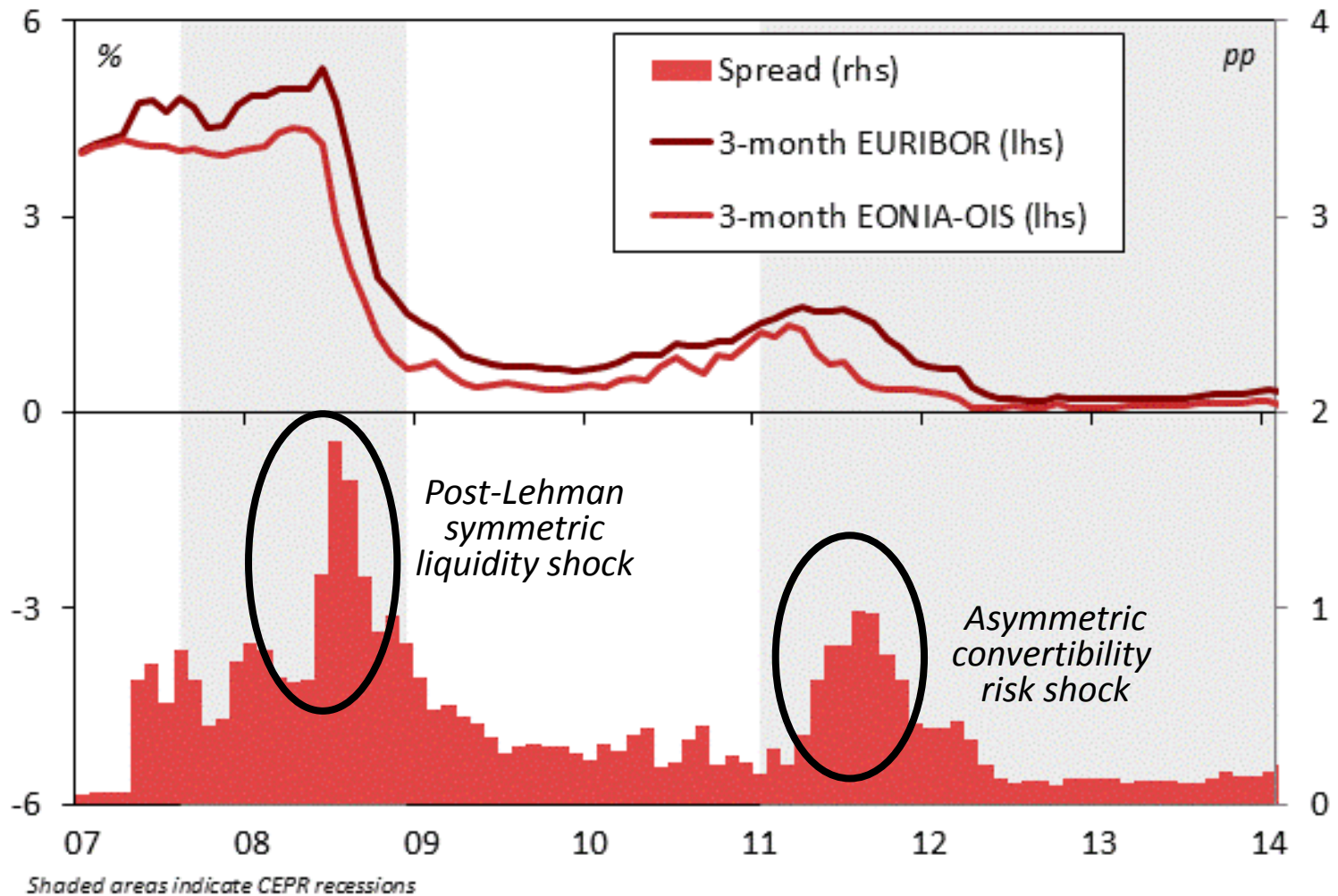
Random effects N=128, T = 46	<i>Dependent variable</i>					
	Total real lending growth (1)		Peso-denominated real lending growth (2)		Dollar-denominated real lending growth (3)	
<i>Panel B: Sensitivity to developments in country risk</i>						
$(i_H^{\$} - i_F^{\$})$	-0.111	(0.196)	-0.295	(0.355)	-0.020	(0.287)
$(i_H^{\$} - i_F^{\$}) \times$ foreign-owned	-0.093	(0.302)	-0.002	(0.527)	-0.215	(0.443)
$(i_H^{\$} - i_F^{\$}) \times$ public national	-0.017	(0.986)	-0.271	(1.787)	0.584	(1.072)
$(i_H^{\$} - i_F^{\$}) \times$ public provincial	-0.541	(0.355)	-0.475	(0.644)	-0.791	(0.524)
$(i_H^{\$} - i_F^{\$}) \times$ private coop.	-0.222	(0.698)	-0.254	(1.264)	-0.234	(1.031)
$(i_H^{\$} - i_F^{\$}) \times$ foreign subsidiary	-0.749	(0.352)	-0.113	(0.633)	-1.119	(0.487)
$(i_H^{\$} - i_F^{\$}) \times$ savings bank	-0.475	(0.514)	-0.529	(0.951)	-0.524	(0.759)
$(i_H^{\$} - i_F^{\$}) \times$ foreign fin comp.	0.080	(0.471)	0.388	(0.807)	0.852	(0.580)
$(i_H^{\$} - i_F^{\$}) \times$ dom. fin comp.	-0.070	(0.415)	-0.386	(0.754)	-0.037	(0.614)

Source: Pill (2014). "Argentine banks and macroeconomic risks: Overborrowing and credit dynamics," McKinnon Festschrift.

