Discussion of “Liquidity shocks, dollar funding costs, and the bank lending channel during the European sovereign crisis?” (Correa, Sapriza, Zlate)

Florian Heider
European Central Bank

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These are my private views and do not necessarily reflect those of the ECB or the Eurosystem

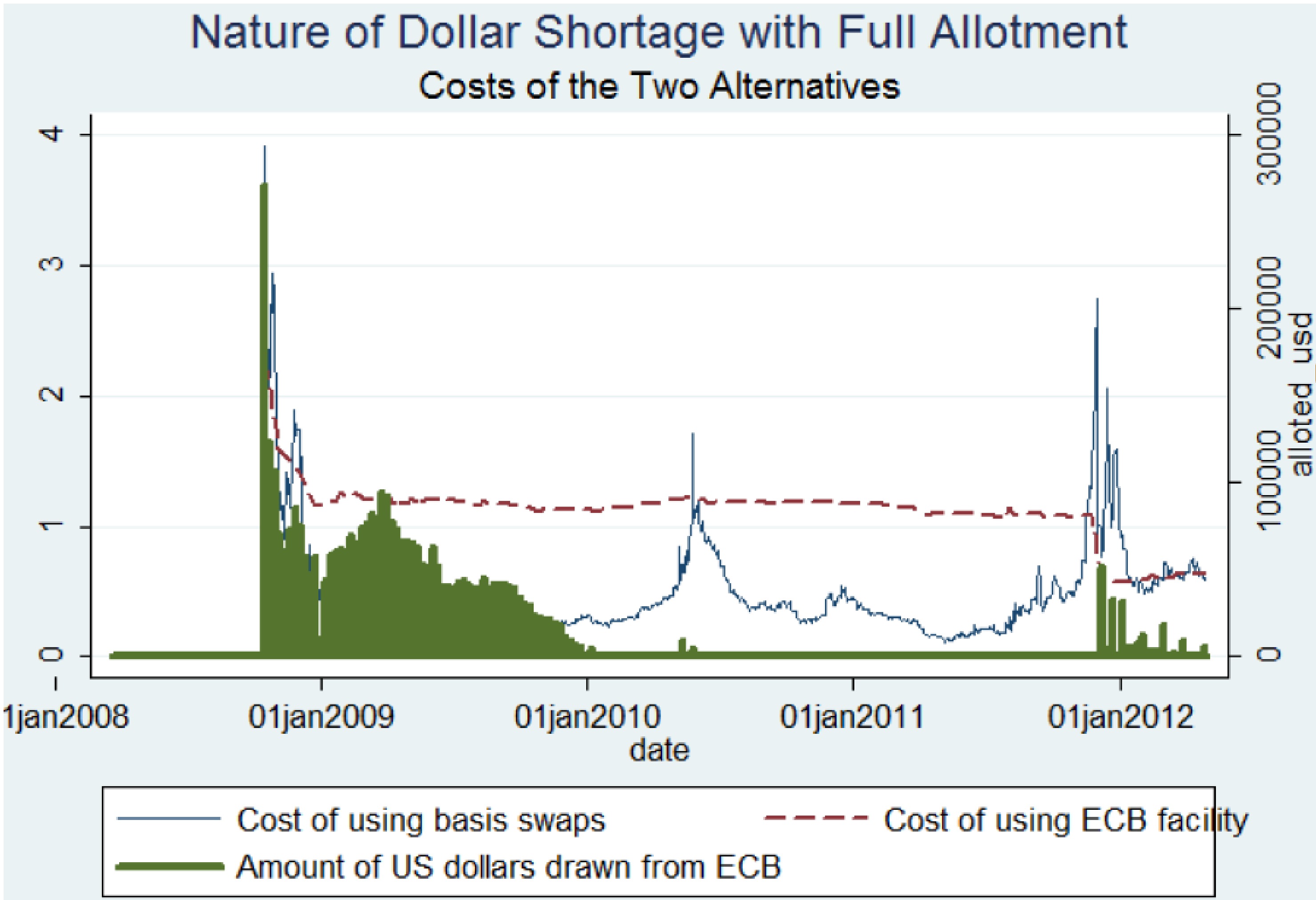
What the paper does

- Examines an international version of the bank lending channel
  - US branches of EU banks suffer withdrawals (by money market funds) due to sovereign debt crisis and thus reduce lending (to US firms)
- Findings
  - for all US branches of foreign banks, large time deposits correlate with C&I loans
  - net due to related offices correlate strongly with large time deposits
  - stronger negative change in deposits (US branches of EU banks) in those EU countries with larger CDS rises