Macroeconomic context

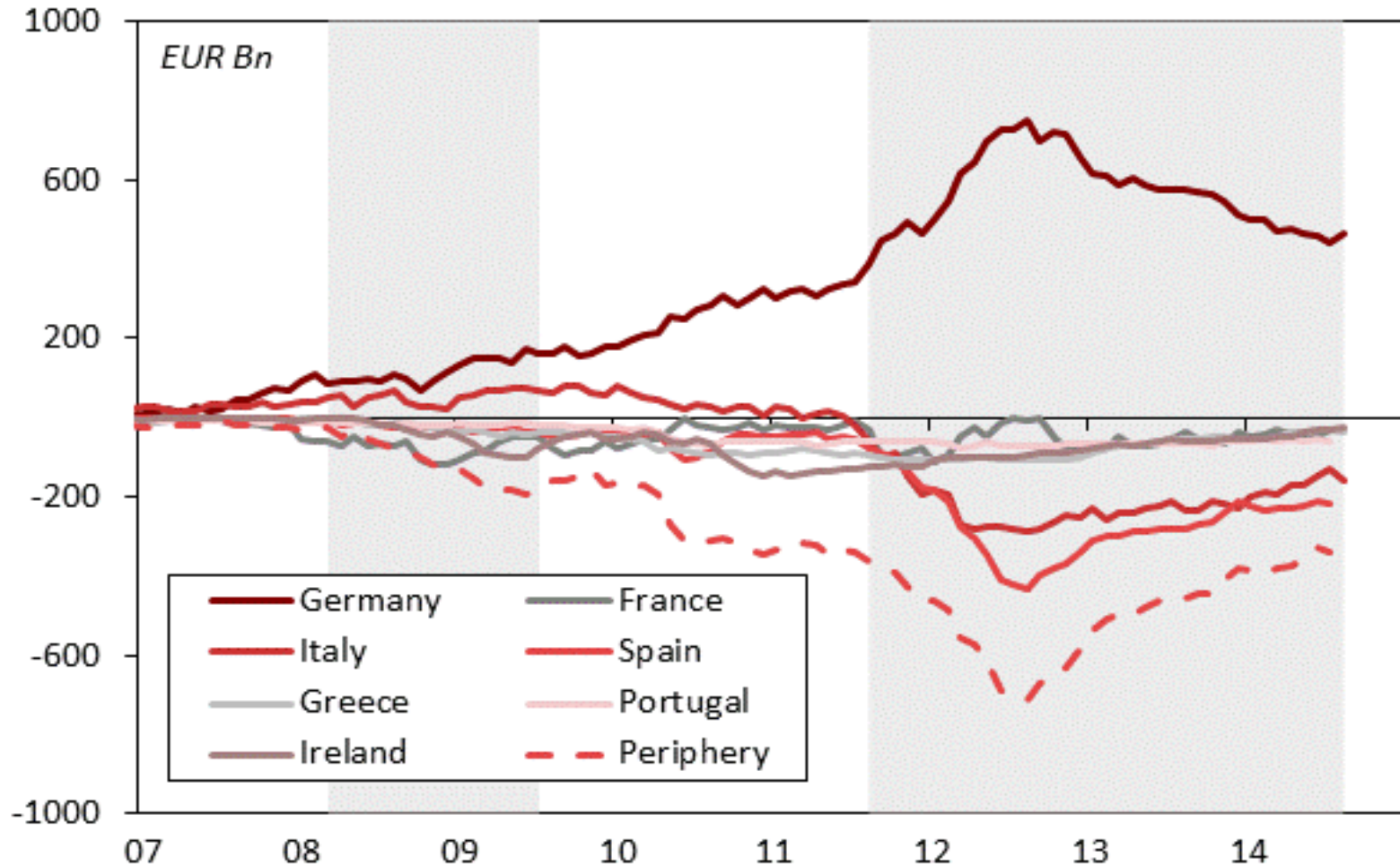
- Role played by macroeconomic factors
 - Exchange rate regime
 - Current account
 - External debt, NIIP
- Exceptional nature of the sample period covered in the study
- Role played by euro area countries

Liquidity shocks



Source: Bloomberg

TARGET 2 balances



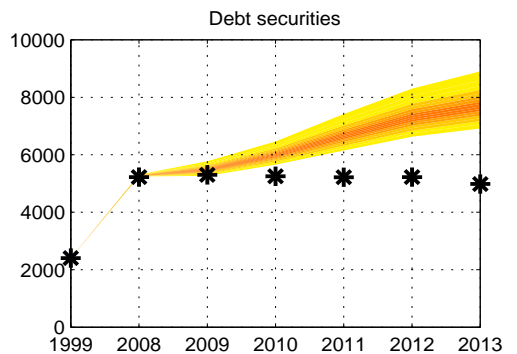
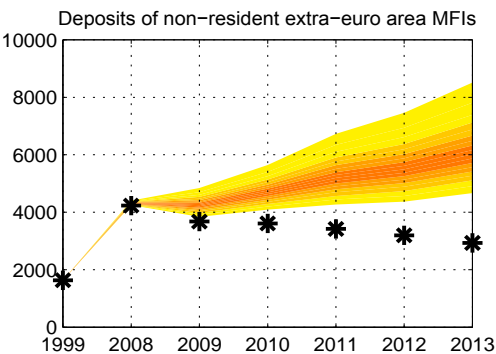
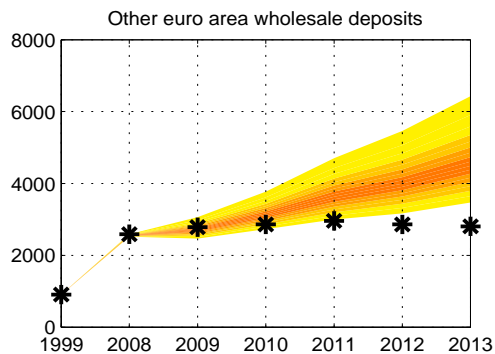
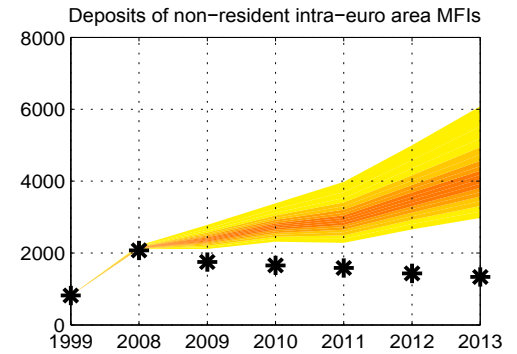
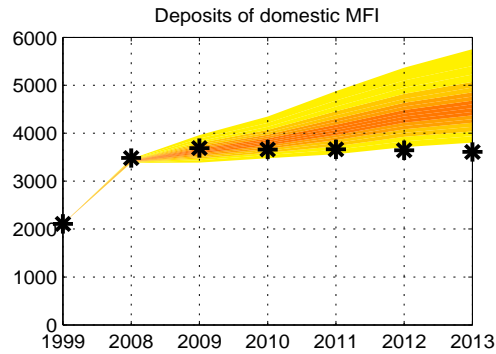
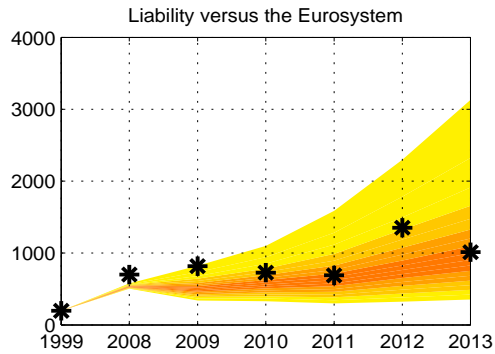
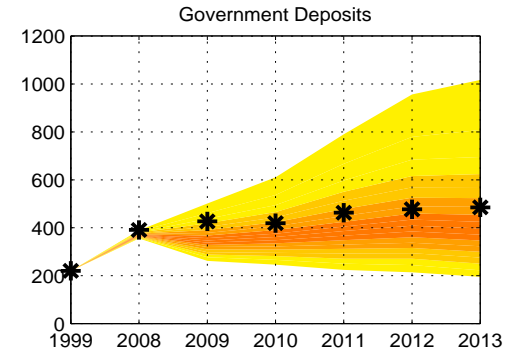
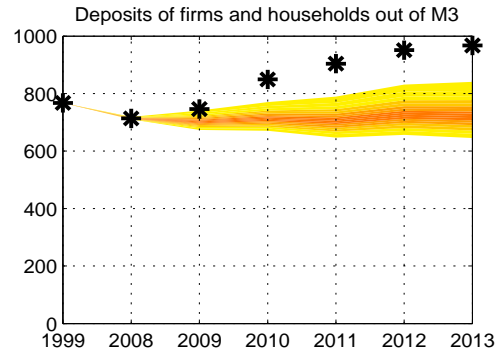
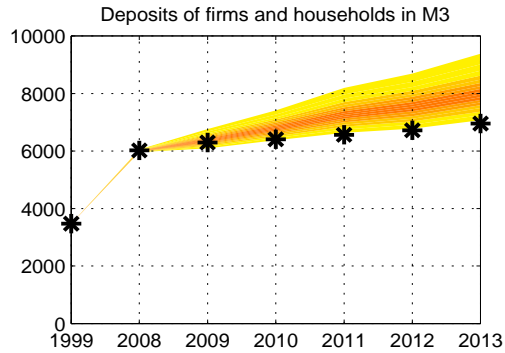
Shaded areas indicate CEPR recessions