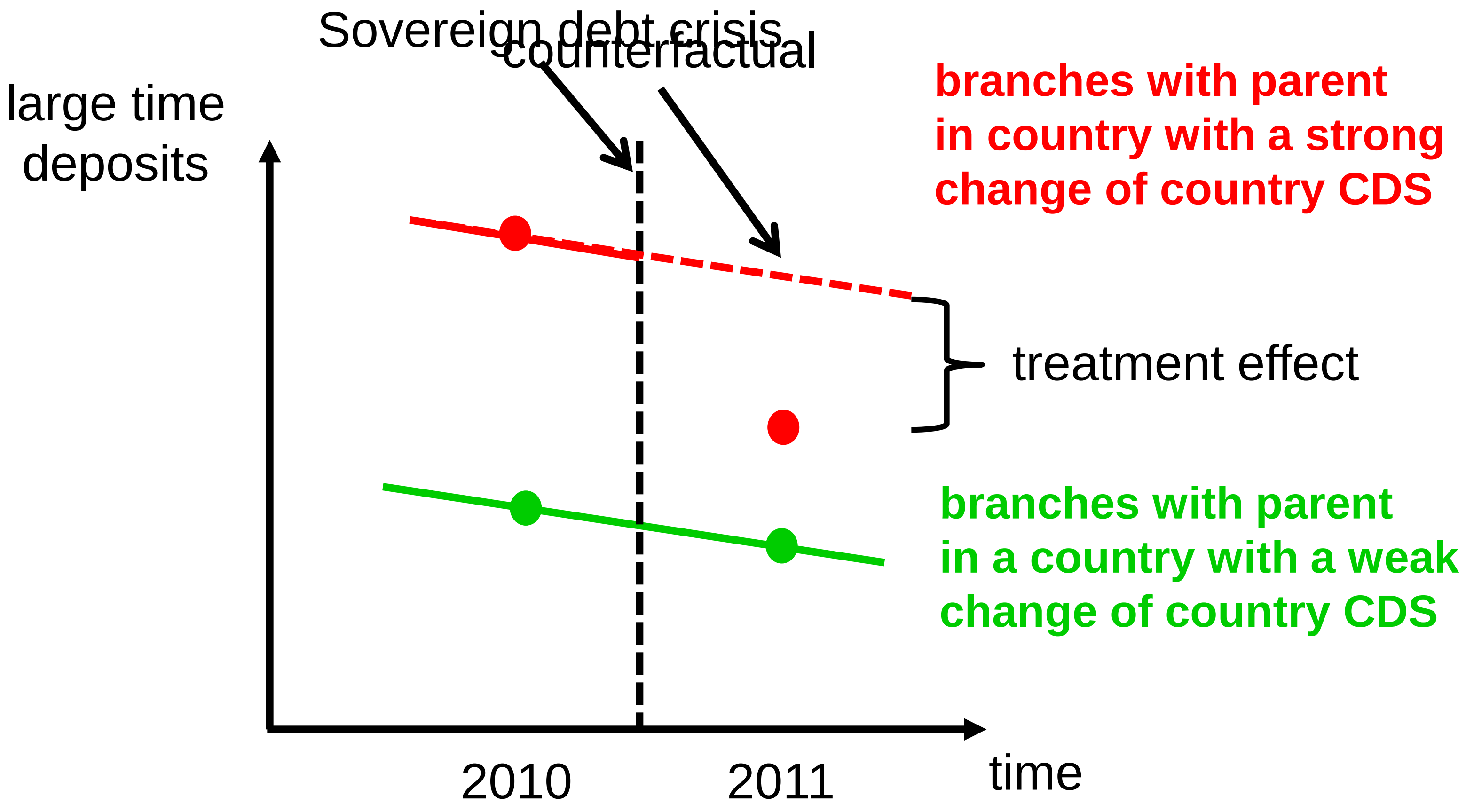
Bank lending channel?

- Time series change of lending and deposits
  - could it be more deposits and more lending?
  - effect is small, 86m for a change of 1000m
  - median deposit is 100m (though mean is 7100m!)
- Key for causality
  - what would have been the lending of branches with a change in deposits had there not been the change?
  - country fixed effect not enough, ideally bank fixed effects
- Are MMF responsible for the deposit changes?
- Lending to whom? Are there real effects?

Do branches suffer USD shortage?



Deposits and sovereign risk



Identification challenge

- Are deposit trends linked to countries with a low CDS change a good representation of deposit trends linked to countries with a high CDS change had the CDS change not happened?
  - are there factors that drive both the CDS change and deposit changes at US branches?
  - are the CDS changes coincidental with other changes that affect deposit changes at US branches?
  - are US branches of treated countries special so that their depositors react in a peculiar way?
  - does the CDS change in a country only affect branches of banks in that country?

Conclusion

- Very topical
  - Ivashina, Scharfstein, Stein (2012): use syndicated loans data
- Some way to go before causality can be claimed
- What is the ultimate focus of the paper?
  - is it really about money market funds?
  - are there any real effects, or is it just reallocation?
  - is the international dimension important?
  - or focus on the contagion and “hot-money” aspect?