Source: National central banks

Euro area experience

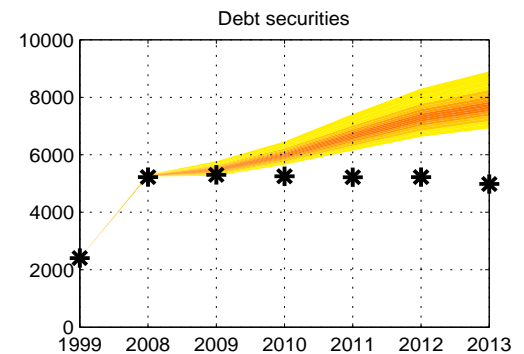
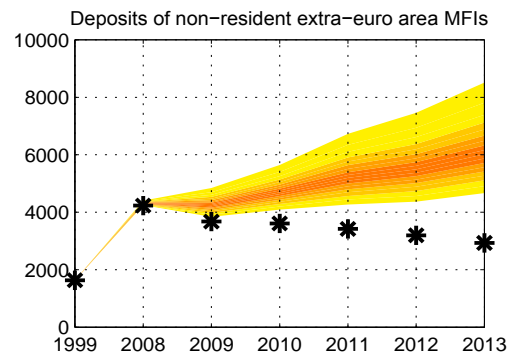
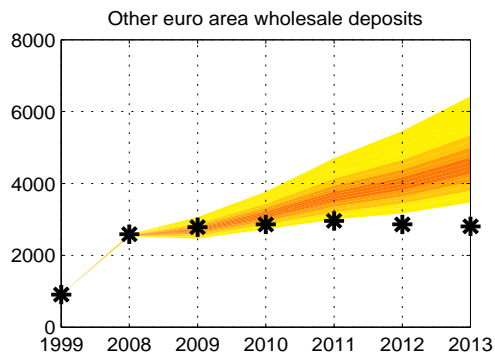
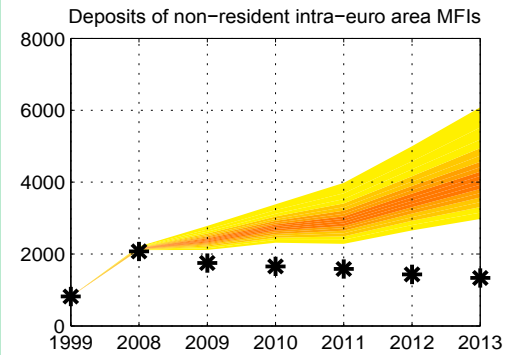
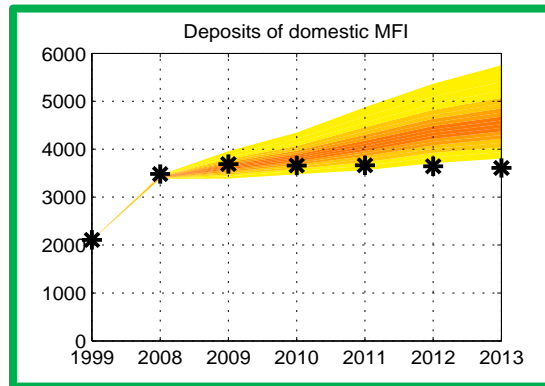
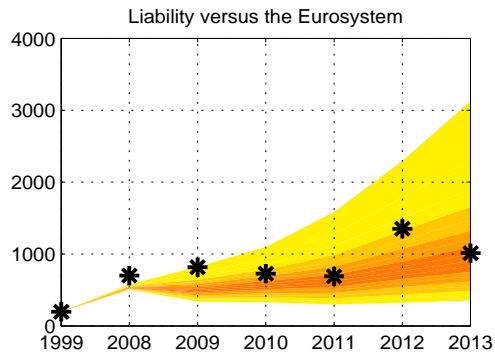
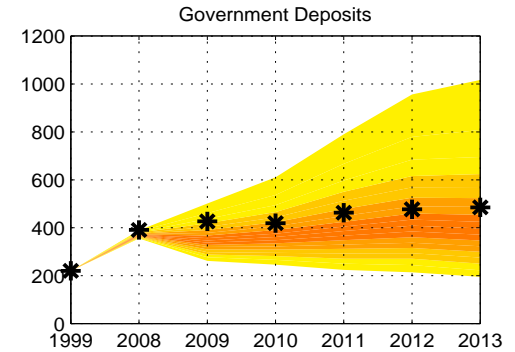
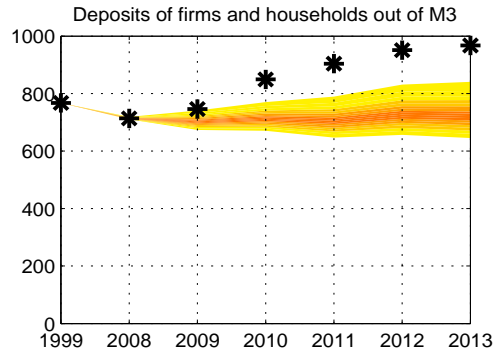
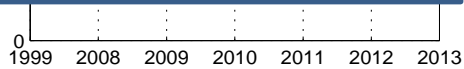
- Study of bank balance sheets during financial crisis
- Aggregate data – distinguish among domestic, intra-Euro area and non-Euro area counterparties
- Counterfactual exercise – estimate model in pre-crisis data and compare data with model simulations

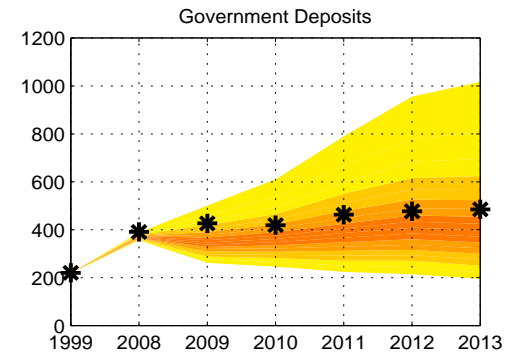
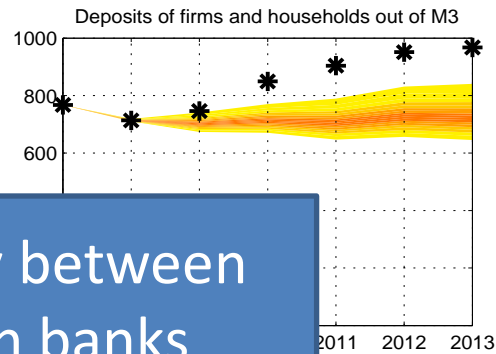
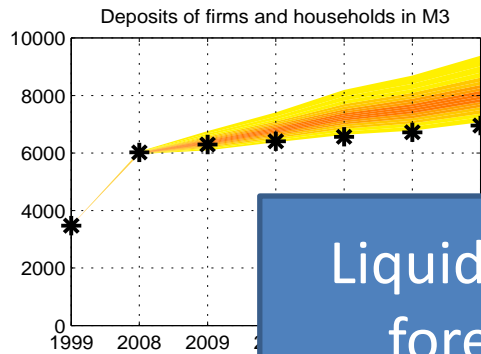
Liabilities



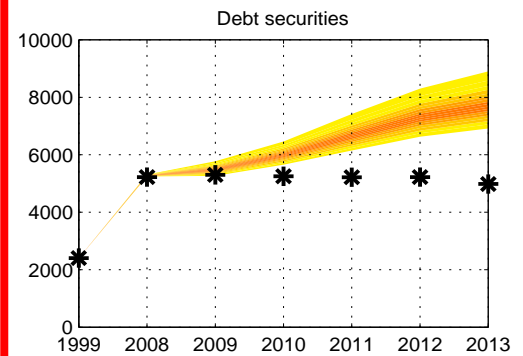
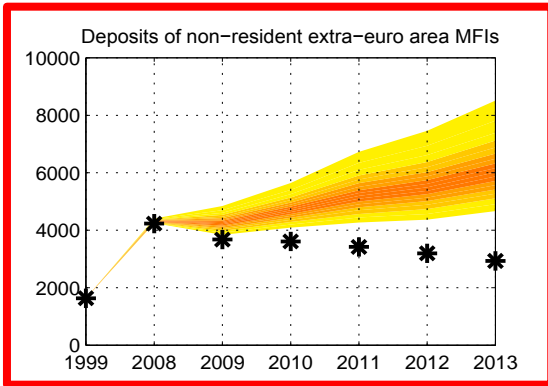
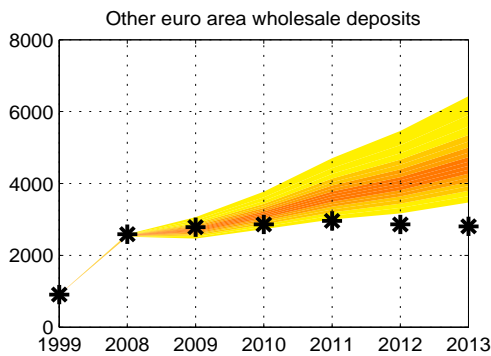
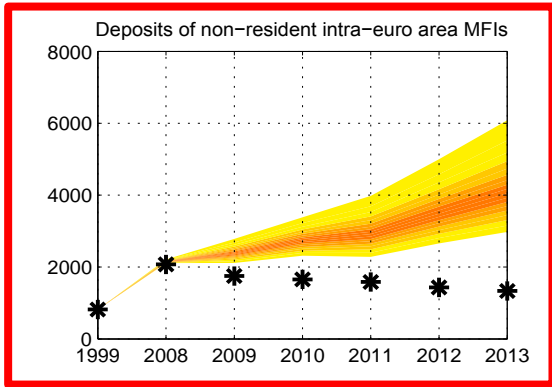
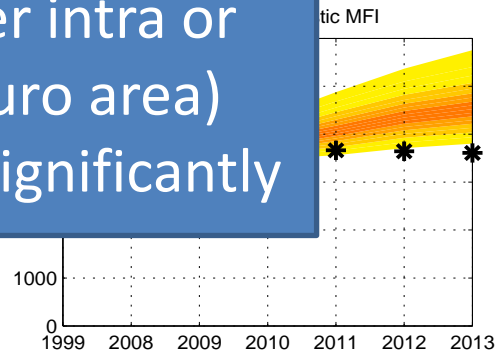
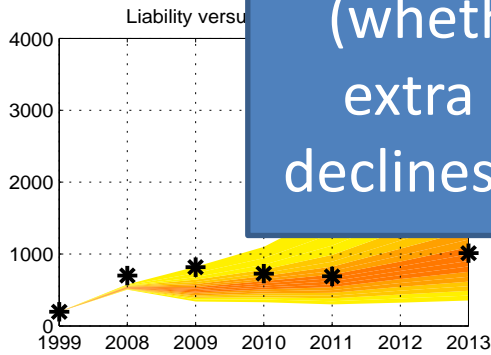
Source: Colangelo et al. (2014). "Cross-border transactions in the euro area and the financial crisis".

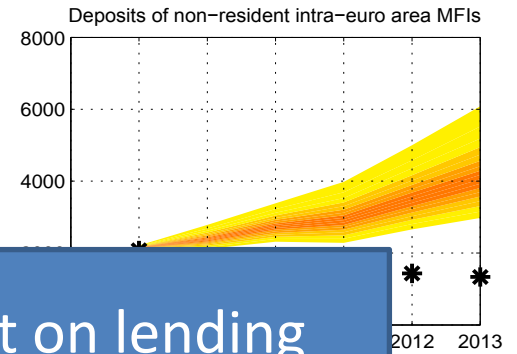
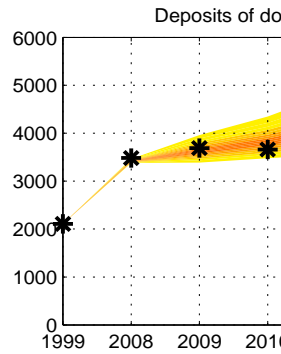
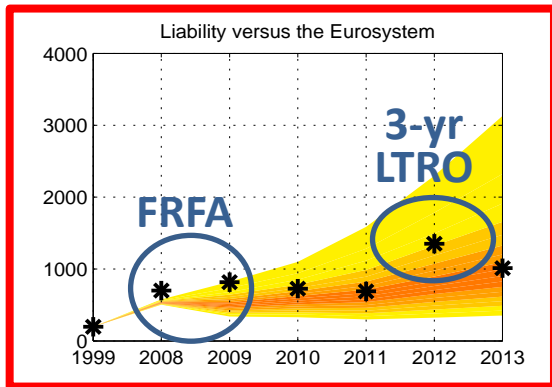
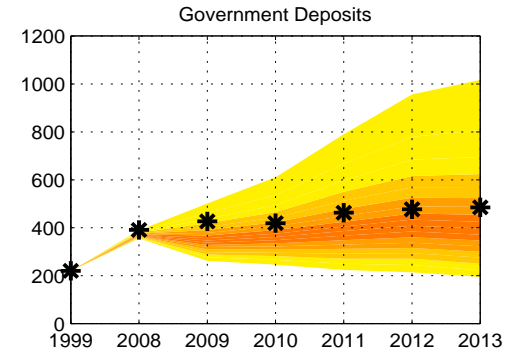
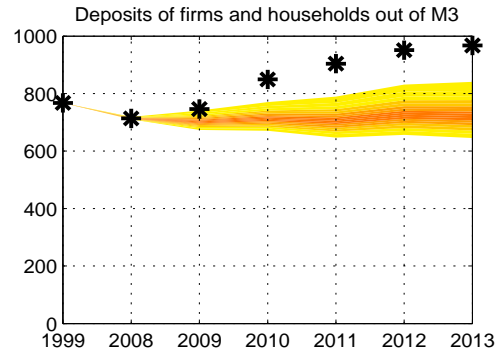
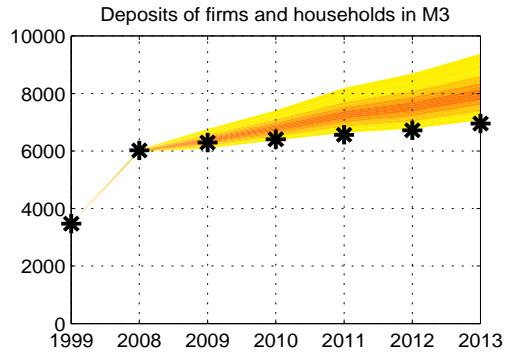
Liquidity between domestic banks broadly in line with pre-crisis regularities



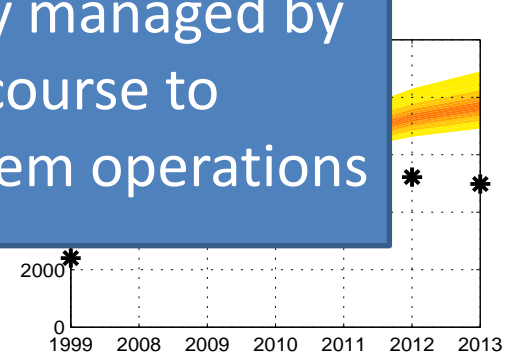
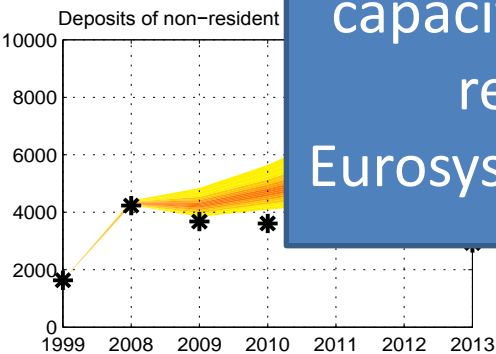
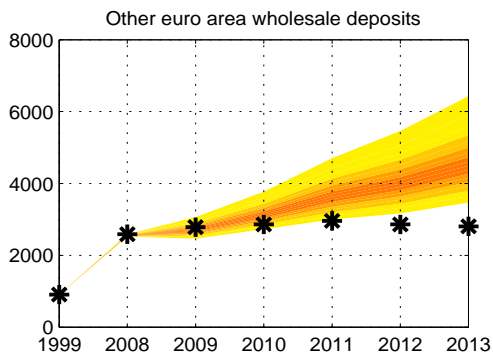


Liquidity between foreign banks (whether intra or extra euro area) declines significantly



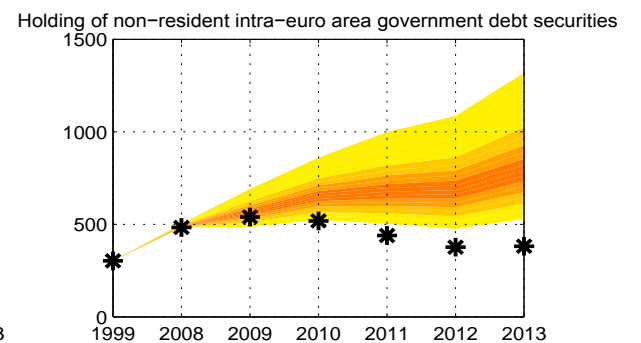
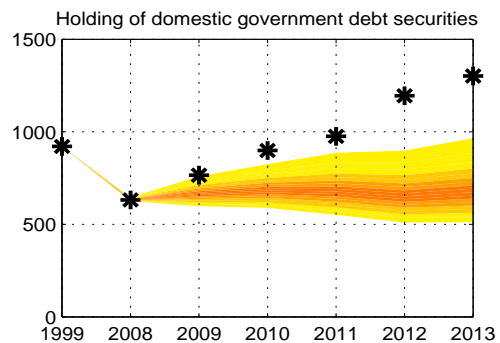
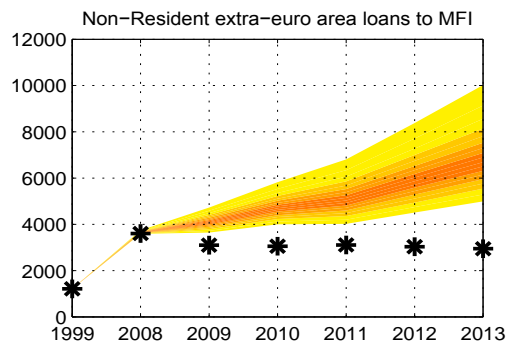
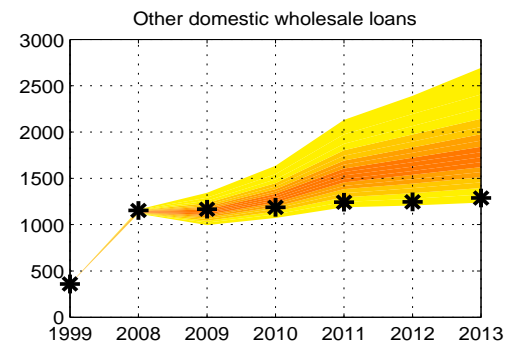
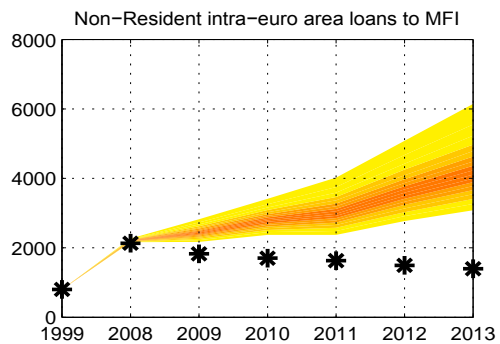
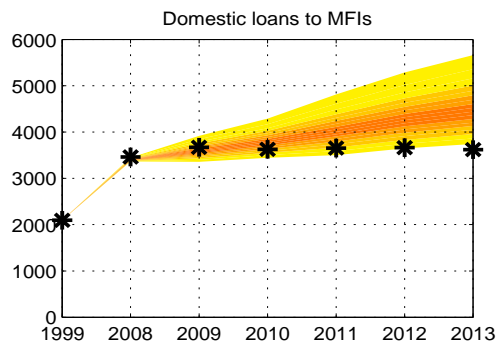
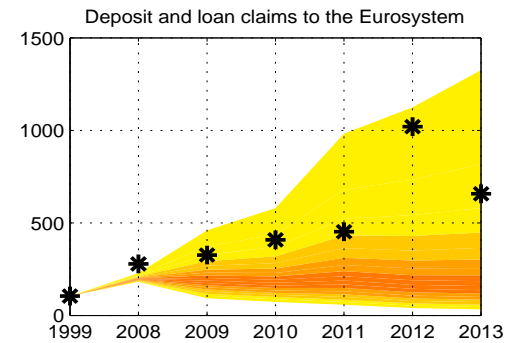
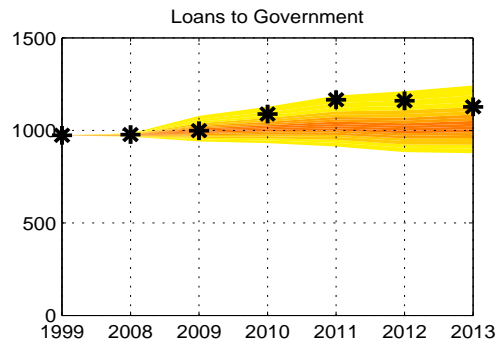
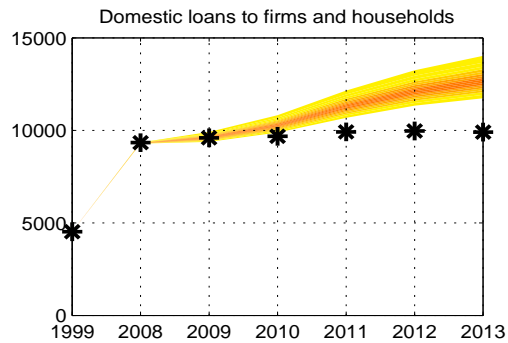


Impact on lending capacity managed by recourse to Eurosystem operations



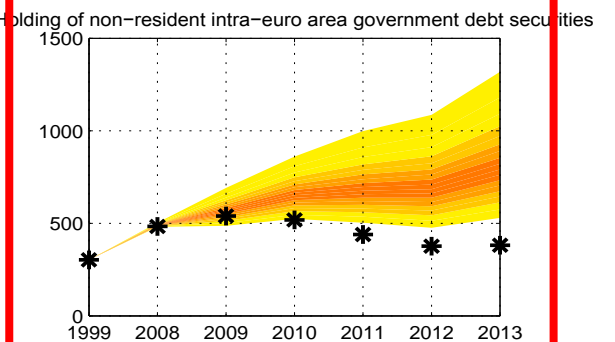
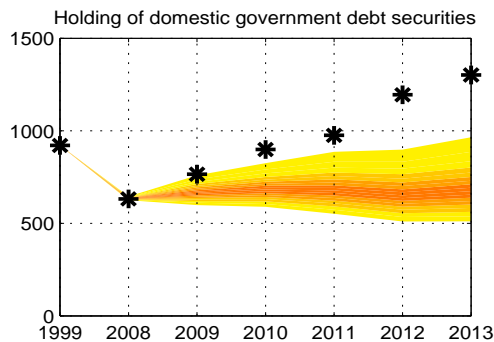
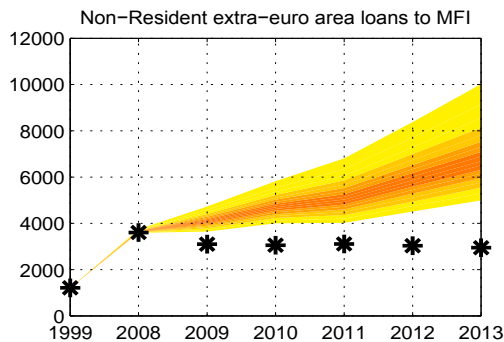
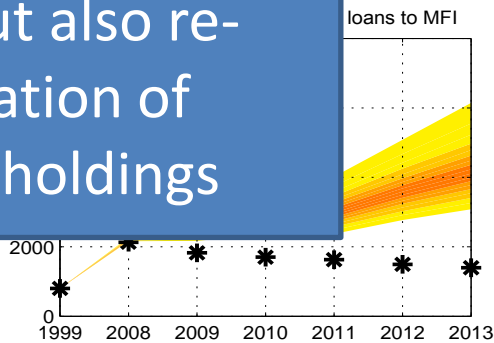
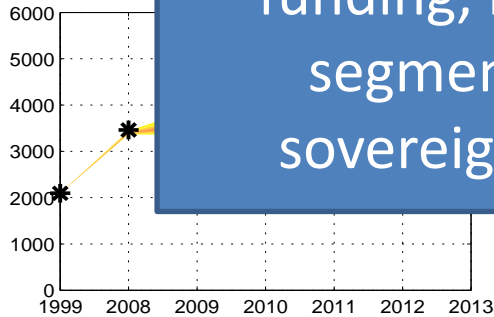
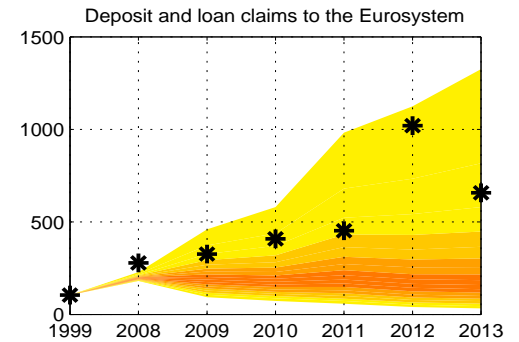
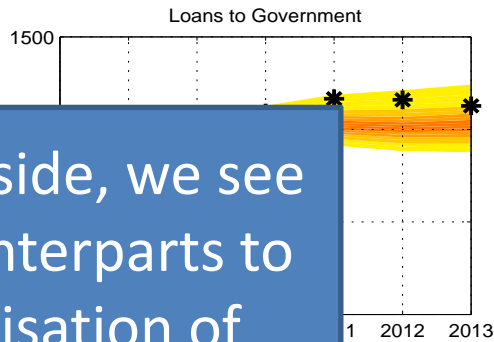
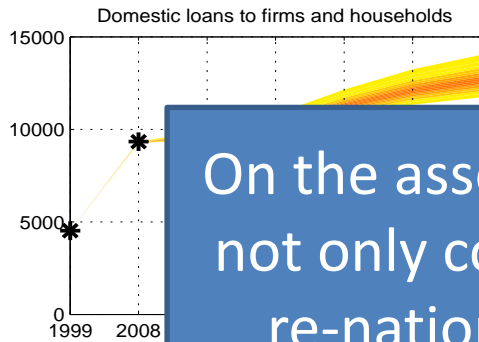
Source: Colangelo et al. (2014). "Cross-border transactions in the euro area and the financial crisis".

Assets



Source: Colangelo et al. (2014). "Cross-border transactions in the euro area and the financial crisis".

On the asset side, we see not only counterparts to re-nationalisation of funding, but also re-segmentation of sovereign holdings



Endogeneity

- International banks and regulatory environment will respond to events (and to each other)
 - Subsidiarisation rather than branching
 - Ensuring access to liquidity facilities
 - Cross-border M&A / consolidation in response to banking union

